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Random Thoughts on Prices, Politics, and Profits

2005 Acres. USDA's report of what farmers intend to plant for 2005 (*Prospective Plantings*) will be released Thursday morning, March 31. The only "working number" thus far has been the National Cotton Council's estimate of 13.73 million acres. I'll go out on a limb and say I think USDA's number will likely be somewhere between 13.7 and 14 million acres. If the number comes in on the high side of this, I do not believe it would have any significant impact on prices because (1) the 13.7 number has been out there a while with many observers already feeling it was potentially low and (2) the market seems to be mostly demand driven right now anyway.

Costs. Fuel, fertilizer, and seed (including tech fee, if applicable) are up significantly this season. Our (UGA) estimate is that the cost (variable or operating cost) of production for cotton will be up about 10 to 12% from 2004.

Profitability and Competitiveness. *PROFITABILITY* is dependent on many factors. Included in this are price, yield, fiber quality, costs, and government (policy). The US cotton farmer has bought into seed biotechnology. The technology now seems to be changing at a faster clip and the options available to the producer ever expanding. It has brought us convenience. Has it brought us profitability? Overall, I think research and farmer experience shows it has. But the slope may be getting slippery. Costs increases (seed and tech fees) have to be weighed against cost savings (labor, machinery, and chemicals). Also, yield is arguably still the most important factor. Any new or improved technology must offer cost savings compared to the alternatives out there and/or must come packaged with a variety offering higher yield potential. Otherwise, profit is not increased. All the technology in the world is of little value if we can't lower cost of production per pound of lint in the process and be competitive on the world market to sell 2/3's of it overseas.

Farm Programs, WTO, and Trade. In all likelihood, changes in the US government cotton program are coming. The debate remains on when, how, and how much but the pressures seem to be mounting that inevitably point to change of some type. US Senator Saxby Chambliss (R-Ga), Chair of the Senate Agriculture Committee recently said that farm program spending cuts are coming and that he supports such change provided that agriculture not be treated disproportionately—that cuts be limited to agricultures' fair share. Politically, I'll buy that argument. But the economic reality is that *ANY CUT* could further tighten already thin profit margins. So, profitability and success will increasingly depend on top yield and low costs. Whatever changes may be forthcoming, there must be *BOTH* continued support for the producer while maintaining our ability to compete globally and meet the demands of foreign mills.

A handwritten signature in black ink, appearing to read "Don Shurley".

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