



WEEKLY OUTLOOK



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SOYBEANS: IS USE DECLINING?

As everyone knows, the small U.S. soybean crop of 2003 means that consumption of U.S. soybeans during the 2003-04 marketing year will have to be significantly less than during the 2002-03 marketing year. Year-ending stocks probably cannot be reduced much below the current U.S. projection of 125 million bushels. If that is the case, consumption of U.S. soybeans will be limited to about 2.505 billion bushels this year. The actual supply of soybeans may be somewhat different than the current forecast, however, depending on the size of the final crop estimate in January and on the magnitude of imports. At 2.505 billion bushels, use will have to be 288 million bushels, or 10.3 percent, less than use during the 2002-03 marketing year. The vigil for indications of a slow down in use is under way.

The soybean market has focused on the export market for signs of a slow down in consumption. The USDA has forecast a decline in exports of 155 million bushels, or nearly 15 percent, from shipments of a year ago. Export figures to date do not reflect any of the "rationing" in consumption that is required. Shipments during the first quarter of the 2003-04 marketing year are reported at about 350 million bushels. That figure is consistent in the USDA weekly report of export inspections and in the weekly report of export sales. Inspections are nearly 7 percent larger than inspections reported at this time last year. However, shipments are 15 percent larger than reported in the *Export Sales* report last year. Whatever the correct figure, exports are larger than those of a year ago. In addition, unshipped sales as of November 27 were reported at 345 million bushels, 26 percent larger than unshipped sales on the same date last year. The only sign of a slow down in export demand was the rather small export sales of 9.4 million bushels reported for the most recent reporting week ended November 27. The market discounted the small sale, expecting China to resume purchasing later this month.

The USDA has forecast a 130 million bushel, or 8 percent, decline in the domestic crush of soybeans during the current marketing year. The Census Bureau reported the September 2003 crush at 127.6 million bushels, 4.4 percent larger than the crush in September 2003. However, the October 2003 crush of 144.9 million bushels was 3.1 percent smaller than the crush of a year earlier. The crush during the final 10 months of the marketing year will have to be 9.8 percent smaller than the crush of a year ago for the total to be at the USDA projection.

Based on Census Bureau estimates of soybean meal production and month-ending stocks in October, apparent meal consumption during October (the first month of the 2003-04 marketing

year) was 3.4 percent less than during October 2002. Soybean oil consumption during the month was down 4.3 percent. For the year, the USDA projects a 7 percent decline in meal consumption (domestic plus exports) and an 11.4 percent decline in oil consumption. Because the Census Bureau estimate of stocks only reflect inventories at mills, calculations of the rate of consumption based on only one month's data can be misleading. However, it appears that some decline in meal and oil use is underway.

Some argue that the decline in soybean oil consumption will have to be even larger than projected because of the lower oil content of the 2003 U.S. soybean crop. A lower oil yield was evident in the October Census Bureau crush report. The average oil yield per bushel of soybeans crushed in October was 11.12 pounds, 0.19 pounds lower than the record yield of a year ago, and about 0.1 pound below normal. With crush of 1.485 billion bushels, the lower than normal oil yield would result in about 148.5 million pounds less oil production. That is equivalent to about three days use.

One other troubling forecast by the USDA is the expectation of a second consecutive year of very small "residual" or unexplained use of soybeans. For the three years from 1999-2000 through 2001-2002, annual residual use was estimated at 74 to 79 million bushels, or about 2.7 percent of total use. Use dropped to 42 million last year and is projected at only 39 million this year, or 1.6 percent of total use. Quarterly stocks reports should reveal if that forecast is on target and/or if there is an error in the 2003 crop production estimate. If residual use exceeds the forecast, fewer soybeans will be available for crush or export.

The soybean market looks to remain very unsettled. While there is some evidence of a slow down in soybean meal and oil use, soybean prices are likely to remain well supported until more is known about additional Chinese purchases and the progress of the South American crop. If Chinese purchases slow, as expected, and the South American crop continues to make good progress, prices may well move lower through the winter months. New highs may require some problems with the South American crop.

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