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The Mexican economy registered accumulated inflation of only 7.17% for the first half of 1999 because of the strength of the Mexican peso and the tight monetary policies adopted by the Banco de Mexico (central bank). The central bank said the stability of the peso in the past few months was a key factor in keeping down the inflation rate. The Mexican currency, which had fallen to as low as 10.06 pesos per US$1.00 at the beginning of February, had strengthened steadily to reach 9.34 pesos per US$1.00 as of July 14. The consumer price index (Indice Nacional de Precios al Consumidor, INPC) for June was reported at 0.66%, the lowest rate for this month in the past five years.

The index for the basket of basic consumer products was reported at 0.59% in June, lower than the INPC. However, the accumulated rate for the index of basic consumer products for January-June was 7.6%, or almost half-a-percentage-point higher than the accumulated-inflation rate. Raul Feliz, a specialist at the Centro de Investigacion y Docencia Economica (CIDE), said the price of agricultural products has remained stable in the first half of the year, which has contributed to a stable cost for consumer products.

But Luis Villalpando, the central bank's director of economic information, said the basic basket of goods does not reflect all costs borne by lower-income Mexicans, such as public transportation. "An increase in the cost of a subway ticket will have a greater impact on low-income families than on those whose earnings exceed the equivalent of six minimum wages," said Villalpando.

Still, the relatively low inflation rate for January-June increases the chances that President Ernesto Zedillo's administration will meet its target of 13% annual inflation for 1999. Some economists said prospects for low inflation in the second half of the year are enhanced by reduced costs of raw materials and other items used by the manufacturing sector.

The producer price index (Indice Nacional de Precios al Productor, INPP) was 0.7% in June, with the accumulated rate for the first six months of the year reaching only 4.69%. Economist Edgar Camargo of Santander Investment in Mexico said narrowing Mexico's trade deficit will also contribute to an economic surge in the second half of the year. In early July, the Secretaria de Hacienda y Credito Publico (SHCP) reported Mexico's trade deficit for May at US$219 million, the lowest monthly rate since November 1997.

The accumulated trade deficit for January-May was US$1.728 billion, 28% below the total for the first five months of 1998. Still, some analysts expect slight increases in the INPC in coming months because of a projected increase in costs for certain services such as telephone fees and tuitions at private schools. The recovery in global oil prices, while benefitting Mexico's trade balance, is also

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expected to put some upward pressure on the INPC the rest of the year. Banamex, Mexico's largest bank, has projected the INPC at 0.76% in July, 0.78% in August, and 1.13% in September.

But economists said they expected the Banco de Mexico to retain its tight controls on monetary supply to ensure that inflation comes close to the targeted rate of 13% Some projections have annual inflation at about 14%, slightly above the government's target. "Only a brusque movement in the exchange rate could change economic expectations," said economist Eligio San Juan of Grupo Financiero BBV Probursa. "But we don't see this type of movement in the short term." (Sources: Reuters, 07/08/99; Novedades, El Universal, 07/08/99, 07/09/99; El Economista, 07/08/99, 07/12/99; Excelsior, 07/08/99, 07/09/99, 07/13/99)

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