Mexico's Latest Poverty Stats

By Christopher Wilson and Gerardo Silva

In July, Mexico's National Council for the Evaluation of Social Development Policy (CONEVAL) released new statistics on poverty in Mexico. They show that Mexico's poverty rate fell slightly between 2010 and 2012, dropping 0.6 percent, from 46.1 percent to 45.5 percent. Nonetheless, during the same period the number of people living in poverty actually increased from 52.8 million to 53.3 million, since the overall population of Mexico grew from 114.5 million in 2010 to 117.3 million in 2012. The results, then, are mixed. The poverty rate declined, yet the number of poor increased.

Extreme poverty, on the other hand, clearly declined. Both the number and percentage of Mexicans living in extreme poverty fell between 2010 and 2012, from 13.0 million (11.3 percent) in 2010 to 11.5 million (9.8 percent) in 2012. This reflects both the continuation of a long term trend of declining extreme poverty in Mexico and a recovery from the 2009 recession. Anti-poverty efforts like the successful conditional cash transfer program, *Oportunidades,* and the expansion of health care toward universal coverage with *Seguro Popular* are certainly part of the explanation for such improvements.

Still, a deeper look into the components of Mexico's multidimensional poverty measurements reveals a troubling issue. Despite the overall decline in poverty shown with the multidimensional measure, poverty as measured solely by income continues to rise. That is, even as access to things like education, housing, and healthcare improve, and even as the overall economy is growing, Mexico's poor are not seeing their incomes rise as quickly as prices. This short article will first briefly explain the various components of Mexico's poverty measurements and will then explore some potential explanations for the contradicting trends in income-based poverty and multidimensional poverty.

Measuring Poverty

To analyze the new numbers, it is helpful to first look at the definitions CONEVAL uses to classify the population. Who is poor in Mexico? CONEVAL employs a multidimensional approach to measure poverty levels. Under such an approach, a number of variables are considered to determine whether a person is poor or not.

The variables considered for the poverty measure include: current per capita income, level of education, access to health services, access to social security, quality and the size of one's home, access to basic services in the dwelling, and access to food. Lastly, by law CONEVAL must also consider the degree of social cohesion, though they decided to consider that variable independently rather than incorporate it directly into the poverty measure itself.

To measure poverty, then, CONEVAL defines criteria for each of the six non-income components of poverty, called social deprivations, and also sets an Economic Welfare Line, a threshold that makes it possible to determine whether or not people have sufficient income to fulfill their basic needs.

This multidimensional method of measuring social problems is much more comprehensive than traditional income-only measures and can guide policymakers to design more targeted and hopefully effective anti-poverty measures. Because the measures also identify a population that is at risk of falling into poverty, they can also facilitate the design and implementation of economic and social policies to reduce vulnerability.

Taking into account all the dimensions mentioned above and the Economic Welfare Line, CONEVAL defines poverty as:

"People with an income below the wellbeing threshold and with
one or more social deprivations."

Figure 1
Poverty and Extreme Poverty Definitions
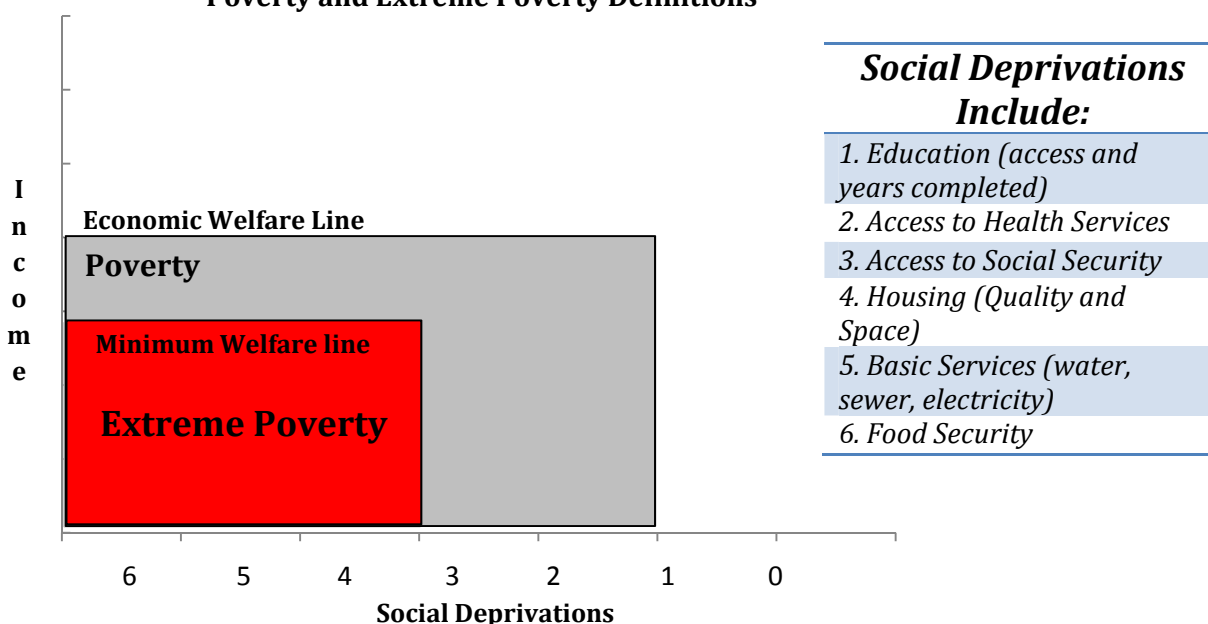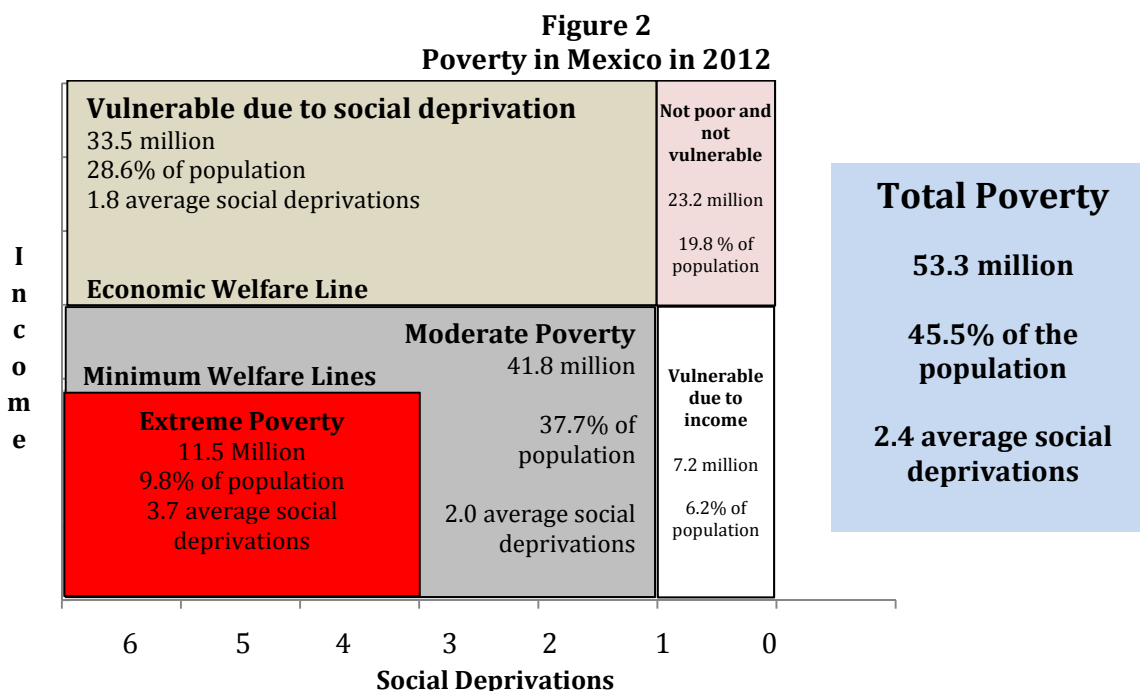

Source: CONEVAL.

For 2012, CONEVAL defined the income-based component of poverty (economic welfare line) as those surviving on no more than 2,329 pesos (177 USD) per month in cities, and 1,490 (113 USD) pesos per month in rural areas. [1] The exact level adjusts over time with the level of inflation for the *basic basket* of goods needed to fulfill a household's needs in Mexico.

A similar method is employed to define the population living in extreme poverty. According to CONEVAL, a household living in extreme multidimensional poverty is one whose income is so low that, even if spent entirely on food, the family could not buy the necessary nutrients for a healthy life; additionally, members of the household suffer from at least three of the six social deprivations

[1] Calculations based on average 2012 USD-MXN Exchange Rate.
Source: Banco de Mexico.

described above. The benchmark income for extreme poverty (minimum welfare line) was 1,125 pesos (85 USD) in cities and 800 pesos (60 USD) per month in the countryside.

Considering the above definitions, the figures released by CONEVAL on July 29th, 2013 can be summarized in the chart below.

Figure 2
**Poverty in Mexico in 2012**

Source: CONEVAL.

Comparing Multidimensional and Income-Based Measures

One of the limitations of this multidimensional approach is that it is new. The numbers are known only for 2008, 2010 and now 2012, so comparisons can be made only for the relatively short period of time from 2008-2012 (such a comparison is further limited by a change in methodology in 2010 regarding the measurement of fuel use for cooking).

One can only view historical trends in poverty reduction through the lens of income-only measures. Under the income-based measure, three types of poverty have been identified by CONEVAL. First, **patrimonial poverty** is defined as having insufficient income to acquire a certain food basket, as well as to cover the necessary expenses in health, clothes, housing, transportation and education, even if the entire household's income were used exclusively for the acquisition of these goods and services. Second, **capabilities poverty** is defined having insufficient income available to acquire a certain food basket and make the necessary expenses in health and education, even if assigning the household's total income just for these purposes. Third, **food poverty** is the incapability to obtain a basic food basket, even if using the entire household's available income just in buying the goods in said basket.

Of these three measures, two are loosely comparable to the levels of poverty defined by the multidimensional measures. The concept and measurement of patrimonial poverty is similar to the broad measure of multidimensional poverty. Likewise, food poverty is related to extreme poverty.

Figure 3
Multidimensional and Income-based Poverty in Mexico
(% of Population)
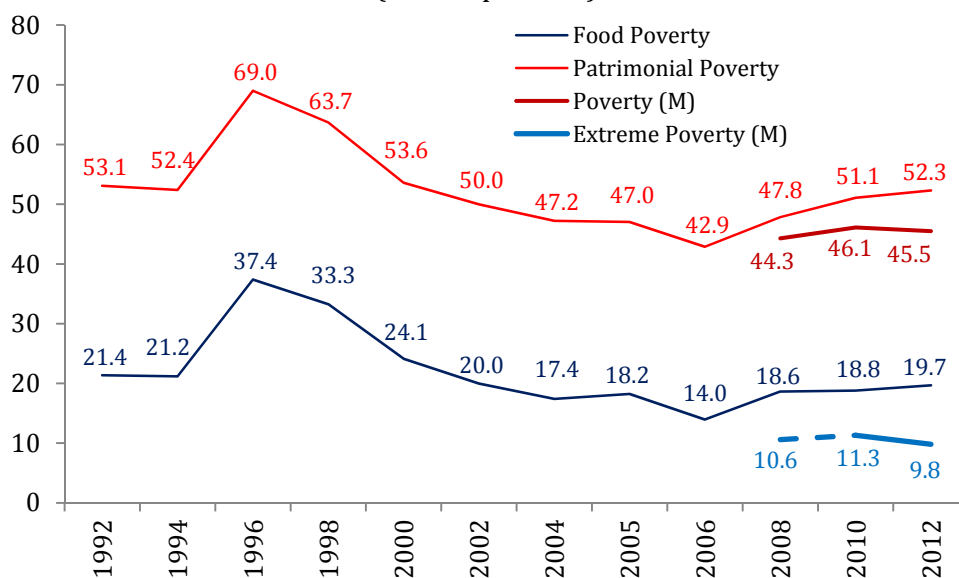
Notes: (M) stands for Multidimensional Poverty Measure.
Dotted line for the 2010 extreme poverty measure refers to a change in methodology regarding the measurement of fuel use for cooking. According to CONEVAL, strictly comparable numbers to 10.6 in 2008 are 10.4 in 2010 and 8.9 in 2012.
Source: CONEVAL.

One important thing to consider is that even the economic components of the multidimensional measure are not directly comparable to ones used in the income-based poverty measures. An important component in the difference has to do with the different baskets of goods used to calculate the poverty lines. For example, the food baskets considered for the extreme poverty and food poverty measures do not include the same products. The basket used for the food poverty measure was constructed in 1992 while the one used to calculate Extreme Poverty levels was created in 2008.

Still, there remains the important question. W*hy has poverty as measured by income increased in recent years despite the relative strength of the Mexican economy*? Increases in poverty between 2006 and 2008 and again from 2008 to 2010 can largely be explained by the effects on Mexico of the global economic crisis. The more difficult result to understand is the continued growth of the income component of poverty, as measured in both the income-based poverty numbers shown in the Figure 3 and the growing number of Mexicans living below the welfare lines that form a part of the multidimensional poverty statistics. A million more Mexicans lived below the general economic welfare line (see Figure 1) in 2012 than in 2010, while the number below the minimum welfare line (see Figure 2) grew by 1.3 million during the same period.

There are a few key factors. The first is growth rates. The Mexican economy has experienced a fairly robust recovery since it fell 6.0 percent during the 2009 recession, bouncing back 5.3 percent in 2010 before settling in to a pace of between three and four percent growth.[2] Nonetheless, per capita GDP growth has been moderate: after a sharp decrease of 7.1 percent in 2009, it began to recover in 2010 with 4.0 percent growth and then remained at levels of around 2.6 percent the last couple of years.[3] It is important to note that the growth rates for both GDP and GDP per capita consider real growth, meaning they control for inflation. Mexico's economic growth is generally outpacing increases in population growth and rising prices, if only by a few percentage points.

Though GDP is growing and household income is rising (discussed below), the poor have not been able to benefit as much as wealthier Mexicans for two main reasons. First, with less income, the poor tend to spend a much larger portion of their earnings on food, and food prices have risen much faster than overall inflation. Figure 4 shows how the poorest ten percent of the Mexican population spends 52 percent of their income of "food, beverages and tobacco," a large portion of which is food. Decile five, which includes those Mexicans who, in financial terms, are living just under the poverty line, spend 41 percent of their income in the category, "food, beverages and tobacco," while the wealthiest ten percent of Mexicans spend just 23 percent on the same goods.

Figure 4
Structure of Monetary Expenditure by Selected Deciles
**of the Mexican Population, 2012**
(% of income)
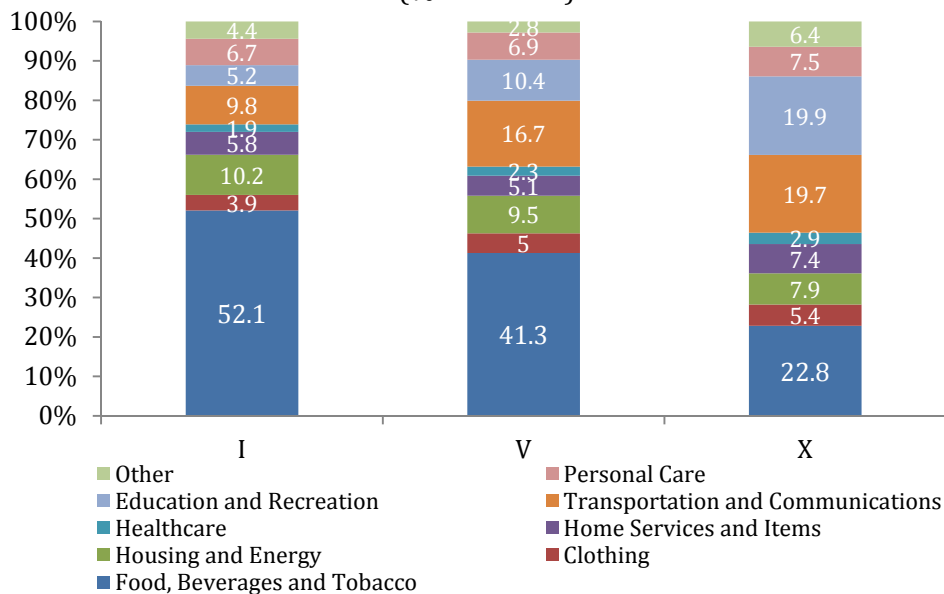
Source: INEGI.

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[2] Source: World Economic Outlook Database April 2013. International Monetary Fund.
[3] Source: World Bank national accounts data, and OECD National Accounts data files.

Figure 5 compares the rate of overall inflation in Mexico, measured by the National Consumer Price Index (INPC), with the growth rates of the two economic welfare lines currently used to measure the income component of poverty.[4] Driven by increasing food prices, the rising poverty lines reflect the fact that the basket of goods bought by those in poverty and especially in extreme poverty has experienced inflation at a level significantly higher than general inflation since 2011. From 2010 to 2012, prices for the general basket of goods rose 11.05 percent; the price of the basket of basic goods rose 12.95 percent; and the price of the basket of foods used in the poverty measures rose 17.64 percent.[5]

Figure 5
Minimum Welfare Line, Economic Welfare Line
and Consumer Prices in Mexico
(Annual % Change)
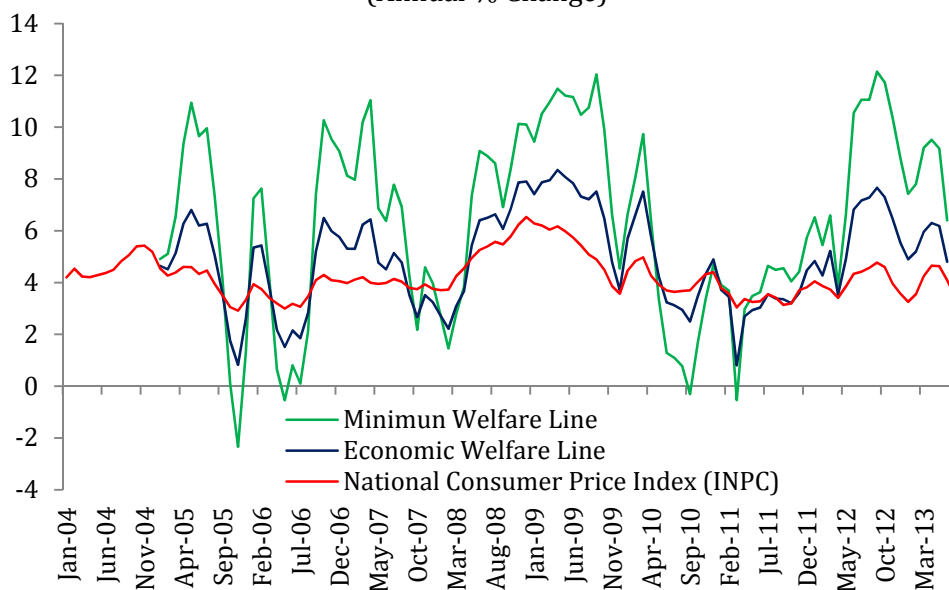
Note: Economic Welfare Lines are constructed as an average of the rural and urban values for each line.
Source: INEGI and CONEVAL.

The second major factor involved in the explanation is that income growth, which averaged 1.5 percent between 2010 and 2012, has not been spread equally among all segments of Mexican society. Interestingly, the poorest decile of the Mexican population actually experienced the highest rate of income growth. As shown in Table 1 below, deciles two and three, representing those blocks of households in Mexico with the second and third lowest income, also experienced positive income growth between 2010 and 2012, but the poor in deciles three, four and five not only felt the effects of rising food prices but also saw their incomes fall during this two-year period. While Mexico's middle class has seen its income deteriorate over the past two years, the wealthy experienced robust income growth.

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[4] Minimum Welfare Line and Economic Welfare Line; in the graph we use an average of rural and urban welfare lines.
[5] Source: INEGI and Banco de Mexico.

Table 1
Total Household Income by Deciles of the Mexican Population
(Pesos; Average Quarterly Income)

Household Decile	National Total			Change	
	2008	**2010**	**2012**	**2008-2010**	**2010-2012**
TOTAL	**42,865**	**37,574**	**38,125**	**-12.3**	**1.5**
I	7,136	6,633	6,997	-7.0	5.5
II	12,460	11,673	11,794	-6.3	1.0
III	16,792	15,611	15,734	-7.0	0.8
IV	20,986	19,650	19,513	-6.4	-0.7
V	25,628	23,973	23,914	-6.5	-0.2
VI	31,501	29,059	28,862	-7.8	-0.7
VII	39,381	35,605	35,570	-9.6	-0.1
VIII	50,084	45,089	44,849	-10.0	-0.5
IX	69,159	61,133	61,014	-11.6	-0.2
X	155,525	127,313	133,003	-18.1	4.5

Note: Income deciles result from ranking all households in the population in ascending order according to income, and then dividing the population into ten equal groups, each comprising approximately 10% of the total population. The first decile contains the poorest 10%, and the tenth decile contains the richest 10%. Source: INEGI.

What are the takeaways?

There are two very positive findings in the report. First, less than ten percent of Mexicans live in extreme poverty for the first time since CONEVAL began measuring it. This continues a long-term decline in the levels of extreme poverty (as measured by various definitions and sources) and suggests that Mexico has reached a level of economic development and a degree of sophistication in its social policy that makes it possible to aim for the virtual elimination of extreme poverty within the next decade or so. Targeted anti-poverty programs such as, but not limited to, *Oportunidades* are working. Still, it is important to also highlight that a portion of the reduction in extreme poverty might be reflecting a continued recovery from the 2008 crisis.

Second, the number of Mexicans without access to adequate housing, education, healthcare and food all decreased. Again, this shows that the government is improving its ability to respond to basic social needs. As coverage of things like healthcare and primary and secondary education expands, the principle challenge for the government is shifting from ensuring access to improving quality. The implementation of the recently-passed education reform will therefore be one key area to watch going forward.

Likewise, there are two main areas the government must address in order to further reduce poverty and to protect those vulnerable of falling into poverty. First, with 71.8 million Mexicans

living without the protections (pension, health benefits, etc.) of social security, this is by far the social rights deficiency experienced by the largest number of Mexicans. It is also the only of the six social deprivations to experience a rise in the afflicted population since 2010, and is closely related to another major impediment to growth in the Mexican economy: the large size of the informal labor market.

There have been discussions about overhauling the Mexican social security system for years, and recently a promise to do so by the Peña Nieto administration and the Pact for Mexico (a lengthy policy agenda agreed upon by the three major political parties in December 2012). If legislated and effectively implemented, such a reform could go a long way toward increasing the percentage of Mexicans protected by social security and working in the formal sector. This would serve to decrease poverty by improving the social safety net and by pulling a greater portion of workers and businesses into the formal sector, where the potential for growth is much greater due to the availability of bank financing and legal protections.

The second issue is a big one. Mexico needs to boost overall economic growth in order to create a number of jobs adequate to absorb the new workers entering its labor force, to increase household income and to increase the pace of poverty reduction, especially since in contrast to what happens in the case of extreme poverty, there are no clearly targeted programs to reduce moderate poverty. The principal method to consolidate the middle class, reduce the number of those vulnerable of falling into poverty and to lessen poverty is by creating jobs and fostering economic growth. The fact that the old income-based poverty measures show a growth not only in the absolute number of poor but also in the percentage of Mexicans living in poverty is quite troubling given Mexico's macroeconomic stability and steady growth.

CONEVAL's findings have been released in the midst of an important moment in political decision-making. Major economic reforms, such as energy reform, fiscal reform, and social security reform, are now being discussed as part of the government's agenda. The outcome of these and other policy efforts will have major consequences on the well-being of Mexicans in the coming years.

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