GLOBAL OUTLOOK FOR ELS COTTON CONSUMPTION

Matthew S. Laughlin
Supima Association of America
Phoenix, AZ

Abstract

Despite an economic crisis that has spread from Asia to much of the world, demand for better quality, high-priced textiles and apparel continues to grow. World Extra-Long Staple (ELS) cotton consumption is in its third consecutive year of increase and is expected to finish the marketing year (MY) with its lowest level of inventory and stocks-to-use ratio since the 1994/95 MY. Sustained global demand of ELS cotton could lead to an offtake of better than 3 million (480-lb.) bales for the first time since the 1993/94 marketing season.

Introduction

The United States' nine-year domination of global Extra-Long Staple (ELS) exports has been interrupted this season after weather problems in the spring of 1998 led to lower planted Pima acres. Further compounding the problem was continued bad weather in April and May, which put the planted Pima crop more than a month late before it even began. As a result, overall Pima yields are well below average and U.S. Pima production for 1998/99 is expected to fall from 548,000 (480-lb.) bales the previous season to about 410,000 bales. And though that represents just a 140,000-bale reduction, Pima production had been expected to rise to more than 600,000 bales had growers been able to plant as much Pima acreage as they had intended. That drop in U.S. Pima supply will enable Egypt to regain the top spot among global ELS cotton exporters, a distinction it relinquished to the U.S. in 1989. However, U.S. Pima producers are expected to finish strong this marketing year (MY) with about 310,000 bales in export sales, compared to 440,000 the previous season, which should help to keep U.S. Pima ending stocks at about 65,000 bales. Egypt, in turn, has taken advantage of the short U.S. Pima supply and will export more than 450,000 (480-lb.) bales this MY, compared to about 340,000 in 1997/98.

World ELS Supply in Balance

Disappointing yields also led to a reduction in Egyptian cotton production, which, combined with the cut in U.S. Pima cotton, contributed to the lowest world ELS cotton production in more than 20 years: about 2.3 million (480-lb.) bales. Egypt also cut its prices for the third straight season, which helped to spark its highest export sales in five years. Egypt's dramatic increase in export sales and reduction in production will lead to a net decrease in ending stocks of more than 430,000 bales, bringing its stocks-to-use ratio down from a staggering 65% to just 27% at the end of the 1998/99 MY. Egypt's success translates into similar success for the global ELS cotton situation, as total ending stocks are expected to fall from about 1.3 million (480-lb.) bales to less than 850,000 bales. With every intention of increasing acreage and production in 1998 by at least 10%, U.S. Pima producers will settle for a crop reduction of about 25%. Accordingly, its offtake will fall by about the same 25%. Fortunately, the shortfall in supply came at a time when its chief competitor – Egypt – was trying desperately to unload much of its burgeoning stocks. U.S. Pima consumption in 1997/98 registered its second highest total in its 86 years of commercial production with 555,000 bales, trailing only the 572,000-bale total set the previous season. The banner year in sales left U.S. Pima ending stocks at 65,000 bales and a stocks-to-use ratio of just 11.7%; again, the second lowest total on record. And the shift in U.S. Pima cotton exports from Japan to other Asian countries continued as Bangladesh emerged in 1997/98 as the second leading customer for American Pima exports. Japan still led the way with about 115,000 (480-lb.) bales of U.S. Pima cotton, followed by Bangladesh with about 60,000 bales. Indonesia and Taiwan also increased their purchases of U.S. Pima cotton last season. And Italy, Switzerland and other European countries remained consistent at about 75,000 bales combined. Sales to the same countries will drop this MY to reflect the reduction in U.S. Pima supply, although Japan – still the world's leading ELS cotton importer – is expected to again source about 75% of its extra-long staple cotton requirements from the U.S.

The world's fine count yarn spinning mills are expected to continue the recent push in ELS cotton demand that has seen total consumption increase for three consecutive seasons. This season's ELS cotton offtake is expected to increase slightly from last season's mark of about 2.95 million (480-lb.) bales to about 2.98 million bales, according to the International Cotton Advisory Committee (ICAC). After falling by 53% from 5.5 million bales consumed in 1986/87 to just 2.6 million bales in 1995/96, world ELS consumption jumped 11% in 1996/97 to 2.84 million bales. Global ELS cotton usage in 1997/98 rose by 4% to 2.95 million bales, according to the ICAC. The largest gains in the past three seasons have been seen in exports, which increased from 717,000 (480-lb.) bales in 1995/96 to 1 million bales in 1996/97 (41%). Global ELS exports increased to 1.1 million (480-lb.) bales last season, and is expected to fall just below 1.1 million bales this marketing year. Export shipments of 440,000 bales in 1997/98 placed U.S. Pima atop global ELS exporters for the eighth time in the past nine marketing seasons, and the fourth season in a row.

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Outlook for 1999

Although the U.S. and Egypt will enter the new marketing season with nearly 500,000 (480-lb.) bales between them, ending stocks of high quality *exportable* long staple and extra-long staple cottons are expected to be less than 100,000 bales. And following the world's lowest ELS cotton production in more than two decades, the U.S. can be counted on to provide most of the increased supply of ELS cotton to be available on the global market next marketing year. Weather notwithstanding, American Pima cotton production is again expected to reach about 600,000 bales in 1999. Despite disappointing yields and prices in 1998, Pima remains a viable crop alternative for cotton growers in the far western U.S., particularly in California. Growers in the San Joaquin Valley (of California) have accounted for 80% of total U.S. Pima production in the last two seasons, and that percentage is expected to increase. Planted acreage among the three traditional Pima-producing states – Arizona, New Mexico and Texas – will probably be reduced slightly, but the decreases will be offset by the increased planted Pima acreage in California. Being primarily an exporter, U.S. Pima producers typically react well to the signal of the world market, and 1999 should be no exception. Forward contract prices for Pima going into the new planting season are not expected to be any higher than the 95-cent to $1.00 range, but they compare well to the soft upland market. The price premium for Pima over upland is more in line with the traditional difference of about 40 – 50%, which will keep the shine on Pima in the San Joaquin Valley.

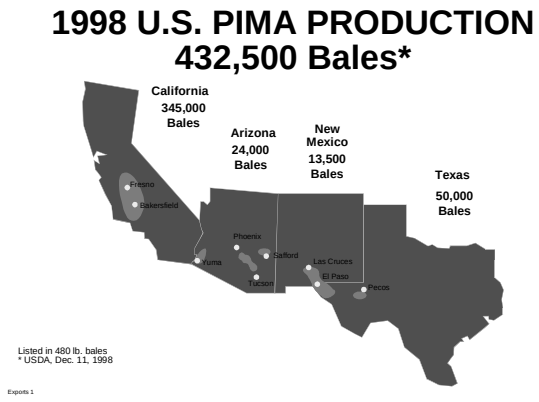
The larger question in the global ELS cotton picture in 1999 will again be focused in Egypt, where its government has made it clear it will no longer subsidize fiber prices for its producers. Egyptian cotton growers came into the 1998 season with about the same amount of planted acreage as the previous season, but that was before the government announced its intention of discontinuing the price subsidies. Increased exports and decreased yields have cut the country's ending stocks by more than 50%, and has all but eliminated the desired long staple varieties, particularly Giza 86. Overall planted acreage of Egyptian cotton may very well be reduced slightly in 1999, but planted acreage of Giza 86 may be increased. Nearly 300,000 (480-lb.) bales of Egypt's expected total export sales of 450,000 bales are long-staple Giza 86, which means the large majority of the country's ending stocks is composed of ELS cotton. Between demand for Giza 86 and American Pima cotton, it is emphatically clear that the world's fine count yarn spinners concentrate on the 60's to 80's count yarns, and not the super fine 100's and higher count yarns. Both the U.S. and Egypt recognize this development and are reacting accordingly. To Egypt's credit, its government has finally backed up promises to relinquish much of its control in the cotton marketing sector. After more than eight years of questionable maneuvering, the Egyptian government has demonstrated a willingness to allow its cotton growers and marketers to compete in earnest.

Supima Licensing Gains Momentum

Despite the immense pressure that Egypt has applied to ELS cotton spinners the past two seasons, American Pima producers have been able to successfully weather the storm. They have added two more Supima licensees in Japan in 1998, three more in Hong Kong, two in China, and one each in Taiwan, Italy, Bangladesh and India. And the U.S. Pima promotional organization has also added three new Supima licensees in the U.S. during the 1998 calendar year. (Successful licensing programs have been in place for years in Japan, Indonesia, South Korea and the U.S.) Textile mills and manufacturers who utilize the Supima trademark for promotional and advertising purposes must use 100% American Pima cotton in the textile and apparel products bearing the Supima brand. As consumer awareness of high quality fiber content increases, apparel and textile manufacturers and retailers are interested in identifying that content more aggressively. The Supima trademark facilitates that requirement.

Conclusions

The resilience demonstrated by the global fine count yarn industry during the 1998/99 marketing year is testimony to the fact that demand remains very strong. It also is clear that Egypt and the U.S. have rendered other long staple and extra-long staple cotton suppliers as minor players. The two major exporters are expected to account for 75% of the global long staple and ELS cotton exports between them during the 1998/99 season. Both countries have become more responsible to its customers' needs, and that behavior is being rewarded. Increased competition between the two major exporters is certain to benefit both the textile inry and consumers in the new millennium.



1998-99 U.S. PIMA CROP

	HARVESTED ACRES	YIELD	PRODUCTION
Arizona	15,000	768	24,000
Texas	37,000	649	50,000
New Mexico	10,500	617	13,500
California	184,000	900	345,000
	246,500	***842***	***432,500****

*USDA estimate, Dec. 11, 1998

Exports 2

U.S. PIMA SUPPLY & USE

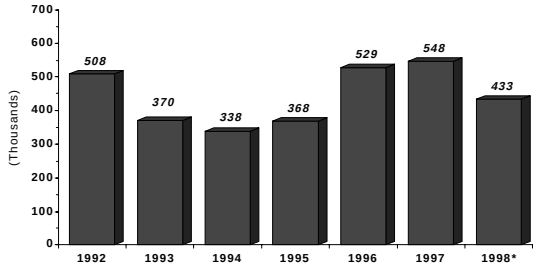
	Supply			Disappearance				
Year	Beg. Stocks	Prod.	Total	Mill Cons.	Exports	Total	Dif. Unac.	Ending Stocks	Stocks/Use Ratio
1989	66	692	758	76	452	528	-28	202	38%
1990	202	358	560	65	415	480	2	82	17%
1991	82	398	480	65	298	363	4	121	33%
1992	121	508	629	60	332	392	-31	206	52%
1993	206	370	576	72	307	379	30	227	60%
1994	227	338	567	89	424	513	8	62	12.1%
1995	62	368	438	109	300	409	37	66	16.1%
1996	66	529	595	106	466	572	28	51	8.9%
1997	51	548	599	115	440	555	20	65	11.7%
1998*	65	432	497	100	330	430	5	72	16.7%
1999*	72								

Listed in Thousand 480 lb. bales
* Source: USDA, Dec. 14, 1998

1994 supply includes 2,000 bales of ELS imports
1995 supply includes 8,000 bales of ELS imports

Exports 6

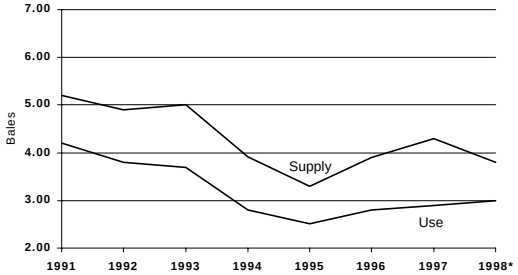
AMERICAN PIMA PRODUCTION
1992-1998



Listed in 480 lb. bales
*USDA, Dec. 11, 1998

Exports 3

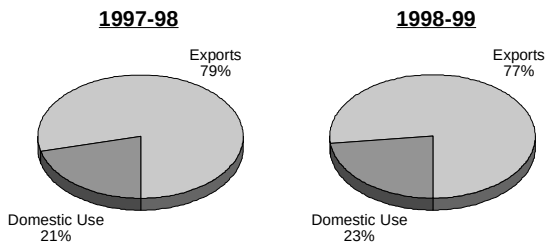
WORLD ELS SUPPLY/USE
1991-1998



Listed in million (480-lb) bales
*Estimate, ICAC, Nov. 18, 1998

Exports 7

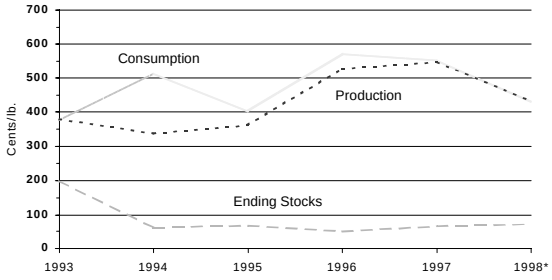
U.S. PIMA OFFTAKE



555,000 Bales ***430,000 Bales***

Exports 4

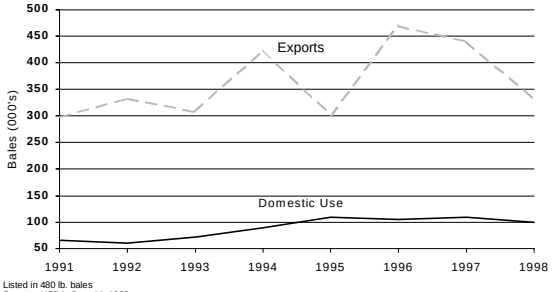
U.S. PIMA PRODUCTION, CONSUMPTION & STOCKS 1993-1998



Listed in 480 lb. bales
*USDA estimate, Dec. 14, 1998

Exports 8

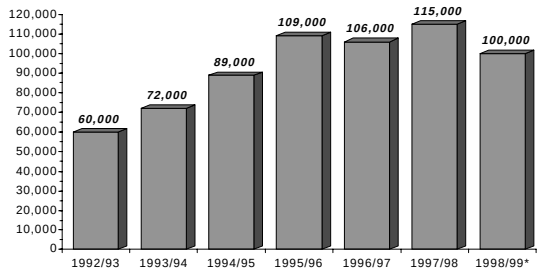
U.S. PIMA OFFTAKE 1991-1998



Listed in 480 lb. bales
Source - USDA, Dec. 14, 1998

Exports 5

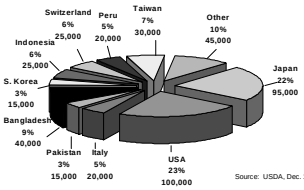
DOMESTIC CONSUMPTION
1992 - 1998



Listed in 480 lb. bales
*USDA estimate, Dec. 14, 1998

Exports 9

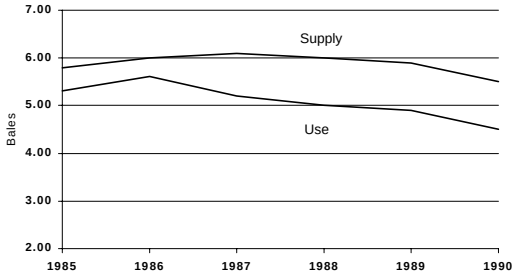
1998/99 WORLD CONSUMPTION
AMERICAN PIMA COTTON
430,000 Bales



Source: USDA, Dec. 13, 1998

Exports 12

WORLD ELS SUPPLY/USE
1985-1990



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

Exports 10

AMERICAN PIMA EXPORTS TO JAPAN & SOUTHEAST ASIA
1993/94- 1998/99

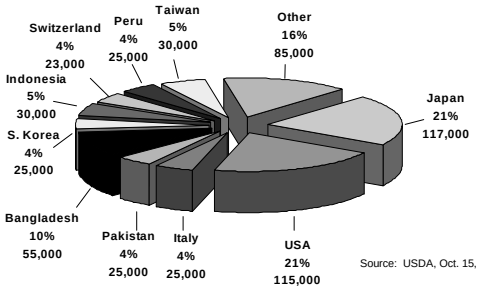
	93/94	94/95	95/96	96/97	97/98*	98/99*
Japan	105.7	107.2	91.9	110.9	113.6	66.0
Bangladesh	24.8	37.7	14.7	40.5	49.8	24.4
Indonesia	21.0	21.9	28.9	35.2	32.0	17.4
Pakistan	1.6	21.1	10.7	40.8	25.7	12.1
Taiwan	19.3	19.4	4.6	17.9	30.3	8.2
South Korea	29.6	25.9	23.1	40.0	25.5	5.3
India	.0	58.1	9.0	3.9	9.5	2.5
Thailand	5.6	6.6	6.0	9.2	5.1	2.2
China	--	--	--	31.7	8.2	.8
Other	2.7	5.7	3.6	3.7	10.8	2.6
Asia Totals	210.3	303.6	192.5	333.8	310.5*	141.5*

Source: U.S. Export Sales - Dec. 10, 1998

* Listed in running bales
Listed in Thousand 480 lb. bales for 1993-1996

Exports 13

1997/98 WORLD CONSUMPTION
AMERICAN PIMA COTTON
555,000 Bales



Source: USDA, Oct. 15, 1998

Exports 11

AMERICAN PIMA EXPORTS
1993/94- 1998/99

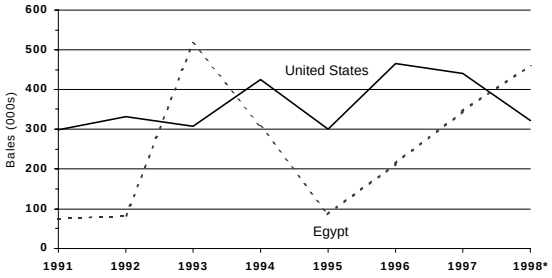
	93/94	94/95	95/96	96/97	97/98*	98/99*
Switzerland	20.0	24.0	25.9	24.1	23.9	26.4
Italy	7.9	21.1	29.7	34.7	26.5	14.5
Germany	24.3	23.9	22.8	19.6	13.1	10.1
Belgium	3.3	6.3	5.7	12.3	6.7	5.3
Other	11.2	15.8	13.2	17.7	10.5	.6
Europe Totals	66.7	91.1	97.3	108.4	80.7	56.9
Japan	105.7	107.2	91.9	110.9	113.6	66.0
Bangladesh	24.8	37.7	14.7	40.5	49.8	24.4
Other	79.8	158.7	85.9	182.4	147.1	51.1
Asia Totals	210.3	303.6	192.5	333.8	310.5	141.5
Rest of World	28.7	27.8	10.4	24.0	31.3	28.3
World Totals	305.7	423.8	300.2	466.2	422.5*	226.7*

Source: U.S. Export Sales - Dec. 10, 1998

* Listed in running bales
Listed in Thousand 480 lb. bales for 1993-1996

Exports 14

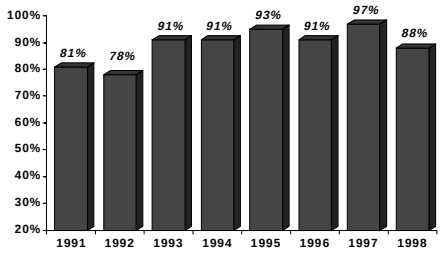
U.S. & EGYPTIAN ELS EXPORTS
1991-1998



Source: ICAC - Nov. 18, 1998
Listed in 480-lb. bales
*Estimate

Exports 15

HIGH GRADE PERCENTAGE OF U.S. PIMA QUALITY
1991-1998

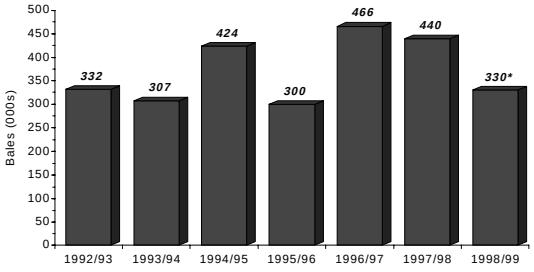


	1991	1992	1993	1994	1995	1996	1997	1998
Total Production*	398.4	508.3	370.0	338.0	367.6	528.5	548.0	432.5*

Production listed in thousand 480 lb. bales; High grades equal to grade 3 & better
*Source: USDA/AMS, Dec. 10, 1998 (194,501 bales classed)

Exports 19

AMERICAN PIMA EXPORTS
1992 - 1998



Listed in 480 lb. bales
*USDA Estimate, Dec. 14, 1998

Exports 16

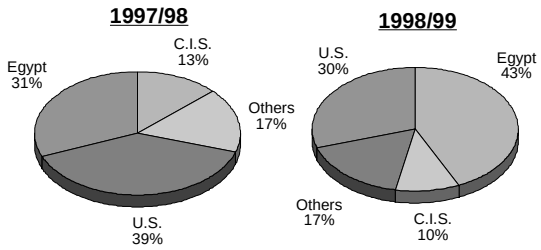
U.S. and Calif. Pima Production, 1990-98

	U.S. Production	California Production	California Production %
1990	358,500	57,400	16
1991	398,400	146,200	37
1992	507,900	293,700	58
1993	369,300	214,600	58
1994	337,700	184,800	55
1995	367,600	224,500	61
1996	528,500	375,000	71
1997	548,000	437,000	80
1998*	432,500	345,000	80

* USDA estimate, Dec. 11, 1998

Exports 20

GLOBAL ELS COTTON EXPORTS



Source: ICAC, Nov. 18, 1998
Others include Sudan, Australia and China

Exports 18

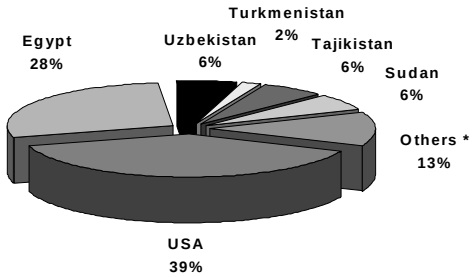
Pima Yields for San Joaquin Valley, 1990-98

Year	Pounds	% of Upland
1990	1080	90
1991	1097	87
1992	1282	94
1993	1132	84
1994	1098	92
1995	937	98
1996	1098	95
1997	1141	95
1998*	900	106
Average	**1085**	**93**

* USDA estimate, Dec. 11, 1998

Exports 21

ELS COTTON AVERAGE EXPORTS 1994-1998 998,000 Bales/Year Avg.

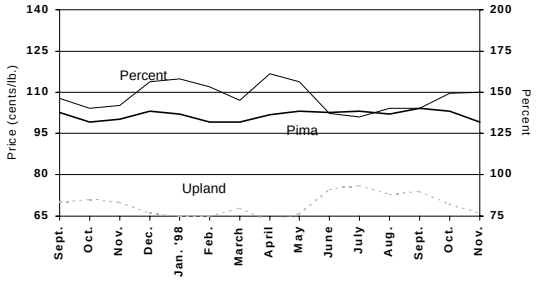


Source - ICAC, Nov. 18, 1998
*Others include Peru, Australia and Israel

Exports 17

U.S. UPLAND, PIMA PRICES & PERCENT OF UPLAND PRICE

September 1997 - November 1998



Exports 22

Pima prices are average of desert southwest and San Joaquin Valley
Upland prices are for desert southwest, 4134, leaf 4, and SJV
Both are grower spot prices in mixed lots, net weight

U.S. PIMA CROP VALUE 1991/92 - 1998/99*

Year	Production	Avg. Price	Crop Value
1991/92	385,200	97.0	184.7
1992/93	493,500	78.8	192.3
1993/94	356,900	87.0	154.4
1994/95	326,700	102.5	166.1
1995/96	354,700	122.8	216.4
1996/97	510,000	107.0	271.7
1997/98	531,200	101.4	266.7
1998/99	418,000	98.0	203.2

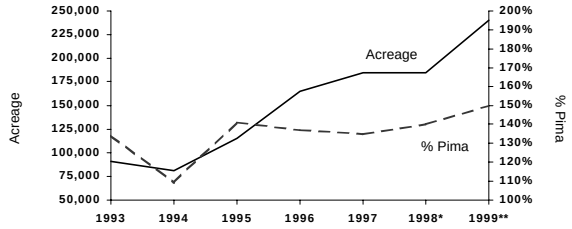
Production listed in running bales
Value listed in million dollars

Prices is cents/pound; average received by grower
*Estimate, USDA, Dec. 14, 1998

Exports 24

SJV PIMA COTTON ACREAGE & PRICE PREMIUM FOR PIMA TO UPLAND

1993-1999



1993-1997 prices are annual averages
*Based on contract price at planting time
**Supima Association estimate

Exports 23