

# News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY  
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## **KANSAS CITY FED EXPLORES INITIAL IMPACTS OF THE 2012 DROUGHT**

American farmers are battling one of the worst droughts in U.S. history. In the latest issue of the *Main Street Economist*, Omaha Branch Executive Jason Henderson and Nathan Kauffman, economist, discuss some of the frequently asked questions surrounding the drought and its initial economic impacts on agricultural producers, agribusinesses and U.S. food prices.

The most extensive drought in half a century has ruined one of the most promising harvests in U.S. history, and U.S. crop prices surged as the prospect of a bumper crop evaporated. With shrinking yields, crop insurance payments will be a vital revenue source for farmers, underpinning gross revenues for many crop producers.

Amid drought-stressed pastures and rising hay costs, ranching operations bear a heavy burden from the drought. In an attempt to limit losses, ranchers weaned calves earlier than usual and increased the placement of feeder cattle into feedlots. Despite lower feeder cattle prices, cattle feedlot enterprises face significant losses from high feed costs.

U.S. dairy operations are also dealing with the devastating effects of the drought. Heat stress has lowered U.S. milk production, and, although smaller supplies have boosted milk prices, feed prices have surged more quickly. Hog and poultry enterprises are also bracing against rising feed costs and falling profits.

Ethanol plants are struggling to remain profitable in the face of higher input costs stemming from the drought. In addition, the impacts of the drought have spread to agribusinesses that specialize in grain handling, food processing and transportation.

If historical patterns hold, U.S. consumers can expect to pay higher food prices over the next year. Rising food prices could alter consumer spending patterns, especially for poorer U.S. households.

The complete article is available at [www.kansascityfed.org/publications/research/mse](http://www.kansascityfed.org/publications/research/mse).

As the regional headquarters of the nation's central bank, the Federal Reserve Bank of Kansas City and its branches in Denver, Oklahoma City and Omaha serve the seven states of the Tenth Federal Reserve District: Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri.

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