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Division of Agricultural Economics

Federal Reserve Bank of Chicago - -

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Agricultural Letter

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Number 1314

SOYBEAN PRICES are under increasing downward pressures. Chicago soybean prices have hovered near the $6 per bushel level since January 1 (25 to 50 cents per bushel under the year-earlier level) and have dropped sharply in recent days. At the start of the current marketing year (September 1, 1974), total supplies of soybeans were down about 13 percent from one year earlier, and domestic usage and exports have been on a downswing since that time. Recent projections suggest soybean disappearance will fall 9 percent in the current marketing-year leaving carryover stocks at 100 million bushels, up 40 million bushels from the previous estimate and equivalent to approximately one month's utilization.

The recent downturn in soybean prices reflects the rather severe declines in both soybean oil and meal prices. As of mid-February, both had declined by one-third—meal prices had dropped below $120 per ton and oil fell below 30 cents per pound. The combined processed value of one bushel of soybeans fell below $6.00 per bushel by mid-February, down from the $8.62 per bushel average for October.

Soybean crushing operations declined about 5 percent during the September-December period, and soybean exports were off 14 percent from the same year-earlier period. Actual exports were down only slightly from the year-ago pace in January, but there have been increased cancellations of commitments slated for shipment later in the year. There is also preliminary evidence that crushing rates have dropped appreciably so far this year.

Soybean processors are currently operating at about two-thirds capacity, compared to around 80 percent of capacity under "normal" circumstances. The cutbacks almost certainly reflect shrinking processing margins and perhaps reduced supplies. During the 1972/73 marketing year, processors worked with an average margin of 92 cents per bushel. The average margin declined to 72 cents during the 1973/74 year. Margins did average 32 cents during October but have been cut sharply in the last three and one-half months. Recently, processor margins have been reduced to very near the break-even point, in some cases pushed to the negative side. Some processors are having difficulty procuring soybeans, a reflection either of farmers' reluctance to market their crops or more limited supplies.

The demand/supply balance for soybean meal and oil is being affected by several factors. Sharp cutbacks in the numbers of livestock and poultry on feed have curtailed demand for soybean meal. The number of cattle on feed was down nearly 25 percent at the start of the year, while hog and poultry inventories were down nearly 10 percent from year-ago levels. The demand for soybean oil appears to be coming under downward pressures as a result of the current recession. Another depressing factor is the increased production and supplies of oilseeds and substitute products, including greater soybean production in Brazil and renewed supplies of Peruvian fish meal. World soybean oil supplies have been supplemented by the increasing availability of Nigerian peanut oil, Malaysian palm oil, and Philippine coconut oil.

U.S. farmers plan to expand their soybean acreage in 1975 according to a USDA January 1 planting intentions survey. Farmers in Seventh District states intend to plant about the same number of acres as they did in 1974. However, farmers in the Mississippi Delta and the Southeastern states generally intend to increase acreage sharply. These farmers will account for almost all of the nearly 8 percent increase shown in the January planting intentions report.

The corn-to-soybean price ratio is now less than 2 to 1, clearly in favor of corn. Soybean prices do compare favorably with cotton prices, however. The relative price changes of these three products between now and planting time will undoubtedly influence final planting decisions. However, other constraints may affect farmers' decisions. Limited availability of nitrogen fertilizer may restrict the switch to corn in spite of a favorable corn-to-soybean price ratio. Other crop inputs—such as seed corn, herbicides, and insecticides—are in relatively short supply and this situation may affect final planting decisions.

On balance, soybeans supplies are more plentiful on the world market and there are prospects for a record U.S. soybean crop this fall. On the other hand, current futures contracts do not portend a decline in prices between now and harvest time and, in fact, indicate only a modest post-harvest drop. Nevertheless, those factors implying additional downward pressures are the overriding consideration at this time.

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AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change Prior period	Percent change Year ago
INDEX OF PRICES					
Received by farmers	1967=100	January	174	- 2	-13
Crops	1967=100	January	204	- 4	- 3
Livestock	1967=100	January	153	0	-20
Paid by farmers	1967=100	January	179	0	+14
Production items	1967=100	January	182	- 1	+13
Family living items	1967=100	January	173	0	+16
Ratio of prices received to prices paid	1967=100	January	97	- 2	-23
Consumer price index *(all items)*	1967=100	January	148	- 5	+11
Food at home	1967=100	January	162	- 5	+15
CASH FARM PRICES *(U. S. average)*					
Corn	dol. per bu.	January	3.07	- 6	+19
Soybeans	dol. per bu.	January	6.30	-10	+ 7
Wheat *(all)*	dol. per bu.	January	4.11	-12	-22
Sorghum grain	dol. per cwt.	January	4.96	- 7	+23
Oats	dol. per bu.	January	1.62	- 5	+23
Beef steers and heifers	dol. per cwt.	January	31.00	0	-35
Hogs	dol. per cwt.	January	38.20	0	- 5
Milk, all sold to plants	dol. per cwt.	January	8.29	+ 1	- 7
Milk cows	dol. per head	January	403	- 3	-25
Chickens, broilers, live	cents per lb.	January	24.2	+11	+16
Eggs	cents per doz.	January	57.1	- 3	-14
INCOME *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	4th Qtr.	96.2	+ 2	- 2
Net farm income	bil. dol.	4th Qtr.	26.9	- 3	-37
Nonagricultural personal income	bil. dol.	December	1,150.3	0	+ 9
FARM FINANCE					
Total deposits at agricultural banks[1]	1972-73=100	January	130	+ 1	+10
Time deposits	1972-73=100	January	137	+ 2	+17
Net demand deposits	1972-73=100	January	120	0	+ 1
Total loans at agricultural banks[1]	1972-73=100	January	134	+ 2	+14
Production Credit Associations					
loans outstanding:					
United States	mil. dol.	December	9,557	+ 3	+22
Seventh District states	mil. dol.	December	1,613	+ 4	+19
new loans made:					
United States	mil. dol.	December	1,672	+47	+15
Seventh District states	mil. dol.	December	311	+72	+30
Federal Land Bank Associations					
loans outstanding:					
United States	mil. dol.	December	13,864	+ 2	+25
Seventh District states	mil. dol.	December	2,409	+ 1	+28
new loans made:					
United States	mil. dol.	December	312	+ 2	+36
Seventh District states	mil. dol.	December	48	+ 9	+66
Interest rates		week ending			
Three-month Treasury bills	percent	2/5	5.62	0	-22
Federal funds rate	percent	2/5	6.46	- 8	-29
Government bonds *(long-term)*	percent	2/5	7.74	- 1	+ 4
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	December	2,132	-10	+ 7
Agricultural imports	mil. dol.	December	968	+14	+22
FARM MACHINERY SALES					
Farm tractors	units	December	10,651	+19	-33
Combines	units	December	1,908	+12	+ 9
Balers	units	December	449	+ 5	-59

[1] Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.