

1992 Cotton Management Economic Notes

The University of Arizona • College of Agriculture • Tucson, Arizona, 85721
 Department of Agricultural Economics

July 27, 1992

James C. Wade and Russell Tronstad
Extension Economists

Introduction

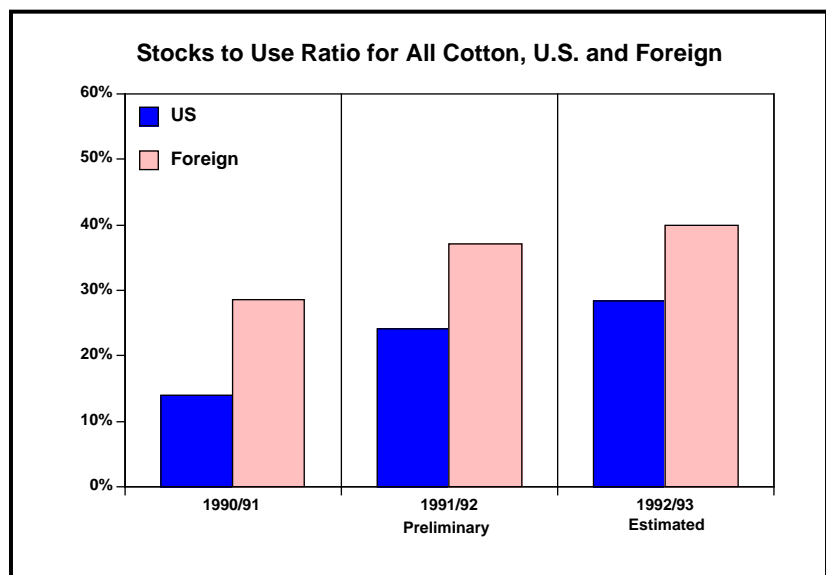
The 1992 cotton season is progressing at a very rapid pace and thoughts of termination and sale are already at hand. Both expected prices and expected cost affect these late season decisions.

1992-93 Initial Supply Estimates

August 1 marks the beginning of the new marketing year, 1992-93. While it is a bit early to estimate all of the parameters of the next year. We can look at the way 1991-92 crop year ended and what the experts expect the next year to look like.

Estimated supply consists of carryover from previous crops and the estimated 1992 crop. Carryover into the new marketing year will be a bit higher than at the beginning of the 1991-92 marketing year. This is a combined result of the extremely large 1991 crop and the reduction in domestic usage. Lower prices in 1991-92 have helped to maintain the fairly high levels of exports experienced in recent years. Thus, carryover is expected to be in the range of 3.2 million bales for all cotton (Upland and Pima). With planted acreage down

somewhat from last year's very high levels, production also will be less. Low prices, financial stress and increased set aside requirements have contributed to the reduced acreage. The first estimate of harvested acreage will be published by the USDA in early August. Currently, 1992 production is estimated at 17.2 million bales, a decrease of less than one-half million bales from last year. However, early estimates have a history of changing. Watchful uncertainty is the



current situation.

U.S. production is, however, only a small part of the entire picture. As the figure on this page illustrates, both U.S. and foreign "stocks to use ratios" have increased over the past several seasons. A driving factor in the increases in stocks is the dramatic increase in foreign production from about 79.9 million bales in 1989/90 to about 95.2 million bales in 1991/92.

Domestic use and exports, while strong as the result of rather low prices, will continue to suffer from the general economic recession.

<u>Recent Prices</u>	<u>July 24, 1992</u>	
	<u>Upland (c/lb)</u>	<u>Pima (ELS) (c/lb)</u>
Spot	62.71	88.50
Target Price	72.90	105.80
Loan Rate	51.15	88.15
December Futures	61.60	

Note: Upland Spot for Desert SW grade 31, staple 35;
 Pima Spot for grade 03, staple 46 7/17/92; Phoenix Loan Rates

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Estimated To-Date Production Costs

\$/lint lb (July 27)

The following table gives estimated production costs/lb to-date. These costs include both growing and fixed or ownership costs and are based on the displayed target yields. Producers with higher yields will have lower costs/lb if input costs are the same. Growers with lower yields will have higher costs/lb.

County	Target Yield	Growing Costs		Fixed Cost	All Costs To Date
		July	To Date		
Yuma	1,300	.05	.16	.25	.40
La Paz	1,300	.06	.19	.27	.46
Mohave	1,100	.07	.19	.23	.42
Maricopa	1,250	.04	.15	.23	.38
Pinal	1,300	.06	.22	.26	.49
Pima	1,100	.08	.20	.28	.49
Cochise	700	.13	.42	.42	.89
Graham	1,050	.04	.31	.31	.55
Greenlee	850	.11	.29	.36	.66

Note: Based on Wade, et al., "1992-93 Arizona Field Crop Budgets", Various Counties, Arizona Cooperative Extension, Tucson, January 1992.

The large world wide stocks are dampening the U.S. exports.

Weekly reports indicate that very little trading of Western cotton has occurred during the last month or so, indicating that little domestic stock of quality cotton is available.

plies for 1992/93. At this point in the season, prices are low and declining in anticipation of a large crop. Earlier uncertainty about the crop that resulted from weather problems in Texas are having less weight on the market. While some uncertainty still exists about the 1992 crop buyers appear to be optimistic about future supplies and, perhaps, somewhat cautious about expanding inventories in light of general economic uncertainties.

Checking Costs

This is the time of the season when cost begin to explode. The crop is now well established and growers (and their bankers?) are moving into a protection mode. Expectations have been established for the crop that is in the field and expectations are that one has to protect the crop. While protection is necessary, growers should be thinking about the end of the season and how much protection is going to be needed as the cotton matures. The possibility of a warm and dry Fall will tempt many growers to try to increasing yields by extending the season. But as previously noted, extending the season can be costly. Not every growers has the same costs, especially for water. Each added irrigation and insecticide treatment is added costs in materials, water, labor and application services.

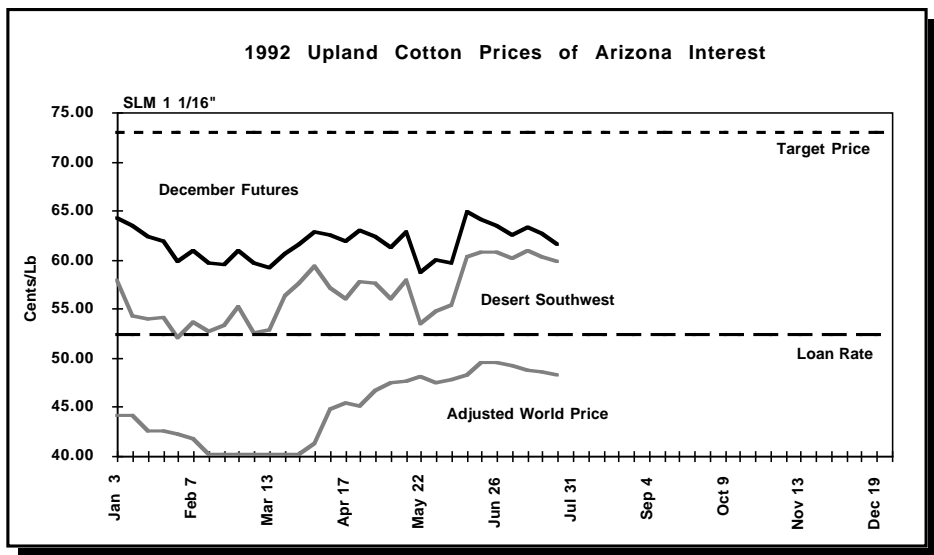
What strategy is best? It depends on the farmer and the cost of water and insecticides -- particularly water. Few growers can afford to leave the crop long enough to maximize yields.

The price expectations derived from the above outlook data are also important in determining the best strategy. Tempting as it may be to extend the season to makeup for low prices, high

input costs make such a strategy very risky.

Conclusion

- **Growers should find a satisfactory cutoff date and begin preparation for harvest by examining both the expected returns and the expected costs of continuing the season.**



The "Adjusted World Price" shown in the graph at the bottom of this page again indicates that supplies are strong outside the U.S. The upward trend in prices in June has reversed at least temporarily as buyers are examining the current crop to determine the expected level of production and, therefore, the expected sup-