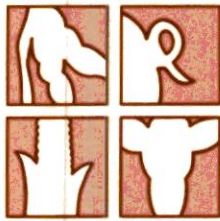




Cooperative
Extension Service
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WEEKLY OUTLOOK

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LACK OF GOVERNMENT INTERVENTION BENEFITS SOYBEANS

Direct government intervention in the soybean market has been modest by comparison with other major crops such as feed grains, wheat, and cotton. There have not been direct acreage control programs for soybeans. Price supports have been modest, taking the form of a Commodity Credit Corporation (CCC) loan program. There has been no farmer-owned reserve program for soybeans, and the government does not make storage payments for soybeans placed in the extended loan programs.

Early in their history, soybeans received indirect support from programs that limited the acreage of feed grains, wheat, and cotton but allowed the planting of soybeans on land taken out of production of those crops. This indirect subsidy allowed soybeans to be produced at a low cost and to compete with other oil and protein crops. Modest subsidies to the industry also exist in the form of concessional sales of soybean oil under Public Law 480. The soybean market has also been restricted from time to time by government intervention in the form of export embargoes. Soybean and soybean product exports have also been influenced by trade barriers and production subsidies in other countries of the world. But in comparison with feed grains, these influences have probably been modest.

As a result of the relatively free market that soybeans have enjoyed, the industry has done a good job of adjusting to changing market conditions over the past 15 years. After a period of rapid growth, soybean use, acreage, and production stagnated from 1969 through 1972. In early 1973, a surge in domestic and export demand led to extremely high prices and a 9.6 million acre increase in soybean plantings that year. Yields were also record large, leading to a buildup in stocks and a reduction in acreage in 1974. An early frost in 1974 led to very high prices and increased acreage in 1975 and another building of stocks.

The 1976 harvest was small due to reduced acreage and weather-reduced yields. That year also marked the beginning of a four-year growth period in soybean meal demand, both domestically and abroad. Producers in the United States responded to the increased demand by planting an additional 20 million acres of soybeans by 1979. Acreage peaked at 71.4 million acres: 29 million more than planted in 1969. Yields were also record large in 1979, leading to a substantial increase in stocks.

Stagnating domestic demand, increasing production in the rest of the world, declining export demand, and low prices characterized the early 1980s. The price pattern was interrupted by droughts in 1980 and 1983. Producers in the United States responded to the deteriorating demand and price environment by reducing acreage. By 1987, planted acreage of soybeans had declined to an estimated 58.7 million acres: 17.7 million acres below the peak of 1979. In 1985 and 1986, higher yields associated with good weather conditions and a sharp decline in acreage in lower yielding regions of the country offset part of the impact of the acreage decline. Production also continued to increase in other parts of the world. Stock levels were record large at the beginning of the 1986 marketing year, and they remain large as the 1987-88 year begins.

There are signs of improvement, however. Soybean meal demand increased sharply in 1986-87. Consumption in the United States is up by 6.5 percent in spite of near record high prices in relation to

corn prices. A sharp increase in poultry production and an extended period of very high hog prices are credited for the increase. Meal consumption in the rest of the world is up nearly 6 percent. Strong world protein meal demand is expected to continue in 1987 and 1988. The increased availability of competing meals may restrict the growth in soybean meal consumption in Europe, however. Depending on the size of the 1987 harvest, United States soybean stocks could be reduced significantly during the year ahead.

Longer term, there is large potential growth in protein meal demand in the Soviet Union and Eastern Europe as well as in Asian and Latin American countries. Economic conditions will determine actual growth rates. The United States should be able to capture a large share of market growth. The competitive position of United States farmers has improved, with production costs per acre declining by as much as 15 percent since 1980. After eight years of decline, acreage may start to increase in 1988. It is important that government programs directly affecting soybean markets be kept to a minimum so that adjustments to changing market conditions will continue to be made.



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