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Despite Katrina, Overall Food Prices Stable

One year ago, Hurricane Katrina slammed into New Orleans and the surrounding Gulf Coast areas. The resulting loss of electricity, lack of fuel, and damage to roads and port facilities temporarily interrupted the movement and processing of agricultural products and raised questions about whether consumers in that region would face steep increases in food prices. But, despite some production cost increases and supply disruptions, overall food prices in the region most affected by Katrina rose at rates similar to those in other regions. Since August 2005, retail food prices are up 1.9 percent in the U.S., with the Northeast region experiencing the largest increase, 2.9 percent. Interestingly, the South, where damage from the storm was the greatest, experienced a 1.8-percent increase in food prices, only slightly higher than the 1.4- and 1.7-percent price increases in the West and Midwest, respectively.

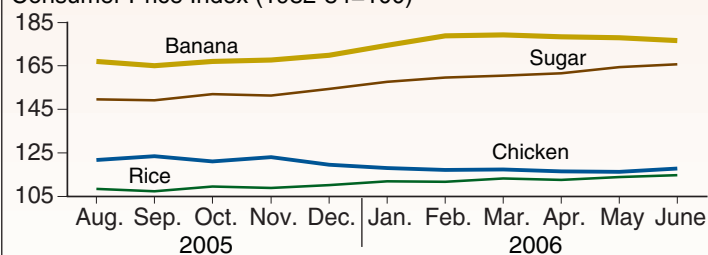
While overall prices have been stable over the past year, certain products were more vulnerable to Katrina's destruction. Since 85 percent of U.S. sugarcane production, 17 percent of broiler production, and 14 percent of rice production occurs in the portions of Alabama, Florida, Louisiana, and Mississippi most affected by Katrina, these products were expected to be impacted the most. In addition, since the majority of U.S. banana imports typically come into the Port of New Orleans from Central

and South America, a storm-induced supply disruption might be expected to increase retail banana prices.

Nationally, retail sugar prices have, in fact, had one of the largest price increases—up 10.8 percent—between August 2005 and June 2006, while banana and rice prices were up 5.7 and 5.9 percent, respectively, over the period. Chicken prices, however, bucked the trend, dropping 3.4 percent. This is not surprising, as other factors impacted the market for chicken, including depressed global demand for some poultry products due to avian influenza outbreaks in Europe and Asia. This illustrates that other factors also influence retail food prices and may have contributed to the observed price changes.

Hurricane Katrina contributed to higher sugar, rice, and banana prices

Consumer Price Index (1982-84=100)



Source: Bureau of Labor Statistics, Consumer Price Index (CPI).

Food Stamp Program Boosts Farm Income and Jobs

While the primary goal of the Food Stamp Program is to help low-income households buy the foods they need for a nutritionally adequate diet, the program also serves another purpose: it increases demand for food products and farm commodities and increases cash receipts for these sectors. ERS researchers estimate that the additional food purchases resulting from each \$1 billion of program benefits redeemed generates \$97 million in farm cash receipts, which translates into 950 farm jobs and \$32 million of income to farmers and hired farmworkers.

In fiscal year 2005, USDA provided \$28.6 billion worth of food stamps to needy Americans. When households redeem food stamp benefits at local grocery stores, their food purchases have an impact on production, income, and employment throughout the food system and other sectors of the economy. The magnitude of the impact on agriculture depends on the amount of additional

demand for food generated by the program and on the share of the additional food expenditures that goes to the farmer.

Though households may use food stamps only to purchase food for home consumption, the benefits enable them to shift cash otherwise budgeted for food to nonfood expenditures, such as clothing, rent, or child care. Consequently, the additional food expenditure is less than the extra dollar increase in the value of food stamp benefits. An estimated 26 cents of every food stamp dollar goes to additional food demand. ERS used this estimate in a model of the U.S. economy to calculate the effect of additional food expenditures on the farm sector. This model includes the linkages among producers and consumers, as well as the inter-industry linkages among producers. Food stamp participants were assumed to use their program benefits to purchase foods similar to those purchased by low-income households, as determined through surveys on household food expenditures.