

THE ECONOMIC OUTLOOK FOR COTTON

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Abstract

Competition in the World Fiber Market

U.S. cotton competes each day for its position in the world market against foreign growths and against other fibers. The factors influencing the choice to put cotton on spinning frames around the world range from highly refined measures of fiber quality, to consumer demands and the relative prices of competing fibers. In order for U.S. cotton to be chosen above other cottons or other fibers our cotton must demonstrate a competitive advantage in some arena. We must deliver higher quality fiber, or demonstrate that consumers want U.S. cotton in their cotton products and are willing to seek out these products, or that our prices are lower than competing fibers of equal quality.

Our industry has aggressive programs addressing fiber quality, consumer demand and competitive prices. In the next several years I believe we will find the value of these programs is far higher than we previously supposed. As established in this report, the challenges faced by cotton in the world fiber market are immense and the stakes are high.

Cotton Quality

Fiber quality is affected by breeding, agronomic practices, weather, gin processing, storage and economic incentives. For the next several days we will conduct a number of programs and sessions addressing cotton breeding, agronomic practices and gin processing. While our industry has made great strides in delivering ever-higher quality cotton many challenges and opportunities still lie ahead. Preserving or improving fiber quality is an endless challenge facing all segments of the production sector.

Some may want to argue that textile mills are never pleased or are insatiable when it comes to fiber quality. But we should keep in mind that technology continues to push the envelop for processing fiber, and cotton lint qualities must keep abreast of technological demands or watch markets fall away. Perhaps some ways of processing and ginning seed cotton, due to economic incentives, may reduce or impair fiber quality. The Council's Quality Task Force has the challenge of examining current procedures in measuring quality, in the marketing of cotton and in loan values to determine if changes in incentives can enhance the spinning value of U.S. cotton.

Consumer Demand

The demand for cotton textile and apparel products in the U.S. has benefited from the highly successful programs of Cotton Incorporated. U.S. consumers use more cotton per capita than any other country. Annually, the U.S. now accounts for 23.5% of the world's cotton consumed at the retail level. Cotton Incorporated continues its promotion activities on cotton's behalf in North America, and conducts research on cotton textile applications, fashions and consumer tastes.

The only other organized promotion of U.S. cotton and cotton products in foreign markets is conducted by the Council's Cotton Council International. With effective programs in Europe, Asia and across much of South America, Cotton Council International and its licensees generate \$50 million annually in advertising and promotion campaigns.

Competitive Pricing

U.S. cotton's competitive price position is achieved, in part, by the upland cotton marketing loan and Step 2 provisions. With the restoration of Step 2 in the October appropriations package, U.S. mill customers again see prices for their U.S. raw cotton supplies that are generally comparable to world prices. Since October 1999 raw cotton export sales registrations have pushed expectations for U.S. cotton exports in 1999/2000 back toward our long-term market share despite weak international demand for raw cotton.

Despite values on the New York Board of Trade that exceed world prices by five cents or more, U.S. cotton is selling in the world market. That 5-cent premium over the "A" Index puts 5 cents more in a grower's pocket. Without Step 2 our cotton would either have to be priced below world prices or we would be accumulating burdensome stocks due to uncompetitive prices.

Ultimately, for our industry to be growing and profitable, our cotton fiber has to work with the equipment and fashions that comprise the world's textile industry, it must be sought by consumers and priced to move in world markets. A closer look at the details of the world's fiber market is order.

World Fiber Market

Let's start with consumer textile fiber demand 10 years prior to 1999. In 1989, the world consumed an estimated 174 million bale equivalents of textile fiber. By 1999, textile fiber demand had jumped to an estimated 225 million bale equivalents. While fiber demand soared in this period, the increases were not uniform across either types of fiber or regions of the world.

In 1989, cotton held a 48% market share, the largest of any one fiber, and consumers worldwide purchased an estimated 83 million bale equivalents of cotton textiles and apparel.

Other fiber use, predominately man-made fibers and specifically polyester, accounted for 91 million bale equivalents. While textile fiber consumption rose by 51 million bale equivalents from 1989 to 1999, cotton purchases rose only 3 million bales to 86 million bale equivalents and cotton's market share declined to 39%. Other fiber use rose from 91 million bale equivalents to an estimated 139 million bale equivalents.

Who and where are the world's fiber consumers? This picture has changed as dramatically in ten short years as the types of fiber consumed. In 1989, the U.S., Europe and Japan accounted for 52% of all textile fiber purchased at the retail level. These data represent estimated consumer purchases of fiber in textiles and apparel, not country specific spinning activity. By 1999, the high income economies accounted for only 46% of textile fiber demand. While the most developed economies added 15 million bale equivalents to their purchases of textile fiber, the rest of the world was increasing textile fiber consumption by 36 million bale equivalents.

This change is not surprising given the already high per capita consumption of textile fiber in the high-income countries and the extraordinary income growth for most developing economies during the 90's. It should be expected that increases in fiber consumption would be largest where income growth is high and per capita consumption was initially low. However, the type of fiber which is consumed is critically important to us.

The US, Europe and Japan added 8 million bale equivalents to their cotton purchases over this period. Virtually all the increase is accounted for by the US. In 1989, cotton held a 38% market share in the high-income economies and market share rose to 40% by 1999. Purchases of other fiber rose 8 million bale equivalents since 1989.

The rest of world shows a substantially different picture in fiber use. Outside the high-income economies, cotton held a decidedly significant portion of textile fiber purchases in 1989 at 58%. These consumers used over 49 million bale equivalents of cotton in textiles and apparel in 1989. By 1999, cotton textile and apparel purchases declined 4 million bale equivalents to 45 million bales while other fiber use increased 40 million bales. Cotton's market share in the rest of the world fell to just 39% in 1999.

Cotton Competition

The U.S. competes in a worldwide market for cotton and cotton textiles. That competition is not just for exports but also sales to our domestic spinning industry. Our competitors include not only those countries that sell raw cotton but also countries that process cotton textile products and sell cotton textiles and apparel in the U.S. Just 10 years ago the U.S. imported the equivalent of only 4.9 million bales of cotton in

the form of cotton textiles and apparel. For calendar 1999, cotton textile imports will exceed 14 million bale equivalents. In 1999, we imported the equivalent of the entire U.S. upland and pima crop in 1998 in form of cotton textiles and apparel.

The U.S. constitutes the world's single largest retail market for textiles and apparel. The U.S. consumer continues to increase the quantity of cotton purchased at the retail level with the estimate for 1999 breaking the 20 million-bale mark.

Now lets put this U.S. picture in perspective given world cotton consumption. While the rest of the world reduced its own retail purchases of cotton textile products some 4 million bales, it was sending us 9 million more bale equivalents in cotton textile products. So, while the rest of world's cotton growers and cotton textile producers fail to suffer from the reduction in cotton purchasing in their own economies, the size of our cotton textile and apparel market soars and U.S. cotton textile manufacturers see imports take away business.

U.S. mill use of cotton has risen but the increases are not close to our annual consumption of cotton at the retail level. Recent use levels are somewhat below the quantities used in the mid-90's. The tremendous surge of textile and apparel imports in 1997 and 1998 as Asian currencies were heavily devalued is largely responsible for the recent reduction in U.S. mill use.

Fiber Competition

Most of us are painfully aware of the inroads in world market share obtained by man-made fiber over the course of the last 6 to 8 years. Polyester has been the single man-made fiber claiming market share in textile and apparel applications. If the annual rate of increase in polyester is maintained, within the next several years polyester may overtake cotton as the single dominant fiber.

Man-made fiber production capacity has increased at phenomenal rates across Asia. In 1990 the world had textile polyester production capacity of 43 million tons. It is estimated that Asia alone possessed 45 million tons capacity by the end of 1999. Despite extraordinarily weak prices in 1998 and 1999 for Asian polyester, plans for expanding capacity in the region have only slowed slightly.

Coinciding with the Asian economic crisis was a change in Chinese policy that drastically reduced Chinese imports of polyester. These two events combined to produce polyester staple prices in Asia as low as 25 cents per pound in 1998. Polyester prices have risen but today remain below the price of "A" type cotton in Europe and Asia. A troubling consideration is that the very recent increase in mill use witnessed in Asia is in part due to short staple cotton selling at prices below polyester. If world cotton prices rise over the

course of the next 12 months, will mills pay more for cotton or revert to polyester?

One last observation on fiber markets. It may well not be in our interest to simply pursue market share as a commodity fiber. Being a commodity fiber implies being the low cost fiber to increase market share. If our fiber is higher quality, with contract sanctity and just in time delivery then premiums should accrue. Measuring our success only in light of market share may be misleading.

Conclusion

Just like there appears to be cycles in commodity prices there appear to be life cycles to fiber use and fashions. The trends in fiber consumption of the last several years may imply something about future market conditions but the future is not immutable or cast in stone. Let's return to the three main factors determining fiber selection: fiber quality, consumer demand and competitive pricing.

Our efforts to improve our cotton and its delivery systems through programs such as the Beltwide Cotton Conferences give us advantages envied by our cotton producing competitors. Maintaining our position as the preeminent producer and supplier of quality fiber will not be easy but will be essential. Continuing support for our demand enhancing programs in Cotton Incorporated and Cotton Council International will be crucial to uncovering opportunities for improving cotton's economic position in the fiber market of the years ahead. Lastly, in a world market replete with subsidies that impact virtually every stage of cotton production and textile processing, we will also need a government partner to realize competitive prices and protect our infrastructure in markets such as the type we are now experiencing. Our hallmark of industry unity will once again serve the interests of U.S. cotton as we seek to find strategies for solutions in new century.