Cotton Producers Facing Increasing Economic Pressures

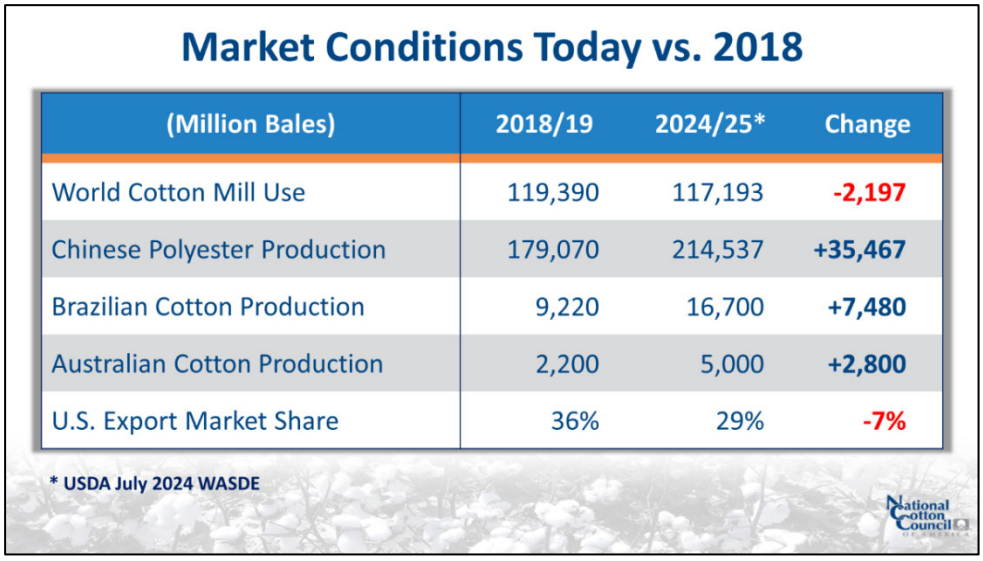
National Cotton Council

Since implementation of the 2018 Farm Bill, developments in global fiber markets are placing mounting economic pressure on cotton producers. Cotton demand is struggling due to increased competition from manmade fibers, while simultaneously, consumers are faced with diminished spending power due to strong post-pandemic inflation. According to USDA's World Agricultural Supply and Demand Estimates (WASDE)[1] released in July 2024, world consumption for 2024/25 marketing year is expected to total 117.2 million bales, which is 2.2 million bales lower than world demand in the 2018/19 marketing year (Figure 1).

While cotton consumption struggles to regain pre-pandemic levels, China continues to increase polyester production, up 35.5 million bales[2] since 2018. Currently, polyester production in China is almost twice the size of the world cotton market.

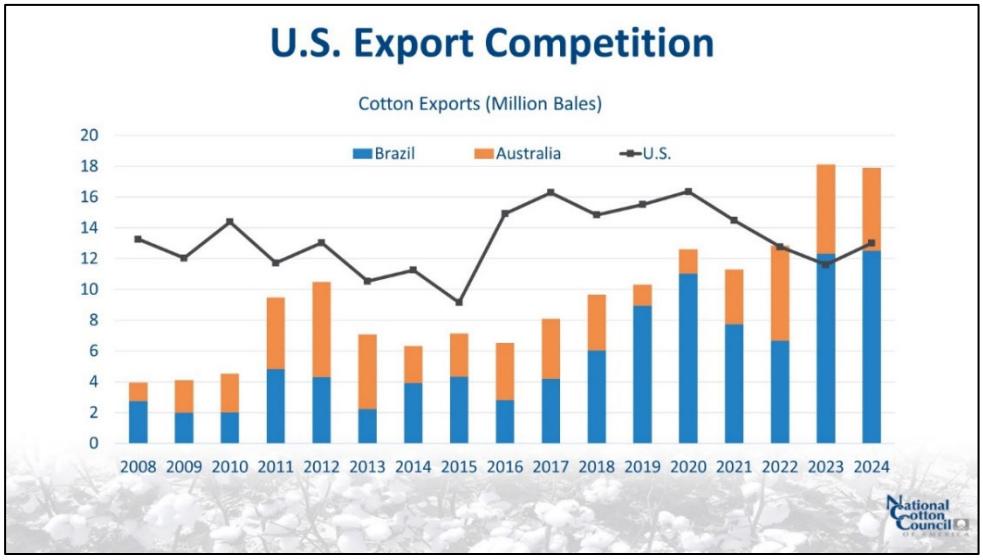
U.S. cotton not only faces increased competition from manmade fiber production, but increased cotton production in Brazil and Australia has allowed the two countries to grow their position in world cotton trade. Brazil is projected to produce 16.7 million bales in 2024, up more than 7 million bales since 2018 (Figure 1). Over that same period, Australian production has more than doubled. Collectively, the two countries are exporting 18 million bales, which is more than double their trade level from a decade ago (Figure 2). As a result, the United States has experienced a loss in global trade share, down from 36% to 29% over the life of the current farm bill (Figure 1). In light of the dynamics at play in the global market, cotton prices have been pushed to their lowest level since demand was effectively halted during the early weeks of the COVID pandemic.

Figure 1.



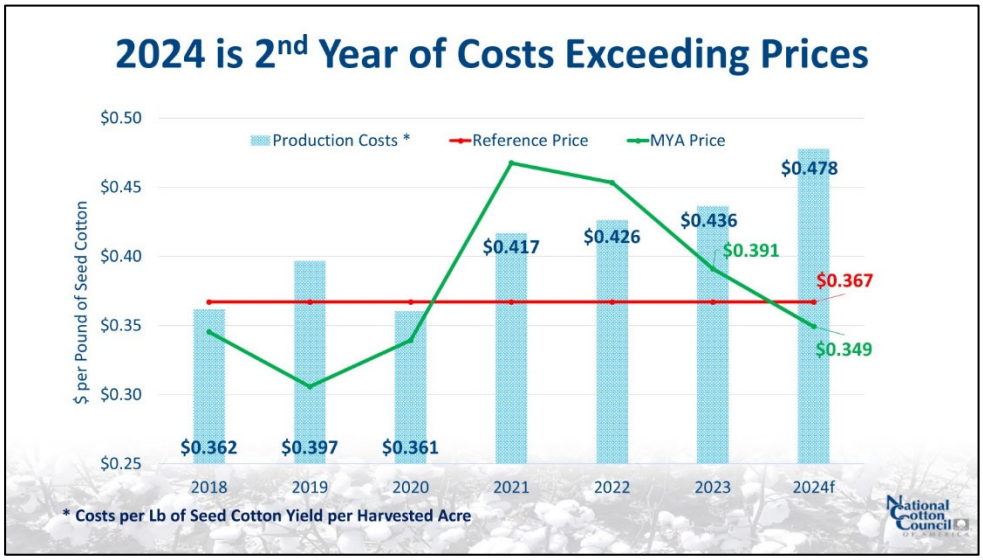
[1] https://www.usda.gov/oce/commodity/wasde
[2] https://www.woodmac.com/

Figure 2.



As market prices have weakened, production costs for cotton have increased significantly over the life of the farm bill. USDA's Economic Research Service estimates total production costs of $902 per acre for 2024[3], up $193 per acre since 2018. To compare to the seed cotton support levels in the 2018 Farm Bill, total per-acre costs are divided by the seed cotton yield per harvested acre (Figure 3). The seed cotton yield is the total pounds of cotton lint and cottonseed from a harvested acre averaged across all cotton acres in the United States. For example, 2023 costs per pound of seed cotton of $0.436 is calculated as total costs of $883 divided by a seed cotton yield of 2,023 pounds, which is composed of 895 pounds of lint[4] and 1,128 pounds of cottonseed.

Figure 3.



[3] https://www.ers.usda.gov/data-products/commodity-costs-and-returns/
[4] https://www.usda.gov/oce/commodity/wasde

Based on USDA's projected cotton lint yield of 836 pounds (and the associated cottonseed yield of 1,053 pounds), per-pound costs are estimated to increase to $0.478, which represents an increase of more than 11 cents since 2018. Current production costs are well above both the seed cotton statutory reference price of $0.367 and the seed cotton market year average (MYA) price.

Seed cotton prices reflect the weighted average of the lint price and the cottonseed price. The projected price for the 2024 marketing year of $0.349 is based on USDA's July 2024 price forecasts of $0.68 cents per pound for cotton lint and $0.1025 per pound for cottonseed. Weights applied to the lint and seed prices of 0.4273 and 0.5727, respectively, represent each product's share of total pounds from a harvested acre.

Although production costs began to increase in 2021 and 2022, strong market prices allowed producers to be profitable during those years. However, costs continued to increase in 2023 as prices declined, leading to significant financial shortfalls unless producers were fortunate to have yields exceed average levels. For 2024, the financial situation has worsened as costs and prices are moving in opposite directions. Based on USDA's average yield projections, per-pound costs will be at an all-time high, greatly exceeding both market prices and the farm bill safety net.

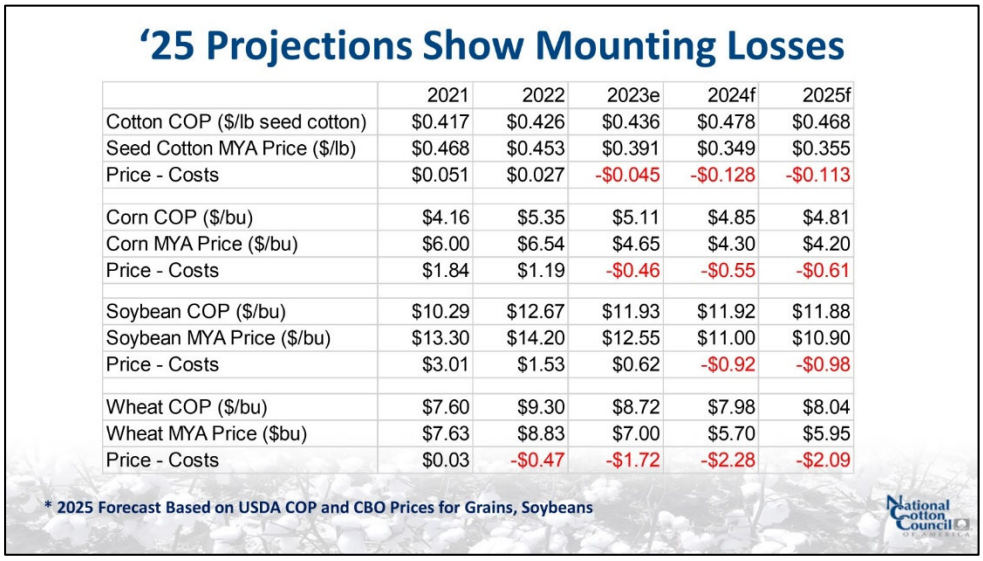
Most cotton farms are diversified operations that also produce other crops based on agronomic conditions and rotational considerations. That diversity allows growers to adjust their crop mix as economic signals dictate, moving to crops with a better economic return. Diversified operations are typically in a better position to weather short-term downturns in one crop by shifting to other planting options. Unfortunately, most major crops are experiencing lower prices and elevated production costs (Figure 4).

Based on USDA's production costs and market prices, corn, soybeans, and wheat are entering a year of economic losses. In the case of corn, per-bushel costs are estimated at $4.85, based on per-acre costs of $878[5] and an average yield of 181 bushels[6]. USDA currently projects a MYA price of $4.30 per bushel, leaving a deficit of $0.55. Similar calculations for soybeans and wheat yield the same outcome of prices not covering production costs. Unfortunately, cost projections by USDA and price forecasts by the Congressional Budget Office (CBO) paint an equally bleak picture for 2025.

Across the Cotton Belt, many farms suffered losses in 2023, and they were only able to secure 2024 production financing through either liquidating a portion of their assets or seeking financing from non-traditional sources. Now, these family farming operations are facing a second year of economic losses, and the prospects for 2025 provide little hope of a recovery. For some families, continuing to operate a farm that has been in their family for generations may be an unattainable dream without economic assistance from Washington.

[5] https://www.ers.usda.gov/data-products/commodity-costs-and-returns/
[6] https://www.usda.gov/oce/commodity/wasde

Figure 4.



'25 Projections Show Mounting Losses

	2021	2022	2023e	2024f	2025f
Cotton COP ($/lb seed cotton)	$0.417	$0.426	$0.436	$0.478	$0.468
Seed Cotton MYA Price ($/lb)	$0.468	$0.453	$0.391	$0.349	$0.355
Price - Costs	$0.051	$0.027	-$0.045	-$0.128	-$0.113
Corn COP ($/bu)	$4.16	$5.35	$5.11	$4.85	$4.81
Corn MYA Price ($/bu)	$6.00	$6.54	$4.65	$4.30	$4.20
Price - Costs	$1.84	$1.19	-$0.46	-$0.55	-$0.61
Soybean COP ($/bu)	$10.29	$12.67	$11.93	$11.92	$11.88
Soybean MYA Price ($/bu)	$13.30	$14.20	$12.55	$11.00	$10.90
Price - Costs	$3.01	$1.53	$0.62	-$0.92	-$0.98
Wheat COP ($/bu)	$7.60	$9.30	$8.72	$7.98	$8.04
Wheat MYA Price ($bu)	$7.63	$8.83	$7.00	$5.70	$5.95
Price - Costs	$0.03	-$0.47	-$1.72	-$2.28	-$2.09

* 2025 Forecast Based on USDA COP and CBO Prices for Grains, Soybeans