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T H E C O T T O N S I T U A T I O N  
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Summary

The general cotton textile situation for the most part remained unfavorable during March and early April, according to reports received by the Bureau of Agricultural Economics. These reports indicate that in a large proportion of the cotton manufacturing countries of the world cotton textile sales and production continued much lower than in the earlier part of the season. In some instances the small sales and reduced unfilled orders appear to have resulted in still further curtailment in activity and the rate of cotton consumption during March and the first part of April.

In India, Germany, and Italy cotton mill activity and cotton consumption apparently have held up quite well so far this season despite declining business conditions in many other countries. In each of these countries cotton consumption in March as well as in the 8 months ended with March probably equaled or exceeded that of a year earlier. While the situation in France in March was much less favorable than a year ago or than earlier in the season, there was a material improvement in cotton textile sales due at least in part to the decline in the foreign exchange value of the franc.

United States manufacturers' sales and production of cotton textiles continued quite low during most of March and early April. During the second week of April, however, sales of gray goods are reported to have increased considerably and apparently have exceeded the heavily curtailed production. Prior to this increase in sales many mills had announced plans for reducing mill activity still further, even though the March index of cotton consumption, adjusted for seasonal, was only 89 (1923-25 = 100) compared with 136 in March last year and

an average of 117 for the first quarter of the current season.

During the first 8 months of the current season total domestic mill consumption of cotton was 1,274,000 bales, 24 percent less than in the corresponding period last season. This, together with the low current rate of consumption, the very high rate of consumption from April to July last season, and the situation with respect to manufacturers' cotton textile stocks and unfilled orders indicate that total consumption for the season probably will be about 1,750,000 to 2,125,000 bales less than the record consumption of 1936-37.

Total mill consumption of cotton in foreign countries for the first 7 months of the current season was equivalent to an annual rate of about 8 percent less than the actual consumption in 1936-37. The current rate of consumption, however, is much lower relative to last season. Consumption of American cotton in foreign countries from August through February was equivalent to an annual rate about 6 percent above last season's consumption. In view of the consumption so far this season and the outlook for the next 3 months it seems quite likely that mill consumption of cotton in foreign countries will be about 1,750,000 bales less than the record consumption of 1936-37. Consumption of American cotton, however, probably will exceed the comparatively low level of the previous season.

The outlook with respect to world consumption and present estimates of supplies indicate that the world carry-over of cotton on August 1, 1938, may be about 10 million bales larger than a year earlier and 5 million bales larger than the previous high reached in 1932. The carry-over of American cotton is now expected to approach 13 million bales, almost equal to the peak of 1932 and more than twice as large as a year earlier. It is possible, however, that the 1938-39 world production may be sufficiently below that of the previous season to completely offset the prospective marked increase in carry-over.

## PRICES

During March domestic cotton prices declined about three-fourths of a cent per pound which is about the same as the advance during February. On April 1 the price of Middling 7/8 inch cotton in the 10 designated markets, at slightly above  $8\frac{1}{2}$  cents per pound was about the same as in early February but around three-fourths of a cent under the level of early March. From April 1 to April 7 a further decline reduced the price to 8.43 cents, the lowest since the early part of January.

The February advance in cotton prices apparently was due primarily to the passage of the Agricultural Adjustment Act of 1938. The advance occurred despite continued unfavorable developments with respect to demand. The March and early April decline appears to have been due largely to continued unfavorable developments in the demand for cotton and cotton textiles and perhaps to the legislation increasing the 1938 United States cotton acreage allotment by about  $1\frac{1}{2}$  to 2 million acres.

From April 7 to April 22 a net advance in domestic cotton prices of about one-half cent resulted in an average price of approximately 9 cents for Middling 7/8 inch in the 10 markets. This is one-third cent above the price in late February and early March and about  $1\frac{1}{3}$  cents above the low point of last November. This recent rise in domestic prices probably was due in part to the announcement of proposed Federal expenditures and other aids to business.

In Liverpool the price of American cotton in March and the first half of April in relation to the price of Indian and Egyptian Uppers was less favorable to the consumption of American cotton than for the past several months, but more favorable than for most months from 1933-34 through 1936-37.

## EXPORTS .

Exports of American cotton in March amounted to 426,000 running bales compared with 468,000 in March 1937. For the 8 months ended March 31, domestic exports totaled 4,657,000 bales, compared with 4,389,000 in the like period of 1936-37. For the first 8 months of the season, therefore, exports were still 6 percent above the corresponding period a year earlier, even though in February and March they were 20 and 9 percent, respectively, lower than in the corresponding months a year earlier.

From August through March, exports to Japan were only about one-third as large as during the first 8 months of 1936-37, whereas exports to most of the other important markets were about equal to or substantially larger than in the like period last season. Exports to Japan in the first 4 months of the current season were only about one-eighth as large as in the corresponding months last season, ranging from 15,000 to 27,000 bales per month, and in December they totaled only 36,000 bales, compared with 118,000 bales in December a year earlier. Ordinarily these are the months of heaviest exports. However, the deferred purchases, together with the comparatively large Japanese consumption of raw cotton, apparently accounted for the fact that in January, February, and March, exports to Japan totaled almost three times as much as during the preceding 5 months and were only 32 percent less than the unusually large exports of those months last year.

Exports to the United Kingdom and Italy, for the first 8 months this season, were about one-half larger than a year earlier. Exports to Germany during this period were also substantially larger than a year earlier and those to France about 9 percent larger. However, as a result of the decline in sales and production of cotton textiles in these countries during the past few months, exports to these countries since January have been about the same as or considerably smaller than during the corresponding period in 1937. In noting the comparison between exports this season and those of 1936-37, it is significant to bear in mind that the 1937-38 domestic supply of American cotton is about one-fourth larger than that of the preceding season and prices so far this season have been 15 to 35 percent lower than in the corresponding months of 1936-37.

#### DEMAND AND CONSUMPTION

##### UNITED STATES: Cotton textile sales low but improvement shown

Manufacturers' sales of cotton textiles apparently averaged somewhat less than the greatly restricted output during most of the past 4 or 5 weeks. In the week ended April 16, however, trade reports indicate that sales improved considerably and probably exceeded production. Despite the improvement in the second week of April, it seems quite likely that for the 4 weeks ended April 16, the domestic mills sold less than they produced, with a resulting increase in stocks or decrease in unfilled orders.

Domestic mill consumption of cotton in March totaled 511,000 running bales. This was one-third less than the record high of March last year and the lowest for the month since 1935. Consumption for the 8 months August to March totaled 4,024,000 bales, 24 percent less than a year earlier, about the same as in the like period in 1935-36, and considerably larger than in the corresponding periods of 1930-31 to 1934-35. In comparison with February, mill consumption in March showed an increase of less than 4 percent when reduced to a working day basis, whereas there is ordinarily a small decline in the daily rate of consumption from February to March.

Despite a recent increase in domestic prices of gray goods, current prices are said to still be below production costs and many mills are reported to be planning a further restriction in their output. The prospective mill stoppages and elimination of third shifts in at least some sections of the industry are said to have contributed to the advance in sales and prices during the second week of April.

Unless manufacturers' sales of cotton textiles improve considerably during the next few weeks, it is not unlikely that mill activity will decline to somewhat lower levels. On the other hand, it is quite possible that some increase over current levels in mill activity and cotton consumption will occur before the end of the 1937-38 season. For the last 4 months of the season as a whole, however, it probably is safe to expect the daily rate of consumption to average within 10 percent of that for March. In this event, the total United States consumption for the 1937-38 season would be between 5,700,000 and 6,100,000 bales compared with 7,950,000 bales in 1936-37. In all probability the season's domestic consumption of foreign cotton will total within 10 percent of 150,000 bales.

FOREIGN CONSUMPTION: Total for August-February down, American above year earlier

From August through February mill consumption of all kinds of cotton in foreign countries amounted to 12,374,000 bales, according to reports of the New York Cotton Exchange Service. This was 6 percent less than a year earlier and equivalent to an annual rate approximately 8 percent less than actual consumption in 1936-37. Consumption in February, however, was 14 percent lower than in February last year, and indications are that March consumption was as much or more below a year earlier as was consumption in February. Should consumption in foreign countries during the 5 months March through July this season be the same relative to consumption in February as has been the case, on the average, for the last 10 years, then total foreign mill consumption of all cotton for the 1937-38 season would total about 20,650,000 bales. This would be 2,400,000 bales or 10 percent less than the record consumption of last season.

Foreign consumption of American cotton during the first 7 months of the current season has been estimated at 3,306,000 bales compared with 3,063,000 bales from August through February last season. The annual rate of foreign consumption for the period was 6 percent larger than the 5,325,000 bales actually consumed in 1936-37. Unfortunately, though, the February and March rate is somewhat less than in the earlier months of the season. Should foreign consumption of American cotton exceed that of last season by 5 percent, the total for 1937-38 would be 5,600,000 bales, the smallest with the exception of last season since 1923-24. In light of the situation with respect to manufacturers' cotton textile stocks and unfilled orders, it seems unlikely that this consumption figure will be materially exceeded, and it may not be reached.

EUROPE: 1/ Unfavorable developments outweigh favorable ones

Unfavorable developments definitely outweighed favorable developments in the European cotton and cotton textile situation during March. Lack of confidence was accentuated by the renewed sag in raw cotton prices, the continued lag in export demand for cotton goods and political developments in Central

1/ Based largely upon a report prepared by Lloyd V. Steere, Agricultural Attache, Berlin, Germany, dated April 9. Information on the United Kingdom supplied by C. C. Taylor, Agricultural Attache, London.

Europe. As a result, the end-of-March order and stocks position of the European cotton industry, as a whole, seemed to have been even slightly less encouraging than a month earlier.

March reports were generally favorable only in the case of Germany, where the demand for goods continues to be of large proportions, and where the raw material position has shown decided improvement in recent months. French report however, also indicated some pick-up in orders for the mills. This may arise in part from the weakness of the franc, but is also considered evidence of requirements that will be met when the price outlook becomes more settled.

United Kingdom.- No improvement in demand was experienced in any important branch of the cotton textile industry in Great Britain during March, and most of the reports indicate further recession in sales and mill activity. The cloth market presented a generally unfavorable picture, although for home trade volume was about maintained. A fair inquiry was received from India, but apparently only at offers at which little business could be accepted. Some of the South American markets are still burdened with goods bought at the higher prices of a year ago, while on the Continent the unfavorable economic conditions and the generally slack state of the textile trade are of no help to the importation of British yarns or fabrics.

February was the seventh successive month in which British piece goods exports declined, the February figures showing a decline of 29 percent in comparison with February 1937. February was likewise the eighth month of declining yarn exports (barring two minor exceptions), with the figures down 20 percent from a year earlier. Cloth exports in March were considerably (10 percent) larger than in February - as is generally the case, due at least in part to the longer month - but were 29 percent less than a year earlier. And for the 8 months, August through March, cloth exports were 13 percent less than for the same period last season.

Trade reports indicate an increased stoppage of mill machinery and state that more would be stopped but for the hope that an early upturn in business will make unprofitable operations the less costly alternative. Textile unemployment figures in February were higher than at any time since the textile strike of September 1932. The spinning and printing branches reported 99,763 out of work in February, as compared with 47,847 in October. The spinning branch, which for some time fared better than other sections of the industry, is now finding greater difficulty in booking new orders and was reported as selling only about half of current production in March. Ring spinners reduced margins by about 1d. per pound on March 22 under their price maintenance agreement. Some resultant improvement in business is hoped for, but the general disposition of manufacturers is to buy cautiously until there is more certainty about future developments.

Imports of American cotton into the United Kingdom were seasonally lower during March, but for the first 8 months of the current season amounted to 1,383,000 running bales, compared with only 943,000 during the corresponding period last season, and 1,063,000 in the relatively favorable season 2 years ago.

Stocks of cotton in Great Britain rose to new high levels during March, the visible supply of American, on March 25, amounted to 794,000 running bales, as compared with 423,000 a year ago, and even smaller quantities in the two previous years. The nearest approach to this figure during recent years was 4 years ago when stocks of American at the end of March amounted to 527,000 bales. At the current rate of mill takings, these stocks of American cotton represent over 30 weeks' supply. Stocks of other staples, on the other hand, are generally smaller than a year ago; they total 409,000 running bales compared with 546,000 on March 26, 1937.

Germany.— Conditions in the German cotton textile industry stand in sharp contrast to those in most other European countries. German mills continue to operate at high levels, with domestic demand reported keen for both the yarn and cloth branches, and with exports of cloth being maintained at strikingly high figures.

The textile raw material supply situation continues its recent more favorable trend, with imports of cotton, cotton waste and reclaimed cotton rising and domestic production of staple fiber steadily expanding. The improvement in the cotton supply situation was reflected in total mill stocks on January 31, 1938, of 227,000 bales against 67,000 on July 31, 1937, and 90,000 on January 31, 1937. Staple fiber production, which totaled 224,869,000 pounds in 1937, is expected to reach about 331,000,000 pounds in 1938. The latest figures on German textile raw material supplies are given in the following table.

The improvement in raw cotton supplies is attributable chiefly to the decline in world prices, which has enabled materially larger purchases for an equal amount of foreign exchange.

Notwithstanding the easier supply position indicated by these figures, however, there is still a very obvious gap between supply and consumer demand. The mills, as for many months past, are still having to ration their customers in both semi-finished and finished cotton goods. More recently, also, they have been bound by new regulations requiring coarser spinning of raw materials in various cases. Aside from the economy aimed at, this means a certain tendency toward shorter working time and therefore reduced income for the workers. This, it is feared by manufacturers, may cause a drift of labor to other industries.

The outstanding development in March, however, has been the union of Austria and Germany, an event which cannot be without certain effects upon the cotton industry, particularly that in Austria, and more especially the spinning section.

## Supplies of specified fibers in Germany, 1932-37

Commodity	1932	1933	1934	1935	1936	1937
	Mil.lb.	Mil.lb.	Mil.lb.	Mil.lb.	Mil.lb.	Mil.lb.
Cotton <u>1/</u> .....	770	909	782	817	721	803
Wool <u>2/</u> .....	212	229	229	223	157	181
Flax <u>2/</u> .....	53	62	117	99	106	132
Artificial silk <u>3/</u> ..	68	71	97	101	97	123
Cell wool <u>2/</u> .....	7	11	33	62	110	236
Hemp <u>2/</u> .....	37	37	46	71	73	119
Jute <u>1/</u> .....	163	238	231	251	212	240
Other hard fibers <u>1/</u> ..	121	130	134	179	132	198
Silk <u>4/</u> .....	2	4	18	22	15	7
Total .....	1,433	1,691	1,687	1,825	1,623	2,039
German production of :						
all fibers:						
Quantity .....	86	93	130	194	295	454
Percentage of :						
total supply ...	6	5	8	11	18	22

Wochenbericht des Instituts fuer Konjunkturforschung, No. 10, March 9, 1938. These figures take into account net imports of yarns in terms of raw materials; however, they do not include regenerated fiber or stocks.

1/ Net imports.

2/ Net imports plus domestic production.

3/ Domestic production plus net imports or net exports.

4/ Figures up to 1936 include Artificial Floret silk.

In the first place, a great change in the raw material situation seems certain, since Austrian spinners, who have enjoyed free access to world cotton markets, will now be brought into the German system of controlled supplies and widespread use of substitute fibers. This will inevitably mean greatly increased use of staple fiber, cotton waste and reclaimed cotton, even though new regulations effective April 1 2/ will enable special consideration for Austrian spinners, who exported about 45 percent of their total cotton yarn production in 1936 and 1937, or nearly 30,865,000 pounds annually. Austrian spinners have been using much more cotton per spindle than German spinners, and a certain leveling out is no doubt inevitable, even allowing for preferential treatment of exports. Reports indicate that steps have already been initiated toward erection of staple fiber plants in Austria.

2/ Anordnung B 16, March 10, 1938 (Exceptions From The Processing Regulations on Export Orders), permitting raw cotton processing quotas to be exceeded by the full amount of export orders.



## Austrian and German cotton consumption per 1,000 spinners

Half-year ending	Germany	Austria
	<u>Bales</u>	<u>Bales</u>
Jan. 31, 1938	53.1	123.9
July 31, 1937	52.8	130.1
Jan. 31, 1937	58.6	119.7
July 31, 1934	76.8	76.2
Jan. 31, 1934	75.2	81.9
Aug. 31, 1913	157.9	170.52

Textilzeitung, March 19, 1938.

The comparative figures on the consumption of raw cotton per spindle suggest that Austrian cotton mills, judging from German developments, may face a reduction in 1938 of as much as 50 percent from early 1938 levels in the quantity of raw cotton consumed per spindle. This will depend, however, upon whether substitute materials can be provided and whether the mills are brought under the same system of rationing in effect for cotton mills in Germany proper. The Austrian market for raw cotton, therefore, may shrivel from nearly 200,000 running bales yearly to as little as 100,000 bales. The United States, which has been the source of slightly less than half of the cotton consumed, would probably stand to lose an even greater than proportional share, in view of German policy on such imports. Austria came into the union with Germany with only very limited stocks of cotton on hand at the mills, i.e., about a 6 weeks' supply, judging from the mill stocks of 23,000 bales reported for January 31. This leaves very little leeway, and may necessitate special treatment for the immediate future while other supplies are being developed. The immediate effect of the union apparently has been to increase mill activity somewhat, particularly in the weaving section, but this may be only temporary and largely incidental to extraordinary demands for flags, streamers, election materials, etc.

The general effects of the merger upon Austrian trade in cotton textile products is still somewhat obscure in view of the raw material supply problem, and the uncertainty about restrictions on both foreign and domestic trade. Austria is a net importer of cotton cloth, but a net exporter of yarn by an amount (about 30,865,000 pounds) virtually equal to German net imports. There are indications, however, that Austrian yarn exporters will be encouraged to retain their export outlets in the Danube, since German import requirements run more to special yarns, notably English. It also has been announced that sharp control will be maintained over Austro-German goods movements to prevent any undue drain or strain, in either direction, during the period of adjustment now faced. This would seem to signify that no marked changes in trade are desired or planned, even though in the long run the cotton industries of both countries may well benefit from the merger of the two market areas.

The relative size of the cotton spinning industries of the two countries is shown by the following data:

Cotton consumption in Germany, Austria and Greater Germany, 6 months ended July 31, 1937 and January 31, 1938

Kind	: Half year ended July 31, 1937:			: Half year ended Jan. 31, 1938		
	: Germany	: Austria	: Greater Germany	: Germany	: Austria	: Greater Germany
	: 1,000	: 1,000	: 1,000	: 1,000	: 1,000	: 1,000
	: running	: running	: running	: running	: running	: running
	: bales	: bales	: bales	: bales	: bales	: bales
American .....	134	44	178	148	41	189
Indian .....	38	18	106	68	14	82
Egyptian .....	65	11	76	60	11	71
Sundries .....	254	28	282	273	26	299
Total..:	541	101	642	549	92	641

Die Textilzeitung, 3-19-38.

Number of spindles in place in Germany and Austria

Year	: Germany	: Austria	: Greater Germany
	: 1,000	: 1,000	: 1,000
Jan. 31, 1938 .....	10,323	742	11,065
July 31, 1937 .....	10,236	776	11,012
Jan. 31, 1937 .....	10,247	775	11,023
July 31, 1936 .....	10,109	773	10,882

Die Textilzeitung, 3-19-38.

The cloth section of the Austrian cotton industry has a present capacity of approximately 17,000 looms, an average monthly production of about 8,475,000 yards and annual exports of some 3,281,000 yards. The imports of cloth, however, are larger than exports.

New regulations governing the allocation of raw material to the German industry have just been issued (Deutsche Reichsanzeiger of April 7, 1938, Anordnung B G 15 of the Supervisory Office for Cotton Yarn and Fabrics), retroactive to April 1, 1938. The principal provisions of this new decree relate to the fixing of a new basis for the allocation of raw materials. Hitherto the quantity of raw materials actually spun in 1933 and 1934 was taken as base; the new basis is the quantity actually used in 1937. The purpose of this modification is to give recognition to the increased domestic production of spinning materials and also to the present special needs for particular cotton goods, in other words, the shortages which have developed at certain points. It has been pointed out that this change, as well as the changes under date of March 10, 1938, in allocating raw material for export orders (see footnote on page 8), do not imply an increase in the amount of raw material allocated to cover domestic market requirements.

Czechoslovakia.- The decided setback in orders experienced by the cotton textile industry in Czechoslovakia during the closing months of 1937 has extended into 1938. Spinning mill activity has dropped to an index figure of 74 in January (1929 = 100) from 90.1 in November and 92.8 in December 1936.

March reports indicate that this downward tendency showed signs of having come to an end. Some branches were still experiencing recession, but others were beginning to pick up, especially on seasonal orders, and exports were maintaining recent levels. Moreover, considerable benefit was being anticipated from the new Czech-American trade treaty for various specialty branches.

A very unfavorable development for the Czechoslovakian cotton industry, however, is visualized in the union of Austria with Germany. Czech textile exports to Austria in 1936 were valued at \$12,144,000 of which about two-thirds were finished goods and one-third yarn. The industry now fears a marked reduction in this trade, which in 1936 represented a fairly important quantity of business for the Czech industry. It is also feared that the important indirect trade in cotton textile products done in Danubian countries through Austrian intermediaries in Vienna will also suffer. The net effects, it is thought, are likely to be a further acceleration of the post-war tendency toward curtailment of cotton textile mill capacity in Czechoslovakia.

The unfavorable developments in the cotton textile situation in recent months have revived efforts by the industry to induce the Government to provide some form of encouragement to export business. As yet no definite progress has been reported and it appears that the Government will at least await the results of the negotiations which have been going on during March among the various branches of the textile industry in Czechoslovakia looking to modification and prolongation of the cartel scheme hitherto in effect. These negotiations are understood to be progressing with favorable prospects of an agreement.

France.- March reports from French cotton textile centers have been generally more favorable than for some months past. Recent improvement in orders for the cotton industry has been at least partially attributable to the weakness of the franc, since export business has been of a very satisfactory character despite the general slackness in world textile export trade. Domestic business, however, was also definitely more active, and there are numerous reasons to believe that a considerable backlog of requirements is waiting to be filled.

An encouraging feature of the market in March was the pick-up in the cloth section, where stocks have been declining and where it seems possible that some rise in production will come about before long. The last week in March brought a noticeable increase in orders for cotton cloth, it is said, with the mills now generally booked up to the end of June, and manufacturers are no longer willing to sell at a loss to keep looms going.

Belgium.- The Belgian textile market continues to report a rather unfavorable situation and outlook for the immediate future. Belgian manufacturers do not appear to have shared in the revival of export orders recently booked by the French mills. This was probably due to inability to quote competitive prices against the steadily weakening French franc. Stocks of both fabrics and yarns still held in Belgium seem likely to delay any early increase of mill operations, unless there is a quick turn for the better in respect to new orders.

Holland.- March reports from Holland indicate that the Dutch textile industry, like that in most other countries, has been definitely affected by the prevailing slackness of demand for textiles. Holland has imported relatively large amounts of raw cotton, particularly American cotton, so far this season, but it is stated that these represented forward purchases in 1937. With spinners now relatively well covered, and with orders for yarn and piece goods continuing small, it is to be anticipated that a decided decrease will show up before long in Dutch raw material imports, since actual purchases have been very small in recent months.

Italy.- Despite reports of dull conditions in the home market and some indications of difficulty in booking export business, which is highly important for the Italian cotton industry, all reports indicate that the mills in Italy are still operating at high levels. Annual reports of textile producers indicate that 1937 brought the highest profits the industry has enjoyed in many years, and manufacturers also professed optimism about 1938.

If export business (which is based to a considerable extent upon unrestricted use of raw cotton) should continue to fall in 1938, however, it seems almost certain that a decided fall will occur in the Italian consumption of raw cotton, since domestic market demands are being taken care of to a considerable extent from substitute raw materials, the production and use of which, it is stated, will see further marked expansion in 1938.

ORIENT: March cotton mill consumption about unchanged in Japan, lower in India, and slightly higher in China

Japan<sup>3/</sup>.- Trade reports during March and early April indicate that Japanese mill consumption of raw cotton continued on a restricted basis with the scarcity of raw cotton and, in turn, of cotton textiles; the result, high prices for cotton goods. This is said to have restricted consumption of cotton textiles and to have been of some importance in restricting Japanese exports of cotton cloth.

On the basis of the estimated production of yarn, it appears that cotton consumption by Japanese mills remained about the same in March as in February, but nearly one-fourth less than in March last year. March yarn production was equivalent, on a cotton content basis, to 258,000 bales of 400 pounds of pure cotton yarn which it is estimated required about 238,000 bales of 478 pounds of raw cotton. This is about the same as the quantity of cotton

<sup>3/</sup> Based primarily on radiograms of April 20 and 21 from the Bureau's Shanghai office giving data furnished by American Consul Kenneth C. Krantz at Osaka.

forwarded to Japanese mills in March and approximately the same as the average monthly import quota allotted by the Federal Government for an indefinite period beginning April 1. Actual imports during March were reported at 305,000 bales of 500 pounds. It would appear, therefore, that imports in April will probably be considerably less than in March unless the import quota is changed.

Despite the fact that from December to March the consumption of raw cotton in Japan was from 17 to nearly 25 percent less than a year earlier, total consumption for the first 8 months of the season were only about 9 percent less than the corresponding period last season. This is largely accounted for by the especially high rate of consumption during the first 3 or 4 months of the season. Should Japanese imports and mill consumption of raw cotton from April through July be restricted to an average of 238,000 bales per month, cotton consumption in Japan for the 1937-38 season would total between 3,200,000 and 3,300,000 bales.

March exports of cotton cloth from Japan showed considerably more than the usual increase over February and were only 3 percent less than a year earlier, 5 percent less than March 1936, and 16 percent less than March 1935, the all-time high for the month. In January and February, cloth exports were 15 and 9 percent, respectively, less than in the corresponding months of last year. For the 8 months August through March, cloth exports totaled 1,736,000,000 square yards. This total was lower, by from less than 1 percent to 5 percent, than in the corresponding period of the 3 previous seasons but higher than for the same period in any season prior to 1934-35.

<sup>4/</sup>  
China, including Manchuria.-- Mill consumption of raw cotton in China showed a further increase in March with total consumption estimated at 110,000 bales of 500 pounds compared with 95,000 bales in February and 85,000 bales in January. Indications are, however, that the increase between February and March was due largely to an increase in the number of working days rather than to increased mill activity, although apparently some increased activity occurred in the Japanese-owned mills in Shanghai.

The demand for cotton yarn is reported to have increased materially during March as the result of an increased demand from south China. This, together with the low yarn stocks and exchange control brought a pronounced advance during the month in yarn prices at Shanghai.

Arrivals of Chinese cotton at Shanghai during March continued small and came from nearby areas occupied by Japanese. The commitments of cotton other than Chinese were estimated at 25,000 bales, of which about one-half was Indian and the other half very largely American, Brazilian, and Egyptian. Despite low yields per acre in 1937, the low level of mill activity in China thus far this season has resulted in a comparatively small proportion of the 1937 crop having been consumed so far this season. Furthermore, it is quite likely that even if mills in China further materially increased activity, very little cotton

<sup>4/</sup> Based largely on a radiogram from the Bureau's Shanghai office dated April 12.

will be imported. In fact, except for the difficulty of marketing the crop, much larger quantities of Chinese cotton would have been exported, and it is estimated that even under the adverse circumstances exports for the year ending September 1938 may total close to 400,000 bales compared with 245,000 bales during the previous season.

Final plans for the restoration of Japanese mills in Tsingtao are reported to have been approved by the Japanese Government. Under this plan, 390,500 spindles and 7,000 looms are to be installed, construction of which is to be started in the near future and completed by January 1939. This number of spindles is equivalent to roughly three-fourths of the number in place in Tsingtao prior to the commencement of hostilities. It is not now known whether this machinery is to be new or not. Japanese mills have offered to take over the 17 Chinese-owned cotton mills located in the occupied area of Shanghai, but this offer is said to have been refused by the Chinese owners.

India.- In March, the cotton mills of India are reported to have consumed 251,000 bales of 400 pounds of Indian cotton according to reports by the New York Cotton Exchange Service. This represents a 16 percent decline from the record consumption of February, but it was 15 percent larger in March last year which up to this year was the largest March consumption in the history of cotton manufacturing in India. March made the ninth consecutive month in which the Indian mills used a larger quantity of Indian cotton than in the corresponding month of any previous year. For the 8 months, August through March, Indian mills consumed slightly more than 2 million bales of Indian cotton, the largest consumption for the period on record, and 14 percent larger than in 1934-35 when consumption exceeded that of any similar period prior to the current season.

The unusually high level of cotton consumption in India during the current season is accounted for in part by the reduced imports of cotton textiles from Japan and the United Kingdom. From August through January, total imports of cotton piece goods into India were only 86 percent as large as in the corresponding period last season.

#### SUPPLY

CARRY-OVER, AUGUST 1: Total likely to greatly exceed, and American almost equal, peak of 1932

The outlook with respect to cotton consumption in the United States and foreign countries (see DEMAND AND CONSUMPTION, pages 4 to 14) and the present estimates of the 1937-38 supply indicate that the world carry-over of commercial cotton on August 1 may be about 23 million bales. This would be something like 10 million bales (about three-fourths) larger than on August 1, 1937, and about 5 million bales (or one-fourth) larger than the previous high reached in 1932.

Developments so far this season and the outlook for the remainder of the season indicate that the world carry-over of American cotton on August 1 will not miss 13 million bales by more than 2 or 3 hundred thousand bales. A carry-over of this amount would almost equal the peak of 1932, when the estimated carry-over of American was nearly 13,300,000 bales, and would be nearly 7 million bales or more than twice as large as a year earlier.

With the indications pointing toward a carry-over of foreign cotton of about 10 million bales, there is no question but that the August 1 carry-over of this cotton will show a marked increase over that of August 1 last year. Should it prove to be approximately 10 million bales, the increase over carry-over on August 1, 1937 (the new high up to that time) would be nearly 3 million bales or about two-fifths.

1938-39 WORLD PRODUCTION: Expected to show sharp decline

As indicated last month, there are a number of factors which make it seem quite certain that the 1938-39 world production of cotton will show a sharp drop in comparison with the extraordinarily large 1937-38 crop.

No official forecast of the 1938 domestic crop will be released before August 8. An important factor pointing toward a marked reduction in the 1938 United States crop, however, is the fact that average United States yields in 1937 of 265 pounds per acre were 47 percent above the average for the preceding 10 years and 41 percent above the average for the preceding 5 years. Furthermore, despite the recent legislation increasing the acreage allotment by about  $1\frac{1}{2}$  to 2 million acres, the 1938 acreage allotment is 6 to  $6\frac{1}{2}$  million acres (from 17 to 21 percent) less than the 1937 planted acreage.

A recent radiogram from the Bureau's Shanghai office states that the 1938 cotton acreage in China is expected to be materially reduced. This is expected because of the difficulties of marketing last season's crop, the necessity of assuring grain crops for food and the poor yields per acre in 1937. Because of the materially lower level of cotton prices and the fact that producers in some countries other than China probably sold a considerably smaller proportion of their 1937 crop than usual, it is expected that 1938-39 foreign cotton acreage outside of China will also be less than in the preceding season.

It is quite possible that the 1938-39 world production may be sufficiently below that of 1937-38 to completely offset the prospective marked increase in the August 1, 1938, world carry-over. It seems quite certain, however, that at least a substantial part of the increase in carry-over will be offset by a decline in production.