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Report Highlights:

Mexico's dairy sector is facing challenges, including the rising cost of many inputs. Consumers are grappling with growing food inflation and importers are affected by rising global commodity costs. However, cheese and milk powder consumption and imports, particularly from the United States, remain strong. This report updates Post's production, supply, and distribution figures from October 2021.

Executive Summary

Fluid Milk: In 2022, production and consumption are forecast to remain 13.15 million metric tons (MT) and 13.17 million MT, respectively. Growth is limited by the increased costs of inputs and growing food price inflation. Imports and exports are also left unchanged at 29,000 MT and 15,000 MT, respectively.

Cheese: The 2022 consumption, import, and export forecasts are increased to 569,000 MT, 130,000 MT, and 13,000 MT, respectively. Hotel, restaurant, and institution (HRI) demand and pent-up demand post-pandemic are helping to drive these increases. The production forecast remains unchanged at 452,000 MT.

Butter: In 2022, the consumption, import, and export forecasts are decreased to 258,000 MT, 24,000 MT, and 2,000 MT, respectively, on lower household use and updated trade data. The production is forecast flat at 236,000 MT.

Skim Milk Powder (SMP): The 2022 consumption forecast is increased to 385,000 MT, while the export forecast is decreased to 1,000 MT. Mexico's industrial food processors' use of SMP remains strong, even as prices for this import increase. The production and import forecasts are kept at 46,000 MT and 340,000 MT, respectively.

Dry Whole Milk Powder (WMP): In 2022, the production, consumption, import, and export forecasts are all kept at 124,000 MT, 113,000 MT, 8,000 MT, and 19,000 MT, respectively. WMP remains a key ingredient in nutritional and fortified food products.

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Skim Milk Powder (SMP): The 2022 consumption forecast is increased to 385,000 MT, while the export forecast is decreased to 1,000 MT. Mexico's industrial food processors' use of SMP remains strong, even as prices for this import increase. The production and import forecasts are kept at 46,000 MT and 340,000 MT, respectively.

Dry Whole Milk Powder (WMP): In 2022, the production, consumption, import, and export forecasts are all kept at 124,000 MT, 113,000 MT, 8,000 MT, and 19,000 MT, respectively. WMP remains a key ingredient in nutritional and fortified food products.

Fluid Milk

Table 1: MILK – PRODUCTION, SUPPLY, AND DISTRIBUTION

Dairy, Milk, Fluid Market Year Begins	2020		2021		2022	
	Jan 2020		Jan 2021		Jan 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Cows In Milk (1000 HEAD)	6,550	6,550	6,600	6,600	6,650	6,650
Cows Milk Production (1000 MT)	12,750	12,750	12,850	12,850	12,980	12,980
Other Milk Production (1000 MT)	171	171	172	172	172	172
Total Production (1000 MT)	12,921	12,921	13,022	13,022	13,152	13,152
Other Imports (1000 MT)	32	32	30	31	29	29
Total Imports (1000 MT)	32	32	30	31	29	29
Total Supply (1000 MT)	12,953	12,953	13,052	13,053	13,181	13,181
Other Exports (1000 MT)	16	16	20	17	15	15
Total Exports (1000 MT)	16	16	20	17	15	15
Fluid Use Dom. Consum. (1000 MT)	4,145	4,145	4,149	4,150	4,166	4,166
Factory Use Consum. (1000 MT)	8,792	8,792	8,883	8,886	9,000	9,000
Feed Use Dom. Consum. (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	12,937	12,937	13,032	13,036	13,166	13,166
Total Distribution (1000 MT)	12,953	12,953	13,052	13,053	13,181	13,181

(1,000 HEAD), (1,000 MT)

Production: The 2022 production forecast is kept at 13.15 million MT (MMT). Official data from Mexico’s agricultural statistics agency (SIAP by its Spanish acronym), which falls under the Ministry of Agriculture and Rural Development (SADER by its Spanish acronym), indicate year-on-year growth of 2.3 percent. The Mexican economic slowdown and increasing costs of raw materials are preventing Mexican dairy operations from expanding. Unfavorable weather conditions in 2021 have increased the price of raw materials, such as fodder for animal feed. Private sources estimate the cost of feed for dairy cattle has risen between 35 and 40 percent. In addition, producers mention the costs of other inputs have also increased and are cutting into profit margins. There have even been closures of some small producing dairies due to indebtedness. Other challenges include cattle herd repopulation and uncertainty about a good grain and forage production season in Mexico (for dairy cattle feeding), with some fearing milk production could eventually slightly decline.

Consumption: The consumption forecast is left unchanged at 13.17 MMT. Household consumption of fluid milk is decreasing, despite stimulus from the Mexican government’s food assistance program focused on milk that is administered by LICONSA – a parastatal agency. From March 2021 to March 2022, retail milk prices increased 13 percent from 19.4 to 21.9 pesos per liter. This is partially the result of a 45–percent increase on input prices for producers during the same period. Industry also reports the coming increase in the government’s price guarantee for milk (from 9.2 to 10 pesos per liter) could further increase retail prices. In November 2021, LICONSA increased the price it pays milk producers from 8.2 to 9.2 pesos per liter. LICONSA announced another increase, to 10 pesos per liter, as of April 15, 2022. However, of the 150,000 small milk producers in Mexico who could sell to LICONSA, only 7,000 are estimated to be able to meet the quality requirements set by LICONSA.

Imports: The 2022 import forecast remains unchanged at 29,000 MT. Mexico produces most of the milk it consumes, although annually still imports approximately 29 million liters of fluid milk from the United States. The principal provider of Mexico's fluid milk imports during 2022 remains the United States with almost 100 percent market share, with a small volume of ultra-high temperature (UHT) imported from New Zealand and France. The 2021 import figure was revised upward to 31,000 MT reflecting official trade data accessed through Trade Data Monitor, Inc.

Exports: The export forecast is kept at 15,000 MT. Fluid milk exports are expected to slow, after growing by 6.3 percent in 2021 despite supply chain challenges at the time. The export growth seen in 2021 is unlikely to be repeated in 2022, as Mexico's tight supplies significantly reduce the exportable milk from Mexico. In addition, high-priced dairy commodities could take a bite out of importing countries' appetites, such as those in Central America. The 2021 export figure was lowered based on official trade data.

Cheese

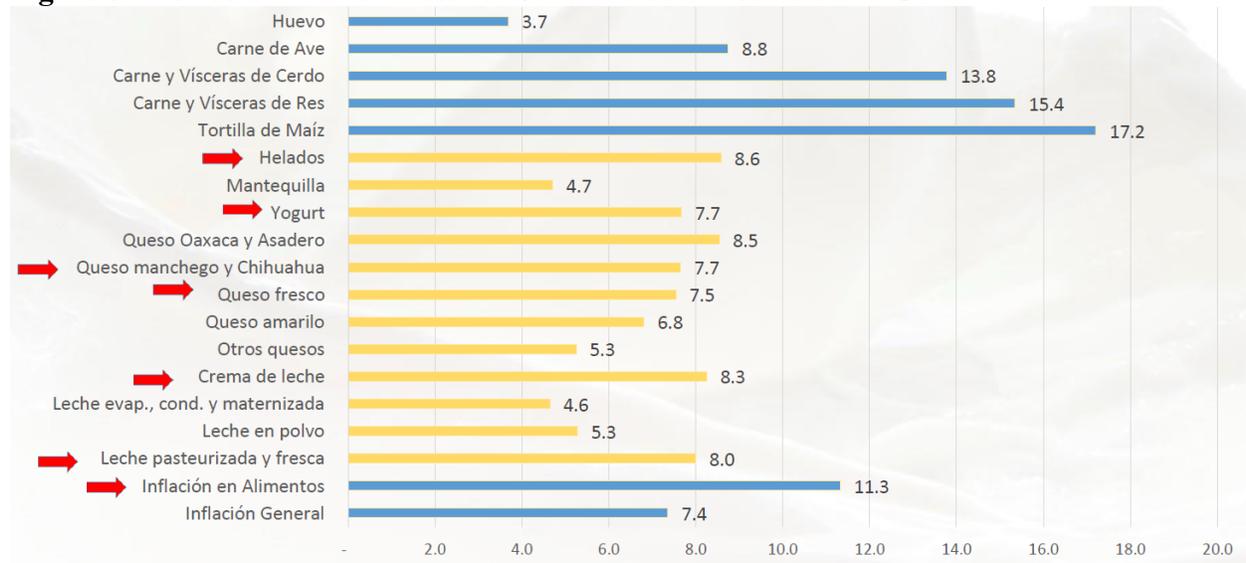
Table 2: CHEESE – PRODUCTION, SUPPLY, AND DISTRIBUTION

Dairy, Cheese Market Year Begins	2020		2021		2022	
	Jan 2020		Jan 2021		Jan 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	446	446	448	448	452	452
Other Imports (1000 MT)	114	114	130	132	130	130
Total Imports (1000 MT)	114	114	130	132	130	130
Total Supply (1000 MT)	560	560	578	580	582	582
Other Exports (1000 MT)	11	11	13	12	13	13
Total Exports (1000 MT)	11	11	13	12	13	13
Human Dom. Consumption (1000 MT)	549	549	565	568	569	569
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	549	549	565	568	569	569
Total Use (1000 MT)	560	560	578	580	582	582
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	560	560	578	580	582	582
(1,000 MT)						

Production: The 2022 cheese production forecast remains unchanged at 452,000 MT on continued consumer demand. Mexico’s cheese production has shown remarkable growth in the last few years. Cheese production continues to be the main use for Mexico’s fluid milk. Mexican cheese production remains traditional, soft white cheese types such as: *fresco*, *panela*, *oaxaca*, *canasto ranchero*, *queso blanco*, and *queso amarillo*. These soft crust cheeses represent 75–80 percent of production. The rest are hard and semi-hard cheeses such as *manchego*, *gouda*, *cheddar*, *mennonite*, and *asadero*. Approximately one quarter of all cheese produced in Mexico is from industrial cheese operations and the rest is small-production artisan cheese.

Consumption: The 2022 cheese consumption forecast is increased to 569,000 MT, as demand for aged cheeses is expected to grow among high-middle and high-income consumers. While low and lower-middle income consumers will maintain or decline their consumption of fresh cheese products on reduced consumer purchasing power. Industry reports there is fear that cheese consumption could decrease due to persistent inflation on food (including dairy) products. Industry reports and National Institute of Statistics and Geography (INEGI) data show increases in input costs resulted in increases dairy product prices in 2021, such as cream (8.3 percent); fresh and pasteurized milk (8.0 percent); yogurt (7.7 percent); manchego and chihuahua cheese (7.7 percent); fresh cheese (7.5 percent); yellow cheese (6.8 percent); milk powder (5.3 percent); butter (4.7 percent); and evaporated, condensed, and formula milk (4.6 percent).

Figure 3. Mexico's Inflation Rate for Several Food Products and General Index 2021



Source: INEGI

Imports: The 2022 cheese import forecast is increased to 130,000 MT to help meet consumption needs. High inflation and an economy struggling to return to pre-pandemic levels have hampered year-on-year growth. The United States continues to be the primary supplier of cheese to Mexico, supplying 79 percent of Mexico's total imports in 2021. The Netherlands commands 5.6 percent market share, while Uruguay, Germany, Chile, New Zealand, and other European Union countries supply the remainder of the import market.

Exports: The 2022 export forecast is increased to 13,000 MT. In 2021, U.S. imports of Mexican cheese increased 9.26 percent from 3,996 MT to 4,366 in a single year, reflecting recovery in the U.S. economy. Mexico also exports smaller but significant amounts of cheese to South and Central American countries such as Chile, which increased 8 percent in 2021, as well as Guatemala and Peru. The 2021 export growth is expected in 2022, reflecting an increase of 8 percent.

Butter

Table 3: BUTTER – PRODUCTION, SUPPLY, AND DISTRIBUTION

Dairy, Butter Market Year Begins Mexico	2020		2021		2022	
	Jan 2020		Jan 2021		Jan 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	233	233	235	235	236	236
Other Imports (1000 MT)	42	42	23	20	24	24
Total Imports (1000 MT)	42	42	23	20	24	24
Total Supply (1000 MT)	275	275	258	255	260	260
Other Exports (1000 MT)	9	9	1	2	2	2
Total Exports (1000 MT)	9	9	1	2	2	2
Domestic Consumption (1000 MT)	266	266	257	253	258	258
Total Use (1000 MT)	275	275	258	255	260	260
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	275	275	258	255	260	260
(1,000 MT)						

Production: The 2022 production forecast for butter and butterfat remains flat at 236,000 MT. It reflects the modest, but steady, year-on-year growth in production to meet demand from the bakery and confectionary sectors. Those sectors are seeing higher demand from the gradual recovery of the HRI sector.

Consumption: The consumption forecast is decreased to 258,000 MT. The consumption of butter continues to be driven by the bakery and confectionary sectors. The consumption of household level remains stagnant due to the strong preference by low- and middle-income consumers for plant-based alternatives, such as margarine. Also, in light of decreased imports, the forecast is revised downward.

Imports: The 2022 import forecast is decreased by 14 percent to 24,000 MT, reflecting official trade data. This import level reflects decreased demand for special, premium import products due to reduced consumer purchasing power constraining increased consumption.

Exports: The export forecast is decreased to 2,000 MT on available butter supplies in Mexico used domestically. Most of it is consumed domestically. The 2021 figure was revised upward to 2,000 MT to reflect official trade data.

Nonfat Dry Milk – Skim Milk Powder (SMP)

Table 4: SMP – PRODUCTION, SUPPLY, AND DISTRIBUTION

Dairy, Milk, Nonfat Dry Market Year Begins Mexico	2020		2021		2022	
	Jan 2020		Jan 2021		Jan 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	45	45	45	45	46	46
Other Imports (1000 MT)	309	309	335	338	340	340
Total Imports (1000 MT)	309	309	335	338	340	340
Total Supply (1000 MT)	354	354	380	383	386	386
Other Exports (1000 MT)	1	1	1	1	1	1
Total Exports (1000 MT)	1	1	1	1	1	1
Human Dom. Consumption (1000 MT)	353	353	379	382	385	385
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	353	353	379	382	385	385
Total Use (1000 MT)	354	354	380	383	386	386
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	354	354	380	383	386	386

(1,000 MT)

Production: SMP, production in 2022 is forecast to remain at 46,000 MT. SMP production capacity remains restricted, as only five dehydrating facilities exist in Mexico. Additionally, these facilities are not always working at full capacity. SMP production is strongly dictated by the oversupply of milk.

Consumption: The consumption forecast is increased 11 percent to 385,000 MT, given the demand from the HRI sector, as well as the sustained demand from the processing industry for the preparation of value-added products. Milk powder continues to be a versatile ingredient prominently used in Mexico’s food industry. The 2021 consumption figure was revised up from the USDA official figure given marginally increased imports.

Imports: The 2022 import forecast for SMP is kept at 340,000 MT, as domestic production is practically flat (as noted above) with imports filling the demand gap. The 2021 figure is increased to 338,000 MT, on official trade data. HRI demand for SMP was met with imports, as domestic supply was not enough.

Exports: The 2022 export forecast is decreased to 1,000 MT. The small export market continues to be Latin America destinations to which Mexico sends milk powder largely as regional aid.

Dry Whole Milk Powder (WMP)

Table 5: WMP – PRODUCTION, SUPPLY, AND DISTRIBUTION

Dairy, Dry Whole Milk Powder Market Year Begins	2020		2021		2022	
	Jan 2020		Jan 2021		Jan 2022	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	122	122	123	123	124	124
Other Imports (1000 MT)	3	3	7	7	8	8
Total Imports (1000 MT)	3	3	7	7	8	8
Total Supply (1000 MT)	125	125	130	130	132	132
Other Exports (1000 MT)	20	20	16	14	19	19
Total Exports (1000 MT)	20	20	16	14	19	19
Human Dom. Consumption (1000 MT)	105	105	114	116	113	113
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	105	105	114	116	113	113
Total Use (1000 MT)	125	125	130	130	132	132
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	125	125	130	130	132	132
(1,000 MT)						

Production: The 2022 production forecast is kept at 124,000 MT. Although the increase of fluid milk production could allow for a production increase, the WMP sector continues competing for milk supply with others in the processing industry producing value-added products. As with SMP, production remains restricted by the availability of drying facilities. Demand is expected to remain stable (see below). WMP is used by processors for the preparation of specialty dry milks, as well as reconstitution into fluid milk, sweetened milk, yogurts, and other value-added products. WMP is often packaged for reconstitution as a shelf stable product, including use by LICONSA.

Consumption: The WMP consumption forecast is kept at 113,000 MT. The demand for WMP continues to be driven by industrial dairy processors developing products for consumers seeking dairy products labeled as healthy, fortified, and grab-and-go. However, inflationary pressure in the short- and medium-term is hampering purchasing power in Mexico, including for dairy products. The longer-term outlook for WMP and dairy products hinges upon consumer behavior and normalized market conditions.

Imports: The import forecast is kept at 8,000 MT. Value-added processors continue to demand WMP to reconstitute into sweetened milk, baby formulas, wellness products, fortified products, and others. Price and logistics continue to incentivize imports over domestic production. In 2021, the United States supplied 78 percent of Mexico’s WMP imports, followed by Uruguay, and New Zealand.

Exports: The export forecast is unchanged at 19,000. The 2021 export figure is revised downward to 14,000 MT, on official trade data. In 2021, Mexico’s top export destinations were the United States (50 percent), Cuba (20 percent), El Salvador (14 percent), and Colombia (8 percent).

Other Relevant Reports Submitted by FAS Mexico

<u>MX2022-0011</u>	Mexico Publishes Final Draft of Cheese Conformity Assessment Procedure
<u>MX2021-0077</u>	Principal Border Entry Points for US Agricultural Exports Nogales Arizona-Nogales Sonora Port of Entry Update 2021
<u>MX2021-0039</u>	Dairy and Products Annual
<u>MX2021-0047</u>	Mexico to Work Six Dairy Regulations and Two Still Pending at the WTO
<u>MX2021-0037</u>	Dairy and Products Semi-annual

FAS Mexico Website: We are available at <https://www.fas.usda.gov/regions/mexico> or readers may visit the FAS headquarters' homepage 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 is SADER and can be found at www.gob.mx/agricultura; equivalent to the U.S. Department of Commerce is SE and can be found at www.gob.mx/se and equivalent to the U.S. Food and Drug Administration is SALUD that can be found at <https://www.gob.mx/salud>. These websites 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.

Attachments:

No Attachments