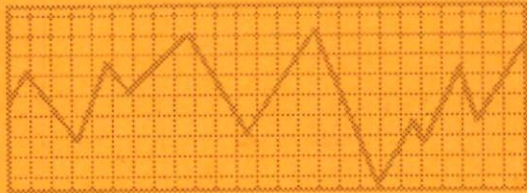




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# WEEKLY OUTLOOK

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## WHAT'S WRONG WITH SOYBEANS?

**Private analysts in Brazil recently** estimated the size of the 1991 soybean harvest in that country at about 550 million bushels, about 25 percent less than the 1990 harvest. Combined production in Argentina and Paraguay is expected to be about equal to or slightly larger than last year's crop. Based on these unofficial estimates, South American soybean production could be 180 million bushels less than harvested last year. The estimates were sharply lower than the March figures, but the soybean market did not react.

Market participants have come to expect volatile soybean prices, particularly in the spring and especially when production estimates change dramatically. What's wrong this year? The overall problem is sluggish demand and prospects of large inventories of soybeans in the United States this fall. The USDA projects world consumption of soybean meal during the 1990-91 marketing year at 69.6 million metric tons (MMT), about 1 percent less than consumed last year. The decline is occurring in Europe and the Soviet Union. Foreign consumption of soybean meal has been stagnant for 5 years, following a 25 percent increase from 1980-81 to 1986-87.

One reason for the slow down in foreign consumption of soybean meal is increased production of competing oilseeds. Since the 1979-80 crop year, world soybean production has increased 18 percent. Production of all other oilseeds has increased nearly 50 percent. Much of the increase in recent years has been in rapeseed production.

A second reason for the slow down in soybean meal use is the sizeable increase in exports of corn gluten feed from the United States to the European Community. For the 1989-90 crop year, those exports totaled 5.2 MMT up from 3.2 million tons just 5 years ago.

While foreign consumption of soybean meal has stagnated, the United States has continued to lose market share to South America. During the 1981-82 marketing year, the United States exported 26.5 MMT of soybean meal, either as meal or in the form of whole beans. That same year, South American exports totaled 11.3 MMT. The United States accounted for 70 percent of combined U.S. and South American exports. For the current marketing year, U.S. exports of soybean meal are projected at 16.2 million tons, while exports from South America are projected at 19.4 million tons. Exports from the United States account for 45 percent of the combined total.



Soybean meal consumption in the United States continues to increase slightly, reaching a record 20.46 MMT during the 1989-90 marketing year. Consumption during the current marketing year is expected to reach 20.5 MMT. The increase in domestic use, however, has required relatively low soybean meal prices. The average monthly price of bulk meal at Decatur, Illinois has been under \$200 per ton for 19 consecutive months. The average price during that period was \$170 per ton. In essence, the slow down in foreign demand has forced meal back into the domestic market and prices have been low to encourage use. The high livestock prices of the past 2 years have also supported domestic feed consumption.

The results of sluggish soybean meal demand in recent years has been reduced soybean acreage in the United States, and recently in South America; a substantial increase in soybean inventories in the United States since the 1988 drought; and relatively low prices of soybeans. Soybean acreage in the United States declined by 10 million acres from 1985 to 1990. Stocks of soybeans in the U.S. at the end of the 1988-89 marketing year totaled 182 million bushels. By the end of the current year, stocks are projected at 360 million bushels. For the past 21 months, the average monthly cash price of soybeans in central Illinois has not exceeded \$6.10 per bushel, and has been above \$6.00 only 4 times.

The recent trends appear to be continuing as the 1991-92 crop year begins to take shape. While the smaller South American harvest will eventually give U.S. soybean exports a boost, stock levels will remain large if the 1991 growing season progresses without weather problems. Under such a scenario, new-crop soybean prices could be sharply lower by late summer.

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