



# WEEKLY OUTLOOK

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## SOYBEAN MEAL PRICES RATIONED DEMAND EARLY

LAST FALL WE SUGGESTED THAT SOYBEAN PRICES WOULD HINGE largely on the strength of soybean meal demand. Monthly average soybean meal prices at Decatur, Illinois, increased from \$176.10 per ton in June 1983 to \$234.70 in August. Prices remained above \$225 per ton through November. The ratio of soybean meal prices to corn prices increased from about 1.5 to 1 in June and July to about 1.8 to 1 in the August through December period.

The rising prices had a significant impact on the rate of use of soybean meal. Domestic consumption exceeded or equaled year-ago levels in August, September, and October and then dropped 25 percent below the previous year in November and December. Domestic use in those two months was 14 percent less than in the comparable months in 1980, when prices went about \$30 per ton higher than this year's prices. High prices rationed demand, but the rationing occurred at lower price levels than generally expected.

The average monthly price of soybean meal declined from \$225 per ton in November to \$185.60 in February 1984. The ratio of soybean meal to corn prices declined to 1.6 to 1. Domestic use of soybean meal in January and February was only 3.5 percent less than a year ago.

For the period October 1983 through February 1984, domestic soybean meal use was 13 percent less than a year ago. For the three-month period October through December, grain feeding exceeded the level of a year ago. Soybean meal feeding during the October-December period was only 10 percent as high as corn feeding. The four-year average for that period is 12.5 percent. The substitution of grain for soybean meal was accomplished at a relatively low price of soybean meal in relation to corn. The increased level of wheat feeding may explain part of the substitution. In addition, livestock producers faced with high feed costs may have elected to feed more grain that was on hand and reduce the purchases of soybean meal. A more likely explanation for the high level of grain feeding is that farmer-owned reserve corn that was fed in previous periods was not reported until the October-December period.

Soybean meal exports followed a similar pattern to domestic use. Exports remained at a relatively high level through December and then declined sharply in

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January, February, and March. For the period October 1983 through March 1984, soybean meal exports were 23 percent below the exports during the same period a year ago. Almost all of the reduction is the result of reduced demand for U.S. soybean meal in the European Community. Part of that decline can be attributed to the increased shipments of corn gluten feed to the European Community.

What now? It is tempting to conclude that soybean meal prices and therefore soybean prices have followed a typical short-crop pattern--a price peak in the fall that rationed demand and then declining prices for the remainder of the year. However, there are still four-and-one-half months remaining in the 1983-84 marketing year.

After a brief rally in March, soybean meal prices declined in April. On April 13, soybean meal was priced at about \$185 per ton. The ratio of soybean meal to corn prices was 1.4 to 1. Corn is expensive and will become more scarce as the crop year advances. Soybean meal is relatively inexpensive and is in abundant supply. The domestic demand for soybean meal should expand. The limiting factors are the high price of feed in general relative to livestock prices and the likelihood of abundant wheat supplies again this summer.

If we are right about improved soybean meal demand, the soybean supply and demand balance could be much tighter than suggested by the latest USDA estimates, which show a carryover of 145 million bushels. The April 1 *Grain Stocks* report will be an important checkpoint for evaluating just how tight the soybean supply situation really is.

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