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Report Highlights:

Cotton production is forecast to rebound 36 percent to 5.3 million bales in 2023/24. After the flood damaged 2022/23 crop, yields should return to trend, while better returns from competing crops will limit area expansion. Following the sharp decline in cotton use and textile exports in 2022/23, a modest rebound in both is forecast for 2023/24. However, the increased domestic crop will limit expansion in cotton imports. Despite the many economic challenges facing the textile sector, cotton imports through the first 7 months of 2023/24 were up about 7 percent compared to the previous year. As a result, the 2022/23 import and use estimates are increased. Lack of foreign exchange to import raw material and machinery, currency fluctuation, and rising energy prices will continue to constrain the textile sector's growth through 2024.

Executive Summary

With expectations for no increase in area, but dramatically better yields than the 2022/23 flood-damaged crop, production in 2023/24 is forecast to reach 5.3 million bales. Domestic cotton use is derived from the performance of value-added textile exports, and export demand is expected to increase in 2023/24. As inventories decline in major textile importing countries, buyers are returning to place orders with Pakistan, enhancing prospects for 2023/24. As a result, cotton use in 2023/24 is forecast to reach 9.3million bales, which would be a 3 percent increase compared to 2022/23, but well below the peak of 10.8 million bales in 2021/22.

With expectations for an increase in domestic production, but only marginal increase in domestic cotton use, cotton imports in 2023/24 are forecast to remain at the same level as 2022/23. However, the additional domestic production is expected to result in some rebuilding of domestic stocks.

The textile sector's performance (production and exports) was good during the first quarter of 2022/23. However, currency fluctuations, low foreign currency reserves, rising energy prices, and stagnant export demand reduced activity during the second quarter of 2022/23 and threatens performance for the remainder of 2023. Nonetheless, due to the drastically short domestic crop, the pace of cotton imports through the first 7 months of 2022/23 was about 7 percent above the previous year. The 2022/23 cotton import estimate has been increased to reflect the robust imports to date, and the expected imports through the rest of 2022/23.

The textile industry remains Pakistan's most important manufacturing sector, with textile products accounting for more than 60 percent of total exports. The "Textiles and Apparel Policy," approved last year, set an ambitious target of \$25 billion in textile exports 2023/24. However, exports will fall far short of that goal this year.

Table 1: Production, Supply, and Demand (1,000 480 lb. Bales) (1,000 ha) (Aug/July)

Cotton	2021/2022		2022/2023		2023/2024	
Market Year Begins	Aug 2021		Aug 2022		Aug 2023	
Pakistan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,000	2,000	1,800	1,800	0	1,800
Beginning Stocks	2,165	2,165	1,890	1,890	0	1,315
Production	6,000	6,000	3,900	3,900	0	5,300
Imports	4,500	4,500	4,300	4,600	0	4,600
Total Supply	12,665	12,665	10,090	10,390	0	11,215
Exports	50	50	25	50	0	50
Domestic Use	10,700	10,700	8,600	9,000	0	9,300
Loss	25	25	25	25	0	25
Total Dom. Cons.	10,725	10,725	8,625	9,025	0	9,325
Ending Stocks	1,890	1,890	1,440	1,315	0	1,840
Total Distribution	12,665	12,665	10,090	10,390	0	11,215
Stock to Use %	17.58	17.58	16.7	14.53	0	19.68
Yield (Kg/HA)	653	653	472	472	0	641

Table 2: Production, Supply, and Demand (1,000 tons) (1,000 ha) (Aug/July)

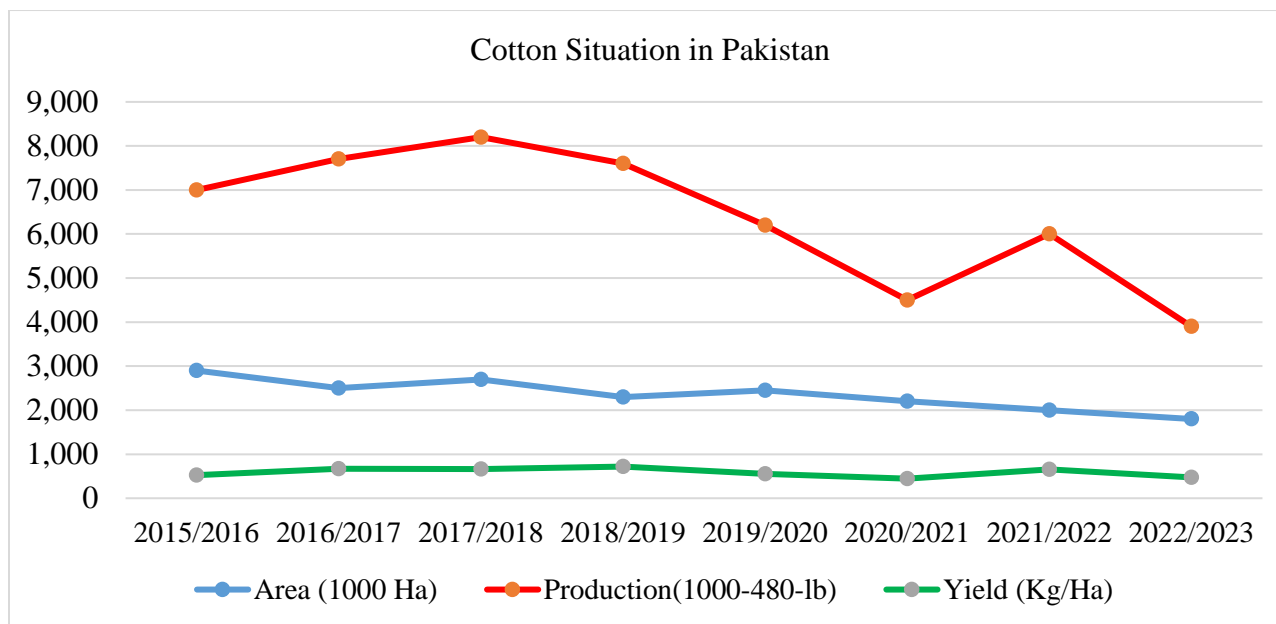
Cotton	2021/2022		2022/2023		2023/2024	
Market Year Begins	Aug 2021		Aug 2022		Aug 2023	
Pakistan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,000	2,000	1,800	1,800	0	1,800
Beginning Stocks	472	472	412	410	0	287
Production	1,309	1,309	851	848	0	1,155
Imports	982	982	826	1,000	0	1,000
Total Supply	2,763	2,763	2,201	2,258	0	2,445
Total Dom. Cons.	2,335	2,335	1,876	1,965	0	2,033
Ending Stocks	412	412	314	286	0	402
Total Distribution	2,763	2,763	2,201	2,258	0	2,445

Production

Production in 2023/24 is forecast at 5.3 million bales, which would be about 36 percent higher than the flood-damaged 2022/23 crop. The expected increase in production is due to a return to near trend yield. However, because of the better returns for other crops, cotton area is not expected to expand in 2023/24. Farmers are obtaining good profits from corn, and domestic rice prices have been at multi-year highs. Both corn and rice compete directly with cotton for area. The better returns for these crops will hinder any expansion in cotton area.

The 2022/23 cotton crop collection is complete, and reports from processors confirm the extent of the damage from last year's floods. Total ginner's intake was about 35 percent lower compared to the previous year, while intake was 24 percent less in Punjab and 47 percent less in Sindh. The highest producing districts in Punjab such as Rahim Yar Khan, Bahawalpur and Bahawalnagar, experienced significant damage due to high rainfall. In Sindh, almost all cotton producing districts produced less.

Figure 1: Cotton Production Trends



Consumption

Driven by a rebound in export demand for cotton textile products, cotton use in 2023/24 is forecast to reach 9.3 million bales. As inventories decline in major textile importing countries, buyers are returning to place orders with Pakistan, enhancing prospects for 2023/24. Furthermore, reportedly textile buyers are shifting orders back to Pakistan as other regional exporters are either over-booked or are less competitive.

The textile sector performed well during the first quarter of marketing year 2022/23, with the pace of exports strong. However, the pace of textile exports began declining in November 2022, and has

continued to be slow through February 2023. Compared to 2021/22, the total textile export value was down 11 percent through February of the 2022/23 marketing year. Several textile product categories sustained declines in exports, including Pakistan's key household products: bedwear and towels. However, with export orders returning, textile production activity is expected to accelerate during the final quarter of the marketing year, and the 2022/23 use estimate is increased accordingly. This same growth in export demand for Pakistani textile products is expected to fuel increased use through 2023/24.

Nonetheless, the expectations for a rebound in cotton use and textile production remain clouded by adverse economic conditions and policies: 1) official limits on letters of credit needed to finance imports of cotton, other inputs, and textile factory machinery/parts; 2) removal of energy subsidies; 3) power outages; 4) fluctuating currency value; 4) inflation; and 5) higher taxes. The resumption in overseas demand for Pakistani textile products will help to overcome the many domestic economic and policy challenges confronting the textile sector.

Trade

The forecasted increase in domestic supply because of higher production will outstrip the expected growth in in cotton use in 2023/24. As a result, cotton imports in 2023/23 are not expected to grow.

Regarding 2022/23 imports, despite the fragile macroeconomic situation and unpredictable domestic policy environment confronting cotton importers, the pace of cotton imports through the first 8 months of 2022/23 was up 7 percent compared to the previous year. Furthermore, through mid-March 2023, the pace of U.S. cotton exports to Pakistan were 26 percent above the previous year, and total commitments (outstanding sales plus exports) were about 11 percent above the previous year. As a result of the robust pace of imports exceeding that of last year, the import estimate for 2022/23 is increased.

Table 3. Import Matrix of Cotton (1,000 Tons)

	August- July	August - July	Aug- Dec
	2020/21	2021/2022	2022/23
United States	436	374	118.7
Brazil	281.5	190.5	132.2
Cote d'Ivoire	91.2	130.6	10.9
Afghanistan	76	81.9	--
Argentina	57.6	34.5	10.7
Turkey	37.8	28.2	35.5
Tanzania	26.3	27.5	--
Australia	5.3	24.8	77.9
Togo	9.3	17.6	
Benin	19.7	18.1	
Greece	12	9.4	--
Togo	9.3	17.5	--
EU 27 External Trade	34.5	12.9	38.6
Others	40.93	19.14	--
Total	1,137.43	986.64	424.5

Source, Trade Data Monitor (LLC)

Table 4: Cotton Yarn Exports from Pakistan (1,000 tons)

	2016	2017	2018	2019	2020	2021	2022
China	265	298	309	313	273	277	145
Bangladesh	25	27	30	26	20	37	0
EU	23	29	31	27	20	27	31.5
Japan	9	10	13	9	7	9	10.3
Turkey	12	23	15	16	12	8	9.3
United States	4	3	4	6	6	7	6.2
Others	49	48	56	34	19	26	31.5
Total	387	438	458	431	357	391	233.9

Source: Trade Data Monitor (LLC), HS Codes: 5204, 5205, 520

Table 5: Fabric Exports from Pakistan (Tons)

Partner	2018	2019	2020	2021	2022
Bangladesh	38,388	38,011	15,406	39,571	39,900
Italy	16,582	15,220	6,311	12,786	20,092
China	18,944	13,109	6,101	10,370	6,491
Netherlands	7,832	7,940	3,231	6,142	9,050
Germany	9,935	8,134	3,010	8,344	10,692
Turkey	13,931	13,577	6,022	14,192	16,307
Portugal	9,546	10,693	6,106	12,283	12,983
Egypt	5,032	5,151	1,504	5,378	4,918
Japan	5,743	5,665	3,086	4,745	3,892
South Korea	6,026	7,491	8,123	6,987	4,773
United States	4,711	5,581	4,404	5,927	7,851
Others	48,652	43,583	28,571	39,055	56,352
Total	185,322	174,155	91,875	165,780	193,301

Source: Trade Data Monitor (LLC), HS Codes: 5208, 5209

Figure:2 Overall Textile Exports from Pakistan (Million USD)

Source (State Bank of Pakistan)

Stocks

After falling to historically low levels in 2022/23 due to the shortage of domestic supplies caused by the floods, stocks are forecast to rebound in 2023/24. The sharp increase in domestic production will lead to the stock rebuilding. Nonetheless, the forecast stock level still falls short of the three months of inventories most textile companies seek to maintain.

Policy

Supporting cotton production, textile manufacturing, and boosting exports are among the government's top priorities. Government assistance to textile manufacturing has traditionally included tax rebates, financing, and subsidized energy. However, due to budgetary constraints, the government is gradually removing these supports, starting with elimination of energy subsidies. Meanwhile, the government helps cotton producers through subsidized inputs and a price support mechanism (see below).

Prices

In early March 2023, the Government announced cottonseed support prices for the 2023/24 crop: Rs 8,500/40 kg (\$759/ton). Market prices tend to be well above 10,000/40 kg, so the support price is unlikely to have any impact on farmers' upcoming planting decisions.

Local ginned cotton prices have recently been in the range of 20,000 to 24,000/40kg (about \$0.89/lb). Meanwhile, input prices (particularly fertilizer and energy for irrigation pumps) have risen significantly this year, leading to higher costs of production.

Value-Added Textiles

Pakistan is the 8th largest exporter of textile products in Asia. The textile sector in Pakistan has an overwhelming impact on the economy, contributing more than 60 percent to the country's exports. It is one of the most important sectors for Pakistan's external trade balance. The major exports of the sectors include household items (sheets, towels) knitwear, fabrics, and weaved apparel. Despite global economic slowdown and declining consumer demand, export of textile sector is still performing better than other sectors.

Table 6: Exports of Woven Fabrics Textile from Pakistan (USD Million)

	2022	2021	Percent Change
September	88.01	90.72	-3%
October	66.50	71.92	-8
November	59	84	-29%
December	66	75	-12.5%
	2022	2023	
January	66	89	-25.8%

Source: Pakistan Bureau of Statistics (PBS)

Table 7: Textiles Group Exports (Million USD)

Sectors	July - February 2022 - 2023	July - February 2021 - 2022	% Change
Textile Group	11,219	12,617	-11
Raw Cotton	12	7	87
Cotton Yarn	505	816	-38
Cotton Cloth	1,380	1,585	-13
Cotton Carded or Combed	1	2	-40
Yarn Other Than Cotton	30	42	-29
Knitwear	3,079	3,305	-7
Bed Wear	1,835	2,188	-16
Towels	666	717	-7
Tents, Canvas & Tarpaulin	86	72	20
Readymade Garments	2,381	2,519	-5
Art, Silk & Synthetic Textile	273	306	-11
Madeup Articles (Excl.Towel and bedwear)	485	556	-13
Other Textile Materials	485	503	-4

Source: Pakistan Bureau of Statistics (PBS)

Attachments:

No Attachments