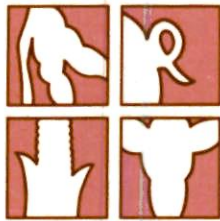




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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RATIONING THE 1988 SOYBEAN CROP

Soybean use will have to be curtailed sharply during the 1988-89 marketing year as a result of the USDA's August *Crop Production* and *Supply and Demand* reports issued earlier this month. Supplies on hand at the beginning of the year, September 1, are expected to total 280 million bushels. The 1988 harvest, estimated at 1.474 billion bushels, produces a total supply of 1.754 billion bushels. If the stocks of soybeans are reduced to the minimum of 100 million bushels by September 1, 1989, only 1.654 billion bushels of soybeans will be available for use during the year ahead. The available supply is 407 million bushels--or 19.7 percent--less than use during the current marketing year.

Subsequent estimates may show that an even larger reduction will be required. Weekly export inspection figures through August 11 suggest that exports for the year ending August 31 will exceed the USDA's projection of 785 million bushels. Uncertainty about the level of exports does exist, however, as the official export figures from the Department of Commerce are smaller than the USDA's weekly inspection figures. Through June, Department of Commerce figures for soybean exports were 20 million fewer bushels than the USDA figures. A higher export figure means smaller carryover stocks.

The more likely cause for more severe rationing is a lower production estimate. Most observers believe that the size of the soybean harvest was reduced by several days of high temperatures and generally below normal rainfall in August. A crop of 1.4 billion bushels, for example, would require that soybean use be reduced by 481 million bushels, or 23.3 percent. The next estimate of crop size will be released on September 12.

Two interdependent questions about rationing are important: Will the rationing occur in the export or domestic market? What prices for soybeans and soybean products will be required to ration the available supply? A strong export demand would require a large cut in domestic use. The greater the reduction of domestic use, the higher prices will have to go. A strong export demand might also produce a different seasonal price pattern than a weak export demand would produce.

History provides some insight. In recent history, there have been four short-crop years: 1974, 1976, 1980, and 1983. In those years, most of the adjustment to the small crop was made in the export market. During the 1974-75, 1980-81, and 1983-84 marketing years, soybean exports declined by an average of 19 percent, while the domestic crush declined by 12 percent. Soybean oil exports declined by an average of 23 percent, while domestic use declined only 3.4 percent. Meal exports declined 16.5 percent, and domestic use declined 8.5 percent. In all three of those years, soybean prices were highest early in the year and lowest in the summer following harvest.

In the 1976-77 marketing year, soybean exports increased by 2 percent, and the domestic crush declined by 9 percent. The decline in meal use was evenly distributed between the domestic and export market. Oil exports, however, increased by 55 percent, and domestic use declined by 6 percent. The highest prices of the year were reached in the spring following harvest.

Because of the large South American harvest of soybeans in 1988 and the expectation of a sharp increase in production again next year, the market believes the 1988-89 price pattern will be similar to that of the 1974-75, 1980-81, and 1983-84 marketing years. Even if soybean exports are reduced by 25 percent, however, the domestic crush will have to be cut by 13 percent during the year ahead. If soybean meal exports are reduced by 30 percent, domestic use will have to be cut 16 percent: nearly double the magnitude of decline in the four previous short-crop years.

Rationing of soybean meal in the domestic market can occur by substituting other feed ingredients for soybean meal or by reducing the number of livestock fed. So far, there is no indication that either of these rationing methods are being implemented. Higher prices in the short run may be required to get the rationing process started.



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