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Posted on Thu, Jun. 07, 2007

Summer expected to bring sharp hikes in milk, cheese

By David Mercer
Associated Press

CHAMPAIGN, Ill. — Liz Kooy loves sharp cheddar cheese and is willing to pay almost any price for it.

"Ten dollars a brick, I'd still buy it" and cut back on other purchases, the 36-year-old social worker laughed as she browsed the dairy aisle in a grocery store near downtown Chicago last week.

She might want start looking for places to cut back.

Dairy market forecasters are warning that consumers can expect a sharp increase in dairy prices this summer.

With the start of June, the milk futures market predicted, the price paid to farmers would have increased 50 percent this year — driven by higher costs of transporting milk to market and increased demand for corn to produce ethanol.

U.S. retail milk prices have increased about 3 percent, or roughly a dime a gallon, this year, according to the U.S. Department of Agriculture.

But University of Illinois dairy specialist Michael Hutjens forecasts further increases of up to 40 cents a gallon for milk over the next few months, and up to 60 cents for a pound of cheese.

That would drive the cost of a gallon of whole milk around the country to an average of \$3.78, based on the USDA's monthly survey of milk prices in 30 metro areas.

Prices in the last survey, earlier last month, ranged from \$2.76 a gallon in Dallas to \$3.86 in Chicago and \$4.09 in New Orleans, where the dairy industry has struggled to bounce back from Hurricane Katrina.

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Hutjens and others said higher gasoline prices have increased the costs of moving milk from farm to market, and corn – the primary feed for dairy cattle – is being gobbled up by producers of the fuel-additive ethanol. The USDA projects that 3.2 billion bushels of this year's corn crop will be used to make ethanol, a 52 percent increase over 2006.

"There is no free lunch," Hutjens said. "That corn then has to come away from that dedicated resource."

Chris Galen, a spokesman for the National Milk Producers Federation, pointed to another factor: Global demand for milk, he said, has grown in the past few years, primarily in the new Asian economic powers.

"China, of course, is a big story," he said. "They're consuming more (milk protein); they're using more dairy ingredients in animal feed."

In years past, that demand might have been met by Australia and New Zealand, he said. But drought in Australia and the limits of New Zealand's dairy industry have pushed China and its neighbors to buy American.

Hutjens said the biggest dairy price spikes are likely to come later this summer in the areas farthest from the Midwest corn and grain fields that feed most of the country's dairy cattle.

"Certainly, I think you're gonna see it worse in places like the Southeast – in Georgia and Florida – and California," he said.

Like consumers, companies that use milk, cheese and other dairy products are expecting to spend more the rest of this year.

Hershey Co., the country's biggest candy maker, recently scaled back its earnings expectations for this year, in part because of higher dairy costs. Kraft Foods Inc. raised prices this year on some dairy-based products.

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