

# TEACHING TIPS

## Food Prices and Global Trends



Teacher Edition

BASED ON THE  
SEPT. 2011 MAIN STREET ECONOMIST  
"WILL U.S. FOOD PRICES FOLLOW  
GLOBAL TRENDS?" FROM THE FEDERAL  
RESERVE BANK OF KANSAS CITY

This article in the Main Street Economist examines global and U.S. food price trends and explains how high agricultural commodity prices drive global food prices. U.S. food prices have not risen as fast as global prices due to our country's different consumption patterns and lower labor costs. Poorer populations face the greatest burden from higher food prices, as a larger portion of their budget is spent on food.

Suggested use: Read and discuss the article in class, using the direct discussion questions that follow. Students interested in further research on this topic could work on extension activities.

The article is available at: [http://www.kansascityfed.org/publicat/mse/MSE\\_0311.pdf](http://www.kansascityfed.org/publicat/mse/MSE_0311.pdf).

### Reading the Article with Students

### Current Events

1. Discuss the factors that led to the surge in global food prices after the recent recession. Explain why wheat and grain prices increased more than meat and dairy food prices. (These factors include stronger global food demand and adverse weather conditions that led to tighter food supplies. Wheat and grain supplies were at record lows, leading to higher prices, while meat and dairy production was stronger, leading to more stable prices.)
2. One of the reasons U.S. food prices rose less rapidly than global food prices is the difference in food consumption patterns. Compare and contrast U.S. consumption to global consumption, and explain how the difference leads to lower inflation for U.S. consumers. (U.S. consumers eat more processed and prepared foods, so labor costs make up a larger portion of the total food cost. Since wage growth has been minimal, labor costs remain low and food inflation is limited. Global consumption is based more on actual commodity costs, which have increased dramatically due to the factors in question 1. Therefore, food price inflation is higher.)
3. Looking at Table 1: U.S. Food Price Inflation, the cost of food eaten at home is forecast to increase at a higher percent than food eaten away from home. Give reasons from the article to explain this prediction. (The cost of food eaten at home will rise to a higher percent based on continued strong demand and tighter supplies. Cost of food eaten away from home will rise to a lesser percent due to the modest wage growth predicted for the future.) Do you think more consumers will choose to eat out based on this information? Why or why not? (Answer will vary.)

### Economics and Business

1. This article found labor costs account for approximately half the retail cost of U.S. foods. Sluggish wage growth is a major factor in lower labor costs currently. How does a higher unemployment rate lead to sluggish wage growth for those employed? (Answers will vary, but may include the fact that if more people are unemployed, those employed feel thankful to have a job, so will not push for wage increases.)
2. If global demand for commodities suddenly declined, how might that affect the rate of food price inflation? (With falling demand for commodities, the quantity of food needed declines. As a result, consumers are less willing to pay a higher price for food. So the rate of food price inflation also falls.)

### Direct Discussion Questions

## KEY PERSONAL FINANCE & ECONOMIC CONCEPTS

Review the meanings of some of the personal finance and economic concepts contained in this article.

**COMMODITIES MARKET:** The market for the purchase and sale of commodity (a basic product, usually, but not always, agricultural or mineral) futures, contracts for the sale and delivery of commodities at some future time.

**CONSUMER PRICE INDEX (CPI):** A price index that measures the cost of a fixed basket of consumer goods and services and compares the cost of this basket in one time period with its cost in some base period. Changes in the CPI are used to measure inflation.

**CONSUMPTION:** Spending by households on goods and services. The process of buying and using goods and services.

**DEMAND:** The quantity of a good or service that buyers are willing and able to buy at all possible prices during a period of time.

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## Personal Finance

1. The world's poor are most affected by food prices. Using the article for reference, can you explain why this is so? (Answers will vary, but include the fact that the poor spend a larger portion of their income on food.) What is the average percent spent on food costs in developing nations? (40%). In emerging countries? (25-33%) In affluent nations? (10% or less) Suggest ways that developing nations could lower their food costs? (Answers will vary, but include the ideas that these nations could produce more foods, adding to the supply of food available and lowering the prices.)

2. According to Chart A2: U.S. Household Food Expenditures by 2009 Income Level, low-income households spend more of their budget on food consumed at home. Give reasons from the article to support why these low-income families don't change their consumption patterns to save food costs. (Low-income households can't often afford other alternatives, such as eating at restaurants and purchasing prepared food from grocery stores to eat at home.)

1. Many developing nations are considered "food insecure." Research food security at: [www.ers.usda.gov/Briefing/GlobalFoodSecurity/](http://www.ers.usda.gov/Briefing/GlobalFoodSecurity/) to answer the following questions and share with the class:

- What is the meaning of food insecurity?
- What are the causes of food insecurity?
- How many nations are considered food insecure?
- What ideas would you recommend to improve food security in these nations?

2. The Consumer Price Index measures changes in the costs of certain consumer goods and services over time. Read the section, "Cooking at Home Versus Dining Out" from the "Food for Thought" article at [www.bls.gov/spotlight/2010/food/pdf/food.pdf](http://www.bls.gov/spotlight/2010/food/pdf/food.pdf) to better understand the changes in food costs at home and away from home for the past five years. Describe the changes shown in the accompanying graph for both types of costs. Explain how the recessionary period of 2008-2010 affected these changes.

3. One important factor in food price inflation is the tightening of supplies due to adverse weather. Research weather conditions that have affected crop yields at: [www.msnbc.msn.com/id/41481344/ns/business-eye\\_on\\_the\\_economy/t/extreme-weather-pushes-food-prices-higher/](http://www.msnbc.msn.com/id/41481344/ns/business-eye_on_the_economy/t/extreme-weather-pushes-food-prices-higher/). Make a chart or table listing these specific weather conditions and the affected countries. In your opinion, are these extreme weather conditions related to long-term climate change or global warming? Give reasons to support your view.

## Extension Activities

Federal Reserve Bank of Kansas City:

Main Street Economist - Fall 2008

Will U.S. Food Prices Follow Global Trends?

[http://www.kansascityfed.org/publicat/mse/MSE\\_0311.pdf](http://www.kansascityfed.org/publicat/mse/MSE_0311.pdf)

US Department of Agriculture

Economic Research

<http://www.ers.usda.gov/Briefing/GlobalFoodSecurity>

Bureau of Labor Statistics: Food for Thought

[www.bls.gov/spotlight/2010/food/pdf/food.pdf](http://www.bls.gov/spotlight/2010/food/pdf/food.pdf)

MSNBC.com: Eye on the Economy

Extreme Weather Pushes Food Prices Higher

[www.msnbc.msn.com/id/41481344/ns/business-eye\\_on\\_the\\_economy/t/extreme-weather-pushes-food-prices-higher/](http://www.msnbc.msn.com/id/41481344/ns/business-eye_on_the_economy/t/extreme-weather-pushes-food-prices-higher/)

## Links and Resources

## Key Personal Finance & Economic Concepts continued

**INFLATION:** A rise in the general or average price level of all the goods and services produced in an economy. Can be caused by pressure from the demand side of the market (demand-pull inflation) or pressure from the supply side of the market (cost-push inflation).

**LABOR:** The quantity and quality of human effort available to produce goods and services.

**RECESSION:** A decline in the rate of national economic activity, usually measured by a decline in real GDP for at least two consecutive quarters (i.e., six months).

**SUPPLY:** The amount of a good or service that producers are willing and able to offer for sale at each possible price during a given time period.

**WAGE:** Payments for labor services that are directly tied to time worked, or to the number of units of output produced.

For more economic concepts, definitions and lessons, check out Virtual Economics 4.0 from the National Council on Economic Education (online at [www.ncee.net](http://www.ncee.net)).

Teaching Tips is a FREE resource from the Federal Reserve Bank of Kansas City. It is available on our web site at [www.kansascityfed.org](http://www.kansascityfed.org).

For more educational resources from the Federal Reserve Bank, contact Michele Wulff ([michele.wulff@kc.frb.org](mailto:michele.wulff@kc.frb.org)).

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#### Current Events

1. Discuss the factors that led to the surge in global food prices after the recent recession. Explain why wheat and grain prices increased more than meat and dairy food prices.
2. One of the reasons U.S. food prices rose less rapidly than global food prices is the difference in food consumption patterns. Compare and contrast U.S. consumption to global consumption, and explain how the difference leads to lower inflation for U.S. consumers.
3. Looking at Table 1: U.S. Food Price Inflation (Annual Percent Change), the cost of food eaten at home is forecast to increase at a higher percent than food eaten away from home. Give reasons from the article to explain this prediction. Do you think more consumers will choose to eat out based on this information? Why or why not?

#### Economics and Business

1. This article found labor costs account for approximately half the retail cost of U.S. foods. Sluggish wage growth is a major factor in lower labor costs currently. In your opinion, how does a higher unemployment rate lead to sluggish wage growth for those employed?
2. If global demand for commodities suddenly declined, how might that affect the rate of food price inflation?

### Direct Discussion Questions

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## Personal Finance

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2. According to Chart A2: U.S. Household Food Expenditures by 2009 Income Level, low-income households spend more of their budget on food consumed at home. Give reasons from the article to support why these low-income families don't change their consumption patterns to save food costs.

1. Many developing nations, such as those in Africa and the Middle East, are considered "food insecure." Research food security at: [www.ers.usda.gov/Briefing/GlobalFoodSecurity/](http://www.ers.usda.gov/Briefing/GlobalFoodSecurity/) to answer the following questions and share with the class:

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Bureau of Labor Statistics: Food for Thought  
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MSNBC.com: Eye on the Economy  
Extreme Weather Pushes Food Prices Higher  
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