

# Executive Cotton Update

U.S. Macroeconomic Indicators &  
the Cotton Supply Chain



May 2018

[www.cottoninc.com](http://www.cottoninc.com)

**Macroeconomic Overview:** The International Monetary Fund (IMF) publishes comprehensive sets of estimates and forecasts for economic growth around the world each April and October. In their latest report, the IMF indicated that the acceleration in global economic activity that began in mid-2016 has broadened and strengthened. Current projections suggest that the world economy will expand 3.9% in both 2018 and 2019 (inflation-adjusted rates). Global growth has not been this strong since the rebound that followed the financial crisis.

In 2017, U.S. GDP growth was 2.3%. The IMF predicts the U.S. will grow 2.9% this year and 2.7% in 2019. After growing 2.3% last year, the Euro Zone is expected to grow 2.4% this year and 2.0% in 2019. After growing 1.7% last year, Japan is expected to grow 1.2% this year and 0.9% next year. The estimates/forecasts for China are 6.9% in 2017, 6.6% in 2018, and 6.4% in 2019. The estimates/forecasts for India are 6.7% in 2017, 7.4% in 2018, and 7.8% in 2019.

The Bureau of Economic Analysis (BEA) recently released its first (advance) estimate for U.S. GDP in the first quarter. This preliminary figure indicates that the U.S. economy expanded at a 2.3% annualized rate (adjusted for inflation) in the first three months of the year. In the fourth quarter, growth was 2.9%. The deceleration was primarily a result of weaker spending growth, which slowed from a 4.0% rate in the fourth quarter to 1.1%. Among spending categories, the largest quarter-over-quarter decreases were for autos and clothing.

With the labor market strong and consumer confidence high, a possible reason for the deceleration in spending in the first quarter is that the acceleration in spending in the fourth quarter was too strong to build upon. Supported by spending on autos and clothing in the fourth quarter, consumer purchases surged from 2.2% to 4.0% (Q3 to Q4). The growth registered in the fourth quarter was the strongest in four years. A return to more normal rates of growth could explain some of the weakness in the figure for the first quarter of 2018. Spending growth (1.1%) in the first quarter ranks as the lowest in nearly five years. A contributing factor was that consumers saved more, with the savings rate rising from 2.6% to 3.1% quarter-over-quarter.

Interest rates, as represented by bond yields, have been increasing, with yield on the 10-year Treasury note surpassing the three percent level for the first time since late 2013. There are several implications for rising interest rates. One is that savers can earn more on the money they put away, which is a positive. However, another implication is that it costs more to borrow, which can inhibit debt-supported spending. Interest rates also influence foreign exchange. The relative value of the dollar rose alongside 10-year Treasury yields, increasing about 5% since mid-April (ICE dollar futures market).

**Employment:** The U.S. economy was estimated to have added 164,000 jobs in April. In combination, revisions to existing estimates indicate more jobs were added over the previous two months than previously believed (+30,000 overall). The figure for February was lowered from +326,000 to +324,000. The figure for March was increased from +103,000 to +135,000. For the first four months of 2018, job growth averaged 200,000. Over the same time period in 2017, job growth averaged 177,000.

After holding at 4.1% for the previous six months, the unemployment rate fell below four percent (to 3.9% in April) for the first time since the year 2000. The year-over-year increase in wages was 2.6% last month, which is near the average in recent years. Early in the year, wage growth was stronger (near 2.8%) and there were hopes that wage growth was accelerating.

**Consumer Confidence & Spending:** The Conference Board's Index of Consumer Confidence moved slightly higher in April, increasing 1.7 points from 127.0 to 128.7. Current values remain the highest apart from readings in 2000, when they were near 140.

As reflected in GDP-related figures, growth in consumer spending was weak in the first quarter. Month-over-month changes in overall spending in both January (-0.2%) and February (-0.2%) were negative. In March, overall spending increased 0.4%. Year-over-year, overall spending was 2.9% higher in January, 2.7% higher in February, and 2.4% higher in March.

For apparel, month-over-month spending was 2.2% lower in January, 1.7% lower in February, and 1.4% higher in March. Year-over-year, spending on clothing was 2.6% higher in January, 3.5% higher in February, and 2.8% higher in March.

**Consumer Prices & Import Data:** Retail apparel prices decreased month-over-month in March (-1.1%). Year-over-year, retail apparel prices were 0.1% higher. Sourcing costs, as represented by cotton-dominant import value per square meter equivalent, increased 3.9% month-over-month in seasonally-adjusted terms. Year-over-year, cotton-dominant import costs were 5.2% higher.

## U.S. Macroeconomic & Cotton Supply Chain Charts

Macroeconomic Indicators		Industry & Textiles	Retail	Currencies	Cotton
GDP Growth	Leading Indicators	Industrial Production	Consumer Spending	Weighted Index	U.S. Balance Sheet
Interest Rates	Consumer Conf.	Inventory/Shipments	Inventory/Sales	Asia	Fiber Prices
ISM Indices	Employment	U.S. Yarn Exports	Consumer Prices	The Americas	
	Housing	Polyester PPI		Europe	

# Executive Cotton Update

U.S. Macroeconomic Indicators & Cotton Prices  
May 2018



## Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q3 : 2017	Q4 : 2017	Q1 : 2018		
Growth in US Real GDP	2.3%	2.1%	2.6%	2.3%	3.2%	2.9%	2.3%	% Chg. Quarter/Quarter	Department of Commerce

Monthly Series with Latest Data for April	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
ISM Index of Manufacturing Activity	54.2	53.9	59.2	59.7	60.8	59.3	57.3	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.2	56.5	58.6	59.4	59.5	58.8	56.8	Index	Institute for Supply Management
Consumer Confidence	98.9	108.2	126.5	127.1	130.0	127.0	128.7	Index	The Conference Board
Change in Non-Farm Payrolls	209.3	203.4	216.2	211.7	324	135	164	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.4%	4.7%	4.1%	4.1%	4.1%	4.1%	3.9%	Rate	Bureau of Labor Statistics

Monthly Series with Latest Data for April	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
US Interest Rates									
Federal Funds	0.4%	0.6%	1.3%	1.4%	1.4%	1.5%	1.7%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.2%	2.6%	2.8%	2.9%	2.8%	2.9%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	98.5	101.9	107.5	108.5	107.9	108.7	109.0	Index	The Conference Board
Housing Starts	11.0	11.9	12.9	13.2	1.3	1.3	1.3	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.6	5.5	5.4	5.5	5.6	Annual pace, millions of units	National Association of Realtors

## Industrial and Textile Data

Monthly Series with Latest Data for March	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
US Industrial Production	103.7	103.4	105.9	106.4	105.6	106.6	107.2	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	98.0	96.0	97.3	99.4	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Monthly Series with Latest Data for February	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	December	January	February		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	3.1	3.2	3.2	3.2	3.2	3.2	million 480lb bales	USDA ERS

Monthly Series with Latest Data for March	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
US Textile Mill Inventory/Shipments Ratio	1.24	1.24	1.25	1.26	1.26	1.26	1.26	Ratio	Department of Commerce

## Retail Data

Monthly Series with Latest Data for March	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
US Real Consumer Spending									
All Goods and Services	2.8%	2.9%	2.7%	2.6%	2.8%	2.7%	2.4%	% Chg. Year/Year	Department of Commerce
Clothing and Shoes	2.9%	2.6%	3.5%	3.0%	2.6%	3.5%	2.8%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.3%	1.4%	2.2%	2.3%	2.1%	2.3%	2.4%	% Chg Year/Year	Bureau of Labor Statistics
Apparel	-0.4%	-0.5%	-0.3%	0.2%	-0.2%	0.6%	0.1%	% Chg. Year/Year	Bureau of Labor Statistics

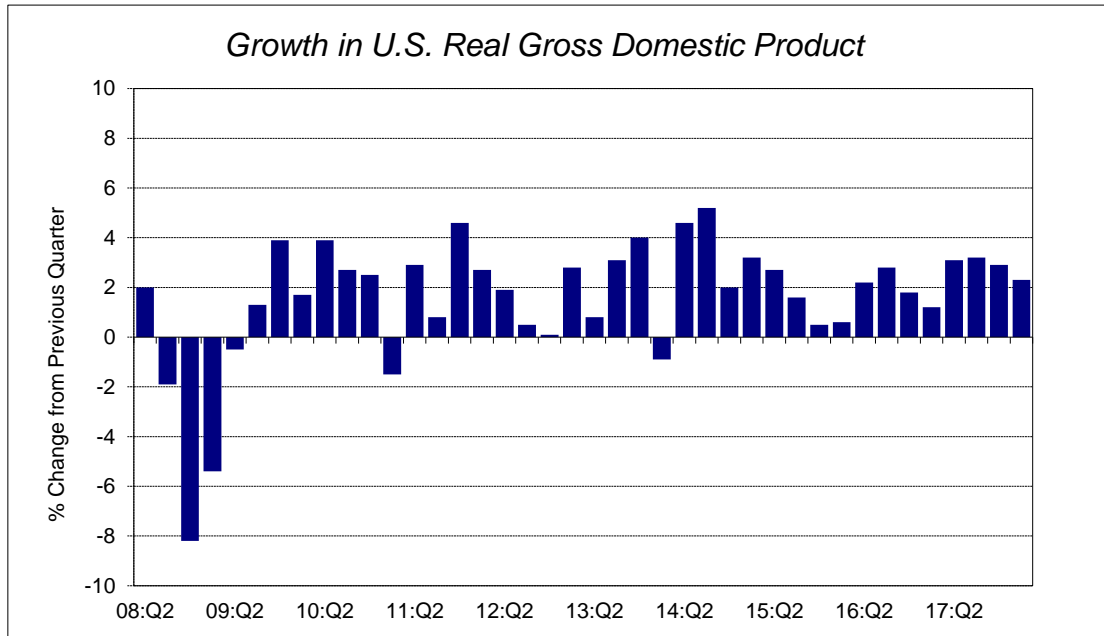
Monthly Series with Latest Data for February	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	December	January	February		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.4	2.4	2.4	2.4	2.4	2.4	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.0	2.0	2.0	2.0	2.0	Ratio	Department of Commerce

# Executive Cotton Update

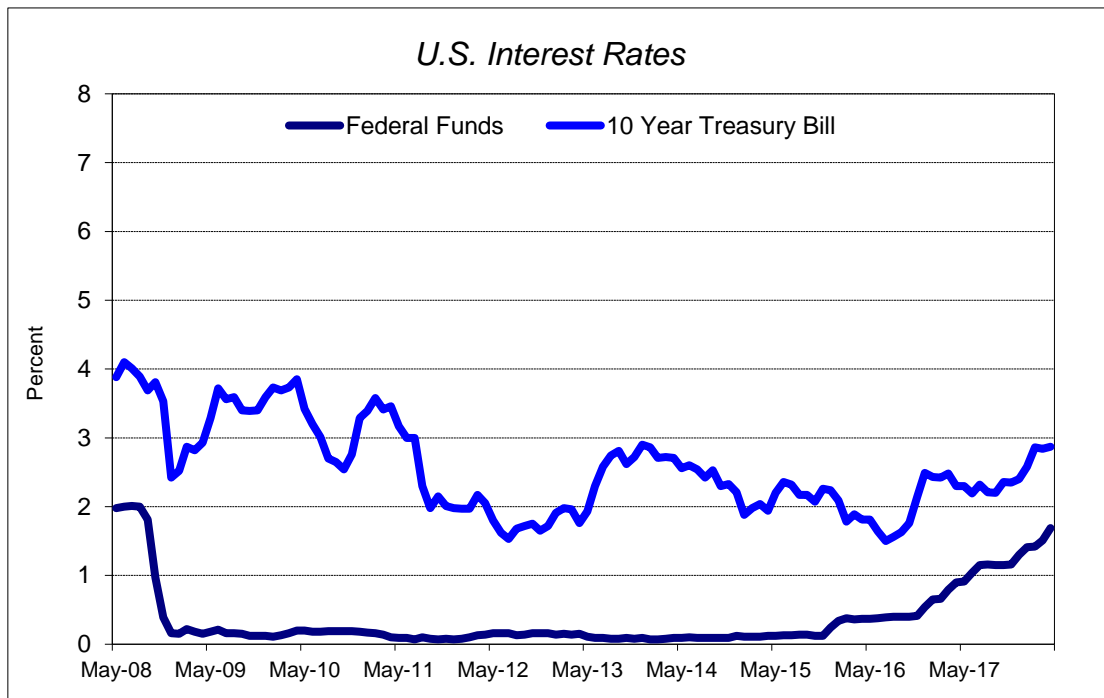
Daily Cotton Price and Currency Data  
May 2018



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
NY Nearby	72.2	69.4	78.2	81.2	77.9	82.7	83.0	cents/pound	ICE
A Index	80.4	78.4	88.2	90.8	88.3	92.0	92.1	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
Dollar Trade Weighted Exchange Index	114.6	121.0	118.5	117.4	115.9	118.4	117.8	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.40	6.57	6.45	6.31	6.28	6.35	6.30	Chinese Renminbi/US dollar	Reuters
Indian Rupee	63.83	65.65	64.47	64.82	64.07	65.23	65.17	Indian Rupee/US dollar	Reuters
Japanese Yen	110.09	112.87	110.36	107.47	110.39	105.48	106.54	Japanese Yen/US dollar	Reuters
Pakistani Rupee	103.96	105.27	109.64	112.19	110.52	110.55	115.50	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	2.98	3.37	3.27	3.28	3.22	3.26	3.35	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.22	1.30	1.27	1.27	1.24	1.29	1.28	Canadian dollar/US dollar	Reuters
Mexican Peso	16.27	18.18	18.80	18.56	18.54	18.90	18.24	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.69	0.73	0.73	0.71	0.71	0.73	0.71	British Pound/US dollar	Reuters
Euro	0.84	0.89	0.83	0.81	0.80	0.81	0.81	Euro/US dollar	Reuters
Swiss Franc	0.96	0.98	0.96	0.94	0.93	0.94	0.96	Swiss Franc/US dollar	Reuters
Turkish Lira	2.82	3.26	3.85	3.86	3.76	3.82	4.00	Turkish Lira/US dollar	Reuters



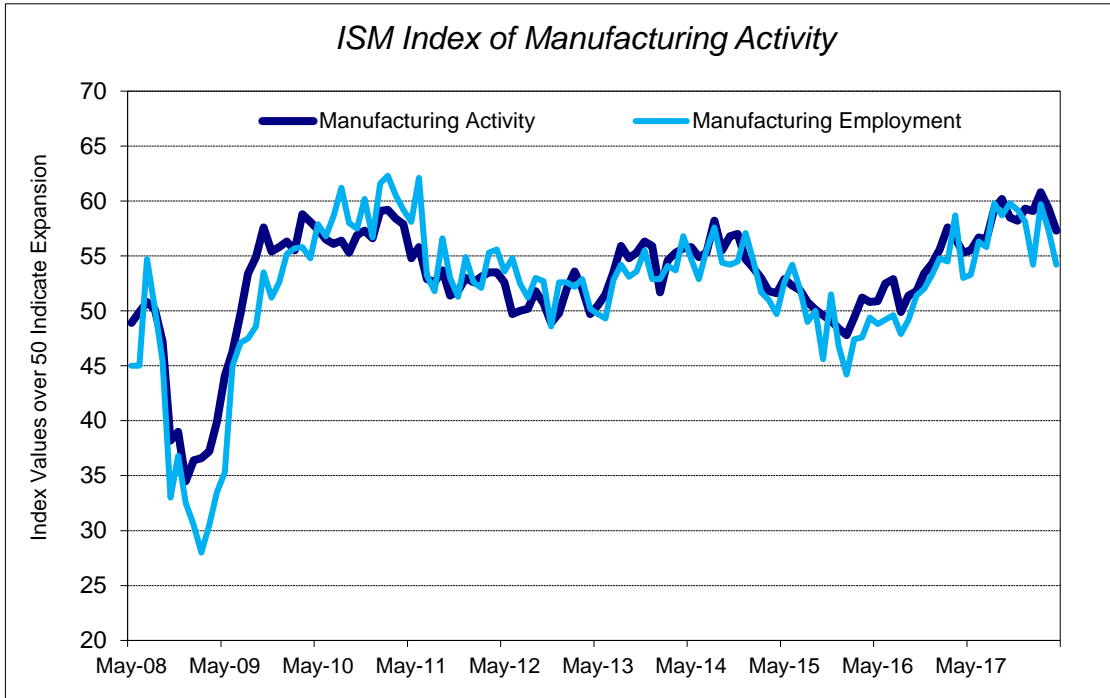
Seasonally Adjusted Annual Rate; Source: Department of Commerce  
 \*Based on chained 2005\$.



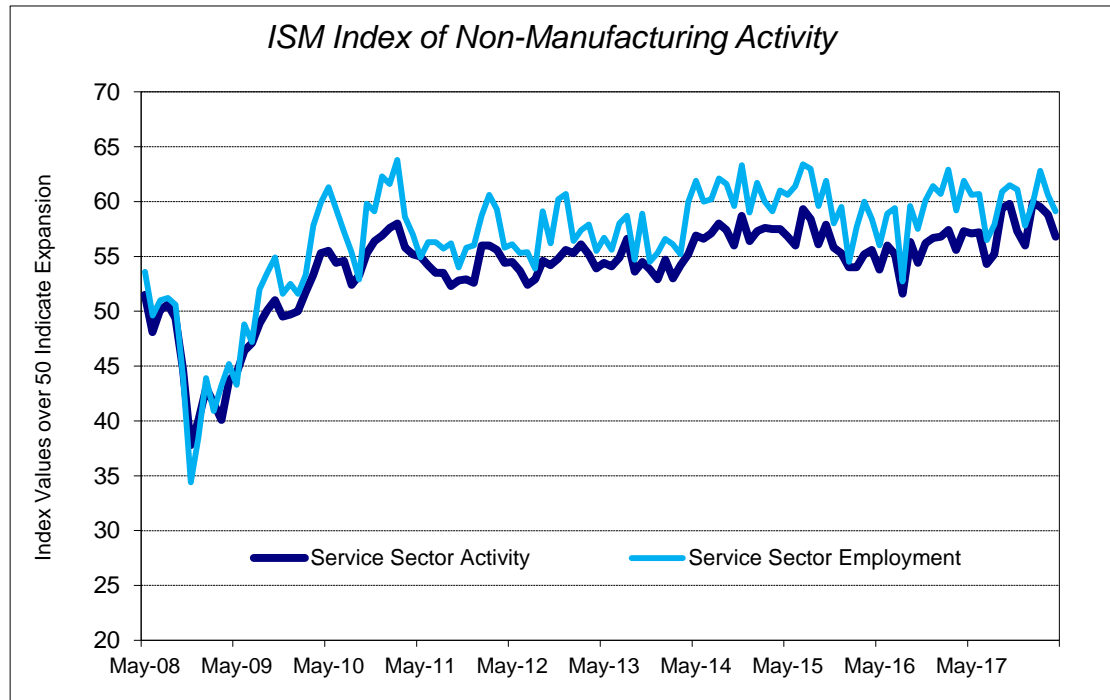
Source: Federal Reserve

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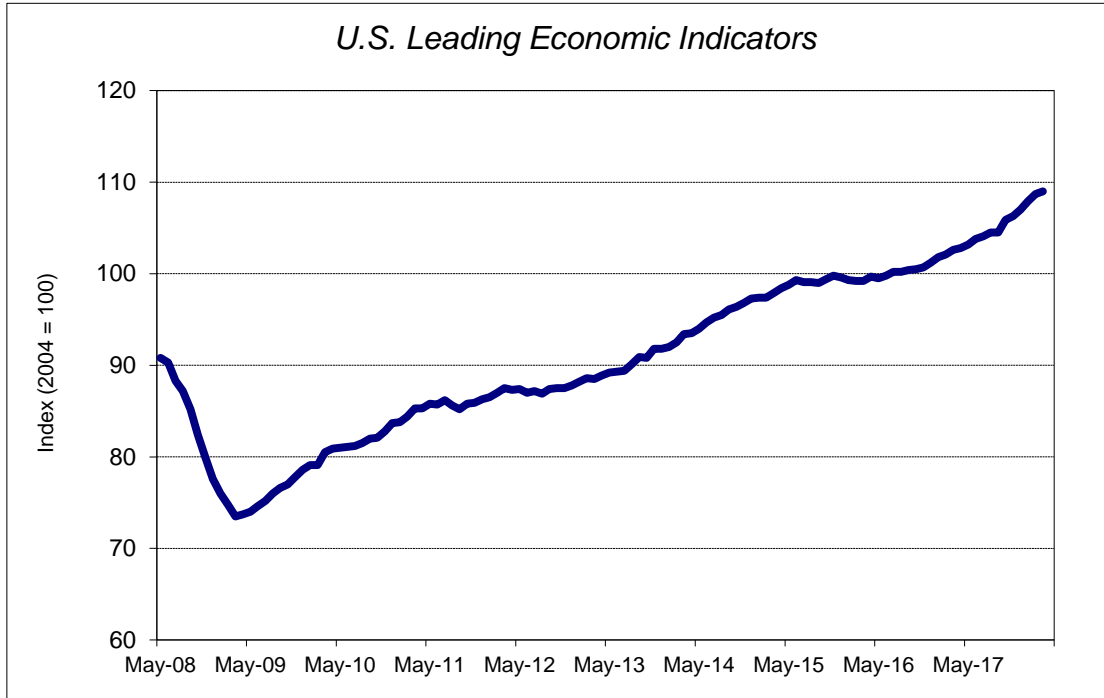
Source: Institute for Supply Chain Management



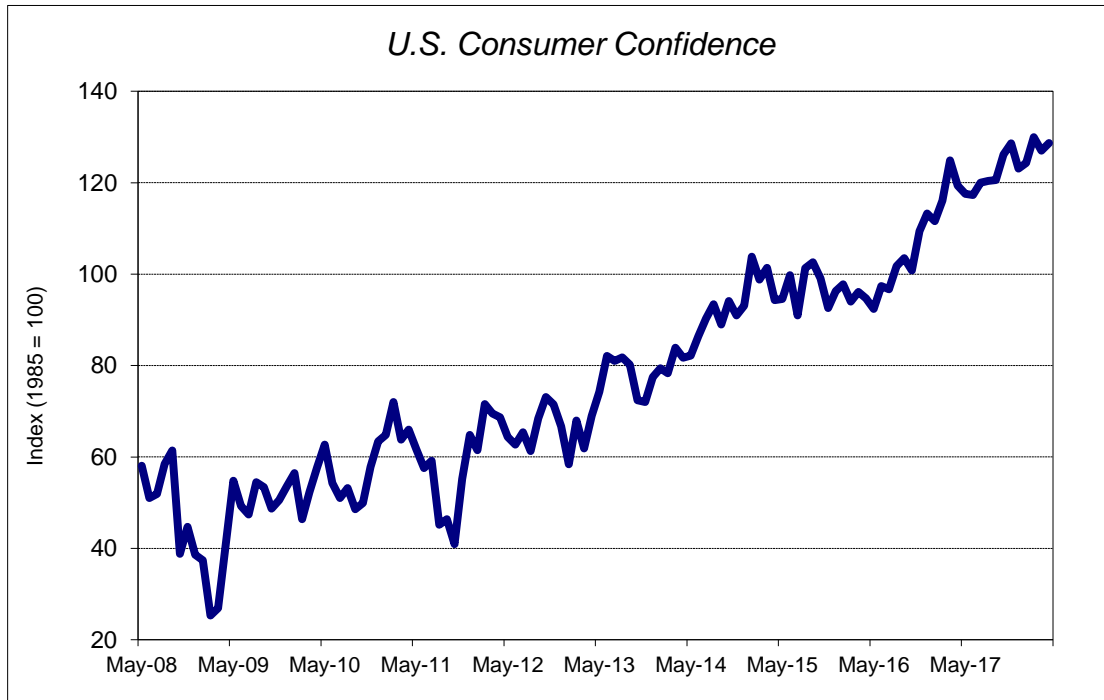
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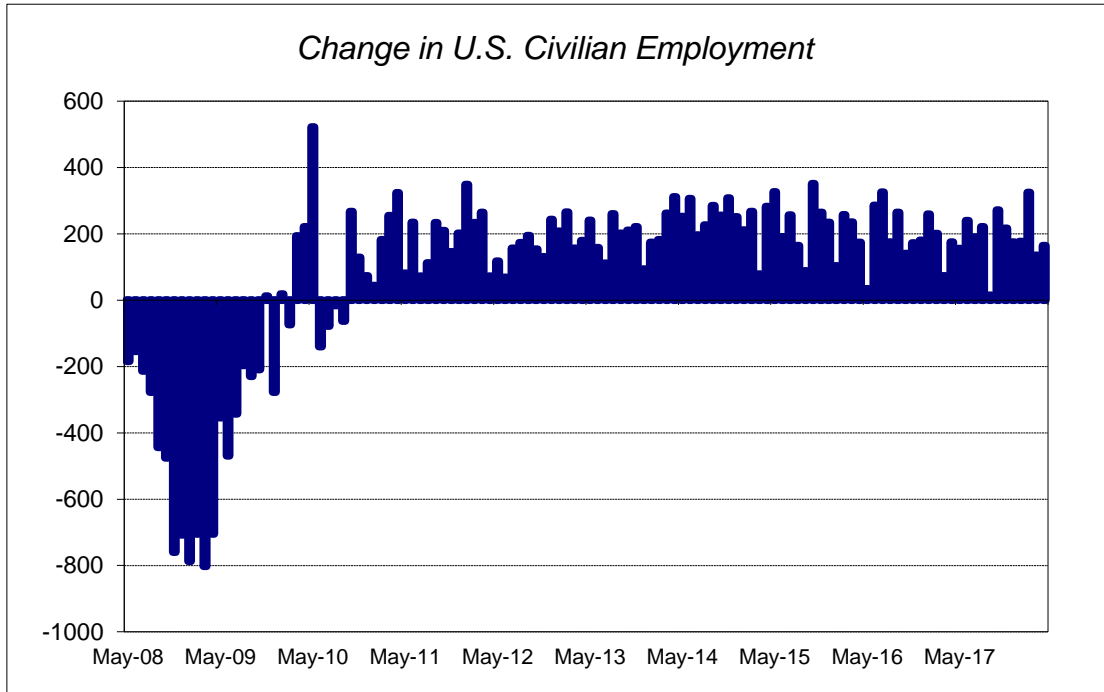
Source: The Conference Board



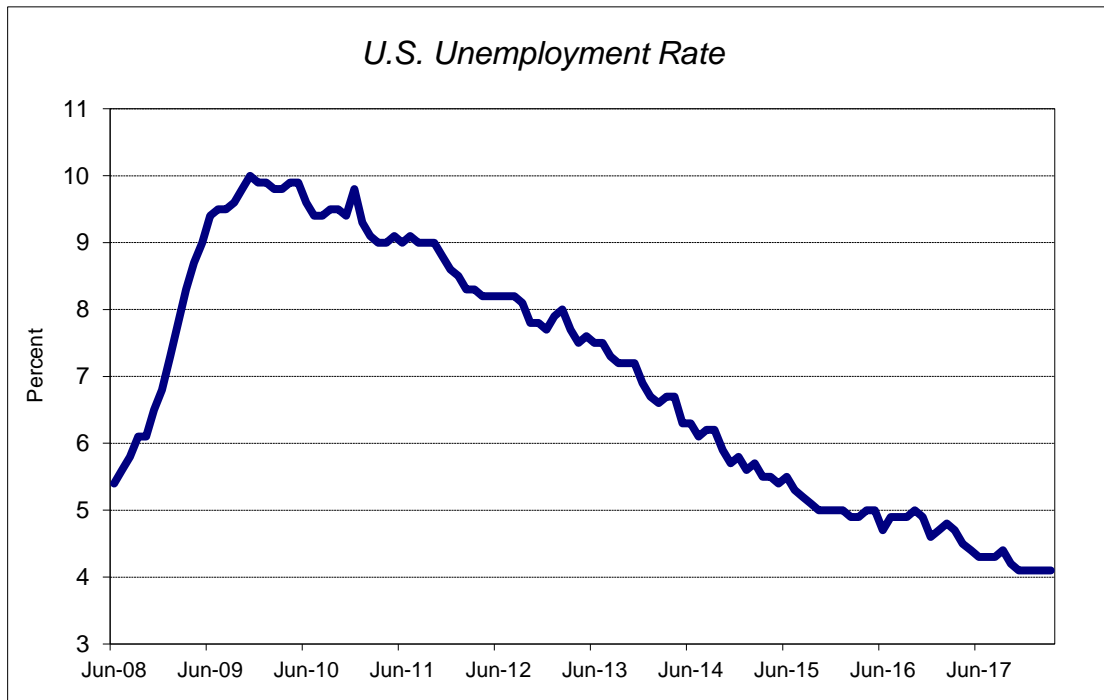
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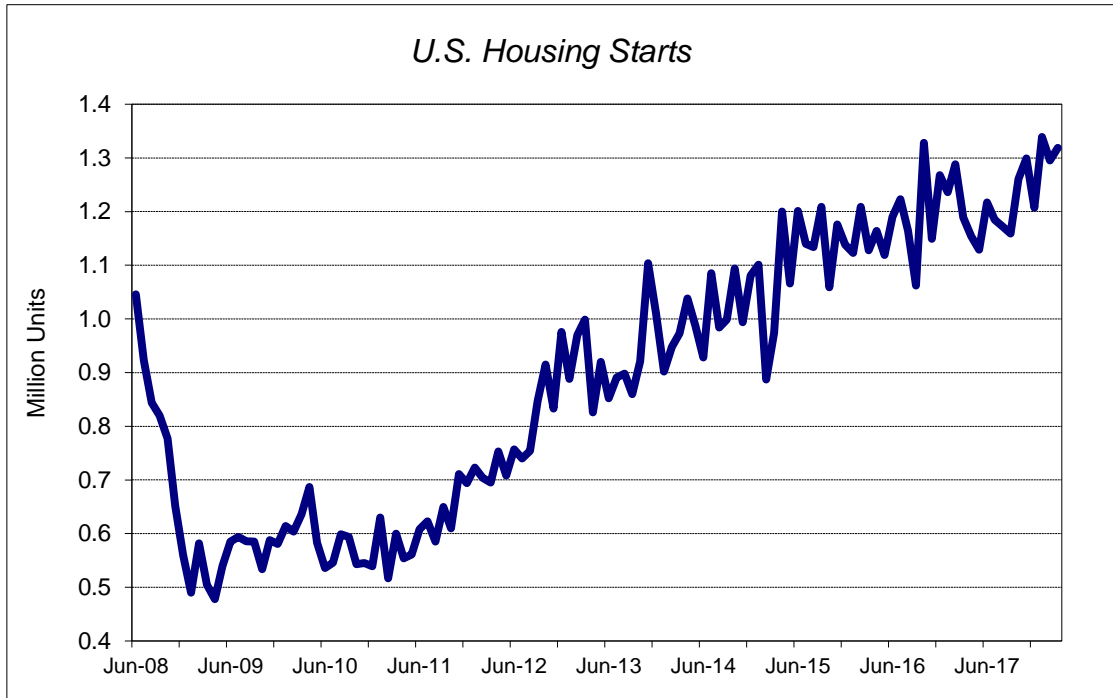
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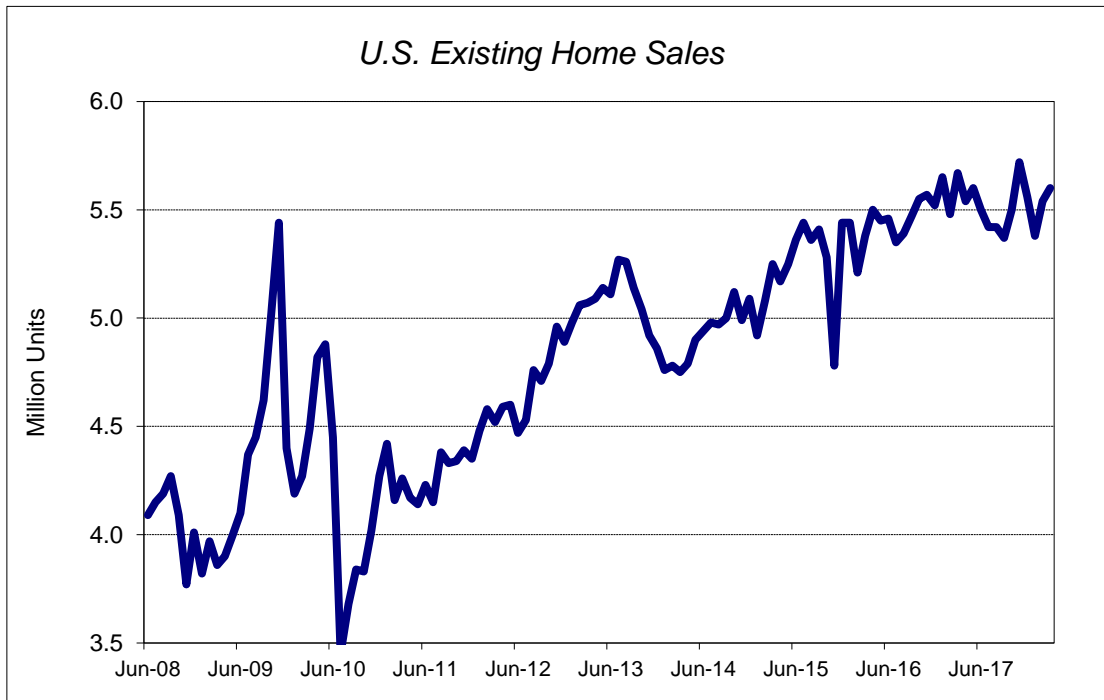
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Seasonally Adjusted Annual Rate; Source: Department of Commerce

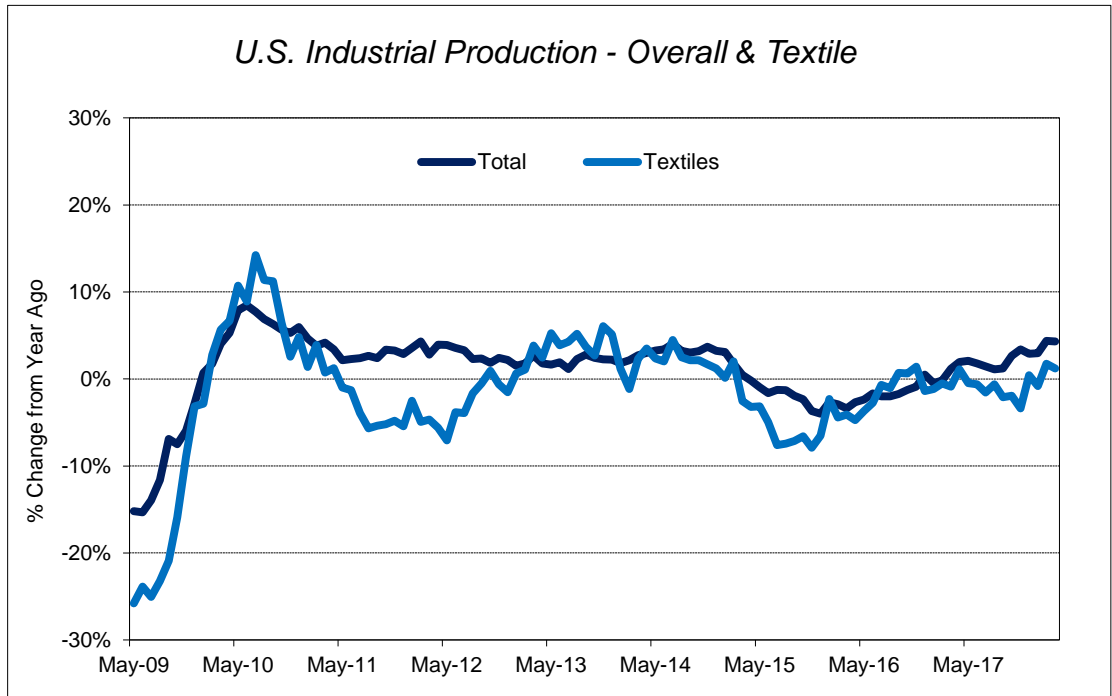


Seasonally Adjusted Annual Rate; Source: National Association of Realtors

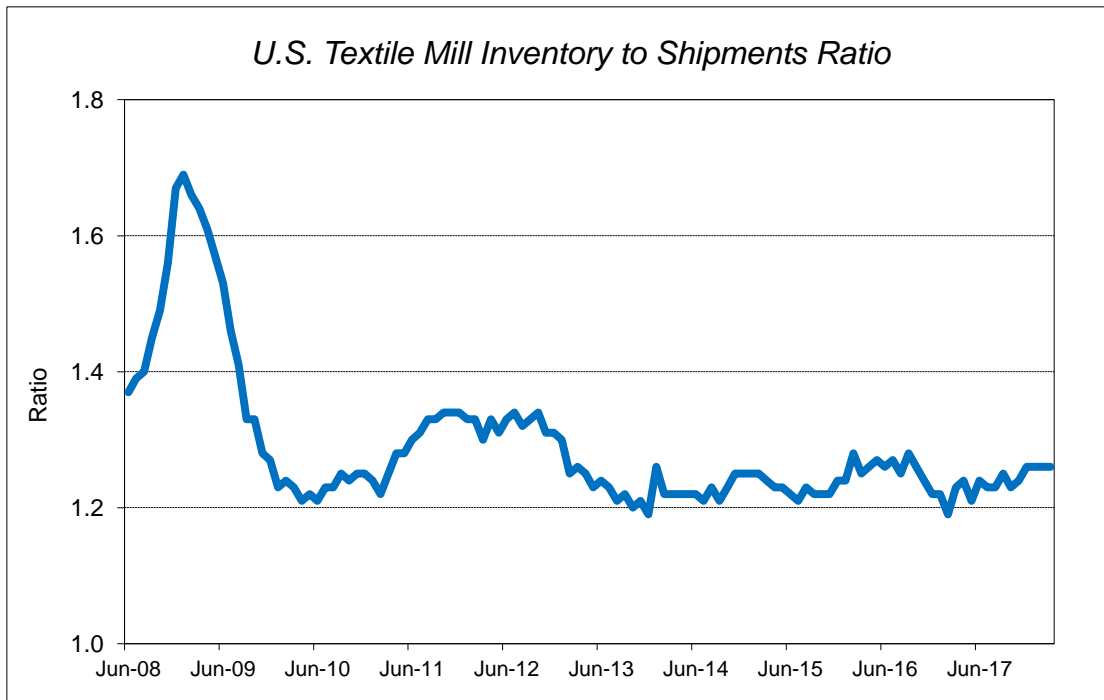
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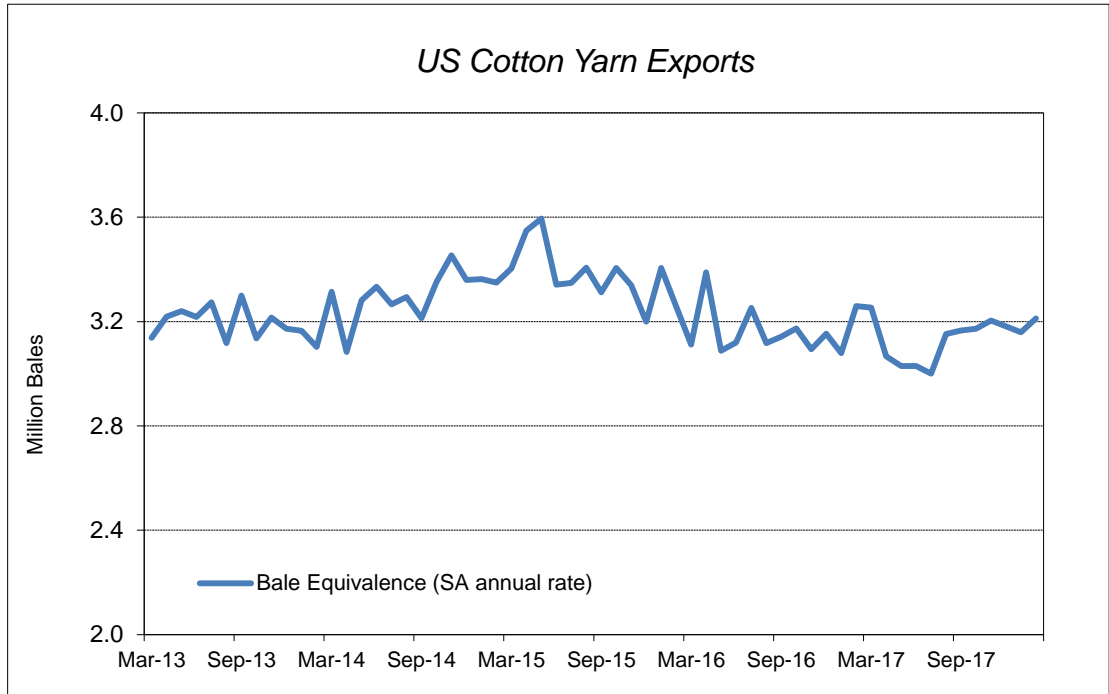
Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

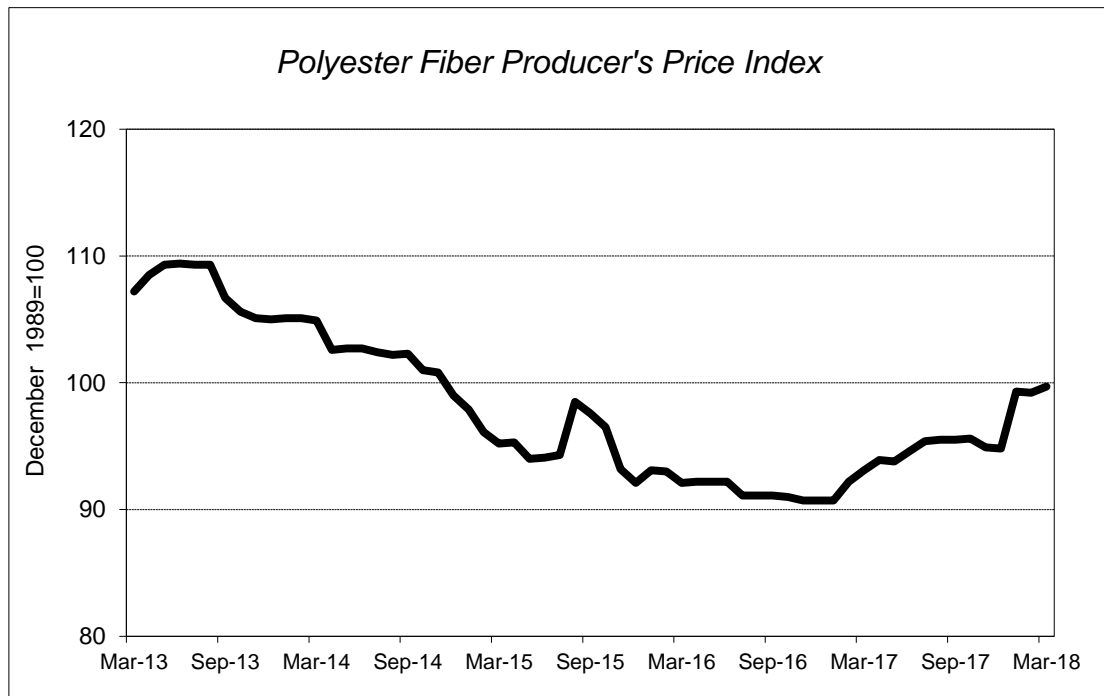
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Seasonally Adjusted Annual Rate

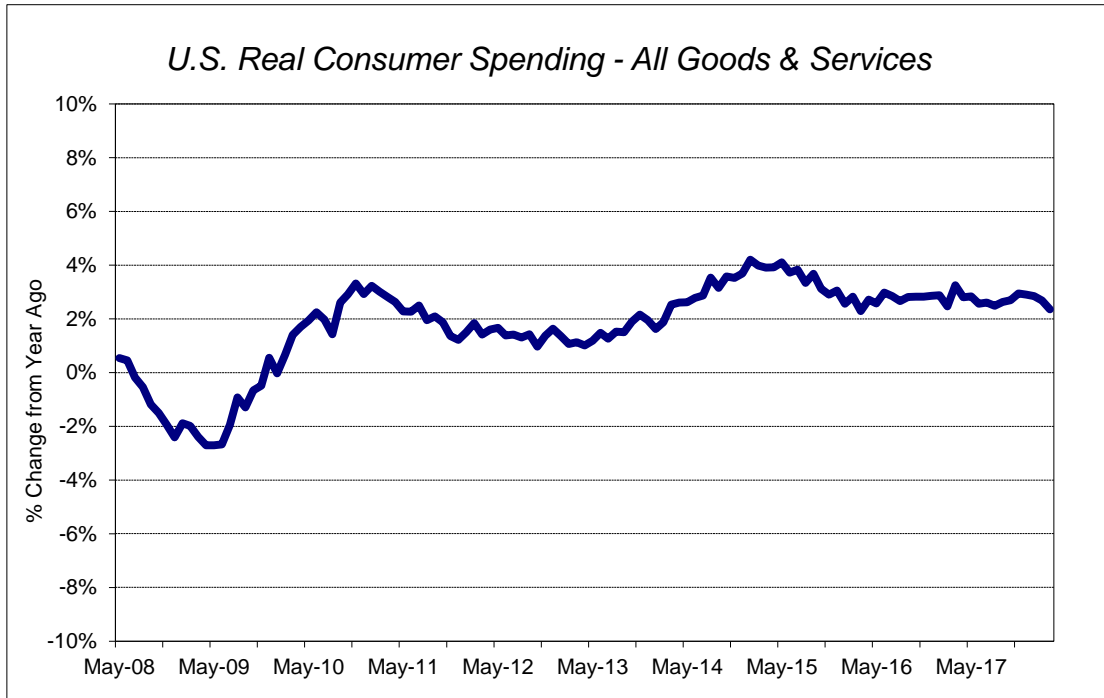
Source: USDA ERS



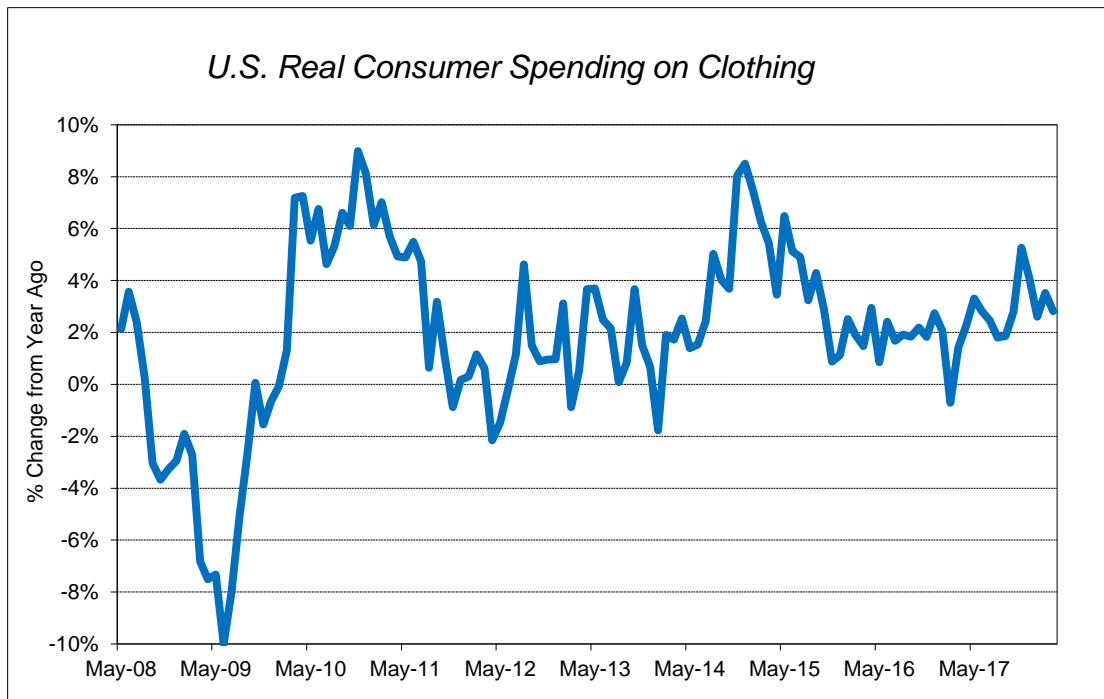
Source: Bureau of Labor Statistics

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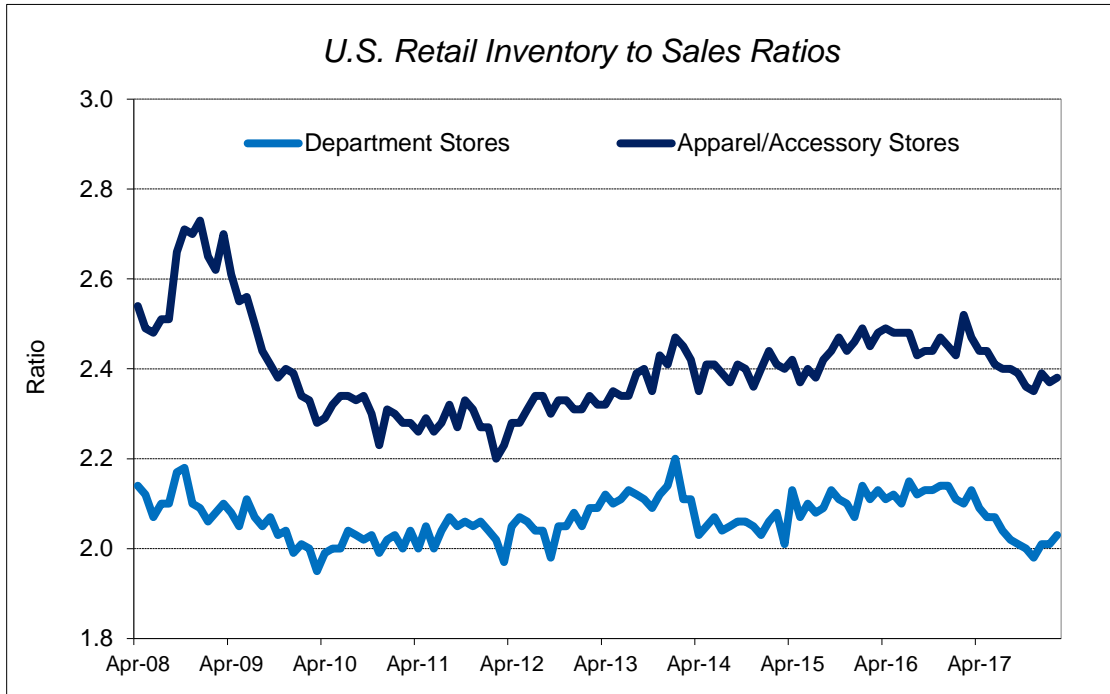
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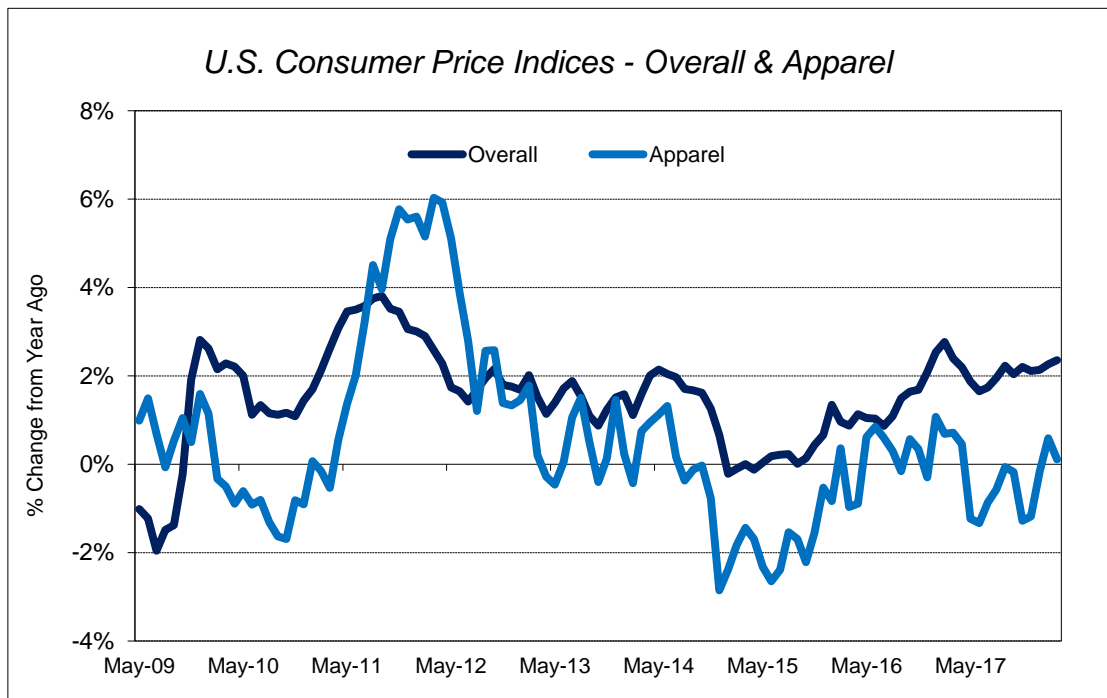
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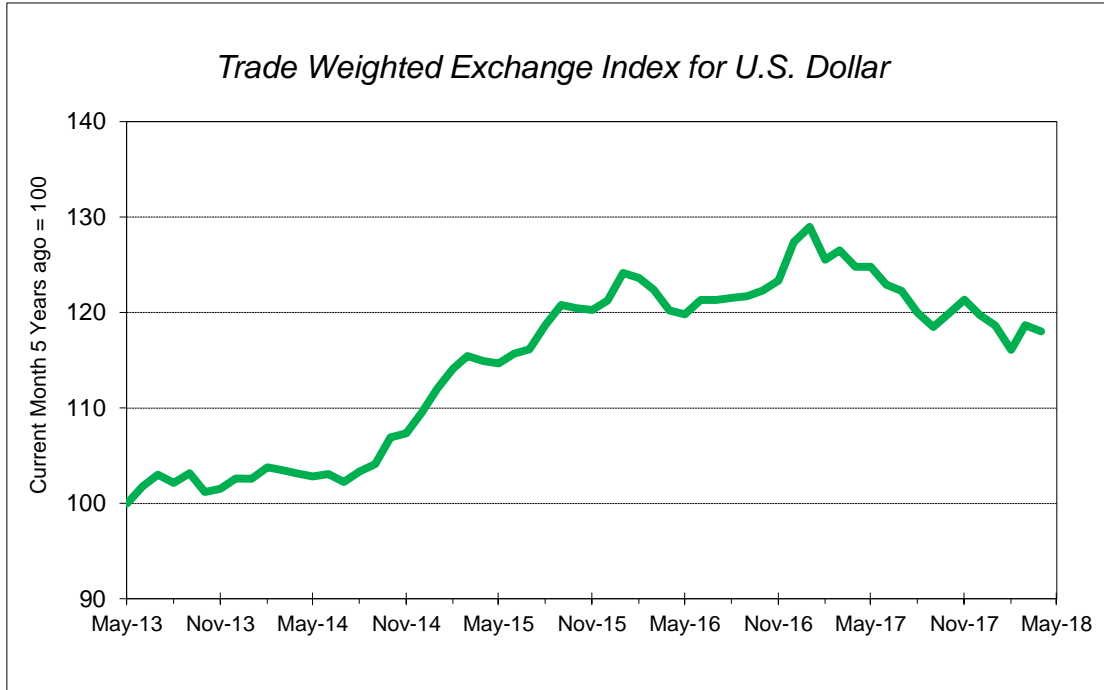
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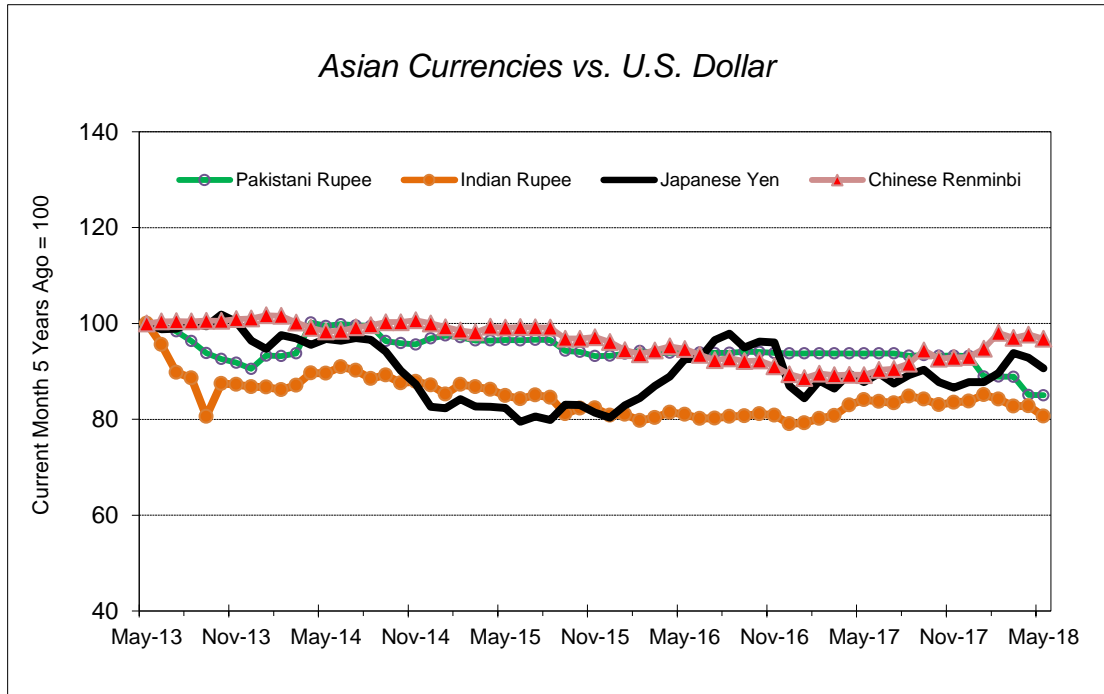
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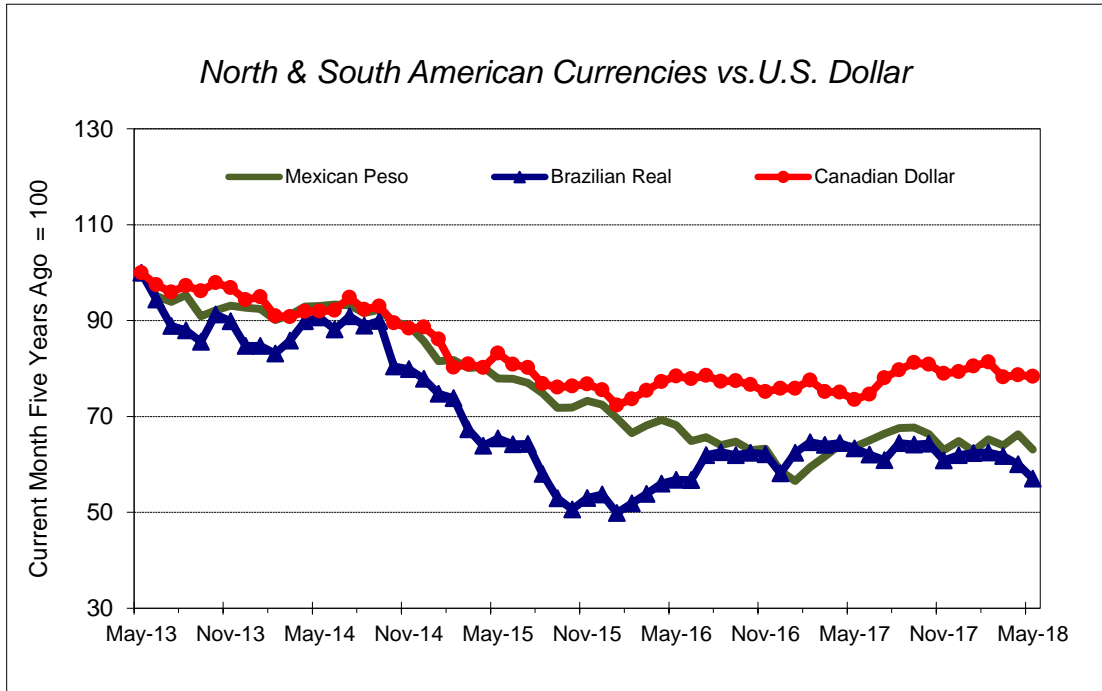
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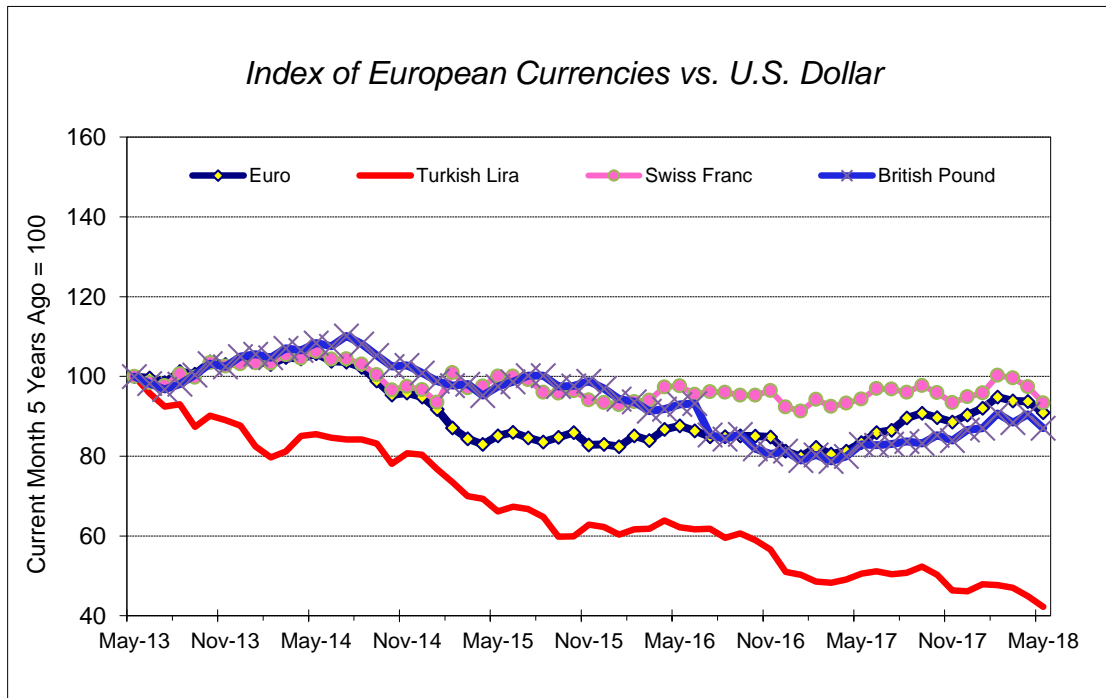
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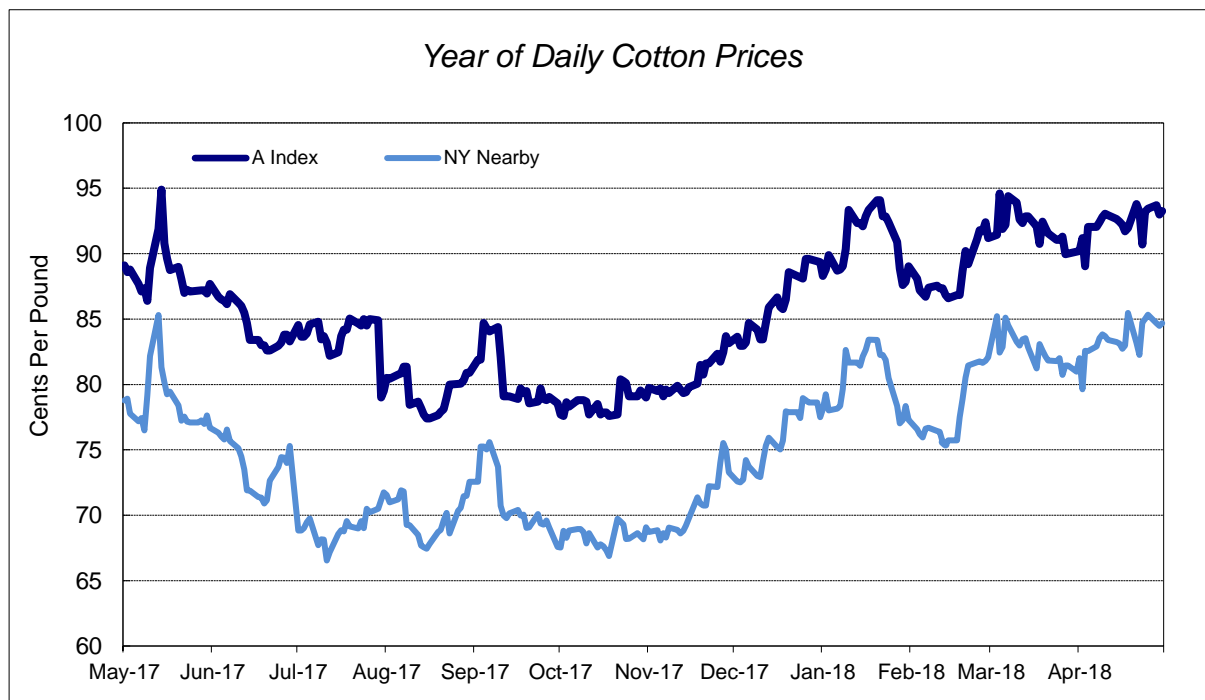
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## U.S. Balance Sheet

million 480 lb. bales	2013/14	2014/15	2015/16	2016/17	2017/18 March	2017/18 April
Beginning Stocks	3.8	2.4	3.7	3.8	2.8	2.8
Production	12.9	16.3	12.9	17.2	21.0	21.0
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.7	18.7	16.6	21.0	23.8	23.8
Mill-Use	3.6	3.6	3.5	3.3	3.4	3.4
Exports	10.5	11.2	9.2	14.9	14.8	15.0
Demand	14.1	14.8	12.6	18.2	18.2	18.4
Ending Stocks	2.4	3.7	3.8	2.8	5.5	5.3
Stocks/Use Ratio	16.7%	24.6%	30.2%	15.1%	30.3%	28.9%



Sources: ICE Futures U.S. & Cotton Outlook

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