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Department of Agriculture

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Cotton Outlook

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THE UNITED STATES AND WORLD COTTON OUTLOOK

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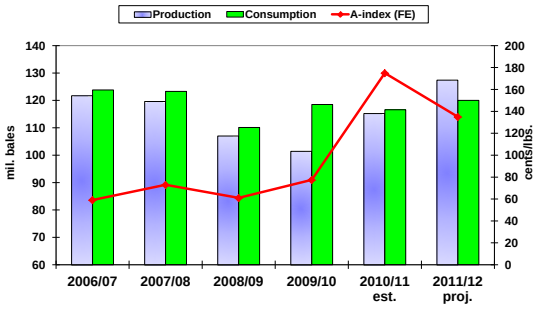
Introduction

World Production, Consumption, and Prices
2006/07 through 2011/12 projection



The 2010/11 U.S. and world cotton situation reflects extremely tight supplies relative to demand, resulting in prices which have surpassed historical records. World cotton production declined an estimated 17 percent between 2006/07 and 2009/10, primarily because increases in cotton prices lagged those of grains and oilseeds. Global demand rose sharply in 2009/10 in response to worldwide economic recovery, reducing stocks to 44 million bales, a 13-year low. In 2010/11, global production has risen an estimated 13.5 percent; however, the 14-million bale increase has proven inadequate to meet demand. As a result, 2010/11 world cotton consumption is forecast to decline nearly 2 percent, despite strong growth in world GDP.

The current severe world cotton shortage has driven prices far above the early-season expectations of cotton traders and analysts; the A-index has more than doubled since the marketing year began on August 1, 2010. The sharp run-up in prices is due partly to a lack of flexibility on the part of textile manufacturers to curtail production for retail orders placed several months ago. However, this short-term inelasticity of demand may not account for all of the recent price increase, which is well above the level indicated by statistical relationships between estimated supply and demand. Uncertainty about current market developments increases the difficulty of making projections for the upcoming season.

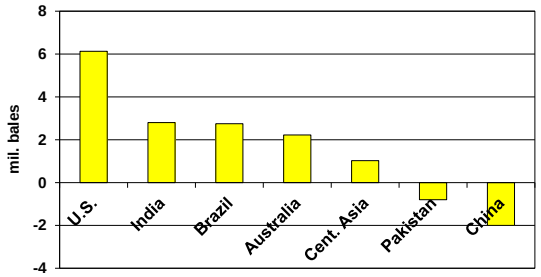
USDA's first 2011/12 cotton projections include an 11-percent increase in world production to a record 127.5 million bales, combined with a more modest increase in world consumption. World consumption is projected at 120 million bales, below both the 2006/07 record of 124 million bales and the level supported by expected world GDP growth, as textile producers adjust their use of cotton in response to higher prices. World ending stocks are projected to rise 17.5 percent

to about 50 million bales. While the stocks-to-consumption ratio would be above the two preceding seasons, it is still low relative to recent averages. The A-index is expected to fall from $1.75 in 2010/11 to $1.35 in 2011/12. However, U.S. producers are expected to realize higher prices for the upcoming season, and the U.S. farm price is projected to rise from $.815 per pound to $1.10.

World Cotton Situation, 2010/11

World Cotton Production, 2010/11

Estimated Changes in World Production, 2010/11 compared with 2009/10



Global cotton production in 2010/11 is estimated at 115.3 million bales, up 13.5 percent from a year ago, when output declined to a six-year low. The 2010/11 rebound is a response to more favorable market prices, improved global credit availability, and higher yields. World harvested cotton area in 2010/11 is estimated at 33.3 million hectares, up 10 percent from the previous year and the largest acreage in four years, as several major cotton-producing countries have expanded area. World cotton yield in 2010/11 is estimated to improve 3 percent to 754 kg/ha.

China's 2010/11 crop is estimated at 30.0 million bales, representing the third consecutive year of decline. Producers have reduced cotton area, despite higher prices, due to labor shortages, government policies favoring grain production, and growing concerns about high market volatility. China's 2010/11 harvested area is estimated to decline 4 percent from the preceding year to 5.1 million hectares, the lowest area harvested in eight years. The 2010/11 China cotton yield is estimated at 1,281 kg/ha, down 3 percent from a year ago, due to unfavorable weather in some areas.

India, the world's second largest cotton producer, is estimated to grow a record 26.0 million bales in 2010/11, up 12 percent from the previous year, as producers have increased cotton area in response to favorable weather conditions and strong market prices. India's harvested area in 2010/11 is estimated at a record 11.0 million hectares, up 7 percent from the preceding year. Area increases are estimated in Gujarat, Maharashtra, and Andhra Pradesh, the leading cotton

producing states. India's cotton yield in 2010/11 is estimated at 515 kg/ha, up 5 percent from the previous year, due to a favorable monsoon and improved inputs.

Pakistan's 2010/11 cotton production is estimated at 8.8 million bales, down 8 percent from the preceding year, but only slightly below the three-year average. Excessive rainfall and flooding resulted in both abandonment of planted area and lower yields. Harvested area declined 3 percent to 2.9 million hectares, while yield is estimated to have fallen 5 percent to 661 kg/ha.

Brazil's production in 2010/11 is estimated to rebound 50 percent to a record 8.2 million bales, as growers in the southern hemisphere country respond strongly to record cotton futures prices. Brazil's 2010/11 cotton area is estimated at 1.2 million hectares, up 45 percent from the previous year and the highest since the early 1990's. Yield in 2010/11 is estimated to grow 4 percent to 1,469 kg/ha from a year ago, as weather conditions have improved.

Central Asia's 2010/11 production is estimated at 7.0 million bales, up 17 percent from the previous year. Harvested area in 2010/11 is estimated to increase nearly 2 percent to 2.2 million hectares from a year earlier. Yield is estimated at 688 kg/ha, up 15 percent from the previous year.

Australia's 2010/11 production is forecast at a record 4.0 million bales, more than double 2009/10, due to significant improvement in water supplies and favorable market prices. At 4.0 million bales, Australia's share of world cotton production would be 3.5 percent, the highest since 2000/01. Harvested area is estimated at a record 560,000 hectares, as unusually heavy rain has replenished irrigation supplies and supported increased dryland cotton area. Australia's overall 2010/11 cotton yield—which until now was the world's highest—is estimated to decline due to a higher proportion of lower-yielding dryland area.

World Cotton Consumption, Prices, and Ending Stocks, 2010/11

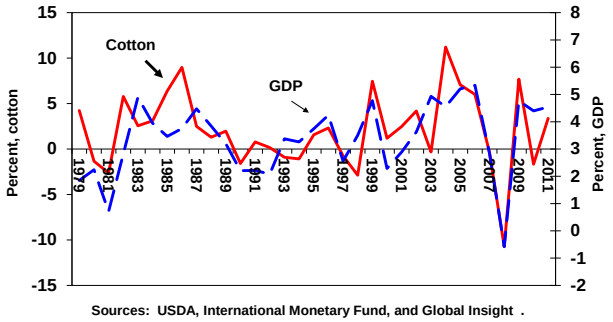
World Cotton Supply and Demand,
2009/10 and 2010/11 est.
(mil. bales)

Item	2009/10	2010/11	Change (%)
Beg. stocks	60.5	44.0	-27.8
Production	101.5	115.3	+13.6
Imports	36.0	38.1	+5.8
Total Supply	198.0	197.3	-0.4
Consumption	118.5	116.6	-1.6
Exports	35.6	38.1	+9.6
Total Use	154.1	154.7	+0.4
Residual	0	-0.1	0
Ending stocks	44.0	42.8	-2.7
Stocks-to-Consumption (%)	37.1	36.7	-0.8
A-Index (FE) per lb.	$.775	$1.75	+125.8

World cotton consumption and prices in 2010/11 are being driven by the contradictory forces of strong consumer demand and severe limitations on supply. USDA analysis of historical world

consumption patterns indicates a close correlation of changes in cotton consumption with growth in world GDP, moderated by other variables, including a response to lagged cotton prices, the relationship of cotton to polyester prices, and exchange rates. Considering that world GDP growth is expected to exceed 4 percent in both 2010 and 2011(IMF), world cotton consumption might have been expected to rise 5 percent in 2010/11, approaching the pre-recession peak levels achieved in 2006/07 and 2007/08. At the same time, however, increases in world prices beginning in 2008/09 have moderated consumption growth.

World Cotton Consumption and Economic Growth



Sources: USDA, International Monetary Fund, and Global Insight .

World 2010/11 cotton supplies were reduced owing to very tight beginning stocks, which were only partly mitigated by increased production. As it became evident early in the marketing year that supplies would be tight, buyers rushed to secure cotton and world cotton prices soared. The A-index rose above $2.00 per pound in early February as the market attempted to ration available supplies. Near-term cotton demand proved relatively unresponsive to rising prices, due to prior commitments made by spinners to supply their downstream textile customers. With world cotton supplies committed relatively early in the season, spinning mills lacking coverage through the end of 2011 find themselves in the very difficult position of having to default on contracts or pay double to triple the raw material price contemplated at the time the contracts were made. The problem of mill coverage has been exacerbated by India's decision to limit cotton exports beginning in April 2010. India's export restrictions have raised demand for cotton stocks elsewhere in the world, driving prices higher.

In addition to cotton supply and demand fundamentals, the run-up in 2010/11 cotton prices is supported by recovery in global industrial production, which is boosting prices for all commodities, with the largest gains for industrial materials. The Commodity Research Bureau's (CRB) index rose 25 percent from January 2010 to January 2011. Inflation rebounded in 2010, recovering from widespread deflation in 2009 due to the financial crisis. U.S. inflation remained low, with a consumer price index increase of 1.6 percent, but was higher in China (3.3 percent) and India (12 percent). However, cotton prices rose more than other commodities due to supply concerns.

The value of the U.S. dollar (USD) on foreign exchange markets is another variable determining commodity prices in USD terms, but its 5-percent (inflation-adjusted) depreciation during 2010 was much smaller than the average commodity price gains, and thus is not a significant factor accounting for higher cotton prices. The persistent, large current account deficits of the United States have been cited for years as driving expectations of future USD depreciation; however, large depreciations are not expected in the near-term.

In this situation, world consumption has been constrained to just under 117 million bales, a decline of nearly 2 percent from last season. At this consumption level, ending stocks are forecast at about 43 million bales; the indicated stocks-to-use ratio of 36.7 percent would be the smallest since 1993/94 and would allow for minimally adequate supplies to keep mills operating through the fall of 2011. Consumption in individual countries will be a function of yarn margins, access to supplies, and availability of credit. The A-index, which averaged $1.37 per pound for the first half of the marketing year, could reach or exceed $1.75.

2010/11 China and World Trade

China Cotton Supply and Demand,
2009/10 and 2010/11 est.
(mil. bales)

Item	2009/10	2010/11	Change (%)
Beg. stocks	22.4	15.2	-32.1
Production	32.0	30.0	-6.3
Imports	10.9	15.0	+37.6
Total Supply	65.3	60.2	-7.8
Consumption	50.0	47.0	-6.0
Exports	0	0	0
Total Use	50.0	47.0	-6.0
Residual	0	0	0
Ending stocks	15.2	13.2	-13.2
Stocks-to-Use (%)	30.5	28.1	-7.9

China faces restricted supplies from all sources in 2010/11. Beginning stocks fell to a 15-year low as a result of a surge in consumption in 2009/10, which largely depleted stocks in the government-held reserve. Declining area and weather-related problems reduced production to 30 million bales, a 5-year low, and significantly short of early season expectations. And China's ability to make up the supply shortfall with imports is constrained by the availability of foreign exportable supplies. As a result, consumption in China in 2010/11 is forecast to decline by 6 percent to 47 million bales from the previous year, and ending stocks to decline by 2.0 million bales to 13.2 million, the lowest in 16 years.

China's 2010/11 imports are forecast to rise 4 million bales to 15.0 million, about double the projected increase in world imports. Higher imports by China are expected to be partially offset by lower imports for several other major importing countries, including Indonesia, Taiwan, South Korea, Thailand, Turkey, Vietnam and Japan. In the latter countries, stagnant or declining consumption will limit import demand.

World Ending Stocks

World ending stocks in 2010/11 are forecast to decrease about 1 million bales to about 43 million. Southern hemisphere producers, such as Australia and Brazil, will have significantly larger crops in response to higher prices. However, the late season harvest limits these countries' ability to export the larger production before the end of the 2010/11 marketing year on July 31; thus, southern hemisphere stocks are forecast to rise by more than 3 million bales from the beginning level. Declining stocks in nearly all other countries will more than offset the southern hemisphere increase.

U.S. Cotton Situation, 2010/11

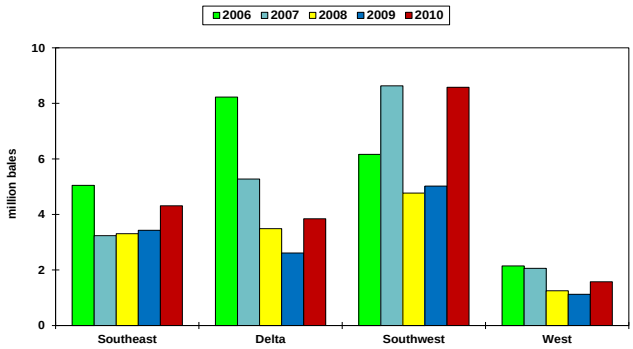
Area and Production

U.S. cotton production in 2010/11 is estimated at 18.3 million bales, 50 percent larger than last season's 12.2 million bales, due to a rebound in planted area and favorable crop conditions which reduced abandonment to near historic lows and supported yields. In addition to the better crop conditions, recent technological advances—including new varieties, improved irrigation, and precision farming techniques—helped push the U.S. yield to 821 pounds per harvested acre, the fourth highest on record. Upland production is currently estimated at 17.8 million bales, the highest since 2007/08, with an average yield of 814 pounds. The ELS crop is also larger at 498,000 bales, despite a 4-year low yield.

U.S. Cotton Area, Abandonment, Yield, and Production

		2006/07	2007/08	2008/09	2009/10	2010/11
Planted acres	**mil. acres**	**15.3**	**10.8**	**9.5**	**9.2**	**11.0**
Harvested acres	**mil. acres**	**12.7**	**10.5**	**7.6**	**7.5**	**10.7**
Abandonment rate	**%**	**16.6**	**3.1**	**20.1**	**17.7**	**2.4**
Yield/harvested acre	**lbs./acre**	**814**	**879**	**813**	**777**	**821**
Production	**mil. bales**	**21.6**	**19.2**	**12.8**	**12.2**	**18.3**

U.S. Cotton Regional Production
2006/07 to 2010/11



Compared with last season, 2010/11 upland cotton production was higher in each of the four Cotton Belt regions, a first since 2000/01. In the Southwest, where cotton area has accounted for over half of the plantings the last three seasons, area approached 5.9 million acres in 2010/11. The Southwest upland crop exceeded 8.5 million bales in 2010/11, the third highest on record, and accounted for a record 48 percent of the U.S. cotton crop.

In the Southeast and Delta, cotton planted area rose for the first time since 2006/07. For the Southeast, acreage approached 2.6 million acres in 2010/11. A lower than normal abandonment and an above average yield produced a 2010/11 crop of 4.3 million bales, the highest in 4 years. For the Delta, planted area increased in 2010/11 to 1.9 million acres. With below average abandonment, coupled with the second highest yield on record, the Delta crop surpassed 3.8 million bales in 2010/11, well below average but a significant rebound from last season.

In the West, 2010/11 upland area increased for the first time in 6 seasons to 366,000 acres, as upland area there reversed the downward trend which began in the early 1980s. And, with an above average yield of 1,478 pounds per harvested acre—the third highest on record—upland production in the West increased to 1.1 million bales, slightly below the 5-year average. The ELS crop remains concentrated in the West region. With higher area and lower yields, ELS production approached 500,000 bales in 2010/11, bringing total cotton production in the region to 1.6 million bales.

Domestic Mill Use

Domestic cotton mill use is forecast at 3.6 million bales for 2010/11, 4 percent above the 2009/10 estimate. The current mill use projection is similar to that of 2008/09, but less than half the level of cotton consumed by U.S. mills during the early 2000s. Based on the recent U.S. Commerce Department's monthly cotton mill use (MP313) reports for August through December 2010, U.S. cotton mill use has improved 14 percent compared with the corresponding period in 2009. In addition, the data indicate that mills have been running at an average annual pace of 3.7 million bales for the first five months of 2010/11. However, with limited cotton

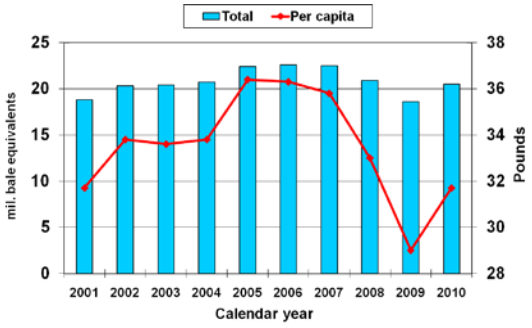
supplies and the recent record cotton prices, U.S. textile mills are expected to moderate their use of cotton during the second half of the season.

The trend of lower U.S. cotton mill use over the past decade is the result of increased competition from imported textile and apparel products, particularly from Asia. In calendar year 2005, China replaced Mexico as the leading supplier of cotton textile and apparel products to the United States, accounting for about 19 percent of the 2005 total. In 2010, China's share of U.S. imports rose to nearly 34 percent, as the volume from China increased about 20 percent from 2009. U.S. import volume also rose from the other leading suppliers, but their shares remained similar to those in 2009. Pakistan accounted for about 10 percent of the U.S. market in 2010, India contributed 8 percent, and Mexico and Bangladesh each accounted for nearly 6.5 percent of the total import volume. Vietnam and Honduras are also important suppliers to the U.S. textile and apparel market.

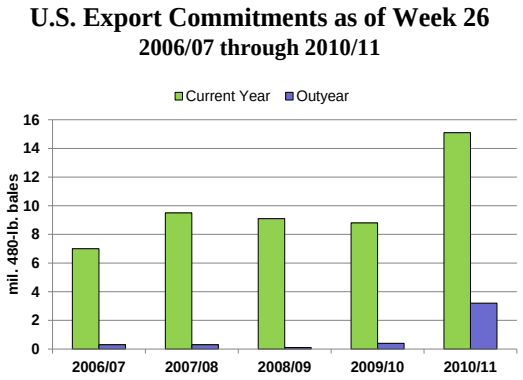
As the general U.S. economy rebounded in calendar year 2010, so too did U.S. cotton textile and apparel product trade. The U.S. cotton textile trade deficit increased for the first time in three years—reaching 16.8 million bale-equivalents—to the third highest on record. U.S. cotton textile and apparel imports reached an estimated equivalent of 20.5 million bales of raw cotton, nearly 12 percent above 2009. In comparison, cotton product exports were only 3.7 million bale-equivalents, but their 19-percent increase was the first for U.S. textile exports since 2004.

Estimated U.S. household consumption of cotton, as measured by U.S. mill use plus net textile trade, is expected to rise in 2010/11. In calendar 2010, U.S. domestic consumption of cotton increased to an estimated 20.5 million bale-equivalents, compared with 18.6 million in 2009. Similarly, U.S. per capita cotton consumption approached an estimated 32 pounds in calendar 2010, 3 pounds above a year earlier.

U.S. Domestic Cotton Consumption:
Total and Per Capita



Exports and Ending Stocks

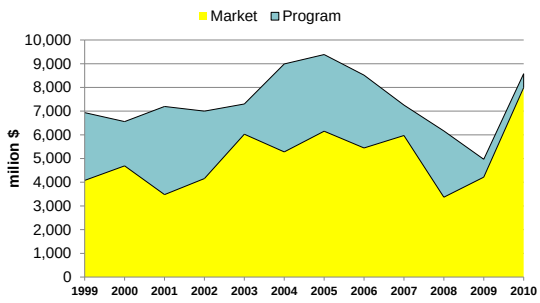


U.S. exports are forecast at 15.75 million bales for 2010/11, the largest in five years and the second-highest on record, accounting for an estimated 41 percent of world trade. This season's exports are driven by world demand that far exceeds supply, but are still limited by the need to maintain a minimal level of ending stocks. U.S. export sales commitments soared to record levels early in the season, reaching over 15 million bales at the end of week 26, indicating that available supplies are nearly exhausted. In addition, early season commitments for next season have shown remarkable strength, reaching 3.2 million bales, about 10 times the level of earlier seasons. U.S. stocks are forecast to fall 1.0 million bales to 1.9 million bales by July 31, 2011, the lowest level since 1924, and representing a record-low 10 percent of total disappearance.

Prices and Farm Income

USDA's forecast of the 2010 upland marketing year average price received by producers is 81.5 cents per pound, up from 62.9 cents for the 2009 crop and 47.8 cents for 2008, and the highest price since 1864. The prices reported to date are indicative of the significant portion of the 2010 crop which was sold by producers before futures prices reached record levels in recent months. The combination of increased 2010-crop upland and cottonseed production, and higher prices for both, are estimated to boost 2010-upland cotton gross farm income to an estimated $8.6 billion, up sharply from the $5.0 billion estimated for the 2009 crop. The elevated prices have eliminated countercyclical, marketing loan gain, and loan deficiency payments for the 2010 crop. Program payments to producers have averaged about 30 percent of total upland cotton gross income for the 2005-2009 crop years, but are projected to fall to about 8 percent for 2010.

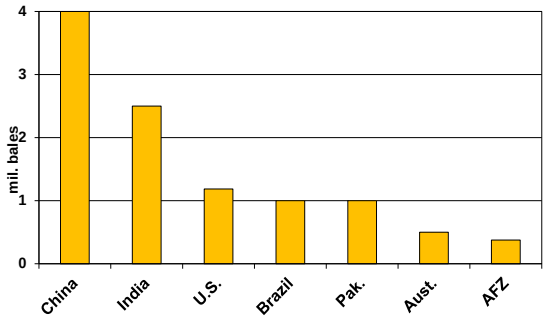
Gross Cotton Farm Income for 1999/2000 through 2010/11 Crops



World Cotton Outlook, 2011/12

World Cotton Production, 2011/12

Estimated Changes in World Production, 2011/12 compared with 2010/11



World cotton production in 2011/12 is projected at a record 127.5 million bales, up nearly11 percent from the previous year as growers respond to an unprecedented spike in cotton prices. All of the world's major cotton producers—including China, India, the United States, Pakistan, Brazil, Central Asia, and Australia—are expected to increase cotton production in 2011/12. Global cotton area is projected to increase 8 percent to a record 36.0 million hectares while yields are projected to increase 2 percent to 771 kg/ha. If realized, the projected 2011/12 yield would be the second highest on record.

China, the world's top cotton grower, is projected to produce 34.0 million bales in 2011/12, a 13-percent rebound from the previous year and the highest expected output in three years. In light of last season's reduction in area, and widely diverging estimates by entities in China, there is a high degree of uncertainty about China's cotton crop prospects. USDA's preliminary projection is that cotton area will rise 10 percent, consistent with the January survey by the China Cotton Association, raising planted area to 5.6 million hectares. At this level, area devoted to cotton

would be above the two preceding years, but below 2006. China's 2011/12 cotton yield is estimated to rise 3 percent from last season's 5-year low.

India's 2011/12 crop is projected at a record 28.5 million bales, up 10 percent from a year earlier and the fourth consecutive annual increase in production. Area harvested is projected to increase 7 percent to about 11.8 million hectares from the previous year. Expectations of continued strong demand and high prices will give Indian growers the incentive to allocate more area to cotton. Yield is projected to increase nearly 3 percent from the preceding year. Adoption of Bt cotton and other improvements in production practices will continue to boost yields.

Pakistan, the world's fourth largest cotton producer, is projected to produce about 9.8 million bales in 2011/12, up 11 percent from the previous season's weather-damaged crop. If realized, this will be the largest crop in six years. Area harvested is projected at 3.2 million hectares, up 10 percent from the previous year, and yields are expected to recover average levels.

Brazil is forecast to grow a record 9.2 million bales in 2011/12, a 12-percent increase from the 2010/11 record. As in other countries, Brazilian producers are expected to put more area under cotton cultivation due to the continuing record-high cotton futures prices. However, Brazilian growers have more flexibility to raise area because of a growing land base and the ability to follow soybeans with cotton in the same season—area devoted to the second-crop *safrinha* cotton has expanded in recent years without detriment to yields. Harvested area in 2011/12 is forecast at 1.4 million hectares, up 15 percent from a year earlier, and the largest in nearly 20 years. The yield is projected to decline slightly.

Central Asia is projected to grow 7.4 million bales in 2011/12, a 6-percent production increase from the previous year. Area harvested is projected to increase 7 percent to about 2.4 million hectares from a year earlier and yields to decline slightly.

Australia's 2011/12 crop is forecast to increase 12.5 percent from a year ago to 4.5 million bales. Producers are expected to expand area under cultivation in response to favorable prices. With planted area stable or higher, harvested area is likely to rise with the return of normal weather. Harvested area is projected at a record 600,000 hectares, up 7 percent from the previous year, and yield is expected to rebound 5 percent.

The African Franc Zone (AFZ) is forecast to produce 3.0 million bales in 2011/12, up 14 percent from the preceding year. Harvested area is forecast at 1.8 million hectares, a 20-percent increase from the previous year as strong world demand and high prices will improve the availability of inputs and raise prospective cash returns to farmers.

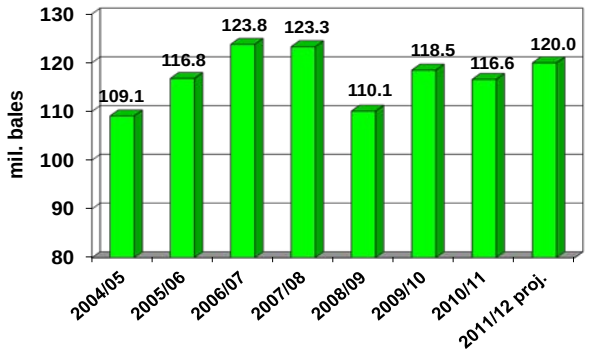
World Cotton Supply and Demand,
2010/11 est. and 2011/12 proj.
(mil. bales)

Item	2010/11	2011/12	Change (%)
Beg. stocks	44.0	42.8	-2.7
Production	115.3	127.5	+10.6
Imports	38.1	42.0	+10.2
Total supply	197.3	211.3	+7.1
Consumption	116.6	120.0	+3.0
Exports	38.1	42.0	+10.2
Total Use	154.7	162.0	+4.7
Residual	-0.1	0	0
Ending stocks	42.8	50.3	+17.5
Stocks-to-Consumption (%)	36.7	41.9	+14.2
A-Index (FE) per lb.	$1.75	$1.35	-22.9

World Cotton Consumption, 2011/12

World cotton consumption in 2011/12 will benefit from higher production and continued strong world economic growth. The IMF forecasts a 4.5-percent expansion in the world economy in 2012, the third consecutive year of growth between 4 and 5 percent. During the 5 years before the recent global financial crisis, world economic growth averaged 4.6 percent, and global cotton consumption grew at an average rate of 4.7 percent. However, consumption levels will continue to be affected by supply limitations, a lagged response to the current record prices, and industry desire to hold more stocks. As a result, world consumption is forecast to rise 3 percent to 120 million bales. Lagged prices will affect consumption as textile producers reconsider profitable fiber shares in textile production and retailers adjust expected sales volumes in response to apparel price increases.

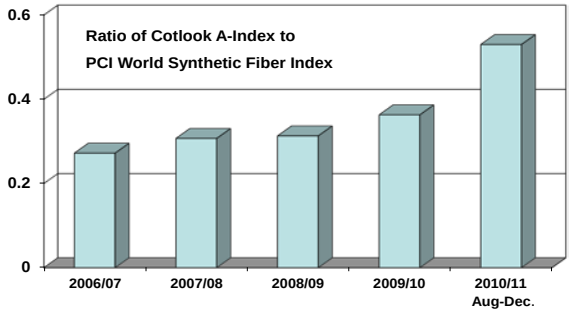
World Consumption
2004/05 through 2011/12 projection



World economic growth in 2012 will continue to be skewed in favor of emerging economies. Consumers in these countries—like China and India—have higher income elasticities for clothing than do consumers in the United States and Europe, but are also more price responsive

and purchase goods which have much smaller mark-ups over fiber costs. In markets and products where price sensitivity is important, there is a strong incentive to consider shifts in fiber composition to synthetics, mainly polyester. Polyester prices have risen over the past several months, but have not kept pace with cotton prices. Finally, the 2010 price shock may induce some restocking in 2011 as a means of managing supply and price risk.

Cotton-to-Synthetic Price Ratio Rises



China's Supply and Demand

China Cotton Supply and Demand,
2010/11 est. and 2011/12 proj.
(mil. bales)

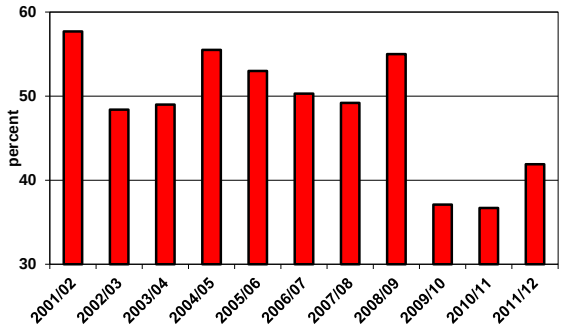
Item	2010/11	2011/12	Change (%)
Beg. stocks	15.2	13.2	-13.2
Production	30.0	34.0	+13.3
Imports	15.0	18.0	+20.0
Total Supply	60.2	65.2	+8.3
Consumption	47.0	49.5	+5.3
Exports	0	0	0
Total Use	47.0	49.5	+5.3
Residual	0	0	0
Ending stocks	13.2	15.7	+18.9
Stocks-to-Use (%)	28.1	31.7	+12.8

Larger production and import availability are expected to support a 5-percent increase in China's consumption in 2011/12. The projected level of 49.5 million bales is still slightly below 2009/10, despite rising consumer incomes and textile exports, and thus implies adjustments in manufacturing processes, especially a shift in fiber share away from cotton. China's ending stocks are projected to recover to nearly 16.0 million bales, above last season's level but still well below the recent average.

World Trade, Ending Stocks, and A-Index

A recovery in world production and very tight beginning stocks in consuming countries will support world trade in 2011/12 at a projected level of 42 million bales, 10 percent above 2010/11. World stocks also are expected to rise 17 percent to about 50 million bales, representing 42 percent of total consumption. Thus, the stocks-to-consumption ratio is projected to rise from the extremely tight levels of the previous two seasons, but will remain low relative to the recent average. Higher stocks-to-use ratios suggest that the A-index will fall from the current record levels; however, limited supplies and high prices early in the season, as indicated by forward A-index prices approaching $1.50 as of mid-February, will prevent it from falling to the 2010/11 average. USDA projects an A-index average of about $1.35 per pound in 2011/12.

World Stocks-to-Consumption Ratios
Projected through 2011/12



U.S. Outlook for 2011/12

Area, Production, and Supply

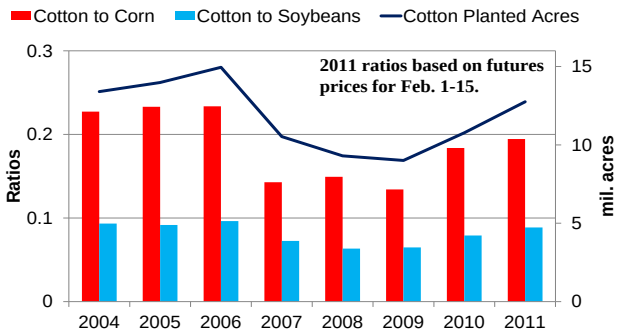
U.S. Cotton Area, Yield, and Production
2010/11 and 2011/12 proj.
(mil. bales)

Item	2010/11	2011/12	Change (%)
Planted area (mil. acres)	11.0	13.0	+18.2
Harvested area (mil. acres)	10.7	11.6	+8.4
Abandonment rate (%)	2.4	11.2	+466.7
Yield per harv. acre (lbs.)	821	810	-1.3
Total production	18.3	19.5	+6.6

USDA projects that U.S. acreage planted to cotton in 2011 will increase nearly 19 percent over last year to 13.0 million acres, the highest area since 2006, when nearly 15.3 million acres were planted. The robust acreage increase for cotton is anticipated because of the unprecedented, and continuing, increases in world and domestic cotton prices. Remaining 2010-crop stocks are extremely low, suggesting that prices will remain at a premium until the 2011-crop production becomes available. Cotton price gains are higher than those of corn and soybeans, which are the principal competing commodities for acreage in the Southeast and Delta States.

USDA's 2011-crop planted acreage projection is slightly above that of the National Cotton Council's (NCC's) survey forecast of 12.5 million acres, released on February 5. The NCC forecast is based on producer surveys conducted between mid-December and mid-January. Although new-crop corn and soybeans have also shown price strength since the start of the year, price increases for cotton have surpassed those for corn and soybeans in early 2011, supporting a higher forecast. The forecast of 13.0 million planted acres is consistent with regression analysis of upland planted acres as a function of cotton, corn, and soybean futures price ratios. The regression used price ratios from the 2002-2010 period calculated from averages of fall futures prices for the February-March period preceding planting each year.

Ratios of Upland Cotton to Corn and Soybean Prices and Planted Acres, 2004-2011
(Feb-Mar avg. of fall futures prices)



Respondents to the NCC survey reported that their increased cotton acreage will replace corn and soybeans in the Carolinas and some peanut acreage in Georgia, Florida, and Alabama. Most Delta States will also increase cotton at the expense of soybeans, with some corn acreage reduced in Missouri, Mississippi, and Tennessee. Some wheat acreage in Kansas and Oklahoma will be planted to cotton in 2011. Western States that increase plantings will be replacing feed and specialty crops, according to the NCC survey.

USDA's survey of producer planting intentions—*Prospective Plantings*—will be published on March 31, 2011. Final planting decisions may impacted by weather conditions. As of mid-February, Georgia and West Texas both continue to experience drought, which could favor cotton plantings.

Cotton plantings of 13 million acres are estimated to result in harvested acreage of about 11.6 million acres, based on a historical abandonment rate of 11 percent. Abandonment rates have been highly variable recently—ranging from 2.5 percent for the 2010 crop to 20 percent in 2008. USDA is forecasting a national average yield of 810 pounds per harvested acre, a slight decline from the 821 pounds estimated for the 2010 crop. Based on these assumptions, 2011 crop production is projected at 19.5 million bales, about 6.5 percent above 2010. However, with U.S. carry-in stocks at an extremely low 1.9 million bales, total supply for 2011/12—21.4 million bales—would increase only marginally from 2010/11.

U.S. Cotton Supply and Demand,
2010/11 est. and 2011/12 proj.
(mil. bales)

Item	2010/11	2011/12	Change (%)
Beg. stocks	2.9	1.9	-34.5
Production	18.3	19.5	+6.6
Imports	0	0	0
Total Supply	21.3	21.4	+0.5
Consumption	3.6	3.5	-2.8
Exports	15.8	15.0	-5.1
Total Use	19.4	18.5	-4.6
Ending stocks	1.9	2.9	+52.6
Stocks-to-use (%)	9.8	15.7	+60.2
Farm price (cents/lb.)	81.5	110.0	+35.0

U.S. Disappearance, Ending Stocks, and Farm Price

With little change in the projected total 2011/12 supply, U.S. domestic mill use and exports are projected slightly lower and stocks higher compared with 2010/11. Domestic mill use is projected at 3.5 million bales, marginally below 2010/11 and similar to the preceding three years. U.S. mills are realizing greater efficiencies resulting from consolidation and new investment; at the same time, the current record prices and supply challenges are likely to constrain activity for at least the first half of the season.

U.S. exports are projected at 15.0 million bales, a reduction of 5 percent, due to lower import demand resulting from the slight easing of the world supply-demand situation. The projected ending stock level of 2.9 million bales would constitute about 15 percent of total disappearance. This stocks-to-use ratio, while above 2010/11, is the still the second-lowest since 1995/96.

Continued relatively tight stocks, combined with high prices at the beginning of the season, are likely to support producer prices. The 2011/12 marketing year average price received by producers is projected at $1.10 per pound, exceeding the 2010/11 price by 35 percent. As noted previously, the estimated 2010/11 farm price of $0.815 per pound has lagged the recent sharp upturn in futures prices and the A-index because most producers contracted their cotton relatively early in the season. With early February prices for December 2011 futures ranging

from $1.15 to $1.30 per pound, and world supplies likely to remain very tight at least until availability of the 2011-crop northern hemisphere harvest, the same pattern of early pricing is expected to result in a significantly higher average for the season.