



MCT COMPASS

A complimentary service of MCT Dairies, Inc. • www.mctdairies.com

Bring on the comfort food

Conventional wisdom says the dairy industry is recession-proof. And that theory is about to get tested.

Unfortunately (or maybe fortunately) we don't really have a good precedent to go by. It's been 10 years since we had a recession in this country and 20 years since the one prior to that, and consumer eating patterns have changed so much in that time that we really don't know what to expect.

We do know that in the first half of 2001, when overall economic growth was grinding to a halt, consumer spending was marching right along, keeping demand for dairy components moving up with it. The Department of Commerce says Americans spent almost half a trillion dollars on food in the first half of this year, up 4.2% from a year earlier. That growth rate is

lower than the previous two years, but still higher than the historical average. USDA says cheese consumption increased 3.0% in the first half, while butter sales dropped 3.7% and total milk disappearance rose 1.4%.

The economy was teetering before the terrorist attack of Sept. 11, and went into a full-scale tailspin after that. Consumer confidence has plunged to a five-and-a-half year low, according to the Conference Board, leading the retail sector to pare back inventories in expectation of a weak holiday spending season.

Will dairy consumption follow suit? Certainly sales to the hospitality sector will take a hit; hotel occupancy rates are still off significantly and popular vacation destinations such as Las Vegas, Disney World and New York are downbeat and crowd-free.

But the news on consumption won't be all negative. In tough economic times, consumers forego luxuries and discretionary spending before cutting back on the basics, like food. Therefore, we expect them to keep drinking milk and eating staples like cheese and butter.

Further, as Americans tighten their belts, they'll be likely to "trade down" from white-table-cloth to casual dining to fast-food. This should keep the cheeseburger-and-pizza business thriving, while driving consumption of mac n' cheese, grilled cheese and other comfort foods at home. Also, denied larger indulgences, consumers will be looking for little ways to reward themselves, perhaps with a dessert cheese or premium ice cream.

Continued on page 2

KEN'S CORNER



*by Ken Meyers
President
MCT Dairies, Inc.*

MCT Dairies is one of the dairy firms geographically closest to Ground Zero of

the Sept. 11 terrorist attack on New York, and as such, we felt it intensely and personally. Many of us

here have lost friends and neighbors and all of us have had our lives irrevocably altered.

To our friends and colleagues who called during that tragic week to express their concern, we respond with a simple, sincere "thank you." The dairy industry is filled with great people and we've been reminded of that often in the last couple weeks.

We're getting back to business, each day maybe a tiny bit easier than

the one before. We won't forget what happened on Sept. 11, but we're resolved to keep moving forward.

We believe the president is right when he says the most important thing Americans can do now is try to "get back to normal." No doubt we have a long road ahead of us, but we're convinced the best approach is to stay focused on the principles and values that got us here. □

Markets wavering

Milk supplies and product production are increasing seasonally. Economic concerns are making buyers nervous, tempering demand. Cheese and butter markets are vulnerable right now. However, we could see a temporary bump in November on the strength of holiday demand. □

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV
SEP	1.7166	1.6866	15.93	2.0563	15.69
OCT	1.6875	1.6575	15.98	1.7500	13.91
NOV	1.7125	1.6825	15.91	1.8500	13.94
DEC	1.5550	1.5250	15.42	1.6650	14.11
JAN	1.4000	1.3700	13.28	1.2500	11.99
FEB	1.3225	1.2925	12.66	1.3400	11.81

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

Comfort food...

Continued from page 1

Some consumers also will try to replicate their favorite restaurant dishes in their own kitchens. Market-ers of cheese, butter and cream should be developing products, positioning statements and usage ideas now to respond to this coming shift.

The dairy markets have been softening since mid-summer. It remains to be seen how resilient dairy sales can be now that we've left the "feel-good" economy behind. □

Cold storage conundrum

When some pundit somewhere made up the expression "garbage in, garbage out," he could have been talking about USDA's *Cold Storage* report. No other industry report is so frequently and dramatically revised, so stupefyingly unreliable, so ineptly reported, administered and audited.

The law Congress passed last year to require companies to report inventories was deemed unenforceable by USDA. So the data continues to be suspect. In what sounds like a broken record, last week USDA cited "reporting error" for a 31.4 million lb. revision in American cheese stocks. Instead of holdings declining 25.1 million lbs. during July, now the department says they actually *increased* by 6.3 million lbs. This "found" cheese will have a profound effect on the

psyche of cheese buyers heading into the holiday season.

What is USDA's directive in collecting dairy inventory numbers?

USDA is charged to collect data from private and public cold storage warehouses and from dairy manufacturing facilities whose products are stored 30 days or more. It is a general report that includes inventory estimates for more than 75 commodities. All food items are reported regardless of the number of days stored at the time of the report. In other words, stocks of cheese less than 30 days of age are to be included in USDA's *Cold Storage* report if the cheese is expected to be there more than 30 days.

Under the butter category, respondents are asked to include anhydrous milk fat, butteroil and unsalted butter stocks. By lumping butteroil and butter into a single butter category, USDA overestimates the volume of

butter in storage and underestimates the volume of butterfat. USDA says the butter inventory data includes both domestic and imported butter, but its questionnaire fails to include the nomenclature "domestic and foreign made" in the description.

The department gets 900 reports each month, representing 70% of the nation's cold storage warehouse capacity. Firms that are not on the list or that have never reported are not represented in the data. For firms that report late or sporadically, estimates are made by extrapolating historical data.

Unfortunately, the *Cold Storage* report relies on the integrity and consistency in reporting by the warehouse and of the state and federal statisticians reviewing the data. Let's get the law shored up to give USDA the power to enforce mandatory and accurate inventory reporting. In the meantime, the industry is stuck with nothing more than "garbage." □

