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Mexico

Post: Mexico

Livestock Producers Manage Drought Conditions

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Agriculture in the Economy
Agriculture in the News
Climate Change
Global Warming
Grain and Feed
Livestock and Products
Poultry and Products
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Report Highlights:
Prolonged drought in Mexico has boosted slaughter and live exports for 2011 as the livestock sector seeks to avoid additional animal losses. Reduced availability of fodder and higher grain prices (domestic and international) continue to pressure the livestock sector; thus, precipitation during July and August, as well as government support, will be key factors driving the sector's output for the second half of 2011.

General Information:

Current Situation: Slaughtering, Exporting, and Production for the First Half of 2011

From January to March 2011, Mexican cattle exports to the United States surged 23 percent compared to the same period last year. Different sources have confirmed with Post that live cattle exports during this quarter were driven by higher prices paid by U.S. feedlots compared to Mexican feedlots. Additionally, a prolonged drought resulted in more exports of younger animals (330-400 lbs) from northern states because of the attractive prices. However, unofficial data in USDA-Agricultural Marketing Service's (AMS) weekly Market News report "*Mexico Cattle to U.S. Imports"* suggests that the flow of cattle to the United States tapered during June and July.

Even though no official data has been released, Post estimates that Mexican cattle slaughter was approximately 1.5 percent higher during the first five months of 2011 when compared to the same period in 2010, based on information provided by contacts and normal population growth.

The current concerns of the livestock sector, especially producers located in the northern states of Mexico, are a combination of:

1. Adverse effects of the February frost resulting in poor quality grasses at the beginning of the year,
2. Higher international grain prices, and
3. A prolonged dry season damaging the remaining grasslands and grain crops.

The Mexican Government has publicly stated that rains are expected to resume later this year, though sufficient rains are expected and sowing for the upcoming grain crops is progressing at a good pace. Thus, there is no concern at this time about the future availability of domestic grain and pasture supplies. (*See 2011 GAIN report MX 1048 Grain and Feed June Update*).

Overview of Drought Situation: Difficult Year for Northern Producers

Media reports in May and June suggested that a drought could cause in the loss of 600,000 head of livestock (about 3 percent of the total estimated ending stocks for 2011) as well as damage to feed crops. According to the press releases, Zacatecas, Durango, and Chihuahua are facing a severe drought. In addition, private sources are reporting that May was the driest month of the last 10 years.

Despite the above-mentioned media reports, in June the Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA) officially stated that only 5,000 head were lost and the remainder were slaughtered.

The National Water Council (CONAGUA) recently released a report detailing the water levels of reservoirs (*See Table 1*). The report shows that water levels in the northern reservoirs are lower than in the past two years, which puts the northern irrigated lands at risk of water shortages. Therefore, rainfall during July and August are critical. If rains fail to materialize, reservoirs will not reach 2010 water levels and water shortages could thereby affect fodder availability in northern cow-calf operations.

Table 1. Mexico: Reservoirs levels on June 20, 2011 (Millions of cubic meters)

REGIONS AND IRRIGATED ZONES	TOTAL CAPACITY (Mm3)	Current Volume (Mm3)	% OF TOTAL CAPACITY		
			Current	Same date last year	
				2010	2009
NORTH WEST	22,788.2	7,485.3	32.8	48.4	48.9
NORTH CENTRAL	9,825.4	7,178.8	73.1	70.7	78.2
NORTH EAST	8,779.4	6,335.4	72.2	60.2	67.3
CENTRAL	5,817.5	2,176.2	37.4	51.9	43.5
SOUTH	1,705.0	874.2	51.3	44.6	50.2
ALL REGIONS	**48,915.5**	**24,049.9**	**49.2**	**55.3**	**57.5**

Source: SAGARPA/SIAP

It should be noted that the northern states of Sonora and Chihuahua have been facing a drought for more than 10 years. In addition, other northern states, such as Durango, Coahuila, Nuevo Leon, and Zacatecas, are traditionally dry (*see Figure 1*). According to CONAGUA, the average annual rainfall in these regions was between 429 - 445 mm (for the years 1971-2000), while in the coastal area of Chiapas it was about 2,353 mm. For the top fodder producing states (*see Figure 2*), rainfall is as little as 832 mm to 1182 per year (*see Table 2*).

Table 2. Mexico: Yearly Rainfall for the top Fodder Producing States (1971-2000)		
State		**Rainfall (mm)**
Jalisco		893
Chihuahua		462
Oaxaca		1182
Hidalgo		832

Therefore, it is important to monitor rainfall in the principal fodder-producing states, which are now entering their rainy season (*see Figures 3, 4 and 5*). Many of them are located in central and southern Mexico and their production is sometimes transported to feedlots located in the northern-central states. Therefore, rains during July and August will ensure a harvest of feed products in November and December.

Currently, some state governments, such as those of Quintana Roo, Sonora, and Zacatecas, have already provided assistance to cattle producers. This aid is to provide fodder and food rations at reduced prices. In addition, SAGARPA is developing a program to support producers with no more than 46 head[1] who may be affected by this drought. The program also involves an educational training course for livestock producers on how to maximize grassland use and reduce the amount of pasture crops transported from other areas.

Potential Impact: Prolonged Drought Would Further Raise Slaughter and Live Exports

All the northern states have typically been livestock producers with cow-calf operations and feedlots. According to the 2007 INEGI census, 30 percent of all domestic bovine animals are raised in those states and they accounted for 22 percent of total beef output in 2010 according to SAGARPA/SIAP.

[1] It is estimated that the average Mexican livestock producer has 29 head.

Based on historical evidence, factors affecting the livestock sector are higher feed costs due to reduced availability of fodder, elevated grain prices and reduced pastures. However, according to the industry sources, the probability of a significant spike in losses is unlikely since producers have the following options:

- Export live animals (primarily used by large commercial cow-calf operation in the northern states),
- Sell animals at a loss to feedlots (small- and medium-sized producers), and
- Slaughter.

Since temperatures are at an all-time high and the rainy season is beginning in many areas, it is critical to monitor the rain in July and August to determine the effects on the livestock sector in terms of increased costs of production and sales of lower-weighted animals due to the drought.

In June, industry leaders expressed their concerns regarding higher losses if rains did not materialize soon. It is important to note that these kinds of speeches are politically focused speeches designed to obtain additional support from the Mexican government. Such speeches have been effective in Quintana Roo, Sonora, and Zacatecas. However, this type of government support doesn't address the real issue of the water shortage.

In spite of everything, commercial livestock producers have developed marketing channels for animals and continue to produce in regions of limited rainfall. Thus, it is unlikely that domestic production will be affected by a spike in losses due to the drought. It is more likely that the adverse effects will be from higher grain prices and lower availability of domestic grains, resulting from crop damage due to the frost at the beginning of the year, and lower grain-yields due to dry conditions in the northern states from March to June. This may result in producers in Sonora, Chihuahua, Coahuila, and Tamaulipas being forced to reduce their stocks beginning in the third quarter of this year.

Although SAGARPA has announced some losses within the livestock sector due to the drought, SAGARPA continues to remain optimistic about future rains (July and August), stating that food and crops will be available for domestic demand. Figures 4 and 5 support SAGARPA's expectations. The maps show that some areas of Nuevo Leon, Sonora, Coahuila and Chihuahua will have lower-than-normal average rainfall but, with the hurricane season just beginning, only time will tell. Rainfall and reservoir levels at the end of the rainy season will provide Post more information to accurately forecast the effects of the drought on the livestock sector. It should be noted that in 2010 historic amounts of rain fell during the last quarter of the year.

Based on the current situation, Post estimates that at the end of 2011 live cattle exports will be 1.4 million head, while the current USDA official forecast is 1.3 million. However, if the July/August rains don't reach levels of those registered in 2010, cattle exports may increase to 1.53 million head. The New-Post estimate is based on information obtained from industry sources and is in line with the current trend within available trade data (U.S. and MX data).

For slaughtering, Post estimates for 2011 will be revised to 6.19 million head; however, if precipitation is not close to 2010 levels, slaughtering could increase to 6.20 million head compared to the current USDA official forecast of 6.16 million head.

It is expected that weights at slaughter will not be affected, given commercial producers' desire to obtain the greatest profit for each animal, which is only obtained by maintaining high slaughter weights. In the central and southern regions, where rains are expected to be sufficient enough to allow for ample pastures for grazing, it is expected that feedlots will extend the time animals are on pasture and reduce the time in which animals are grain fed. In contrast, the weights for exported animals (from the north) are expected to decline.

Poultry and Pork Sectors

For the poultry sector, some private sources have expressed to Post that broiler production will continue increasing. Thus, the consumption of grains (primarily sorghum) will maintain the current increasing trend. The poultry sector will principally obtain grains domestically, but also from imports (despite high grain prices). In addition, some contacts have stated that the profit margin for broiler production continues to cover the increased costs of production attributable to grains. Moreover, producers use more price risk management tools for grain purchases.

On the other hand, the pork sector is facing consolidation due to the higher production costs as a result of higher grain prices. However, grain demand by large- and medium-sized producers seems to be covered mainly by domestic sorghum and wheat that is being diverted from the export channels and, when necessary, imported. (*See 2011 GAIN report MX 1048 Grain and Feed June Update*).

Consequently, the poultry and pork sectors are expected to continue increasing their demand for both domestic and international grains at any price.

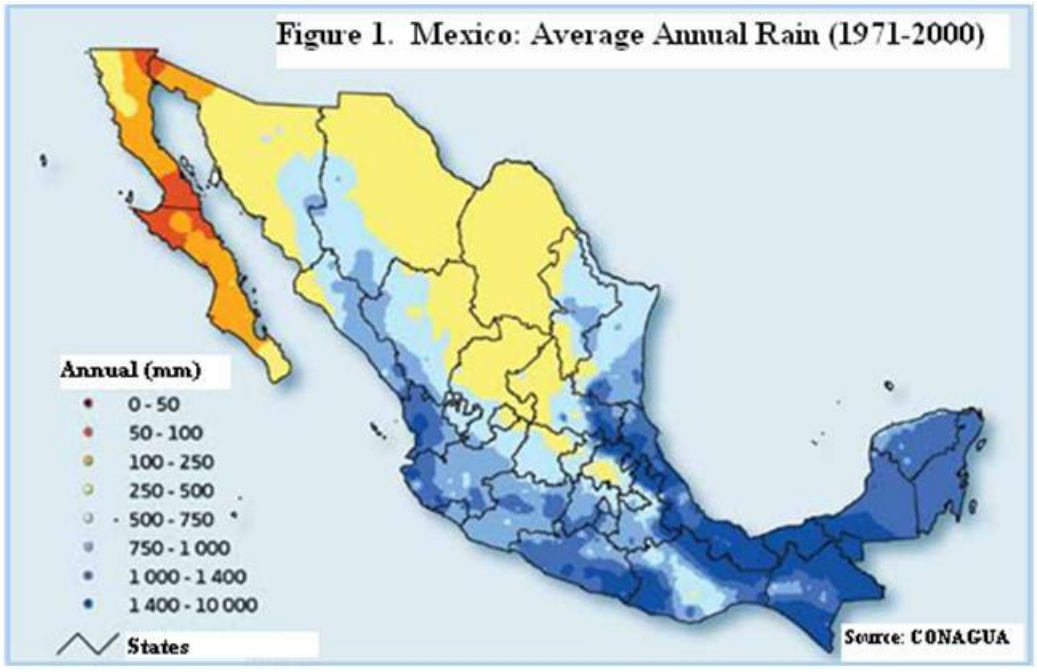
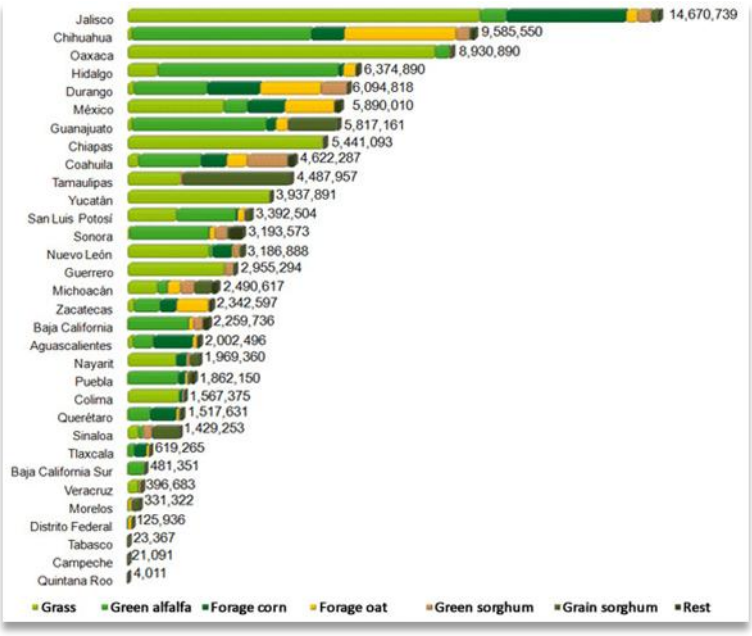
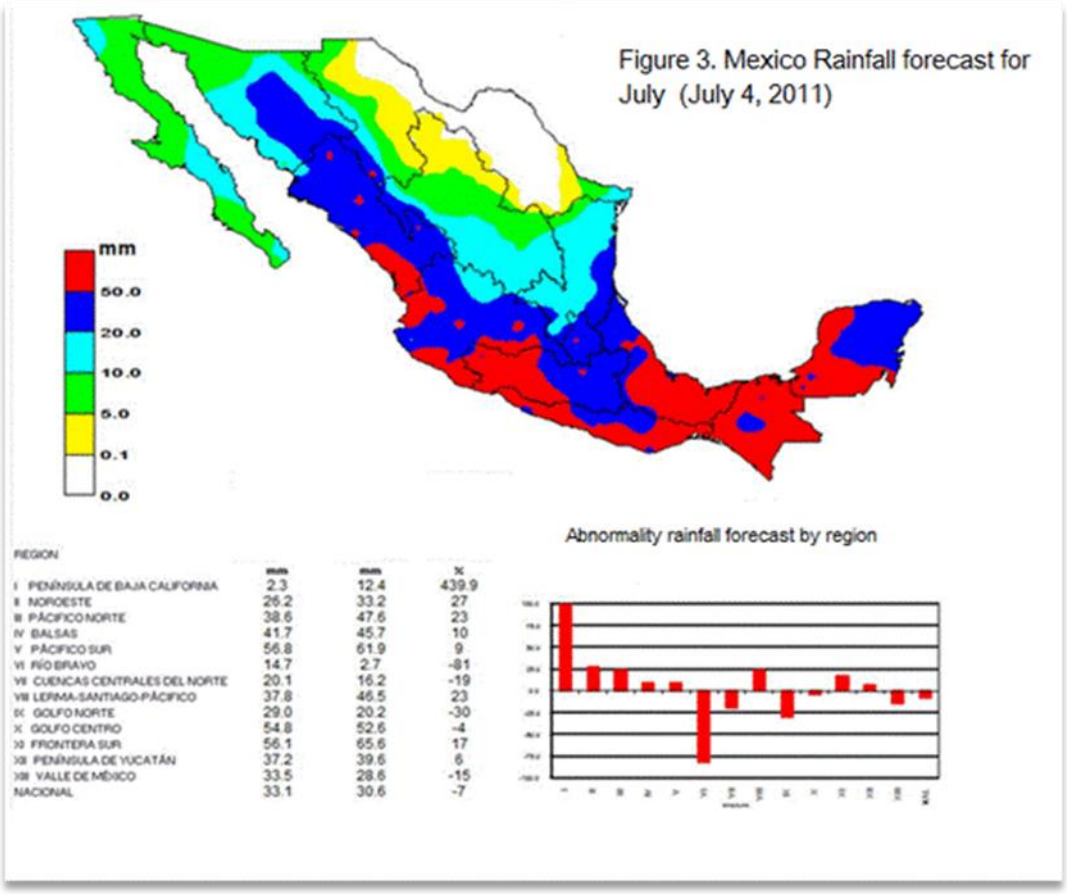
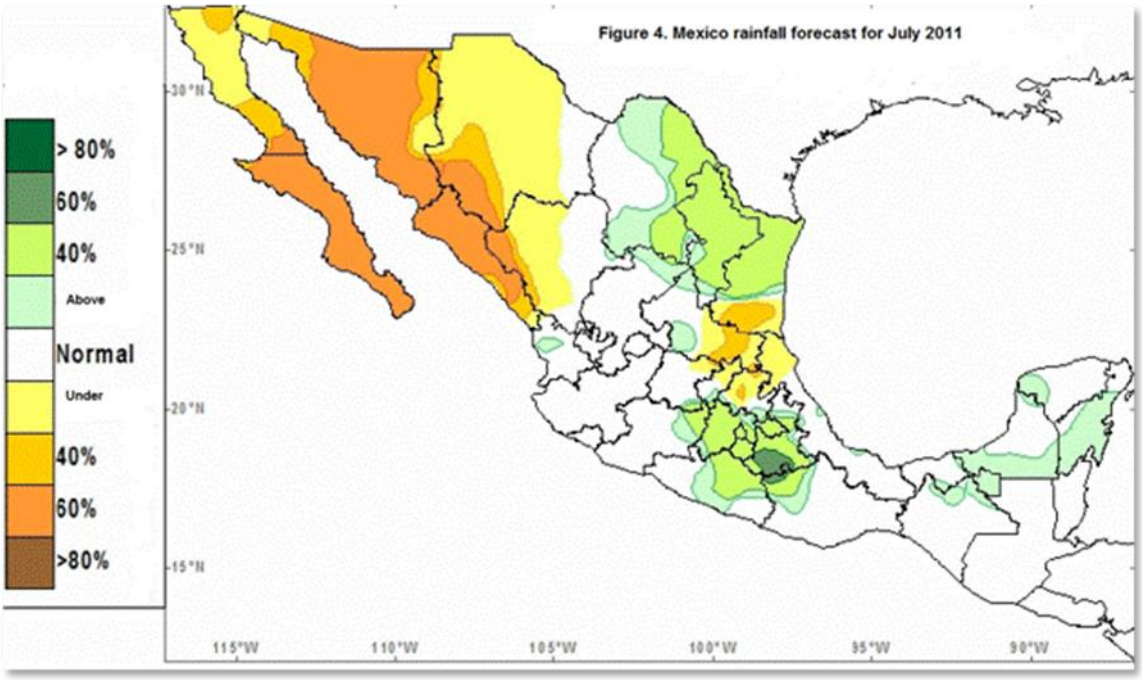


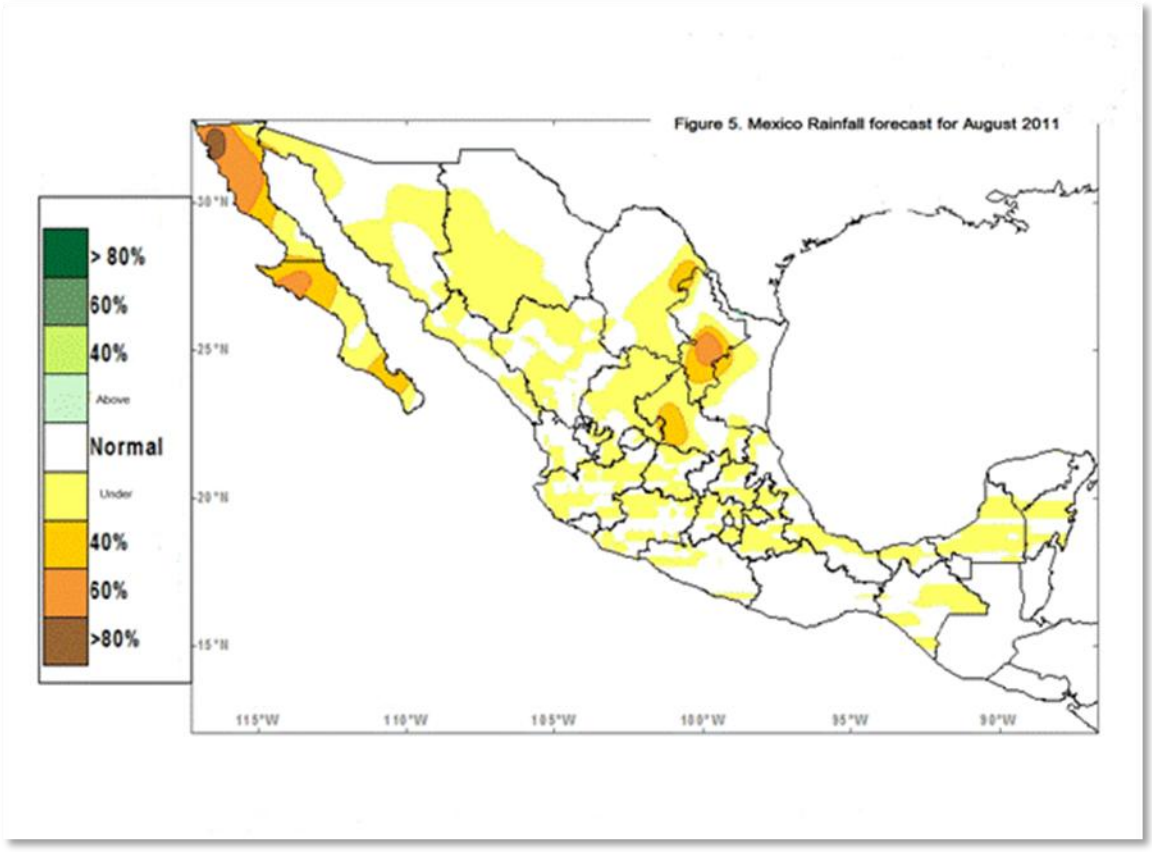
Figure 2. Mexico: Production of crops for animal feed by state and variety (Tons / agricultural year 2010)



Note: 2010 numbers are preliminary.
Source: **SIAP**.







For More Information

FAS/Mexico Web Site: We are available at www.mexico-usda.com or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

FAS/Mexico YouTube Channel: Catch the latest videos of FAS Mexico at work
http://www.youtube.com/user/ATOMexicoCity

Report Number	Subject	Date Submitted
MX1051	Farmer Organizations Request Drought Payments	6/24/2011
MX1048	Grain and Feed June Update	6/20/11
MX1043	Grain and Feed May Update -- Sorghum Situation	05/25/11
MX1038	Dairy and Products Annual	05/09/11
MX1030	Mexico Postpones the Implementation of Traceability Regulations	04/15/11
MX1511	UPDATE - Simplified Labeling Procedures in Mexico's Border Areas	03/31/11
MX1021	Livestock and Products Semi-annual	03/17/11
MX1019	Mexico consolidates labeling requirements for milk and hams	03/16/11
MX1011	Mexico Extends Temporary Procedures for Obtaining HRZs	02/11/11
MX1012	Hard Freeze Damages Sinaloa Corn, and Produce	02/11/11
MX1013	Poultry and Products Semi-Annual	03/09/11
MX0095	Mexico Announces 2011 TRQ for Milk Powder Imports from WTO Members	12/20/10
MX0096	Mexico Announces 2011 Import TRQ for Dairy Preparations	12/20/10

Useful Mexican Web Sites: Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx , equivalent to the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. These web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.