

USDA says drought will push up food prices in 2013
By STEVE KARNOWSKI, Associated Press
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MINNEAPOLIS -- The record drought gripping half the country will help push food prices up by 3 percent to 4 percent next year, the U.S. Department of Agriculture said Wednesday.

Milk, eggs, beef, poultry and pork prices will all be affected by the drought, which has pushed up prices for feed. Beef prices are expected to see the biggest jump at 4 percent to 5 percent. Dairy product prices are forecast to climb 3.5 percent to 4.5 percent; poultry and egg prices are projected to rise 3 percent to 4 percent; and pork prices are expected to rise 2.5 percent to 3.5 percent in 2013, the agency said.

"In 2013 as a result of this drought we are looking at above-normal food price inflation. ... Consumers are certainly going to feel it," USDA economist Richard Volpe said.

Normal grocery price inflation is about 2.8 percent, he added, so even at the low end of the projected range people will see their grocery expenses rise more than usual next year. The USDA kept its projected food price increase for 2012 steady at 2.5 percent to 3.5 percent.

The figures are the agency's first food price projections to factor in the drought, though farmers and others have been warning that prices will rise. The drought has sent corn, soybean and other commodity prices soaring in recent weeks as fields dry out and crops wither across much of the country's midsection.

Volpe said the drought is not expected to affect prices for fruits and vegetables. Most of those crops are irrigated. The USDA is projecting an overall 2 percent to 3 percent increase for all fruits and vegetables next year, the same as it expects this year.

USDA economists were aware of the drought a month ago when they did their last projections but didn't know how bad it would get, Volpe said.

"This drought was a surprise for everybody," Volpe said. "The USDA was forecasting a record year for the corn crop until this drought materialized. Now we're not going to get that."

Poultry prices will be the first to rise because of the drought because chickens and turkeys need only a few months to grow to market size, he said. Beef and pork take longer, and the agency actually revised its beef price projection for 2012 downward because producers are sending more cattle to the market at the moment as they reduce their herds in response to the drought, he said.

Meat and poultry prices are the most affected because feed prices represent the biggest part of their cost of production. Processed food prices are less affected by changes in commodity prices because ingredients typically make up just a fraction of their production costs.