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Mexico

Livestock and Products Annual

Higher Pork Consumption Drives Production as Mexico Increases Exports of Pork and Beef

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Report Highlights:
Mexico's livestock industry is set to increase production into 2020 as the beef and pork sectors expand exports. While domestic consumption of beef is down, the beef industry continues its steady growth as it dramatically increased exports in the first part of the year. The pork industry will increase production to meet higher domestic demand as consumers switch to more affordable proteins. The pork sector in particular is looking to increase exports to China and other countries in the wake of continued animal health outbreaks in Asia.

Commodities:

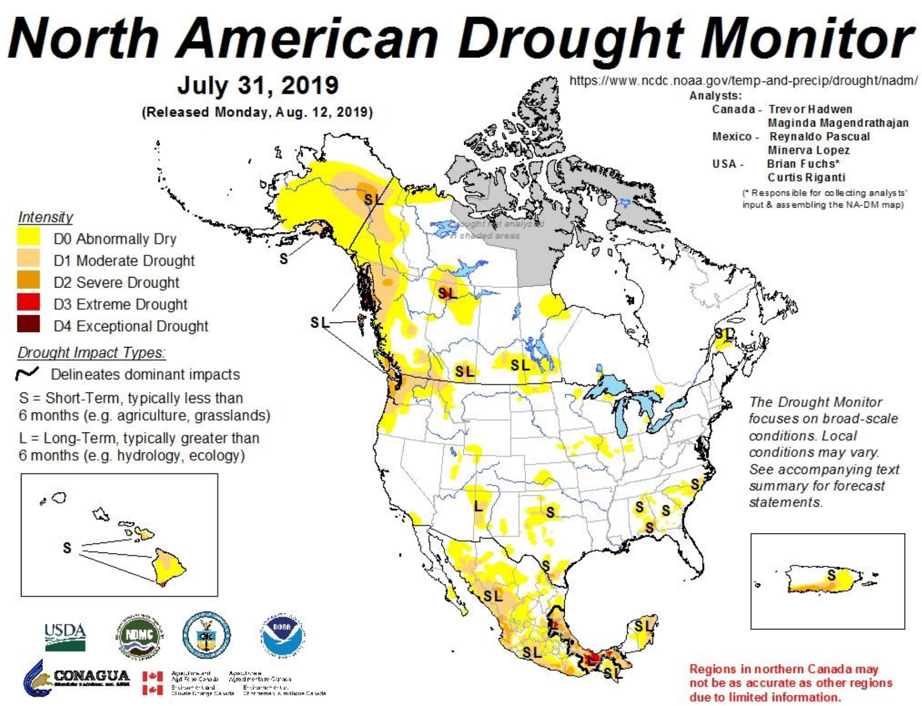
Animal Numbers, Cattle
Meat, Beef and Veal
Animal Numbers, Swine
Meat, Swine

Animal Numbers, Cattle

Production

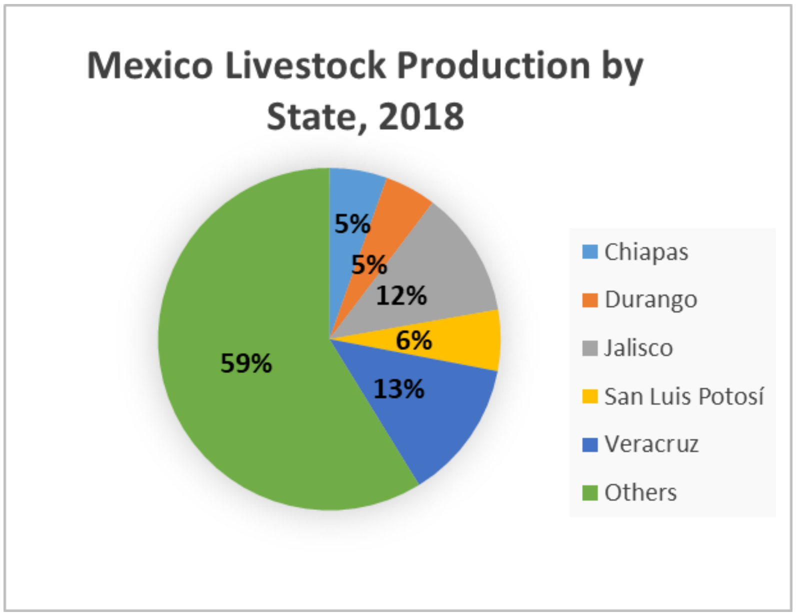
Mexico is forecast to continue to see modest growth in its herd in 2020. The calf crop is forecast to increase to 8.1 million head coming off expansion of the breeding herd (dairy and beef) in the prior year. The breeding herd is forecast to continue expansion in 2020.

While abnormally dry conditions are currently being experienced in much of Mexico, areas of drought are limited. Relative stability in feed prices allow production to grow at a relatively steady pace. With only a slight elevation in feed prices expected for 2020, cattle production should continue to benefit from steady input prices. Industry reports that stable and low grain prices are allowing Mexican feedlot producers to extend the finishing phase from 3-4 months to 5-6 months, resulting in higher weights in commercial production.



According to the Mexican Cattlemen's Association (AMEG), prices for livestock for domestic consumption in June 2019 were an average of 47.5 pesos/kilo for steers and an average of 41.3 pesos/kilo for heifers. This represents a small price decrease from the last quarter of 2018, when the price was 48.50 pesos/kilo for steers. However, the relative stability in prices is allowing producers to maintain growth in their herds without pressure to slaughter or export cattle. Slaughter as a percent of inventory is forecast to remain at 37 percent (the same as from 2017 to 2019). While exports are forecast slightly higher, shipments are expected to be in-line with growth in the herd.

Livestock production in Mexico is divided into two systems: grain fed which is mainly used in the northern states, and grass fed which is mainly used in the southern states. The Bajio or center states use a mixed system depending on the availability and cost of feed.



The main livestock producing states are Veracruz with 13 percent of production, followed by Jalisco (12 percent), San Luis Potosi (6 percent), Chiapas (5 percent) and Durango (5 percent). However, most of the fattening or finishing of the livestock is done mostly in the northern states where feedlots are established and have the necessary infrastructure.

Source: SIAP database

Trade

Imports

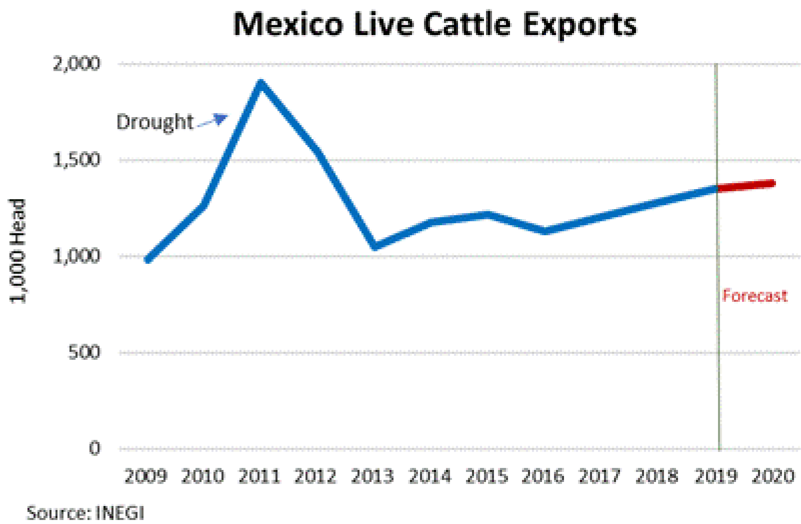
Live cattle imports are forecast at 28,000 head as the number of imported beef cattle for slaughter is expected to remain relatively flat. Cattle imports are forecast at 27,000 head for 2019.

The United States continues to be the main supplier of live cattle to Mexico, providing 97 percent of all imports with the remainder supplied by Canada. Imports are generally for herd (beef and dairy) improvement.

During the first quarter of 2019, Mexican importers have not requested any import authorizations for cattle for slaughter purposes from the United States. Mexican companies often find it difficult to comply with the traceability requirements from Mexico's National Service for Food Health, Safety and Quality (SENASICA). While SENASICA wants export certificates to include the tag numbers for each individual group of cattle that are presented for slaughter, U.S. health exports certificates usually contain identification information for large groups of animals. These certificates may not be accepted by SENASICA inspectors at the slaughter facility.

Exports

Mexican exports of live cattle are shipped almost exclusively to the United States, with insignificant volumes to Belize and El Salvador. Mexican live cattle exports, which have been rising since 2016, will continue modest expansion in 2020 driven by slightly higher prices stemming from U.S. demand. Shipments are forecast at 1.35 and 1.38 million head in 2019 and 2020, respectively.



According to official data, exports in the first half of 2019 were 21 percent higher than during the same period in 2018. This increase in exports is due to a 2 percent rise in prices for export livestock largely on strong demand from American feedlots. However, prices have stabilized since mid-June as demand has decreased during the present fattening cycle.

AMEG estimates that out of the estimated 1.35 million cattle to be exported in 2019, between 250,000 and 300,000 will be heifers and the remaining share will be steers. Higher exports of steers will allow more heifers to be available for Mexican calf crop production in 2020.

Animal Numbers, Cattle	**2018**		**2019**		**2020**	
Market Begin Year	**Jan 2018**		**Jan 2019**		**Jan 2020**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Total Cattle Beg. Stks	16584	16584	16699	16699	0	16900
Dairy Cows Beg. Stocks	3400	3400	3450	3450	0	3500
Beef Cows Beg. Stocks	7500	7500	7700	7700	0	7900
Production (Calf Crop)	7700	7700	7900	7900	0	8105
Total Imports	24	24	27	27	0	28
Total Supply	24308	24308	24626	24626	0	25033
Total Exports	1278	1278	1350	1350	0	1377
Cow Slaughter	1350	1350	1370	1370	0	1390
Calf Slaughter	240	240	250	250	0	260
Other Slaughter	4590	4590	4630	4630	0	4675
Total Slaughter	6180	6180	6250	6250	0	6325
Loss and Residual	151	151	126	126	0	131
Ending Inventories	16699	16699	16900	16900	0	17200
Total Distribution	24308	24308	24626	24626	0	25033
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Policy

Government Cattle Credit Program

Since taking office on December 1, 2018, Mexican President Andrés Manuel López Obrador and his administration announced a series of new government support programs aimed at reducing poverty and improving productivity and incomes of small agricultural producers in Mexico's poorest areas.

One of these programs is the Livestock Credit Program (Crédito Ganadero a la Palabra), which plans to provide livestock (cattle, sheep, goats, bees, etc) to increase the productivity of small producers. President Lopez Obrador stated that one of the goals of this program is to repopulate the Mexican cattle herd in the poorest Mexican states.

Cattle and other livestock for the program will be provided from gathering corrals established in the southeast states, from which the cattle are distributed to small producers registered as beneficiaries. Program participants agree to use those animals for reproductive purposes and to return the progeny to the program to benefit other recipients. However, the program has seen a slow start, as the number of heifers available for the program are small.

Traceability Program

Although the Mexican government still supports the National Animal Identification System (SINIDA) to improve traceability in its cattle herd, it has withdrawn most of its financial support for the program. However, the National Confederation of Cattlemen Organizations (CNOG) continues to support the registration program in accordance with the federal plan, "National Agreement for Animal Traceability 2018-2024." While the dairy industry is further ahead of the beef industry in registering its cattle because of the smaller size of its herd, the beef industry has begun to close the gap in implementation by tagging animals at an earlier stage, before the animals enter feedlots.

Cattle are given ear tags at privately owned "designated corrals" which gather cattle eligible for export purposes throughout the country. These corrals are certified and supervised by SENASICA, which tests for tuberculosis and brucellosis before cattle are allowed to enter feedlots. The slaughter stage presents an additional incentive for registering animals because SENASICA authorities will reject cattle if they are presented for slaughter without an ear tag.

Meat, Beef and Veal

Production

Beef production in 2020 is forecast at nearly 2.1 million metric tons (MMT), as the beef industry expects to continue its slow but steady rate of just over 2 percent during the next year. Production has increased 2 to 3 percent per year since 2016. The Mexican beef industry wants to continue with its steady but cautious growth to avoid overproduction and a subsequent drop in beef prices.

Mexican beef production is concentrated in five states, with 42 percent of all beef produced in Veracruz, Jalisco, San Luis Potosi, Chiapas, and Sinaloa.

The National Association of TIF (Federally Inspected) establishments (ANETIF) reports that 60 percent of beef in Mexico was processed in a TIF facility in 2016 and sold through distribution chains to supermarkets and chain stores. The share of production generated by TIF plants demonstrates that the packing industry is continuing to evolve and mature. Even though Mexican producers no longer receive government subsidies for cattle processed at federally inspected TIF slaughter facilities (see MX9003 for more information), TIF establishments continue to adopt new technologies and transform their processes in order to become more efficient and profitable. They are also developing new products to offer both in the domestic market as well as for exports.

Consumption

Beef consumption in 2020 is forecast at 1.9 MMT. While consumption continues to grow, it is driven almost exclusively by population growth, as per capita consumption will remain unchanged. Due to elevated beef prices and slower income growth, consumption growth in 2019 and into 2020 will be limited to a mere one percent. Thus beef consumption in 2019 is revised lower to 1.89 MMT.

As a higher cost protein, beef consumption is concentrated among middle and high-income consumers. However, gross domestic product (GDP) growth in Mexico in 2020 is expected to be relatively limited. Consumer spending will be constrained, as purchasing power decreased by 14 percent from 2018 to date. As a result, some middle class consumers are switching some of their purchases to lower-priced proteins such as pork or poultry. Although the domestic industry has developed lower-cost beef products, such as tenderized shank cuts, to appeal to cost-conscious consumers, beef per capita consumption of beef has stalled. According to official numbers, a kilo of beef in June of 2019 decreased in price an average of 0.5 percent from June 2018. However, consumers still perceive beef as expensive and therefore unaffordable.

Trade

Imports

Beef imports are forecast at 228,000 metric tons (MT) and 215,000 MT in 2020 and 2019, respectively, reflecting 6 percent growth each year. Mexico continues to import flanks, plate, shank and other low value cuts for processing such as enhancing or mincing. Imports of lower-valued cuts should experience higher demand as Mexico needs supplies for processing to offset rising exports of higher-value products. The imported high value cuts like rib eyes, New York strips and T-bones continue to be offered by some big retailers or in the restaurant and hotel industry. However, volumes are relatively small as the population that can afford the high prices shrinks.
The United States supplies about 80 percent of Mexico's beef imports followed by Canada (9 percent) and Nicaragua (9 percent).

Exports

Exports are forecast at 396,000 MT and 360,000 MT in 2020 and 2019, respectively. Although exports had a record growth of 20 percent in the first quarter of 2019, industry expects slower shipments through the remainder of the year and for growth to stabilize at an annual growth of 16 percent. Weaker export growth will persist in 2020, generating a growth rate of only 10 percent.
The United States and Mexico have a complementary trade, as Mexico imports low cost cuts and exports high value cuts such as loins and sirloins. Mexican exports grain-fed beef, which is similar to U.S. product and appealing to the American consumer. Mexico beef exports also tend to be smaller

portion sizes or leaner cuts, which allows Mexican cuts to be advertised as a healthier type of beef.

The United States is the main destination for Mexican beef with 86 percent share of Mexico's total exports. Conversely, Mexico accounts for about 17 percent of U.S. beef imports. The remainder of Mexico's beef exports are accounted for by Japan (6 percent), Hong Kong (4 percent) and South Korea (2 percent). While Asian markets are still a relatively small portion of trade, they demonstrate the Mexican beef industry's objective to diversify their market.

Meat, Beef and Veal	**2018**		**2019**		**2020**	
Market Begin Year	**Jan 2018**		**Jan 2019**		**Jan 2020**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Slaughter (Reference)	6180	6180	6250	6250	0	6325
Beginning Stocks	0	0	0	0	0	0
Production	1980	1980	2030	2030	0	2070
Total Imports	202	202	215	215	0	228
Total Supply	2182	2182	2245	2245	0	2298
Total Exports	310	310	340	360	0	396
Human Dom. Consumption	1872	1872	1905	1885	0	1902
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1872	1872	1905	1885	0	1902
Ending Stocks	0	0	0	0	0	0
Total Distribution	2182	2182	2245	2245	0	2298
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Policy

Mexico Ratifies New U.S.-Mexico-Canada Trade Agreement

On June 19, 2019, Mexico became the first country to ratify the new U.S.-Mexico-Canada Agreement (USMCA) free trade agreement. The United States and Canada must still ratify the agreement. Under the new USMCA, duty-free access for all food and agricultural products that were at zero tariff under North American Free Trade Agreement (NAFTA) will continue.

Beef Grading Program

The Mexican beef-grading program has been postponed by at least two years, as the beef industry has decided not to pursue implementation during an economic slowdown. The industry is hoping that this program will promote Mexican beef at restaurants and hotels as a high-value product, providing consumers with beef that has marbling and quality similar to those of imported products.

Animal Numbers, Swine

Production

The forecast for swine production in Mexico for 2020 is 19.9 million head, with domestic pork production continuing to grow because of increasing demand for pork consumption. The industry expects that its vertical integration of farms, along with adoption of new technologies and improved biosecurity measures will help the industry grow at approximately three percent growth into 2020. The forecast for 2019 is 19.25 million head.

Almost 70 percent of swine production is concentrated in five states: Jalisco has the largest share of production (21 percent), followed by Sonora (18 percent), Puebla (11 percent), Yucatan (10 percent) and Veracruz (9 percent). The animal feed industry reports that the pork industry used 17 percent (6.8 million MT) of total domestic feed production in 2018. They forecast that feed use by the pork industry will be 7.8 million MT by 2020.

Currently, Mexico has three main types of pig production systems:

- Intensive – This type of production system is both vertically and horizontally integrated and the most technologically advanced, receiving ongoing consultation in breeding and nutrition from specialized firms. These facilities perform 100 percent artificial insemination, have advanced biosecurity procedures and animal traceability until slaughter, and produce animals suitable for export. About 20-30 percent of Mexican swine production is in this category.

- Low intensity – Those production systems have differing levels of technology and animal breeding with generally acceptable production parameters and sanitary measures, although animal traceability is not always maintained. This type of production accounts for about 10 percent of Mexican swine farms.

- Family farming – Usually found in rural populations, pig production generally does not involve specialized animal breeding. Slaughtered animals are used for household consumption or sale in local markets. About 60-70 percent of swine farmers in Mexico fall into this category.

Trade

Imports

The forecast for imports of live swine in 2020 is 39,000 head. The number of live swine imports have been slowly rebuilding after a decrease in 2018. The forecast for imports of live swine in 2019 is 36,000 head.

Live swine imports are mainly used for breeding purposes as Mexican producers seek to improve the genetic pool and increase herd efficiency. The United States is the main provider of live swine imports with a 72 percent share of the import market, followed by Canada with the remaining 28 percent.

Exports

The exports of live swine continue to be insignificant, as only 73 head were exported during 2018 to Belize. High domestic demand for pork continues to monopolize swine production and discourages exports.

Animal Numbers, Swine	**2018**		**2019**		**2020**	
Market Begin Year	**Jan 2018**		**Jan 2019**		**Jan 2020**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**

Total Beginning Stocks	10410	10410	10700	10700	0	11050
Sow Beginning Stocks	1190	1190	1205	1205	0	1220
Production (Pig Crop)	18650	18650	19250	19250	0	19885
Total Imports	33	33	36	36	0	39
Total Supply	29093	29093	29986	29986	0	30974
Total Exports	0	0	0	0	0	0
Sow Slaughter	15	15	15	15	0	15
Other Slaughter	17585	17585	18085	18085	0	18592
Total Slaughter	17600	17600	18100	18100	0	18607
Loss and Residual	793	793	836	836	0	877
Ending Inventories	10700	10700	11050	11050	0	11490
Total Distribution	29093	29093	29986	29986	0	30974
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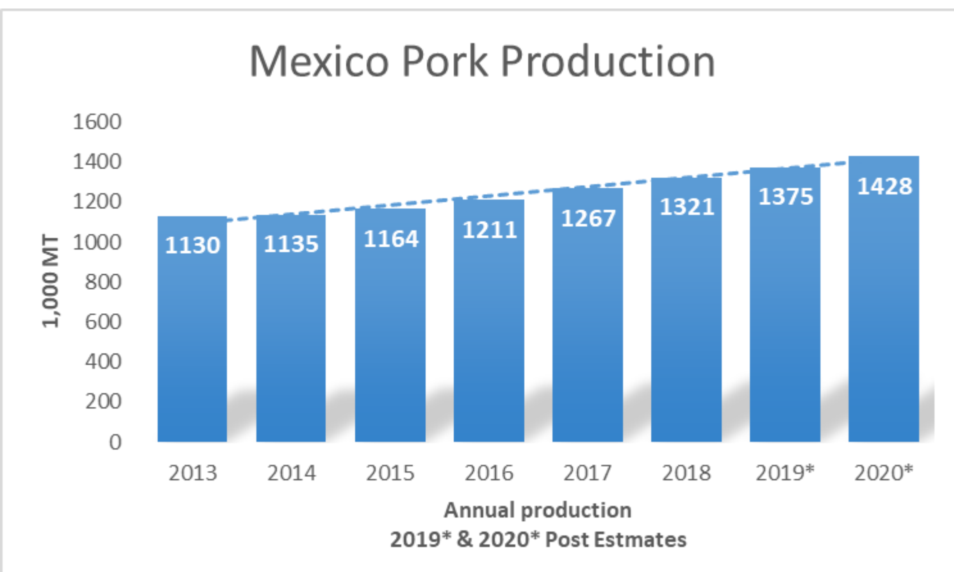
Meat, Pork

Production

Pork production in 2020 is forecast at 1.4 MMT, with high consumer demand driving increased production. Pork remains the second most important source of animal protein for the Mexican consumer after poultry. Pork production in 2019 is forecast at 1.38 MMT.

During the first six months of 2019, domestic pork production of pork was 6.4 percent greater during the same period in 2018, although production is expected to stabilize to 4 percent by the end of the year. The domestic industry estimates that production will likely grow by four percent in 2020 as demand continues to raise.



Data Source: National Association of TIP Establishments (ANETIF)

The states of Jalisco (21 percent) and Sonora (18 percent) are the two biggest producers of pork in Mexico. Puebla is the third largest pork producer with 12 percent of total production based on infrastructure modernization, vertical integration, and improved biosecurity in their facilities.

Like with cattle, Mexican pork producers no longer receive government subsidies for bringing their cattle to federally inspected TIF slaughter facilities. However, the number of swine brought for slaughter at TIF establishments did not decrease as much as the domestic industry feared because of the loss of subsidies. According to Mexican authorities, the slaughter of swine in TIF establishments has grown by 1.1 percent in the first two quarters of 2019, increasing the amount of pork production in compliance with food safety regulations for both domestic and export markets.

Consumption

The consumption forecast is 2020 is 2.5 MMT as consumer preference for pork is expected to grow an average of four percent yearly for the next two years. Consumption for 2019 is forecast at 2.4 MMT.

During 2018, domestic pork consumption accounted for more than 28 percent of animal protein intake. Poultry represents more than 60 percent of animal protein intake in Mexico and continues to dominate protein consumption. However, the domestic pork industry expects pork consumption to increase to 32 percent of protein intake by the end of 2019 as stable pork prices make pork a more attractive option to consumers.

Price continues to be the main driver for consumers' buying choices in Mexico. With middle-class consumers continuing to struggle with unemployment and lower incomes, many are switching from beef to more affordable proteins.

Mexico domestic pork consumption is also moving from intact cuts to added-value products. Processed and value-added products like ham, sausages and marinated ribs are sold in large retail stores and are growing in popularity; public markets tend to sell mostly primal, intact cuts. Pork continues to be the preferred protein for the Christmas holiday season in Mexico, with increased demand and higher prices from September through December.

Trade

Imports

The forecast for pork imports in 2020 are 1.28 MMT. Although Mexico's domestic production covers approximately 54 percent of demand, imports will continue to grow to meet increasing demand. Pork imports for 2019 are 1.24 MMT.

The United States remains the most important supplier of pork for Mexico, supplying almost 85 percent of Mexico's pork imports. Canada provides 14 percent of pork imports. Spain supplies less than one percent of the pork imports, typically providing high value products like jamón ibérico.

Retaliatory Tariffs Affected Pork Imports

Mexico lifted retaliatory tariffs on U.S. agricultural products on May 17, 2019, following the United States' removal of Section 232 actions against Mexican steel and aluminum products (see GAIN MX

9003). Under Mexico's retaliatory tariffs, U.S. pork (HS: 02031201; 02031999; 02032201; 02032999) faced a 20 percent duty (phased in during summer 2018, reaching 20 percent on July 5, 2018). Comparing the value of exports from July to December of 2017 and 2018, the United States saw market share drop from 88.4 percent to 75.9 percent, with Canada picking up the slack (11.6 percent to 21.7 percent of market share). New to market entrants Germany and Denmark held less than one percent of the market share. While imports of U.S. pork by volume decreased slightly during the same period, the magnitude was slight compared to the decrease in value. Overall, the value of U.S. pork to Mexico declined almost 37 percent in 2018. While the decline in value of pork shipments was not due entirely to the tariff, it appears that many U.S. exporters absorbed the tariff costs and reduced profit margins to remain competitive. Reports from industry suggest that U.S. pork exports to Mexico have since returned to normal, up 15 percent in volume after the removal of the tariffs. The recovery is displacing Canadian exports, which filled the gap by a similar amount last year.

The duty free tariff rate quota (TRQ) of 350,000 MT for pork from third countries that Mexico created to help increase supply saw little usage. Despite extensions, the TRQ saw less than one percent utilization in the first six months of 2019.

Exports

Exports of pork for 2020 are forecast at 198,000 MT, as Mexico looks to expand its exports into Asian markets. Pork exports in 2019 are increased to 190,000 MT.

Japan is the main export destination for Mexican pork, representing more than 73 percent of Mexico's total exports. The United States imports about 13 percent of Mexican pork, with Korea importing another 10 percent of the share.

Mexican pork producers are focusing on Asian markets to expand their export markets. Ongoing outbreaks of African Swine Fever (ASF) in China and other countries have changed traditional trade flows of pork products and provided opportunities for countries like Mexico to increase exports or develop new markets. Mexico exports mainly high-value and labor-intensive cuts to Asian markets, particularly to Japan. Mexico is looking to increase its exports to China and other Asian because of the drops in production from ASF. Mexico's exports to China have been growing and reached 1.6 percent of its total exports in 2018. According to the industry, exports to China during the first six months of 2019 are already 283 percent higher (almost 5,000 MT) than during the same period in 2018. Although volumes are still small, Mexico hope that exports will continue to grow as China struggles with reduced pork production due to ASF.

Meat, Swine	**2018**		**2019**		**2020**	
Market Begin Year	**Jan 2018**		**Jan 2019**		**Jan 2020**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Slaughter (Reference)	17600	17600	18100	18100	0	18607
Beginning Stocks	0	0	0	0	0	0
Production	1321	1321	1375	1375	0	1428

Total Imports	1188	1188	1235	1235	0	1284
Total Supply	2509	2509	2610	2610	0	2712
Total Exports	178	178	185	190	0	198
Human Dom. Consumption	2331	2331	2425	2420	0	2514
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2331	2331	2425	2420	0	2514
Ending Stocks	0	0	0	0	0	0
Total Distribution	2509	2509	2610	2610	0	2712
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FAS/Mexico Web Site:

We are available at www.fas.usda.gov/regions/mexico 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 (SADER, formerly SAGARPA) can be found at https://www.gob.mx/agricultura, equivalent to the U.S. Department of Commerce (SE) can be found at https://www.gob.mx/se/ and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at https://www.gob.mx/salud. 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.

Other Relevant Reports Submitted by FAS Mexico:

Report Number	**Title of Report**
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MX8028	Mexico Announces Retaliatory Tariffs Mexico