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United States Department of Agriculture

# The World and U.S. Cotton Outlook for 2018/19

Interagency Commodity Estimates Committee

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Agricultural Outlook Forum  
February 23, 2018

# USDA Cotton Outlook

- Current year review, 2017/18:
  - Broad global expansion boosts cotton consumption
  - Favorable cotton/polyester price ratio boosts consumption
  - Production continues rebound: fastest growth since 2004/05
  - Ending stocks outside China rise
  - Prices average similar to 2016/17
- Upcoming year outlook, 2018/19:
  - Global consumption rises, more slowly
  - Global production falls: mixture of yield and area declines
    - U.S. planted area up, production down
  - Ending stocks outside China rise further
  - Prices lower

**2017/18**

**Current World Cotton Situation**

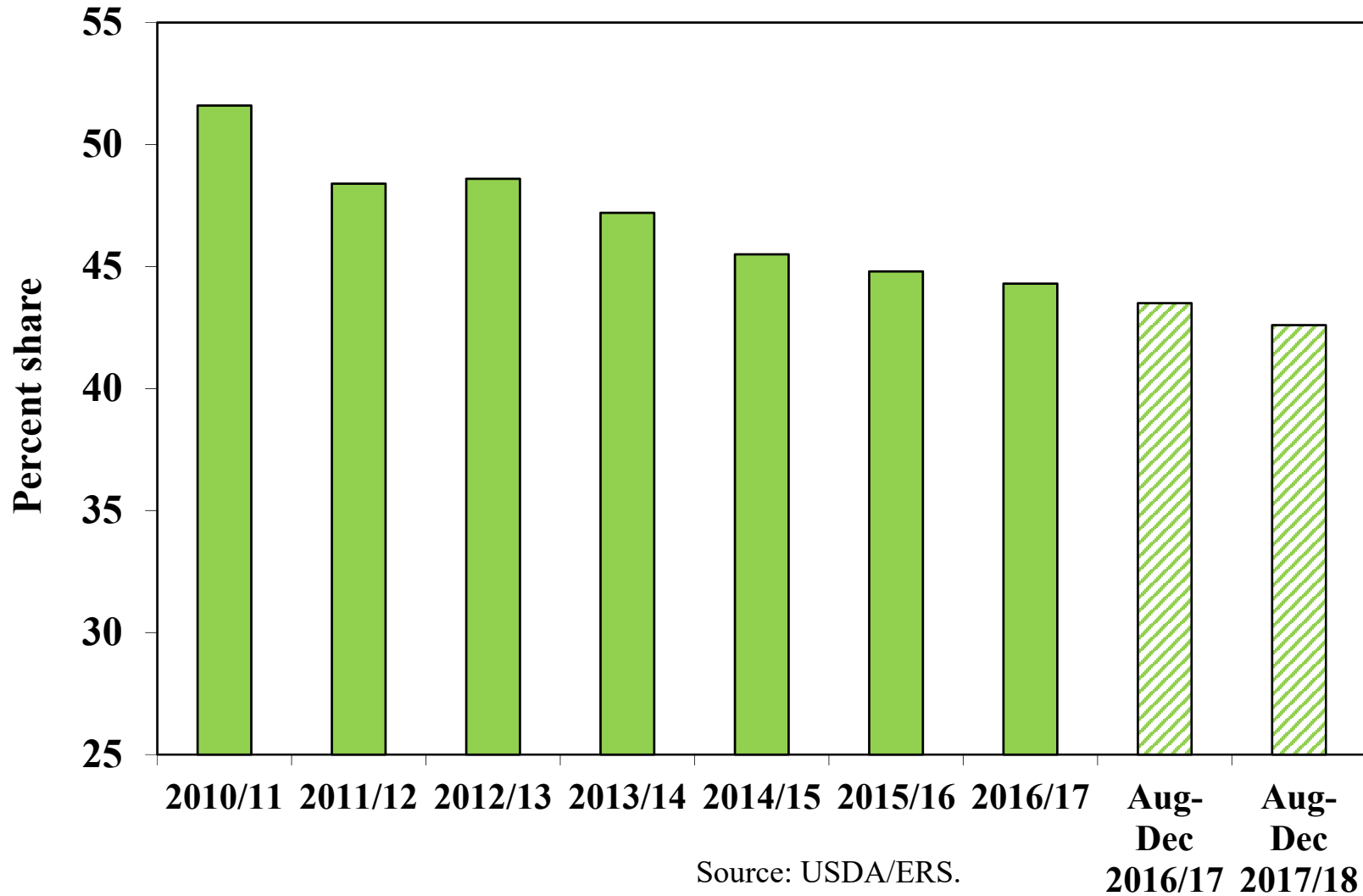
# Large World Consumption Increase Expected for 2017/18

*Cotton consumption estimated at 120.5 million bales.*

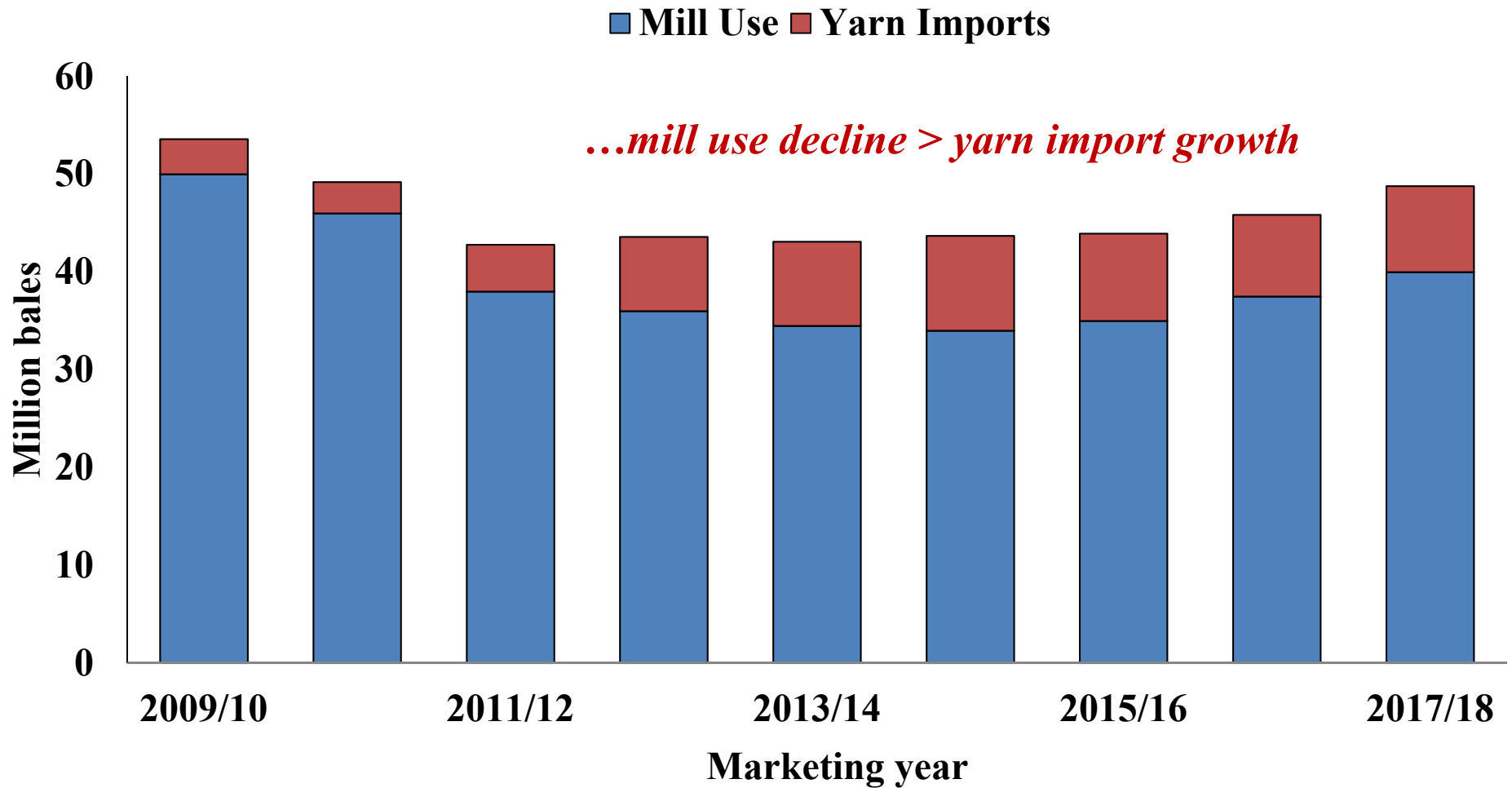
- 5.0-percent growth expected—fastest since 2009/10.
  - 6<sup>th</sup> consecutive year of growth (longest positive run since 1980s)
- Global economic growth fastest since 2011.
  - IMF forecasts calendar 2017 and 2018 world income growth to average 3.8 percent.
- Policy changes affecting polyester production in China.
  - Cotton/polyester price ratio most favorable in 3 years.
- China Reserve sales program well established.
- Impact of past extreme cotton price volatility fading.

# Cotton's Share of U.S. Textile Imports, 2010/11 to Aug-Dec 2017/18

(raw-fiber-equivalent basis)



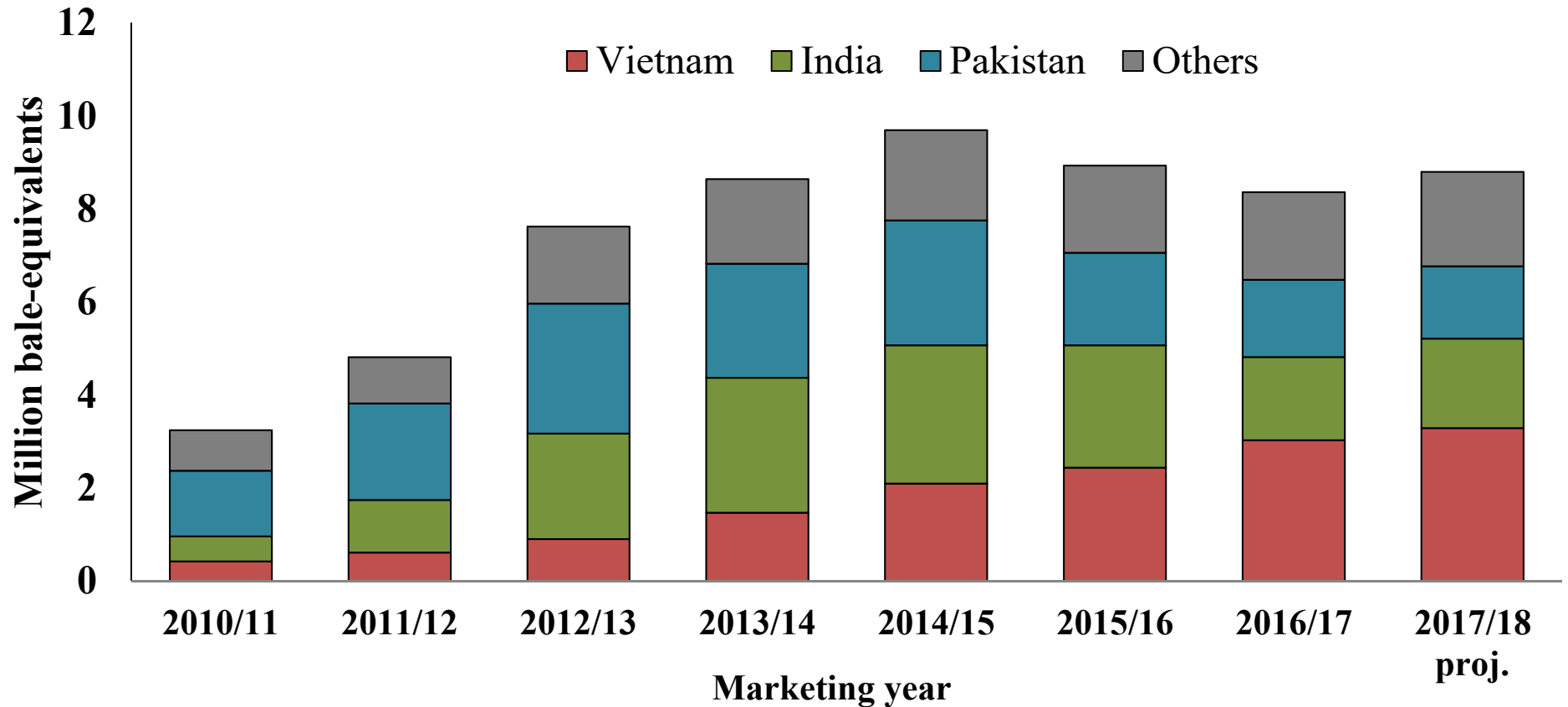
# China's Mill Use: Rising, But Below Peak...



Sources: USDA and Global Trade Atlas.

# China's Cotton Yarn Imports Stabilize

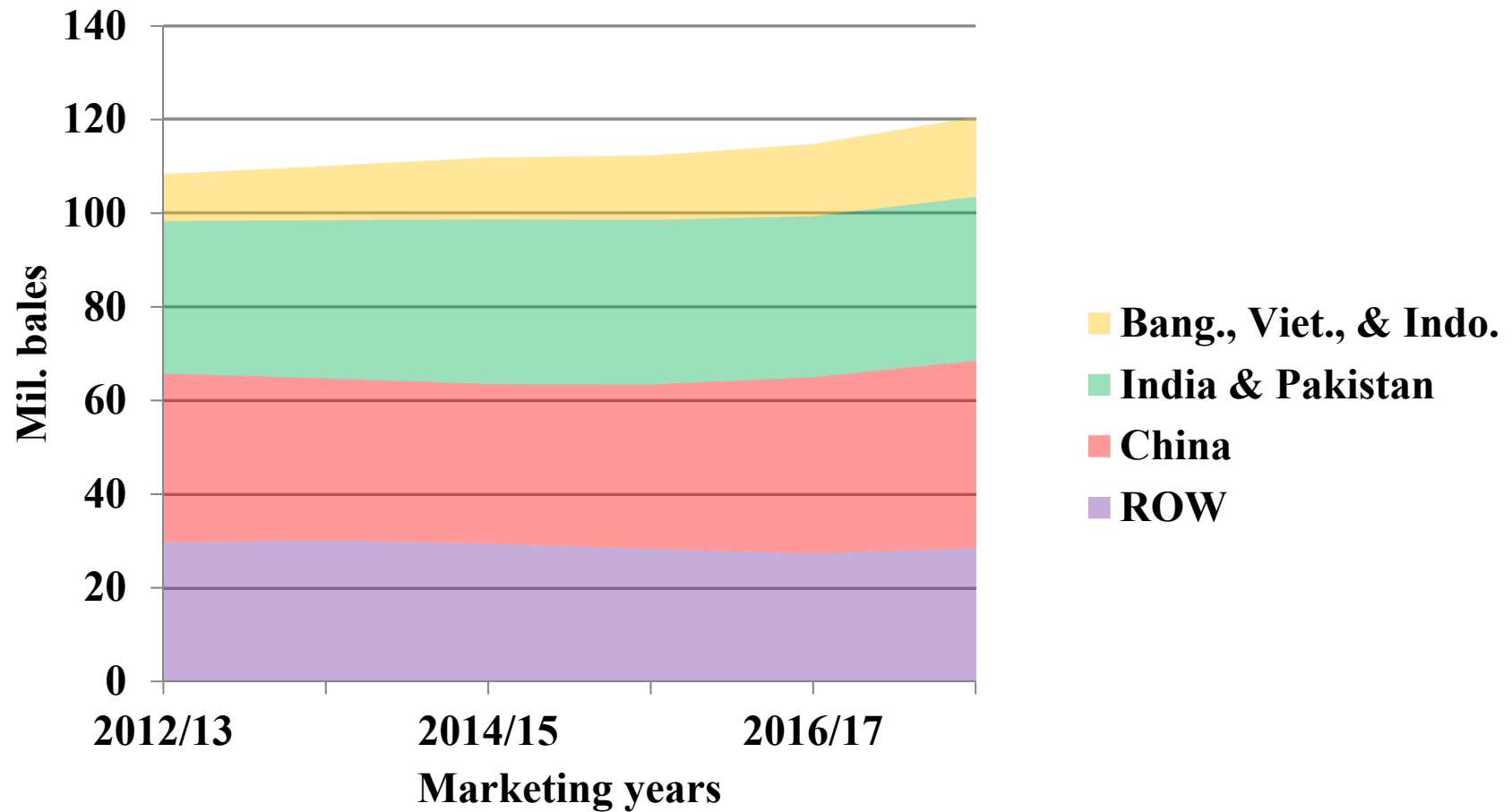
*Vietnam's shipments continue to grow*



Sources: USDA and Global Trade Atlas.

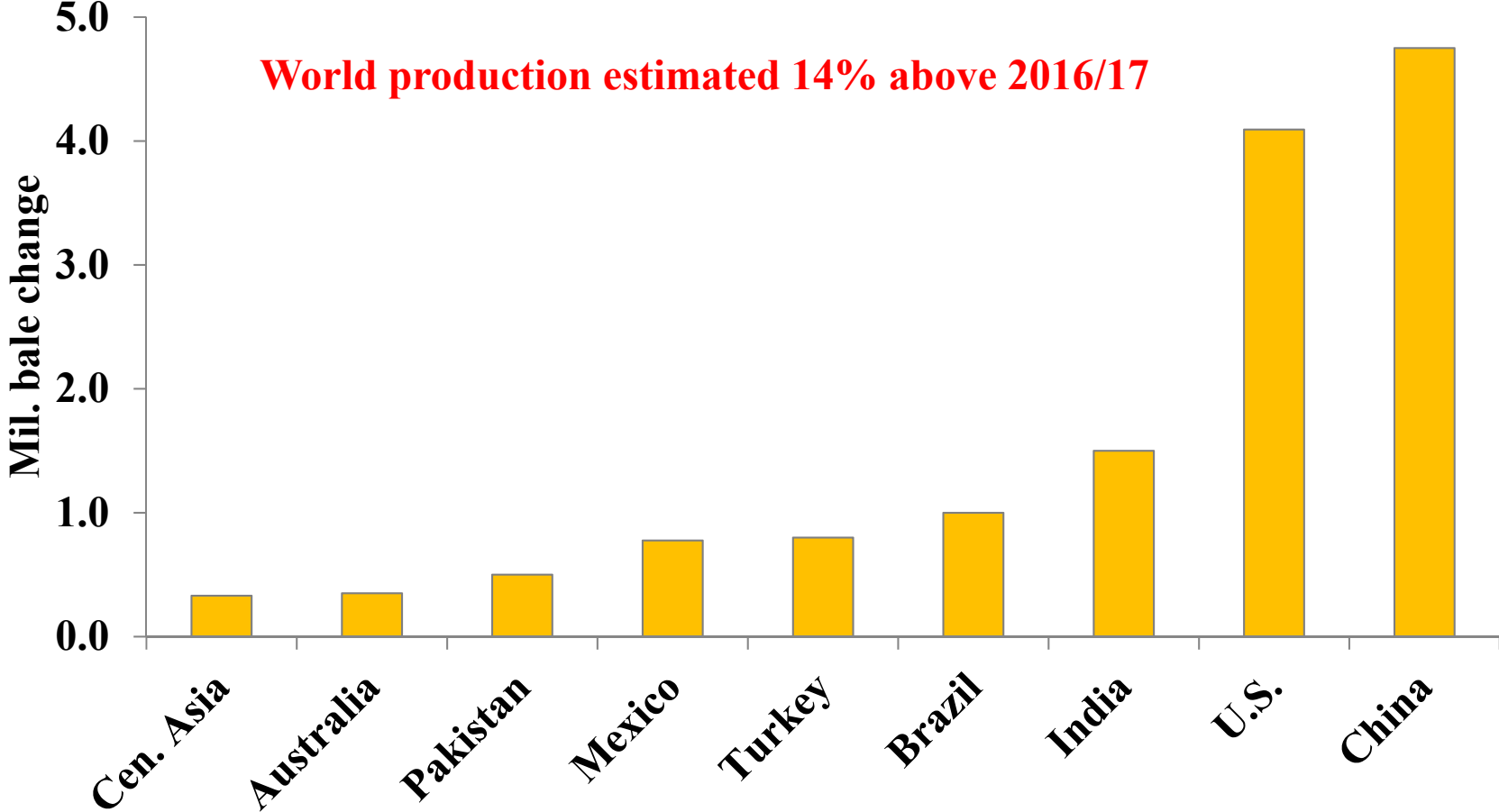


# New Markets Lead Global Consumption Growth, 2012-2017



Source: USDA Cotton ICEC.

# Production Rises in Most Major Producing Countries in 2017/18



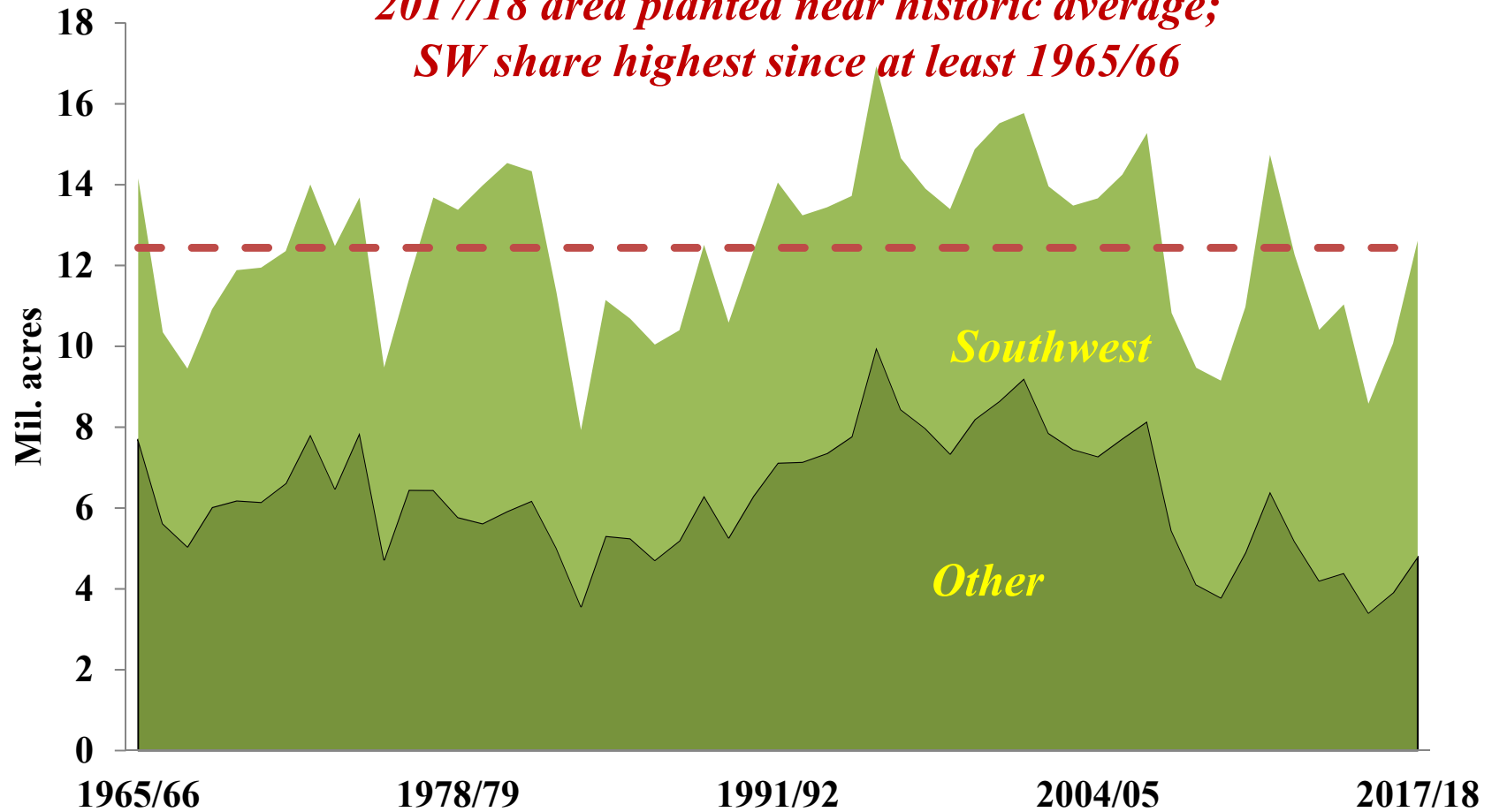
Source: USDA Cotton ICEC.

**2017/18**

**Current U.S. Cotton Situation**

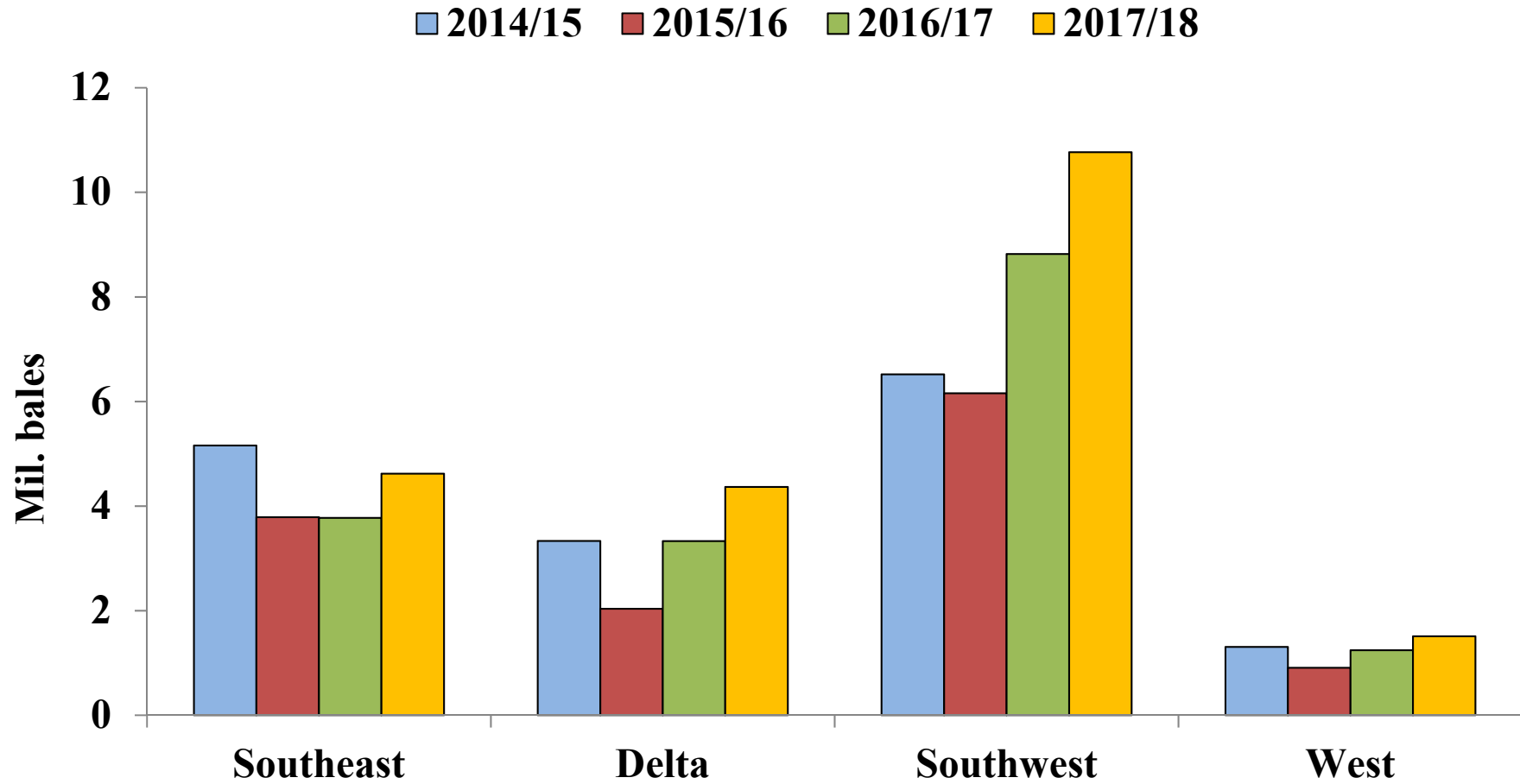
# U.S. Cotton Planted Area: A Historical Perspective

*2017/18 area planted near historic average;  
SW share highest since at least 1965/66*



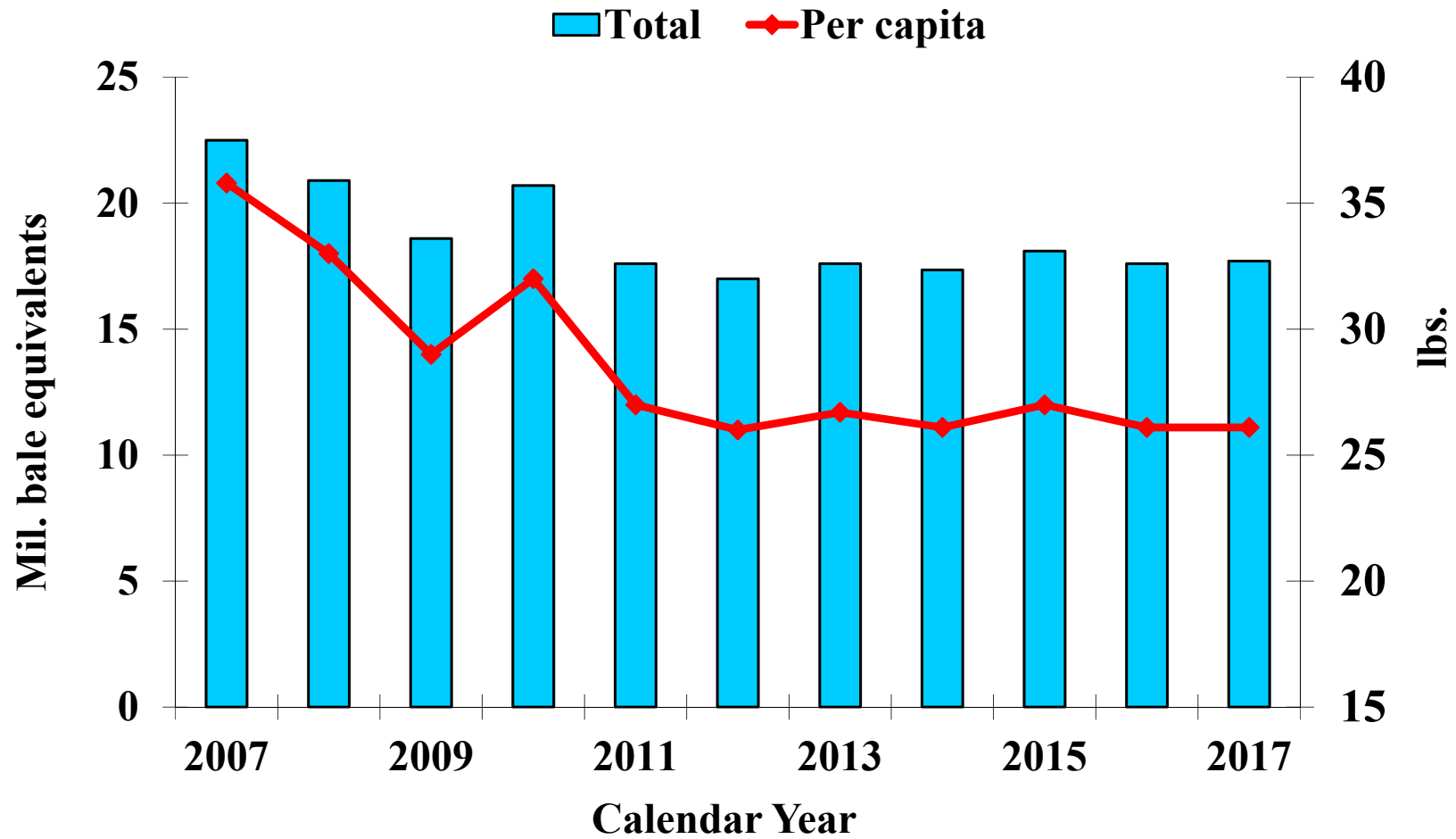
Source: USDA/NASS.

# U.S. Cotton Regional Production, 2014/15 to 2017/18



Source: USDA/NASS.

# U.S. Domestic Cotton Consumption: Total and Per Capita



Source: USDA/ERS.

# U.S. Cotton Supply and Demand

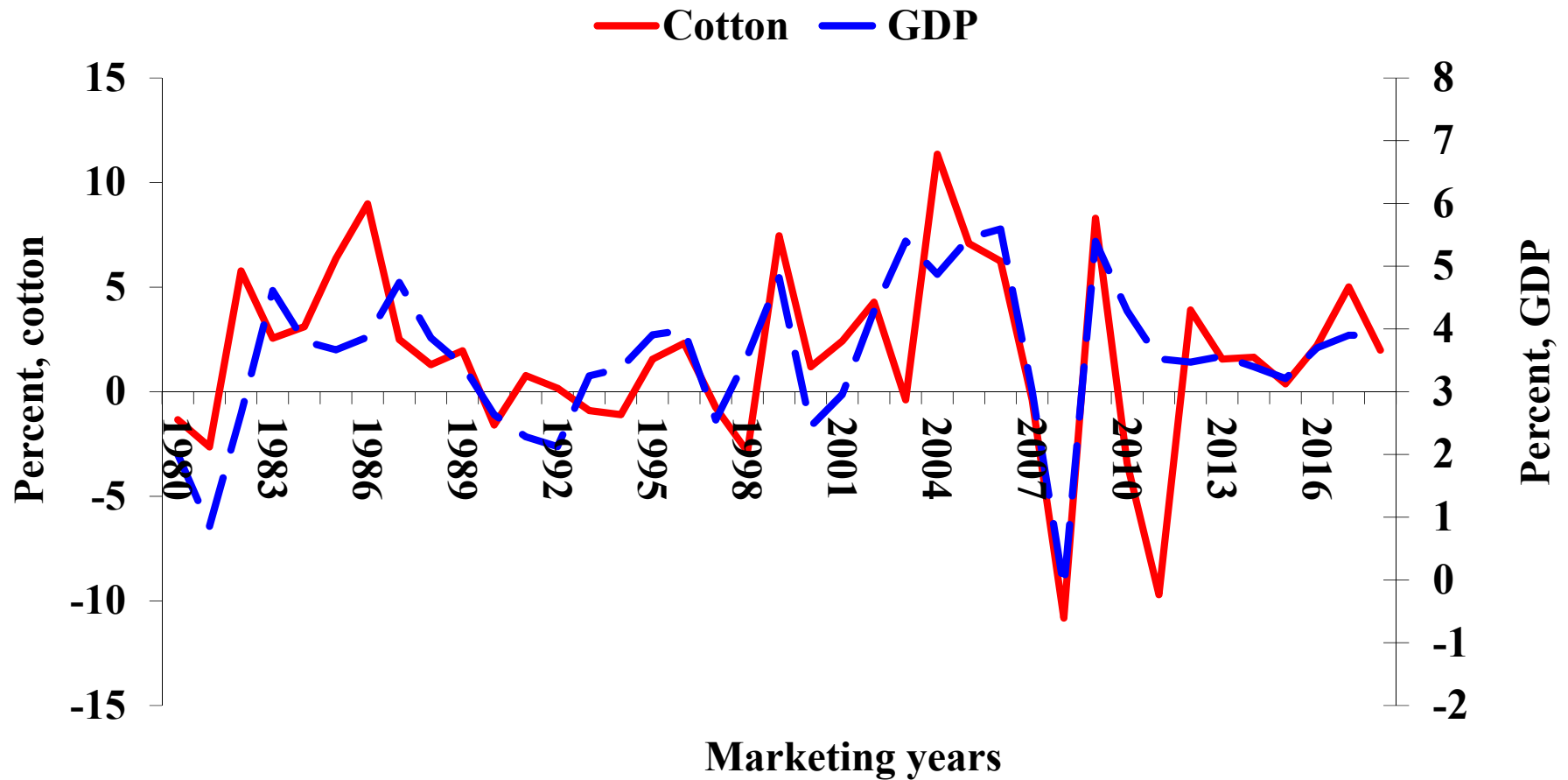
	<u>Unit</u>	<u>2016/17</u>	<u>2017/18</u>	<u>Change</u> <u>(%)</u>
<b>Beg. Stocks</b>	mil bales	3.8	2.8	-27.6
<b>Production</b>	"	17.2	21.3	23.8
<b>Imports</b>	"	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<b>Total supply</b>	"	21.0	24.0	14.5
<b>Mill use</b>	"	3.3	3.4	3.1
<b>Exports</b>	"	<u>14.9</u>	<u>14.5</u>	<u>-2.8</u>
<b>Total use</b>	"	18.2	17.9	-1.7
<b>Ending stocks</b>	"	2.8	6.0	118.2
<b>Stocks-to-use</b>	%	15.1	33.6	122.5
<b>Farm price</b>	cents/lb.	68.0	69.0	1.5

**2018/19**

**World Cotton Outlook**



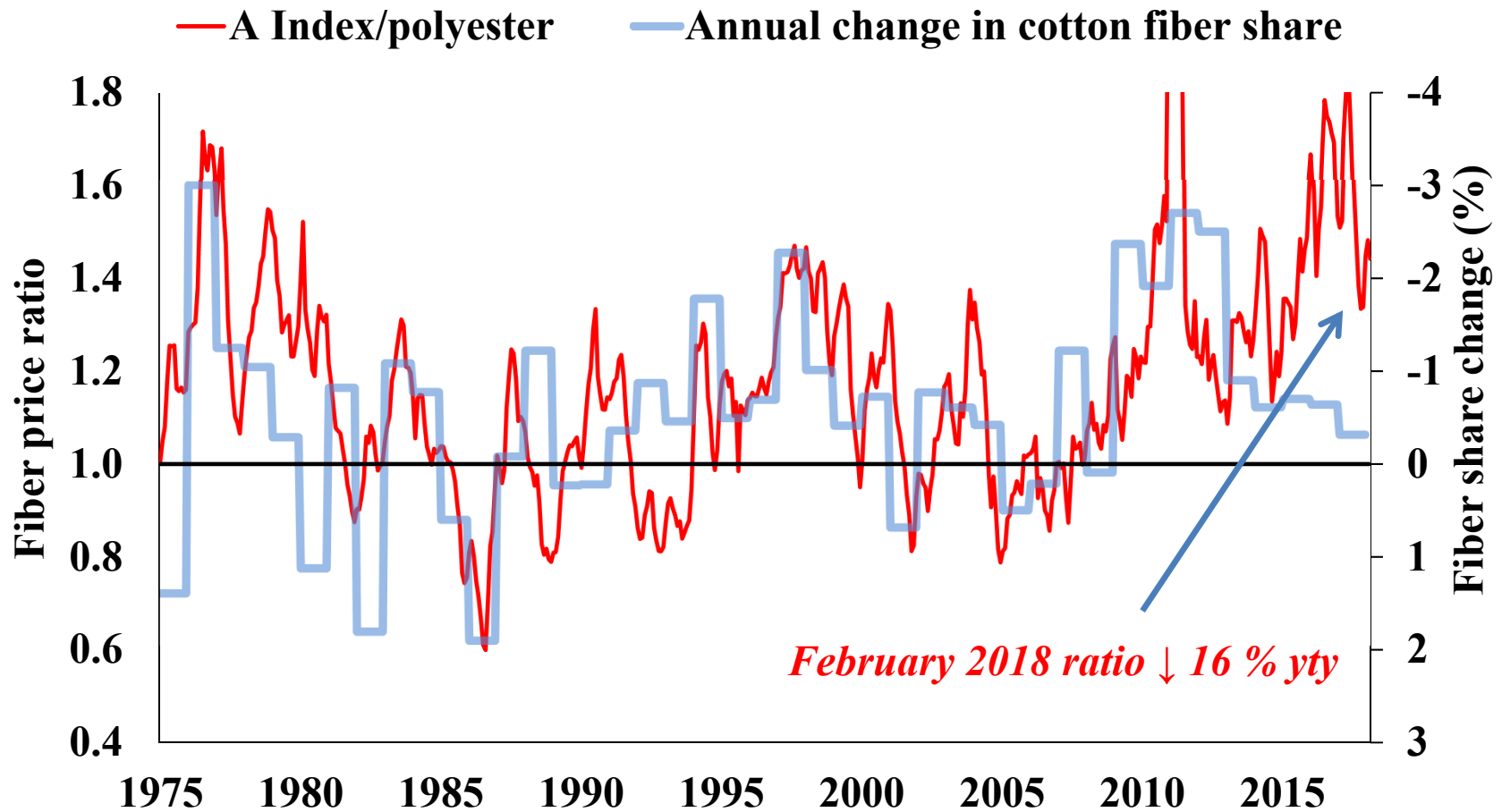
# World Cotton Consumption and Economic Growth



Sources: USDA and IMF.

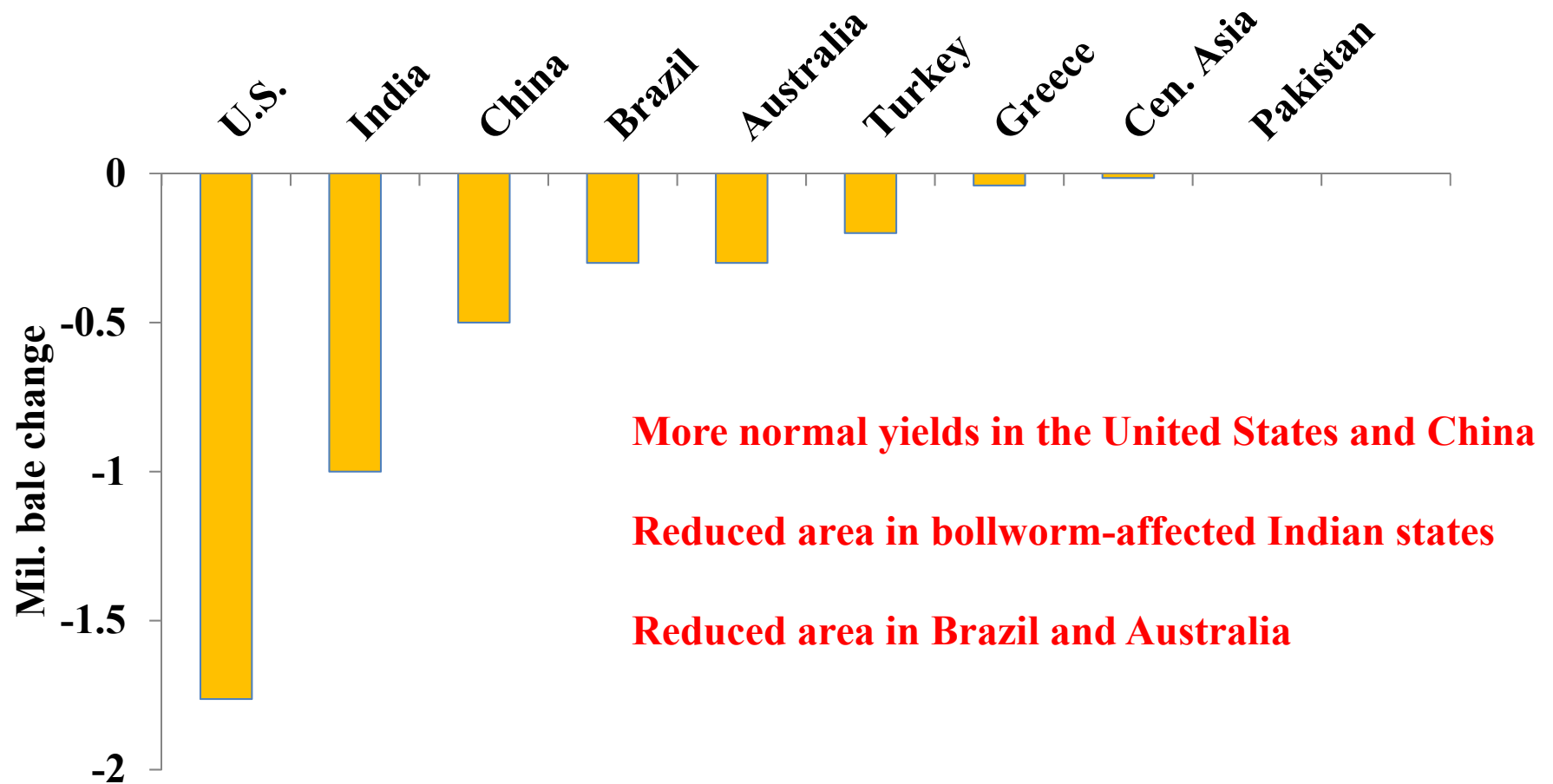
# Cotton/Polyester Price Ratio

## Shifts in Cotton's Favor—But Historically High



Source: USDA and ICAC.

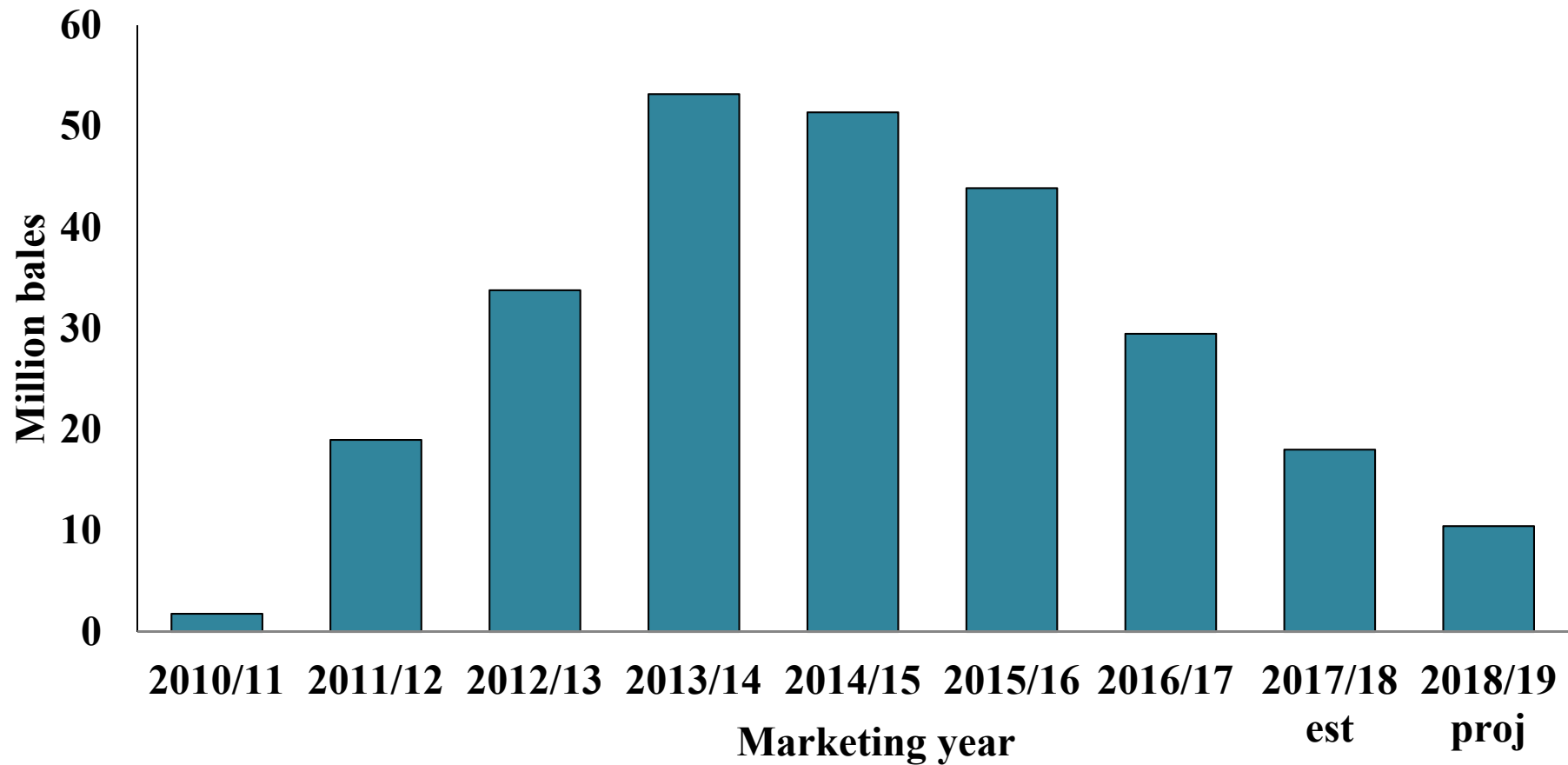
# Projected Changes in World Production, 2018/19 Compared With 2017/18



Source: USDA Cotton ICEC.

# China's State Cotton Reserves:

*Reserve sales expected to continue in 2018/19*



Source: USDA, Cotton ICEC.

# China Cotton Supply & Demand Projections:

*Large supply limits need for imports*

	<u>Unit</u>	<u>2017/18</u>	<u>2018/19</u>	<u>Change</u> <u>(%)</u>
<b>Beg. Stocks</b>	<b>mil bales</b>	<b>48.4</b>	<b>40.9</b>	<b>-15.6</b>
<b>Production</b>	<b>"</b>	<b>27.5</b>	<b>27.0</b>	<b>-1.8</b>
<b>Imports</b>	<b>"</b>	<b><u>5.0</u></b>	<b><u>7.0</u></b>	<b><u>40.0</u></b>
<b>Total supply</b>	<b>"</b>	<b>80.9</b>	<b>74.9</b>	<b>-7.5</b>
<b>Consumption</b>	<b>"</b>	<b>40.0</b>	<b>41.2</b>	<b>3.0</b>
<b>Exports</b>	<b>"</b>	<b><u>0.1</u></b>	<b><u>0.1</u></b>	<b><u>0.0</u></b>
<b>Total use</b>	<b>"</b>	<b>40.1</b>	<b>41.3</b>	<b>3.1</b>
<b>Ending stocks</b>	<b>"</b>	<b>40.9</b>	<b>33.6</b>	<b>-17.8</b>
<b>Reserve stocks</b>	<b>"</b>	<b>18.0</b>	<b>10.5</b>	<b>-42.0</b>
<b>Stocks-to-use</b>	<b>%</b>	<b>102.0</b>	<b>81.3</b>	<b>-20.3</b>

Source: USDA, Cotton ICEC.

# Assumptions Behind 2018/19 Projections

- Constant rate of global economic growth.
  - Little change in exchange rates
  - General policy continuity
- Cotton/polyester price ratio little changed.
  - Ratio remains favorable vis-à-vis levels of last 2 years.
  - Ratio remains above 2000-08 average.
- Continuity in China Reserve sales and trade policy.
  - Continued draw-down of government-owned stocks
  - No sliding-scale import quota in calendar 2018
- Normal weather during 2018 and 2019
- Current 2017/18 estimates have minimal error

# World Cotton Supply & Demand Projections:

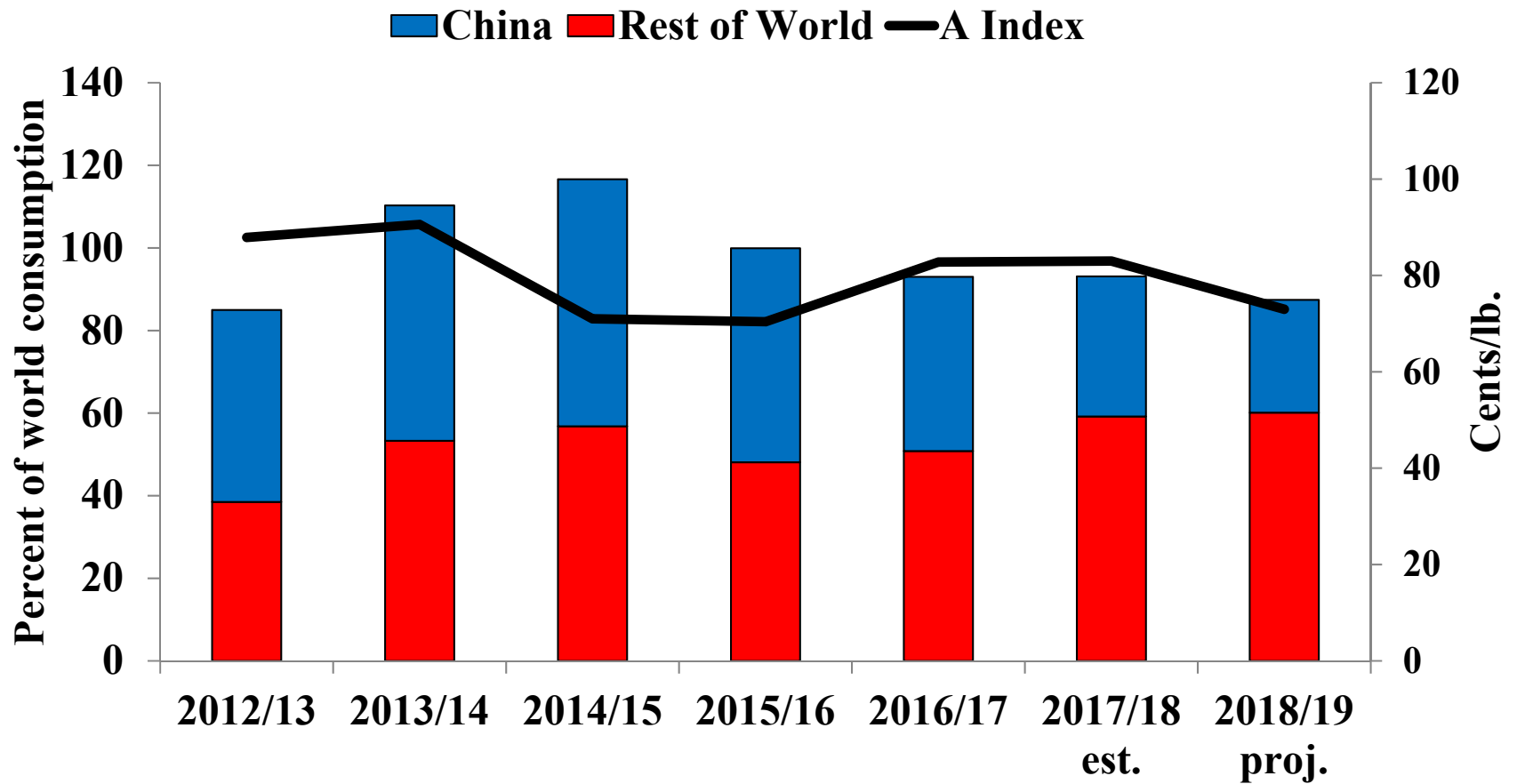
*China's stocks fall more than world stocks*

	<u>Unit</u>	<u>2017/18</u>	<u>2018/19</u>	<u>Change</u> <u>(%)</u>
<b>Beg. Stocks</b>	<b>mil bales</b>	<b>87.7</b>	<b>88.6</b>	<b>1.0</b>
<b>Production</b>	<b>"</b>	<b>121.4</b>	<b>117.0</b>	<b>-3.6</b>
<b>Imports</b>	<b>"</b>	<b><u>38.2</u></b>	<b><u>40.0</u></b>	<b><u>4.6</u></b>
<b>Total supply</b>	<b>"</b>	<b>247.3</b>	<b>245.6</b>	<b>-0.7</b>
<b>Consumption</b>	<b>"</b>	<b>120.5</b>	<b>122.9</b>	<b>2.0</b>
<b>Exports</b>	<b>"</b>	<b><u>38.2</u></b>	<b><u>40.0</u></b>	<b><u>4.7</u></b>
<b>Total use</b>	<b>"</b>	<b>158.7</b>	<b>162.9</b>	<b>2.6</b>
<b>Ending stocks</b>	<b>"</b>	<b>88.6</b>	<b>82.7</b>	<b>-6.7</b>
<b>China stocks</b>	<b>"</b>	<b>40.9</b>	<b>33.6</b>	<b>-17.8</b>
<b>Stocks-to-consumption</b>	<b>%</b>	<b>73.5</b>	<b>67.3</b>	<b>-8.4</b>

Source: USDA, Cotton ICEC.

# Global Cotton Stocks Projected Lower...

*...but stocks outside of China remain high*



Source: USDA, Cotton ICEC.



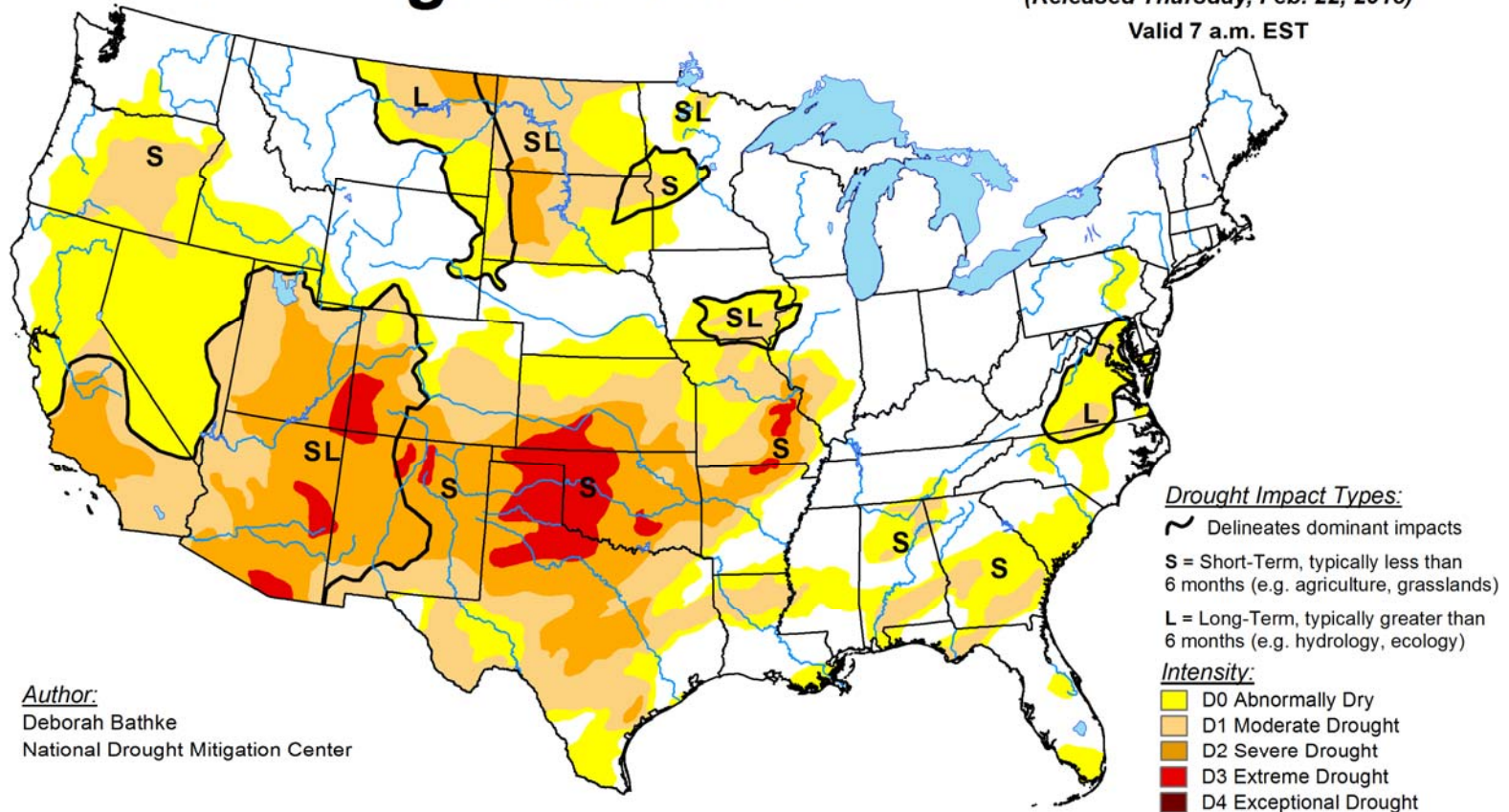
**2018/19**

**U.S. Cotton Outlook**

# February Drought Conditions Worst in Southwest Since 2015

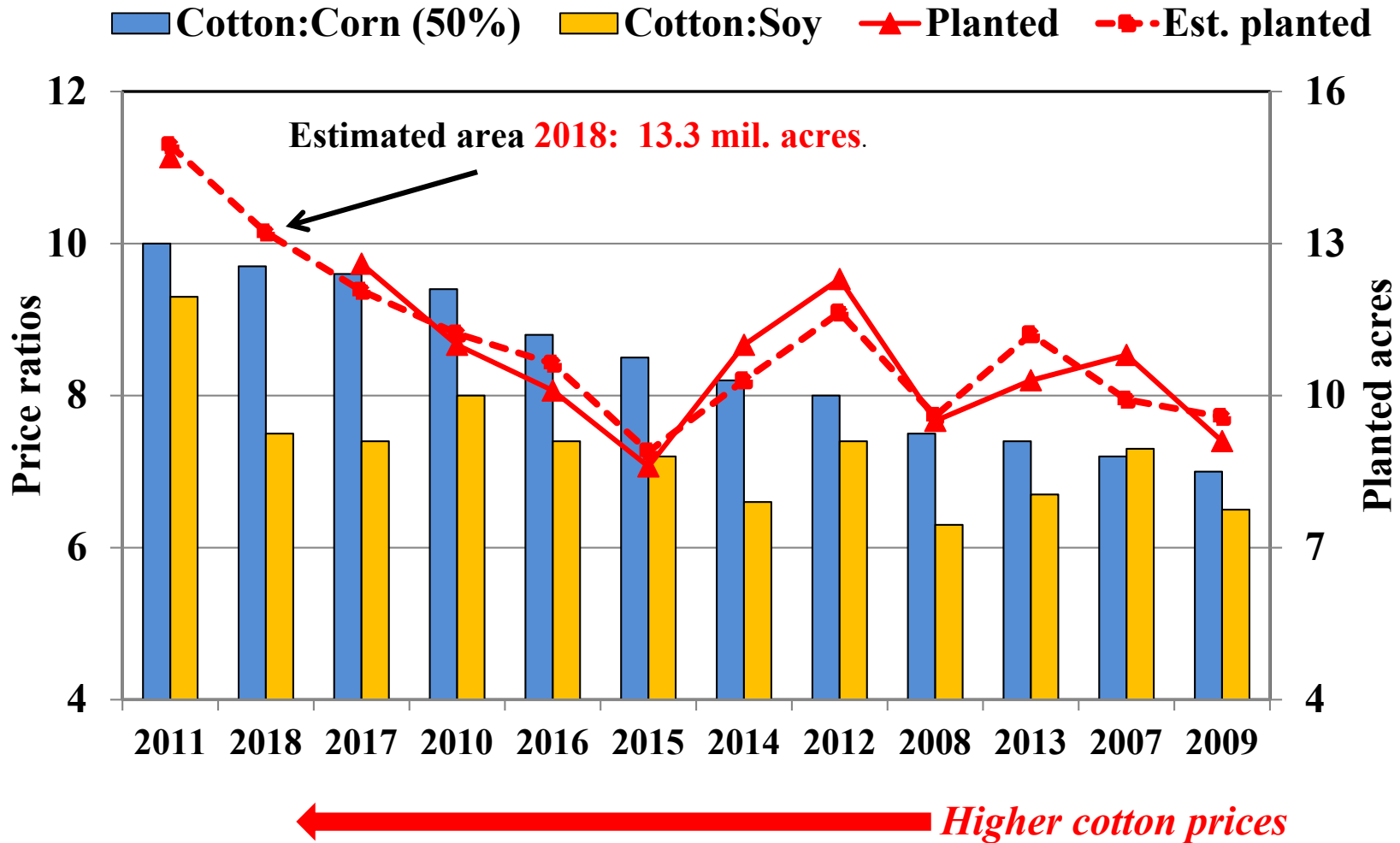
## U.S. Drought Monitor

February 20, 2018  
(Released Thursday, Feb. 22, 2018)  
Valid 7 a.m. EST



*Author:*  
Deborah Bathke  
National Drought Mitigation Center

# All-Cotton Planted Acres Based on Relative Prices, Winter Wheat Area, Texas Moisture Index, 2007-2018 proj.



# Outlook for 2018 U.S. Cotton Area

- Planted acreage expected higher at 13.3 million acres.
  - Harvested area forecast at 11.3 million acres.
  - NCC survey indicated about 13.1 million acres planted.
- Cotton is priced favorably vs. competing crops as planting approaches
- Opportunity to reassign generic base acres to “seed cotton” base in 2018/19 also supportive of higher area
- Soil moisture in Texas is at a level associated with higher abandonment

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

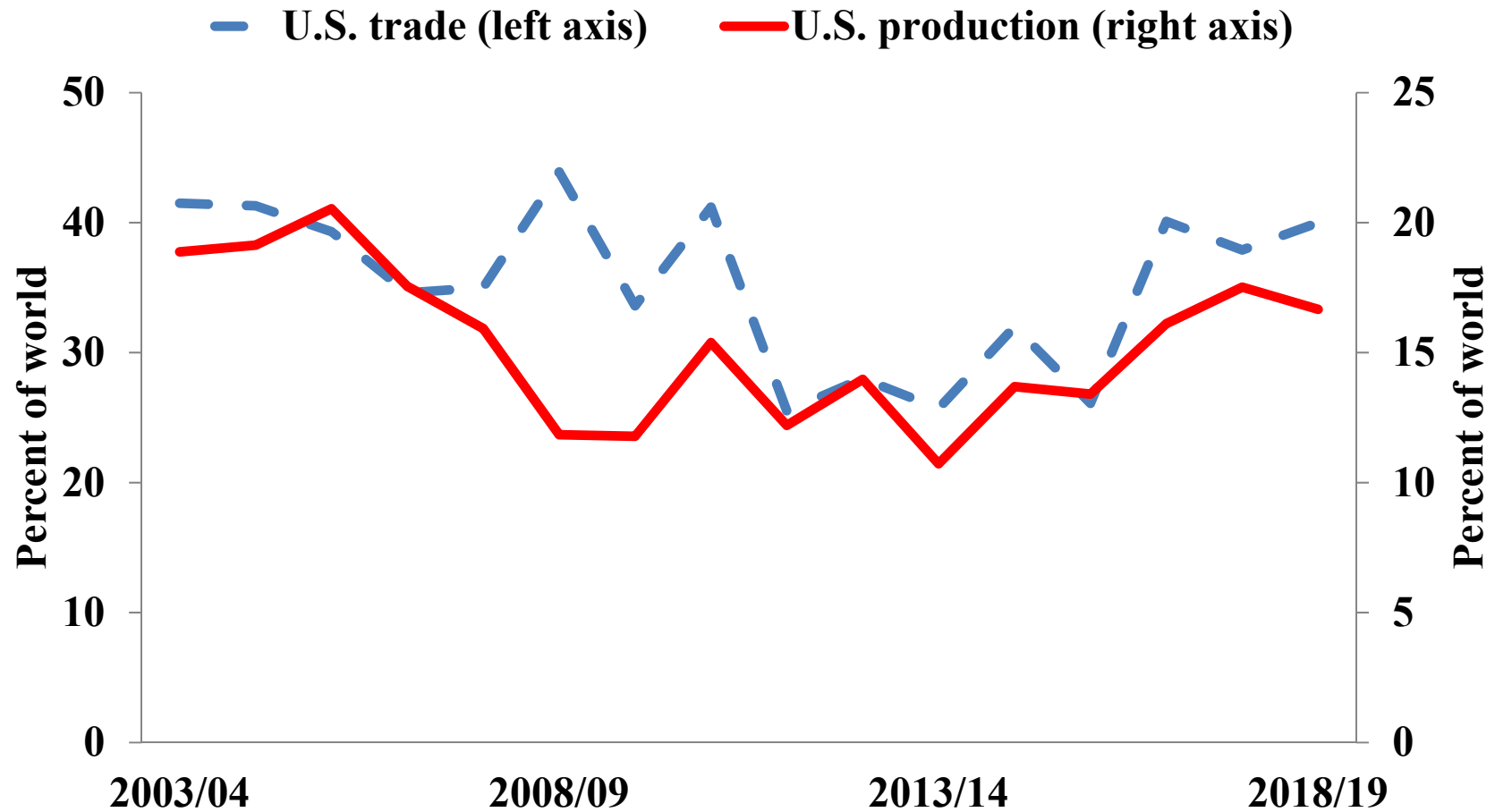
Key Factors Include Crop Conditions & Abandonment

*Southwest expected to account for 60% of area*

	<u>Unit</u>	<u>2017/18</u>	<u>2018/19</u>	<u>Change(%)</u>
Planted area	Mil. acres	12.61	13.30	5.5
Harvested area	"	11.35	11.30	-0.4
Abandonment rate	%	10.0	15.0	50.0
Yield/harvested acre	Lbs.	899	828	-7.9
Production	Mil. bales	21.26	19.50	-8.3

Source: USDA, Cotton ICEC.

# U.S. Share of World Trade Rises in 2018/19



Source: USDA Cotton ICEC.

# U.S. Cotton Supply & Demand Projections:

## *Exports Rise, But Stocks Unchanged*

	<u>Unit</u>	<u>2017/18</u>	<u>2018/19</u>	<u>Change</u> <u>(%)</u>
<b>Beg. Stocks</b>	<b>mil bales</b>	<b>2.75</b>	<b>6.00</b>	<b>118.2</b>
<b>Production</b>	<b>"</b>	<b>21.26</b>	<b>19.50</b>	<b>-8.3</b>
<b>Imports</b>	<b>"</b>	<b><u>0.01</u></b>	<b><u>0.01</u></b>	<b><u>0.0</u></b>
<b>Total supply</b>	<b>"</b>	<b>24.02</b>	<b>25.51</b>	<b>6.2</b>
<b>Mill use</b>	<b>"</b>	<b>3.35</b>	<b>3.40</b>	<b>1.5</b>
<b>Exports</b>	<b>"</b>	<b><u>14.50</u></b>	<b><u>16.00</u></b>	<b><u>10.3</u></b>
<b>Total use</b>	<b>"</b>	<b>17.85</b>	<b>19.40</b>	<b>8.7</b>
<b>Ending stocks</b>	<b>"</b>	<b>6.00</b>	<b>6.00</b>	<b>0.0</b>
<b>Stocks-to-use</b>	<b>%</b>	<b>33.6</b>	<b>30.9</b>	<b>-8.0</b>
<b>Farm price</b>	<b>cents/lb.</b>	<b>69.0</b>	<b>63.0</b>	<b>-8.7</b>

Source: USDA, Cotton ICEC.

# Revisiting the Assumptions Behind 2018/19 Projections

- Constant rate of global economic growth.
  - Little change in exchange rates
  - General policy continuity
- Cotton/polyester price ratio little changed.
  - Ratio remains favorable vis-à-vis levels of last 2 years.
  - Ratio remains above 2000-08 average.
- Continuity in China Reserve sales and trade policy.
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**Thank You!**