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## Mexican Inflation Rate Surpasses 15 Percent in First Half of 1996

by LADB Staff

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In early July, the Banco de Mexico said the consumer price index (Indice Nacional de Precios al Consumidor, INPC) rose by 1.6% during June, bringing the accumulated inflation rate for January-June to 15.31%. The June INPC, which was the lowest for any month since the devaluation of the peso in December 1994, led many economists to suggest that President Ernesto Zedillo's administration is finally succeeding in its efforts to control inflation. "The figure confirms the tendency toward lower inflation," said Enrique Ramirez, economic analyst at Santander brokerage. Additionally, analysts pointed out that accumulated inflation rate for the first semester is roughly one-half the rate of 32.9% reported in January-June 1995. The administration has forecast annual inflation at 20.5%, although most economists project a rate of 25% to 30%. In contrast, Mexico's annual inflation rate rose to 52% in 1995.

Analysts said another encouraging statistic is a sharp decline in the producer price index (Indice de Precios al Productor, INPP) for June, which was also the lowest since the devaluation of 1994. The INPP was reported at only 1.11% in June, bringing the total to 14.55% for January-June. Economists project the INPC will remain below 1.5% in July and August, but increase moderately at the start of the new school year in September, when demand for clothing and school supplies is expected to grow. According to the Banco de Mexico report, the INPC increase was caused in large part by higher costs for services in June such as medical treatment, telephone service, bus and railroad fares, entertainment, and electricity. The price of a number of basic products also rose during the month, including clothing, footwear, and soap.

Among foodstuffs, higher prices were reported for vegetable oil, bread, soft drinks, dairy products, beans, apples, tomatoes, chile peppers, grapefruit, and papaya. Notwithstanding the relatively encouraging inflation statistics for June, some analysts suggest the government will face difficulties in keeping inflation low while at the same time loosening its grip on monetary policy. The Banco de Mexico is facing increasing pressure to ease controls on credit and money circulation to relieve the debt burden of a large segment of the population. Similarly, the administration is facing strong pressure to increase the purchasing power of workers, which has declined significantly since the devaluation of the peso. According to the Banco de Mexico, inflation for the basic basket of goods reached 1.78% in June, still higher than the general inflation rate of 1.6%.

For January-July, the accumulated inflation rate for the basic basket was 16.85%, almost one-and-a-half percentage points above overall inflation of 15.31%. The relatively high cost of basic consumer products has sparked debate about whether the Zedillo administration should impose price controls on certain foodstuffs. The Trade Secretariat (SECOFI) is currently studying a proposal from the country's largest labor union, the Mexican Workers Confederation (Confederacion de Trabajadores de Mexico, CTM), to establish controls for such items as beans, tortillas, bread, milk, eggs, oil, rice, chile peppers, tomatoes, and cookies. After a two-hour meeting in early July, Trade Secretary

Herminio Blanco and CTM leader Fidel Velazquez agreed on the need to limit increases in the price of these products. However, rather than accept the establishment of controls, Blanco offered to develop a scheme to monitor basic prices to make sure they are in line with production costs.

For his part, Velazquez lamented SECOFI's position, and promised that the CTM would maintain its pressure on the government's consumer protection office (Procuraduria Federal del Consumidor, PROFECO) to ensure that basic foodstuffs remain affordable to average Mexicans. Furthermore, Velazquez said that the list of products to be monitored should be expanded to include meat. According to Velazquez, the average worker can no longer afford meat, which in recent weeks has cost about 30 pesos (US\$3.93) per kilogram, compared with the minimum wage of 22.60 pesos (US \$2.96) per day. In explaining his opposition to full price controls, Blanco argued that such schemes frequently result in shortages, since producers reduce supply in reaction to lower profits. "The lack of goods in the market could prove very harmful to families and consumers," Blanco told reporters.

Still, the Zedillo administration's opposition to price controls is largely the result of pressure from the business community. In a joint press conference in early July, the heads of the business coordinating council (Consejo Coordinador Empresarial, CCE), the employers confederation (Confederacion Patronal de la Republica Mexicana, COPARMEX), and the manufacturing industry chamber (Camara Nacional de la Industria de Transformacion, CANACINTRA) acknowledged the reduction in the purchasing power of workers, but they insisted that price controls are not a solution to the problem. The three business leaders warned that any effort to impose lower prices on basic goods would result in the "decapitalization" of businesses, which could force cutbacks in personnel and other areas. CANACINTRA president Carlos Gutierrez noted that businesses have already refrained from passing on to consumers recent increases averaging between 10% and 15% in the cost of raw materials. "We are now in the midst of a real market economy, which has given consumers the opportunity to choose products based on quality and price," said COPARMEX president Carlos Abascal.

For their part, CTM leaders said they will demand salary increases during the next round of negotiations on an anti-inflation agreement to compensate for business opposition to price controls. "After three years of sacrifices of all types, workers are not willing to tighten their belts any longer," Velazquez told reporters. "We will resort to all measures available to the labor movement to correct the situation." The CTM leaders said the purchasing power of workers has deteriorated by 70% in the past several years, which has contributed to the increase in the number of Mexicans currently suffering from extreme poverty to about 40 million persons. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 15, reported at 7.63 pesos per US\$1.00] (Sources: La Jornada, 07/10/96; The News, 07/10/96, 07/11/96; El Financiero International, 07/15/96; Excelsior, 07/10/96, 07/16/96; Novedades, 07/11/96, 07/12/96, 07/16/96)

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