



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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LARGE WORLD SUPPLIES OF EDIBLE FATS AND OILS

AT THIS EARLY DATE, THE 1977 OILSEED CROPS that will furnish the world supply of edible fats and oils in 1978 appear large enough to put downward pressure on oil prices, especially on soybean oil.

The principal production increases will be in U.S. soybeans, up 27 percent, and in Canadian rapeseed, up 50 percent. Increases will also occur in Malaysian palmoil, U.S. and world cottonseed, Russian sunflower seed, and Indian peanuts. Total world production of edible fats and oils in 1978 may total 51.6 million metric tons, up 8 percent from the 47.8 million tons estimated for 1977.

Soybean oil is the most important of the 16 major sources of fats and oils that make up the world supply, furnishing nearly 20 percent of the total. Butter, lard, and tallow are each about half as important as soybean oil and sunflower seed, cottonseed, palm, and peanut oils are only slightly less important than each of the animal fats. This assortment of fats and oils is produced throughout the world and all move in world trade. Nearly a third of the world's total production moves in world trade. Of the estimated 47.8 million metric tons produced in 1977, about 16.1 million are being exported.

The United States is the world's largest exporter. In 1977, slightly over a fourth of the world exports will be of U.S. origin. The United States is also an important importer of edible oils, mainly palm and coconut oils, but exports are about 12 times as large as imports.

The per capita use of edible fats and oils in the United States is nearly constant from year to year, and prices have very little influence on use. The excess production must be exported and sold for what it will fetch; that is, prices are made in world markets.

World consumption of edible fats and oils increases at a regular rate which is related to increases in population and income. The trend increase is about 2.5 percent per year. When production is larger than the trend increase in consumption, inventories are built up; when it is smaller, inventories are reduced.

World prices of the numerous fats and oils change in fairly close relationship to each other because each is more or less substitutable for the other. Some have

special uses and carry price premiums. These are mainly butter as well as olive, corn, and peanut oils; but their prices also rise and fall with the general level.

There is a marked tendency for world oil prices to decline when it is necessary to increase inventories, and vice versa. In 1977, world production is below the trend, and inventories are being reduced. The average price of soybean oil in 1977 will probably be about 24 cents per pound, up from 18 cents in 1976. World production in 1978 appears likely to be about 3 percent above the trend, necessitating inventory building. Prices may go back to their 1976 level. A cent per pound in the price of oil changes the value of a bushel of soybeans by 10.7 cents.

The price of soybean oil rose from 20.3 cents last August to a high of 31.4 cents in May, before cropping back to 21 cents. The rise occurred because U.S. soybean oil exports increased by about 50 percent. The biggest buyer of the increase was India, where poor monsoons resulted in a small peanut crop. The monsoon situation in India is quite favorable at present. Thus, the United States is likely to lose an important oil customer in 1978.

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