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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

THE OUTLOOK FOR FATS, OILS, AND OILSEEDS IN 1961-62

Talk by George W. Kromer
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at the 39th Annual Agricultural Outlook Conference
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The long run uptrend in supplies of food fats and oils in the U. S. was temporarily reversed last year mainly because of reduced stocks of soybeans. It is expected to resume in the 1961-62 marketing year as the outlook is for a new record high by a wide margin.

The total U. S. supply of food fats and oils during the 1961-62 marketing year is forecast at a record 16.1 billion pounds (in terms of oil), 2.1 billion pounds or 15 percent more than the quantity available a year earlier. The increase in production is largely due to the record 1961 soybean crop, although lard and butter output will be slightly greater in 1961-62 than a year earlier. Beginning stocks on October 1, 1961, were up somewhat (because of the huge carryover of soybean oil) from last year and total output of food fats in 1961-62 will hit a new high.

Domestic disappearance of food fats in 1961-62 probably will continue at about the annual rate of 46 pounds (fat content) per person. With the expected growth in population, total domestic use should increase by about 125-150 million pounds. These prospects indicate that the quantities of edible oils, soybeans, lard, and butter available for export in 1961-62 will be a record 7.0 billion pounds, approximately 2.0 billion pounds or 40 percent more than last year.

Fortunately, the export outlook is very favorable. Current prospects are that exports of food fats (including the oil equivalent of soybeans) through September 1962 may set a new record of around 4.6 billion pounds, roughly one-third more than the 3.2 billion pounds exported during 1960-61. Main factors in the export outlook include: (1) Europe will buy more U. S. soybeans because of expanding demand for soybean meal and the small supplies that are likely to be available from Communist China. Also, heavy buying by Europe this fall will, in part, reflect deferred purchasing last summer in anticipation of lower prices for new crop beans in the U. S.; (2) Japan recently removed her restrictions on imports of U. S. soybeans. Demand

from Japan will result in larger imports; and (3) Sharp expansion in movement of edible oils (cottonseed and soybean oils) under the Food for Peace program--about 1,000 million pounds compared with 525 million in 1960-61. Most of this expansion will consist of donations through charitable agencies. There will also be expanded exports of edible oils to Pakistan under the recently signed 4 year agreement and to Turkey under Title I, F. L. 480 whereas last year there was no program with Turkey. Increased exports for dollars to Spain are likely, reflecting reduced olive oil production in that country.

Exports of edible oils (cottonseed and soybean) for 1961-62 are forecast at 1.9 billion pounds, up about 70 percent from the 1.1 billion shipped abroad for the year just ended.

Export sales of edible oils for dollars are expected to total about 900 million pounds (47 percent of the total) compared with 608 million pounds in 1960-61. The major increase would go to Spain, as that country shifts away from Title I, F. L. 480 oil.

Exports of cottonseed and soybean oils under F. L. 480 (excluding donations) are estimated at 545 million pounds (29 percent of the total) compared with 492 million in 1960-61. The rise would mainly reflect major increased movement to Pakistan and Turkey, as well as larger exports to Israel, Egypt, Iran and Colombia. These would more than offset the elimination of programs with Greece and Spain.

Commitments under the Food for Peace Program in 1961-62 are substantially larger than last year. So far, about 455 million pounds of edible oil are scheduled to be purchased by the USDA for donation to the needy abroad--255 million pounds have been bought this fall and another 200 million is slated for next spring, and additional purchases next summer are possible.

Soybean oil exports during 1961-62 are forecast at a record 1,350 million pounds, 600 million more than last year. The increase would reflect a heavy movement of oil under the foreign donation program; although dollar sales--mainly to Spain--are also expected to be up sharply. Cottonseed oil exports are forecast at 550 million pounds, up 165 million from 1960-61, reflecting increases in the program sector.

Other factors in the 1961-62 outlook for U. S. exports of food fats and oils include: (1) Substantially smaller olive oil crops in

Spain and Italy; (2) smaller exportable supplies of Philippine copra and coconut oil and Canadian rapeseed. On the other hand, considerably more African peanuts. The Indian peanut crop is up. In recent years, India exports only small quantities of peanuts for crushing and very little oil. This year if India domestic prices drop substantially some peanuts or oil may be exported; (3) a continuation of small exportable supplies from China and a somewhat smaller Argentine supply of edible oils at least through next spring; (4) a slightly better than average sunflower crop in the U.S.S.R. and good crops in Eastern Europe; (5) rising population and a high level of economic activity in most parts of the world; and (6) an expanded U. S. Food for Peace Program.

Now let us turn to the outlook for individual commodities.

Soybean supplies in the U. S. in the 1961-62 marketing year are placed at 716 million bushels, an increase of 134 million over the year before. The 1961 soybean crop is up 27 percent but carryover stocks of old crop beans on October 1, 1961, were a mere 6 million bushels--only about one-fourth as much as the 23 million bushels on the same date in 1960.

An increase in supply this large is greater than can readily be absorbed by the expanding soybean market outlets during 1961-62 at expected market prices; and a sharp buildup in carryover stocks on October 1, 1962, will occur.

The season average price received by soybean farmers for 1961 crop soybeans is forecast at \$2.30 per bushel, about 5 percent more than a year earlier. The seasonal swing in soybean prices in 1961-62 will at best be modest compared with the unusually large increase last year, as prices will be linked more closely to the CCC price support operations.

Farm prices during the heavy soybean harvesting season this fall are averaging near the national support rate of \$2.30 per bushel. After the heavy harvest period, prices to farmers likely will return to the loan level, and advance seasonally only to reflect storage charges. The CCC probably will take over a substantial amount of 1961 crop soybeans on June 1, 1962, and its resale price will be at least 16.5 cents per bushel over the \$2.30 per bushel loan rate during the summer. The CCC sales price will tend to become the market price at that time as soybean crushers and exporters turn to the Government for supplies to meet commitments for the remainder of the marketing year. This has usually been the case in years of substantial takeover of soybeans by CCC.

Soybean crushings in 1961-62 are forecast at 425 million bushels, up about 23 million bushels from the previous year. A bean crush this size would produce about 4.6 billion pounds of crude soybean oil and 10.0 million tons of soybean meal.

Domestic use of soybean oil in 1961-62 is forecast at 3.5 billion pounds, up slightly from the 1960-61 marketing year. The forecast assumes (1) total use of food fats will remain at about 46 pounds (fat content) per person; (2) supplies of lard will be up about 5 percent and most of this is expected to move into domestic consumption because of its prospective price advantage; (3) less cottonseed oil will be used domestically this year than last mainly because of its price premium and more oil will move abroad under Government programs. The combined domestic and export requirements for bean oil in 1961-62 probably will be great enough to reduce soybean oil stocks considerably by September 30, 1962.

Domestic use of soybean meal in 1961-62 is expected to be somewhat greater than in 1960-61. Foultry requirements will remain high, hog population will be up slightly, more cattle are on feed, and feeding ratios should be favorable. Prices of livestock and livestock products are expected to average close to the levels of 1961 and this should maintain a high feeding rate of protein per animal unit. Another factor in the soybean meal outlook for 1961-62 includes the increasing domestic demand for livestock products because of rising population and consumer incomes. Also, larger supplies of soybean meal will be available for domestic feeding and prices probably will average slightly lower than in 1960-61.

Export demand for soybeans during 1960-61 totaled about 130 million bushels compared with the record 141 million the previous year. It was strengthened by the scarcity of offerings from Red China, and the domestic market outbid the export market for the limited supplies of U. S. beans.

With strong foreign demand for beans, exports in 1961-62 are forecast at 175 million bushels, up 45 million from last year. The increase over last year is expected to go mainly to Japan and Western Europe. These major importing areas will continue to need large imports of U. S. oilseeds. Exportable supplies from Red China are likely to continue small and perhaps somewhat less copra will move in world trade. In addition there probably is increased buying this fall to compensate for the sharply reduced buying of this past summer. More African peanuts, however, are likely to be available. The consumption of soybean oil in Europe has been trending upward slowly and the European livestock economy continues to grow.

As usual, the biggest unknown in the outlook for U. S. exports is the probable level of competition from Communist China. Exports of soybeans from Red China in 1961-62 are expected to continue far below the 55 million bushel average of recent years but not much change from the low level of 1960-61--only 10 million bushels of beans moved through the Suez Canal during October-August 1960-61 compared with 33 million a year earlier.

Soybean seed and feed uses probably will require about 40 million bushels of beans. If crushing (425 million bushels) and soybean export (175 million bushels) estimates are reasonably accurate, carryover stocks of old crop beans on October 1, 1962, may be around a record-high 75 million bushels, compared with only 6 million bushels on the same date this year and the record 62 million bushels on October 1, 1959. Most of the carryover of 1961 crop beans likely will be in the hands of CCC. A soybean carryover of 75 million bushels would be enough to satisfy a little more than one month's peak crush and export.

Soybean oil prices (crude, Decatur) during the 1961-62 marketing year are expected to average about the same as the 11.3 cents per pound for 1960-61. The price of bean oil in late October was 10.6 cents per pound, about 1.0 cents above October 1960, and it is quite likely that prices later in the year will go moderately above this level. The wide swing in soybean oil prices which occurred during 1960-61 is not in prospect this year, mainly because of increased supplies of soybeans (which means less competition for beans for crushing), a more stable soybean price pegged to the higher support rate, and the current record high inventory of soybean oil. The price outlook reflects the sharp increase in the output of these fats and the higher support.

Cottonseed production in 1961-62 is placed at 5,942,000 tons, about the same as a year ago. A crop this size will produce about 1,850 million pounds of crude cotton oil and about 2,550,000 tons of cake and meal, about the same quantities for both products as last year. Prices to farmers for 1961 crop cottonseed are expected to average slightly above the CCC purchase price of \$45.00 per ton, basis grade (100), about 6 percent more than those received for the 1960 crop.

Cottonseed oil prices (crude, Valley) since August 1, the beginning of the 1961-62 marketing year, have declined somewhat from 13.4 cents per pound. By late October prices were 12.0 cents per pound, about 2.5 cents above a year ago. Prices during the heavy

October-December 1961 production months are likely to average well above the 10.0 cents per pound that prevailed during these same months last year, mainly reflecting higher cottonseed prices to farmers. Cotton oil prices later in the marketing year probably will show some seasonal price increase, as usual, and the average price for the entire 1961-62 season is likely to average slightly higher than the 11.6 cents per pound in 1960-61.

The 1961-62 cottonseed oil seasonal variation, however, should be mild compared with their sharp fluctuations witnessed in 1960-61. The outlook indicates that cotton oil prices this fall will average well above last fall but next spring prices likely will average well below the spring of 1961. Dominant factors in the price outlook for cottonseed oil during 1961-62 are (1) lateness of the 1961 cottonseed crop; (2) increased export movement of cottonseed oil under government programs; (3) larger supplies of competitive lard and soybean oil in the U. S.; (4) a good domestic demand for cotton oil although not as strong as last year, and (5) increased price supports for cottonseed.

Lard output during 1961-62 is expected to rise slightly, resulting in lower lard prices and more lard used in the manufacture of shortening. Little change in exports is in prospect.

Production of lard (including farm) in the marketing year which began October 1, 1961, is forecast at 2,650 million pounds, up about 5 percent from the year before. The increase reflects the rise in hog slaughter due to the upturn in the number of pigs saved in 1961.

Domestic disappearance of lard in 1961-62 is forecast at 2,150 million pounds, about 7 percent more than the previous year. The rise mainly reflects increased usage of lard in the manufacture of shortening although use in margarine may be up a bit again this year.

Exports and shipments of lard during 1961-62 are expected to approximate the 500 million pound rate of 1960-61, with a larger volume to the United Kingdom tending to offset the reduced movement to Cuba. Exports to the U. K., largest single market for U. S. lard, are expected to pick up in 1961-62 mainly because of lower prices. The U. S. lard industry is confronted with the narrowing-down of U. S. foreign outlets as a result of greatly expanded production abroad and the increasing number of trade barriers.

Lard prices (tankcars, loose, Chicago) for the entire 1961-62 marketing year are expected to average roughly 10 percent below

the 10.0 cents per pound during 1960-61. Lard prices this fall and winter, when production will be seasonally high, are expected to show some weakness and probably will average below the 9.8 cents per pound during October-December 1960.

The domestic flaxseed supply situation during 1961-62 is expected to be tight as output is down sharply (because of lower acreage and drought) and stocks are low. Flaxseed supplies in the 1961-62 marketing year, which began July 1, are estimated at 27 million bushels compared with 33 million last year. Crashings of flaxseed for domestic oil use may total around 19 million bushels, slightly less than last year and another 2 million will be needed for seed. Exports are expected to total about 2 million bushels (about 1 million has already moved out), leaving only 3 million bushels for carryover stocks on July 1, 1962. The season average price received by farmers for 1961 crop flaxseed (those fortunate enough to have it) is estimated at \$3.40 per bushel, 60 cents above the 1961 support price and 75 cents above the average price received for 1960. These high prices result not only from the reduced supply in the U. S. but also from the world shortage, which probably will not be alleviated until the Argentine crop comes to market in early 1962.

Linseed oil prices (raw, tank cars, Minneapolis) so far this marketing year averaged 15.3 cents per pound, 2.5 cents above July-October 1960 and the highest price level since the spring of 1956. These higher prices reflect the smaller supplies of linseed oil and the short 1961 crops. The outlook for linseed oil prices indicate that they will continue strong throughout the 1961-62 marketing year, averaging around 15-16 cents per pound compared with an average of 13 cents in 1960-61.

Inedible tallow and grease output in 1961-62 is forecast at a record 3.6 billion pounds compared with 3.5 billion last year. Domestic use of inedible tallow and grease is expected to total 1.8 billion pounds or about the same as the last 4 years. Exports are forecast at a new high of 1.8 billion pounds compared with 1.7 billion in 1960-61.

Perhaps one of the most significant developments in the inedible tallow and grease industry during 1960-61 was the shift in foreign markets. Exports to Europe were off sharply but this was more than offset by increased shipments to Japan and Russia. The U.S.S.R. has been a large purchaser of U. S. tallow beginning with March 1961, taking 198 million pounds through August. In the case of Japan, reduced supplies from Australia, liberalization of Japanese import

restrictions, and effective U. S. market development activities helped spur the increase. Prior to 1959, Japan purchased Dutch lard processed from U. S. hog grease, but Japan has since developed its own processing industry.

The price outlook for the year ahead again hinges upon the strength of export demand as little change is in prospect for domestic disappearance. Current indications are that prices during 1961-62 will be more stable than last year and probably average around the 5-6 cents per pound level as output rises and stocks remain large. Slightly lower but more stable prices in 1961-62 than last year will improve our competitive position in world markets and exports during 1961-62 will probably increase over the previous year. Some increase is in prospect for U. S. exports to Japan, Europe, and possibly the U.S.S.R. Also, substantial amounts of inedible tallow and grease will be shipped abroad under P. L. 480 in 1961-62 whereas last year there were no program exports.

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