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Higher Costs for Tortillas, Basic Goods Boost September Consumer Prices

by LADB Staff

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The latest monthly inflation report from the Banco de Mexico (central bank) reported an increase of 1.62% in the consumer price index (Indice Nacional de Precios al Consumidor, INPC) for September. The increase brought accumulated inflation for January-September to 12.16%, which is already higher than the government's target of 12% annual inflation for this year. The central bank attributed the September rise primarily to higher costs for tortillas and other basic products and an increase in tuition at private schools at the beginning of the year.

Economists said the Mexican economy also remains vulnerable to global financial markets, which have raised interest rates sharply and caused the peso to weaken significantly. The high interest rates have translated to higher costs for consumer products. Some banks were charging as much as 70% interest on credit-card charges during September (see SourceMex, 09/30/98).

Similarly, the weak peso has lost 20% of its value since the beginning of the year, which has increased costs for products that rely on imports during manufacturing. For example, the Union Nacional de Avicultores (UNA) has threatened to raise the price of eggs to 12 pesos (US\$1.18) per kg because of the increased cost of chicken feed this year. Mexico is projecting record imports of grain and oil seeds this year because of a production shortfall, caused primarily by drought and other adverse weather factors (see SourceMex, 09/02/98).

President Ernesto Zedillo's administration allowed egg producers to increase the price of eggs to 8.63 pesos (US\$0.85 cents) per kg this year but has so far refused the industry's request to set the price at 12 pesos (US\$1.18) per kg. The administration has allowed the price of tortillas, however, to increase three times this year because of higher manufacturing costs. The latest increase, approved in September, brought the price of tortillas to 3.00 pesos (US\$0.29 cents) per kg, 55% higher than the price at the end of 1997 (see SourceMex, 09/23/98).

The government's move to allow higher prices for tortillas, eggs, and other food items was reflected in the increase in the index for the basic basket of consumer goods. This index rose by 1.74% during September, higher than the 1.62% increase in the INPC.

Consumer advocates, unions protest price increases

The recent increases in consumer products have attracted protests from labor unions, consumer rights advocates, and members of opposition parties. According to the Asociacion Mexicana de Estudios para la Defensa del Consumidor (AMEDEC), the basic basket of consumer products had risen to 1,837.12 pesos (US\$180.80) as of September, an increase of 11.6% since the start of the year. The labor organizations Congreso del Trabajo (CT) and Union Nacional de Trabajadores (UNT) accused the Zedillo administration of allowing the increases in basic products without consulting

labor organizations. "The government appears to justify these increases as being necessary to save certain industries," said UNT leader Francisco Hernandez Juarez. "At the same time, the needs of the workers and people in general have become secondary."

The two major opposition parties, the Partido Accion Nacional (PAN) and the Partido de la Revolucion Democratica (PRD), criticized the administration for its "stubborn" defense of neoliberal economic policies, which include eliminating those state subsidies that benefit the population. Members of the two parties spelled out their positions during testimony by Trade Secretary Herminio Blanco in the Chamber of Deputies. PAN Deputy Rosendo Villarreal scolded the administration for failing to take into account the deteriorating purchasing power of most Mexicans.

According to Villarreal, the minimum wage has fallen by 15% since 1994, while the cost of the basic basket of goods has risen by 169% in the same period. Annual inflation now forecast at 17% to 18%. While the increase in the September INPC was close to most private forecasts, some economists have raised their estimates for annual inflation for 1998 because of the turbulence in global markets.

A few months ago, the consensus was that Mexico's annual inflation would reach 15%. However, prominent forecasters such as Grupo Financiero Banamex-Accival (Banacci) are now projecting 1998 annual inflation at 17% to 18%. These forecasters argue that the original projection is unattainable because monthly INPC's for September to December would have to average less than 1%, which is not likely.

One of the clearest signs of higher inflation in coming months is the producer price index (Indice Nacional de Precios al Productor, INPP), which rose by 2.98% in September, compared with an increase of 1.26% in August. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct 14, reported at 10.16 pesos per US\$1.00] (Sources: Reuters, 09/30/98, 10/08/98; Bloomberg news service, 10/08/98; Excelsior, 09/24/98, 10/09/98; El Economista, 09/24/98, 10/01/98, 10/09/98; The News, 10/09/98; El Financiero International, 10/12/98; Novedades, 09/24/98, 10/01/98, 10/09/98, 10/13/98; La Jornada, 10/13/98)

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