

Weekly Dairy Market Outlook

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- Cheese Demand Stronger Than Expected
- U.S. economy grew 4.8 percent during July-September
- Demand for American cheese up 7.1 percent June-August
- Butter and cheese prices slightly weaker this week

The record-setting growth in the cheese price this past summer was greeted with much suspicion among economists who agreed that the lofty levels achieved were not merited by market conditions. I described it in an earlier column as "irrational exuberance," a description borrowed from Fed Chairman Alan Greenspan's description of our overheated economy. The milk supply wasn't threatened; it only slowed for a month or two before resuming. There was even speculation that underlying demand for cheese during this period was only average at best. No, it was agreed by many observers that the record cheese price of \$1.97 per pound was only reached via irrational market psychology. It would be months before we would find out what really happened to cheese demand.

Well the results are in. USDA announced this week that commercial disappearance, a proxy for demand, during the months of June through August was well, pretty good! Butter consumption was up 8.3 percent, American cheese up to 7.1 percent, and other cheese

up 5.8 percent over the same period a year ago. This is well above the 2.5 percent growth in the U.S. milk supply during these same months. -20

While market supply and demand conditions during the months of June through August didn't justify the record-breaking cheese

prices, at least cheese demand could be described as fairly strong. This largely explains the huge drop in American cheese stocks reported last week. It is probable this strong demand for cheese had its roots in a very robust U.S. economy. -20

My print is one can speculate that if the eco-

nomy continues to remain strong during the last three months of 1999, then demand for cheese will remain strong and prevent cheese prices from dropping below current levels.

Cheese prices at the Chicago Mercantile Exchange were relatively

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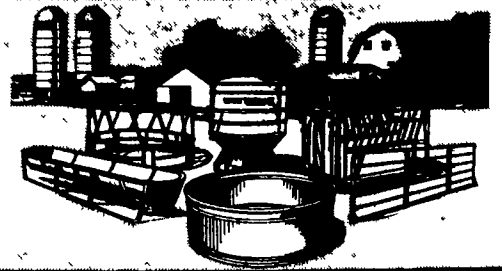
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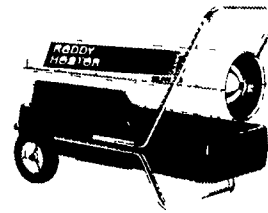


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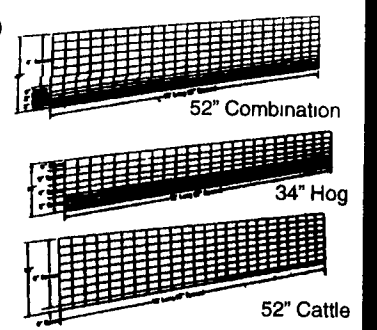
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