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## Central Bank Reports Annual Inflation at 15.7 Percent for 1997

by LADB Staff

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In early January, the Banco de Mexico (central bank) confirmed that annual inflation in 1997 was 15.72%, just slightly above the government's original forecast. The consumer price index (Indice Nacional de Precios al Consumidor, INPC) for December, reported at 1.4%, boosted the annual rate for 1997 above the government's target of 15%. Still, the INPC for December 1997 was less than half the 3.2% rate reported in December 1996.

Both the December and the annual figures were below independent expectations. In a survey of economists and financial analysts conducted by the Reuter news agency, respondents on average had anticipated an INPC of 1.6% for December and annual inflation of 16.5% for 1997. The Banco de Mexico said December inflation was largely fed by price hikes for rents, busses, telephones, electricity, medical services, restaurants, and entertainment. The bank said the index for the basic basket of consumer goods increased by 1.3% during December, only slightly lower than the INPC. The low monthly rate for the basic basket contributed to a relatively low annual rate for this index, which was about 14.9%. In contrast, the rate for the basic basket was 29% in 1996.

The consumer rights organization Asociacion Mexicana para la Defensa del Consumidor (AMEDEC) said its data reveals that prices for products in the basic basket of goods increased by a higher rate than reported by the government. AMEDEC said the increase was closer to 2.7%, and not the 1.3% reported by the central bank. AMEDEC said the government also underreported the annual rate for the basic basket, especially costs for medicines, local telephone service, train fares, and coffee.

### *Costs rise for milk, tortillas, other goods at start of 1998*

Meanwhile, consumer prices got off to a poor start in 1998 because of scheduled increases in the price of milk and gas, as well as new taxes on alcohol and toys. The price of tortillas is also expected to increase during January. AMEDEC director Arturo Lomeli Escalante said the price of essential foodstuffs such as chicken, cooking oil, and canned beans was already as much as 10% higher in early January than during December. The increases in milk prices have been particularly painful for consumers.

According to the government's consumer protection office (Procuraduria Federal del Consumidor, PROFECO), milk prices rose between 14% and 19% at the start of the year, when government controls were removed. The cost for the most popular grades of milk increased to about 4.80 pesos (US\$0.58 cents) per liter, compared with 4.20 pesos (US\$0.51 cents) when government controls were in place. PROFECO said the prices surged despite a pledge by the dairy industry to implement gradual price increases once milk price controls were removed.

The hike in milk prices had a ripple effect on the cost of subsidized products offered by the government dairy distribution agency Leche Industrializada Conasupo (LICONSA). On Jan. 12,

LICONSA started selling milk at 1.80 pesos (US\$0.22 cents) per liter, compared with the previous price of 1.50 pesos (US\$0.18 cents). The increase in the price of milk offered by LICONSA drew protests from AMEDEC, which said the higher cost is disproportional with the salary increase negotiated by the government, labor, and business for 1998. "The poorest segments of the population will now have very little opportunity to buy a quality product at a low price," said AMEDEC president Lomeli. Mexican consumers can also expect higher prices for tortillas in late January. Sergio Celorio, president of the private-sector Club Cadena Masa y Tortilla, said the government is expected to approve an increase in tortilla prices to about 2.10 pesos (US\$0.25 cents) per kg sometime in late January.

The Asociacion de Proprietarios de Molinos para Nixtamal y Tortilleros is seeking a change in government policy toward the tortilla industry, including the reduction or elimination of production subsidies, which would allow prices to increase to between 2.50 pesos (US\$0.30 cents) and 3.00 pesos (US\$0.36 cents) per kg. The organization said price increases are needed for the industry remain competitive. To help the poorest segments of the population, the industry proposed that the government redirect the subsidies to low-income consumers.

For its part, the Secretaria de Comercio y Fomento Industrial (SECOFI) acknowledged that tortilla production costs have increased, but it also rejected any marked price increase. Deputy trade secretary Israel Gutierrez said SECOFI will monitor prices and consider appropriate action to help tortilla manufacturers. However, he rejected the notion that the tortilla industry is on the brink of bankruptcy. "There are more tortilla manufacturers today than a year ago," said Gutierrez. Since the start of the year, consumer inflation has been most apparent in the cost of beer, wine, and other alcoholic beverages.

AMEDEC's Lomeli said prices of alcoholic beverages were as much as 100% higher than in January 1996 because of a tax increase for those products (Impuesto Especial Sobre Produccion y Servicios, IEPS). "At the beginning of 1997, a bottle of rum was selling for 35 pesos (US\$4.30) retail," said Lomeli. "At present, that same bottle costs about 55 pesos (US\$6.75)." In the 1998 budget submitted by President Ernesto Zedillo's administration and approved by Congress, the IEPS was raised to 25% for beer and wine and to 60% for hard liquor.

The government's tax-collection agency (Servicio de Administracion Tributaria, SAT) estimates the increase in the IEPS could boost tax revenue from alcohol sales this year above 1.5 billion pesos (US \$184 million). However, the Asociacion Nacional de la Industria de Bebidas Alcoholicas y Conexos (ANIBAC) will lobby for a reduction in IEPS when Congress reconvenes in March.

### ***Lack of anti-inflation accord could boost prices in 1998***

The surge in prices at the beginning of the year jeopardizes the Zedillo administration's informal target of 12% annual inflation for 1998. Furthermore, the administration failed to convince the labor and business sectors to negotiate a comprehensive anti-inflation agreement for 1998, similar to those reached in the past 10 years. The only accord negotiated by government, business, and some labor organizations called for a 14.7% increase in the minimum wage, based on the administration's original forecast of 12% annual inflation.

The practice of negotiating comprehensive anti-inflation pacts was discontinued this year because labor and business felt that such a pact was no longer in their best interest. However, representatives from business pledged to work with labor representatives, namely the Congreso del Trabajo (CT) and the Confederacion de Trabajadores de Mexico (CTM), to develop a forum to discuss wages and other factors affecting inflation. The other major labor organization, the independent Union Nacional de Trabajadores (UNT), has also pledged to cooperate with business, the government, and the CT-CTM alliance.

However, the UNT said any accords must include input from the rank and file. "We will not accept any more accords that do not represent the best interests of all workers in Mexico," said UNT leader Antonio Rosado Garcia. Labor Secretary Javier Bonilla Garcia said the disappearance of comprehensive anti-inflation agreements could allow business and labor more freedom to negotiate wages and contracts that are more satisfactory to both sides. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 14, reported at 8.15 pesos per US\$1.00] (Sources: Miami Herald, 01/02/98; Reuter, 12/16/97, 01/08/98; El Economista, 12/12/97, 01/08/98, 01/09/98; Novedades, 01/06/98, 01/08/98, 01/09/98; El Diario de Yucatan, El Nacional, 01/09/98; La Jornada, 12/24/97, 01/08/98, 01/09/98, 01/12/98; El Financiero International, 12/29/97, 01/05/98, 01/12/98; Excelsior, 01/09/98, 01/12/98; Notimex, 12/03/97, 01/08/98, 01/13/98; El Universal, 12/11/97, 12/18/97, 12/19/97, 01/06/98, 01/08/98, 01/12/98, 01/13/98)

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