



MCT COMPASS

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Musing on 2002

With prices that rose earlier and further than anyone expected, 2001 has turned into one of the strongest years ever for dairy commodity prices. Most of that strength can be attributed to a dramatic reversal in supply growth, because overall 2001 demand can best be described as “sluggish.”

We head into 2002 with expectations for a modest recovery in supplies, and uncertain shifts in demand. In our view, next year’s prices will be lower than this year’s, but near historical norms.

Supplies

USDA’s latest outlook calls for a 2.6% rebound in milk production next year, fueled by a 3.3% gain in production-per-cow. However, this projection may be too optimistic. Per-cow

productivity typically increases about 350 lbs. per year, and USDA’s forecast of nearly 600-lb. improvement in 2002 would represent unprecedented growth.

Some of the same factors that depressed productivity in 2001 will continue to dog dairy producers in 2002. Lack of quality forage, weather issues and a leveling off of the use of bST are expected to limit gains to something closer to the historical average.

The other half of milk supplies is cow numbers, and that trend-line is pointing down. A severe shortage of replacement heifers will reduce the number of cows in the milking string next year. Further, environmental issues are curbing dairy expansions in the Western region, while ongoing competitive pressures are forcing out

Midwest and Northeast producers.

With these constraints, we expect U.S. milk production to expand just 1% in 2002.

Imports

Supplies will be supplemented by imports in 2002, but probably not to the degree as we saw this year.

Imports played a large role in 2001, particularly in the fat market. Over-quota imports of butter and butter substitutes through October were 37.5 million lbs., while in 2000, over-quota butter imports were virtually nil. Over-quota imports of American-style cheese were 28.5 million lbs. in the first 10 months of the year, triple the rate of imports in 2000.

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KEN’S CORNER



*by Ken Meyers
President
MCT Dairies, Inc.*

We’re encouraged by the resiliency of the U.S. economy. Dairy consumption is holding up and the outlook seems much less gloomy than it did on Sept. 12. In fact, many of the is-

sues we addressed relative to dairy demand in last month’s MCT Compass are indeed coming to pass.

Meanwhile, to keep up with the rising demand for further processed cheese items, like special pack sizes and customized cuts, MCT is proud to announce the ribbon-cutting of our new manufacturing division, MCT Manufacturing Inc., in Appleton, Wis. (see story, page 2).

We built MCT Manufacturing with the intention of complementing, not competing with, the products and services our customers already offer. And providing these services in-house allows us faster turnaround time and better quality control.

I’d like to extend a personal invitation to any of our industry friends to visit our new facility. Feel free to contact me directly to set up a visit. □

Holiday buying surge

The cheese and butter markets remain in close balance, and we expect them to stay that way for the next six months. The price strength we're seeing today is a result of end-of-year holiday buying. Cheese and butter production are increasing seasonally, which should limit price gains for the foreseeable future. □

MCT Manufacturing Division now open

This month, MCT Dairies opened the doors on MCT Manufacturing Inc., a new 12,000-sq.-ft. facility in Appleton, Wis. The processing plant is designed to run a variety of cheese conversion projects, from cut and-wrap to cheese reclamation. It also will handle specialty custom projects and is fully equipped for dairy product recovery.

"This new facility will enable us to deliver cheese in forms and packages that meet the needs of our customers," says Ken Meyers, president of MCT Dairies. "We are an extension of other manufacturers' facilities. We want to serve as an adjunct to their operations and provide additional services that they may not already have."

To ensure product quality and safety, MCT worked with Brain Wave Technologies, Madison, Wis., to implement a full range of GMP and HACCP programs in the plant. Two dairy-industry veterans, plant manager Mike Mason and plant supervisor David Wangerin, will run the facility.

The state-of-the-art plant was built with extra capacity and MCT is looking for additional projects, Meyers adds. □

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV
NOV	1.2575	1.2300	11.30	1.3475	11.98
DEC	1.2750	1.2475	11.82	1.2800	11.99
JAN	1.2525	1.2250	11.46	1.2500	11.63
FEB	1.2550	1.2275	11.40	1.3400	11.81
MAR	1.2750	1.2475	11.35	1.4500	12.33
APR	1.2550	1.2275	11.38	1.3800	12.07

* Block, barrel and butter are monthly averages of CME prices.

Musing on 2002 ...

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However, lower U.S. prices will likely deter imports in 2002.

Additional plant capacity

Additional cheese processing capacity coming on-line in California from Leprino Foods and Land O'Lakes in mid-2002 is expected to draw 6 million lbs. of milk a day. This year's peak production in the state was about 93 million lbs. a day. In light of environmental restraints, it remains to be seen in producers can tack another 6 million lbs. on top of that next year. If not, the new capacity will pull milk from existing plants, probably butter/powder facilities. That could result in lower butter production in the second half of 2002.

What about a tilt?

World markets have softened for skim milk powder. Europe has reinstated its export subsidies for powder. U.S. manufacturers continue to ship 20% of their production to Uncle Sam. If CCC

purchases persist, another tilt could be around the corner.

Prices

Uncertain demand and a modest rebound in supplies could lead to lower-than-average dairy prices during the first quarter of 2002. However, we look for a price recovery by the second quarter, and price strength in the second half of the year in line with historical levels.

Don't be surprised if butter prices don't fall too far and begin to rise rapidly during January and February. Easter/Passover holidays come early in 2002, the end of March. Butter prices are expected to rise rapidly in February and then decline after the Easter/Passover buy in. Manufacturers and end-users are likely to build stocks in April and May stabilizing the butter price near \$1.50 per lb.

Oh yeah, it's also a Farm Bill year

Several drafts of a 2002 Farm Bill are floating around Congress. When all is said and done, we expect a continuation of the support price program at \$9.90, full funding of the DEIP and no changes to the Federal Orders. Any other changes will be hotly contested. □

