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Margarita Fans Miffed as Mexican Lime Growers Squeeze Supply

By Nacha Cattan March 20, 2014

Lime growers in the Mexican state of Michoacan have banded together to both set prices of the fruit they sell to packing companies and control supply, spurring inflation that's been above the central bank's target range for the last two months.

Members of the Citrus Growers Association of Apatzingan Valley are limiting supply to guarantee a minimum price for producers, said Leonardo Santibanez, an association member and coordinator of its trade events. The policy emptied Michoacan's main citrus market of limes on March 12 after association members told farmers not to harvest their crop that day as the group pushed for a minimum price of 23 pesos per kilo (80 cents per pound), he said.

The policy may be illegal, according to Miguel Flores Bernes, a former antitrust agency commissioner. Santibanez denied the growers were engaging in illegal activity.

The tactic has helped dry up margarita consumption in Mexico City as the fruit had become the biggest contributor to inflation nationwide, accounting for one third of last month's increase in consumer prices. The unexpected increase in lime costs may combine with new taxes on sodas and junk food that took effect Jan. 1 to pressure inflation expectations further above policy makers' target range, according to Nomura Holdings Inc.

"The shock of limes at a time when inflation is already high due to the tax reform is something we need to pay attention to," Benito Berber, a strategist at Nomura, said in an e-mailed response to questions. Economists expect inflation to end the year at 4.01 percent, above the 4 percent upper limit of Banco de Mexico's target range, according to a March 6 central bank survey.

Poor Quality

Manuel Ambrosio, a bartender at Bloo Bar in Mexico City, says he is reducing portions in the drinks he serves customers to trim his losses after limes rose. Sales of margaritas, a popular mixed drink of fresh lime juice, tequila and salt, have plunged 30 percent as customers complain about the poor quality of the fruit that he uses to reduce costs, he says.

"These limes have no juice," the 28-year-old said, squeezing a wedge from a pile of limes sitting on his bar. "This is the worst I've seen prices in four years."

Since December, the price of limes in Mexico City's main wholesale market has tripled to 32 pesos per kilo through mid-March. Squeezed in everything from margaritas to chicken soup, limes hold the largest weighting among fruits in Mexico's inflation basket after apples.

Lime Prices

In February, lime prices nationwide surged 68 percent from the previous month, contributing 0.08 percentage point to Mexico's consumer price index, which rose 0.25 percent, according to the national statistics institute. The cost of the fruit soared 45 percent in January, pushing consumer prices up another 0.04 percentage point.