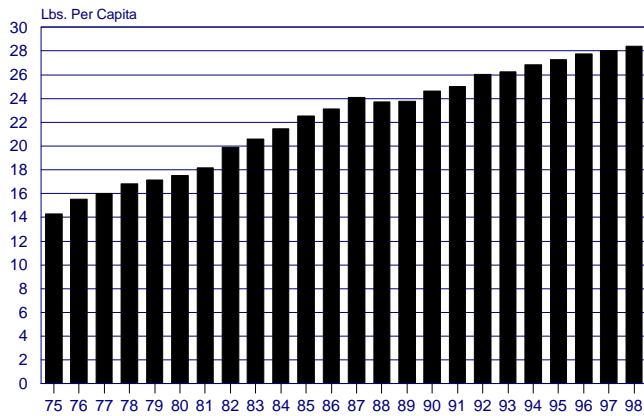


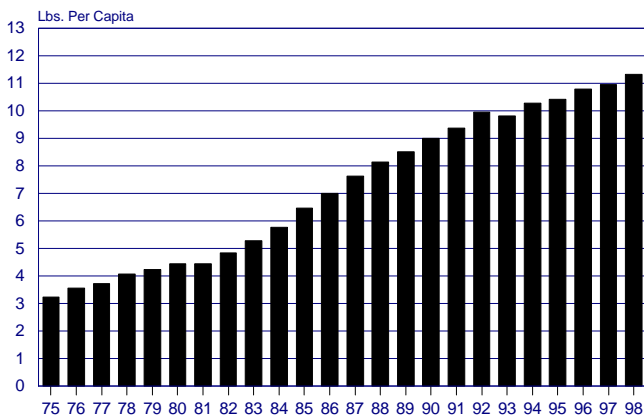
# MARKETING SERVICE

## BULLETIN

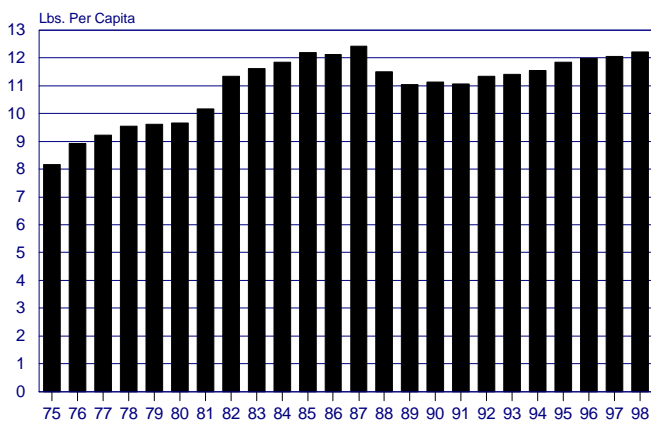
**All Cheese  
Per Capita Consumption**



**Italian Cheese  
Per Capita Consumption**



**American Type Cheese  
Per Capita Consumption**



### Cheese Consumption Continues Upward March

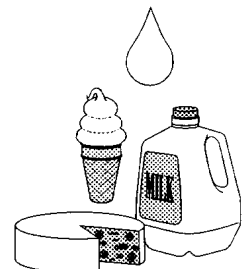
Increases in cheese consumption continues to be a bright spot in what some might otherwise consider a bleak outlook within the dairy industry. Per capita consumption of all cheese is up 99 percent (1975 through 1998) from 14 pounds to 28 pounds. These data are depicted by the graphs on this page.

The majority of this increase can be directly attributed to the phenomenal growth in the consumption of **Italian** type cheeses. Per capita Italian cheese consumption increased 8 pounds or 250 percent during this period. An interesting consumer survey might determine how many people would name Italian cheese as their cheese of choice. The growth in Italian cheese consumption is a result of this cheese being utilized in other products such as pizza.

**American** type cheeses have also noted large increases in consumption trends. The per capita consumption of American cheeses during this period were up 4 pounds per person for a 49 percent increase.

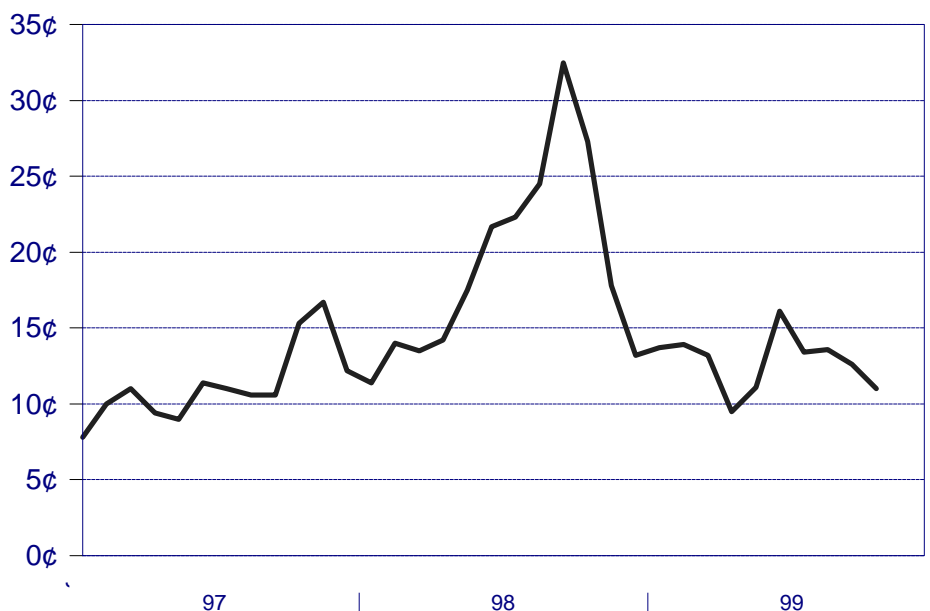
**How Butter Prices Affect The Price  
Of Milk Used In Cheese  
+++ Next Page +++**

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Changing butter prices affect dairy producers through the butterfat differential. Producers' monthly pay prices are adjusted (up/down) from a 3.5% butterfat test. This graphic depicts butterfat differentials for the past 3 years. Most producers recognize the potential changes in their pay prices which can result from changing butterfat prices. Producers are accustomed to having pay prices adjusted from the "standard" 3.5% butterfat test level even though most fluid milk and even most manufactured products are not sold at 3.5% butterfat levels.

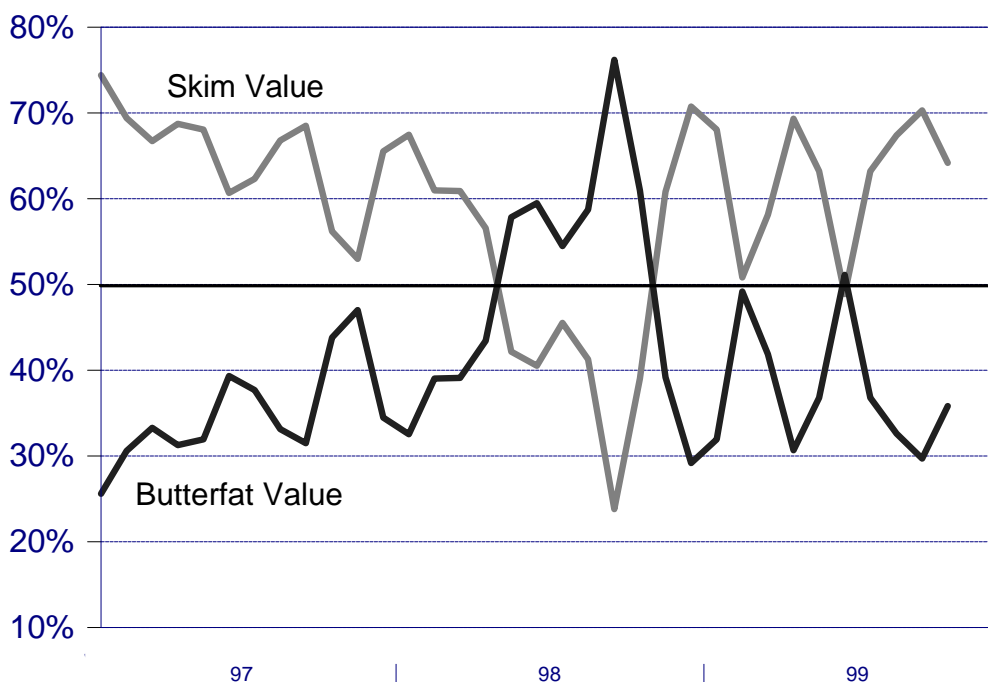
**Butterfat Differential  
Per Point Price Adjustment From 3.5%**



However the effects that changing butterfat prices may have on processor/manufacture costs are more obscure. Processors are accountable for the skim and butterfat components they utilize (in non MCP markets like the Southwest Plains and Southern Illinois-Eastern Missouri federal orders). The value of skim and butterfat in a hundredweight of 3.5% butterfat Class III milk is directly affected by butterfat price changes. Milk processors face the scenario of trying to determine the relationship between skim and butterfat costs in various products, each with different butterfat contents. Processors find themselves in a situation where the skim to butterfat values change

as a result of the butterfat differential even during times of consistent milk prices. As the graphic at the right illustrates, there has been a "seesaw" relationship between skim and butterfat values over the past three years. In September 1998, butterfat represented 76% of the value in a hundredweight of 3.5% butterfat Class III milk before falling to 29% in December 1998. As illustrated, this "seesaw" trend between skim and butterfat values continues.

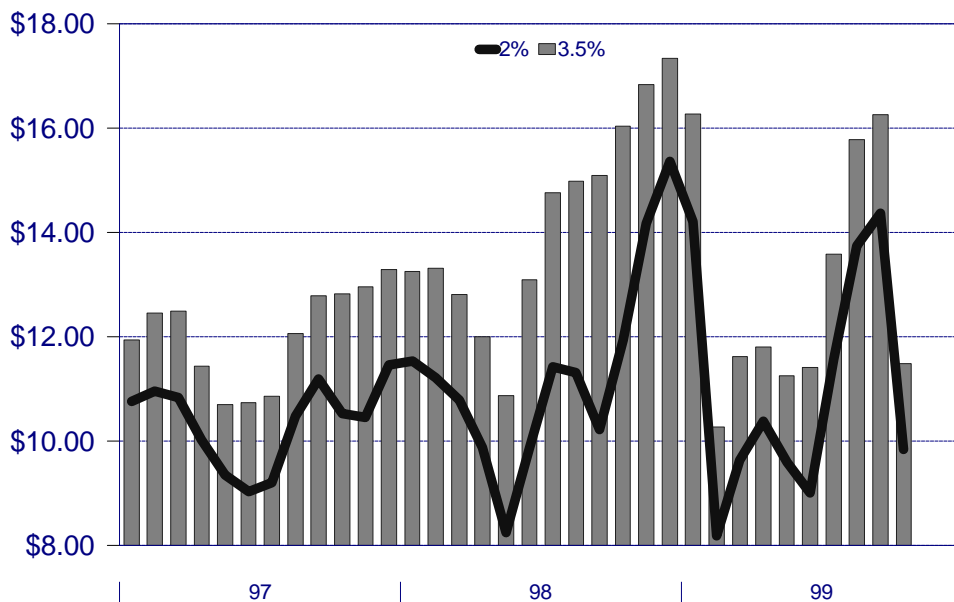
**Percent Skim & Butterfat Values in 100 Lbs. of 3.5% Butterfat Milk at the Class III Price**



The previous graphics illustrated the ever-changing relationships between skim and butterfat values in a hundredweight of Class III milk. However, as producer pay prices are adjusted up or down from the 3.5% butterfat levels so are the prices processors must pay for milk. Processors receive milk at varying butterfat contents and are obligated to pay only for the butterfat and skim components received. Thus, the price they pay is adjusted up/down from the 3.5% butterfat level.

The large increases in Italian type cheese consumption were noted on page one. Some Italian cheese plants utilize lower fat milk -- for example within the 2% butterfat range. Given that butterfat has a value it is apparent to most that 2% milk would be cheaper than 3.5% milk. Just how much cheaper is a direct result of the fluctuating butterfat prices. The price difference between 2% milk and 3.5% milk varies dramatically. This is depicted by the graphics on this page.

Class III Federal Order Price @ 3.5% Butterfat

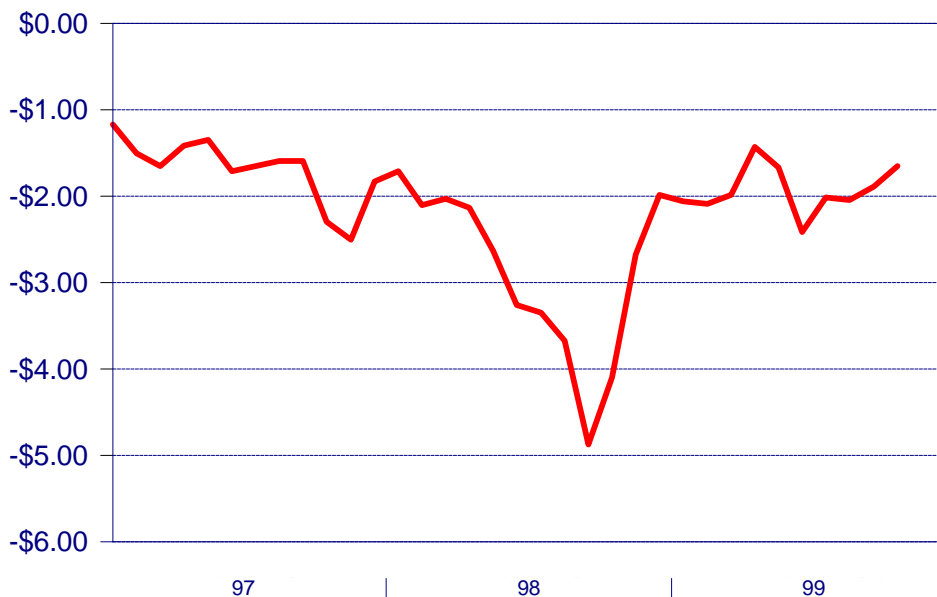


Changes in skim and butterfat values were illustrated by the graphic on the previous page.

The value of butterfat in a hundredweight of milk increases and the skim value decreases when butter prices increase. Thus a processor who purchases milk at a test lower than 3.5% butterfat will see its cost basis decrease when butterfat values are high as a result of there being less of the higher valued butterfat and more of the lower valued skim.

The top graphic illustrates the 3.5% butterfat Class III federal order price (bars) for the past three years along with that price being adjusted to 2% (line) butterfat.

Difference Between Class III Federal Order Price @ 2.0% Butterfat vs 3.5% Butterfat



The bottom graphic depicts the differences between the 3.5% price and the 2% butterfat price. The 2% price is always lower. In September 1998 when the butterfat differential reached a record 32.5¢ the Class III price adjusted to 2% butterfat was \$4.88 under the announced 3.5% price. Note that periods of increased butterfat prices correspond to periods when the difference between the 2% and 3.5% butterfat prices are the greatest.

A comparison of Blend Prices for milk of 3.5% butterfat content is provided for selected Federal milk marketing orders:		Oct 1999	Sep 1999	Oct 1998
	Southeast (Zone 7)	\$17.96	\$16.47	\$17.82
Chicago Regional (Zone I)	12.86	14.99	15.97	
Greater Kansas City	17.35	15.52	16.86	
Indiana	16.12	14.98	16.53	
Iowa (Zone I)	13.36	14.89	16.31	
Southwest Plains (Zone I)	15.52	16.04	17.04	
Central Illinois (Zone I)	15.85	15.24	16.48	
Southern Illinois - Eastern Missouri (Base Zone)	16.20	15.16	16.47	

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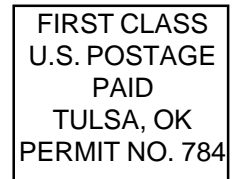
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