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Prepared By: Gustavo Lara

Approved By: Susan Karimiha

Report Highlights:

Even as Mexico's consumers face high core and food inflation, post sees both overall dairy production and imports rising in 2023. Mexico’s milk and cheese production is forecast to rise in 2023 due to increased investments in dairy operations in key producing areas. Post forecast cheese and butter imports to increase in 2023 due to increased demand from urban consumers and Hotel, Restaurant, and Institutional consumption. Additionally, limited infrastructure to dehydrate fluid milk limits milk powder production growth in Mexico. Skim milk powder and dry whole milk powder imports, particularly from the United States, remain strong and are forecast to increase in 2023.

Executive Summary

Fluid Milk. Post forecast for 2023 production is 13.42 million metric tons (MMT), a growth of two percent from 2022, as producers continue to thrive despite both high domestic inflation and feed prices. Mexico's producers' continued investment into their own companies, including into technology, genetics, and management, combined with a sufficient supply of feed and water, enabled increased yields and production. Post forecast consumption for 2023 is 13.44 MMT, a two percent increase compared to 2022. Although moderately, Mexico's demand for milk and dairy continue to grow, especially for the processing sector, as novelty products such as fortified drinkables, and comfort foods such as pastries and bakery items, continue to show a favorable trend for Mexico's consumers.

Cheese. Post forecast production for 2023 at 458,000 MT, a one percent increase compared to 2022, as Mexico's demand for different varieties of cheeses continues to grow. Post forecast consumption for 2023 at 602,000 MT a two percent increase compared to 2022, as Mexico increases its dairy consumption mainly through cheese. For the past 10 years the trend for consumption is shifting from fluid milk to other dairy products, as shelf life improves noticeably through processing. Post forecast imports for 2023 at 160,000 MT, a seven percent increase compared to 2022. Mexico depends on imports to satisfy demand. Growing urban populations demand a wider variety of dairy products, especially cheese, and this demand must be covered through imports.

Butter. Post forecast production for 2023 at 238,000 MT, a one percent increase compared to 2022 based on higher butter demand fueled by a post pandemic recovery in the Hotel, Restaurant, and Institutional (HRI) sector. Post forecast consumption for 2023 in 268,000 MT, a 1.5 percent increase compared to 2022. The HRI sector is the main driver for butter consumption. Post forecast imports for 2023 at 32,000 MT, a seven percent increase compared to 2022. Even with high inflation in Mexico, the HRI sector, as well as bakeries and comfort food processors continue to grow, expanding demand for butter that is satisfied heavily by imports.

Skim Milk Powder (SMP). Post forecast production for 2023 at 48,000 MT, an increase of four percent compared to 2022. Mexico's limited infrastructure to dehydrate fluid milk limits milk powder production growth. Post forecast imports for 2023 at 400,000 MT an increase of eight percent compared to 2022. Mexico depends heavily on imports to satisfy demand and the United States is the main supplier with 95 percent of the share. Post estimates imports for 2022 up eight percent at 370,000 MT compared to the USDA official estimate.

Dry Whole Milk Powder (WMP). Post forecast production for 2023 at 125,000 MT, a one percent increase compared to 2022. Production is limited by the availability of dehydrating infrastructure. Mexico benefits from its proximity to the United States for an affordable and steady supply of WMP. Post estimates production unchanged for 2022 at 124,000 MT. Post forecast imports for 2023 at 8,000 MT, a 33 percent increase compared to 2022. Mexico continues to satisfy domestic demand through imports. Even though the preferred powdered product is SMP, WMP complements growing demand.

Fluid Milk

Table 1. Milk- Production, Supply and Distribution

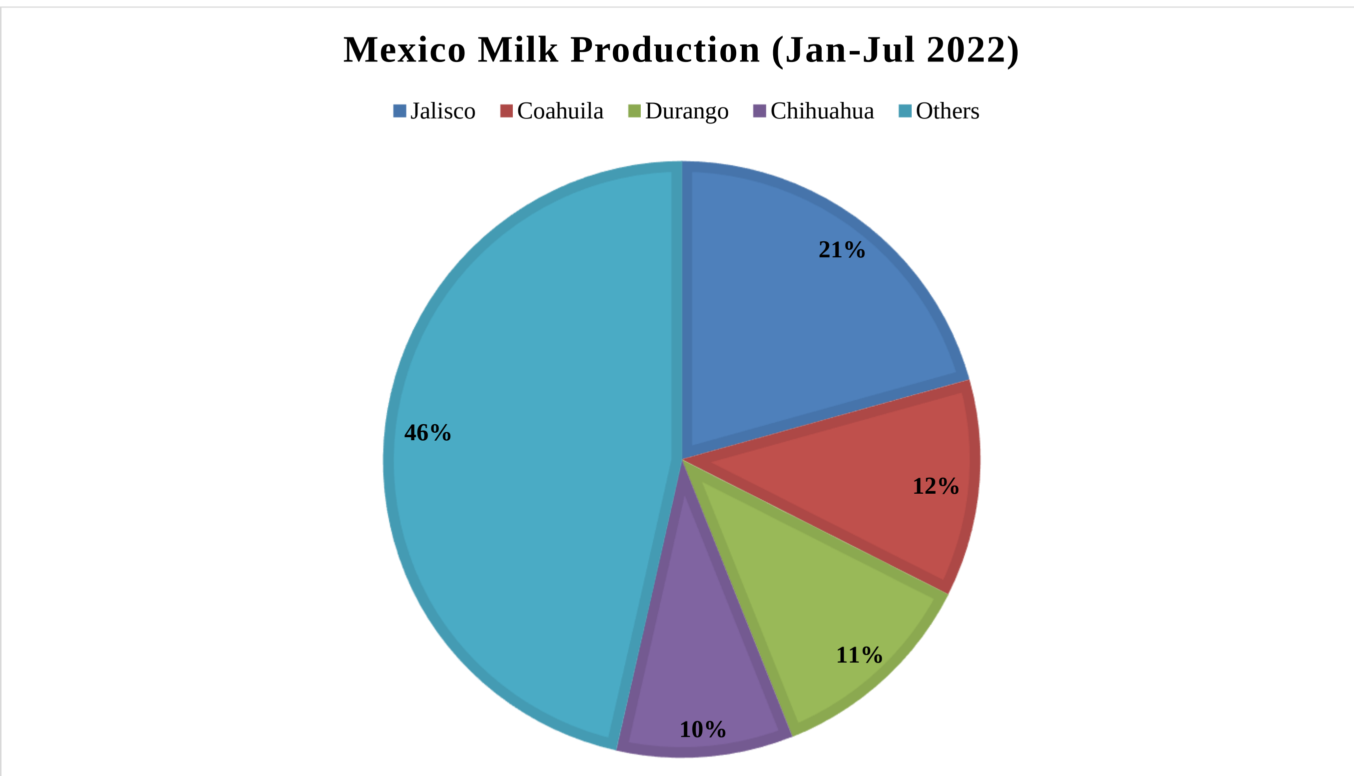
Dairy, Milk, Fluid	2021		2022		2023	
Market Year Begins	Jan 2021		Jan 2022		Jan 2023	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk (1000 HEAD)	6,600	6,600	6,650	6,650	0	6,700
Cows Milk Production (1000 MT)	12,850	12,850	12,980	12,980	0	13,250
Other Milk Production (1000 MT)	172	172	172	172	0	172
Total Production (1000 MT)	13,022	13,022	13,152	13,152	0	13,422
Other Imports (1000 MT)	31	31	29	25	0	27
Total Imports (1000 MT)	31	31	29	25	0	27
Total Supply (1000 MT)	13,053	13,053	13,181	13,177	0	13,449
Other Exports (1000 MT)	17	17	15	13	0	14
Total Exports (1000 MT)	17	17	15	13	0	14
Fluid Use Domestic Consumption (1000 MT)	4,150	4,150	4,166	4,164	0	4,185
Factory Use Consumption (1000 MT)	8,886	8,886	9,000	9,000	0	9,250
Feed Use Domestic Consumption (1000 MT)	0	0	0	0	0	0
Total Domestic Consumption (1000 MT)	13,036	13,036	13,166	13,164	0	13,435
Total Distribution (1000 MT)	13,053	13,053	13,181	13,177	0	13,449
(1000 HEAD) ,(1000 MT)						

Production

Post forecast for 2023 is 13.42 million metric tons (MMT), a growth of two percent compared to 2022, as producers continue to thrive despite record levels of domestic inflation and high feed prices. Mexico's producers continued investment into their own companies, including into technology, genetics, and management, combined with a sufficient supply of feed and water, provided conditions for increased yields and production. Mexico Agriculture Secretariat (SADER) estimates that fluid milk will continue to be the third most important livestock product in terms of volume produced and consumption, only after beef and chicken meat. Integration of the primary sectors and processors continues to drive production and innovation throughout the dairy industry. Post estimate for 2022 remains unchanged at 13.15 MMT.

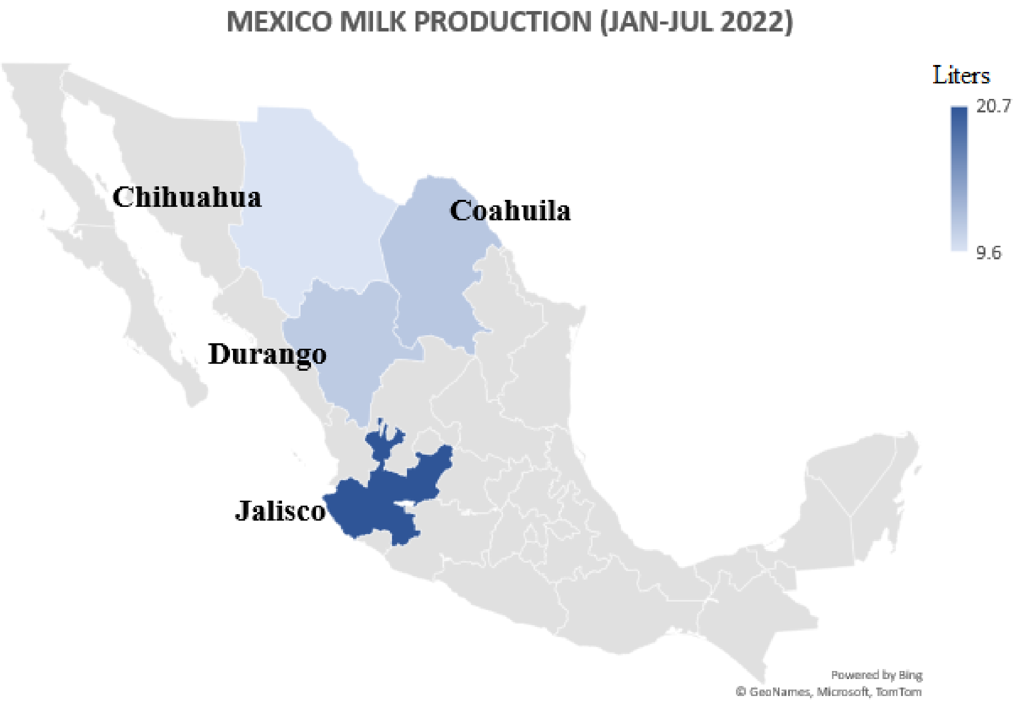
As of July 2022, according to SADER, the leading states for milk production are Jalisco with 21 percent of the production share, followed by Coahuila with 12 percent, Durango with 11 percent, Chihuahua with 10 percent, and combined, these four states represent 54 percent of Mexico's total fluid milk production. The remaining 28 states represent 46 percent of the share.

Graph 1. Mexico Milk Production



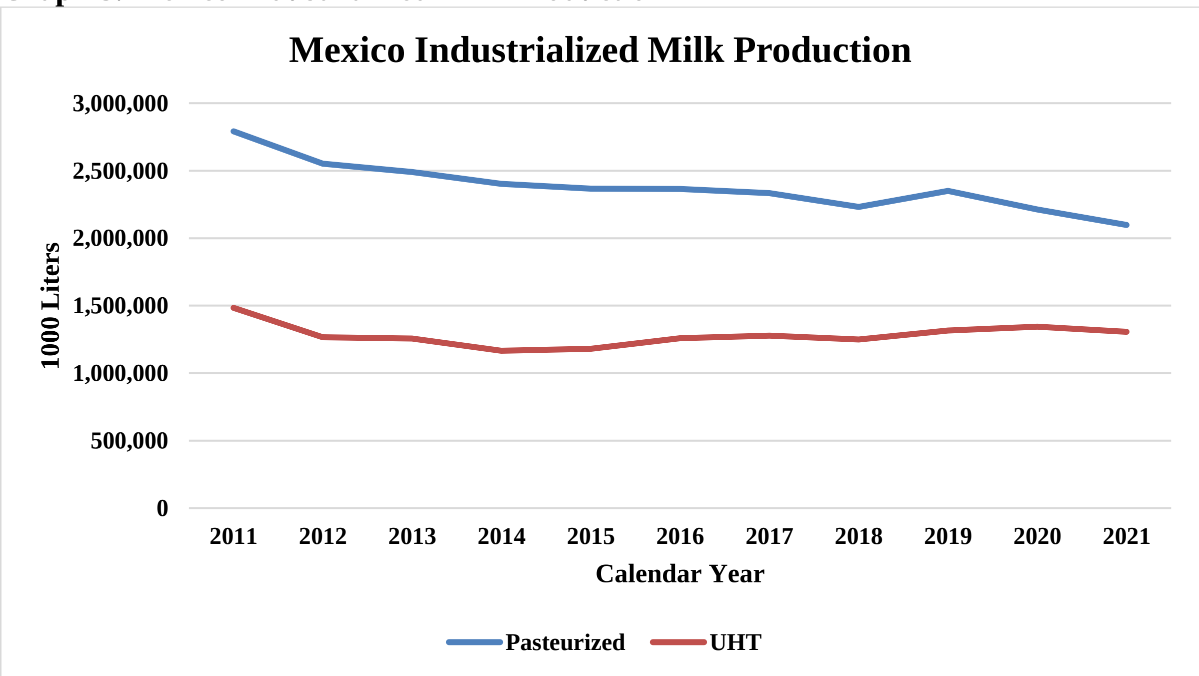
Source: Agricultural and Fisheries Information System (SIAP)

Graph 2. Mexico Milk Production Liters/ Year



Source: Agricultural and Fisheries Information System (SIAP)

Graph 3. Mexico Industrialized Milk Production



Source: SIAP

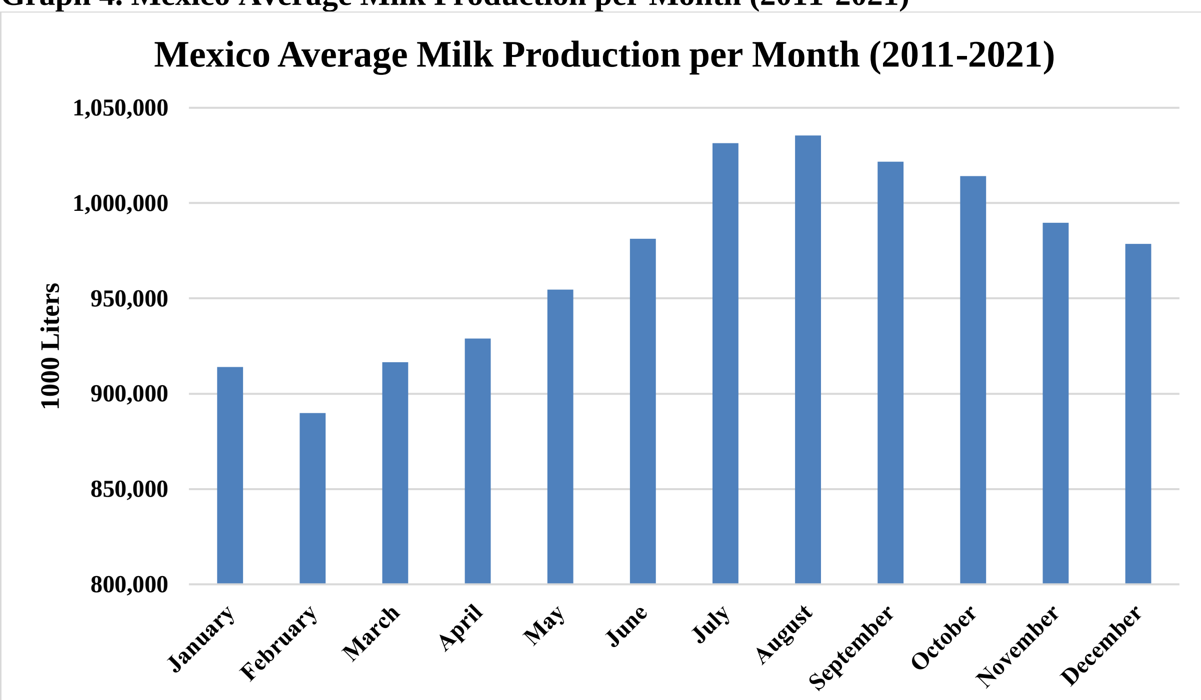
According to the last Agricultural Census (2012), in Mexico there are 1.1 million cattle farms. Within these farms, 58 percent of cattle are for fattening (beef), 34 percent are female breeders, and eight percent are stallions. Out of the female breeders' share 40 percent are for milk, 32 percent for beef, and 28 percent for dual purpose. According to industry contacts, currently there are over 800,000 dairy farmers in Mexico.

Table 2. Mexico Average Milk Production per Month (2011-2021)

Months	1000 Liters
January	913,943
February	889,902
March	916,454
April	928,872
May	954,597
June	981,293
July	1,031,414
August	1,035,409
September	1,021,661
October	1,014,196
November	989,608
December	978,624

Source: SIAP

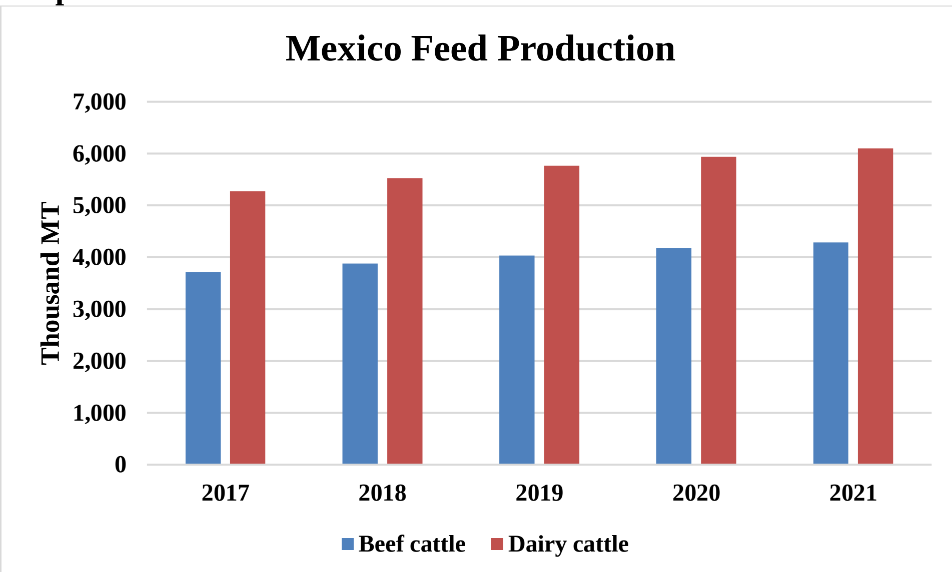
Graph 4. Mexico Average Milk Production per Month (2011-2021)



Source: SIAP

Feed manufacturing for dairy cattle is complicated, given the fragmentation of milk production in Mexico. However, dairy cattle feed production accounts for 15.7 percent of the total feed production.

Graph 5. Mexico Feed Production



Source: National Council of Feed Producers (CONAFAB)

Consumption

Post forecast consumption for 2023 is 13.44 MMT, a 2.1 percent increase compared to 2022. Although moderately, Mexico's demand for milk and dairy continues to grow, especially in the processing sector, as novelty products such as fortified drinks, and comfort foods such as pastries and bakery items, continue to trend upward for Mexico's consumer preferences. Inflation continues to hurt household consumption, pulling back big consumption increases, however, processors continue to increase their demand for fluid milk.

Post estimate for 2022 is slightly decreased to 13.16 MMT, as inflation and other adverse economic factors, like unemployment, impact the consumption of household milk.

The average price for fluid milk in Mexico, paid on the farm, as of June 2022, was 7.80 pesos (0.39 USD) per liter, 1.3 percent above that paid the previous month and 12.6 percent higher compared to June 2021. The wholesale price is 17.64 pesos (0.88 USD) per liter, 1.6 percent more than the previous month and 14.5 percent higher in annual comparison. The average price paid by the consumer is 22.02 pesos (1.1 USD) per liter, 0.22 percent higher than a month before and 9.6 percent higher than that observed in June of the previous year.

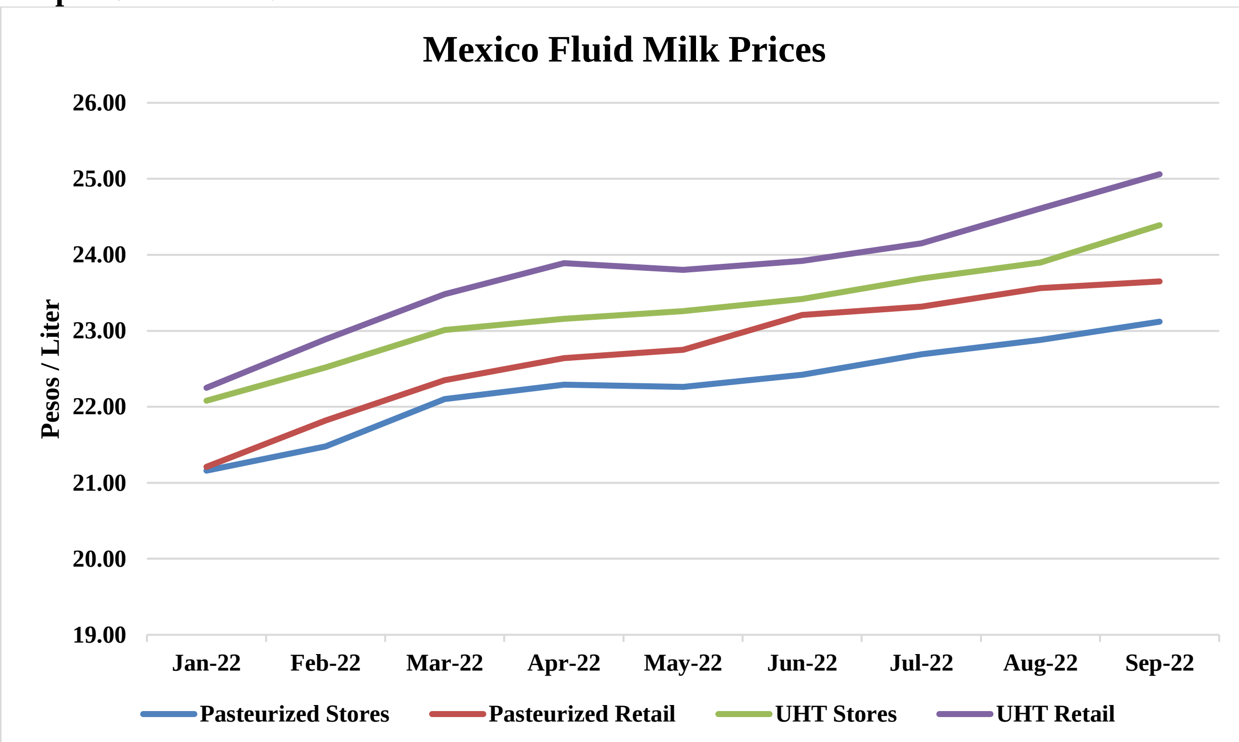
In retail, prices for pasteurized milk have not been stable. Even though prices in 2022 have been mostly decreasing, the comparison with 2021 and 2020 shows a considerable increase in price.

Table 3. Mexico Milk Retail Prices for Pasteurized Milk (Peso/Liter)

Product	Average 2020	Average 2021	Average 2022 through 15-Aug-22
Pasteurized Milk	19.80	21.20	23.61

Source: Federal Consumer Attorney's Office (PROFECO) and SIAP

Graph 6. Mexico Fluid Milk Prices



Source: National System of Information and Market Integration (SNIIM)

In Mexico's dairy industry, fluid milk continues to lead both in production and consumption (domestic use + factory use) and processed into pasteurized, ultra-high temperature (UHT) pasteurized, and milk powder. Other dairy products, derived from fluid milk for factory use are yogurt, cheese, cream/heavy cream, and butter (consumed in this order).

The National Household Income and Expenditure Survey, performed by the National Institute for Statistics and Geography (INEGI) showed that, on average, 38 percent of Mexico's households' expenditure was allocated for food and beverages. Of this percentage, milk and its derivatives represented nine percent, where each household spent 289 pesos (14.45 USD) per month to purchase milk and 254 pesos (12.70 USD) on other dairy products. Mexico's minimum wage is 5,255 pesos (262.75 USD) per month. Comparing milk prices from August 2021 to August 2022, pasteurized milk has increased 12.8 percent. Food inflation is estimated at 14.9 percent and the general inflation at 8.7 percent.

In the last ten years, Mexico's consumption of fluid milk (both pasteurized and ultra-pasteurized) has shown a downward trend of about two percent. On the other hand, other derivatives have had a notable increase such as cream, cheese, and butter.

Trade

Imports

Post forecast imports for 2023 at 27,000 MT, eight percent higher than 2022. Mexico's production of fluid milk satisfies most domestic demand, depending only on modest imports. Imports are mainly destined for the northern states for retail, as logistics and distribution costs allow imports to be distributed in the region.

Post estimates imports for 2022 downward 14 percent from USDA official estimates at 25,000 MT, as domestic production satisfies most of the demand. Imports declined considerably from 2021, as domestic milk producers satisfy demand, including in the northern states where imported milk is more prevalent.

For the past 20 years, national milk consumption has been satisfied by a 75 percent share domestic production and a 25 percent share of imports. This trend has been observed regardless of the volumes produced and imported.

Exports

Post forecast exports for 2023 at 14,000 MT, an eight percent increase compared to 2022. About half of Mexico's exports are destined to the United States, while the other half goes to Belize, Guatemala, and Cuba. The costs for freight and logistics, combined with limited shelf life, limits trade only to neighboring countries.

Post estimates exports for 2022 downward by 13 percent from the USDA official estimate, at 13,000 MT, as most of the domestic supply is used to satisfy national demand, leaving little space for exports.

It is estimated that Mexico imports 2.3 billion USD of dairy products annually and exports 560 million USD, therefore leaving a trade deficit of 1.7 billion USD.

Mexico faces challenges for exporting fluid milk due to significant increases in milk production costs due to high grain prices, high milk prices worldwide, and increased demand for domestic fluid milk.

Stocks

Current milk and dairy product stocks held by major dairy companies are considered operating stocks to meet short-term demand. There are no government-held stocks of milk or milk products in Mexico.

Cheese

Table 4. Cheese- Production, Supply and Distribution

Dairy, Cheese	2021		2022		2023	
Market Year Begins	Jan 2021		Jan 2022		Jan 2023	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	448	448	452	455	0	458
Other Imports (1000 MT)	132	132	150	150	0	160
Total Imports (1000 MT)	132	132	150	150	0	160
Total Supply (1000 MT)	580	580	602	605	0	618
Other Exports (1000 MT)	12	12	13	16	0	16
Total Exports (1000 MT)	12	12	13	16	0	16
Human Domestic Consumption (1000 MT)	568	568	589	589	0	602
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Domestic Consumption (1000 MT)	568	568	589	589	0	602
Total Use (1000 MT)	580	580	602	605	0	618
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	580	580	602	605	0	618
(1000 MT)						

Production

Post forecast production for 2023 at 458,000 MT, a one percent increase compared to 2022, as Mexico's demand for different varieties of cheeses continues to grow. Mexico continues to experience vertical integration of medium size operations, from milking to processing, transforming fluid milk into cheese, adding value to dairy farms and extending the shelf life of fluid milk.

Post estimate production for 2022 is increased a one percent from the USDA official estimate to 455,000 MT, as more milk producers develop their own cheese production facilities and sell their products locally.

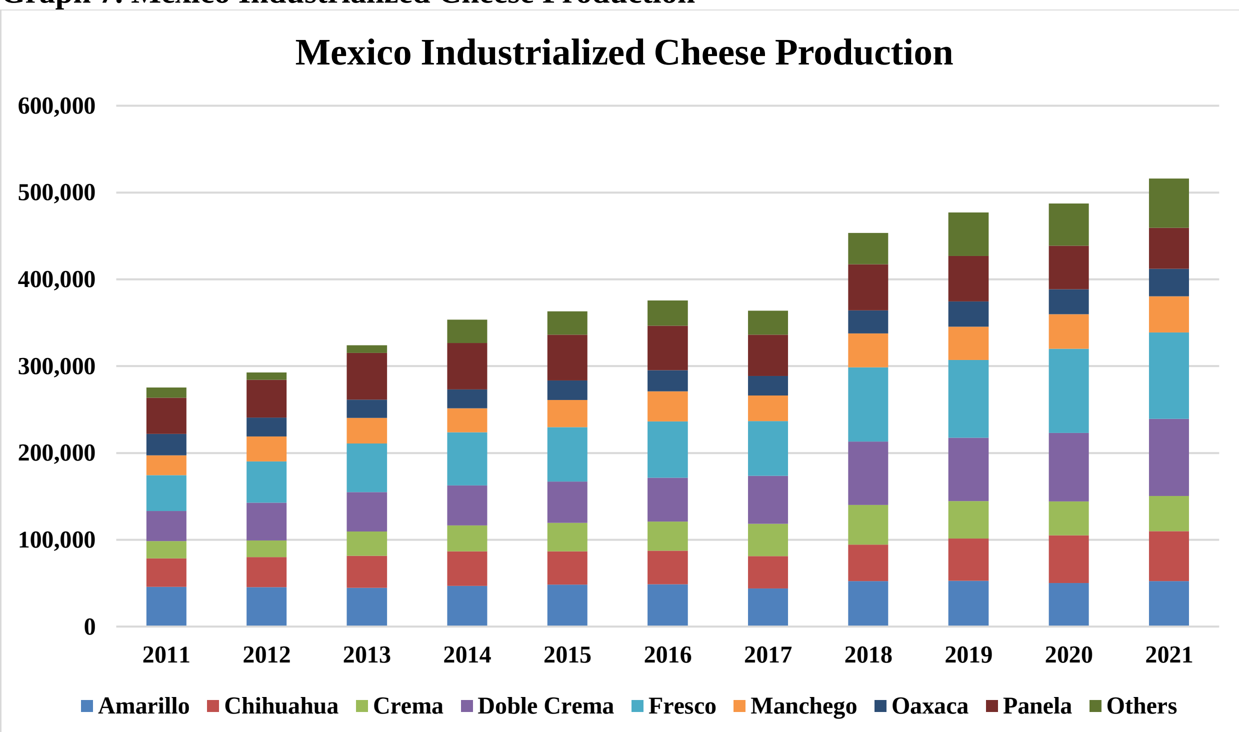
Among industrial cheeses Mexico has steadily increased production year after year, due to increased demand for domestic use and for exports.

Table 5. Mexico's Cheese- Production and Types

Type (Expressed in MT)	2017	2018	2019	2020	2021	Percentage Change
Amarillo (American)	43,989	52,323	52,810	50,018	52,520	19.4
Chihuahua	37,315	42,071	48,545	55,195	57,396	53.8
Crema	37,158	45,803	43,336	38,876	40,518	9.0
Doble crema	55,242	72,970	72,792	78,896	88,746	60.6
Fresco	62,904	85,422	89,557	96,919	99,582	58.3
Manchego	29,435	39,051	38,563	39,986	41,589	41.3
Oaxaca	22,792	26,515	29,107	28,804	31,786	39.5
Panela	47,374	53,079	52,072	49,911	47,339	-0.1
Other	27,636	36,319	50,145	48,785	56,679	105.1
Total	**363,845**	**453,553**	**476,927**	**487,390**	**516,155**	**41.9**

Source: National Chamber for Milk Processors (CANILEC)

Graph 7. Mexico Industrialized Cheese Production



Source: CANILEC

Consumption

Post forecast consumption for 2023 at 602,000 MT, a 2.2 percent increase compared to 2022. Mexico increases its dairy consumption mainly through cheese. For the past 10 years, the trend for consumption is shifting from fluid milk to other dairy products, as shelf life improves noticeably through processing.

Post estimates consumption unchanged for 2022 at 589,000 MT. Mexico continues to recover from the COVID-19 pandemic, with schools reopened full time, while demand for grab-and-go products, such as cheese snacks, continue to rise. Cheese is a highly versatile product, which is why it is consumed in different ways in Mexico, whether alone, or au gratin, or as an essential part in the preparation of a wide variety of dishes.

Artisan cheese production continues to thrive, as consumer trends to purchase locally continues to rise. The artisan industry is mainly made up of many micro and small businesses. In most of these operations, the transformation of the product is carried out through manual-labor, with raw milk, and little equipment, and machinery. The processes are not standardized, the production volumes of cheese and other derivatives are low, and the technology used is outdated but functional.


Photo 1: Artisan Cheese Vendor Display in Mexico City

The artisan cheese processors are family businesses that process an average of 1,244 liters per day, obtain an estimated production of 102 kg of cheese, with Oaxaca cheese representing 67 percent of the production.

According to INEGI, comparing milk prices from August 2021 to August 2022, cheese prices have increased 22.3 percent.

Trade

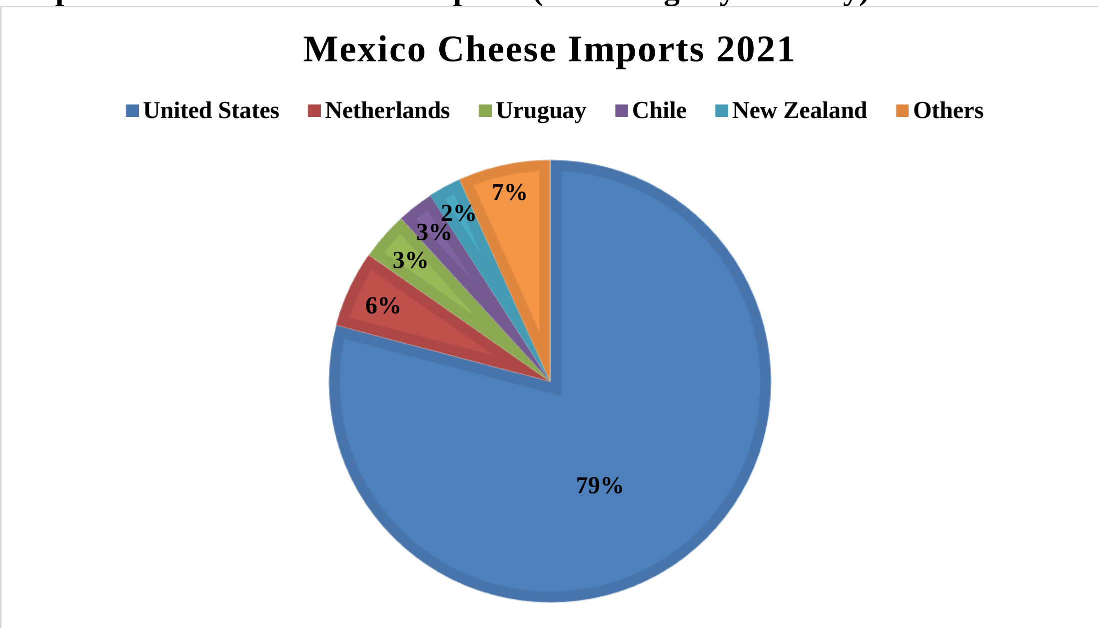
Imports

Post forecast imports for 2023 at 160,000 MT, a seven percent increase compared to 2022. Mexico depends on imports to satisfy demand. Growing urban populations demand a wider variety of dairy products, especially cheese, and this demand must be covered through imports. Comfort food and grab-to-go establishments demand a great volume of cheese that are mainly provided by the United States.

Post estimates imports unchanged for 2022 at 150,000 MT. The United States is Mexico's main supplier of imported cheese with an estimated share of 80.3 percent. Niche markets for high-grade cheese are supplied by the European Union, mainly from the Netherlands, followed by New Zealand and Chile. Imports from the United States from January to June 2022 have grown 12 percent compared to the same period of 2021. Mexico's cheese imports are estimated over 534 million USD for 2021 and Mexico is one of the 15 most important markets for cheese imports in the world.

According to Mexico's government data, the State of Mexico, Mexico City, Jalisco, Baja California, and Guanajuato are the top destinations for U.S. imported cheese, with an estimated value for 2021 of 513 million USD.

Graph 8. Mexico 2021 Cheese Imports (Percentage by Country)



Source: SIAP

According to CANILEC, about 60 percent of imports go to the Hotel, Restaurant, and Institution (HRI) sector, and 40 percent is destined for retail.

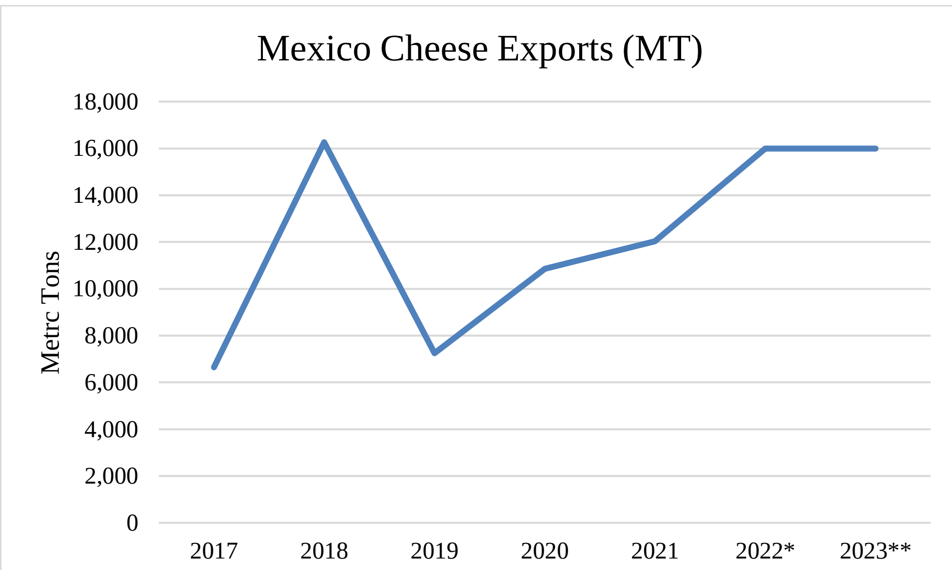
Exports

Post forecast exports for 2023 to remain flat at 16,000 MT. The United States remain as Mexico's main destination for cheese exports.

Post estimates exports upward a 23 percent from the USDA official estimate to 16,000 MT as Mexico has exported 20 percent more during the first half of 2022 compared to the same period of 2021. For cheese processors, 2022 has proven to be a good year for international trade, due to favorable international prices and a growing demand for Mexican cheeses.

According to Mexico's government data, Chihuahua, Jalisco, Puebla, Guanajuato, and the State of Mexico, are the main states for cheese exporters, with an estimated value in 2021 of 39 million USD.

Graph 9. Mexico Cheese Exports



Source: TDM
2022* Post Estimate
2023** Post Forecast

Stocks

Current milk and dairy product stocks held by major dairy companies are considered operating stocks to meet short-term demand. There are no government-held stocks of milk or milk products in Mexico.

Butter

Table 6. Butter- Production, Supply and Distribution

Dairy, Butter	**2021**		**2022**		**2023**	
Market Year Begins	**Jan 2021**		**Jan 2022**		**Jan 2023**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	235	235	236	236	0	238
Other Imports (1000 MT)	23	23	24	30	0	32
Total Imports (1000 MT)	23	23	24	30	0	32
Total Supply (1000 MT)	258	258	260	266	0	270
Other Exports (1000 MT)	2	2	1	2	0	2
Total Exports (1000 MT)	2	2	1	2	0	2
Domestic Consumption (1000 MT)	256	256	259	264	0	268
Total Use (1000 MT)	258	258	260	266	0	270
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	258	258	260	266	0	270
(1000 MT)						

Production

Post forecast production for 2023 at 238,000 MT, a one percent increase, compared to 2022. The COVID-19 pandemic recovery in the HRI sector boosted butter demand, while household consumption went down. The demand from the HRI sector provides stability to producers, despite less household consumption demand.

Post estimate production unchanged for 2022 in 236,000 MT. Mexico's butter production is limited, as milk processing is used for other dairy products. Mexico's large scale butter production is led by three companies, with one major player (Cremeria Americana) commanding 70 percent of market share. Cremeria Americana, a Mexican company, was founded in 1905, and since 1924 their butter, La Gloria, leads the domestic market.

Small and medium milk producers which have integrated processing into their operations to add value to their milk production, are not only producing fresh cheese, but also homemade-style butter. These products are sold locally and on a small scale. Butter is an emulsion (fat) obtained by churning milk cream and is known as a solid milk product. Basically, butter in Mexico can be divided into two groups: Sour butter - after acidification of the cream (traditional). Sweet butter - before the acidification of the cream.

Although there are no official numbers for the average composition of the butter in Mexico, in general, the butter must have a percentage of milk fat equal to or greater than 80 percent and less than 90 percent. The maximum content of water is 16 percent and non-fat dry milk content of two percent.

Consumption

Post forecast consumption for 2023 at 268,000 MT, a 1.5 percent increase compared to 2022. HRI sector is the main driver for butter consumption. Comfort food processors and the bakery sector, which are part of the HRI sector, consume about 80 percent of the butter supply.

Post estimates consumption for 2022 upward two percent from USDA official numbers at 264,000 MT. Mexico's household consumption continues to be divided between butter and margarine, the latter being more popular due to lower prices. However, the HRI sector keeps a steady demand for butter, which has further rebounded as people treat themselves after the COVID-19 pandemic.

Butter consumption faces the challenge of online purchase competition. Butter could develop consumption/promotional campaigns demystifying any misconceptions regarding butter over plant-based margarine. However, price will remain the major purchasing decision factor for the average consumer seeking to make the most out of their income.

According to INEGI, comparing milk prices from August 2021 to August 2022, butter prices have increased 16.5 percent.

Trade

Imports

Post forecast imports for 2023 at 32,000 MT, a seven percent increase compared to 2022. Even with a high inflation, the HRI sector, as well as bakeries and comfort food processors continue to grow, expanding demand for butter which is satisfied heavily by imports, mainly from New Zealand and followed by the United States.

Post estimates 2022 imports upward 25 percent from the USDA official estimate at 30,000 MT. Mexico's domestic demand is satisfied through imports, especially for the processing and bakery industries. The HRI sector also demands imported butter to offer tourists visiting from abroad. The dairy industry will continue to face challenges in 2022 due to high input costs, limiting the profitability of increasing milk supplies and uncertainty in global shipping reliability. However, demand will keep imports at its favorable trend.

Mexico's states that imported the biggest share of butter during 2021 were Tamaulipas, Mexico City, State of Mexico, Nuevo Leon, and Guanajuato, with an estimated value of 88.3 million USD.

Exports

Post forecast exports for 2023 to remain flat at 2,000 MT. Mexico's supply and demand leaves very little room for exports, as most of the domestic production and imports, are consumed domestically. Even though Mexico's exports of butter are marginal, it is expected that exports will result in regional development for small and medium producers, adding value to their production.

Post estimates exports for 2022 upward 100 percent from the USDA official estimate to 2,000 MT. Mexico is building up their export numbers back to the pre-COVID-19 pandemic levels. Although a very small amount, the main destinations for exports are the United States, Cuba, Colombia, Panama, and the United Arab Emirates.

Stocks

Current milk and dairy product stocks held by major dairy companies are considered operating stocks to meet short-term demand. There are no government-held stocks of milk or milk products in Mexico

Nonfat Dry Milk – Skim Milk Powder (SMP)

Table 7. Dairy, Milk, Nonfat Dry - Production, Supply and Distribution

Dairy, Milk, Nonfat Dry	**2021**		**2022**		**2023**	
Market Year Begins	**Jan 2021**		**Jan 2022**		**Jan 2023**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	45	45	46	46	0	48
Other Imports (1000 MT)	338	338	340	370	0	400
Total Imports (1000 MT)	338	338	340	370	0	400
Total Supply (1000 MT)	383	383	386	416	0	448
Other Exports (1000 MT)	1	1	1	1	0	2
Total Exports (1000 MT)	1	1	1	1	0	2
Human Domestic Consumption (1000 MT)	382	382	385	415	0	446
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Domestic Consumption (1000 MT)	382	382	385	415	0	446
Total Use (1000 MT)	383	383	386	416	0	448
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	383	383	386	416	0	448
(1000 MT)						

Production

Post forecast production for 2023 at 48,000 MT, an increase of four percent compared to 2022. Mexico's limited infrastructure to dehydrate fluid milk limits milk powder production growth. Even though a couple of the big dairy companies are investing in their own dehydration facilities, production is not expected to spike soon. Post estimates production unchanged for 2022 at 46,000 MT.

According to Mexico's domestic industry, there are a series of factors impacting the dairy sector, including adverse impacts due to the contraption of the economy. There are possible changes to dairy regulations, from a general sense (labeling) to more specific regulations targeting specific commodities. The economic situation and regulatory environment will test the resilience of Mexico's dairy sector and survival in the supply chains.

Consumption

Post forecast consumption for 2023 in 446,000 MT, an increase of 7.5 percent compared to 2022. Mexico's consumption continues to grow, as consumption trends privilege dairy products over consumption of fluid milk, thus increasing demand for milk powder to satisfy consumption demand. Post estimates consumption for 2022 upward from the USDA official estimate by eight percent at 415,000 MT. LICONSA, Mexico' government agency in charge of purchasing milk from small milk producers and supplying it to those most in need, has not been able to collect their target volume. Therefore, SMP is substituted and reconstituted into a dairy formula.

According to the domestic dairy industry, the COVID-19 pandemic altered the way families purchase food. According to industry sources, 44 percent of the consumers choose to buy products in family or bulk packages, and 43 percent of consumers choose long shelf-life foods to keep the pantry stocked. These trends boost purchase of novelty dairy products, dairy drinkables, and pre-portioned products, all of which are made mainly with SMP.

Milk and dairy products are some of the most common adulterated food products worldwide. Adulteration may occur accidentally or on purpose. In many regions of Mexico, adulteration of dairy products is a common practice that may be harmful to consumers, or at least deceitful. Therefore, Mexico intends to review regulations that involve milk and dairy products, with the objective to regulate sales. SMP regulations are the most expected, due to their importance domestically and for imports.

According to INEGI, comparing milk prices from August 2021 to August 2022, milk powder prices have increased 7.7 percent.

Trade

Imports

Post forecast imports for 2023 in 400,000 MT an increase of eight percent compared to 2022, Mexico depends heavily on imports to satisfy demand, and the United States is the main supplier with 95 percent of the share. Post estimates imports for 2022 upward nine percent compared to USDA official estimates at 370,000 MT.

Mexico increased SMP imports to satisfy domestic demand as government programs intended to purchase fluid milk from small and medium producers did not meet their target goals. Mexico seeks to reduce its deficit with SMP imports. On July 12, 2022, in a joint statement with President Biden, President Lopez Obrador committed to purchasing 20,000 MT of milk powder from the United States by the end of 2022 to assist Mexico's families in rural and urban communities. It is not clear yet if the objective will be reached.

United States exports of SMP balance Mexico's domestic market. The United States uses 97 percent of the milk fat produced domestically, but only 80 percent of the skim solids. Exports provide a market for the 20 percent of unused skim solids. The United States leading trade partners like Mexico and China purchase those commodities that are not sold in the domestic U.S. market.

Mexico is a country with a deficit in milk production. In the last decade (2011-2021), according to SADER, it was necessary to import powdered milk for approximately 20 percent of total domestic consumption. Even though national production of milk has grown steadily in recent years, in the medium term, it is expected that the country will have to continue importing powdered milk to satisfy part of the internal demand that is not covered by domestic production.

Exports

Post forecast exports for 2023 at 2,000 MT, an increase of 100 percent compared to 2022. Mexico's limited SMP production, combined with high demand, leaves little room for exports. The exports are destined to Cuba or Venezuela and hold a political aim as aid, rather than a business/profit goal. Post estimates exports unchanged for 2022 at 1,000 MT.

Stocks

Current milk and dairy product stocks held by major dairy companies are considered operating stocks to meet short-term demand. There are no government-held stocks of milk or milk products in Mexico.

Dry Whole Milk Powder (WMP)

Table 8. Dairy, Dry Whole Milk Powder - Production, Supply and Distribution

Dairy, Dry Whole Milk Powder	**2021**		**2022**		**2023**	
Market Year Begins	**Jan 2021**		**Jan 2022**		**Jan 2023**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	123	123	124	124	0	125
Other Imports (1000 MT)	7	7	6	6	0	8
Total Imports (1000 MT)	7	7	6	6	0	8
Total Supply (1000 MT)	130	130	130	130	0	133
Other Exports (1000 MT)	14	14	19	19	0	19
Total Exports (1000 MT)	14	14	19	19	0	19
Human Domestic Consumption (1000 MT)	116	116	111	111	0	114
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Domestic Consumption (1000 MT)	116	116	111	111	0	114
Total Use (1000 MT)	130	130	130	130	0	133
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	130	130	130	130	0	133
(1000 MT)						

Production

Post forecast production for 2023 at 125,000 MT, a one percent increase compared to 2022. Production is limited by the availability of dehydrating infrastructure. Mexico benefits from its proximity to the United States for an affordable and steady supply of WMP. Post estimates production unchanged for 2022 at 124,000 MT.

Consumption

Post forecast consumption for 2023 at 114,000 MT, a three percent increase compared to 2022. Demand continues to be driven by processors developing novelty dairy products and drinkables. Consumers seek products labeled as healthy or with added value, such as fortified with protein, vitamins, or minerals. Post estimates consumption unchanged for 2022 at 111,000 MT. The HRI and bakery sectors continue to drive demand for SMP and WMP through 2022, as tourism and schools resume activities.

The wholesale price of powdered milk in July 2022 is 79.56 pesos (3.98 USD) per kilo, 2.9 percent more than in June 2022 and 18.3 percent higher compared to June 2021. The average price paid by the consumer was 151.36 pesos (7.57 USD) per kilo in July 2022, unchanged from June 2022, and 7.2 percent more in an annual comparison to July 2021.

Mexico’s dairy industries’ greatest challenge for 2022-2024, is facing an everyday consumer in a difficult economy, so it becomes necessary to understand consumers’ behavior in the restrictive environment. Brands need to have a disruptive mindset to compete today, and leading global market players are coming under threat from all directions. New opportunities and consumer expectations are often met by fast-growing insurgent brands or local businesses with a closer connection to their target audience. Therefore renovation, innovation, and disruption are now necessary in the market.

Trade

Imports

Post forecast imports for 2023 in 8,000 MT, a 33 percent increase compared to 2022. Mexico continues to satisfy domestic WMP demand through imports. Mexico’s preferred milk powder product is SMP, while WMP sees growing demand. Post estimate imports unchanged for 2022 at 6,000 MT. Mexico depends heavily on WMP imports to satisfy demand for baby formula, wellness products, fortified products, and other products. The United States remains the main supplier for WMP to Mexico, followed by Uruguay and New Zealand.

WMP is made from dehydrated, pasteurized milk, and is commonly used as a substitute for fresh milk. The benefit of using whole powdered milk is that it has a longer shelf life than regular fresh milk. Whole milk powder has a shelf life of 18 months and can be used to make a wide variety of recipes. Reconstitution of WMP for industrial uses is common, allowing Mexico’s processors to develop drinkables with the denomination of “dairy formula.”

Imports of milk powder are complemented by other raw dairy materials, such as milk-based preparations, which have made it possible to meet the supply requirements for both the LICONSA Social Milk Supply Program, the production of fluid milk, and the derivatives industry for dairy products.

Exports

Post forecast exports for 2023 to remain flat at 19,000 MT. The top export markets continue to be Colombia, Cuba, Venezuela, Belize, and Guatemala, which benefit from affordable prices for Mexico’s WMP product and its steady availability. Small amounts are exported to the United States. However, increasing domestic demand may hinder export growth. Post estimates exports unchanged for 2022 at 19,000 MT. Domestic demand and limited domestic production leave little room for exports.

Stocks

Current milk and dairy product stocks held by major dairy companies are considered operating stocks to meet short-term demand. There are no government-held stocks of milk or milk products in Mexico.

Additional Dairy Products

Whey

Increased use of whey in Mexico is for infant formulas, clinical nutrition, along with whey protein manufacturers for the sport industry.

Trade

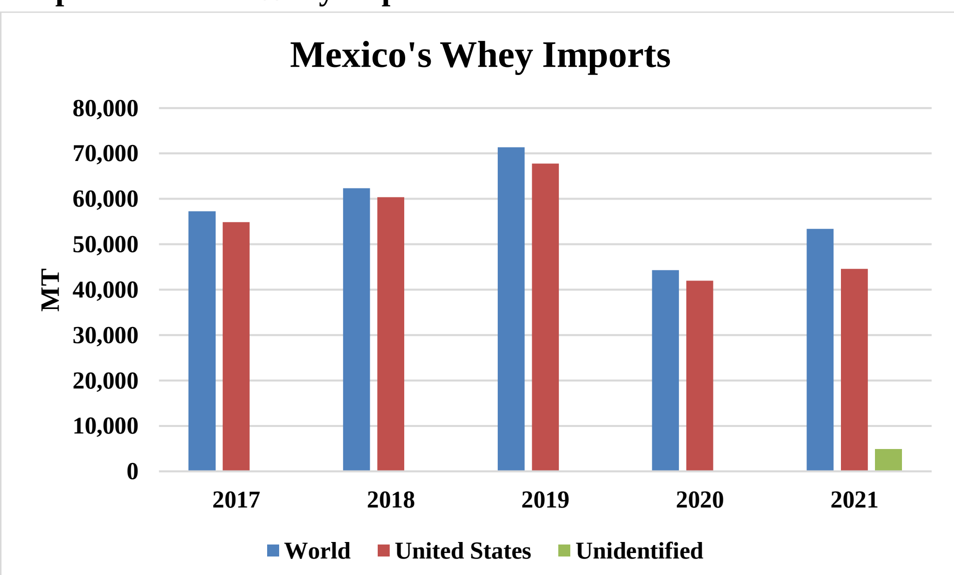
Imports

Table 9. Mexico Whey Imports (MT)

Partner Country	Calendar Year				
	2017	**2018**	**2019**	**2020**	**2021**
World	57,266	62,343	71,408	44,334	53,414
United States	54,883	60,400	67,775	42,007	44,604
Unidentified	0	0	0	0	4886

Source: TDM

Graph 10. Mexico Whey Imports



Source: TDM

Table 10. Mexico Whey Imports (MT) January-June

Partner Country	January-June		
	2021	2022	%Δ 2022/21
World	23,528	25,122	6.8
United States	21,744	13,815	-36.5
Unidentified	0	11,307	0

Source: TDM

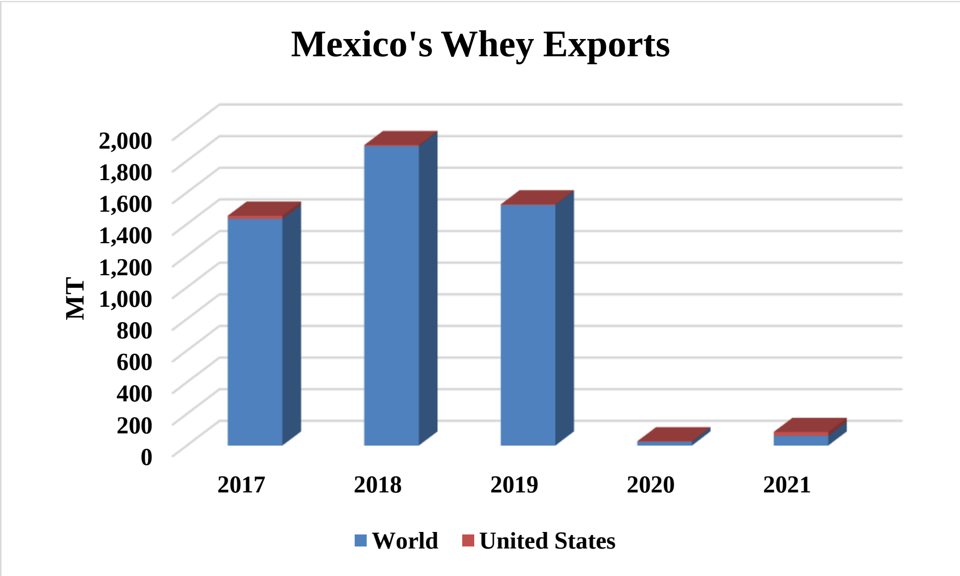
Exports

Table 11. Mexico Whey Exports

Partner Country	Calendar Year				
	2017	2018	2019	2020	2021
World (MT)	1,433	1,893	1,521	24	61
United States (MT)	20	7	4	3	25

Source: TDM

Graph 11. Mexico Whey Exports



Source: TDM

Ice Cream

According to industry contacts from the United States and Mexico, ice cream trade is no longer a profitable business, due to the uncertainty of Mexican regulations and constant changes in the criteria for labeling. This issue has been deteriorating for the past 7 years, leaving processors with a large stock of labels they are unable to use.

Trade

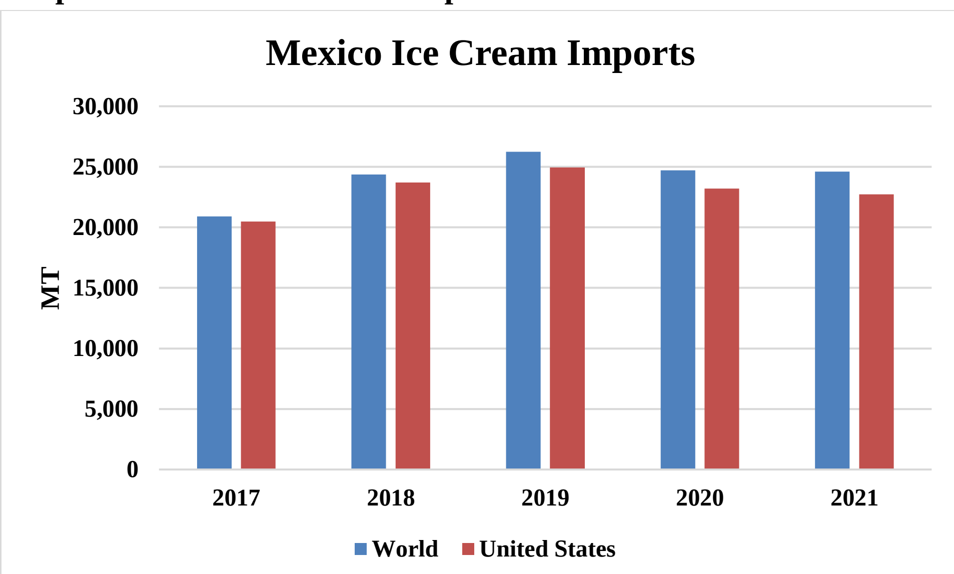
Imports

Table 12. Mexico's Ice Cream Imports (MT)

Partner Country	Calendar Year				
	2017	**2018**	**2019**	**2020**	**2021**
World	20,889	24,366	26,242	24,704	24,605
United States	20,476	23,696	24,942	23,200	22,737
United Kingdom	0	0	0	46	1,116
France	293	421	679	521	426
Italy	64	148	139	194	163
Spain	35	66	64	51	85
Unidentified	0	0	0	0	55

Source: TDM

Graph 12. Mexico Ice Cream Imports



Source: TDM

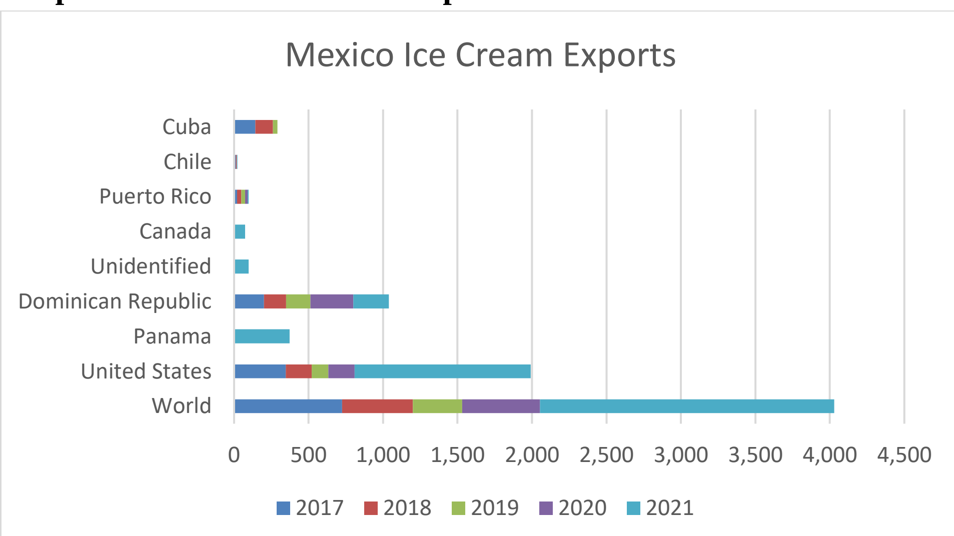
Exports

Table 13. Mexico's Ice Cream Exports

Partner Country	Calendar Year				
	2017	**2018**	**2019**	**2020**	**2021**
World (MT)	726	475	330	523	1,976
United States (MT)	348	174	111	177	1,182
Panama (MT)	0	0	0	0	372
Dominican Republic (MT)	201	149	163	287	239
Unidentified (MT)	0	0	0	0	97
Canada (MT)	0	0	0	0	74
Puerto Rico (MT)	21	27	25	18	7
Chile (MT)	12	6	0	0	5
Cuba (MT)	142	118	31	0	0

Source: TDM

Graph 13. Mexico Ice Cream Exports



Source: TDM

Infant Formulas

According to industry contacts, formulas classified as baby formulas or stage 1 formulas, are intended for babies 0-6 months old. Formulas classified as infant formulas are classified in stages 2-4 for babies over 7 months old. In Mexico, infant formulas are not considered dairy products, as they are classified as pharmaceutical supplements. Only 5 percent of the infant formula is dairy, specifically whey. Mexico exports common infant formulas to the United States.

Mexico produces about 170,000 MT of these formulas in 7 different facilities (Abbott, Mead Johnson, Nestle) and about 35 percent of the total is exported worldwide. About 19,800 MT are intended for the U.S. market. Domestic production is slightly growing mainly due to population growth.

Trade

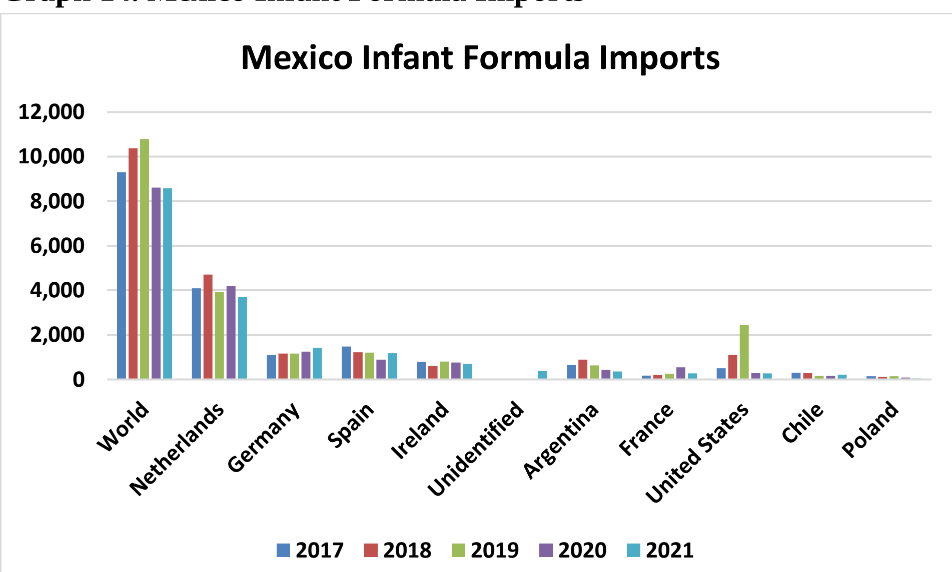
Imports

Table 14. Mexico's Infant Formula Imports (MT)

Partner Country	Calendar Year				
	2017	2018	2019	2020	2021
World	9,294	10,371	10,786	8,615	8,582
Netherlands	4,096	4,704	3,927	4,203	3,708
Germany	1,090	1,164	1,157	1,253	1,420
Spain	1,471	1,213	1,212	893	1,173
Ireland	782	602	809	762	709
Unidentified	0	0	0	0	387
Argentina	652	894	632	427	356
France	165	205	262	539	276
United States	502	1,106	2,451	284	271
Chile	300	281	156	157	215
Poland	142	118	146	81	43

Source: TDM

Graph 14. Mexico Infant Formula Imports



Source: TDM

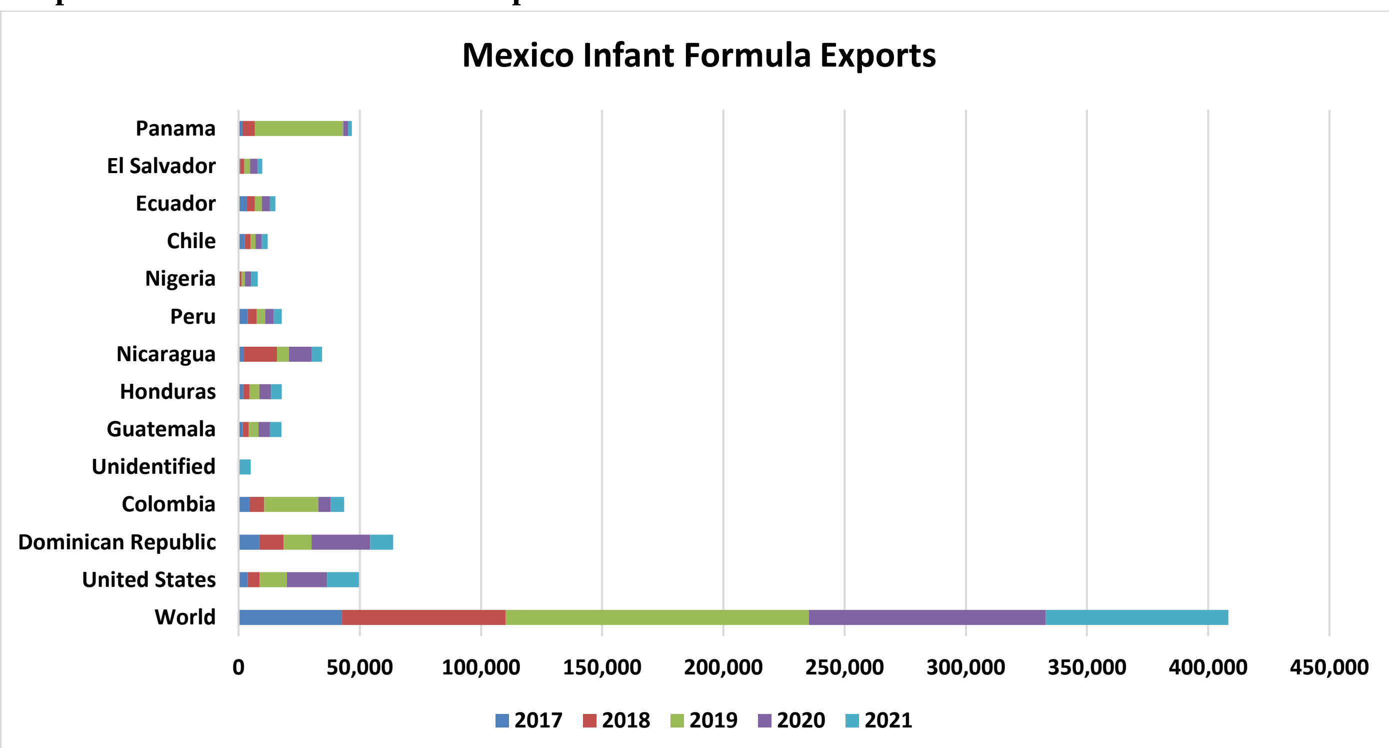
Exports

Table 15. Mexico's Infant Formula Exports (MT)

Partner Country	Calendar Year				
	2017	2018	2019	2020	2021
World	42,613	67,667	124,980	97,649	75,342
United States	3,893	4,755	11,346	16,551	13,113
Dominican Republic	8,633	10,013	11,391	24,166	9,526
Colombia	4,445	6,090	22,391	5,127	5,524
Unidentified	0	17	0	0	4,974
Guatemala	1,733	2,500	3,918	4,827	4,761
Honduras	1,931	2,623	3,978	4,967	4,381
Nicaragua	2,299	13,534	4,930	9,499	4,217
Peru	3,875	3,704	3,430	3,483	3,352
Nigeria	0	1,185	1,511	2,497	2,766
Chile	2,512	2,490	2,045	2,402	2,566
Ecuador	3,267	3,414	3,016	3,195	2,241
El Salvador	676	1,712	2,372	3,046	1,939
Panama	1,572	5,175	36,385	1,955	1,672

Source: TDM

Graph 15. Mexico Infant Formula Exports



Source: TDM

Policy Updates

Mexico's review of various dairy regulations, called NOM by its acronym in Spanish, have no recent changes to be reported.

Dairy or dairy related regulations that were programmed to be reviewed and published (final version) during 2022, but were not as of October 12, 2022, are:

- NOM-181-SCFI/SAGARPA-2018 Yogurt
- NOM-223-SCFI/SAGARPA-2018 Cheese
- NOM-222-SCFI/SAGARPA-2018 Milk Powder
- NOM-193-SE/SADER-2020 Cream
- NOM-151-SE/SADER-2020 Milk
- NOM-183-SCFI-2012 Dairy Products and Combined Dairy Products
- NOM-190-SCFI-2012 Mix of Milk with Vegetable Oil
- NOM-243-SSA1-2010 Sanitary Specifications for Milk and Dairy Products
- NOM-XXX-SE/SADER-20XX Butter

Previous reports regarding this issue are:

Mexico Publishes Final Draft of Cheese Conformity Assessment Procedure | MX2022-0011M | February 01, 2022

Dairy and Products Annual | MX2021-0039M | November 01, 2021

Mexico Publishes Draft Conformity Assessment Procedure for Cheese | MX2021-0051M | September 07, 2021

Mexico to Work Six Dairy Regulations and Two Still Pending at the WTO | MX2021-0047M | August 23, 2021

According to Mexico's Secretariat of Economy (SE), the working groups for reviewing the NOMs will resume as soon as recent appointees in SE are acquainted with the dairy portfolio.

Attachments:

No Attachments