

7-15-1998

Inflation Approaches 9 Percent During First Half of 1998

LADB Staff

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

Recommended Citation

LADB Staff. "Inflation Approaches 9 Percent During First Half of 1998." (1998). <https://digitalrepository.unm.edu/sourcemex/3937>

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.

Inflation Approaches 9 Percent During First Half of 1998

by LADB Staff

Category/Department: Mexico

Published: 1998-07-15

In its latest monthly report, published in early July, the Banco de Mexico (central bank) showed an increase of 1.18% in the consumer price index (Indice Nacional de Precios al Consumidor, INPC) during June, bringing accumulated inflation for the first half of the year to 8.28%. Economists attributed the increase in the INPC to the higher prices for cornmeal and tortillas, which account for about 2% of the INPC. Effective June 1, the Secretaria de Comercio y Fomento Industrial (SECOFI) allowed tortilla manufacturers to increase prices by as much as 18%. SECOFI said the increase to 2.60 pesos (US\$0.29 cents) per kilogram was justified to help tortilla manufacturers recover increased production costs (see SourceMex, 06/03/98).

The higher prices for tortillas and cornmeal were also reflected in the 1.33% increase in the index for the basic basket of goods during June. Tortillas are the single biggest item in the Mexican basket of consumer products. Higher tortilla prices boost June consumer price index. Economists said the higher cost for tortillas was beginning to have an impact on other foodstuffs, although this trend will become more evident in the July inflation statistics. The category for food, drinks, and tobacco registered the highest increase in June at 1.98%, followed by clothing and footwear at 1.11%.

The economists said the high INPC for June, compared with the 0.80% rate reported in May, could signal generally higher prices the rest of the year. The rise in prices, along with higher interest rates and the weakening of the peso against the US dollar, will almost certainly dampen consumption in the coming months. "So far, the deterioration is in its initial stages," said Miguel Aliaga, director of investors relations at the poultry company Industrias Bachoco. The INPC for July, although not expected to increase as much as in June, will probably rise above the average monthly rates reported in the first five months of the year. A survey cited by the daily newspaper Novedades said economists generally expect the INPC in July to average close to 0.80%.

The increase in the INPC will be driven by rising costs for basic consumer products. Another increase in tortilla prices could be forthcoming in the next several months, said Abel Castellanos Tovar, director of the Confederacion Nacional de Proprietarios Rurales (CNPR). Castellanos said representatives of the government, business, and labor have agreed to raise tortilla prices to 2.90 pesos (US\$0.32 cents) per kg in September, 30 centavos (US\$0.03 cents) above the price approved in June. That tortilla price increase has not been officially announced.

Prices forecast to rise further in second half of 1998

Other government-sanctioned increases for basic products such as milk will contribute to higher costs for consumers in the second half of 1998. Effective July 1, the price of subsidized milk sold by the government agency Leche Industrializada Conasupo (LICONSA), was increased to 2.00 pesos (US\$0.22 cents) per liter from the previous price of 1.80 pesos (US\$0.20 cents). LICONSA said the higher price is justified because of increased costs of transportation and raw materials used in milk processing.

Similarly, the Union Nacional de Avicultores (UNA) is anticipating an increase in egg prices to as much as 12.00 pesos (US\$1.35) per kg this year from the recent price of 9.50 pesos (US\$1.07). UNA president Florentino Castro Hidalgo told reporters the increase is necessary because of increased production costs. "In real terms, eggs are still 16% cheaper this year than during 1997," said Castro. The higher prices for basic products has led labor organizations such as the Congreso del Trabajo (CT) to call for a return to price controls. "There is no possible way the workers can accept such price increases when their purchasing power keeps deteriorating," said CT president Joel Lopez Mayren.

Despite the projected price increases, however, the Banco de Mexico and President Ernesto Zedillo's administration have not modified their forecasts that annual inflation will decline to 12% in 1998 from 15.7% in 1997. This means the INPC would have to average about 0.55% each month from July to December for the government to reach this goal. Economist Martin Delgado of Value brokerage company said Banco de Mexico is well aware that the government will not meet its target of 12% annual inflation, but is reluctant to modify its projections because such an announcement could increase uncertainty in financial markets. A more plausible scenario, said economists, is for the INPC to average about 1.01% per month in the second half of the year, which would bring annual inflation this year to about 15%.

The expected increase in prices during the second half of the year is also reflected in higher costs for producers, which will be passed on in higher costs to consumers. The producer price index (Indice Nacional de Precios al Productor, INPP) was reported at 1.16% in June, more than twice the 0.45% rate reported during May. The central bank said increases in the price of minerals, agricultural products, and foodstuffs, including cornmeal, contributed to the higher INPP in June. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 15, reported at 8.85 pesos per US\$1.00] (Sources: Reuters, Bloomberg News, 07/09/98; El Economista, The News, 07/10/98; El Financiero International, 07/13/98; Excelsior, 06/19/98, 07/13/98; Novedades, 07/01/98, 07/07/98, 07/10/98, 07/13/98, 07/14/98; El Universal, 07/07/98, 07/10/98, 07/15/98; La Jornada, 07/08/98, 07/10/98, 07/15/98)

-- End --