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Mexico

Agricultural Situation

Agricultural Situation and Outlook

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Approved by:

Lewis Stockard

U.S. Embassy, Mexico

Drafted by:

Jim Butterworth, Benjamin Juarez, Gabriel Hernandez, Dwight Wilder

Report Highlights:

An overview of Mexico's agricultural sector and key economic indicators. This report updates the most recent (1997) Agricultural Situation and Outlook report on Mexico (MX7099) published in September 1997. (NOTE: There as no 1998 Agricultural Situation and Outlook report). This report will be updated annually and submitted on/about July 31.

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

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I. Introduction: This report provides a concise overview of the Mexican economy and agricultural sector and is directed at newcomers to the Mexican agricultural market. It updates the most recent (1997) Agricultural Situation and Outlook report on Mexico (MX7099). Every attempt has been made to maintain the same data sources used in previous years. When a consistent data source was not possible, FAS/Mexico substituted sources it deemed the most reliable.

All reports mentioned herein are available on FAS's home page at:

http://www.fas.usda.gov/scripts/AttacheRep/attache_frm.idc

Click on the box labeled "AGR Number", type in the mentioned report number, and click on the "Search" button.

II. Economic Situation and Outlook: Mexico's consumer boom during the first 10 months of 1998 slackened considerably in November as higher interest rates, a weakening currency and a domestic fuel price increase reduced the population's disposable income.

The volatility of international financial markets dampened the Mexican economy. Interest rates increased and the peso weakened after Russia defaulted on some of its debt in August 1998, causing a reduction in consumer confidence and the amount of disposable income. Last year's reduced oil revenues forced three budget cuts totaling more than US\$3.3 billion, and the 1999 budget's projected oil revenues were revised downward to US\$9.25 per barrel from US\$11.50. Lately, however, as world petroleum prices have increased, the economy has stabilized and the outlook is relatively bright for the remainder of the year.

The government's target of only 13 percent inflation in 1999 is challenging. The 1999 federal budget includes one percent monthly increases in gasoline prices. These will amount to a yearly increase of 12.7 percent for calendar year 1999. If, however, November 1998's 15 percent increase is included, gasoline prices will have increased 29.6 percent for the 13½ month period (November 1998 - December 1999). The elimination of the subsidy on corn tortillas has also had an impact. Nonetheless, many economists expect inflation to finish the year at under 15 percent.

The weakness in the economy earlier this year will more than likely result in Mexico seeing only modest economic growth in 1999. Retail sales, for example, are expected to slow during 1999 as tighter monetary and fiscal policies reduce the amount of cash available in the economy.

III. The Agricultural Sector

A. Overview: Mexico's agriculture sector continues the process of integration into the global economy that began with its signing of the North American Free Trade Agreement (NAFTA) in 1993 and the GATT Uruguay Round/World Trade Organization (WTO) agreement in 1994. Both of these agreements represented a fundamental shift away from the import substitution policies Mexico had adhered to since the 1950s. Of these two agreements, NAFTA is overwhelmingly the most important from the standpoint of U.S. agricultural exports to Mexico. The United States continues to be Mexico's most important source of agricultural imports, and Mexico is currently the second largest market for U.S. agricultural exports, behind Canada and the European Union. Conversely, the U.S. takes about 80 percent of Mexico's total agricultural exports

B. Trade Policy: Overall, Mexico acknowledges that NAFTA and its other free trade agreements have been good for the country's agricultural economy. Exports to the U.S., for example, grew by 50 percent under

NAFTA. However, along with the increased export opportunities, some areas of Mexican agriculture have faced increased competition from imports. In response, Mexico's trade and agricultural leadership has largely resisted calls from some of its domestic constituents to revert to the old closed-market policy regime. This is not to say, however, that Mexico has not reacted to increased imports. For example, it has the distinction of having the largest number of antidumping cases in the world. In agriculture, Mexico currently has four cases affecting U.S. agricultural products – a suspension agreement for red and golden delicious apples; a preliminary finding against live hogs (see MX8130, MX9019, MX9077, and MX9080); a preliminary finding against beef (MX8131, MX8146, MX9100), and a preliminary finding against high-fructose corn syrup. The high fructose corn syrup case has been ongoing and was discussed extensively in the 1997 Agricultural Situation and Outlook report (MX7099) and elsewhere (MX5067 and MX7071).

C. Commodity Sector Analysis:

Grains: Corn, sorghum and wheat continue to be Mexico's most important crops in terms of both area planted and value of production (See Grain and Feed Reports MX8026 and MX9027). Corn continues to occupy a special place in Mexican culture and therefore remains a politically sensitive commodity. That sensitivity notwithstanding, Mexico is nowhere near to being self-sufficient in corn production and therefore must import it, primarily from the United States. In fact, Mexico has routinely authorized corn imports from the United States well in excess of the minimum-access quantities mandated by NAFTA. Dry edible beans also remain an important and politically sensitive commodity. Together, edible beans and corn tortillas are the basic food staples for much of the Mexican population, especially among lower income families.

Oilseeds: Mexico is largely reliant on imports of major oilseeds. In terms of value, imports of U.S. soybeans are the most important commodity (See Table 5). For more information about soybeans and other oilseeds, see the 1998 and 1999 Oilseeds Reports -- MX8036 and MX9039.

Horticulture: An increasingly important part of Mexico's agriculture is horticulture, especially in exports. In fact, fresh fruits and vegetables now account for fully one-half of Mexico's total agricultural exports to the U.S. in terms of value. For more information, see the related FAS/Mexico reports listed below:

| Commodity | 1997 | 1998 | 1999 |
|-----------------------|--------|------------------|-------------|
| Fresh Deciduous Fruit | MX7010 | MX8093 | MX9010 |
| Strawberries | MX7023 | MX8028 | MX9034 |
| Citrus | MX7116 | MX8139 | MX9054 |
| Asparagus | MX7054 | MX8056 | MX9075 |
| Dried Fruit | MX7101 | MX8120 | Due Oct. 1 |
| Avocados | MX7120 | MX8140 | Due Nov. 30 |
| Tomatoes | MX7124 | MX8049 MX8150 | MX9065 |

Livestock: Although Mexico produces cattle, hogs and poultry, it is a strong and growing market for exports of U.S. livestock and livestock/poultry products. Generally, the cost of production in Mexico is higher due to higher input prices and smaller-scale operation. This, and the reliability and quality of U.S. product, has created a large demand for imports. For more information about livestock, see the 1998 and 1999 Livestock Reports (MX8010, MX 8080, and MX9012); and for poultry, the 1998 and 1999 Poultry Reports (MX8011, MX8088, and MX9013). (Note: The 1999 Livestock and Poultry Annual Reports are scheduled to be published in mid-August 1999)

D. Sanitary and Phytosanitary (SPS) Issues: As tariffs and quantitative restrictions become less of an impediment to trade, SPS issues have grown in importance from the stand point of trade disputes between the United States and Mexico. In general, Mexico's rule making process is transparent and usually in compliance with its NAFTA obligations. It publishes proposed rules or changes in its "Federal Register," allows public comments, including those from the United States, publishes its responses to those comments, and publishes the final rule and any subsequent modifications. It does not follow this process, however, when it experiences a sudden outbreak of a pest or disease. In such cases, it publishes "emergency" rules, which usually go into effect the day after publication.

Transparency notwithstanding, Mexico's recent modification to its regulations concerning avian influenza, NOM-044-ZOO-1995, has hampered U.S. poultry exports (See MX8042). Even more recently, Mexico published a proposed new rule, "PROY-NOM-060-ZOO-1999", that would effectively shut out imports of U.S. rendered products (see MX9092).

IV. APPENDIX OF TABLES

Table 1: MACRO-ECONOMIC DATA ON THE DOMESTIC ECONOMY

| DOMESTIC ECONOMY Estimate Forecast | 1996 | 1997 | 1998 |
|---|-------|-------|--------|
| Population (millions) | 93.1 | 94.7 | 96.2 |
| Population Growth Rate (%) | 2.2 | 1.7 | 1.6 |
| GDP, Current US\$ millions 1/ | 332.9 | 401.5 | 415.0 |
| GDP per capita US\$ 1/ | 3,403 | 4,360 | 4481.0 |
| Real GDP Growth Rate (%) | 5.1 | 6.8 | 4.8 |
| Real GDP Per Cap Growth (%) 2/ | 3.2 | 5.0 | 2.6 |
| Consumer Price Index yr/yr(%) | 34.4 | 20.63 | 15.93 |
| Monetary Base (m-1) % change | 10.2 | 11.4 | -0.8 |

| PRODUCTION AND EMPLOYMENT | | | |
|---|------|------|------|
| Labor force (millions) | 34.1 | 35.6 | 38.3 |
| Open Unemployment (%) | 5.5 | 3.8 | 3.3 |
| Gross Domestic Capital Formation (% of GDP) | 18.0 | 19.5 | 21.3 |

1/ At average exchange rate for year; sharp fluctuations in dollar values are due to exchange rate movements.

2/ Real GDP/Per Cap growth (pct change p.a.) = $[(1 + \text{Real GDP growth} / 1 + \text{population growth}) - 1] \times 100$.

Sources: Banco de Mexico ([Http://www.banxico.org.mx/public_html/inveco/publica.html](http://www.banxico.org.mx/public_html/inveco/publica.html))
Informe Anual 1998. Banco de México.
Indicadores del Sector Externo. Cuaderno Mensual 198. Febrero 1999. Banco de México
Geography and Information Institute(INEGI) at <http://dgcnesyp.inegi.gob.mx/bie.html-ssi>

Table 1 Continued
MACRO-ECONOMIC DATA ON THE DOMESTIC ECONOMY

| BALANCE OF PAYMENTS (US\$ billions) | | | |
|--|-------|-------|-------|
| Exports (FOB) | 96.0 | 110.4 | 117.5 |
| Imports (FOB) | 89.5 | 109.7 | 125.4 |
| Trade Balance | 6.5 | .6 | -7.7 |
| Current Account Balance | -2.3 | -7.4 | -16.0 |
| Foreign Direct Investment | 9.1 | 12.8 | 10.3 |
| Foreign Portfolio Investment | 13.3 | 5.04 | 1.3 |
| Capital Account | 4.1 | 15.8 | 16.2 |
| Errors and Omissions | 0.3 | 2.1 | 1.9 |
| Foreign Exchange Reserves | 17.5 | 28.0 | 30.1 |
| Foreign Debt (end of period) | 163.6 | 152.8 | 161.2 |
| Foreign Debt (pct. of GDP) | 49.8 | 38.2 | 38.2 |
| Avg. Annual Exchange Rate 3/ | 7.6 | 7.9 | 9.1 |

3/ Average interbank rate, pesos per US\$.

Sources: Banco de Mexico ([Http://www.banxico.org.mx/public_html/inveco/publica.html](http://www.banxico.org.mx/public_html/inveco/publica.html))
Informe Anual 1998. Banco de México.
Indicadores del Sector Externo. Cuaderno Mensual 198. Febrero 1999. Banco de México
Geography and Information Institute(INEGI) at <http://dgcnesyp.inegi.gob.mx/bie.html-ssi>

Table 2: GROSS DOMESTIC PRODUCT BY SECTORAL CONTRIBUTION
(percentage)

| Division | 1996 | 1997/ ^p | 1998 |
|---|------|--------------------|------|
| Agriculture | 6.1 | 5.2 | 4.9 |
| Mining | 1.3 | 1.4 | 1.4 |
| Manufacturing | 17.9 | 19.3 | 20.1 |
| Construction | 3.7 | 4.0 | 4.1 |
| Electricity | 1.6 | 1.1 | 1.1 |
| Retailing, Restaurants, Hotels | 18.1 | 19.3 | 19.1 |
| Transportation, Communications | 9.1 | 9.6 | 10.1 |
| Financial Services | 15.6 | 12.1 | 12.1 |
| Imputed Banking Services / ⁴ | -2.6 | -1.3 | -1.4 |
| Other Services | 21.1 | 19.9 | 19.9 |

Notes:

^{/4} Imputed services represent value added by other activities. This acts as a balancing item.

^{/p} preliminary figures

Source: National Statistical Institute (INEGI), May 1999. As on System of National Accounts of Mexico.
(<http://dgcnesyp.inegi.gob.mx/bie.html-ssi>)

Table 2 Continued
MACRO-ECONOMIC DATA ON THE DOMESTIC ECONOMY

| FOREIGN DIRECT INVESTMENT (USD billions) 5/ | | | |
|--|-------------|-------------|-------------------|
| | 1996 | 1997 | 1998 |
| Total (cumulative) | 9.1 | 12.8 | 10.3 |
| U.S. (cumulative) | 4.9 | 6.4 | 3.1 ^{/A} |

5/ Excludes portfolio investments.

SOURCE: SECOFI, Dirección General de Inversión Extranjera. ([Http://dgcnesyp.inegi.gob.mx/pubcoy/short-term/acteo/pibdivi.html](http://dgcnesyp.inegi.gob.mx/pubcoy/short-term/acteo/pibdivi.html))

| U.S. - MEXICO TRADE (US\$ billions) | | | |
|--|-------------|-------------|--------------------|
| | 1996 | 1997 | 1998 |
| U.S. Exports to Mexico 6/ | 67.6 | 82.0 | 93.3 |
| U.S. Imports from Mexico 6/ | 80.5 | 94.3 | 103.1 |
| Trade Balance 6/ | 12.9 | 12.3 | 9.8 |
| U.S. Share of Mexican Exports 6/ | 83.9 | 85.4 | 87.8 ^{/A} |
| U.S. Share of Mexican Imports 6/ | 75.5 | 74.7 | 74.4 ^{/A} |

6/ Based on Mexican data which include in-bond trade.

^{/A} preliminary

Source: Banco de Mexico (<http://www.banxico.org.mx/>)

Table 3: CONSUMER AND PRODUCER PRICE INDICES BY PRODUCT TYPE, 1996-1998
(Percent Change)

| Consumer Price Indices | 1996 | 1997 | 1998 | Producer Price Indices | 1996 | 1997 | 1998 |
|----------------------------|------|-------|-------|-----------------------------|------|-------|-------|
| General Index | 27.7 | 15.7 | 18.6 | General Index | 26.7 | 15.23 | 18.6 |
| By type of expenditure: | | | | By origin of Product: | | | |
| Food, beverages | 29.1 | 13.30 | 22.02 | Agriculture | 29.7 | 11.24 | 33.34 |
| Clothing | 28.7 | 18.38 | 16.56 | Mining | 31.0 | 7.72 | 9.92 |
| Housing | 26.0 | 17.69 | 14.10 | Food and Tobacco | 26.3 | 15.56 | 18.91 |
| Household Items | 28.5 | 15.61 | 16.37 | Chemicals & Petroleum | 19.1 | 14.41 | 17.48 |
| Health Care | 24.7 | 17.56 | 20.18 | Machinery & Equipment | 30.7 | 14.27 | 18.39 |
| Transportation | 33.5 | 15.87 | 19.86 | Construction | 26.1 | 11.75 | 18.95 |
| Education | 20.2 | 15.18 | 17.13 | Electricity | 30.7 | 14.06 | 14.68 |
| Other Services | 24.5 | 16.73 | 18.26 | | | | |
| By durability of products: | | | | By destination of products: | | | |
| Non durable | 29.8 | N/A | N/A | Domestic Demand | 25.5 | 15.86 | 18.82 |
| Durable | 24.5 | N/A | N/A | Exports | 24.6 | 10.30 | 16.85 |
| Services | 25.7 | N/A | N/A | | | | |

A/ The consumer price index is calculated monthly based on 140,000 price quotes taken in 35 Mexican cities regarding 1,200 different products and services. Those price quotes are separated among the 302 different generic products and services that comprise the Mexican consumer price index. The weighting given to each type of expenditure is based on a national survey taken in 1977.

Source: Boletín de Prensa # 02 January 8, 1998. Comunicación Social. Banco de México
 Boletín de Prensa # 03 January 7, 1999. Comunicación Social. Banco de México
 Banco de Mexico at http://www.banxico.org.mx/public_html/comsoc/calendario98/9802bol.html
 & http://www.banxico.org.mx/public_html/comsoc/calendario99/9903bol.html

Table 4: MEXICAN FERTILIZER IMPORTS BY TYPE
(Metric Tons)

| TYPE | 1996 | 1997 | 1998 |
|--|----------------|------------------|------------------|
| Nitrate Based Fertilizers: | | | |
| Ammonium nitrate | 264 | 1,969 | 1,341 |
| Sodium nitrate | 5,281 | 7,982 | 2,644 |
| Urea | 221,355 | 367,343 | 745,231 |
| Other | 15,603 | 18,794 | 21,423 |
| Ammonium nitrate mixed with: | | | |
| Ammonium sulfate | 3,110 | 66,558 | 150,037 |
| Calcium carbonate | 1,585 | 4,390 | 3,851 |
| Calcium nitrate | 20,943 | 25,025 | 30,970 |
| Urea | 22,379 | 14,789 | 14,591 |
| Other | 8,533 | 9,323 | 9,783 |
| Phosphate Based Fertilizers | | | |
| Superphosphate | 9,258 | 880 | 1,518 |
| Other | 28,735 | 29,289 | 32,544 |
| Potassium Based Fertilizers | | | |
| Potassium chloride | 194,536 | 221,978 | 206,728 |
| Potassium sulfate | 34,475 | 56,900 | 55,990 |
| Carnallite, sylvite, and other (K)salts | 14 | 13 | 145 |
| Other | 20,585 | 20,803 | 22,145 |
| Fertilizers Containing 2 Or 3 Of The Elements: N, K, P, | | | |
| Nitrogen and phosphorus | 63,228 | 89,414 | 192,640 |
| Phosphorus and potassium | 1,310 | 2,092 | 829 |
| Diamonium Phosphate | 134,997 | 209,282 | 223,818 |
| Monoammonium\Diamonium phosphate | 144,928 | 126,872 | 116,569 |
| Other | 5,837 | 5,403 | 8,962 |
| Animal or Vegetable Fertilizers | 14 | 285 | 430 |
| Total | 936,970 | 1,279,384 | 1,842,189 |

Source: Sistema de Información Comercial de México - SIC-M 1999 , BANCOMEXT
March 1999.

Table 5: TOP 15 MEXICAN AGRICULTURAL IMPORTS FROM THE UNITED STATES
(Millions of Dollars)

| RANK | HS# | DESCRIPTION | 1996 | 1997 | 1998 |
|------|------|-----------------------------------|----------|--------|--------|
| 1 | 1201 | Soybeans | 896.91 | 998.27 | 793.20 |
| 2 | 1005 | Corn (Maize) | 1,024.10 | 358.18 | 623.53 |
| 3 | 5201 | Cotton, Not Card/Combed | 287.04 | 420.63 | 604.07 |
| 4 | 0201 | Beef Fresh/Chilled | 144.16 | 308.25 | 438.57 |
| 5 | 1007 | Grain Sorghum | 306.27 | 265.06 | 342.87 |
| 6 | 0207 | Poultry, Meat, Offal | 212.91 | 243.47 | 226.09 |
| 7 | 1001 | Wheat | 342.99 | 193.33 | 225.87 |
| 8 | 4407 | Lumber > 6mm Thick | 121.11 | 140.12 | 169.29 |
| 9 | 4101 | Hides & Skins: Raw Bovine, Equine | 128.85 | 158.97 | 157.43 |
| 10 | 1502 | Bovine, Sheep, Goat Fat | 111.71 | 118.20 | 146.95 |
| 11 | 0713 | Legume Veg Dried, Shelled | 86.97 | 55.11 | 125.27 |
| 12 | 0102 | Bovine Animals, Live | 78.56 | 165.68 | 122.01 |
| 13 | 2106 | Other Food Preparations | 76.76 | 97.34 | 120.63 |
| 14 | 2309 | Animal Feed Preparations | 71.29 | 88.88 | 116.09 |
| 15 | 1006 | Rice | 123.04 | 126.88 | 110.92 |

SOURCE: Mexican Trade Data

Table 6: Top 15 MEXICAN 1995 AGRICULTURAL EXPORTS TO THE UNITED STATES
(Millions of Dollars)

| Rank | HS# | DESCRIPTION | 1996 | 1997 | 1998 |
|------|------|--------------------------------------|--------|--------|--------|
| 1 | 0709 | OT Vegetable Fresh/CH (Peppers, Etc) | 437.54 | 565.64 | 677.43 |
| 2 | 0702 | Tomatoes, Fresh/Chilled | 537.41 | 519.35 | 635.78 |
| 3 | 2203 | Beer Made From Malt | 297.48 | 402.07 | 528.91 |
| 4 | 0901 | Coffee | 581.43 | 656.62 | 510.47 |
| 5 | 0306 | Crustaceans | 452.76 | 513.72 | 503.23 |
| 6 | 0102 | Bovine | 127.39 | 198.07 | 209.61 |
| 7 | 0703 | Onion, Shallot, Garlic, Etc | 184.01 | 158.47 | 188.13 |
| 8 | 2208 | Ethyl Alcohol, Undnat < 80 Alc | 140.73 | 160.91 | 173.70 |
| 9 | 0807 | Melon, Papayas Fresh | 147.79 | 151.89 | 163.49 |
| 10 | 0710 | Frozen Vegetables | 143.46 | 157.60 | 160.87 |
| 11 | 0804 | Date, Fig, Pineapple, Etc | 125.89 | 128.59 | 152.72 |
| 12 | 0707 | Cucumber & Gherkin,F/C | 128.24 | 107.70 | 149.38 |
| 13 | 1701 | Cane, Beet Solid Form | 46.34 | 79.85 | 133.90 |
| 14 | 1704 | Confection, No Cocoa | 86.62 | 106.89 | 127.66 |
| 15 | 2009 | Fruit, Veg Juice NT FM | 96.14 | 86.62 | 119.22 |

SOURCE: Mexican Trade Data