



OUTLOOK FOR WORLD COTTON SUPPLY AND USE¹

**Terry Townsend
Executive Director
International Cotton Advisory Committee
Washington, DC**

Summary

World mill use is not growing in 2007/08 and is forecast unchanged in 2008/09, and world cotton production is projected slightly down in both 2007/08 and 2008/09. World cotton stocks are expected to decline. A decline in the stocks-to-mill use ratio in the World-less-China (Mainland) is expected to result in an increase in the Cotlook A Index in 2008/09. World cotton imports are expected to rebound in 2008/09, driven by forecast higher Chinese imports. By 2009/10, rising yields and loss of market share to polyester are expected to result in a surplus of production over consumption, and the stocks-to-use ratio is expected to increase.

World Cotton Production Slightly Lower in 2008/09

World cotton production and consumption have followed almost regular upward trends over the last half-century. Production expanded from 30 million bales in 1950/51 to around 89 million bales between 1984/85 and 2002/03 and then jumped to 124 million bales in 2004/05. World production is estimated at 120.6 million bales in 2007/08 and 120 million bales in 2008/09. A rebound to 124 million bales is forecast for 2009/10.

World cotton area ranged between 70 and 90 million acres each season since 1950/51, with no trend higher or lower. Area is estimated at 82.5 million acres in 2007/08, almost exactly equal to the long run average; a similar level of global cotton planting is expected in 2008/09 and a small increase is foreseen in 2009/10. Even though rising prices of competing crops are leading to reductions in cotton area in the United States, Brazil, Turkey, Egypt and some other countries, offsetting increases in area are occurring in India, West Africa and other regions, leaving the world total about unchanged.

The world yield rose by over 90 pounds to more than 670 pounds per acre in 2004/05. The world yield reached another record of 700 pounds per acre in 2007/08, and almost the same level is expected in 2008/09. Cotton yields in many countries are benefiting from the expanded use of existing technology, such as integrated pest management, better water management, minimum tillage, crop rotations and improved use of fertilizers, as well as the use of new technologies. The most visible of these new technologies is biotech cotton. Biotech cotton is primarily risk and cost reducing, but in some countries it can contribute to increased yields. An estimated 44% of world cotton area was planted to authorized biotech cotton in 2007/08 and accounted for half of world production, up from 37% of area and 45% of production in 2006/07. Yields in India rose from 270 pounds per acre in 2002/03 to a record of more than 500 pounds this season, an increase of nearly 90% in five years, and some of this gain is attributable to the use of biotech cotton. The yield in the rest of the world rose by 13% over the same period.

Production in China is estimated at 36.8 million bales in 2007/08 and is expected to remain near that level in 2008/09 and 2009/10. Over the past decade, the Xinjiang proportion of total area in China rose from 19% to 26%, and the yield in Xinjiang rose from about 1,200 pounds per acre to about 1,500 pounds, boosting the national yield from 900 pounds per acre to 1,100 in 2007/08. With a managed economy and the ratios between prices of cotton and competing crops being maintained at levels mandated by the government, area is expected to remain unchanged and yields are expected to remain high at 1,125 pounds per acre.

India is now the second largest producer at approximately 25 million bales in 2007/08, and production is forecast at 26 million bales in 2008/09 and 27 million in 2009/10. Cotton area in India is increasing because of

¹ Presentation given during the 84th Annual Convention of the American Cotton Shippers Association, May 23, 2008, Amelia Island, Florida.

higher revenue linked to higher yields and firm prices for seed cotton owing to government policy that allows exports. Cotton area has fallen in the north and the south of India since 1998/99, but area rose in central India, particularly in the state of Gujarat, accounting for the national gain. The yield in Gujarat is 180 pounds per acre above the national average. The Indian yield is estimated around 500 pounds in 2007/08 and around 520 in 2008/09.

U.S. yields rose at an average annual rate of 3% during the past decade, and lower area is strongly correlated with higher yields. The rise in input prices will discourage input use, but higher costs also push efficiency and innovation. The average U.S. abandonment in the last three years was 8%, including 15% in Texas. However, the rains last week point to better-than-average results this season. Using a national average rate of abandonment of 6% and a national yield of 860 pounds per harvested acre in 2008/09 and 880 pounds in 2009/10, all cotton production in the U.S. is expected to fall from 19.2 million bales in 2007/08 to about 16 million bales in 2008/09 and 2009/10. Pima production is forecast at 540,000 bales in 2008/09.

World Cotton Mill Use Stagnant in 2007/08 and 2008/09

World textile fiber consumption is driven by three major factors: income, population and fiber prices. Consumption is also affected by trade rules and consumer preferences. World cotton mill use increased at an impressive pace from 86 million bales in 1998/99 to 122.5 million bales in 2006/07, averaging 5% annual growth, compared to 1% in the previous two decades. This considerable expansion in mill use was fueled by strong global economic growth, increases in population, lower prices of cotton relative to polyester, and the popularity and greater availability of cotton products relative to products made of other fibers. The Secretariat has reported earlier that research indicates that the cumulative impact of promotion by Cotton Incorporated and Cotton Council International has lifted world cotton use by about 10% above what it would otherwise be. In addition, the removal of textile trade quotas agreed under the Multi Fiber Arrangement was completed at the end of 2004. This encouraged further geographical redistribution of textile production to countries with lower production costs, with the effect of lowering textile prices and boosting retail consumption. China (Mainland) has been the main driver of world cotton mill use since 1998/99, thanks in part to its accession to the WTO in 2001. Despite the safeguard mechanisms implemented against imports of Chinese textile products by the United States, Turkey and the European Union since 2005/06, imports from China have continued to rise. The safeguard mechanisms in the EU against Chinese imports were lifted as of January 2008.

Global cotton mill use is estimated unchanged at 122.5 million bales in 2007/08, and no growth in the world total is expected in 2008/09 due to the recent increase in the price of cotton relative to other fibers and the expected slowdown in global economic growth in 2008 and 2009. A small increase is forecast for 2009/10, assuming a resumption of world economic growth at an average rate.

The growth of cotton mill use in Asia is decelerating to 2% in 2007/08, after three consecutive seasons with growth rates above 10%. Cotton mill use in the rest of the world is continuing its decline (-4%) for the third consecutive season in 2007/08. Asian cotton mill use is expected to reach a record of 92 million bales in 2007/08. This represents 75% of world cotton mill use, up from 74% in 2006/07 and 57% in 1998/99. Most of the increase in Asia is expected to occur in China (Mainland), where mill use is estimated at 51 million bales this season (+3%), and in India, where mill use is estimated at 18.6 million bales (+3%). In 2007/08, China (Mainland) and India are expected to account for 42% and 15% of global cotton mill use, respectively. Mill use in Pakistan is estimated down by 5% to 11.6 million bales in 2007/08, while mill use is increasing in Bangladesh to about 2.5 million bales (+5%) and Indonesia to 2.3 million bales (+4%).

2007/08 cotton mill use is rising in Central Asia (+9%) and South America (+2%) but declining in Turkey (-6%), the United States (-7%) and the European Union (-17%). In 2008/09 cotton mill use is expected to continue increasing in Central Asia (although at a slower pace of +7%), but to decline in South America (-3%), the United States (-4%), Turkey (-5%) and the European Union (-5%). U.S. mill use is projected at 4.4 million bales in 2008/09.

Cotton's share of the world textile market declined by ten percentage points to about 40% between 1986 and 2000. Afterwards, due to more competitive cotton prices and the rapid expansion of cotton mill use in China after its incorporation into the WTO in 2001, cotton's share of the world textile market stabilized at around 40%.

Preliminary data suggests that world textile fiber consumption increased by 4.8% to a record of 311 million bale equivalents in calendar year 2007, an increase of 14 million bales over the previous year. Cotton products accounted for 32% of the additional consumption of textile fiber products in 2007, down from 51% in 2006, while the remaining 68% of increased fiber use was shared by wool, cellulosic and non-cellulosic fibers. The driving force behind the increase in fiber consumption was the global economic expansion.

Preliminary data suggest that world demand for non-cotton fibers increased by 5.4% in 2007, compared to 3.8% in 2006, to 187 million bales. World non-cotton fiber consumption expanded at a higher rate than world cotton consumption in 2007 and, consequently, the market share of cotton decreased from 40.2% in 2006 to 39.8% in 2007.

Textile fiber prices increased in real terms for the first time in four years in calendar year 2007: nominal U.S. polyester staple prices increased by 7.2%, and the Cotlook A Index increased by 10.2% to its highest level since 1998. In 2007, the rise in cotton prices made cotton relatively more expensive with respect to non-cotton fibers than in 2006, as measured by the 2.5% increase in the relative price of cotton to non-cotton fibers.

In order to forecast cotton consumption, the Secretariat has simulated potential scenarios with different levels of world economic growth and relative prices of cotton and polyester. The simulation results indicate that textile fiber consumption will grow to about 322 million bales in 2008 and to between 331 and 340 million bales in 2009. However, the simulations indicate that cotton consumption will increase slightly in 2008 to just over 122 million bales but decline, or at best remain unchanged, in 2009. Consequently, cotton's share of fiber use is expected to fall to about 39% in 2008 and to about 37.5% in 2009.²

Increased World Cotton Trade Driven by Chinese Imports

World cotton trade expanded for five consecutive seasons, from 27 million bales in 2000/01 (30% of world production) to a record 45 million bales in 2005/06 (38% of world production). Chinese imports were the main driver of this expansion: they grew from 249,000 bales in 2000/01 (1% of world cotton imports) to 19.3 million bales in 2005/06 (43% of world imports), fueled by increasing domestic mill use. However, in 2006/07, world imports dropped by 15% to 38 million bales. Despite continued growth in Chinese cotton mill use, Chinese imports fell by almost half to 10.6 million bales. A record crop, an increase in the duty rates for low-priced cotton under the sliding-scale duty system, a reduced gap between Chinese and international cotton prices, the fact that apparently no cotton was imported for the national cotton reserve (as was the case in 2005/06), and the auction of national reserve stocks in the last two weeks of the season led to reduced Chinese imports in 2006/07.

In 2007/08, world cotton trade is estimated essentially unchanged at 38 million bales due to large declines in imports by the EU-27 (-18%) and Turkey (-14%). Chinese mill use is projected to increase (+3%) in 2007/08, while Chinese production is projected essentially unchanged, and mills are expected to import 12% more cotton (12 million bales) so as not to deplete their stocks. Imports by the rest of the world are forecast down by 4% to 26 million bales. In 2008/09 Chinese imports are expected to pick up again and expand to 15 million bales (+26%), more than offsetting the projected decline in imports by the rest of the world to 25 million bales (-4%). As a result, total world imports are forecast up by 5% to 40 million bales in 2008/09.

U.S. exports are expected to increase from 13 million bales in 2006/07 to 14.2 million in 2007/08, mainly due to the increased Chinese demand, as well as the high stocks accumulated during 2006/07. The share of the United States in world exports is expected to increase from 35% in 2006/07 to 38% in 2007/08, whereas the share of India is expected to increase from 12% to 15%. U.S. exports are projected to rise to 15 million bales in 2008/09 (6%), due to the availability of large beginning stocks. Indian exports are expected to increase to a record of 6.9 million bales in 2008/09 (+16%), as domestic supplies are forecast to continue to grow faster than domestic mill use. Brazilian exports are forecast at 2.2 million bales, as a result of rising U.S. and Indian exports. Uzbek exports are forecast at 3.8 million bales and the CFA zone is forecast to increase exports to 3.1 million bales (+11%). However, exports from Australia are expected to decline to 1.1 million bales (-11%), the lowest since 1987/88. The U.S. share of world exports is expected to remain above one-third in 2008/09, while the share of India is expected to increase to 17%.

Cotton Prices Higher in 2008/09

Cotton prices have been trending upwards, and the Cotlook A Index is expected to average 73 cents in 2007/08. The ICAC price model 2007 predicts a season-average Cotlook A Index of 77 cents per pound in 2008/09, with a 95% confidence interval ranging from 64 to 90 cents per pound. The main reason for this projected price increase in 2008/09 is the expected decline in the stocks-to-mill use ratio in the World-less-China (Mainland) from 59% in 2007/08 to 56% in 2008/09. The stocks-to-mill use ratio outside China is expected to increase in 2009/10, possibly leading to lower prices during that season.

² COTTON: Review of the World Situation, Volume 61, Number 4, March-April 2008.



SUPPLY AND DISTRIBUTION OF COTTON

Years Beginning August 1

	2004	2005	2006 Est.	2007 Proj.	2008 Proj.	2009 Proj.
	Million 480-Lb. Bales					
BEGINNING STOCKS						
WORLD TOTAL	40.45	53.98	56.72	57.12	55.3	52.4
CHINA (MAINLAND)	11.25	12.04	18.33	15.86	13.6	13.3
USA	3.45	5.50	6.07	9.48	9.9	6.2
PRODUCTION						
WORLD TOTAL	124.11	117.28	122.45	120.66	119.6	123.4
CHINA (MAINLAND)	32.54	30.39	36.63	37.10	36.3	37.0
INDIA	18.97	18.82	21.86	24.60	25.9	26.9
USA	23.25	23.89	21.59	19.21	15.8	16.1
PAKISTAN	11.20	9.59	9.51	8.47	9.1	9.8
BRAZIL	5.96	4.77	7.00	7.14	6.4	6.6
UZBEKISTAN	5.21	5.56	5.38	5.51	5.4	5.5
OTHERS	26.97	24.26	20.48	18.63	20.7	21.5
CONSUMPTION						
WORLD TOTAL	108.89	115.03	122.49	122.52	122.5	123.4
CHINA (MAINLAND)	38.12	43.35	49.60	51.09	51.6	52.6
INDIA	15.00	16.79	18.06	18.60	19.0	19.4
PAKISTAN	10.68	11.63	12.22	11.61	11.6	11.8
EU, C. EUR. & TURKEY	10.71	9.79	9.67	8.79	8.4	8.0
EAST ASIA & AUSTRALIA	9.13	8.66	8.51	8.35	8.2	8.2
USA	6.69	5.87	4.94	4.60	4.5	4.4
BRAZIL	4.31	4.45	4.57	4.57	4.3	4.1
CIS	2.82	2.91	3.13	3.08	3.2	3.2
OTHERS	11.43	11.57	11.79	11.83	11.7	11.6
EXPORTS						
WORLD TOTAL	35.63	44.68	37.39	37.87	40.0	40.1
USA	14.44	17.55	13.01	14.20	15.0	12.4
INDIA	0.62	3.45	4.41	5.97	6.9	7.8
UZBEKISTAN	3.90	4.68	4.50	3.90	3.8	4.1
CFA ZONE	4.29	4.64	4.26	2.78	3.1	3.6
BRAZIL	1.56	1.97	1.30	2.30	2.2	2.6
AUSTRALIA	2.00	2.88	2.14	1.24	1.1	1.6
IMPORTS						
WORLD TOTAL	34.34	44.62	37.77	37.86	40.0	40.1
CHINA (MAINLAND)	6.40	19.29	10.59	11.83	15.1	15.8
EAST ASIA & AUSTRALIA	9.52	8.16	8.76	8.28	8.1	8.1
EU, C. EUR. & TURKEY	6.75	6.00	6.32	5.35	5.3	5.0
PAKISTAN	1.76	1.61	2.28	3.22	2.7	2.3
CIS	1.59	1.53	1.48	1.28	1.2	1.2
TRADE IMBALANCE 1/	-1.29	-0.06	0.38	-0.01	0.0	0.0
STOCKS ADJUSTMENT 2/	-0.40	0.55	0.06	0.00	0.0	0.0
ENDING STOCKS						
WORLD TOTAL	53.98	56.72	57.12	55.25	52.4	52.4
CHINA (MAINLAND)	12.04	18.33	15.86	13.61	13.3	13.4
USA	5.50	6.07	9.48	9.90	6.2	5.5
ENDING STOCKS/MILL USE (%)						
WORLD-LESS-CHINA (M) 3/	59	54	57	58	55	55
CHINA (MAINLAND) 4/	32	42	32	27	26	25
COTLOOK A INDEX 5/	52.20	56.15	59.15			

1/ The inclusion of linters and waste, changes in weight during transit, differences in reporting periods and measurement error account for differences between world imports and exports.

2/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated.

3/ World-less-China (Mainland) ending stocks divided by world-less-China (Mainland)'s mill use, multiplied by 100.

4/ China (Mainland)'s ending stocks divided by China (Mainland)'s mill use, multiplied by 100.

5/ U.S. cents per pound.



International Cotton Advisory Committee

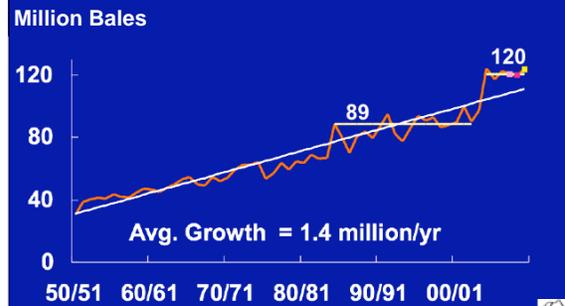
U.S. Cotton

	07/08	08/09
Beg. Stks.	9.5	9.9
Production	19.2	15.8
Imports	0	0
Mill Use	4.6	4.5
Exports	14.2	15.0
End. Stks.	9.9	6.2
Stks/Use	53%	32%

World Cotton

	07/08	08/09
Beg. Stks.	57.1	55.3
Production	120.7	119.6
Imports	37.9	40.0
Mill Use	122.5	122.5
Exports	37.9	40
End. Stks.	55.3	52.4
Stks/Use	34%	32%

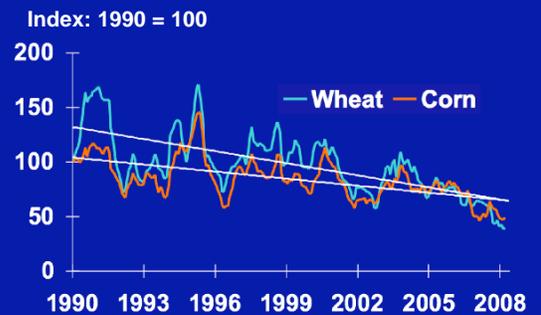
Cotton Production

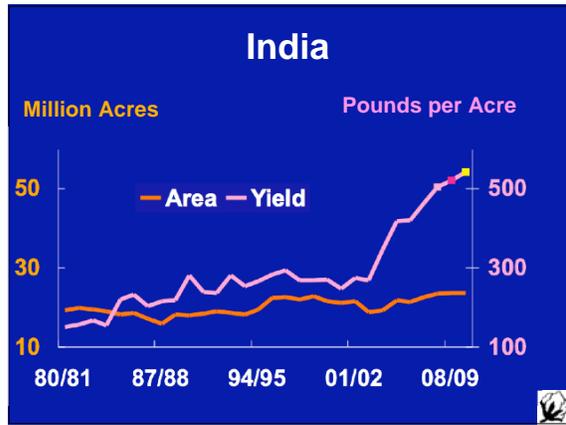
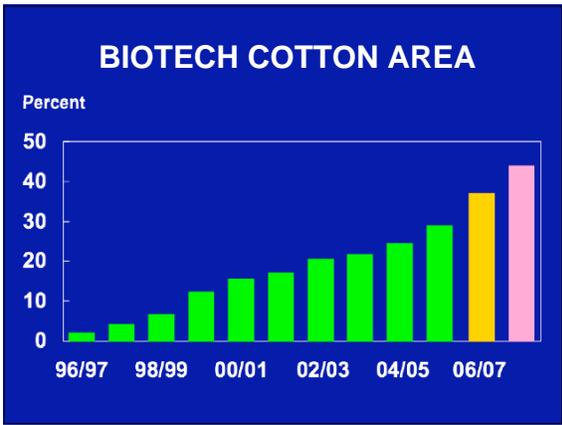
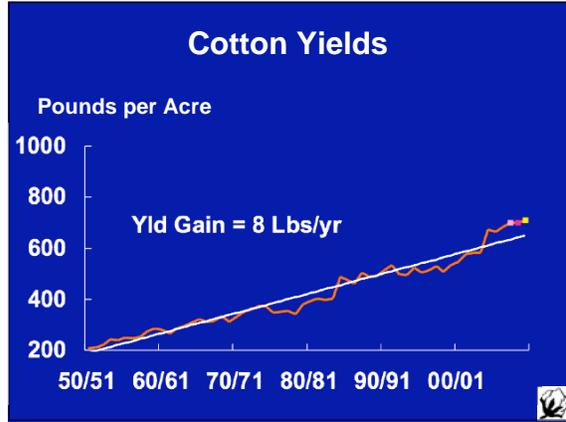
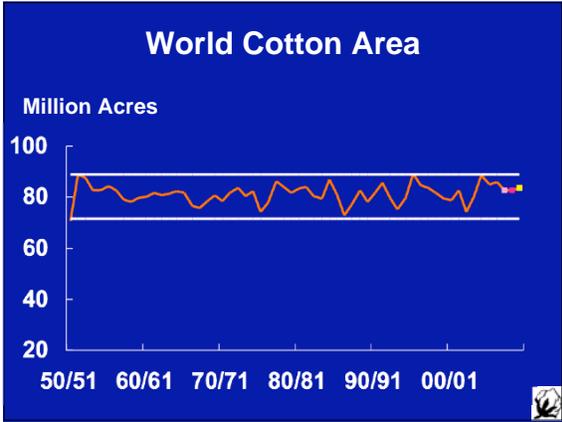


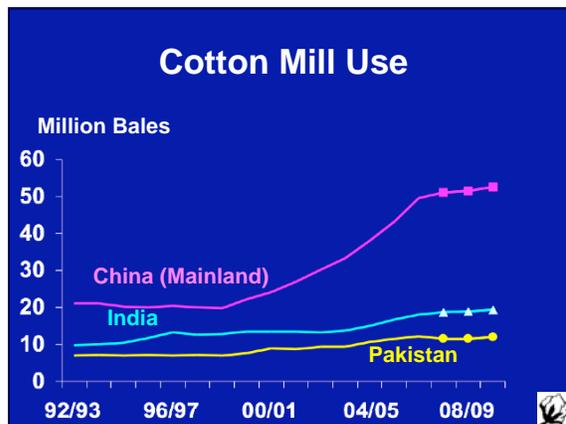
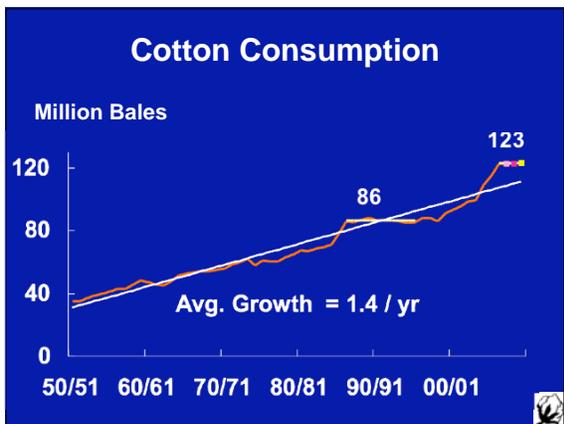
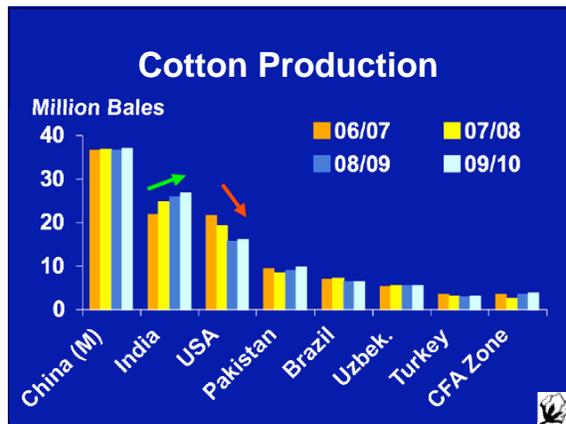
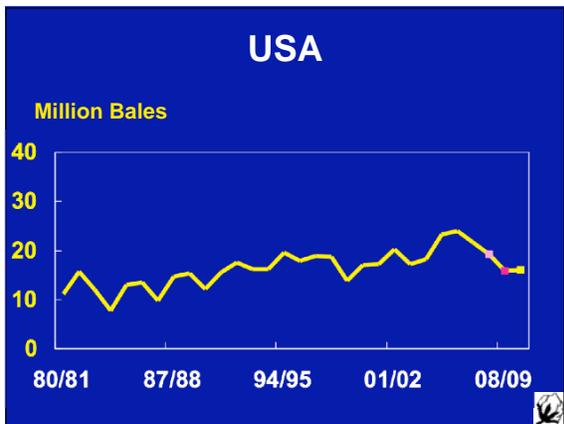
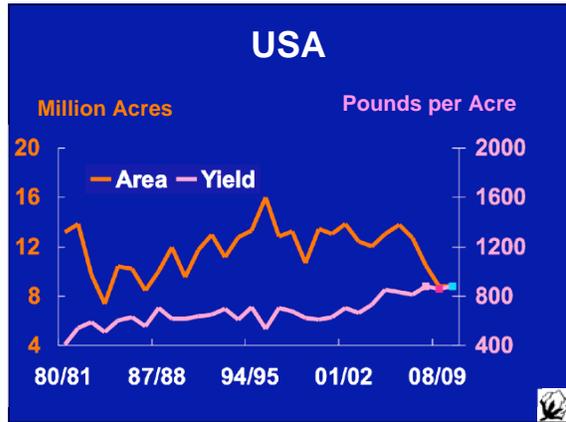
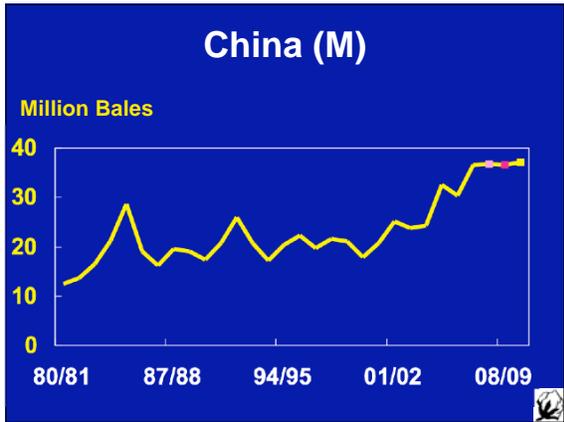
Cotlook A Index

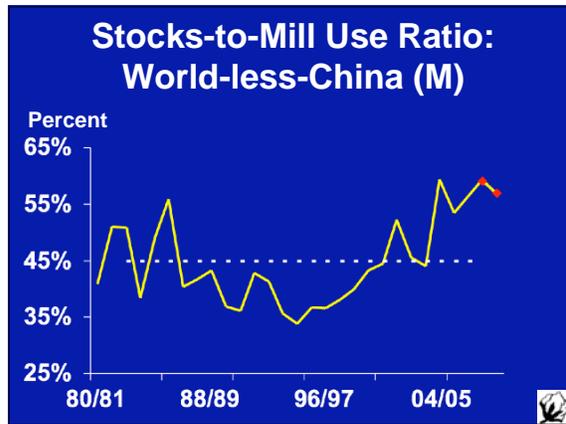
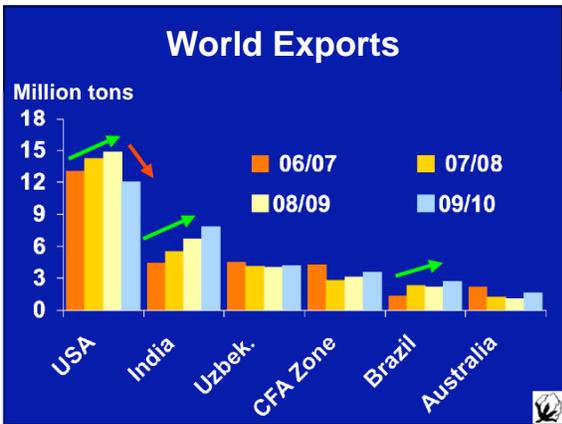
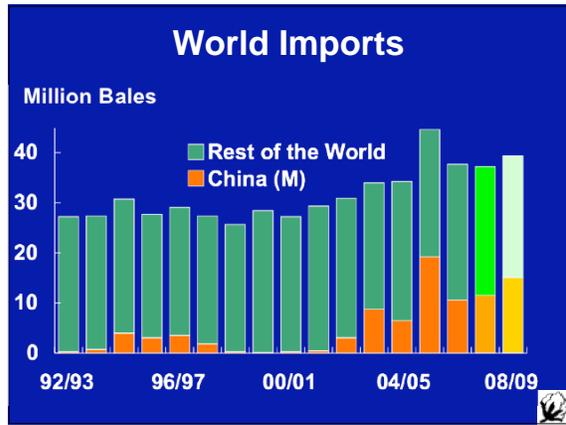
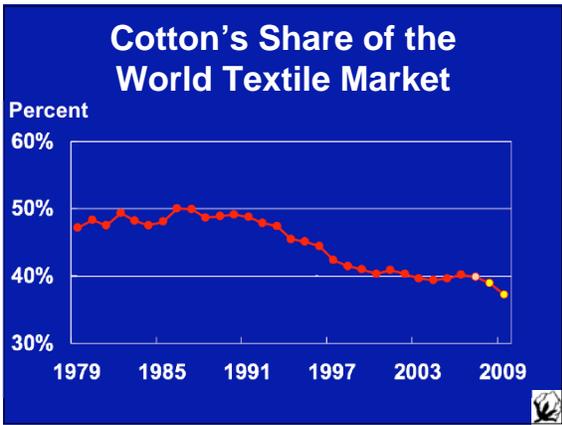
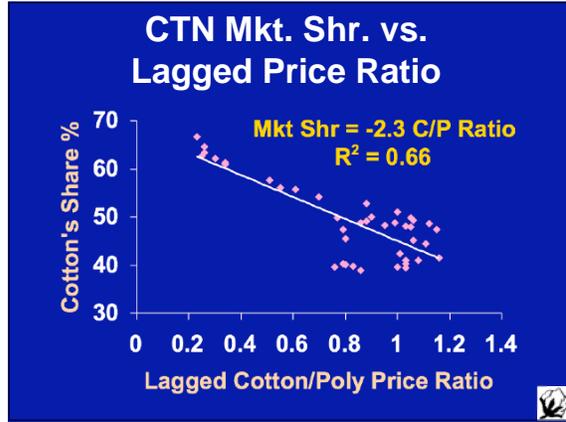
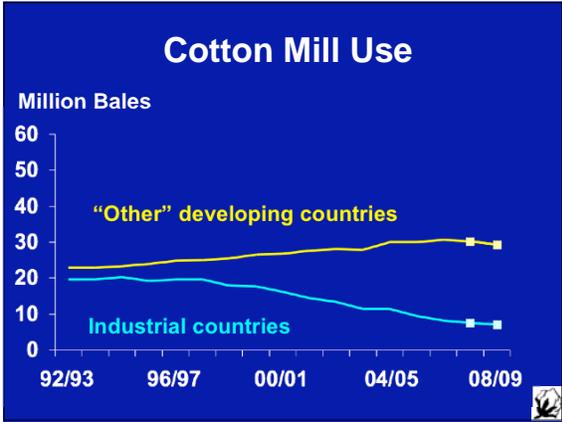


Cotton Price Ratios









Cotlook A Index

Season-average (US cents/lb)

