FINDINGS

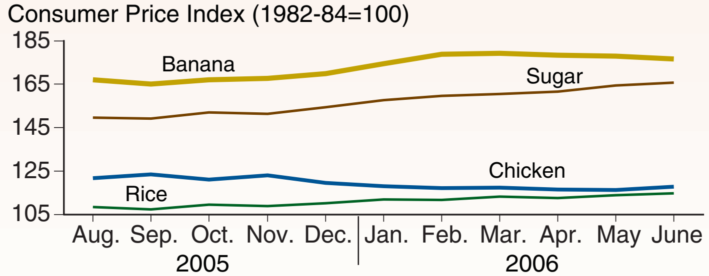
Despite Katrina, Overall Food Prices Stable

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



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

AMBER WAVES VOLUME 4 ● ISSUE 4

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.

Photos: Comstock

The potential for longer lasting and more widely felt price increases from Katrina comes from increases in energy costs. Katrina destroyed oil platforms in the Gulf and disrupted oil delivery and refining, causing the prices of gasoline and other petroleum products to increase sharply.

Higher prices for gasoline and diesel fuel increase farm production costs, but with farm value accounting for about one-fifth of retail food prices, higher farm prices pass through to retail at only a fraction of their increase. Higher energy prices also increase the cost of processing, manufacturing, and transporting foods. However, direct energy and transportation costs account for only 7.5 percent of the overall average retail food dollar. W

Ephraim Leibtag, eleibtag@ers.usda.gov

For more information . . .

The ERS Briefing Room on Food CPI, Prices, and Expenditures: www.ers.usda. gov/briefing/cpifoodandexpenditures/

On average, each dollar spent on food by low-income shoppers generates 37.3 cents of farm cash receipts, though the magnitude varies by food items. About 55 percent of the cash receipts goes to producers of dairy, poultry, and other livestock, while the remaining 45 percent goes to producers of crops, including feed for animals. W

Kenneth Hanson, khanson@ers.usda.gov

This finding is drawn from . . .

Tracing the Impacts of Food Assistance Programs on Agriculture and Consumers: A Computable General Equilibrium Model, by Kenneth Hanson, Elise Golan, Stephen Vogel, and Jennifer Olmsted, FANRR-18, USDA, Economic Research Service, May 2002, available at: www.ers.usda.gov/publications/fanrr18/

FNS Southeast Regional Office, USDA

Emergency Food Assistance Reaches Hurricane Victims

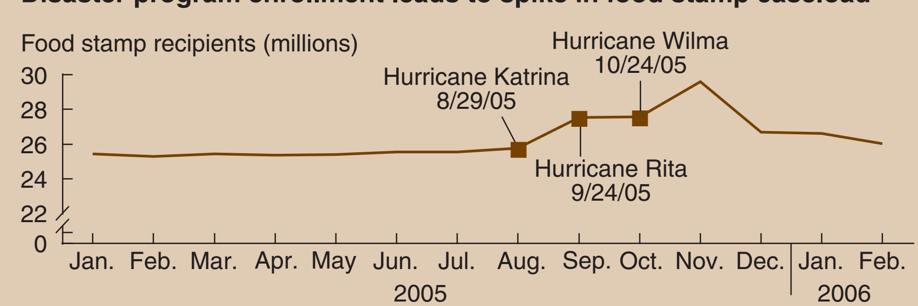
Food Stamp Program participation spiked in November 2005 at 29.6 million people, up from 25.8 million 3 months earlier. By January 2006, the number of Americans receiving food stamps had dropped to 26.6 million. The sudden jump in caseloads reflects USDA's efforts in getting food stamps to people in need in the wake of the destruction wrought by Hurricanes Katrina, Rita, and Wilma last fall. This additional food stamp spending also represents an injection of funds into businesses rebuilding after the storms.

When a disaster strikes, people may need emergency food assistance. USDA's Food and Nutrition Service (FNS) delivers this assistance in two ways. Initially, emergency food is provided to shelters, other mass feeding sites, and directly to households. In the weeks following Hurricane Katrina, 20 million pounds of FNS-funded food was delivered to Louisiana, Texas, Alabama, and Mississippi. State food stamp agencies implemented their disaster plans and distributed their warehoused food supplies.

Once grocery stores and other retailers in the affected areas are operating again, FNS issues emergency food stamps through the Disaster Food Stamp Program, a program funded by the Federal Government but administered by the States. Under the program, the Secretary of Agriculture establishes temporary eligibility standards for households who are victims of the disaster. Benefits are provided to households who suddenly need food assistance because of disaster damage to their homes, expenses related to protecting their homes, lost income, or lack of access to bank accounts or other resources. Eligibility verification and reporting requirements are temporarily relaxed. The Secretary can also provide emergency food stamps to existing food stamp households whose food was destroyed in a disaster. Flexibility in program regulations allows States to adjust to the needs of the circumstance. Between September and December 2005, 1.6 million new households received food stamp benefits through the Disaster Food Stamp Program. An additional 676,000 households had benefits replaced due to destroyed food. Benefits issued amounted to $900 million.

As recipients use the food stamps to purchase food from local retailers, the benefits become revenues for retailers, contributing to the economic recovery of the community. The food spending brings people back to work in both the stores and the local businesses that support the stores, such as wholesalers and delivery companies. This flow of resources helps rebuild businesses and communities. W

Disaster program enrollment leads to spike in food stamp caseload



Source: USDA, Food and Nutrition Service.

Kenneth Hanson, khanson@ers.usda.gov

This finding is drawn from . . .

The Food Assistance Landscape: March 2006, by Victor Oliveira, EIB 6-2, USDA, Economic Research Service, March 2006, available at: www.ers.usda.gov/publications/eib6-2/