

Penn State ag economist says rising food prices not the farmers' fault

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Wholesale food prices rose last month by the most in 36 years, and experts can't say how high they'll ultimately go. As the effects appear everywhere from the supermarket to fast food restaurants, an economist in Penn State's College of Agricultural Sciences said farmers probably won't be reaping much of the increase.

James Dunn, professor of [agricultural economics](#), said prices for corn, wheat, soybeans and just about all large-production crops are higher than they were one year ago. He points to a long-term increase in global demand as the most salient of several factors.

"We had a big spike in commodity prices in 2007-2008, when there was a good worldwide economy and the prices of everything went high that year, too," he said. "Then the [global recession](#) hit. As we come out of it, we're seeing increasing demand resume. Then last season's bad weather in northern Europe, Poland and Russia really hit the feed-grain markets."

The United States typically exports grain to cover worldwide shortfalls, but U.S. production also faltered last year. Demand for soybeans outstripped supply despite a record crop, and there was record demand for wheat. It all results, Dunn said, in a perfect storm for high commodity prices.

"Last year was a particular challenge, and we're going into this growing season with a very small crop inventory," he said. "[Ethanol production](#) now consumes nearly 40 percent of the nation's [corn crop](#), up from about 10 percent a decade ago, and there's growing demand for meat and dairy products in places like India and China.

"The combination of more people, low agricultural production and weather snafus means we'll have pretty high commodity prices for the next year or so."

Dunn cautioned that the current high [food prices](#) originate at the farm level, but few people buy food at the farm level. Most of the modern American food dollar goes to processing, transportation and marketing and not to the producers. So, rising farm prices won't hit all foods equally.

"The fact that corn prices are doubled doesn't mean that foods made from corn will double," he said. "In fact, the basic commodities are a relatively small portion of retail food prices. Labor, packaging, transportation and processing represent the majority of your food prices, and those don't change as rapidly as farm commodities.

"The actual food-cost increase will vary, first according to what percentage of the retail price the farm value represents, and second, how much the commodity price has gone up, because all commodities haven't risen equally," he said. "So we're going to see particular items in our market basket cost more. Some of them, like milk, have a fairly large component in the retail price, and so if milk prices are higher, the consumers will notice that."

Most products have a fairly small agricultural component, but Dunn says some manufacturers won't let these facts hinder their pricing strategies.

"Sometimes the processor will use the excuse of higher farm prices to recoup some profit that slipped away because of other input costs," he said. "We've seen cereal companies cite high corn prices when raising their prices much higher than the value of the corn in the flakes."

"Sometimes you can increase the palatability of a price increase with an argument that sounds better than it actually is."

Internationally, the specter of high food prices is much more threatening. Dunn explained that for countries with lower standards of living than the United States, high commodity prices could bring serious hardship. And it may not be limited to nations that traditionally struggle with poverty.

"For example, in Ukraine, which seems like a relatively prosperous country, about 50 percent of their income is spent on food," he said. "So, when food prices go up quite a bit, their real income goes down sharply. Americans only spend 10 percent of their income on food, so the doubling of commodity prices is less important."

"And if you're spending half your income on food, you're not buying a lot of processed product. You're buying unprocessed ingredients, and they're more like the commodities -- they'll go up and down more than

pizzas and things that have a lot of marketing in them already. But for onions and potatoes, the farm value is a big part of the retail price."

Provided by Pennsylvania State University

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