(*-*)

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR OILSEEDS, FATS AND OILS

Talk by George W. Kromer
Economic and Statistical Analysis Division
at the 1970 National Agricultural Outlook Conference
Washington, D.C., 9:15 A.M., Thursday, February 19, 1970

U.S. soybean supplies in 1969/70 are up for the sixth consecutive year to an estimated 1,441 million bushels, compared with 1,269 million in 1968/69. An anticipated 13 to 15% increase in consumption, over the 1968/69 record of 945 million bushels, reflects continuing strong crusher and export demand for soybeans. In fact, the uncertainties in world supplies of competitive fish meal and oil and sunflowerseed oil could result in an even larger increase--with total use approximately balancing the 1969 soybean crop. Thus, the carryover next September 1 may only moderately exceed, at most, last September's 324 million bushels.

Prices received by farmers for soybeans increased from $2.23 per bushel during the heavy harvest last October to $2.36 in January 1970, averaging about 10¢ below a year earlier. Prices are expected to increase further, reflecting continuing strong demand and substantial withholding by producers. Next summer the trade may need to buy some soybeans from CCC as "free" supplies tighten.

The price support for 1969-crop soybeans is $2.25 per bushel, No. 1 grade, compared with the 1968-crop rate of $2.50 per bushel, No. 2 grade. This year's rate represents a net reduction of about 30¢ a bushel from the 1968 support rate since No. 2 grade soybeans usually sell about 5¢ per bushel below No. 1. USDA announced February 5 that 1970-crop soybeans will by supported at $2.25 per bushel, unchanged from the 1969 level.

Producers can receive price support on 1969-crop soybeans through farm and warehouse storage loans and purchases, either as individuals or through CCC-approved cooperative marketing associations. Loans are available through May 31, 1970, and will mature June 30, 1970. These dates are 1 month earlier than in the 1963-68 period.

As of December 31, 1969, the CCC owned or had under reseal a total of about 294 million bushels of soybeans from the 1966-68 crops. This, plus the 138 million bushels of 1969-crop currently under CCC loan, brings the total withheld to 432 million bushels--approximately 30% of the 1969/70 soybean supply.

In contrast to lower soybean prices so far this marketing year, soybean oil and meal prices have been up, resulting in the most favorable processing margins since 1965. The spot price spread between soybeans and the total value of oil and meal per bushel at Decatur averaged about 52¢ in September-January, compared with 15¢ in the same months the year before and 42¢ in 1965. The margin for all of 1968/69 averaged 12¢.

Favorable processing margins are stimulating a record crush and many processors have been operating at or near capacity. September-January crushings totaled around 297 million bushels, up about 46 million from a year earlier. The record output of oil and meal is moving into marketing channels, and crushers' and refiners' stocks remain relatively low. Crushings for the entire marketing year may total 675 million bushels, or above, up from 606 million in 1968/69.

Based on trade estimates, the U.S. soybean processing capacity during the current season is placed at around 770 million bushels, up slightly from 1968/69. On this basis, the processing industry this year is operating close to 90% of its capacity compared with 81% in 1968/69, and well above the long-run average utilization rate of 80%. The soybean industry usually expands its processing capacity in years following those of favorable operating margins--and 1970/71 likely will not be an exception.

An estimated 340 million bushels of soybeans will be exported in the current marketing year. The final level will depend upon further foreign developments. This would be up from 287 million in 1968/69. Expanding foreign demand reflects continued growth in poultry and livestock production, reduced competition from other oils and meals, and a general strengthening in world fats and oils prices compared with a year earlier. From last September 1 through February 6, about 192 million bushels of soybeans were inspected for export against 136 million the same period last year. The increase over last year continued to widen sharply through mid-February; a year ago the Atlantic and Gulf Coast longshoremen were on strike.

Europe and Japan are taking most of the increased soybean exports this year. European livestock producers are continuing to stress efficiency in meat production which requires the use of high-protein feeds. U.S. exports to Japan are increasing mainly because of slightly lower soybean prices, little change in imports from Mainland China, further expansion in the poultry and livestock industry, and expanding vegetable oil consumption.

Soybean oil supplies for the marketing year ending September 30, 1970, are estimated at around 7.6 billion pounds, about 8% more than in 1968/69.

Domestic use is placed at 6.2 billion pounds, compared with 5.8 billion in 1968/69. The trend toward use of more soybean oil per person and increased population are helping to boost consumption levels. Also, production of competitive cottonseed oil, peanut oil, lard, and butter are somewhat less this marketing year. Domestic disappearance of soybean oil in October-December totaled 1.6 billion pounds, a new high for this quarter and nearly 15% above the year before.

Domestic use of soybean oil in the 1960's rose from 3.3 billion pounds to 6.2 billion forecast for 1969/70. The monthly average rate of domestic use during the decade rose from about 275 million pounds to 520 million. Each of the major food categories benefited--shortening, salad and cooking oils, margarine, and other edible uses. Soybean oil's inedible uses, which comprise about 10% of domestic use, have increased only slightly in recent years.

The largest increase in soybean oil usage in 1968/69 occurred in the salad and cooking oils category. Following a steady uptrend for this category over the years, recent increases have been sharper. Commercial uses of edible oils in the production of mayonnaise, salad dressings, potato chips, frozen french fries, bakery food mixes, and other prepared foods have expanded for some time. But the recent big impetus in oil usage probably is partly due to the ever-increasing number of convenience or fast-food service establishments that sell fried foods. Their further growth will mean demand for more soybean oil.

Soybean oil exports in 1969/70 probably will not differ much from the 0.9 billion pounds shipped last year. About 85% of our soybean oil was exported under P.L. 480 in 1968/69 and program activity continues near that level. India and Pakistan are the principal recipients under P.L. 480 oil programs. U.S. soybean oil exports were 279 million pounds in October-December, up from 259 million the year before. Pakistan, Tunisia, and India accounted for 60% of the total.

World demand for soybean oil continues to increase. However, the large amount of oil produced from U.S. soybeans processed overseas limits the soybean oil that the United States can export to Western Europe and Japan. The oil equivalent of U.S. soybean exports in 1969/70 is estimated at 3.7 billion pounds (340 million bushels containing 11 pounds of oil per bushel) compared with 3.2 billion pounds (287 million bushels) a year ago.

Soybean oil prices (crude, Decatur) declined from about 11¢ per pound last October-November to 9-1/2¢ in January, averaging 10¢ compared with 8¢ during October-January 1968/69. Prices the rest of the current marketing year probably will remain fairly steady, averaging above the 8-1/2¢ per pound level in 1969.

Soybean meal supplies for the marketing year ending September 30, 1970, are estimated at about 16.2 million tons, up from 14.7 million last year.

Domestic use is placed around 12.6 million tons, up nearly a tenth. Relatively high livestock prices, more protein-consuming animals to feed, along with short supplies and high prices of fish meal and cottonseed meal are contributing to the unprecedented demand for soybean meal feeds. Domestic disappearance of soybean meal during October-December 1969 totaled 3.2 million tons, a new high for this quarter and 8% above the year before. In January severe winter weather further increased domestic soybean meal consumption.

Exports of soybean meal in 1969/70 are expected to rise to around 3.4 million tons, about a tenth above last year. This prospect is based on continued strong demand for feed and relatively high prices of corn and other feed grains in Western Europe, reduced availabilities of competing meals, particularly fish meal, and expanding use of high-protein rations due to increased poultry and pork production. Western Europe usually accounts for at least three-fourths of the total U.S. soybean meal exports. During October-December 1969, total U.S. soybean meal exports were 1,069,000 tons compared with 811,000 the year before.

Most of the prospective increase in U.S. meal exports during 1969/70 will be in soybeans rather than meal as such. The meal equivalent of U.S. soybean exports this year is estimated at about 8.1 million tons (340 million bushels containing 47.5 pounds of meal per bushel) compared with 6.8 million tons in 1968/69.

Monthly average soybean meal prices (44% protein, bulk, Decatur) increased from $70 per ton in November to $87 in January. The sharp rise in market prices reflects tight supplies and record domestic and export demand. Much of the soybean meal probably was contracted for at lower prices than current levels. Crushers were running near capacity but not enough meal was produced to fill the heavy demands.

The 1969 cottonseed crop totaled an estimated 4.3 million tons, compared with 4.6 million in 1968. Cotton harvested acreage increased 9% but cottonseed yield per acre, at 770 pounds, dropped 15%. The season average price received by farmers was $40.70 per ton compared with $50.50 in 1968. Lower

prices reflected a similar drop in the price support rate--from $48 per ton in 1968 to $37 in 1969. USDA announced February 5 that 1970-crop cottonseed will also be supported at $37 per ton. The 1969 crop is expected to yield around 1.3 billion pounds of crude cottonseed oil and 1.9 million tons of meal--both down slightly from the previous year.

Cottonseed oil supplies for the marketing year ending July 31, 1970, are nearly 1.8 billion pounds, up a tenth. The 1969 cottonseed crop fell 8%, but carryover stocks of oil (mainly in CCC hands) increased. Domestic use is running slightly above last year's near-record low of 1.0 billion pounds but exports are up sharply, due to increased commercial sales in addition to large CCC shipments. Cottonseed oil prices in August-January averaged about 12% below a year earlier.

Lard production for the current marketing year is estimated at 1.8 billion pounds, nearly a tenth less than a year earlier. Lower output stems from smaller hog slaughter and the continued decline in lard yield per hog.

In 1968/69, lard yield per hog averaged 22.6 pounds, down 1.6 pounds from the previous year and 10 pounds below 1956. Lard yields have declined for 10 consecutive years, and the rate has accelerated in the past few years. At the same time, pork yields per hog have increased--from 132 pounds in 1956 to 152 in 1968. This reflects the trend toward increased production of the meat-type (leaner) hogs; the average live weight per hog slaughtered has changed little over the years.

Domestic use, estimated at nearly 1.6 billion pounds, would be down a tenth from 1968/69. Lard prices are expected to continue strong, encouraging increased use of lower priced substitutes. Exports and shipments in 1969/70 may fall short of the 281 million pounds shipped last year, due to reduced availabilities and relatively high prices. Lard exports are being aided by USDA payments to exporters of U.S. lard to the United Kingdom. Since the start of the program in January 1969, USDA has accepted 277 million pounds of lard for export (170 million prior to October 1, 1969). Initially, the payment rate was set at 2.0¢ per pound, compared with 3.345¢ for European lard. In August 1969, the U.S. rate was reduced to 1.0¢ per pound. Beginning February 1, 1970, the EEC rate was pegged at 2.2680¢ per pound, down from the previous rate of 2.4948¢.

Lard prices during October-January averaged 11-1/2¢ per pound, about 4-1/2¢ above a year ago. Prices have rebounded dramatically from their low levels of around 5-1/2¢ per pound in the summer of 1968, when they were the lowest in nearly 30 years. Since then, smaller lard supplies plus a tighter supply outlook for many major world fats and oils boosted prices upward.