

# Executive Cotton Update

U.S. Macroeconomic Indicators &  
the Cotton Supply Chain



July 2018

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

**Macroeconomic Overview:** The deadline for an agreement to prevent the implementation of tariff increases on the flow of goods between the U.S. and China was reached on July 6<sup>th</sup>. As a result, tariffs increased by 25 percentage points for lists of goods worth \$34 billion on both sides. In the U.S., a list of goods worth \$16 billion is currently undergoing a period of public comment. After these comments have been analyzed, and that list has been revised, another round of tariff implementation is expected.

Given all the back-and-forth discussion surrounding tariffs in recent months, uncertainty has been a theme. While the July 6<sup>th</sup> implementation answers the major question of whether or not tariff rates might actually change, associated questions remain about how long they will remain in place, whether further increases can be expected, and what the lasting economic effects might be. Currently, the U.S. economy is growing at a healthy rate, the labor market is steadily adding jobs, wage growth appears to be slowly accelerating, and national housing prices have not only recovered from the financial crisis but have been setting a series of record highs. Estimating the eventual impact of the increase in tariffs on the overall economy is complex. This is partly because of all of the unanswered questions about the longevity and possible escalation of the current set of tariffs as well as the fact that companies can react in different ways. For example, a firm could reduce orders, tweak its supply chain, or open facilities in other countries to adapt.

A potential threat to the current economic expansion that may be easier to predict comes from rising interest rates. The Federal Reserve operates under a dual mandate to control inflation and support employment. Relative to inflation, the Federal Reserve maintains a target rate of two percent. This target has only been intermittently met since the financial crisis, but recent values have once again climbed to that level. The employment part of the Federal Reserve's mandate is less explicitly defined, and is generally considered to be a function several variables. A recent survey of Federal Reserve Open Market Committee members (group responsible for making interest rate decisions) revealed that their median estimate for the minimum sustainable unemployment rate was 4.5%. With the current unemployment rate (4.0%) below this level, both elements of the mandate suggest the Federal Reserve will continue to increase interest rates.

Higher interest rates can inhibit consumer and business borrowing and spending. This can slow economic growth, which is a reason why rising interest rates are often associated with future risk of recession, but can also prevent inflation from spiraling out of control. Another effect of higher interest rates is that it can increase demand for interest bearing securities. For this reason, rising interest rates in the U.S. can increase global demand for dollars and cause the dollar to strengthen against other currencies. In April, the Federal Reserve suggested it would increase interest rates at a faster rate than previously expected, and since then the dollar strengthened against a range of currencies.

For apparel retailers, a stronger dollar can help lower sourcing costs because it takes fewer dollars to purchase goods/services expressed in other currencies (all else being equal). Among the currencies that have reacted strongly against the dollar recently is the Chinese RMB (down 5% since April). No apparel goods currently appear on U.S. lists of Chinese goods to be hit with higher tariffs. Although a much larger list (potentially worth \$200 billion) has been threatened by the U.S. that has not yet been released. If that list does include apparel and is eventually implemented, a weaker RMB would mitigate some of the effects of tariffs on apparel sourcing costs from China.

**Employment:** The U.S. economy is estimated to have added 213,000 jobs in June. Revisions to figures for previous months were positive, with the value for April rising from +159,000 to +175,000 and the value for May rising from +223,000 to +244,000. Thus far into the 2018 calendar year job growth has averaged +215,000. Over the same time period last year, job growth averaged +184,000.

The unemployment rate increased from 3.8% to 4.0% month-over-month. With solid job growth in June, the reason the unemployment rate rose was because more people entered the labor force (the unemployment rate is the ratio of the number of people who cannot find a job over the number of people wanting to work or who are in the labor force). Relative to May, over 600,000 more people were estimated to want to work in June. Wages increased 2.7% year-over-year. Recent values have been trending slightly higher, increasing from levels near 2.5% that were common between mid-2015 and mid-2017 to those consistently around 2.7%.

**Consumer Confidence & Spending:** The Conference Board's Index of Consumer Confidence decreased slightly last month, falling from 128.8 to 126.4. However, recent readings have essentially been unchanged, holding to some of the strongest levels on record.

Overall consumer spending was flat month-over-month in May (latest month with data), but 2.3% higher year-over-year. Spending on apparel was up 0.8% month-over-month and up 1.4% year-over-year. Year-to-date, overall spending growth has been slightly weaker than last year (+2.9% Jan-May 2017, +2.5% Jan-May 2018). Apparel spending has been stronger (+1.7% Jan-May 2017, +2.4% Jan-May 2018).

**Consumer Prices & Import Data:** Retail apparel prices moved slightly higher month-over-month in May (latest month with data), and were 2.0% higher year-over-year. Average prices per square meter of cotton-dominant apparel were unchanged month-over-month in May (seasonally-adjusted), but were 2.5% higher year-over-year.

## 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  
July 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%	2.5%	2.0%	3.2%	2.9%	2.0%	% Chg. Quarter/Quarter	Department of Commerce

Monthly Series with Latest Data for June	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
ISM Index of Manufacturing Activity	54.4	54.3	59.1	58.4	57.3	58.7	60.2	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.3	56.5	58.3	58.1	56.8	58.6	59.1	Index	Institute for Supply Management
Consumer Confidence	100.7	110.1	126.5	127.1	125.6	128.8	126.4	Index	The Conference Board
Change in Non-Farm Payrolls	209.6	198.7	208.2	191.3	175	244	213	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.3%	4.6%	4.0%	3.9%	3.9%	3.8%	4.0%	Rate	Bureau of Labor Statistics

Monthly Series with Latest Data for June	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
US Interest Rates									
Federal Funds	0.5%	0.7%	1.5%	1.6%	1.7%	1.7%	1.8%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.2%	2.8%	2.9%	2.9%	3.0%	2.9%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	99.2	102.4	108.5	109.2	108.9	109.3	109.5	Index	The Conference Board
Housing Starts	11.2	12.0	13.0	13.2	1.3	1.3	1.4	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.5	5.5	5.6	5.5	5.4	Annual pace, millions of units	National Association of Realtors

## Industrial and Textile Data

Monthly Series with Latest Data for May	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
US Industrial Production	103.8	103.5	106.4	107.0	106.4	107.4	107.3	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	97.8	97.1	98.9	100.1	98.2	97.9	98.2	Index, December 2003=100	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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	3.1	3.2	3.2	3.2	3.0	3.3	million 480lb bales	USDA ERS

Monthly Series with Latest Data for May	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
US Textile Mill Inventory/Shipments Ratio	1.27	1.30	1.30	1.29	1.30	1.29	1.28	Ratio	Department of Commerce

## Retail Data

Monthly Series with Latest Data for May	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
US Real Consumer Spending									
All Goods and Services	2.8%	2.8%	2.6%	2.4%	2.4%	2.6%	2.3%	% Chg. Year/Year	Department of Commerce
Clothing and Shoes	2.8%	2.4%	2.6%	2.0%	3.3%	1.3%	1.3%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.4%	1.5%	2.3%	2.5%	2.4%	2.4%	2.7%	% Chg Year/Year	Bureau of Labor Statistics
Apparel	-0.3%	-0.3%	0.4%	1.1%	0.1%	1.1%	2.0%	% Chg. Year/Year	Bureau of Labor Statistics

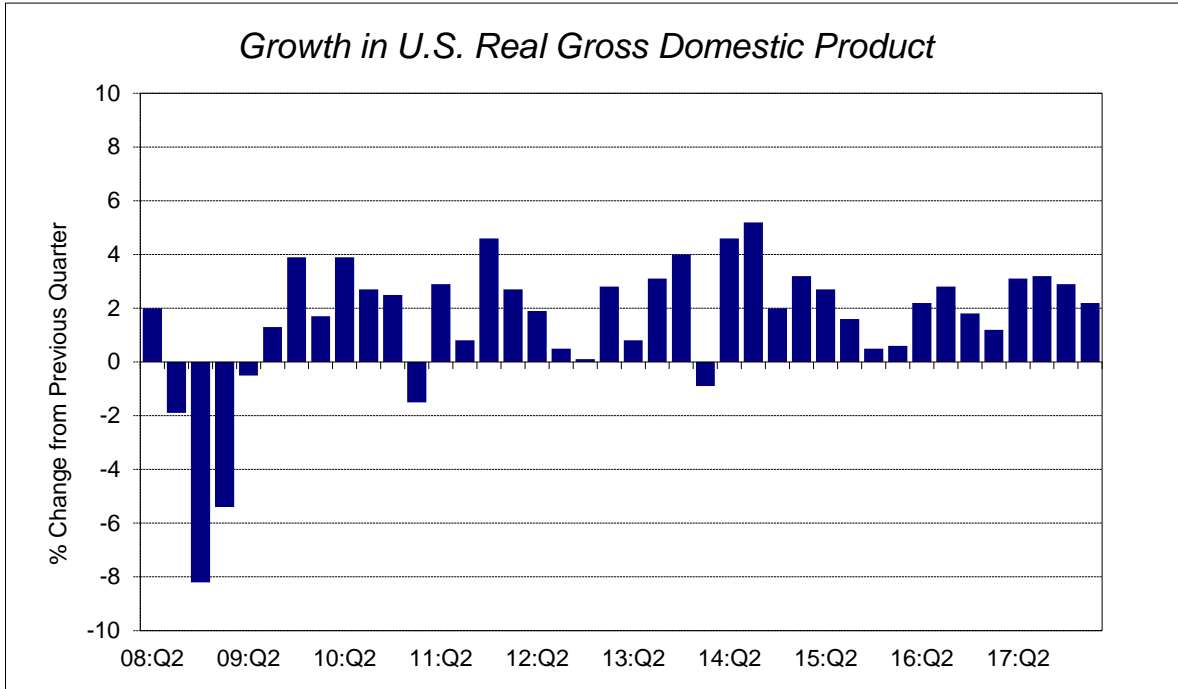
Monthly Series with Latest Data for April	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.4	2.4	2.3	2.4	2.4	2.3	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.0	2.0	2.0	2.0	2.1	Ratio	Department of Commerce

# Executive Cotton Update

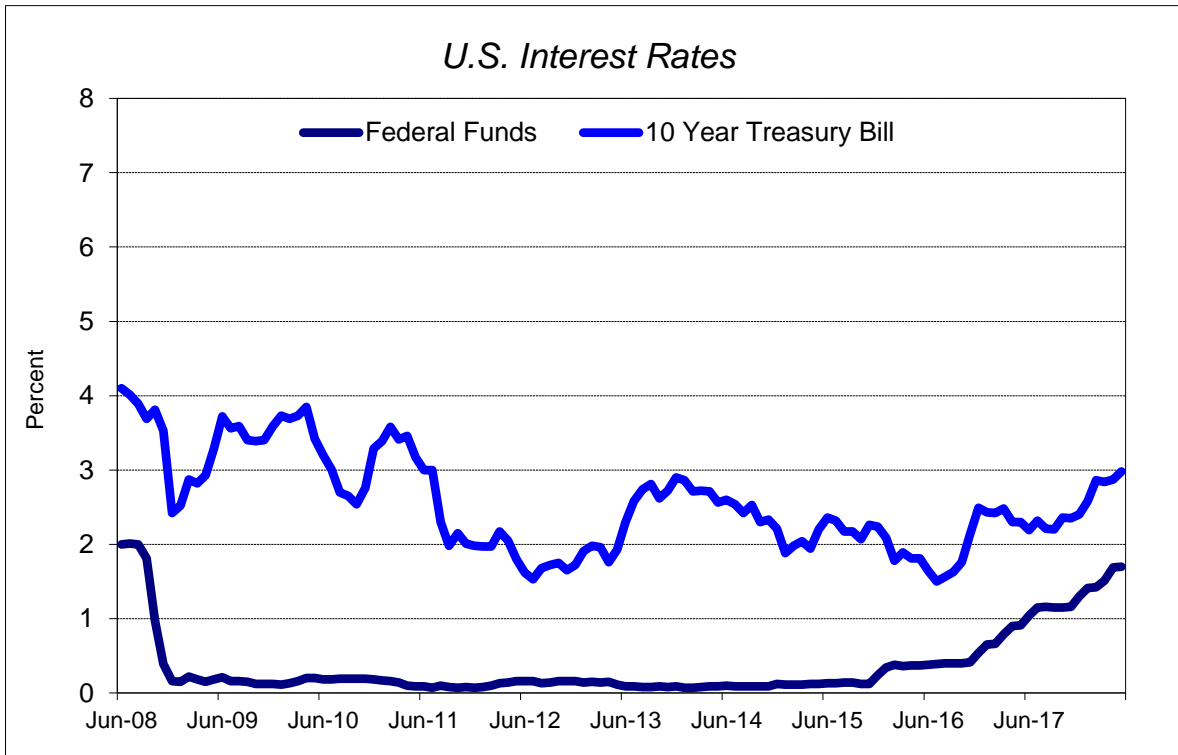
Daily Cotton Price and Currency Data  
July 2018



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
NY Nearby	72.3	70.7	83.3	86.4	83.0	86.9	89.2	cents/pound	ICE
A Index	80.5	79.7	92.6	94.7	92.1	94.3	97.7	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
Dollar Trade Weighted Exchange Index	115.4	121.4	119.2	120.4	117.9	120.6	122.7	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.41	6.58	6.36	6.35	6.30	6.36	6.40	Chinese Renminbi/US dollar	Reuters
Indian Rupee	64.19	65.83	65.27	66.36	65.00	66.89	67.18	Indian Rupee/US dollar	Reuters
Japanese Yen	110.51	112.20	109.26	108.80	107.46	109.13	109.82	Japanese Yen/US dollar	Reuters
Pakistani Rupee	104.59	106.13	113.04	115.57	115.53	115.57	115.60	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.04	3.41	3.39	3.55	3.33	3.53	3.78	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.23	1.31	1.28	1.29	1.28	1.29	1.30	Canadian dollar/US dollar	Reuters
Mexican Peso	16.54	18.43	19.06	19.21	18.09	19.16	20.36	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.69	0.73	0.73	0.73	0.71	0.74	0.75	British Pound/US dollar	Reuters
Euro	0.85	0.89	0.83	0.84	0.82	0.84	0.86	Euro/US dollar	Reuters
Swiss Franc	0.96	0.98	0.97	0.98	0.96	1.00	0.99	Swiss Franc/US dollar	Reuters
Turkish Lira	2.91	3.37	4.04	4.30	4.04	4.25	4.61	Turkish Lira/US dollar	Reuters



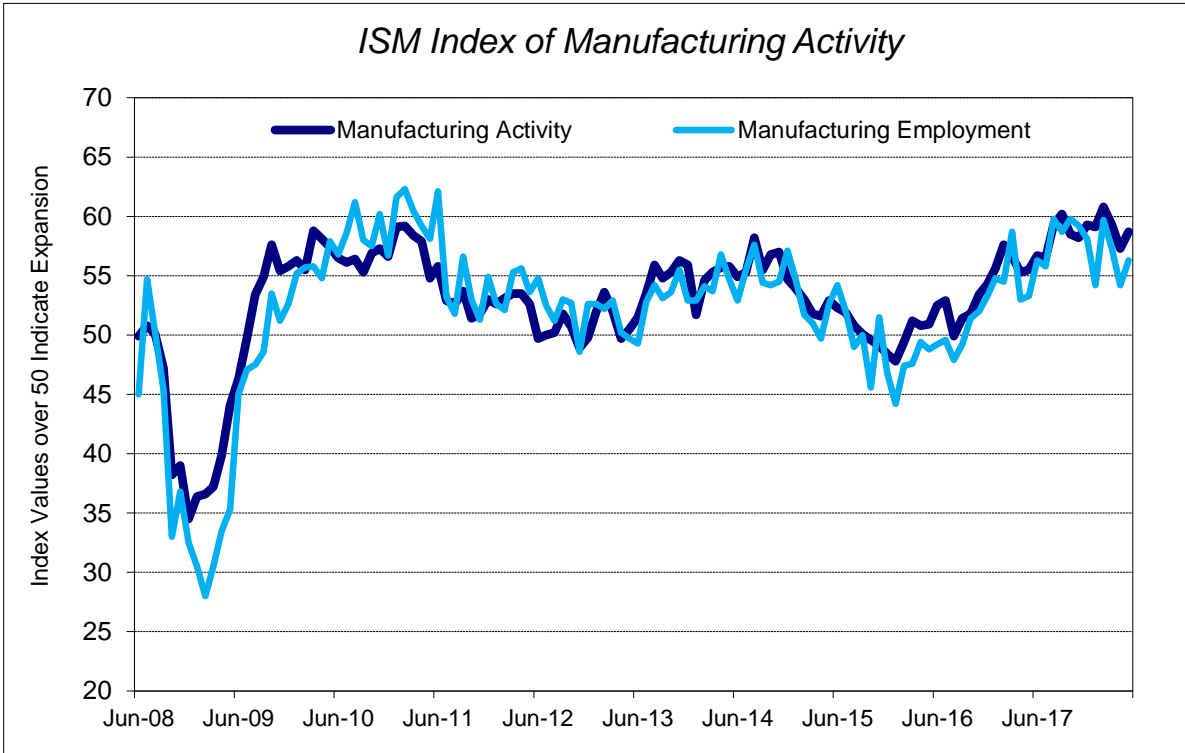
Seasonally Adjusted Annual Rate; Source: Department of Commerce  
 \*Based on chained 2005\$.



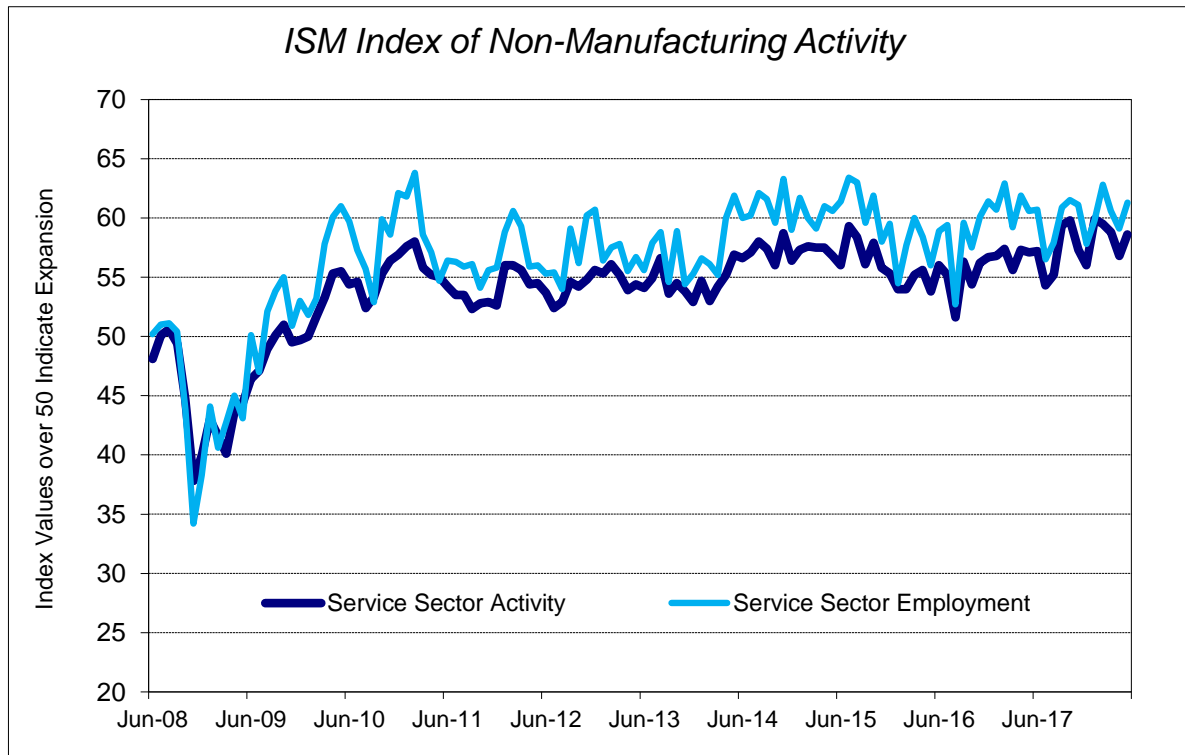
Source: Federal Reserve

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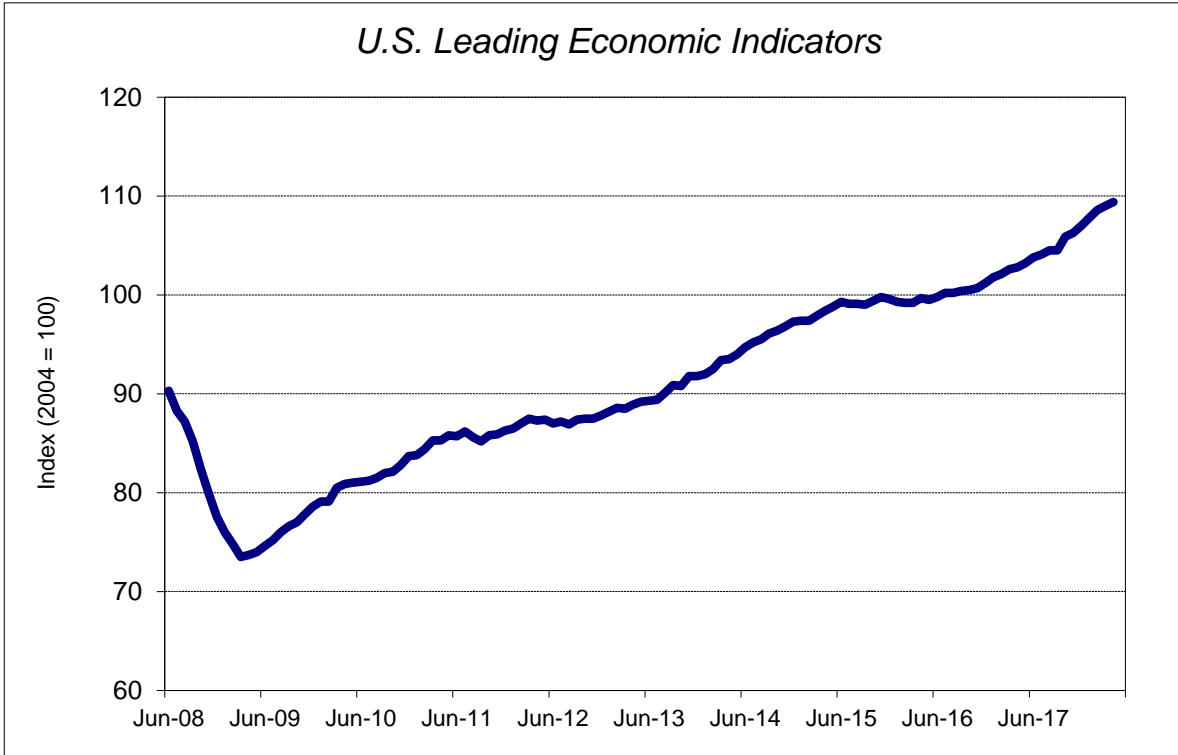
Source: Institute for Supply Chain Management



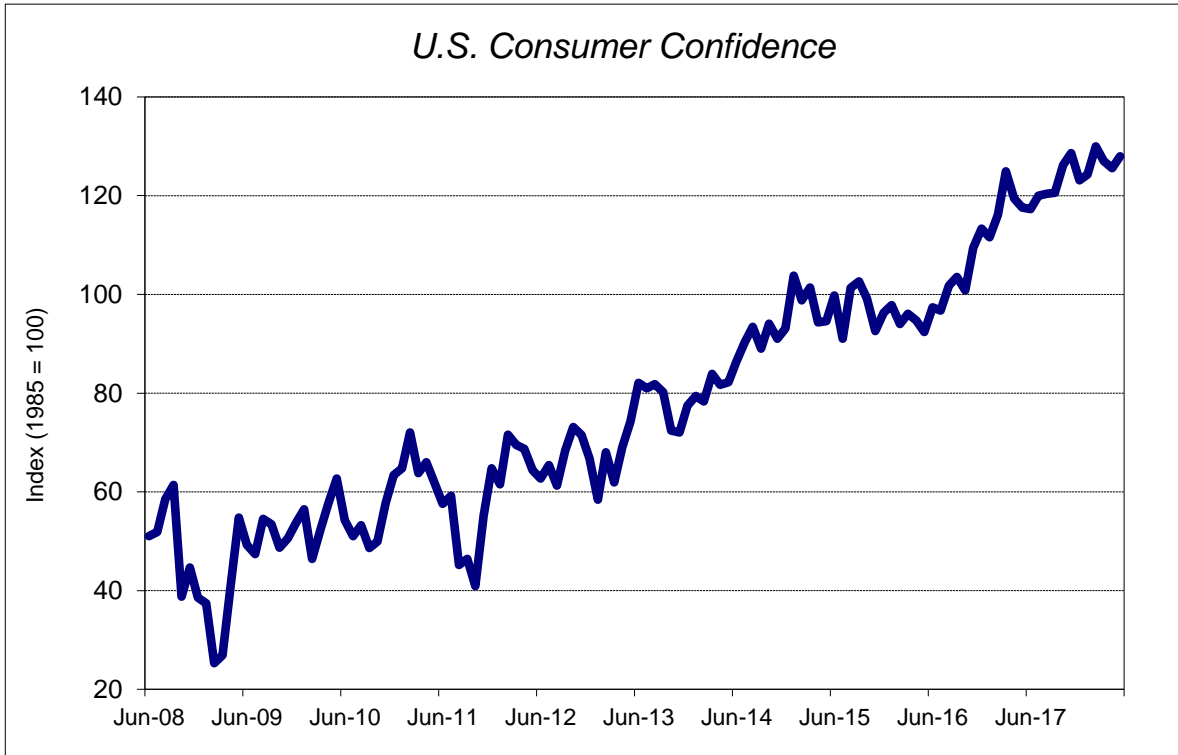
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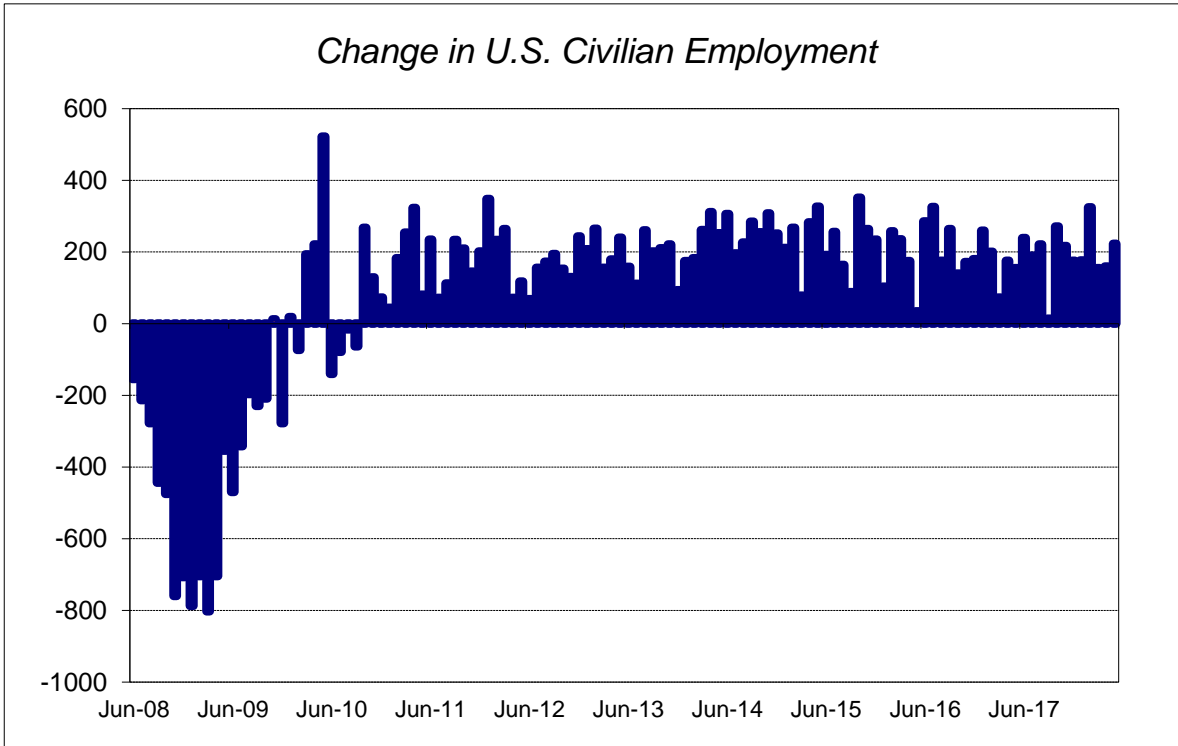
Source: The Conference Board



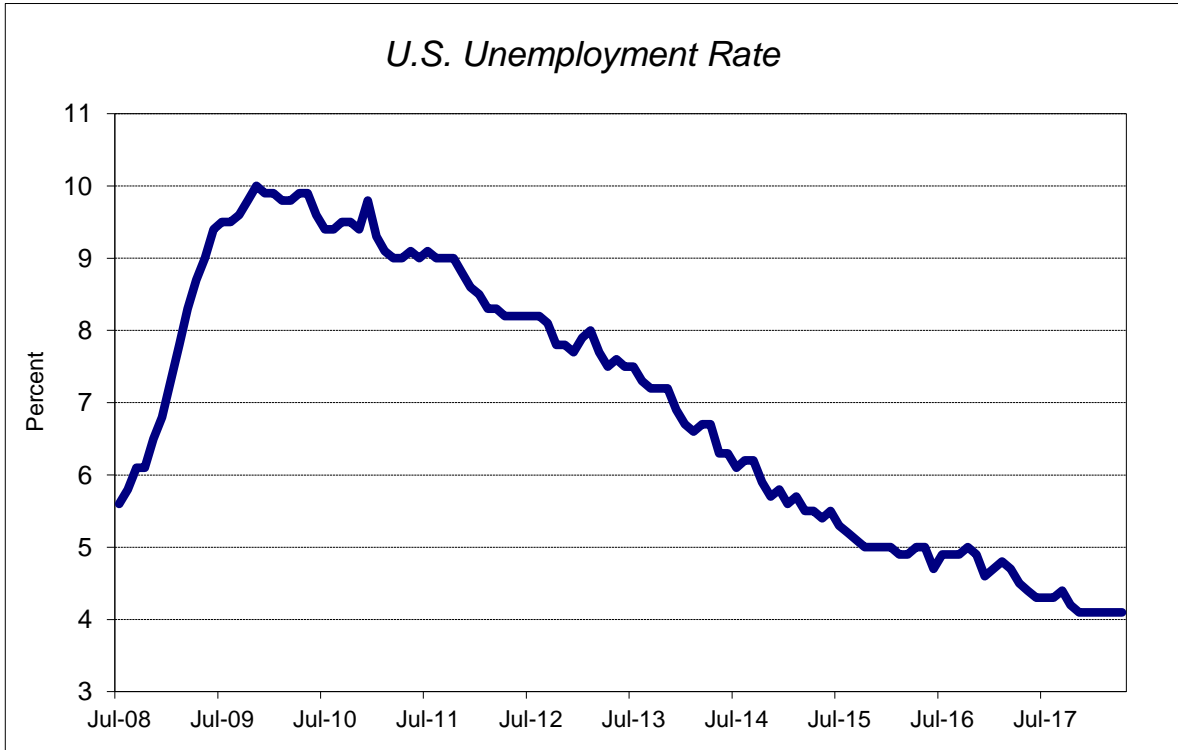
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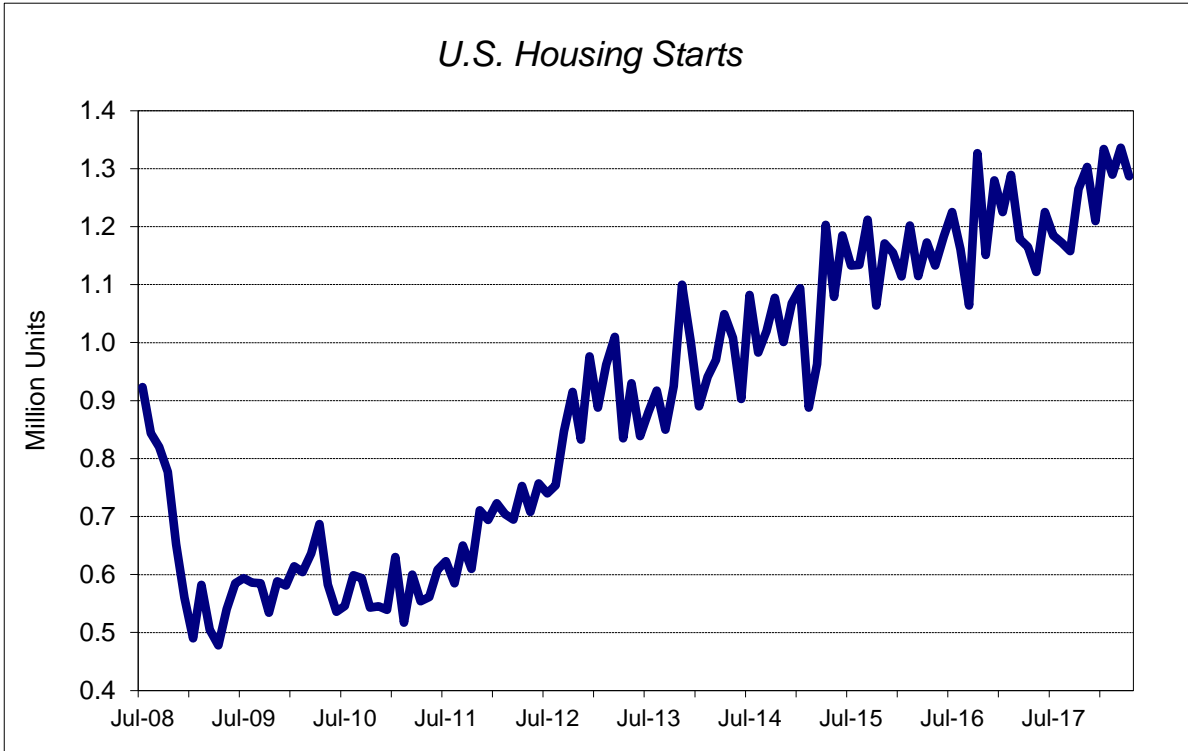
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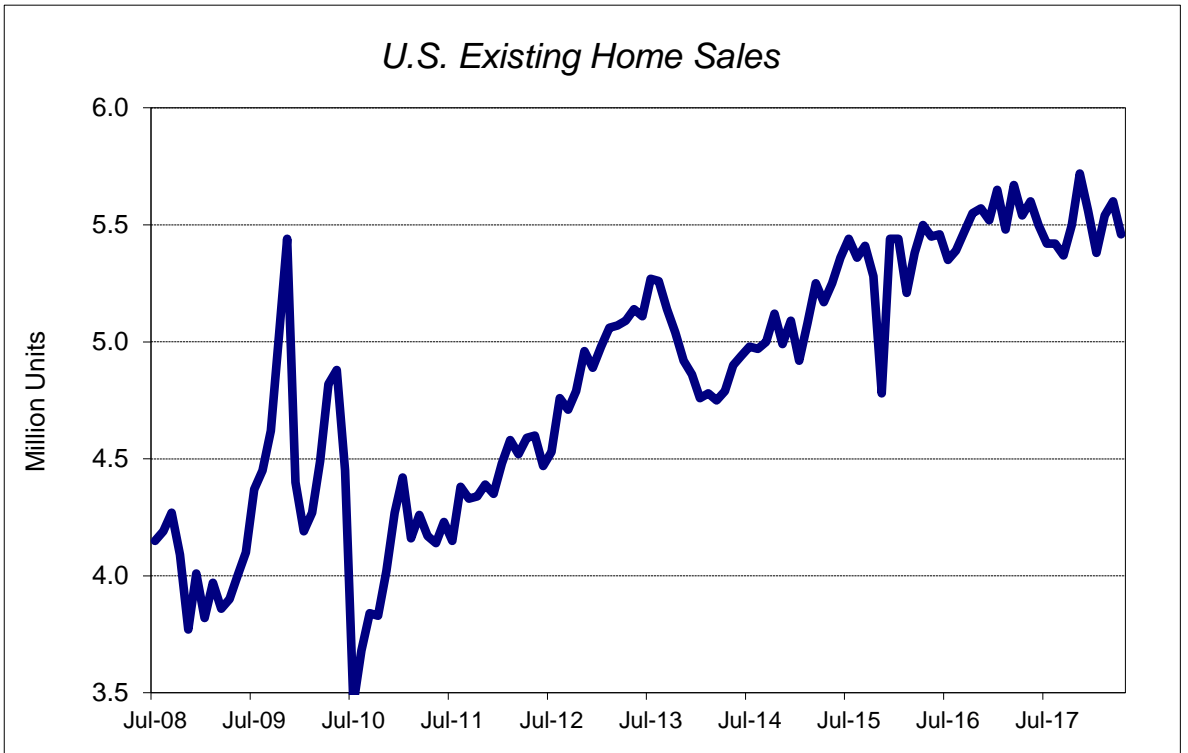
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Seasonally Adjusted Annual Rate; Source: Department of Commerce

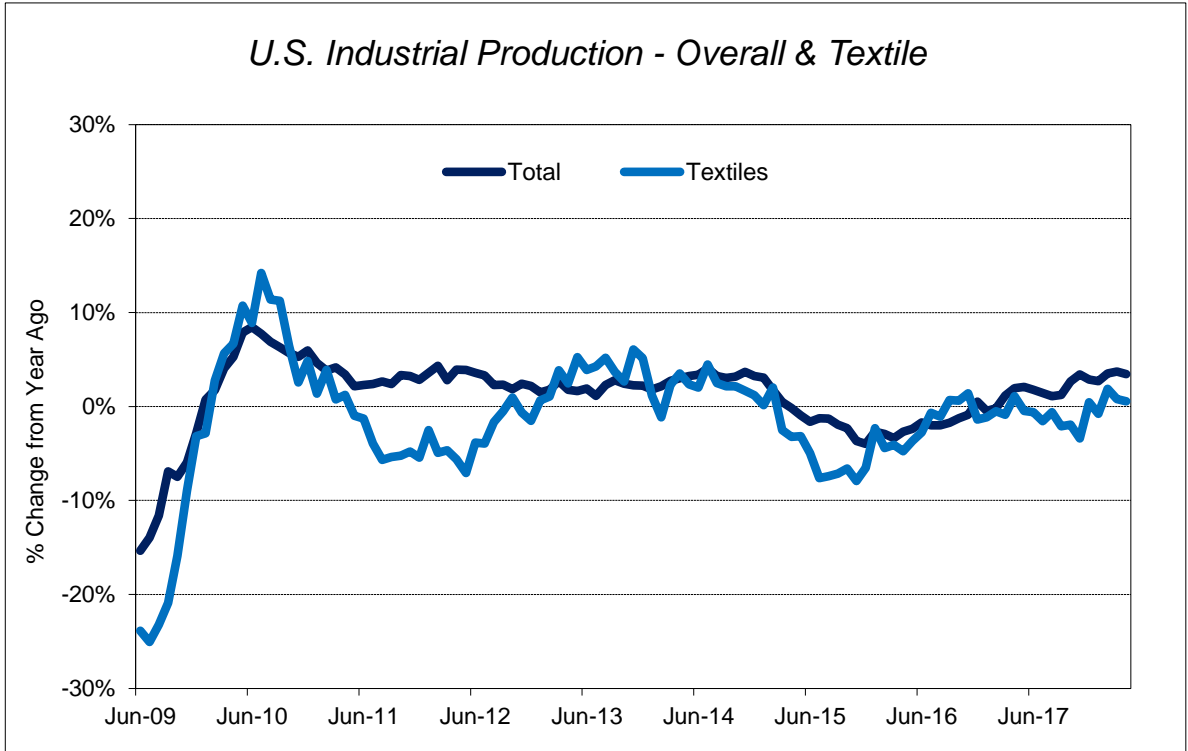


Seasonally Adjusted Annual Rate; Source: National Association of Realtors

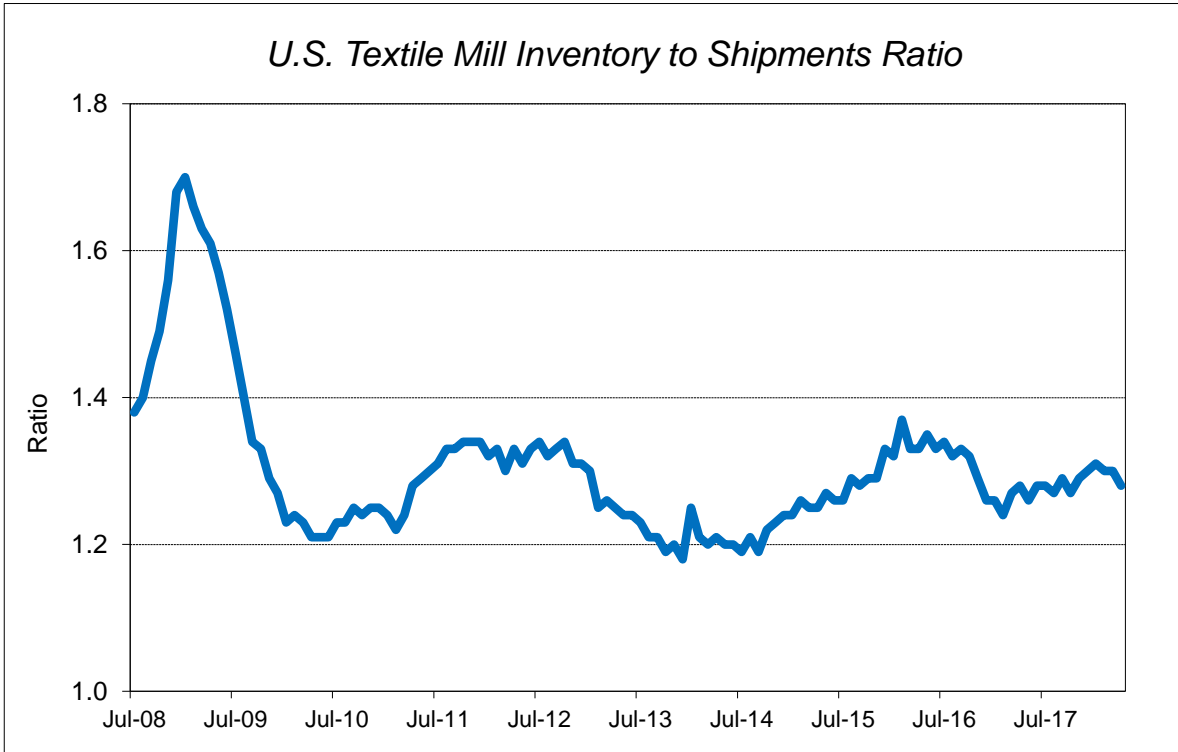
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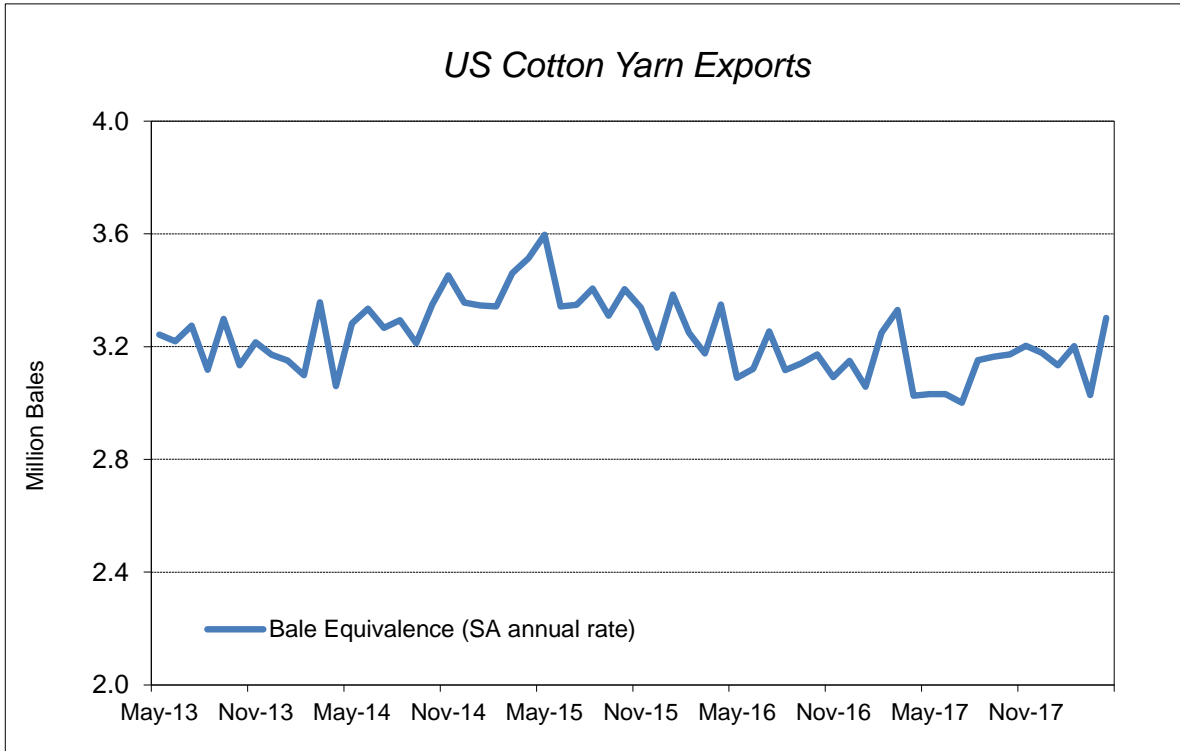
Source: Federal Reserve. Historical data revised to 1997 baseline.



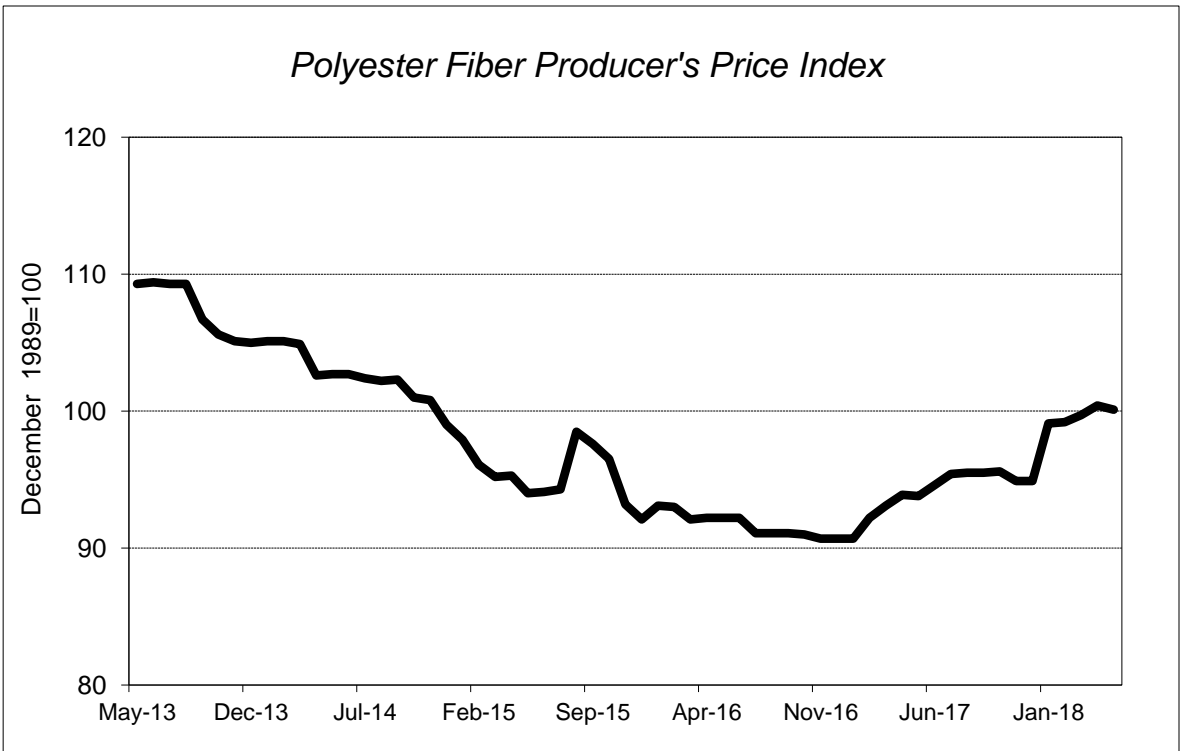
Seasonally Adjusted; Source: Department of Commerce

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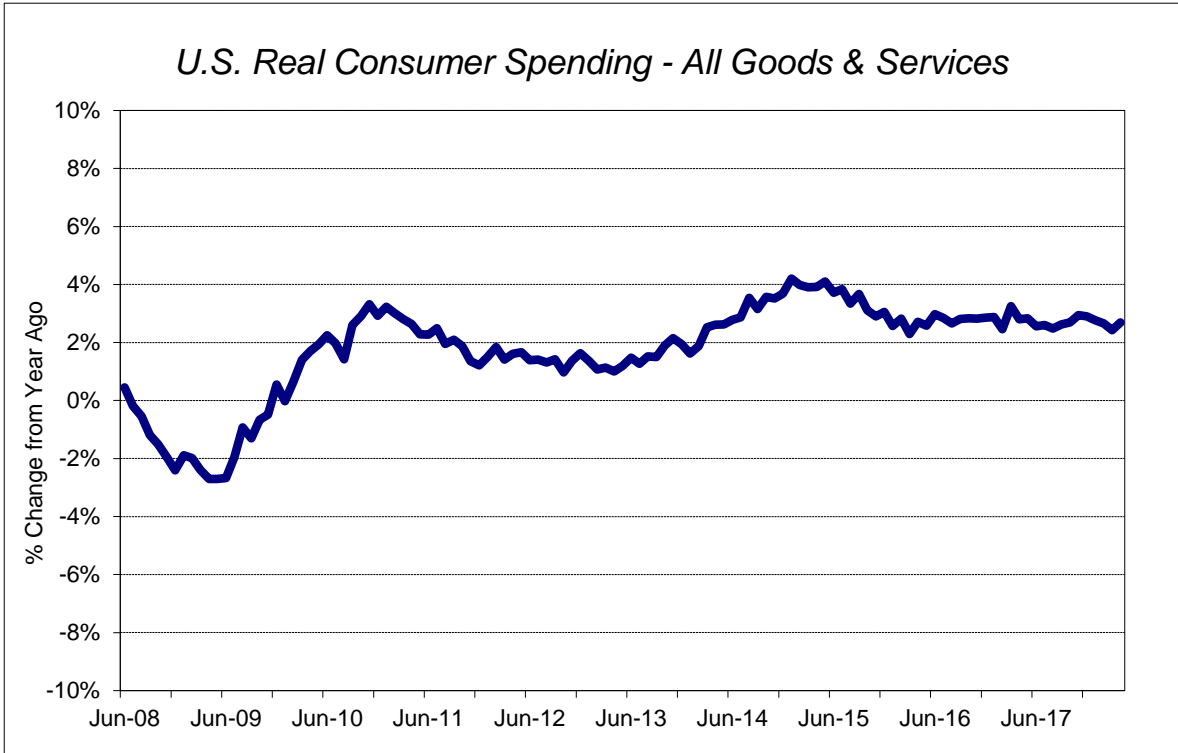
Seasonally Adjusted Annual Rate  
 Source: USDA ERS



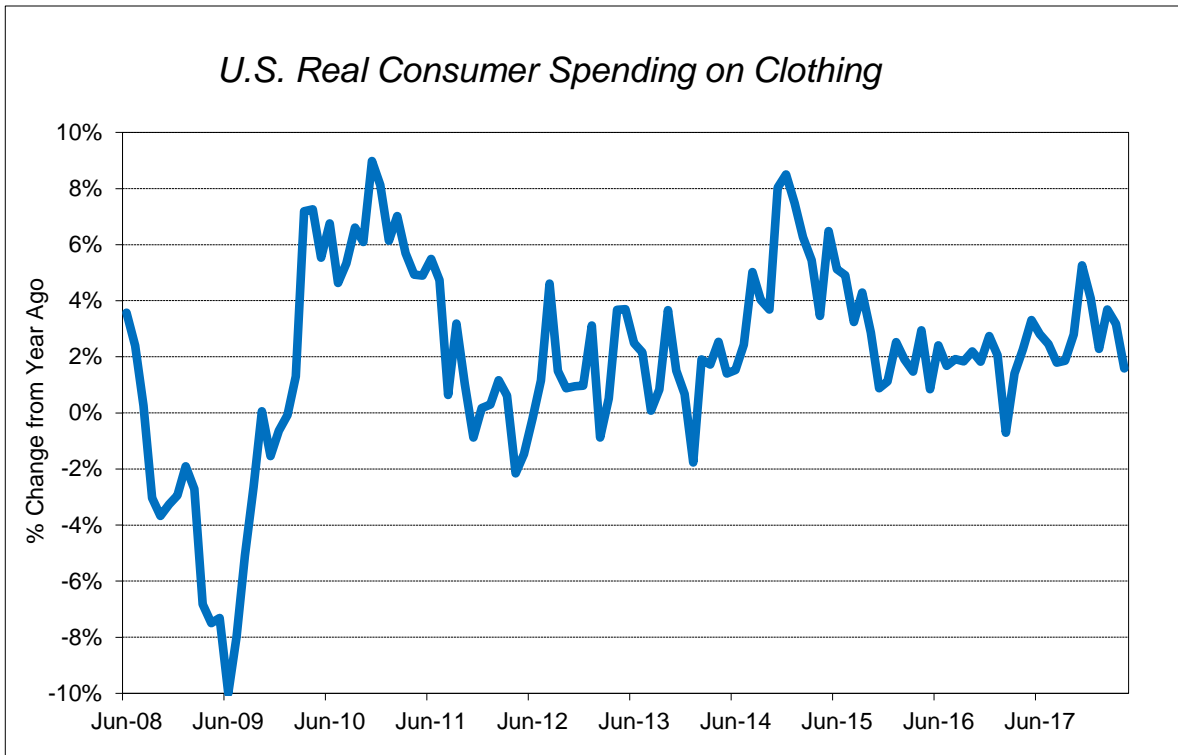
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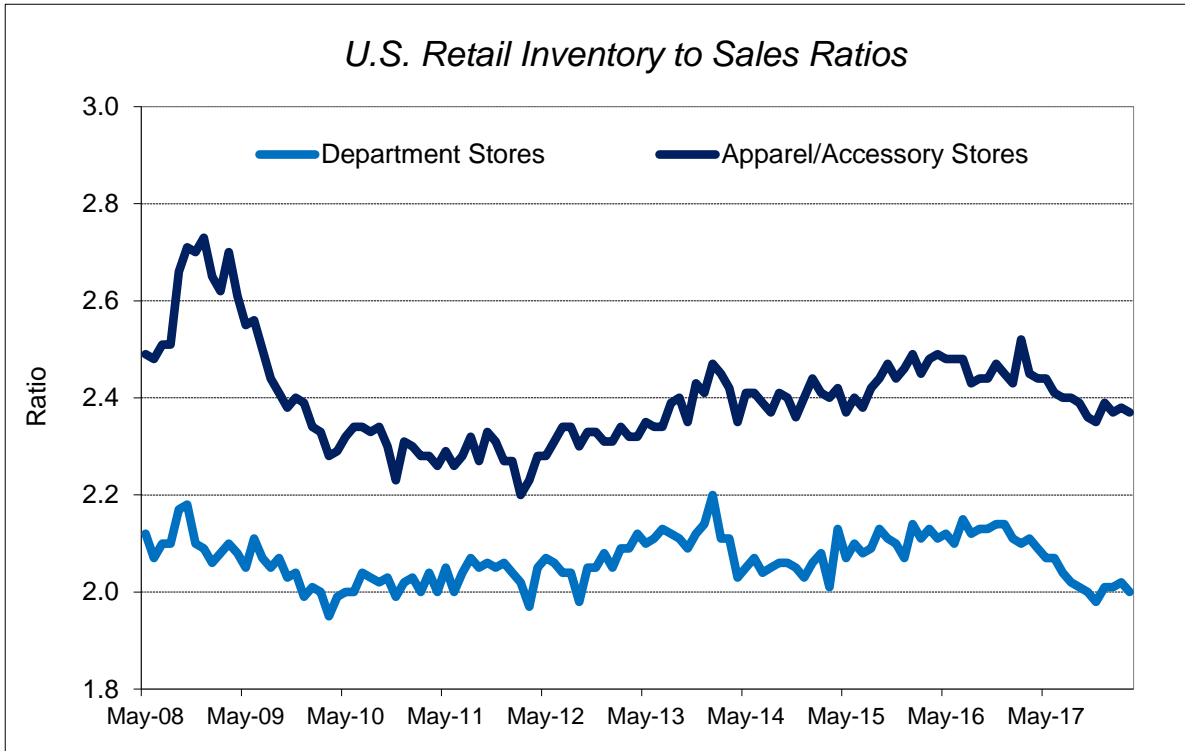
\*Based on chained 2005\$.



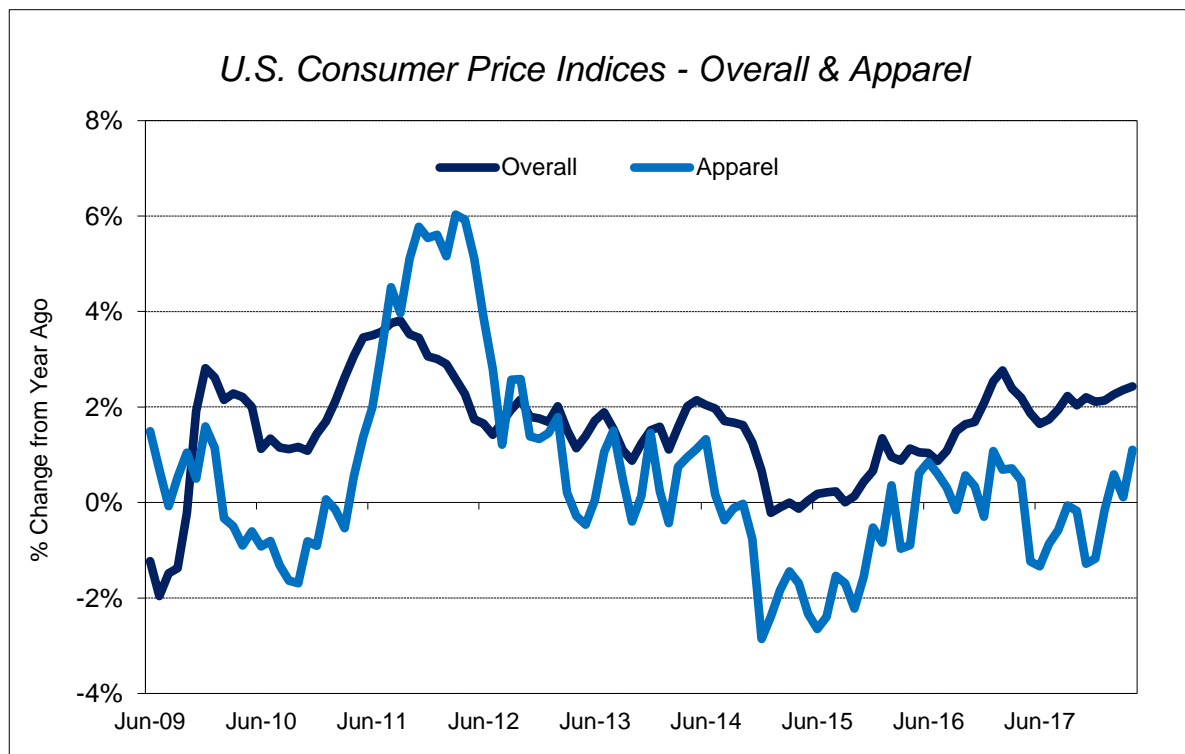
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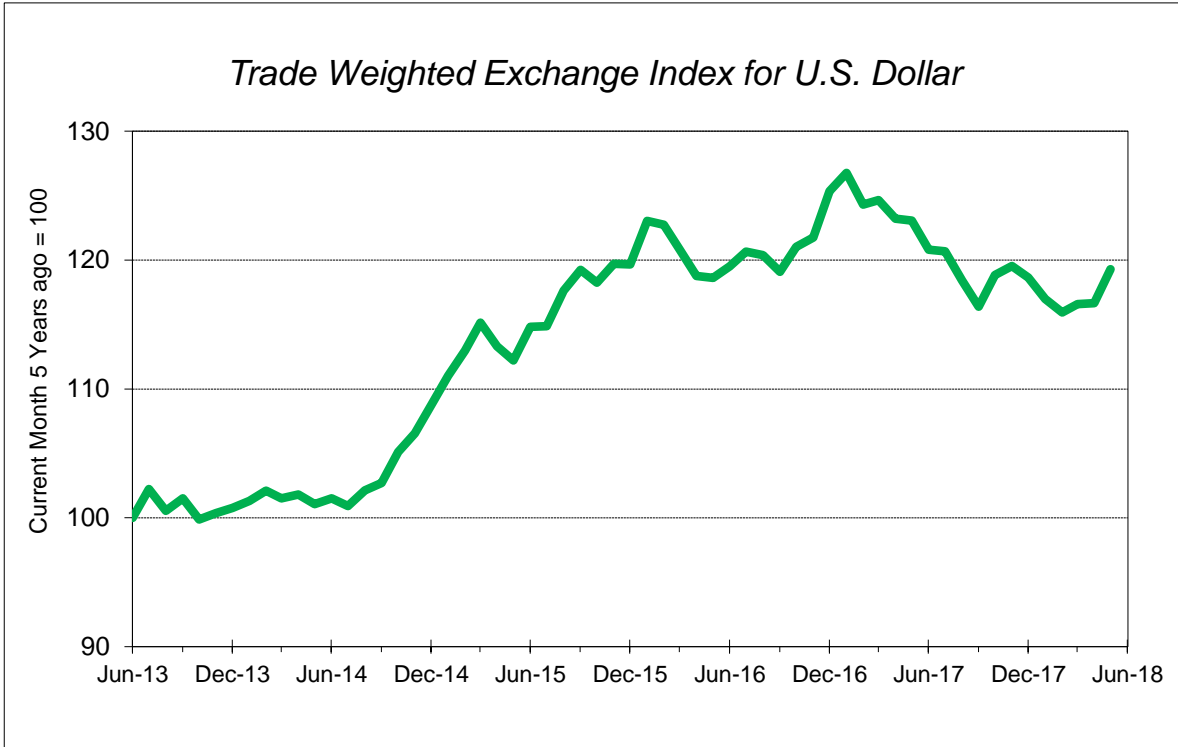
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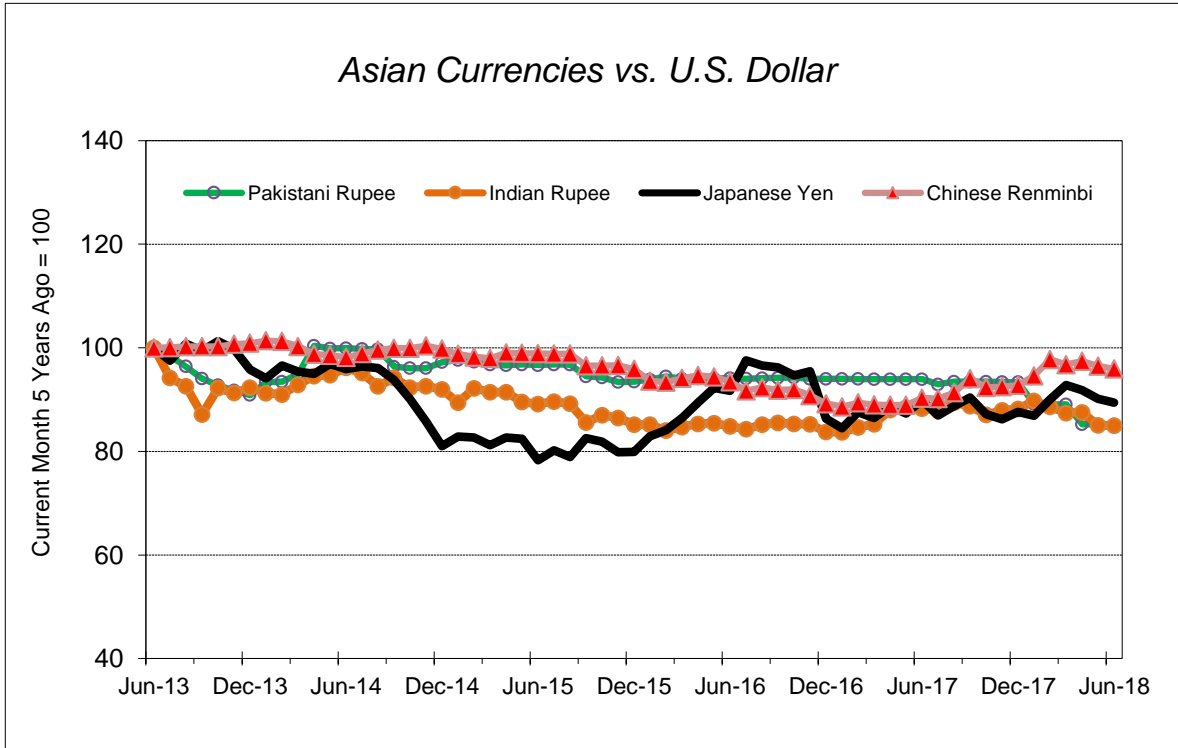
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Source: Federal Reserve

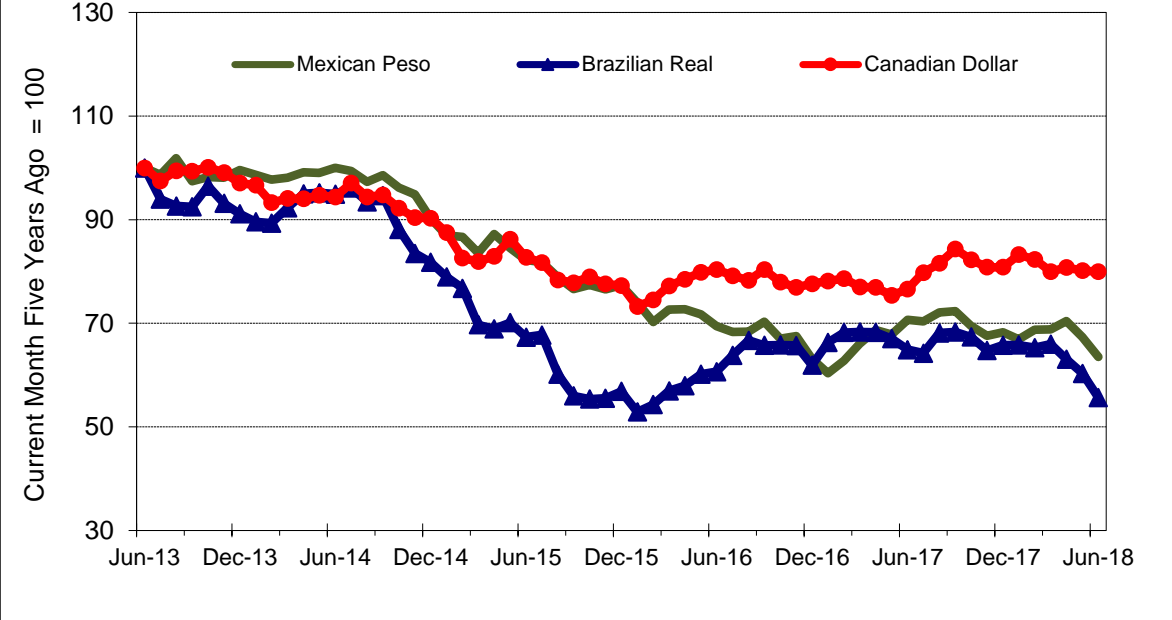


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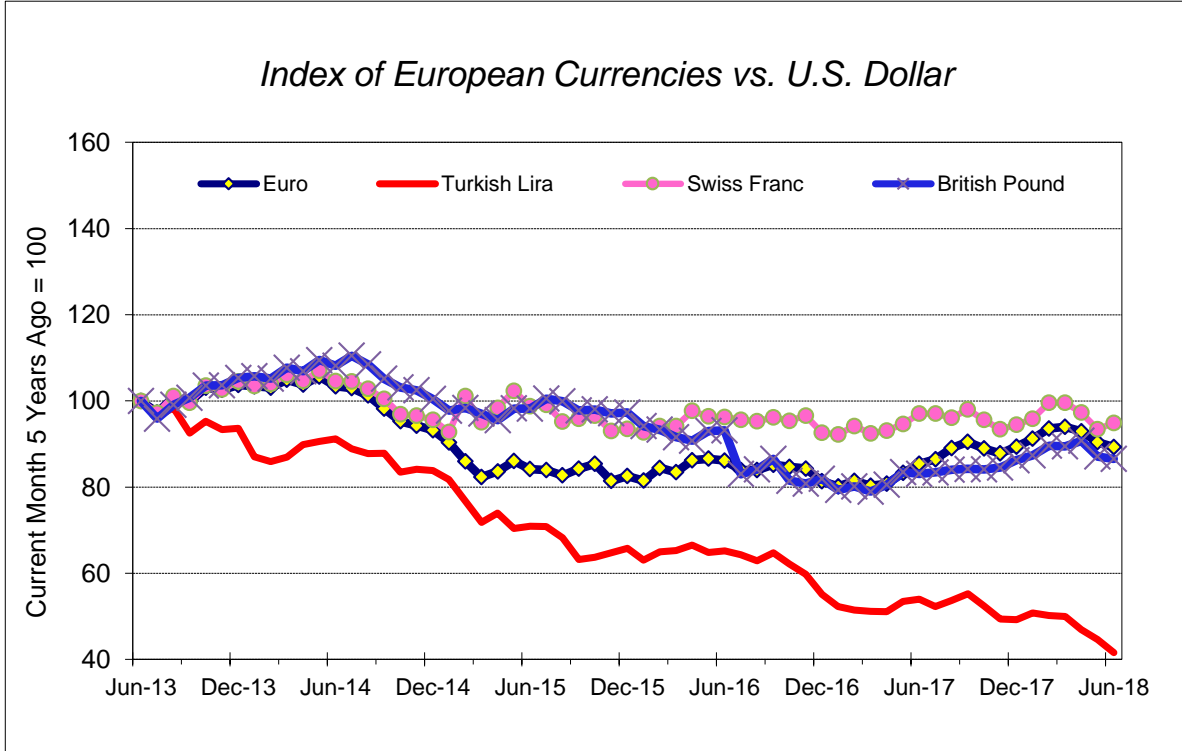


### North & South American Currencies vs. U.S. Dollar



Source: Reuters

### Index of European Currencies vs. U.S. Dollar



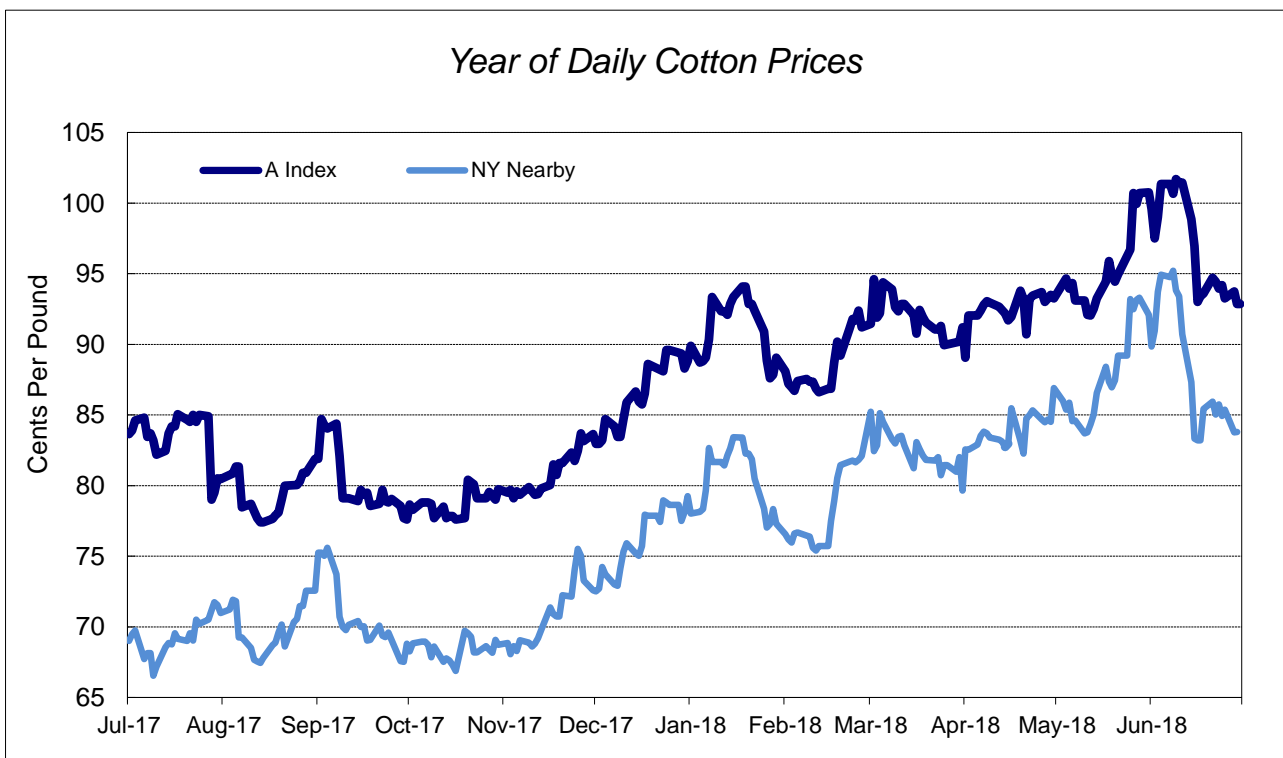
Source: Reuters

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## U.S. Balance Sheet

million 480 lb. bales	2014/15	2015/16	2016/17	2017/18	2018/19	2018/19
					May	June
Beginning Stocks	2.4	3.7	3.8	2.8	4.7	4.2
Production	16.3	12.9	17.2	20.9	19.5	19.5
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	18.7	16.6	21.0	23.7	24.2	23.7
Mill-Use	3.6	3.5	3.3	3.4	3.4	3.4
Exports	11.2	9.2	14.9	16.0	15.5	15.5
Demand	14.8	12.6	18.2	19.4	18.9	18.9
Ending Stocks	3.7	3.8	2.8	4.2	5.2	4.7
Stocks/Use Ratio	24.6%	30.2%	15.1%	21.7%	27.5%	24.9%



Sources: ICE Futures U.S. & Cotton Outlook

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