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Consumer Inflation Higher than Expected in January

by LADB Staff

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The consumer price index (Indice Nacional de Precios al Consumidor, INPC) reached 2.18% in January, casting doubt on the government's ability to meet its target of 12% annual inflation for 1998. The January INPC was slightly higher than most private forecasts, but still lower than the 2.57% rate reported in January 1997. The Banco de Mexico (central bank) attributed the INPC growth to higher costs for transportation, particularly an increase in highway tolls and subway and bus fares. Other factors, such as higher property taxes in Mexico City and an increase in federal taxes for alcoholic beverages and gasoline, also contributed to January inflation. In addition, the INPC reflected higher costs for foodstuffs and other basic goods.

The index for the basic basket of consumer goods increased by 2.22% in January, in part because of higher costs for poultry, seafood, and milk. The price of milk and dairy products increased by up to 19% at the start of the year, following the removal of government price controls (see SourceMex, 01/14/98). Consumer prices expected to continue rising. Similar INPC increases are anticipated in February, following the government's decision to allow a 15% hike in the minimum price of tortillas (see SourceMex, 02/04/98).

Prices may also reflect agricultural losses from excessive rain in western states and freezing temperatures in the north. In an unofficial report in mid-February, the Secretaria de Agricultura, Ganaderia y Desarrollo (SAGAR) said freezing temperatures in central Mexico could reduce the region's agro output for the fall-winter cycle by almost 50%. The January producer price index (Indice de Precios al Productor, INPP) also foreshadowed higher consumer prices in the coming months.

The January INPP reached 2.58%, much higher than private economists had forecast. Higher costs for producers will almost certainly be passed on to consumers. The central bank said the INPP increase reflected higher prices for construction materials, gasoline and diesel, alcoholic beverages, and agricultural products such as milk and grains. The price outlook for the next several months does not bode well for the government target of 12% annual inflation in 1998. Inflation reached 15.7% in 1997. The government has also set targets of 10% inflation for 1999, and 7.5% by 2000. (Sources: Excelsior, El Economista, The News, El Universal, 02/10/98; Notimex, 02/09/98, 02/13/98)

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