ILLINOIS FARM AND FOOD OUTLOOK
COLLEGE OF AGRICULTURE
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THE WORLD FATS AND OILS SITUATION

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THE PRICE OF SOYBEANS PAID TO ILLINOIS FARMERS in February, 1976, was 95 cents per bushel less than that in February, 1975. The value of oil in a bushel of soybeans decreased by $1.38, while the value of meal increased by 36 cents. The soybean processing margin dropped from 15 to 8 cents, both of which are below cost. The decrease in soybean prices was the result of a worldwide decline in the prices of edible fats and oils.

The United States is the world's leading exporter of edible fats and oils. In the 1974-75 crop year, our exports of edible fats and oils, including the oil content of soybeans, totalled 3.2 million metric tons, compared to a domestic use of 5.4 million metric tons. Imports, primarily coconut and palm oils, were 745 thousand metric tons. Thus, U.S. prices depend on world supply, demand, and price. World prices have declined to 60 percent of the high level reached in 1973-74, and are currently about 50 percent above their pre-1972 level. The world prices of all commodities are about 90 percent above pre-1972 levels. The prices for fats and oils are low in relation to those of commodities.

Thirteen major edible fats and oils move in world commerce. Soybean oil comprises about 25 percent of the world production of all edible fats and oils. Butter is second at 13.5 percent. Lard, sunflowerseed oil, peanut oil, cottonseed oil, rapeseed oil, coconut oil, and palm oil each make up 6.5 to 8 percent of world production. Olive, sesame, palm kernel, and fish oils constitute smaller shares.

World production of most fats and oils is stable over the long term, but erratic in the short term, with substantial year-to-year variations. Only soybean and palm oils have had long-term trend increases. The year 1975 was one of unusually large increases in oilseed production, the use of which carries over into 1975-76. Substantial increases were registered for soybean, groundnut, rapeseed, olive, coconut, and palm oils. There were significant decreases in the production of cottonseed, sunflowerseed oils, and lard. The net increase was about 1.7 million metric tons, or 4.5 percent.

World demand for edible fats and oils is highly inelastic. Thus, use is not responsive to price, and per capita consumption is essentially constant. Increasing population requires about 800 thousand metric tons more of fats and oils each year. When the production increase is more than 800 thousand, stocks are accumulated; when it is less, stocks are liquidated. Crops were relatively small in 1972, so the stocks were drawn down to very low levels. Larger crops in 1973 did not permit a full restoration of inventories and 1974 production was small enough that stocks remained at moderate levels. The accumulation of stocks during the current crop year will be about 900 thousand tons, probably to record levels. These large stocks are forcing prices down.

During years in which carryover stocks are increased, prices decline; and in years during which stocks are reduced, prices increase. In years such as this, the key price-making force is the willingness of producers, processors, and users to accumulate inventory. The current prices of fats and oils appear to be low enough relative to other commodities to encourage some stock-building. Such willingness from this time forward will be influenced by prospective oilseed production.

The single, most important factor in world oil production is the U.S. soybean crop. The January 1 planting intentions indicate an acreage reduction of 6.7 percent. More normal yields may result in soybean production about 10 percent below the 1975 level. This would reduce oil production by 700 thousand tons. Should other crops around the world be normal in 1976, edible fats and oils may be in short supply by the summer of 1977.

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