

World Cotton Demand Will Likely Fall This Coming Season



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The underlying story in the cotton market remains the consumer. The October 17 edition of this newsletter outlined the fact that the market could not overcome its current peril of depressed prices in the near term, and in fact, that a market revival was as much as 24 months away. Nothing has changed in that arena. The cotton market will continue its limit up and limit down moves in sympathy with reports of consumer spending. Even though the general price level of cotton has declined significantly, market volatility has not declined. Price volatility will decline in the coming months but, will remain for at least the next six months.

For the individual perception is reality. The individual is the consumer, thus the consumer's reality is that banks are broken, labor costs have bankrupt the U.S. automotive industry and only about half of that sector has any chance of survival and the textile industry has already moved offshore. It is these perceptions that led the consumer to make significant reductions in his expenditures. Consumers typically take as much as two years before there perceptions change enough before they return to the marketplace.

The early years of this decade ushered in the demise of the U.S. textile industry. The global-

ization of respective economies around the world was the basis for this demise. Those same factors are in play throughout the U.S. as well as the economy in all other countries. The U.S. automotive industry is now in the beginning of the demise that struck the U.S. textile economy. Just as other countries proved their textile production was equal to or better than U.S. textile products, the world automotive industry is, and has been for a number of years, demonstrating that their products are equal to those in the U.S. Just as the consumer opted to purchase non U.S. produced textile goods, those same consumers are now rejecting the U.S. company based vehicles in favor of those produced by non U.S. companies.

It is the consumer that is in charge of the market, whether it be for textile goods or for automobiles. A healthy world cotton industry generates large weekly export sales when prices fall. However, with the cotton prices in the mid 40's, and only a few days removed from trading 30's, and only a couple of months removed from trading in the 60's, cotton export sales have significantly declined. The reason: It does not matter how low cotton prices might decline, there is only limited demand. World cotton demand will likely fall as much as eight million bales during the coming season. How much is eight million bales, about twice the size of the U.S. domestic textile industry?

U.S. cotton acreage for 2009 appears on track to fall to eight million acres or slightly lower. Yet, at that level, world carryover will still approach 56 million bales, or almost a record level. As was noted in the October 17 newsletter, the cotton market faces 24 months before prices can climb as high as 60 cents. Δ