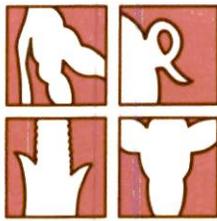




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

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

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FOCUS ON SOYBEAN OIL

DOMESTIC USE OF SOYBEAN OIL HAS INCREASED steadily over the past 25 years. Use was about 3.3 billion pounds in the 1960-61 marketing year, and 6.2 billion pounds in 1970. During the current marketing year, it is expected to reach nearly 10 billion pounds. The increase in domestic use reflects increases in population, increased consumption of fats and oils per capita, and a gradual substitution of soybean oil for other fats and oils. Soybean oil now accounts for nearly 75 percent of total domestic consumption of fats and oils.

Soybean oil exports--not including the oil content of whole beans--have varied from year to year. Exports from the 1965-66 through 1976-77 marketing years have ranged from less than 900 million pounds to over 1.7 billion pounds, but were not trending upward or downward. Variability reflected fluctuations in production of world edible fats and oils and variations in P.L. 480 concessional sales.

Exports of soybean oil grew rapidly in the late 1970s to a peak of almost 2.7 billion pounds in the 1979-80 marketing year; this growth reflected increased imports by India, Pakistan, and other developing countries. Since that crop year, soybean oil exports have generally declined and in the 1985-86 crop year will probably be only half the level of six years ago. The decline in exports reflects competition from other exporters, increased consumption of other edible oils--particularly palm oil, and a slowdown in the growth of world demand for edible oils.

In most years, soybeans are crushed domestically to meet the domestic and export demand for soybean meal. In those years soybean oil is essentially a by-product of the crushing process and tends to be in surplus. Soybean oil competes with numerous other edible oils in the world market, so its price is a function of the world price for these oils.

Occasionally a shortage of edible oils occurs, and the demand for soybean oil increases. In those years, soybeans are crushed to meet oil demand. Such a situation developed in 1973 and, to a lesser extent, in 1984. Soybean oil prices, in both nominal and deflated terms, were record high in the 1973-74 marketing year.

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When soybeans are crushed to meet oil demand, soybean meal tends to be in surplus, meal prices are low, and domestic meal consumption high. In the 1973-74 marketing year, for example, stocks of soybean meal increased from 183,000 tons to 507,000 tons. The average price for the season was \$56 per ton lower than the price during the previous year, and domestic use of meal reached a record high level. In the 1984-85 marketing year, stocks of soybean meal increased from 255,000 to 387,000 tons. The average price for the season was only \$126 per ton, the lowest in nominal terms since the 1971-72 marketing year and a record low price in deflated terms. Domestic use reached a new record high level. The ratio of domestic soybean meal use to domestic corn feeding was also record large.

Current conditions suggest that soybeans will remain in surplus in the United States during the 1986-87 marketing year. One of the keys to the level of soybean use and prices will be the magnitude of soybean oil export demand. Without an increase in oil demand, soybeans will be crushed to meet meal demand. Extremely low grain prices, however, will restrict the use and price of meal. But a strong oil demand would allow soybean meal prices to decline to a level that would increase total use and lower soybean stocks.

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