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Carlos Navarro

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Egg Prices Increase Sharply in Mexico Amid Concerns of Market Speculation

by Carlos Navarro

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The last time there was an avian flu epidemic, the price of eggs soared in Mexico. Prices increased sharply in the summer of 2012 following news that the disease had killed 2.5 million chickens in Jalisco state, which accounts for more than half of Mexico's chicken production ([SourceMex, July 11, 2012](#)). A smaller spike in prices occurred in 2013, when avian flu was detected in Guanajuato at the start of the year. ([SourceMex, Feb. 23, 2013](#)). The market reaction was smaller then, since the state only accounts for about 3% of Mexico's chicken production.

Avian-flu related news has again caused egg prices to increase in Mexico, but this time the outbreak has occurred outside the country's borders, infecting turkey flocks in the eastern US. There was little impact on US chicken flocks, but prices of chicken products rose sharply north of the border, and this was cited as one factor behind the increase in the cost of eggs in Mexico. The disease has inflected turkey flocks in some areas along the Mississippi River and the Great Plains, although a winter outbreak was contained in the Pacific Northwest and California.

"We have not experienced avian influenza in any of our flocks," Mike Cockrell, chief financial officer for Sanderson Farms in Laurel, Mississippi, told Bloomberg news service in mid-March. "We have a fairly heightened level of biosecurity ongoing all the time, whether or not there's highly pathogenic avian influenza in the neighborhood or not. We are in a heightened state of alert."

With avian flu generally avoiding chicken flocks in the US and almost nonexistent in Mexico, the price of eggs has risen by 20% in Mexico. In Mexico City, eggs were selling at an average retail price of 34 pesos (US\$2.24) per kg, compared with 28 pesos (US\$1.85) per kg at the end of December. In some locations, the retail price had risen to about 40 pesos (US\$2.65) per kg.

Wholesale prices at the main distribution points in the country stood at 29.6 pesos (US\$1.95) per kg, the highest level since the outbreak of avian flu in Jalisco in 2012.

Some industry sources blame currency exchange

Some Mexican poultry industry officials attribute the higher cost to another US-related factor—a strong dollar versus the Mexican peso. The dollar hovered at about 13 to 13.50 pesos per US\$1.00 for most of last year, but the US currency began to strengthen gradually at the end of 2014 to surpass 15 pesos per US\$1.00 by the end of March. On March 30, the currency exchange was 15.26 pesos per US \$1.00.

In addition to the strong dollar, producers say prices are driven by strong global demand for eggs and tight supplies in Mexico.

The currency factors, however, are what most concern producers, who believe the Secretaría de Hacienda y Crédito Público (SHCP) or the Banco de Mexico (central bank)—must take action to reverse the disparity of the peso versus the dollar because Mexico is the world's largest consumer of eggs. "Either the SHCP or the central bank must do something to halt the rise of the value of the

dollar versus the peso or the situation is going to worsen," said César de Anda Molina, a Mexican entrepreneur who heads the International Egg Commission (IEC).

Producers say egg prices have risen even though the costs of production are lower. "One cannot deny that the prices of grains and oilseeds have declined, but this advantage has disappeared with the devaluation of the peso," said de Anda.

Jorge García de la Cadena, president of the Unión Nacional de Avicultores (UNA), acknowledged that the peso has depreciated versus the US dollar, but he said this does not justify the increase in egg prices. He suggested that the currency factor is only relevant when imports are required. "It is not necessary to boost imports at this time," said García de la Cadena, who noted that supplies of eggs and chickens are sufficient to guarantee adequate supplies for the Mexican consumer market.

"We are continuing to work to ensure that consumers have easy access to high-quality foods," said the UNA president.

García de la Cadena also acknowledged that there is a seasonal spike in prices during the Easter season because of increased demand, but the increase should not be significant. "Historically, prices have increased at this time of year," he said.

Some administration officials agreed with this conclusion. "At this time of year, during Lent and ahead of Easter week, the demand for eggs increases in our country," Agriculture Secretary Enrique Martínez said in an interview during a trip to Spain. "This is purely a seasonal trend."

Government investigates market conditions

The disproportionate increase in prices has some analysts worried, and there are suggestions that the retail sector might be behind the recent spike in the cost of eggs. "I think this is a matter of opportunity by the retail chains and large companies like San Juan and Bachoco to increase their margin of profit," analyst Elizabeth Hernández of Grupo Consultor de Mercados Agrícolas (GCMA) said in an interview with the daily business newspaper *El Economista*.

The government also believes the large companies and retailers might be behind the price increase. The Secretaría de Economía (SE) intends to launch an investigation of the poultry industry, given the increase of 36% in the price of eggs in the past year. The SE's Procuraduría Federal del Consumidor (PROFECO) and the government's anti-monopoly commission (Comisión Federal de Competencia Económica, COFECE) are investigating whether monopolistic and other anti-competitive practices have led to the high prices.

"That is why we are launching the investigation," said Economy Secretary Ildelfonso Guajardo Villarreal in reference to reports that one or more companies have engaged in price speculation. "Our task is not necessarily just to investigate whether there is a speculator, but to determine if there are conditions that are preventing healthy competition."

The government is investigating market conditions, given that the prices at the retail level are much higher than the cost of production. "PROFECO has asked producers information about how much they are asking for their product and the costs that they are incurring," said Guajardo Villarreal.

The economy secretary pointed out, for example, that supplies should not be a problem because the inventory of laying hens has recovered to about 200 million, about 8% higher than in 2011—the year before the avian-flu outbreak in Jalisco.

One egg wholesaler said the company wants to help reduce prices by increasing supply. At the end of March, Huevo Santiago announced plans to increase the amount of eggs leaving from its four distribution centers in Querétaro state to central states. Company officials said they would not only increase supplies to about 1.5 million eggs per week but also sell them at a price of 29 pesos (US \$1.91) per kg. Company officials said Querétaro Gov. José Calzada Rovirosa's administration has come out in support of this proposal.

In México state, the government is adopting an entirely different strategy. In mid-March, Gov. Eruviel Ávila Villegas announced plans to spend 10 million pesos (US\$660,000) to acquire powdered eggs from the government's foodstuffs agency (Sistema de Distribuidoras Conasupo, DICONSA) to distribute to low-income families.

Ávila Villegas said his administration would also continue to promote programs that support families that breed their own poultry flocks. In addition, he said he would increase the development of egg production and distribution centers in the state. [Peso-dollar conversions in this article are based on the Interbank rate in effect on April 1, 2015, reported at 15.15 pesos per US\$1.00.]

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