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SOYBEAN PRICES since September have averaged only moderately below year-ago levels, despite the bumper crop, a record carry-over, and reduced government support price. Total soybean supplies increased 14 percent in 1969 and the government support price was effectively reduced 30 cents per bushel—from $2.50 per bushel (No. 2 grade) to $2.25 per bushel (No. 1 grade). Nevertheless, prices received by farmers during the first half of this season averaged only 10 cents per bushel less than a year ago.

The support price was lowered at a time when many observers thought that the ever-increasing annual supplies of the "golden bean" would no longer be offset by steadily rising demand for soybean oil and meal. Indeed, a surplus of fats and oils on the world market in the 1968-69 marketing year (September through August), coupled with record production of soybeans in the United States, resulted in a 324 million bushel carry-over into the 1969-70 marketing year—nearly double the previous year. However, the demand for soybean products has improved substantially in the current marketing year. Larger quantities of both oil and meal are being sold at prices well above year-ago levels.

Oil prices averaged nearly 12 cents per pound at crushing plants in February—a third higher than a year ago. Meal prices in February were over $85 per ton at Decatur—up a fifth from the year before. In response to the most favorable operating margins in recent years, processors are operating near capacity and will likely crush a record 675 million bushels or more soybeans this year—17 percent above last season.

The increased domestic demand for soybean oil is primarily for use in such things as margarine, shortening, salad and cooking oils, potato chips, and numerous prepared foods. Increasing population and changing eating habits have resulted in a steady uptrend in consumption of soybean oil and other edible oils during the past decade. An estimated 6.2 billion pounds will be consumed this marketing year, compared to 3.3 billion pounds in 1960. Somewhat smaller production of competitive cottonseed and peanut oil, lard, and butter, coupled with the recent proliferation of fast-food establishments serving fried foods, is providing added stimulus to the use of soybean oil this year.

Demand for soybean meal has been stimulated by increased feeding of cattle and poultry and reduced availability of fish and cottonseed meal. Use of soybean meal in animal feeds is expected to rise 10 percent from the 1968-69 season. These higher soybean meal prices are reflected in the higher cost of feed concentrates to farmers. During February cattle feeders in the Seventh District region paid about 8 percent more than a year ago for prepared protein concentrates.

Exports of soybeans are substantially above year-ago levels, reflecting lower prices for U. S. soybeans and reduced competition from other world suppliers of oilseeds. The sharp increase in exports during recent months also reflects the unusually low shipments a year earlier when Atlantic and Gulf ports were closed because of the longshoremen's strike.

The amount of soybeans placed under government loan with the accompanying reduction in available supplies is a major factor in determining soybean prices. Current market prices of soybeans in relation to the government support price and expected future prices affect the amount of soybeans placed under loan. Current relationships between nearby futures prices and more distant futures quotations indicates little advantage to delaying sales given the cost of storage and related interest expense incurred.

The relationship between the support price and current market price also does not suggest greater use of the loan option. Although farmers have been receiving a lower price for soybeans this year, prices are more favorable than a year ago in relation to the support level. During the first seven months of the 1968-69 marketing year, prices received by farmers averaged below the support price. Indeed, the season average was 8 cents per bushel below the support price. Consequently, a large volume of soybeans were placed under government loan. However, in the first half of this season, the average price received by farmers dipped slightly below the loan rate in only one month. Reflecting this, the quantity of soybeans placed under loan is running substantially below a year ago. Through December, 138 million bushels of new crop beans were placed under loan, compared to 256 million a year earlier. Only about 175 million bushels are expected to be put under loan for the entire year—about half last year's amount.

Therefore, relatively little tightening of available supplies appears in the offing. Furthermore, despite sharply increased exports and unusually strong domestic demand, the total supply of soybeans is likely to exceed usage. Total expected carryover is currently estimated at 365 million bushels—more than a tenth greater than last season's record. This will have a moderating influence on any advance in soybean prices.

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FARM BUSINESS CONDITIONS

December 1969 with comparisons

ITEMS	1969 December	1969 November	1968 December
PRICES:			
Received by farmers (1957-59=100)	118	118	108
Paid by farmers (1957-59=100)	129	129	123
Parity price ratio (1910-14=100)	76	76	73
Wholesale, all commodities (1957-59=100)	115.1	114.7	109.8
Paid by consumers (1957-59=100)	131.3	130.5	123.7
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.48	1.41	1.33
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.19	1.18	1.16
Oats, No. 2 white, Chicago (dol. per bu.)	.63	.61	.72
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.47	2.42	2.59
Hogs, barrows and gilts, Chicago (dol. per cwt.)	27.39	26.17	19.12
Beef steers, choice grade, Chicago (dol. per cwt.)	28.93	28.66	28.88
Milk, wholesale, U. S. (dol. per cwt.)	5.86	5.88	5.62
Butterfat, local markets, U. S. (dol. per lb.)	.70	.70	.67
Chickens, local markets, U. S. (dol. per lb.)	.14	.14	.13
Eggs, local markets, U. S. (dol. per doz.)	.55	.49	.42
Milk cows, U. S. (dol. per head)	309	308	283
Farm labor, U. S. (dol. per week without board)	--	--	--
Factory labor, U. S. (dol. earned per week)	134.56[p]	132.36	127.82
PRODUCTION:			
Industrial, physical volume (1957-59=100)	171.1	171.4	168.9
Farm marketings, physical volume (1957-59=100)	153	170	150
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	770.6	767.6	716.0
Cash farm income, U. S.[1] (annual rate, bil. of dol.)	50.1	55.5	44.6
EMPLOYMENT:			
Farm (millions)	3.0	3.3	3.2
Nonagricultural (millions)	75.8	75.4	73.4
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	142.5	142.4	137.0
Nonagricultural banks (1957-59=100)	149.5	134.1	145.7
Time deposits:			
Agricultural banks (1957-59=100)	343.0	341.0	312.0
Nonagricultural banks (1957-59=100)	303.0	301.8	325.8

[1] Based on estimated monthly income. [p] Preliminary.

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago.