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MCT COMPASS

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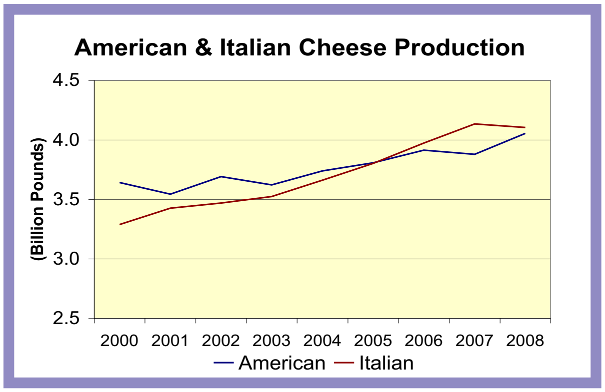
Where's the Cheese?

Total cheese production in 2008 reached 9.8 billion pounds. Together Italian and American cheese production make up 82.9% of total cheese production. Italian cheese production surpassed American cheese production in 2005, but American cheese production narrowed the gap last year with a remarkable 4.6% increase in production. Italian cheese production in 2008, despite a 0.7% year-over-year decline, still outpaced American cheese production, but only by a mere 49.0 million pounds.

Without a doubt the two largest cheese-producing states are Wisconsin and California. Together these two states accounted for 46.8% of U.S. cheese production in 2008. A couple of years ago, it appeared that California was on a fast track to surpass Wisconsin in cheese production, but that has yet to happen.

In 2008, Wisconsin produced 2.5 billion pounds of cheese, bolstering its No. 1 position by increasing production 1.9% above 2007 output and widened the gap with California by 385 million pounds. Wisconsin cheese production has grown steadily albeit at a slower rate than its Western counterpart. Historically, Wisconsin's cheese production has been aided by the use of Western produced nonfat dry milk and condensed milk. However, during the past year or two, greater milk production in



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KEN'S CORNER

by Ken Meyers
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Midwest cheese makers have become more competitive with Western cheese makers, primarily due to transportation costs but also to updated facilities and a growing milk supply. With the nation's population heavily located in the eastern half of the country, transportation costs remain a key factor in where Western cheese is sold.

During periods of rapidly rising fuel and transportation costs, Midwest cheese makers gain the advantage. Last year proved that point. Crude oil prices skyrocketed to just under $150/barrel, pushing gasoline prices well above $4/gal. in most markets. These record-high fuel costs made it substantially more expensive to truck Western cheese to Eastern markets.

But crude oil and gasoline prices have since returned to earth, cheese demand has hit a slump, and cheese stocks are building. Some cheese will likely have to be discounted to bring supply back in balance with demand.

Once that's complete and the market is cleared, the longer-term outlook for cheese production, regardless of where it's produced, looks good. MCT

Stuck below $1.30...

Rising and staying above $1.30 in the CME spot cheese market is proving difficult. Cheese tested $1.30 in February, only to return to levels below $1.20. After a few weeks, the market retested $1.30, before dropping back below $1.25. American cheese stocks as of Feb. 28 totaled 577.4 million pounds, up 12.5% or 64.4 million pounds vs. a year ago. Some stock building was expected, but not a gain of 12.5%. Prices are likely to trade sideways until the herd contracts. MCT

MCT Forecast

	Block*	Barrel*	Butter*	Whey**	NFDM**	Class III	Class IV
Mar	1.2455	1.2738	1.1770	0.1650	0.815	10.45	9.60
Apr	1.2850	1.2900	1.2200	0.1700	0.810	11.00	9.85
May	1.3100	1.3150	1.2550	0.1750	0.810	11.10	10.10
Jun	1.3200	1.3000	1.2850	0.1800	0.820	11.40	10.25
Jul	1.3500	1.3300	1.3200	0.1850	0.835	11.90	10.55
Aug	1.4000	1.3750	1.3700	0.1900	0.850	12.25	11.00

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

Midwest recovers..

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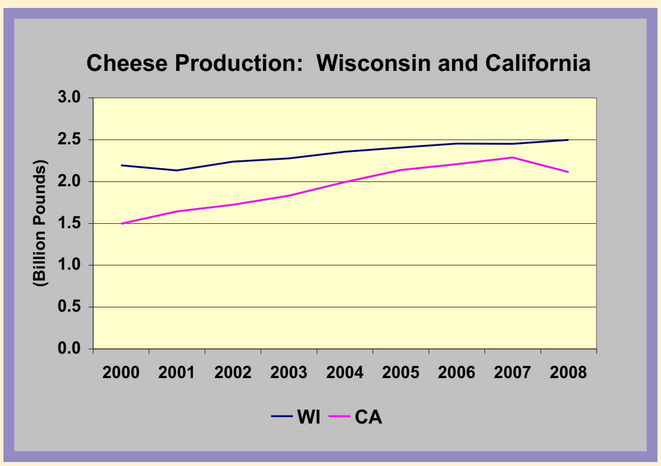
the state has led to additional cheese production and even the reopening of a cheese plant in Greenwood.

In 2008, California produced 2.1 billion pounds of cheese. After coming within 164 million pounds of Wisconsin in 2007, California's cheese production declined by 7.7% in 2008 largely due to the closing of Golden Cheese at the end of 2006. Without any significant expansions or new plant capacity coming online, Wisconsin's position as the No. 1 cheese producing state is secure.

While U.S. cheese production in clearly dominated by Wisconsin and California, the second tier of players is not insignificant. This tier is made up of Idaho, New York, Minnesota, and New Mexico. In 2008, Idaho produced 805.3 million pounds of cheese, followed by New York with 714.3 million pounds, Minnesota with 641.8 million pounds, and New Mexico with 603.0 million pounds. In total these four states produce 28% of the U.S. cheese supply. Together with Wisconsin and California, the top six cheese producing states account for 75% of U.S. cheese production.



Looking forward, it's difficult to predict where the next expansion in cheese production will occur. Some of the newest facilities have been in states outside the top six. For instance, Leprino Foods chose to locate its new facility in Colorado; a local dairy producer recently opened Green Meadows in Hull, Iowa; and area dairy producers recently selected Coopersville, Mich., as the site to build a new cheese and/or powder plant.

Innovation in the dairy industry will continue. And while it's safe to assume that large plants that produce commodity-type cheese will be built where the growth in milk cow numbers occurs, smaller plants could be built anywhere. MCT

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