WEEKLY OUTLOOK

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DOMESTIC SOYBEAN MEAL USE SLOWING, OIL USE INCREASING

The pace of domestic soybean crushing slowed in April as consumption of soybean meal declined. With four months left in the 2005-06 marketing year, it now appears that the crush will fall short of the current USDA projection.

The domestic crush of soybeans in April 2006 was reported by the Census Bureau at 135.3 million bushels, 4.1 million less than crush during April 2005. The crush during the first 8 months of the 2005-06 marketing year totaled 1.164 billion bushels, only 12.3 million (1.07 percent) more than crushed during the same period last year. Almost all of that increase occurred in September 2005. The crush during the 7 months ending in April 2006 was almost identical to the crush during the period October 2004 through April 2005. The crush during the period February through April 2006 was slightly smaller than the crush during the same period last year. For the year, the USDA projects the domestic soybean crush at 1.72 billion bushels. That is 24 million bushels (1.42 percent) larger than the crush during the previous marketing year. To reach the projection, crush during the final four months of the year will need to total 555.7 million bushels. That is 11.7 million bushels (2.1 percent) more than crushed during the same period last year.

The slow down in the pace of the domestic soybean crush reflects a decline in the rate of soybean meal consumption. Domestic use plus exports of soybean meal for the period October 2005 through April 2006 totaled 24.1 million tons, 410,000 tons (1.7 percent) less than consumed during the same period last year. Use in April 2006, however, totaled only 3.07 million tons, 6.2 percent less than use during April 2005. Even though the domestic crush of soybeans, and therefore meal production, was small in April 2006, stocks of meal at processing plants at the end of April were at a two-year high. Domestic use of soybean meal during the first 7 months of the 2005-06 marketing year is estimated at 19.411 million tons, 1.3 percent less than during the same period last year. Domestic use in April 2006, however, appeared to be 4.6 percent less than during April 2005. The declining use of soybean meal, both domestically and in the export market, has been reflected in the price of soybean meal. The average monthly price of soybean meal in central Illinois (rail, 48 percent protein) peaked at $193 in December 2005 and declined to an average of about $175 in May 2006. That compares to an average of nearly $199 in May 2005.

While the domestic use of soybean meal is slowing, the pace of domestic soybean oil use

has been brisk, running about 3.8 percent above the level of use during the 2004-05 marketing year. The long term average rate of increase is about 2 percent per year. The large increase in domestic use this year is associated with expanding bio-diesel production. In spite of increasing domestic use and a slow down in the rate of crush, soybean oil stocks continue to grow. Stocks at the end of April 2006 were estimated at 2.751 billion pounds, 1.053 billion larger than at the start of the 2005-06 marketing year. Stocks are currently at the highest level in 4 years. Increasing stocks reflect a decline in soybean oil exports (down 23 percent so far this year) and a record soybean oil yield from the 2005 soybean crop. The average yield from September 2005 through April 2006 was 11.62 pounds per bushel, compared to 11.31 pounds during the same period last year. Even though soybean oil stocks are increasing, soybean oil prices have increased sharply in the past 6 weeks. The average price in May 2006 in central Illinois will be close to $.248 per pound, 6 percent above the May 2005 average.

The declining rate of domestic soybean meal consumption in the face of increasing livestock production is of concern. The apparent decline in soybean meal consumption per animal is likely associated with increased feeding of distillers dried grain. This pattern of substitution will likely continue into the near future as ethanol production expands. That substitution could be large next year if corn used for ethanol production expands by 550 million bushels (34 percent) as projected by the USDA. Declining domestic meal demand and increasing soybean oil demand for bio-diesel may eventually result in the soybean crush being driven by oil demand rather than meal demand. As a result, soybean meal prices may remain relatively low, providing producers of soybeans and livestock the best of both worlds; low priced meal and soybean prices supported by high soybean oil prices. If bio-diesel production continues to expand, however, production may have to shift away from soybeans to crops with a higher oil yield.

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