

WORLD COTTON OUTLOOK

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Abstract

The 1995/96 world cotton situation is highlighted by continuing relatively high prices despite production considerably in excess of consumption and increasing stocks. While stiff price competition from competing crops will restrict expansion in cotton output in 1996/97, prospects for sustained global economic growth and textile activity bode well for stronger use. On balance, production next season likely will surpass consumption, resulting in further stock rebuilding. Over the next decade, world output and use are projected to continue to grow about 2 percent a year, reaching 105-110 million bales by 2005; trade could reach 31-35 million bales.

1995/96 Situation

Cotton prices have fluctuated significantly over the years in reaction to supply and demand developments around the world. They also have played a key role in signaling the need for adjustments in production and use for the coming year. The current situation provides a good example. While near-record prices are prompting a 10-percent expansion in 1995/96 world cotton area to a record 35.3 million hectares, they are dampening growth in cotton use (Figure 1).

These prices explain to a large degree why 1995/96 global production is increasing faster than consumption (Figure 2). Our projections currently place the 1995 crop at 89 million bales, up 4-percent from last season. Larger production in Pakistan, Turkey, and several smaller producing countries is more than offsetting smaller output in the United States. Meanwhile, world consumption this season is expected to increase nearly 2 percent to 86 million 86 million bales, primarily reflecting larger use in China, Turkey, India, and Russia. Global trade is off about 4 percent because of reduced import needs by major foreign exporting countries that are also major consumers. Last season, crop problems in several major foreign exporters--notably China and Pakistan--necessitated record-high imports by these traditional exporters, which helped explain near-record U.S. exports.

World cotton stocks at the end of the 1995/96 season are expected to total about 32 million bales, 10 percent above the beginning level and slightly above the 5-year average. The projected stocks-to-use ratio of 37 percent also is

moderately above the 1994/95 ratio and slightly above the 5-year average (Figure 3).

Outlook for 1996/97

Let's now turn our attention to global cotton prospects for 1996/97. Current price levels, together with government policy, will play an important role in determining how much area will be devoted to cotton next season as well as how much cotton will be demanded by textile mills around the world. Despite relatively high prices, cotton is likely to face intense competition from competing crops, and area devoted to cotton in 1996/97 may decline. At the same time, cotton remains competitively priced with manmade fibers whose prices have increased over the past year.

The world cotton production outlook for next season hinges on several factors. In addition to prices of cotton and competing crops, area planted to cotton in 1996/97 will be affected by weather, insects and disease, as well as production policies in major producing countries. Policies for most countries, including the United States, are not yet set. It appears, however, that the U.S. farm program will continue to provide producers with planting flexibility and encourage a greater reliance on the market. Thus, the price of cotton vis-a-vis prices of other crops will be even more crucial in guiding producer planting decisions, here and around the world, in 1996/97.

USDA's Foreign Agricultural Service recently surveyed attaches in major producing countries concerning cotton area prospects for 1996/97. Preliminary results indicate generally little change from this season's foreign area of 29 million hectares. This relative stability, coupled with prospects that U.S. cotton area could possibly fall 5 to 10 percent because of increasing competition from grains and soybeans, would point to about a 1 to 2-percent decline in world cotton area to around 35 million hectares.

Another scenario based on economic analysis of area response to year-earlier prices of competing crops indicates that global cotton area could fall even further in 1996/97. Although cotton prices are relatively high, prices of other crops--wheat, corn, and soybeans--now are at record or near-record levels. According to my analysis, prices of cotton and wheat explain nearly 90 percent of the variation in world cotton area over the past decade. With cotton prices down moderately this season and wheat prices up nearly 50 per-cent, resulting in a 40-percent decline in the cotton/wheat price ratio, 1996/97 global cotton area could decline 6-7 percent. This would place area next season around 33 million hectares, close to the 5-year average (Figure 4).

The other half of the cotton production equation, of course, is yields. I see the possibility of some improvement in 1996/97 world yields, assuming normal weather and growing conditions, particularly in the United States. In

addition, there are indications that the serious insect and disease problems which plagued producers in China and Pakistan since 1992/93 are abating. Assuming this improvement continues next season and U.S. yields are close to trend, global yields could recover to 575 kilograms per hectare, near the 5-year average.

Given the uncertainties surrounding both area and yields, what are the implications for 1996/97 world cotton production? Even at an average yield of 575 kilograms per hectare, output can vary significantly depending on area. For example, if area next season holds close to this season's record 35 million hectares, production could total as much as 93 million bales. On the other hand, if area falls moderately to 33 million hectares, output could dip to 87 million bales. In my opinion, production of 90 to 91 million bales appears most realistic at this time. This would be only slightly above the 89 million bales estimated for this season (Figure 5).

As far as global consumption is concerned, I look for sustained economic and textile activity spurring larger use next season. Most economic forecasts point to 2.5-3.0 percent annual Gross Domestic Product (GDP) growth in major industrialized countries in 1996 and 1997, up slightly from 1995. Though relatively high, cotton prices remain competitive with manmade fiber prices, which have increased over the past year due to higher production costs and supply shortages. All factors considered, I expect world cotton consumption to increase 1-4 percent in 1996/97, reaching a record 87-89 million bales (Figure 6). The high end of the range assumes significant recovery in Russia, where use has declined dramatically in recent years.

Global cotton trade in 1996/97 will depend on import demand in consuming countries as well as the availability of supplies in exporting countries. Imports currently account for about 32 percent of use, a percentage which has been declining in recent years. This trend is likely to continue next season as China's import demand is expected to weaken further. World imports may total 27-28 million bales, near the 1995/96 level (Figure 6). With the likelihood of a slightly larger world crop next season, export supplies should be adequate to satisfy this import demand.

Though global cotton production and consumption could be about in balance next season, the odds now favor output slightly in excess of use. I place the most likely gap at 1 to 3 million bales. I might add that a year ago at this conference, I predicted 1995/96 world production would exceed use by 3.5 million bales. Currently, we are estimating a gap of 3 million bales (Figure 7).

This scenario implies that 1996/97 global cotton stocks will increase around 2 million bales. If so, the ratio of stocks to use would increase slightly above 1995/96's 37 percent. As shown in Figure 8, there is a fairly close relationship

between this ratio and world prices. The higher stocks-to-use ratio would suggest some downward pressure on prices.

Let's take a quick look at 1996/97 supply-demand prospects in China, Pakistan, India, and the former Soviet Union. Together, these major producers account for two-thirds of foreign cotton production, more than one-half of consumption, two-fifths of exports, and nearly two-thirds of stocks.

In China, the usual tremendous amount of uncertainty surrounds cotton prospects for 1996/97. Production may hold around this season's estimated 20-million-bale level if the boll worm problem continues to abate. Little change in area is foreseen. Consumption may modestly exceed the 1995/96 estimate of 20.8 million bales as new spindles are added. After rising sharply during the past 2 seasons, stocks may decline slightly during 1996/97 (Figure 9).

In Pakistan, cotton production improved dramatically in 1995/96, reflecting success in controlling recent disease and insect problems. Output reached an estimated 8.5 million bales, a level which could be maintained if not slightly exceeded in 1996/97, assuming recent problems do not reappear. This should provide adequate supplies for both domestic use and exports (Figure 10).

A similar outlook is emerging for India. Cotton production may total in the range of 10 to 12 million bales, compared with an estimated 11 million in 1995/96. With slightly higher consumption, the ratio of stocks to use may remain near this season's 30 percent (Figure 11).

In the former Soviet Union (FSU), cotton production in 1996/97 may total 8 to 8.5 million bales, slightly below the level of the past two seasons, primarily reflecting reduced area. This would be the smallest crop in more than 30 years. Though export supplies may tighten further, I expect producing countries in this region to continue their aggressive selling on the world market. Amid some signs that Russia's consumption is stabilizing this season, we could see a modest rebound in use in 1996/97. FSU stocks are expected to remain relatively tight in comparison with recent years (Figure 12).

In summary, it appears that 1996/97 cotton production in these major foreign producing countries and regions will remain fairly close to this season's levels. Slightly smaller area could be offset by a modest improvement in yields.

With these near-term prospects for cotton supply and demand for major foreign countries and for the world as a whole, let's look a bit further into the future. I would like to share with you a few results from a 10-year baseline which USDA has just completed.

Outlook to 2005

Over the next decade, we expect world cotton production and consumption to easily exceed 100 million bales (Figure 13). Utilization will expand thanks to prospects for stronger global consumer demand for textile products, which has enabled cotton consumption to increase 60 percent over the past 30 years. Production has generally kept pace with consumption since the mid-1960's as yields have increased about 50 percent, despite periodic problems with weather, insects, and disease.

These factors, among others, will be instrumental in shaping the global cotton picture in the year 2005. As in the past, future cotton consumption will mirror the health of textile markets around the world. A larger and more affluent population certainly will be a positive factor. While world population is expected to continue increasing at 1.6-1.7 percent a year, significant income growth also is likely. The Organization for Economic Cooperation and Development (OECD) projects steady growth and relatively low inflation. A consensus of international forecasts calls for global economic growth to average about 2.5 percent annually during the balance of the 1990's, about equal to the rate of the 1980's. This should help bolster textile fiber consumption during the next few years.

Assuming adequate cotton supplies and competitive prices, cotton is expected to about maintain its current global textile fiber market share of 45-50 percent. If world cotton use rises at its long-term growth rate of slightly over 2 percent a year, use would total 105 to 110 million bales by the year 2005, up from the 85-million-bale average of the early 1990's. The success of the Uruguay Round in promoting increased textile activity, and the economic and textile situation in Russia will help determine the exact level.

With reduced trade restrictions under the auspices of the World Trade Organization (WTO), I anticipate steady growth in both raw cotton and cotton textile trade. Major producing countries such as China, Pakistan, and India will continue to emphasize value-added yarn and textile exports, as well as raw cotton exports when supplies are adequate. Yarn and textile exports destined for traditional raw cotton importing countries in Asia and Europe will continue to displace raw cotton imports by these countries, a trend which started in the 1980's. World imports as a share of consumption declined from more than 40 percent in the early 1980's to 33.5 percent in the early 1990's. Over the next few years, I expect the import share to stabilize at around 30-32 percent. This implies that raw cotton imports (and exports by implication) would total 31-35 million bales by 2005, moderately above the average level of recent years (Figure 13).

Global cotton production is expected to expand along with consumption, meaning that output also will reach 105 to

110 million bales by the year 2005. The impetus for larger production will come mainly from yields as cultivated area may increase only slightly. Much will depend on prices of cotton and competing crops, as well as agricultural policies in major producing countries.

Assuming little growth in area and a yield increase of around 2 percent a year, world cotton production in the year 2005 could reach nearly 110 million bales. The United States may surpass China as the number one producer during the next few years. Other countries with the potential for significantly larger cotton output include Pakistan, India, Turkey, and Australia. In China, however, future cotton production gains will be tempered by several factors, including the need to improve food crop production for a huge and expanding population.

Finally, we cannot ignore the impact of government policy on cotton. Decisions made in Washington, Beijing, New Delhi, Karachi, Tashkent, Ankara, Brussels, and other capitols will significantly influence future global cotton production, consumption, and trade.

I am optimistic about cotton's future. Cotton use should benefit from consumer demand stemming from favorable economic growth prospects. Improved market access through the WTO should promote increased economic and textile activity, and expanded trade in cotton textiles and to a lesser extent, raw cotton, particularly after the year 2000 when the full impact of the trade liberalization measures is realized. On the production side, I see global output continuing to recover from recent problems in several countries and providing an adequate supply for growing mill demand.

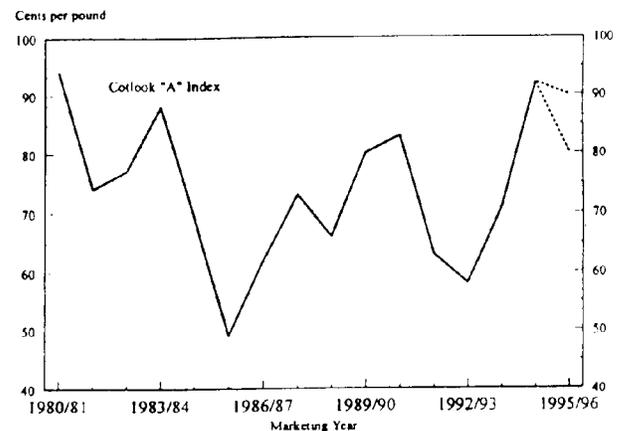


Figure 1. World cotton prices.

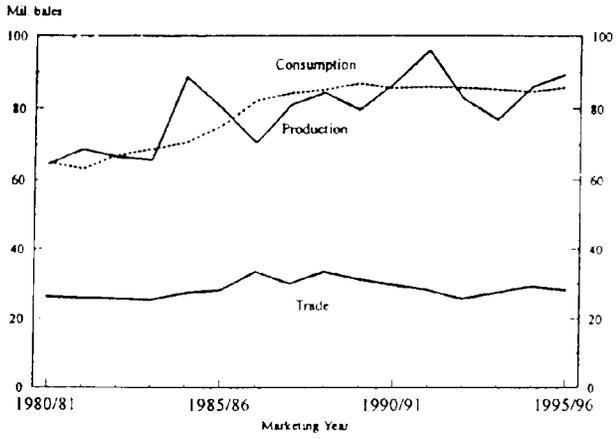


Figure 2. World cotton supply and use.

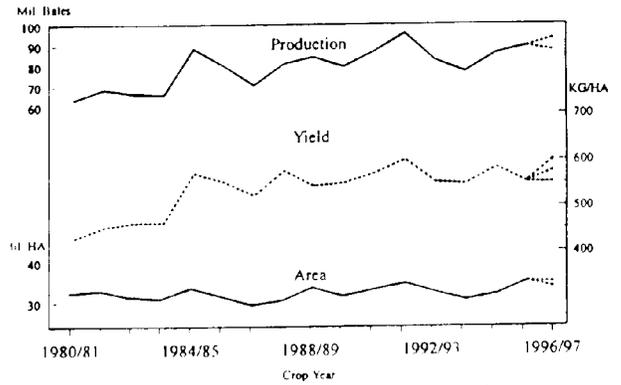


Figure 5. World cotton production.

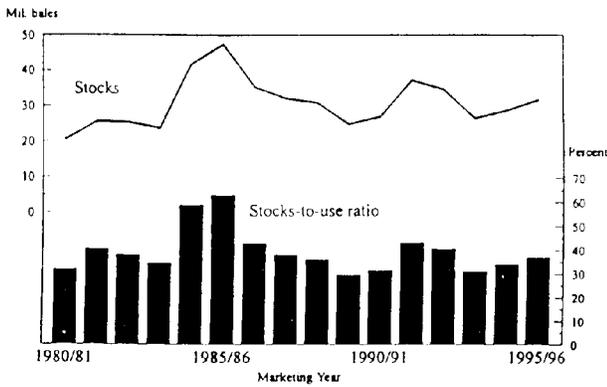


Figure 3. World cotton inventories.

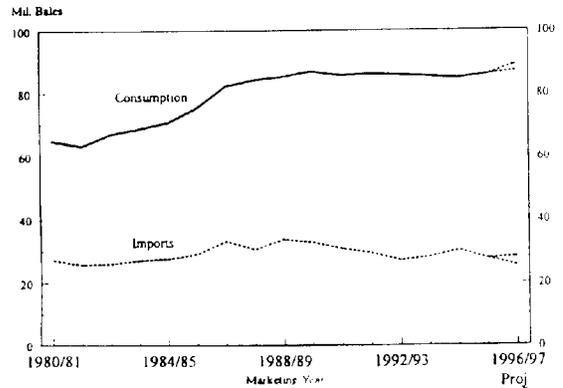


Figure 6. World cotton consumption and trade.

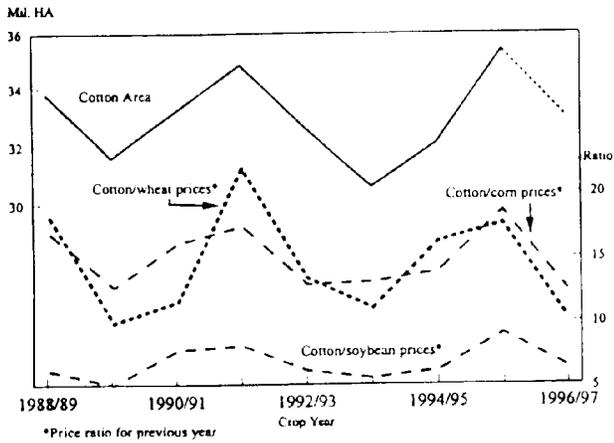


Figure 4. World cotton area response to prices.

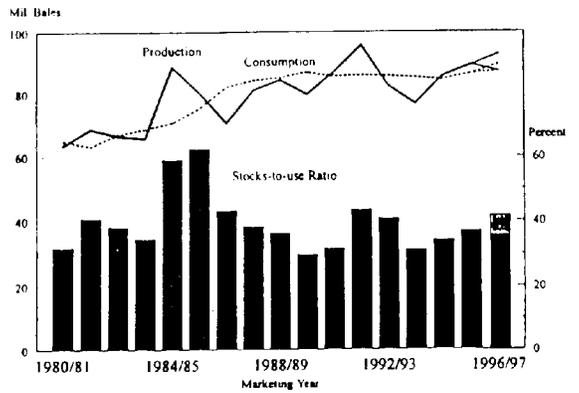


Figure 7. World cotton prospects for 1996/97.

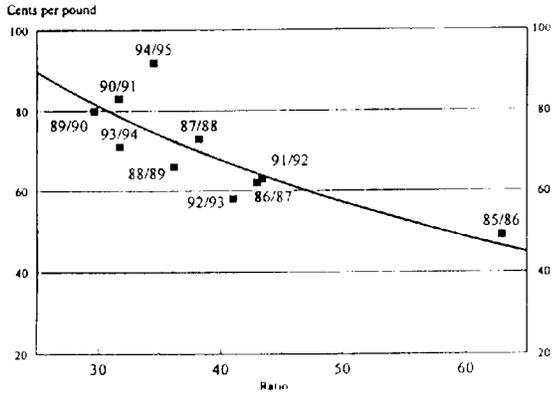


Figure 8. World cotton prices and stocks-to-use ratios.

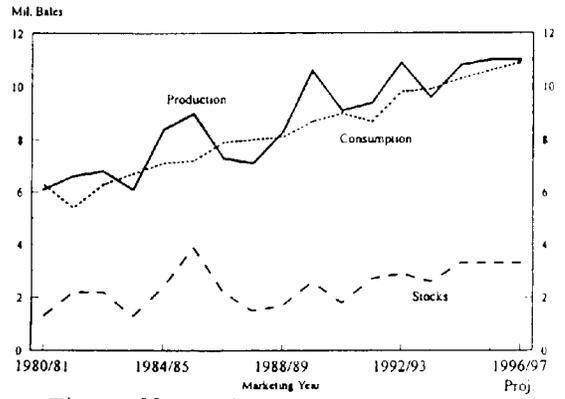


Figure 11. India cotton.

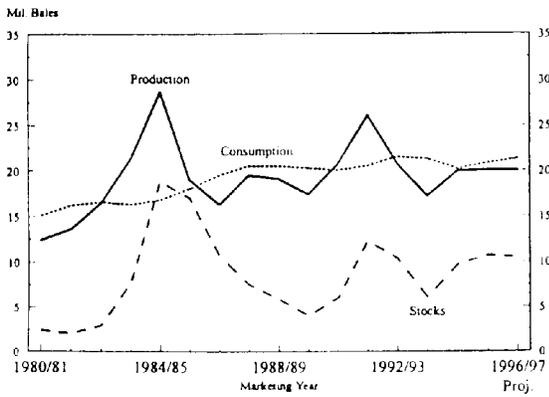


Figure 9. China cotton.

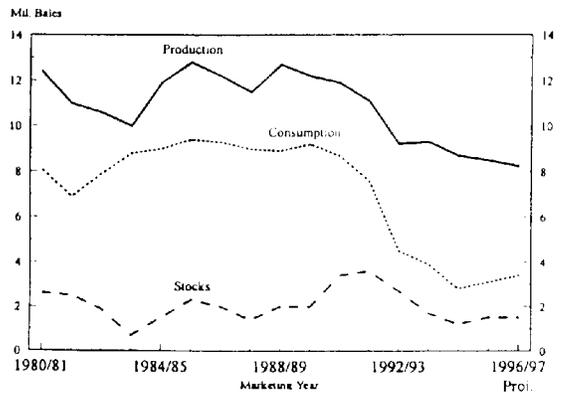


Figure 12. Former Soviet Union Cotton.

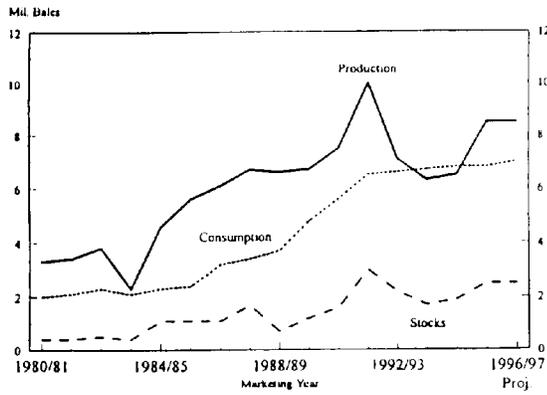


Figure 10. Pakistani cotton.