5-15-1996

Latest Inflation Statistics Reinforce Doubts that Mexico Will Reach 1996 Target

LADB Staff

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation
https://digitalrepository.unm.edu/sourcemex/3584

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Latest Inflation Statistics Reinforce Doubts that Mexico Will Reach 1996 Target

by LADB Staff

Category/Department: Mexico
Published: 1996-05-15

In early May, the Banco de Mexico (central bank) reported the consumer price index (Indice Nacional de Precios al Consumidor, INPC) for April at 2.8%, reinforcing doubts that President Ernesto Zedillo's administration will be able to attain its targeted annual inflation rate of 20.5%. April's 2.8% INPC brought accumulated inflation for January-April to 11.43%. Thus, to reach the administration's target, the INPC would have to average 1.13% per month between May and the end of 1996.

Private economists suggest a more realistic target for annual inflation this year would be 30% to 35%, which would still be several percentage points lower than 1995's 53% rate. However, despite the higher-than-expected INPC monthly rates since January, the administration has not issued upward revisions in its forecast for annual inflation. The high inflation rate in April was also reflected in the price of products paid by producers. According to the Banco de Mexico, the producer price index (Indice Nacional de Precios al Productor, INPP) reached 2.89% in April, bringing the accumulated producer price inflation for January-April to 11.27%.

Still, the rate for the first four months of this year was sharply lower than the 27.13% accumulated rate reported in January-April 1995. According to the Central Bank, a variety of factors contributed to the increase in April inflation, including a 12% hike in the minimum wage, which went into effect at the beginning of the month. Other factors were the elimination of price ceilings for milk and tortillas, plus a surge in the price of gasoline and other petroleum-based products in recent weeks. The Central Bank report also showed that overall inflation, as reflected in the INPC, grew at a lower rate than the basic basket of consumer goods, which rose by 3.5% in April. Indeed, the basic basket has been consistently higher than the INPC each of the first four months of the year, creating hardships for low- and middle-income consumers.

According to the Banco de Mexico, the greatest increases in April were reported in the category for food, beverages, and tobacco. In this category, the highest prices were for beans, tomatoes, beer, soft drinks, oranges, cheese, bread, and seafood. In addition, higher prices were reported for other basic consumer items such as soap, clothing and footwear, school supplies, telephone rates, toilet paper, and domestic heating oil. The Banco de Mexico statistics, which are based on a survey of 46 metropolitan areas, showed the highest prices during April were in Mexico City, Tijuana, and Tapachula. The smallest increases were reported in Monterrey, Matamoros, and in Chetumal.

The report on inflation proved somewhat surprising to the financial markets. According to financial analysts, the strong demand in early April for short-maturity Treasury certificates (CETES) was based on expectations that the Banco de Mexico report would show that inflation had begun to decline during April. On May 7, the Banco de Mexico sold a record 18.99 billion pesos (US$2.55 billion) in securities. Financial analysts said the heavy buying was attributed to expectations that
the inflation rate was about to decline. Many investors took advantage of a drop in CETES interest rates to 30.60%, compared with a previous rate of 37.43%. Ironically, just a few days before the record purchases of government securities, the Banco de Mexico's head governor, Miguel Mancera Aguayo, had forecast inflation for April at a still relatively high rate of 2.8%, which the financial markets immediately discounted.

Still, in a further attempt to put a positive spin on the actual INPC statistics, the Banco de Mexico said the INPC for the second half of April was only 0.9%, compared with the rate of 1.78% in the first half of April. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on May 13, reported at 7.43 pesos per US$1.00] (Sources: Agence France-Presse, 05/09/96; Excelsior, La Jornada, 05/08/96, 05/10/96)