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Mexico's Inflation in the Post-pandemic Crisis

One of the economic repercussions of the Covid-19 pandemic is high inflation worldwide, which can be understood as a high tax paid and more strongly felt among the world's poor countries and poor population. Among the factors identified as the causes of this inflation are the increased demand for durable goods and furniture, partially spurred by the subsidies and the savings that came with a lower demand for services like tourism;

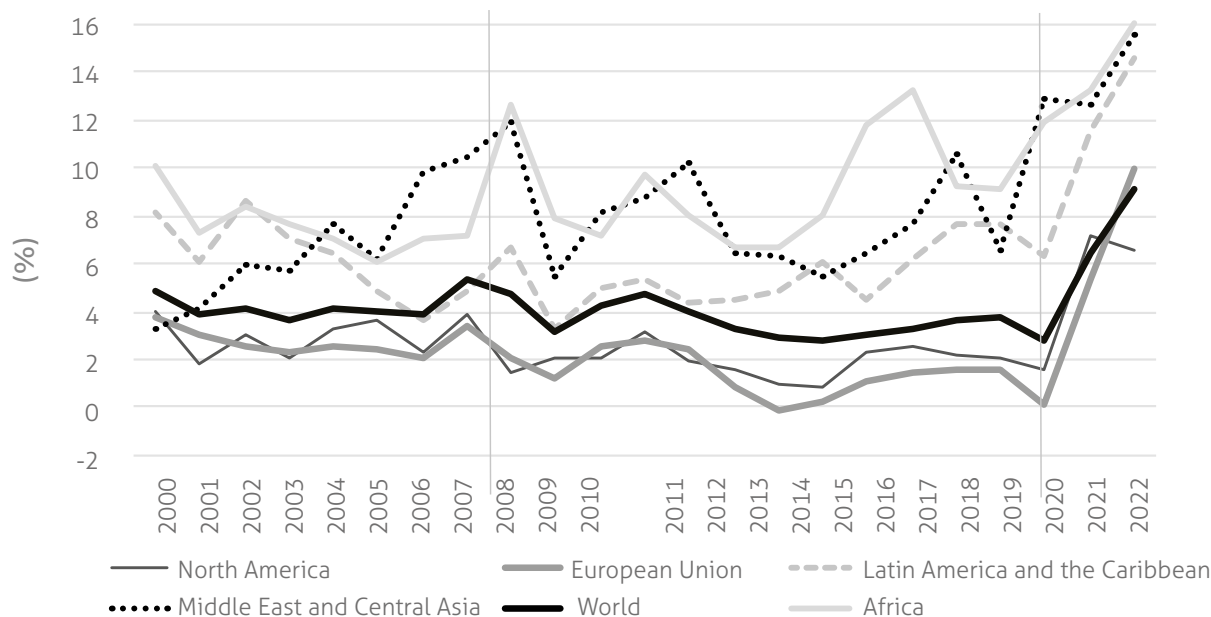
higher prices for fuel and grains due to the war between Russia and Ukraine; the continuous interruptions of global supply chains, causing a lack of key components for production; and uncertainty in the markets caused by successive waves of contagion.

The inflation rate has not returned to its long-term norm, and just when we seemed to be entering a global recovery, other factors came into play that have shown the fragility of the economy and trade relations among countries, which are now tending toward de-globalization.

All this has impacted every region differently, which is why each country has taken different measures to deal with it. Graph 1 shows that, aside from the war zone, where

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GRAPH 1
Inflation Since 2000 Worldwide and in Different Regions



Source: Developed by the authors using IMF data.¹

inflation shot up more than 50 percent in 2022, the regions where prices have risen the most swiftly are Africa, Latin America and the Caribbean, the Middle East, and Central Asia. These are all areas that historically have had the highest inflation rates. In North America, for its part, inflation seems to have stopped growing and even fell in 2022 due to a restored economic dynamism and the increase in energy prices, which improved these countries' incomes.

So, the current state of inflation seems to prove J. Noyola is right when he says, “[it] is not a monetary phenomenon; it is the result of real imbalances manifested in the form of increases in the general level of prices.”² This can be observed in the real impact of the crisis on inflation, compared with the 2008 stock-market debacle, when North America, where it originated, suffered no great repercussions in this sphere, and volatile regions experienced a momentaneous spike, but rapidly returned to their normal trends (see Graph 1).

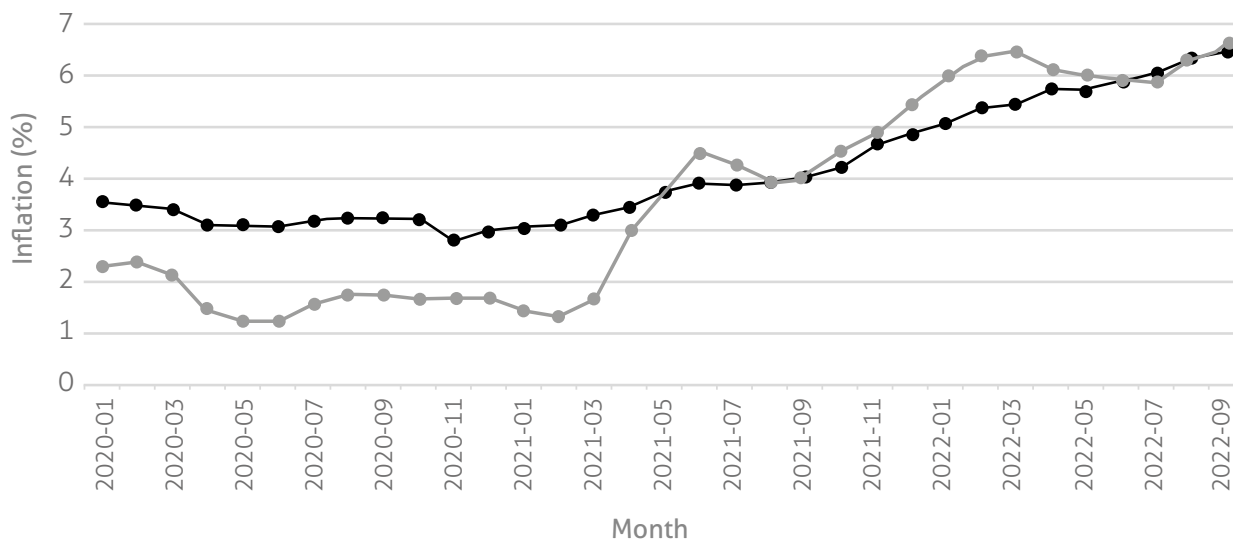
The case of Mexico and the United States is relevant since the two countries are markedly coupled with regard to inflation (as can be seen in Graph 2). In the United

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States, the main measures for dealing with the ravages of the pandemic-based crisis consisted of providing subsidies and fiscal stimuli: the cares Act in 2020 and the American Rescue Plan Act of 2021 (ARP), which turned out to be an injection of economic support direct to consumers. It has been shown that the high prices in the United States—even higher than in Mexico for several months since late 2021 and 2022—can be explained by the increase in demand spurred by this policy, in a context of restricted supply due mainly to the interruption of supply chains and bottlenecks.³

While we have observed in recent months some signs of stagnation and even a drop in price indexes for North

GRAPH 2
Inflation in Mexico and the United States
 (January 2020-September 2022)



Source: Developed by the authors with data from the OECD.⁴

America, this has been in the non-core segment of inflation, which, due to its volatility, is not useful to us as a parameter of improvement. If we analyze core inflation, we will note that it has continued to rise uninterruptedly, which

points to our continuing to suffer from high inflation, at least in the short term.

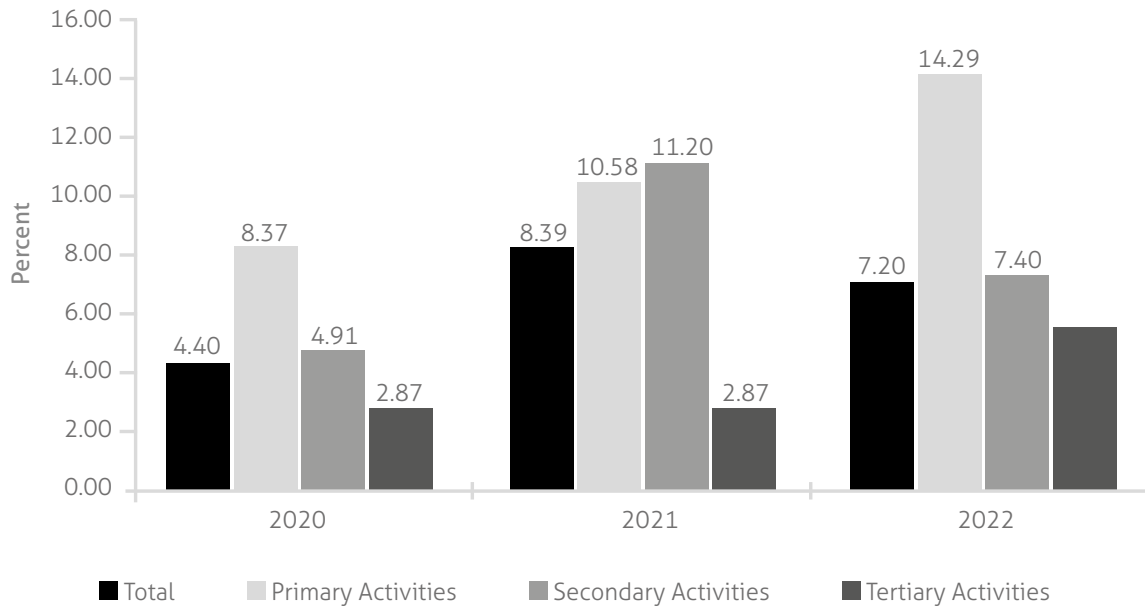
Inflation has risen swiftly in Mexico for two complementary reasons. The first is the hike in prices of the goods and services included on the National Consumer Price Index (INPC), due mainly to higher food prices, which represent almost 50 percent of general inflation. This is a matter for concern, because food purchases constitute the largest part of what the poorest families spend. The second reason is that the National Index of Prices to Producers (INPP) clearly shows inflation's impact on primary activities, which rose 14.298 percent in October 2022 (see Graph 3).

In May 2022, the federal government issued what it called the Package against Inflation and



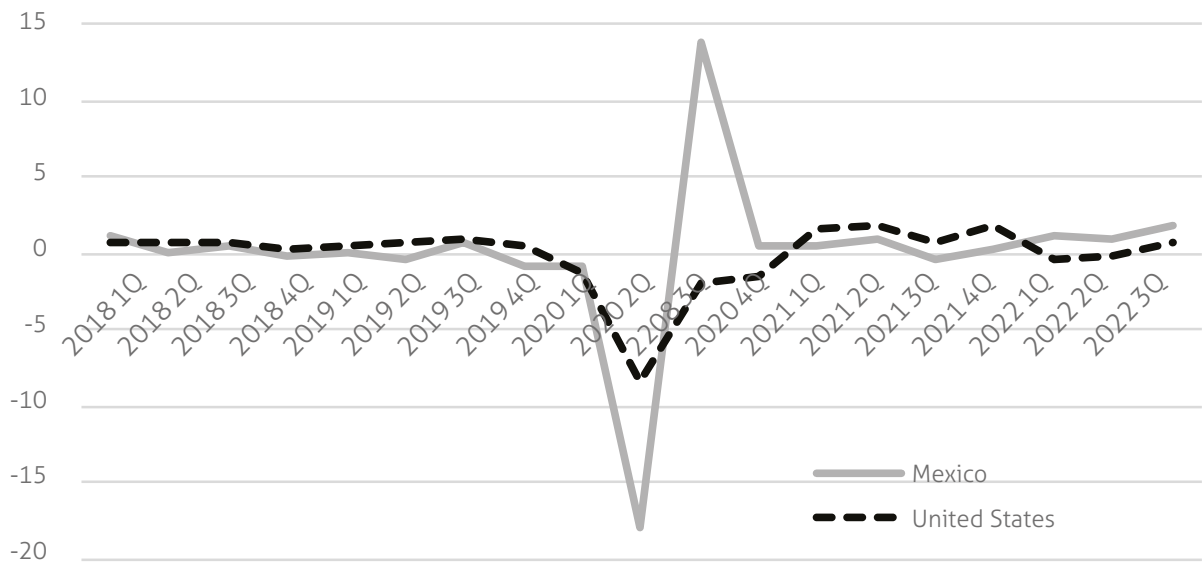
Paz Arando/Unsplash.com

GRAPH 3
Variation in Annual Prices to Producers (INPP)
 (October 2020 to October 2022)



Source: INEGI, "Índice Nacional de Precios al Productor."⁵

GRAPH 4
Quarterly Growth of the Mexican and U.S. Economies
 (First Quarter (1Q) of 2018 to Third Quarter (3Q) of 2022)



Source: Developed by the authors using IMF data.⁷

The world data from regions where inflation is still rising and the analysis of core inflation indicate that we should not be very optimistic, since the drag effect of the rest of the world could mean that we experience high inflation in the short term.

the High Cost of Living (Pacic) and a national agreement against inflation. The aim of both was to stabilize the prices of twenty-four products in the basic basket and increase domestic food production to ensure supply to Mexican families.

The Pacic has three strategies: production, distribution, and foreign trade. The first consists of stabilizing the price of gasoline and diesel through subsidies, which has been possible through compensatory measures based on higher income due to the export of crude oil, and setting reference prices for liquid petroleum gas and electricity. This has made it possible for gasoline prices to remain at between Mex\$21 and Mex\$24 per liter. Otherwise, the price could go as high as Mex\$35 and increase inflation to 14 percent.⁶ A second component of the Pacic is the increase in the production of strategic grains like maize, beans, and rice, as well as the distribution of fertilizers and a one-year suspension of the compensatory quota for ammonium sulphate. At the same time, through this agreement, in place until February 2023, large companies and food producing organizations have committed to not increase the prices of their products in return for tax breaks and simplification of red tape for importing goods needed for production.

Lastly, the impact of the Russia-Ukraine war on the world's economies depends on each country's trade relations with the two sides of the conflict. Countries with direct relations with them, then, are the ones most affected. For Mexico, the economic impact has been almost nil due to its weak direct and indirect commercial ties with those countries. However, the indirect impact on inflation is much more noticeable, mainly because of the raw materials, food, and fuel we import.

When we analyze economic growth figures, we find that the United States is facing very small positive rates and negative rates; at the same time, in Mexico, we are beginning to see indications of recovery with higher growth

rates than expected for 2022, higher even than those of our neighbor to the north (see Graph 4). This can also be seen in a record appreciation of the Mexican peso against the dollar; at the time of this writing, the dollar is worth about nineteen pesos, indicating trust in the solid recovery of the Mexican economy. However, given the increase in today's interest rate in the United States, Mexico has also had to raise its rates to avoid capital flight, a measure that will impact investment rates and discourage growth.

In short, it is our view that higher inflation is a generalized phenomenon worldwide that is more noticeable in highly volatile regions that have been affected by their high dependence on imported fuel and grains. North America, however, is one of the most resilient regions, and the current inflation rates and economic growth in Mexico allow us to think we are beginning to leave this crisis behind. On the other hand, the world data from regions where inflation is still rising and the analysis of core inflation indicate that we should not be very optimistic, since the drag effect of the rest of the world could mean that we experience high inflation in the short term despite federal government efforts and the anti-inflationary measures it has been taking. ■■■

Notes

1 International Monetary Fund, "Inflation rate, average consumer prices." World Economic Outlook (October 2022), https://www.imf.org/external/datamapper/PCPIPCH@WEO/NMQ/WE/WEO_WORLD/EU/AFQ/MECA.

2 J. Noyola Vázquez, "El desarrollo económico y la inflación en México y otros países latinoamericanos," *Ola Financiera* vol. 2, no. 3 (2009), pp. 161-177, http://www.olafinanciera.unam.mx/new_web/03/pdfs/Clasicos-Noyola-Ola-3.pdf.

3 Banco de México, "Informe trimestral enero-marzo de 2022," June 1, 2022, <https://www.banxico.org.mx/publicaciones-y-prensa/informes-trimestrales/%7B9CD55436-9E0D-C651-5A2D-DOCB99F34165%7D.pdf>.

4 OECD Data, *Inflation (Consumer Price Index, CPI)*, "Inflation Measured by Consumer Price Index (Less Food, Less Energy), Annual Growth Rate (%)," November 29, 2022, <https://data.oecd.org/price/inflation-cpi.htm#indicator-chart>.

5 INEGI, "Índice Nacional de Precios al Productor", octubre de 2022, 2022, <https://www.inegi.org.mx/app/saladeprensa/noticia.html?id=7742>.

6 Cámara de Diputados, "La Comisión de Hacienda y Crédito Público y funcionarios de la shcp analizaron el paquete económico de 2023," Boletín no. 2847, October 18, 2022, <http://comunicacionsocial.diputados.gob.mx/index.php/boletines/la-comision-de-hacienda-y-credito-publico-y-funcionarios-de-la-shcp-analizaron-el-paquete-economico-2023>.

7 International Monetary Fund, *Real GDP Growth*, World Economic Outlook, October 2022, https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEO_WORLD.