

MEXICO COUNTRY PROFILE
Agriculture and Food Branch, IIR
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Synopsis | Market Overview | Agriculture and Food Trade Overview | Market Sector Structure and Trends | Exporter Business Tips | Market Opportunities | Alberta Advantages and Challenges | Contacts for Albertans | Events

Synopsis

Mexico is the world's twelfth largest economy, and is Alberta's third most important agri-food market after the U.S. and Japan, purchasing over C\$459 million from the province in 2007. Mexico has a strong agricultural base, but its 109 million consumers will remain dependent on imports to satisfy a significant share of their caloric needs.

Market Overview

The Mexican economy is the world's twelfth largest with a nominal GDP of US\$1.346 trillion (2007 est.). On a per capita basis the country's GDP is approximately one third that of Canada (\$12,800 for Mexico vs. \$38,400 for Canada in 2007).¹ Recently, the Mexican GDP has been slowly decelerating, posting growth of 4.8% in 2006, 3.3% in 2007, and expected growth of 2.2% in 2008.²

However, strong domestic demand and high oil prices will continue to mitigate the impact of the current US recession in the second quarter, but growth is forecast to slow more noticeably in the second half as the effects of the US slowdown filter through, producing full-year growth of 2.2%. Mexico's exports will also be affected by weaker US import demand, which will depress industrial production and employment. Nonetheless, private consumption should hold up relatively well, in part because of the increasing importance of the services sector, which will be less directly vulnerable to US trends. Assuming a gradual recovery in the US in 2009, Mexico's GDP growth is forecast to rise to 2.5%, reflecting an acceleration of investment and export growth. (The Economist.com)

Although the US slowdown has impacted Mexican growth, the effect so far has been relatively contained. The expansion is still driven by private consumption, remittances and private investment. Exports have been slowed by the advent of competition from China, which now has a larger share of imports to the US than Mexico.

Meanwhile, internal factors are creating financial difficulties. Mexico has the lowest tax take of any large economy in the region, with non-oil tax revenues accounting for slightly less than 12% of GDP. Eighteen months into his six-year term, President Felipe Calderón

¹ CIA, *World Factbook*.

² The Economist Newspaper Limited, *Country Profile*, 2007.

is looking to advance a controversial reform bill that would strengthen the government's revenue base. (The Economist, Mexico country report)

Economic forecasts suggest Mexican inflation will end close to 4.7% in 2008, significantly higher than the Central Bank's 4% target ceiling.³ However, many economists expect the Mexican peso to remain relatively stable in 2008 and 2009. The real exchange rate is forecast to depreciate by 0.4% in 2008 and by 2.4% in 2009.⁴

Politics

Mexico's politics were dominated for 70 years by the Institutional Revolutionary Party, or PRI. But elections in 2000 saw a resurgent opposition break a one-party system when Vicente Fox from the National Action Party (PAN) won the presidency.

Several years later, Felipe Calderon, from the governing conservative National Action Party, was declared the winner of the bitterly-fought July 2006 presidential election with a lead of less than a percentage point over his left-wing rival, Andres Manuel Lopez Obrador.

Soon after taking office, President Calderon announced plans for an anti-poverty drive, targeting Mexico's 100 poorest towns, pledging to create jobs in an effort to stem outward migration, and to pursue major infrastructure projects, including roads, airports, bridges and dams.⁵

Key Demographics

Population: 109,955,400 (July 2008 est.)

0-14 years: 29.6% (male 16,619,995/female 15,936,154)

15-64 years: 64.3% (male 34,179,440/female 36,530,154)

65 years and over: 6.1% (male 3,023,185/female 3,666,472) (2008 est.)

At 75.84 years, Mexico has a relatively high life expectancy, with a median age of 26 years.

Over 20 million residents are estimated to have middle and upper class spending power. Over 44.71 million residents make up the Mexican labor force. Almost 60% of these workers are in the service sector. Approximately 25% of women are now employed outside the home.⁶ Mexico's unemployment rate has been decreasing in recent years and now stands at 3.7%. (2007 est. CIA World Factbook)

The average Mexican daily calorie intake is comparable to the rest of North America, where it is close to 2,000 per day. The Mexican population has an affinity for western products and ideas. However, there are also regions in Mexico that have their own unique

³ The economist, Mexico Country report.

⁴ The economist, Mexico Country report.

⁵ BBC News, *Country Profile: Mexico*.

⁶ OECD, *Women and Men in OECD Countries Brochure*, 2004.

preferences and purchasing capabilities (middle/upper income bracket). For instance, the consumer markets of northern Mexico are similar to those of the southeastern US in terms of a preference for American-style products, especially near the border.⁷

Obesity is a prevalent disease in Mexico. According to the last National Survey for Chronic Diseases, the prevalence of obesity in Mexico is 21% in adults aged 20 to 69 years old.⁸ According to statistics from the Instituto Mexicano del Seguro Social, 62% of males age 20 to 59 are overweight or obese, and 70% of women age 20 to 59 suffer overweight or obesity.⁹ The increased availability of foods at lower prices means the poor have access to a richer diet. While middle and upper income groups can choose to adopt a healthy lifestyle, the poor have fewer food choices and more limited access to nutrition education.¹⁰ Low-income families, which comprise almost half of Mexico's population, spend 40% of their disposable income on food.

Agriculture and Food Trade Overview

Alberta's agri-food exports to Mexico were valued at over \$459 million in 2007 and accounted for almost 36% of Canada's total exports to that country.¹¹ Mexico is Alberta's third largest export market for agri-food products after the U.S. and Japan. In 2007, the province's top agri-food exports to Mexico were canola seeds (\$185 million), beef (\$139 million), wheat (\$82 million) and pork (\$11.6 million).¹²

⁷ AAFC, *Mexico: Country Profile*, 2006

⁸ The North American Association for the Study of Obesity, *Evolution of the Prevalence of Obesity in the Workers of a General Hospital in Mexico*.

⁹ Instituto Mexicano de la Seguridad Social, Coordinacion de Comunicacion Social, "La obesidad, foco de Alerta", as accessed on June 26, 2008 at http://www.imss.gob.mx/IMSS/IMSS_SITIOS/IMSS_06/prensa/nota/090608.htm

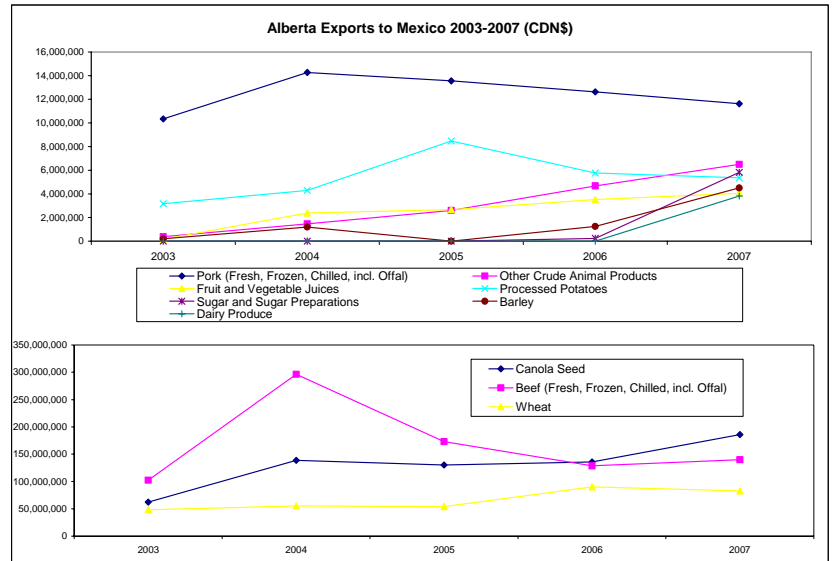
¹⁰ FAO, *The nutrition transition of obesity*.

¹¹ Industry Canada

¹² Agri-Food Trade On-line.

Alberta's Top Agri-food Exports to Mexico in 2007 in Millions of CDN\$

Alberta's Top Exports to Mexico in 2007	Value in Millions
1-Canola Seed	185
2-Beef	139
3-Wheat	82
4-Pork	11.6
5- Other Crude Animal Products	6.5
6- Sugar and Sugar preparations	5.8
7- Processed Potatoes	5.3
8- Barley	4.5
9-Fruit and Vegetable Juices	4
10-Dairy Produce	3.8



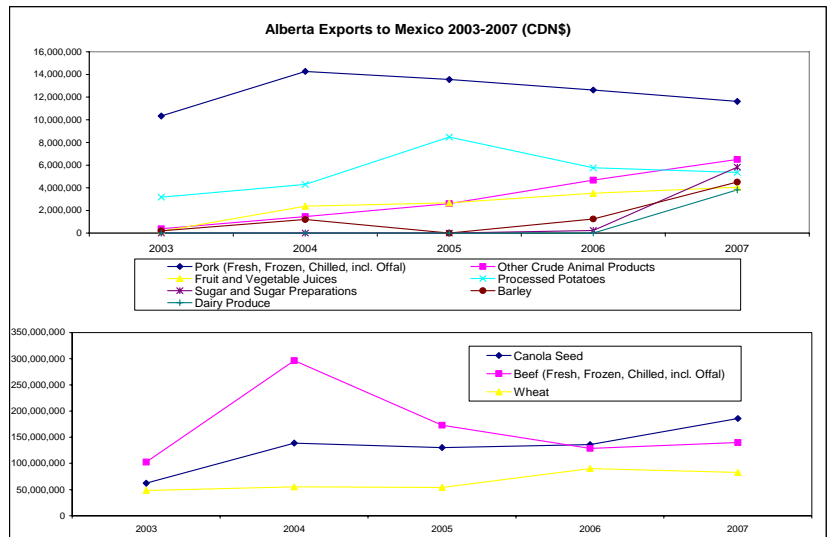
Mexico is the province's second most important export market for canola seed after Japan (\$185 million in 2007), and remains an important export market for Alberta beef (\$139.9 million in 2007).

Canada's agri-food exports to Mexico totaled \$1.29 billion in 2007 making it the country's third largest export market after the U.S. and Japan. Alberta accounted for one third of Canadian agri-food exports to Mexico. Canada's exports share some similarities with Alberta's. Canola exports are the country's largest (\$455 million) followed by wheat (\$217 million), beef (\$152 million), tobacco (\$140 million), pork (\$56 million), foodstuff and food materials (\$36 million) and canola oil (\$23 million).¹³

¹³ Agri-Food Trade On-line.

Canada's Top Agri-food Exports to Mexico in 2007 in millions of CDN\$

Canada's Top Exports to Mexico in 2007	Value in Millions
1-Canola seed	455
2-Wheat	217
3-Beef	152
4-Tobacco	140
5-Pork	56
6-Foodstuff and Food Materials	36
7-Canola Oil – Crude	23
8-Cereal Preparations	23
9-Sugar and Sugar Preparations	21
10-Processed Potatoes	21



Local producers are the main suppliers of consumer ready products. Mexico has a relatively strong food processing industry and leading Mexican brands have well-developed national distribution networks, are well-positioned in the market, and enjoy high brand awareness with consumers. Some of these companies include Grupo Industrial Bimbo (bread products), Nestle (food products in general), Herdez (food products in general), Sabritas (snack foods), Grupo Industrial Lala (dairy products), and Jugos del Valle (canned fruit juices). There are also several American and multinational producers/importers in Mexico, including: Campbell's, Bacardi, General Mills, Gerber, Kellogg's, Kraft Foods, Procter & Gamble, Frito Lay-Pepsico, Pilgrim's Pride, Purina, and Tyson.

Competition among importers depends on the category. Competition from Europe has increased as a result of the Mexico-European Union Free Trade Agreement, although meat and dairy products were excluded from the treaty. Canada, Australia and New Zealand export notable amounts of meat and dairy products to Mexico. Butter from New Zealand, for instance, is well-positioned with Mexico City retailers.

The major retailers are developing increasingly sophisticated distribution systems. Despite advances in logistics, retail stores still depend heavily on local distributors, especially for frozen food and perishables.¹⁴

¹⁴ AAFC, *Mexico Retail Food Sector Report*, 2006.

Market Sector Structure and Trends

Individuals in the low income groups tend to shop on a daily basis, purchasing tortillas, milk, bread, soda, and fresh fruit and vegetables, which are everyday products.

Convenience is a major competitive factor for these stores. Even though supermarkets are increasing in number, small stores are closer to most homes, and for small or impulsive purchases they are the preferred option.

People in the middle and upper income groups tend to buy food and beverage supplies every two weeks. However, it is common for those who can afford it to go to supermarkets twice a week, but to also go to club stores such as Sam's or Costco on a monthly basis to buy food products that can be stocked. According to a study by the National Association of Supermarket and Department Stores (ANTAD), more than 50% of Mexicans go to supermarkets on a planned basis get what they need. 40% compare prices between outlets, while 30% do not shop around for the lowest price. 39% of the population tends to buy and stock only when products are on sale.

There are three types of food retailers in Mexico. The first are the modern distribution channels and encompass most supermarket chains and convenience stores. The second consists of traditional marketplaces, where small merchants set up shop, while the third group represents small retail outlets, such as the neighborhood store.

The fastest growing segment are the supermarkets and grocery multiples, which are concentrated in a few chain stores, including Wal-Mart (which owns Superama, Sam's Club, Bodega Aurrera, Vips and Suburbia) and Comercial Mexicana-Costco (which owns Sumesa and California restaurants). Other chain stores include Gigante, Carrefour and Soriana. Consumers generally prefer Mexican food products to imports because of reasonably low prices and relatively good quality. These outlets are gaining loyalty among Mexican consumers because of their ability to offer ever-lower prices – including the provision of an increasing number of private label products - and because of their ability for large-scale advertising.¹⁵

Convenience stores are also expanding rapidly in the country, the main ones being Oxxo, 7-Eleven and Six. Many have incorporated small eateries within their premises offering fast food and coffee.

Exporter Business Tips

Personal relationships are essential to developing business in Mexico. Mexicans attach great importance to courtesy in all business endeavors. A warm handshake combined

¹⁵ Euromonitor, *Mexico: Consumer Lifestyles Report*, 2007.

with conversation about the person's well being, family, or other similar topics prior to launching into any conversation related to business is considered a common courtesy.

Canadian exporters should consider contacting local distributors/importers as an important early step in their efforts to establish themselves in the Mexican market. A good distributor should promote sales and make sure that the imported products are available at points of sale. It is essential to maintain close contact with your representative, especially regarding changes in import procedures and documentation.

An affordable way to investigate the market is to participate in and/or attend Mexican trade shows, particularly Canadian Pavilions organized at selected shows. A show can serve as a way to contact local distributors/sales agents, buyers and businessmen, and to become familiar with local competition. In the case of new-to-market companies, be prepared to provide support for in-store and media promotions to familiarize consumers with your products.

If possible, develop product information/promotional pamphlets in Spanish. Generally, medium and small-sized Canadian companies that enter the Mexican market leave all of the promotional efforts to their local distributor or representative, relying entirely on their ability to sell to major players in the market. However, industry experts believe that in order to establish a long-term presence in Mexico, Canadian firms must directly invest in marketing and promotion to increase their sales.¹⁶

Mexican regulations vary according to the nature of the product imported into the country. There are regulations concerning everything from labeling and ingredients as well as pesticide residue limits. Since some ingredients used in Canada may not be allowed in Mexico, Alberta producers are encouraged to work closely with their Mexican partners to make sure that their product conforms to Mexican regulations. An English summary of the regulations involved in exporting food to Mexico can be found on this website: <http://www.fas.usda.gov/gainfiles/200607/146208466.pdf>
http://www.fsis.usda.gov/regulations_&Policies/Mexico_Requirements/index.asp
(this is an updated website of the FSIS, USDA)

Market Opportunities

There is steady demand in Mexico for bulk agricultural commodities such as grains and oilseeds. Specific sectors in which there may be opportunities are the bulk and intermediate sectors of wheat, canola, barley, pulses, animal feed, oils and milk powder. Other prospective sectors include beef, pork, selected cheeses, food preparations, apples, pet food, frozen French fries, cookies, sauces, salad dressings, breads, cakes and pastry, and, increasingly, ready meals.

Alberta has targeted the Mexico City area and the states of Nuevo Leon and Jalisco as priority markets. Much of the meat trade is concentrated in Nuevo Leon, while a number

¹⁶ USDA, *Mexico Exporter Guide Report*, 2006.

of important food processors are located in Mexico City. Jalisco has been a target market for livestock feed and genetics and ingredients for food processors.

Beef continues to be an opportunity particularly in the higher income areas typically targeted for Alberta products. Beef exports go into the retail, food service and ingredient markets. Pork exports have been growing each year and now all tariffs have been removed so Mexico will continue to be an attractive market. Canola seed is another major export for Mexico's vegetable oil market. Alberta's wheat and malt barley are exported to Mexican food processors.

There are a number of factors influencing the growth of processed and convenience foods, such as better economic conditions, more women in the workforce, and generally long work days for employees. Some employees in or near Mexico City can spend up to four hours a day in travel time to and from work.

Consumption of frozen foods has been growing. For example, expenditures for frozen pizzas and ready meals grew at an average of over 9.7% and 8% respectively from 2001 to 2006. According to Datamonitor¹⁷, frozen food expenditures are projected to continue a growth trend of 5 per cent from 2006-2011.

Alberta Advantages and Challenges

Alberta and Canada have some great advantages in their pursuit of market share in Mexico, one of which is Canada's pristine image with both consumers and the Mexican food processing industry. This advantage is not limited to image and Canadian standards for safety and quality are generally perceived as high. Another advantage is Alberta's strategic location in western Canada, which gives it a logistical advantage in servicing the Mexican market.

Canada and Alberta will benefit from being established players in Mexico but the Mexican market will become more and more competitive in the future. New entrants such as China are already making inroads in the market and will try to increase their share. Alberta producers will have to offer a better product and better service to continue to distinguish themselves from other suppliers.

Contacts for Albertans

Albertans have access to the Alberta Trade Office co-located in the Canadian Embassy. This office opened in September 2002 and David Nygaard, the Managing Director, has the mandate to assist Alberta companies with their trade, investment, and tourism efforts in the Mexican market.

¹⁷ Datamonitor, *Frozen Food in Mexico to 2009*, June 2005.

As of January 2007, Ricardo del Castillo was added the Alberta Mexico Office, as Commercial Officer with primary responsibility for Alberta's interests related to the agri-food and agriculture sectors. See the Alberta Trade Office Website at:

<http://www.alberta-canada.com/mexico/agrifood.html>

As well, the Canadian Embassy in Mexico City and the Consulates in Monterrey and Guadalajara are able to provide support with contacts and intelligence.

See their website at http://atn-riae.agr.ca/mexico/welcome_e.htm

Export Development Canada has two offices in Mexico, one in Mexico City in the Canadian Embassy and the other in Monterrey, Nuevo Leon.

See: http://www.edc.ca/english/mediaroom_9256.htm

Canada Beef Export Federation (CBEF) also has an office located in Monterrey. CBEF is responsible for the marketing of Canadian beef.

Find out more about CBEF at: <http://www.cbef.com/>

The Agriculture and Food Branch of International Intergovernmental and Aboriginal Relations, also has a trade officer dedicated to the Mexican market.

For additional information, please contact:

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