

Voluntary Report – Voluntary - Public Distribution

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Report Name: US Exports to Mexico Down on Reduced Demand Due to COVID 19 Effects

Country: Mexico

Post: Mexico City

Report Category: Agricultural Situation

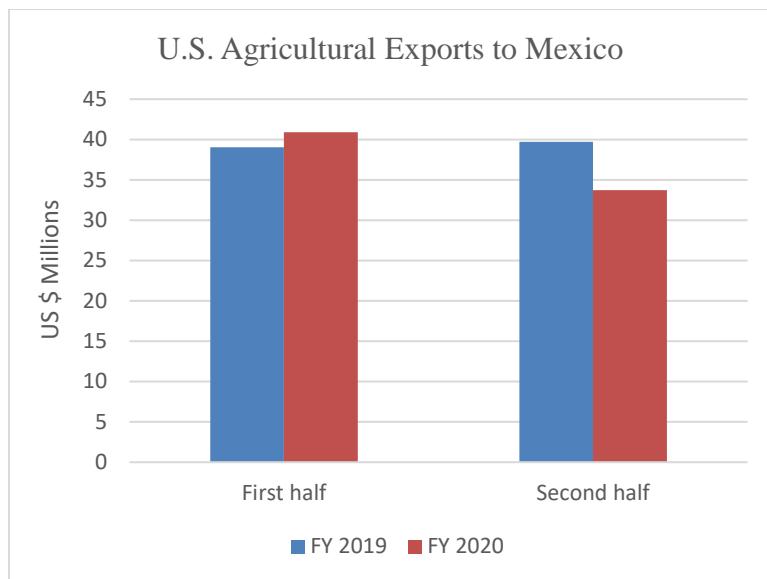
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Report Highlights:

In fiscal year 2020 (October 2019-September 2020), total U.S. agricultural exports to Mexico declined by five percent to \$18.1 billion from the previous fiscal year. Although Mexico remained one of the top three importers of U.S. agricultural, food and forest products by value, the COVID-19 pandemic impacted the entire supply chain in both the U.S. and Mexico. The first six months of FY 2020 showed steady bilateral trade, but April-September showed reductions in key categories of U.S. exports. Reductions in FY 2020 exports were most observed in animal proteins in response to preference for lower priced proteins, and closures or reduced capacities in the hotel, restaurant, and institutional sector.

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COVID-19 in Mexico

Mexico has been hit hard by COVID-19 infection and death rates, and economy has experienced a number of shocks in CY2020. In March, the Government of Mexico began implementing strict sanitary measures to help slow the spread of infection, and ordered the closing of all non-essential industries, including the hotel, restaurant and institutional (HRI) sector. While most of the food and agricultural sector remain operational, sanitary measures affected both operations (labor and supply chains) and consumer purchasing behaviors (online shopping, tilt toward healthier foods). Supply chain uncertainty persisted until approximately mid-May, when both businesses and consumers were able to better adapt to the ‘new normal.’

Economic Impact

The greatest impediment to the import of U.S. agricultural products in the second half of FY 2020 was the wide-ranging economic shocks experienced throughout Mexico due to the COVID-19 pandemic. The Government of President Andres Manuel Lopez Obrador has continued with austerity policies throughout the pandemic, with no stimulus payments or economic investments. The International Monetary Fund (IMF) estimates that only 0.6 percent of GDP has been infused into the economy, while the government has resisted calls for credit and tax breaks or paycheck protections for workers. As a result, the IMF forecasts a nine percent decline in Mexico’s GDP for 2020, and recovery to pre

pandemic levels not expected until possibly 2025. The Mexican peso has remained volatile to the U.S. dollar throughout the pandemic, making U.S. agricultural exports more expensive.

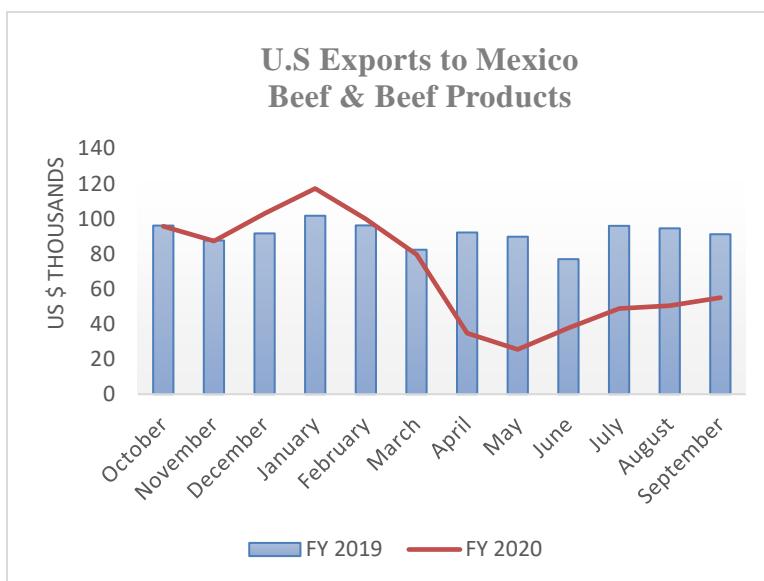
Although Mexico continues to grapple with the economic impact of COVID-19, there are signs that GDP is beginning to recover, with a 12.1 percent rebound in the third quarter (July-September 2020) compared to the second quarter. Additionally, the Mexican peso appreciated 5.3 percent in the third quarter compared to the second quarter, and inflation has remained relatively low.

Animal Protein Takes a Hit

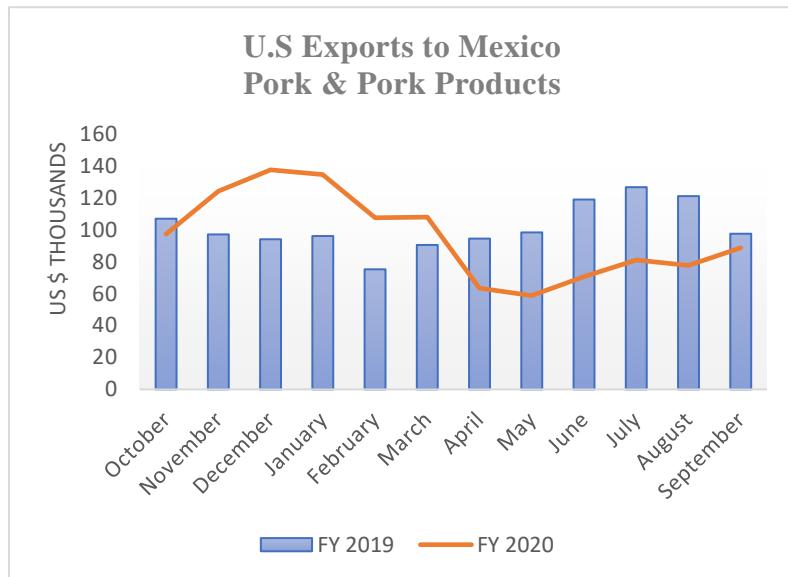
Reductions in FY 2020 exports of U.S. agricultural products were most observed in animal proteins—especially beef—in response to lower consumer purchasing power and the preference for lower priced proteins, and HRI closures. This corresponded directly to a decrease in corn sales from the United States, as less animal feed was needed. The same depressed purchasing power effects were observed in reduced U.S. exports of fruits, as demand fell for higher priced imported fruits such as apples, pears, and grapes.

Commodity Spotlight

Beef & Beef Products: U.S. beef and beef product exports to Mexico slowed significantly in the second half of FY 2020 due to various COVID-19 related effects, with FY 2020 trade down 24 percent compared to the previous year. U.S. exports saw sharp declines in April and May due to market demand shocks after the Government of Mexico mandated the closure of hotels and restaurants, consumer adjustments to shopping behaviors due to sanitary measures. Exports through September remained below previous year values mainly due to low purchasing power resulting in retail consumers switching to cheaper proteins such as Mexican pork and chicken. Beef and beef product exports are not expected to see a full rebound in the coming months due to a devalued Mexican peso, continued capacity restrictions to the hotel and restaurant sectors, and an overall weak Mexican economy.



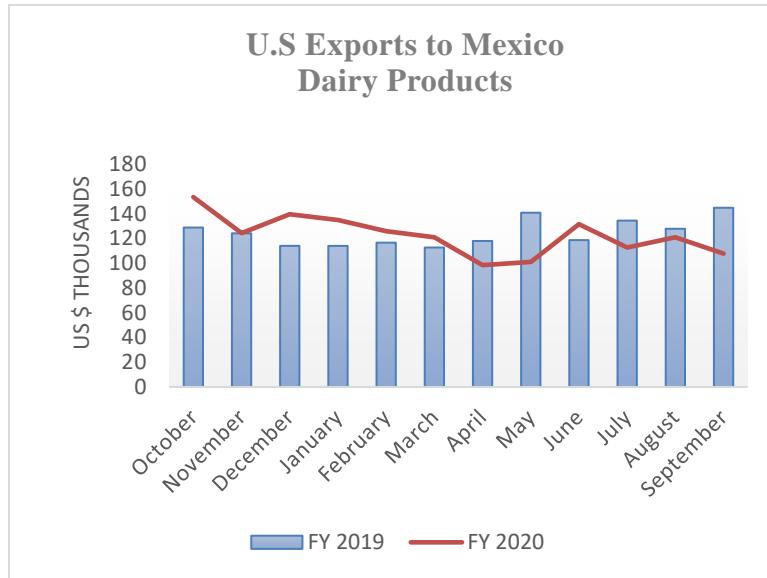
Pork & Pork Products: After initial market demand shocks in March and April due to COVID-19, U.S. pork and pork product exports to Mexico began to rebound in June, as retail consumers shifted to lower priced proteins like pork and chicken. In addition, Mexican pork exports have remained steady throughout the pandemic, with new market growth to China. Although FY 2020 U.S. pork and pork product exports to Mexico were down six percent from the previous FY, values are expected to recover to previous by years-end on recovered and stable demand.



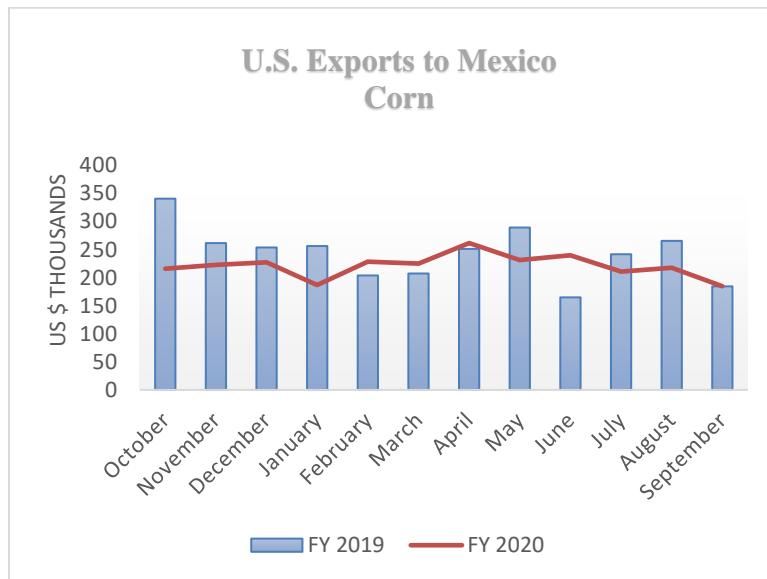
Poultry Meat & Products (excluding eggs): While U.S. exports of poultry meat slowed during the second half of FY 2020, levels are recovering faster than pork and beef exports due to stronger demand for lower priced animal protein. Additionally, Mexican retail consumers perceive poultry as a healthier animal protein, positively affecting processed poultry meat consumption as well. By the end of CY 2020, U.S. poultry exports to Mexico may exceed CY2019 levels, if trends continue.



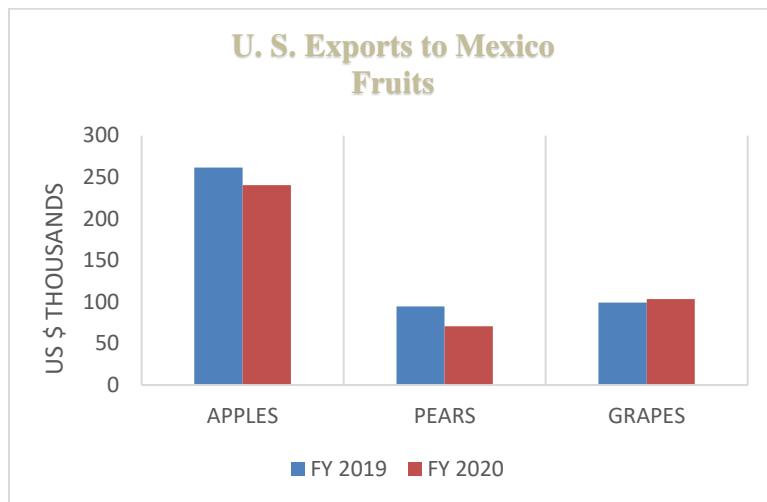
Dairy Products: During March and April, Mexico's dairy imports fell sharply due to the pandemic. Cheese imports were most affected due to HRI closures, but they have also seen the biggest rebound. June saw record imports when food home deliveries and some HRI channels were reactivated, with cheese and milk powder seeing the biggest benefits.



Corn: U.S. exports of corn to Mexico were down nine percent in FY 2020, mainly due to reduced animal feed consumption. Strains on consumer purchasing power and the closures or reduced capacities in the HRI sector reduced the consumption of animal proteins and the corresponding need for animal feed. Historically, the Mexican animal feed sector is the largest buyer of U.S. corn exports.



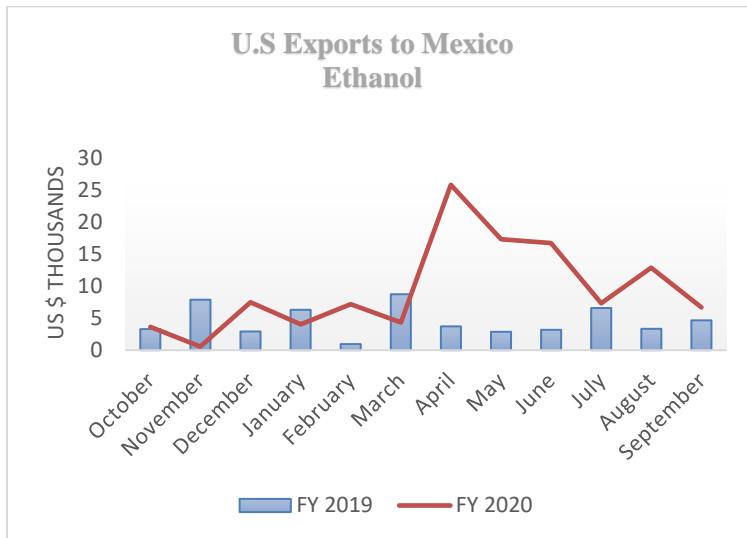
Fresh Fruit: U.S. fresh fruit exports fell 11 percent in FY 2020, as economic stresses from the COVID-19 pandemic led consumers away from higher priced imported fruits like apples and pears, and the closure or capacity restrictions on the HRI sector depressed demand. Mexican consumers are price-sensitive and prefer to purchase lower-cost fruits such as local apples, bananas, and oranges. Pear exports fell 25 percent compared to FY 2019, and apple exports (conventional and organic) fell 26 percent. Strong demand for vitamin D containing citrus products and an increase of U.S. orange exports to Mexico helped offset reductions in other products.



Forest Products: U.S. exports of forest products to Mexico were down 22 percent in FY 20, as COVID-19 sanitary measures stopped construction projects in Mexico for a number of months, and orders for new projects were canceled. The volatility of the Mexican peso also made U.S. exports more expensive and led to many Mexican importers adjusting purchasing habits and keeping stocks below normal levels. A recovery in U.S. export levels are anticipated by the first quarter of 2021.

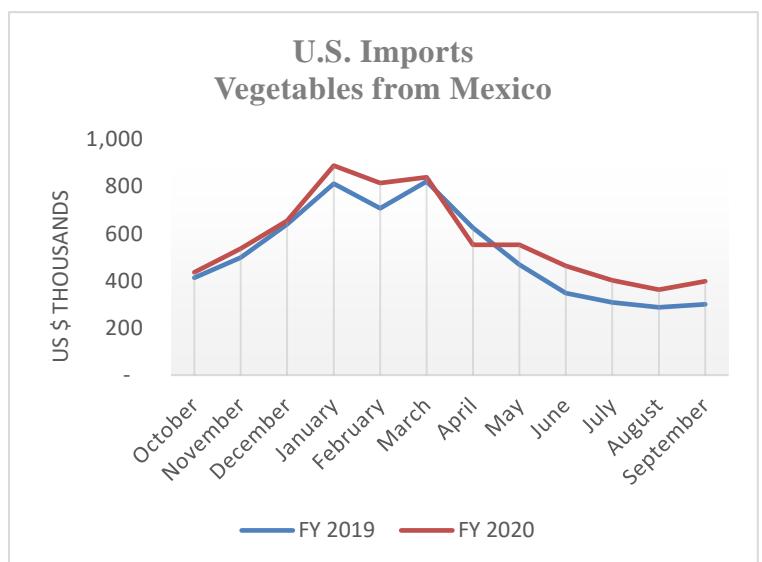
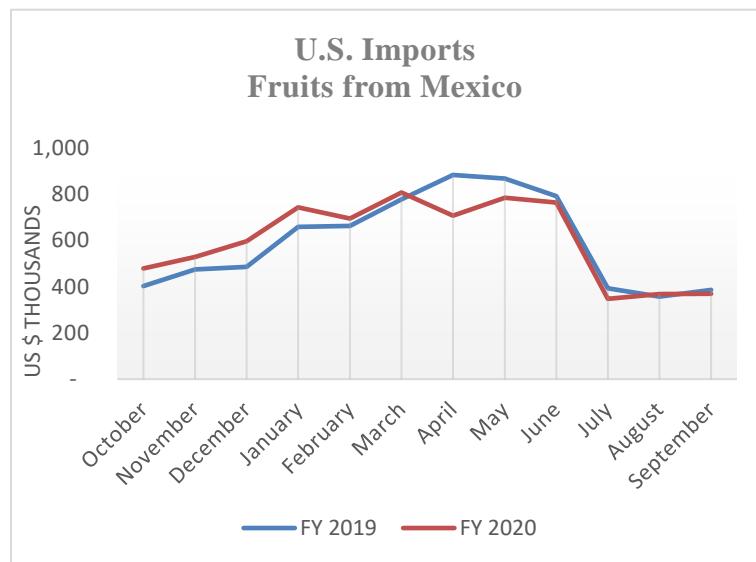


Ethanol (non-beverage.): U.S. ethanol exports to Mexico showed growth in FY 2020, with trade valued at approximately US \$237 million, an 89 percent increase from the previous FY. Ethanol has two primary uses in Mexico: refrigerant for gasoline and industrial preparations for the medical industry. Exports of ethanol for gasoline increased due to favorable prices and a decrease in Mexican production. Significant amounts of U.S. non-fuel ethanol were exported in April and May, for production of anti-bacterial gels and cleaning products in Mexico.



U.S. Imports of Fruits and Vegetables from Mexico Remain Strong

Imports of fruits and vegetables from Mexico showed resilience throughout FY 2020, with an increase in both value (one percent for fruit and 11 percent for vegetables) and quantity (one percent for fruit and vegetables) compared to FY 2019 levels. Imports of fruits from Mexico reached approximately U.S. \$7.2 billion, with vegetables at approximately U.S. \$6.9 billion. Interest in improving diets during the pandemic also drove some U.S. demand for foods such as Mexican avocados, berries, and citrus. In fact, a record quantity of avocado imports from Mexico were seen in FY 2020, worth U.S. \$2.3 billion dollars. Citrus exports also saw strong nine percent growth, with U.S. consumers purchasing more vitamin D containing fruit like oranges.



Attachments:

No Attachments.