



With These Participating Professors

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Penn State  
FARM AND DAIRY

Business Seminar of the Week

**THE DROUGHT AND FOOD PRICES**

H. Louis Moore,  
Agricultural Economist  
The Pennsylvania  
State University

It is always hazardous to assess drought damage prior to completion of harvest. The difficulties of making an assessment this year are compounded by the unusually early occurrence of the drought. In past years, droughts came in mid to late summer. This year the dry conditions became evident in many areas in April and May and were relentless until July 18th. Time will tell whether the back of the drought was broken by the



mid-July rains or whether August will be a continuation of the earlier dry weather.

Unlike past years when there were pockets of droughts, this year has been one where drought is fairly general and there are only pockets where the weather has been normal. Major droughts typically lead to an acceleration in the rate of food price increases. Consumers know this from past experience and ask, "How much will food prices rise in 1988 as a result of drought and should I begin to stockpile some items which are likely to become very expensive?"

Food prices, even before the drought began, were projected to rise 3 to 5 percent in 1988 after ris-

ing 4.1 percent in 1987 and 3.2 percent in 1986. Food prices rose in 1986 and 1987 despite declines in the farm price of food items. The past increases in food prices represent things that happen to food items beyond the farm gate. The costs of processing, storage, transportation and retailing have a greater effect on food prices than what happens on the farm. These costs after the item leaves the farm represent about 70 percent of the food dollar spent at the supermarket. So the 4.1 percent rise in food prices in 1987 resulted from increased costs of labor, food packaging, advertising and the desire of the food industry to improve profits. It was expected that these costs would continue to rise in 1988, which led to the projection that food prices would rise 3 to 5 percent in 1988.

How much more will food prices increase as a result of drought? The current expectation is that on average prices will rise 1 to 2 percent as a result of drought. Why so little? A major factor that dampens a surge in food prices is the comparatively minor share of retail food expenditures that is represented in the farm value of food items. Since the marketing system accounts for about 70 cents of every dollar consumers spend for food, the farmer gets only 30 percent. The farm value has steadily fallen from about 37 percent in

1980 to 30 percent currently. Consumers will see the biggest price increases in fresh fruits and vegetables which are grown locally if the area is suffering extensively from drought. Very highly processed items should show very small increases. Cereal and bakery items, for example, are highly processed and the farmers share of each dollar consumers spend for the items is just 9 percent. Therefore, if these items normally have 5 to 10 cents of flour in them and flour prices increase 40 percent the cost would go up by about 4 cents.

But flour prices shouldn't increase 40 percent because we have harvested an excellent wheat crop and there are adequate supplies of wheat in storage from previous years.

But a consumer says, "That makes economic sense but our local supermarket has already increased the price of bread by 8 cents a loaf because of the drought." As an economist I would have to answer, "The drought created an excuse for that price increase but not an economic reason."

**Ag Awareness Day**

FLEMINGTON, NJ — Ag Awareness Day spotlights two farms in southern Hunterdon County.

Again, the Hunterdon County Board of Agriculture and Rutgers Cooperative Extension will sponsor Ag Awareness Day in southern Hunterdon County. On Saturday, September 10, from noon until 5:00 p.m., rain or shine, two farms will open their gates to show off the diversity and viability of Hunterdon County agriculture.

WoodsEdge Wools, owned by Fred and Linda Berry Walker will have walking tours, exhibits and displays, and sheep, llamas and guard dogs to see. Their farm is located on Bowne Station Road.

Whistle Stop Farm and Nursery on John Ringoes Road in Ringoes is owned by Greg and Dena Scibilia. They will have walking tours, hay rides, washing and packing line demonstrations and irrigation demonstrations. Their farm is adjacent to the Black River and Western Railroad.

"The tours are free and we encourage friends and neighbors to visit these nearby farms," says Susan Blew, Pittstown farmer and chair of the Ag Awareness Day Committee. She adds, "see what different kinds of farming are successful and non-traditional in Hunterdon County."

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