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## Consumer Inflation Approaches 3.6 Percent in January

by LADB Staff

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In early February, the Banco de Mexico (Central Bank) reported the consumer price index (Indice Nacional de Precios al Consumidor, INPC) at 3.59% for January of this year. Although the January INPC is only a fraction higher than the 3.79% reported during January 1995, it is the highest increase in eight months. Indeed, the relative jump has already raised doubts about the government's ability to achieve its target of 20.5% annual inflation for 1996. Additionally, economists and financial analysts noted that the January inflation rate, when added to the December rate of 3.2%, substantially offsets the 10% increase in the minimum wage approved in December of 1995.

More significantly, the increase in the cost of the basic basket of goods (canasta basica) was 4.75%. This was the highest January increase for the basic basket of goods since 1990, when the jump was 7.6%. The increase for January 1995 was 4.5%. According to the Banco de Mexico, the accumulated increase for the cost of the basic basket of goods for 1995 was 60.57%, compared with total annual inflation of about 52%. The increase in the INPC in January was greatest in the following categories: transportation; food, beverages and tobacco; and housing. The cost in transportation was driven up by increases in the cost of bus and subway fares in Mexico City.

In addition, increased housing costs included such factors as higher rents, as well as increased rates for electricity, gas, telephone service, and other utilities. Among food items, higher prices were reported for lemons, bananas, apples, cornmeal, rice, beans, soft drinks, sugar, eggs, candy, and condiments. Other significant increases were reported in the price of toilet paper, soap, cosmetics, and medical services. The INPC calculation is based on a survey of prices in 46 metropolitan areas. Of those cities, the highest prices were reported in Tijuana, Tlaxcala, Campeche, and Ciudad Juarez. In contrast, the lowest prices were evident in Matamoros, Tlaxcala, Puebla, Leon, Monclova, and Acapulco.

Ironically, the financial markets reacted positively to the inflation report. On the day that the INPC report was released, the main index at the Mexican Stock Exchange (Bolsa Mexicana de Valores, BMV) rallied by almost 27 points. According to financial analyst John Gillette of Lazard Freres & Co. in New York, the fact that the inflation rate was not higher helped support the BMV's main index (Indice de Precios y Cotizaciones, IPC). "The inflation report was more or less in line with what the market was expecting," said Gillette, whose company closely follows the BMV. Nevertheless, the relatively high inflation rate raised questions about whether the government's new program to reduce prices for basic products is actually working.

The program, announced in mid-January, is supposed to either maintain or reduce prices for 61 basic consumer products from mid-January through the end of February (see SourceMex, 01/24/96). However, according to radio and television reports, some department stores purposely raised their prices a few days before the program went into effect. When the program was implemented, prices were reduced to the early January levels. Indeed, because of the public outcry over price increases, key officials from the Trade Secretariat (SECOFI), the consumer protection office (Procuraduria

Federal de Protección al Consumidor, Profeco), and a major retailers' association (Asociación Nacional de Tiendas de Autoservicio y Departamentales, ANTAD) were forced to issue a joint statement providing documented "proof" that terms of the program were indeed being met.

Additionally, Trade Secretary Herminio Blanco defended the government's decision to allow price increases for such items as powdered milk, eggs, soft drinks, and cooking oil during late January and early February, even though the program was already in place. "The increasing costs of production will be reflected in price increases," said Blanco. According to the Banco de México's February report, producer price increases in January were slightly lower than consumer price increases. The report said the producer price index (Índice Nacional de Precios al Productor, INPP) for the first month of the year was 3.27%, compared with the INPC of 3.59%. Government sources said prices will probably increase for other basic products during the next several weeks.

Indeed, the government is considering a plan to ease price controls on these products in a response to industry pressure, claiming that many producers will go out of business unless they are allowed to increase prices. "Government price controls are fatal for any productive industry," Jesús Villarreal González, an executive with the milk producing company Grupo Lala, said in mid-February. Three organizations that represent manufacturers of cornmeal and tortillas have raised similar arguments. In fact, the three organizations have asked the confederation of industrial chambers (Confederación de Cámaras Industriales, CONCAMIN) to submit a formal request to the Zedillo administration for an increase in the price of tortillas.

Nazario Palomera, head of the national coalition of tortilla manufacturers (Coalición Nacional de Industriales de la Tortilla), said the three organizations are asking that price controls be eliminated so that the sales price will more accurately reflect the cost of production. In turn, the prospect of higher prices for tortillas has raised concern among the government-affiliated Mexican workers confederation (Confederación de Trabajadores de México, CTM). CTM leader Rafael Rivapalacio told Agence France-Presse that Mexican workers will not accept any increases in the price of basic goods. He warned that the CTM will employ all its "union strength" to prevent such increases. (Sources: Associated Press, 02/08/96; Agence France-Presse, 02/08/96, 02/09/96; Excelsior, 02/09/96; La Jornada, 02/08/96, 02/09/96, 02/12/96; Reforma, 02/09/96, 02/12/96)

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