WEEKLY OUTLOOK
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THE CHANGING BRAZILIAN SOYBEAN INDUSTRY

ONE OF THE REASONS OFTEN CITED for the sagging demand for U.S. soybeans this year is the large South American crop of 1980 and the large crop expected in 1981. Indeed, the growth of the South American soybean industry, particularly in Brazil, has been a major factor affecting the U.S. soybean market. Recent and prospective developments there deserve a close look.

Soybean acreage in Brazil continues to show modest growth, increasing less than 2 percent this year according to USDA estimates. Although expansion is taking place in the northern areas of the soybean belt, increased concerns about conservation and the lower price of soybeans have apparently slowed the overall growth. Increased interest in and support of corn production, particularly in the traditional soybean areas in Rio Grande do Sul, has also been reported.

Brazilian soybean yields were exceptionally good last year and are projected at even higher levels for the harvest that is now nearing completion. The USDA estimates that the 1981 harvest will total 15.75 million metric tons, nearly 5 perent more than a year ago. Private estimates tend to be above those of the USDA. On a recent visit to Brazil, we heard production estimates as high as 16.5 million tons, voiced primarily by those buying soybeans. The dry weather during the last month of the growing season in Rio Grande do Sul probably reduced the yield potential somewhat. One thing was perfectly clear: no one in Brazil puts much stock in their government's official estimates.

It appears that soybean acreage in Brazil may stabilize at the current level. With more normal yield levels, it is possible that production will decline in 1982.

The policies affecting domestic consumption in Brazil will be almost as important as the production level. The processing industry grew rapidly in its initial stages because of government subsidies, particularly for soybean oil exports. The industry now has nearly 50 percent excess crushing capacity. As a result, less than 10 percent of the soybeans are exported. The majority are crushed domestically. In addition, large quantities of soybeans from Paraguay and Argentina are processed in Brazil.

Currently, about 70 percent of the soybean meal and one-third of the soybean oil produced in Brazil are exported. The area's rapid population growth suggests that increasingly large percentages of the soybean oil supply will be retained for domestic consumption. In addition, the government has decided to use vegetable oils as diesel fuel substitutes. The rapid rate of increase in the per capita consumption of vegetable oil will likely continue.

More uncertainty surrounds the prospects for soybean meal exports. Policies have favored exports over domestic consumption. The export earnings have helped to offset growing outlays for petroleum. However, the government also has considerable interest in expanding domestic livestock production. These two goals are not completely compatible. If the government's efforts to reduce dependence on imported oil are successful, a larger percentage of the soybean meal output may eventually be retained for domestic consumption.

The expectations that soybean production will stabilize and that domestic consumption will increase in Brazil have significant implications for the U.S. soybean industry. Perhaps the intensity of our competition from Brazil will moderate to some extent. Along with a growing demand for oil and meal in countries like Russia and Mexico, we might expect a significant rebound in the rate of U.S. soybean product exports in the near future.

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