



# MCT COMPASS

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## ¡Ay Caramba! Where's the Cheese?

Over the past 10 years, a growing milk supply has been increasingly funneled into the specialty, made-on-demand cheese categories and away from the traditional, more-storable domestic varieties of American and Cheddar. This shift reflects a change in cuisine, demographics, and taste as well as an overall increase in cheese consumption. While all of this is great news for the cheese making industry, the way cheese is priced has not kept pace with the changes.

Production of all the major cheese varieties has shown phenomenal growth over the past 10 years. Cheddar production grew from 2.55 billion pounds in 1996 to 3.05 billion pounds last year to

show an annual average increase of 1.7%. American cheese production growth, which includes Cheddar production, was not far behind, up an average of 1.6% annually, from 3.3 billion pounds in 1996 to 3.8 billion pounds last year. The strong growth in these two major categories, however, has not kept pace with the growth in the Italian and Hispanic varieties.

Looking first at the Italian varieties, both mozzarella and the "Other" category, which includes Parmesan, Romano, Gorgonzola, and others, have shown average annual growth rates that are more than double those of American and Cheddar over the past 10 years. The total Italian cheese category grew by almost 1 billion pounds from 1996 to 2005. Growth in pizza sales, the popularity of Italian cuisine, and the

increasing availability of Italian-style cheeses in delis and specialty markets have all helped to move the total volume of these cheeses more in line with the traditional domestic varieties.

Total output of Italian style cheeses of 3.806 billion in 2005 is just slightly behind American cheese production of 3.807 billion pounds. If current trends hold, Italian varieties will surpass American cheese production sometime this year. Likewise, mozzarella cheese production is slated to outpace Cheddar cheese output later this year.

While Hispanic cheese production in the United States is still in its youth, the category is the

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## KEN'S CORNER



*by Ken Meyers  
President  
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While being a cheese maker today holds many challenges, its rewards are numerous. Not

only are consumers telling us they love our products, but they're telling us they want more variety within the cheese

category. Their tastes and stomachs are making more room for more and varied cheeses. The more variety we as an industry can provide consumers, the healthier the industry will be in the long term.

However, that means cheese manufacturers of specialty cheeses must bear the risk of the entire industry when prices hit a prolonged soft spot. Because milk is priced off Cheddar cheese production only,

producers of Cheddar cheese enjoy more price certainty in a down market.

They also know that in a worst-case scenario, they are able to sell to the government what cheese they can't sell to the public under the Dairy Price Support Program. Cheese makers of Romano, Queso Blanco, Swiss and the numerous other specialty cheese, do not have that option. **MCT**

## Bear Takes Control

The CME cheese and butter markets have broken through the psychological \$1.20 per pound market barrier with ease. It is unlikely that the dairy industry will receive any bullish indicators until mid-year when cow numbers are more likely to be in line with last year's numbers and Mother Nature could step in to curtail output per cow. Until then,

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
Feb	1.2029	1.1776	12.19	1.1921	11.00
Mar	1.1800	1.1550	11.09	1.1750	10.70
Apr	1.2500	1.2250	11.45	1.2400	10.90
May	1.2600	1.2350	11.63	1.3000	11.20
Jun	1.2700	1.2450	11.77	1.3250	11.35
Jul	1.3000	1.2750	11.83	1.3500	11.70

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

there is expected to be an abundance of milk and dairy

products, which will result in lower milk prices. MCT

## Hispanic gains soar...

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fastest growing of the major cheese varieties. Over the past 10 years, the category has enjoyed an average annual growth rate of 14.8% and there are now more than 40 U.S. cheese plants making Hispanic cheeses. The growing popularity of Mexican and Latin American cuisine and an increasing Hispanic population in the United States has vaulted this variety into the limelight.

Despite this category's rapid rise, many consumers are unfamiliar with the Hispanic varieties. Five major varieties of Hispanic cheese are made in the United States. The first, Queso Fresco, a soft fresh cheese, is a staple in Mexican cooking and is often used as a topping for enchiladas. Queso Quesadillo, a good melting cheese, is mostly used in quesadillas, stuffed chilies, and nachos. Queso Blanco is used when grilling or frying because, while it turns creamy, it doesn't melt. Asadero is used in a variety of dishes, including nachos and

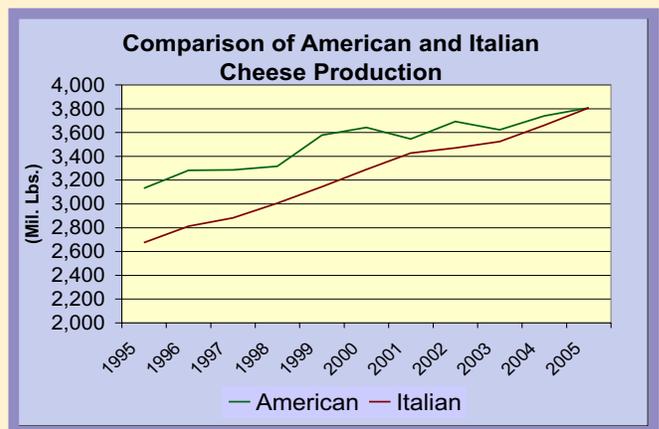
enchiladas. And finally Cotija, or Queso Anejo, is a firm shredding or grating cheese that is most often used as a garnish. As consumers become more acquainted with Hispanic varieties, more of these cheeses will be marketed.

Swiss cheese is a case in point. For a long time, Swiss cheese was the standard of cheese excellence, gracing cheese trays at festive gatherings and fine restaurants. Somewhere along the line, however, the cheese's popularity began to wane and demand for the product plummeted along with production.

Swiss began to make a resurgence in 1999 and demand has been on the rise ever since. Total output of Swiss cheese has risen from its low of 206.4 million pounds in 1998 to a high of 292.8 million pounds last year to show an annual average growth rate of 3.4%.

Despite the phenomenal growth

rates of these cheeses, the industry continues to price milk made into cheese solely off Cheddar cheese prices even though Cheddar's share of the total cheese pie has been shrinking for the past 10 years. In 1996, Cheddar's share of the total cheese market was 35%. By 2005, Cheddar's share had slipped to 33%. Moreover, the only cheese purchased by the Dairy Price Support Program is Cheddar, which means makers of other cheeses showing the most growth take much bigger risks in a down market. MCT



Italian cheese production is on track to surpass American cheese output sometime this year. Source: USDA.

