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## High Prices for Tomatoes Help Drive Up Consumer Prices in September

*by LADB Staff*

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Mexico's annual inflation target of 3% in 2006 is in jeopardy because of what some economists are calling the "jitomatazo" during the first part of September. This is in reference to the surge in the price of tomatoes during September, which contributed greatly to a 1.01% increase in the consumer price index (indice nacional de precios al consumidor, INPC) during the month.

This was the highest increase in monthly inflation since President Vicente Fox took office in December 2000. The September rate brought accumulated inflation for January-September to 2.47%. Monthly inflation would have to average less than 0.2% in each of the three remaining months of the year for the administration to reach its 3% target.

Most economists are now projecting inflation at about 3.5% to 3.75% in 2006, although the Banco de Mexico (central bank) and other forecasters suggest the annual rate could surpass 4%. Mexico's annual inflation in 2005 was 3.33%, the lowest in 30 years (see SourceMex, 2006-01-11).

The surge in the price of tomatoes is attributed primarily to Hurricanes Lane and John, which damaged crops in western Mexico. Lane caused the most damage, as it flooded fields in Sinaloa, which is Mexico's top tomato-producing state. John primarily affected the Baja California Peninsula, which also accounts for some of Mexico's tomato production.

The Mexican government has not yet released estimates on the impact of the hurricanes on the country's total tomato output, which reached 2.2 million metric tons in 2005. Of that total, about 902,000 MT were exported, mostly to the US market.

Still, the sudden shortage caused tomato prices to increase by more than 75% on average in September. In some areas, prices tripled, as demand outstripped supply. Tomatoes and other produce are more susceptible to price swings than commodities like beans and flour, which have a longer shelf life. "I can't recall another country where one food item seems to be so important" in determining inflation, Gray Newman, head of Latin America research at Morgan Stanley in New York, told the Los Angeles Times.

Another factor driving up the price of tomatoes is the lack of substitutes for this product, which is such an important ingredient in Mexican cooking. "If we have three meals a day we have tomatoes three times a day," said Mexican-born Alfredo Coutino, senior economist at Moody's Economy.com in Pennsylvania.

Relatively large increases in the price of other food items, including tomatillos, corn tortillas, squash, onions, and sugar, also contributed to the surge in the INPC in September, economists noted. These increases were tempered by slightly lower prices for avocados, cheese, oranges, and potatoes.

"Agriculture products jumped the most, and this accounts for more than half of the monthly increase in the inflation rate," said analyst Rafael Camarena of the Mexico City office of Grupo Financiero Santander. "There was a concentrated effect because of the volatility of agricultural prices."

An increase in tuitions for primary, secondary, and preparatory schools also contributed to higher inflation in September, analysts said. The increase in food prices is magnified by the fact that Mexicans, much like citizens of other countries, spend a larger share of their incomes on food than people in wealthier nations. Food items account for nearly one-fourth of the fixed basket of consumer goods and services used by the Banco de Mexico to track on inflation, said Newman. In wealthier countries, food accounts for from 10% to 15%.

Core inflation (inflacion subyacente), which does not include food and energy prices, increased by only 0.30% during September, analysts noted. Some analysts expect the Banco de Mexico to adopt a more restrictive monetary policy and take more money out of circulation during the rest of the year. "After these inflation figures there is a large possibility that the central bank raises its reference rate at the next meeting," analyst Jaime Ascencio of the Mexico City-based brokerage company Actinver told Reuters.

"In principle, this should be transitory, but it is not clear what the Banco de Mexico will do with monetary policy," said economist Martin Correa of Scotiabank in Mexico City. "What seems clear is that the probability of monetary tightening in the few months is increasing."

### *Lettuce prices rise following ban on US imports*

In addition to tomatoes, Mexico may also experience a tighter supply of lettuce in some regions. In early October, the Secretaria de Salud (SSA) announced a ban on all imports of US lettuce after Nunes Co. of Salinas, Ca., recalled 8,500 boxes of lettuce when irrigation water tested positive for the E. coli bacteria. The water came from a farm's deep wells but had been stored in a reservoir before it was pumped into the farm's irrigation system. The restrictions caused the price of lettuce to increase by 20% in northern areas of Mexico, said the Mexico City daily newspaper Reforma.

The SSA did not say why its ban covered imports of all US lettuce rather than just produce from the Salinas Valley in California. "Not one single head of lettuce is going to enter the country from this moment on...no type of lettuce from the United States," said Luis Alfonso Caso, director of the SSA's Comision Federal para la Proteccion contra Riesgos Sanitarios (COFEPRIS).

Some Mexican producers raised concerns that the US could retaliate by imposing restrictions on imports of Mexican lettuce. Mexico exports about 30% of its lettuce production to the US, said Miguel Angel Usabiaga Gonzalez, director of Mr. Lucky, one of Mexico's principal lettuce exporters. Mexico is projecting a lettuce crop of 80,000 MT for the current fall-winter season, with Puebla and Guanajuato states accounting for more than one-half of the production.

In recent weeks, the SSA also alerted its citizens not to consume spinach and carrot juice from the US because the E-coli bacteria was also found in some samples of these products. The infected spinach, which was also produced in the Salinas Valley, is implicated in at least three deaths in the US. (Sources: [www.fas.usda.gov](http://www.fas.usda.gov); Agencia de noticias Proceso, Notimex, Reuters, Bloomberg news service, 10/09/06; Los Angeles Times, 10/04/06, 10/09/06, 10/10/06; Diario Transicion, Associated Press, 10/09/06, 10/10/06; Excelsior, El Financiero, La Jornada, La Cronica de Hoy, El Economista, 10/10/06; Milenio Diario, El Universal, 10/10/06, 10/11/06; The San Francisco Chronicle, 10/10/06; Reforma, El Universal, 10/10/06, 10/11/06)

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