

# With food prices, drought affects farmers more than consumers

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The main hit for consumers from this year's drought will be in the prices of animal protein.

While consumers will see increases in the prices of meat, eggs and dairy products as a result of this year's drought, they won't see its effects nearly as much as farmers, according to an agricultural economist in Penn State's College of Agricultural Sciences.

James Dunn, professor of [agricultural economics](#), said that the [drought](#)'s effect on prices at the consumer's end will not be significant.

"The impact is really going to be on the farmers," he said. "Corn and soybean producers will have nothing to sell, and [livestock producers](#) will have very expensive inputs. Consumers can adjust because they eat a variety of foods. Cows don't."

He explained that the farm value -- the percentage of retail price that the farmer receives -- in many foods is small and [food price](#) inflation is not fueled by farm prices. For example, the value of wheat in bread is 3 percent of the retail price, and even if the price of wheat doubles, the price of bread only increases 3 percent.

He said the cost of [fruits and vegetables](#) should not change much because the main areas for producing those crops are not under drought. The drought mainly affects corn and soybeans, and neither crop is a major food ingredient. Dunn said the products that contain these crops are value-added, and the value of the crops in the [retail price](#) is very small, so consumers won't see a big price rise in food products that contain corn.

"A soda company is not going to change its prices because [corn syrup](#) is more expensive," he said. "The time it takes to fill the cup is more valuable than the cup's contents."

The main hit for consumers will be in the prices of [animal protein](#).

"This drought is really an issue with animal agriculture," Dunn said. "Meat is the biggest part of the market basket as far as expenses go. If meat goes up 10 to 15 percent, it will be reflected in the market basket."

With corn, soybean meal and sorghum used as major ingredients for [animal feed](#), costs to feed animals will be rising sharply in the next few months. Because wheat is cheaper than corn and has good feed value for livestock, some wheat may be used for animals rather than for human food.

Costs to feed animals will be passed on to the consumer toward the end of this year and the start of next year, but initially, meat costs will decrease because of a large supply entering the market as producers sell

their livestock.

Dunn said the mandate to use 40 percent of the corn for ethanol could prove a challenge to this year's corn crop because the drought means the United States will be short of corn.

"We were expecting a record crop, but now, if we use what we used last year, we will have no corn into next year's harvest," he said.

The amount of a crop available at the end of a crop year is known as carry-out. Dunn said that as of July 12, the estimated carry-out is 7 percent of the annual corn usage, which accounted for a recent price jump of 50 percent in the price for corn.

"If we go into this harvest with 23 days of inventory of corn, we're going to be squeezed to have enough corn after those 23 days," he added.

The new crop year starts on Sept. 1.

Dunn added that even if there is enough corn to supply producers, simply having the right amount wouldn't be enough.

"The corn isn't necessarily where we need it," he said. "If it's not where you are, and you have animals to feed and no [corn](#), there's a problem."

According to Dunn, the rest of the world will be hit harder than the United States, as people in other countries spend a higher proportion of their income on food.

"They don't have the opportunity to switch from value-added products to ingredients to make their meals," he said. "If you're already spending 40 percent of your income on food and don't eat out, there's no way around it."

Provided by Pennsylvania State University

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