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Mexico

Poultry and Products Semi-annual

First \$1 Billion Poultry Market for American Exporters

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Report Highlights:

Mexican broiler production should continue increasing in 2013 in spite of disease issues and higher production costs that plagued the poultry sector for the second half of 2012. Imports from the United States are forecast to continue growing after a record 2012 year, as well. Nevertheless, increases in broiler meat consumption levels are stagnating as consumers switch to other protein sources and diversify their diet.

Executive Summary:

General

Data included in this report is not official USDA data. Official USDA data is available at the [PSD Online system](#).

Commodities:

Poultry, Meat, Broiler

Production:

Broiler meat

The Post estimate of Mexican commercial broiler meat production for 2013 is 2.975 MMT. This figure is slightly greater than the official USDA forecast of 2.95 MMT as well as post's revised estimate of 2012 broiler production, 2.965 MMT, due to continued consolidation of the sector which is driving increasingly modern production systems and higher volumes. As previously reported, the broiler sector was affected by severe drought in 2012 as well as by elevated international grain prices. Post's 2012 revised production estimate takes into account these issues and updated data from Mexico's poultry industry organization, the National Poultry Union (UNA), which indicated that year-over-year growth slowed. Post's 2011 estimate remains unchanged.

Biosecurity Measures and Feed Prices Continue Driving Poultry Production Costs Higher

Although feed is the greatest contributing factor to poultry production costs, biosecurity measures have recently become a key driver of production cost increases due to the highly pathogenic avian influenza (HPAI) outbreaks (See Policy Section) at layer operations detected in June 2012 (Jalisco) and January 2013 (Jalisco and Aguascalientes). Unlike recent times when competition from the swine and cattle sectors for feed corn and oilseed meal drove poultry production costs higher, now, it is the implementation of additional biosecurity measures that is squeezing producers.

With the HPAI outbreaks, the Mexican Government has launched biosecurity campaigns to increase awareness of the benefits of tight measures while also increasing surveillance to ensure that best practices are adopted to preserve and protect the flock's health. The implementation of these measures will undoubtedly increase costs, but feed continues representing more than 60 percent of production costs according to UNA and between 70 to 80 percent of the total cost of broiler production according to a research publication from the Trust Fund for Rural Development ([FIRA](#)).

The poultry sector continues to be the main industry group using vegetable proteins. During 2012, the poultry sector consumed 14.7 MMT of animal feed; of which, 9.26 MMT consisted of corn, sorghum and wheat; 2.94 MMT was of oilseeds meal, and the remaining 2.49 MMT was other ingredients.

Market Consolidation in the Mexican Poultry Sector Continues

In order to cope with increasing production costs in 2013, the poultry sector is expected to continue trending towards industrial and commercial integration to satisfy domestic market and consumer-led demand for higher-value products. Consolidation and vertical integration that have led to better

economies of scale appear to have offset the severity of high grain prices observed during 2012 and forecast for the beginning of 2013. As previously reported, consolidation and integration has enabled the more successful firms to continue improving operations that allow for greater yield efficiencies, decreased mortality, higher-live weights, and other production improvements.

Consumption:

The Post 2013 total consumption forecast is slightly higher than the official USDA forecast, but consumption growth is slowing and per capita consumption levels are relatively flat. “Dark meat” (e.g. chicken leg quarters – CLQs), as previously reported, continues to be consumers’ preferred poultry meat and is still consumed in higher volumes among low-income households. High-value cuts and added-value products are consumed by middle and upper income households. The Post 2012 consumption estimate is marginally higher than the USDA estimate and the 2011 estimate remains unchanged.

Government Stresses Broiler Meat Safety so as to Prevent Consumption Declines

Private sources indicate that the rate of growth for the consumption of poultry and poultry product in Mexico is slowing. Industry was especially concerned that misperceptions about poultry products safety after the HPAI outbreaks could exacerbate this and push consumption to decline in the short term. The Mexican government has continued stressing that the HPAI disease has no impact on the safety of broiler meat and the public seems to be responding accordingly.

During the December 2012 holiday season, broiler meat consumption showed a seasonal increase given that poultry meat continues to be one of the most affordable animal protein sources for low-income consumers. Sources confirmed that per capita consumption is expected to maintain similar levels as in years past unless the development of new added-value products leads to increased consumption. According to UNA, during 2012, per capita consumption was 25.87 kilograms and will be similar in 2013.

Poultry Price Competitive Even After Drought and Industry Crises Push Prices Higher

Historically, the demand for broiler meat has been income elastic. Moreover, it has been one of the most affordable animal protein sources (following eggs) for low-income consumers. For the first half of 2012, broiler prices showed greater variability than the year prior. This was attributed, largely, to high grain prices. For the second half of 2012, as a result of the HPAI outbreak in Jalisco, poultry prices in major consumer markets like Mexico City showed a significant increase as speculative middle-men appeared to be seeking short-term profits from the situation even though there was minimal impact on domestic broiler availability. For the first month of 2013, broiler prices averaged 29.48 pesos per kilogram (U.S. \$1.05 per lb.) while CLQ’s averaged 27.76 pesos per kilogram (U.S. \$0.99 per lb.) [1]. During the second half of 2012, prices for pork and beef were increasing and, as such, demand for poultry meat remained strong. Pork prices averaged 34.58 pesos per kilogram (U.S. \$1.19 per lb.) and beef prices averaged 45.51 pesos per kilogram (non-fine cuts at U.S. \$1.56 per lb.) [2].

Table 1. Mexico: 2011 and 2012 Mexico City Wet Market Broiler* Prices by Month in Pesos per Kilogram

Month	2011	2012	% Change 2011/12
January	23.18	25.68	10.8%
February	23.47	26.84	14.4%
March	20.69	24.95	20.6%

April	20.56	19.92	-3.1%
May	22.18	22.77	2.7%
June	23.89	24.51	2.6%
July	24.61	25.74	4.6%
August	22.55	24.58	9.0%
September	20.38	26.37	29.4%
October	19.75	27.67	40.1%
November	20.72	27.17	31.1%
December	24.01	28.40	18.3%
Annual Avg.	22.16	25.38	14.5%
* New York dressed (whole chicken including offal)			
Source: UNA			

Table 2. Mexico: 2011 and 2012 Mexico City Chicken Leg Quarter Prices by Month in Pesos per Kilogram

Month	2011	2012	% Change 11/12
January	25.40	30.59	20.4%
February	24.45	31.05	27.0%
March	22.28	26.17	17.5%
April	22.09	21.84	-1.1%
May	24.32	25.07	3.1%
June	27.44	25.21	-8.1%
July	30.07	28.19	-6.3%
August	29.02	24.27	-16.4%
September	21.70	24.39	12.4%
October	23.00	26.57	15.5%
November	23.45	28.18	20.2%
December	27.88	28.06	0.7%
Annual Avg.	25.09	26.63	6.1%
Source: UNA			

[1] January 2013 exchange rate at MX \$12.71 per USD \$1.00

[2] 2012 Average exchange rate at MX \$13.17 per USD \$1.00

Trade:

Imports Forecast to Keep Making Gains

The new Post 2013 import estimate is 640,000 MT, the same as the official USDA estimate. Although no duties are currently imposed on U.S. CLQs, uncertainty in the marketplace is delaying some buying and contracting decisions. This uncertainty coupled with stable per capita consumption and slightly higher production reinforces the prospects of a reduced rate of increase in broiler meat imports over 2012 even though poultry will remain much more competitive than beef or pork. The import estimate for 2012 was revised downward to reflect latest official data. Import figures for 2011 were kept unchanged.

Exporters Looking to Diversify Export Markets but Face Tough Zoosanitary Barriers

The Post 2013 export forecast is lowered to 8,000 MT as the HPAI outbreak in the State of Jalisco in mid-2012 and the recent January 2013 HPAI outbreaks in the States of Jalisco and Aguascalientes worked against Mexico gaining greater international market access. Mexico's current export destinations for poultry meat are considered by industry sources as being developed markets with little prospect for rapid increases in expanded trade. As such, the Mexican poultry sector plans to aggressively target other markets located in Asia and Central America. UNA has indicated that it is searching for markets in these areas with fewer zoosanitary restrictions in an attempt to increase exports and diversify destinations. The Post 2012 export estimate has been revised downward from the USDA estimate to 7,000 MT given the HPAI outbreak as previously described and the availability of official data. The 2011 export figure was kept unchanged to reflect official figures.

It should be noted that these estimates vary from official Mexican figures as Post eliminated trade from certain markets (e.g., Vietnam, Hong Kong, and other Asian markets) as industry sources report these markets often buy chicken parts (i.e., paws) that are not considered broiler meat

The U.S. Exported Roughly U.S. \$1 Billion in Poultry Products to Mexico in 2012

In 2013, the United States will remain the main supplier of poultry exports to Mexico. During the second half of 2012 approximately 98 percent of Mexico's chicken and turkey imports came from the United States. The remainder came from Chile and Canada. The same pattern was observed during 2011.

Although imports of poultry products are increasingly diversified, the top two products imported by Mexico are fresh or chilled mechanically deboned chicken meat and CLQs (both chilled and frozen). The first product is imported principally for domestic sausages and deli-style cold cuts and the second is imported for sale in supermarkets or restaurants.

Policy:

Antidumping (AD) Investigation into Imports of U.S. CLQs

The final resolution of the CLQ antidumping (AD) case will become a significant factor in how production and trade patterns evolve over 2013 and beyond. At this time, Mexico has chosen not to impose any duties on imported U.S. CLQs.

On August 6, 2012, the Government of Mexico (GOM) through the Secretariat of Economy (SE) announced the final resolution for the AD case on the import of U.S. CLQs and the imposition of compensatory duties for the import of these products. However, in light of the 2012 AI outbreak in the State of Jalisco and increased poultry and egg prices, SE determined that the compensatory duties would not be imposed until the supply and demand situation stabilized.

Imported broiler meat accounts for approximately 17 percent of total broiler meat supplies in Mexico (i.e., Post's 2012 import estimate of 610,000 MT of the total supply of 3,575,000 MT). Of the broiler meat imports, roughly 40 percent is fresh, chilled, or frozen CLQs from the United States (i.e., 40 percent of 610,000 MT or, 244,000 MT). Thus only about 7 percent of total Mexican broiler meat supplies (i.e., 244,000 MT of 3,575,000 MT) could be impacted by any final AD determination.

Poultry Industry Leaders Fined for Alleged Price Fixing

On November 2012, the Federal Commission for Competition - CFC (a Mexican Government Institution in charge of monitoring monopolistic practices) applied a fine of 3.16 billion pesos (U.S. \$248 million) on Bachoco (the leading poultry manufacturer in the country) and another company due to their alleged participation in price-fixing wholesale market prices in southern Mexico. More recently, in January 2013, CFC sanctioned Bachoco and the other company, again, for price-fixing in another part of southern Mexico with a joint fine of 4.6 billion pesos (U.S. \$361 million).

HPAI Outbreaks in Jalisco and Aguascalientes

On January 8, 2013, the National Service of Health, Food Safety, and Food Quality (SENASICA) informed the World Organization for Animal Health (OIE) of a newly detected, HPAI serotype H7N3 outbreak that occurred at two layer farms and the subsequent poultry depopulation in the State of Aguascalientes; located approximately 85 kilometers from the June 2012 HPAI outbreak in Jalisco. Then, again, on January 16, 2013, SENASICA informed the OIE of another newly detected, HPAI serotype H7N3 outbreak at two layer farms in the State of Jalisco. SENASICA has made a concerted public relations effort along with UNA to demonstrate that the situation is under control and that the virus is contained. In addition, the two parties are emphasizing the necessity of continuing to monitor poultry health.

Exotic Newcastle Disease (END)

As of February 4, 2013, the United States has not made any classification of areas where Mexico is considered to be free of or at low-risk of END. The U.S. Department of Agriculture, Animal and Plant Health Inspection Service (APHIS) recognition of Mexican states as eligible to export poultry products remains under discussion. If the United States recognizes Mexico or parts of Mexico as END-free, it could open a window for Mexican poultry exports to the United States when market signals function demanding specific products.

According to Mexico's animal health authorities, as of February 2012, almost the totality of the Mexican territory was allegedly free of END. It is expected that the GOM will publish the cancellation of Mexican Official Norm NOM-013-ZOO-1994 "National Campaign against the velogenic strain of END" in the near future after having recently released a draft communication in the Federal Commission for Regulatory Improvement (COFEMER, something akin to the U.S. Office of Management and Budget).

Marketing:

Mexican consumers are increasingly looking for healthy sources of protein, at affordable prices. To meet this demand, the United States and Mexican poultry industries work hand in hand to develop products that are tailored for Mexican consumers. There is high potential for growth in the poultry sector in Mexico and joint efforts are being made to develop new, low-cost and nutritious products catering to Mexican tastes.

Mexican processors are targeting the growing need for ready-to-eat and ready-to-consumer products demanded by national and regional supermarket chains. These value-added products use imported commodities that are further processed locally. Mexico is expanding production of high value poultry meat products for the local market using both imported and locally produced poultry ingredients. The highest potential for growth is in processed poultry meat products other than sausages and ham.

Imports of U.S. egg products, including liquid egg-mixes, into Mexico substantially increased in 2012. Some retailers and food service operators will continue handling both U.S. table egg and egg products. Larger imports of egg products were absorbed by local breakers, food service companies and medium-sized bakeries. Although the HPAI crisis that affected Mexican layers is gradually passing, some HRI and food processors will continue to use U.S. egg products.

Local trade reported some concern with importing larger volumes of U.S. table eggs because of high prices, the lack of distributor refrigeration facilities at large terminal markets, and U.S. yolk color. (Note: U.S. yolk color is lighter generally than Mexican table egg yolk, thus Mexican consumers perceived it as having a lower nutritive value). Efforts are being made to educate leading importers about the yolk color differences which are related to feed ingredients but do not affect nutritional attributes. Also, educational efforts focus on the U.S. grading system for U.S. table and shell eggs.

Production, Supply and Demand Data Statistics:

Poultry, Meat, Broiler Mexico	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	2,906	2,906	2,945	2,965	2,950	2,975
Total Imports	578	578	630	610	640	640
Total Supply	3,484	3,484	3,575	3,575	3,590	3,615
Total Exports	11	11	11	7	12	8
Human Consumption	3,473	3,473	3,564	3,568	3,578	3,607
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	3,473	3,473	3,564	3,568	3,578	3,607
Total Use	3,484	3,484	3,575	3,575	3,590	3,615
Ending Stocks	0	0	0	0	0	0
Total Distribution	3,484	3,484	3,575	3,590	3,590	3,615

Not Official USDA Data

Commodities:

Poultry, Eggs

Production, Supply and Demand Data Statistics:

General information:

HPAI Outbreak Affects Production, Consumption, Trade and Prices

The Post 2013 Mexican table egg production estimate remains unchanged from Post's [July 2012 poultry annual](#) at 2.3 MMT as the new HPAI outbreaks were minor in comparison to the total layer flock.

Moreover, SENASICA indicates that the outbreaks have been controlled and there have been no new outbreaks reported in the past month. Official and private sources are expecting that egg production should be stabilized in the short to medium term given the repopulation efforts by Mexican industry of 4.5 to 5 million birds per month. UNA's latest data indicates 2012 egg production was 2,385,625 MT.

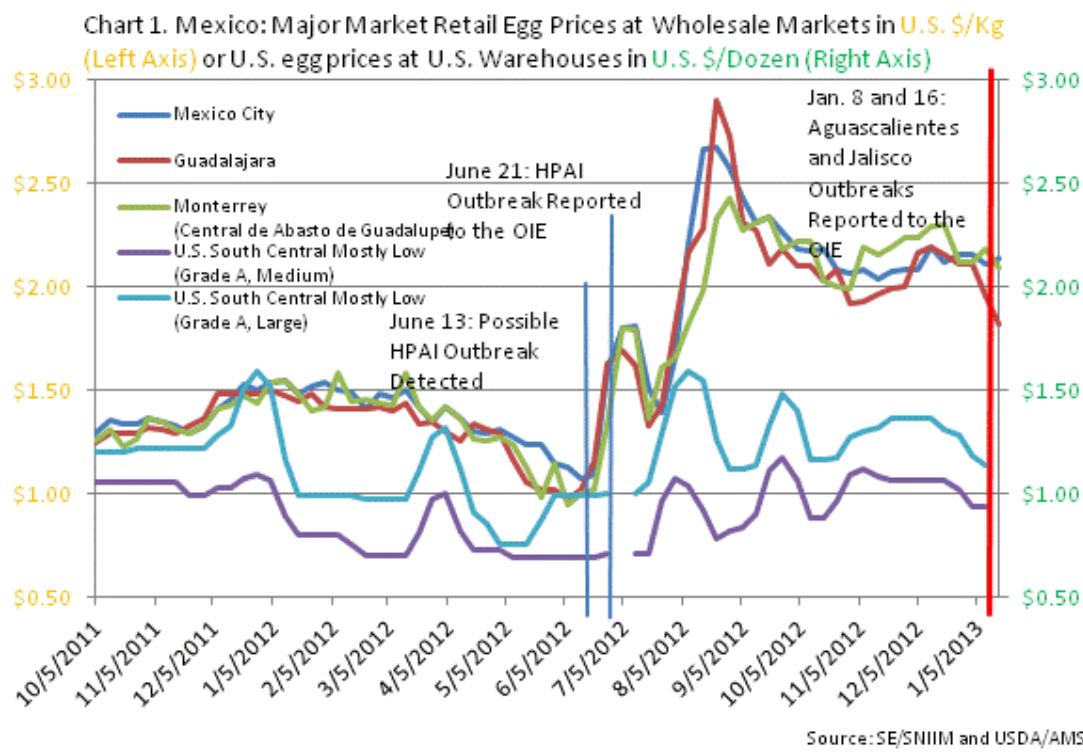
Official SENASICA's figures indicate that the State of Jalisco has an inventory of nearly 90 million birds (layers, breeders, and broilers). Mexican official figures for 2011 rank Jalisco as the largest

producer of poultry meat and table eggs in the country, representing 11.5 and 50.3 percent of domestic production, respectively. The share of domestic egg and broiler meat production of the State of Aguascalientes is relatively small. UNA estimates that the total cost to the poultry sector due to the AI outbreak was 8.6 billion pesos (U.S. \$675 million). This amount comprises costs due to loss of jobs, inputs, repopulation of 22-weeks layers, and the drop in production.

UNA reports that per capita annual egg consumption is the highest in the world at around 22.5 kilograms (approximately 330 eggs) per person. However, this figure dropped during and after the AI outbreak to around 20.8 kilograms (approximately 291 eggs).

During 2011, Mexico exported around 11 percent of its domestic egg production. This trend was jeopardized during the remainder of 2012 as exports were restricted due to restricted supply and in less proportion to a misunderstanding of zoo-sanitary and safety issues.

Within one week from the HPAI outbreak announcement, egg prices skyrocketed 30 percent compared to the week before the outbreak. By early January 2013, prices seem to be falling (see chart below) and according to the National Service of Market Information (SE/SNIIM) range between 23 and 27 pesos per kilogram for most urban centers.



Author Defined:

Additional 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.

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX3003	HPAI H7N3 Outbreak Erupts Again in Jalisco	1/18/2013
MX3002	High Path Avian Influenza Outbreak in Aguascalientes	1/10/2013
MX2087	Poultry and Egg Prices and Trade Snapshot	11/29/2012
MX2069	Eggcellent Industry and Government Cooperation Facilitates Trade	10/19/2012
MX2067	Egg Import Tariffs Eliminated	9/14/2012
MX2059	Mexico Announces Import Quotas for U.S. Eggs	8/17/2012
MX2058	Chicken AD Final Resolution	8/6/2012
MX2053	SENASICA Delivers Vaccines to Control AI Outbreak	8/2/2012
MX2049	Poultry, Meat and Broiler Annual	7/18/2012
MX2046	Economia Opens 221K Metric Ton Egg Quota Due to Market Speculation	7/11/2012
MX2044	Avian Influenza Outbreak Hits More Farms in Jalisco	7/6/2012
MX2043	Emergency Management System Activated to Combat Avian Influenza	7/6/2012
MX2040	High Pathogenic Avian Influenza Outbreak in Jalisco	6/29/2012

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.