

HIGHER FOOD PRICES

A line in the President's State of the Union address caught my attention Monday evening. In reference to the economy he said: "Wages are up, but so are prices for food and gas. Exports are rising, but the housing market has declined." Food, fuel, housing and wages are daily priorities for all of us. We all pay closer attention when hungry, broke or cold.

A few weeks ago I listened to a radio commentator grumble that he had to pay more for a gallon of milk than he did for a gallon of gasoline. He carried on as if his food costs were totally unreasonable. He did not point out the fact that prices for transportation, housing, education, entertainment and a host of other expenditures far outpaced the increase in food costs. While it is a fact that all of us will be paying more for food, well informed individuals will confess that food is still a bargain. Our society has been well fed at relatively cheap prices for many years. It is wise, however, that members of our society be aware of changes in commodity prices and respond accordingly.

This week the Wall Street Journal carried an article reporting on Tyson Foods' decision to raise prices "substantially". Chief Executive, Richard L. Bond said; "Because of unanticipated and extraordinarily high corn and soybean meal costs, we have no choice but to raise prices substantially". Tysons' beef and chicken segments are reported as facing a very difficult operating environment.

Large corporations like Tyson Foods', independent producers like Cache County livestock and dairymen, and individual families are, and will be, paying more for grains. It is obvious that other foods, such as meat and milk, will also cost more. The data that I read leads me to the conclusion that family food costs will continue to expand. It will also cost more to feed livestock and dairy cows.

The continuing rise in grain prices is attributed to an ethanol boom, robust exports and other rising sources of demand, far outstripping a limited supply. The explosion in demand for grain used in U.S. ethanol distilleries jumped from 54 million tons in 2006 to 81 million tons in 2007. Political and economic forces will likely continue to stimulate this demand.

Corn is the preferred feedstock for ethanol production in North America, but many ethanol plants may also use other grains such as barley, sorghum, or wheat, depending on their geographic location or seasonal availability. Wheat acreage has decreased, corn acreage had increased, but we have a limited number of acres on which to raise crops. If the food value of grain is less than its fuel value, the market will move the grain into the energy economy. With an ethanol goal of 35 billion gallons by 2017, we can anticipate higher food and feed costs for several years. As the price of oil rises, the price of grain follows it upward.

I received some revealing information this week from USU Economist, Dr. Dillon Feuz. His data from one of the nation's best crop economists showed production, use and ending stocks for wheat, soybeans and corn. Today's ending stocks of wheat, as a percent of usage, are only 12.6 %. By comparison, wheat ending stocks/use averaged around 20-30 % during the 1990's. Soybeans have averaged around 10-12 % in earlier years. Today soybean stocks are only 5.8 %. Ending stocks of corn is at 11.1 %, but projections for next season are only 5.4 %. These stocks come from recent years of good production. If we have a drought or some other crop difficulty, especially in the mid west, our stocks will obviously be much lower.

Farmers who produce grains are grateful to finally be paid a higher price for their product. Higher input costs, however, such as fuel, fertilizer and equipment tend to offset anticipated expanding profits. Farmers involved in animal agriculture are really feeling the pinch of higher feed costs for their animals. Cattle and pigs eat a lot of grain and the unprecedented increases in the prices of corn, barley, wheat and soybeans may be the final blow for many.

Our current energy policy of providing a .51 cent per gallon subsidy to convert grain into ethanol is in effect financing a rise in our own food and feed prices. Some think we are on the right track while others warn of "unintended consequences". Regardless of one's position, be glad if you have a barrel of wheat stored in the basement.