Economics

OUTLOOK ON COTTON MARKETS AND MARKETING FOR 1984

Robert S. Firch, Professor of Agricultural Economics

The PIK Program combined with less favorable weather in the Southeast and Delta regions dramatically reduced the amount of cotton produced in the U.S. in 1983. Unfortunately, this was partially offset by substantially increased production in other producing countries. The net effect was that August 1, 1984, U.S. carryover is now expected to drop to 3.6 million bales from 7.9 million bales a year early. In terms of solving the excessive supply situation, the PIK Program, with some cooperation from the weather, was dramatically successful. This improved supply situation has resulted in some improvement in producer prices for cotton during the 1983 crop harvest.

With the relatively small projected carryover, spot prices and December, 1984, futures prices are running somewhat below normal in January of 1984. This relatively poor price behavior is probably caused by foreign carryover of cotton projected to be down only one million bales, continued high real interest rates, and the continued strong dollar in foreign exchange which discourages foreign buyers from buying U.S. grown cotton. The fact that U.S. exports are now expected to reach 6.3 million bales in the current marketing year (5.2 million bales the year before) suggests that foreign production and, therefore, foreign carryover may be somewhat lower than currently expected.

One of the biggest uncertainties in early 1984 is the rate of farmer participation in the 1984 acreage reduction program. Participation in the program means a relatively certain and relatively high effective price for cotton with the target price at 81 cents per pound. It seems likely that as individual farmers face the decision on participation, most of them will find the benefits from the program more attractive than the freedom of unlimited planting and very great price uncertainty. Heavy participation in the program will mean rising market prices from spring to fall. Another cause of reduced cotton planting will be higher soybean prices. Soybean prices are up about 30 percent from a year earlier while cotton prices are up only about 15 percent.

This seems to be a year to go slow on forward contracting. Research has shown that in about two of three years the price of cotton rises from spring to fall. This means that forward contracting will reduce income in two of three years even though forward contracting does yield benefits other than increased income that results in some years.