Structural Changes in the Mexican Beef Cattle Industry: Implications for the U.S. Beef Industry

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Objectives
- Rapid changes are taking place in Mexico’s beef processing sector that could have implications for the U.S. cattle sector, cattle inventory, beef production, trade, and beef prices. Here, we aim to:
  - Highlight the recent expansion of Mexican beef production and its implications for the U.S. cattle sector.
  - Investigate the factors influencing the expansion of Mexico’s beef processing sector.
  - Explore the potential impact of this growth on the U.S. beef processing sector.

Overview of Mexico’s Cattle Industry
- In 2013, nearly half of all cattle imported by the United States came from Mexico (USDA, ERS). Historically, the Mexican cattle industry has served as a key exporter of feeder cattle to the United States for finishing, importing an average of more than one million head annually over the past decade. The Mexican cattle industry has been expanding and continues to do so with the expansion of Mexican feeding operations. Currently, feedlots are expanding their capacity and are typically situated close to slaughter houses and packing facilities (where the Mexican Government oversees many operations).
- Mexican beef exports have exponentially increased over the past decade:
  - The recent spike in exports is driven by the adoption of beef packing technologies and expansion of the beef processing sector.

Factors Influencing the Expansion of Mexico’s Beef Processing Sector
- Mexican beef cattle inventories have not recovered since the land reforms of the 1990s.
- Land reform resulted in privatization of holdings, which in turn led to a decline in the Mexican beef cattle inventory. The expansion of Mexico’s fed cattle sector suggests that fewer feeder cattle will be available for future exports to the United States.

Effects of the Changes on the U.S. Cattle Industry
- The decline of Mexico’s cattle industry, coupled with the expansion of its feeder cattle operations, has negative implications for the U.S. cattle industry. For most of the past decade, Mexico has consistently supplied the United States with approximately 1 million head of stocker and/or feeder cattle annually. The lower inventory makes it less likely that Mexico will have enough feeder cattle to satisfy its growing internal demand, while maintaining previous supply levels to the United States. Two key factors support this argument:
  1. Given the current difficulties with retaining heifers to rebuild Mexican herds, it is unlikely that the Mexican cattle inventory can increase significantly through herd-rebuilding in the near future.
  2. Mexico has never been a large importer of live cattle. In 2015, Mexico imported 30,000 head of cattle and, since 2002, has not imported more than 100,000 in any one year.

- Mexico and the United States have operated as an integrated market, with Mexico consistently supplying feeder cattle to the U.S. fed cattle market. With Mexico’s fed cattle market absorbing feeder cattle that otherwise would have been sold to the United States, a completely different dynamic for the U.S. cattle industry is created. As the Mexican fed market increases its demand for domestic feeder cattle, the supply of animals to the U.S. market is expected to decline, which could have serious implications for the U.S. fed cattle market. Loss of live imports from Mexico would affect:
  - Stocker operations primarily in the 12 Southwestern and Western States: Texas would be most affected since it is the primary destination. Because stocker operations run on very small margins, lacking the optimal number of animals to market is expected to affect business survivability.
  - Southern feedlots: These rely on Southern stocker cattle and feeder cattle from Mexico.
  - U.S. beef production: Loss of 1 million cattle from Mexico would be a loss of approximately 780 million pounds beef—as much as 3 percent of U.S. beef production.

References
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