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Mexico

Dairy and Products Annual

Mexico Expecting a Recovery in Milk Production in MY2016

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Report Highlights:
As Mexico is expecting a recovery in milk production in MY2016, the consumption of fluid milk is decreasing while demand for specialized products is a growing trend among consumers. Specialized dairy products continue gaining domestic market share and greater volumes of fluid milk are being directed to processing use. Cheese consumption is expected to be stable and so imports are expected to slightly increase. Imports of powdered milk are expected to be maintained as demand from processors is sustained.

Commodities:
Dairy, Milk, Fluid

Production:
The Post MY2016 (January to December) fluid milk production forecast is 12.01 million metric tons (MMT), which is up 1.5 percent from the revised MY2015 estimate, based mainly on medium term trends in improved genetics and technology that continue to lift Mexican milk production. Current international milk prices are low due to the contraction in global demand for dairy products and are affecting the domestic sector. The world dairy market is expecting a general recovery by the second half of 2016 and Mexico is no exception. Moreover, the recent signing of the Trans Pacific Partnership Agreement (TPP), which may present a full set of challenges for the dairy sector, is enticing producers to quickly and efficiently address infrastructure improvements and to lobby for legislative and public policy changes that result in more monetary support to guarantee the survival of the sector. Undoubtedly, addressing these issues would allow the dairy sector to be competitive against dairy exporting TPP member countries that produce at lower costs. To accomplish this objective, private sources have indicated that the sector has 24 months to modernize and they are confident they will achieve this goal. However, the sector is aware that only three percent of domestic producers are currently able to compete in the international arena.

Mexico has four different production modes:

- Intensive production, 20-27 liters per day/cow and a milking period of 305 days.
- Semi-intensive production, 18-20 liters per day/cow, 280-305 days of milking.
- Backyard/household production, 16 liters per day/cow and 225-300 milking days.
- Double purpose production, 3-9 liters per day/cow, 120-180 milking days.

Currently, the sector is looking to further develop the productivity of small producers and their presence in the market to increase the volume and quality of milk produced. The average domestic cost of production is $5.45 pesos (USD $ 0.33) per liter but given that the majority of inputs used in animal feed are imported, the world's excess supply of dairy products and the lack of distribution channels in Mexico are factors that could increase this cost. The new Post fluid milk production estimate for MY2015 is revised upward given the above mentioned factors and due to LICONSA's [1] increased price paid to producers, which is enticing increased production in 2015. MY2014 production figures were kept unchanged.

[1] NOTE: LICONSA, S. A. de C.V. is "a state-owned company devoted to the industrialization and distribution of high-quality milk at a reasonable price, whose main purpose is supporting the nutritional resources of disadvantaged families." END NOTE.

Table 1. Mexico: Fluid Milk Production Volume by State for Calendar Years 2009-2014 and 2015 (through August) in Thousand Liters.

	2009	2010	2011	2012	2013	2014	2015*
AGUASCALIENTES	367,171	369,253	372,252	367,599	372,090	384,293	294,019
BAJA CALIFORNIA	179,795	174,027	181,190	159,231	158,096	168,817	125,582
BAJA CALIFORNIA SUR	46,104	44,323	41,144	40,566	39,417	39,560	23,741
CAMPECHE	36,271	36,146	36,364	38,424	38,168	38,772	31,168
COAHUILA	1,282,618	1,243,058	1,275,065	1,287,918	1,327,450	1,361,619	1,028,303
COLIMA	32,349	34,883	36,059	35,548	35,316	36,965	28,152
CHIAPAS	366,393	385,455	402,583	402,727	404,300	410,738	311,202
CHIHUAHUA	923,053	934,928	930,020	979,502	970,479	1,007,346	762,420
DISTRITO FEDERAL	13,652	13,643	13,784	12,678	14,187	13,400	9,664
DURANGO	959,716	1,001,137	997,155	1,037,913	1,015,624	1,036,137	854,378
GUANAJUATO	761,759	775,108	784,770	735,616	714,073	772,558	591,691
GUERRERO	84,157	86,892	83,764	88,809	89,696	83,894	64,003
HIDALGO	439,361	419,273	398,540	364,018	428,327	413,097	317,993
JALISCO	1,900,343	1,960,999	1,991,577	2,024,966	2,070,203	2,085,859	1,593,710
MEXICO	464,704	478,261	482,082	469,315	467,889	460,167	340,071
MICHOACAN	331,909	331,038	339,389	344,810	336,726	335,085	245,377
MORELOS	20,901	21,784	20,890	22,421	22,206	20,115	14,841
NAYARIT	60,130	60,742	60,104	55,779	42,422	39,157	25,445
NUEVO LEON	40,586	40,397	37,790	38,622	36,505	33,459	21,491
OAXACA	146,406	147,080	147,933	147,102	145,511	148,964	105,939
PUEBLA	395,211	403,100	404,132	422,768	429,299	443,443	337,706
QUERETARO	192,435	192,422	195,147	336,644	343,015	360,908	268,048
QUINTANA ROO	5,829	5,921	5,562	6,128	4,643	4,672	3,372
SAN LUIS POTOSI	132,285	130,899	128,772	125,820	124,690	127,305	98,809
SINALOA	95,943	102,081	105,875	102,519	93,466	101,296	77,039
SONORA	126,496	129,355	112,055	110,764	110,028	108,112	87,120
TABASCO	111,533	111,416	101,522	106,960	101,259	99,599	84,651
TAMAULIPAS	32,326	30,242	29,666	28,242	27,579	21,753	15,334
TLAXCALA	120,356	115,223	109,978	109,952	101,476	103,241	71,619
VERACRUZ	708,230	722,465	723,106	715,190	700,715	693,950	522,723
YUCATAN	4,366	3,441	3,153	3,009	2,530	2,584	2,723
ZACATECAS	166,655	171,703	172,867	159,310	159,386	172,455	128,485
TOTAL	10,549,038	10,676,691	10,724,288	10,880,871	10,926,771	11,129,918	8,487,418

*As of September 2015. Source: SIAP-SAGARPA, 2015.

Consumption:

The Post MY2016 total fluid milk consumption forecast (domestic and factory use) is 12.04 MMT, up 1.5 percent from the 2015 USDA estimate, based on anticipated slightly higher production levels. The industry confirms that the consumption of value-added products by middle and upper income consumers and sustained support from LICONSA for lower income consumers is an ongoing trend. Nevertheless, the same sources confirm that the consumption of fluid milk is decreasing. The Post MY2015 total fluid milk consumption estimate is revised upward as the increased demand by the industry (factory use to prepare value-added products) has grown while keeping domestic fluid milk consumption in check. MY2014 figures were kept unchanged.

The dairy processing industry continues to respond to increased demand for specialized products, such as Greek yogurt, lactose-free, 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. Together, all of this demonstrates the growth in disposable income among middle to high-end consumers and their concerns about obesity compelling them to focus more on foods with nutritional and functional benefits.

Prices:

In July 2015, LICONSA announced that the price of milk distributed to low-income households will be raised one peso (U.S. $0.061) per liter for a final price of 5.50 pesos (U.S. $0.33). However, LICONSA announced that the price of milk distributed to low-income households in the states of Oaxaca, Chiapas, and Guerrero will be kept unchanged at a final price of 4.50 pesos (U.S. $0.27). According to official information from LICONSA, the daily distribution of fluid milk totals 3.1 million liters in 1,949 municipalities across the country under the provisions of 33 Social Supply Programs. This represents 10.2 percent of domestic production.

Chart 1. Mexico: Milk Production Trends [1] by Month in Million Liters for 2009 to 2015 (partial)

[1] Comprises Cows milk and other milk (goat).

Trade:
The new Post MY2016 import forecast is 42,000 MT, similar to the revised MY2015 estimate, based on the forecasted increase in domestic production and stable demand from the processing industry. Also, LICONSA plans to purchase more domestic products rather than imported products. The government notes that this fits with the medium to longer-term goal of the current administration. The Post MY2015 import estimate was revised slightly upward due to the sustained demand from the processing sector. MY2014 fluid milk import figure was kept unchanged, per official data.

The Post MY2016 fluid milk export forecast is expected to be equal to the MY2015 estimate, at 12,000 MT, as sustained demand from the industry reduces product availability for export, especially given less attractive international prices. Post's MY2015 and MY2014 export estimate were kept unchanged.

Policy:
Mexico's sanitary and commercial authorities are discussing the development of several Mexican Official Norms to establish provisions and requirements for milk powder, cheese, and food preparations, with which domestic or imported products must comply. Among the most important topics in the proposals is the need to establish sanitary and physical-chemical specifications. The timeframe indicates that these documents or their drafts are to be published by the end of 2015.

Marketing:
The Mexican food industry has been growing rapidly and is the primary driver of demand contributing to the growth in U.S. exports. Mexico continues to be one of the largest destinations for imported dairy products, with the United States being its largest supplier. Strong investment in the processed food and retail sectors has led to a constant growth in demand for dairy products, such as dairy ingredients, fluid milk, cheese, yogurt, and frozen dairy desserts, among others.

In Mexico, between *Lala* and *Alpura*, the top producers of fluid milk and dairy products, there is competition to launch more innovative products geared toward more specific segments of the market to gain market share. Consumers are becoming more conscious of what they buy and eat and they are willing to pay more for better quality dairy products. In 2014 and 2015, Greek yogurt continues to be a fast growing category.

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	6350	6350	6400	6400	0	6450
Cows Milk Production	11464	11464	11680	11682	0	11857
Other Milk Production	160	160	160	160	0	160
Total Production	11624	11624	11840	11842	0	12017
Other Imports	35	35	40	42	0	42
Total Imports	35	35	40	42	0	42
Total Supply	11659	11659	11880	11884	0	12059
Other Exports	11	11	12	12	0	12
Total Exports	11	11	12	12	0	12
Fluid Use Dom. Consum.	4180	4180	4185	4185	0	4183
Factory Use Consum.	7468	7468	7683	7687	0	7864
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	11648	11648	11868	11872	0	12047
Total Distribution	11659	11659	11880	11884	0	12059
(1000 HEAD) ,(1000 MT)						

Commodities:
Dairy, Cheese

Production:
The new Post MY2016 total cheese production estimate is 282,000 MT, reflecting availability of fluid milk and stable demand for aged and fresh cheeses and cheese products. The Post MY2015 and MY2014 cheese production estimates remain unchanged.

Consumption: The new Post MY2016 total cheese consumption forecast is slightly up from the MY2015 estimate at 374,000 MT, as demand for aged cheeses is expected to remain fairly stable among high-middle and high-income consumers. Also, low and lower-middle income consumers will maintain their demand for fresh cheese products due to a stable purchasing power and traditional consumption patterns. The MY2015 consumption estimate was revised down based on input from private sources that cite reduced consumer's purchasing power given lower than expected economic growth. MY2014 figures were revised downward to reflect the latest official data.

Trade:

The Post MY2016 cheese import forecast is 97,000 MT, as fluid milk availability will allow for sustained domestic production and substitute for additional imports. However, Mexico will continue importing raw materials to complement domestic production. Post's MY2015 estimate was revised down given stagnant consumer purchasing power that limited consumption, mainly, in low-income consumers. MY2014 import estimates were revised down to reflect recently published official data from Secretariat of Economy (SE).

The new Post MY2016 forecast for cheese exports is 5,000 MT, similar to the MY2015 estimate. Despite competition in international markets with EU cheeses that are being diverted to other markets given the Russian embargo, Mexican cheese manufacturers will continue targeting new market niches in Central America and the Caribbean, such as El Salvador, Cuba, and Nicaragua. Increased domestic fluid milk production will make this trend feasible. Nevertheless, the prevailing low international prices could play an important role in making export decisions to decrease the amount. Post's MY2015 revised estimate is below the USDA official figure given the same effects mentioned above. MY2014 export estimate is unchanged reflecting the latest official data from SE.

Production, Supply and Demand Data Statistics:

Dairy, Cheese	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	275	275	280	280	0	282
Other Imports	99	88	110	95	0	97
Total Imports	99	88	110	95	0	97
Total Supply	374	363	390	375	0	379
Other Exports	4	4	6	5	0	5
Total Exports	4	4	6	5	0	5
Human Dom. Consumption	370	359	384	370	0	374
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	370	359	384	370	0	374
Total Use	374	363	390	375	0	379
Ending Stocks	0	0	0	0	0	0
Total Distribution	374	363	390	375	0	379
(1000 MT)						

Commodities:

Dairy, Butter

Production:

The new Post MY2016 butter and butterfat production forecast is 197,000 MT, based on the availability of fluid milk and sustained demand from consumers for specialized products. The Post MY2015 and MY2014 estimates were kept unchanged based on industry data.

Consumption:
The new Post butter and butterfat consumption forecast for MY2016 is up around one percent from the MY2015 figure as demand for domestic and imported products from the bakery and confectionary sectors is expected to be fairly stable. In light of flat production, the Post consumption estimate for MY2015 was kept unchanged from the USDA official figure as increased international prices maintained imports balanced. MY2014 figures were adjusted downward to reflect data from the industry.

Trade:
The new Post MY2016 import forecast for butter (HTS 040510) and butterfat (HTS 040590) is 40,000 MT, in line with the MY2015 estimate reflecting sustained demand from consumers for specialized products. The Post MY2015 was kept unchanged. MY2014 import estimates were revised downward to reflect official figures.

Mexican butter and butterfat exports are beginning to emerge in trade data, albeit from a small base. The new Post MY2016 forecast is 8,000 MT, similar to the Post MY2015 estimate. MY2015 exports were stable mainly due to sufficient overall supply. MY2014 export estimate was revised downward to reflect official figures from SE.

The United States continues gaining market share in the Mexican market.

Production, Supply and Demand Data Statistics:

Dairy, Butter	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	192	192	195	195	0	197
Other Imports	37	30	40	40	0	40
Total Imports	37	30	40	40	0	40
Total Supply	229	222	235	235	0	237
Other Exports	8	6	8	8	0	8
Total Exports	8	6	8	8	0	8
Domestic Consumption	221	216	227	227	0	229
Total Use	229	222	235	235	0	237
Ending Stocks	0	0	0	0	0	0
Total Distribution	229	222	235	235	0	237
(1000 MT)						

Commodities:

Dairy, Milk, Nonfat Dry

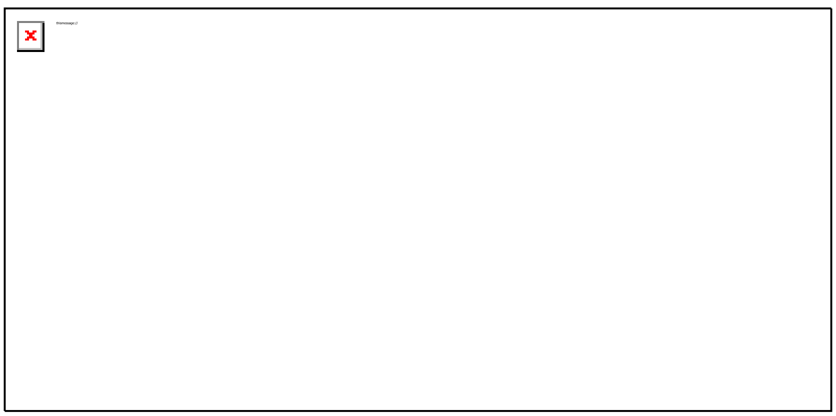
Production: The Post MY2016 production forecast for Non-fat Dry Milk (NFDM) is 55,000 MT, the same as the MY2015 estimate figure. As previously reported, NFDM is manufactured in substantial volumes only when production of fluid milk allows it. Also, the sustained demand by other dairy subsectors limits NFDM production growth. Post's MY2015 and MY2014 NFDM production estimates are unchanged and based on information from the industry.

Consumption:

The Post NFDM MY2016 consumption forecast is set at 277,000 MT given the sustained demand from the processing industry for the preparation of value-added products. The Post consumption estimate for MY2015 was revised down slightly from the USDA official estimate given decreased imports due to the government intention to buy more domestic milk rather than imported. MY2014 figures were kept unchanged.

Trade:

The new Post MY2016 import forecast for NFDM is up slightly from the previous MY2015 estimate at 222,000 MT, as domestic production is flat (as noted above) with imports filling the gap. The MY2015 figure is marginally lower than the USDA official data, which is in line with the current government policy to reduce imports and increase domestic purchases. MY2014 import estimate is unchanged. Nevertheless, sustained demand of NFDM from the processing sector is expected. As of June 2015, the United States holds an 86.5 percent share. Mexico holds the 1st place as a purchaser country of NFDM according to SIAP-SAGARPA and FAOSTAT.



No exports are forecast for MY2016. Also, no exports were recorded in MY2015 or MY2014.

Production, Supply and Demand Data Statistics:

Dairy, Milk, Nonfat Dry	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Mexico	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	0	55
Other Imports	203	203	230	220	0	222
Total Imports	203	203	230	220	0	222
Total Supply	258	258	285	275	0	277
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	258	258	285	275	0	277
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	258	258	285	275	0	277
Total Use	258	258	285	275	0	277
Ending Stocks	0	0	0	0	0	0
Total Distribution	258	258	285	275	0	277
(1000 MT)						

Commodities:

Dairy, Dry Whole Milk Powder

Production:

The new Post MY2016 dry WMP production forecast is 156,000 MT, up slightly from the previous MY2015 figure. Although increased fluid milk production could foreshadow increased production of dry WMP, the dry WMP subsector will need to keep competing for this supply with others in the processing industry to produce value-added products. In addition, demand is expected to remain relatively stable (see below). The MY2015 estimate was revised upward in light of a marginal increased fluid milk production. MY2014 estimate is unchanged.

Consumption:

The dry WMP consumption forecast for MY2016 is set at 155,000 MT. This is up slightly from the MY2015 revised consumption estimate despite the continuation of the Government of Mexico's project to enlarge LICONSA's coverage under its social supply of milk program. Historically, LICONSA purchased larger amounts of NFDM and WMP to be reconstituted and distributed under its social program. Even though at stable amounts, the demand for WMP from the processing industry for preparation of value-added products is expected to continue. Due to LICONSA's intensified purchases of domestic fluid milk rather than imported dry WMP, the Post MY2015 estimate was revised slightly down from the USDA official to 154,000 MT. The Post MY2014 estimate is kept unchanged.

Trade:

The Post MY2016 import forecast is set at 8,000 MT, equal to the MY2015 estimate. Even though LICONSA continues purchasing domestic milk rather than importing dry WMP, value-added processors continue to demand it for reconstitution into sweetened fluid milk. Post's MY2015 and MY2014 import estimates were unchanged.

Post's MY2016 export forecast of WMP is set at 9,000 MT as a marginal increased fluid milk production and sustained imports are allowing the WMP processor continues looking for the consolidation of the current markets. MY2015 figures were revised up to reflect official data from the Secretariat of Economy. MY2014 export estimate is unchanged.

Production, Supply and Demand Data Statistics:

Dairy, Dry Whole Milk Powder	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	150	150	153	155	0	156
Other Imports	7	7	8	8	0	8
Total Imports	7	7	8	8	0	8
Total Supply	157	157	161	163	0	164
Other Exports	6	6	5	9	0	9
Total Exports	6	6	5	9	0	9
Human Dom. Consumption	151	151	156	154	0	155
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	151	151	156	154	0	155
Total Use	157	157	161	163	0	164
Ending Stocks	0	0	0	0	0	0
Total Distribution	157	157	161	163	0	164
(1000 MT)						

Author Defined:

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX5022	Dairy and Products Semi-annual Mexico's Milk Production to Increase During MY2015	5/29/2015
MX4072	Dairy Annual	10/16/14
MX4040	Dairy Semi-annual	5/15/14
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

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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.