



Will the U.S. Food Export Sector Catch the “Mexican” Flu
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NAFTA has certainly induced a strong integration between the U.S. and Mexican economies converting Mexico into one of our most important trade partners. So, it should be clear that the effects of the current so-called “swine” flu in Mexico (H1N1 flu) might have important implications for the U.S. and especially for the agricultural/food sector. In 2008, total U.S. merchandise exports to Mexico reached a value of \$151 billion, second only to our exports to Canada.

In a time of economic crisis, and a rampant U.S. trade deficit, agricultural trade was the only sector generating a surplus; however, the current situation might change that. The international financial crisis is badly hurting our southern neighbor. Mexican GDP has been estimated to decline by more than 7 percent during the first quarter of 2009. And this was before the flu problem blew up. Although it has been proved that the “swine” or H1N1 flu is not a food safety concern (CDC), its highly contagious human-to-human nature has forced the Mexican government to implement strong emergency measures. Mexican analysts estimate that if the emergency procedures taken by Mexico continue for two more weeks, the Mexican GDP will take an additional one percent hit.

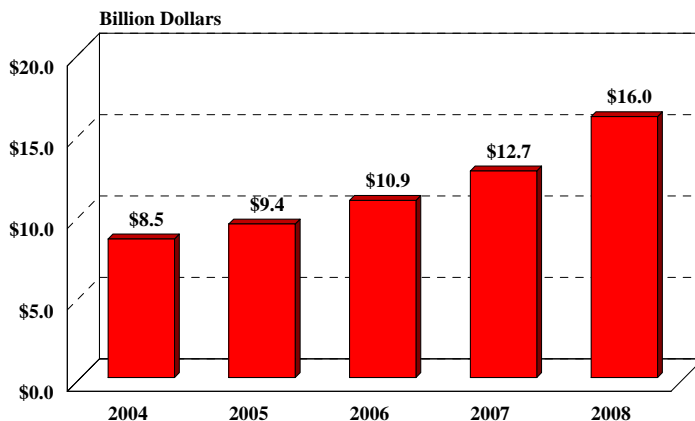
The situation is even more dramatic for the food sector. The Mexican government ordered the closing of approximately 35,000 food establishments for almost a week and restricted access to most of the key tourist destinations in the country. The impact on the food distribution sector has been disastrous, particularly for the suppliers of high value food products demanded by resorts and

restaurants which require high quality products imported from the U.S.

In 2008, the U.S. exported more than \$16 billion in agricultural and food products to Mexico, a constantly growing market and the second major destination for U.S. agricultural products behind Canada. The top exported items were coarse grains, red meats, and soybeans that represent approximately 30 percent of the total. The rest of the exports include cotton, wheat, poultry and dairy products.

We know that the impact of the “swine” flu crisis in Mexico will be important for U.S. exporters. The magnitude of the effects will depend on how long the Mexican measures continue and how the Mexican domestic and tourist consumers react. It is quite likely though that the impressive and continued growth of U.S. exports to Mexico in recent years will slow down (Figure 1).

Figure 1. U.S. Agricultural Exports to Mexico, 2004-2008



Source: FAS/USDA

Mexico is the most important importer of U.S. sorghum and the second largest market for U.S. corn, pork, and beef. Although the H1N1 or “swine” flu cannot be acquired through the consumption of pork meat (CDC), consumers in Mexico and in other countries have reduced purchases of pork products affecting the domestic and international demand for pork.

In 2009, the future of U.S. pork exports to Mexico looked promising; in the Jan-Feb 2009 period pork exports reached \$228 million, a 20 percent increase over the export level of the same period in 2008 (ERS,USDA).

However, the effect of the “swine” flu on U.S. agricultural exports to Mexico could be mixed. On one hand, corn and soybean exports, used mostly by the domestic livestock production sector, including the pork sector, may decrease. Most likely, the swine flu will cause a decrease in the domestic and international demand for Mexican pork, therefore decreasing the demand for feed grains (corn and soybeans).

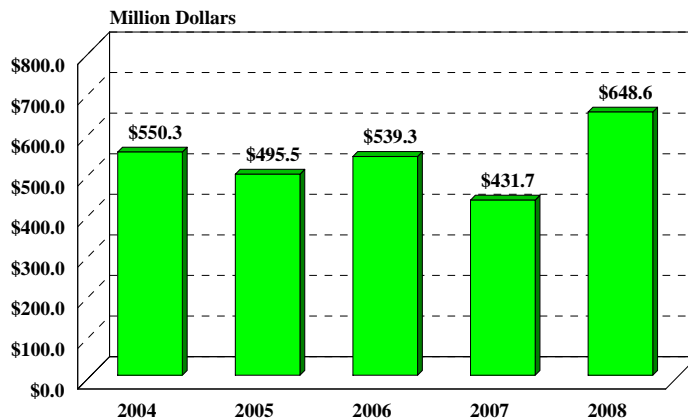
The timing of the “swine” flu crisis is especially critical for Mexico. In July 2008, the Mexican and Chinese governments signed an agreement that would allow the recognition of the inspection system in both countries, and lead to increased export opportunities, including pork from Mexico to China. The Mexican government was also pushing the international market to recognize that many Mexican states had been declared free of classic porcine fever, in order to allow more Mexican companies to export, mainly to Japan.

On the other hand, demand for U.S. sorghum grain and poultry products may increase. It can be hypothesized that a number of Mexican consumers will substitute chicken meat for pork meat, increasing the demand for poultry products. With the increasing demand of poultry products, we could expect an increase in the demand for U.S. sorghum, the grain preferred by the Mexican poultry industry.

All the previous events will most likely

reduce U.S. pork exports to Mexico delivering a hit to American producers after a great year in 2008. During the 2004-2008 period, pork exports from the U.S. to Mexico reached a low in 2007 and then expanded considerably in 2008 (Figure 2). U.S. pork exports to Mexico increased from \$431 million in 2007 to \$649 million in 2008; a 50 percent increase (Figure 2).

Figure 2. Pork Exports from the U.S. to Mexico, 2004-2008



Source: FAS/USDA

The "swine" flu crisis in Mexico will most likely affect U.S. exports of corn, soybeans, sorghum, beef, poultry, and pork. Corn, soybeans, and pork exports could decrease whereas sorghum and poultry exports may increase. The repercussions of the crisis on the Mexican tourism sector (23 million tourist per year), with visitors cancelling trips to the country, will have an additional impact on high quality beef demand and other high value food products. All this is happening at a time of global economic crisis in which both countries are facing uncertain prospects.

NAFTA has created strong integration among the North American countries, connecting our economies in good and bad times. Strategies to protect the agricultural sectors in both countries will certainly benefit from a coordinated effort of analysis and mitigation policies.

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