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Mexico

DAIRY AND PRODUCTS SEMI-ANNUAL

Expansion of Dairy Heard Will Bolster Domestic Milk Production, Imports From the United States Will Remain Strong

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Report Highlights:
Climatological and economic factors are supporting expansion of the dairy herd and higher milk production in marketing year (MY) 2014. Post's production forecast for fluid milk is raised to 11.6 million metric tons (MMT) and the increased supply should trickle through to spur slight increases for cheese and butter production. This is likely to result in marginally smaller import volumes, but imports of dairy and dairy products from the United States will remain strong.

Commodities:
Dairy, Milk, Fluid

Production:
The Post MY2014 (January to December) fluid milk production forecast is increased to 11.6 MMT based upon domestic herd recovery as well as continued implementation of better production practices among vertically integrated producers, improved genetics from better yielding milk cows, and availability of forage in pasture lands. The Post fluid milk production estimate for MY2013 is revised marginally downward to reflect official data while the Post estimate for MY2012 is unchanged.

The availability of grain at attractive prices, water availability for use in confinement establishments, and pasture availability has allowed producers to consider, once again, expanding production. Water reservoirs and the water table in key producing areas has recovered and alleviated grazing pasture scarcity and quality issues. Additionally, in the second quarter of 2013, LICONSA increased the price paid to producers (see prices section) and this should bolster 2014 production levels.

Table 1. Mexico: Fluid Milk Production Volume by State for Calendar Years 2006-2013 and 2014 (through March) in Thousand Liters.

	2008	2009	2010	2011	2012	2013	2014*
AGUASCALIENTES	370,399	367,171	369,253	372,252	367,599	372,090	93,212
BAJA CALIFORNIA	193,422	179,795	174,027	181,190	159,231	158,096	42,685
BAJA CALIFORNIA SUR	46,451	46,104	44,323	41,144	40,566	39,417	10,254
CAMPECHE	35,029	36,271	36,146	36,364	38,424	38,168	9,470
COAHUILA	1,363,762	1,282,618	1,243,058	1,275,065	1,287,918	1,327,450	324,062
COLIMA	36,525	32,349	34,883	36,059	35,548	35,316	5,743
CHIAPAS	372,249	366,393	385,455	402,583	402,727	404,300	87,849
CHIHUAHUA	926,222	923,053	934,928	930,020	979,502	970,479	236,375
DISTRITO FEDERAL	12,322	13,652	13,643	13,784	12,678	14,187	3,364
DURANGO	1,036,581	959,716	1,001,137	997,155	1,037,913	1,015,624	242,359
GUANAJUATO	684,202	761,759	775,108	784,770	735,616	714,073	183,439
GUERRERO	81,552	84,157	86,892	83,764	88,809	89,696	17,607
HIDALGO	452,977	439,361	419,273	398,540	364,018	428,327	99,105
JALISCO	1,855,362	1,900,343	1,960,999	1,991,577	2,024,966	2,070,203	482,131
MEXICO	464,573	464,704	478,261	482,082	469,315	467,889	95,291
MICHOACAN	329,079	331,909	331,038	339,389	344,810	336,726	79,032
MORELOS	18,809	20,901	21,784	20,890	22,421	22,206	4,930
NAYARIT	61,974	60,130	60,742	60,104	55,779	42,422	9,151
NUEVO LEON	39,909	40,586	40,397	37,790	38,622	36,505	6,757
OAXACA	145,213	146,406	147,080	147,933	147,102	145,511	31,926
PUEBLA	384,285	395,211	403,100	404,132	422,768	429,299	108,148
QUERETARO	195,791	192,435	192,422	195,147	336,644	343,015	83,026
QUINTANA ROO	5,623	5,829	5,921	5,562	6,128	4,643	795
SAN LUIS POTOSI	141,828	132,285	130,899	128,772	125,820	124,690	30,562
SINALOA	93,779	95,943	102,081	105,875	102,519	93,466	23,885
SONORA	134,921	126,496	129,355	112,055	110,764	110,028	31,881
TABASCO	110,694	111,533	111,416	101,522	106,960	101,259	19,128
TAMAULIPAS	30,209	32,326	30,242	29,666	28,242	27,579	4,849
TLAXCALA	110,924	120,356	115,223	109,978	109,952	101,476	24,414
VERACRUZ	697,288	708,230	722,465	723,106	715,190	700,715	158,311
YUCATAN	5,608	4,366	3,441	3,153	3,009	2,530	598
ZACATECAS	163,293	166,655	171,703	172,867	159,310	159,386	44,793
TOTAL	10,498,994	10,549,038	10,676,691	10,724,288	10,880,871	10,926,771	2,595,134

*As of March 2014. Source: SIAP-SAGARPA, 2014.

Consumption:
The Post MY2014 total fluid milk consumption forecast (domestic and factory use) is revised upwards to 11.6 MMT based on anticipated production levels. The industry forecasts sustained consumption of added-value products for middle and upper income consumers with sustained support from LICONSA for lower income consumers. The Post MY2013 total fluid milk consumption estimate was revised downward slightly from the USDA estimate based on official Mexican production data. The estimate for MY2012 is unchanged.

Industry contacts indicate that total consumption of fluid milk is comprised of both fresh and Ultra High Temperature (UHG) milk. Fresh pasteurized milk consumption accounts for about 56 percent of fluid milk disappearance while 44 percent is UHT (Ultra High Temperature) milk. Due to energy/refrigeration costs, many retail establishments do not have large dairy cases for fluid milk and keep short supplies on hand with new product delivered several times per week. As such, it is often easier to work with UHT milk as it can be delivered and placed in retail aisles without the added cost of refrigeration.

The dairy industry has been responding to increased demand for specialized products, such as lactose-free products, high-calcium, and even reduced fat fluid milk products. Consequently, specialized dairy products continue gaining domestic market share and greater volumes of fluid milk are being directed to processing use.

Consumers, also, are switching to other prepared and processed dairy products such as probiotic and drinkable yoghurts. Trends suggest that consumers may switch back to or combine low-priced and traditional yoghurts if the functional benefits from consuming these preparations are not observed. In the same way as with low-priced fluid milk, low priced yogurts are gaining share among mid-income sector consumers. Fluid dairy preparations offering attractive prices, a full range of flavors, a longer shelf life, and nutritional and functional benefits have been the driving factors that support the consumption of these products.

Prices:
LICONSA announced a 0.6 pesos (U.S. $0.04) per liter increase in the price paid to producers for a final purchase price of 6.20 pesos (USD $0.47) per liter in the second quarter of 2013. This agreement entered into force in the second half of 2013 and as of the first quarter of 2014 there is no foreseeable change likely in 2014. On the consumer price side, LICONSA announced that the price of milk distributed to low-income households would be raised 0.5 pesos (U.S. $0.03) per liter for a final price of 4.50 pesos (U.S. $0.33). LICONSA has maintained this price during the first quarter of 2014.
According to official information from LICONSA, the daily distribution of fluid milk accounts 3.1 million liters in 1,949 municipalities across the country under the provisions of 33 Social Supply Programs. This represents a 10.2 percent share of the domestic production.

Trade:
The Post MY2014 import forecast of 42,000 MT is lower than the USDA official forecast based on the potential for increasing domestic production. The Post MY2013 fluid milk import estimate is based on

official data and reflects elevated international milk prices that curbed imports slightly below the USDA estimate. The MY2012 estimate remains unchanged at 39,000 MT.

The Post MY2014 fluid milk export forecast is now slightly higher at 11,000 MT as an increase in production will allow milk exports to rebound to previous levels. Post's MY2013 export estimate was revised upwards to 10,000 MT based on official export data and attractive international prices. MY2012 export estimates remain unchanged.

Stocks:

No stocks are held due to the lack of refrigeration or storage space among producers and end-users. As such, end-users utilize just-in-time delivery for those products which enter value-added processes.

Production, Supply and Demand Data Statistics:

Table 2. Mexico: Post Fluid Milk Production, Supply, and Demand Analysis

Dairy, Milk, Fluid Mexico	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	6,350	6,350	6,300	6,300	6,300	6,350
Cows Milk Production	11,274	11,274	11,270	11,255	11,350	11,442
Other Milk Production	160	160	151	156	152	157
Total Production	11,434	11,434	11,421	11,411	11,502	11,599
Other Imports	39	39	45	42	45	42
Total Imports	39	39	45	42	45	42
Total Supply	11,473	11,473	11,466	11,453	11,547	11,641
Other Exports	13	13	8	10	9	11
Total Exports	13	13	8	10	9	11
Fluid Use Dom. Consum.	4,168	4,168	4,171	4,160	4,209	4,180
Factory Use Consum.	7,292	7,292	7,287	7,283	7,329	7,450
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	11,460	11,460	11,458	11,443	11,538	11,630
Total Distribution	11,473	11,473	11,466	11,453	11,547	11,641
1000 HEAD, 1000 MT						

Commodities:

Dairy, Cheese

Production:

The new Post MY2014 total cheese production forecast is 275,000 MT reflecting increased availability of fluid milk and stable demand for aged and fresh cheeses and cheese products. The Post MY2013 and MY2012 cheese production estimates remain unchanged.

Consumption:

The Post MY2014 total cheese consumption forecast is virtually unchanged at 365,000 MT as demand for aged cheeses is expected to remain stable among high-middle and high-income consumers. Moreover, low and lower-middle income consumers will maintain their demand for fresh cheese products. The MY2013 and MY2012 consumption estimates were revised downward from the USDA estimates based on lower import volumes, which, in turn, limited consumable supplies.

Trade:
The Post MY2014 revised cheese import forecast is 95,000 MT as fluid milk availability will allow for increased domestic production and substitute for imports. Post's MY2012 and MY2013 import estimates were lowered downwards reflecting official trade data.

The Post MY2014 cheese export estimate is revised marginally upwards to 5,000 MT as Mexican cheese manufacturers are expanding to foreign markets. Post's MY2013 export estimate is increased slightly based on official data and the MY2012 export estimates is unchanged.

Production, Supply and Demand Data Statistics:
Table 3. Mexico: Post Cheese Production, Supply, and Demand Analysis

Dairy, Cheese Mexico	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	264	264	270	270	270	275
Other Imports	89	81	100	91	100	95
Total Imports	89	81	100	91	100	95
Total Supply	353	345	370	361	370	370
Other Exports	4	4	4	5	4	5
Total Exports	4	4	4	5	4	5
Human Dom. Consumption	349	341	366	356	366	365
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	349	341	366	356	366	365
Total Use	353	345	370	361	370	370
Ending Stocks	0	0	0	0	0	0
Total Distribution	353	345	370	361	370	370
1000 MT						

Commodities:
Dairy, Butter

Production:
The Post MY2014 butter production forecast is revised upwards to 190,000 MT owing to the availability of fluid milk and sustained demand from consumers for specialized products. The Post MY2013 estimate was revised upwards based on industry data and the steady demand for these products. The MY2012 estimate for butter production is unchanged and reflects industry data.

Consumption:
The new Post MY2014 butter and butterfat consumption forecast is revised upward, marginally, from the USDA official estimate to 240,000 MT based on stable demand for domestic and imported product by the bakery and confectionary sectors. The Post estimate for MY2013 was revised downward based on trade flows and official data. The MY2012 consumption estimate is revised downward from the USDA official estimate based on official production and trade data.

Trade:
Although available year to date data does not suggest stronger import volumes over the pace of the preceding year, the Post MY2014 import estimate for butter (HTS 040510) and butterfat (HTS 040590)

is 55,000 MT due to sustained demand from the bakery and confectionary sectors; especially in the latter part of the year. The Post MY2013 import estimate was revised downward from the official MY2013 USDA estimate as the processing industry's strong demand for butter and butterfat for the preparation of bakery and confectionary products was covered by domestic production. The import estimate for MY2012 is revised lower based on official data.

Mexican butter and butterfat exports are beginning to emerge in trade data. The volume is forecast at levels greater than the USDA forecast, but still just barely registers. MY2013 and MY2012 export estimates are based on official data.

It is forecast that New Zealand and Australia will continue being the principal suppliers of butter and butterfat to Mexico while the United States maintains its market share.

Production, Supply and Demand Data Statistics:

Table 4. Mexico: Post Butter Production, Supply, and Demand Analysis

Dairy, Butter Mexico	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	190	190	185	190	185	190
Other Imports	37	30	55	40	55	55
Total Imports	37	30	55	40	55	55
Total Supply	227	220	240	230	240	245
Other Exports	1	1	2	5	2	5
Total Exports	1	1	2	5	2	5
Domestic Consumption	226	219	238	225	238	240
Total Use	227	220	240	230	240	245
Ending Stocks	0	0	0	0	0	0
Total Distribution	227	220	240	230	240	245
1000 MT						

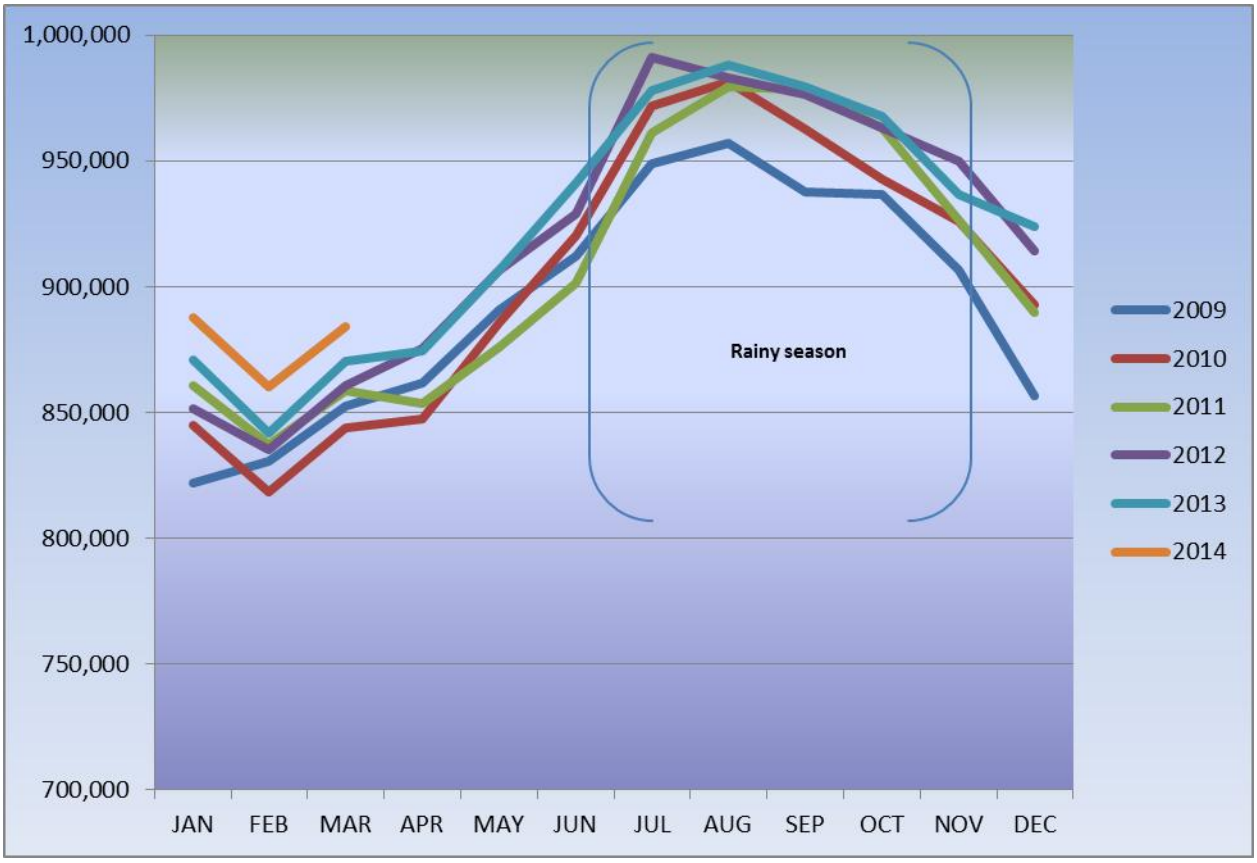
Commodities:

Dairy, Milk, Nonfat Dry

Production:

The Post MY2014 production forecast for Non-fat Dry Milk (NFDM) remains unchanged at 55,000 MT. As previously reported, NFDM is manufactured in substantial volumes only when there is seasonal overproduction of fluid milk during Mexico's rainy season. Ample rains are expected to help pasture lands and water reservoirs recover. Even with increased fluid milk production, however, demand by other dairy subsectors could limit NFDM production growth. Post's MY2013 and MY2012 NFDM production estimates are unchanged and based on official information from SAGARPA.

Chart 1. Mexico: Milk Production Trends by Month in Million Liters for 2009 to 2014 (partial)



Source: SAGARPA/SIAP

Consumption:
The Post NFDM MY2014 consumption forecast remains unchanged from the USDA official forecast of 265,000 MT. The Post consumption estimate for MY2013 was revised marginally downward given reduced availability from slightly smaller imports that are attributable to strong international prices. The Post consumption estimate for MY2012 is unchanged.

As previously reported, industry sources state that the principal consumers of NFDM are dairy processors who reconstitute the material and sell it as pasteurized or UHT milk. Also, the confectionary industry continues using small quantities of NFDM in their processes.

Trade:
The Post MY2014 import forecast for NFDM remains unchanged from the USDA official forecast even though year to date import volumes are not keeping pace with the previous year. The MY2013 estimate is revised marginally downward to reflect official trade data. The MY2012 import estimate is unchanged.

No exports remain forecast for MY2014. Also, no exports were recorded in MY2013 or MY2012.

Production, Supply and Demand Data Statistics:
Table 5. Mexico: Post Nonfat Dry Milk Production, Supply, and Demand Analysis

Dairy, Milk, Nonfat Dry Mexico	2012	2013	2014

	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	55	55	55	55	55	55
Other Imports	236	236	200	198	210	210
Total Imports	236	236	200	198	210	210
Total Supply	291	291	255	253	265	265
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	291	291	255	253	265	265
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	291	291	255	253	265	265
Total Use	291	291	255	253	265	265
Ending Stocks	0	0	0	0	0	0
Total Distribution	291	291	255	253	265	265
1000 MT						

Commodities:

Dairy, Dry Whole Milk Powder

Production:

The Post MY2014 dry WMP production forecast remains unchanged at 150,000 MT. Although increased fluid milk production is forecast, the dry WMP subsector will have to compete for this supply with others in the processing industry to produce added-value products. The MY2013 and MY2012 estimates are unchanged.

Consumption:

The Dry WMP consumption forecast for MY2014 remains unchanged at 157,000 MT. The Post MY2013 estimate was revised marginally higher owing to increased imports. The Post MY2012 consumption estimate was kept unchanged from the USDA official estimate at 154,000 MT.

Trade:

The Post MY2014 import forecast remains unchanged as LICONSA continues purchasing domestic milk rather than imported dry WMP. MY2013 import estimates were revised upward to reflect official data. The MY2012 import estimate is unchanged.

Post's MY2014 export estimate of WMP is maintained at 5,000 MT. During MY2012 and MY2013 exports were stable and remain unlikely to change in MY2014.

Private sources indicate that the dairy industry is strong and capable of increasing their export capacity for dry WMP. This rests on the availability of fluid milk and whether surpluses are directed for other processed milk products. Post's MY2013 and MY2012 export estimates are unchanged and reflect official data.

Production, Supply and Demand Data Statistics:

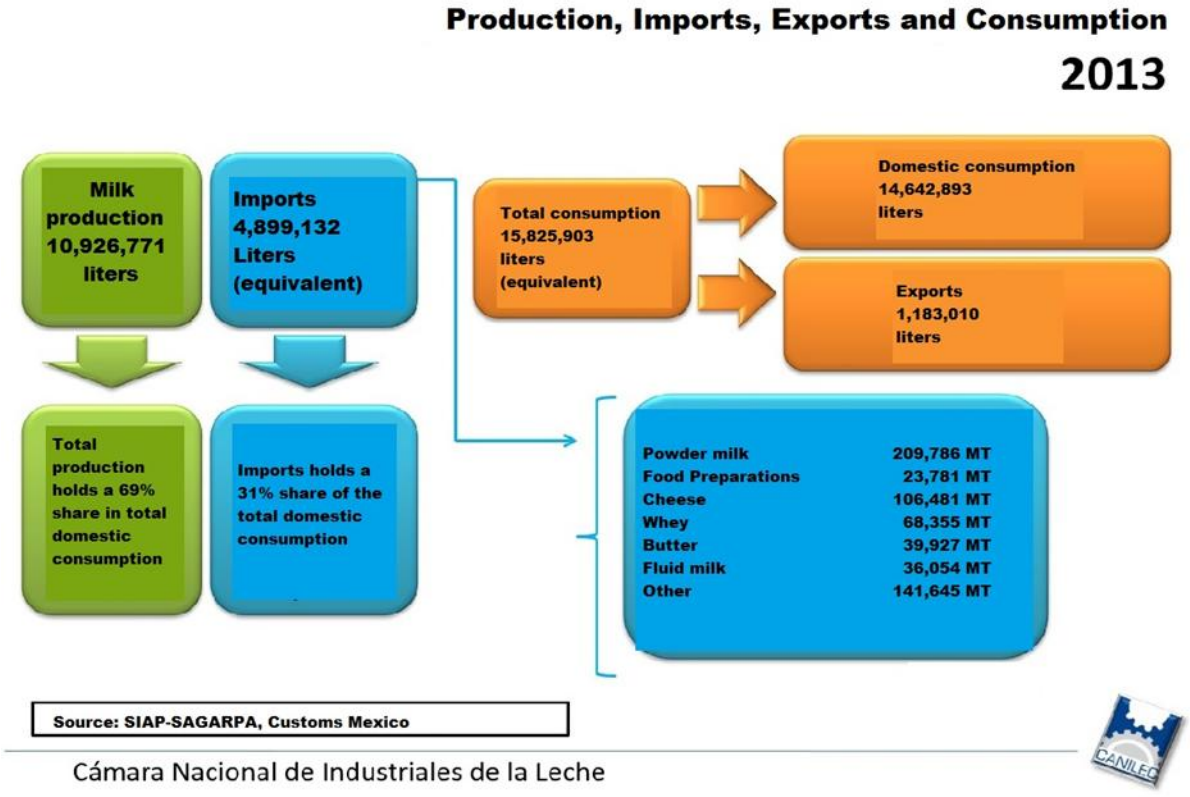
Table 6. Mexico: Post Dry Whole Milk Powder Production, Supply, and Demand Analysis

Dairy, Dry Whole Milk Powder Mexico	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Beginning Stocks	0	0	0	0	0	0
Production	150	150	150	150	150	150
Other Imports	9	9	10	11	12	12
Total Imports	9	9	10	11	12	12
Total Supply	159	159	160	161	162	162
Other Exports	5	5	5	5	5	5
Total Exports	5	5	5	5	5	5
Human Dom. Consumption	154	154	155	156	157	157
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	154	154	155	156	157	157
Total Use	159	159	160	161	162	162
Ending Stocks	0	0	0	0	0	0
Total Distribution	159	159	160	161	162	162
1000 MT						

Image 1. Mexico: Industry Breakdown on Milk Supply and Distribution

The following chart shows production, trade, and demand trends as portrayed by the National Chamber of Milk Industrials (CANILEC). NOTE: The data does not represent Post nor USDA data but offers a representative illustration of the dairy marketing channel.



Policy:

General Tariffs

Currently, all U.S. dairy products enter Mexico duty-free.

Labeling

The Mexican Government has proposed new food product labeling requirements. This is reportedly due to Mexico's high incidence of adults and children being overweight or obese. The Mexican dairy sector is monitoring the proposal but has not highlighted any specific concerns as many industry players are uncertain about the scope of the Mexican government proposal.

Market Access

The United States enjoys broad access to the Mexican market, but U.S. exports of unpasteurized milk to Mexico have been disrupted since May 2012. The milk was being exported to Mexico for pasteurization and use in Mexico during seasonal shortfalls or periods of tight Mexican supply for processing use. The United States and Mexico are continuing to negotiate the language and review the criteria by which trade in this product can resume.

Author Defined:

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.

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Report Number	Subject	Date Submitted
MX4005	Mexico Announces the 2014 TRQ for Milk Powder Imports from WTO Member Countries	1/15/2014
MX4004	Mexico Announces the 2014 TRQ for Dairy Blends Imports from WTO Member Countries	1/15/2014

MX3076	Dairy Annual – Another Billion Plus Year for U.S. Dairy among Domestic Stability	10/28/2013
MX3042	Dairy Semi-Annual: Production and Consumption Growing with Record Trade	5/24/2013
MX3025	Mexico and U.S. Ag Trade Relationship Broad and Deep	3/21/2013
MX3005	Mexico Pushes Crusade Against Hunger Campaign	1/29/2013
MX2097	Milk Powder TRQ Announced – Little Effect on U.S. Forecast	12/21/2012
MX2096	Dairy Blends TRQ Announced – Little Effect on U.S. Forecast	12/21/2012
MX2074	Dairy and Products Annual – High Input Prices Continue to Pressure Domestic Production	10/26/2012
MX2031	New NOMS for Dairy Products May Shift Import Patterns	5/16/2012
MX2028	Dairy and Products Semi-Annual	5/14/2012
MX1106	Dairy Blends TRQ Announced	12/30/2011
MX1105	Milk Powder TRQ Announced	12/30/2011
MX1083	Dairy and Products Annual	11/14/2011

Commodities: