

## Goodbye Correlation?

FIGURE 1 appeared in a U.S.D.A. publication of a few months ago. It illustrates the beautiful correlation that has long existed between corn oil prices and cottonseed oil prices. Figure 2 shows how this relationship has deteriorated in the last few months. The differing movements have put corn oil users in an undecided position. Presumably if corn oil prices recede and a more normal spread to CSO returns, they will be tempted to stick to corn oil. In any case, there is certainly going to be concern that what has happened recently is an omen of a changed situation. ("Fortunate is he who is able to learn not to make the same mistake twice.") There may be switching to competing oils, depending on how one views certain developments.

The most striking new factor on the demand side of corn oil has been the introduction of two brands of corn oil margarine, one from each of the leading corn oil producers.

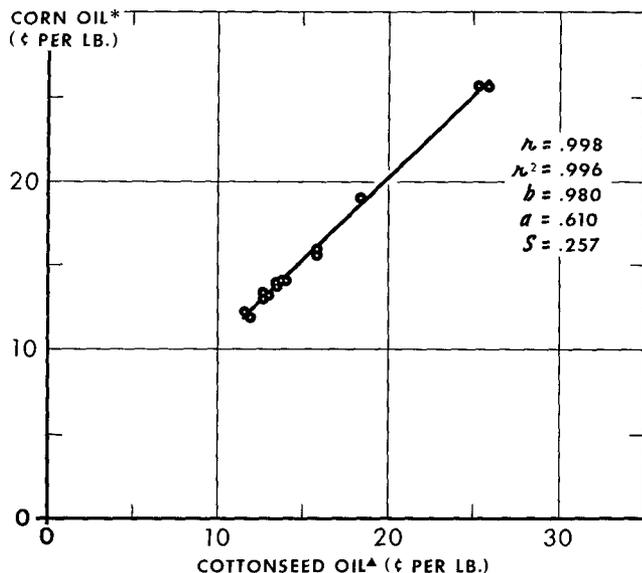
	Jan.	Feb.	Mar.	Apr.	May	June
Factory consumption total..	17.0	21.9	26.0	28.0	24.9	26.7
Salad and cooking.....	16.3	20.8	23.5	24.3	23.3	23.6
Difference.....	.7	1.1	2.5	3.7	1.6	3.1
	July	Aug.	Sept.	Oct.	Nov.	Dec.
Factory consumption total..	26.7	29.4	29.8	25.7	25.2	29.1
Salad and cooking.....	24.3	26.7	25.5	21.2	21.2	24.1
Difference.....	2.4	2.7	4.3	4.5	4.0	5.0

The table shows an upward trend in the difference between total factory consumption and salad and cooking oil. This difference contains some use in shortening, but the growth portion is probably largely margarine. Note that the fall-winter increase in the residual seems to coincide roughly with the widening of the corn oil-cotton oil price spread. Indications are that sales are going quite well. Perhaps this is the result of excellent introductory merchandising (in which case initial momentum may be lost).

On the other hand, success may result from a deeper-than-realized public concern over the influence of dietary fat on the blood cholesterol level (in which case demand may continue). The relationship of atherosclerosis to types

## CORN OIL AND COTTONSEED OIL PRICES

Relationship Since World War II



\* CRUDE, TANK CARS, MIDWEST MILLS      ▲ CRUDE, TANK CARS, SOUTHEAST MILLS

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FIG. 1.

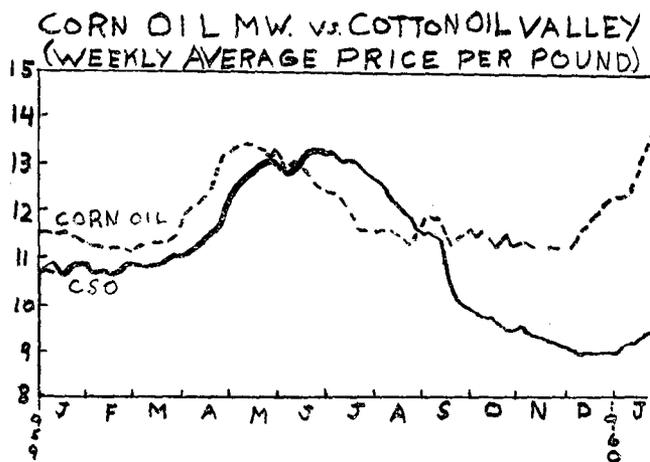


FIG. 2.

of fat ingested and potential help from corn oil has been given a big play in the public press (for example, see Business Week, January 30, 1960, pp. 97 and 98). High linoleic acid content of any oil may, of course, be lost in hydrogenation, but this is seldom mentioned. The Federal Trade Commission has forbidden advertising that even mentions the saturated-unsaturated, oleic-linoleic controversy, but press and word-of-mouth publicity are often more effective and are certainly cheaper. The situation might be likened to the health scare that caused a switch to filter cigarettes but no perceptible cut in smoking. From the buyer's standpoint, changing to a corn oil margarine from other margarines at roughly the same price is not particularly onerous, certainly less so than stopping smoking. Further complicating demand has been the apparent stability of sales for the prominent branded liquid corn oil (made by one of the corn oil margarine manufacturers).

THE SUPPLY PICTURE is quite complex. Other corn products (starch, syrup, sugars, corn feed, corn meal, alcohol, breakfast foods) all have widely varying elasticities and sell in very different markets. Very generally speaking, the corn grind tends to be reasonably high in terms of capacity. The price of corn is more of a determinant of the level of profitability than a determinant of the percentage of capacity operated. Since the removal of the germ (from which the oil is extracted) is necessary to the quality and yield of the other products, it is a true by-product. Thus it is difficult to take a firm view of costs of the germs. This sometimes leads to odd views on the pricing of the oil.

Further complicating the price structure are:

- tight concentration of most strong sellers but a potential shortage of oil-storage capacity;
- lack of concentration among users who are buyers (as opposed to users who produce their own oil);
- apparent potential availability of reasonably suitable substitutes at lower prices;
- inability to alter production in response to short-term changes in demand;
- control of much of the European production by the large U.S.A. producer (most, if not all, of the imports are "captive." This means that the actual import level may not be determined by prices here, there, or anywhere); and
- the small size of the residual between available production and salad oil-cooking oil use.

All in all, it may become extremely difficult to arrive at a buying or selling decision in corn oil. One thing seems likely. If margarine demand continues high or expands, spreads might stay at a level that will shake out all but the most loyal users of corn oil.

J. E. McHALE, Merrill Lynch, Pierce, Fenner, and Smith Inc., Chicago, Ill.