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## **Report Name:** Poultry and Products Semi-annual

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### **Report Highlights:**

Mexico's chicken meat production continues growing at an estimated 3-percent pace, reflecting a positive decade-long trend. Maintaining a steady zoo-sanitary status allows chicken producers to increase production, invest in newer technologies, and improve biosecurity measures. The industry's genetic pool continues to rely on mostly U.S. imports. Domestic producers have begun diversifying production chains into different facilities in different states to prevent disease outbreaks that could devastate flocks. Chicken meat and egg consumption is increasing more than expected, due largely in part to their affordability in an increasingly price-sensitive market. They also enjoy a growing reputation with Mexican consumers as healthier animal proteins compared to beef or pork. The United States remains the main supplier of chicken meat for Mexico. In 2020, U.S. market share could increase if Mexico does not renew the third-country tariff-rate quota that allowed Brazil to increase its market share since 2014.

**COMMODITIES:**

Poultry, Meat, Chicken

Poultry, Meat, Turkey

Poultry, Eggs

**POULTRY, MEAT, CHICKEN****Production**

In marketing year (MY) 2020, the chicken meat production forecast is 3.7 million metric tons (MT). The MY 2019 chicken meat production forecast remains 3.6 million MT. According to Mexico's National Union of Poultry Producers (UNA), domestic poultry production has grown 3 percent during 2019 and is expected to grow at a similar pace through 2020. Favorable factors, such as Mexico maintaining its zoo-sanitary status as free of avian diseases and the adoption of new technologies on farms, allow chicken producers to increase production. On the other hand, lack of security in some production regions has pushed away private investment and further development. The domestic poultry industry has attained increased efficiency and productivity levels, wresting market share from beef and pork to satisfy growing national demand for cheap animal protein.

Mexico's chicken meat production is divided among a handful of states, with Jalisco at 12 percent, Veracruz at 11 percent, Aguascalientes at 11 percent, Querétaro at 10 percent, Durango at 8.6 percent, and Guanajuato at 6.5 percent. Jalisco state has maintained leadership in production thanks to efforts to preserve its zoo-sanitary status and investments in biosecurity and new technologies, which have reduced animal mortality rates at farm sites.

Mexico heavily relies on imports from the United States for its poultry genetics needs, as Mexico has not developed its own genetic strains. However, some producers have invested in preserving their flock genetics by developing facilities in other states in the country, far from their central commercial production. Spacing out these facilities serves as a countermeasure to possible disease outbreaks, such as avian influenza. UNA reports, it costs breeders approximately \$10 to raise a chick from the time it is a fertile egg until it is sent for further processing; larger companies with economies of scale and investments in separated facilities benefit from more integrated links in the production chain and can reduce that cost.

Feed represents an estimated 68 percent of production costs for poultry producers and they consume about 51 percent of total national feed production, making Mexico's chicken meat production highly dependent on the stability of grain and feed prices. In 2018, Mexico produced 34.84 million MT of feed. In 2019, the unofficial production estimate stood at 36.14 million MT, reflecting previously expected growth of close to 3.7 percent from 2018 to 2019.

## **Consumption**

In MY 2020, the forecast for chicken meat consumption in Mexico is revised upward to 4.6 million MT, as demand for more affordable animal protein from consumers continues. The MY 2019 forecast is revised upward to 4.5 million MT. Chicken meat remains the preferred animal protein for the Mexican consumer, representing close to 60 percent of consumers' meat preference. From 2014 to 2019, consumption has increased at an average of 3 percent, representing 77 pounds (35 kilograms) per capita in 2019. The trend is expected to continue throughout 2020 as the middle-class consumer continues to shift from other animal protein sources, such as beef and pork, towards chicken.

In MY 2020, Post estimates Mexico's domestic chicken meat production will satisfy 80 percent of national consumption demand, but is highly dependent on imports to satisfy processing sector demand. Regardless of income, chicken meat is perceived by the Mexican consumer as a healthy meat. As a result, demand for processed meat products with combined chicken meat and turkey meat has grown within all sectors of society. The processing sector requires large amounts of chicken breasts, leg quarters, mechanically deboned meat (MDM), and wings.

As of January 2020, chicken carcasses prices have seen a decrease of almost 13 percent compared to December of 2019. However, the December 2019 price is still 3.7 percent higher than January of 2019. This fluctuation is due to the market pressure of seasonal demand, as well as demand from the processing sector. Despite recent fluctuations in prices, according to industry sources, prices will remain relatively stable throughout 2020.

## **Trade**

### **Imports**

In MY 2020, the import forecast is revised upward to 940,000 MT, maintaining robust growth levels as Mexico's macroeconomic growth stagnates and consumers' purchasing power reinforces chicken meat as their animal protein of choice. The MY 2019 forecast is revised upward to 880,000 MT, reflecting sharp growth for chicken meat as an affordable animal protein. In 2019, the United States remained the leading supplier for chicken meat to Mexico with close to 87 percent of market share of total imports, followed by Brazil at 12 percent. Mexico depends on imports to satisfy its chicken meat demand, with MDM and breasts as the main import products. Trade between the United States and Mexico has grown year after year, as fresh MDM is the main raw material for meat products, such as sausages, hams, hot dogs, snacks, and other products.

Mexico's third-country tariff-rate quota for chicken imports reached its maximum limit for 2019, as reported by Mexico's Secretariat of Economy (SE). However, there are still some discrepancies on the numbers issued by the SE between the assigned quota and actual use by the end of 2019. Even though Mexican poultry processors, represented by the Mexican Council of Meat Processors (CoMeCarne), formally requested a quota extension for 2019 from SE, the petition was denied. In opposition, UNA presented the SE and Mexico's Congress with its rationale for why the requested extension by the CoMeCarne processors should be denied. UNA continues to question the need and motives for a third-country tariff rate quota in 2020. As of January 2020, neither Congress nor SE has come to a resolution on this matter.

## Exports

For MY 2020, the chicken meat export forecast remains at 7,000 MT, flat from MY 2019. The MY 2019 export forecast is revised upward to 7,000 MT on trade pace. MY 2019 saw an increase from MY 2018 in exports to southeast Asian markets and Latin American markets, such as Cuba. MY 2020 will see a list of similar export destinations, to include some African markets. Mexico's Agriculture Secretariat is working with poultry producers at federally inspected (TIF) export-grade establishments to achieve the sanitary guarantees to gain access to export markets for fresh chicken meat products. The United States is the main destination for Mexican poultry exports, but only if they are fully cooked or ready-to-eat products, having undergone heat treatment.

Currently, there are 50 TIF establishments dedicated mainly to the slaughtering and processing of poultry in Mexico. They are distributed in 19 states, with the distribution as follows: 27 dedicated to slaughter, cutting, and deboning; 14 dedicated to processing poultry meat, and 9 to processing eggs and egg products. Potentially, these establishments would be eligible to export Mexican poultry, if they achieve adequate sanitary status. Currently, Mexico recognizes the three states of the Yucatán Peninsula (Yucatán, Campeche, and Quintana Roo), as well as two states in the north (Sonora and Sinaloa), as free of avian diseases.

Meat, Chicken 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	3,485	3,485	3,625	3,600	3,725	3,710
Total Imports	820	820	845	880	865	940
Total Supply	4,305	4,305	4,470	4,480	4,590	4,620
Total Exports	4	4	2	7	2	7
Human Consumption	4,301	4,301	4,468	4,473	4,588	4,613
Other Use, Losses	0	0	0	0	0	0
Total Domestic Consumption	4,301	4,301	4,468	4,473	4,588	4,613
Total Use	4,305	4,305	4,470	4,480	4,590	4,620
Ending Stocks	0	0	0	0	0	0
Total Distribution	4,305	4,305	4,470	4,480	4,590	4,620

(1,000 MT)

## POULTRY, MEAT, TURKEY

### Production

In MY 2020, the forecast for turkey meat production is 18,300 MT. Turkey production has not grown as expected in Mexico, since many producers are switching to chicken rather than turkey for a more immediate profit and lower risk. Turkey production is over 6 percent more expensive than chicken production and requires a planning period of at least 2 years. As chicken producers diversify their production footprint, separating different stages of the production chain into different states, turkey producers are moving their operations into old facilities formerly used for chicken production. This is most prevalent in the southeast states where turkey production is more common. Turkey production is limited to fewer states due to local customs and consumption patterns prevalent in a few regions in Mexico. Yucatán is the main turkey producer at 23 percent, followed by Puebla at 15 percent, Veracruz at 8 percent, and Mexico state at 4 percent. Chihuahua, which used to be a very high-producing state,

lowered its turkey production to less than 9 percent. Domestic production is still highly dispersed between commercial flocks and backyard operations. Nationally, the turkey industry in Mexico consumes more than 34,000 MT of feed, of which 63 percent is made up of grains.

### Consumption

In MY 2020, consumption is forecast at 184,000 MT. Annual per capita consumption of turkey in Mexico is 3.2 pounds (1.43 kilograms). However, there are states such as Yucatán where this indicator is at 11 pounds (5 kilograms). Notably, the turkey industry in Mexico generates 3,500 direct jobs and 17,000 indirect jobs, according to UNA. The steady growth in consumption, particularly in the meat processing sector where turkey meat and chicken meat are combined in certain processed meat products, is a result of end-users’ perception that turkey is a healthy meat that is low in fat and cholesterol. Turkey meat is largely consumed in processed and high value products, while whole carcasses continue to have a seasonable consumption pattern during the holidays in the last quarter of the calendar year. During 2019, Mexico imported more whole-birds from Chile, which tend to be smaller in size than those from the United States and Canada. Mexican consumers appreciate the ability to choose between large and small birds.

### Trade

In MY 2020, turkey meat imports are forecast at 167,000 MT. As of January 2020, the United States continues to be the main supplier of turkey meat to Mexico, supplying 93 percent of Mexico’s turkey meat imports. Brazil and Chile fill in the remaining 7 percent market share. 2019 saw the diversification of imports of whole birds. The United States grew its volume of exports to Mexico, but data show Canada and Chile were also able to provide carcasses to Mexico, including through the third country tariff-rate quota. These imports were well received by the Mexican consumer who had more diversity and options for the holidays. Turkey meat is mainly used by meat processors throughout the year, whose demand is covered by MDM imports from the United States. These imports are of high demand, as turkey prices fluctuate a lot and the meat industry must guarantee production one year out due to consumer demand of healthier and leaner meats. Mexico exports only small amounts of turkey processed products, because production is insufficient to meet domestic demand. Exports in 2020 are expected to remain flat.

Meat, Turkey	2017	2018	2019	2020*
Production	17	17	18	18
Imports	165	159	165	167
Exports	1	1	1	1
Consumption	181	181	182	184
<b>(1,000 MT)</b>				

Note: Not official USDA Data. Post Estimates.

\*Forecast

## POULTRY, EGGS

### Production

In MY 2020, egg production is forecast at 3.1 million MT. According to UNA, private investments and promotional campaigns are further enhancing egg production while consumption keeps rising. Jalisco state leads domestic production at 54 percent market share, followed by Puebla at 17 percent, Sonora at 5 percent, San Luis Potosí at 3 percent, and *La Comarca Lagunera* region at 3 percent. According to UNA, 98 percent of Mexican production is made up of white eggs, while 2 percent is brown eggs. Red eggs are more expensive than white eggs, making them a more premium product even though the nutrient content is the same. Backyard production in Mexico is very common and eggs from small producers are sold in local, public markets. Producers classify eggs into the following three groups:

- Regular/Large White Eggs: regular in shape and size, with a resistant shell, and the freshest
- Small White Eggs: small size and stirred with large colored eggs, with no fixed weight
- Visually Imperfect Eggs: cracked or thin-skinned, deformed.

Broken eggs are sold very cheaply. They are emptied into buckets kept in refrigerators and these are supplied at very low prices to local bakeries, ice cream shops, candy stores, and other small businesses.

Yolk color is important to Mexican consumers. When the yolk is light in color, Mexican consumers consider the egg of poor quality or produced by weak and sickly hens. In contrast, eggs whose yolks are an intense yellow color are appreciated and are thought to be produced by healthy and vigorous hens. Therefore, hens' diets are sometimes supplemented with coloring spices or artificial coloring ingredients.

### Consumption

In MY 2020, egg consumption is forecast at 52 pounds (23.6 kilograms) per person. UNA estimates that this growth will keep Mexico as the number one consumer of eggs in the world, followed very closely by Japan. Production and consumption of egg products continue rising, as high demand from different food sectors, such as bakery and confectionery, continues. Between 2018 and 2019, the demand for liquid egg products has grown close to 20 percent. Aggressive promotional campaigns by retail stores have created a surge of consumption of egg whites or whole homogenized eggs in Tetra Pak containers. In the same way, promotional campaigns from industry associations, such as the USA Poultry and Egg Export Council, have transformed the perception of the Mexican consumer from thinking eggs constitute a cholesterol risk to considering them nutritious and a healthy item. According to the retail industry, Mexican eggs have the competitive advantage of being fresh because of the quick rotation on shelves. The same opinion is shared by people from *Central de Abastos*, Mexico's largest public market, who justify non-refrigeration policies because the product does not stay on shelves very long and people frequently buy just what they need for that day.

## Imports

In MY 2020, egg and egg product imports are forecast at 69,000 MT. Imports of eggs and egg products are forecast to remain at a minimum, as domestic production almost completely satisfies domestic demand. However, imports of fertile eggs and one day chicks will continue at a strong pace because Mexico's genetic pool depends on it. As previously reported (FAS GAIN MX9025), the United States remains the number one supplier for Mexico's imports with 92 percent of import market share. Brazil's share of Mexico's egg imports increased to 7 percent during 2018, keeping its numbers flat through 2019. Brazil's share is expected to drop completely in 2020, if the third-country tariff-rate quota is not reinstated.

## Exports

In MY 2020, exports are expected to remain flat with a forecast of 740 MT, as domestic production is highly focused on satisfying growing domestic demand. As Mexico's zoo-sanitary status on avian diseases has yet to improve, exports will be limited for the entire poultry industry, limited only to heat-treated products. Japan is the main destination for Mexican egg and egg product exports at 54 percent of market share, followed by Cuba at 32 percent.

<b>Poultry, Eggs</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020*</b>
<b>Production</b>	2,720,742	2,828,056	2,931,593	2,987,782	3,090,000
<b>Imports**</b>	69,029	63,107	50,798	66,934	69,000
<b>Exports</b>	669	1069	806	742	740
<b>Consumption***</b>	23.48	22.70	22.98	23.20	23.60

\*Forecast; \*\*Measured in metric tons, including both egg and egg products;

\*\*\*Measured in kilograms per capita.

Note: Not Official USDA Data. Post Estimates.

Sources: SIAP Database, Trade Data Monitor, and UNA's *Compendio de Indicadores Económicos*

## Attachments:

No Attachments