

Explanation of Revisions to the China Cotton Balance Sheet - May 2005 WASDE:

This month's supply and demand estimates for China include a negative residual in the "loss" column for 1994/95 through 2005/06. This residual signals the likelihood that stocks in China are larger than the level indicated by USDA's estimates of supply less demand, due to an unexplained discrepancy in the underlying data. The balance sheets for the United States, Australia, and Brazil have similar residuals in some years.

The government of China does not provide an official cotton balance sheet. USDA estimates China's supply and demand using China government statistics, to the maximum extent possible. For the period 1994/95 through 2004/05, USDA's China production estimate is the final official estimate released by the China National Bureau of Statistics (NBS). USDA's estimates of China's domestic consumption are based on the NBS yarn production data, adjusted to derive total use of raw cotton fiber. USDA adopts China customs data for cotton imports and exports. The May 2005 estimates include revisions in imports for several past years as reported in the Global Trade Information System.

China's economy and cotton sector have undergone significant changes since the mid-1990's. These changes include the elimination of the floor under government procurement prices, the participation of non-government entities in cotton trade, the accumulation and subsequent disposal of large surpluses. During this period USDA has made historical revisions raising China's ending stocks three times--April 2000, July 2002, and November 2004. These revisions were based on evidence of prior crop surpluses from sales of the government reserve and other relevant information from Chinese sources.

Notwithstanding the earlier historical revisions, there appears to be a persistent error in the supply-demand balance sheet which tends to understate ending stocks. China's stocks have tightened substantially in recent years as surpluses were sold and the government stopped carrying large reserves. In addition, factors such as rapidly rising consumption, restrictions on government credit, and a more flexible import quota system have encouraged China's mills to limit the stocks they carry and cover their requirements on a hand-to-mouth basis. Nevertheless, it is unlikely that total stocks in China – including stocks at mills and stocks in the "pipeline" (held by suppliers, at ports, in transit, etc.) has fallen below two months' domestic mill use.

Since the current pace of China's 2004/05 imports will not sustain stocks at this minimum level, USDA has elected to add a modest residual to the balance sheet rather than derive a stocks estimate deemed to be too low. And because it is unlikely that the data inconsistency is a one-year phenomenon, the residuals are included beginning in 1994/95 and increased roughly proportional to the subsequent growth of China's cotton industry, culminating in 350,000-bale adjustments in both 2004/05 and 2005/06—these recent adjustments are less than 1 percent of estimated domestic consumption. USDA will continue to investigate both data sources and methods to improve the estimation of the China cotton balance sheet, and may make further revisions at a later date.

Revised China S&D - May 2005 WASDE:

	<u>1994/1995</u>	<u>1995/1996</u>	<u>1996/1997</u>	<u>1997/1998</u>	<u>1998/1999</u>	<u>1999/2000</u>	<u>2000/2001</u>	<u>2001/2002</u>	<u>2002/2003</u>	<u>2003/2004</u>	<u>2004/2005</u>	<u>2005/2006</u>
April 2005 Estimates:												
Area	5,530	5,422	4,722	4,491	4,459	3,726	4,058	4,820	4,184	5,110	5,690	
Beginning Stocks	6,551	10,328	15,852	18,805	22,555	24,233	18,958	15,551	13,808	8,884	7,843	
Production	19,900	21,900	19,300	21,100	20,700	17,600	20,300	24,400	22,600	22,300	29,000	
Imports	4,060	3,045	3,613	1,834	359	117	241	449	3,127	8,832	8,000	
Total Supply	30,511	35,273	38,765	41,739	43,614	41,950	39,499	40,400	39,535	40,016	44,843	
Consumption	20,000	19,400	19,950	19,150	18,700	21,300	23,500	26,250	29,900	32,000	37,500	
Exports	183	21	10	34	681	1,692	448	342	751	173	50	
Loss	0	0	0	0	0	0	0	0	0	0	0	
Ending Stocks	10,328	15,852	18,805	22,555	24,233	18,958	15,551	13,808	8,884	7,843	7,293	
Stocks/use %	51.2%	81.6%	94.2%	117.6%	125.0%	82.5%	64.9%	51.9%	29.0%	24.4%	19.4%	
May 2005 Estimates:												
Area	5,530	5,422	4,722	4,491	4,459	3,726	4,058	4,820	4,184	5,110	5,690	4,800
Beginning Stocks	6,551	10,528	16,116	19,147	22,997	24,853	19,778	16,566	15,073	10,399	9,608	8,933
Production	19,900	21,900	19,300	21,100	20,700	17,600	20,300	24,400	22,600	22,300	29,000	25,500
Imports	4,060	2,908	3,491	1,725	332	117	230	449	3,127	8,832	8,000	15,000
Total Supply	30,511	35,336	38,907	41,972	44,029	42,570	40,308	41,415	40,800	41,531	46,608	49,433
Consumption	20,000	19,400	19,950	19,150	18,700	21,300	23,500	26,250	29,900	32,000	38,000	41,000
Exports	183	20	10	25	676	1,692	442	342	751	173	25	25
Loss	-200	-200	-200	-200	-200	-200	-200	-250	-250	-250	-350	-350
Ending Stocks	10,528	16,116	19,147	22,997	24,853	19,778	16,566	15,073	10,399	9,608	8,933	8,758
Stocks/use %	52.2%	83.0%	95.9%	119.9%	128.3%	86.0%	69.2%	56.7%	33.9%	29.9%	23.5%	21.3%
Change In:												
Beginning Stocks	0	200	264	342	442	620	820	1,015	1,265	1,515	1,765	
Imports	0	-137	-122	-109	-27	0	-11	0	0	0	0	
Consumption	0	0	0	0	0	0	0	0	0	0	500	
Exports	0	-1	0	-9	-5	0	-6	0	0	0	-25	
Loss	-200	-200	-200	-200	-200	-200	-200	-250	-250	-250	-350	
Ending Stocks	200	264	342	442	620	820	1,015	1,265	1,515	1,765	1,640	