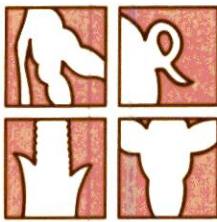




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

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SOYBEAN PRICES IN PERSPECTIVE

THE "GOLDEN ERA" FOR SOYBEAN PRICES was the crop years from 1972 through 1978. During those seven years, the average price of soybeans (adjusted for inflation) was 1.4 times the average price for the previous 12 years and 1.6 times the average price since then. In deflated terms, the average price has trended downward since 1978. During the first eight months of the 1985-86 marketing year, the deflated price of soybeans has averaged less than one-half the level of the crop years from 1972 through 1978.

The surge in soybean prices during the 1970s was led by the price of soybean meal. In deflated terms, meal prices during the "golden era" were 1.4 times the average price of the previous 12 years and 1.6 times the average price since then. Except for the two crop years, 1973 and 1974, soybean oil prices during that period averaged only 15 percent higher than during the previous 12 years. Since the late 1970s, however, deflated oil prices have trended downward, averaging 40 percent less than prices during the 1970s. The high soybean meal prices were associated with expanding export demand for soybean protein. Annual exports of soybean meal (including the meal content of whole beans) during that seven-year period were 50 percent higher than annual exports during the previous five years. Exports during the 1978-79 marketing year, for instance, nearly doubled the level of exports during the 1971-72 marketing year.

The use of soybean meal in the domestic market grew only modestly during that period. Use during the 1978-79 marketing year was about 35 percent higher than use during the 1971-72 marketing year.

Exports of soybean meal continued to grow after the "golden era." Annual exports, in fact, were record large for the crop years from 1979 through 1982. Rapid expansion in soybean production in response to the high prices of the early and mid-1970s, however, overshadowed the continued growth in demand.

Soybean acreage in the United States averaged 42.4 million acres during the period from 1967 through 1971. That average increased to 52.1 million acres during the following five years. Acreage expanded rapidly over the next three years, reaching a record 71.4 million acres in 1979. Soybean production in South

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America grew from less than 200 million bushels in 1972 to almost 700 million bushels in 1979.

Since 1982, export demand for U.S. soybean protein has declined. The decline reflects continued expansion in soybean production in South America and reduced soybean meal consumption in Western Europe. In deflated terms, soybean meal prices reached a low level in the 1984-85 marketing year: 60 percent below the average price of the "golden era." Meal prices in the 1985-86 marketing year appear to have rebounded to a "normal" level in relation to corn prices.

During the 1960s soybean meal prices were very stable in relation to corn, averaging about 1.7 times the price of corn at Decatur, Illinois. That ratio of prices became much more volatile in the 1970s, ranging from 1.2 to 3.5 and averaging 2.0. The ratio stabilized in the crop years from 1979 through 1982, averaging about 1.9, but it declined sharply in the 1983-84 and 1984-85 marketing years to an average of 1.4. Through the first eight months of the 1985-86 marketing year, the ratio of soybean meal prices to corn prices once again averaged about 1.7.

For the year ahead, corn prices in the \$2.00 range and a "normal" price ratio of meal to corn would generate soybean meal prices ranging from \$125 to \$130 per ton. With soybean oil prices between 18 and 20 cents per pound, soybeans at the farm would be worth about \$4.50 to \$4.80 per bushel. Unless production declines or another surge in demand is experienced, soybean prices probably will remain under pressure.

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