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Central Bank Reports Annual Inflation at 27.7 Percent For 1996

by LADB Staff

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In a report published in early January, the Banco de Mexico (central bank) reported annual inflation for 1996 at 27.7%, a sharp decline from the 52% inflation rate recorded in 1995. The final inflation number for 1996 was close to estimates made by most private forecasts, which had projected annual inflation in a range above 25% but below 30%. Still, the final rate was several percentage points higher than the target of 20.5% set by President Ernesto Zedillo's administration. A relatively high consumer price index (Indice Nacional de Precios al Consumidor, INPC) of 3.2% for December pushed the annual rate up more than expected. However, the December rate was roughly one-half of the 6% INPC reported in the same month in 1995.

The Banco de Mexico report said that inflation in December was led by higher prices for gasoline and public transportation, particularly in Mexico City. Indeed, the transportation category, which includes the cost of gasoline, accounted for 1.05 percentage points of the total INPC increase of 3.2% during December. According to the central bank data, the price of transportation and gasoline was up by about 9.36% from December 1995. In comparison, increases in other categories ranged from 0.66% for education to 2.36% for housing and 2.6% for "other services."

The housing category includes the cost of electricity, rent, domestic heating oil, and telephone service. A more significant although less statistically dramatic trend included in the central bank's report was a 4.84% increase in the basic basket of consumer products during December. This rate was almost 1.7 percentage points higher than the monthly INPC of 3.2%. The central bank said increases in the price of fresh and processed meat, eggs, milk, seafood, lemons, bananas, green tomatoes, bread, and condiments all contributed significantly to a higher INPC in December.

Meanwhile, the higher rate for the basic basket of goods in December was a typical trend for most months last year. In fact, the central bank reported the annual inflation rate for the basic basket of goods at 33.3%, almost six percentage points higher than the general inflation rate of 27.7%. Arturo Lomeli, president of Mexico's largest consumer- rights organization (Asociacion Mexicana de Estudios para la Defensa del Consumidor, AMEDEC), said the high cost of foodstuffs and other basic products during December was partly the result of reduced supplies.

A report published by the federal consumer protection office (Procuraduria Federal de Proteccion al Consumidor, PROFECO) in early January said tight supplies of certain basic products caused a wide variation in prices at different retail establishments. According to PROFECO, a basket containing 10 foodstuffs and other basic products such as soap cost 88 pesos (US\$11.29) at one store and 116.60 (US \$14.96) at a second store. PROFECO said the products chosen were all the same brand and quality. Lomeli predicted that the cost of basic products would continue to deteriorate in the first several months of 1997, since the supply situation was not expected to improve anytime soon. He said prices

for grains, dairy products, and other items are continuing to increase. "The higher costs have left families with very little maneuvering room in their budgets," said Lomeli.

Lomeli said many supermarkets and public markets have already experienced a decline of 25% to 40% in sales during the first week of January. Furthermore, Lomeli noted that many low- and middle- income families are having to spend more of their disposable income on food and other basic products, which is having a damaging impact on the retail sector. The Banco de Mexico's monthly inflation report is based on a survey of 46 cities throughout the country. The highest rate in December was reported at 4.7% in Mexico City, where the higher costs of transportation and gasoline were felt most directly.

The second-highest inflation rate was in Toluca, in nearby Mexico state, at 2.78%, followed by the southeastern city of Villahermosa, at 2.68%. On the other hand, the lowest inflation rates during the month were reported in the northern and central cities of Monclova, Matamoros, Mexicali, Durango, Fresnillo, and Leon, where rates ranged from 2.20% to 2.26%.

Also in December, the central bank reported the producer price index (Indice Nacional de Precios al Productor, INPP) at 3.13%, bringing the annual producer inflation rate to 26.6% for 1996. The INPP does not include the cost of crude oil, but does take into account the cost of services. The increase in the INPP during December was attributed, among other things, to higher costs for petroleum derivatives, industrial gas, cardboard, certain foodstuffs, wood furniture, and minerals such as urea and sulfur. High costs for services such as electricity, fuel distribution, and transportation also contributed to a higher INPP for the month. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 15, reported at 7.79 pesos per US\$1.00] (Sources: El Economista, Siglo XXI, El Nacional, La Jornada, El Universal, The News, 01/10/97; Novedades, Excelsior, 01/10/96, 01/13/97)

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