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Consumer Prices, Including Food, to Remain High Through Mid-2008

by LADB Staff

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The continuing high cost of food and energy and the impact of the tax reform due to go into effect in 2008 are expected to put pressure on Mexico's inflation rate the rest of this year and into the third quarter of 2008. Annual inflation for 2007 is already expected to approach 4%, compared with the government's original target of 3% (see SourceMex, 2007-10-03). The high cost of food, which is linked to high fuel prices and a rise in the costs of commodities at the global level, has affected basic consumer goods.

A recent report from the Universidad Nacional Autonoma de Mexico (UNAM) said the index for the basket of basic consumer goods increased by 24% in the first nine months of the year, while the purchasing power for low-income Mexicans declined by almost nine percentage points during a comparable period. In its quarterly report, released at the end of October, the Banco de Mexico (central bank) expressed concern about the impact of high global prices for wheat and dairy products on Mexico's food prices, which has caused Mexico's inflation rate to come in above target in eight of the last 13 months.

In a later report, published in early November, the central bank warned that food costs would remain high because of the increased demand for corn and other food items by the bioenergy industry, which is stepping up its production of ethanol and other biofuels. The global increase in corn prices has already had a negative effect on the price of tortillas in Mexico (see SourceMex, 2007-01-10, 2007-04-18, 2007-09-05).

"The low-income households are those that suffer most from major increases in the price of milk, tortillas, and bread," said the central bank. In addition to high demand from the bioenergy industry, the rapid development in countries like China and India has increased demand for foodstuffs and contributed to the high global prices, said the central bank.

A report from the Centro de Analisis Multidisciplinario (CAM), a unit at the UNAM Economics Department, said the rise in food prices comes as the purchasing power of the poorest Mexicans is going down. A person earning the equivalent of one minimum salary in Mexico was able to afford only about 50.2% of the basic basket of consumer goods as of the end of August, compared with almost 60% at the end of 2006, the report said.

While basic foodstuffs are increasingly becoming unaffordable, the gap between the cost of basic products and wages has been widening since 1982, said the CAM study. "The economic policies that Mexico has applied over the past 25 years have had a direct impact on the purchasing power of the working class, which is increasingly unable to buy the products that comprise the basic

basket of goods," said CAM director Javier Lozano Arredondo. Among the items that are becoming increasingly unaffordable are potatoes, white bread, and bananas, said the CAM researcher.

The Centro de Estudios Economicos del Sector Privado (CEESP) also raised concerns about the increasing cost of food. In a report published in early November, the private think tank said the high cost of commodities like wheat and corn would have its greatest impact on processed foods. "These grains are ingredients in the production of tortillas, flour, meats, and dairy products, so an increase in global prices will result in a higher final price to our consumers," said the CEESP. "What is worrisome is that if this scenario continues for the medium term, there could be negative consequences for the purchasing power of the entire population," said the CEESP.

The central bank's chief governor Guillermo Ortiz said, however, that the Banco de Mexico, like its counterparts around the world, is powerless to take any direct actions that will control global food prices. "There's little central banks around the world can do to prevent food prices from rising," Ortiz told Bloomberg news service. "But we can react to avoid secondary effects." Ortiz said rising food prices so far had not spread to other prices in the Mexican economy, but he pledged that the Banco de Mexico would remain vigilant.

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