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Mexican consumer prices in March reached their lowest monthly level in almost a year, in large part because of the strengthening of the peso against the US dollar. In its latest monthly inflation report, the Banco de Mexico (central bank) reported the consumer price index (Indice Nacional de Precios al Consumidor, INPC) at only 0.93% in March, bringing accumulated inflation for the first quarter of the year to 4.87%. In comparison, accumulated inflation in January-March 1998 was 5.18%.

The central bank attributed the low inflation primarily to the gains in the peso against the dollar. During March, the Mexican currency strengthened to about 9.51 pesos per US$1.00, compared with about 9.90 in mid-December 1998. The strong peso, which has hovered close to 9.50 in the first half of April, has reduced the price of imports for Mexican companies and consumers. "The strength of the peso is reducing our costs," Octavio Berron, the director general of Grupo Gomo S.A., told Bloomberg news service. But some analysts cautioned that the peso may have become slightly overvalued and could weaken during the next few weeks.

A drop in the peso or a move by the Banco de Mexico to loosen monetary policy would encourage more domestic spending, which could cause inflation to rise. In addition to the stable exchange rate, the Banco de Mexico attributed the low INPC to a decline in the price of fruits and vegetables, which had soared between October and January. The lower cost of fruits and vegetables was also reflected in the index for the basic basket of consumer goods, which grew by 1.22% in March, compared with an increase of 1.77% in February.

The relatively low March rate suggests the government's target of 13% annual inflation is within reach this year. Private analysts, who earlier forecast annual inflation as high as 17% or 18%, have reduced their projections by about a percentage point to 16% or 17%. But many of those analysts are skeptical that the government can achieve the 13% target without imposing tight economic restrictions. Tight restrictions would reduce GDP growth to 2% or less, compared with the government's target of 3% growth for 1999, the analysts said.

Still, prospects for relatively low inflation in the coming months appear good because of a sharp drop in the producer price index (Indice Nacional de Precios al Productor, INPP). The central bank reported the INPP at 0.42% in March, the lowest rate in 60 months. The lower costs to producers should be reflected in lower prices for consumers in the coming months, analysts said. (Sources: Notimex, Reuters, 04/08/99; Excelsior, El Economista, Novedades, The News, El Universal, 04/09/99)

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