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THE COTTON SITUATION

Summary

A combination of factors has raised domestic prices of spot cotton to the highest figures since August 1937. Factors include the exceptionally small stocks of "free" American cotton, relatively high domestic and foreign mill consumption, improved domestic sales of cotton textiles, somewhat unfavorable weather conditions, and increased prospects for an export subsidy, according to the Bureau of Agricultural Economics.

Despite the largest total domestic stocks on record, the quantity of "free" American cotton on hand in the United States is now 50 to 60 percent smaller than at this time last year. Foreign stocks of American cotton are much smaller than last year. United States exports are running much below foreign consumption of American cotton.

Domestic cotton consumption of 605,000 bales in May was 40 percent larger than a year earlier and the second largest in 10 years. Trade reports indicate that in the first half of June the seasonally adjusted consumption rate was well maintained. This was somewhat contrary to earlier expectations and was apparently due to unusually favorable sales of unfinished cloth in late April and early May. Although cloth sales increased and prices advanced in June, print cloth manufacturers agreed to curtail their output for the third quarter of the calendar year to at least 75 percent of their normal production.

Foreign cotton mill activity was well maintained in May and early June. Improvement in mercantile buying of cotton textiles in Europe was reported during May as cotton prices advanced and political anxieties subsided somewhat. At the same time European mills were operating to an exceptionally large degree on Government orders. Foreign consumption of American cotton continues substantially lower than a year earlier and the lowest in 20 years, while the consumption of foreign growths continues at near record high levels.

It is now expected that the world consumption of American cotton for the year ended July 31, 1939 will approximate 11,250,000 bales compared with a little less than 10,900,000 bales during the preceding 12 months. The estimated consumption when deducted from the estimated supply for the 1938-39 season indicates a world carry-over for this cotton on August 1 next of roughly 14,250,000 bales. This figure is about 500,000 bales larger than the previous record high carry-over as of August 1, 1938. The world carry-over of foreign cotton is expected to total around 8,000,000 to 8,250,000 bales compared with 8,900,000 bales on August 1, 1938.

PRICES

Domestic spots make slight additional advance in early June

On June 8, Middling 7/8" cotton in the 10 designated markets averaged 9.59 cents per pound. This was 0.17 cents above that of May 24, the highest price for the season up to that time. For the month of June 1938 the 10-market average was 8.39 cents. Not since August 1937, or in nearly 2 years, has the average price in these markets exceeded 9½ cents. The further advance in early June raised domestic prices of spot cotton to a point about 1¼ cents above those of mid-April when they were lower than at any time since the early part of last December.

Several factors contributed to the advance in domestic prices from mid-April to the early part of June. These include prospects for an export subsidy on American cotton, reduced stocks of "froc" American cotton, a continued high rate of domestic consumption and some recent improvement in domestic business conditions, unfavorable weather conditions in substantial parts of the domestic Cotton Belt during the latter part of the period and somewhat less tension in Europe.

Since early June spot prices in the 10 markets have shown comparatively little change, ranging from approximately $9\frac{1}{2}$ cents to 9.60 cents. On June 24 the average price was 9.57 cents, compared with 9.42 cents one month earlier and 8.79 cents a year earlier.

Domestic new crop futures show unusual discounts

On April 15 the differences between the spot prices at New Orleans and the closing quotations for active new crop futures months on the New Orleans Exchange ranged between 0.89 and 0.96 cents with quotations for the nearer months generally higher than those for more distant delivery. During the following 2 months, however, this disparity became much greater and on June 15 the differences ranged from 0.98 to 1.41 cents. On the latter date July futures contracts closed at 9.24 cents, whereas October contracts -- the first active new crop futures -- closed at 8.47 with each of the more distant months successively lower, also showing wide disparities. Following the approval by Congress of an appropriation bill providing funds to be used in subsidizing cotton exports, the price of new crop futures advanced materially in relation to prices of July contracts, and spot cotton thereby eliminating some of the disparity. On June 24, for example, the spread between the closing price of spots and the prices of the 5 active new crop futures months ranged between 0.59 and 0.99 cents.

Liverpool spot prices advance, new crop futures also show large discounts 1/

Prices of American cotton in Liverpool in May and early June advanced from 5.01 pence per pound on the last trading day of April to the season's high of 5.91 on June 8, a net gain of 90 penny points or the equivalent of approximately $1\frac{3}{4}$ cents. This advance in spot prices was accompanied by much smaller advances in the quotations for futures contracts deliverable after the new crop movement begins. Consequently on June 8 spot prices of American Middling Fair staple was 117 to 128 penny points above the quotations for October, December, January and March futures contracts. The premium of spots over the quotation for these new crop contracts therefore was equivalent to more than 2 cents per pound.

The natural effect of this unusual price structure on mercantile operations is to make the rank and file of sellers uneasy, and to cause buyers to limit their commitments to immediate needs both for cotton or goods. The situation is further complicated by the abnormally narrow parities between British and American prices. On May 31 the so-called true parity (i.e. the actual difference in simultaneous quotations at the current rate of exchange, disregarding the netweight-grossweight difference in trading terms) between contracts in New York and in Liverpool was 46 American points (100 American points equals 1 cent) for July delivery, 57 for October, 60 for December and 69 for January. When allowance is made for sale in Liverpool on netweight terms, Liverpool prices for these deliveries were actually about 2 American points below to 21 above New York. These parities compare with 165 to 200 American points in the early summer of 1937, and represent the market's partial adjustment to the prospect of an export subsidy.

1/ Based largely on the statements prepared by Agricultural Commissioner Arthur W. Palmer, London, dated June 12.

The recent price relationships have further accentuated the difficulties of normal importation which have been present through much of the season, and focuses the demand for cotton to meet the immediate needs of the mills on the unsold part of the stocks held in the ports of Liverpool and Manchester. Information, believed to be reliable, is that the purchaseable supply of American cotton in these ports is now greatly diminished, certain of the short to medium lengths desired in the production of heavy defense-type goods having been practically unobtainable for some time. The physical stock of American, including cotton for sale and cotton earmarked for application to running contracts, totaled only 285,000 bales on June 1. Disappearance during the 3 previous months, averaged about 50,000 bales a month. This rate, if continued, would leave on July 31, one of the smallest carry-overs in the British ports in recent years.

Under these conditions, Liverpool prices of American cotton for delivery on the spot in contrast to deliveries from the new crop have been lifted in relation to United States prices as well as in their relation to futures contracts. In April the spread between spot quotations in Liverpool and New Orleans averaged only 106 American points but by June 16 widened to 178 American points. (See table 1.)

Table 1.-Cotton, American Middling 7/8": Price per pound at New Orleans and Liverpool, specified periods

Period	Liverpool	New Orleans	Spread (Liverpool over New Orleans)
	Cents	Cents	Cents
5-year average 1933-34 to 1937-38	13.03	11.32	1.71
1938-39			
Aug. to Dec.	9.93	8.43	1.50
Jan.	10.10	8.62	1.48
Feb.	10.02	8.60	1.42
Mar.	10.17	8.69	1.48
Apr.	9.67	8.61	1.06
May	10.55	9.30	1.25
May 5	10.30	9.08	1.22
May 12	10.40	9.20	1.20
May 19	10.80	9.47	1.33
May 26	10.69	9.52	1.17
June 1 <u>1/</u>	10.71	9.40	1.31
June 9	11.26	9.50	1.76
June 16	11.23	9.45	1.78
June 23	11.04	9.45	1.59

Compiled from reports of the New Orleans and Liverpool Cotton Associations and cables to this Bureau from Liverpool.

1/ Friday, June 2, being a holiday in Liverpool, the prices for Thursday were used.

Table 2.- Cotton: Spot price per pound, specified growths at Liverpool, specified periods

Season, month or day	American		Indian		Egyptian		Brazilian	
	Middling: 7/8 inch	Low mid- ling	Av. 3 types 1/ As a % of Ameri- can 2/	Actual	F. G. F. Uppers As a % of Ameri- can Middling	Actual	Fair, Sao Paulo As a % of Ameri- can Middling	Actual
10-yr. av.	Cents	Cents	Cents	Percent	Cents	Percent	Cents	Percent
1927-28 to								
1936-37	14.50	13.60	10.88	78.3	17.12	117.9	14.08	97.7
1936-37	14.62	13.16	11.07	79.8	17.40	119.0	14.12	96.6
1937-38	10.31	8.78	8.02	83.9	13.10	126.7	10.18	98.7
1938-39								
Aug.	9.76	8.44	7.38	81.0	12.30	126.0	9.46	96.9
Sept.	9.59	8.29	7.07	79.1	12.27	128.0	9.27	96.7
Oct.	10.25	8.96	7.22	75.0	13.03	127.1	9.78	95.3
Nov.	10.04	8.81	7.28	77.3	12.63	125.8	9.63	95.9
Dec.	10.02	8.56	7.16	77.0	11.89	118.6	9.54	95.1
Jan.	10.10	8.64	7.13	75.9	11.50	113.9	9.61	95.2
Feb.	10.02	8.55	7.02	75.6	11.56	115.4	9.53	95.1
Mar.	10.17	8.71	6.94	73.3	11.58	113.8	9.68	95.2
Apr.	9.67	8.21	6.98	78.2	10.90	112.7	9.19	95.0
May	10.55	8.97	7.46	76.6	11.08	105.0	9.83	93.2
May 5	10.30	8.74	7.43	78.0	10.84	105.3	9.71	94.3
May 12	10.40	8.84	7.43	77.2	10.81	103.9	9.81	94.4
May 19	10.80	9.24	7.59	75.7	11.37	105.2	10.02	92.8
May 26	10.69	9.03	7.47	75.8	11.28	105.5	9.81	91.8
June 1 3/	10.71	9.05	7.61	77.0	11.42	106.6	9.74	90.9
June 9	11.26	9.60	7.77	74.5	11.43	101.6	10.57	93.9
June 16	11.23	9.58	7.68	73.7	11.53	102.6	10.36	92.2
June 23	11.04	9.38	7.53	73.8	11.51	104.2	10.16	92.0

Compiled from reports of the Liverpool Cotton Exchange except for the last three weeks which are from cables to the Bureau of Agricultural Economics or from reports of the New York Cotton Exchange. Prices were reported in pence per pound and converted to cents per pound at current rates of exchange.

1/ Includes Fully Good Broach, Fine Oomra #1, and Fully Good Sind.

2/ Average of American Middling and Low Middling.

3/ Friday, June 2, was a holiday.

Liverpool prices of other growths of cotton on the spot have not advanced in recent weeks to the same extent as prices of American. In the more directly competitive category, discounts on Brazilian cotton widened in May from 25 penny pounds to 45 points on Sao Paulos of Fair grade and from 60 to 80 on Northers. If allowance be made for a change of standards in 1937, Sao Paulos on May 31 were the cheapest in relation to American cotton since they were first regularly quoted in Liverpool. Northern types likewise were at a wider discount than at any time at least since 1925. On East Indians, however, discounts widened in the

same period even more than on Brazilians, Central Provinces of Fine grade from 92 to 130 penny points and Punjab American Fine from 58 to a nominal 89 points. West African Middlings went from a discount of 40 to 50 penny points under American Middling Fair Staple. In the longer staple category, premiums dropped sharply to abnormally low figures. Egyptian Fully Good Fair Sakel and Giza 7's which on April 29 were 134 points over American Middling Fair Staple had narrowed by May 31 to 102 and 112 penny points, respectively, while in the case of Uppers the change was from 48 to 31 points. Egyptian Uppers prices are thus brought within the range of direct competition with medium staple Americans. Peruvian Tanguis of Good grade similarly narrowed its premium from 95 to 50 points. For certain other and more recent comparisons see table 2.

EXPORTS

United States exports continue small, foreign exports large

The 143,000 running bales of American cotton exported in May were only 74 percent of exports in May last year, and only one-third the 1924-33 May average of exports. When reduced to bales of uniform weight the May figure is the smallest for the month since 1904. Nevertheless, the comparisons for May are more favorable than the comparisons for the total from August through May. The 3,100,000 running bales exported during the 10 months ended May were only 59 percent of the unusually small exports in the corresponding period last season, 40 percent of the average for this period during the ten years ended 1932-33 and the smallest for these months in terms of 500 pound bales in 57 years.

During the first 20 days of June, exports continued small, totaling only 59 percent of the exports in the like period last season. The total for the season up through June 20 was only 3,200,000 bales according to trade reports. The total for the 12 months ended July 31, therefore, will be less than 3,500,000 bales and, in terms of 500 pound bales, probably the smallest for any season since 1881 or earlier.

May exports of Egyptian cotton, of 145,000 bales of 478 pounds, were 9 percent larger than exports from Egypt in May last year. From August through May exports from Egypt, of 1,521,000 bales, were slightly less than in the corresponding period in either of the 2 preceding seasons, but with the exception of these 2 seasons and 1933-34 they were the largest for the period on record.

From August through April this season, exports of cotton from British India were 50 percent larger than in the corresponding period last season but slightly less than the 10-year average. Exports from British India in April, the latest month available, were 36 percent larger than a year earlier and were somewhat larger than the 10-year, 1924-33, April average.

The 1938-39 estimated Brazilian crop is about 200,000 bales less than the record crop of the preceding season, but exports from Brazil from August through March were about 25 percent larger than the previous record high exports for these months, established in each of the 2 preceding seasons. In March cotton exports from Brazil were approximately 40 percent larger than the previous record high March exports.

DEMAND AND CONSUMPTION

UNITED STATES: Mill activity sustained
by improved sales of cotton textiles

United States mill consumption, of 605,000 bales in May, was about 40 per cent larger than in May last year and considerably larger than the 10-year average. Total consumption from August through May of 5,755,000 bales was approximately 900,000 bales larger than during the first 10 months of last season. The daily rate of consumption in May was slightly less than in April. Trade reports indicate no more than the usual seasonal decline in mill activity during the first 3 weeks in June.

Exceptionally favorable sales of unfinished cotton cloth occurred during the 2 weeks ended June 9, and for the 5-week period ended June 24, sales were probably above production. This, along with the advance in cotton prices, resulted in a substantial advance in cloth prices. Favorable sales during recent weeks may result in a smaller reduction in activity in the near future than had previously been indicated in some quarters. Nevertheless, on June 21 it was announced that manufacturers of print cloth, who represent more than 95 percent of the output of this section of the domestic textile industry, have agreed to restrict their output to at least 75 percent of (normal production for three months" between June and September. It seems likely that total consumption for the season will probably slightly exceed 6-3/4 million bales -- compared with 5-3/4 million bales last season -- and will be the second largest since 1928-29. With the total domestic consumption of foreign cotton likely to approximate 125,000 bales, domestic consumption of American cotton may reach approximately 6-3/4 million bales.

FOREIGN COUNTRIES: Consumption of American
cotton low, consumption of foreign exceptionally high

Foreign consumption of American cotton declined about seasonally from March to April and continued substantially below consumption a year earlier. Foreign consumption of American from August through April totaled about 3,450,000 bales, according to reports of the New York Cotton Exchange Service. This was more than 600,000 bales less than in the corresponding period last season and probably the smallest for the period in 2 decades. With somewhat more than the usual seasonal decline expected during the last quarter, the total consumption for the season seems likely to approximate 4,500,000 bales. This would be approximately 750,000 bales less than last season and the smallest since 1918-19.

Foreign mills consumed about 12,580,000 bales of cotton other than American during the 9 months ended April, according to estimates of the New York Cotton Exchange Service. This was slightly more than in the like period a year earlier and slightly smaller than that of 2 years earlier, but with this exception, it was the largest for the period on record. The estimated 9 months' consumption, together with recent reports as to mill activity up to the middle of June, suggests that the total foreign consumption of non-American cotton for the season now drawing to a close may equal or slightly exceed 16,750,000 bales. This would be the second largest mill consumption of non-American cotton in history, and it would exceed the 10-year, 1927-28 to 1936-37, average by 38 percent.

EUROPE: Textile situation improved somewhat
in May and early June 2/

More favorable news of trade demand and mill occupation generally characterized the reports from European cotton centers in May and early June. Improvement in mercantile buying was noted, especially in early May as prices moved upward and political anxieties tended to subside. In May and in early June, the uninterrupted advance of preparedness measures in a number of countries operated to maintain or even to increase cotton spinning and weaving activity. Current developments are affected by the expenditures for rearmament directly in the form of large-scale Government orders for textiles and indirectly in the form of increased civilian purchasing power growing out of activity similarly stimulated in other industries.

While the cotton textile sales and mill activity situation in Europe generally appeared somewhat improved, a drop in mill activity was reported in Germany. This is said to be due to shortage of raw material. In fact, there is evidence that, at least so far as American cotton is concerned, the supply situation has become uncomfortably tight. Although cotton is being offered freely for shipment out of the new crop, importations of old crop cotton are almost completely impracticable under the existing structure of prices. European stocks of American, small as they are, are said to contain little cotton not already sold and earmarked for delivery. Where mill activity has increased over earlier expectations, additional raw material has, in many cases, had to be bought and, for such cotton required before arrival of new crop American, buyers have inevitably been turning to other growths. Consequently the share of American in the total European consumption appears to be shrinking further during recent weeks, but probably not to the same extent as imports.

United Kingdom

Improvement over April in the demand for cotton textiles, increasing mill activity, rising costs of raw materials and other items, further depletion of the available supplies of American raw cotton and continuation of confused price conditions were outstanding features of the British cotton situation in May and early June.

Favored by the quieter tone of international news and stimulated by a strong upward movement of cotton prices, mercantile buying of textiles showed evidence of renewed activity. Government contracts for substantial quantities of cloth were booked. With few exceptions, however, buyers were reported as unwilling, because of the raw cotton price situation, to make commitments for other than nearby deliveries. Government orders for cloth are thought to account for a very considerable part of the current output.

2/ Based largely on a report prepared by Agricultural Commissioner, Arthur W. Palmer, London, England and Agricultural Attache Loyd V. Steere, Berlin, Germany. Report mailed from London June 13.

In consequence of the delivery requirements of both Government and mercantile orders, most mills, it is said, are well provided with orders about 3 months ahead but few are believed to have much on their books to be delivered later. This condition, at least assures a rather satisfactory rate of mill activity for the summer at least. Some idle mill equipment was restarted in May and there are reports of small purchases of new machinery needed to fill Government orders on time. Mill activity has increased to about 75 percent in weaving and 80-85 percent in spinning. Forwardings of cotton to mills likewise continued their contra-seasonal up-trend, reaching a weekly average of the 4 weeks to May 26 of 60,289 bales (478-pound equivalents), an increase of more than 2,500 bales over April, the previous high month of the season, and the highest since November 1937. Compared with September, the low month of the season, May forwardings show an increase of just over 50 percent.

The British market for cotton textiles for civilian consumption appears to be accounting for an offtake of at least usual volume. Comment on retail trade in May suggests there was some improvement over April and that in general the near-term prospect for mercantile trade in Great Britain seems to be brightening. For the fourth successive month the number of insured workers not employed has decreased and mid-May the total of 1,492,282 was the lowest since October 1937. This is only 152,000 more than the best levels of the boom year 1937.

Export trade in piece goods was reported to have improved early in May, a modest revival doubtless representing in part the release of orders held in suspense during the more anxious days of April as well as an endeavor to anticipate the advance of cotton prices with respect to goods needed before the end of summer. Some rather substantial orders for India were reported in the midst of a rather general increase of trade. Toward the end of May, however, reports indicated a slowing down of buying in export circles.

France

Cotton mill activity in France, which for some time after mid-March was largely sustained by the backlog of orders booked earlier in the season, appears to have received a strong new impetus in May with a revival of mercantile textile buying and the placing of considerable Government orders for service types of goods. Although some slackening in the pace of business was noted with the approach of the Whitsun holidays at the month's end, reports in earlier weeks were distinctly encouraging - more so perhaps with respect to the demand for goods than for yarns. Export sales, though normally accounting for only a minor share of French production, seems also to have been quite good. Prices of a number of constructions were advanced with, it is said, but little resistance from buyers. As elsewhere, emphasis appears to be on early deliveries, with textile buyers disposed to be cautious over the longer term in the face of uncertainties still inherent in the international political and price situation.

In the yarn trade, the second half of the month was generally said to be less active than in the first half when prices were rapidly rising. Reports generally indicate, however, that spinners have sufficient orders for their full-time output well through August, while Government orders in a number of cases are necessitating double-shift operation. Statistical evidence is not yet available, but estimates, believed to be reliable, put the average working time at 46 hours a week in the Vosge district, while the North is believed to be no less active, and in Normandie the average working week is perhaps a little longer. By contrast, working hours were limited by voluntary agreement in the summer of 1938 to 32 a week.

Activity in the raw cotton market was also resumed on a considerable scale in May. Spot sales in Havre are said to have included some 40,000 bales of Brazilians and 10,000 bales of French Colonials. Approximately 20,000 bales of American were stated also to have changed hands, partly from merchant to merchant. In addition, some reselling of American was reported by well-stocked mills to other mills in need of cotton for immediate use, the general disposition being to even accounts on the high basis prevailing on cotton of the old crop. Substantial import buying of Brazilians and Colonials is also reported but, although old crop American was much wanted for July-August shipment, workable offers from the United States were for all practical purposes unobtainable. The supply of American cotton in France which can be purchased for delivery before the new crop arrives appears to be nearing exhaustion. Cotton for shipment from the United States in the new season, however, is being offered freely and in spite of the general uncertainties is being purchased on call in quantity, one estimate putting the total of such business in May as high as 250,000 bales. The price basis is reported at 40-45 francs per 50 kilos on Havre new crop futures, which is considerably lower than prices of nearby deliveries of old crop cotton.

Imports into France from August 1 to May 31 in the present and two preceding seasons (in 478-pound net equivalent bales) have been as follows:

Cotton: Imports into France, 1936-37 to 1938-39

Country of origin:	1936-37	1937-38	1938-39
	Bales of	Bales of	Bales of
	478 lbs.	478 lbs.	478 lbs.
United States ...:	735,718	706,059	387,795
British India ...:	176,062	113,213	164,585
Egypt	188,571	211,986	164,733
Brazil	42,689	50,558	126,153
French colonies ..:	22,353	23,054	42,563
Other	43,760	36,010	52,176
Total	1,209,154	1,140,881	938,005

Germany

The revolutionary changes in the German cotton textile situation, particularly in the raw material supply problem, foreshadowed on the taking-over of the cotton industries of Austria and Czechoslovakia - especially the latter - have rapidly become actuality. April and May reports from various sources indicated a marked deterioration in the outlook for meeting raw material requirements of the cotton textile industry. The index of production in the cotton industry just released for the month of March 1939, shows a marked drop to 104.7 from 112.0 in February (1928 = 100), indicating that conditions were less favorable this spring than had been indicated previously. Later figures are not available, but recent official statements herald the introduction of a whole series of new restrictions in the cotton industry.

Press reports of the National Convention of the German Textile Industry at Innsbruck at the beginning of June, state that the outstanding development was the announcement of "an extensive program that will place the future operations of the German textile industry upon an entirely new basis". These new measures, announced by President Kehrl of the Chamber of Commerce, who is also "General-referent" for textile questions in the Ministry of Economics, are grouped under five headings:

1. An increase in the entire line of cotton textile exports to secure foreign exchange for the German economy, generally, and for the German textile industry in particular.
2. A further increase in domestic raw material production as the central feature of German raw material policy.
3. Improvement of quality of textiles by all possible means consistent with optimum utilization of raw materials.
4. Rationalization and saving of labor.
5. Concentration of production upon most pressing national needs.

President Kehrl stated that recent economic developments and political and economic necessities as a whole required the adoption of a program in which the textile industry must concentrate upon the radical elimination of everything that is superfluous and, therefore, not a vital necessity, and upon meeting only the vital needs of the country.

In regard to textile exports, which had had to face exceptionally difficult conditions in foreign markets in the past year, the results achieved were not considered sufficient. Inducements to export are, therefore, to be increased by a number of measures, the principle of which will be preferential treatment for exporters on the basis of their performance. According to reports, it is to be axiomatic that export business under no circumstances should have to suffer from raw material difficulties.

Raw material requirements have increased in an extraordinary way, particularly as a result of the new territorial acquisitions, and the position has become very difficult, notwithstanding large increases in domestic production of various textile raw materials. As a result, still greater effort is to be centered in bringing about additional increases in the domestic production of various textile raw materials. The production of continuous filament rayon in 1938 totaled 66,000 metric tons (145.5 million lbs.), is currently at the rate of 74,000 tons (163 million lbs.), and in April 1940 is scheduled to reach a rate of 85,000 tons (187 million lbs.). The total production of staple fiber in 1938 was 154,000 tons (340 million lbs.); the output will reach 200,000 tons (441 million lbs.) during 1939 and is expected to be up to 275,000 tons (606 million lbs.) one year hence, with the ultimate goal set at 325,000 tons (716 million lbs.). Even this figure, it is stated, does not exhaust the possibilities, although it is the highest figure that has yet been mentioned officially or unofficially. Raw material for staple fiber production is now definitely assured, it is claimed, by the shift from spruce to beechwood pulp, which has now been 80 percent completed, and other new sources from pine and straw are in development. From these figures it is obvious that the Reich authorities' ideas on staple fiber production (President Kehrl is understood to be one of the chief exponents of a program of maximum expansion of domestic raw material production) have been definitely revised upward in recent weeks. The acreage in flax declined in 1938 to 111,000 acres, ^{from} 141,000 acres in 1937, because prices were not attractive to farmers and because of the shortage of labor for harvesting. Prices, however, have been markedly increased, and it is expected that the flax acreage for 1939 will probably be between 143,000 acres and 161,000 acres not including former Czechoslovakia, with which a total of some 247,000-272,000 acres, it was thought, might be achieved. The acreage under hemp is expected to be increased from 31,100 acres in 1938 to 42,000-44,000 acres in 1939, which would be equivalent to some 14 million lbs. of fiber.

The problem of improvement of quality of textiles was stressed by President Kehrl as one of the most important for the immediate future. The industry could not merely confine itself to the production of new fibers but must concentrate upon their utilization. Staple fiber must be regarded as a new and valuable material requiring special utilization. Those concerns which get the maximum out of staple fiber and achieve the greatest progress and improvement in its utilization, or which adjust themselves to the use of staple fiber exclusively, are to be put in a special category and given special preferential treatment in the allotment of raw materials in recognition of their contributions. In other words, whoever gets the most out of German raw materials shall in the future be allotted the most in raw materials.

Special effort is to be made to use pure cellwool in all products where this is in any way possible, with a view to enabling the withdrawal of cotton from such products. In order to hasten this process, a prohibition will be introduced, effective July 1, 1939, on the use or the mixture of cotton for numerous products, among them printed goods, women's dress materials, upholstery, curtain and decorative materials, linings, leather substitutes and almost all materials for industrial use. An

especially sharp restriction will be made upon the use of cotton for printed goods. President Kehrl also announced that the authorities would use drastic measures to prevent the production of shoddy or excessively cheap goods, i.e., products which are much better in appearance than in quality and, therefore, are regarded as wasteful. The use of good raw material for such articles will be regarded as a misuse of valuable resources and will be looked upon by the authorities in the future as grounds for the reduction of raw material allotments and even the forced closing down of operations.

President Kehrl also stressed the necessity in the future of much sharper rationalization; the textile industry must reckon with having to get along with a materially reduced number of workers (who are needed more urgently elsewhere), and this could be done with benefits in the form of reduced costs. Finally, he emphasized the pressing necessity of concentration upon the production of those goods most urgently needed from a national standpoint. The difficult raw material situation, he said, made this absolutely unavoidable, and it must be reckoned with that there is going to be a temporary shortage of imported raw materials which would be equally distributed over the entire German textile industry. In all branches of textile production, he indicated, there is no escape from the fact that there will be a further reduction in raw material allotments. The greatly increased number of spindles to be supplied, the deteriorating import possibilities, and the even more urgent need of other raw materials left no alternative.

Mid-May reports announced the departure to the southeastern European countries of a delegation of leading figures in Bremen business circles, in which cotton was very heavily represented. It is indicated that the trip results mainly from the initiative of the Bremer Baumwoll A. G., founded in March for the express purpose of developing the trade in cotton with southeastern and near-eastern countries.

Press reports on the trip comment upon the increasing interest of the Bremen cotton trade in trade relations with southeastern countries. A considerable number of Bremen firms, it is indicated, have already made new connections and important new engagements in Austria, with a view to participating in and developing the trade with the southeastern countries. These arrangements include the establishment of branch offices by importing firms to handle cotton, and by exporting firms to engage in exports of cotton goods to the area in question.

Italy 3/

A less pessimistic attitude with respect to the state of the Italian cotton trade was apparent among Milan cotton dealers toward the end of May when most of them admitted that actual developments had probably not been as unfavorable as had been feared and appeared to entertain the hope of

3/ Information received from the American Consul General at Milan.

improvement in the not far distant future. Probably, resignation toward the rigid control of imports of cotton imposed by the authorities in recent months had something to do with the change of attitude. It is certain that a lessened fear of imminent war helped considerably. Stocks of cotton held by spinners appear to be much larger than has heretofore been admitted and seem likely to last another month or so. By that time, the Exchange Authorities are expected to release more foreign exchange to pay for imports of cotton; but until they do so, little hope is entertained of selling more than occasional small lots. Meantime, the mills are being run at a fair rate of activity, although not as high as one year ago. The export trade seems to be holding up unusually well considering all conditions, and an improvement is expected to follow the recent signing of the trade treaty between Italy and Argentina.

Netherlands

The price difficulties which the Dutch textile industry experienced during the fall and winter months of the present cotton season appear to have been remedied by the increased ad valorem import duties. There has also been a better demand for cotton yarns in recent months. The rayon industry, which suffered a 25 percent decline in export business, also appears to be recovering losses.

Net imports of raw cotton into Holland from August 1, 1938, to April 30, 1939 totaled 193,200 bales compared with 196,200 bales imported up to that date a year ago. Cotton cloth exports continue behind last year, with net exports of cloth from August through April totalling 25½ million lbs. compared with 35.7 million lbs. during the same period a year ago, but 22.3 million lbs. two years ago. Net imports of yarn, on the other hand, are still running above last year, with totals, from August 1, 1938 to April 30, 1939, of 25 million lbs. against 19 million lbs. last year, but 32 million lbs. two years ago.

Poland

The activity of Polish cotton spinning mills has not been steady in recent weeks, according to reports from Lodz. Exports sales have declined, the decrease being attributed to recent political tension and the general international situation, although Polish economists state that it is yet little more than seasonal in nature. The United Kingdom was the best market for Polish textile goods in April, followed by Colombia, Egypt and the Netherlands.

Polish imports of raw cotton were higher in March (35,600 bales of 478 lbs.) than in February (25,200 bales) but lower than a year ago. Total imports of raw cotton from August through April this season stood at 238,600 bales compared with 251,400 bales imported up to that date last season.

Switzerland

The latest reports from the Swiss textile industry are more encouraging than for many months. Some recovery from the export sales difficulties of recent months is apparent. There has been a certain amount of improvement in the important embroidery trade, and both the knitting and hosiery

industries appear to be quite well supplied with orders from the United States. Domestic sales have also been better for textile goods in most lines.

Imports of raw cotton rose to 17,840 bales of 475 lbs. during April, compared with imports of 11,222 bales in the preceding month, and only 9,107 in April last year.

Denmark

Spinning mills activity in Denmark, generally speaking, continues high. The textile production index in March of 114, (1935 = 100) while 2 points lower than in February was 3 points above December and 6 points above March, 1938. Activity in April and May is believed to have been well maintained. The general employment situation is now better than it has been for some time.

Total imports of raw cotton since August 1, 1938, stood at 31,090 bales on April 30, 1939, compared with 30,780 bales imported during the same period of the 1937-38 season, and 30,685 bales the year previous.

Finland

Conditions in the textile industry of Finland have continued to be generally good during the past few months, probably because of the sustained high level of employment in Finland. The index of general industrial production (1935 = 100) rose from 132 in February to 135 in March of this year compared with 132 in March a year ago. There have been evidences of a slight slackening of textile industry activity in April and May, but seasonal levels have been well maintained.

Total Finnish imports of raw cotton since August 1, 1938, stood at 63,378 bales on May 1, 1939, compared with 54,000 bales imported during the same period of the 1937-38 cotton year, and around 48,430 bales in the corresponding period of each of the two preceding seasons.

Sweden

Activity in the Swedish textile industry apparently continues at a level substantially higher than last year. The domestic and foreign markets are both reported as good. The textile industry production index (1935 = 100) which stood at 109 in January advanced to 112 in February and 113 in March, compared with 107, 108, and 109, respectively, last year.

Imports of raw cotton in April of 25,890 bales of 478 lbs. were the second largest for any month in several years. In March imports totaled 13,900 bales and in April last year only 7,620 bales. This brought the total for the season to May 1 up to 156,460 bales against less than 119,920 bales in the corresponding period of each of the three previous seasons.

The payment agreement which formerly existed between Sweden and Czechoslovakia has been applied to the goods traffic between Sweden and the Protectorate of Bohemia and Moravia. The agreement provides for the use of free devisen in the exchange of goods and takes effect on July 1, 1939.

ORIENT: Consumption continues below average
despite high level in India

There is little indication of any important change in mill activity in the Orient during recent weeks. In Japan, cotton consumption continued materially (probably one-fifth to one-sixth) below a year earlier and the smallest for the period in 4 years. While cotton mills in China are now consuming more cotton than a year ago, the current rate is much less than for several years prior to the beginning of the conflict with Japan about 2 years ago. In India, on the other hand, cotton mill consumption is exceptionally high, the mill consumption of India cotton in May, of 240,000 bales of 400 pounds, being the second largest for the month on record. The total for the 10 months ended May is the largest for the period in history.

To a considerable extent the low level of consumption in Japan and China are attributable to the Sino-Japanese conflict. In China many of the cotton manufacturing establishments have been destroyed. The effects on cotton consumption in Japan resulted from the interruption of Japan's international trade and the resulting difficulties in obtaining foreign exchange with which to finance the purchase of cotton. This in turn contributed to the regulation which became effective about a year ago prohibiting the use of pure cotton yarn in the production of textiles to be sold to the civilian population in Japan or to those in other areas where the Japanese yen was used as a medium of exchange.

ACREAGE, PRODUCTION, STOCKS AND SUPPLIES

AMERICAN COTTON: Carry-over of about
14 $\frac{1}{4}$ million bales seems probable

Roughly 14,250,000 running bales of American cotton now seems likely to be carried over throughout the world on August 1 next. This figure -- derived by deducting the estimated world consumption for the 12 months ended July 31, 1939 (see page 7) from the estimated supply for this period -- is about 500,000 bales larger than the previous record high carry-over of August 1, 1938. It is 72 percent higher than the 1927-36 average. It is expected that roughly 1,250,000 bales of the total August 1 stocks will be located outside the United States -- assuming little or none of the 600,000 bales involved in the cotton-rubber exchange agreement with Great Britain will have left the United States by that time - compared with a little over 2,250,000 bales a year earlier. This would leave roughly 13,000,000 bales located in the United States compared with a little less than 11,500,000 bales on August 1 last year.

On June 1, domestic stocks of American cotton, totaling a little over 14,300,000 bales, were nearly 700,000 bales larger than a year earlier and almost twice as large as the preceding 10-year June 1 average. Stocks of

so-called "free" cotton including mill stocks, of a little over 2,900,000 bales, were only about half as large as a year earlier. Excluding mill holdings, "free" domestic stocks of American cotton amounted to slightly over 1,750,000 bales and were only about two-fifths as large as at the end of May last year.

As of June 22, total reported stocks of cotton held against Government loans were 11,240,000 bales. This represented a decline of about 130,000 bales from the peak reached about the end of April. Reports received by the Commodity Credit Corporation up to June 22 indicate that directly or indirectly farmers had repossessed a total of 187,000 bales of the 1938 crop on which they had obtained loans, approximately 70,000 bales of which were reported during the 2 weeks ended June 22. At present prices, many farmers, particularly in the southeastern part of the Belt, are able to obtain more than enough for their cotton to pay off their loans, plus the accrued carrying charges.

During the 3 weeks ended June 20, reports of the Weather Bureau indicate that in much of the Central and Eastern Cotton Belt excessive and intermittent rains were unfavorable for the development of the crop. In many areas, cultivation is said to be "badly needed as fields are becoming grassy from continued frequent rains; conditions were favorable for weevil activity, with dry weather and sunshine badly needed." In Texas, Oklahoma, Arkansas and Louisiana the progress and condition of the crop were reported as mostly fair to good during the week ended June 20.

FOREIGN COTTON: Carry-over of 8 to 8½
million bales expected

World stocks of foreign commercial cotton as of May 1 totaled about 12,300,000 bales, according to estimates of the New York Cotton Exchange Service. This is approximately 800,000 bales less than those of a year earlier which together with the apparent current rate of consumption indicates that the world carry-over of foreign cotton this year probably will be around 8,000,000 to 8,250,000 bales. The carry-over of such cotton on August 1 last year is now estimated at 8,900,000 bales.

The 1939 Chinese cotton crop is now tentatively estimated at about 1,800,000 bales of 500 pounds net, according to a recent radiogram from Agricultural Commissioner O. L. Dawson at Shanghai. This estimate which includes Manchuria compares with an estimated 1938 crop of about 2,200,000 bales. The chief prospective decreases in the crop are in North China where the spring drought situation is reported serious.

Cotton planting in the main cotton growing regions of the U.S.S.R. is reported to have been completed by the beginning of May. The total acreage planted is said to be about the same as that of a year ago. The total acreage put in by the collectives, which accounted for practically the entire cotton acreage, was 4,883,000 acres by May 10, the latest date for which estimates of plantings are available as compared with 4,863,000 acres planted to the same date last year. In each case those reported plantings constituted 99 percent of the reported plan.