

THE PRESENT COTTON SITUATION.

SPEECH OF W. P. G. HARDING, MEMBER FEDERAL RESERVE BOARD,
UNDER THE AUSPICES OF THE BIRMINGHAM CHAMBER
OF COMMERCE, AT BIRMINGHAM, ALABAMA, FRIDAY
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During the next six weeks, assuming normal weather conditions, the cotton crop of 1916 will be planted. While the acreage put in cotton will bear a direct relation to the size of the new crop, other factors must be considered in reaching conclusions as to the final outcome. The quality and amount of fertilizer used, the character of the season, methods of cultivation, the ravages of the boll weevil and other insect damage will all have an important bearing, so that under some conditions it is conceivable that thirty million acres planted in cotton will produce a larger yield than thirty-five million acres under other conditions. The new crop acreage however, which will probably be known definitely within the next sixty days, will play an important part in fixing the market value of that portion of the crop of 1915 which remains unsold, for it is likely that not until July will reports of condition of the growing crop become a factor in price control. It will be remembered

that during last July there was a decided slump in the cotton market which brought about an extremely nervous feeling throughout the South. Despite the very vigorous and diligent campaign that had been made in the spring of 1915 for a sharp reduction in cotton acreage, reinforced as it was by the severe object lesson of the dangers of over-production that had been impressed upon cotton growers during the preceding Fall and Winter, it was found that the area planted in cotton had been reduced by only about 15%. The season up to July had been propitious and there was much talk of a new crop of at least fourteen million bales. It was known also that Great Britain intended to declare cotton an absolute contraband, which was regarded as meaning the loss of a market for about two and one-half million bales which had usually gone to Germany and Austria, and which had, to a considerable extent during the season of 1914-1915, reached those countries through neutral ports. Farmers and business men throughout the South were aroused, and, without any definite organization, but through the force of public sentiment, a policy of gradual marketing was decided upon. Warehouse facilities had been found to be adequate and the banking situation was such as to render ample funds available to carry out such a policy. At the same time it became evident

that the yield would not be as large as had been anticipated, so that consumers, finding that there be no rush of cotton to the market, for sale at forced prices, began to contract for their wants, and prices advanced rapidly. The new crop, instead of bringing seven to eight cents per pound, as had been predicted by many pessimistic persons, found a ready market up to $12\frac{1}{2}$ ¢ per pound, and cotton seed advanced in a corresponding degree so as to give producers the equivalent of \$20.00 to \$22.50 per bale from sales of seed. The advance attracted speculative interest and by December some enthusiasts had visions of 15 to 18 cents per pound. Many farmers and merchants who, a few weeks before would have sold most gladly at 12 cents, caught the infection and decided to hold for the much higher prices which they felt were coming. About this time however, the export movement began to compare unfavorably with the previous season. Except as to coastwise trade, our ocean freights are carried almost entirely in foreign bottoms. Of these, German vessels are idle, being interned in neutral ports throughout the world, or else blockaded in the waters of the North Sea. This scarcity of shipping has caused a great advance in ocean freight rates, which are from six to ten times the normal, so that rates on cotton from American ports to Liverpool have been ruling as high as three dollars per hundred pounds, or fifteen dollars per bale, being three

cents per pound. Even at these abnormal rates, exports of cotton have been restricted, as ship owners, acting probably under instructions from their Governments, have given preference to cargoes of grain and munitions. Under these conditions stocks abroad have been greatly reduced, and during the month of January there was a time when the stock at Liverpool was sufficient to supply British spindles for less than six weeks, with prices ruling at 18¢, against 12¢ in New York. There is reason to believe however, that during the past month arrangements have been made to increase the ship room available for cotton, and there has been some increase in the supply at Liverpool, London and Manchester. The total stocks in Great Britain on March 3rd have been estimated to be 1,000,000 bales, against 1,452,000, 1,289,000 and 1,498,000 bales for the same date in 1915, 1914 and 1913, respectively. The depletion of stocks on the Continent is still more marked. The Financial Chronicle estimates the supply of stock at Hamburg, Bremen and Trieste to be about 1,000 bales at each point, against a total of 384,000 bales on March 1st, 1915, 570,000 bales in 1914, and 578,000 bales in 1913; and, including stocks at Havre, Marseilles, Barcelona and Genoa, it estimates Continental stocks on March 3rd at 479,000 bales, against 1,083,000 bales in March 1915, 1,065,000 in 1914 and 1,089,000 in 1913. The Chronicle places the total visible

supply for the world on March 3rd at 5,777,448 bales, against 7,607,227, 6,107,140, and 5,491,952 bales in 1915, 1914 and 1913, respectively. In Egypt figures relating to cotton receipts are expressed in cantars, approximating 100 pounds, and exports in bales which weigh about 750 pounds. Reducing the figures to the equivalent of 500 pounds to the bale, receipts of cotton at Alexandria from August 1st to February 9th have been, according to the same authority, 790,300 bales against 942,500 bales last year, and 1,350,000 bales for the same date in 1914. The Financial Chronicle's report dated Friday night, March 3rd, gives the following statement as to the movement of the crop for the week: Total receipts, 107,849 bales, against 156,956 and 142,403 bales for the two weeks immediately preceding. Total receipts since August 1, 1915, 5,402,039, against 8,093,162 for the same period of 1914-15. Decrease since August 1, 1915, 2,691,123 bales. Exports for the week, 142,143 bales, of which 73,972 were to Great Britain, 24,125 to France, and 44,046 to the rest of the Continent. Total exports August 1, 1915 to March 3, 1916, to Great Britain, 1,755,493 bales, against 2,487,993 bales for the same period last year; to France, 510,883, against 376,892; to Continent, 1,295,565, against 2,672,188, making a grand total of 3,561,941, against 5,537,073 last year, and 7,296,085 for 1913-14. The export movement therefore, is approximately 2,000,000 bales

behind last year and nearly 3,750,000 bales under 1914. There seems to be no material difference of opinion on the part of various authorities as to stocks of cotton held abroad or as to the exports, but there is some divergence in the views as to the domestic situation. A well known cotton authority, who prefers not to be quoted, gives me the following estimate of the supply of cotton in America on July 31, 1916, at the close of the current cotton year:

Visible supply in U. S., July 31, 1915.....	1,300,000	
Unmarketed on plantations, July 31, 1915.....	1,800,000	
Crop 1915-1916 (including linters).....	<u>12,250,000</u>	
Total supply this season.....		<u>15,350,000</u>
American consumption.....	7,000,000	
Total exports.....	<u>6,500,000</u>	<u>13,500,000</u>
Leaving on hand visible and invisible...		<u>1,850,000</u>

and checks his figures as follows:

Unmarketed July 31st, 1915.....	1,800,000	
Crop, 1915-16.....	<u>12,250,000</u>	
Total supply from plantations.....		<u>14,050,000</u>
In sight to February 26th, 1916.....	<u>9,554,795</u>	
Unmarketed supply February 26th.....	4,495,205	
Stock U. S. ports, Feb. 26th.....	1,410,285	
Stock Interior towns Feb. 26th.....	<u>1,102,047</u>	
Total supply in U. S. Feb. 26th.....		<u>7,007,537</u>
U. S. Consumption, season....	7,000,000	
Total takings to Feb. 26th... <u>4,684,000</u>		
Still to be taken..... <u>2,316,000</u> -2316000		
Exports, season	6,500,000	
Exports to Feb.26th..... <u>3,551,922</u>		
Still to be exported..... <u>2,938,078</u> -2938078		
		<u>5,254,078</u>
		<u>1,753,459</u>

I quote as follows from a letter received from him:

"It is reasonably plain that if we export 6,500,000 bales of cotton this year, we shall not have more than about 1,800,000 bales left over in the United States. This includes the cotton at the ports and interior towns as well as the unmarketed supply on the plantations. I do not think it can be considered burdensome with the financial facilities that the Federal Reserve Banks provide, and if the war ends during the present summer, I believe that all the cotton that is left over and all that America can possibly produce next year will be required to fill up the vacuum created by the blockades and the war."

Another view is given in the weekly cotton letter dated March 4th of a well known brokerage house which adopts the figures and estimates of the Watkins Bureau. From this statement I quote:

"The world's visible supply of American cotton is now 1,604,000 bales less than at this date last year and 64,000 less than in 1914. The stocks of American cotton in Liverpool with one exception, are the smallest in the past ten years, and practically the same is true of Continental stocks of American cotton. Our cotton markets are absolutely closed to Germany and Austria, which was not the case at this date last year and yet in spite of the extraordinary advance in ocean freight and insurance (the rate to Liverpool is now \$15.00 a bale as compared with about \$1.00 August 1, 1914) we exported the first six months of the season 2,961,000 bales and to date 3,680,000, clearly indicating an export movement for the season of fully 6,000,000 bales. The domestic consumption for the first six months of the season amounted to 3,528,000 bales and it is increasing as the season advances, foreshadowing a total of fully 7,250,000 bales for the year. With a supply of about 14,675,000

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bales (made up from the carry-over from last year of 2,765,000 bales, the crop estimated by the Government at 11,161,000 and an estimated linter crop of 750,000) and allowing 6,000,000 bales for export and 7,250,000 for domestic consumption, we would close the season with an apparent surplus of 1,425,000 bales."

There is a difference in the estimates of these two authorities of 425,000 bales. The first mentioned estimate places the carry-over from last year at 3,100,000 bales, while the second puts the amount carried over at 2,765,000 bales. The first places the present crop, including linters, at 12,250,000 bales, while the second, accepting the Government estimate, figures the crop, including linters, at 11,911,000 bales. The first estimate puts American consumption at 7,000,000 bales and exports at 6,500,000 bales, or a total of 13,500,000 bales; while the figures given by the second are 6,000,000 bales for export and 7,250,000 bales American consumption, or a total of 13,250,000 bales. Mr. Watkins however, says further that ^{from} the apparent surplus of 1,425,000 which is shown according to his figures, "there must be deducted 1,179,000 bales of linters, 429,000 carried over from last year and the linter crop of this year, 750,000, every bale of which will go into the manufacture of explosives. This cuts the spinner's supply down to about 13,500,000 bales, leaving an apparent surplus at the close of the season

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of about 250,000 bales." I am informed that the Census Bureau in its statistics relating to the uses to which cotton is put, is confined to the consumption of raw cotton, including linters, and that additional legislation will be necessary to enable the Census Bureau to report on the consumption of cotton which has been specially prepared or treated. At a recent hearing before one of the House committees it was brought out that the Census Bureau regards an estimate of 1,000,000 bales of cotton used in America during 1915 for the manufacture of explosives as conservative, and the statement was made at the time by the representative of the Bureau that it is possible that as much as 1,500,000 bales had been used in this way during the year in the United States. It has been estimated unofficially that 2,000,000 bales were used in Europe last year in the manufacture of explosives, but I am told that the Census Bureau has no figures which throw any light upon the consumption abroad of cotton for this purpose. It is evident that much of the cotton now being exported to France is being used for explosives, as most of the cotton mills of France and all of those of Belgium are now within the German lines and are presumably not running for lack of cotton, although it is impossible to obtain definite information on this point.

Swiss mills are said to be very busy, but their supplies of cotton have been cut off recently because they were supposed to be selling to Germany and Austria. Consumption by mills in Norway and Sweden, Holland and Spain, would be abnormally large if they could get the cotton, but high freights and naval operations in the North Sea have rendered their supply precarious. Japanese mills will undoubtedly consume a great deal of cotton, but on account of proximity and lower freights they will probably take all they can from East India. The Russian mills are reported to be busy, but their supplies of American cotton must, for the present, come by way of Vladivostok, which means a long and expensive overland haul on a railroad congested with war material. The Port of Archangel however, which is ice-bound at present, will be open in May, and it is probable that Russia will add to its stock of American cotton after that time.

It is interesting to contrast the export movement during the present season with that of the last. The outbreak of the war in Europe on the first of August 1914 resulted in a practical stoppage of cotton exports until November. During December and January 1915, the movement abroad was heavy. While this movement was stimulated in February and March by the announcement of the forthcoming blockade of British waters

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by German submarines, the volume of exports continued satisfactory until early in May, or until the sinking of the Lusitania. From this time on the export movement diminished appreciably and the advancing tendency in cotton prices was checked, followed by the slump in July, to which reference has already been made. During the present season, exports from August to November ran considerably ahead of the very light movement of the preceding year, but since November, owing to the reasons already outlined, the export movement compares unfavorably with that of the previous season, although the movement for February compares well with that of February 1914. The decline in cotton prices seems to have been definitely checked about the first of March. It is said that several British merchant ships hitherto used as transports, are to be restored to commercial uses in the trade between New York and Liverpool. Italy and Portugal together have seized over 60 German steamers which have been interned in their ports, the presumption being that these steamers will be put into commission for mercantile purposes. At any rate, there has been an easing in ocean freight rates, which now show a decline of 50¢ per hundred, or \$2.50 per bale from quotations current the latter part of February. Announcement was made a few days ago that 12 steamships are

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due to arrive at an early date at Galveston, which will load with cotton from that port. The latest issue of the Economic World, which is a recognized authority on the textile trade, has this to say regarding the demand for cotton:

"The margin of profit between the cost of raw cotton and the market values of goods in the United States is now unusually wide, and it is the part of commercial wisdom for the manufacturer to secure for himself this margin of profit, no matter what his inclination or judgment may be with respect to a possible wider margin of profits in the future. This consideration has induced a fair amount of buying for the account of American spinners during the past week. Were it not that much the larger part of the requirements of our mills for the season has already been secured, this buying might be counted upon as a sustaining and perhaps even as an advancing influence in the markets for the immediate future. In addition to this buying for American account, some buying for foreign account has been in evidence."

The ability and disposition of the banks of this country to take care of the legitimate wants of their customers, as well as to carry well secured loans for those who are not customers has never been greater than at present. At the close of business on March 6th the total of all paper under discount with Federal Reserve banks, including rediscounts for member banks, open market purchases of bankers' acceptances, trade acceptances and commodity loans carried for member banks, was slightly over \$51,000,000 against total deposits held by these

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institutions of \$454,761,000; while on January 2nd the amount of paper under discount was over \$54,000,000 against deposits of \$431,065,000. Except in the Richmond and Atlanta districts the loans secured by cotton receipts are of a negligible amount, and in these two districts they have been considerably reduced since the first of the year. The total bills discounted with the Federal Reserve Bank of Atlanta, including the New Orleans Branch, was, on January 2nd, \$8,200,000. On March 6th this amount had been reduced to \$4,420,000. The amount of loans held by the Federal Reserve Bank of Richmond on January 2nd was \$7,512,000, and on March 6th the amount of its loans was \$6,433,000. The amount of discounted paper held by the Federal Reserve Bank of St. Louis on January 2nd was \$1,915,000, while on March 6th the amount was \$1,429,000. The loans of the Federal Reserve Bank of Dallas on January 2nd amounted to \$4,911,000, and on March 6th to \$4,550,000. The same conditions are reflected in the statements of member banks. In all sections of the country first class commercial paper is sought for at abnormally low rates, and I may say that for several months past the chief concern of the Federal Reserve Board over the monetary situation in this country for the immediate future has been that the unusually low rates prevailing in financial centers might lead to an unwise inflation of credits. There is every

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reason to believe that exports of cotton will continue on approximately the present scale during the spring and summer months, up to the close of the present cotton year, and there seems to be little danger of there being an unwieldy surplus carried over into the next season. There is undoubtedly a considerable amount of unsold cotton in the South which is being held by farmers and country merchants, but the amount is probably no greater than in some previous years, as the stocks reported at interior towns on March 3rd amounted to 1,080,000 bales, against 1,063,000 bales at the same towns on March 5th 1915. During the week ended March 3rd the interior stocks decreased 35,761 bales, and receipts at all towns were 84,838 bales less than for the same week last year. Attention is invited to the Financial Chronicle's comparative statement of amount brought into sight and spinners' takings for the weeks ended March 3rd, 1916 and March 4th, 1915:

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In sight and spinners' Takings.	Week	1915-16		1914-15	
		Since Aug. 1	Week	Since Aug. 1	Week
Receipts at ports to March 3.....	107,849	5,402,039	284,634	8,093,162	
Net overland to 3/5.	35,173	1,011,489	31,314	921,677	
Southern consumption to March 3.....	82,000	2,190,000	60,000	1,830,000	
Total marketed...	225,022	8,603,528	375,948	10,844,839	
Interior stocks in excess.....	*35,761	634,711	*64,959	943,420	
Came into sight dur- ing week.....	189,261	-----	310,989	-----	
Total in sight 3/4..	-----	9,238,239	-----	11,788,259	
North spinners' tak- ings to March 3....	34,396	2,135,026	88,743	2,047,309	
*Decrease during week.					

Movement into sight in previous years:

Week-	Bales	Since Sept. 1.	Bales.
1914 March 6	198,304	1913-14 March 6	12,673,042
1913 March 7	154,692	1912-13 March 7	11,856,556
1912 March 8	281,157	1911-12 March 8	13,421,418

Some private letters that I have received state that there were perhaps two million bales of cotton held on March 1st by Southern farmers and local merchants. If all of this cotton, or any large part of it should be thrown upon the market at once, there would undoubtedly be a break in prices. But five months, or about 21 weeks will elapse before any new cotton can come on the market. With the demand for export and from American spinners which seems assured, there is no reason to

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doubt the ability of the market to absorb much more than 100,000 bales per week. I refrain however, as I have always done, from giving advice in particular cases. I believe that the policy of gradual and orderly marketing of the crop has been proved to be the correct one by the course of the market this season, and, while there are no doubt many holders of cotton who will regret that they did not sell when prices were higher, it is no doubt true that the higher prices last fall were obtainable by reason of the fact that there was ~~no~~ unseemly rush of cotton to the market; and, without regard to ownership, it is safe to assume that the cotton held back has contributed its part to the prices realized for cotton that has been sold. I wish that each individual farmer would remember, when the time comes for him to determine how much of his land he will put in cotton this spring, that we are living in unusual times and that it is impossible for any man or ^{any} group of men to forecast with certainty what the consumption of a staple like cotton will be. I believe in the gradual and orderly marketing of crops, but I believe just as firmly in the diversification of crops. Farmers of the Northwest who produce the bulk of the great food crops of this country, have learned that it is dangerous to place reliance in one crop, even though it be a food crop, and, while they cannot raise cotton, they diversify by planting different kinds of grain, and by producing more than

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one kind of food. I quote a statement that was made recently by a prominent bank in the Northwest:

"The investment market does not seem to be as active as the large amount of money in banks and the heavy savings balances would ordinarily indicate. General interest rates are so low that many people are content with savings bank interest. The demand for farm mortgages is very strong, but our farmers are in such excellent condition financially that the supply of mortgages continues to be less than the demand. This, of course, has resulted in a decrease of rates to the farmers. Mortgages from the best farming communities of Minnesota and the Dakotas are especially hard to obtain. In former years, when there were plenty of these securities, it was not necessary for capital to go into the newer parts of the Northwest unless attracted by high rates. It is probable that present conditions will turn large amounts of money to investment in the less populous portions of the Northwestern States and will result in increased settlement and greater value for land. Whether this condition will result in an extended movement 'back to the farm,' cannot, of course, now be predicted, but tendencies in that direction have already been reported from two or three sources."

I am sorry that I cannot yet quote similar statements from Southern sources, but I think within a few years, after the South has learned the lesson of diversification, that like conditions will prevail, at least in favored sections. I wish to subscribe to the doctrine that is being and has been for years so effectively preached by one of the best known, and perhaps the most useful citizen of Alabama, Mrs. G. H. Mathis, who has a message of cheer and hope wherever she goes and who inspires the dispirited with new hopes and aspirations. She believes in diversified farming. She says that farming is a good business

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but she warns the farmer that "the ground is sick of one crop. It is sick of cotton and by running the land down you are having to mortgage your property to death, and are making the crop self-consuming. Build it up. There are certain robber crops and certain builder crops that everyone ought to know. The robber crops are cotton, corn, wheat and oats. The builder crops are peas, beans, clovers and vetches, and you can build the land in winter when it is not in use."

I am told that there are farmers in Alabama, and perhaps in all Southern states who have never grown a stalk of corn. Let the farmers realize, and I urge upon merchants and bankers the importance of persuading them, that an increased acreage in cotton will be looked upon as an argument in favor of lower prices for the remainder of the crop now being held, although it is by no means certain that a large acreage would yield a larger crop than a smaller and better cultivated area. Let us suppose things turn out this year as some optimists predict. Suppose peace should be restored and there springs up a greatly increased demand for cotton. Under such conditions a large crop would of course sell for a great deal of money, but with the experience of 1910 and 1911 before us, is there any reason to doubt that a moderate crop would sell for still more? On the other hand, suppose the war continues; suppose, unhappily, this

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country should become involved, -- and remember that in times of stress, when it comes to a choice between something to eat and something to wear, food must be provided at any cost, while new clothes can wait. Then I ask, would we not be far better off with a moderate supply of cotton and an abundance of food supplies? Why plant a larger area than can be cultivated thoroughly? Why scatter high priced fertilizer over a large field when it would be more effective concentrated on a smaller? These matters must be determined now! A month hence will be too late! Let the farmers, the merchants and the bankers of the South take counsel together, and let the newspapers, and those published at the county seats particularly, advocate in every issue for the next six weeks, and with all their force and power, the doctrine of diversification, and let them point out the dangers of the one crop system!

Remember, my friends, that if the war continues for six months longer, in all probability the purchasing power of Europe will be seriously impaired. The cost of munitions and supplies is enormous, and food prices in the warring countries are soaring. According to the Bureau of Labor Statistics of the Department of Labor, food, taken as a whole in the United States costs 3% more today than it did a year ago. Prices in Great Britain have increased about 44% and in France about 23%. In

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other belligerent countries the advance has been 100%. Remember that the cotton exchanges are not eleemosynary institutions, and that operators on cotton exchanges have no sentiment except a desire for gain. Market opinions vary as conditions change, and operators are not consistent bulls or bears, but shift their position without notice as new conditions arise. The fact is realized in all the cotton markets of the world that the course of prices depends primarily upon the supply, and for the next three months at least, estimates of supply will be based upon the new crop acreage. What this acreage will be in America depends upon the farmers of the South. Should they decide during the next few weeks to produce their food stuffs at home and to plant cotton as a money crop, their position will be secure, but if, disregarding all the warnings and portents of the times, they decide upon a policy of all cotton, they will be taking a tremendous risk which no prudent business man would care to assume.

The Southern farmer is most powerful as a factor in the cotton market at planting time.

"Every man at times is master of his fate,
The fault, dear Brutus, is not in our stars,
but in ourselves,
That we are underlings."