PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Most US cotton production traditionally went to domestic mills, now it goes abroad

During the last half century, cotton production has had its share of ups and downs; though this year's cotton production is expected to be near what it was fifty-plus years ago. Cotton demand has also been variable, but what is most striking is the shift in where the cotton is utilized, that is, processed. Traditionally domestic demand in the form of purchases by US cotton mills dominated US cotton demand, but in recent years export demand has become as dominate as domestic demand used to be.

US cotton production in 1960 was 14.2 million bales and is projected to be about 1 million bales lower in 2013 at 13.1 million bales. But during that 53-year period US cotton production has been as low as 7.4 million bales (1967) and as high as 23.9 million bales (2005), with year-to-year swings of 2 million bales up or down not uncommon. Since the peak in 2005, cotton has lost out to corn and soybeans in the competition for row crop acres.

Cotton production in the US accounted for 31.6 percent of world cotton production in 1960, falling to 11.2 percent for the 2013 crop year. During that period, non-US cotton production grew from 30.8 million bales to 103.3 million bales.

Among world cotton producers in 2013, China comes in first with 33 million bales in 2013 closely followed by 28 million bales of production in India. The US production of 13.1 million bales puts the US in third place followed by Pakistan with 9.7 million bales and Brazil with 7.0 million bales.

In the years between 1966 and 1981, the US domestic demand for cotton steadily declined from 9.5 million bales to 5.1 million bales. Domestic demand then began an upward trend in 1982, a trend that continued until 1997. Following the domestic demand for 11.4 million bales of cotton in 1997, the trend has been downward largely reflecting the offshoring of cotton clothing production, hitting 3.5 million bales in 2013.

In 1965, US domestic demand accounted for 75.3 percent of total US utilization of cotton; the other 24.7 percent went to exports. For the just ended 2012 crop year, the numbers have more than reversed with exports accounting for 77.6 percent of total US utilization, with the balance going to domestic demand. The USDA projects 2013 domestic demand (3.5 million bales) to grow to 24.6 percent of US utilization in 2013 because exports (10.6 million bales) are projected to fall faster than domestic demand.

The US led the world in domestic consumption of cotton in 1960 followed by China and India. By 2013, the US is projected to be in sixth place with 3.5 million bales. China is projected to lead the world in the domestic consumption of cotton at 36 million bales. India comes in at second at 22.5 million bales followed by Pakistan (11.7 million bales). Brazil's domestic consumption of cotton is 4.1 million bales with Bangladesh following closely at 3.8 million bales.

For most of these countries, a large portion of the domestic consumption of cotton involved converting the cotton into cotton finished goods for export while in the US most of the finished goods remained in the country.

So what does all this mean for the future? Well, as economists like to say, it depends. Stripped to the essentials, future technological advances and accompanying changes in per unit costs will be key.

After accounting for policy effects, the future size of US cotton demand, and where US cotton will be processed into clothing, will be importantly influenced by two costs compared to major cotton competitors: the US cost of producing cotton and the US cost of manufacturing cotton textiles.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of UT's Agricultural Policy Analysis Center (APAC). Harwood D. Schaffer is a Research Assistant Professor at APAC. (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu and hdschaffer@utk.edu; http://www.agpolicy.org.