

Report on Fats and Oils

"Enter, Price, and Solve Our Problems"

WHEN you stop to think about it, price is a rather remarkable device. It accomplishes things which, at times, might seem almost miraculous. Consider, for example, the case of the soybean crush. The chances are that if you took one oil market analyst and one meal market analyst and put them in separate rooms, asking each to estimate the total soybean crush for a year, you would get two quite different answers. The oil man would try to guess what exports and domestic disappearance of food fats would be, and allow for the estimated supplies of lard, cottonseed oil, and other fats and oils in determining how many soybeans would have to be processed in order to satisfy the demand for oil. The meal man, on the other hand, would pay more attention to expected poultry and livestock numbers, feeding ratios, supplies of other proteins, and likely exports in making his calculations.

If the demand for oil should indicate a total crush of 300 million bu. while that for meal indicated a crush of only 250 million bu., it might appear that, in the process of satisfying the demand for oil, too much meal would be produced. This cannot be however. Obviously something has to happen to equate the demand for oil with that of meal. It would be an intolerable situation if either product were continuously over-produced and stocks of that product mounted day in and day out just to satisfy the demand for the other product. Besides establishing that oil and meal analysts must be slightly schizophrenic, this little story introduces the role of price: "Enter, PRICE, mysteriously, and solve all our problems by adjusting the demand for oil and meal until they equal each other."

All of this may seem too simple. It probably occurred to you sometime ago that a high price for oil and a low one for meal would work toward reducing the demand for oil and increasing that for meal and bringing them into balance. But it is too easy to be deceived by over-simplifying. For one thing, we must fight the impulse to assume that the ultimate soybean crush in the above example would split the difference between the two estimates and end up at 275 million bu., with the demand for oil diminished by its price to the same extent that meal demand grows. It doesn't work that way simply because oil responds differently to price changes from the way meal does.

In the first place, the domestic demand for food fats (per-capita basis) is remarkably constant and insensitive to price. The domestic consumption of soybean oil therefore is pretty well determined by the size of the population and the domestic supplies of competing fats and oils. It won't change much regardless of price. The export demand is a different story. We feel confident that price has some effect on the exports of oil, but it is far from being a predictable one. Exports of soybean oil in the past three years have been so heavily influenced by PL-480 programs (where price is sometimes irrelevant) that it is extremely difficult to guess how regular free-dollar business will be affected by price changes. Besides there are other factors at work to determine the quantity of soybean oil exports besides price. Among these are the supplies of other fats and oils in major exporting and importing nations, governmental policies in these countries, and a variety of national taste preferences.

The demand for soybean meal, on the other hand, responds to price changes in a more orderly manner. A cheap price for meal makes animal feeding profitable and results in a rather quick growth in animal numbers (especially poultry) which, in turn, increases the demand for meal. A high price has the opposite effect, of course, but probably after some time has elapsed. Besides being affected by changes in animal numbers, the demand for protein meals is also affected by the amount of such products fed to each animal. This is an especially important factor in the case of swine and has the intriguing aspect of being quite unpredictable. (There probably aren't many around who could have told you, for example, that the per-capita [?] con-

sumption of formula feeds by swine would jump by about 25% in this crop year.)

IN VIEW of the above we would suspect that in our earlier example the final outcome would be a soybean crush much closer to 300 million bu. than to 250 million. This is simply because the demand for oil is less likely to be changed by its price than that for meal. It would still take close to a 300 million bu. crush to satisfy the demand for oil. The demand for meal, being much more accommodating than that for oil, would simply expand enough to assure that it all got consumed. This pattern incidentally of a strong demand for oil forcing meal to a price that would enlarge its demand is a pretty familiar one.

It was the rule in the 1955-56 and 1956-57 crop years, and it came to be accepted as "normal" that the demand for oil should outstrip that for meal. The U.S.D.A., through its export programs, helped maintain the demand for oil and thereby assured a large supply of meal. It was pointed out that a strong demand and high price level for oil helped maintain the price of soybeans received by farmers and, at the same time, resulted in plentiful, reasonably priced supplies of protein feed ingredients for the farmer to buy back from the soybean processor via the feed manufacturing industry. This simple device for improving the lot of the farmer in two ways was assumed to have the blessing of the U.S.D.A.

It was also assumed by many that any other way of things was unnatural; and the notion that the demand for soybean meal could forsake its role of the faithful, accommodating serving boy and actually outstrip that for oil was perhaps viewed as slightly heretical. The 1957-58 crop year however found truth in the heresy and made the world meal-conscious. It came to be understood that demand for meal was a very important factor among those that determine the price of oil. The lesson was made sharper by the concurrence of high domestic livestock prices (which resulted in an enormous demand for protein feeds) and heavy production of edible oils in other parts of the world (which worked to reduce the demand for U. S. oils).

There is still much to be learned about the interrelationship between the demand for oil and that for meal, and perhaps the 1958-59 crop year will throw more light on the subject. The principal problem arises when we consider the converse of the hypothetical situation described at the beginning of this article. Suppose, for example, that the demand for meal initially indicated a crush of 300 million bu. and that for oil only 250 million bu. What then? Would the result be a crush closer to 300 million bu. or closer to 250 million?

We feel that the answer will depend on the world market for oil. If, through a reasonable price, soybean oil can uncover a broad world demand, then it could be disposed of with a crush approaching that necessary to satisfy the meal demand. If, however, even a cheap oil price failed to result in increased exports, the crush would be limited by the poor demand for oil and the price of meal would have to be strong enough to reduce its consumption. Taking a long, cloudy look ahead, it appears that next year's meal demand could come close to that of the current year. In view of the likely increased supplies of lard however and the still uncertain export market for oil, it is much more difficult to feel confident that the demand for oil will measure up. Perhaps 1958-59 will provide the answer to our problem.

As this is being written incidentally, things are going to pot in Iraq. We haven't the slightest idea what will come of it all but merely wish to point out that this is the sort of thing which can move prices in the fats and oils markets. Even if all ends well, a period of apprehension can have a marked effect on sentiment in those markets and result in inventory accumulations and a temporary artificial demand. It was this kind of demand which has resulted in sharp price moves in recent years, both up (as inventories are built up) and down (as they are liquidated).

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