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1-30-1975

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Yeutter, Clayton K., "Soybeans -- What to Look for in 1975" (1975). *Clayton K. Yeutter, U.S. Secretary of Agriculture Papers*. 53.
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Soybeans -- What to Look for in 1975

I have just returned from a tour of our major farm product customers in the Far East -- Japan, Korea, Taiwan and the Philippines. The most impressive thing I found there was the forward-looking spirit of these nations, and their driving determination to continue their economic growth in spite of the world's current energy and inflation problems.

All of these nations are vitally interested in American farm products, with soybeans high on their priority lists. All of them are looking past the current recession atmosphere, and planning for the future. All of them have more protein for their diets as a long-range goal. And all of them are doing their best to maintain their livestock and poultry populations despite the short feed supply, as a building base for future livestock expansion.

The future of the soybean, perhaps more than any other product, is tied to improving world diets. The success of the soybean is founded on its ability to provide high-quality protein at relatively low cost.

My trip to the Far East convinces me that the long-term future for soybeans is still very bright indeed.

Speech by Assistant Secretary of Agriculture Clayton K. Yeutter before the Delmarva Soybean Producers Association, Salisbury, Maryland, January 30, 1975.

After all, man has overcome much greater obstacles than the current recession in his quest for a higher standard of living. He has made major shifts in his lifestyle from hunting wild animals to herding domesticated beasts; from harvesting wild grains to growing them in fields; and today the farming focus has shifted from the old emphasis primarily on cereal grains to the modern mix of grains, oilseeds and livestock production.

The demand for soybeans and soybean products has literally exploded in recent years, matching the expansion of industrial productivity that has turned Korea and Taiwan from sleepy rural nations into bustling economic centers, and which has seen Japan become one of the world's economic superpowers.

U.S. exports of soybeans and soybean products have more than doubled in volume since 1960, and their value to our economy has jumped from \$480 million to about \$5 billion!

Soybeans have continued to make a larger and larger contribution to human nutrition, both indirectly as livestock feed, and directly through growing consumption of such items as textured vegetable protein.

Current Soybean Market Setting

For the long term, there seems no doubt the soybean will continue to play an expanding and crucial role in providing better nutrition for the world's growing population.

Soybean producers, however, cannot plant 1975 crops solely on the basis of the long term. Many a businessman has found that it is perfectly possible to go broke in the short run regardless of the long-term prospects.

The explosion in soybean demand has relied heavily on rising incomes around the world. This year, however, the world's consumers have been suffering from severe inflation, compounded by sharply higher energy costs and a shortfall in world food production.

This set of circumstances has thrown economic growth in the industrialized countries out of gear. The developing countries are in even worse shape, and may be sliding backward.

The oil crisis, however, will not stop the world's economic growth for long. New oil discoveries are being announced almost daily, under the stimulus of higher prices, and other energy sources are being developed at a rapid rate. The world's ability to produce goods and services will continue to improve over the years ahead--and that is the real measure of economic growth. The key question is: How soon and how rapidly?

Demand is the biggest unknown in the soybean market equation. This year, with a short crop, prices have been rationing the available beans among competing customers. We have seen major adjustments in the world's commercial livestock and poultry operations. Consumers have tightened their food budgets and their belts.

We do not yet know what the supply side of the equation will look like in 1975 either. With normal weather, the U.S. is likely to have more beans by far than we had this year. Even with no increase in 1975-crop soybean acreage, we could expect about a one-sixth increase in production from trend-level yields. And farmers, in their January 1 prospective plantings report, indicated they would increase soybean acreage by almost 8 percent, to nearly 58 million acres.

We have no clear idea about the soybean's competition for 1975 either, in terms of Brazilian soybean production, Peruvian fishmeal and the myriad meals and oils that compete with soybeans.

We do know that soybean stocks at the end of December were down about 27 million bushels--14 percent less than last year.

What to Look for in 1975

It is too early to say precisely what soybean producers can expect from this year's markets--but there are some key indicators for you to watch in the next few weeks as you try to gauge your 1975 plantings.

U.S. Action to bolster the economy:

The constant question in the Orient was, "How soon can the U.S. economy recover from its recession?" The Far Eastern nations, and especially Japan, are linked through trade to our own economy.

Quick action in the U.S. Congress on a tax rebate is imperative to channel buying power back into the economy, bolster consumer confidence and regenerate economic activity. It would stimulate economic recovery in the soybean's major markets.

Rapid Congressional action will help trigger additional soybean demand. Failure to act will hurt demand and prices for the 1975 crop.

Decisive U.S. action on energy:

Oil imports are having a devastating effect on our balance of payments. We cannot afford to leave ourselves at the mercy of the oil cartel, and to break the cartel's hold we must be willing to take effective action. That means raising the price of imported oil, stimulating domestic energy production, and cutting back unnecessary energy consumption. As far as agriculture is concerned, the top priority must be to de-regulate well head natural gas prices; this would stimulate natural gas drilling and production vital to a continued supply of fertilizer and LP gas for farms.

Strong action on energy would help the long-term outlook for the economy and for soybean producers.

March 15 planting intentions:

The next big reading on the U.S. crop will come from the regular planting intentions survey issued by the Statistical Reporting Service. Any change from the soybean acreage indicated in the January 1 survey will be very important.

Peruvian fishmeal production:

Sometime toward the end of February or early March, Peru is expected to resume fishing for anchovies. If they do not, soybean price prospects would improve. If the Peruvians make only a partial resumption, or take a go-slow attitude, that would help soybean prices.

Brazilian 1975 soybean production:

Currently, we estimate a Brazilian bean crop at about 8.75 million tons. This would be a substantial increase over 1974's 7-million-ton crop. Harvesting will take place in April and May.

U.S. soybean consumption:

U.S. domestic offtake of meal and oil in the next few months will be a significant market factor. If U.S. crushing appears likely to fall short of estimates, that would be bearish unless offset by larger-than-expected exports.

Foreign demand growth:

Demand in our traditional soybean export markets has been sluggish due to inflation and energy costs. Livestock profit margins are poor. Any sign of recovery in these markets will be bullish for U.S. soybeans.

Watch also for signs that some of the oil-exporting countries or the Eastern European nations that have not been hurt much by oil costs are changing their traditional buying patterns. Iran, for example, might decide to import more vegetable oil. They have 30 million consumers, and now they certainly have the national income to improve their diets. Nigeria, too, has been receiving huge cash flows from oil; the 60 million Nigerians might start to consume more of their own peanut oil and meal, leaving more room in the world export market for our soybeans. Indonesia is another possibility, with oil revenues increasing, 125 million people and a low level of protein consumption. Eastern Europe, of course, has been buying increasing quantities of soybeans and soybean products in recent years, and those countries still have a high priority on making more livestock protein available to their people.

The Soviet Union, of course, might be the biggest factor of all in future foreign demand. It appears to outside observers that the USSR will need additional protein meal to make efficient use of its feed grains. Whether the Soviets will buy or not is unknown, but we

do know that their 1974 oilseed output, largely sunflower seed, declined significantly from the previous year's record volume. So 1975 Soviet meal supplies will be down in the face of expanding livestock and poultry numbers.

Competing exports:

Watch the prices for such competing products as Philippine coconut oil and Malaysian palm oil. Sharp price discounts there would hurt soybean oil prices and demand.

Weather:

Last year at this time, all of us were predicting big U.S. grain and oilseed crops, with resulting price pressures on farmers. The weather destroyed our predictions in 1974, and could do it again.

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