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

Robert S. Firch

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 eliminated. Without this subsidy, domestic prices will be at about world market levels which in turn is influenced by the level of U.S. exports. Estimates of the prices that Arizona farmers might have received for cotton exported in 1962-65 without the export subsidy is shown below:

Crop Year	Cents per pound: Average loan rate on Arizona cotton[1]	Season average price received by Arizona farmers	Export equalization payment	Estimated farm price without export equalization payment
1962	31.26	31.33	8.5	22.83
1963	31.05	31.30	8.5	22.80
1964	28.56	28.56	6.5	22.06
1965[2]	27.95	28.00	5.75	22.25

[1] Does not include "below grade" cotton, which is not eligible for the loan.

[2] Preliminary estimate.

The estimated price that Arizona farmers would have received for their 1962-65 crops is 2.1 to 2.8 cents per pound higher than the estimated average 1966 loan rate of 20 cents per pound on Arizona cotton.

Sales of cotton for export from Government stocks since the beginning of the 1965 crop year have been made at prices approximately three cents per pound higher than the national average loan rate that will prevail for the 1966 crop.

The carryover of upland cotton at the beginning of the 1966 crop year is expected to reach an all-time high of 16 million bales, according to the U.S. Department of Agriculture. Under the 1966 Cotton Program, the acreage of cotton planted in the United States is expected to be reduced at least 12-1/2 percent below that of recent years, and it might be reduced as much as 30 percent. Assuming no change in the average yield per acre, 1966 production would be 10.5 to 13.2 million bales, depending on the extent of acreage reduction. Mill consumption and exports of cotton during the 1963, 1964, and 1965 seasons averaged about 13.6 million bales annually. If a similar quantity of cotton is consumed and exported during the 1966 season, it may be necessary to take 0.4 to 3.0 million bales from the carryover to supply the demand. Most or all of this will come from the Government-owned stocks of cotton.

The Food and Agriculture Act of 1965 provides that in years when estimated production is less than disappearance, CCC is required to sell or make available for unrestricted use this difference at current market prices.

Also, price support and diversion payments to producers will be made through certificates for which farmers will receive cash but which CCC will redeem for cotton at a value per pound not less than the loan rate. The CCC will make its stocks of cotton available for sale at prices which will permit the new crop cotton to move in an orderly manner largely through normal trade channels and which will retain an "adequate" share of the world market for cotton produced in the United States. Minimum prices at which CCC stocks will be sold have not yet been determined by the U.S. Department of Agriculture.

It is estimated, however, that the average price of the 1966 crop of Arizona cotton will likely be in the range of 20-1/2 to 22-1/2 cents per pound.

Acala varieties sell for a higher price than Deltapine. In 1963, the average premium paid for Acala 44 and 4-42 over Deltapine was 1.1 cents per pound, while for the 1964 crop, the premium was 2.9 cents.[1/] It is estimated that the 1963 crop of Acala 1517 cotton sold for five cents per pound more than Deltapine.[2/] Taking into consideration the price premiums on Acala cotton, the following are estimated to be the approximate prices that might be expected for various varieties in 1966:

Variety	Cents per pound
Deltapine, Stoneville	20 - 22
Acala 4-42, A-44, Hopicala	22-1/2 - 24-1/2
Acala 1517	25 - 27
Average, all varieties	20-1/2 - 22-1/2

The average loan rate on the 1966 crop of long staple cotton will be the same as on the 1964 and 1965 crops. The average price received by Arizona farmers for the 1964 crop was 48.2 cents per pound. Similar prices will likely prevail for the 1966 crop.

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[1/] Firch, Robert S., Factors Affecting Producer Prices for Arizona Cotton--1963 and 1964 Season, Arizona Agricultural Experiment Station report in process of publication.

[2/] See the article in this report entitled, "Acala 1517 Commands Five-Cent Premium Over Deltapine."