

30 Years of Guessing: Why Forecasts Have Not Improved

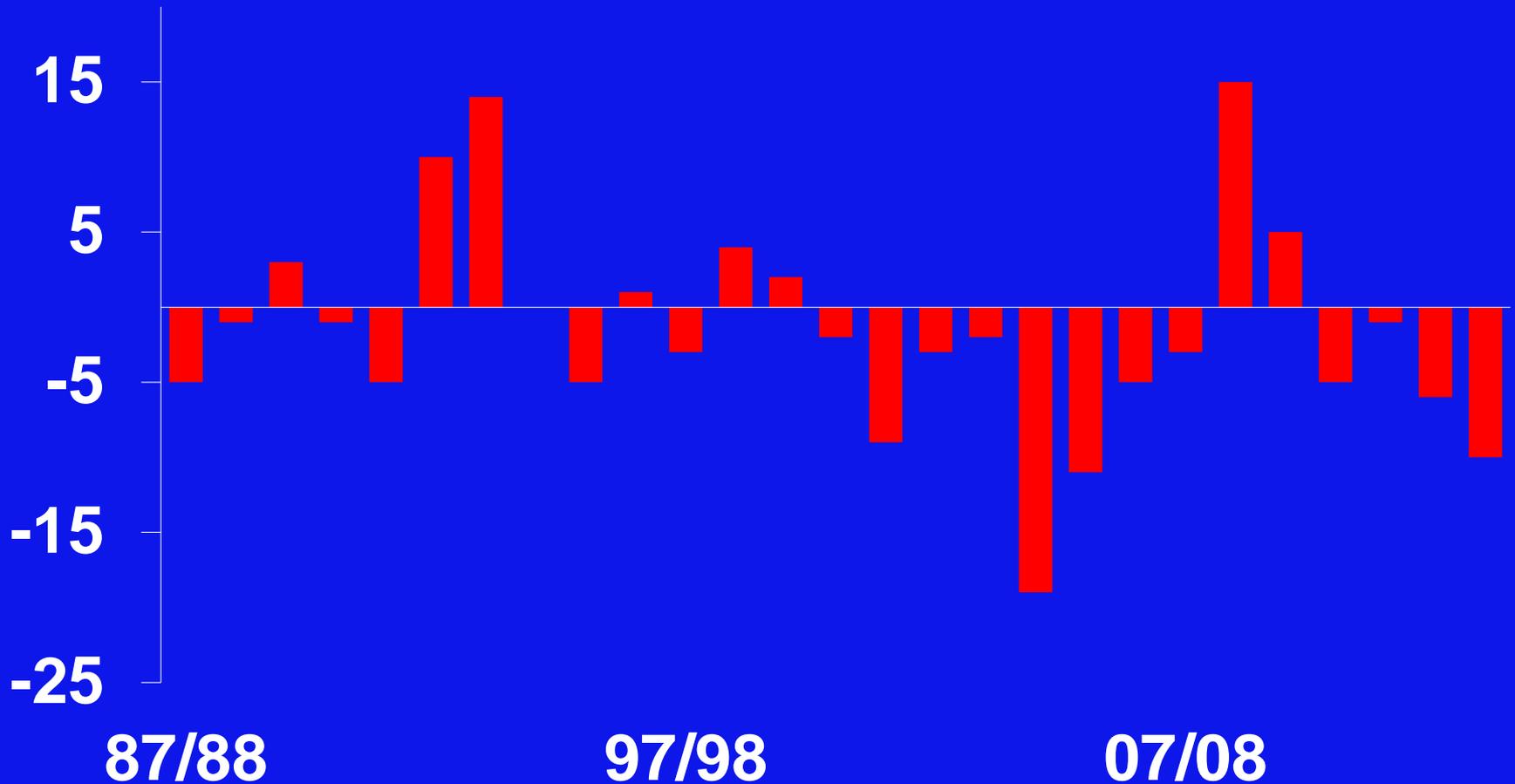
Terry Townsend
CottonAnalytics.com



Cotton & Fibers Luncheon
USDA Outlook Forum
February 21, 2014

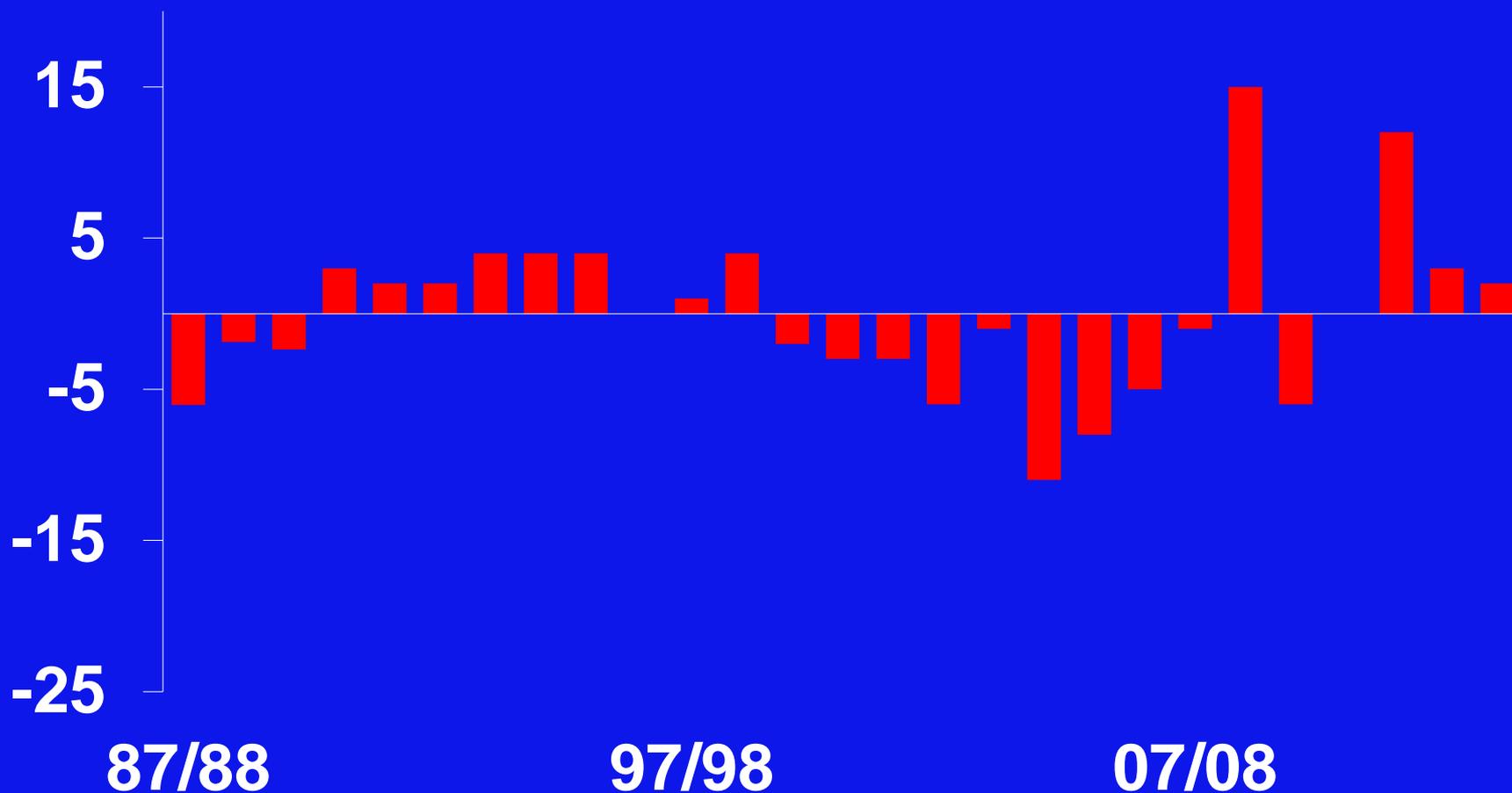
ICAC FORECASTS OF WORLD COTTON PRODUCTION

Percent Error, January-to-Actual



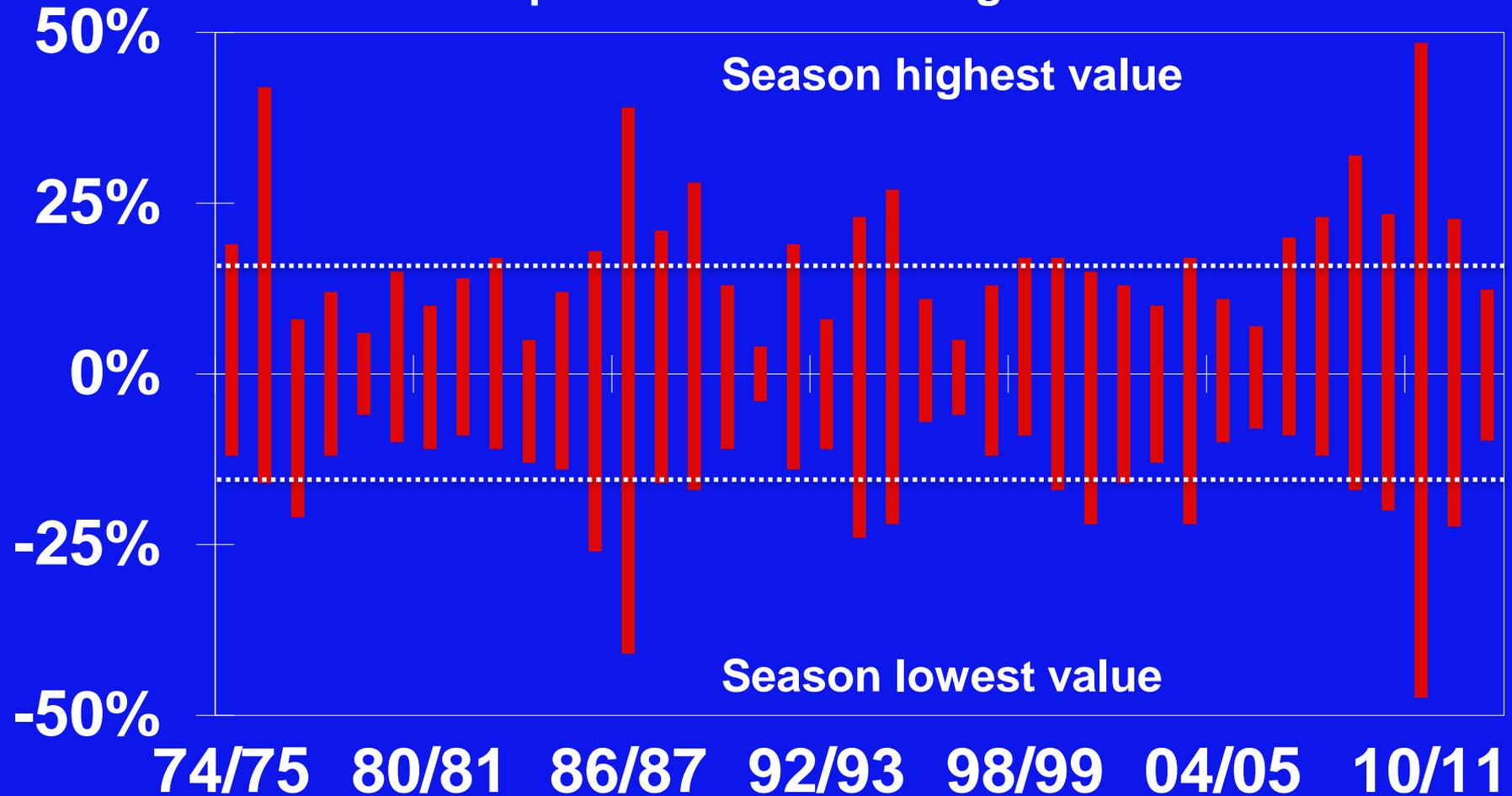
ICAC FORECASTS OF WORLD COTTON CONSUMPTION

Percent Error, January-to-Actual



Cotlook A Index Volatility

Difference with respect to season average



30 YEARS AGO:

No Internet or E-mail

Phone calls expensive

Weather reporting local

Information Exchange

TODAY:

Weather as it happens

Weekly releases

Harvest ends

Pace of arrivals

Overnight policy announcements

Computers/phones/Skype &c.

Regression on your desktop

Why Not?

- 1. Social Science**
- 2. Year-to-Year Variance is Greater**
- 3. Shocks Happen**

- 1. Data are less accurate**

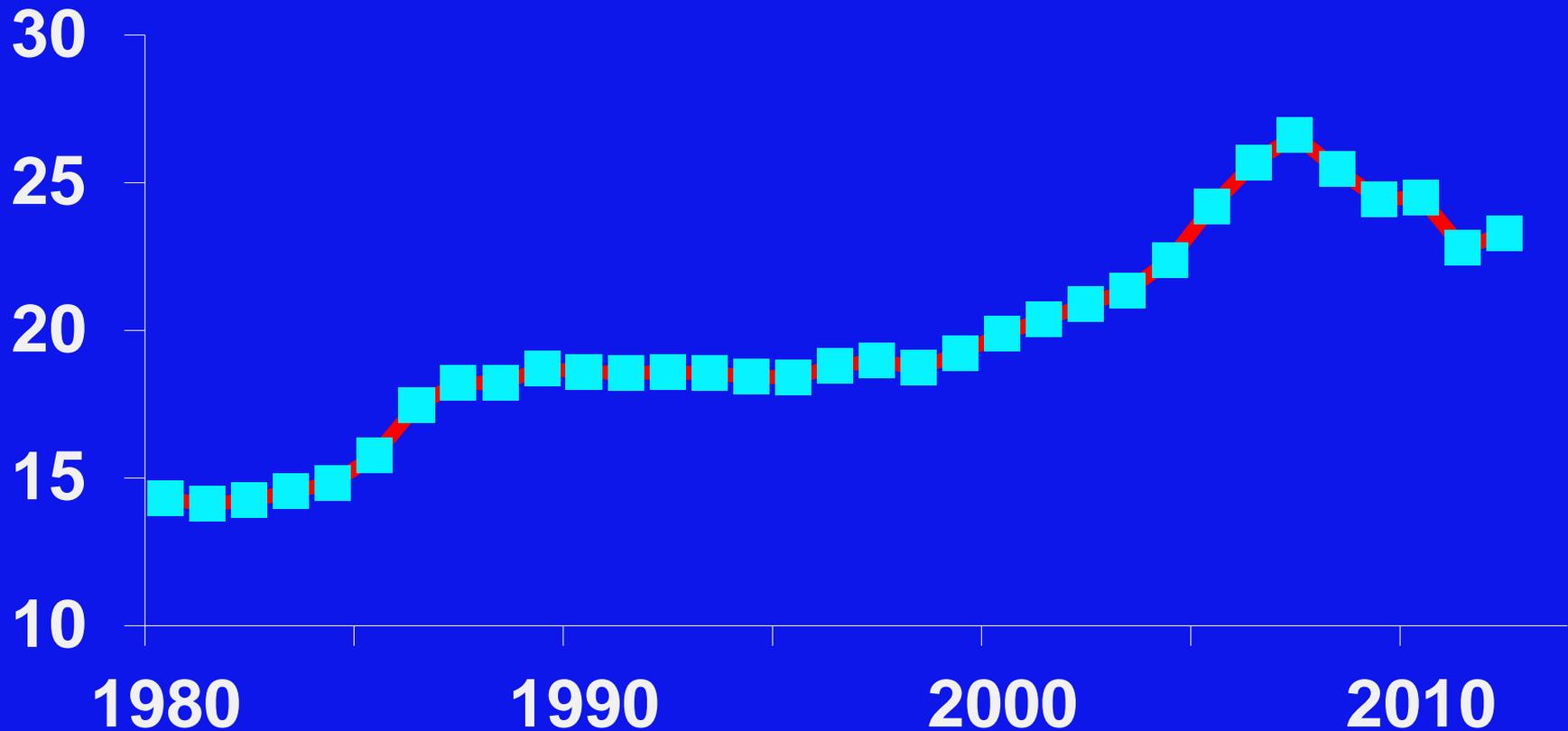
Why Not?

1. Social Science

Forecasting behavior of millions

2. Year-to-Year Variance is Greater: WORLD COTTON PRODUCTION

Million tons



3. SHOCKS HAPPEN

2008 Recession

Indian Export Ban

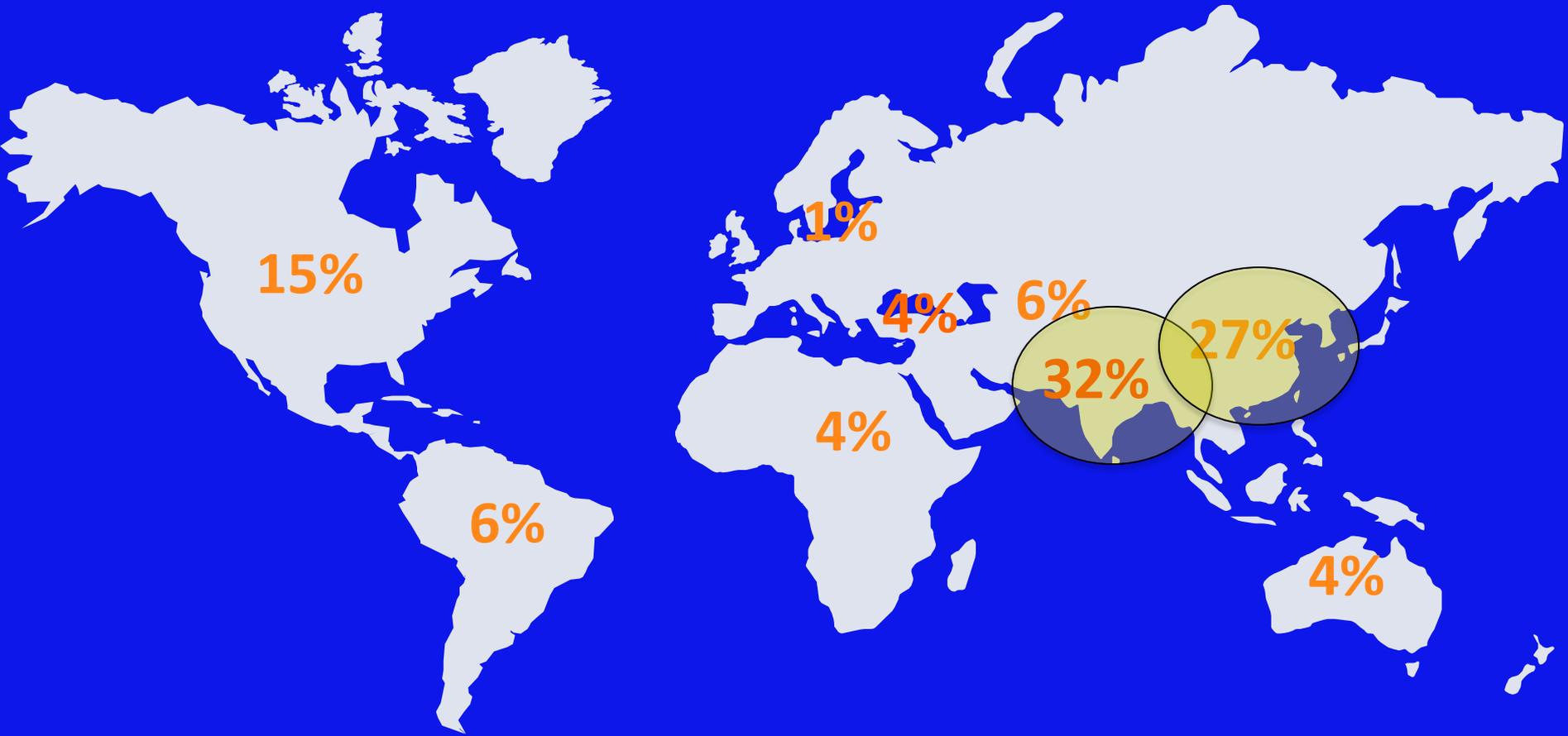
China Reserve Policy

Kiev Rioting

a priori assumptions

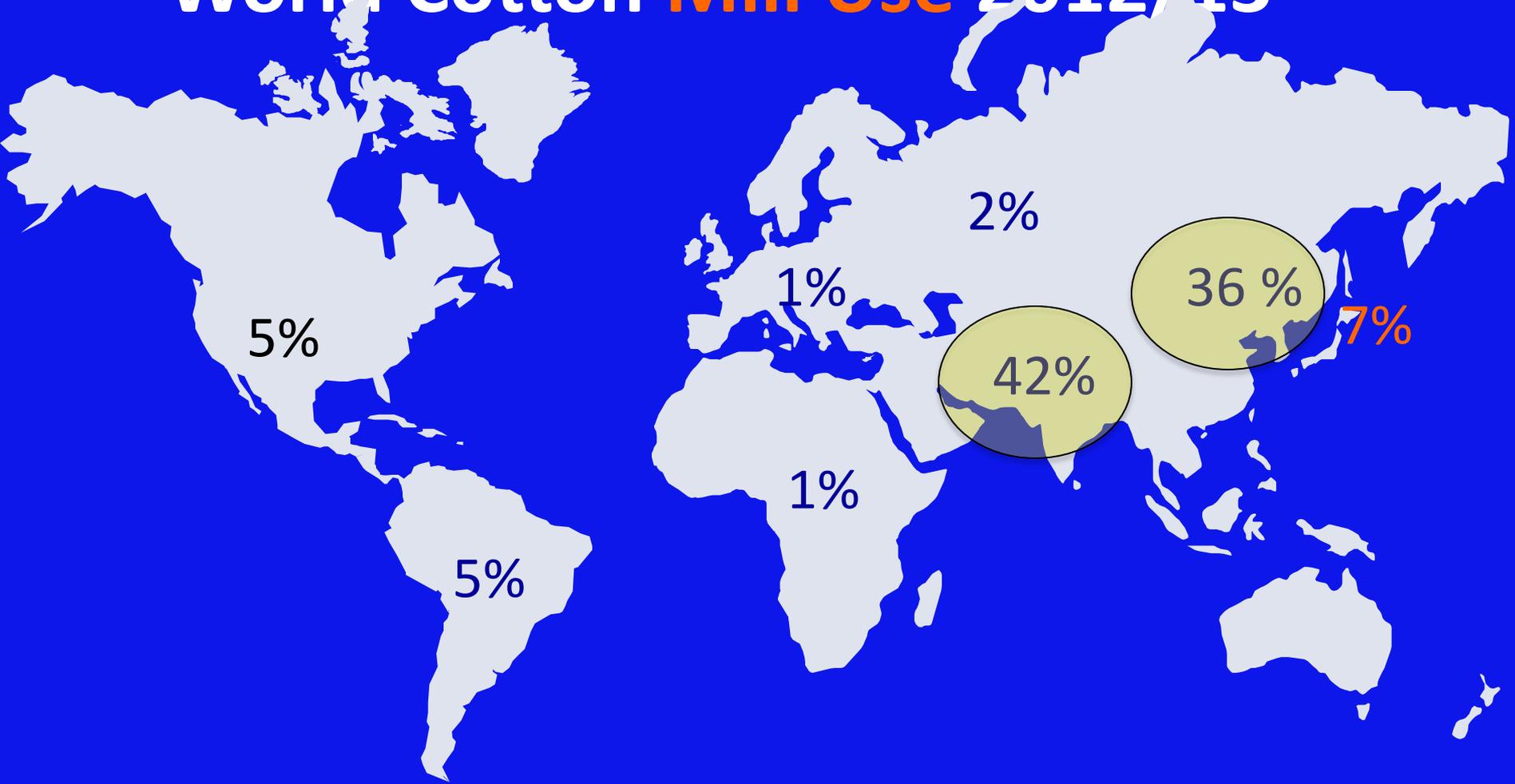
4. Data are less accurate

World Cotton Production 2012/13



4. Data are less accurate

World Cotton Mill Use 2012/13



DATA DIFFICULTIES

Atomized industries

Taxes & Regulation

Bias against

farming/farmers/textiles

DATA DIFFICULTIES

“The government [is] extremely fond of amassing great quantities of statistics. These are raised to the n th degree, the cube roots are extracted, and the results are arranged into elaborate and impressive displays. What must be kept ever in mind, however, is that in every case, the figures are first put down by a village watchman, and he puts down anything he damn well pleases.”

Josiah Stamp, Collector of Inland Revenue for the Government of the United Kingdom in the 1920's

TRANSPARENCY IS THE FUTURE

Bali WTO Ministerial

Farmer Education

Supply Management

Protectionism

Buffer Stocks/Export & Import Controls

Demand Enhancement

Transparency and Trade Facilitation

G 20 Declaration

2008 Food Shocks Changed Perception of Commodities

Forecasts Have & Will Improve

**Technology has offset the
Increased Degree of Difficulty**

Data will Improve