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Mexico

Grain and Feed

Positive Outlook for U.S. Grain Exports

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Report Highlights:

Despite the fact that U.S. prices for corn and wheat are expected to increase significantly in MY 2002/03, Mexican imports are not expected to drop from current forecasts given the limited availability of domestic grains and growing consumer demand for meat and processed consumer food products.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1], MX

It is unlikely that the expected price increases on U.S. grains in 2002/03 will have any significant impact on Mexican import demand for a number of reasons.

1. Mexico is not self sufficient in producing grains such as corn, sorghum and wheat, among others. Moreover, domestically produced corn is predominately white corn varieties and is used for human consumption.
2. Since NAFTA's implementation, domestic corn consumption has increased as a result of greater demand by the animal feed and starch industries. Even when corn prices were high in 1996, Mexico's imports did not waiver. Poultry producers, for example, prefer yellow corn over the domestically produced white corn, and through the access under Mexico's NAFTA TRQ, the majority of feed corn is imported. Other important end-users of yellow corn and wheat include the swine and wet-milling industries.
3. The outlook for the Mexican economy is more favorable in CY 2003 after the slowdown caused by the recession in the United States during the latter part of 2001 and early 2002. A more robust U.S. economy is the primary reason for this optimism, as the United States is by far the most important market for Mexico's total exports (approximately 88 percent), and the most important source of total imports (approximately 75 percent).
4. As a result of the healthy economy, internal demand for grains, poultry, pork, beef and dairy products should increase in 2003. As the economy rebounds, middle income consumers are likely to switch from consuming less expensive dry beans to more expensive meat and poultry protein due to improved purchasing power. Also, the Mexican feed millers' association continues to expect that feed consumption will increase approximately 4 percent in MY 2002/03, due to strong demand from the livestock industry (see MX 2037).
5. Mexico's poultry meat and egg sectors are expecting to grow 5 and 3 percent respectively in MY 2002/03. The poultry industry is the major consumer of feed corn and sorghum. Domestic feed demand is forecast at 10.0 MMT for MY 2002/03 (see MX 2037).
6. Mexican feed compounders are able to switch between corn and sorghum fairly easily depending on price relationships.
7. Despite efforts by the GOM to increase production of several grains, unpredictable weather and scarce water supplies are expected to leave Mexico dependent on imports, mainly from the U.S., for a substantial percentage of their needs in MY 2002/03.
8. Mexico's proximity to the United States along with the GSM program should help to lessen some of the affect of higher U.S. prices. Additionally, U.S. grains enjoy a freight advantage in comparison to other suppliers.

In summary, it is expected that users of imported grains will opt to lower margins rather than raise prices and run the risk of losing customers just as Mexico's economy is expected to improve. Higher U.S. prices are viewed as a temporary phenomenon to be endured through lower profits, rather than an impetus for raising consumer prices and curbing demand.