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Report Highlights:

Mexico's dairy industry is experiencing a slowdown due to the domestic economic situation and pandemic emergency measures. Even though Mexico's dairy industry is being hit hard, the forecast for 2020 is not too pessimistic, as production of milk and dairy products is expected to continue with a slight positive trend, as both retail consumption and factory use consumption continue to demand dairy products. However, imports are expected to see a downward trend due to the exchange rate between the Mexican peso and the U.S. dollar. Whenever there is an economic crisis, dairy products in Mexico are affected as consumers seek cheaper and more affordable food items.

COMMODITIES:

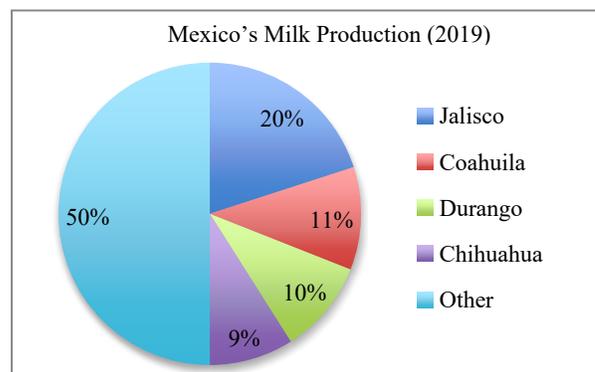
- Dairy, Milk, Fluid
- Dairy, Cheese
- Dairy, Butter
- Dairy, Milk, Nonfat Dry
- Dairy, Dry Whole Milk Powder

DAIRY, MILK, FLUID

Production

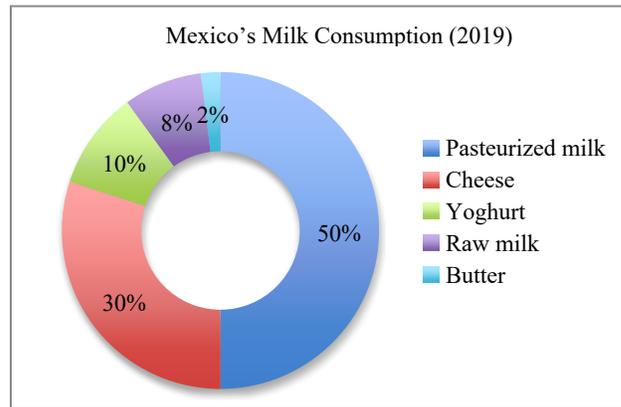
In 2019, milk production is revised up, as final production was 12.65 million metric tons (MT). The forecast for 2020 is revised down to 12.75 million MT. Production is expected to maintain a slow steady growth through 2020 and possibly decline by 2 percent in 2021. Despite industry efforts to acquire better genetics and improved technology, the Mexican economic slowdown is hurting small producers who will have to sell their animals. Small producers with financial problems will not be able to support their farms and feed their cattle as the Mexican peso weakens and commodities and agricultural inputs become more expensive.

According to the National Association of Feed Producers, Mexico’s dairy industry consumes about 455,000 MT (000 MT) of national annual feed production, representing 16 percent of Mexico’s total feed production. Most of the inputs for animal feed are imported, increasing the price of the final product. Nevertheless, for 2020 and 2021, the worldwide consumption of fish and meat may decline drastically. Hence, the demand for grains and oilseeds may be reduced considerably as well. Approximately 65 percent of net annual production of soybeans, corn, and wheat is consumed by the animal feed industry, while the remaining 35 percent are for food consumption. Mexico’s milk production is concentrated in the following four states: Jalisco state is the main milk producer with slightly over 20 percent of national production; followed by Coahuila state at 11 percent; Durango state at 10 percent; and Chihuahua state at over 9 percent of production. These states represent 50 percent of total milk production, while the remaining 50 percent is scattered in the other 27 states and the capital.



Consumption

The forecast for 2020 is revised to 4.15 million MT, as household fluid milk consumption growth is limited. The trend for more diverse dairy products with a longer shelf life continues. Consumers perceive other dairy products to be as healthy and beneficial as milk, but easier to carry to work, etc. However, industrial consumption of fluid milk is keeping its positive upward trend, for which FAS Mexico City keeps the 2020 forecast at 8.8 million MT. In 2020, Mexico's 12.8 million MT of milk production is consumed as 50–52 percent pasteurization use, 28–30 percent used for cheese production, 10 percent used for yogurt and other fermented products, 2 percent used for butter, cream and by-products, and 8 percent consumed raw by local households.



In the first quarter of 2020, the price for pasteurized fluid milk increased by 4.1 percent, becoming an expensive commodity for an economy that is slowing down since January of 2019; previous to the pandemic and as May of 2020, economic growth in Mexico is projected be negative. This economic slowdown will hurt household consumption in the fourth quarter of 2020 and in 2021. Some retailers report a 40-percent increase in the 2020 first-quarter sales of ultra-high temperature processed milk due to panic buying. After households overstock, industry expects a decrease in sales by the second and third quarters of 2020.

Novelty dairy products continue their rise as consumers continue with their perception of dairy products as healthy. Dairy products do provide extra nutrients through enrichment and fortification. In the industrial sector, the bakery industry is also a major factor in the growing consumption of fluid milk, as demand for comfort foods spiked since the pandemic quarantine measures were set in Mexico in March 2020.

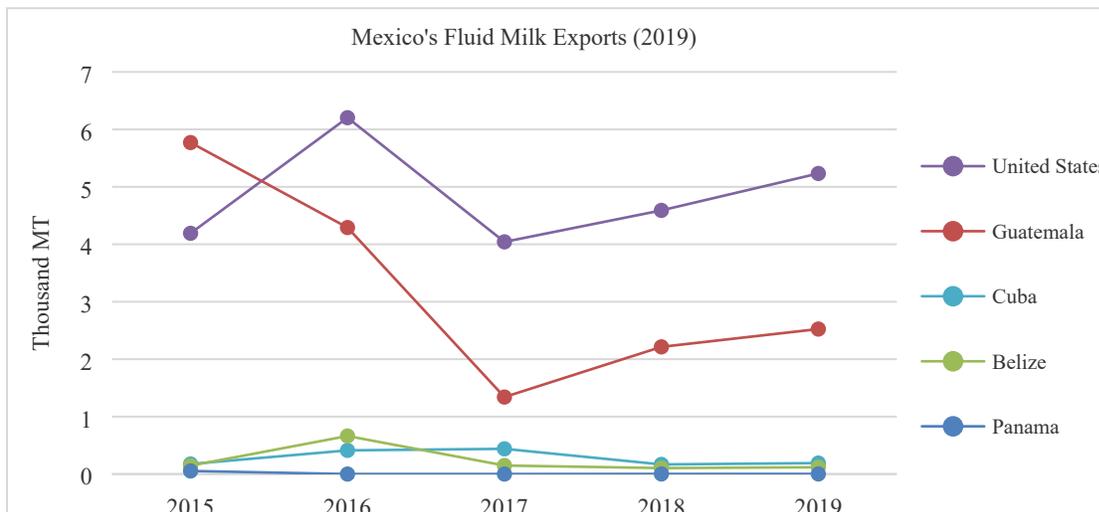
Trade

Imports

The import forecast for 2020 is kept at 45,000 MT. Mexico's domestic production only covers 70 percent of national demand. Mexico depends heavily on imports to satisfy its milk needs. However, imports in the first two months of 2020 compared to the same period in 2019 saw a 20-percent decrease. Throughout 2020, the Mexican industry expects numbers to grow, as industrial consumption demand continues its positive trend. In 2019, imports were 44,000 MT. During 2019, the United States led as the main supplier of fluid milk to Mexico with 98 percent of market share, followed by France, New Zealand, and Portugal.

Exports

Mexico's export forecast for 2020 remains 9,000 MT, as Mexico continues to provide fluid milk to Central American markets. The pandemic offers an opportunity for Mexico to export to emerging markets like Belize and Honduras. According to industry sources the positive trend for exports will continue through 2020 despite the weakening of the Mexican peso and Central American currencies. In 2019, exports finalized at 8,000 MT. By the end of 2019, the United States became the fourth main destination of Mexico's fluid milk exports, as Panama, Guatemala, and Belize quickly grew as export markets for Mexican milk. The United States gave up its share due to the low demand of fluid milk along with sufficient domestic U.S. supplies.



Dairy, Milk, Fluid Market Begin Year Mexico	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	6,550	6,550	6,500	6,500	6,550	6,550
Cows Milk Production	12,368	12,368	12,615	12,650	12,867	12,750
Other Milk Production	169	169	170	170	171	171
Total Production	12,537	12,537	12,785	12,820	13,038	12,921
Other Imports	42	42	44	44	45	45
Total Imports	42	42	44	44	45	45
Total Supply	12,579	12,579	12,829	12,864	13,083	12,966
Other Exports	7	7	9	8	10	9
Total Exports	7	7	9	8	10	9
Fluid Use Dom. Consumption	4,183	4,183	4,190	4,190	4,200	4,145
Factory Use Consumption	8,389	8,389	8,630	8,666	8,873	8,812
Feed Use Dom. Consumption	0	0	0	0	0	0
Total Dom. Consumption	12,572	12,572	12,820	12,856	13,073	12,957
Total Distribution	12,579	12,579	12,829	12,864	13,083	12,966
(1,000 Head), (1,000 MT)						

DAIRY, CHEESE

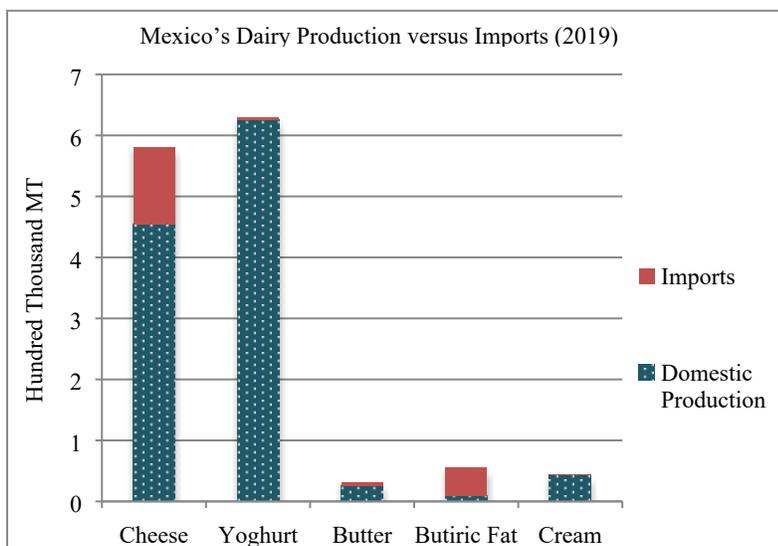
Production

Cheese production in 2019 is revised up to 437,000 MT, as Mexico had a strong fourth quarter with a spike in demand. However, the forecast for 2020 is revised down to 438,000 MT, as Mexico's productive sector is not expected to grow, and production will remain almost flat. The production of cheese in Mexico is focused mainly on *fresco*, *doble crema*, *panela*, *amarillo*, *crema*, *chihuahua*, *manchego*, and *Oaxaca*. *Crema* and *doble crema* have seen production growth, which puts them in competition with other sectors, such as bakery, for high-quality fresh milk. Cheeses made locally, especially in the southeast states are made with raw, non-pasteurized milk. Even though production is very small, it is a representation of the artisan cheese sector, at low cost, that might see a boom in the next few months due to the economic aftermath of the pandemic in Mexico. In Mexico's economic crises, dairy product production and consumption decreases. By the end of 2020, the domestic industry is estimating a 5-percent shrinkage.

Consumption

Cheese consumption in 2019 is revised up to 551,000 MT and forecast is revised down in 2020 to 550,000 MT. Consumption of cheese in Mexico will be affected by the economic slowdown and by the closing of the hotel, restaurant, and institutional sector due to pandemic health emergency measures.

During 2015–2019, Mexico's dairy industry has grown, as demand for cheese has grown in cities and some rural areas. The taste of novelty products, world consumer trends, and a growing middle class has driven the migration of consumption of fluid milk to dairy products. Cheese is one of the sectors with positive trend in Mexico, as many consumers develop a taste for gourmet and artisan cheeses, without putting aside more traditional cheeses.



Trade

Imports

Cheese imports for 2019 are revised up to 126,000 MT. The forecast for 2020 is revised down to 126,000 MT, as the dairy sector is expected to be affected deeply by the economic recession Mexico is experiencing in 2020 and will not improve during the rest of the year. The Mexican peso currency conversion to the U.S. dollar is taking a toll on imports overall, slowing down imports and seeing renegotiated contracts between U.S. and Mexican companies. Approximately 60 percent of Mexico's cheese imports are intended for food service and 40 percent for retail. In 2021, if food service is almost shut down due to the pandemic, industry expects a decrease in imports of more than 15 percent.

Despite Mexican economic despairs, the United States will continue to be the natural trade partner for Mexico, sharing a common border and having competitive prices. In 2019 and the first quarter of 2020, the United States led and continues to lead the market share of Mexican cheese imports at 78 percent. The Netherlands had 9-percent market share. Even though Mexico and the European Union (EU) have updated their free trade agreement, the implementation may take up to a year from April 2020. Thus, imports of EU cheese will not see an increase in 2020 as a benefit of the updated trade agreement.

Exports

The forecast for 2020 exports is revised down to 14,000 MT and the 2019 export figure remains 12,000 MT, as Mexico experiences one of its greatest declines in economic growth in the first quarter of a year in more than a decade. In 2018 and 2019, the domestic industry grew its cheese exports to the United States on a 15-percent yearly average basis. However, in 2020, as production stays flat, the export rate will not keep the same pace. In 2019, the United States was the main destination of Mexico's cheese exports at over 75 percent, followed by Chile at 10 percent, Guatemala at 7 percent, and Peru at 3 percent. In 2020, the United States remains the main destination of cheese exports from Mexico.

Dairy, Cheese Market Begin Year Mexico	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	419	419	436	437	454	438
Other Imports	123	123	120	126	127	126
Total Imports	123	123	120	126	127	126
Total Supply	542	542	556	563	581	564
Other Exports	16	16	8	12	12	14
Total Exports	16	16	8	12	12	14
Human Dom. Consumption	526	526	548	551	569	550
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	526	526	548	551	569	550
Total Use	542	542	556	563	581	564
Ending Stocks	0	0	0	0	0	0
Total Distribution	542	542	556	563	581	564
(1,000 MT)						

DAIRY, BUTTER

Production

The 2019 production figure remains unchanged at 231,000 MT. The 2020 forecast is revised down to 232,000 MT. During 2016–2019, this commodity kept a positive growth trend of 2 percent. However, 2020 will not see noteworthy growth due to the economic slowdown Mexico is experiencing. The bakery and confectionary processing industries are being strongly affected with the pandemic emergency measures and demand from restaurants and food services declined dramatically.

Consumption

The 2019 consumption figure is revised up 269,000 MT. However, the 2020 consumption forecast is revised downwards to 267,000 MT, as consumption will remain flat due to the pandemic and the economic recession Mexico will experience throughout 2020. Household consumption is expected to decrease, as consumers will be affected by lower income, especially in the middle class. However, industrial processors will consume the bulk of production and imports.

Trade

Imports

The 2019 import figure is revised up to 51,000 MT for butter and butterfat, according to Mexican customs and domestic industry sources, showing 86-percent growth against 2018. The forecast for 2020 is revised to 49,000 MT, as the flow of imports of butter and butterfat will slow down due to weakened growth in the Mexican GDP. As more domestic fluid milk is being directed to social programs intended for the most needy, the demand for dairy products by industrial processors is being covered by imports.

In 2019, imports of butterfat were led by New Zealand with 77-percent market share, followed by the United States with 16 percent market share. During 2016–2019, the United States, through competitive prices, grew its market share. However, 2020 will challenge the U.S. market share as the dollar–peso exchange rate continues to fluctuate from week to week. In 2019, regarding Mexico’s butter imports, the United States led with 41-percent market share, followed by New Zealand with 38-percent market share, and France with 14-percent market share.

Exports

The export forecast for 2020 is revised down to 14,000 MT. In 2019, with 13,000 MT exported, the United States was the main destination for Mexican butterfat exports with 99-percent export market share. During 2018–2019, butter exports grew considerably, especially to Cuba. In 2020 and 2021, according to industry contacts, butter exports will not continue at the same pace, as the domestic economy faces serious difficulties. By the end of 2020, the United States will likely retain its rank as the main export destination for Mexican butter.

Dairy, Butter Market Begin Year Mexico	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	228	228	231	231	233	232
Other Imports	33	33	60	51	36	49
Total Imports	33	33	60	51	36	49
Total Supply	261	261	291	282	269	281
Other Exports	11	11	12	13	12	14
Total Exports	11	11	12	13	12	14
Domestic Consumption	250	250	279	269	257	267
Total Use	261	261	291	282	269	281
Ending Stocks	0	0	0	0	0	0
Total Distribution	261	261	291	282	269	281

(1,000 MT)

DAIRY, MILK, NONFAT DRY

Production

The 2019 production figure for nonfat dry milk, or skim milk powder (SMP) remains unchanged at 44,000 MT. The forecast for 2020 is kept at 45,000 MT. During 2016–2019, Mexico’s production of SMP grew a yearly average of 2 percent. However, the infrastructure for dehydrating facilities has not grown. According to industry sources, the 5 facilities in Mexico are working at just an average of 30-percent capacity. Mexico continues to depend heavily on imports of SMP to satisfy demand. Domestically, Mexico’s milk producers prefer to trade in fluid milk rather than invest in the dehydration process, even though the dehydration process increases shelf life from 24 hours to two years. The Guaranteed Prices Program, is not set to cause changes to fluid milk trade in the coming years.

Consumption

SMP consumption for 2019 is revised to 330,000 MT and the forecast for 2020 remains at 345,000 MT. In 2020, even though the domestic dairy industry will face challenges due to the economic crisis, domestic SMP consumption will benefit from continued steady consumption, as SMP is often used for industrial purposes, including baby formulas. As the domestic dairy industry transforms and adapts to satisfy growing demand for healthier and more nutritious products, the use of SMP in processing becomes more important. SMP is a very ductile ingredient with a long shelf life, allowing processors to develop new products for retail stores and for the growing e-commerce sector, also assuring both provider and consumer food safety and quality in the final product.

Trade

Imports

The 2019 import figure is 361,000 MT. The import forecast for 2020 is revised down to 370,000 MT, as the domestic processing industry’s demand stays strong amid the economic slowdown. During 2016–2019, Mexico’s production of baby formula has grown, with a reported production of 80,000 MT in 2019. According to industry sources, 80 percent of those formulas are processed with imported SMP. In 2019, the United States supplied over 97 percent of Mexican SMP imports, followed by Canada at 1 percent.

Exports

The 2019 export figure is 75,000 MT. The forecast for 2020 is revised down to 70,000 MT, as the Mexican dairy industry is expected to be greatly affected by the economic recession during 2020. Central American countries remain the main destinations for Mexico's exports varying their market share according to the currency exchange rate and export market demand.

Dairy, Milk, Nonfat Dry Market Begin Year Mexico	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	43	43	44	44	45	45
Other Imports	360	360	360	361	380	370
Total Imports	360	360	360	361	380	370
Total Supply	403	403	404	405	425	415
Other Exports	56	65	0	75	0	70
Total Exports	56	65	0	75	0	70
Human Dom. Consumption	347	338	404	330	425	345
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	347	338	404	330	425	345
Total Use	403	403	404	405	425	415
Ending Stocks	0	0	0	0	0	0
Total Distribution	403	403	404	405	425	415

(1,000 MT)

DAIRY, DRY WHOLE MILK POWDER (WMP)

Production

WMP production in 2019 was 121,000 MT. The forecast for 2020 is revised down to 122,000 MT, as industry demand will remain almost flat throughout 2020. As previously noted, the dehydration facilities in Mexico are scarce and working at less than half their capacity, depending on imports to satisfying the remainder of national demand.

Consumption

Consumption during 2019 was 107,000 MT. The forecast for 2020 is 110,000 MT. Domestic industries, such as the bakery and confectionary sectors, lead consumption of WMP. The Mexican government organization charged with providing milk to the poorest and most disadvantaged households in Mexico (LICONSA), demands WMP in order to satisfy the high demand of milk and dairy products for those in need. In 2019, LICONSA grew its national market share from 5 percent to 7 percent, demanding more WMP for LICONSA products.

Trade

Imports

In 2019, there were few WMP imports as the trend of one good year, one bad year continues, with only 3,000 MT imported. The 2020 WMP import forecast is revised down to 7,000 MT. In 2019, the United States recovered the lead as the main WMP supplier to Mexico, as Uruguay's imports returned to their regular numbers, positioning Uruguay as the third main supplier, and New Zealand as the second most important. In the first quarter of 2020, Mexico has imported about 18 percent less WMP from the United States than the first quarter of 2019, due to the exchange rate between both countries. However, the domestic industry expects imports to stabilize through the year in order to satisfy demand.

Exports

In 2019, WMP exports were 17,000 MT. The 2020 forecast is revised down to 19,000 MT. In 2019, Mexican exports were diversified, but the United States remained the main export destination, followed by Colombia, Cuba, Venezuela, Belize, and Guatemala. During the first quarter of 2020, exports have declined an average of 15 percent. However, the industry expects exports to grow by the end of 2020.

Dairy, Dry Whole Milk Powder Market Begin Year Mexico	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	119	119	121	121	123	122
Other Imports	7	7	5	3	10	7
Total Imports	7	7	5	3	10	7
Total Supply	126	126	126	124	133	129
Other Exports	23	23	18	17	20	19
Total Exports	23	23	18	17	20	19
Human Dom. Consumption	103	103	108	107	113	110
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	103	103	108	107	113	110
Total Use	126	126	126	124	133	129
Ending Stocks	0	0	0	0	0	0
Total Distribution	126	126	126	124	133	129
(1,000 MT)						

POLICY

Guaranteed Prices and Social Programming

As previously reported in FAS GAIN MX9019 and FAS GAIN MX2019-0026, the López Obrador presidential administration launched its Guaranteed Prices Program (*Programa de Precios de Garantía*), which provide small producers with the certainty of having a market to sell their milk. Even though the program is slated to pay out approximately \$1.3 per gallon (8.2 Mexican pesos per liter), producers have complained the pay is actually 10–15 percent less, not achieving the program’s full goal of giving monetary resources to those most in need.

This milk is distributed and sold by Mexican parastatal organization, LICONSA, whose domestic market share has grown from 5 percent to 7 percent from September 2019 to April 2020. However, this growth has come with some concerns over logistical problems. Chihuahua state producers complain about saturation in the milk collection centers in Chihuahua state and slow southbound distribution, claiming that saturation in Chihuahua represents a loss of almost 15 percent of farm gate prices, affecting the income of producers.

Developing Mexico’s New Dairy Producing Region

As previously reported in FAS GAIN MX2019-0026, the López Obrador administration announced a program in order to develop a new dairy region based in Mexico’s southeastern states. Mexico estimates the milk production deficit at 1,056 million gallons (4,000 million liters) per year which would require a significant increase of at least 50 percent in production from Mexico’s current dairy regions. Thus, the López Obrador administration intends to develop a new region to help satisfy demand.

The program is designed to help small producers owning 5–10 cows and to provide the appropriate logistics and commercial channels for those producers to sell milk. Currently three major companies are working to find breeds that would be able to adapt to the weather conditions in Mexico’s southeast and to produce well. At the same time, these companies are collaborating with the local governments and the federal government to create the right conditions for the project. The first stage of the project aims for 127 small producers to benefit from the program, but the end goal is to reach 4,500 producers in Mexico’s southeast region. The initial budget will be close to \$625 thousand administered by the Agriculture Secretariat.

New Food Labeling Regulation

In March 2020, the final rule for Front of Pack Labeling (FOPL), [NOM-051-SCFI/SSA1-2010](#), was published, establishing October 2020 as the deadline for all retailers to publish nutritional warning signs on their products' FOPL. Despite the efforts of private sector groups, counterproposals presented to Mexican authorities largely were not implemented in the final published regulation. The implementation of the warning signs to highlight the excess presence of sugar, fat, salt, and calories is divided into three phases, each one with a particular way of calculating the input of each ingredient in the food or drink product. This will bring changes to the food industry's packaging every two or three years depending on each of the three phases. Domestic and imported dairy products will be affected by this new regulation, as all food products intended for retail or for the final consumer will have to comply. Products with a healthy reputation, like yoghurts, may show warning signs as high in calories or high in fat content, possibly negatively affecting consumption.

Mexico's Regulations for Dairy Products

As previously reported in FAS GAIN MX9019 and FAS GAIN MX2019-0026, Mexico published three new official regulatory norms (*Norma Oficial Mexicana*, or NOMs) for cheese, milk powder, and yogurt in Mexico's Federal Gazette (*Diario Oficial de la Federación*) – hyperlinks follow. [NOM-181](#), [NOM-222](#), and [NOM-223](#) aim to modernize standards to improve quality, curb adulteration, and provide standardization in the dairy sector.

Attachments:

No Attachments