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UNITED STATES DEPARTMENT OF AGRICULTURE  
ECONOMIC RESEARCH SERVICE

THE OUTLOOK FOR FATS, OILS, AND OILSEEDS IN 1962-63

Talk by George W. Kromer  
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at the 40th Annual Agricultural Outlook Conference  
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The total U.S. supply of edible fats, oils, and oilseeds during the 1962-63 marketing year which began October 1 is forecast at a record 16.5 billion pounds (in terms of oil), about 4 percent more than the peak quantity available last year. The increase in supply is due to larger starting stocks--mainly of soybeans and butter--as output in 1962-63 is likely to be slightly below the 1961-62 level.

Domestic disappearance of food fats in 1962-63 is expected to 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 vegetable oils (cottonseed and soybean), lard, butter and soybeans available for export and carryout stocks in 1962-63 will be a record 7.2 billion pounds, about 0.4 billion pounds or 6 percent more than last year.

Current prospects are that exports of food fats (including the oil content of soybeans) through September 1963 may set a new record of around 4.9 billion pounds, roughly 20 percent more than the 4.1 billion pounds exported during 1961-62. An export volume of this proportion would account for a good one-third of the 1962-63 U.S. output of these commodities.

Here are some of the main factors in the export outlook:

(1) Europe will continue to buy more U. S. soybeans because of expanding demand for meal and because European oil stocks probably are lower than last year. If European countries decide to increase stocks, which are currently below last year, exports could possibly exceed the 2.2 billion pounds forecast. Mediocre crops in Communist China as well as expanding demand because of increasing population will continue to hold Chinese exports of soybeans and other oilseeds to a low level in 1962-63. Also, less copra and coconut oil are moving in world trade. The consumption of soybean oil in Europe has been trending upward slowly and the European Livestock economy continues to expand. Europe is now going through a rapid expansion in broiler production similar to what occurred in the United States during the past decade. On the other hand, exportable supplies of competitive African peanuts are again likely to be substantial as they were in 1961-62.

(2) Exports to Japan, the major single market for U.S. soybeans, are expected to increase slightly as the upward trend in the consumption of soybeans and soybean products continues in that country. The U. S. has supplied about 95 percent of Japan's soybean imports in most recent years. The Japanese Government has postponed action on the liberalization of import restrictions on soybean oil and soybean meal and this should favor increased imports of soybeans.

(3) A sharp expansion in the movement of edible vegetable oils (cottonseed and soybean oils) under the Food for Peace Program (all Titles of P. L. 480)--about 1.3 billion pounds compared with 1.0 billion in 1961-62. Most of the expansion anticipated is under Titles I (sales for foreign currencies) and IV (long term credit sales) of P. L. 480 which will much more than offset a small drop in foreign donations because of the shift to butter. In addition to the large quantities that will again be programmed under Title I to countries such as Pakistan, Turkey, Egypt, Israel, etc., new programs have been announced for Morocco and Tunisia and other new ones for large quantities are expected.

(4) Exports of soybean oil for dollars to Spain may turn out to be at least as large as in 1961-62 (400 million pounds) because of weather damage to the olive crop in that country.

Exports of edible vegetable oils (cottonseed and soybean oils) for 1962-63 are forecast at a record 2.2 billion pounds, up about 20 percent from the 1.8 billion pounds shipped abroad last year and double the 1960-61 volume.

Export sales of edible oils for dollars are expected to total about 900 million pounds (40 percent of the total) compared with 840 million in 1961-62, as Spain continues to be a major taker, accounting for roughly half of the total dollar movement estimated for 1962-63.

Soybean oil exports during 1962-63 are forecast at a record 1,700 million pounds, 30 percent more than last year. The increase would mainly reflect a heavy movement of oil under the Food for Peace Program, although dollar sales--mainly to Spain--are expected to be up some. Cottonseed oil exports are forecast at 500 million pounds, about the same as last year.

Exports of cottonseed and soybean oils under P. L. 480 (excluding Title III, foreign donations) are estimated at 1.1 billion pounds compared with 0.7 billion in 1961-62. The rise is mainly in Title I (sales for foreign currencies). Exports of edible oils under Title III during 1962-63 are placed at 200 million pounds (CCC owns 180 million pounds of shortening and cooking and salad oils purchased during 1961-62) down slightly from the 270 million last year, as the foreign donations program tends to shift to butter. There is a limit--probably around 400 million pounds--on the amount of food fats the welfare agencies can distribute abroad this year.

Based on the above estimates of domestic and export requirements, carryover stocks of all food fats on October 1, 1963 will be down around 10 percent from the 2.6 billion pounds (including stocks of soybeans (oil equivalent), shortening and salad and cooking oils) on the same date this year.

Before turning to the prospect for certain commodities, I might point out that the appraisal of the 1962-63 fats and oils outlook was originally based on the assumption that there would be no major change in the international situation. However, the events of recent weeks injected a new element into the outlook for the coming year. The full economic impact of these events and the prospective developments in the international



situation are not yet clear. Here is the way we appraise the effects on the fats and oils economy so far: (1) Supply - Because of increased world tension, some exporting countries possibly will tend to hold back or retain a larger portion of their exportable supplies of fats, oils, and oilseeds; (2) Demand - Some tendency on the part of importing countries, such as Western Europe, to maintain a higher stock level of fats and oils than otherwise; (3) Prices - Prior to the Cuban crisis, soybean and vegetable oil prices had strengthened somewhat in contrast to normal seasonal weakness during the harvest season. The Cuban quarantine was proclaimed in late October, imparting further strength to the market. With the lessening of world tensions there has been a slight decline of prices.

Now let us turn to the outlook for individual commodities.

Soybean supplies in the U. S. during the 1962-63 marketing year are placed at 730 million bushels, 31 million more than the previous year. The 1962 soybean crop is down about 3 percent from last year but carryover stocks on October 1, 1962 were 58 million bushels, up 52 million from the same date last year. Of the 58 million bushel carryover, 40 million were in the hands of CCC and another 11 million bushels of 1961 crop beans were resealed in farm storage. However, the relatively large quantity of new crop beans crushed and exported before September 30, 1962 has reduced the availabilities for the 1962-63 marketing year.

The season average price received by farmers for 1962 crop soybeans is expected to approximate the \$2.28 per bushel received for the 1961 crop even though the support price is 5 cents less than last year. Farm prices during the heavy harvesting season this fall are averaging at about the national support rate of \$2.25 per bushel. The seasonal swing in soybean prices during 1962-63 probably will be small, as was the case last year, because prices will be linked closely to the CCC price support operations. Price supports will place a floor under the market this fall when marketings are at their peak. Later on in the year, the CCC resale price probably will set the ceiling, the minimum for No. 1 beans being the support rate for 1962 crop No. 2 soybeans plus 19 cents per bushel.

Soybean crushings in 1962-63 are forecast at a record 450 million bushels, up 3 percent from the 439 million bushel rate last year. A bean crush this size would produce about 5.0 billion pounds of crude soybean oil and 10.6 million tons of soybean meal. According to trade estimates, soybean crushing capacity in 1962-63 will be about 550 million bushels, not much different from last year. Domestic use of soybean oil probably will total about 3,500 million pounds and soybean oil exports around 1,700 million pounds, both new record highs.

Domestic use of soybean meal during 1962-63 is placed at 9.6 million tons, up 5 percent from the last feeding year whereas exports of soybean meal may be down around 10 percent from last year's peak of 1.1 million tons. The export demand for oilseed cakes and meal is strong and continues upward particularly in Western Europe. During 1962-63, however, a larger proportion of European meal requirements probably will be imported in the form of U. S. soybeans and hence, meal exports may be off slightly. Western Europe has a large crushing industry and they prefer to import raw materials (soybeans) for processing rather than products (oil and meal).

Record exports of meal in 1961-62 were the result of an expanding demand, particularly in Europe, unusually bad weather in Europe, an increase in the knowledge of the feeding value of soybean meal, and low oil prices in Europe. Also, European users prefer U. S. toasted soybean meal because of its high quality.

Export demand for soybeans during 1961-62 totaled a record 153 million bushels compared with 130 million the previous year. Record soybean exports in 1961-62 resulted from (1) rising European livestock population and increased feeding of soybean meal and other concentrates; (2) increased consumption of soybeans in Japan, aided by freeing soybeans from import licenses; (3) strengthened demand for soybean meal in Canada; and (4) continued mediocre crops in Communist China which kept Chinese exports of soybeans and other oilseeds to Europe at a low level.

The basic underlying factors which stimulated the rapid rise in soybean exports in the last decade--from 17 million in 1951-52 to 153 million in 1961-62--still exist with strong foreign demand for beans, exports are forecast at 175 million bushels, up 22 million bushels from the previous high achieved in 1961-62. The increase over last year is expected to go mainly to Europe and Japan.

If soybean crushing (450 million bushels) and soybean export (175 million bushels) estimates are reasonably accurate, carryover stocks of old crop beans on October 1, 1963, may be around 60 million bushels, about the same as on the same date this year but below the record 62 million bushels of October 1, 1959. Most of the carryover of 1962 crop beans likely will be in the hands of CCC as was the case this year. A soybean carryover of 60 million bushels would be about 1 month's requirement for crushing and export.

Despite record disappearance, soybean oil prices (crude, Decatur) for the entire 1962-63 marketing year are forecast at an average of not less than 9.0 cents per pound. Record large stocks of oil (including finished products) and continued heavy crushings to meet current meal demand are dominant factors in the outlook. Soybean meal prices (bulk, Decatur) for 1962-63 are forecast at or above the average of \$65 per ton in 1961-62. Based on the above price estimates of soybeans, soybean oil, and soybean meal, processor's margins during 1962-63 probably will continue slim but a little better than last year.

Total supplies of cottonseed in 1962-63 (carryover stocks on August 1, 1962, plus production) are placed at 6,401,000, 4 percent more than in 1961-62. Assuming the usual 92 percent of the crop will move to oil mills for crushing, the total crush for the 1962-63 season probably will be around 5,625,000 tons compared with 5,538,800 tons the year before. A crush this size will produce around 1,900 million pounds of crude cotton oil and about 2,600,000 tons of cake and meal. Prices to farmers for 1962 crop cottonseed are averaging about \$48 per ton, basis grade (100) slightly above the CCC purchase price of \$44 per ton but less than the 1961-62 season average of \$51.10.

Cottonseed oil prices (crude, Valley) for the entire August-July 1962-63 marketing year are forecast at averaging at least 11.0 cents per pound compared with 12.4 cents the previous year. Cottonseed meal prices (bulk, Memphis) are expected to average above the \$59 per ton level in 1961-62.



Lard supplies (including farm) in the 1962-63 marketing year which began October 1 are forecast at 2,600 million pounds, about the same as in 1961-62, as smaller starting stocks offset a slight increase in output. Lard prices (tanks, loose, Chicago) probably will average at least 9.0 cents per pound for the entire marketing year compared with 8.6 cents in 1961-62. Lard exports (including shipments) are forecast at 500 million pounds, about the same level as last year and will represent about one-fifth of our lard output. Domestic use of lard in 1962-63 probably will continue at about the 2.0 billion rate of last year.

The total supply of butter (carryover plus output) in the 1962-63 marketing year that began October 1, is estimated at 2,025 million pounds, compared with 1,850 million a year earlier. Stocks of butter in Government hands on October 1, 1962 totaled 375 million pounds, 89 percent of the total, compared with 186 million a year earlier, 78 percent of the total. Prices to farmers for butterfat likely will average slightly above the CCC support level of 57.2 cents per pound, but about 2-3 percent less than the previous year, reflecting the lower level of support for the dairy marketing year which began April 1, 1962.

Domestic commercial demand for butter in the year ahead may be no greater than in 1961-62 but total consumption may be maintained because of large distributions from CCC stocks to school lunch and welfare outlets. Butter exports (largely in the form of butter oil and ghee) under the foreign donations program (Title III, P. L. 480) may total around 125 million pounds, whereas in 1961-62 these shipments were negligible. If estimates of exports (125 million pounds) and domestic donations (175 million pounds) are reasonably accurate, carryover stocks on October 1, 1963 may be as large or larger as on the same date this year. Current indications are that it may be several years before butter stocks return to a more normal level.

Flaxseed supplies in the 1962-63 marketing year, which began July 1, are estimated at 35 million bushels, 8 million more than in the previous season. Crushings of flaxseed may total around 19 million bushels, about the same as last year and another 2-3 million bushels will be needed for seed. This leaves 13-14 million bushels of flaxseed available for export during 1962-63 and carryover stocks next June 30, compared with only 6 million bushels available during 1961-62. The actual level of exports in 1962-63 will depend upon availabilities of flaxseed and linseed oil in producing countries (Argentina and Canada) and stocks in importing countries. Total exports from July 1, 1962 through early November were about 2 million bushels. Prices to farmers for 1962 crop flaxseed probably will average at about the support level of \$2.90 per bushel, around 35 cents below the \$3.25 received for the small 1961 crop. Linseed oil prices (raw, tank cars, Minneapolis) probably will average around 13 cents per pound compared with 15.2 cents in 1961-62. Linseed meal prices for 1962-63 are expected to average slightly higher than the July-June 1961-62 average of \$63 per ton (bulk, Minneapolis).

Inedible tallow and grease output in 1962-63 is forecast at 3.6 billion pounds compared with 3.5 billion last year, mainly reflecting a prospective increase in cattle slaughter. Domestic use of inedible tallow and grease probably will total around 1.8 billion pounds or about the same as the last

5 years. Exports are forecast at a new high of 1.8 billion pounds. The strength of export demand is a major price-making force as about half of the U. S. output of these fats is available for export. The outlook for the year ahead is for inedible tallow prices to average at least as high as the 5.5 cents (prime, Chicago) level in 1961-62.

Domestic tung oil supplies (U. S. production, imports, and starting stocks on November 1, 1962) during the 1962-63 marketing year are forecast at 44 million pounds, about 18 million pounds less than the year before and the smallest since World War II. The 1962 tung oil crop, preliminarily estimated at about 5 million pounds, is down sharply from the 33 million pounds produced last year because of the freeze damage to the trees last spring.

Current prices of tung oil are the highest since the spring of 1952. Due to the tight world situation, prices likely will continue high and for the entire 1962-63 marketing year probably will average at the present high level of around 40 cents per pound (Southern mills), up about 5 cents from 1961-62. Domestic use of tung oil in 1962-63 is forecast at no higher than the 36 million pounds of last year and the smallest since the oil short days of the mid-1940's.

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