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SOYBEAN PRICES are at the highest levels in more than five years. Increased demand and reduced supplies have caused prices to soar. Soybean prices averaged more than $3 per bushel at Chicago in recent weeks—up 20 percent from a year ago. At the start of the current marketing year (September 1970-August 1971), total supplies of soybeans were estimated at 1,366 million bushels—6 percent less than last year. Total use for the year now is estimated at nearly 1.3 billion bushels—6 percent above a year ago. Supplies are still in excess of anticipated requirements but by only 70 million bushels, compared to a carry-over of 230 million bushels last season. With total supplies this year just 5 percent above anticipated requirements, stocks are probably at the minimum level since some inventory is necessary to facilitate trade.

If estimates are correct, the current situation portends the tightest demand and supply conditions since 1966. That year, soybean prices received by farmers reached a peak of nearly $3.50 per bushel in August, but dropped more than 70 cents per bushel by October.

Prospective plantings of soybeans in 1971 will have an increasing influence on this season's prices as the year progresses. Farmers have a double incentive for substantially increasing soybean acreage: near record-high prices for soybeans this year, and the threat of a resurgence of corn blight disease in 1971. In 1967, responding to high prices the previous season, farmers increased soybean plantings by 3.5 million acres—without the corn blight factor as an added incentive to substitute soybeans for corn. A special January survey by the Department of Agriculture indicated soybean acreage would be increased by about 2.5 million acres in 1971. Thus, both domestic and foreign buyers will desire to keep inventories at a minimum in anticipation of a large crop and much lower prices this fall. This could result in contraseasonal downward pressure on prices.

Domestic use of soybean products—both oil and meal—is expected to increase this year but not as much as last year. Last season, the increase in soybean oil consumption was unusually large, rising 10 percent above the previous year. This season, the gain in consumption is likely to be limited by higher prices and larger competing supplies of lard and peanut oil. Soybean oil consumption during the first quarter of the marketing year just kept pace with a year ago. With supplies more than adequate to meet demand, soybean oil prices have been declining since October. In recent weeks, prices have averaged less than 12 cents per pound at Decatur, about the same as a year ago.

Although domestic use of soybean meal rose 9 percent during the first quarter of the marketing year, usage will probably lag behind year-ago levels as the year progresses. The sharp expansion in hog and poultry feeding that spurred meal demand last season has been curtailed in response to low prices and high feed costs. Corn Belt farmers plan to farrow 6 percent fewer pigs during the March-May period than a year ago. Poultrymen have already begun to reduce their flocks. Soybean meal prices have recently declined below year-ago levels and are likely to trend still lower as demand continues to taper off.

Domestic soybean processing capacity has expanded substantially from last season. Processors responded to unusually high processing margins (difference between raw soybean cost and value of soybean products per bushel) by upping their investment in plant and equipment. Annual capacity is currently estimated at around 900 million bushels—more than sufficient to handle this season's estimated crush of 775 million bushels. Competition among processors for raw soybeans to utilize this increased capacity will bolster prices received by farmers against weakening oil and meal prices. Indeed, failure of soybean product prices to keep pace with rising prices of raw soybeans has already trimmed processor margins substantially. In January, average margins dropped to 22 cents per bushel, compared to 62 cents a year earlier.

Export demand plays an important role in determining domestic soybean prices. More than one-fourth of annual U. S. production is usually exported—primarily to Japan and Western European countries. Soybean exports soared to nearly 430 million bushels last year—a 50 percent increase over the previous season, and nearly 40 percent of national production. This season, from September through January, soybean exports increased about 5 percent above a year ago.

The booming export demand reflects continued short world supplies of competing oilseeds, principally peanut, copra, and sunflower seed. These shortages may persist through most of 1971. Preliminary reports from Eastern European countries indicate further reduction in sunflower seed oil supplies this year due to bad growing weather and low oil content of the crop. Rising prices of soybeans may, however, moderate the demand for soybeans even though there are reductions in competing supplies of oilseeds. Foreign consumers will seek lower priced foods. Foreign livestock producers, like U. S. farmers, will be induced by high feed costs to cutback their operations.

On balance, no substantial increase over a year ago in either domestic or foreign demand seems likely. This, plus the potential for a large increase in soybean acreage this spring, suggests soybean prices may soon begin to trend lower.

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