

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 10/14/2016

GAIN Report Number: MX6032

Mexico

Livestock and Products Annual

Mexico's Cattle and Pork Sectors to Recover in 2017

Approved By:

Tim Harrison

Prepared By:

Gabriel Hernandez

Report Highlights:

Financial incentive and genetic improvement programs along with stable grain prices are paving the pathway for Mexico's herd recovering, however, the herd recovery in the U.S. would slow live cattle exports in the short/medium term. As Mexico's production is expected to grow during 2017, increased beef exports will maintain stable per capita beef consumption. While Mexico learns how to deal with porcine epidemic diarrhea (PED) and to make genetic improvements in domestic herd, pork production is expected to bolster supplies, increase price competitiveness with other meats, and therefore, increase consumption. The recently-created Animal Protein National Commission (CONAPO) would advocate for increased protein consumption regardless the animal origin. During 2017, Mexico will continue importing beef and pork from the United States.

Commodities:

Animal Numbers, Cattle

Production:**Stable grain prices would boost production in the mid-term**

Mexico's main financial incentive program, which continues enticing producers to repopulate the domestic herd, is reportedly meeting its objectives. Mexican cattle production is forecast to expand to 7.1 million head in 2017, as producers who are registered for the 2016 Program to Promote the Livestock Sector ("*Programa de Fomento Ganadero*") are reportedly entitled to continue receiving a direct subsidy for 2017. Improved genetics through the Program for Genetic Improvement are expected to aid cattlemen in the recovery of the domestic herd as well.

As previously reported, this program is enabling producers to remain in business and to offset obstacles to repopulation that the domestic herd has previously encountered, in particular, the lack of steers for feedlots. Due to the incentive to feed steers, calf slaughter is expected to decline by the end of 2016, but will likely rebound in 2017. Despite an ample supply of grain and pasture in 2016, herd expansion is unlikely to occur until 2017 at the earliest.

Despite the peso-dollar exchange rate disadvantages Mexican producers face for grain, relatively low grain prices overall should keep production costs fairly stable. Moreover, as elevated beef prices generate positive margins, feedlot producers will likely lengthen feed duration, resulting in higher weights. The decline in calf slaughter will also contribute to higher weights.

Trade:**Herd recovery in the U.S. dampens exports from Mexican cattlemen**

Live cattle exports are forecast at 1.0 million head in 2017, which is marginally down from the revised 2016 figure (1.1 million head), as lower demand for steers prevails in the United States due to herd recovery. Despite the fact that the price paid per head was reduced significantly compared to prices paid in 2015, the U.S. market remains attractive for Mexican cattlemen in part due to the exchange rate. As noted previously, retention by feedlots will decrease exportable supplies contributing for the domestic herd recovery. A rebound in exports is not expected for the last quarter of 2016 in light of U.S. declining prices.

Mexico to continue importing genetics

Live cattle imports are forecast at 35,000 head, slightly up from the 2016 figure as feed lots are being enticed to bring back the domestic herd to historical levels. Despite high prices for U.S. livestock, partnered with a strong dollar, Mexico will continue importing cattle mainly for feeding purposes, with small-scale purchases for herd improvement. The import of high breed cattle aimed for herd improvement is a slow-paced mid- to long-term objective for the cattle sector, supported by the ongoing Government of Mexico (GOM) herd improvement program. Imports of cattle for feedlots from Australia are gaining share while New Zealand imports are expected to begin during 2017.

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle Market Begin Year Mexico	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	17120	17120	16605	16615	0	16440
Dairy Cows Beg. Stocks	3250	3250	3275	3275	0	3275
Beef Cows Beg. Stocks	6700	6700	6800	6800	0	6900
Production (Calf Crop)	6850	6850	7000	7000	0	7100
Total Imports	23	23	25	30	0	35
Total Supply	23993	23993	23630	23645	0	23575
Total Exports	1213	1213	1125	1110	0	1000
Cow Slaughter	1350	1350	1325	1330	0	1300
Calf Slaughter	275	275	225	220	0	230
Other Slaughter	4350	4350	4375	4375	0	4380
Total Slaughter	5975	5975	5925	5925	0	5910
Loss	200	190	200	170	0	170
Ending Inventories	16605	16615	16380	16440	0	16495
Total Distribution	23993	23993	23630	23645	0	23575

(1000 HEAD)

Not Official USDA Data

Commodities:

Meat, Beef and Veal

Production:

Production is forecast at 1.90 million tons, marginally higher than the revised 2016 estimate (1.87 million tons), as longer retention of calf in feedlots will result in higher yields. For the third year in a row, heavier weights are expected to offset a decline in slaughter. As in 2015 liquidation, although at a slower rate, continues to depress slaughter.

Consumption:

CONAPO: a strategy to promote consumption

Consumption is also forecast to be relatively stable at 1.79 million tons, as per capita consumption will increase marginally following several years of decline and Mexico's production trend is forecast to show an accelerated growth in 2017. The 2016 consumption figure has been revised slightly up from the official figure. Despite current higher beef prices compared to other animal proteins, the medium/low income population is showing a continuing trend for consumption of thin-muscle beef cuts known as "*bistec*", which is a lower valued beef cut compared to fine cuts. Consumption of high-valued beef cuts among the upper social stratus is also expected to remain stable.

Recently, the livestock sector created the Animal Protein National Commission (CONAPO by its Spanish acronym), whose mission is to promote the consumption of animal protein overall, regardless of the species of origin. At this time, only beef, pork and dairy sectors have joined this commission. Once the poultry sector clarifies its position and resolves concerns among its membership, it may also join as a CONAPO member.

Trade:

Canada is a current concern but Brazil is on the horizon

Imports for 2017 are forecast at 182,000 tons, marginally up from the 2016 import figure despite the Government of Mexico (GOM) intention to open the Mexican market to imports from Australia and New Zealand to offset high prices of beef from the United States, which continues to be the main meat supplier. (See policy section). Also, as in 2016, increased domestic production and a strong U.S. dollar are expected to keep Mexican demand in check.

Cattlemen expressed concerns regarding the potential opening of the Mexican market to Canadian beef imports due to the removal of Bovine Spongiform Encephalopathy (BSE) restrictions; however, no official statement has been made about changes to Canada's BSE status.

Exports are forecast at 290,000 tons. The United States continues to be the primary market for shipments, followed by Japan, Hong Kong, and Canada. Lower exports from Australia and New Zealand to the United States in 2016 are expected to enable Mexican shipments to remain strong despite lower U.S. import demand. The ongoing improvements in the quality, food safety, and sophistication of Mexican beef operations continue to facilitate Mexican exports.

Production, Supply and Demand Data Statistics:

Meat, Beef and Veal Market Begin Year Mexico	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	5975	5975	5925	5925	0	5910
Beginning Stocks	0	0	0	0	0	0
Production	1850	1850	1865	1872	0	1900
Total Imports	175	175	165	180	0	182
Total Supply	2025	2025	2030	2052	0	2082
Total Exports	228	228	250	255	0	290
Human Dom. Consumption	1792	1792	1780	1792	0	1792
Other Use, Losses	5	5	0	5	0	0
Total Dom. Consumption	1797	1797	1780	1797	0	1792
Ending Stocks	0	0	0	0	0	0
Total Distribution	2025	2025	2030	2052	0	2082

(1000 HEAD), (1000 MT CWE)

Not Official USDA Data

Policy:

Cattle and Beef

On June 8, 2016, the Secretariat of Economy (SE) published in Mexico's Federal Register (*Diario Oficial* - DOF) a decree establishing tariff rate quotas (TRQ) for the import of live cattle for feeding purposes, and fresh, chilled, and frozen beef from countries with whom Mexico has no free trade agreements.

The decree established that Mexico is not self-sufficient and must supplement its domestic beef production through imports. It is important to note that the text of the decree emphasizes the need to enforce measures that could guarantee the stability of the market given possible fluctuations in the availability of cattle and a potentially limited beef supply.

As a result, SE's decree lays the groundwork to establish a duty-free TRQ for the import of live cattle for feeding purposes and fresh, chilled, and frozen beef classified under HTS. 0102.29.99 (live cattle, other), 0201.10.01 (carcasses or half carcasses), 0201.20.99 (bone-in meat), 0201.30.01 (deboned meat), 0202.10.01 (carcasses or half carcasses), 0202.20.99 (bone-in meat), and 0202.30.01 (deboned meat).

Moreover, the text notes that, historically, Mexico's main beef supplier has been the United States, but that more recently high U.S. beef prices have slowed imports. Mexico remains the main live cattle supplier to the United States. Recently, due to liquidation of the domestic herd in the United States, attractive cattle prices have enticed Mexican cattlemen to increase exports, thus limiting the availability of cattle to supply the domestic market. Consequently, higher domestic beef prices have inhibited consumption, mainly in lower income consumers.

According to the decree, the GOM estimates that during the last five years, the average annual growth rate of beef production has been only 1.2 percent, while exports have grown nearly 15 percent and imports have decreased 10.2 percent, constraining availability and pushing up prices. Consequently, domestic consumption dropped to 0.7 percent. It is important to note that this decree is only a first step in the process to open a TRQ for these products, and to date there has not been any additional movement in that direction. For further details, please see [MX6025](#).

Commodities:

Animal Numbers, Swine

Production:

Mexico learns how to deal with PED permanently

Despite a recent recurrence of porcine epidemic diarrhea (PED) incidents, the enhanced control efforts combined with investments in herd genetic improvements will allow a marginal production increase to 19.3 million head in 2017. Increasing numbers of pigs per sow due to improved genetics and enlargement of the breeding herd will enable the sector to overcome PED impacts. Ending inventories are forecast to reach a record 10.8 million head.

Contrary to expectations, backyard farms facing PED challenges have reported fewer incidences than commercial farms that continue addressing the disease more intensively with improved biosecurity measures. Mexico lacks an effective vaccine and the one available in the U.S. has not been used effectively for controlling outbreaks. To date, virus control efforts have been relatively successful, though the threat remains.

Despite a strong U.S. dollar, imported improved genetics combined with lower feed prices continue to contribute to lower production costs across the production chain.

Trade:

Imports consist mainly of swine with new breeding lines aimed at increasing the number of weaning piglets per litter to offset the after effects of the PED outbreak. Imports are forecast to increase in 2017 to 30,000 head following the significant breeding swine purchases trend of 2015.

Production, Supply and Demand Data Statistics:

Animal Numbers, Swine Market Begin Year Mexico	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	9700	9700	9917	9917	0	10702
Sow Beginning Stocks	1150	1150	1180	1180	0	1210
Production (Pig Crop)	18000	18000	19200	19200	0	19360
Total Imports	42	42	25	25	0	30
Total Supply	27742	27742	29142	29142	0	30092
Total Exports	0	0	0	0	0	0
Sow Slaughter	15	15	15	15	0	17
Other Slaughter	17100	17100	17685	17685	0	18500
Total Slaughter	17115	17115	17700	17700	0	18517
Loss	710	710	740	740	0	750
Ending Inventories	9917	9917	10702	10702	0	10825
Total Distribution	27742	27742	29142	29142	0	30092

(1000 HEAD)

Not Official USDA Data

Commodities:

Meat, Swine

Production:

Production in 2017 is forecast 4.5 percent higher than 2016 at a record 1.44 million tons due to increased slaughter and heavier weights. Improvement in the breeding herd has bolstered productivity, spurring greater slaughter-ready supplies. Relatively low feed prices and new breeding lines have driven weights higher.

Consumption:

Consumption is forecast at a record of 2.27 million tons, 2.8 percent higher than the 2016 figure. Pork remains a lower cost alternative to beef, and is price competitive with poultry meat. Supported by increased production, imports, and affordable prices, per capita consumption is expected to reach nearly 19 kilograms. As consumers are increasingly aware that swine production systems are as reliable as those in the poultry and beef sectors, pork continues to gain consumer confidence as a healthy source of protein.

Trade:

Imports for 2017 are forecast at 1.0 million tons, nearly two percent higher than the revised figure for 2016. Although Mexico’s production is forecast higher, it must source product from imports to keep pace with rising consumption. Mexico’s main pork imports will remain hams and picnics from the

United States. Mechanically deboned meat (MDM) plays an important role as well. Given that an increase in U.S. production is expected, expected lower prices are likely to spur U.S. shipments to Mexico.

Exports are forecast at a record 170,000 tons. Mexico recently received recognition from Japan as free of Classical Swine Fever (CSF), and is now able to export pork from all states. Japan remains Mexico's top market by volume and value – a situation that is not expected to change. In addition, China also recently granted Mexico eligibility to export; this will undoubtedly contribute to increased exports.

Production, Supply and Demand Data Statistics:

Meat, Swine Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Slaughter (Reference)	17115	17115	17700	17700	0	18517
Beginning Stocks	0	0	0	0	0	0
Production	1323	1323	1385	1385	0	1448
Total Imports	981	981	1100	981	0	1000
Total Supply	2304	2304	2485	2366	0	2448
Total Exports	128	128	150	150	0	170
Human Dom. Consumption	2176	2176	2335	2216	0	2278
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2176	2176	2335	2216	0	2278
Ending Stocks	0	0	0	0	0	0
Total Distribution	2304	2304	2485	2366	0	2448

(1000 HEAD) ,(1000 MT CWE)

Not Official USDA Data

Author Defined:

FAS/Mexico Web Site:

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

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.

