Harold Taylor

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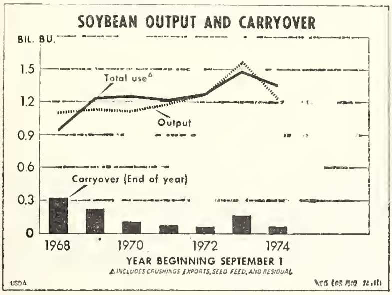
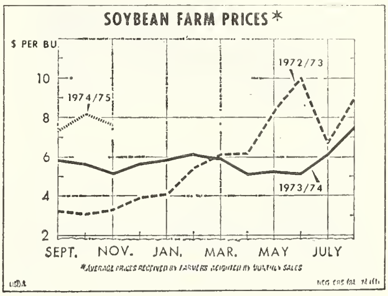
# OUTLOOK FOR OILSEEDS, FATS AND OILS

[By George K. Kromer*]

The U.S. soybean outlook is for sharply reduced supplies, continuing strong demand, minimal carryover next September 1, and high prices. A substantial increase in soybean production in 1975 would be required to avoid the continuation of tight supplies through the 1975–76 marketing year.

Use of soybean and other domestic fats and oils likely will decline in 1974–75 due to high prices, tight supplies, inflation, rising unemployment, and uncertainties about the economic outlook that are causing cutbacks in consumer spending. Also, imports of palm oil and coconut oil are increasing sharply as their prices are now more competitive with domestic oils. These developments may lead to a decline in United States per capita disappearance of food fats and oils, which has been at record high levels in recent years. Soybean meal demand in 1974–75 is being reduced because of unfavorable livestock-feed and poultry-feed price relationships.




## Soybean Harvest Prices at Record Levels

Prices received by farmers for soybeans during September–November 1974 averaged $7.65 per bushel, about $2 above a year earlier. Prices will continue relatively strong while fluctuating widely. They will be influenced by the general economic situation. Prices next spring and summer will also be affected by prospects for 1975 soybean production. Farmers are strong holders of soybeans this fall since they have adequate storage facilities and know that in the past 2 years it has been profitable to store soybeans at harvest and sell later. Furthermore, many producers who suffered sharp crop losses will try to maximize returns on the soybeans they were able to harvest. Last season

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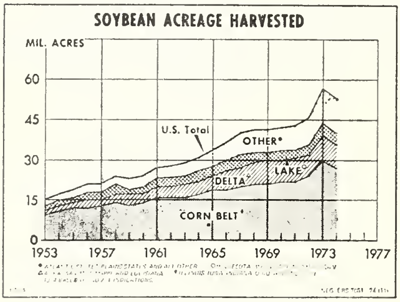
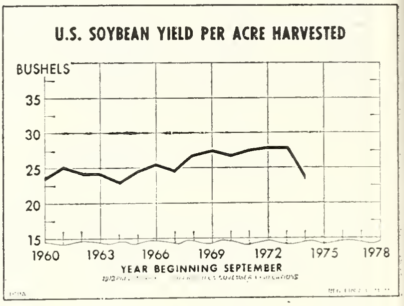
farm prices rose from a harvest low of $5 per bushel in November 1973 to a high of $7.55 in August 1974.

### SOYBEAN CROP A FIFTH BELOW 1973 RECORD

A combination of reduced acreage and lower yields resulted in lower production in 1974. As of November 1, the soybean crop was estimated at 1,244 million bushels, about 323 million below the 1973 record. Adding the carryover stocks of 172 million bushels gives a total supply for 1974–75 of 1,416 million bushels, about 13 percent below the record 1,626 million of last year.

Early last spring, weather conditions appeared ideal for soybeans and hopes for a record crop were high. However, wet weather during most of the planting season along with unfavorable soybean/corn price ratios eliminated possibilities of a bumper harvest. Acreage for harvest, at 52½ million acres, is down 7 percent from 1973. Summer drought and killing frosts in late September and early October damaged the crop, reducing yields sharply. Yields per acre are estimated at 23.7 bushels, 4.1 bushels below the record of the past 2 seasons and the lowest since 1964.




Despite smaller supplies and high prices, soybean demand is expected to remain strong. Total disappearance probably will drop to about 1.36 billion bushels, some 7 percent below last season but about 100 million bushels in excess of 1974 production. Both domestic crushings and exports are expected to decline from the record levels of last year. Carryover stocks on September 1, 1975, will be drawn down to minimum levels—now estimated at around 60 million bushels, or merely a 2 weeks' supply.

### NO LOAN PROGRAM FOR 1975-CROP SOYBEANS

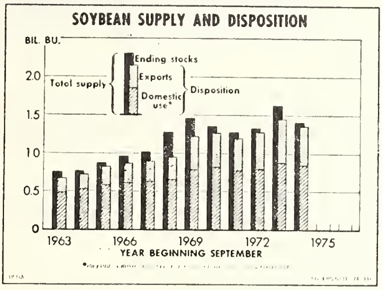
Expanding 1975 soybean acreage significantly from this year's reduced level may prove difficult. As in 1974, the 1975 feed grain, wheat, and upland cotton programs have no set-aside requirements. No land will be removed from agricultural production under these Government programs. So the economic alternatives relating to the competition for acreage between soybeans, feed grains, cotton, and other crops will be a major consideration.

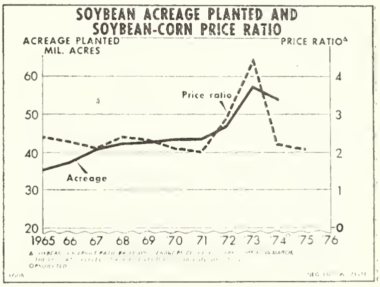
The prospective soybean/corn price ratio of slightly above 2 to 1 will tend to encourage more corn plantings. However, the higher cost of corn production relative to soybeans may be partially offsetting.

Unless prospective soybean/corn price relationships run closer to 3 to 1 or weather conditions at planting time favor soybeans, any soybean acreage expansion from this year's reduced level in the Corn Belt will be small. Price and cost reationships may favor soybeans over cotton and provide some soybean acreage increase.

The USDA announced on November 27 that there will be no loan program for soybeans beginning with the 1975 crop. Little use has been made of the CCC program for this permissive-support commodity in recent years because market prices have been sharply above the loan level.

The national average price support loan rate for the 1974 soybean crop is $2.25 per bushel (No. 1 grade, 12.8–13.0 percent moisture), unchanged from the past 5 years. Farm and warehouse loans and CCC purchases are available from harvest through May 31, 1975, and they will mature on June 30, 1975.




## CRUSH TO DECLINE SHARPLY

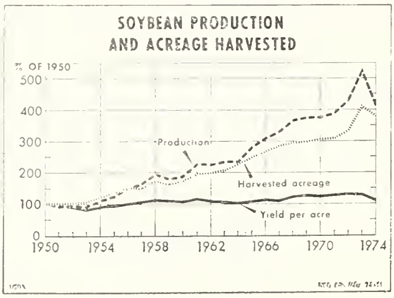
Soybean crushings this season are expected to drop sharply—possibly to around 765 million bushels compared with the record 821 million of 1973–74. The tight supply situation and smaller processing margins are the major factors limiting the crush. Nevertheless, relatively strong domestic and foreign demand for soybean oil and favorable export demand for soybean meal are factors which should tend to keep crushings up. Crushings during the first half of the marketing year (September–February) probably will total slightly below year-earlier record levels. Then in the second half (March–August 1975), they likely will fall sharply under the 1974 level as soybean supplies become scarcer. Crushings during September–November 1974 totaled an estimated 181 million bushels compared with 176 million last year.

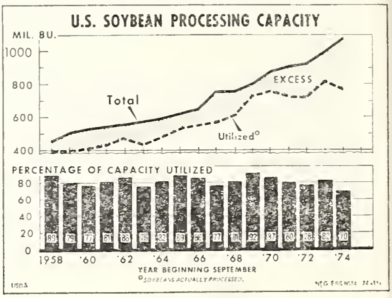
The 1974–75 season's crush would utilize only about 70 percent of the industry's processing capacity—now estimated at around 1.1 billion bushels or a tenth greater than 1973–74. This would be down from the long-term average utilization rate of around 80 percent.

Spot processing margins in 1974–75 could be halved from the record 72 cents per bushel of last season. Higher soybean prices, less soybeans available, and increased capacity are factors reducing prospective margins. The spot margin during September–November averaged 30 cents compared with 85 cents a year ago.

EXPORTS ALSO TO DROP

Export availabilities are estimated at about 500 million bushels, down 8 percent from the record 542 million shipped in 1973–74. As with domestic use, exports will be largely limited by the tight supply situation. However, high soybean prices, inflation, increased competing supplies in foreign countries, and a slowdown in the economies of many countries also may affect exports by curtailing the demand for soybean oil and meal.




The 1974 Brazilian soybean corp, at 7 million metric tons, was 40 percent above the previous year Another new record is projected for 1975, possibly to around 8½ million tons.

Peruvian fishmeal output is up substantially in 1974 from the disastrously low outturn of 1973. Production is estimated at 1.2 million metric tons compared with only 423,000 tons in 1973.

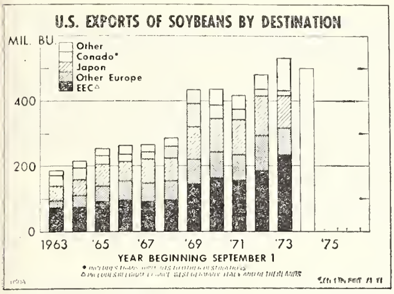
The Nigerian peanut crop is estimated at about 900,000 metric tons, about 4½ times greater than last year's small output.

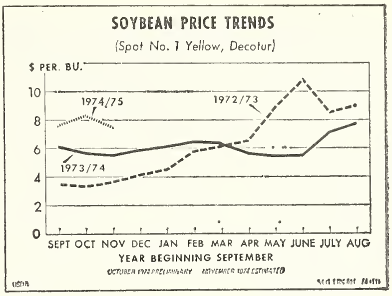
Palm oil expansion is expected to continue in Malaysia. Output in 1975 probably will rise by some 200,000 tons.

Output of Philippine coconut oil also is staging a significant recovery. Production may climb by at least 150,000 tons.

However, Soviet sunflower production is expected to be off about 8 percent from the 6.75 million metric tons of 1973, but still up significantly from 1971 and 1972. Also, India's drought-affected peanut crop will be reduced by around 800,000 tons from last year's output of 5.8 million metric tons.

While the shortage in U.S. supply will limit exports as well as domestic use, there is uncertainty over how much of the export movement will be in the form of soybean products versus whole beans. Pertinent factors include: (1) Brazil's export volumes of soybeans as such, compared with its product exports; (2) how much soybean meal Eastern Europe will buy directly, rather than indirectly through crushers in Western Europe; (3) U.S. crusher margins relative to those in Europe; and (4) possible increases in Russia's sunflower oil exports to Western Europe.




From September 1 through November 29 soybeans inspected for export totaled 114 million bushels, a tenth below a year earlier. Exports are expected to be relatively heavy during the first half of the marketing year but will drop off precipitously in the second half.

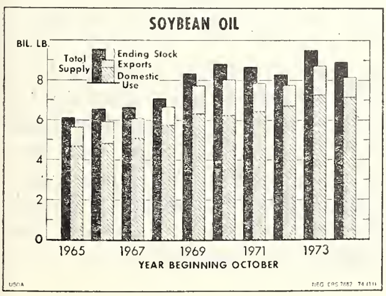
As of November 17, reported outstanding export sales of soybeans totaled 585 million bushels. About 78 million bushels were for unknown destinations. The European Community and Japan accounted for 85 percent of the total volume listed under known destinations.

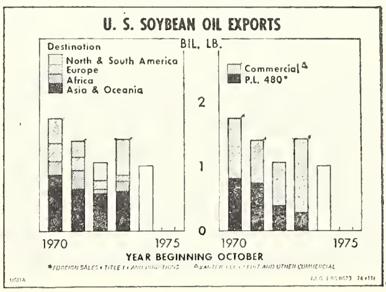
On October 7, USDA instituted a voluntary cooperation program of prior approval of export sales. Guidelines for implementation of this program were announced on October 10. The commodities included in this program are wheat, feed grains, soybeans, and soybean meal. The purpose is to assure ample supplies for domestic consumers and to provide to the fullest extent possible the requirements of U.S. customers abroad.

SOYBEAN OIL SUPPLY TO DECLINE

Because of tight soybean supplies and smaller crushings, soybean oil supplies are estimated at just under 9 billion pounds, some 6 percent below 1973–74.

Domestic disappearance is expected to drop from the record 7.3 billion pounds of last year to around 7.1 billion. This is quite a contrast when compared to last year when usage increased around 600 million pounds from the year before. Lard output is expected to be down sharply but imported palm and coconut oils may be used to fill the shortfall. Palm oil imports in October totaled 100 million pounds compared with only 17 million a year earlier whereas coconut oil imports were 78 million pounds compared with 47 million in October 1973.



Soybean oil export availabilities are estimated at over 1 billion pounds, down a fourth from the 1.4 billion shipped last season. Reduced soybean oil production is the major factor behind this year's expected decline. Expansion in Brazilian soybean oil, Nigerian peanut oil, Malaysian palm oil, and Philippine coconut oil output will help fill the gap in world requirements. Last year larger quantities of U.S. soybean oil were available to fill foreign oil requirements.

Countries expected to take sizable quantities include Mexico, Peru, Yugoslavia, and Iran. In 1973–74, these countries accounted for about two-fifths of total soybean oil exports.

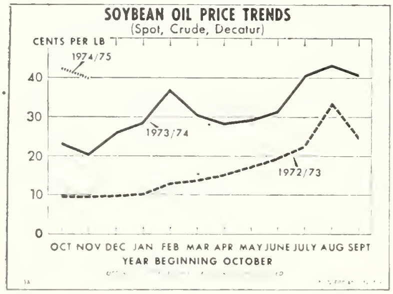
A greater part of the entire volume is expected to be exported under commercial sales—possibly 90 percent of the total. Exports under Public Law 480 will be small, continuing the trend that has prevailed in recent years. Last season, commercial sales accounted for about four-fifths of total exports.

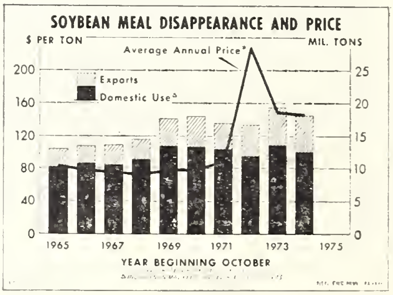
As of November 17, reported outstanding export sales of soybean oil totaled 969 million pounds. Of this total, about 609 million pounds were for known destinations, with nearly one-half of the total destined for the European Community. Outstanding export sales do not include Title II foreign donations, which last year amounted to about 100 million pounds of soybean oil. Cumulative soybean oil exports from October 1 through November 17 were 148 million pounds.

Soybean oil prices (crude, Decatur) during October–November averaged 41 cents per pound, approximately double year-earlier levels. Prices are expected to stay high and for the entire 1974–75 marketing year average somewhat above the record 32 cents per pound set in 1973–74.

### SOYBEAN MEAL USE TO DROP SHARPLY

Soybean meal supplies are estimated at 18½ million tons, about 7 percent below 1973–74.



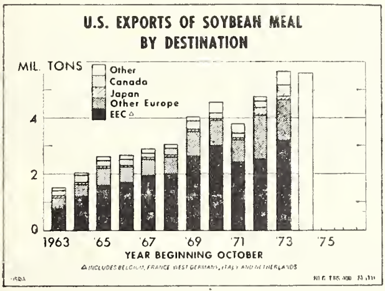

Domestic disappearance may drop sharply from last season's 13.8 million tons to around 12½ million tons. Major factors tending to reduce usage include expected cutbacks in dairy, hog, feed cattle, and poultry production because of smaller feed grain supplies and unfavorable livestock-feed and poultry-feed price relationships, less feeding of concentrates per animal, and more cattle on pasture. Record cattle inventories will hold cattle slaughter well above year earlier levels, despite an expected cutback in fed cattle marketings.

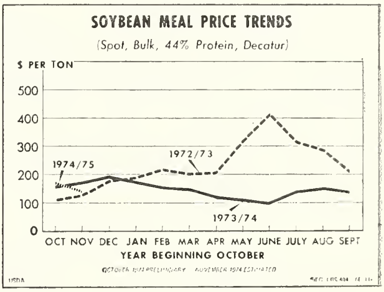
Soybean meal export availabilities are estimated at about 5½ million tons or approximately the same as the previous year. Conditions similar to those in the United States face many foreign producers. World livestock numbers are large. Both cattle and hog numbers in Western Europe are up from a year ago. However, livestock/feed price ratios are unfavorable and may tend to discourage feeding, especially in countries with major economic problems. Use of soybean meal by poultry producers in Western Europe will be cut back also. In addition, larger availabilities of soybeans and meal from Brazil and fishmeal from Peru should satisfy a larger share of foreign soybean meal requirements.

As in past years, Western Europe is expected to take around two-thirds of total exports. Movement is expected to be heavy this fall and winter and then taper off over the rest of the season.

Soybean meal prices (44 percent protein, Decatur) have strengthened from late last spring when they averaged around $100 per ton. During October–November they averaged $157. They are expected to remain high, reflecting smaller supplies and record feed grain prices.

As of November 17, outstanding export sales of soybean meal totaled 10.8 million short tons. Western Europe represented 65 percent of the volume, Eastern Europe another 12 percent, and unknown destinations about 19 percent.




## Cottonseed Supplies Down; Prices Strong

Cottonseed supplies during the 1974–75 total 5.3 million tons, about 3 percent below last season. Although harvested acreage of cotton is larger, seed yield per acre is down, resulting in the smaller output.

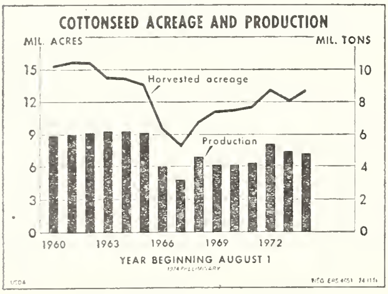
Cottonseed prices to farmers are strong, reflecting reduced supplies and high prices for cottonseed oil and meal. During August–November cottonseed prices averaged $123 per ton, compared with $96 for this same period a year ago.

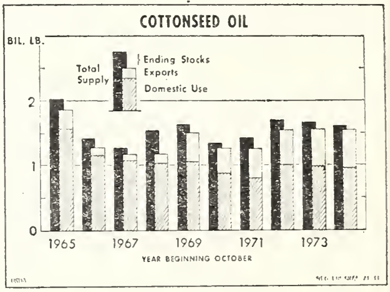
Cottonseed oil supplies this season total 1.6 billion pounds, about 6 percent below last year. Both production and carryover stocks are smaller.

Domestic disappearance is estimated at just under 1 billion pounds or near the level of last year. Smaller supplies of soybean oil and lard will help to maintain use of cottonseed oil. Cottonseed oil is the second major edible vegetable oil produced and used in the United States, ranking next to soybean oil. It competes with soybean oil and other fats and oils for use in food fat products such as shortening, margarine, and cooking and salad oils.

Exports are estimated to be near the 583 million pounds of last year. Traditionally, Western Europe and Egypt have been our major customers but Canada, Mexico, and Venezuela also buy substantial quantities. So far, exports are running near year-ago levels.

As of November 17, outstanding export sales of cottonseed oil totaled 442 million pounds, with most of this destined for the European Community, Iran, Venezuela, and Egypt. About 39 million pounds of this total were for unknown destinations.



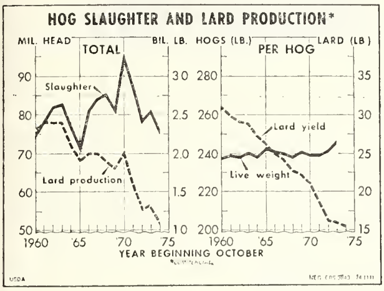

Cottonseed oil prices continue high. During August-November, prices (crude, Valley) averaged 43 cents per pound, up sharply from the 24 cents for this same period last year. They hit a record 46 cents last August. Prices are expected to remain high, reflecting the tight edible oils supply situation and good demand for these commodities. For the season they probably will average considerably above the 31 cents per pound of 1973–74.

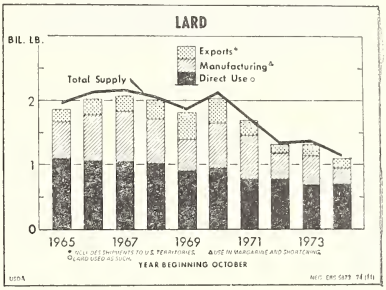
## Lard Output To Decline

Lard production in the 1974–75 marketing year which began October 1 is expected to drop some 15 percent to around 1.1 billion pounds. Declining hog slaughter and lower yields are expected to acccount for the reduction. Last season yields averaged 16.3 pounds per hog, about the same as in 1972–73. During the past decade, lard yields have dropped about 11 pounds, with the greater part of this decline occurring in the last few years. Hog slaughter this fall is running above 1973 levels but in 1975 it will drop under year earlier levels.

Domestic disappearance probably will drop below 1 billion pounds, compared with 1.1 billion of the previous year. The direct use of lard—or that consumed as a cooking fat in its identificable form—may increase slightly because of the competitive price relationship with other fats and oils. However, less lard probably will be used in margarine and shortening manufacture. The direct use of lard now totals less than 3½ pounds per person, down from around 6½ pounds a decade ago. Lard export availabilities will be down somewhat from the 0.2 billion pounds of last year. The United Kingdom and Mexico accounted for about 90 percent of total exports last year.

Lard prices (tanks, loose, Chicago) averaged 25 cents per pound during 1973–74, the highest on record. Recently, prices have strengthened, reflecting the tight edible fats and oils supply/demand balance. Prices during October–November were around 38 cents, an all-time high. They are expected to continue high throughout 1974–75, averaging below edible oil levels.




## Record Low Flaxseed Supplies Bring Top Prices

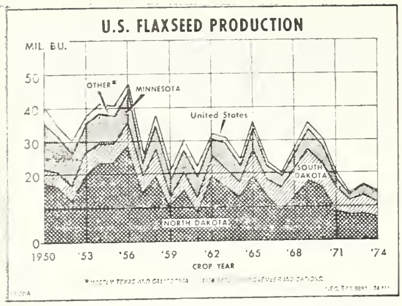
Flaxseed supplies for the 1974–1975 marketing year total around 18 million bushels, about 10 percent below last year and the smallest on record. This includes estimated imports of about one million bushels. A combination of small carryover stocks—2.6 million bushels—and reduced production—14½ million bushels—accounts for the lower supplies. The 1974 crop is more than a tenth below last year. Smaller yields due to drought are responsible for the decline as harvest acreage slightly exceeds last year's figure.

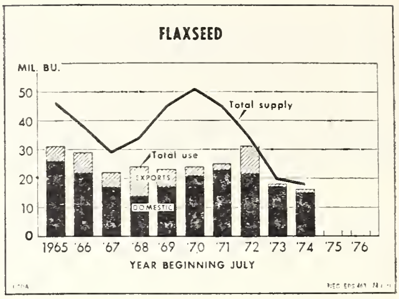
Flaxseed crushings are estimated around 13 million bushels, down from the 17 million of last season. During July–October they totaled 5½ million bushels compared with 7 million a year earlier. Tight supplies are limiting crushings this season. However, the demand for linseed oil is good, especially the export market, and crushings probably would be larger if supplies were available.

Exports probably will total around 1 million bushels, compared with 0.6 million last year. So far, very little flaxseed has been exported. However, world supplies are tight and foreign buyers will be bidding for the limited U.S. supplies. Production in Canada is estimated at 16½ million bushels, 15 percent below last year. Early frost damaged the crop. Production in Argentina is estimated at around 14 million bushels, about a fifth above the previous year.

U.S. carryover stocks on June 30, 1975, will be small—probably totaling around 2 million bushels.

Prices to farmers this season are at record levels. During July–November they averaged $10 per bushel, up sharply from the $7 for these months last year. Prices are expected to continue high, reflecting the tight supply situation.




The USDA announced on November 27 that there will be no loan program for flaxseed beginning with the 1975 crop. Flaxseed is a permissive-support commodity and in recent years prices have been substantially above the CCC support rate of $2.50 per bushel (farm basis).

## Linseed Oil Supplies Tight

Linseed oil supplies in 1974–75 total an estimated 320 million pounds, about a third below last year and the smallest on record.

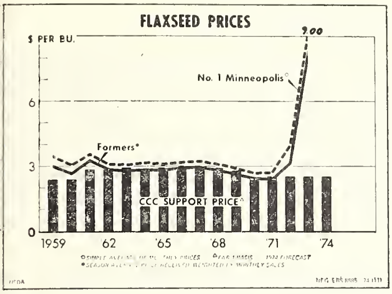
Domestic disappearance is estimated at around 200 million pounds, about a fifth below last year. High prices and limited supplies will tend to dampen usage. Also, the slowdown in the economy, particularly the housing slump, will adversely affect the use of paint, varnish, and other drying oil products and thus reduce the requirements for linseed oil.

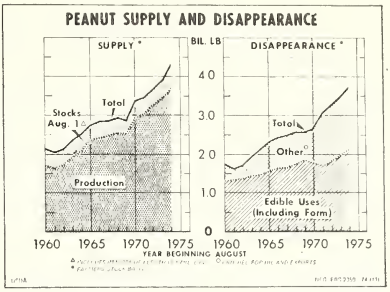
Linseed oil exports during July–October 1974 totaled 47 million pounds compared with 73 million for this period a year ago. Limited supplies will curb exports over the balance of the year and will be a major factor limiting movement this season. As of November 17, outstanding export sales of linseed oil totaled 49 million pounds. Most of this was destined for the European Community. About 15 million pounds were for unknown destinations.

During July–November, linseed oil prices (raw, tanks, Minneapolis), averaged 46 cents per pound, sharply above this period a year ago. Because of the tightness in flaxseed and linseed oil supplies, they are expected to continue at a high level over the rest of this marketing year.

## Peanut Supplies Record High

The 1974–75 peanut supply is estimated at 4.3 billion pounds (farmers' stock basis), about a tenth above last season's record. The 1974 crop is estimated at 3.8 billion pounds, 8 percent above 1973. The increase is due to larger production in the Southeast area, which is up about a fifth. Production in the Virginia–North Carolina area is down about 13 percent and down about 2 percent in the Southwest area. A national yield per acre of 2,521 pounds is 198 pounds above the record of last year. U.S. acreage allotments again were at the legal minimum of 1.6 million acres.




Edible use of peanuts during 1974–75 is estimated around 1.9 billion pounds, slightly above 1973–74. Use last year totaled over 1.8 billion pounds and increased nearly a tenth above 1972–73. Greater use in salted peanuts and peanut butter accounted for the gain.

Supplies this season exceed prospective edible requirements and farm use and CCC is expected to acquire about a fourth of the 1974 peanut crop under the price support program. With the demand for vegetable oils strong, CCC probably will dispose of these peanuts into domestic crushings and export channels.

Prices received by farmers this fall are averaging at 18 cents per pound, near the CCC support level and about 2 cents above 1973. For the season they probably will average near support, which is 18.3 cents per pound ($366 per ton). Support by type is as follows: Virginia, $372; Runner, $370; Southeast Spanish, $359; Southwest Spanish, $356; and Valencia (suitable for cleaning and roasting), $372.

The USDA has been working with the peanut industry and the Congress for over a year to develop new peanut legislation. In the absence of any new legislation affecting the 1975 crop, allotments will remain in effect if approved by peanut growers in referendum. Last year the USDA announced 6 administrative program changes and later rescinded 2 and modified 1.

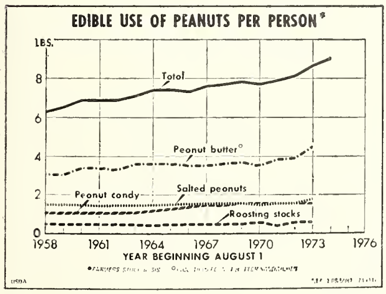
The 1974 peanut program changes from 1973 were as follows:

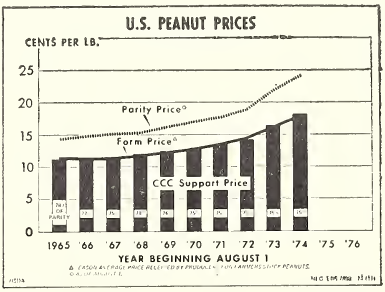
—Peanuts found to contain visible aspergillus flavus mold are ineligible for support.

—The charges to producers for storage, handling, and inspection are increased from $15 to $17 per ton.

—Commodity Credit Corporation's minimum sales policy for diversion sales is 100 percent of the loan level.

—No tolerance is allowed in program compliance determinations relating to measure acreages.



## 1975 Peanut Allotment Announced

The USDA announced on November 20 a national marketing quota of 1,899,800 tons and a national acreage allotment of 1,610,000 for the 1975 peanut crop. A mail referendum is being held this week (December 9–13, 1974) to determine whether marketing quotas will be applicable to the 1975, 1976, and 1977 crops of peanuts. At least two-thirds of the growers voting must approve quotas if they are to be made effective. Peanut marketing quotas have been in effect each year since 1949.

## 1974 Speeches and Articles Available Pertaining to Fats and Oils

A free copy of the following releases may be obtained from the ERS Division of Information, Rm. 0054 South Building, U.S. Department of Agriculture, Washington, D.C. 20250:

"U.S. Food Fat Consumption Trends" by George W. Kromer. Reprint from Fats and Oils Situation, FOS–272, April 1974, ERS–522.

"Regional Soybean Acreage Response Analysis and Projections for 1974" by R. Samuel Evans and David E. Kenyon. Reprint from Fats and Oils Situation, FOS–272, April 1974, ERS–553.

"Economic Aspects of the Vegetable Oils and Fats Industry in the United States" by George W. Kromer. Paper presented at the International Trade and Development Conference, United Nations Economic Commission for Asia and the Far East (ECAFE) at the Battelle Seattle Research Center, Seattle, Wash., June 10, 1974. Thirty-three pages including Statistical Appendix.

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