EXPORT MARKET DEVELOPMENT REPORT: PEANUTS IN MEXICO

Euromonitor International

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EXPORT MARKET DEVELOPMENT REPORT: PEANUTS IN MEXICO

LOCAL MARKET INFRASTRUCTURE

Local Market Overview

Background on Mexico

Mexico extends for well over 2,000 km from its northern border with the US down to the boundaries with Guatemala and Belize in the south. It has coastlines on both the Atlantic and the Pacific and embraces a wide range of territory types. The landscape is partly volcanic and is subject to earthquakes.

Mexico is a slow-growing economy due to various factors

Mexico's economy grew slower than most other large Latin American countries for more than a decade. Impediments to economic progress included violence related to the crackdown on drug cartels, significant tax evasion and trade disputes with the US and other trade partners. In 2009, the country suffered its worst annual slump since 1932.

The economy's post-recession recovery was supported by both external and domestic demand. In particular, Mexican manufacturers managed to boost their market share in the US market. A continued inflow of FDI into manufacturing, especially in the automotive sector, was a particularly important driver. The gap between Mexican wages and those of rivals such as China also narrowed, boosting Mexico's competitiveness.

Growth of real GDP slowed in 2013 after debt defaults by the nation's largest homebuilders, a drop in public spending and a slump in exports. Mexico also suffered two hurricanes causing an estimated US$6 billion in damage. Driven mainly by the service sector, the economy improved modestly in 2014-2016. At the same time, officials began a process of tax reform that substantially raised non-oil revenue and started to cut expenditures.

Disparities between a highly productive modern economy in the northern and central areas, and a lower-productivity, traditional economy in the south have increased.

Although slow, Mexico remains largest exporter in Latin America

The export-GDP ratio has been slowly rising over time. Exports represented 35.8% of GDP in 2016, up from 26.5% in 2008. In dollars, exports dropped by 1.8% in 2016 and an increase of 3.1% is forecast for 2017. After a large depreciation of the peso in 2016, the currency appreciated by more than 10.0% in the first quarter of 2017. The optimism stems from new hopes that Mexico may avoid some of the extreme outcomes threatening its export-based economy.

In 2016, 81.1% of all Mexican exports went to the US. Mexican labor costs in assembly and manufacturing are now only 15.0% higher than those in China, Mexico's key competitor in the US market. Chinese wages are expected to overtake those of Mexicans in five years. The possible renegotiation of NAFTA is a source of tremendous concern.

To boost trade, Mexican officials plan are improving transportation infrastructure. Recent steps include construction of a new airport in Mexico City at the cost of US$12.5 billion and improvements in a network of more than 100 ports which is expected to cost US$5 billion.

Most exports to the US are produced in factories (maquiladoras) just across the border in order to minimize transport costs. Mexican-made goods can be delivered to the US in about a week. In contrast, Chinese exports take between 20 days and two months to get to the US. Currently, Mexico is the largest exporter in Latin America.

Exports of machinery and electrical equipment accounted for 36.8% of all exports in 2016. Earnings from exports of transportation products represented another 25.0% of the total.

Since joining NAFTA in 1994, Mexico has negotiated more trade agreements (46) than any other country. Mexico was also a participant in negotiations on the Trans-Pacific Partnership (TPP), and could be an active participant in a Tokyo-inspired TPP without the US. Washington's announcement that it will reopen negotiations on NAFTA to update the deal raises some concerns in Mexico. The EU and Mexico have agreed to accelerate their own renegotiations on a new trade pact.

The current account deficit was 2.7% of GDP in 2016 and it will narrow to 2.2% in 2017.

Inflation slows down consumption growth

Real GDP should increase 1.5% in 2017, down from 2.3% in 2016. Growth of private consumption will slow but remain a modest source of support. Exports will see a slight rise. Investment is weakening, undermined by deteriorating business confidence, tight financial conditions and widespread uncertainty. A process of fiscal consolidation is another drag. The new US government's attitudes toward immigration and trade may eventually be tempered but are still a source of great concern.

Prices rose by 2.8% in 2016 and inflation of 4.8% is expected in 2017. The Central Bank's ceiling for acceptable price increases is 4.0%. The peso fell to a record low against the US dollar in early 2017, adding pressure on prices. The Central Bank has raised rates seven times since mid-2016, most recently in May 2017, to support the peso.

The real value of private final consumption rose by 4.3% in 2016 and gains of 1.5% are expected for 2017. Remittances are another driver, increasing by 7.5% in 2016. Growth of remittances also accelerated significantly in the first quarter of 2017.

Inflation, which is eroding real wages, curbs growth of consumption.

Growth of investment has slowed noticeably, due to uncertainty regarding Mexico's future relationship with the US. US investors, who account for roughly half of all FDI inflows in a typical year, are , especially vulnerable to the new mood in Washington. Just over half of US FDI goes into manufacturing and a large share into border states.

Unemployment was 3.9% in 2016 and it will drop to 3.6% in 2017. The Central Bank estimates that at least 600,000 jobs were created in 2016. Productivity has begun to rise although output of the average Mexican worker is still only around a third of that in the US. Another problem is that roughly six out of 10 jobs are in the informal sector, a much larger share than in other countries such as Brazil or Chile.

Table 1 Market Size and Potential 2013/2018/2023

	2013	2018e	2023f
Exchange rate (Mx$ per US$)	12.8	19.4	20.1
GDP (US$ billion)	862.3	1,091.4	1,245.9
GDP per capita (US$)	7,283.5	8,749.2	9,551.0
Private consumption per capita (US$)	12,303.0	11,677.4	11,166.0
Total population ('000)	118,395.1	124,737.8	130,451.7
No. of households ('000)	30,218.2	32,584.3	34,649.2
Occupants per household	3.9	3.8	3.8
Urban population (%)	78.7	80.0	81.3
Household penetration of refrigerators (%)	83.1	89.0	93.0

Source: Euromonitor International from IMF/national statistics

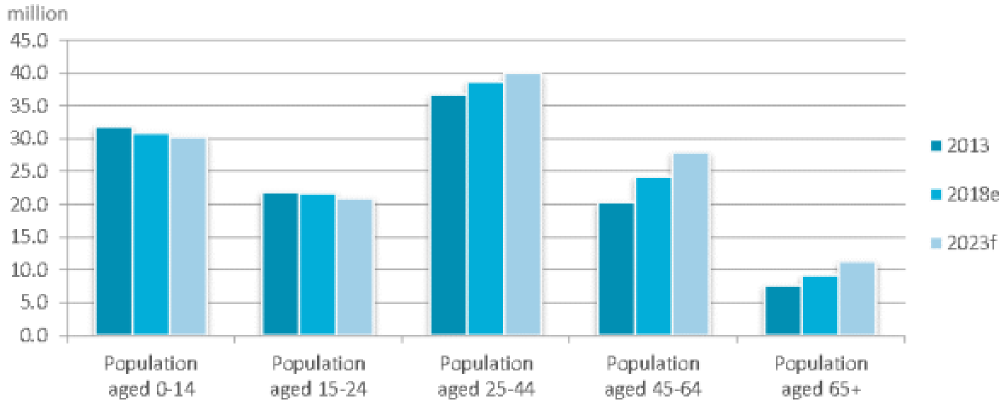
Mexican population undergoing aging process

Mexico's population has been growing at a steady pace. In 2016, it totaled 128.6 million, up from 102.9 million in 2000. Population growth, however, but is decelerating over time. Meanwhile, Mexican society - although still young - is undergoing an aging process. The median age was 27.7 years in 2016 - 5.0 years greater than the figure for 2000. The number of those over 65 years jumped from 5.1 million in 2000 to 8.6 million in 2016 and it is expected to reach 15.4 million by 2030.

Mexican fertility fell by more than 50.0% in 1980-2015 and currently stands at 2.2 births per female. The decrease began with the introduction of family planning in the 1980s but demographers argue that the real reason for the fall is a change in family values. The size of families in metropolitan areas is smaller than in rural areas and the average age of the mother at first birth is considerably higher. Fertility will fall to 1.9 births per female by 2030.

Emigration is an important determinant of demographic structure. The country has a long history of emigration. According to the US Census Bureau, Mexicans account for around one - third of the foreign-born population in the US.

Chart 1 Population by Age Segments 2013/2018/2023



Source: Euromonitor International from national statistics/UN

Homemade cooking increases in Mexico

According to the GCT Survey, 44.6% of respondents said they prepare meals themselves to eat at home at least once a day, while 32.1% eat meals prepared by someone else in their household at least once a day. Nearly 19.0% said they ready meals at home or prepare ready meals for someone else at least once a day. In large part, traditional eating habits have been affected by the popularity of convenient and inexpensive ready meals, much of it imported from the US. Regardless, consumer demand for fresh animal-based protein, particularly poultry, remains high.

Consumers prefer affordable foodservice sector

When choosing to dine outside the home, people in Mexico enjoy a vibrant and affordable foodservice sector. Street vendors sell everything from snacks and beverages to large sandwiches and platters of food. They operate from stalls, small trucks, under umbrellas, carts, bicycles, or even through makeshift windows set into the sides of buildings. Tamales (a traditional Mesoamerican dish that consists of corn masa steamed in a corn husk or banana leaf) are a particularly popular street food, with almost every state in the country having its own variation. Other popular street foods include tacos, tostadas and quesadillas, camotes (plantains or sweet potatoes served with strawberry jam and condensed milk), churros (fried dough), and elotes (corn on the cob served on a stick). At the same time, there has been rising consumer demand for more modern fast foods such as pizza, baked goods, burgers and chicken, reflected by value sales reaching US$299 per household in 2016.

Usage and Acceptance of Various Product Types in Mexico

Low consumption of fresh produce is leading cause of obesity

Mexico grows fruits and vegetables on about 10.0% of its agricultural land. Climate variation from tropical to temperate allows growers to produce a wide spectrum of fruits and almost any vegetable. According to the FAO, Mexico is the 7th largest global producer of fruits and vegetables, with 32 million tonnes per year. Mexico is one of the most productive countries in fruits and vegetables with 16.3 tonnes per square km vs. 6.5 tonnes per square km in the US and 5.8 tonnes per square km in Brazil.

Fresh fruits and vegetables are a key component of the Mexican diet. However, despite the widespread availability of fresh produce, consumption of fruits and vegetables is still below the 400 g per capita per day recommended by the WHO. The most recent and thorough study being undertaken by the Ministry of Health (National Health and Nutrition Survey) still points at the insufficient consumption of fresh produce by the majority of the population. The trend is slowly reversing as government health programs start to yield some results and the population's attitude towards junk food and sedentary lifestyles is changing.

The strong modernization trend of the 30 years significantly altered the eating patterns of the growing middle class, amid busy lifestyles away from home. Convenience and promptness triumphed over tradition and freshness, making large numbers of consumers seek out processed and high-calorie food with sweet, salty, intense flavors. These products have the advantage of being easy to prepare, carry and store. Furthermore, fast food outlets, street vendors with traditional but unhealthy food, and modern convenience stores have sprung up in every neighborhood of every city and town, making processed food the most accessible everywhere. This has resulted in a sharp increase in obesity and two of the most problematic diseases carried with it: diabetes and arterial hypertension. Mexico has one of the most obese populations worldwide, and a key factor of this has been junk food and poor eating habits. Therefore, in October 2016, the federal government declared a national health emergency as diabetes and obesity became an official epidemic. In line with this, the government has stepped up efforts treat these issues at all public clinics and hospitals. Similarly, the government has increased its campaigns to promote healthy eating, exercise, and preventive treatment.

Branding of fruits and vegetables is growing trend; sign of competitiveness

An increasingly visible trend is the branding of fruits and vegetables. Until a few years ago, fruits and vegetables were mostly sold loose, without labels or packaging. Although this practice is still commonplace, today it is also frequent to find produce labeled and packaged. Supermarkets, hypermarkets and traditional channels carry labeled produce. Many of the brands are from local producers, but there are many other well-known brands such as Nature's Heart, Pure Harvest, Bel Ara, and Valle Verde, as well as private label brands such as Select (Chedraui) Great Value & Extra Special (Walmart), and Kirkland (Costco). These brands are very well known mostly in dried fruits and vegetables as well as nut products. This branding trend is exhibiting a continued modernization of both the agricultural sector and the retail sector.

Even at traditional markets (mercados populares) and open markets, consumers can find some fresh fruits and vegetables with labels of the grower who produced them. Produce that is packaged and labeled is usually of export quality. Local producers that invest in professional packaging and labeling usually aim at both local and foreign markets. Most of these growers also seek certifications and codification of their products, something in demand by export markets.

Expansion of convenience stores but little fresh food

The increase in the number of branded convenience stores continues at a significant pace. This retail channel expanded the most in 2016 in terms of outlets, but not in terms of offering new products. This retail channel is not a strong distributor of fresh produce. Leading chains such as Oxxo, 7-Eleven, Extra, Círculo K, Súper City, Go, continue to populate all urban settings. Convenience stores offer highly processed foods and sugary drinks, with only a few stores showing a minimum presence of some fresh fruits such as apples, oranges, raisins, and prunes, as well as some peanuts and pistachios. Most of the stores that offer fresh produce are located in affluent neighborhoods and modern commercial districts, where residents and employees look for healthy snacking alternatives.

Despite a highly competitive retail environment, many small independent convenience store owners refuse to give in. Family-owned convenience stores usually offer fresh fruits and vegetables alongside with processed foods and drinks. Most of these stores are located in low to mid-income level neighborhoods, catering to the old and traditional consumer who still seeks daily fresh food alternatives.

Foodservice driving consumption of fresh produce

The foodservice sector is perhaps the fastest-growing place for fresh fruits and vegetable consumption. As the population becomes more conscious of needing to adopt healthier diets, demand for salads, sandwiches, and freshly prepared food is rising. Alongside a number of not-so-healthy fast food restaurants, there has been solid, visible growth of brands such as 100.0% Natural, Subway, Fresh Salads, Blatt Salat Haus, Simplementedeli, and several other fast food chains that offer fresh food, raw or cooked, with limited saturated fats and sugars. A large number of restaurants, both of known brands and private names, now offer healthy meals; many of them prepared with fresh fruits and vegetables. Even fondas (traditional family owned restaurants that cater to the working class) in business districts of Mexico City, Monterrey and Guadalajara offer dishes based on fresh produce.

Though this seems encouraging, a large percentage of the population still consumes food high in saturated fat, salt and sugar, with minimal fresh produce. The advantage in today's society is that consumers are more open to healthy choices, and fruits and vegetables are retaking the solid role they once had in the everyday Mexican diet With these changes, Mexico has a great chance to successfully combat and overcome the problems of obesity and the diseases associated with it.

Organic labels are increasing in presence

Organic food consumption is still small in Mexico compared to the European and US markets. this market grew since 2004 at about 10.0% on yearly basis. Growth in this sector is expected to increase by 73.0% from 2016 to 2021. Among the popular Mexican labels of organic food that have gained considerable presence at the Supermarket and hypermarket shelves are Campo Vivo, Quali, Aires de Campo, Kian Eco and Terra Natural. They are just some of the Mexican brands that produce organic food to meet the ever-growing demand for consumers looking to lead a healthier lifestyle for their body and planet. These brands have gained considerable presence on supermarket shelves throughout the country.

Mexico uses more than 1.2 million acres to produce organic foods. Almost 200,000 producers make up the supply force; about 75.0% of this yield is still exported. One important challenge to overcome in this market is that the major consumers of organic foods are well-educated people with high buying power. Organic food is still expensive for most people of low to moderate income who still regard it as exotic. However, incomes keep slowly rising, Mexican organic brands continue to increase their offerings, and new organic brands are highly expected to appear soon according to trade sources. All this indicates strong and sustained growth of organic fruit and vegetable consumption.

Mexico is betting on NAFTA, although key players are worried

Mexico was the US's third largest agricultural trading partner in 2016. According to the US International Trade Administration (under the US Department of Commerce) about 53.0% of Mexico's total agricultural imports originated in the US, while close to 80.0% of Mexican total agricultural exports end up in US markets. The balance of trade favored Mexico with US$23.8 billion worth of agricultural exports to the US vs. US$18.7 billion in imports from the US. Mexican demand for imported agricultural products dropped due primarily to the strong US dollar in 2016.

Under current rules of NAFTA, tariffs for US and Mexican fruits, vegetables, and nuts are currently at 0% for both countries, with phytosanitary rules being the highest real trade barriers. The US is far and away Mexico's preferred source for fresh and frozen fruits, vegetables, and nuts, with almost 85.0% of average import share of these commodities.

With this panorama, the political environment in the US with the new federal administration is aggressively pushing for a modernization of NAFTA. The governments of Canada, the US and Mexico have agreed to open the negotiations and revitalize the agreement. However, a real possibility exists that the three countries will not agree on key points, and that one or all the members decide to abandon the agreement. Should this happen, NAFTA countries will trade using the WTO platform as the basis for their commercial exchange. This could mean that some types of fresh produce may be levied tariffs, albeit modest ones for most commodities. Even if these tariffs are not significantly large, they can choke exporters since fruit and vegetable markets are highly competitive with inelastic demand.

Mexico's business community regards the agricultural supply chain across the three countries as sufficiently well adapted and well invested in one another. They believe that it is truly in the best interest of all parties to stick to NAFTA's key premises. Mexican players are betting on their counterparts in the US to step up the political pressure on the current US administration to avoid abandoning the agreement. The sentiment is that in the end, the US administration will back off its threats to exit, due to pressure from US businesses that refuse to let their businesses suffer without putting up a fight.

Mexico's agricultural sector could suffer beyond loss of import share in US markets. There is a significant set of investments in the pipeline delayed to the detriment of the sector's modernization. For example, the Mexican National Agriculture and Livestock Council (CNA) estimated that the sector is investing close to US$1.50 billion in projects aimed at building pressurized irrigation systems, protected agriculture, logistic strategies, greenhouses, certifications, and the significant improvement of storage facilities. Many of producers involved in these projects are companies that want to export or expand their presence in the US and Canadian markets.

Prices rose due to exchange rates

Prices of fresh fruits and vegetables fluctuate significantly than those of frozen and processed foods. According to data from Mexico's Central Bank (Banxico) prices of fruits and vegetables rose 13.2% on average in 2016. Inflation rebounded across all sectors and was the highest since 2013.

Among the leading causes of this inflation are the 17.8% devaluation of the Mexican peso against the US dollar, and the modest increases in fuel prices during 2016. The agricultural sector is heavily dependent on farming equipment, fertilizers, seeds, and technology, mostly from the US. Furthermore, imported fruits and vegetables immediately reflect price variations due to the exchange rate fluctuations with a direct impact on the consumer. Likewise, a more expensive US dollar makes it attractive for growers to shift supply away from local markets in favor of foreign markets. This raises the scarcity in Mexican markets and consequently drives up prices. Furthermore, the difficulty of maintaining large stocks make fresh produce on more expensive than processed version.

Seasonality is also an important factor in prices of popular types of produce such as oranges, mandarins, limes, pineapples and cantaloupes. Prices can surge as high as 3-6 times the lowest price during the course of a year, depending on the season and the weather conditions.

People are becoming more aware of the health risks of processed food, and consumers of all income levels are seeking out natural alternatives. A more conscious consumer will be driven by health awareness when making purchasing decisions and is likely to eat more fresh food including organic varieties, or different sources of nutrients, even if it means paying a little extra. Therefore, the long-term outlook for fresh fruits and vegetables is positive.

Table 2 Consumption and Expenditure on Food by Sector 2013/2016

Per capita consumption (Kg)			
	2013	2016	% change 2013-2016
Vegetables	59.2	59.4	0.3
Fruits	78.8	79.5	0.9
Nuts	2.6	2.6	0.3
Total consumer expenditure ($US million)			
	2013	2016	% change 2013-2016
Vegetables	16,631.3	19,719.1	18.6
Fruits	8,591.9	10,308.8	20.0
Total Food	122,381.9	148,721.9	21.5

Source: Euromonitor International from trade sources
Note: Industrial usage is not included
Note: Total expenditure on food includes: bread & cereal, meat, fish & seafood, dairy, oils, sugar, fruits & vegetables, and other food

Peanuts: Production, Trade and Consumption in Mexico

Peanuts are most popular of all nuts in Mexico

The Mexican peanut market led by imports over the review period, with 1.2 tonnes of imported peanuts per tonne of local product. Production grew to 95,983 tonnes in 2016, representing a CAGR of 3.8% over the review period. Imports reached a peak of 141,202 tonnes in 2016, representing a CAGR of 1.9% from 2011. Exports were small in 2016, reaching 2,600 tonnes with an 18.6% CAGR with respect to the start of the period in 2011. Domestic consumption showed a slow but firm growth since 2011, at a CAGR of 3.0% over the review period, and reaching 237,683 tonnes in 2016.

Peanuts are the most popular of the nuts in Mexico. They are present in practically all retail outlets of sale. Peanuts are present in some local dishes, widely consumed as snacks, and used in baked goods and confectionery. Also, they are important in the food processing sector, which uses peanuts for making a wide range of products such as cookies, cereal, peanut butter, and peanut oil.

Table 3 Production, Imports, Exports and Domestic Consumption of Peanuts 2011-2016

In tonnes '000

	2011	2012	2013	2014	2015	2016
Beginning stocks	22.0	23.9	23.7	23.5	23.3	20.1
Local production	79.8	114.8	99.8	96.3	107.0	96.0
Imports	128.4	49.6	107.6	121.8	139.7	141.2
Exports	1.1	1.2	2.6	2.3	2.0	2.6
Total consumption	205.3	163.4	205.0	216.1	247.9	237.7
Ending stocks	23.9	23.7	23.5	23.3	20.1	17.0

Source: Euromonitor International from trade sources

Peanut production spread throughout country

Locally produced peanuts went from a production of 79,827 tonnes to 95,983 tonnes, increasing at an annual average of 3.8% CAGR. Local production accounted for 40.4% of domestic consumption in 2016, below 46.6% share of the entire review period. Production showed an erratic behavior throughout the review period. Peanuts are a highly seasonal crop with many hundreds of small producers scattered throughout the nation. The main production regions are far away from one another. Weather conditions plan an important role in the amounts and quality of production reached. It is rather challenging for farmers to sustain production at the same levels year after year because of the difficulties of representing resources and efforts.

Peanuts are grown in 26 of the 31 states (Provinces) of Mexico. However, 8 states produced 89.2% of all Mexican peanuts in 2016. farmers of the northern states of Chihuahua and Sinaloa have come to dominate production as they are leveraging well on their farmers' unions and government programs. These two entities controlled 43.1% of total 2016 production. The southern states of Chiapas and Oaxaca are the second strongest peanut producer force with 27.1% of total peanut yield in 2016.

Peanuts are grown from May to October in Mexico. Climate conditions in the peanut-producing states are warm and humid during the summer and cool in the autumn, providing adequate conditions for growing peanuts. The varieties grown locally include Chihuahua, Florunner, Georgia Green, Georgia Runner, GK-7, and Virginia. In 2016, peanuts represented 0.2% of land used for agriculture in Mexico. Yield per hectare reached 1.71 tonnes, valued at US$593.28 per tonne. There is no evidence that California drought affected local production, imports or varieties of peanuts in Mexico.

Imports are the leading supply force in the Mexican peanut market

Imports of peanuts an important role in domestic market, as Mexico has been a net importer throughout the review period. Peanut imported into Mexico represented 59.4% of domestic consumption in 2016. Their share of the market was 54.0% during the review period. Imports increased at an average annual rate of 1.9% CAGR over the review period. They reached 128,397 tonnes in 2011 and went up to a peak 141,202 tonnes in 2016. Imports kept rising despite the exchange rate fluctuations against the local currency, pushing for higher prices. Domestic production is unable to supply the market and unstable as far as showing a steady production growth. Imports come in to fill up a void of peanut-hungry consumers that view this nut as an intrinsic part of their snacking preferences.

Exports represented only 2.7% of domestic production in 2016, reaching 2,600 tonnes in that year and representing a CAGR of 18.6%. They were mainly destined for the US with 90.5%, and Canada with 8.8%. The average share of exports was 2.0% out of total production during the review period.

Peanuts are a highly popular snack

Consumption of peanuts was driven by the retail sector, which sold 55.0% of all peanuts available in 2016. Peanuts are found in almost all retail stores that sell any kind of food throughout the country. They are widely consumed by all segments of the population, at all times and in a variety of dishes. However, their most popular consumption format is as salted snacks and spicy snacks. A volume CAGR of 6.0% in the retail sector for the forecast period.

The food processing sector was also an important consumer, accounting for 26.9% of total consumption. This sector uses peanuts for making snacks, confectionery, baked goods, cereal, health care products, peanut butter, and oil. The following companies are some of the largest consumers/processors of peanuts in the country: Sabritas, Mars, PepsiCo (Mafer), Bimbo (Barcel, Marinela, Ricolino, and other confectionery), and Nutrisa (skin and snack products). Most of production of these companies is geared towards snacks.

About 18.1% of total peanut consumption goes through the foodservice sector. Demand is expected to increase as this sector is projected to increase at 3.5% in 2017. Foodservice demand is strongly linked to the tourism industry, which is expected to be in the top ten largest industries in the world by revenue in 2020. Peanuts are expected to benefit from this upward trend.

Customer Perception of Product Origin

Product origin is not relevant at the point of sale

Mexican consumer choices are based on price, appearance, and flavor. Little attention is paid to product origin at the retail and foodservice venues. Often, information about country of origin is not advertised at the point of sale, nor its important to consumers. What matters is that the produce is clean, not bruised or damaged, and displayed well. Flavor and juiciness are usually important factors, as Mexican consumers prefer strong flavors (sweet, salted) over flat tasting or dry products. Wholesalers and showed retailers are knowledgeable of product origin because they are always comparing prices and availability. They have a positive perception of imported produce and their related attributes such as appearance and quality, but agree that freshness of imported fruits and vegetables is not as good as Mexican produce; mostly because large volume of imported product is old (from 12 to 18 months) versus the Mexican product that is usually less than a year old.

In the past, growers produced mainly for local traditional open markets and some food processing users. This meant the products did not meet the rigorous packaging and logistic requirements and clear controls that the modern distribution channels demand. The few producers that exported produce selected their best crops to ship to foreign distributors, invested in packaging, and applied strict quality controls. This is how they assured they could compete in the international market. Therefore, there was a large amount of locally grown produce of lower quality that focused mainly on the large segments of the Mexican market, while imports targeted small and select groups of consumers with high buying power. However, during the 1990s Mexico opened its economy and became both a strong exporter and a recipient of foreign investment. This resulted in a significant upgrade in the quality of packaging and distribution across the agricultural chain. Foreign buyers and modern retailers in Mexico have little or no tolerance for relaxed packaging and logistics practices, as well as for substandard or damaged products. The difference between local and imports disappeared at the modern retail channels, which turned out to be the best positioned today.

Therefore, increasingly of the small producers are adhering to international standards of quality for production, handling, packaging, and labeling. In this regard, supermarkets and hypermarkets have also accounted for the promotion of local fresh produce by offering it in a clean and organized space. At supermarkets, hypermarkets and large open markets, apples are labeled and neatly displayed. Mexican consumers are fully aware that imported products follow strict production, labeling, packaging, and distribution standards, comparing favorable against locally grown produce.

US is Mexico's largest trading partner of agricultural commodities

The US is Mexico's main trade partner, followed by distant Canada and Latin American partners. In 2016 total imports from the US decreased by 10.0% versus 2015 levels, reaching 832.641 tonnes of vegetables, fruits, and nuts. However, imports from the US increased at a 4.9% CAGR over the review period, against the 1.9% CAGR of total imports during the same period. This strong growth represented an 11.9% increases in US import share, from 70.2% in 2011 up to 82.1% in 2016. This shows that overall, imports from the US were more dynamic and stronger that imports from the rest of the world.

Fresh produce from the US is perceived as being of high quality and enjoys an excellent reputation among wholesalers, retailers, foodservice providers and consumers. In particular, attributes such as good appearance, certifications, product size, and well-designed packaging (especially for storage and handling) are strongly associated with US fresh produce. The key drivers of the fresh produce trade between Mexico and the US are geographical closeness, NAFTA, and the complementary nature of seasonality which allows a greater availability of fresh produce in both countries to cover local demand. Also, a large Hispanic population in the US and the influence of US culture in Mexico create strong demand for each other's food products on both sides of the border.

Food processors prefer locally grown produce due to cost savings from buying damaged or substandard produce. It is common practice in the food processing sector to use fresh produce damaged during harvest, or produce that does not meet expected standards in terms of size and quality for the retail market. This practice represented considerable savings for food processors.

The non-ratification of the Transatlantic Trade Investment Partnership (TTP) did not have an impact on production or trade flows of agricultural commodities in Mexico. For Mexican businesses and large consumer groups, it is the commercial relationship with the US what preoccupies the most. Many businesses and consumer advocates do not even grasp what TTP is for and what real benefits it could bring to Mexico. For the government and those private entities that cared about TTP, it was the fact that Mexico was an active participant that allowed it to protect the commercial benefits it had with the US through NAFTA, and guard against losing those benefits to Asian countries.

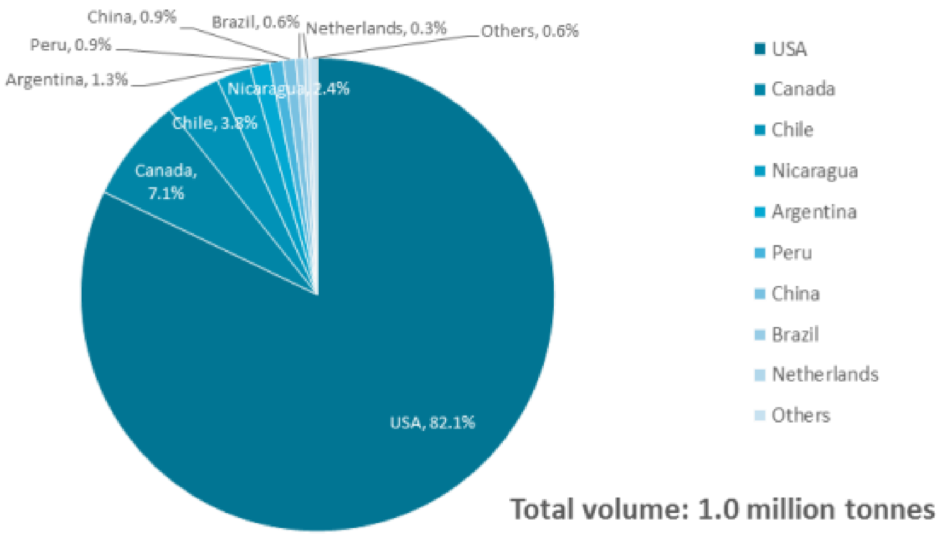
Table 4 Vegetable, Fruit and Nut Exporters to Mexico 2016

Partner	'000 tonnes	% share
USA	832.6	82.1
Canada	72.2	7.1
Chile	38.5	3.8
Nicaragua	23.8	2.4
Argentina	13.6	1.3

Peru	9.3	0.9
China	8.7	0.9
Brazil	5.9	0.6
Netherlands	3.4	0.3
Others	5.6	0.6
World	1,013.7	100.0

Source: Euromonitor International from United Nations Commodity Trade Statistics

Chart 2 Vegetable, Fruit and Nut Exporters to Mexico 2016



Source: Euromonitor International from United Nations Commodity Trade Statistics

Price and quality are far more important than country of origin

In 2016, the largest supplier of imported peanuts was the US, which was 101,014 tonnes with a market share of 71.5%. The second most important supplier was Nicaragua, reaching 23,849 tonnes with a market share of 16.9%. The third largest supplier was China with 7,705 tonnes, representing a market share of 5.5%. Brazil came in fifth place with 5,860 tonnes representing a share of 4.1%. The rest of imports, 2.0% came from Argentina, Paraguay, and El Salvador.

Locally produced peanuts as well as imported peanuts are perceived as good-quality products and are commonly available at most retail stores side by side. Price and presentation are the drivers of purchasing decisions. Often consumers do not notice the origin of the product, which is printed on the packages when peanuts are sold in bags. However, even when consumers are aware of the origin, they do not differentiate based on this premise. They are more concerned with price and quality than with country of origin. Imported raw peanuts are sold throughout the retail sector and used in the foodservice sector.

US strengthened its dominance of peanut imports

The US was largest supplier of peanuts to Mexico. On average, the US supplies more than half of all imported peanuts in Mexico. During the review period, imports from the US showed an average growth of 13.9% CAGR, accounting for an average import share of 56.6% for the entire review period. Imports grew despite the devaluation of the local currency against the US dollar from 2015 to 2016.

Peanuts originating in Nicaragua and China, and lately Argentina and Brazil have lower production costs than those from the US. However, countering the cost disadvantage, the US growers are more efficient, have a large production, are close to the target market, and have NAFTA that has helped in creating intricate commercial relationships with Mexican importers and food processing users. A failure in the NAFTA negotiations can mean obstacles to this large and lucrative market for US exporters. The Mexican government can impose tariffs on US peanuts as retaliation for US barriers in other food products and industries. This will definitely pave the way for South American dominance of the import market.

Mexico still represents good opportunities for US suppliers. There is a solid and growing demand for high-quality peanuts across the retail, foodservice, and food processing sectors. The geographical closeness of the US is a formidable advantage for prompt delivery and lower transportation costs. Also, the strict quality standards of peanut production promoted by the American Peanut Council (APC) is an advantage over other countries that lack these regulations. Furthermore, US exporters can leverage their dominance of organic peanuts. This is a subsector of the peanut market that local producers cannot reach as no commercial production of organic peanuts is carried out yet. The market for organic products is made up of health-conscious consumers, usually with high buying power. These consumers are willing and able to pay higher prices for organic, high-quality peanuts.

Table 5 Country Source: Peanuts to Mexico 2016

Partner	‘000 tonnes	% share
USA	101.0	71.5
Nicaragua	23.8	16.9
China	7.7	5.5
Brazil	5.8	4.1
Argentina	2.5	1.8
Paraguay	0.1	0.1
El Salvador	0.0	0.0
World	141.2	100.0

Source: Euromonitor International from UN/national trade statistics

Table 6 Imports of Peanuts from USA 2010-2016

tonnes ‘000	2011	2012	2013	2014	2015	2016
Imported peanuts total	128.4	49.6	107.6	121.8	139.7	141.2
Imported peanuts (USA)	52.8	24.4	61.0	65.7	84.8	101.0
USA % share of imports	41.1	49.2	56.7	53.9	60.7	71.5

Source: Euromonitor International from UN/national trade statistics

Regulatory Environment in Mexico

US trade policy creating uncertainty in Mexico’s business environment

Mexico is an active member of the world Trade Organization (WTO). The country is a promoter of free trade and as proof it has the largest Free Trade Agreement network in the world (more than 40 trade agreements). This agreement means that explicit commercial barriers such as tariffs and quotas are few and low. However, non-trade regulations are important in

Mexico, in particular those related to fresh food safety control. In terms of agriculture, about 80.0% of Mexico's trade takes place with the US, in large part due to the North American Free Trade Agreement (NAFTA) in effect since January 1994. agriculture is the only section of NAFTA that was not negotiated trilaterally between the US, Canada, and Mexico. Instead, separate agreements on agriculture were signed between each pair of parties and incorporated into NAFTA. Under NAFTA, tariffs on agricultural products from the US were eliminated on fruits, vegetables and nuts.

The new US administration that took over in early 2017 requested talks with its Canadian and Mexican counterparts to modernize NAFTA. However, the US is requesting not only the modernization but the renegotiation of some key elements such as Content, Controversy Solutions (Panel System), lifespan of the agreement, seasonal tariff for agricultural commodities. Both Mexico and Canada have rejected the proposals, claiming that the new US administration is trying to abandon NAFTA and steer the country towards a more protectionist international trade environment. The Mexican authorities in charge of the negotiations have warned the productive sectors that there is a real possibility that negotiations will fail (in some circles, there is talk of up to a 50.0% probability) and the US is expected to walk out of the agreement. If this happens, the trade relationship between Mexico and the US will be governed by the rules of the WTO, but with no special treatment for either country. The uncertainty of the course of the negotiations is making some sectors rather nervous, as they perceive a blurry trade panorama for the coming year. This nervousness is already being translated into foreign exchange fluctuations that bother the general business community at both sides of the border.

Trade regulations such as quotas, tariffs, and permits are administered by the Secretaría de Economía (Ministry of Economy). Standards and norms are developed and issued by the Dirección General de Normas (General Directorate of Norms or DGN). The Normas Oficiales Mexicanas (Official Mexican Norms or NOM) are the official Mexican government standards that products must meet in order to be imported and sold in its markets.

Non-tariff regulation of food safety control is implemented by the Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación (Secretariat of Agriculture, Livestock, Rural Development, Fishing and Food, known for its acronym SAGARPA) and the Secretaría de Salud (Health Ministry). SAGARPA, through the Servicio Nacional de Sanidad, Inocuidad y Calidad Agroalimentaria (National Service of Health, Food Safety and Agro-food Quality, known for its acronym SYNASICA), and SNICS (National Service for Seed Inspection and Certification) develops and delivers programs and services to promote food safety.

VAT and tariffs for peanuts

All imports of fruits, vegetables, nuts and pulses are subject to the Agreement establishing Module phytosanitary requirements for imports of goods regulated by the Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación (SAGARPA). The Module contains the regulations outlined by the Mexican Norm NOM-008-FITO-1995 in which the importers must comply with Analysis of Origin (crops, places), Pest Risk Analysis, and Analysis of the International situation of the product (quarantines, prohibitions, trade restrictions). Non-compliance with the norms can result in rejected shipments. Produce that will be sold in bulk does not require labeling. Packaged products must comply with the mandatory norm NOM-050-SCFI-2004 for Commercial Information - General labeling of products.

There are no compensating duties, tariffs, or quotas for peanuts All produce is subject to a Value-added Tax (VAT) of 16.0%, but fruits, vegetables, nuts and pulses are exempt from this tax, including peanuts.

Phytosanitary controls assure imports comply with Mexican Official Standards (NOM)

All shipments of fresh produce must comply with regulations and show documents required by Customs. Before a shipment is released by Mexican Customs and enters the market, it must be inspected by sampling products to search for biological and chemical food safety hazards. If the shipment passes the inspection a phytosanitary certificate is issued. A phytosanitary certificate is needed for every shipment.

Food safety control on imported fruits and vegetables is subject to the norm NOM-008-FITO-1995, while imported nuts are subject to the norm NOM-044-FITO-1995. Non-compliance with the norms can result in rejected shipments. Imported goods in Mexico are subject to the Value-Added Tax (VAT) at a rate of 16.0% but all fresh produce and most dried produce is exempt.

In January 2016 the UPCI (Mexico's International Trade Commission) decided to impose preliminary antidumping duties ranging from 2.44% to 20.82% depending on the exporter. The duties were repealed in June of 2016, returning to 0% tariff rates.

Labeling of produce is mandatory though not always enforced

The Secretaría de Economía (Ministry of Economy) is the regulatory agency for food labeling. Official norms must the met for imported products to be accepted into Mexico. Non-compliance with the norms can result in sanctions both to the exporter and the importer. Products that will be sold in bulk do not require labeling. Packaged products must comply with the mandatory norm NOM-050-SCFI-2004 for Commercial Information - General labeling of products. The following basic information is required: name of the product, name and address of the importer, tax registry of the exporter, name and address of the exporter, net weight in grams or kilograms, handling and conservation instructions.

Labels shall be adhered to or printed on the front side of the package. The package must have a label with information such as the country of origin, the number of classification of the fruit and the name of the exporting company. This information must be displayed both in a barcode and in alphanumeric characters. If this information is provided in a language other than Spanish, there should be another label with the same information translated into Spanish.

Local farmers and brokers are accustomed to delivering their produce in trucks, from small pickups to 18-wheel trailers. The produce is simply piled up. There are no boxes, no racks, no pallets, no labels, and no documentation readily available. These farmers and intermediaries do not export, or supermarkets/hypermarkets, as these retailers demand strict modern packaging items and practices.

PEANUTS: MARKET TRENDS & DEVELOPMENTS

Peanuts: Market Size

Retail market rises as peanuts are popular and cheap

The size of retail market for peanuts increased 5.2% from 2014 to 2016 as average retail prices went up by 10.5% in the same period, measured in local currency. Prices went up by only 1.8% measured in US, reflecting the impact of the exchange rate on local retail prices. Sales of peanuts in the retail sector were 118,193 tonnes valued at US$416.28 million in 2014. By 2016, retail sales were up 130,684 tonnes, and were valued at US$477.45 million, representing a CAGR by value of 7.1%, driven by the effect of exchange rate movements during the period.

Trade sources foresee strong growth of peanuts during the forecast period. sales of Raw peanuts will increase at a CAGR of 6.0% in 2017-2019, despite the price increases of more than 30.0% between 2016 and 2017. Even with this prices increases, peanuts remain the least expensive and most popular fresh and processed nut in Mexico. Growth in peanut demand is expected to continue strong as Mexican consumers increase their demand for foods that are healthy and that can be consumed fresh as snacks, in salads, and in homemade baked goods.

Both loose and packaged format are popular presentations for peanuts in retail channels

Supermarkets/hypermarkets, discounters, convenience stores and independent food stores sell peanuts packaged in plastic bags that contain from 180 g to 1.5 kg. The 454 g bag is popular. Open markets, specialty stores and some supermarkets and hypermarkets peanuts in loose format.

There is an entire range of peanut snacks that well-known brands such as Sabritas, Barcel, Mafer, Marinela, and others sell in presentations from 30 g up to 1 kg. Sometimes peanuts are mixed with other nuts. All these are processed peanuts.

Table 7 Retail Market Size for Peanuts in Mexico 2014-2019

Peanuts	2014	2015	2016	2017e	2018f	2019f
Market size in US$ million	416.3	377.0	477.5	655.4	694.8	773.2
Market size in MXN million	6,618.8	5,994.2	8,928.3	12,255.8	12,992.6	14,458.1
Market size in tonnes ('000)	118.2	136.9	130.7	134.6	141.3	151.2

Source: Euromonitor International from trade sources

Peanuts: Main Varieties and Typical Retail Prices

Runner, Virginia, and Florunner are still the most common varieties

Both local and imported varieties are available year-round throughout all the retail space in Mexico. Peanut varieties grown locally include Chihuahua, Florunner, Georgia Green, Georgia Runner, GK-7, and Virginia. Imported varieties include Runner, Virginia, Georgia Green, and Florunner.

Usually, peanuts are available in bags that contain from 180 g to 1.5 kg but there are also other channels such as specialty stores, supermarkets and open markets that offer peanuts in loose format. consumption of peanuts will continue growing because consumers value functional foods and seek to improve their eating habits.

Retail prices hit their highest level in 2017 despite stabilization of the exchange rate

The price of peanuts varied according to several factors such as country of origin and retail channel. The price of peanuts in the fall of 2017 averaged US$4.87 per kg. The highest price was found at convenience stores which offer peanuts at an average US$5.89 per kg, while the lowest price was found in Discounters at an average US$3.93 per kg. Price kept climbing despite the stabilization of the exchange rate between 2016 and 2017. In December of 2016, peanut producers from the state of Chiapas (the third most important production area) led a successful 30.0% price increase; from MX$10 to MX$13 per kg at wholesale Exworks level ("in the field"). The rest of the country followed suit. Furthermore, peanut crops were smaller than expected in 2016 and will also decrease in 2017 compared to 2016 (drought in the southern parts of Mexico are to blame). Imports are increasing in volume, and these are more expensive. All this explains the 33.3% price increase from 2016 to 2017.

Seasonality has an important impact on price trends because peanuts are supplied from southern and northern states of Mexico, and from different countries at different seasons. from June through September peanuts from the US are available usually at lower prices than South American and Nicaraguan peanuts that are available from March to April. Peanuts from Chiapas and Oaxaca are available in winter, whereas peanuts from the northern states are available in the Spring and Summer. The Christmas season has an inflationary effect on prices since demand for peanuts, as well as for dried fruits and nuts, increases substantially. All this makes price fluctuations visible to the retail consumer.

Summary 1 Summary of Main Varieties for Peanuts

Variety	Country of origin	Availability	Price range (US$/Kg)
Runner	Mexico, USA, Nicaragua	Year-round	4.00 – 4.07
Virginia	Mexico, USA, Nicaragua	Year-round	5.37 – 5.49
Florunner	Mexico, USA, Nicaragua	Year-round	5.15 – 5.20

Source: Euromonitor International from trade sources

SUPPLY CHAIN AND RETAIL ENVIRONMENT

Supply Chain Overview

Supply chain is led by large wholesalers and modern retail chains

Peanuts are distributed mainly through distributors located at Centrales de Abasto in Mexico City, Guadalajara and Monterrey. Traditional open markets and independent food stores purchase peanuts from large distributors at these Centrales de Abasto. Modern retail channels such as supermarkets, hypermarkets, discounters club stores, and other retail channel such as warehouse clubs usually purchase peanuts directly from producers or import them on their own, although they also source produce at Centrales de Abasto as needed. Likewise, food processors (such as snack packers,) negotiate directly with producers, although they also approach the wholesalers to satisfy their unmet needs.

There is a growing number of small and medium size producers that are rapidly modernizing their operations and including such features as standard packaging, bar coding of boxes, temperature standardization/cooling, waste management, and many other practices and techniques that prevail in the food sectors of the US and Europe. These businesses often bypass the wholesale markets and sell directly to the modern retail channel, both in Mexico and abroad.

Wholesalers at Centrales de Abasto control supply chain

There are still many small producers and only a few large ones in the supply chain for peanuts. In most cases, small producers do not have enough resources to distribute their own products. Local production from small growers is usually purchased by brokers (sometimes known as “introductores” or “coyotes”). Some supermarkets/hypermarkets, packers and holdings also buy directly from small producers. Brokers sell fresh produce to large wholesalers located in Centrales de Abastos in large and medium size Mexican cities (Central de Abastos de la Ciudad de México), Guadalajara (Mercado de Abastos de Guadalajara) and Monterrey

(Mercado de Abastos Estrella). Large wholesalers control the majority of the distribution of fresh produce to smaller wholesalers, convenience stores, discounters, supermarkets, traditional markets, tianguis, restaurants, hotels, hospitals, and food processors. Large wholesalers control up to 70.0% of the distribution of all nuts, including peanuts. However, large retailers such as Walmart, Chedraui, HEB, and Soriana usually buy directly from farmers or import these products through their own means.

Regarding the industrial market, there are a few large companies PepsiCo, Mars, Bimbo, and Nutrisa that buy peanuts to produce packaged snacks, candy, confectionery, and peanut butter. These companies usually buy directly from farmers or import directly. There are also many small and medium size family-owned businesses that manufacture candy and snacks and sell them through independent food stores, school stores and street vendors. They, along with thousands of foodservice providers, purchase their peanuts from wholesalers at Centrales de Abastos.

Summary 2 Summary of Key Companies for Peanuts

Company name	Type	Location(s)	Website
Central de Abastos de la Ciudad de México	Wholesalers	Mexico City	ficeda.com.mx, economia-sniim.gob.mx **
Mercado de Abasto de Guadalajara	Wholesalers	Guadalajara, Jalisco	economia-sniim.gob.mx **
Mercado de Abastos Estrella	Wholesalers	Monterrey, Nuevo León	abastosestrella.com.mx, economia-sniim.gob.mx **
Central de Abasto de Cuautla	Wholesalers	Cuautla, Morelos	economia-sniim.gob.mx **
Central de Abasto de Toluca	Wholesalers	Toluca, México	centraldeabastotoluca.grupoarso.mx, economia-sniim.gob.mx **
Central de Abasto de Ecatepec	Wholesalers	Ecatepec, México	economia-sniim.gob.mx **
Mercado de Abasto de Morelia	Wholesalers	Morelia, MIcoacán	economia-sniim.gob.mx **
Central de Abasto de Puebla	Wholesalers	Puebla, Puebla	economia-sniim.gob.mx **
Módulo de Abasto de Oaxaca	Wholesalers	Oaxaca, Oaxaca	economia-sniim.gob.mx **
Mercado Malibrán	Wholesalers	Veracruz, Veracurz	economia-sniim.gob.mx **
Mercado de Abasto de Tijuana	Wholesalers	Tijuana, Baja California	economia-sniim.gob.mx **
Central de Abasto de Jalapa	Wholesalers	Xalapa, Veracruz	economia-sniim.gob.mx **
Ruiseñor de México, SA de CV	Importer/Distributor	Mexico City	ruisenor.com.mx
Mr. Pistachio, SA de CV	Processor/Distributor	Chalco, Mexico	mrpistachio.com

Productos Nipón, SA de CV	Processor	Mexico City	pnipon.com
Exkal Deshidratadora, SA de CV	Processor/Importer	Mexico City	exkal.com
La Gallina Feliz	Distributor	Guadalajara, Jalisco	lagallinafeliz.com.mx
Sabritas (PepsiCo)	Processor	Mexico City	sabritas.com.mx
Barcel (Grupo Bimbo)	Processor	Mexico City	barcel.com.mx
M&M Latinoamerica (Mars)	Processor	Mexico City	mms.com.mx
Costco (Kirk Land)	Retail	Mexico City	costco.com.mx
Fun Fruit	Distributor	Tlalnepantla de Baz, México	funfruit.com.mx
PepsiCo (Mafer)	Processor	Mexico City	pepsico.com.mx
Bimbo	Processor	Mexico City	bimbo.com
Nutrisa	Processor	Mexico City	nutrisa.com

Source: Euromonitor International from trade sources

** SNIIM contains a list of all traders that buy and sell peanuts for this market

Sales Through Retail Distribution Channels for Peanuts

Traditional and modern retailing lead retail peanut sales

The major retail channel for peanuts are traditional open markets, with a 57.6% in 2016, and this channel's market share is expected to increase to 59.7% share by 2019 as consumers increasingly look for Raw peanuts at low prices. The supermarket/hypermarket venue is the second largest retail channel with a 17.4% in 2016, and this channel offers the comfort, convenience and modernity that the middle class seeks in grocery shopping. This channel's share is expected to increase the fastest to 18.7% by 2019.

Other channels are the third most important retail distribution channel for peanuts, with a 16.9% in 2016, but this share is falling as consumers switch to the options with better prices and greatest convenience.

Table 8 Sales of Peanuts by Distribution Format 2013/2016/2019

% retail volume

	2013	2016	2019f
Supermarkets/hypermarkets	17.0	17.4	18.7
Independent food stores	1.9	1.6	1.2
Convenience stores	1.6	1.7	1.9
Discounters	5.9	4.8	3.7
Open markets	55.3	57.6	59.7
Others	18.3	16.9	14.8
Total	100.0	100.0	100.0

Source: Official statistics, trade associations, trade press, company research, store checks, trade interviews, Euromonitor International estimates

Supermarkets and hypermarkets see strong growth rate

Supermarkets and hypermarkets are the second largest channel for peanuts after the traditional open markets channel. This channel surpassed the other channels in 2016, as consumers move to more convenience and away from specialty stores. The Supermarket/hypermarket channel had 17.4% of retail sales of peanuts in 2016, and should reach 18.7% by 2019. This is the highest growing retail channel in Mexico; it received the most investment in infrastructure of all channels during the past 10 years, and they are beginning to reap the benefits of all those investments offering convenience and a modern shopping experience to shoppers

Peanuts are found in loose format and in plastic bags of different weights up to 1.5 kg. A preferred format is the plastic bag with 1 lb (454 g). This shows the influence of US imports. The average price of peanuts in this retail channel was US$5.19 per kg in the fall of 2017, which was the second highest price across retail channels. Supermarkets and hypermarkets not only offer shopping convenience, but they also offer options of different presentations for peanuts (bagged and loose). This channel is preferred by mid-to-people of high income that value convenience and the shopping experience as well as high-quality products.

Independent food stores offer limited stock of peanuts

Only 1.6% of retail sales of peanuts were distributed via independent food stores in 2016, and this channel’s market share is expected to decrease over the forecast period to 1.2% by 2019.Peanuts do not play an important role at independent food stores because this channel only handles a quite limited stock of products including peanuts. Consumers looking for peanuts usually prefer to buy them at traditional open markets or supermarkets.

Peanuts are found in loose format most of the time, but also in plastic bags of 450 g. The average price of peanuts in this retail channel was US$4.82 per kg in the fall of 2017, which was the closest to the average price across retail channels.

Convenience store share is rising

Convenience stores distributed 1.7% of retail sales of Raw peanuts in 2016. They, along with independent food stores, are the smallest channels among all retail channels for peanuts. This channel’s market share is expected to increase to 1.9% by 2019 as more consumers seek peanuts at this sales channel. convenience stores offer peanuts for US$5.89 per kg in the fall of 2017. This was the highest average price across retail channels. convenience stores are best known for selling processed peanuts and peanut products as snacks, but not for Raw peanuts.

Discounters focus on price rather than quality

Discounters represented 4.8% of retail sales of peanuts in 2016 and this share is expected to decrease to 3.7% by 2019. Discounters do not handle large stocks of peanuts because their targeted customers usually buy peanuts at channels where prices and convenience can also be found, such as open markets, supermarkets and hypermarkets.

The average price of peanuts in this retail channel was US$3.93 per kg in the fall of 2017. This was the lowest price found in all retail channels. Discounter market share is expected to decrease to 3.7% in during the forecast period. Discounter do not carry peanuts consistently across most of their points of sale. Also, offering quality nuts is not as important as offering low prices. This is why they are expected to lose share of the peanut distribution.

Traditional open markets lead retail sales of peanuts

Traditional open markets handled 57.6% of peanut retail sales in 2016, more than any other retail channel in Mexico This share is expected to rise to 59.7% by 2019..

Since the beginning of the decade, many traditional open markets across the country organized their members, and together with government help began to invest in the revamping and modernization of the facilities and services. This effort is starting to bear fruit as more traditional open markets now offer many of the convenience services that are once exclusive of modern retail outlets. consumers can pay with their credit and debit cards at many stands within the traditional open market, produce is labeled and well organized, the facilities are clean and well lit,, etc. These new features are slowing down decrease of this sales channel, and in the case of peanuts, they are helping it to regain market share.

The average price of peanuts in this retail channel was US$4.28 per kg in the fall of 2017. This is the second lowest price across retail channels.

Other channels offer peanuts at high prices

The other channels was the second largest channel for peanuts in 2016, handling 16.9% of retail sales. The market share of other channels is expected to decrease to 14.8% by 2019 because consumers will move to traditional open markets and supermarkets/hypermarkets for raw peanuts. Specialty stores are the main other channels for peanuts, followed by warehouse clubs. The average price of peanuts in this retail channel was US$5.43 per kg, the second highest price across retail channels.

Retail Distribution Channels Overview

Traditional grocery retailers remain popular in Mexico

Traditional grocers have tremendous cultural importance in Mexican society thanks to their strong presence and central position in the life of most residential neighborhoods in both urban and rural localities. Traditional grocery retailer outlets offer a wide variety of basic products, including products in small packages sizes that are affordable for even the lowest-income consumers, who in many cases are unable to purchase products in bulk and instead choose to buy their groceries in small quantities on a daily basis. Nevertheless, modern grocery retail channels have been registering rapid geographical expansion in recent years, supported by strong marketing investment that, combined with the wider range of products on offer in stores and the offer of value-added services, are , becoming an increasingly attractive option for Mexican consumers, which is having a negative impact on the value share of traditional grocery retailers.

Private and public entities support competitiveness

Given the fragmented competitive environment across traditional grocery retailers in Mexico, it is challenging for retailers in the channel to implement programs that would benefit the majority of the 497,000 independent small grocers operating in the country; however, during the review period, the channel saw some initiatives from private and public entities to support its competitiveness. For example, the most recent of these initiatives was the special sale season organized by ANAM (Asociación Nacional de Abarroteros Amorists- National Grocery Wholesale Association). This sale season was entitled Verano Abarrotero (Grocer's summer) and was held during May and June 2016 after a successful pilot during 2015. Verano Abarrotero has the goal of helping independent small grocers and their wholesale suppliers to compete against the Julio Regalado (Gifted July) and Verano Naranja (Orange summer) campaigns that Soriana and Comercial Mexicana modern grocery retailers conducted respectively in June, July and August 2016, offering aggressive discounts across a number of product categories. For Verano Abarrotero, ANAM negotiated with numerous leading branded manufacturers in order that their associate grocery wholesalers were able to obtain special packaging during the promotional season to offer higher product content at the same retail price as regular presentations. As a result, these wholesalers are also able to benefit the independent small grocers that are their primary clients by enabling them to pass on such discounts. The independent small grocers, meanwhile, communicated the Verano Abarrotero promotions to their customers with the aid of the in-store marketing layouts that ANAM distributed to the participant retailers in order that each of them could print the required advertising materials themselves.

Table 9 Retail Distribution Channel Trends, Sites/Outlets 2013/2016/2019

Sites/Outlets

	2013	2016	2019f
Supermarkets/hypermarkets	1,748	1,780	1,866
Independent food stores	527,922	497,075	500,113
Convenience stores	19,983	23,688	27,030
Discounters	3,581	3,742	3,798
Open markets	212,215	216,665	220,847
Other channels	n/a	n/a	n/a

Source: Trade associations, trade press, company research, trade interviews, Euromonitor International estimates

Key Retail Formats in Mexico

Supermarkets

Supermarkets recorded current value growth of 2.0% in 2016 and accounted for 9.0% of overall grocery retailer's value sales during the year. Organización Soriana led the channel in 2015 with a 15.0% value share thanks to its Soriana Súper banner, which has 128 outlets. The main focus of Mexico's leading supermarket main focus is the sale of groceries, and although most of the country's supermarket chains have a standard product assortment, there are also chains with a premium positioning such as Walmart de México's Superama, Fresko and City Market by Controladora Comercial Mexicana, each of which offers a variety of imported, organic, gluten-free and other premium products which are attractive to their target audience of affluent consumers.

Hypermarkets

Hypermarkets recorded current value growth of 8.0% in 2016 and, accounting for 24.0% of overall value sales in grocery retailers. One of the main strengths of this channel is the A wide varietyof non-groceries that these outlets offer in addition to groceries. Walmart de México with its Walmart Supercenter format continued to lead the channel in 2016 with a 35.0% value share thanks to its more than 256 outlets.

Table 10 Leading Supermarket Chains in Mexico, Sites/Outlets 2014-2016

Brand	Company name	2014	2015	2016
Soriana Súper	Organización Soriana SAB de CV	126	129	128
Calimax	Central Detallista SA de CV	96	97	102
Superama	Walmart de México SAB de CV	93	95	95
Merza	Grupo Merza SA de CV	64	64	64
MZ	Almacenes Zaragoza SA de CV	43	50	58
Super Kompras	Tiendas Garces SA de CV	13	15	17

Super Ley	Casa Ley SA de CV	17	19	15
Sumesa	La Comer SAB de CV	0	0	12
Fresko	La Comer SAB de CV	0	0	11
City Market	La Comer SAB de CV	0	0	6
Alprecio	Organización Soriana SAB de CV	0	0	3
Super G	Grupo Gigante SAB de CV	0	0	0
Chedraui	Grupo Comercial Chedraui SA de CV	0	0	0
Comercial VH	Comercial VH SA de CV	0	0	0
Alprecio	Controladora Comercial Mexicana SAB de CV	4	4	0
Others	Others	292	291	203
Total	Total	748	764	714

Source: Trade associations, trade press, company research, trade interviews, Euromonitor International estimates

Table 11 Leading Hypermarket Chains in Mexico, Sites/Outlets 2014-2016

Brand	Company name	2014	2015	2016
Soriana Hiper	Organización Soriana SAB de CV	270	272	273
Walmart Supercenter	Walmart de México SAB de CV	251	256	256
Chedraui	Grupo Comercial Chedraui SA de CV	164	168	170
Casa Ley	Casa Ley SA de CV	73	74	82
S-Mart	S-Mart Mexicana SA de CV	62	61	71
Mega Comercial Mexicana	Organización Soriana SAB de CV	0	0	64
HEB	Supermercados Internacionales HEB SA de CV	44	44	45
Comercial Mexicana	Organización Soriana SAB de CV	0	0	42
La Comer	La Comer SAB de CV	0	0	26
Gigante	Grupo Gigante SAB de CV	0	0	0
Comercial Mexicana	Controladora Comercial Mexicana SAB de CV	50	50	0
Mega Comercial Mexicana	Controladora Comercial Mexicana SAB de CV	84	82	0
Others	Others	37	37	37
Total	Total	1,035	1,044	1,066

Source: Trade associations, trade press, company research, trade interviews, Euromonitor International estimates

Independent food stores

The main channel within traditional grocery retailers in terms of value sales remains independent small grocers, which accounted for 36.0% of traditional grocery retailer's value sales and 11.0% of overall grocery retail value sales in 2016. In 2016, independent small grocers registered current value growth of 6.0%, reflecting the ongoing importance of the channel in the daily shopping habits of a significant number of Mexican consumers.

Convenience stores

The most dynamic grocery retail channel during the forecast period is expected to be convenience stores, with a value CAGR of 7.0% at constant 2016 prices. The leading convenience store chains in Mexico are expected to continue opening new outlets throughout the forecast period, with the channel set to encompass 22,000 outlets in 2021, the result of 1,000 new outlets opening per year during the forecast period. Convenience stores are proving an attractive retail format for Mexican consumers thanks to the proximity of these outlets to their homes and workplaces, their extended hours of operation and the increasingly wide range of additional services they offer, such as the option to pay for internet retailing purchases, making credit cards payments and making deposits into bank accounts, as well as withdrawing money through in-store ATMs and sending and receiving money remittances.

Discounters

Discounters are expected to post a value CAGR of 3.0% at constant 2016 prices over the forecast period. This channel is expected to remain important for low-income consumers thanks to its low prices and private label assortment. Walmart de México is set to continue leading discounters during the forecast period thanks to the strength of its Bodega Aurrerá chain. Hypermarkets are also set to post growth over the forecast period, with the channel set to increase in value at a CAGR of 4.0% in constant 2016 terms. Walmart Supercenter, Chedraui, and Soriana Hiper are expected to be among the hypermarket chains with the highest numbers of new outlets opening during the forecast period.

Open markets

Traditional open markets and tianguis remain popular channels for fresh food purchases in traditional neighborhoods. Supermarket shoppers looking for fresh fruits and vegetables often visit on Miércoles de Tianguis (Flea Market Wednesday), a day when supermarkets offer special deals and discounts on these items. With fewer options, rural food shoppers shop at local markets and at nearby small grocers for food they do not grow themselves. according a survey by the Strategic Communications Cabinet in 2015, 65.0% of consumers believe the quality of fruits and vegetables bought in local markets is higher as opposed to that bought in supermarkets.

Other formats

The internet retailing divisions of Mexico's leading grocery retailers are registered positive development during 2016, with double-digit growth rates registered in current value terms in most cases. However, online sales continue to accounted for only a small proportion of total value sales among Mexico's leading grocery retailers, with even the companies with the strongest internet retailing divisions generating only 4.0% of total grocery value sales from online sales. The main grocery retail chains active in internet retailing in Mexico include Walmart, Superama and Soriana.

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