

B. MARKETING

Factors Affecting Producer Prices of Arizona Cotton

Robert S. Firch

This report is based upon the bid-sheet sale of 1963 and 1964 crop cotton in central Arizona. The cotton was ginned at 26 different gins in Maricopa and Pinal Counties and sold in 2,775 lots in 1963 and 2,631 lots in 1964.

Number of bales per lot

In nearly all weeks studied the price received increased as the size of lot increased up to truck load size of 80 bales. For individual weeks in 1963 lots containing 80 bales brought from \$.67 to \$5.27 more per bale than lots containing only one bale. In 1964 the larger lots brought \$.55 to \$3.33 more per bale than the single bale lots.

Uniformity of bales within the lot

In most weeks studied the price increased as the number of grade and staple combinations within the lot declined. For individual weeks of the 1963 season the premium for lots with only one grade and staple rather than several ranged from \$.83 to \$2.70 per bale. In 1964 the range was \$.62 to \$1.74 per bale.

Interaction of lot size and uniformity

A study of the interaction between lot size and uniformity revealed that uniformity was more essential for obtaining a high price than lot size. In combining different grades and staples to obtain a larger lot size the loss from reduced uniformity will in almost every case be greater than the gain from larger lot size. Therefore, it appears that the grower should insist that his cotton be sold in lots containing only one grade and staple even if it is necessary to sell some cotton in lots containing just one bale. Lot size may be increased by combining the cotton of several growers at a gin.

Cotton varieties

The analysis measured the average premiums paid for Acala 44 and 4-42 over other varieties while allowing for the effects of other factors studied. In each of the weeks that had enough lots of Acala to allow a meaningful estimate, the premiums were statistically significant.

<u>1963</u>		<u>1964</u>	
<u>Week Ending</u>	<u>Acala Premium per Bale</u>	<u>Week Ending</u>	<u>Acala Premium per Bale</u>
October 11	\$8.10	November 20	\$18.05
October 18	7.05	December 4	18.50
October 25	3.10	December 11	21.65
November 8	9.00	December 18	19.20
November 15	9.15	January 8	3.10
November 22	6.65	January 15	4.05
November 29	7.65		
December 6	5.00		
December 13	4.65		
December 20	4.80		
January 3	4.45		
January 10	3.00		
January 17	.85		
January 24	1.15		

Type of harvest

In only three weeks during the 1963 and 1964 season did the market reflect significant premiums for handpicked cotton. These premiums ranged from \$1.20 to \$3.20 per bale. It appears that growers can expect premiums for handpicked cotton only when it results in improved grade and not merely because it is handpicked.

Density of pressing

The analysis found that bales pressed to standard density at the gin did not bring consistent and significant premiums over cotton pressed to the more common flat bale density.

Week of the season

In 1963 the premium over government loan value ranged from \$-.65 to \$8.85 per bale for individual weeks and \$6.14 per bale for the season. For 1964 the range for individual weeks was \$.60 to \$7.30 per bale and the season average was \$4.96 per bale.

Government discounts for light-spotted and grassy cotton

After adjusting for the effects of other factors that affect grower prices of cotton the analysis found that the government loan value excessively discounted light-spotted and grassy cotton in both years studied. In 1963 the average excess discount for light-spotted cotton was \$2.07 and for 1964 it was \$1.18 per bale. In 1963 the average excess discount for grassy cotton was \$2.65 and for 1964 it was \$.95 per bale.

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Cotton Price Prospects for 1966

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Under the Food and Agriculture Act of 1965, the loan rates for the 1966-69 cotton crops will be dropped to world price levels. For the 1966 crop, the national average loan rate will be 21 cents per pound for Middling 1-inch cotton. Taking into consideration the locations, grades, and staple lengths of cotton that are grown in Arizona, the average loan rate on Arizona cotton in 1966 will be about 20 cents per pound. This does not include "below grade" cotton, which is not eligible for the loan. The Government loan rates for the 1966 cotton crop will be about eight cents per pound less than for the 1965 crop.

In recent years, a reduction in Government loan rates from one year to another has been followed by a drop of approximately the same amount in the prices received by farmers. However, it is unlikely that the market price of cotton will fall by as much as the eight-cent per pound reduction in loan rates in 1966.

Under the 1966 Cotton Program, U.S. market prices will reflect world market prices, except that domestic prices cannot fall significantly below the floor set by the loan rates. U.S. market prices have in recent years been supported at a level substantially above world prices, and the level of exports has been maintained with substantial export subsidies. In addition, Public Law 480 and other special Government programs have allowed cotton to be exported with payment in other terms than U.S. dollars. Because the United States has acted as a residual supplier, world prices have been held closely to the level of U.S. domestic prices less the export subsidy. Since April 1964, domestic mills have also been able to purchase domestic cotton for net prices at or close to world market prices. This has been made possible by the payment by the Government of a domestic equalization payment equal to the export subsidy.

Under the 1966 Cotton Program, the equalization payments on both export and domestically-consumed cotton that have been necessary to maintain the prices of cotton to U.S. farmers above world market prices have been