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MARKET ACCESS SECRETARIAT
Global Analysis Report

Consumer Profile
Mexico

January 2014

EXECUTIVE SUMMARY

This report provides a concise profile of the Mexican consumer, including demographics, evolving food and beverage preferences and expenditures, and how new trends, such as a focus on health and wellness, are emerging in the country.

There is general consensus that the quality of life in Mexico, in material terms, has improved dramatically over the last two decades. One of the main forces behind the evolution of Mexican society is the development of a "middle class" that has begun to minimize economic inequality and improve many citizens' access to goods and services. The increase in the numbers of those considered in this socio-economic segment has been attributed to a combination of government economic policy with demographic factors such as a decline in family size, an increase in educational attainment, urbanization, increased access to healthcare and the greater use of technology. Conscientious consumption is beginning to be embraced by Mexicans, particularly among a sub-set of internationally oriented middle class consumers along with the wealthy, but not yet as widespread as other more economically advance countries. This move towards prosperity has however come with a high price to health of Mexicans. The population has become one of the most obese in the world and the incidence of weight-related disease, particularly diabetes, is increasing.

This report offers Canadian food and beverage companies an overview of the Mexican consumer and can be an important part of identifying potential opportunities for export to this country

CONTENTS

For comprehensive coverage of the Mexican market, please see the complete suite of Global Analysis reports:

- *Market Overview*
- *Business Environment*
- *Consumer Profile*

Growing Forward 2

Canada

INTRODUCTION

Mexico is home to 118 million inhabitants (United Nations, 2012) and is Latin America's second-largest economy behind Brazil. The implementation of the North American Free Trade Agreement (NAFTA), along with a series of open macroeconomic policies during the late 1990s and 2000s has led Mexico's economy into a period of consistent and steady growth with the exception of the recession, which temporarily impeded, and even reversed this trend. The Mexican economy has shown resiliency with GDP growth of 3.9% in both 2011 and 2012, but there are lingering effects of the recession that have been difficult for the country and its people to overcome.

One of the important advances in the development of Mexico's economy and quality of life for its citizens has been the emergence of a strong middle class with improved purchasing power, particularly in the urban centres. Services catering to this segment, including those from food and beverage sector have benefitted, as consumption preferences are moving from Mexican tradition to the more western style needs based on convenience, quality, value and variety. There has been a strong downside to this trend however in terms of the overall health of the population. Mexico is considered to have the highest rates of obesity in the world, particularly in their children and diseases related to weight, such as type two diabetes are increasing rapidly. Going forward, there will be opportunities to build on the growing health and wellness trends related to fresh and processed products that interest consumers in this market.

KEY DEMOGRAPHIC INDICATORS

The Mexican population is expected to see steady annual growth to the year 2050. Although a statistically young population, the number of children is expected to decrease significantly over the next two decades as young Mexicans delay starting their families and then to have fewer children than previous generations (Euromonitor, 2012). The number of seniors is expected to grow significantly as a result of high fertility rates in the 1940's and increasing life expectancies. This will have an increasing impact on the ability of working-age Mexicans to support their elders.

One result of this large younger population is a rise in urbanization: only 22% of citizens remain in rural Mexico (U.N. 2012). Mexico City is by far the largest city with a population of 20 million inhabitants in its federal district and surrounding metropolitan area (Planet Retail, 2012). Other large urban centres include: Guadalajara (4 million); Monteray (4.1 million); Puebla (2.3 million); and Tijuana (1.8) (U.N. 2012).

Another result of an increasing population is a rise in the number of households although they are evolving in nature. Of the 29 million households recorded in Mexico in 2012, approximately 55% had four or more people but this is projected to decline to 46% by 2020. The most significant change is within the growth of single and two-person

Total Population (millions)	118
Population Density (per sq. km)	60
Population Growth Rate (%)	1.21
Population in 2025 (millions)	138
Population in 2050 (millions)	156
Population 0 - 14 (%)	30
Population 15 – 64 (%)	64
Population over 65	6
Population over 80	1.2
Sex Ratio	87
Median Age	25.9
Crude Birth Rate (births/thousand)	18.6
Crude Death Rate (per thousand)	4.5
Infant Mortality Rate (per thousand)	14.2
Mean Age of Childbearing	26.9
Fertility Rate (child/woman)	2.1
Life Expectancy (male)	73.7
Life Expectancy (female)	78.6
Dependency Ratio	56
Net Migration Rate (per thousand)	-2.0
Urban Population (%)	78%
Urban Annual Growth Rate (%)	1.49

Source: *United Nations, 2012*

households. As shown in chart on page 3, the greatest growth will be in single person households, going from 11% to 15% in the forecast period (Euromonitor, 2013).

Number of Households by Type in Mexico Historic/Forecast

	2010	2012	2014	2016	2018	2020
Single Person	2,986.3	3,343.6	3,742.5	4,183.2	4,659.3	5,167.6
Couple Without Children	3,773.3	3,982.1	4,186.9	4,387.7	4,584.7	4,779.1
Couple with Children	10,458.1	10,817.3	11,198.6	11,596.2	12,005.7	12,426.2
Single-Parent Family	5,101.4	5,377.9	5,649.1	5,915.9	6,178.3	6,437.7
Other	5,840.3	5,873.0	5,871.1	5,829.5	5,753.8	5,647.8
TOTAL	28,159.4	29,394.0	30,648.2	31,912.5	33,181.8	34,458.4

Source: *Euromonitor, 2013*

Another significant change to family structure in the country is the increase in women as the primary wage earner, currently 25% of households (Euromonitor, 2013). The government has recognized the challenges that Mexican women face in access to economic opportunity and is assisting with new programs such as life insurance to provide financially for the education of the surviving children of single mothers in the event of their death. Another global trend playing out in Mexico that is affecting family structure is the fact that young adults are staying home longer due economic challenges, unemployment, or preference. The National Population Council estimates that women on average leave the home at age 26, while men are waiting until age 30 (Euromonitor, 2013).

With improved access to healthcare, life expectancy has increased significantly in Mexico. One consequence of the trend is a longer working career, due in part to the country's limited financial support to the elderly. Mexico has the highest effective retirement age for men among all OECD countries at 72.2 years, while women have the second-highest at 69.5 years of age (OECD, 2012).

The ethnicity of most Mexicans is comprised of a mixture of indigenous and Spanish ancestry. Cultural traits of both indigenous and European communities have been incorporated into the Mexican culture and culinary tradition. The National Statistics Institute (Instituto Nacional de Estadistica) has defined the category of indigenous to include only people that speak one of the 62 indigenous languages. In 2009, there were 14 million indigenous people belonging to states in central and southern Mexico. Indigenous communities in Mexico tend to show higher fertility, mortality and migration rates. They also earn significantly less than other Mexicans and are considered to be among the poorest people in Mexico. Government programs have been designed to be more inclusive of indigenous people and provide services, basic products, and fortified foods to help indigenous communities. Improvements have also been made to living conditions. Migration, particularly to the United States and Canada has also become significant, with the number of Mexican citizens residing abroad reaching as high as nine million (Planet Retail, 2012).

FOOD AND BEVERAGE PREFERENCES AND EXPENDITURES

Fresh food remains a fundamental part of the diet, as homemade meals are still preferred by Mexicans, being both less expensive and more traditional. Traditional Mexican meals and dishes offer a combination of indigenous (both Mayan and Aztec) and Spanish flavours, with corn (for tortillas and tamales), rice, beans, chillies, rich sauces and green or red tomato-based salsas and rich sauces complementing a range of dishes. Typically, Mexicans purchase fresh food at local retailers' and wholesalers' open markets, where there is a variety of products in one place. As well, convenience stores are an important venue for family grocery shopping in both cities and small towns. The influx of big-box stores such as Costco, Wal-Mart and Sam's Club are becoming popular, particularly along US border, for their discount and sales offerings. The major shift in Mexican household spending has seen increased purchases at these modern grocery retailers and discounters and by 2015, spending at independent small grocers is expected to fall to nearly half of what it was in 2000 (Euromonitor, 2013).

Despite the importance of fresh food in the Mexican diet, packaged and processed food is experiencing higher growth than fresh food, as people have less time for buying, preparing and cooking food, especially in urban areas. Thus, many Mexicans from all income segments are now replacing whole meals with products that are easy and quick-to-prepare, as well as packaged and ready-to-eat meals. which are not only cheap and convenient but widely available at different retail outlets across the nation. Younger consumers are an increasingly important segment, due to the impact of these socio-economic shifts. As seen from the chart below, expenditure growth is most anticipated in coffee, tea and cocoa, fish and seafood, vegetables and other foods*

Annual Per Capita Expenditure ($U.S.) on Food and Beverages Historic/Forecast and CAGR (%)

Categories	2010	2012	2014	2016	2018	2020	CAGR (%) 2012-2020
Total Food and Non-Alcoholic Beverages	1,413.5	1,624.3	1,873.7	2,147.9	2,435.7	2,744.9	6.8
Total Food	1,261.9	1,441.5	1,662.9	1,906.9	2,163.7	2,440.3	6.8
Bread and Cereals	263.9	298.7	341.1	387.9	437.2	490.5	6.4
Meat	312.6	359.4	412.2	469.9	530.0	594.2	6.5
Fish and Seafood	36.7	43.4	51.0	59.5	68.6	78.6	7.7
Milk, Cheese and Eggs	220.5	247.7	283.8	323.5	364.9	409.4	6.5
Oils and Fats	24.0	24.6	27.4	30.4	33.6	37.1	5.2
Fruit	59.7	67.5	77.9	89.4	101.6	114.7	6.9
Vegetables	191.6	222.7	261.3	304.1	349.0	397.5	7.5
Sugar and Confectionery	18.2	23.1	25.9	28.9	32.0	35.2	5.4
Other Food*	134.7	154.1	182.1	213.4	246.8	283.1	7.9
Total Non-Alcoholic Beverages	151.5	182.9	210.9	241.0	272.1	304.6	6.6
Coffee, Tea and Cocoa	17.2	22.7	28.2	34.1	40.3	46.9	9.5
Waters, Soft Drinks, Fruit/Vegetable Juices	134.4	160.2	182.7	206.8	231.7	257.8	6.1
Total Alcoholic Beverages	100.6	109.8	118.3	130.3	144.1	160.4	4.8
Spirits	20.0	21.2	22.1	23.9	26.0	28.5	3.8
Wine	3.6	4.1	4.3	4.7	5.1	5.6	3.8
Beer	77.0	84.5	91.8	101.7	113.0	126.3	5.2
TOTAL Expenditure	5,699.8	6,517.3	7,421.5	8,457.9	9,595.3	10,880.1	6.6

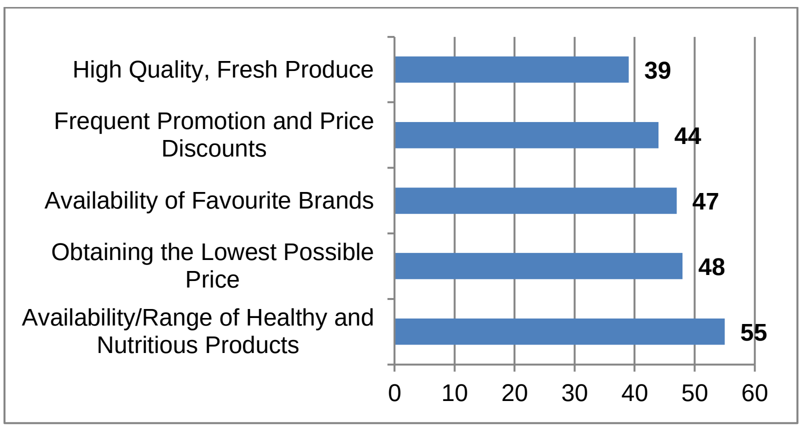
*Salt, spices, culinary herbs,sauces, condiments, seasonings, vinegar, prepared baking powders, baker's yeast, dessert preparations, soups, broths, stocks, culinary ingredients, homogenized baby food and dietary

Source: *Euromonitor. 2013*

Beverages are a very popular inclusion in the diet. Mexico is one of the world's largest markets for carbonated soft drinks: in 2012 Mexicans drank 745 servings of Coca-Cola products per capita (Coca-Cola Company, 2012). This is a concern, particularly for children and those in rural Mexico, for the health impact of high sugar consumption and its involvement with obesity. Mexicans also have the highest rate of bottled water consumption in the world at 174 litres per person per year (Euromonitor, 2013). It is common to buy water in larger containers to supply a household with drinking, cooking over the course of a few days. Coffee is a favourite hot drink for adults and teens and young adults are moving from choosing soft drinks to prepared coffee drinks. More and more coffee shops and cafes are opening to take advantage of the trend and are becoming popular places for socializing. Light-bodied beers, tequila and rum are traditional alcoholic favourites and wine is growing in broad popularity..

Mexican shoppers tend to be brand loyal, preferring to cut back on spending than trading down, particularly on food. However during recession, many of those that did trade down; approximately 46% of respondents reported that they were happy with the less expensive brand and would not go back (McKinsey&Company, 2012). A recent Datamonitor global consumer survey identified the attributes that Mexicans consider most important in their grocery stores. Some of the factors considered least important included the ability of shop online, ease of parking, retailer loyalty programs and self-checkouts.

Top Five Most Important Grocery Store Attributes Sought By Mexican Food Shoppers (%)



Source: *Datamonitor, 2013*

Foodservice

The foodservice sector in Mexico took until 2012 recover from the recession and see growth in the category. For the majority of Mexicans, eating out in restaurants or fast food chains is still considered expensive, but consumers are returning and the more stable economy is attracting global foodservice companies to the country. Street foods offering both traditional Mexican dishes and more Western style foods are still common, however are beginning to be seen as unhealthy since the government continues to promote the consumption of fresh food as the best measure to avoid being overweight and obese. New cuisines, including Japanese, Indian, Italian and Brazilian are being introduced and well accepted at all types of food service establishments. Breakfasts and lunches have diminished in importance as stressed lives are moving people to quick and convenient foodservice options.

CONSUMER TRENDS

Health and Wellness

According to the OECD, Mexico has one of the highest overweight and obesity rates in the world in 2010, particularly in its children. Statistics from Mexico's National Institute for Public Health show an increase in the child obesity rate from 18.4% in 1999, to 26.2% in 2006, representing yearly growth of 1.1%. The Ministry of Health estimates that 10% of the Mexican population suffers from diabetes, making it the leading cause of mortality, loss of limb, and blindness. Many low-income, Mexican consumers are not familiar with the benefits of healthier foods or broader nutritional information and, for the most part, cannot afford to pay premiums on products in this sector. Packaged food and fast food, which are generally cheap and convenient, frequently replace whole meals. However, a number of initiatives from both government and industry are gradually moving the Mexican consumer toward healthier options.

Companies are reformulating or adapting their products to address health concerns related to excess weight, obesity, and diabetes. Some items, for example, are now being offered with reduced fat and sugar or increased fibre. Larger players in the market are further expanding their presence in the healthy foods sector, trying to make affordable products. The Mexican government has been taking a step-by-step approach to changing eating habits by educating the population and broadening the availability of inexpensive, healthy foods. The main challenge lies not only in educating young consumers, but also in making healthy foods affordable to all. In 2009, a law came into effect regulating the advertising of junk food in the mass media, and is expected to regulate the amount of advertising directed toward children. In August 2010, a new law to prohibit the sale of junk food in elementary and secondary schools was implemented, along with a mandatory 30 minutes of daily exercise on school grounds (Diario Oficial, August 2012). While the new laws are now in effect, it's important to note that much work is still needed by local authorities to make sure this law is reinforced and becomes common practice throughout the country. The following sections highlight the growth expected in three categories that will respond to health and wellness demands of Mexican consumers

Organics

Mexico's organic marketplace is still in its development stage. In the past, only medium- to high-income consumers with a higher purchasing power bought organic products. Now, however, more Mexican consumers are interested in purchasing organic products as they learn about their perceived benefits and as more organic products are offered at a more accessible price. The market value for organic packaged food and organic beverages is reflecting this interest, projecting to reach reached US$494.1 million by 2018. Most of the imported organic food products available in the Mexican market are processed food products. The main imported organic food products are bakery products, dairy products, beverages, general grocery items (cereals, sauces oils, tofu, seasoning, etc.) desserts and sweet products, and ready-to-eat pulses and seeds (flax, rice, beans, etc.). Between January 2011 and January 2012, Mintel International registered 100 products introduced into the marketplace with the claim "organic." The majority of these products were new, while the rest were new varieties, new packaging and new formulations. These new products were mostly present in the sauces and seasonings, snacks and sweet spreads, dairy, and baby foods categories.

Organic Retail Market Sizes, US$ millions, Historic/Forecast

Categories	2008	2010	2012	2014	2016	2018
Organic Beverages	4.2	6.8	9.3	12.4	16.7	23.2
Organic Packaged Food	97.0	147.3	202.9	265.7	351.3	470.9

Source: *Euromonitor, 2012.*

Better-for-you foods

Overall, the Mexican better-for-you market's retail sales amounted to US$4.7 billion in 2012. "Reduced carbohydrate" reduced fat, reduced salt and reduced sugar packaged food all experienced growth in this category. The sub-category of reduced sugar packaged food and reduced fat packaged food were the biggest in terms of value sales amongst the better-for-you category. The Mexican government's new laws prohibiting the sale of junk food in all elementary schools to prevent childhood obesity may be beneficial for better-for-you products. Companies are now seeking ways to sell improved and healthier versions of their snacks to children, as this new generation of consumers seeks healthier products. Manufacturers are having to create new products, with many of them focusing on reduced sugar, fat, salt and carbohydrates to attract health-oriented consumers. According to Mintel, a total of 777 products with a "better for you" claim were introduced into the Mexican marketplace between January 2010 and January 2011. Most products were in the category of low/no/reduced trans-fat. Low/no/reduced fat and kosher were also among the top five claims.

Better-for-You Retail Market Sizes, US$ millions, Historic/Forecast

Categories	2008	2010	2012	2014	2016	2018
Better For You Beverages	1,807.5	2,176.4	2,690.5	3,270.0	3,983.2	4,946.0
Better For You Packaged Food	1,490.2	1,751.0	1,979.9	2,216.8	2,470.4	2,780.6

Source: *Euromonitor, 2012.*

Functional/fortified foods

The Mexican fortified/functional retail market sales totaled US$14 billion in 2012. Mexican consumers are attracted to the value-added that comes from fortified/functional packaged food. The power of brands and brand loyalty in Mexico has been historically strong. The most popular sub-categories in this sector are the products offering health claims, such as relief of constipation and digestive benefits. Products such as Lala Vive con Fibra (live with fibre) or functional/fortified yogurts from Grupo Industrial Lala, are very popular. Of the products offering digestive health claims, cold cereals, drinking yogurts, and snacks/cereal/energy bars were the most popular. According to Mintel, a total of 197 products were introduced into the Mexican market between January 2011 and January 2012 with a functional claim such as antioxidant, prebiotic, or for weight and muscle gain.

Fortified/Functional Retail Market Sizes, US$ millions, Historic/Forecast

.Categories	2008	2010	2012	2014	2016	2018
Fortified/Functional Beverages	1,901.7	2,603.4	3,248.0	4,027.4	5,063.4	6,583.1
Fortified/Functional Packaged Food	9,144.4	10,061.8	11,199.5	12,393.3	13,761.1	15,471.2

Source: *Euromonitor, 2012.*

KEY CONSIDERATIONS

Some key consumer-oriented considerations may be helpful for Canadian companies and associations interested in exporting their products to Mexico including:

- The combination of the growth of the workforce and disposable incomes has boosted interest in a full range of convenient, semi-prepared and prepared foods, particularly if there remains an element of fresh, a key consumer preference
- The increase in health problems and illnesses amongst the Mexican population and particularly amongst children has pushed consumers to look for healthier food options and those tailored to consumers with weight-related illnesses
- Emerging trends, such as organic food, are still in their early development stages. The high cost of organic products makes them unaffordable to most Mexican consumers. Companies introducing products at a more competitive or discounted price will benefit from these trends and will gain customers looking to for more affordable products.
- Increasingly, newly launched products include better-for-you and functional food claims. Companies looking to increase or maintain their market share could benefit by offering new, healthier formats of existing products, such as “reduced fat” or “reduced sugar” versions.
- The growing strength of the healthier lifestyle trend and new government programmes promoting the consumption of fruits and vegetables in settings such as schools will contribute to higher growth in these categories during the forecast period.
- A greater number of dual-earning and single-person households will limit demand for unpackaged fresh food for home cooking. However, consumers are expected to respond to new more convenient fresh packaged options, emulating changes seen in packaged processed food
- Although recovering, consumers in this country remain cautious about foodservice spending. During the recession people particularly in Mexico, immediately cut eating out as one of their expenses.
- Although Mexican consumers generally follow the pattern of three main meals per day, there is a trend towards 4-5 small daily meals for health purposes, or at least adding more snacks to the day.
- Health and wellness initiatives from government and non-government organizations, such as those promoting food and vegetables, are being introduced to encourage the population to make healthier food choices. Industry is also responding with better for you products: drinkable yogurt is popular as a way to regularize metabolism.
- Overall, demand for products that are considered healthy and beneficial will continue to rise, as Mexicans seek to improve their lifestyle and health.

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