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MCT COMPASS

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The Other Cheese

It's fairly common knowledge that American cheese and Italian cheese production account for the vast majority of cheese production in the United States. In fact, the two categories together account for 84% of the 8.6 billion pounds of cheese produced in 2003.

The remaining 16%, or 1.5 billion pounds of cheese, comes from a variety of different styles, such as brick, cream cheese, Hispanic, Limburger, Muenster, Swiss and "all other types."

The "all other types" category is a catch-all for lower volume specialty cheeses such as Feta and Gouda. It also includes cheese types that if production data were to be published, proprietary information would also be disclosed. For example, production data for blue and Gorgonzola cheeses haven't been published as a stand-alone category since 1997.

Since 1997, total cheese production has increased an average of 2.7% annually. The cheese type that has experienced the most robust growth over the same period is Hispanic cheese. From 1997 through 2003, Hispanic cheese production increased 64.7 million pounds and the category has posted a compound average growth rate of 11.7% over the past seven years. Growth in Hispanic cheese production is attributed to both a growing Latino community that is demanding authentic dairy products as well as solid gains in consumption of Hispanic cuisine.

Hispanic cheese comes in three different styles: fresh, hard, and melting cheeses. The fresh cheeses include Queso Blanco, Queso Fresco and Queso Para Freir. Historically, when made in Latin American countries, these cheeses had shelf lives of less than one week and were delivered to market wrapped in banana leaves. Unsold pieces were returned after five days. Using modern processing and refrigeration technology, the shelf life on most fresh Hispanic cheeses is close to 90 days.

Hard, grating-style Hispanic cheeses include Cotija and Anejo Enchilado. They are distinguished by their strong flavor and dry, crumbly texture. Cotija is

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KEN'S CORNER

by Ken Meyers
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With the New Year upon us, it's time to learn from the past and look to the future. One thing that's certain is that diversification in the cheese market is good and will become even more important in the years ahead. Not only has the popularity of the Atkins and South Beach diets resulted in increased consumption of cheese, but the diets have also given the cheese industry a great opportunity to showcase and promote cheeses that had been losing ground to American and Italian cheeses.

Changing demographics and a resurgence in the popularity of large cities, where upscale and ethnic restaurants abound, means that American and processed cheeses are ever so slowly being replaced by ethnic cheeses and a rebirth of a few of the old favorites. For instance, cheeseburgers topped with Swiss cheese have become common place, and black bean quesadillas topped with Queso Que Asadero are standard fare at many happy hours. As an industry, we need to remember that the key to success is being able to change with the times. Happy New Year! MCT

2005 to Bring Change

Dairy product markets remained strong through year end 2004. The New Year could bring a turn from a bull market to a moderate bear market. Low carryover stocks of butter and modest American cheese carryover limit the downsize risk in those markets. An early Easter (March 27th) could keep markets above their historical averages. But high milk prices during the past year, along with more bST, approval of feed-additive Rumensin and lower feed costs are expected to bring on more than enough milk beginning Q2 2005. MCT

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
Dec	1.5923	1.5243	16.15	1.7083	13.50
Jan	1.4665	1.4415	13.60	1.5500	12.30
Feb	1.4200	1.3950	13.10	1.6450	12.45
Mar	1.4500	1.4250	13.15	1.6950	12.60
Apr	1.4050	1.3800	13.10	1.5400	12.25
May	1.3750	1.3500	12.55	1.5250	11.90

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

Growth in Hispanics...

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typically sprinkled on top of refried beans and salads.

Hispanic melting cheeses are also being used by more restaurants because they melt without separating into solids and oil. These cheeses include Queso Que Asadero, Queso de Papa, and Oaxaca and are commonly found in quesadillas or on nachos.

The two largest Hispanic-cheese-producing states are also the two largest cheese-producing states, Wisconsin and California. In 2003, California accounted for 62% of the Hispanic cheese produced, followed by Wisconsin with 26% of the market.

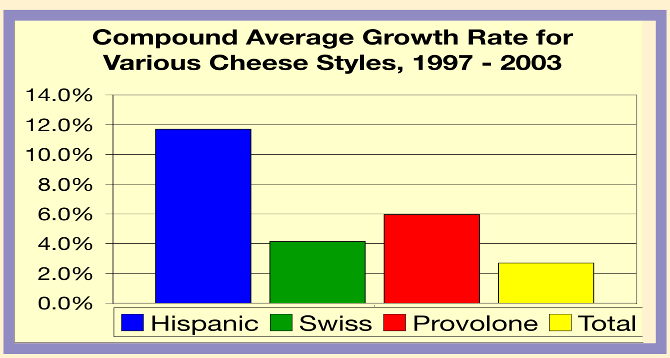
Although California has been the dominant producer in Hispanic cheeses, its market share has fallen from 66% in 1997 to 62% in 2003. Meanwhile, Wisconsin has grown its share of the Hispanic cheese category from 21% to 26% during this same period.

Growth in two other cheese types, Provolone and Swiss, is also noteworthy. Provolone, an Italian-style cheese, is included in USDA's calculation of total Italian cheese. While not included in USDA's monthly Dairy Products report, annual production of Provolone cheese can be found in USDA's annual Dairy Products report.

Since 1997, the production of Provolone cheese has increased by 5.9% annually, resulting in a volume gain of 82.7 million pounds. That's more than last year's production of Muenster cheese. Production of Provolone cheese reached 262.7 million pounds in 2003.

The "other" cheese that's experiencing the third greatest gain in production is an old favorite, Swiss cheese. A cheese once considered too strong for the changing consumer palate is making a comeback. Since 1997, production has increased an average of 4.1% annually and has grown 57.2 million pounds to 264.8 million pounds Swiss cheese production remains centered in Ohio, where 38% of the nation's Swiss cheese is produced.

Demand for Swiss and Provolone cheeses is also being fueled by the rise in popularity of upscale fast food service outlets and a growing demand for specialty sandwich cheeses and there is nothing on the horizon that points to a slowdown in this trend. Despite being relegated to the "other" category, these specialty cheeses will continue to gain ground in 2005 and beyond. MCT



Cheeses in the other category have shown strong growth over the past several years. Source: USDA/MCT Dairies.

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