



United States
Department of
Agriculture

Foreign
Agricultural
Service

Circular Series
FOP 07 - 07
July 2007

Cotton: World Markets and Trade

Explanation of Changes in Production Estimates for China - July 12, 2007

The government of China's National Statistics Bureau (NBS) has been the source of USDA's China cotton production estimates for many years. This month's USDA estimates for China deviate from the practice of following NBS data. Changes include increases in the production estimates of 1.0 million bales for 2004/05, 1.3 million bales for 2005/06, 1.6 million bales for 2006/07, and 1.5 million bales for 2007/08. For 2005/06 and 2006/07, the increases are based on reports from reliable sources in China's industry and government that production in the Xinjiang Autonomous Region was higher than the official government estimates provided by China's National Bureau of Statistics (NBS). USDA has made a comparable adjustment for 2004/05 to reflect similar inaccuracies which are presumed to have impacted reporting that year, see table next page. The production increases in all years are attributed to higher planted area in Xinjiang.

USDA first introduced a residual "negative loss" into its China balance sheet in May 2005, noting a persistent error in the underlying data which tends to understate ending stocks. At that time, USDA did not have sufficient information to assign the discrepancy to either the supply or demand components of the balance sheet. Since May 2005, USDA has raised estimates of the current and historical balance sheet residuals several times, indicating that the bias in the data is increasing. USDA has also developed new methods of estimating China's cotton consumption (see MacDonald, 2007 USDA Outlook Forum, <http://www.usda.gov/oce/forum/2007%20Speeches/PDF%20speeches/SMacDonald.pdf>) which support very strong consumption growth rates in recent years. This analysis suggests that the preponderance of the error is likely to be in the supply rather than the demand side of the balance sheet.

Reliable sources in China's cotton industry, combined with data on rail shipments of the Xinjiang 2006 crop, now indicate that the official NBS estimates for the 2005 and 2006 crops were, in fact, too low. Incorporating this information into the China estimates, has allowed USDA to reduce, but not to eliminate, the residuals for 2005/06 and 2006/07. The 2007 production estimate also is raised since USDA expects production to remain at about the same level as 2006.

USDA will continue to investigate both data sources and methods to improve its estimation of China's balance sheet, and may make further revisions at a later date.

