2016 Cotton Flow Meeting

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Changes in Planted Acreage Over Time

- Total acreage has been on slight increasing trend
- Irrigated acres are declining
- Dryland acres are increasing
Changes in Harvested Acreage Over Time

- Dryland acreage has been holding essentially steady
- Irrigated acreage is declining
Changes in Yield Over Time

- Irrigated yields have increased at an average annual rate of 16.6 pounds per acre/per year
- Drlyand yields have increased, but only at an average annual rate of 4.1 pounds per acre/per year
### Trend Production

**Table:**

<table>
<thead>
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<th>Year</th>
<th>Production</th>
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<tbody>
<tr>
<td>1972</td>
<td>0</td>
</tr>
<tr>
<td>1973</td>
<td>50,000</td>
</tr>
<tr>
<td>1974</td>
<td>100,000</td>
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<td>1975</td>
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<td>1980</td>
<td>400,000</td>
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<td>1981</td>
<td>450,000</td>
</tr>
<tr>
<td>1982</td>
<td>500,000</td>
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- Forecasting out irrigated and dryland acreage and yield, we see a slight upward trend in expected production over time.
- Does not take account impacts of future declines in water except what is already included in irrigated acreage trends.
- Assumes trend yields will continue, which is not likely unless new technology is developed.
- Very little development in dryland yield technology to date.
Gin Trends–U.S.
Gin Trends—Texas and Hockley County

- Gin numbers in Texas and Hockley county are following the same trend in terms of number of gins.
Bales Per Gin

- Bales per gin is increasing at an average 1,445 per year.
- Based on the forecasted production from earlier, this means that Hockley county will likely shrink to 4-5 gins in the coming years.
Changing Marketing?

• With fewer gins (points of collection), what role will the merchant play in the future?
Think your business model can’t change?
A new paradigm?

Can electronic trading in physical commodities by-pass the merchant? The warehouse? Consider that United Cotton Growers in Hockley County produces 120—150,000 bales per year alone. Why do they need you (merchants)?
New Opportunities

• Obviously, with change comes new opportunities
  • Participation in new trading opportunities offers you the ability to lower transactions costs
  • Fewer collection points means marketing can be more creative and specialized (already happening to some extent, but potential to grow long-term relationships with specific end users with specialized pools)
  • Lower costs for things like identity preservation/traceability
Conclusions

• Declining water is leading to a fundamental shift away from irrigated cotton to dryland cotton production systems
  • Limited development in dryland technologies to limit downside risks
  • So far, though, yield increases have offset acreage declines leading to growing production

• Economies of scale are leading to further structural shifts in cotton ginning
  • Leading to larger and larger, but fewer gins
  • Fewer collection points for cotton in the future
Conclusions

• New trading platforms in physical commodities could influence how cotton is traded, stored, and shipped in the future
  • Like to challenge especially the merchant sector to creatively fit within a new framework
  • Consolidation and on-line trading opens up opportunities for lowering transactions costs and costs of identity preservation
• Overall, changes have increased in speed...expect change to get even faster