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Mexican Government Wrestles With Keeping Tortilla Prices Stable, Amid Escalating Corn Prices

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The steady increase in global food prices, particularly corn, has forced President Felipe Calderon's administration to consider whether to allow an unpopular increase in the ceiling for tortilla prices. Any plan to prevent an increase in tortilla prices would require the cooperation of the corn-milling industry and retailers, which are making no promises that costs will not increase. Even if the administration is somehow able to keep tortilla prices from increasing, higher costs for basic foodstuffs like bread and other products are sure to create discontent among the general public.

The Calderon administration's dilemma was reflected in conflicting statements from officials of the Secretaria de Economia (SE) and corn-milling organizations on whether the cost of tortillas was about to rise and by how much. Even administration officials concede that a small increase could be inevitable. "We could see an increase of 50 centavos (US$0.04) per kilogram in June because of the rise in the global price for corn," said Rocio Ruiz, the SE's deputy secretary for industry and commerce. "But prices won't increase by more than that amount." Economy Secretary Eduardo Sojo raised the possibility that prices might not have to increase at all if the government offers subsidies to millers to acquire corn at cheaper prices. "This subsidy would help millers acquire corn at a more adequate price," said the economy secretary. Sojo emphasized the need for the government and the private sector to continue to work together to help keep tortilla prices stable.

An agreement between the SE and the private sector has helped keep the ceiling on tortilla prices at 8.50 pesos (US$0.81) per kg during the past 15 months (SourceMex, January 31, 2007 and April 08, 2007). "We are going to try to do everything possible to ensure that tortilla prices remain stable," said Sojo. "Many predictions have been made about a possible increase in prices in the second half of the year, but the Secretaria de Economia is going to continue to work with agriculture producers and other players in the tortilla-production chain to keep the price of tortilla within normal ranges."

Prices could increase by summer

Industry organizations are not making any promises to keep price increases at a minimum. Some industry officials like Greta Villasenor, director of the Consejo Empresarial de la Industria del Maiz y sus Derivados (CEIMD), said government subsidies are not sufficient to keep prices from increasing to 10.50 per kg by July. Villasenor said her estimate is based on an increase of 20% in the global price of corn. "As recently as January, we were paying 2,500 pesos (US$239) for 1 ton of corn," said Lorenzo Mejia Morales, president of the Union Nacional de Industriales de Molinos y Tortillerias (UNIMT). "[In early April], that same amount is 1,000 pesos (US$95) higher at 3,500 pesos (US$334)." Mejia projected prices for tortillas could increase to as high as 12 pesos (US$1.14) per kg by the summer months. Still, the price increase could be much smaller, depending on the level of subsidies provided by the government to the milling industry, said the UNIMT official.
The price increases may not be as widespread, with companies such as Grupo Industrial Maseca (Gruma) saying they may not have to raise the cost of their products. As recently as mid-March, Gruma officials said the higher cost of grains this year will be more than covered by price increases in 2007 and hedges on grain supplies. "We shouldn't have to raise prices," Gruma chief financial officer Raul Pelaez Cano said in an interview with Bloomberg news service. "We have already hedged the purchase of corn and wheat for 2008." Some industry officials would like the Calderon administration to provide the same type of subsidies for white corn as it has for yellow corn.

White corn is used primarily to manufacture food products, while the yellow variety is used for animal feed and industrial products, including ethanol. Guillermo Campos, president of the Consejo Promotor y Regulador de la Cadena Maiz-Tortilla (Protortilla) said the tight supply of yellow corn in the US, a result of the increased demand by US manufacturers of ethanol, has forced livestock producers in Mexico to turn to domestic sources. The increased demand at home in turn has caused prices of all varieties of corn to increase in the domestic market. "Those sectors that traditionally relied on imports are now competing with food producers for domestic supplies," said Campos.

**Corn supplies expected to tighten further**

The ethanol-related continuing high demand for corn in the US remains a major factor behind the escalating grain prices. In a report released in February, the US Department of Agriculture (USDA) projected that about one-fourth of this year's corn crop of 13.1 billion bushels would go toward the manufacture of ethanol. In a recent analysis, Bank of America Corporation said food-price inflation is running at an 11% annual rate in major developing countries, up from about 4.5% in 2006. In the US, consumer prices on average rise about 2.5% per year, but that increase was reported at 4% in 2007, the largest in 17 years. Consumer prices are expected to increase by another 3% to 4% in 2008, said the USDA. US President George W. Bush's administration, which has made a major push for ethanol production, said the high cost of energy, more expensive production costs, and strong demand from emerging countries such as India and China are equally to blame for the higher food prices worldwide. "We have an energy and a food problem. There are some relationships between them," US Secretary of State Condoleezza Rice said in testimony before a US House of Representatives subcommittee in mid-April. "We also think a significant part of the food problem relates not from biofuels but from simply the costs of energy in terms of fertilizer and in terms of transportation costs for food."

**Food prices cause rise in consumer inflation in March**

The increasing cost of food is already reflected in Mexico's consumer inflation. In March, the Banco de Mexico (central bank) reported an increase of 0.72% in the consumer price index, the largest monthly increase since 1999. This brought accumulated inflation for the first quarter of the year to 1.49%, the highest rate for January-March since 2004. This is almost half the 3% annual inflation the Secretaría de Hacienda y Credito Publico (SHCP) projected for 2008. Guillermo Ortiz Martinez, chief governor of the Banco de Mexico, acknowledged that the global increase in food prices is "a worrisome trend," but he said the central bank and the government have taken sufficient steps to slow down inflation this year. "In Mexico, we have contained the inflationary impact," said Ortiz.
Retailers are just as confident that Mexico will not see major price increases in basic products like tortillas, although prices could fluctuate some because of market conditions. The country's major retailers organization (Asociacion Nacional de Tiendas de Autoservicio y Departamentales, ANTAD) urged the Calderon administration not to enact any price controls, which it said would, in the end, "hurt consumers." "You can go to a store and find one price, go to another store and find another price, and that is the best scenario for the consumer," said ANTAD president Vicente Yanez Solloa.

Many economists and financial analysts say price controls are inefficient because they encourage hoarding. "Perhaps the biggest disadvantage of price controls, however, is that they short-circuit potential changes in behavior by producers and consumers that might damp the underlying causes of inflation," wrote Patrick Barta in the Wall Street Journal. "If price controls are kept in place too long, economists say, odds increase for a precipitous and destabilizing jump in prices later on." Others argue that price controls are necessary, at least on a limited basis, to keep the price of basic foodstuffs affordable for lower-income populations. Sojo is quick to point out that governments can take other actions, including subsidies, to keep the price of products such as tortillas affordable. "In Mexico, we do not have price controls, but we are willing to use any other means necessary to keep prices stable," he said. Even if the government succeeds in keeping a lid on tortilla prices, the cost of other products such as bread has already increased.

According to retailers, Mexico's leading bakery Grupo Bimbo raised the prices of its products twice between December 2007 and the end of March. "Retailers said this was out of character for the company, which normally would wait until the middle of the year to raise prices," said the Villahermosa daily newspaper Tabasco Hoy. Sources said Bimbo was forced to make the increase ranging from 1 peso (US$0.09) to 2 pesos (US$0.19) much earlier than anticipated to compensate for a 30% hike in global wheat prices in the first quarter of the year. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 16, reported at 10.46 pesos per US$1.00]

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