

## COTTON - SITUATION AND SHORT TERM OUTLOOK

Bureau of Agricultural Economics

Canberra

The following paper outlines the Bureau's latest outlook for the Australian cotton industry as recently published in the Quarterly Review of Rural Economy Vol. 8, No. 3 August 1986.

Further discussion on the background and effects of the US farm bill and the medium term outlook for cotton will be presented at the Conference. This discussion will be based on this paper.

**Significant falls in world prices**

World cotton prices continued to decline during 1985-86. The Liverpool 'A' index averaged US90.6c/kg in June 1986 and is forecast to average US80c/kg in 1986-87, 42 per cent below the June 1985 level. This continued fall is expected because of high stock levels and the release of previously unavailable stocks in the United States. These US stocks will be made available for release under provisions of the 1985 US farm bill.

World stock levels continued to be very high during 1985-86 and are expected to fall only slightly from the record 10.33 Mt in August 1986 to 10.3 Mt in August 1987 (see diagram). With high levels of stocks continuing to overhang the market, price recovery is unlikely before 1987-88. Some improvement in prices can then be expected as total supplies are projected to fall.

Production is forecast to be 16.5 Mt in 1986-87, down from the estimated 17.0 Mt in 1985-86 and the 1984-85 total of 18.9 Mt. Most of the decrease in world production is expected to result from reduced plantings, reflecting the low profitability of cotton growing worldwide.

World cotton consumption is forecast to rise by 0.4 Mt in 1986-87, twice the long-term growth rate, to 16.3 Mt. Mill consumption in the United States in particular is expected to rise markedly as US stocks and production become available at low prices under the provisions of the 1985 US farm bill. An important objective of the US farm bill is to facilitate liquidation of US stocks. In June 1986, about 1 Mt of stocks held by the US Commodity Credit Corporation were unavailable to markets because world prices remained below the prevailing loan rate. These stocks are now expected to become available from 1 August 1986 under the new marketing certificate program of the 1985 US farm bill.

The released stocks will be supplied to a diminishing export market for non-US exporting countries and the consequent intense export competition, together with continuing large world supplies of cotton, is expected to keep world cotton prices very weak during 1986-87. In the longer term, the rundown in US stocks should contribute to a price recovery.

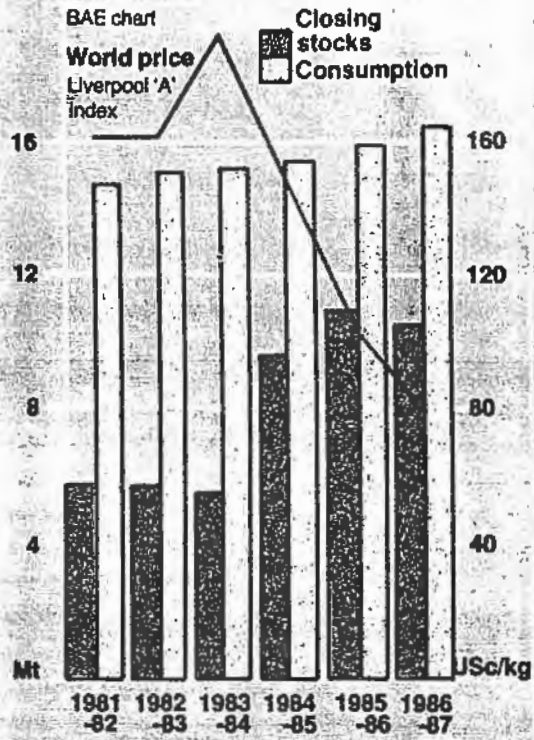
### Returns to Australian growers to fall markedly

Australian production is estimated to have risen slightly from 249 kt in 1984-85 to a record level of 253 kt in 1985-86 despite a 5.8 per cent decline in plantings. Record yields were again achieved from the 173 000 ha planted in 1985-86. The 1985-86 crop is mostly Deltapine 90 of middling grade or better with staple lengths of 1 3/32". With returns to cotton production relative to alternative enterprises expected to fall significantly in 1987, the area planted to cotton is forecast to decline by over 25 per cent to under 130 000 ha in 1986-87 (see diagram).

While Australian cotton prices are forecast to fall significantly in 1986-87 as the world price declines, some moderating effect is likely to occur as a result of the depreciation of the Australian currency against the US dollar. Nevertheless, the Australian base price is forecast to fall by 25 per cent to A130c/kg in 1986-87.

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**World price, closing stocks and consumption**



**Australian price and area planted**

