

NEW TRENDS IN THE MARKETING AND CONSUMPTION OF WORLD ELS COTTON

Matthew S. Laughlin
Supima Association of America
Phoenix, AZ

Abstract

World Extra-Long Staple (ELS) cotton consumption is increasing for the first time in a decade. As consumers around the globe demand better quality apparel and home textile goods, consumption of this precious fiber will rise by 21% during the current marketing year. Sustained world demand is expected to offset the 27% increase in ELS supply this year, which should lead to similar ELS cotton plantings in the United States for the new crop.

Introduction

Following the break-up of the former Soviet Union and the unification of Germany, the first half of the nineties decade was marked by struggling world economies. Consumers became more frugal in Europe and Japan, the traditional strongholds of ELS cotton consumption, and, consequently, the finer count yarn markets suffered. ELS-producing countries continued to reduce production each year, but ELS stocks were still building, particularly outside the U.S. Former big ELS suppliers such as Egypt and Soviet countries were forced to liquidate considerable inventory at heavily discounted prices. The United States, however, still managed to increase market share of ELS exports during this period as it capitalized on the buyers' market climate. Unfortunately, a projected increase in world ELS demand never materialized last season, which worked to erase an anticipated shortfall in world ELS cotton. A year ago, the world stocks-to-use ratio was expected to remain at 17%. However, a reassessment by the International Cotton Advisory Committee (ICAC) determined that not only did the 1995/96 stocks-to-use ratio finish at 30%, it actually had been 26% the year before, not 17% as previously reported. Overall world ELS consumption mirrored production in 1995/96 by falling for an unprecedented ninth consecutive year. Consumption fell from 5.5 million bales in 1986 to about 2.8 million bales in 1995/96, a decrease of nearly 50% in ten years. The recent increase, however, is hailed by fine count yarn spinners as the beginning of a gradual turnaround in ELS cotton consumption. Consumers generally are demanding better quality apparel and textile goods.

U.S. Production Increases

As expected, record high prices in 1995/96 led to a sizable increase in planted Pima acreage in 1996. Increased plantings combined with slightly better yields across the

U.S. Pima Belt to contribute to a 47% increase in production during the 1996/97 growing season. Planted acreage was up by just 23%, but a much higher average yield from the previous year produced a crop of 541,000 bales in 1996. Late season rains in California have contributed to lower expectations in that state, but California producers are still expected to average about 2.3 bales per acre, or just slightly less than their average yield on Acala upland cotton. Generally favorable conditions prevailed through the majority of the growing season across the Pima Belt. The increased production should lead to a total supply of about 614,000 bales.

U.S. Pima/World ELS Market Strong

Coming off a year in which American Pima growers received the highest average price ever for a seasonal crop (\$1.228 per pound), expectations were high going into the new season. However, once U.S. Pima prices had remained in a downward spiral from summer through fall, many buyers and sellers concluded that the increase in world ELS supply was too much for the market to bear. But as suddenly as U.S. Pima prices had begun to decline, they abruptly turned around for what was to become a phenomenal two-month run to close the calendar year. When the price run-up had finally concluded, U.S. Pima prices had settled in with Egyptian cotton prices at a more traditional level. But the real discovery was that, despite the nearly 50% increase in supply from the two countries combined, they were both able to command a price more in line with a much lower supply. The conclusion? Demand for ELS cotton was definitely on the rise.

The U.S. came into the 1996/97 marketing year in excellent position to sustain its hold on the world market. Despite a smaller U.S. Pima crop than expected in 1995, just 368,000 bales, dwindling world consumption enabled the U.S. to actually bolster its global market share to 44% of all ELS exports. As its competitors ran out of ELS cotton to sell in 1994, the U.S. reached its highest level of offtake in five years, narrowly missing the all-time high mark of 528,000 bales set in 1989. The situation changed little during the 1995/96 season as Egypt again remained out of the market until finally releasing a nominal amount of ELS cotton in February of 1996. By then, many of the world's fine count spinners had already committed to U.S. Pima, and, at the same time, it was becoming clear that the much anticipated boost in demand was not there. Consequently, prices began to drop in the spring and world ELS stocks remained much higher than expected. The U.S. had registered export sales of just 300,000 bales compared to 424,000 the year before, but world ELS exports had dropped from 1.1 million bales to just 685,000 bales. The scenario certainly had the makings of a bear market going into the fall as the world's two largest suppliers – Egypt and the U.S. – were beginning to harvest huge crops of ELS cotton. But that was precisely when the unexpected happened; Egypt and the U.S. combined to sell more than 200,000 480-lb. bales in a seven-week period between the end of October and early

December. As calendar year 1996 came to a close, the two countries had combined to sell more than 700,000 480-lb. bales, and that was just in the first five months of the marketing year. Less than 690,000 bales were exported during the entire 1995/96 marketing year. There is no guarantee that all those registered sales will ultimately be consummated, but it's fair to assume that with seven months remaining in the marketing year, additional sales should outpace cancellations. The 390,000 bales of Pima exports on the books for the U.S. through the end of December compares to 280,000 bales a year earlier.

An interesting development we made note of a year ago was the emergence of India and Bangladesh into the ELS import market. The two countries combined to import about 95,000 bales of American Pima cotton in 1994/95. Limited supply and high prices precluded the two from purchasing very much U.S. Pima last marketing year, but Bangladesh has jumped back in the market in a big way, as have a few other countries from the Asian region. India remains on the sidelines because of an abundant supply of lower-priced domestic ELS cotton, but long-term potential for India as an ELS importer remains high. South Korea and Indonesia, though long-time customers of U.S. Pima, have both posted impressive Pima purchases at this stage of the marketing season, but perhaps the biggest surprise this year has been the appearance of Pakistan and China in the market.

Domestic consumption of Pima cotton also remains strong this year. U.S. textile mills consumed 102,000 bales during the 1995/96 marketing year, the most U.S. Pima cotton consumed domestically since it first began being grown in the United States in 1912. The total represents an 11% increase from the total consumed the previous season, which had been 20% more than was consumed in 1993/94. After averaging less than 65,000 bales consumed annually for the eight years between 1985 and 1992, the U.S. consumed an average of 88,000 bales of American Pima cotton the past three seasons, for a 35% jump. Consumption is expected to be slightly better than last season at 105,000 bales, according to the latest USDA estimate.

The area of primary growth for U.S. Pima domestically continues to be home furnishings, including towels, sheeting, blankets, comforter covers and bath rugs. A trend we highlighted two years ago, consumers are showing a willingness to pay more for better quality home textile goods. More 100% Supima or Pima blend products have been introduced by manufacturers during 1996 as retailers begin to reflect their customers' preferences for quality. We also have seen a similar trend in the world market as some manufacturers have expanded their bedding and towel product line with Pima or Pima-blended goods. Thread manufacturing continues to claim a big portion of domestic Pima consumption with more than 25% of total usage. Apparel also remains a major customer, as makers look to enhance their product quality with better cottons.

Outlook for 1997

The U.S. may again produce more Pima cotton in the coming season, but the gain will be much less substantial. It's possible that overall planted acreage could be reduced just slightly, but the decreases will come from lower-yielding areas of Arizona and Texas. We said a year ago that projected 1996 Pima production could fall in the range of about "560,000 - 565,000 bales," which was a lock until late-season rains in the San Joaquin Valley cost California growers at least 20,000 bales of Pima. And although the USDA placed total output at 541,000 bales in its December estimate, final Pima production could fall below 540,000 bales. Still, the 1996/97 production increase of about 45% was more than sufficient to cover the growing needs of U.S. Pima customers in a booming market. Being primarily an exporter, U.S. Pima producers typically react well to the signal of the world market, and 1997 should be no exception. Forward contract prices going into the new planting season are not expected to be as high as the \$1.15 to \$1.18 range we saw in 1996, but they certainly are looking a lot stronger than they were just three months ago. The ratio between upland and Pima prices are more in line with the traditional difference of about 40 - 50%, which should lead to similar acreage levels in Texas and New Mexico. Arizona, however, will again reduce its planted Pima acreage in 1997 in favor of upland cotton and other crops. Although average Pima yields in Arizona were as high in 1996 as they have been since 1989, they still remain much more inconsistent than upland. For that reason, many growers are being pointed in the direction of less risky crops by their bankers. Planted Pima acreage in Arizona should be down from 40,000 acres in 1996 to about 30,000 acres in 1997. Again, Texas and New Mexico will again combine for about 53,000 - 58,000 acres of Pima cotton.

Despite the late-season weather problems in the San Joaquin Valley (SJV) in 1996, Pima continues to perform nearly as well as Acala upland cotton does. For the second season in a row, Pima yields in California are expected to average about 95% of upland yields. Growers in the San Joaquin Valley have been averaging better than 90% of their upland yields with their Pima since first starting to grow Pima a decade ago. And because the only appreciable difference in production costs between the two is ginning, Pima remains a strong alternative crop to upland in the SJV as long as some measurable price premium is available. On the down side, many people point to the recent weather problems in the SJV as an example of the kind of quality and yield risk growers face with Pima cotton. But I think the potential rewards of Pima far outweigh the potential risks when considering whether to plant Pima or upland cotton in much of the cotton-producing region of the San Joaquin Valley. Right now, it appears SJV Pima acreage will be about the same as it was a year ago, although there is a possibility it could increase by a small percentage.

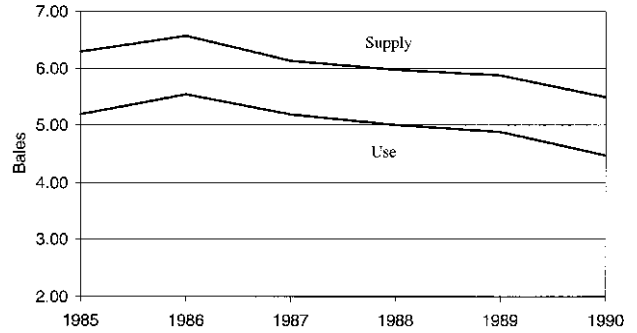
Total supply in the new marketing season could be very close to the 614,000 bales available during the current marketing year, which again will enable the U.S. to supply as much as the market can bear. Egypt will be armed with large stocks heading into the new marketing year and will again get creative in trying to regain market share from the United States. Their production, however, may be reduced significantly in order to provide them with a more realistic total supply. They will continue efforts to privatize their marketing system in Egypt, but government intervention and other problems are expected to continue.

Conclusions

The recent surge in ELS cotton demand around the world seemingly has caught everyone by surprise. Certainly a much larger supply can be credited with some of the increase, but the flurry of ELS sales to wind down the calendar year would bolster the argument that what some textile mills have been saying is coming to fruition; the fine count market is back. It would be unrealistic to think that ELS cotton consumption will begin an ascension in equal proportion to the decline we've witnessed over the past 10 years. That won't happen. But with new spinning technology available and the tendency of fashion trends to work in cycles, there is renewed optimism that consumer preference for better quality apparel and textiles will lead to a sustained increase in ELS cotton consumption.

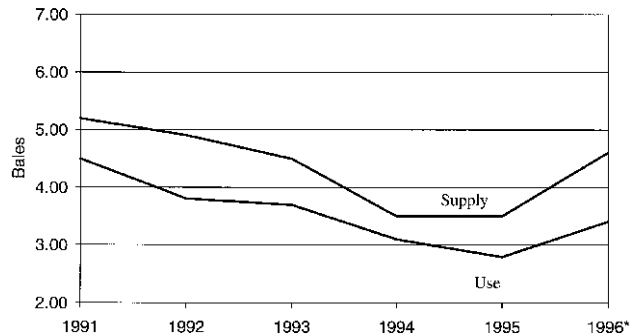
U.S. Pima's reputation for consistently high quality, reliable supply, competitive pricing and a strong support industry should work to keep it at the front of the ELS cotton pack.

**WORLD ELS SUPPLY/USE
1985-1990**



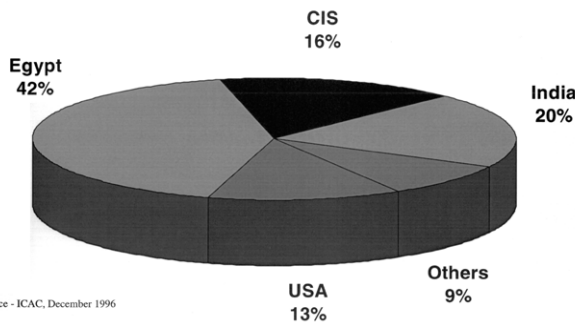
ICAC - December, 1996
Listed in million (480-lb) bales

**WORLD ELS SUPPLY/USE
1991-1996**



ICAC - December, 1996
Listed in million (480-lb) bales
*Estimate

**ELS COTTON AVERAGE PRODUCTION
1991-1996
3,388,800 Bales**



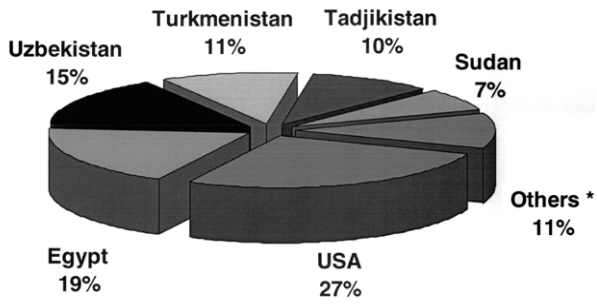
Source - ICAC, December 1996

**WORLD ELS SUPPLY/USE
1991 - 1996**

| | <u>Production</u> | <u>Total Use</u> | <u>Ending Stocks</u> | <u>Stocks/Use Ratio</u> |
|----------|-------------------|------------------|----------------------|-------------------------|
| 1991/92 | 4.1 | 4.2 | .96 | 23 % |
| 1992/93 | 3.9 | 3.8 | 1.04 | 28 % |
| 1993/94 | 3.5 | 3.7 | 1.07 | 29 % |
| 1994/95 | 2.4 | 3.1 | .78 | 26 % |
| 1995/96 | 2.8 | 2.8 | .85 | 30 % |
| 1996/97* | 3.7 | 3.4 | 1.14 | 34 % |

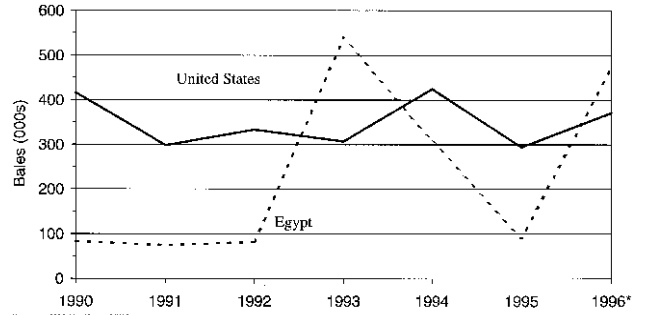
ICAC - December, 1996
Listed in million (480-lb) bales
*Estimate

ELS COTTON AVERAGE EXPORTS 1991-1996 1.27 mil. Bales/Year Avg.



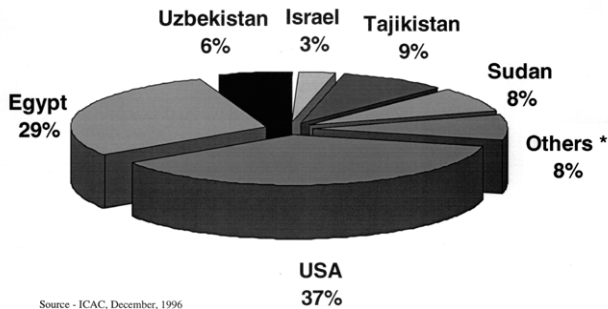
Source - ICAC, December, 1996
*Others include China, Israel, and Peru

U.S. & EGYPTIAN ELS EXPORTS 1990-1996



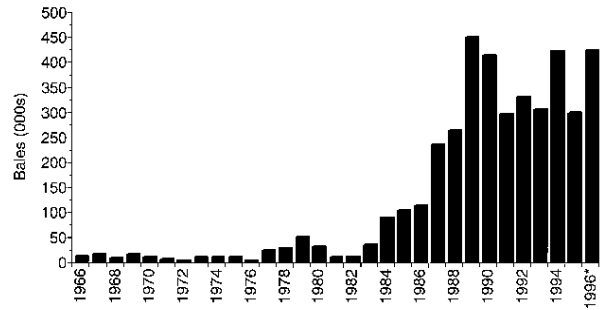
Source: ICAC - Dec., 1996
Listed in 480-lb. bales
*Estimate

ELS COTTON AVERAGE EXPORTS 1994-1996 980,000 Bales/Year Avg.



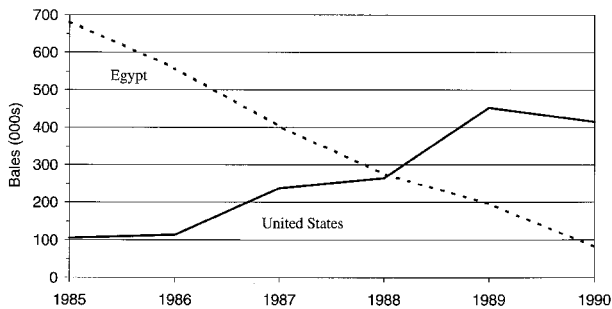
Source - ICAC, December, 1996
*Others include China, Peru and Australia

AMERICAN PIMA EXPORTS 1966-1996



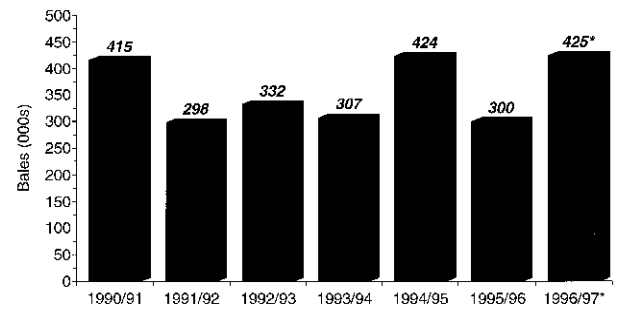
Listed in 480 lb. Bales
*USDA Estimate Dec. 13, 1996

U.S. & EGYPTIAN ELS EXPORTS 1985-1990



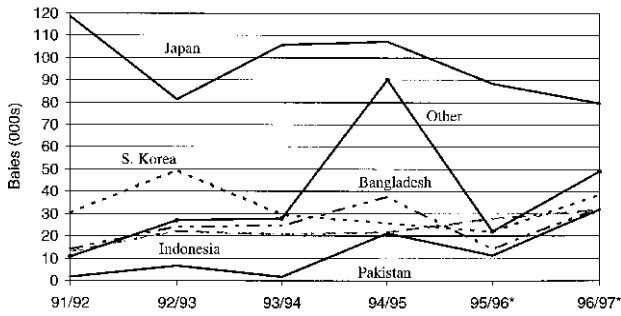
Source: ICAC - Dec., 1996
Listed in 480-lb. bales

AMERICAN PIMA EXPORTS 1990/91- 1996/97



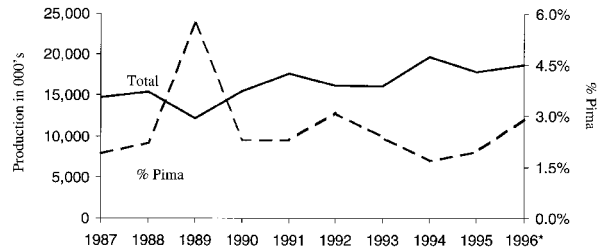
Listed in 480 lb. bales
*USDA Estimate Dec. 13, 1996

AMERICAN PIMA EXPORTS TO JAPAN & SOUTHEAST ASIA 1991/92-1996/97



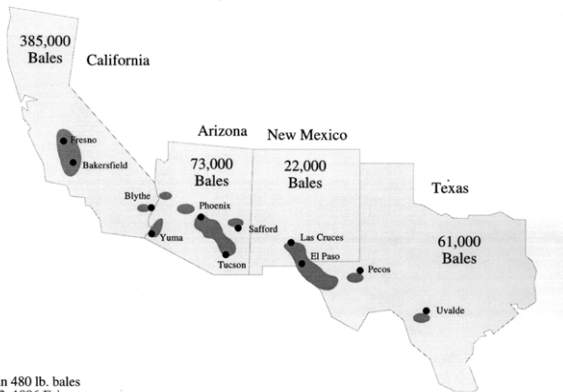
Source: U.S. Export Sales - Dec. 12, 1996
 † Listed in Thousand 480-lb. bales for 1991-1994
 * Listed in running bales

U.S. COTTON PRODUCTION 1987-1996



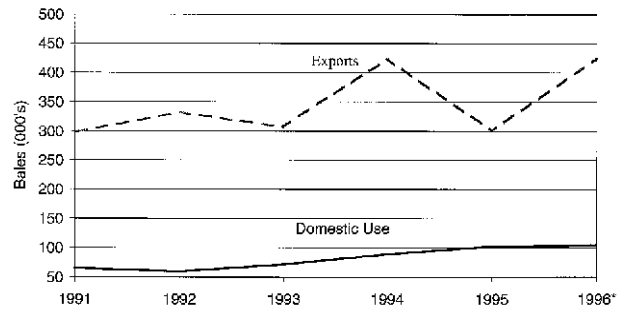
* USDA estimate, Dec. 12, 1996

1996 U.S. PIMA PRODUCTION 541,000 Bales*



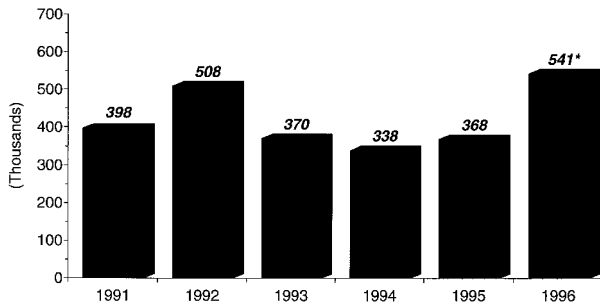
Listed in 480 lb. bales
 * Dec. 12, 1996 Estimate

U.S. PIMA OFFTAKE 1991-1996



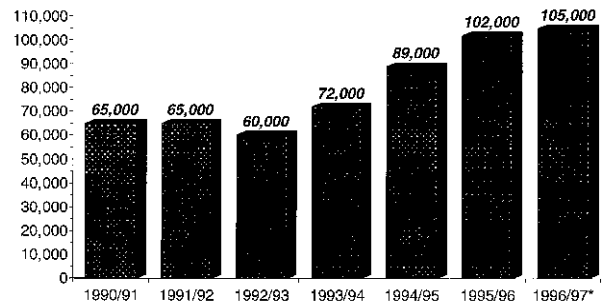
Listed in 480 lb. bales
 * USDA Estimate

AMERICAN PIMA PRODUCTION 1991 - 1996



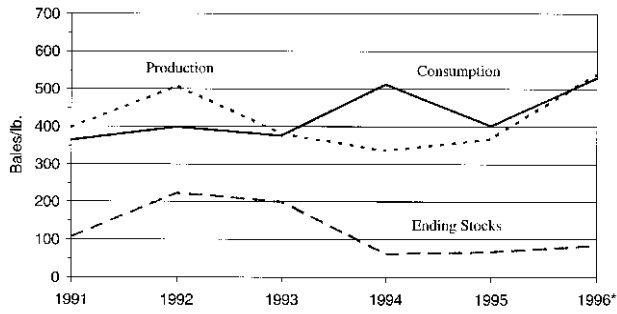
Listed in 480 lb. bales
 * USDA estimate, Dec. 12, 1996

DOMESTIC CONSUMPTION 1990/91- 1996/97



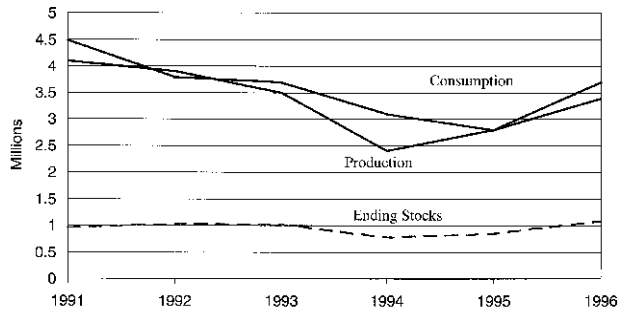
Listed in 480 lb. bales
 * USDA Estimate, Dec. 12, 1996

U.S. PIMA PRODUCTION, CONSUMPTION & STOCKS 1991-1996



Listed in Thousand 480 lb. bales
*USDA Estimate, Dec. 13, 1996

WORLD ELS PRODUCTION, CONSUMPTION & STOCKS 1991-1996



Listed in 480 lb. bales (millions)
Source: ICAC, December, 1996