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THE COTTON SITUATION

Summary

World cotton mill activity continued to be comparatively high during November and early December. In the United States, activity was especially high in comparison with most similar periods in recent years. This was also true to a considerable extent in the United Kingdom, Japan, China, and in some of the other leading cotton-consuming countries. In Germany and to a lesser degree in Italy, mill activity is being maintained at a fairly high level but only by the use of increasingly large quantities of rayon staple fiber as a substitute for cotton. While present conditions indicate that consumption of all kinds of cotton will be very high in the 1936-37 season as a whole, and while consumption of American cotton is being maintained by the very large consumption in the United States, foreign mills so far this season have used American cotton at a considerably slower rate and foreign cotton at a materially higher rate than in the first 4 months (August - November) of the past marketing year.

Cotton prices were steady during November but rose sharply in the first half of December. The average price for the month of November was 12.06 cents a pound compared with 12.07 cents in October and 11.77 in November of last season. The average for the weeks ended December 12, 19, and 26, were 12.61, 12.65, and 12.61 cents respectively.

Dominant price-strengthening factors have continued to be the high level of domestic cotton consumption and the relatively small supply of American cotton in trade channels. Announcements of the 1937 Agricultural Conservation Program for the South and reports of smaller crops in India and Brazil than at first had been anticipated, also have strengthened prices.

The December 1 estimate of the Crop Reporting Board placed the 1936 production in the United States at 12,407,000 bales compared with the November estimate of 12,400,000 and an actual production of 10,638,000 bales in 1935.

Exports of American cotton declined sharply in November, amounting to 690,000 running bales compared with 1,135,000 bales in November 1935. Exports of 2,303,000 bales for the 4 months, August to November, were 11 percent less than in the corresponding period last year.

Although the Indian cotton crop is believed to have been reduced by unfavorable weather, and the second estimate of output in northern Brazil is for a crop considerably smaller than originally forecast, the estimate of a world production in 1936-37 of 29,900,000 bales is not being revised downward. Preliminary indications point to a cotton acreage in southern Brazil much larger than in 1935-36, and reports thus far received from Russia and from the smaller producing countries, mainly Argentina, Uganda and Mexico, forecast a higher level of production for these countries than was originally used in making the present estimate of total world production. This season's crop in Egypt is estimated at a record high of 1,957,000 bales.

Domestic Prices Comparatively Steady in November but Rose
Sharply in First Half of December

The price of Middling spot cotton at the 10 markets averaged 12.06 cents in November compared with 12.07 cents in October and 11.77 cents in November 1935. The high for the month was 12.21 cents on November 30 and the low 11.91 cents on November 2. The averages for the weeks ended December 12, 19, and 26 were 12.61, 12.65, and 12.61 cents respectively.

The very high level of domestic cotton consumption and a small supply of cotton in trade channels in the United States continue to be important price-strengthening factors. Announcements relative to the Agricultural Conservation Program for 1937 and reports that the 1936-37 cotton crop in India and Brazil may be smaller than was indicated by earlier

estimates also apparently have contributed to the buoyancy of prices. The prices of Indian, Egyptian, and Brazilian cotton at Liverpool, expressed as a percentage of American, strengthened slightly in November as compared with October but remained such as to encourage foreign growths at the expense of American.

United States Exports Decline Sharply

Exports of cotton from the United States amounted to 690,000 running bales in November compared with 1,135,000 bales in November 1935. Shipments in the 3 months, August to October, were somewhat above the total for the corresponding months in 1935 but the very sharp decline during the month of November made total exports for the first 4 months of this season only 2,303,000 bales compared with 2,575,000 last year, a decline of 11 percent. In November, smaller quantities of cotton were shipped to all important foreign markets as compared with November 1935. The United Kingdom and France took 122,000 and 81,000 bales, respectively, or just about half the volume exported to each of these markets last year. Japan and Germany took 221,000 and 86,000 bales, respectively, compared with 286,000 and 137,000 respectively, in November 1935.

Exports from India in October were 114,700 bales, or 22 percent less than the corresponding month in 1935. Total exports for the period, August to October, however, were 378,200 bales compared with 355,500 last season and the average of 395,800 bales for the 10 years ended 1932-33. The bulk of the Indian crop does not start moving into trade channels until December and exports are usually at their highest in January, February and March. In the first 3 months of this season, as compared with last season, exports have been larger to Japan, France, Italy, and Belgium, and smaller to the United Kingdom, Germany and China.

Exports from Egypt to all countries amounted to 197,000 bales in October and 220,000 bales in November compared with 271,000 and 269,000 in the corresponding months of 1935. Exports for the season to date totaled 556,400 bales, a decrease of 19 percent from exports in the corresponding 4 months of last year but are 14 percent higher than average shipments in the corresponding period for the 10 years ended 1932-33. Decreased exports to Germany, France and Italy accounted for most of the decline in the total.

The Textile SituationWorld mills active - foreign consumption of American lags

Mill activity and cotton consumption throughout the world as a whole during the month of November continued to bear out the prediction made in the November issue of the Cotton Situation to the effect that the 1936-37 season will see a large consumption of all kinds of cotton. It seems likely, in the absence of unfavorable developments in political and economic conditions, that world consumption will surpass the record high level of 1935-36. Cotton is being used at a high rate in nearly all of the major cotton consuming countries, especially in United States, Japan, United Kingdom, China, and India. In addition, there has been a moderate amount of improvement in the textile situation in the former "gold bloc" countries. The present situation indicates that these conditions probably will more than offset the tendency to replace larger quantities of cotton with substitute fibers in Germany and Italy and the possibility of static conditions or moderately unfavorable developments in less important cotton consuming areas.

The outlook for foreign utilization of American cotton, however, is rather unfavorable as compared with last season. In foreign countries as a whole, consumption of American cotton has been considerably smaller and consumption of foreign cotton materially larger so far this season than in the corresponding months last year. It seems likely that larger supplies of foreign cotton, increased output of synthetic fibers, and the continued shortage of foreign exchange in some countries, together with barter arrangements for the purchase of foreign cotton, will result in decreased consumption of American cotton in foreign countries in 1936-37 as compared with 1935-36. This decrease will tend to offset the expected increase in consumption in the United States.

Domestic consumption and mill margins show further improvement

The domestic cotton textile industry continues to be very active. Bookings of new cloth orders by mills were smaller in the last half of November and early December than in the weeks immediately preceding, and in unfinished goods new orders probably fell a little short of production, according to the New York Cotton Exchange Service. However, mills possess such a large volume of unfilled orders that they are having to run at an extremely high rate in order to fill the deliveries specified in existing sale contracts. Mill activity was higher in November than in October, and mill margins (the difference between the estimated value of cloth obtainable from a pound of cotton and the market price of raw cotton) were considerably wider as the result of a further strengthening of cloth prices. Margins (based on 17 constructions of grey cloth) were 16.60 cents in November compared with 14.88 in October. This represents the sixth consecutive month in which the margin has averaged higher than that of the preceding month. Cotton consumption in November was 627,000 bales compared with 512,000 bales in November of last season. Consumption in the 4 months, August to November, totaled 2,477,000 bales, an increase of 29 percent over consumption in the corresponding period a year earlier.

European mills busy ^{1/}

Favorable developments in the cotton textile situation in the United Kingdom, France and Italy - notwithstanding some dark spots in the outlook, largely unchanged conditions in Central Europe, and the persistence of raw material scarcity in the otherwise still active German mills marked the European cotton industry in November.

British developments in the export field as well as domestic trading in cotton textile products were described as favorable, and mill activity expanded. Actual and impending increases in wages and other costs in production appear, however, to be of considerable concern to the British industry, especially in its bearing on the export outlook. French conditions have shown further improvement, with the domestic as well as the export position clearly profiting from devaluation.

Increased activity also was reported in the Italian cotton trade and in the industry manufacturing for export. The Italian cotton industry has made aggressive and strenuous efforts to regain its exports of cotton goods, and, aided by the lira devaluation and the new cotton allotment plan, apparently has been fairly successful thus far. For the home market, however, only very little raw cotton is being made available, substitute fibers playing the dominant role in supplying domestic needs. The Italian success in regaining some of its outlets in southeastern Europe has somewhat impaired the export business of Czechoslovakia and Austria in those markets. Otherwise the cotton mill situation in Czechoslovakia has improved, and in Austria it has held at favorable levels.

In Germany, the shortage of natural raw materials has continued; yet the current sale of finished textiles has remained satisfactory. It is evident that steadily increasing utilization of substitute fibers is the means by which the activity of the mills is being sustained at high levels.

Raw cotton buying by western European countries remained fairly favorable in November. Exchange restrictions continued to be hampering in Germany and Italy. However, the new cotton allotment plan for 1936-37 in Italy has tended to increase substantially both current buying and the arrivals of raw cotton. Austrian and Czechoslovak purchases were of fair volume, though somewhat hampered in the latter country by difficulties in obtaining foreign exchange.

The stocks of cotton at European ports showed their usual seasonal tendency to rise in November, but rose more this year than last year, and are now well above figures of November 1935, particularly at British ports. The outstanding increases as compared with last year are in the stocks of Brazilian cotton held at British ports and in American cotton at continental ports, though all staples except Egyptian are substantially higher in Great Britain.

^{1/} Prepared largely from a report from Lloyd V. Stoere, Agricultural Attache, at Berlin.

United Kingdom.- A fairly large volume of business was done during November, in both yarn and cloth in the United Kingdom. The enhanced level of demand resulted partly from accelerated retail turnover, and partly from improved exports and larger wholesale buying on account of actual and impending price increases. Lancashire spinners apparently operated at about 90 percent of their present day normal; many of the mills were on full time and order books fairly well filled beyond the first of the new year.

The outlook in Lancashire is viewed, however, with some uneasiness because of the recent increase in important cost items, such as wages to weavers and coal prices, and because of the possibility that wages to spinners may also have to be raised. The possible effects of those increases in production costs upon Lancashire's ability to maintain its exports of yarns and, more particularly, of piece-goods, are the cause of considerable concern. It thus remains to be seen whether the recent pick-up can be sustained, at least to the extent that it rests on better export demand.

Mill activity in the Lancashire cotton industry lagged in October, but has improved recently following a November revival in new orders. The number of cotton textile ^{workers} employed in mid-October, however, was slightly less than in September and also slightly less than in any recent year, excepting 1934. The decline, as compared with previous years, was most noticeable in the weaving branch of the industry. During November, the trade has shown, at least temporarily, increased strength as a result of favorable developments in both domestic and export conditions. The most encouraging factor in the situation is the fact that industrial activity in Great Britain continues to improve with corresponding decreases in unemployment.

There was a marked improvement in the exportation of cotton piece-goods and yarns in October, as compared with September, amounting to 16 percent in the case of piece-goods, and 11 percent in the case of yarns. All types of piece-goods shared in the expanded trade, bringing the October total above the corresponding figures of any recent year. This is an unexpectedly favorable showing and would mean much to the English cotton industry if it should be maintained. To some extent the pick-up is related to reviving world trade and is therefore encouraging. But it is also partly due to price and seasonal factors and therefore is probably temporary, especially in the face of current prospects of increased production costs in England.

The accumulated exports of cotton piece-goods for the first 10 months of 1936 were still 10,000,000 pounds, by weight, less than in January - October 1935. On the other hand, exports of yarns were 8,000,000 pounds greater than last year.

Germany.- Little change was noted in the German cotton textile situation during November, with the shortage of raw cotton tending to become more acute. Most of the cotton goods now produced are mixtures of cotton and staple fiber, and the point has been reached where spinners may be said to be willingly using large quantities of staple fiber. Cotton stocks in the country are reported very low, and incoming supplies of cotton spinning material continue much below last year and 3 years ago, though they are somewhat above the very low figures of 2 years ago.

The most important single source of German imports of raw cotton from August to October was Brazil, as was the case in the first several months of 1935-36; second in importance was Peru (for seasonal reasons), while last year United States cotton occupied second place.

German imports of raw cotton, by countries

Country	Aug. - Oct.		
	1934	1935	1936
	1,000	1,000	1,000
	bales <u>1/</u>	bales <u>1/</u>	bales <u>1/</u>
United States ..:	143	88	32
Brazil	9	106	60
Peru	18	51	42
India	18	32	28
Egypt	28	37	28
Others	24	83	41
Total	240	397	231

1/ Bales of 478 pounds.

An important development has been the recent price decree prohibiting any increase in textile prices above the levels of December 1, 1936. Selling prices, as the decree now stands, cannot be raised even if important items in production costs should increase. What repercussions this measure will have upon the trade in textiles and upon the hitherto favorable development of earnings in the German cotton textile industry cannot be foreseen, but it seems certain that a modification of the decree will take place if there should be any material advance in raw material costs.

Czechoslovakia.--Developments have continued to be on the favorable side, as a whole, in the Czechoslovak cotton textile industry during November, as a result of large orders placed by wholesalers in anticipation of price increases following devaluation. These are said to have enabled increased occupation in the mills, notwithstanding a renewed export offensive of the Italian cotton industry in southeastern Europe which is said to be having noticeable repercussions upon Czechoslovak business in that area.

Austria.--Austrian cotton mill export business to southeastern Europe, like that of Czechoslovakia, is reported to be suffering somewhat from a renewal of Italian export competition. Otherwise, the situation in the cotton mills may be described as fairly favorable. The long-planned weavers' cartel is reported to have been practically concluded, and some revisions in existing prices may be expected.

France.--Encouraging reports on the development of business in the French cotton textile industry continue to be received. The margins on which the mills operate are now indicated to be satisfactory, and unfilled orders on hand are of considerable volume. The expanding wave of economic activity in the country incident to devaluation and a liberal credit policy is being more and more strongly felt in the domestic wholesale demand for textiles, and the export position has strengthened as well.

Italy.-- Increased activity in the Italian cotton trade as well as in the cotton mills has resulted from the stimulus provided by the devaluation of the lira, coupled with the new cotton regulations for 1936-37, as announced on October 16 and reported in last month's issue of the Cotton Situation. Cotton buying and cotton arrivals, though still basically low, have increased substantially, and exports and exports sales of cotton goods have risen. Mill occupation has been stepped up as a result. It would appear that the devaluation of the lira proved something of a life-saver to holders of the large stocks of overvalued cotton goods on hand a short time ago, enabling these stocks to be moved readily into export and home channels without loss.

Production of cotton materials for domestic purposes, on the other hand, has been lagging, since the very small quota of raw cotton allotted for this purpose was not apportioned until December. As a result, spindles and looms occupied for the domestic market have been using, almost exclusively, substitute materials such as staple fiber, cottonized hemp, pure silk, cotton waste and mixtures, with almost no consideration being given to quality. Since the only possibility of increasing raw cotton supplies for the mills producing for the domestic market is through an increase in the exportation of cotton goods, strenuous efforts are being made by most of the Italian cotton establishments to expand their export business, or to get into additional export activities. One of the results has been an appreciable increase in exports of cotton materials from Italy. Spinner stocks of raw cotton, however, are thought to be practically exhausted, so that continued success in regaining export markets may well result in a substantially increased movement of raw cotton to Italy.

Mill activity and cotton consumption continue high in Japan and China 2/

Japan.-- In October imports into Japan of all growths other than American and Indian, were the largest for any month on record. Imports of Brazilian were especially high. Imports of all kinds of cotton were 199,000 bales in October or 33 percent above those in October 1935. Imports in the 3 months, August to October, were approximately 716,000 bales or 50 percent larger than in the corresponding months last season.

Imports of American cotton of 47,000 bales were nearly twice as large as in September but were 75 percent as large as in October 1935. Imports of Indian cotton, amounting to 73,000 bales, ^{and} of all others, except American, of 79,000 bales, were roughly one-third larger than and twice as large, respectively, as in the corresponding month last year. It is now certain that all heavy consignments of Brazilian cotton have reached Japan and undoubtedly imports will be relatively small up until next summer when the new crop from southern Brazil will commence to move into trade channels. Comparatively large exports from the United States to Japan in October and November, especially in October, indicated that Japanese imports of American cotton will show further improvement in the next 2 or 3 months. New crop Chinese cotton was beginning to appear in the Japanese market in October, but it is doubtful if the price of Chinese will decline sufficiently to permit Japan to import as large a quantity as was anticipated a few months ago.

2/ Prepared largely from cables from Agricultural Commissioner Dawson at Shanghai, under date of December 3, 5, and 14.

Mill takings of all kinds of cotton in October amounted to 244,000 bales compared with 229,000 in October 1935. Takings of American cotton were only 58,000 bales or two-thirds as large as in the corresponding month last season. The heavy decline in the takings of American was more than offset by the increase in each of nearly all of the other growths. Stocks of all kinds of cotton in Japan on October 31 of 437,000 bales compared with very small stocks of 178,000 on October 31, 1935. Large increases were shown in holdings of American, Indian, and all other kinds.

Cloth exports in October were 233,000,000 square yards compared with 234,000,000 in October 1935.

The Japanese Cotton Spinners' Association has recently released the financial statement of its 68 member mills covering their operations in the first half of 1936. The combined reports show that a high rate of profit was maintained although returns were not quite as large as in the second half of 1935. A high rate of profit has characterized the Japanese industry in recent years while many of the mills in other countries have been shut down or working at a loss.

Yarn production in October and November amounted to 298,000 bales and 318,000 bales, respectively, compared with 293,000 and 296,000 bales in the corresponding months last year and was the largest production for these months on record with the exception of 1934. Even with no change in the number of working spindles, some increase in yarn production is expected during the next few months, and this increase will be still larger if the existing curtailment rate of 26.2 percent in spindle operation is reduced. Working spindles and installed spindles in October numbered 8,424,000 and 10,992,000, respectively.

China.-- Spinners' margins widened during November, in spite of higher prices for cotton, as a result of a still more rapid increase in yarn prices. Spinners' margins are now the largest in recent years. ^{3/} The increase in the price of cotton goods during November has been attributed to increased demand resulting from improved economic conditions and to a belief in some quarters that inflation is in prospect. Stocks of textile goods in China are very low at the present time.

Arrivals of Chinese cotton at Shanghai showed a moderate decrease from October but the total for the 2 months, October to November, was 396,564 bales as compared with 238,464 bales in the corresponding period last season. Deliveries of all kinds of cotton to Shanghai mills totaled 354,000 bales in the 2 months, October and November, or 50 percent more than in the same period in 1935. Mill consumption increased during November, although interrupted to some extent by strikes in Japanese mills, but these labor disturbances are now being settled. Indications are that barring unforeseen and unpredictable developments the present season will see a record high cotton consumption.

^{3/} On December 15 prices of both raw cotton and yarn advanced sharply. It is reported that the current political and military disturbances were responsible. It is, of course, impossible to tell what effect the present condition will have upon the Chinese cotton situation.

Estimate of World Production Unchanged - Decreased Prospects in Some Foreign Countries Offset by Increases in Others

World.- The figure of 29,900,000 bales is being retained as the estimate of total world production in 1936-37, although the second estimate of production in northern Brazil is for a crop about 200,000 bales less than was reported in the first estimate, and it seems likely that production in India will be less than was at first forecast by trade sources.

The present world estimate, as made by the Bureau of Agricultural Economics, involved adding together the prospective production of those important areas such as the United States, China, Egypt, and northern Brazil with respect to whose production official estimates or the estimates of representatives of the Bureau in foreign countries were available. To this total were added preliminary forecasts of production made by the Bureau in the light of general information and trade forecasts for countries such as India and Russia. To this total was added the 1935-36 production for all those countries for which there was no information or insufficient information available on which to base any kind of a forecast for 1936-37. Recently received reports relative to prospective production in southern Brazil, Argentina, Uganda, and Mexico make it seem likely that actual total production will be larger than last season in these areas whose prospective output was taken to be the same as in 1935-36 for the purpose of calculating the world estimate. In addition, the estimate used for Russia is believed to have been quite conservative.

United States.- A United States crop of 12,407,000 bales was forecast by the Crop Reporting Board of the Bureau, based upon conditions as of December 1, compared with the November estimate of 12,400,000 bales and an actual crop of 10,638,000 bales in 1935.

India.- The third official forecast of the 1936-37 Indian acreage and the first forecast of the crop places the area planted up to December 1 at 23,901,000 acres which is expected to produce a crop of 4,584,000 bales of 478 pounds net. On the corresponding date last season, area and prospective output were 24,130,000 acres and 4,479,000 bales, respectively. In the 10 years ended 1932-33, 93.4 percent of the final acreage was planted up to December 1 and production, forecast at that time, averaged 96 percent of the final estimate of production. In late October the Bureau of Agricultural Economics forecast the crop at approximately 5,000,000 bales of 478 pounds net and an average of forecasts made in October by 5 or 6 of the leading firms of cotton merchants in India gave a prospective crop somewhat larger than this. During recent weeks, trade reports have indicated that some damage has been done to the maturing crop by unseasonable rains. How extensive this damage has been is unknown, but trade sources have estimated that the quantity of the crop would be reduced by from 200,000 to 300,000 bales and that its quality also would be adversely affected. If the average relationship between the first forecast of production and the final estimate should prevail this season, the final figure for 1936-37 would be 4,775,000 bales, or about the same as 1935-36 production of 4,793,000 bales, although trade reports and the first official production forecast indicates an increase of 100,000 bales or more, over 1935-36.

Egypt.—Egyptian production is placed by the second official estimate at 1,957,000 bales of approximately 478 pounds net. This is a record high, the largest production in any previous year being 1,777,000 bales in 1933-34. The crop last year amounted to 1,769,000 bales and the average for the 10 years ended 1932-33 was 1,486,000 bales. Ginnings up to December 1 totaled 1,137,000 bales compared with 1,086,000 bales during the corresponding period in 1935. Ginnings of Sakellaridis so far this season amounted to only 64,000 bales compared with 93,000 last year. Ginnings of all other varieties, excluding Scarto, were 1,051,000 bales compared with 971,000 last season.

Brazil.— The second estimate of the cotton crop in northern Brazil is for an output of 605,000 bales or 221,000 bales less than the 1935-36 crop of 826,000 bales. While this season's crop is expected to be considerably smaller than that of last year, it is still materially above the 10-year average. Production in 1934-35 and 1933-34 and, on the average, in the 10 years ended 1932-33 was 782,000 bales, 483,000, and 423,000 bales, respectively. If production in 1936-37 in Brazil as a whole, is not to show a decline as compared with 1935-36, production will have to expand considerably in the Southern States. The greater part of the planting of the crop in southern Brazil generally takes place in October. It is reported that the weather was unusually dry through most of the cotton growing areas of Sao Paulo during October, and consequently plantings were delayed. It is not known whether the dry weather has delayed sowing sufficiently to affect total planting for the season. The Sao Paulo Secretary of Agriculture, however, has reported that the distribution of seed to farmers for planting this season has been 40 percent greater than last season. This would indicate that cotton growers intend to plant a considerably larger acreage this season than last. The crop in southern Brazil last year amounted to 899,000 bales compared with 577,000 in 1934-35 and the 10-year average of 107,000 bales.

Uganda.— Cotton acreage planted up to the end of September was 1,412,000 acres or 24 percent more than the area planted in the same period last season. Production is estimated at approximately 300,000 bales of 478 pounds. The 1935-36 crop was 266,000 bales and the output averaged 171,400 bales in the 5-year period 1928-29 to 1932-33.

Mexico.—The first estimate of Mexican production in the 1936-37 season is for a crop of 359,000 bales from 755,000 acres. Last year, area and production amounted to 599,000 acres and 251,000 bales, respectively. The indicated yield per acre is 227.5 pounds which is larger than the 1935-36 yield but smaller than that of most recent seasons. The trend of yields per acre in Mexico has been downward. During the period 1909-10 to 1913-14, yields averaged 353 pounds per acre as compared with 263 pounds from 1929-30 to 1933-34. In most years, Mexico consumes 75 percent or more of her cotton production, but if the 1936 crop is as large as anticipated there will probably be a considerable surplus available for export.

