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Mexico

Tree Nuts

Mexico's Pecan Production to Rise

1999

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Report Highlights:
Mexico's pecan production for MY 99/00 is expected to increase by 5.1 percent over last year due to larger area and improved yields. As a result, exports will likely rise while imports decline.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
61=Mexico [MX1], MX

SECTION I. SITUATION AND OUTLOOK

Economic Situation and Outlook: The outlook for the Mexican economy has brightened in recent months. This optimism is based on a major rebound in world oil prices, the Government of Mexico's (GOM) conservative fiscal policy, and renewed stability in Russia, Asia, and Brazil. Mexico's exports for the first quarter of 1999 were up 6.6 percent, compared to the same period last year, and the trade deficit for the quarter decreased by 31.3 percent. Higher oil prices and a more robust U.S. economy are the primary reasons for these improvements. Imports, on the other hand, have only increased 4.4 percent during the first quarter of the year, largely because of the economic slowdown that began during the last quarter of 1998. After posting a US$7.7 billion trade deficit last year, projections for 1999 call for a deficit ranging from US$6 to US$7 billion. The current account deficit is projected to be around US$14.4 billion, a figure that would constitute a manageable 3.4 percent of GDP. If the peso continues to appreciate, however, imports are likely to increase significantly over the next few months, and the trade and current account deficits could end up being larger than they are now projected. Normally, there is a lag of two to three months between the time import orders are placed and goods are actually shipped.

Higher oil prices have increased analysts' confidence in the government's fiscal target. The current average price of Mexican crude is significantly higher than the US$9.25 per barrel used to draft the budget. If the higher price remains, the GOM would obtain a windfall, making it easier to attain the deficit target of 1.25 percent of GDP, while still having room to increase social expenditures as the country approaches the 2000 elections. Current forecasts project an average oil price of around US$11.00 per barrel for the year.

The reasons for optimism notwithstanding, it's important to keep in mind that the Mexican market tends to overreact to good or bad news, so that Mexico is now experiencing the positive side of that instability. The fundamentals of the economy, however, have not changed dramatically over the last few months, only the expectations. Thus, there is no guarantee that the short-term optimism will continue in the medium term. A deterioration of the trade accounts due to the overvalued peso could be the event that reverses the current optimism. Likewise, longer-term expectations will be affected by the transparency (or lack of it) of the political process for the national elections in 2000.

Furthermore, although the worst of the crises in Asia and Brazil seem to be over, those economies are not completely out of the woods yet and unexpected events from them could still cause some turmoil. Along similar lines, if the speculative bubble of the U.S. stock market bursts, financial markets of all emerging markets would also tumble. (Source: Economic Section, U.S. Embassy, Mexico)

Pecan Situation and Outlook: Mexico's pecan production for MY 1999/00 (October/September) is forecast to reach 51,600 MT or about 5.2 percent above MY 1998/99 production. This increase is due to the current favorable weather conditions and new trees coming into production in Chihuahua and Coahuila, as well as the past cool winter in these states which allowed for sufficient chilling of the trees. The production estimate for 1998/99 is revised upward to reflect more current industry information and the increased harvested area. Estimated production was revised downward 1997/98 to reflect official government data.

Mexican pecan exports are forecast to increase in 1999/00 to around 30,000 MT because of expected higher production and attractive U.S. prices. For 1998/99 the export estimate is revised upward due to attractive export prices and increased domestic production. Exports for 97/98 are revised downward to reflect official

government data and increased domestic demand.

Mexico continues to import about 10 percent of its total domestic consumption, primarily from the U.S. For 1999/00, imports are expected to fall slightly due to higher domestic production. For 1997/98 and 1998/99, the import estimates have been raised based on more recent information.

Mexico's pecan production should increase in the next three to five years, given normal growing conditions, because Mexican farmers have been planting new trees for the past few years due to the high prices associated with the U.S. export market. Since it takes around seven years for trees to start to produce and, ten years for trees to be highly productive, some of these new trees are just now coming into production. This trend of new plantings should continue for the foreseeable future if prices continue to be relatively high.

SECTION II. STATISTICAL TABLES

PS&D, Pecans, In-shell Basis

(Hectares, Metric Tons, Trees)

PSD Table						
Country:	**Mexico**					
Commodity:	**Pecans, In-shell Basis**					
	1997		**1998**		**1999**	
	Old	New	Old	New	Old	New
Market Year Begin	**10/97**		**10/98**		**10/99**	
Area Planted	44324	44324	44670	44670		44955
Area Harvested	41600	40973	41600	42008		43000
Bearing Trees	2708000	2708000	2850000	2850000		2850000
Non-Bearing Trees	180000	180000	180000	160000		160000
Total Trees	2888000	2888000	3030000	3010000		3010000
Beginning Stocks	0	0	0	0		0
Production	45000	44109	45500	49070		51600
Imports	2500	3927	3000	3210		3100
TOTAL SUPPLY	47500	48036	48500	52280		54700
Exports	22000	16245	22500	29851		30000
Domestic Consumption	25500	31791	26000	22429		24700
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	47500	48036	48500	52280		54700

Trade Matrix

Pecans, Inshell			**UNITS: Kilograms**		
Exports To:	1998	1999*	Imports From:	1998	1999*
U.S.A	23,465,531	5,255,375	U.S.A.	2,542,504	814,150
Other	879	0	Other	0	0
Total of Other	879	0	Total of Other	0	0
Others not listed	0	0	Others not listed	0	0
Grand Total	23,466,410	5,255,375	Grand Total	2,542,504	814,150

Pecans, Shelled			**UNITS: Kilograms**		
Exports To:	1998	1999*	Imports From:	1998	1999*
U.S.A	3,167,825	961,595	U.S.A.	333,536	165,397
Other	24,389	800	Other	204	713
Total of Other	24,389	800	Total of Other	204	713
Others not listed	0	0	Others not listed	0	0
Grand Total	3,192,214	962,395	Grand Total	333,740	166,110

SOURCE: Bancomext with data from SECOFI, calendar year basis
NOTE: * indicates that figures are for January thru March 1999

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

PRODUCTION

Mexico's total pecan production is forecast to increase to 51,600 metric tons in MY 1999/00 (Oct-Sept). This increase is primarily due to new trees coming into production and the current favorable weather conditions in Chihuahua and Coahuila states. An adequate number of chilling hours during the mild winter in Chihuahua and Coahuila should also cause higher yields in both states. The production estimate for 1998/99 is revised upward by 7.8 percent from our previous estimate to reflect more current industry information and increased harvested area. The production estimate is revised downward to 44,109 MT in MY 1997/98 to reflect official government data.

Mexico is the world's second largest grower of pecans, behind the United States. The main pecan producing state is Chihuahua, with around 60 percent of total production. Coahuila, Sonora, Durango, and Nuevo Leon are also important producing states. The main varieties grown are Western and Wichita, which account for about 80 percent of new variety production. Northern Mexico is ideal for pecan production. There is high light intensity, deep, well-drained soil and an ample supply of water.

Crop Area

According to official government data the total area planted with pecan trees in 1997 was 44,324 hectares. For 1998, planted area reached 44,670 hectares and for 1999 is estimated at 44,955 hectares. These figures are from the Secretariat of Agriculture (SAGAR), as opposed to the previous estimates used in the PS&D tables obtained from industry sector sources. To be consistent with Mexican government data, the official figures have been used in the PS&D table for the years indicated.

Inputs

Costs associated with pecan production have increased substantially over the last several years and, according to producers, exceed the general rate of inflation of 13-14 percent. Producers generally agree that the most costly inputs are electricity, fertilizers, labor, agro-chemicals and interest on operating capital.

Yields

Average yield for MY 1998/99 was 1.17 MT/hectare, an increase of 8.3 percent from the previous year's yield of 1.08 MT/hectare. This increase in yield was due to the favorable weather in Chihuahua and Coahuila. Yields for the improved varieties in Chihuahua can be as high as 1.5 MT/hectare. Yields for native varieties tend to be around .50 MT/hectare.

Crop Quality

In general, the quality of Mexican pecans is considered by the U.S. industry as exceptional. The quality of pecans is based on percent kernel and color; the higher the percent kernel, or nutmeat yield, the higher the quality. Any pecan over 50 percent kernel is considered a high quality. Mexico's improved varieties average about 55 percent kernel. Also, the lighter the color the higher quality, and lower humidity results in lighter color. In Mexico, pecan color is very light because of the dry conditions.

CONSUMPTION

Because of the benefits derived from selling into the export market, such as high prices and payment on

delivery, growers prefer to first sell their higher quality product for export. Mexican companies then import lower quality pecans from the United States if there is a need to meet domestic demand.

Domestic consumption is a very price elastic. Consumption goes up when prices are low. Confectionary, bakeries and food processors are expected to remain the largest consumers of Mexican pecans, after the export market. There is also a large industry of street vendors selling pecans (shelled and inshell). Christmas is the most important consumption seasons for pecans.

TRADE

The price Mexican farmers receive for their pecans is a function of the U.S. market. If supply is tight in the U.S. market, prices will be high in the Mexican market. High-percent-kernel pecans are generally for export and low-percent-kernel pecans are for the domestic market. The price the farmer receives from pecan shellers is based on their kernel percent and is referred to as a point system. Improved varieties, such as Western, which have around 55 percent kernel, receive a premium price, while native varieties, which have around 40 percent kernel, receive a lower price. According to several farmers, domestic buyers generally purchase at around 40 percent kernel and will not pay a premium in price for kernel percent over 53.

Mexican market prices for MY1998/99 were 25.00 pesos kg. (U.S.$2.68 lb.), at the current exchange rate of 9.35 pesos per U.S. dollar and are expected to continue unchanged for MY 1999/00.

Mexican pecan exports are forecast to increase to 30,000 MT in MY 1999/90 because of higher production and attractive U.S. prices. The export estimate for MY 1998/99 is revised upward to 29,851 MT due to increased and attractive export prices. Estimated exports for MY 1997/98 have been lowered to 16,245 MT to reflect official government data, increased domestic demand and low export prices.

World trade in pecans is generally on an shelled basis, however, Mexico is unable to be competitives because of the lack of quality shelling operations.

Mexican pecan imports are forecast to decrease to 3,100 MT in MY 1999/00 due to increased domestic production. Import estimates were revised upward for MY 1998/99 and 1997/98 to reflect official government data and increased domestic demand. Most of Mexico's imports are from the U.S.

Mexican and U.S. trade data varies significantly each year. In calendar year 1997, U.S. census data shows imports from Mexico at 4,615 MT for shelled pecans. Official Mexican export data to the U.S. for the same period shows 1,367 MT for shelled pecans. These discrepancies appear on a yearly basis and very likely are caused, in large part, by the fact that there are two large shelling plants at the border that have maquiladora (processing for export) status which temporarily import from the U.S. in-shell pecans and return these pecans to the U.S. on shelled basis.

STOCKS

No change from FAS/Mexico's previous report, MX8085 dated August 18, 1998.

POLICY

On June 21, Mexico published in its Mexican Federal Register (*Diario Oficial*) the Official Mexican Standard NOM-044-FITO-1995, Phytosanitary Requirements and Specifications for the Importation of Nuts and Processed and Dehydrated Vegetable Products and Byproducts, which impacts products either from the U.S. or transhipped through the United States.

This regulation imposes new phytosanitary requirements for nuts and processed and dried vegetable products imported into Mexico, and has significant potential for impacting U.S.products. In particular, it specifies the methyl bromide treatments described below, and limits the points of entry for selected products. Also, the regulation imposes different requirements for selected commodities transhipped through the United States for those that are imported directly.

Four treatments are mandated using either methyl bromide or phosphine. The Mexican codes for these treatments are: 1) T101 (t^1) (u^1) (e^2); 2) T301 (a^1)a (a^1)b (a^1)c (a^1)d (b^1)a (b^1)b; 3) T302 (d^1) (d^2), T306 (d^1) (d^2); and 4) TFA (phosphine) defined in the publication. For nuts, processed and dried vegetable products and byproducts originating from the United States, Mexico will accept application of the TFA treatment at point of entry into Mexico. All shipments, regardless of origin will be fumigated at point of entry into Mexico. The dosage for the fumigations will be determined by Mexican inspectors based on the tables published in the final rule. For further details, see FAS/Mexico report MX9086.

MARKETING

Mexico uses the same grading standards for shelled pecan exports as those of the United States. A continuing problem for Mexico is that there are insufficient cold storage facilities to maintain pecans throughout the year. As a result, the Mexican pecan market is saturated at production time (October through December) and short of pecans later in the year. Retail distribution to bakeries, food processors, and retail outlets is left to the wholesale market in Mexico, which is also short of cold storage facilities.