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**50th
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(**)

**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 50th National Agricultural Outlook Conference,
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Soybean Supplies Down 6%

Soybean supplies for the current marketing year are 1,268 million bushels compared with 1,354 million in 1970/71. The decline in carryover last September 1 exceeded the increase in production. The 1971 soybean crop increased 4% to a record 1,169 million bushels.

Reduced supplies this marketing year are limiting soybean usage to 1.2 billion bushels, about 4% below 1970/71. This is the third straight year in which use will exceed production. As a result, carryover next September 1 probably will be drawn down to minimum operating levels--possibly around 70 million bushels compared with nearly 100 million last year. This is equal to about a 3 weeks' supply for September and provides little or no protection for any delays in availability of new-crop soybeans.

Farm Prices About \$3

Prices received by farmers for soybeans will continue strong as supplies are rationed between domestic and export demands. They will be influenced by prospects for the 1972 soybean crop later in the year. The season average price for 1971-crop soybeans is estimated at \$3 per bushel--the highest since the \$3.33 in 1947/48. So far this marketing year farm prices have averaged a little under \$3 but they probably will strengthen as soybean supplies decline.

Through December, growers put 140 million bushels of soybeans under price support loan compared with 114 million during this period a year ago. Many farmers placed soybeans under government loan (taking advantage of CCC low interest rates) while awaiting further market developments. Producers can receive price support loans on their 1971-crop soybeans at the national average rate of \$2.25 per bushel (No. 1 grade, 12.8-13.0% moisture), unchanged from 1970. Farm and warehouse loans and CCC purchases are available from harvest through May 31, 1972. While loan activity in 1971/72 is substantial, no CCC acquisitions are anticipated. There will be no resale program for 1971-crop soybeans.

Soybean Tops in Cash Receipts

In 1971 cash receipts from soybean marketings reached a record \$3.4 billion, a fifth above 1970. This is the first time that soybeans matched corn in cash receipts; they tied for the No. 1 spot. Projections for 1972 indicate that soybeans will surpass corn in cash receipts, making soybeans the nation's No. 1 cash crop.

Cash receipts from marketing crops 1/

Crop	Calendar year					
	1969		1970		1971 <u>2/</u>	
	Rank	Value	Rank	Value	Rank	Value
	No.	Bil. dol.	No.	Bil. dol.	No.	Bil. dol.
Corn	1	2.8	1	3.0	[1	3.4
Soybeans	2	2.6	2	2.8	[1	3.4
Wheat	3	1.7	3	1.6	3	2.0
Tobacco	4	1.3	4	1.4	4	1.3
Cotton lint	5	1.2	5	1.0	5	1.2

1/ Excludes government payments. 2/ Preliminary.

Soybean Planting Intentions Up 4%

Based on a special USDA planting intentions survey as of January 1, farmers will seed nearly 45 million acres to soybeans in 1972, compared with 43 million last year. Increases are indicated for all major producing regions.

If intentions are realized and yields are near current levels, the 1972 soybean crop will exceed 1.2 billion bushels, compared with 1,169 million in 1971. Even so, a crop this size would still leave soybean supplies relatively tight over the next 1½ years as carryover stocks next September will be down to low operating levels.

Between now and planting time, farmers' intentions will be influenced by such important factors as weather and soybean and corn prices. Also, the new feed grain program option (announced February 2) is aimed at reducing corn by increasing set aside acreage in 1972. This could have an effect on upcoming soybean acreage and supplies.

Corn producers, after setting aside the 25% of their feed grain base to qualify them to earn their basic payment, will be able to earn an increased rate of payment on additional set-aside--80¢ per bushel on an added 10% of their base. For sorghum, the payment will be increased to 76¢ per bushel. To qualify for the higher payment rate under this new provision, the producer will agree that for each acre of additional set aside, his 1972 plantings of corn-grain sorghum will be reduced by 2 acres below his 1971 corn-grain sorghum acreage. Thus, one acre

would be set aside and held out of all production and the second acre would be held out of corn-grain sorghum production but could be planted to any crop not subject to other program restrictions.

The regular spring planting intentions report, when farmers will have firmer plans for 1972, will be released March 16.

Last year soybean producers planted fewer acres than their early-season planting intentions. In both the January and March 1971 surveys farmers indicated they would plant about 46 million acres to soybeans. They actually planted 43 million acres. On the other hand, corn farmers in 1971 planted 74 million acres, 3 to 4 million acres more than their January and March intentions indicated. In the spring of 1971 corn prices had advanced to high levels and planting weather and conditions were ideal. These factors undoubtedly contributed to the shift to corn and away from soybeans.

Crush Down Moderately; Margins Lower This Year

Soybean crushings during 1971/72 are estimated at around 725 million bushels--down from last year's record 760 million. This will be the first year since 1963 that the season's crush has not increased. Crushings so far this season total 304 million bushels (January estimated), 18 million below September-January 1970/71.

The reduced crush comes after several years of sharply expanded processing capacity. The industry this year probably will be operating at about 80% of its annual capacity of approximately 900 million bushels compared with 87% last year and 92% in 1969/70. This year's utilization rate (actual crush in proportion to total capacity) will be near the industry's long-run average.

The reduced soybean crush reflects smaller soybean supplies, weakened demand for soybean oil, and smaller processing margins. During September-January, margins averaged 13¢ per bushel (based on spot prices for soybeans, oil and meal at Decatur) compared with 35¢ in the same months a year ago and 52¢ in 1969/70. Increased crushing capacity along with reduced supplies of soybeans likely will continue to put pressure on margins. For all of 1971/72 the margin probably will average sharply below the 26¢ per bushel of last season and near the 1960-68 average of 12¢.

Soybean Exports Decline

Soybean exports during 1971/72 are expected to exceed 400 million bushels but fall short of last year's record 433 million. From September 1 through early February about 204 million bushels were inspected for export, roughly the same as a year ago. This heavy movement may reflect in part uncertainties over the possible renewal of longshoremen strikes at East Coast and Gulf Coast ports. Exports probably will fall behind the 1970/71 rate as U.S. soybean supplies become scarcer.

Export demand for soybeans stays strong, primarily because of the soybean meal demand, but U.S. supplies available for shipment are down this year and prices are higher. There are increased world supplies of competitive oils (mainly

rapeseed, coconut, palm, peanut, and sunflower). Competing protein meals (fish, peanut, and rapeseed) are also somewhat greater but soybean meal holds a preference position. Also, crushing margins for soybeans abroad will be reduced since soybean processing capacity has expanded in Western Europe and Asia, the major markets. Much of the expansion in recent years has been the solvent extraction type of operation particularly designed for processing soybeans.

Soybean Oil Supply Down Slightly; Exports to Decline Sharply

Soybean oil supplies for the marketing year which began last October 1 are estimated at 8.6 billion pounds, about 2% below 1970/71.

Domestic use of soybean oil is expected to total about 6.5 billion pounds, up slightly from 1970/71. Although domestic use during October-December totaled about the same as last year's 1.6 billion pounds, slight increases from year-ago levels are likely during the balance of the season.

As for competitive commodities, the combined consumption of cottonseed oil and lard likely will decline but palm oil usage will gain. Imports of palm oil, which increased 70% during 1970/71, are again up significantly. Coconut oil imports are also running higher.

Palm oil and coconut oil imports

Period	Palm oil			Coconut oil		
	1969/70	1970/71	1971/72	1969/70	1970/71	1971/72
-- Million pounds --						
Oct.-Dec.	42	61	81	57	90	112
Jan.-Mar.	23	60		238	224	
Apr.-June	30	53		145	148	
July-Sept.	27	33		122	145	
Year	122	207	1/300	562	607	1/700

1/ Forecast.

Palm oil comes into the United States duty free, mainly from the Congo, Indonesia, and Malaysia. About three-fourths of this oil is used to produce shortening, replacing domestically produced cottonseed oil and soybean oil because of its lower price. Coconut oil is imported almost entirely from the Philippines and is consumed in both edible and inedible products.

Soybean oil exports during 1971/72 probably will decline to around 1.2 billion pounds--down a fourth from last year's record 1.7 billion pounds. U.S. dollar exports face stiffer competition from a marked increase in the supply of edible oils available from other exporting countries. Also, the recent war between India and Pakistan has dampened our export prospects to these countries--both

large takers of U.S. soybean oil under P.L. 480. And Yugoslavia probably will require less oil from us (CCC credit) because of increased availability of fats and oils from alternative sources. In 1970/71 these 3 countries accounted for one-half of the 1.7 billion pounds of soybean oil we exported.

Soybean oil exports during October-December 1971 totaled 347 million pounds, down slightly from 1970. Exports may hold up well this January-March but likely will fall off sharply during April-September 1972.

Slackening export prospects are reflected in soybean oil prices. They tumbled from 14½¢ per pound (crude, Decatur) last August to 11¢ this January--nearly 2¢ below January 1971. Oil stocks (crude and refined) increased to 0.8 billion pounds on January 1, 1972, a tenth above the previous year.

Soybean Meal Output and Use Off 5%

Soybean meal supplies for 1971/72 are estimated at 17.3 million tons, about 5% below last year.

Domestic use is estimated to drop slightly below the 1970/71 level of 13.4 million tons. During October-December 1971 it totaled 3.3 million tons--a tenth below the same quarter a year earlier.

Soybean meal exports this marketing year may decline around 15% to 3.9 million tons. Exports in October-December totaled 1.0 million tons--5% less than the year before. Overseas demand continues strong but U.S. supplies are limited and prices are higher. Most of the decline is expected to occur in the second half of the marketing year, as export tonnage to Western Europe slows. Last season Western Europe accounted for three-fourths of the 4.6 million tons the United States shipped.

Reduced soybean meal supplies along with continuing strong demand lifted prices from \$73 per ton (44% protein, Decatur) last September to \$83 this January. Demand is bolstered for the limited supplies by more favorable livestock-feed price ratios. With soybean prices riding high and oil prices weakening, processors are attempting to recoup a larger share of the total value of products (per bushel of beans crushed) through prices of meal.

Cottonseed Crush May Increase

Cottonseed crushings this marketing year may approach 4 million tons, up slightly from 1970/71. The crush during August-December was approximately the same as the previous year. Cottonseed received at oil mills through December was lagging--down 9% from the year before.

Oil output for 1971/72 is estimated at 1.3 billion pounds and meal at 1.8 million tons--each product up slightly from last season.

Based on January 1 planting intentions, cotton producers plan to seed 13.1 million acres in 1972, about 7% more than last year.

Domestic Oil Use Off; Exports Increase

Cottonseed oil supplies total 1.4 billion pounds, the same as 1970/71, as a slight prospective increase in output offsets smaller starting stocks last August 1.

Domestic disappearance will do well to hold near the 0.9 billion pounds of 1970/71. It is off a fifth so far this marketing year, mainly reflecting its high price relative to other oils. Annual consumption declined rather steadily from 1.7 billion pounds in 1965/66. The primary market for cottonseed oil is in cooking and salad oils.

Exports this season may total 0.4 billion pounds, up from the 359 million shipped in 1970/71. During August-December they were 137 million pounds, two-fifths ahead of the 1970/71 rate. Cottonseed oil is sold for dollars with Western Europe and Egypt the major markets.

Cottonseed oil prices (crude, Valley) declined steadily from $16\frac{1}{2}$ ¢ per pound last August to $12\frac{1}{2}$ ¢ this January--about $2\frac{1}{2}$ ¢ below January 1971. The drop reflects lagging domestic demand for cottonseed oil along with the general decline in edible oil prices--mainly soybean oil.

Lard Production and Use Declining

Lard production during 1971/72 is estimated at 1.8 billion pounds, about a tenth below that of last season. An 8% reduction in hog slaughter and further declines in lard yield per hog are responsible.

Domestic use of lard this season may decline about a tenth to around 1.5 billion pounds. So far direct use is down sharply, but use in margarine and shortening is up slightly. Use in these products will also tend to weaken as the year progresses, because of reduced supplies and higher prices. The direct consumption of lard as a household cooking fat has shown a long-term downtrend, from $12\frac{1}{2}$ pounds per person in the late 1940's to $4\frac{1}{2}$ pounds last year.

Exports and shipments may drop to around 300 million pounds from 382 million in 1970/71. As in the past several years, the United Kingdom takes most of theirs under the U.S. lard export payment program. So far this marketing year, about 50 million pounds have been accepted by USDA compared with 150 million a year ago. The payment rate continues at 1¢ per pound. Lard exports during October-December 1971 were 54 million pounds, compared with 101 million a year earlier.

Lard prices probably will average near the 11¢ per-pound level of 1970/71, reflecting smaller supplies and good demand for fats and oils generally. Prices (loose, tanks, Chicago) during October-December 1971 averaged $10\frac{1}{2}$ ¢ per pound--about 1¢ below the previous year. But this January prices moved ahead of a year ago. Hog slaughter and lard production are tapering off seasonally, providing some strength to lard prices.

Butter Output Steady; CCC Exports Sales Heavy

Butter production during the marketing year begun in October will approximate the 1.1 billion pounds of 1970/71. Although some increase in milk production is in prospect, much of it likely will be used in other manufactured dairy products--particularly cheese.

Butter consumption in 1971/72 probably will decline a little from the 1.1 billion pounds of the previous year. Donation programs--school lunch, food stamp, and direct distribution programs--may take about the same amount.

Butter exports during 1971/72 are expected to be up sharply from last season's 20 million pounds, as shipments pick up under the USDA export program. It began in May 1971 for CCC-owned butter to the United Kingdom. Because of short supplies in the principal supplying countries (Denmark, Australia, and New Zealand) the U.K. opened the door for U.S. surplus butter by relaxing butter import quotas until March 31, 1972. On July 1, the export sales program was expanded to other countries. Originally, the sales price was 50¢ per pound, but was upped to 54¢ last fall.

Since the start of the program, approximately 140 million pounds of butter have been sold for export and CCC sales continue. Most export sales have been destined for the U.K.

As of January 1, 1972, CCC butter stocks were 78 million pounds (total stocks were 105 million) compared with 99 million (119 million) a year earlier.

Eight Alternative Crops Okay on 1972 Set-Aside Acreage

USDA has announced that farmers participating in the 1972 cotton, feed grain, and wheat programs may plant any of 8 alternate designated nonsurplus crops on their set-aside acres. The alternate crops for 1972 are castorbeans, crambe, guar, mustard seed, plantago ovato, safflower, sesame and sunflower--the same as those eligible in 1971.

Producers planting any of the alternate crops on set-aside acreage will have a deduction made in their per-acre set-aside payment. The payment deduction will be related to the average productivity of the land, with rates varying from \$6 to \$10.20 per acre. In 1971 there was a straight \$10 deduction per set-aside acre planted. Less than 54,000 set-aside acres were planted to 1 or more of the 8 crops in 1971.

Peanut Surplus Large

The 1971 peanut crop is placed at 3.0 billion pounds, a shade above the 1970 record. Acreage allotments continue at the legal minimum of 1.6 million acres. Yield per acre--2,045 pounds--is 14 pounds above 1970.

Peanut supplies for 1971/72 are about $3\frac{1}{2}$ billion pounds, 3% above last season, reflecting the larger carryover. Supplies are well in excess of requirements for food and farm use, and CCC probably will divert more than a third of the crop into crushing and export channels.

The 1971 peanut crop is being supported at a national average loan rate of \$268.50 per ton (13.42¢ per pound), \$13.50 above the previous year. This rate is 75% of the August 1, 1971, parity price. Support by type is as follows: Virginia, \$279; Runner, \$261; Southeast Spanish, \$268; Southwest Spanish, \$264; and Valencia (suitable for cleaning and roasting), \$279. Price support is available through loans and purchases.

Prices to peanut farmers this season likely will average around 13½¢ per pound, reflecting the higher support price. In 1970/71 they averaged 12.8¢ per pound. Increased production in recent years has held peanut prices near support.

About two-thirds of the total disappearance of peanuts is used for edible products (chiefly peanut butter, candy, salting, and roasting in shell) and related uses. The remaining one-third is crushed for oil and meal, is exported, used for seed, and feed, or is lost on the farm.

During 1950-70 total edible consumption of peanuts increased from about 1.0 billion pounds (farmers' stock basis) to 1.6 billion. It increased at an average annual rate of about 3%, reflecting population growth and increased use per person.

Edible use slackened in 1970/71 and was not much changed from the 1.6 billion pounds a year earlier. Higher peanut prices and efforts by consumers to economize on their food expenditures probably were factors. Also, FDA changes in mixed nuts standards of identity and labeling (effective February 15, 1971) may have affected the ratio of peanuts to other nuts in this product. Food use for the 1971/72 marketing year is increasing slightly; during August-December it was up 3%.

On a per capita basis, edible consumption slowly trended upward from about 6½ pounds in the early 1950's to nearly 8 pounds in recent years--of which about 7 pounds are consumed in the form of peanut butter, salted peanuts, and in candy. The other pound is divided about equally between cleaned roasting stock peanuts and those consumed as food on farms.

Marketing Quotas Approved for Next 3 Crops

Last December peanut growers voted a continuation of marketing quotas for the peanut crops to be produced in 1972, 1973, and 1974. The law directs peanut price support at a level between 75 and 90% of parity when marketing quotas are in effect. Quotas have been in effect each year since 1949.

The quota for 1972-crop peanuts is 1,634,150 tons and the national allotment is 1,610,000 acres--the minimum permitted under the Agricultural Act of 1938, as amended. This allotment has been allocated to the States and to individual farms, essentially on the basis of peanut acreages in preceding years. Where peanuts are planted in a skip-row pattern in 1972, the entire field will be counted as peanut acreage.