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## Inflation and Its Impact on the Poverty of Rural Mexican Families<sup>1</sup>

The world is experiencing an inflationary spiral in food prices. The explanation ranges from futures market speculation in food products, the ravages of climate change that have caused the loss of harvests in several regions of the world, to the COVID-19 pandemic that affected global agricultural-food systems, and, recently, the armed conflict between Russia and Ukraine. All these circumstances have unleashed price hikes for agricultural inputs, raised food distribution costs, and caused an inflationary spiral in Mexico unlike any seen in the last twenty years.

This high inflation is affecting the most vulnerable population the most, low-income families who, even if

they used all their income for food, would not acquire the nutrients indispensable for a healthy life. This is the population living in extreme poverty, most of whom, in both absolute and proportional terms, live in rural areas.

According to the National Council for the Evaluation of Social Development Policy (Coneval), in 2018, 50 percent of the population living in conditions of extreme poverty resided in rural areas. Food price increases have restricted food consumption for the entire population, but more so in rural areas. According to the 2021 National Public Health Survey, almost 71 percent of rural households suffered from food insecurity, as opposed to 66.4 percent of urban households.<sup>2</sup> In addition, between 2020 and 2021, the proportion of rural households in this situation increased by three percentage points because of inflation.<sup>3</sup>

Therefore, the fight against inflation is a central element in defining a country's economic policy, to the point that both in Mexico and in many economies worldwide, a central bank exists that the constitution dictates is

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autonomous in both function and administration and whose priority is to ensure the stability of the purchasing power. Mexico’s central bank fights inflation through monetary policy, raising interest rates to make credit more expensive; this aims to de-incentivize consumption so that the population does not spend as much, thus slowing price increases.<sup>4</sup> However, very often, this kind of monetary policy is not enough, since, as with the current inflationary process, what generates it is not purely monetary.

For this reason, this article will develop an analysis about the repercussions of inflation on the most vulnerable population, Mexico’s rural families, since these kinds of households earmark an important part of their resources for food. The article will also discuss the scope

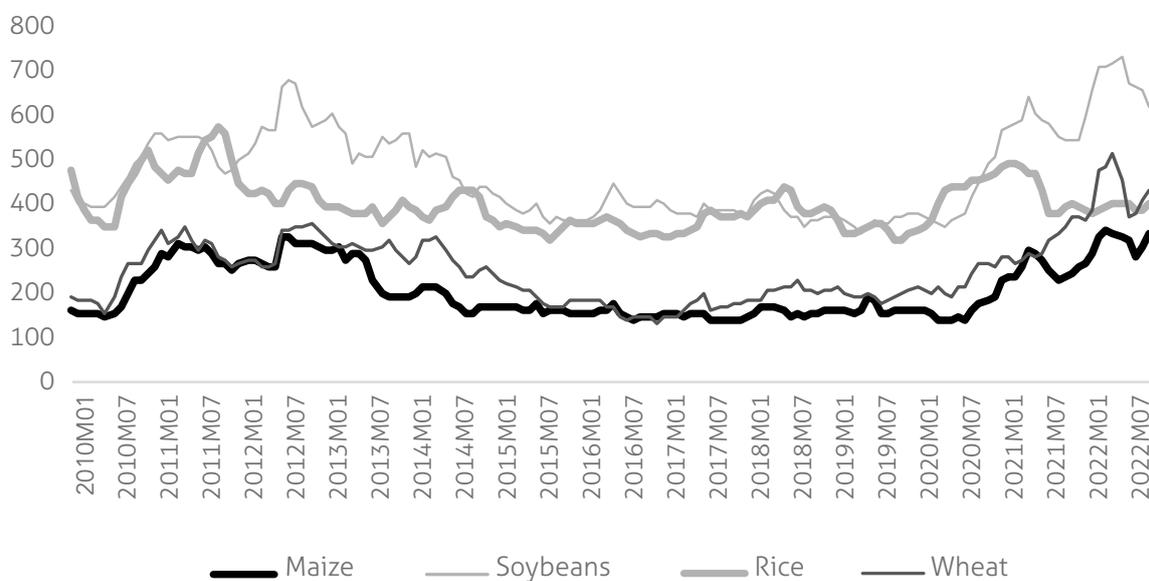
of the policies to contain food prices and present some final reflections.

### Evolution of Food Prices

Raw materials and the inputs needed for the economy to function (food, oil, minerals, etc.) are negotiated in commodities markets through contracts that include futures. These insufficiently regulated markets are subject to price distortions, above all due to excessive speculation, which causes imbalances in the “real market,” where the true buyers and sellers are irrelevant when food prices are established. In this regard, commodity prices began to grow at the beginning of the COVID-19 pandemic and continued rising after war between Russia and Ukraine began in early 2022. Speculators’ wagers on price hikes in grains and oil seeds soared to highs unseen since August 2012 (Graph 1).<sup>5</sup>

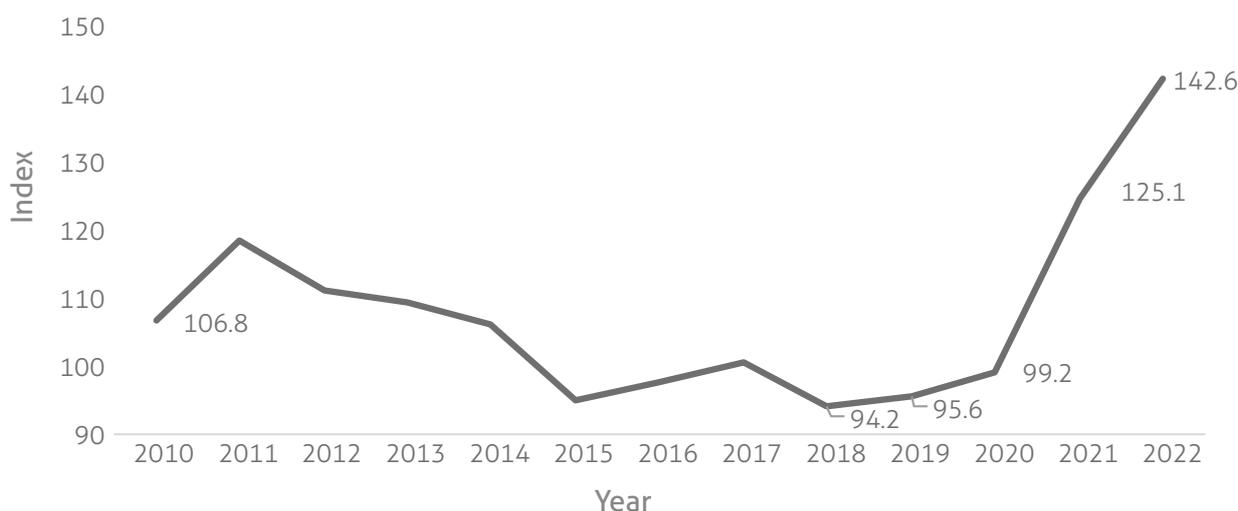
The effects of climate change should be added to this scenario since, according to the FAO, different extreme weather events worldwide also contributed to high international food prices.<sup>6</sup> All these elements are reflected

GRAPH 1  
**Monthly Commodities Prices for Selected Grains and Oil Seeds**  
 (January 2010 to July 2022) (US dollars)



Source: Developed by the authors with data from *World Bank Commodity Price Data*.

GRAPH 2  
International Food Prices Index  
(2010-2022)



Source: Developed by the authors using FAO data.

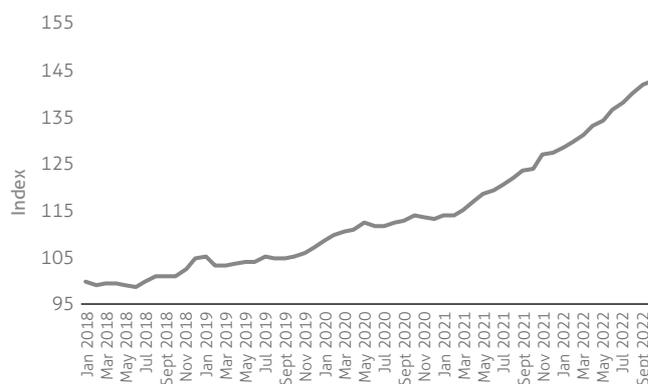
in the FAO's Food Price Index,<sup>7</sup> which has seen important increases since 2020 (Graph 2).

## The Situation in Mexico

Mexico's economy is highly food-dependent in grains: currently, our country has become the world's biggest importer of maize, and we purchase abroad almost 80 percent of the rice we consume.<sup>8</sup> This explains how the increase in international food prices pressured our domestic prices upward, as can be seen in the National Consumer Price Index involving food (Graph 3). In 2018, this indicator was relatively stable, but by late 2019, we began to see accelerated growth.

This inflation in food prices affects those in the lower income brackets more than others, since, between 2018 and 2020, the number of people who used their entire income to purchase food but could not even acquire all the products in the basic food basket rose from 17.3 million to 21.9 million. As a result, 22.5 percent of the population was deprived of full access to nutritious, quality food. Rural families suffer more from the ravages of this inflationary crisis than other sectors of the population: by 2020, the proportion of the population living in condi-

GRAPH 3  
National Consumer Price Index for Food  
January 2018-September 2022



Source: Developed by the authors using data from Mexico's National Institute of Statistics and Geography (INEGI).

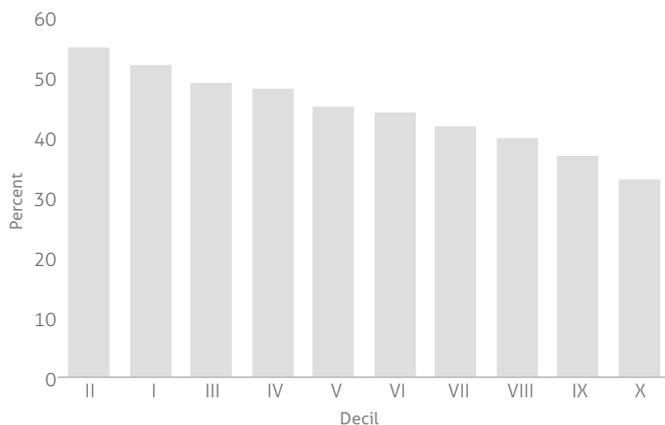
tions of extreme poverty in rural areas was 16.7 percent, almost triple the proportion of the urban population (6.1 percent).

According to the 2020 National Survey of Household Income and Spending (ENIGH), rural families destined an average of 48 percent of their expenditures to food. If we divide those households by their income levels and arrange them in ten deciles, the lowest decile uses an average

of 55 percent of its spending to purchasing food, while the highest decile only uses 33 percent for the same products (Graph 4).

GRAPH 4

### Proportion of Income Used for Food in Rural Areas (by income deciles, 2020)



Source: Developed by the authors using data from the Encuesta Nacional de Ingreso y Gasto en los Hogares (ENIGH).

Therefore, inflation control policies not only contribute to the country's macroeconomic stability, but also make it possible to defend the most vulnerable population's purchasing power and thus fight poverty. For this reason, the government implemented the Opening Agreement against Inflation and the High Cost of Living (Apepic), which reduces fifteen companies' cost of importation and distribution of food and inputs, suspends the exportation of white maize, beans, sardines, aluminum, and steel,<sup>9</sup> and seeks to stabilize the price of the basic food basket.<sup>10</sup> While this is a good proposal for controlling rising inflation, its scope may be limited because the factors causing it are mainly external. In this sense, it is important to put forward the need for a policy that would seek food sovereignty in order to stabilize food prices and defend the purchasing power of the poorest sectors of the population.

## Final Thoughts

An economy as open as Mexico's has been affected by the international inflationary spiral in food prices. Factors such as speculation of food industry commodities, the COVID-19 pandemic, the war between Russia and Ukraine,

and climate change have hit Mexican pocketbooks hard, particularly among the most vulnerable families living in rural areas. They must use most of their incomes to access food, and these inflationary processes in food prices can worsen their poverty.

While the Andrés Manuel López Obrador administration has correctly taken emergency measures to control rising prices, these can only have a limited impact since the phenomenon is mainly explained by external factors. What is needed is to seek alternative measures that isolate the pressures of global food prices. One of these proposals is to strengthen food sovereignty by boosting the agricultural sector, increasing both stimuli and infrastructure enough to make it possible to promote national food production to satisfy domestic demand. This will make it possible to protect the most vulnerable part of the population from the volatility of international food prices. ■■

## Notes

- 1 The authors wish to thank the UNAM Institute for Economic Research for supporting this work. We also thank the technical-academic support from Alejandro Merino Martínez and Luis Fernando González Martínez for the writing of this article.
- 2 According to the Food and Agriculture Organization (FAO), a person is food insecure when he/she lacks regular access to sufficient safe, nutritious foodstuffs for normal growth and development and those needed for an active, healthy life. This can be due to the unavailability of these foodstuffs or the lack of resources to obtain them. See <https://www.fao.org/hunger/>.
- 3 Maritza Pérez, "Impacta a 60.8% de hogares inseguridad alimentaria," *El Economista*, August 1, 2022, <https://www.economista.com.mx/politica/Impacta-a-60.8-de-hogares-inseguridad-alim>.
- 4 Tania Casasola, "Banxico subió la tasa de interés otra vez, pero ¿me afecta en algo?," *Animal político*, November 10, 2022.
- 5 Food & Water Watch, "How Wall Street's Bets Are Increasing the Price of Food," *Fact Sheet*, September 2022.
- 6 Gemma Santana, "El cambio climático aumentará los precios de los alimentos," *El Universal*, October 27, 2021.
- 7 Secretaría de Trabajo y Previsión Social (STPS), "Precios de garantía y canasta básica," *Conferencias sobre Programas del Bienestar*, 2020, <https://www.gob.mx/stps/es/articulos/precios-de-garantia-y-canasta-basica-conferencias-sobre-programas-del-bienestar-243886>.
- 8 Ibid.
- 9 Valeria Moy, "Sombras sobre el nuevo paquete contra la inflación" (Mexico City: Instituto Mexicano para la Competitividad, 2022), <https://imco.org.mx/sombras-sobre-el-nuevo-paquete-contra-la-inflacion/>.
- 10 Andrés Manuel López Obrador, "Acuerdo de apertura contra la inflación y la carestía entre el gobierno de México e iniciativa privada reducirá costo de la canasta básica," 2022, <https://lopezobrador.org.mx/2022/10/03/acuerdo-de-apertura-contra-la-inflacion-y-la-carestia-entre-el-gobierno-de-mexico-e-iniciativa-privada-reducira-costo-de-la-canasta-basica/>.