

# Fats & Oils Outlook



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Many market observers, analysts and traders have too easily adopted the attitude that with inflation comes an automatic escalation in prices for agricultural commodities, such as soybeans and products. With this we cannot agree.

For example, in the U.S. the recent report on the consumer price index showed it to be 10.4% above a year ago, while the index of real spendable earnings dropped 4.5% below a year ago. Under those conditions, one thing is likely to happen: there is a reduction in spending for flexible demand items, and food is one of the most flexible of all. A typical pattern is for food shoppers to purchase smaller packages so as to stretch the budget to afford all the ingredients desired. As a result, actual consumption is reduced because a more conservative attitude develops when the home inventory is not stocked with an ample supply. This ultimately causes a back-up in inventory flow at all levels of marketing.

Just how ominous is the situation is explained by consumer credit statistics. For the U.S. total personal debt per household at the end of 1979 equaled over 83% of income after taxes vs. 37% in 1950. Paying on that debt leaves little cushion for price advances in petroleum, heating fuels, electricity and the many other items whose consumption is less flexible than food.

Another of the most likely ways to conserve is to reduce spending for restaurant meals. It is estimated that approximately 37% of U.S. restaurant business is on weekends. Much of this obviously is discretionary patronage for pleasure purposes. With rapidly escalating fuel costs and many service stations closing on weekends, there should be less of this kind of eating out as well as less lengthy vacation and holiday travel. That strongly implies slower demand for the many products made from soybeans, and similar ingredients, because of methods of preparation and serving patterns in the restaurant trade.

Higher fuel prices will add to the expense of processing soybeans and other oilseeds. Members of the U.S. crushing industry recently estimated that costs averaged 11 cents per bushel for the entire year, but were 15 cents a bushel during the winter, the peak operation period. Today those costs are even higher and are still rising.

Escalating fuel costs also affected the transportation of soybeans, soybean products and competing items by truck, barge, railroad or ship. And, of course, producers have to pay more for fuel and chemicals needed to produce oilseeds. All these added fuel costs are popularly thought to automatically raise the price level for soybeans, etc. Past experience has shown that this is not necessarily true, especially regarding added costs of transporting and processing. Historically, most or all of the added cost comes off the producer price. Even part of the additional production cost usually must be born by the producer.

The consumer cannot spend more for the product if he does not have more money to spend. How then does the producer stay in business? He survives only if he is able to improve efficiency of production. But the price per bushel or other unit does not automatically advance to absorb costs.

When considering the inflation rate of the U.S., it is well to keep things in proper perspective. The latest figures show 112 percent inflation since the base period of 1967. That simply means that soybeans worth \$2.76 in 1967 are

worth \$5.85 currently, which incidentally is about exactly what is considered the present cost of production. Soybean oil valued at 10 cents per pound in 1967 would equate with 21 cents now. Soybean meal at \$75 per short ton then equal \$159 now. Present futures prices are well above those levels, which might be partially justifiable if they are said to be anticipating further stiff inflationary pressure, but not entirely so. There is room for prices to come down, should supply-and-demand factors indicate, before touching the real authentic inflation-factored level.

During July and first-half August, however, there can be a strong market as it is traditional for traders to become concerned about crop condition if weather predictions reveal good moisture beginning in the middle of August, and that can bring prices tumbling down. Again under those conditions it is traditional for traders to sell as harvest approaches if the weather has improved. This can be especially true this year as acreage is up 12% in the U.S., while demand probably will increase only 5%, after having been up approximately 10% this season. This slower demand should become especially noticeable beginning in December, but could develop sooner.

Here is how we see supply-and-demand shaping up for the new crop. On harvested acreage of 70.6 million, we think under current conditions it is reasonable to expect average yield of 30 bushels per acre for total production of 2,118 million bushels. If demand increases 5%, then consumption will be 1,975 million bushels. We doubt that it will grow more than that, and probably less if Brazil and Argentina fulfill our expectation of a combined crop of 20 million tons, vs. about 15 million this year. Thus, this kind of U.S. production would add 143 million bushels to U.S. carryover making it about 280 million. If yield is only 28 bushels per acre, then production would be 1,977 million bushels and nothing would be added to carryover. Therefore, it can be easily seen that July and August should be an extremely sensitive weather market.

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## Data sought on maintenance coatings

Information on low solvent maintenance coatings is being sought by the Steel Structures Painting Council (SSPC) on behalf of the Federal Highway Administration (FHWA) of the U.S. Department of Transportation.

The FHWA is concerned with coatings that will be available within the next few years, particularly those developed to meet anticipated governmental regulations. They have selected the SSPC to help identify current research, development, effectiveness, and regulatory aspects of low solvent (LoSolve) coatings for use on steel bridges and other structures. Products in commercial use, in testing, or under development are of interest. These coatings may be either water-based or high-solids. Confidentiality of proprietary information will be strictly respected. Results may help avoid unrealistic regulations.

Persons who wish to cooperate and to obtain advance copies of the reports resulting from this investigation should contact John D. Keane, Director of Research; Steel Structures Painting Council; 4400 Fifth Avenue; Pittsburgh, PA 15213. ●