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by LADB Staff
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President Felipe Calderon's administration, with the help of the central bank (Banco de Mexico), managed to keep annual inflation in Mexico at about 3.6% in 2009, but the elimination of fuel subsidies, along with a sharp increase in consumer goods at the start of the year, will almost certainly increase the 2010 inflation rate above last year's level. In a report released Jan. 7, the central bank reported the consumer price index (Indice de Precios al Consumidor, INPC) at 0.41% in December, which brought annual inflation to 3.57%.

This was the lowest annual inflation rate since 2005, when the rate was 3.33%. The 2009 rate was a sharp contrast to 2008, when it reached 6.53% because of the sharp increase in international commodity prices (see SourceMex, 2009-01-14). Analysts said the lower inflation rate in 2009 was the result of relatively stable prices for energy and for some agricultural products.

The central bank said the rate was lower than the average of 3.81% projected by private analysts. "[This rate] was significantly lower than the projections obtained during the course of the year," said the bank, which is also known as Banxico. In addition, the rate was only slightly higher than the government's target of 3% for the year. Still, despite the lower overall rate for 2009, there were increases in several important goods and services during the year, including sugar, peaches, flour and corn flour, chicken parts, and air transportation.

Despite the lower rate for 2009, inflation is sure to spike in 2010 because of the government's decision to eliminate a fuel subsidy (see other story this issue of SourceMex), along with the decision by Congress to increase value-added taxes (impuesto al valor agregado, IVA), income taxes (impuesto sobre la renta, ISR), and other taxes as part of the 2010 revenues budget (see SourceMex, 2009-11-04). Experts anticipate the impact of those measures will be felt especially in the first quarter of the year and could ultimately bring annual inflation to close to 5% in 2010. "There will be a fairly severe impact during a fairly short period, which will be the first quarter of the year," said analyst Luis Flores of Grupo Ixe.

Rafael Camarena, an economist at Banco Santander, predicted that the higher prices in January-March would force Banxico, now under the direction of Agustin Carstens, to tighten monetary policy, with small increases in interest rates expected in February and March. While the higher inflation rate will be most evident in the price of foodstuffs, analysts see increases in other areas. Octavio Gutierrez, an analyst at Banco Santander, said the higher prices for fuel and metal products will affect construction costs, which in turn will tend to cause prices for housing and rents to increase. "This is an inflationary risk we will have to monitor throughout the year," said Gutierrez.

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