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United States Department of Agriculture

# The World and U.S. Cotton Outlook for 2016/17

Interagency Commodity Estimates Committee

Presented by  
Leslie A. Meyer

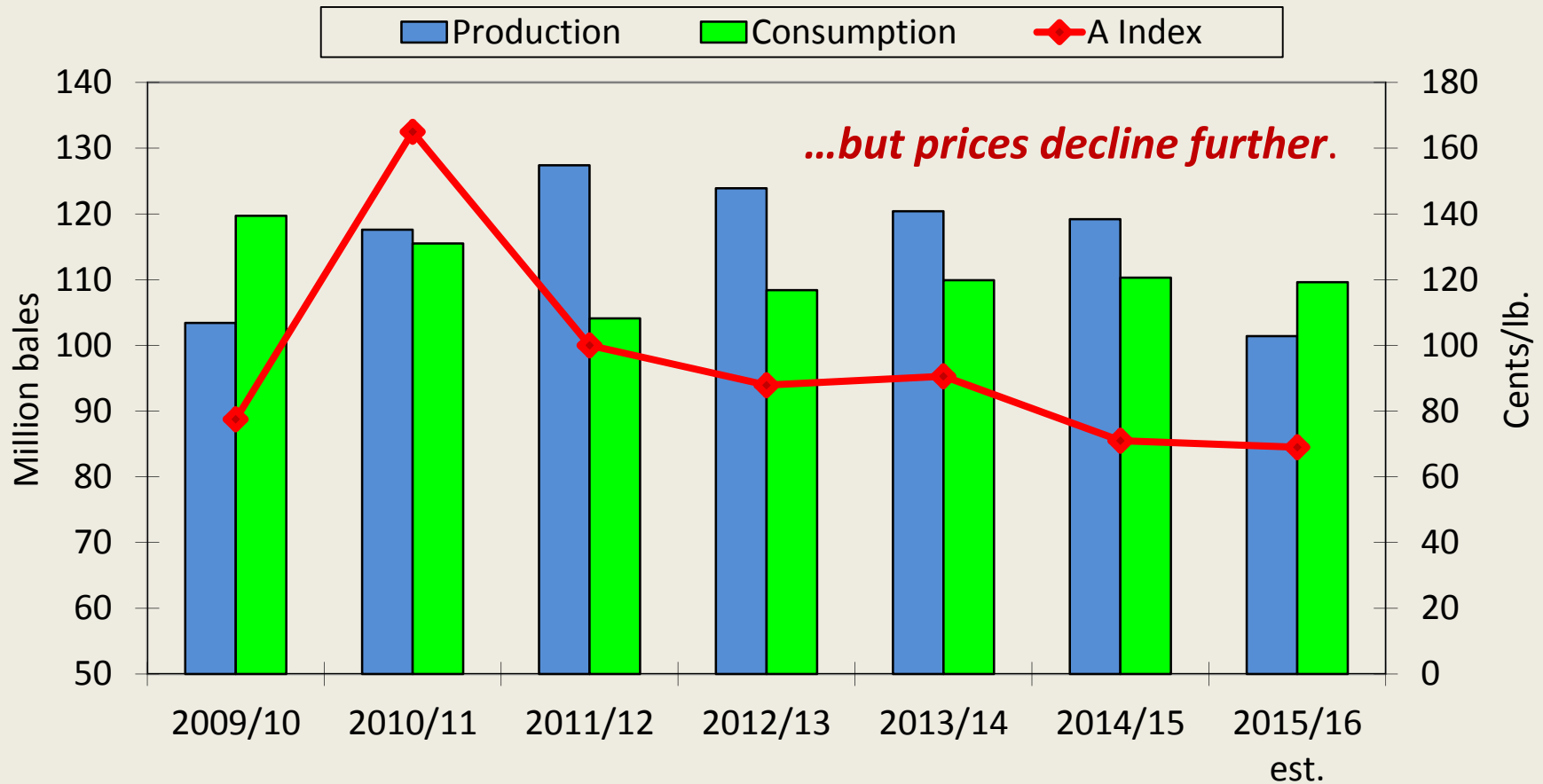
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Agricultural Outlook Forum  
February 26, 2016

**Economic Research Service**  
*www.ers.usda.gov*



# World Cotton Consumption Exceeds Production for the First Time in 6 Years...

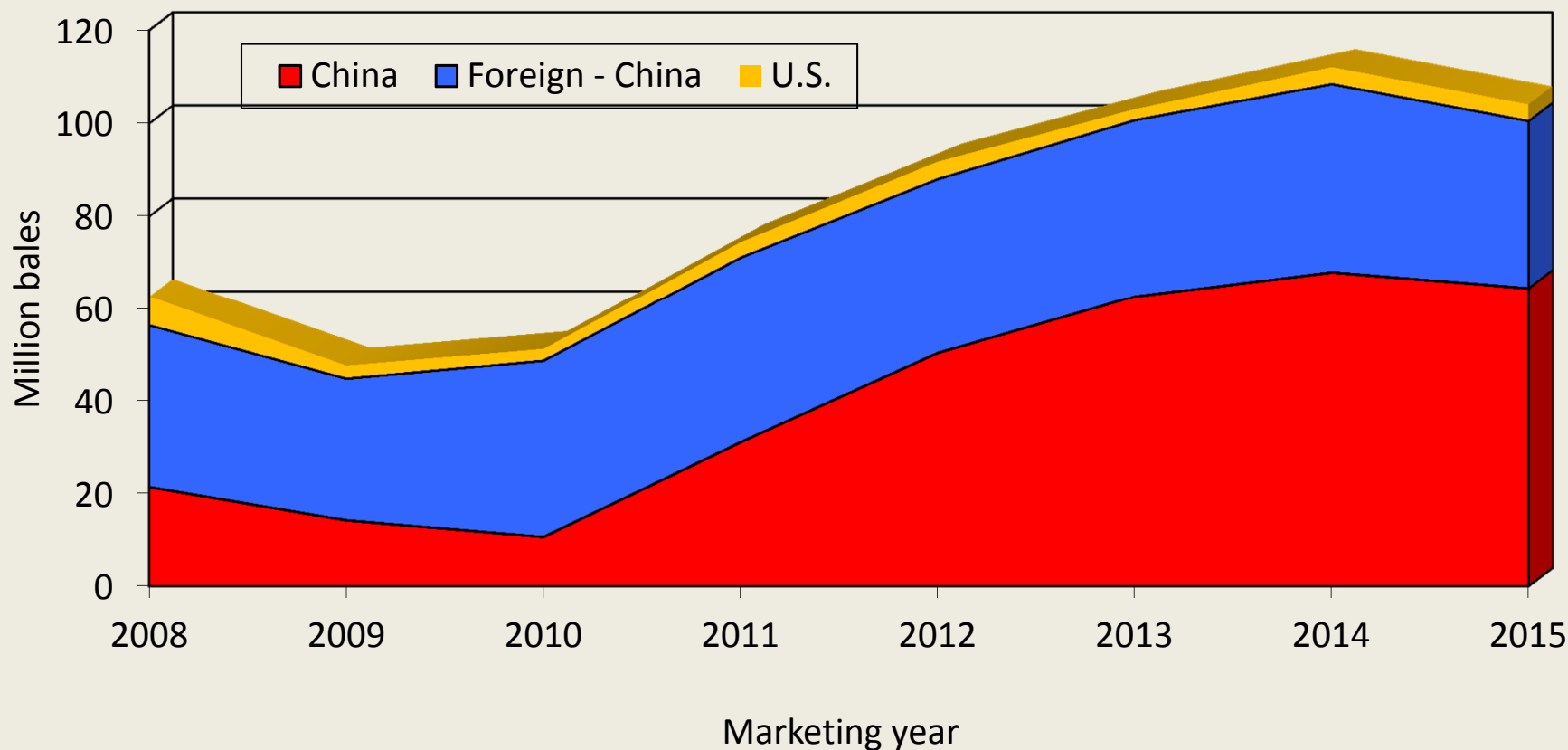


Sources: USDA, Interagency Commodity Estimates Committee and Cotlook.



# Global Cotton Stocks Decline From Record...

*...but supplies represent nearly a year's worth of consumption.*



Source: USDA, Interagency Commodity Estimates Committee.

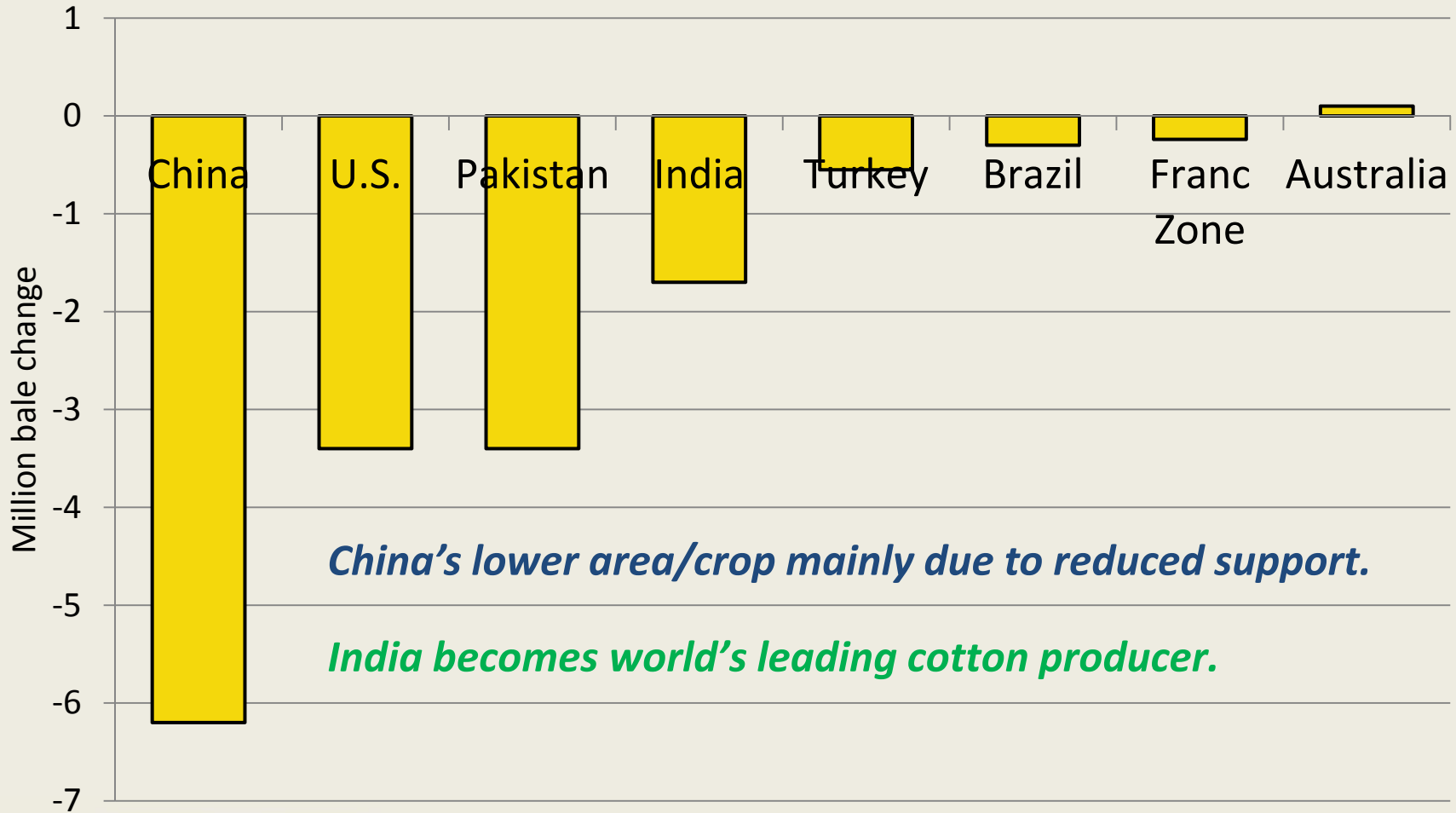


# 2015/16 World Cotton Situation



# Global Production Experienced Declines in 2015/16

*Weather played key role in crop shortfall*



Source: USDA, Interagency Commodity Estimates Committee.



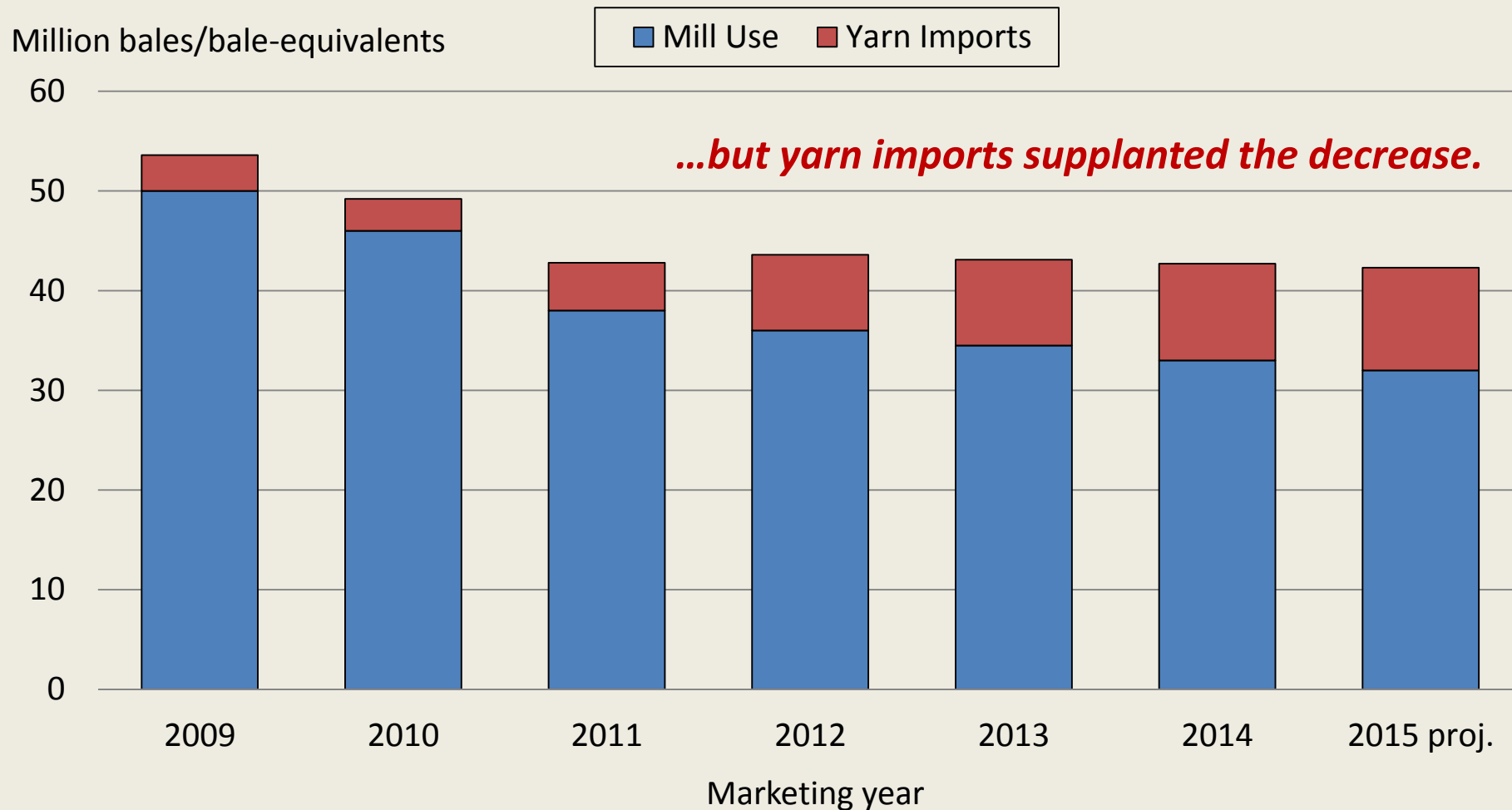
# World Consumption Decrease Expected in 2015/16

***Cotton consumption estimated at 109.6 million bales.***

- Equal to the 5-year average despite lowest prices in 7 years.
  - Declines expected in China and Pakistan.
  - Increases expected in Bangladesh and Vietnam.
  - India, Turkey, and the United States are unchanged.
- Macroeconomic uncertainties constraining retail growth.
- Polyester prices have fallen further than cotton, increasing its price competitiveness.



# China's Cotton Mill Use Declines...



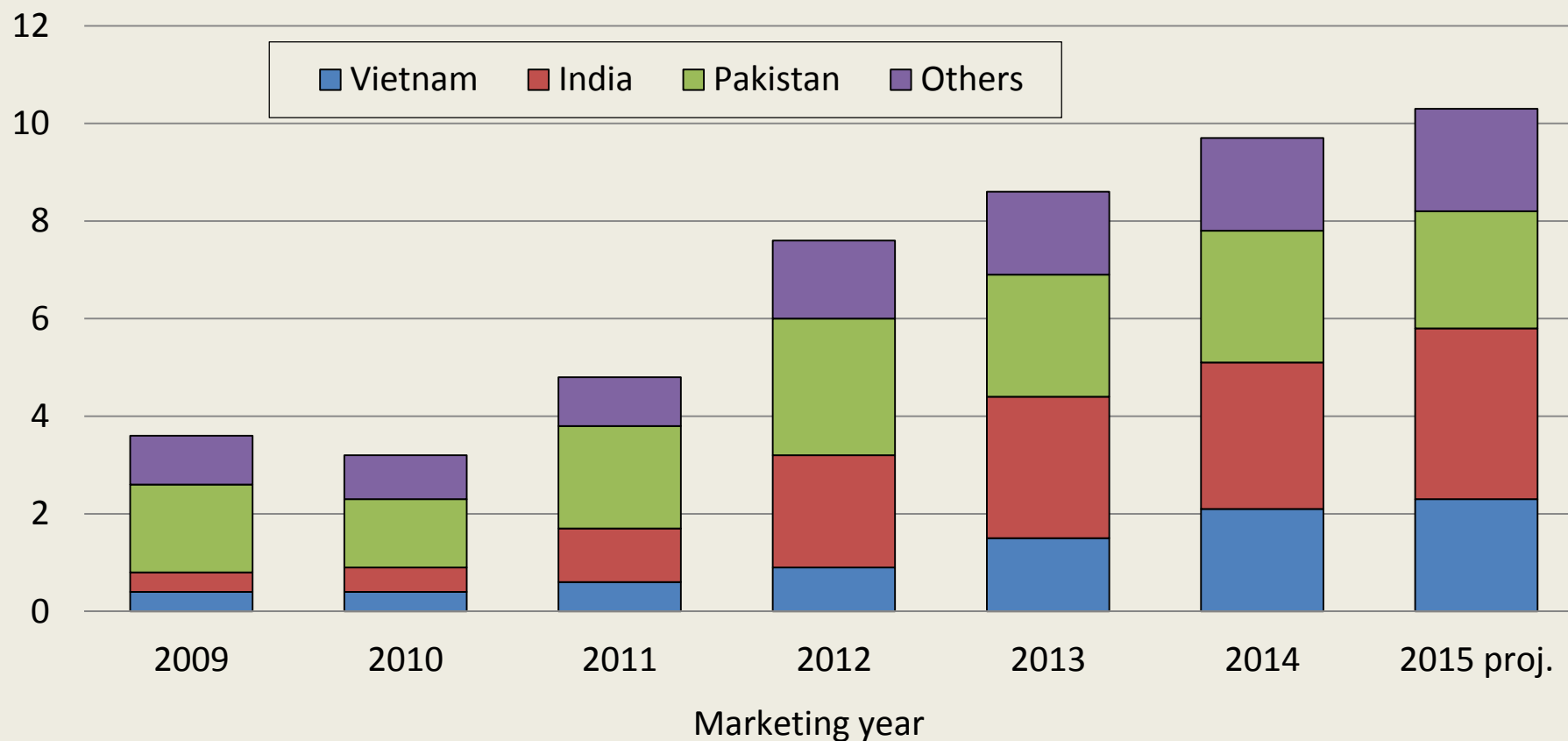
Sources: USDA and Global Trade Atlas.





# China's Cotton Yarn Import Expansion: *Leading suppliers include India, Pakistan, and Vietnam*

Million bale-equivalents



Sources: USDA and Global Trade Atlas.

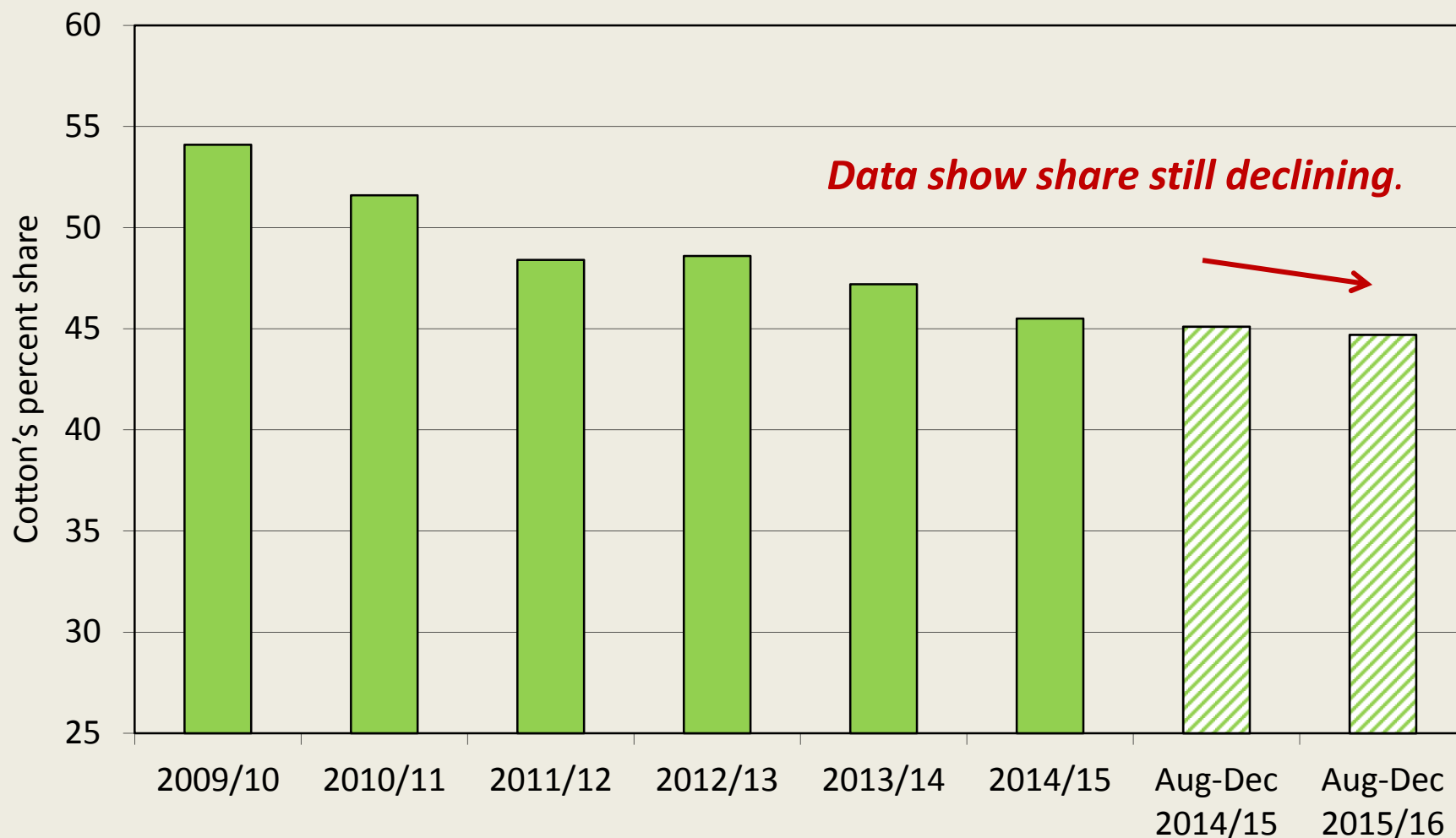


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# Cotton Loses Share to Manmade Fibers

(U.S. product imports, raw fiber-equivalent basis)



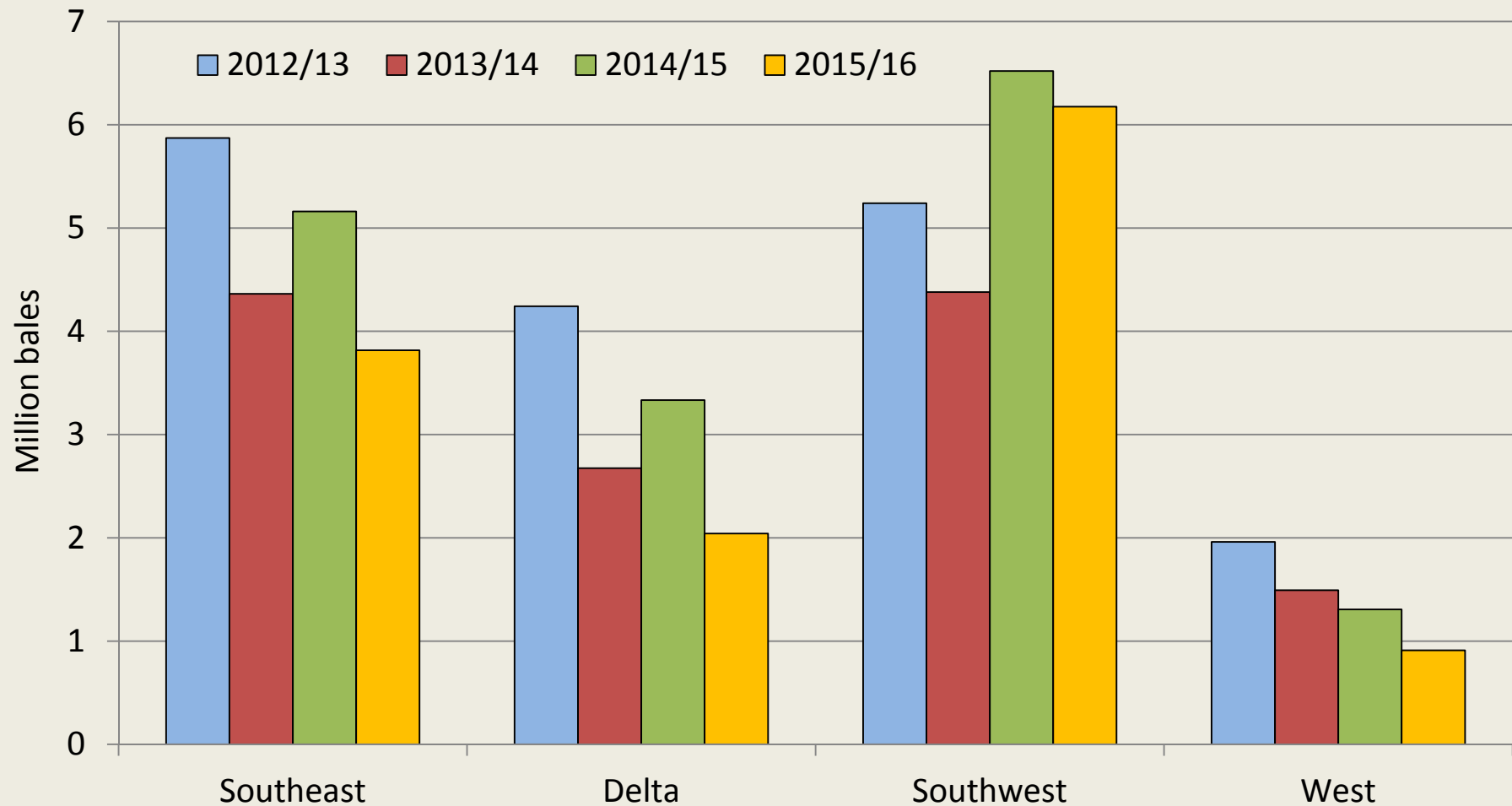
Sources: USDA, Economic Research Service and U.S. Census Bureau.



# 2015/16 U.S. Cotton Situation



# U.S. Production Declines in Each Region: *Total planted area smallest since 1983*



Source: USDA, National Agricultural Statistics Service.



# U.S. Cotton Supply & Demand Estimates:

*Production and Exports Significantly Lower; Stocks Down Slightly*

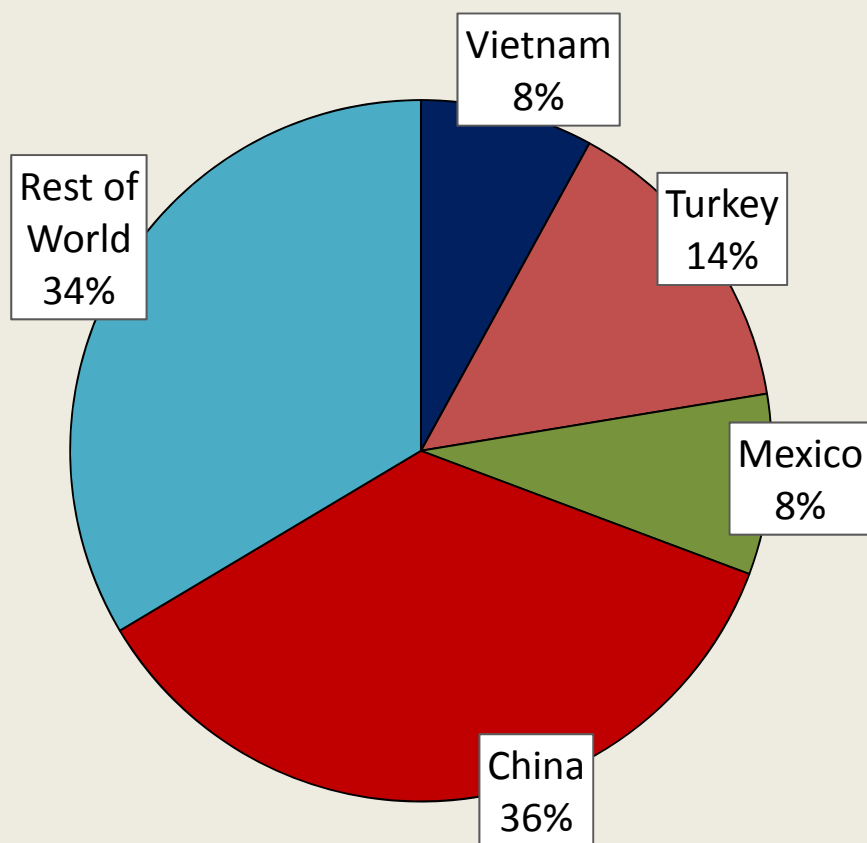
	Unit	2014/15	2015/16	Change (%)
Beg. stocks	Mil. bales	2.4	3.7	54.2
Production	"	<b>16.3</b>	<b>12.9</b>	<b>-20.9</b>
Imports	"	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total supply	"	18.7	16.7	-10.7
Mill use	"	3.6	3.6	0.0
Exports	"	<b><u>11.2</u></b>	<b><u>9.5</u></b>	<b><u>-15.2</u></b>
Total demand	"	14.8	13.1	-11.5
Ending stocks	"	<b>3.7</b>	<b>3.6</b>	<b>-2.7</b>
Stocks-to-use	%	25.0	27.5	10.0
Farm price	Cents/lb.	61.3	59.5	-2.9

Source: USDA, Interagency Commodity Estimates Committee.

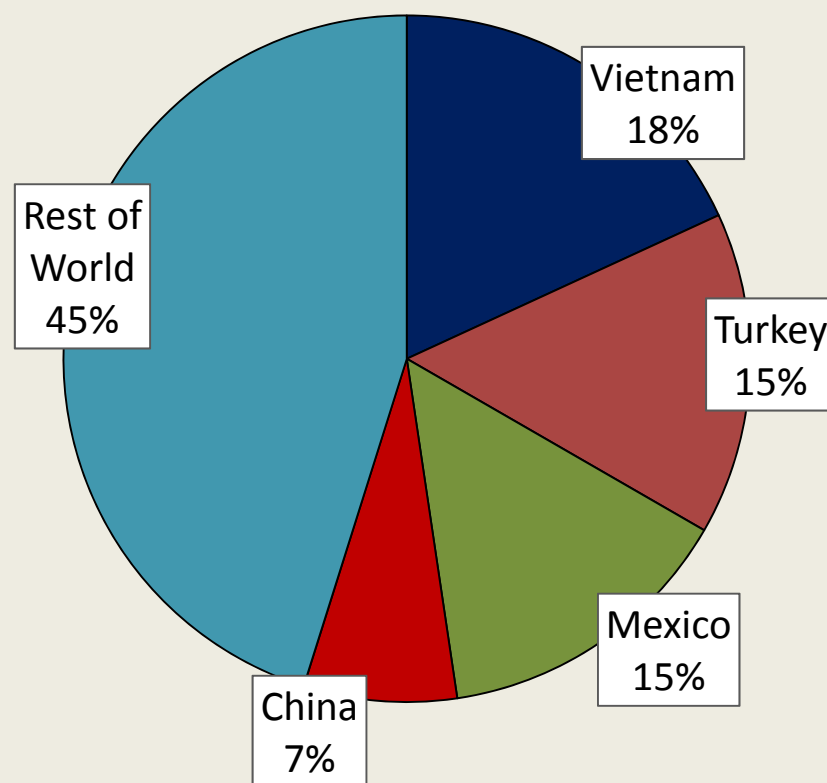


# U.S. Cotton Export Share by Country

2010/11-2014/15 Average



Aug-Jan 2015/16



# 2016/17 World Cotton Outlook

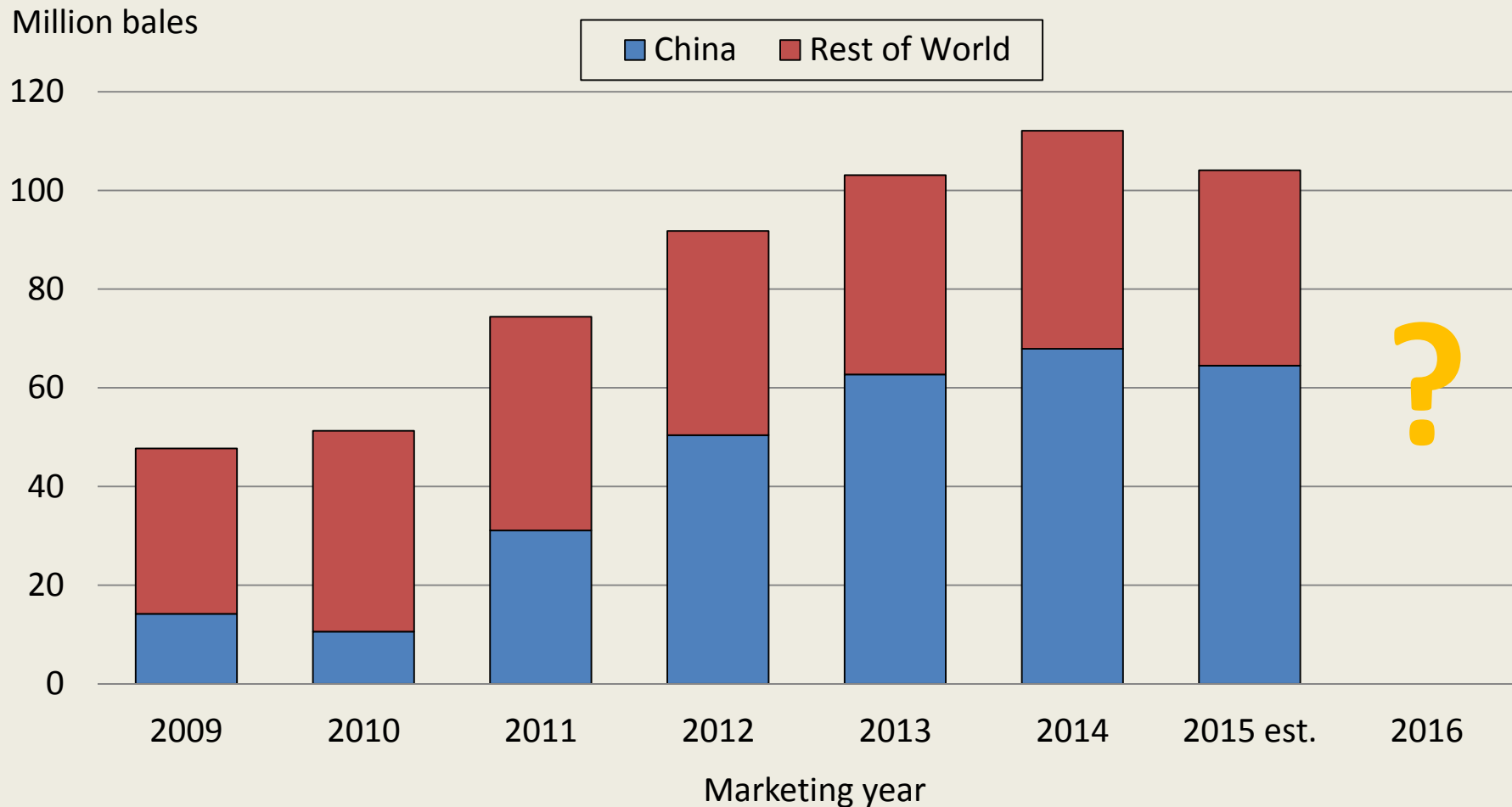


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# Cotton's Global Supply Problem:

*China accounts for over 60% of world stocks*



Source: USDA, Interagency Commodity Estimates Committee.

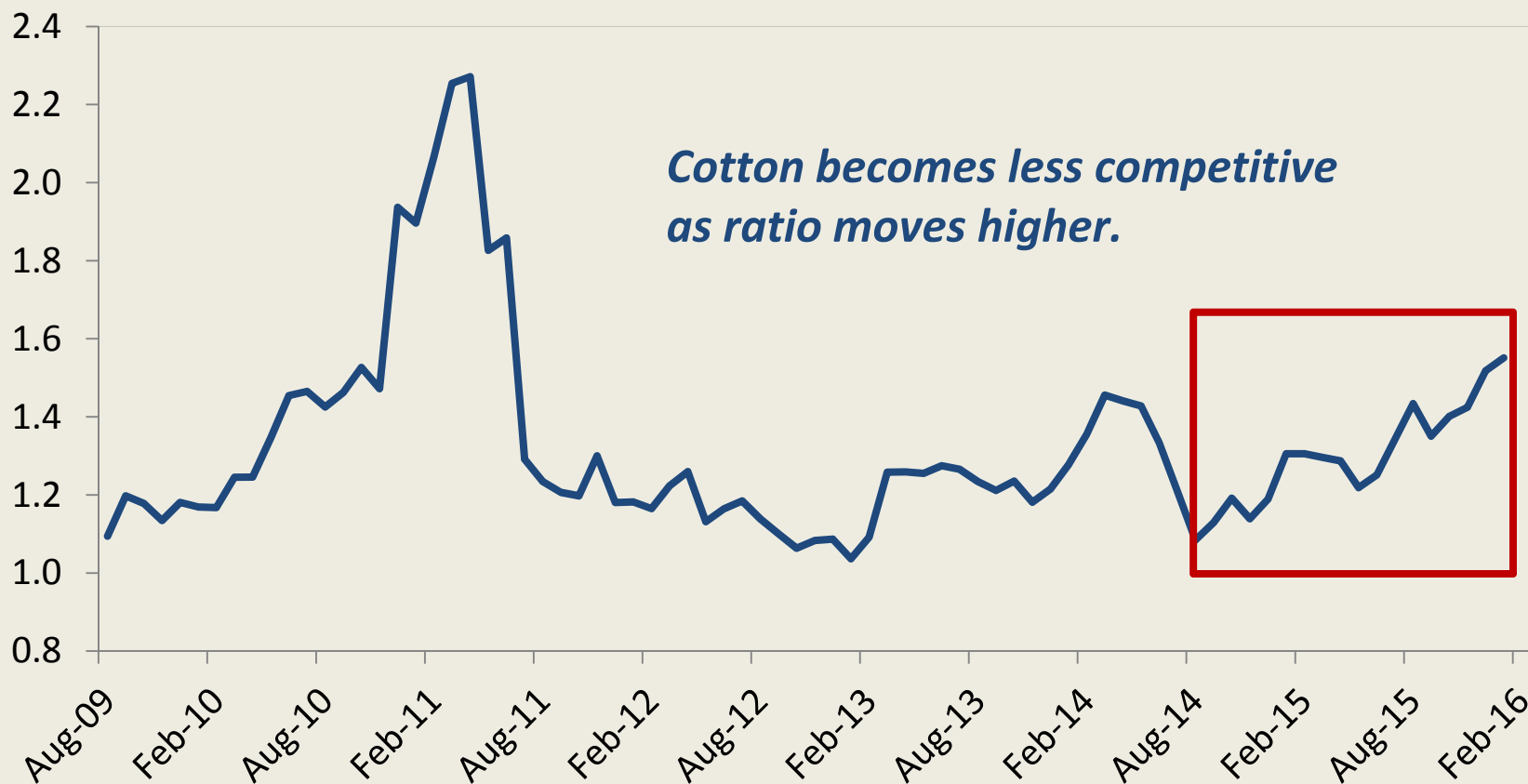




# Cotton's Global Demand Problem:

*Cotton share in fiber products declining*

Cotton/polyester price ratio



Sources: cncotton.com (polyester) and Cotlook (cotton, A Index).



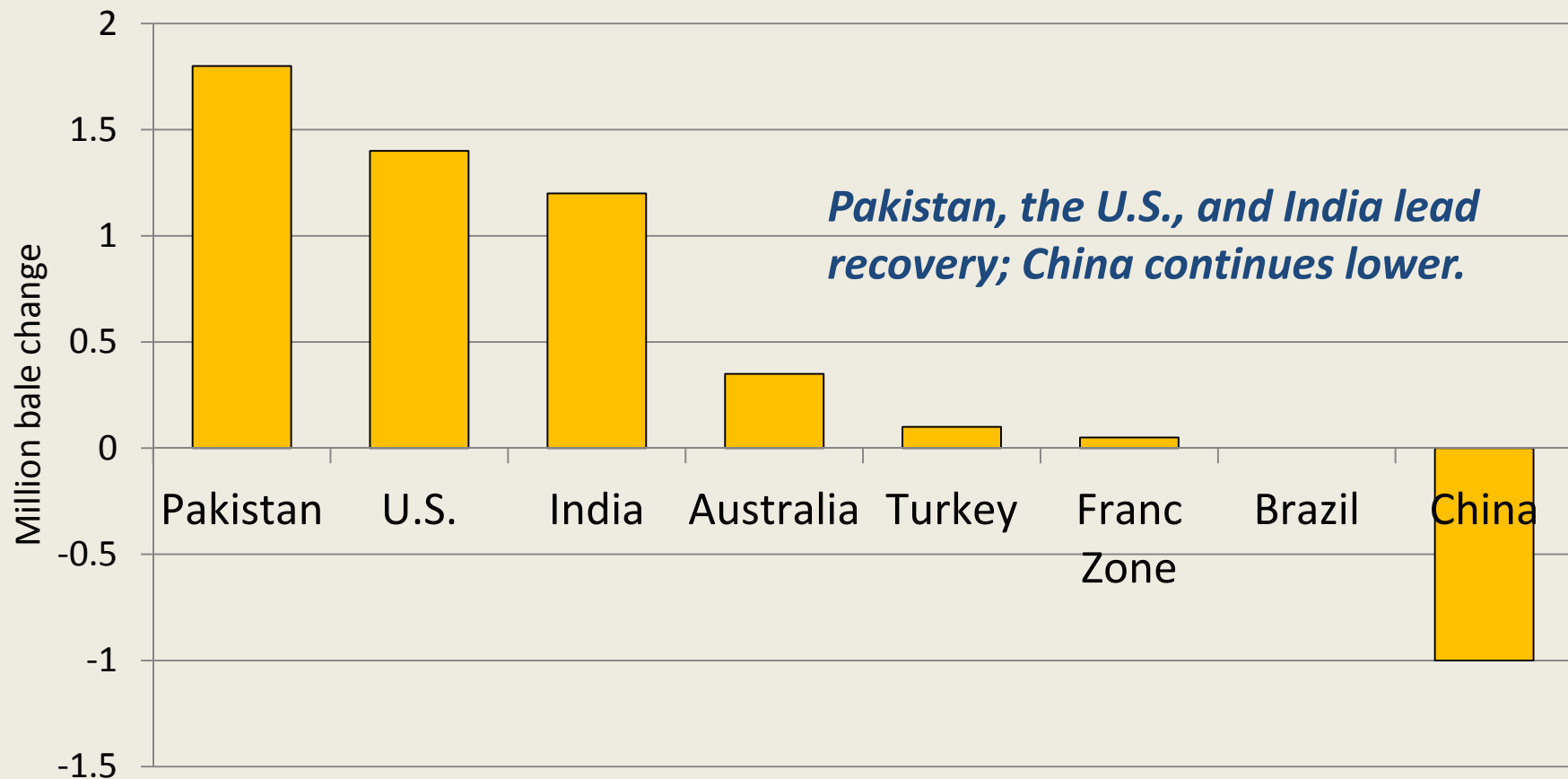
# Key Assumptions for USDA's 2016/17 Forecast

- World economic growth improves in calendar 2016 & 2017, aiding cotton consumption prospects.
- China continues policies discouraging production and limiting imports to reduce surplus stocks, with reserve sales higher.
- Normal weather and growing conditions provide modest rebound in global production.
- World and U.S. cotton prices decline slightly.



# Global Production Projected Higher in 2016/17

*Yield rebound largely behind production growth*



Source: USDA, Interagency Commodity Estimates Committee.



# World Cotton Consumption Growth Limited in 2016/17

- Global consumption projected at 110.5 M bales.
  - Modest growth (< 1%) based on global GDP increase.
  - Polyester price competition remains strong.
- China consumption to grow 1 M bales.
  - Increased access to reserve stocks.
  - Expansion of Xinjiang spinning.
- Consumption outside China: No-net growth projected.
  - Vietnam and Bangladesh continue expansion.
  - India and U.S. remain flat while others decline.
- Cotton's share of world fiber market continues to decline.



# World Cotton Supply & Demand Projections:

***Consumption Exceeds Production; Stocks Reduced Further***

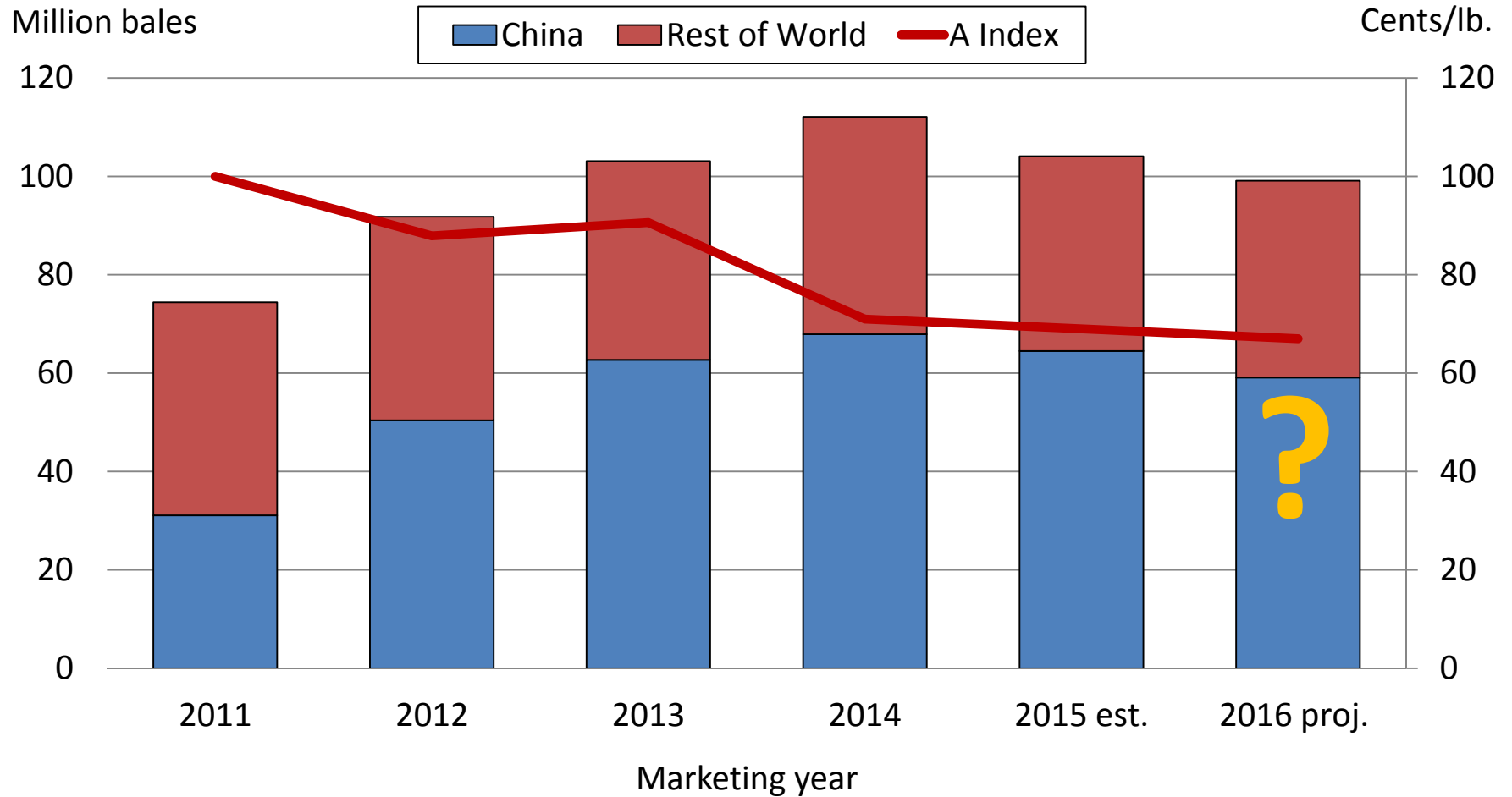
	Unit	2015/16	2016/17	Change (%)
Beg. stocks	Mil. bales	112.2	104.1	-7.2
Production	"	101.4	<b>105.5</b>	4.1
Imports	"	<u>35.0</u>	<u>35.0</u>	<u>0.0</u>
Total supply	"	248.5	244.6	-1.5
Consumption	"	109.6	<b>110.5</b>	0.8
Exports	"	<u>35.0</u>	<u>35.0</u>	<u>0.0</u>
Total demand	"	144.6	145.5	0.6
Ending stocks	"	104.1	<b>99.1</b>	-4.8
Stocks-to-consumption	%	95.0	89.7	-5.6

Source: USDA, Interagency Commodity Estimates Committee.



# Global Cotton Stocks Projected Lower...

*...but world prices also decline.*



Source: USDA, Interagency Commodity Estimates Committee.

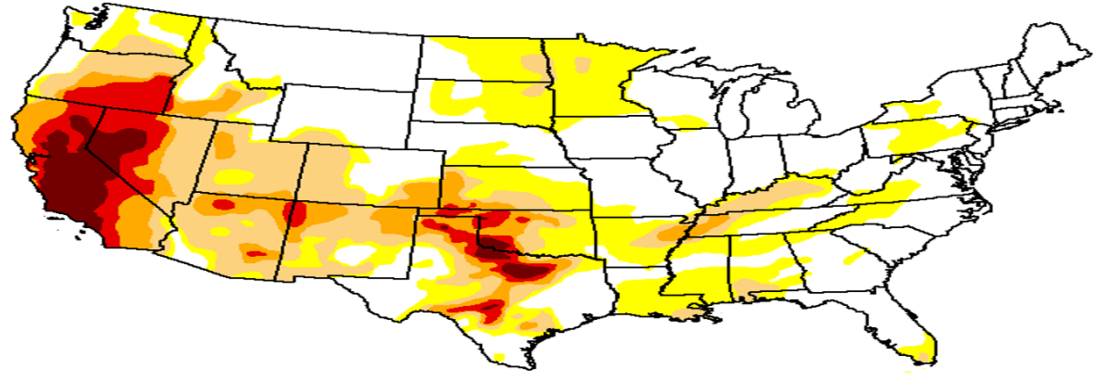


# 2016/17 U.S. Cotton Outlook



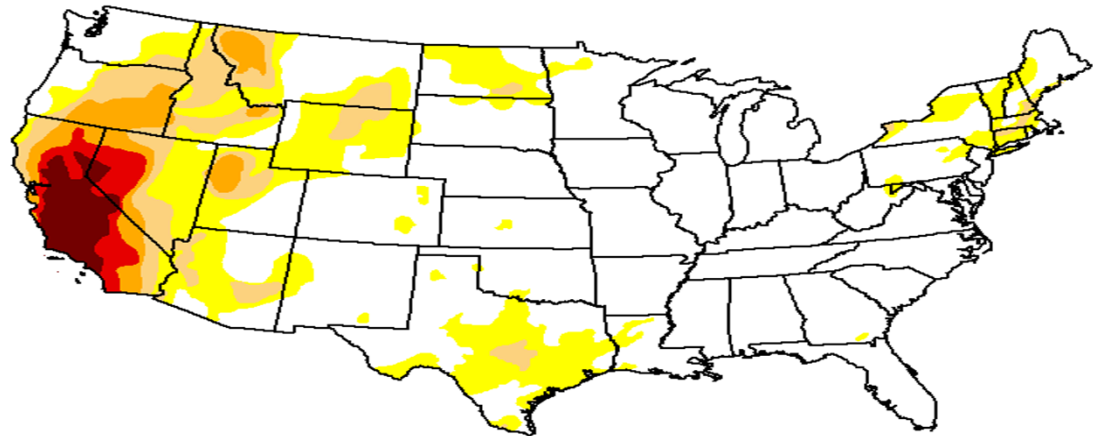
# Drought Monitor Shows Improvement in 2016...

February 17, 2015



*... but dry conditions developing in Texas.*

February 16, 2016



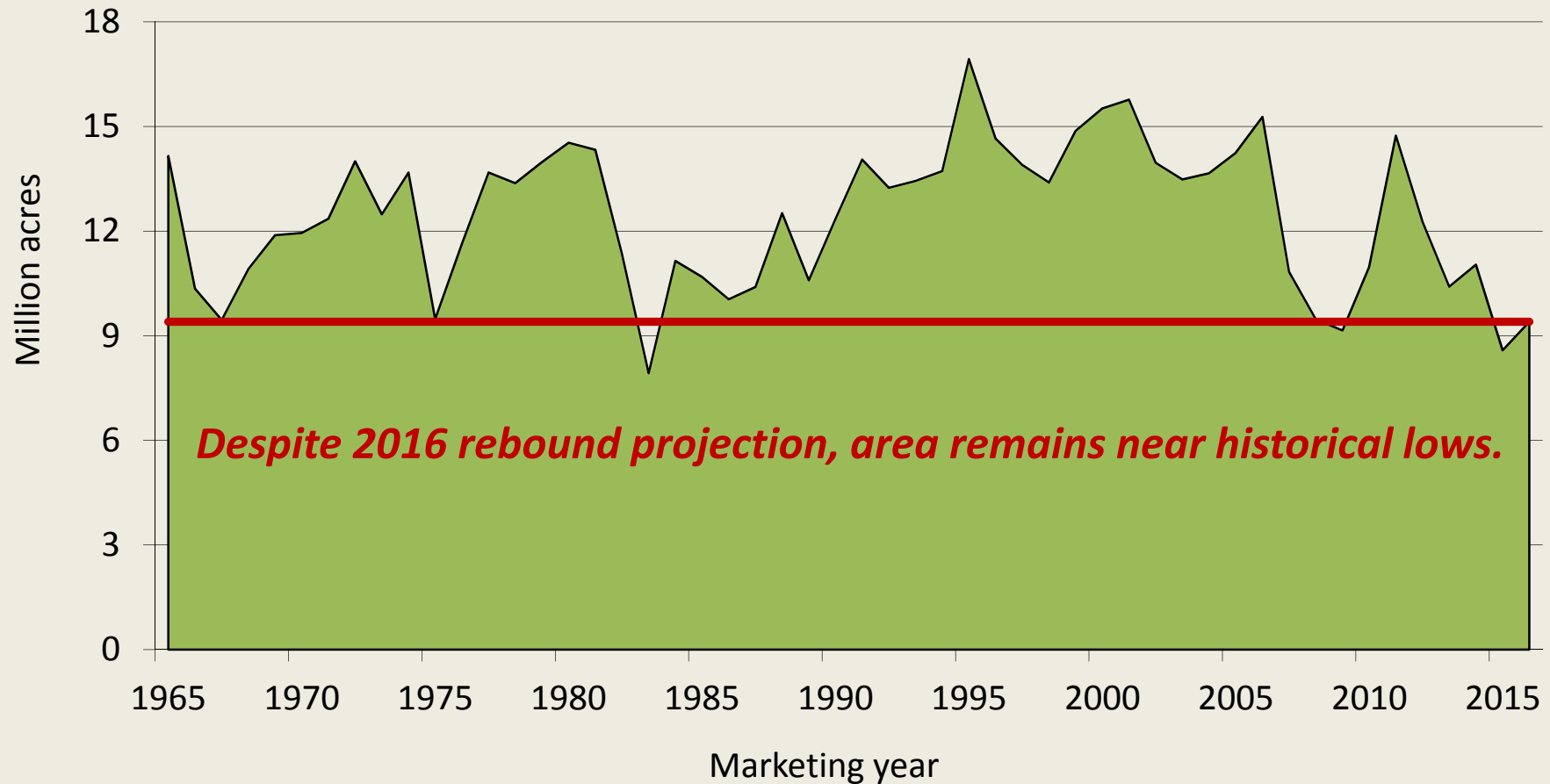


# Outlook for 2016 U.S. Cotton Area

- Planted acreage expected higher due mainly to 2015 “prevented plantings” area returning.
  - Total plantings at 9.4 M acres—nearly 10% higher.
  - NCC survey indicated 9.1 M acres.
- Relative prices favor cotton slightly, but high input costs may offset this advantage.
- Cotton marketing loan program cushions the downside price risk.



# U.S. Cotton Planted Area: A Historical Perspective



Source: USDA, National Agricultural Statistics Service.



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[www.ers.usda.gov](http://www.ers.usda.gov)



# U.S. Cotton Area, Yield, and Production

Key Factors Include Crop Conditions & Abandonment

***Southwest expected to account for 60% of planted area***

	<u>Unit</u>	<u>2015/16</u>	<u>2016/17</u>	<u>Change(%)</u>
Planted area	Mil. acres	8.58	9.40	9.6
Harvested area	"	8.08	8.45	4.6
Abandonment rate	%	5.9	10.1	71.2
Yield/harvested acre	Lbs.	769	812	5.6
Production	Mil. bales	12.94	14.30	10.5

Source: USDA, Interagency Commodity Estimates Committee.



# U.S. Cotton Supply & Demand Projections:

## *Production and Exports Rebound; Stocks Unchanged*

	Unit	2015/16	2016/17	Change (%)
Beg. stocks	Mil. bales	3.7	3.6	-2.7
Production	"	<b>12.9</b>	<b>14.3</b>	<b>10.5</b>
Imports	"	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total supply	"	16.7	17.9	7.6
Mill use	"	3.6	3.6	0.0
Exports	"	<b><u>9.5</u></b>	<b><u>10.7</u></b>	<b><u>12.6</u></b>
Total demand	"	13.1	14.3	9.2
Ending stocks	"	<b>3.6</b>	<b>3.6</b>	<b>0.0</b>
Stocks-to-use	%	27.5	25.2	-8.4
Farm price	Cents/lb.	<b>59.5</b>	<b>58.0</b>	<b>-2.5</b>

Source: USDA, Interagency Commodity Estimates Committee.



# U.S. Export Forecast Higher in 2016/17: *Growth Contingent Upon Several Factors*

- Relatively tight foreign stocks outside China.
  - Beginning stocks lowest in 6 years.
  - Import demand similar to 2015/16.
- Increased exportable supplies in the United States.
  - Additional 1+ M bales at current production expectations.
  - U.S. share of world trade (30.6%) between previous 2 seasons.
- Better quality distribution of the 2016 U.S. crop expected.
  - High quality cotton limited in 2015.
  - Less than 60 percent of U.S. crop tenderable.



# Variables that Could Change the Outlook

- Greater world area response to low prices than anticipated.
- Weather and growing conditions altering production.
- Further China policy changes affecting stocks and prices.
- Macroeconomic growth varying from average expectations.
- Changes in polyester prices relative to cotton.



## Final Thought:

***“Prediction is very difficult, especially if it’s about the future.”***

--Niels Bohr, Nobel laureate in Physics

## Thank You

