

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 3/3/2015

GAIN Report Number: MX5005

Mexico

Livestock and Products Semi-annual

Mexico's Red Meat Production Seen Higher As Slaughter Advances

Approved By:

Joseph Lopez

Prepared By:

Gabriel Hernandez and Pete Olson

Report Highlights:

Mexico's beef and pork production are revised higher due to strong market incentives that are promoting higher than expected slaughter. Beef imports are revised lower and exports higher. Cattle exports are lowered. The rate of decline in Mexico's cattle herd will stabilize in 2015. Pork imports are maintained in 2015 but raised for 2014, while exports for both years are seen lower. Pork consumption will continue to outpace beef.

Commodities:

Animal Numbers, Cattle

Animal Numbers, Swine

Meat, Beef and Veal

Meat, Swine

Production:

The New Post 2015 Mexican beef production forecast is revised up to 1.828 million metric tons (MMT) carcass weight equivalent (CWE), 4 percent above the 2015 USDA official production estimate. Post also boosted our 2015 slaughter forecast, based on year to date slaughter data trends and information from sources indicating expectations for slaughter rates roughly in line with last year. Recently, private sources confirmed that during 2013, the weight of cattle sent to slaughter was near 450 kilograms while by the end of 2014, the average weight of cattle increased to 520 kilograms at high-end feedlots. These higher weights are expected to be maintained during the current year. Continued strong feeder cattle exports to the United States of America mean limited fed cattle available for slaughter domestically, keeping our slaughter forecast from rising even higher. In northern Mexico, feed lot programs are continuing to grow as international grain prices continue to be attractive and should keep production costs in check, at least during the first half of 2015.

Post's 2014 beef production estimate was revised upward for many of the same reasons listed above, specifically the availability of cheaper grains and increased weight gains and carcass yields. Sources indicate that the plan to repopulate the cattle herd, which has been in place since 2013, is expected to have contributed very little to 2014 production but will contribute more significantly in 2015. Stronger effects are anticipated for the following year. Post's 2013 production estimate is revised slightly down based on official information from SENASICA-SAGARPA.

The New Post 2015 cattle import number is 35,000 head, down from the 2015 USDA official forecast, given increased prices of live cattle in the United States. Historically, cattle are imported for reproduction purposes (which typically contain improved genetics that eventually benefit breeding and feeding purposes in farms). During 2015, despite the lower forecast, these imports should lead to improved calf production birth rates. This is a mid-long term objective to achieve for the cattle sector. Post's cattle imports for 2014 were revised downward, mainly, due to increased prices and limited inventories in the U.S.

Although private and public efforts towards cattle herd repopulation continue, producers continue seeing high prices for feeders and fed cattle, a near-term disincentive for the overall industry to retain substantially higher breed stock. According to industry sources, Mexico's export of live cattle will continue to be strong due to attractive, though stabilizing prices—down from their second half 2014 highs—in the United States. With these moderating prices, Post lowered slightly the 2015 forecast for cattle exports, to 1.2 million head, and also reduced the estimate for 2014 to 1,116 million head, based on available data.

Although cattle ending inventories in 2015 are revised marginally up compared to 2015 USDA official figures, they are still down from the Post revised 2014 levels. The Post 2014 ending inventories estimate moved marginally higher from the USDA official, due to reduced exports, to 17.184 million head. Although still declining, we now see that the rates of decline in Mexico's cattle herd has moderated, paving the way for future rebuilding.

Consumption:

The New Post 2015 domestic total beef consumption estimate is revised upward to 1.848 MMT, which is 2 percent higher than the 2015 USDA official estimate. Despite high beef prices that continue to constrain consumption among low-medium income consumers, Mexico’s growth trends, both economic and population, continue to boost overall demand.

Despite higher forecast total supply and consumption, the 2015 forecast consumption level suggests that *per capita* consumption will continue stable to lower at between 15 and 16 kilograms per person (see chart 1 below). Sources have indicated that during the past three years, *per capita* consumption dropped from 17 kilograms to 15 kilograms but suggest that beef consumption will rebound in 3-4 years.

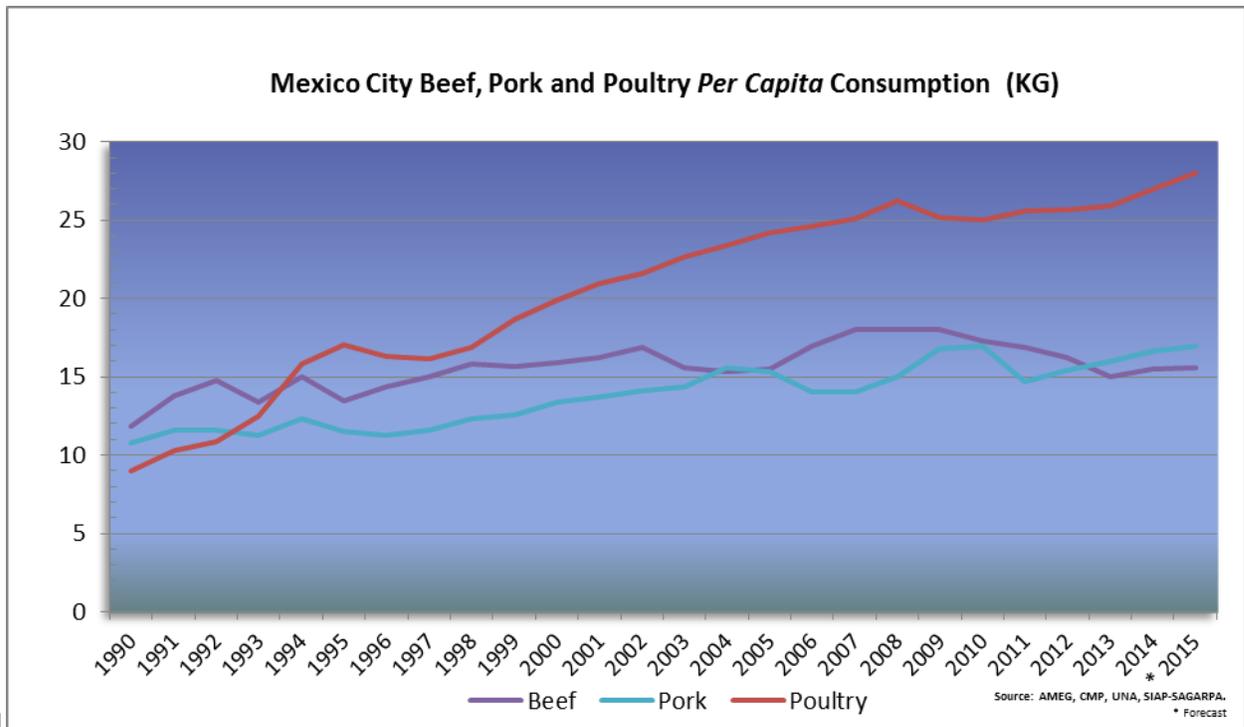


Chart 1

In late 2014 and early 2015, 60 percent of the meat consumed in Mexico was processed in a TIF-type establishment (up from around 50 percent a year earlier) and distributed in chain stores or supermarkets at more affordable prices than in traditional butcher houses. Increasingly, it seems, consumers are becoming aware of the food safety benefits that TIF establishments offer as well as the established retail and hypermarkets that these TIF establishments supply. This will support *per capita* consumption in the mid-term.

Trade:

The New Post forecast lowers Mexico’s 2015 beef imports compared to the 2015 USDA official figures, given the expected situation in the United States of increased beef prices due to the ongoing process of recovering the domestic herd. Despite these trends, however, we now forecast 2015 beef imports higher than our revised 2014 beef import estimate. As noted above, Mexico’s economic and population trends are expected to overcome the headwinds of prices and availability, supporting imports at a higher level this year compared to last year. The New Post 2014 beef import estimate is revised down based on trade data to date. Again, limited supplies and higher prices from the United States

reduced demand more than forecast, especially given the above mentioned higher than expected domestic production level. 2013 import estimates remain unchanged.

The improved quality, food safety, and sophistication of Mexican beef operations have opened doors for increased and targeted Mexican beef exports over the past several years. The New Post 2015 Mexican beef export forecast is revised up to 200,000 MT CWE. This is due to the opening of a new Asian market niche (Hong Kong), which the Mexican industry believes represents a 50,000 MT CWE export opportunity. Although Post believes this to be an optimistic viewpoint, we none the less agree that Mexico will see higher exports to this destination. Despite struggles with access to the Russian market (closed due to concerns over β -agonist use), the 2014 export estimate is revised upward based on available trade data, which shows exports were larger than expected to the U.S.

Animal Numbers, Cattle Mexico	2013		2014		2015	
	<i>Market Begin Year Jan 2013</i>		<i>Market Begin Year Jan 2014</i>		<i>Market Begin Year Jan 2015</i>	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stocks	18,521	18,521	17,760	17,760	17,175	17,184
Dairy Cows Beg. Stocks	3,200	3,200	3,215	3,215	3,250	3,250
Beef Cows Beg. Stocks	6,750	6,750	6,700	6,700	6,700	6,700
Production (Calf Crop)	6,700	6,700	6,750	6,750	6,825	6,825
Total Imports	30	30	35	32	45	35
Total Supply	25,251	25,251	24,545	24,542	24,045	24,044
Total Exports	1,045	1,045	1,125	1,116	1,225	1,200
Cow Slaughter	1,450	1,450	1,400	1,400	1,400	1,400
Calf Slaughter	300	300	300	300	300	300
Other Slaughter	4,450	4,450	4,300	4,300	4,275	4,300
Total Slaughter	6,200	6,200	6,000	6,000	5,975	6,000
Loss	246	246	245	242	245	230
Ending Inventories	17,760	17,760	17,175	17,184	16,600	16,614
Total Distribution	25,251	25,251	24,545	24,542	24,045	24,044
1000 HEAD, PERCENT						

Meat, Beef and Veal Mexico	2013		2014		2015	
	<i>Market Begin Year Jan 2013</i>		<i>Market Begin Year Jan 2014</i>		<i>Market Begin Year Jan 2015</i>	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	6,200	6,200	6,000	6,000	5,975	6,000

Beginning Stocks	0	0	0	0	0	0
Production	1,808	1,807	1,760	1,827	1,765	1,828
Total Imports	232	232	235	209	230	220
Total Supply	2,040	2,039	1,995	2,036	1,995	2,048
Total Exports	166	166	180	190	185	200
Human Dom. Consumption	1,864	1,863	1,805	1,836	1,800	1,838
Other Use, Losses	10	10	10	10	10	10
Total Dom. Consumption	1,874	1,873	1,815	1,846	1,810	1,848
Ending Stocks	0	0	0	0	0	0
Total Distribution	2,040	2,039	1,995	2,036	1,995	2,048
1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG						

Commodities:

Animal Numbers, Swine
Meat, Swine

Production:

The New Post 2015 Mexican pork production estimate is revised upward from the USDA official to 1.315 MMT CWE, mainly due to the availability of animal feed, especially grain, at lower prices. Industry sources report that, consequently, higher slaughter rates and slightly higher carcass weights are expected. Swine will continue to be slaughtered at around 120-130 kg live weight with a carcass weight of around 82-84 kg. Due to ongoing PED virus control efforts and market incentives, Post is revising slightly upward the 2015 forecast for breeding sows. It is expected that this increase will result in additional piglet production, in turn leading to the previously mentioned increase in hog slaughter.

Despite the PED outbreak in Mexico during 2014, the production estimate for 2014 is revised slightly up, mainly due to the fact that the sector was able to handle the after effects of the virus better than expected. This situation made more hogs than previously forecast available for slaughter. Post's 2014 slaughter rate was adjusted accordingly to a level above the USDA official. Post's 2013 production estimate is revised slightly up due to recently revised official final figures.

Better genetics combined with lower grain prices are contributing to lower production costs across the Mexican production chain. Consequently, industry members continue to strengthen and expand the productivity of their nearly 5,600 farms to take advantage of expected better margins with lower feeding costs and continued favorable domestic pork prices. They will also seek to meet anticipated demand for pork cut exports for the Japanese and Korean markets as well as the opening of the Chinese market.

Commercial farms in Mexico will continue to address PED challenges and are operating with improved biosecurity measures to control its spreading. According to private industry sources, to date, virus control efforts have been acceptably successful, though the threat remains. Consequently, Post revised slightly up the loss forecast for 2015, which is more in line with historical levels, compared to the 2015 USDA official figure. Loss during 2014 was kept mostly unchanged. Loss in 2013 was slightly adjusted to balance the tables.

Consumption:

The New Post 2015 total pork consumption estimate is revised to 2.035 MMT CWE, which is above the USDA 2015 official figure. Pork consumption for 2014 was revised slightly higher given increased production and slightly reduced exports. For 2013, domestic consumption was revised marginally higher due to the availability of the latest official production data. Competition with poultry prices has led to relatively stable, though growing, demand.

Private sources indicate that *per capita* consumption during the previous two years marginally increased from 16 to 16.6 kilograms which reflects the acceptance of pork meat among consumers. It is expected that by the end of 2015 *per capita* consumption will rebound to 17 kilograms due the recognition among consumers of pork meat being an affordable and healthy source of protein.

Trade:

The New Post 2015 import forecast is maintained at 840,000 MT CWE, despite the headwinds of a stronger dollar, as import demand will be supported by rising prices for beef and growing population. The majority of Mexico's pork imports will remain hams and picnics as well as mechanically deboned meat (MDM), all for the preparation of sausages, deli hams, and other cold cuts. Nearly 90 percent of these imports are of U.S. origin. The 2014 import level was revised slightly up, mainly due to the above mentioned higher demand generated by consumer shifts from beef.

The New Post export estimate for 2015 is revised slightly down from the USDA 2015 official number. Although the country continues to succeed in opening export markets and expand its share of exports to Asian markets, like Japan, some of these potential new market successes are progressing slower than previously forecast, especially with regard to China, which has yet to import meaningful volumes from Mexico. The industry believes that exports to this last market can only be significant if new and recent pork production facilities customize their operations to comply with that market's requirements, which include most importantly, the guarantee of segregation of product produced without *ractopamine*. Consequently, significantly larger exports to China could only be expected with the initiation of new or recently built plants that have segregation capability and that also have the desire to forgo traditional domestic markets in search of a premium in China. To date, China has approved five Mexican establishments as eligible to export pork. Many of these, however, are long established producers that focus on the domestic market. Similarly, Post is revising slightly down the estimate for 2014 exports, compared to the USDA official figures. The Post 2013 export estimate is unchanged based on available data.

Japan remains Mexico's number one export market by volume and value—this situation is not expected to change.

Policy:

Closer to home, in 2014 USDA/APHIS announced a proposed rule that would expand U.S. market access eligibility to all Mexican states (with the exception of Chiapas), based on an improved disease status determination related to Classical Swine Fever (CSF). A final determination and implementation of this rule is pending. Mexico has petitioned the World Animal Health Organization (OIE) for a more favorable CSF status recognition. This review is also pending.

Production, Supply and Demand Data Statistics:

Animal Numbers, Swine Mexico	2013		2014		2015	
	<i>Market Begin</i>	<i>Year Jan 2013</i>	<i>Market Begin</i>	<i>Year Jan 2014</i>	<i>Market Begin</i>	<i>Year Jan 2015</i>
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	9,510	9,510	9,876	9,875	9,625	9,675
Sow Beginning Stocks	1,075	1,075	1,080	1,080	1,080	1,085
Production (Pig Crop)	16,850	16,850	16,200	16,300	16,300	16,500
Total Imports	9	10	10	11	10	12
Total Supply	26,369	26,370	26,086	26,186	25,935	26,187
Total Exports	0	0	0	0	0	0
Sow Slaughter	13	13	15	15	15	15
Other Slaughter	15,680	15,680	15,450	15,500	15,400	15,575
Total Slaughter	15,693	15,693	15,465	15,515	15,415	15,590
Loss	800	802	996	996	770	797
Ending Inventories	9,876	9,875	9,625	9,675	9,750	9,800
Total Distribution	26,369	26,370	26,086	26,186	25,935	26,187
1000 HEAD, PERCENT						

Meat, Swine Mexico	2013		2014		2015	
	<i>Market Begin</i>	<i>Year Jan 2013</i>	<i>Market Begin</i>	<i>Year Jan 2014</i>	<i>Market Begin</i>	<i>Year Jan 2015</i>
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	15,693	15,693	15,465	15,515	15,415	15,590
Beginning Stocks	0	0	0	0	0	0
Production	1,281	1,284	1,280	1,290	1,290	1,315
Total Imports	783	783	815	820	840	840
Total Supply	2,064	2,067	2,095	2,110	2,130	2,155
Total Exports	111	111	120	115	125	120
Human Dom. Consumption	1,953	1,956	1,975	1,995	2,005	2,035
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1,953	1,956	1,975	1,995	2,005	2,035
Ending Stocks	0	0	0	0	0	0
Total Distribution	2,064	2,067	2,095	2,110	2,130	2,155
1000 HEAD, 1000 MT CWE, PERCENT, PEOPLE, KG						

FAS/Mexico Web Site: We are available at www.mexico-usda.com.mx 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 (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.