Cotton prices have been low during the last 18 months because of Government's efforts to suppress inflation and abnormally high U.S. average yields in 1981 and 1982. Prices should recover in the first half of 1984 if the Government obtains a high rate of participation in the PIK Program.

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The early 1983 outlook on the cotton industry remains bleak. Substantial improvement in cotton prices is probably at least 12 months away. Important decisions regarding participation in Government programs must be made by March 11.

What are the causes of the low cotton prices over the last 18 months? The causes lie in past Government policies and unusually high per acre yields of cotton in the U.S. in 1981 and 1982. Government policies in the 1965-80 period led to a growing inflation problem. Solving the inflation problem has been more painful than most people expected. The inflation problem has presently been greatly diminished, but money supply statistics suggest that inflation may be a growing problem again by the mid 1980's. The great reduction in inflation as measured by price index numbers is explained almost entirely by falling interest rates and falling raw commodity prices, especially oil and agricultural commodity prices. Although interest rates have fallen substantially in the last 6 months, the interest rates have lagged behind the falling rate of inflation. The consequence is that interest rates after adjustment for inflation remain abnormally high, and the dollar is very strong in international exchange which discourages foreign buyers of U.S. cotton.

The current low price problem in cotton has been greatly compounded by above normal U.S. average yields in 1981 and 1982. The average yield over the 1976-80 period was 471 pounds per acre while the 1981 yield was 543 and 1982 was 613 pounds. The August 1, 1983, carryover of cotton is currently projected to be 8.4 million bales. If 1981 and 1982 yields had been at the 1976-80 level the carryover would be only 3.5 million bales with current levels of domestic consumption and exports. Expected carryover of 3.5 million bales is low enough to cause cotton prices to be 15 to 20 cents higher per pound than these prices have been in recent weeks.

Money supply expansion which began in the fall of 1981 fueled a dramatic rise in stock market prices, gold and silver in the last half of 1982. Under normal supply conditions the price of cotton would have also risen substantially. However, the huge supplies of all of the major agricultural commodities prevented any notion of shortage to get established and lead an increase in the prices of agricultural commodities. Any substantial recovery in cotton prices will not occur until there is some substantial basis for believing that the August 1, 1984, carryover will be below 4 million bales.

The Government PIK Program has the potential to reduce 1984 carryover enough to move cotton prices up. Whether the potential is realized will primarily be determined by whether the growers with very large cotton acreages find large acreage reductions and participation in PIK to their advantage. Farmers with cotton acreages small enough that the $50,000 limit is not a problem should generally find that they are ahead by going into the PIK program. Larger farmers will need to do some careful calculations on a case-by-case basis while applying some fairly complex rules.

Economic Advantage of Producing Cotton with Drip Irrigation

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Summary

There are limited data on the cost of producing cotton using a drip irrigation system. Using the best data available it appears that it would be profitable to install a drip irrigation system if the yield could be increased by one and one-half bales per acre over that expected to be produced using furrow irrigation. This estimate is based on the costs of producing cotton in Pinal County.

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