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Report Highlights:

In light of pandemic-related macroeconomic shocks during 2020, 2021 is showing slow, but steady growth for dairy production and consumption in Mexico. Even with ongoing regional drought, the dairy herd has not been reduced in size and milk production continues to rise. Industrial producers and processors have fared better than small- and medium-sized producers due to economies of scale. However, growing inequality in purchasing power across socioeconomic strata hamper expectations of a quick recovery to pre-pandemic levels, particularly outside of beach resort and hotel, restaurant, and institution (HRI) hotspots.

Commodities:

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

Table 1: DAIRY, MILK, FLUID - Production, Supply and Distribution (PSD)

Dairy, Milk, Fluid	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk (1,000 HEAD)	6,500	6,500	6,550	6,550	6,600	6,600
Cows Milk Production (1,000 MT)	12,650	12,650	12,750	12,750	12,900	12,850
Other Milk Production (1,000 MT)	170	170	171	171	170	172
Total Production (1,000 MT)	12,820	12,820	12,921	12,921	13,070	13,022
Other Imports (1,000 MT)	39	39	31	32	43	35
Total Imports (1,000 MT)	39	39	31	32	43	35
Total Supply (1,000 MT)	12,859	12,859	12,952	12,953	13,113	13,057
Other Exports (1,000 MT)	8	8	6	6	8	8
Total Exports (1,000 MT)	8	8	6	6	8	8
Fluid Use Dom. Consum. (1,000 MT)	4,190	4,190	4,200	4,145	4,175	4,149
Factory Use Consum. (1,000 MT)	8,661	8,661	8,746	8,802	8,930	8,900
Feed Use Dom. Consum. (1,000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1,000 MT)	12,851	12,851	12,946	12,947	13,105	13,049
Total Distribution (1,000 MT)	12,859	12,859	12,952	12,953	13,113	13,057
(1,000 HEAD), (1,000 MT)						

Production

In 2021, milk production is estimated at 12.85 million metric tons (MT), a 1 percent increase. Despite pandemic-related challenges reverberating through Mexico's macroeconomy in 2020, the dairy herd grew and milk production increased. Other milk production, like goat milk, is also expected to grow in 2021, as artisan and novelty dairy products increase in market share.

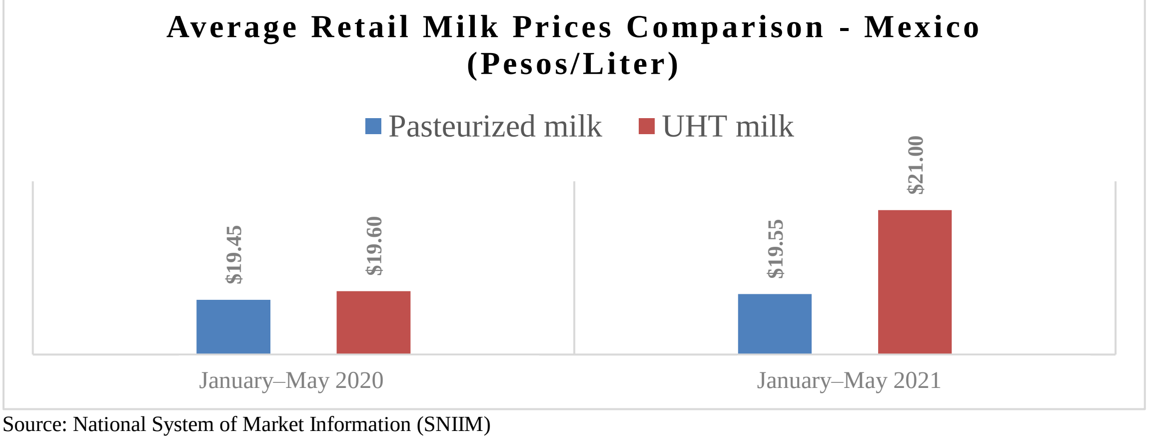
Vertical integration of big dairy companies, private sector investment in better genetics, and processors' continued purchases of fluid milk from small- and medium-sized producers influence increases in milk supply. Four states (Jalisco, Chihuahua, Coahuila, and Durango) produce 50 percent of total milk supply, indicating opportunities for milk production growth in the remaining 27 states. Milk production comes from dairy cows on just over 250,000 dairy farms. These farms are considered mostly micro and small, since 96 percent have less than 100 dairy cows.

Consumption

In 2021, milk consumption is estimated at 13.05 million MT, an increase of 1 percent. Household milk consumption is estimated at 4.15 million MT and industrial milk consumption at 8.9 million MT.

Source: Agriculture Secretariat Statistics Service (SIAP) and FAS Mexico City

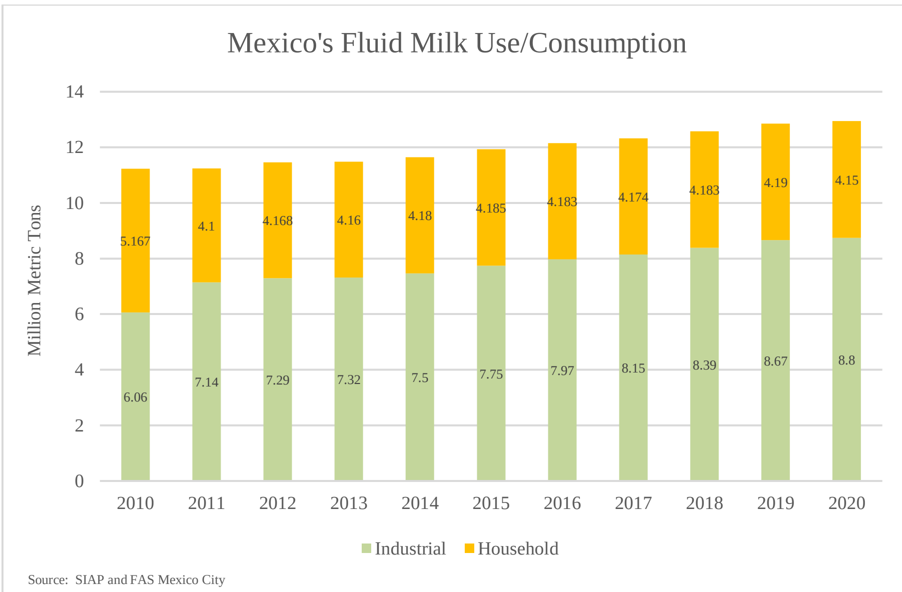
In 2021, household consumption is expected to grow by 1 percent, as consumer's perception of milk as a healthy food and immune system booster incentivize consumption for less than 40 percent of the population who can comfortably afford it – those in middle-class and upper-class socioeconomic classes centered in urban areas. For those who cannot easily afford milk, National Institute for Statistics (INEGI) data indicate the increase in milk prices combined with economic stagnation and decreased household incomes is slowing consumption of pasteurized milk and ultra-heat treatment (UHT) processed milk.



Source: National System of Market Information (SNIIM)

In 2020, the Mexican government agency in charge of providing milk to those most in need (LICONSA), had some difficulties with logistics and payments to producers. However, LICONSA beneficiaries' access to LICONSA milk supplies were not ultimately affected. In 2021, LICONSA is expected to continue expanding its distribution to more rural areas, providing milk to more households.

In 2021, industrial consumption is projected to grow by 1 percent. The gradual relaxation of safety measures related to COVID-19 is opening pent up demand in the hotel, restaurant and institutional (HRI) sector. HRI establishments are allowed to open for longer hours and allowed group capacity is also expanding. Comfort foods (e.g., baked goods) and growing e-commerce delivery channels have maintained industrial use of fluid milk.



Trade - Imports

In 2021, milk imports are estimated at 35,000 MT, an increase of 9 percent, but are not expected to reach pre-pandemic levels. Fluid milk was one of the most negatively affected dairy commodities because of the closing of the HRI sector and of schools in 2020 and first half of 2021. Imports fell, but domestic production coupled with lower national (at varying levels for industrial and household) consumption balanced out supply to meet national demand.

Trade - Exports

In 2021, fluid milk exports are estimated at 8,000 MT, an increase of 33 percent to pre-pandemic levels. Lackluster growth in domestic consumption is expected to allow some national production to be diverted to exports.

Guatemala and the United States are expected to continue to be the main export destinations for Mexico's fluid milk due to geographical proximity. Exports to other countries in Central America and the Caribbean are feasible and will vary depending on price.

Table 2: DAIRY, CHEESE - Production, Supply and Distribution (PSD)

Dairy, Cheese	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1,000 MT)	0	0	0	0	0	0
Production (1,000 MT)	437	437	455	446	460	448
Other Imports (1,000 MT)	121	121	119	114	125	115
Total Imports (1,000 MT)	121	121	119	114	125	115
Total Supply (1,000 MT)	558	558	574	560	585	563
Other Exports (1,000 MT)	7	7	10	11	10	12
Total Exports (1,000 MT)	7	7	10	11	10	12
Human Dom. Consumption (1,000 MT)	551	551	564	549	575	551
Other Use, Losses (1,000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1,000 MT)	551	551	564	549	575	551
Total Use (1,000 MT)	558	558	574	560	585	563
Ending Stocks (1,000 MT)	0	0	0	0	0	0
Total Distribution (1,000 MT)	558	558	574	560	585	563
(1,000 MT)						

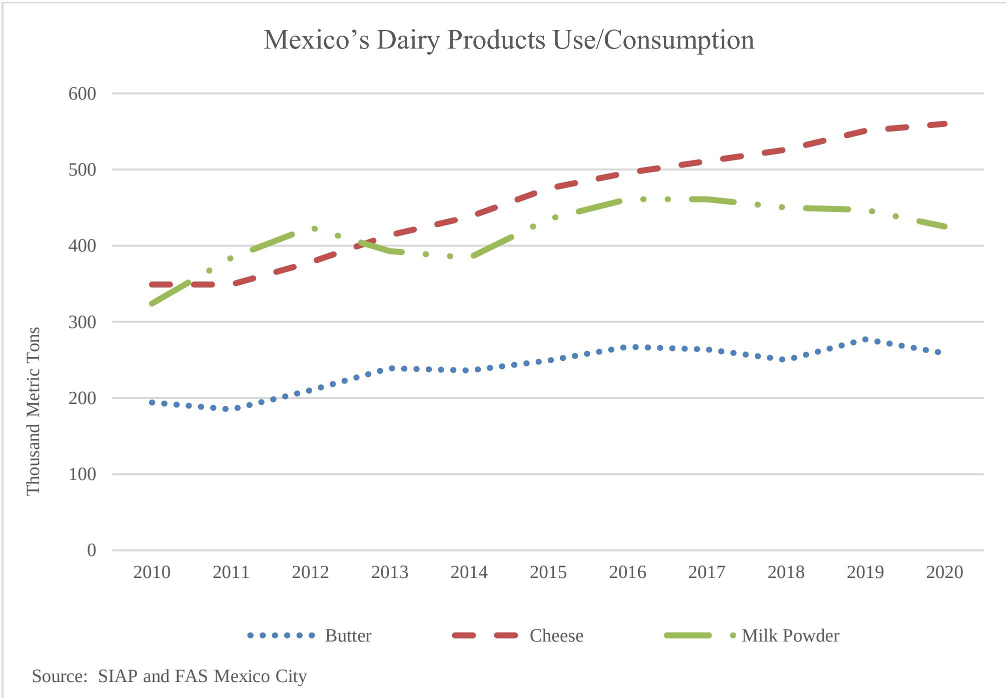
Production

In 2021, cheese production is forecast at 448,000 MT, less than 1-percent growth. Ample fluid milk supplies, sluggish consumption of fluid milk in more dense population areas, and added value incentivize processing fluid milk into cheese. According to the Secretariat of Agriculture (SADER), industrial cheesemaking uses approximately 25 percent of total milk produced in the country. It is believed that at least a similar percentage of milk is used by small-scale and artisan cheesemakers, although not as easily quantified. Seventy percent of all Mexican cheese comes from small-scale, artisan production. These cheeses and their means of production are strongly linked to their local regional history and culture. Jalisco, Chihuahua, Querétaro, San Luis Potosí, Michoacán and Chiapas are the main cheese-producing states of both industrial and artisan cheeses.

Consumption

In 2021, cheese consumption is forecast at 551,000 MT, an increase of less than 1 percent. Cheese consumption showed strong performance in both retail volume and current value terms in the second quarter of 2021, according to Euromonitor. This was due to greater consumption at home due to lockdown measures in response to the emergence of COVID-19.   Cheese also remained a popular snack and benefited from consumers' perception of it as an affordable source of protein, especially compared to meat. Outside of household consumption, decreased demand in the HRI sector in 2020 and the first quarter of 2021 negatively impacted national cheese consumption.

As some macroeconomic pandemic-related challenges remain in 2021, big companies with established brands, large distribution networks, and broad portfolios will retain a competitive advantage. Small grocery stores and local markets will remain the top retail outlets.



Trade - Imports

In 2021, cheese imports are forecast at 115,000 MT, a 1-percent increase. Mexico's current economic and pandemic woes negatively affected its cheese imports in 2020, but not as deeply or negatively as initially expected. Partial reopening(s) of the HRI sector – particularly beach resort areas – coupled with Mexico's cheese deficit, plus its proximity to the United States and market access, make it an ideal market for U.S. cheese exports. The United States is the dominant supplier of cheese exports to Mexico, with 78-percent market share, followed by the Netherlands at 9 percent.

Trade - Exports

In 2021, cheese exports are forecast at 12,000, an increase of 9 percent. Mexico is experiencing one of its greatest economic growth declines in decades, but food and agricultural exports remain strong. Mexico's cheeses have enjoyed this wave, aided by free trade agreements, demand for typical Mexican cheeses, and demand for common name cheeses produced in Mexico.

Table 3: DAIRY, BUTTER - Production, Supply and Distribution (PSD)

Dairy, Butter	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1,000 MT)	0	0	0	0	0	0
Production (1,000 MT)	231	231	234	233	237	235
Other Imports (1,000 MT)	59	59	56	42	60	43
Total Imports (1,000 MT)	59	59	56	42	60	43
Total Supply (1,000 MT)	290	290	290	275	297	278
Other Exports (1,000 MT)	13	13	10	9	10	9
Total Exports (1,000 MT)	13	13	10	9	10	9
Domestic Consumption (1,000 MT)	277	277	280	266	287	269
Total Use (1,000 MT)	290	290	290	275	297	278
Ending Stocks (1,000 MT)	0	0	0	0	0	0
Total Distribution (1,000 MT)	290	290	290	275	297	278
(1,000 MT)						

Production

In 2021, butter production is forecast to increase 1 percent to 235,000 MT, as processing into butter is incentivized by ample supplies of fluid milk, the benefits of increased shelf life, and the added value of butter as a retail product. However, the slow reopening of the HRI sector and slow recovery (to pre-pandemic levels) of the industrial bakery and confectionary sectors are hindering growth. Mexico's butter production is driven by three companies, with one major player commanding 66.8 percent of market share.

Consumption

In 2021, butter consumption is forecast at 269,000 MT, a 1-percent increase. Household consumption is expected to grow, especially as levels of (voluntary or mandatory) stay-at-home measures remain. Mexican consumers are expected to continue a slow trend to drift back from plant-based margarine toward butter and other animal products. Industrial production of baked goods – although sluggishly recovering from pandemic-related economic shocks, but buttressed by e-commerce channels and demand for comfort foods – still requires butter in its production processes. Larger industrial processors are expected consume the bulk of Mexico's butter production and imports.

Trade - Imports

In 2021, butter imports are forecast at 43,000 MT, a 2-percent increase. Imports remain low compared to pre-pandemic levels, as the result of a stagnant Mexican economy, lowering the HRI sector's demand for butter. For industrial processors, domestic production has been enough to meet supply needs. New Zealand is expected to remain as Mexico's top butter provider, with the United States ranked second.

Trade - Exports

In 2021, butter exports are forecast at 9,000 MT, remaining flat. The United States is the main destination for Mexico's butter exports. However, the United States' dairy surplus and demand in Mexico for its own butter, will hinder growth to pre-pandemic levels.

Table 4: DAIRY, MILK, NONFAT DRY - Production, Supply and Distribution (PSD)

Dairy, Milk, Nonfat Dry	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1,000 MT)	0	0	0	0	0	0
Production (1,000 MT)	44	44	43	45	44	45
Other Imports (1,000 MT)	361	361	295	310	330	325
Total Imports (1,000 MT)	361	361	295	310	330	325
Total Supply (1,000 MT)	405	405	338	355	374	370
Other Exports (1,000 MT)	65	65	36	36	45	40
Total Exports (1,000 MT)	65	65	36	36	45	40
Human Dom. Consumption (1,000 MT)	340	340	302	319	329	330
Other Use, Losses (1,000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1,000 MT)	340	340	302	319	329	330
Total Use (1,000 MT)	405	405	338	355	374	370
Ending Stocks (1,000 MT)	0	0	0	0	0	0
Total Distribution (1,000 MT)	405	405	338	355	374	370
(1,000 MT)						

Production

In 2021, nonfat dry milk, or skim milk powder (SMP), production is forecast at 45,000 MT. No growth is expected due to the existence of only five dehydrating facilities, which are not working at full capacity.

Consumption

In 2021, SMP consumption is forecast at 330,000 MT, a 3-percent increase. The partial reopening of the HRI sector hinders potential growth, especially for baked goods and desserts offered to guests. Gym and sport activities, which stimulate dairy-based supplement use, also have not bounced back to pre-pandemic levels.

Trade - Imports

In 2021, SMP imports are forecast at 325,000 MT, a 5-percent increase. The gradual reopening of portions of the HRI sector have created post-pandemic growth in demand, which domestic production has not been able to meet. Imports have been used to supplement supply, although not at pre-pandemic levels. The United States is the main SMP supplier to Mexico at 99-percent market share.

Trade - Exports

In 2021, SMP exports are forecast at 40,000 MT, an 11-percent increase. SMP export figures for 2020 are revised based on official trade data.

Table 5: DAIRY, DRY WHOLE MILK POWDER (WMP) - Production, Supply and Distribution (PSD)

Dairy, Dry Whole Milk Powder	2019		2020		2021	
Market Year Begins	Jan 2019		Jan 2020		Jan 2021	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1,000 MT)	0	0	0	0	0	0
Production (1,000 MT)	120	120	121	122	125	123
Other Imports (1,000 MT)	4	4	4	4	6	7
Total Imports (1,000 MT)	4	4	4	4	6	7
Total Supply (1,000 MT)	124	124	125	126	131	130
Other Exports (1,000 MT)	17	17	20	20	25	16
Total Exports (1,000 MT)	17	17	20	20	25	16
Human Dom. Consumption (1,000 MT)	107	107	105	106	106	114
Other Use, Losses (1,000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1,000 MT)	107	107	105	106	106	114
Total Use (1,000 MT)	124	124	125	126	131	130
Ending Stocks (1,000 MT)	0	0	0	0	0	0
Total Distribution (1,000 MT)	124	124	125	126	131	130
(1,000 MT)						

Production

In 2021, WMP production is forecast at 123,000 MT, a 1-percent increase. Production is limited by availability of dehydrating infrastructure, as well as an ongoing preference for producers to market milk in its fluid form. LICONSA social programs also incentivize continued marketing of fluid milk.

Consumption

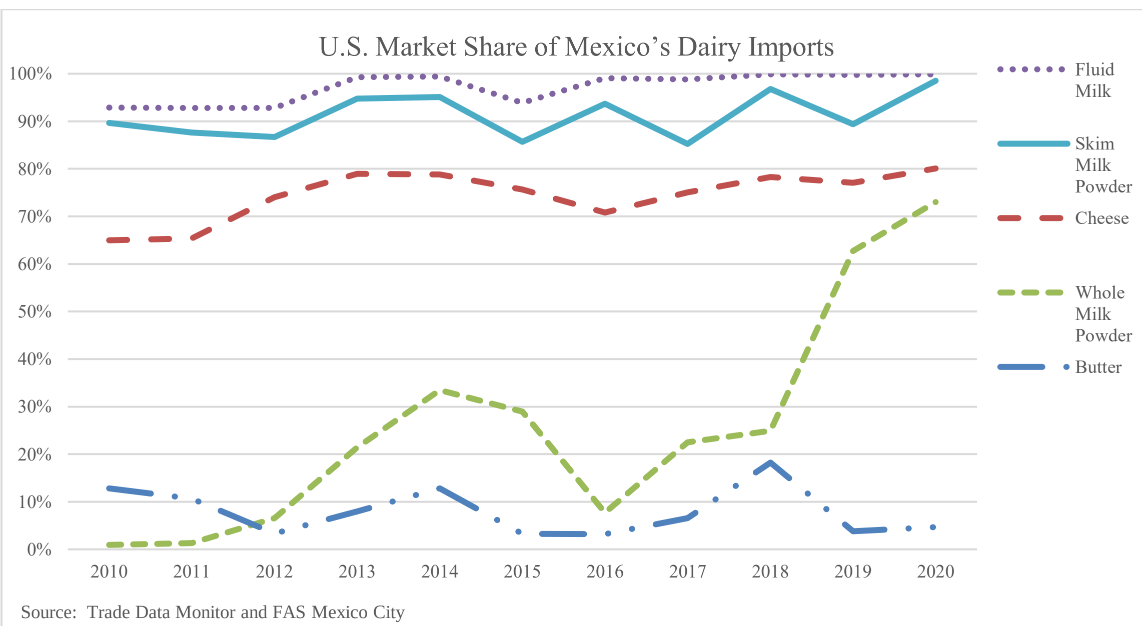
In 2021, WMP consumption is forecast at 114,000 MT, an 8-percent increase. Demand for WMP by some industrial dairy processors continues for novelty products. The development of advanced technologies in milk powders, which helps to retain the nutrient content of milk even after the drying process, drives WMP use in novelty products and drinkables. Consumers see these products as helpful in weight control, muscle gain for athletes, and in promoting a healthy immune system. The continued partial reopening(s) of the HRI sector, which uses WMP in confectionary and bakery processes, will offset industrial processing demand through 2021. Mexico ranks as sixth in global WMP consumption.

Trade - Imports

In 2021, WMP imports are forecast at 7,000 MT, an increase of 75 percent. Mexico depends heavily on WMP imports to satisfy demand. This jump in imports is helping meet consumption demand for baby formula, wellness products, fortified products, and others.

Trade - Exports

In 2021, WMP exports are forecast at 16,000 MT, a decrease of 20 percent. Official trade data show Mexico's top export markets are Colombia, Cuba, Venezuela, Belize, and Guatemala, which benefit from affordable Mexican prices for the product and availability. The United States supplies Mexico with 52 percent of its WMP imports and is on track to retain this market share.



Attachments:

No Attachments