95th Congress
2d Session

COMMITTEE PRINT

1979 FOOD AND AGRICULTURAL OUTLOOK

Papers Presented at the Food and Agricultural Outlook Conference Sponsored by the U.S. Department of Agriculture—Held in Washington, D.C., November 13–16, 1978

PREPARED FOR THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

DECEMBER 29, 1978

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
35-448 WASHINGTON : 1979

U.S. OILSEEDS AND PRODUCTS OUTLOOK

(By George W. Kromer, Agricultural Economist, Economics, Statistics, and Cooperatives Service, U.S. Department of Agriculture)

The 1978–79 oilseed outlook is for near-record high supplies, continuing strong demand both here and abroad, small changes from this year's relatively low carryover stock levels, and prices averaging higher than during the last marketing year.

The United States harvested a record 81 million acres of oilseeds this fall, about 5 million more than in 1977. Increased soybean acreage—up 6 million acres—more than offset declines in cottonseed acreage—off 1 million acres—and an increase of one-half million acres in sunflowerseed was about offset by a similar drop in flaxseed acreage. Peanut acreage remained unchanged from last year's level.

HARVEST PRICES STRONG

The demand for oilseeds and products is unusually strong this fall and has boosted prices to farmers well above the levels of a year ago.

The U.S. average farm price for soybeans in October was $6.41 per bushel, about $1.13 above October 1977. Strengthening soybean prices reflect the heavy crush and export rates to date while farmers store large quantities of beans.

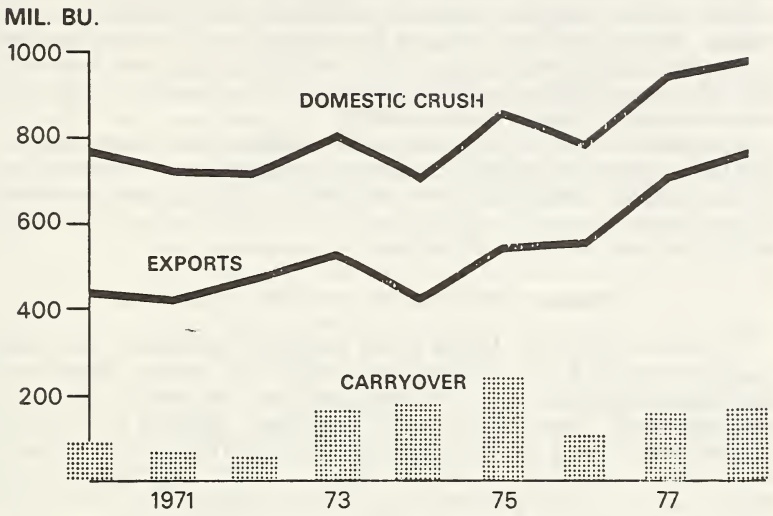
Soybean prices probably will continue strong through at least winter; thereafter they will be influenced by developments in the South American soybean crops to be harvested next May. A record harvest there may cause soybean prices to weaken when new-crop South American soybeans become available. However, if the projected increases in Brazil and Argentina soybean crops don't pan out, then U.S. soybean prices will continue strong all season.

U.S. SOYBEAN SUPPLY UP 5 PERCENT

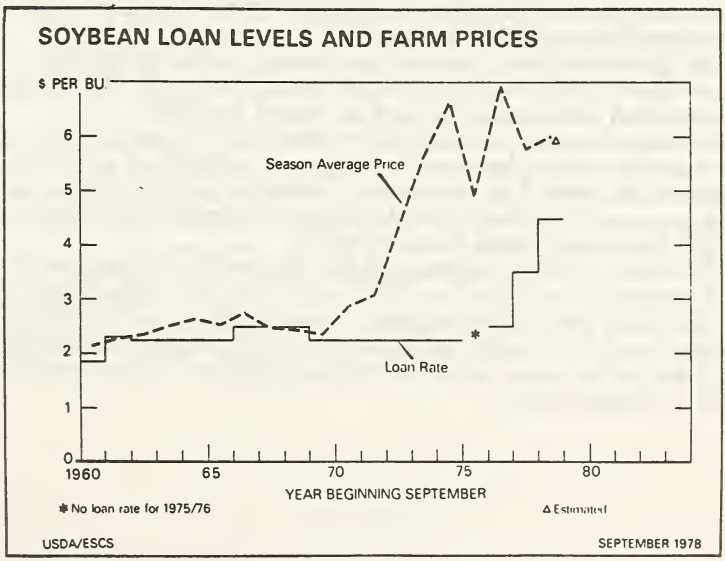
Soybean farmers harvested a record 63 million acres this fall, nearly a 10th more than in 1977. But wet a spring and late plantings resulted in yields of an estimated 28.3 bushels per acre, down 2.3 bushels from last year's record high. Consequently, this year's soybean crop, while still record high, is only 2 percent above 1977. As of October 1, the 1978 soybean crop was estimated at 1,792 million bushels, compared with 1,762 million in 1977. And with carryover stocks last September at 159 million bushels—up 56 million from September 1977—the total 1978–79 soybean supply is boosted to 1.95 billion bushels, compared with 1.86 billion in 1977–78.

Soybean supply and demand in 1978–79 appear to be in fairly close balance—with both domestic crush and exports increasing to new highs—leaving carryover stocks on September 1, 1979, at around 170 million bushels, or near the 159 million bushels this year.

U.S. SOYBEAN USE*



* EXCLUDES PLANTING SEED AND SOYBEANS USED AS FEED.



CRUSHINGS TO SET NEW RECORD

Soybean crushings this season are estimated at around a record 970 million bushels, compared with 927 million in 1977/78. This rise mainly reflects the prospective increase in soybean meal feeding because of favorable feeding price ratios. More poultry, cattle, and hogs will be fed. The crush during September-October is estimated at 162 million bushels, about 35 million above 1977.

A season's crush of this size would utilize about three-fourths of the U.S. industry's 1978/79 processing capacity—now estimated at 1.3 billion bushels, up slightly from last season. The industry operated at three-fourths capacity in 1977/78, a little below the long-term average utilization rate of about 80 percent.

SOYBEAN EXPORTS HEADED FOR NEW HIGH

Soybean exports in 1978/79 are projected at around 730 million bushels compared with 700 million bushels last season. Brazilian and Argentine soybeams and products will not be available on world markets until May 1979. So, U.S. soybean exports will face little competition during the first half of the 1978/79 marketing year and could be as much as 75 million bushels ahead by February. From September 1 through October 27, soybeans inspected for export totaled 107 million bushels, about 33 million more than last year.

1979 ACREAGE MAY BE UP

Soybean acreage in 1979 probably will increase from the 64.4 million acres planted this year, if soybean prices remain favorable to feed grains. The soybean/corn price ratio in early November was 3 to 1 and the March 1979 ratio (based on Chicago futures prices) showed the same price relationship. A soybean/corn price ratio of 2½ to 1 is considered favorable for soybeans.

On the other hand, the soybean/cotton price relationships are not favorable for soybean expansion so some land in the Delta area may be switched from soybeans back to cotton in 1979.

Soybean farmers are likely to be faced with higher production costs next spring when planting decisions are made. Cost increases are in prospect for seed, fuel and energy, machinery, farm labor, real property taxes, and interest. Only fertilizer and agricultural chemical costs might be slightly lower than in 1978.

The U.S. index of prices paid by farmers for all production goods and services in mid-October 1978 was 12 percent higher than in 1977.

The 1979 feed grain program will also be an additional element which farmers will need to factor into their cropping plans. This is in addition to the usual variables such as weather and price relationships with competing crops.

SOYBEAN OIL DOMESTIC USE GAINS

Soybean oil supplies in 1978/79 are projected at about 11½ billion pounds, compared with 11 billion last season.

Domestic use is expected to total around 8½ billion pounds, about 4 percent more than in 1977/78. U.S. supplies of competitive cottonseed oil, lard, and butter will be smaller than in 1977/78, but greater quantities of sunflowerseed oil, corn oil, peanut oil, and imported palm oil are expected to be available. The domestic consumption of soybean oil has shown a strong uptrend for many years and now accounts for over 60 percent of all food fats and oils utilized in the United States.

Soybean oil exports in 1978/79 are projected at about 1.8 billion pounds, down from last season's record high 2 billion pounds. Public Law 480 sales (titles I and II) are expected to total 0.4 billion pounds in 1978/79, CCC credit sales another 0.2 billion pounds, and the remainder dollar sales. The prospective decline in export demand mainly reflects improved oilseed crops in many foreign countries.

In 1977/78, about one-fourth (500 million pounds) of the year's exports went to India, where vegetable oil consumption is growing. The PRC and Pakistan imported large quantities—an estimated 450 million pounds. Peru, Iran, and Bangladesh were also large importers of U.S. soybean oil.

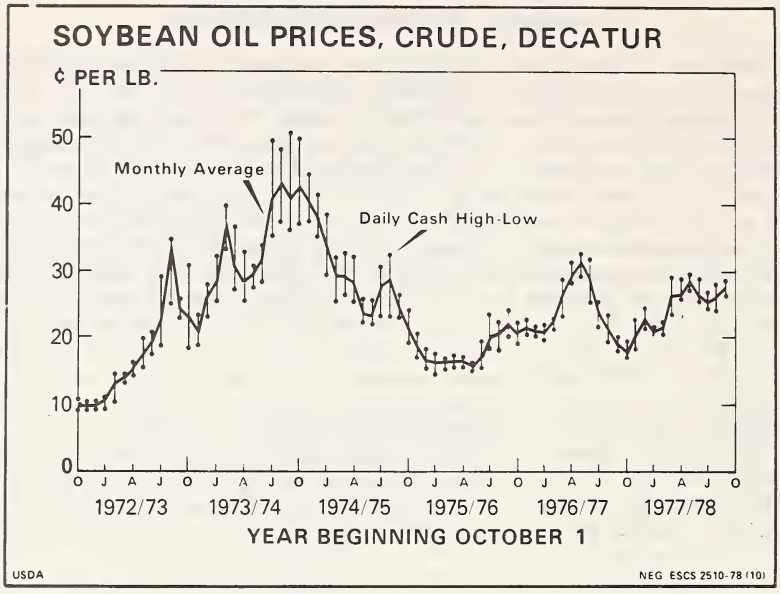
Soybean oil prices during 1978/79 are expected to be relatively more stable than last season—possibly averaging near last year's 25 cents per pound. Of course, any unexpected pickup in export demand from India or the PRC will provide more strength to U.S. soybean oil prices.

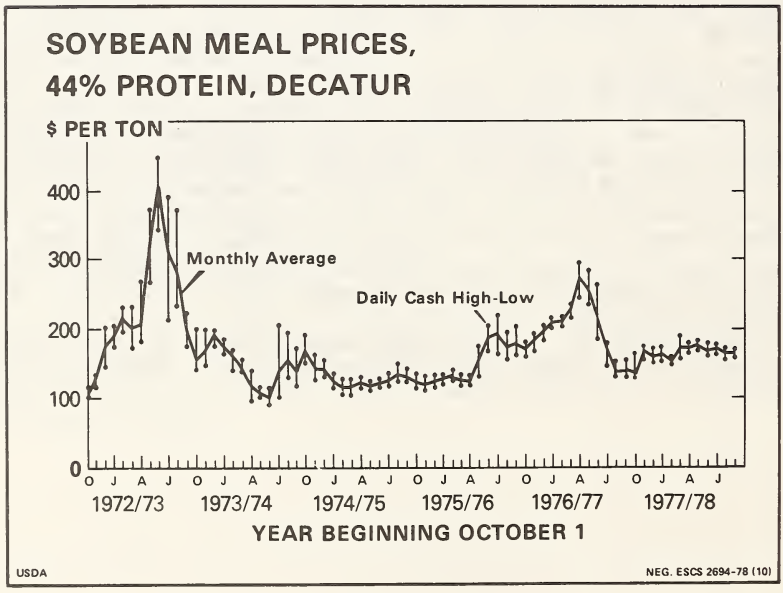
SOYBEAN MEAL USE EXPANDING

U.S. soybean meal supplies for 1978/79 are projected at 23.3 million short tons, compared with 22.6 million last season. Domestic use of soybean meal is projected at 17.2 million tons, some 5 percent more than in 1977/78. The increases in farrowings, broiler production, and cattle on feed all point to heavier consumption of high-protein feeds in 1978/79. Feed use of corn and other grains is expected to increase some 7 percent in 1978/79, which will also stimulate the demand for soybean meal, although corn prices likely will be more competitive.

Soybean meal exports are expected to be maintained at around 5.8 million short tons, slightly below 1977–78. A supporting factor has been the decline in the U.S. dollar value relative to European currencies and the Japanese yen. Over half of our meal exports are to the European Community (EC), with Japan and East Europe also ranking as large importers.

The bulk of U.S. soybean meal moving abroad is in the form of soybeans, rather than the processed commodity. Many countries


SOYBEAN OIL PRICES, CRUDE, DECATUR
¢ PER LB.
50
40
30
20
10
0
Monthly Average
Daily Cash High-Low
O J A J O J A J O J A J O J A J O J A J O J A J O
1972/73
1973/74
1974/75
1975/76
1976/77
1977/78
YEAR BEGINNING OCTOBER 1
USDA
NEG. ESCS 2510-78 (10)


SOYBEAN MEAL PRICES,
44% PROTEIN, DECATUR
$ PER TON
400
300
200
100
0
Monthly Average
Daily Cash High-Low
O J A J O J A J O J A J O J A J O J A J O J A J O J
1972/73
1973/74
1974/75
1975/76
1976/77
1977/78
YEAR BEGINNING OCTOBER 1
USDA
NEG. ESCS 2694-78 (10)

prefer to process soybeans, and Brazil has moved large quantities of soybean meal into the world markets in recent years.

Soybean meal prices (44 percent protein, Decatur) during 1977–78 fluctuated between $135 per ton and $177, averaging $164. Prices during 1978–79 are expected to be relatively more stable, averaging around $180 per ton.

PALM OIL IMPORTS MAY INCREASE SLIGHTLY

Palm oil imports into the United States during 1978/79 may increase from the 375 million pounds of last season, possibly approaching around 425 million. A rebound in Malaysian palm oil production—from the drought-stricken output of last year—could encourage expanded imports, assuming prices become competitive with domestic soybean oil.

Palm oil prices (cost including freight, U.S. ports, bulk) increased from around 20 cents per pound in October 1977 to 31 cents in July 1978, and then softened a little in August and September. For the entire 1977–78 marketing year, which ended in September, prices averaged about 26 cents per pound, approximately 2 cents above the previous year. Prices in early November were around 30 cents, about 10 cents above a year ago and somewhat above soybean oil.

COCONUT OIL IMPORTS MAY DECLINE

Coconut oil imports during the 1978–79 marketing year may drop from the 1-billion-pound level of last season, if coconut oil prices continue near their currently high levels. Philippine coconut oil output in 1979 is expected to be down about a tenth from this year, an indication that relatively high world prices probably will continue. United States use likely will drop from the 1-billion-pound level of last season if imports are near our estimate.

Coconut oil prices (crude, Pacific Coast) during 1977–78 averaged 30 cents per pound, approximately 2 cents above the previous year. Prices rose from 24 cents in October 1977 to 40 cents in September. Prices in early November were 43 cents, about 19 cents above 1977.

1978 COTTONSEED CROP OFF SHARPLY

Reduced harvested cotton acreage and smaller cottonseed yields per acre resulted in sharply lower cottonseed production in 1978. Output is estimated at 4.2 million short tons, about a fourth below last year's crop. Cottonseed supplies for the 1978–79 marketing year, which began August 1, are estimated at 5 million short tons, about 13 percent below last season. Larger carryover stocks on August 1 partially offset the sharp reduction in output.

Prices received by farmers for cottonseed in October averaged $110 per short ton, up from $74 a year earlier.

Cottonseed oil supplies for the 1978–79 marketing year are estimated at 1.4 billion pounds, somewhat below last year. Domestic disappearance may approximate the seven-tenths billion pounds of last season. However, large supplies of such competing oils as soybean and sunflower will provide more competition.

Cottonseed oil exports are expected to fall below the seven-tenths billion pounds of last year. Although world supplies of vegetable oils likely will be larger, U.S. cottonseed oil is preferred in Western Europe, South America, and Egypt, and should remain competitive in these areas.

Cottonseed oil prices (crude, Valley) are strong, reflecting in part the smaller cottonseed crop and good demand for cottonseed oil. During August–October, prices averaged 31 cents per pound, about 10 cents above the same period a year ago. Prices may moderate some as crushings and oil production increase seasonally. Nevertheless, prices likely will remain relatively strong. Last season, prices averaged 24 cents per pound.

1978 SUNFLOWERSEED CROP RECORD HIGH

U.S. sunflowerseed production is forecast at a record 3.4 billion pounds, up 23 percent from 1977. This estimate is for all sunflowers produced in North Dakota, South Dakota, Minnesota, and Texas. Of course, other States grow sunflowers commercially too, but national data are not available. Most sunflowers produced in the United States are of the oilseed variety, although the birdfeed variety is also important. Market prices for sunflowerseeds this year are averaging better than 11 cents per pound, up almost 3 cents from last year.

Exports are still the largest outlet for U.S. sunflowerseeds, with about two-thirds of the 1978 crop probably moving overseas—West Europe is the big market. Domestic demand for sunflowerseed oil is on the increase as more manufacturers are using it as an ingredient in margarine and salad oil.

LARD OUTPUT MAY DECLINE

Lard production in 1978–79 is estimated at just under 1 billion pounds, off slightly from the previous year. Although hog slaughter may be up a little, lower lard yields per hog will be more than offsetting as high pork prices likely will favor lighter fat trim and slightly lower lard outturns.

Domestic disappearance of lard is expected to total near the eight-tenths-billion-pound level of the past 3 seasons, the all-time low. Exports in 1978–79 again may approximate two-tenths billion pounds, the same as last season.

Lard prices (tanks, loose, Chicago) last season averaged around 22 cents per pound, roughly 1 cent below the previous year. Prices ranged from a low of 19 cents to a high of 26 cents. Prices this season are starting at a higher level and likely will continue so. Nevertheless, lard prices are still averaging below such other major food fats as soybean, cottonseed, and palm oils.

NEW PEANUT PROGRAM STARTED WITH 1978 CROP

The Food and Agriculture Act of 1977 amended the peanut price support program by establishing a two-tier pricing system and national poundage quotas which limit the quantity of peanuts eligible for support at the higher price. For the 1978 crop, the national acreage allotment is 1,614,000 acres, and the national poundage quota is 1,680,000 tons, both at the legal minimum.

The 1978 crop loan rate for quota peanuts is $420 per ton (21 cents per pound), the legal minimum. The Secretary has discretionary authority to increase the quota loan rate and to establish the loan rate for additional peanuts, taking into consideration export and crushing demand and price levels.

The 1978 peanut crop is estimated as of October 1 at a record 4 billion pounds (farmers' stock basis), 6 percent above the 1977 output. Record production in the Southeastern area mainly accounts for the increase. Production is down slightly in the Southwest and about unchanged in the Virginia-North Carolina area. National average yield per acre at 2,608 pounds is up 151 pounds from last year and a new record. Adding carryover, the 1978–79 peanut supply totals 4.5 billion pounds, about 4 percent above last year.

Edible use of peanuts in 1978–79 is expected to increase around 3 percent from last season's level, possibly totaling 1.9 billion pounds or about 9 pounds per person. Last year, use in edible outlets totaled 1.85 billion pounds, or 8.6 pounds per person.

Last season, peanut crushings declined to below 500 million pounds (farmers' stock basis), about 56 percent below 1976–77 and the smallest crush since 1964. A smaller 1977 peanut crop, plus good overseas demand for U.S. peanuts, were instrumental in the reduced crush. With larger peanut supplies this year, and with prospective foreign demand not as strong, domestic crushings should increase to about 1 billion pounds, or double the 1977–78 rate.

Peanut exports, which soared to a record 1 billion pounds last season, may decline slightly this year. Increased peanut supplies in major producing areas of the world, such as India and Africa, are expected to lessen the dependence upon U.S. supplies. The United States is a residual supplier in foreign markets when world peanut supplies are short. U.S. exports last season were mainly edible peanuts where historically we shipped peanuts abroad primarily for crushing.

Despite prospects for increased domestic use, peanut supplies exceed requirements for edible and farm use. As a result, the Commodity Credit Corporation (CCC) is expected to take under loan about 15 percent of the crop.

The 1978 peanut crop is being supported at a national average loan rate of $420 per ton (21 cents per pound), compared with $430.50 in 1977. However, last season, farmers were required to pay $20 per ton to cover storage, handling, and inspection costs. Because these fees will not be charged this year, farmers will receive the entire $420, compared with the effective support level of $410.50 in 1977.

Each peanut farm is assigned a peanut acreage allotment and a poundage quota. If more peanuts are grown on the acreage allotment than are covered by the farm's poundage quota, these extra peanuts are termed "additional" and are supported at a lower level than quota peanuts. For the 1978 crop, the support rate for additional peanuts is 59.5 percent of these for quota peanuts.

Prices received by farmers during the 1978–79 marketing year are averaging around 21 cents per pound, near the support level and near last season's average.

FLAXSEED SUPPLIES TIGHTEN

The 1978–79 flaxseed supply totals 18 million bushels, nearly 2 million bushels below last season. The 1978 flaxseed crop, at 11.7 million bushels, is about 4½ million bushels below 1977 and mainly accounts for the decline. The reduced output stems from a sharp drop in harvested acreage, which at 900,000 acres is down about a third. Yield per acre, at 12.6 bushels, is up over 1 bushel. Starting stocks on June 1, 1978, totaled 6 million bushels, double a year ago.

Flaxseed crushings likely will total around 11 million bushels, down from the 11.6 million of last season. The smaller supplies likely will limit crushings, although in recent years the crush has ranged between 10 and 12 millon bushels. Crushings hit a record low of 10.7 million bushels in 1976/77, a year of record low supplies and high prices. Flaxseed crushings in the early 1950's were as high as 42 million bushels. Declining demand for linseed oil is the main factor behind the long-term downtrend in crushings.

Flaxseed prices received by farmers during June–October averaged $5.15 per bushel, compared with $4.69 for the similar period last season. Prices dropped from $5.66 last June to $4.75 in July. Subsequently they increased to over $5. Some seasonal increases are likely over the next several months.

On July 20, USDA announced a national purchase price of $4.50 per bushel for 1978 crop of flaxseed. This purchase agreement program is the first type of price support offered by USDA for flaxseed since 1974. Under the program, producers sign agreements that obligate the CCC to purchase flaxseed at the country purchase price. These agreements are not binding on producers. Producers may sell their flaxseed at any time, thus voiding the agreement.

U.S. TALLOW OUTPUT MAY DECLINE IN 1979

U.S. tallow and grease production has doubled during the past 2 decades, rising from 1½ million tons in 1958 to an estimated 3 million for 1978; the average annual rate of increase was about 4 percent. Production hit a peak of 3.1 million tons in 1977 and held near that level in 1978. It is expected to decline slightly in 1979. Cattle slaughter probably will decline more than tallow output in 1979, since a larger proportion of the slaughter will be from feedlots. Cattle from feedlots likely will be heavier and will yield more tallow than the grass-fed animals.

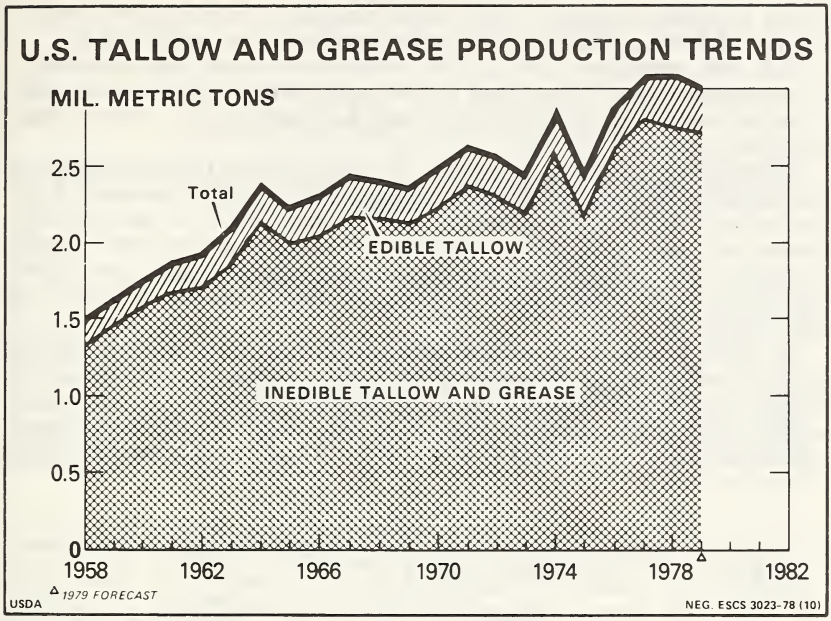
More than one-tenth of the total U.S. output is edible tallow and its proportion to inedible is expected to gain. The trend toward deboning of beef at the packer and distribution centers and shipping boxed beef results in higher output of edible tallow—which often commands a price premium of $66 to $88 per ton over the inedible grades.

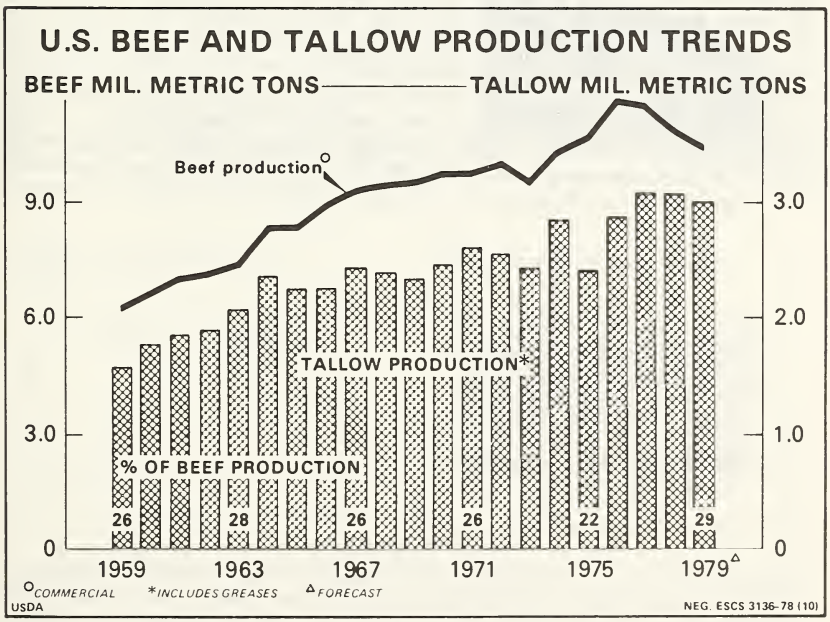
The trend toward shipping boxed beef is increasing. According to some trade estimates, about 30 percent of all beef carcasses are now fabricated and boxed at the packer level, and another 30 percent boxed at central distribution centers. One trade source estimates that by 1980 more than three-fourths of all beef will go to retail stores in boxes.

TALLOW OUTPUT AND CATTLE SLAUGHTER

Tallow and greases are primarily a byproduct of the commercial beef and hog industries. Tallow, produced from rendering beef fats, is the major component.

U.S. commercial cattle slaughter has expanded from about 23 million head in 1959 to a peak of nearly 43 million head in 1976, an increase of some 86 percent. Slaughter has since dropped and for 1979 is projected about 15 percent below the 1976 record. Tallow output,


U.S. TALLOW AND GREASE PRODUCTION TRENDS
MIL. METRIC TONS
2.5
2.0
1.5
1.0
0.5
0
Total
EDIBLE TALLOW
INEDIBLE TALLOW AND GREASE
1958
1962
1966
1970
1974
1978
1982
Δ 1979 FORECAST
USDA
NEG. ESCS 3023-78 (10)


U.S. BEEF AND TALLOW PRODUCTION TRENDS
BEEF MIL. METRIC TONS
TALLOW MIL. METRIC TONS
Beef production°
9.0
6.0
3.0
0
3.0
2.0
1.0
0
TALLOW PRODUCTION*
% OF BEEF PRODUCTION
26
28
26
26
22
29
1959
1963
1967
1971
1975
1979Δ
°COMMERCIAL
*INCLUDES GREASES
ΔFORECAST
USDA
NEG. ESCS 3136-78 (10)

which is highly correlated with cattle slaughter, increased 84 percent during 1959–79, or in about the same proportion as cattle killed.

U.S. beef production and tallow output are also highly correlated. As a matter of fact, I find that in forecasting tallow production, more reliable results are achieved by using beef production rather than cattle slaughter.

There are several reasons for this. By using beef output we eliminate the necessity of estimating cattle weights and yields per animal. Also, the ratio of tallow production to beef output tends to be relatively steady and more predictable than the variables associated with cattle slaughter. Excluding 1975, annual tallow production as a percent of beef production (tallow/beef production ratio) ranged from 25 to 28 percent.

In 1979, I look for a tallow/beef production ratio slightly higher than in recent years because (1) a higher proportion of the cattle slaughter and beef will come from feedlots, (2) heavier slaughter weights, and (3) increased output of edible tallow. On the other hand, high beef prices may affect the amount of fat available for rendering if the fat trim is not so heavy.