

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



February 2019

www.cottoninc.com

Macroeconomic Overview: The International Monetary Fund (IMF) publishes comprehensive revisions to forecasts in April and October. In January and July, updates are made. Last month's update left the estimate for global GDP growth in 2018 unchanged at 3.7%. Projections for 2019 and 2020 were lowered (from 3.7% in 2019 to 3.5%, and from 3.7% in 2020 to 3.6%).

The downward revisions to 2019 and 2020 projections followed decreases already made in October. Reasons cited for the latest reductions include effects from the U.S.-China trade dispute, a slowdown in Germany, debt-related concerns in Italy, and a deeper than previously believed contraction in the Turkish economy. The IMF emphasized that risks are weighted toward the downside. Key risks include further escalation of trade tensions, tightening financial conditions, the possibility of a "no-deal" exit of the United Kingdom from the European Union, and a deeper than currently believed slowdown in China.

The Chinese government released full-year estimates for GDP growth last month. These data indicated that Chinese economic growth in 2018 (6.6%) was the weakest annual figure since 1990. The Chinese government also lowered their estimate for economic growth in 2017 (from 6.9% to 6.8%). The trade dispute with the U.S. has not been helpful, but challenges to the Chinese economy extend beyond exports. A government crackdown on lending through the informal sectors is thought to have restricted access to credit from the "shadow banking" system and constrained borrowing/investment by private firms.

In the U.S., the labor market continues to signal strength, with strong job growth and accelerating wage increases. However, other indicators have been flashing warning signs. Examples include slower manufacturing growth and weaker home sales. Concern about the future has manifested itself through volatility in financial markets and has caught the attention of the Federal Reserve. After four interest rate increases in 2018, the Federal Reserve chairman indicated in late January that limited inflation risk and a slower growth outlook has led the central bank to adopt a patient approach when considering the possibility of future rate increases. In addition, the Federal Reserve also suggested it may slow the process of unwinding holdings accumulated as part of the quantitative easing program that followed the financial crisis.

Another factor affecting U.S. growth recently was the partial government shutdown that began on December 22nd and ended January 25th (longest in history). With the release of many economic indicators postponed due to the shutdown, the task of quantifying its costs is challenging. The nonpartisan Congressional Budget Office estimates the annual rate of GDP growth in the first quarter will be 0.4 points lower than it would have been without the shutdown.

Employment: The U.S. economy is estimated to have added 304,000 jobs in January. This represents the 100th consecutive monthly increase, marking the longest continual stretch of job growth on record. This also represents the strongest monthly gain since February of last year. Revisions to existing estimates were mixed. The figure for November was increased from +176,000 to +196,000 and the figure for December was lowered from +312,000 to +222,000. Following these revisions, the average monthly increase over the past 12 months is 234,000. Over the same time period one year ago, the average increase was 173,000.

Despite the acceleration in hiring, the unemployment rate increased for the second straight month, rising from 3.9% to 4.0%. The unemployment rate is the ratio of the number of people without jobs over the number of people wanting jobs (labor force). After trending gently lower for the past two decades, the size of the labor force relative to the overall population (known as the labor force participation rate) has trended gently lower (from levels near 67% to those near 62%). Since the summer, that trend in the labor force participation rate has reversed itself. Although the recent reversal is a blip relative to the long-term trend, it does represent a notable addition to the number of potential workers in the U.S. economy. Since August alone, it is estimated that 1.4 million more Americans are looking for work. When an economy has more workers, it allows for greater economic growth.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence decreased for the third straight month in January. The current level of 120.2 is the lowest since July 2017. However, even with the declines, the current level is also well-above the long-term average near 100.

Due to the government shutdown, the release of consumer spending data has been delayed and it is not clear when those figures might become available.

Consumer Prices & Import Data: Retail apparel prices, as measured by the consumer price index (CPI) for garments was virtually unchanged month-over-month (+0.03%) and year-over-year (+0.02%) in December (latest available data). Trade data have not been updated since the shutdown.

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
February 2019



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q1 : 2018	Q2 : 2018	Q3 : 2018		
Growth in US Real GDP	2.5%	2.3%	3.8%	3.4%	2.2%	4.2%	3.4%	% Chg. Quarter/Quarter	Department of Commerce

Monthly Series with Latest Data for January

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	January		
ISM Index of Manufacturing Activity	54.8	55.8	58.2	56.9	58.8	54.3	56.6	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.8	56.9	59.1	59.5	60.4	58.0	56.7	Index	Institute for Supply Management
Consumer Confidence	107.1	116.8	133.1	133.6	136.4	126.6	120.2	Index	The Conference Board
Change in Non-Farm Payrolls	214.7	198.5	210.5	231.7	196	222	304	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.9%	4.4%	3.8%	3.8%	3.7%	3.9%	4.0%	Rate	Bureau of Labor Statistics

Monthly Series with Latest Data for January

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	January		
US Interest Rates									
Federal Funds	0.7%	1.1%	2.1%	2.2%	2.2%	2.3%	2.4%	Interest rate	Federal Reserve
10-year Treasury Bill	2.4%	2.4%	3.0%	3.0%	3.1%	2.8%	2.7%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	101.6	104.8	111.5	111.7	111.9	111.6	111.8	Index	The Conference Board
Housing Starts	11.5	12.1	12.3	12.4	1.3	1.2	1.2	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.5	5.3	5.2	5.3	5.2	5.2	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

Monthly Series with Latest Data for December

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	December		
US Industrial Production	104.6	104.5	109.0	109.6	109.1	109.6	109.9	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	107.2	107.4	106.1	105.1	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Monthly Series with Latest Data for October

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	October		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	3.1	3.0	3.0	3.0	2.9	3.0	million 480lb bales	USDA ERS

Monthly Series with Latest Data for November

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	September	October	November		
US Textile Mill Inventory/Shipments Ratio	1.27	1.30	1.30	1.32	1.28	1.29	1.33	Ratio	Department of Commerce

Retail Data

Monthly Series with Latest Data for November

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	September	October	November		
US Real Consumer Spending									
All Goods and Services	2.9%	2.7%	2.9%	2.8%	2.7%	3.0%	2.8%	% Chg. Year/Year	Department of Commerce
Clothing and Shoes	2.8%	2.7%	4.8%	4.6%	4.8%	5.0%	4.1%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.5%	1.9%	2.4%	2.2%	2.5%	2.2%	1.9%	% Chg Year/Year	Bureau of Labor Statistics
Apparel	-0.4%	0.0%	-0.5%	-0.2%	-0.2%	-0.3%	0.0%	% Chg. Year/Year	Bureau of Labor Statistics

Monthly Series with Latest Data for October

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	October		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.4	2.2	2.2	2.2	2.2	2.2	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.0	2.1	2.1	2.0	2.0	Ratio	Department of Commerce

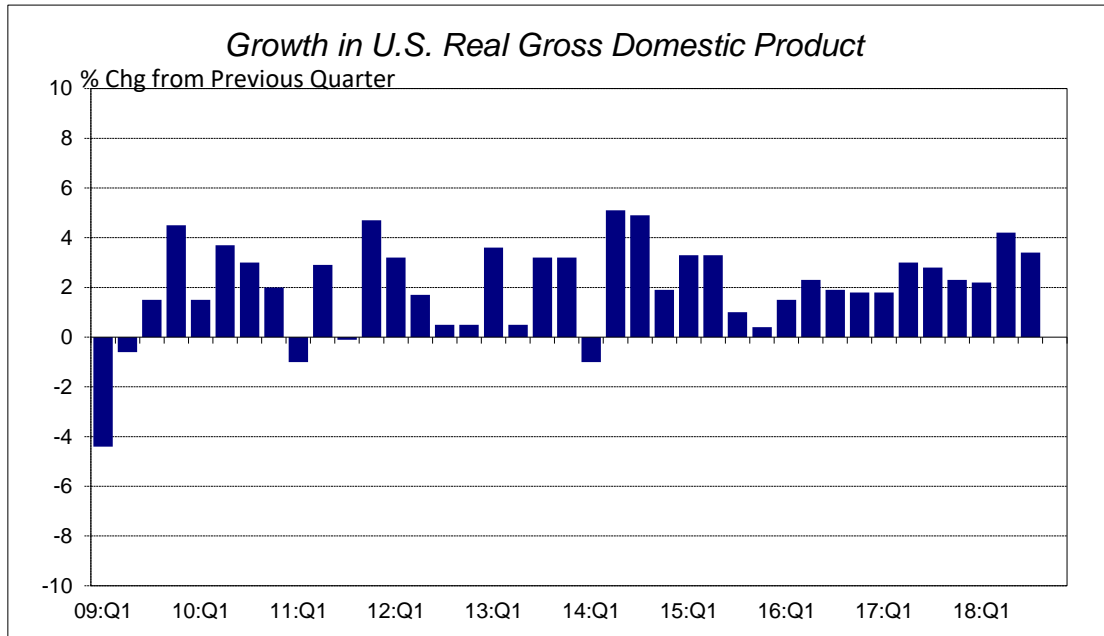
Executive Cotton Update

Daily Cotton Price and Currency Data
February 2019

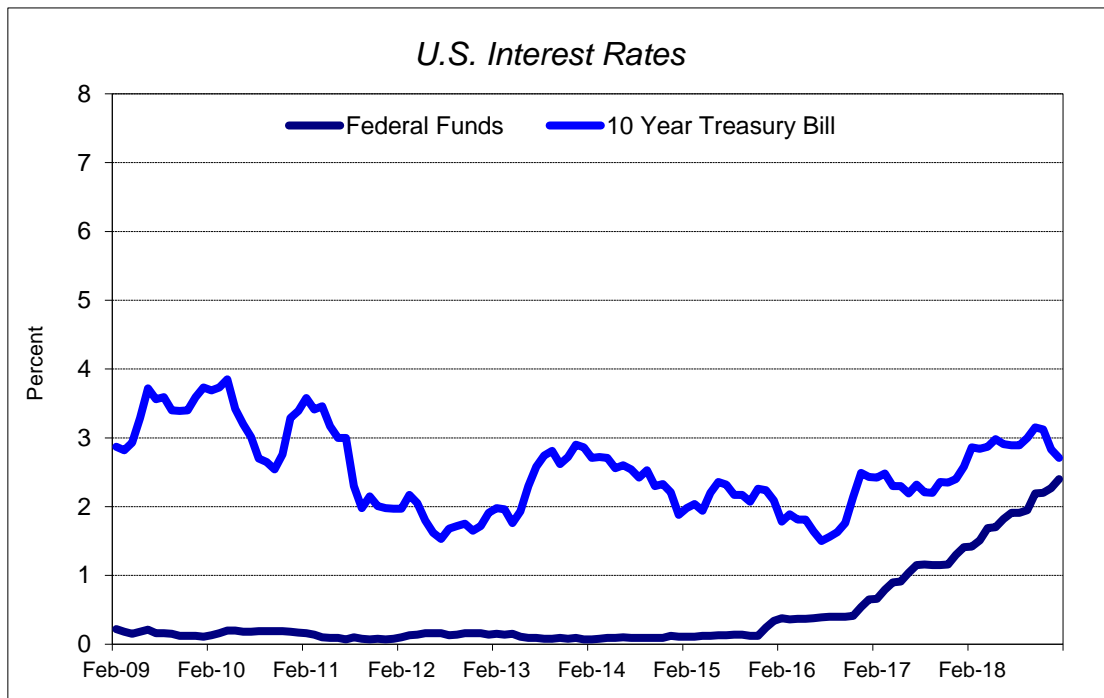


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	January		
NY Nearby	72.1	73.6	79.6	76.2	77.4	76.9	73.1	cents/pound	ICE
A Index	80.6	83.0	88.9	85.4	86.8	85.6	82.3	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	January		
Dollar Trade Weighted Exchange Index	118.1	122.6	126.8	127.7	127.7	128.1	127.3	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.50	6.67	6.86	6.87	6.89	6.84	6.86	Chinese Renminbi/US dollar	Reuters
Indian Rupee	65.22	66.87	71.12	70.93	72.50	70.54	69.74	Indian Rupee/US dollar	Reuters
Japanese Yen	111.74	110.26	111.74	111.42	113.11	113.01	108.13	Japanese Yen/US dollar	Reuters
Pakistani Rupee	107.34	110.88	130.15	136.23	132.13	137.65	138.90	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.22	3.43	3.84	3.75	3.70	3.83	3.72	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.26	1.30	1.31	1.32	1.31	1.32	1.34	Canadian dollar/US dollar	Reuters
Mexican Peso	17.27	18.98	19.51	20.01	20.05	20.51	19.47	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.71	0.76	0.78	0.78	0.77	0.79	0.79	British Pound/US dollar	Reuters
Euro	0.86	0.88	0.87	0.88	0.88	0.88	0.88	Euro/US dollar	Reuters
Swiss Franc	0.97	0.98	0.99	1.00	1.00	1.00	0.99	Swiss Franc/US dollar	Reuters
Turkish Lira	3.32	3.88	5.69	5.39	5.42	5.39	5.35	Turkish Lira/US dollar	Reuters



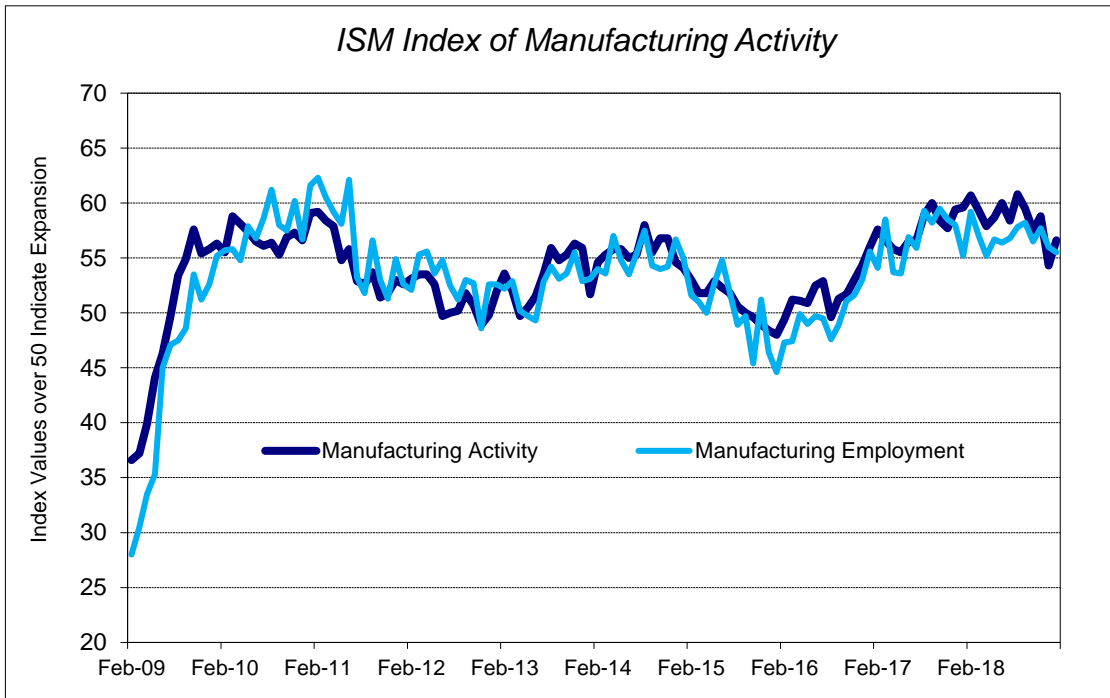
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



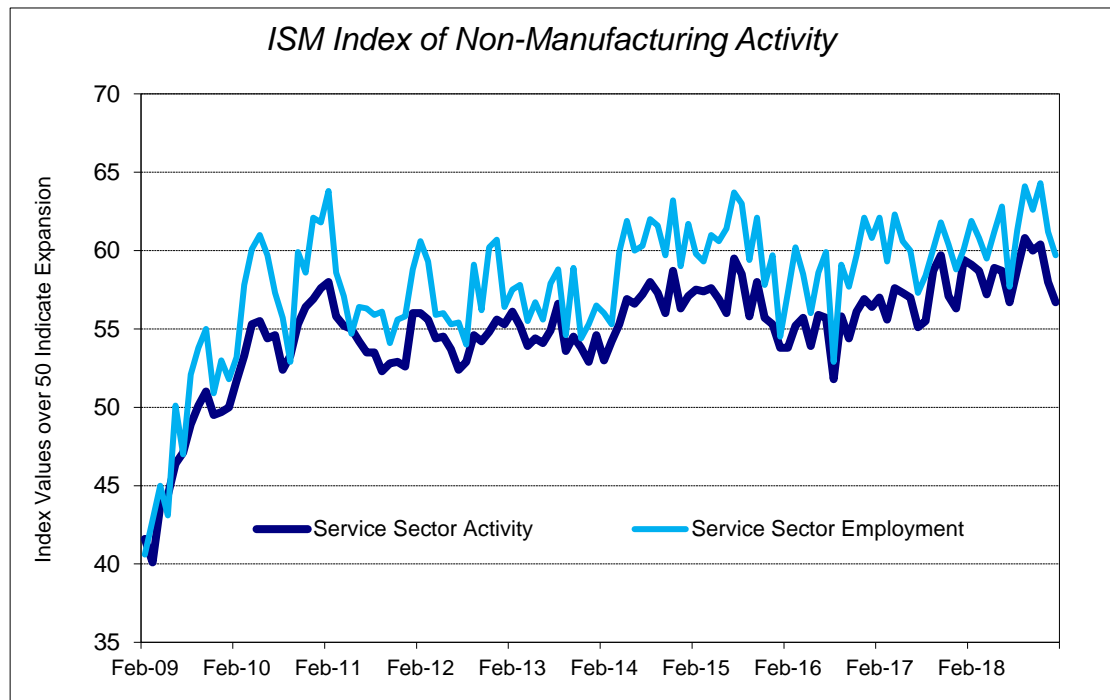
Source: Federal Reserve

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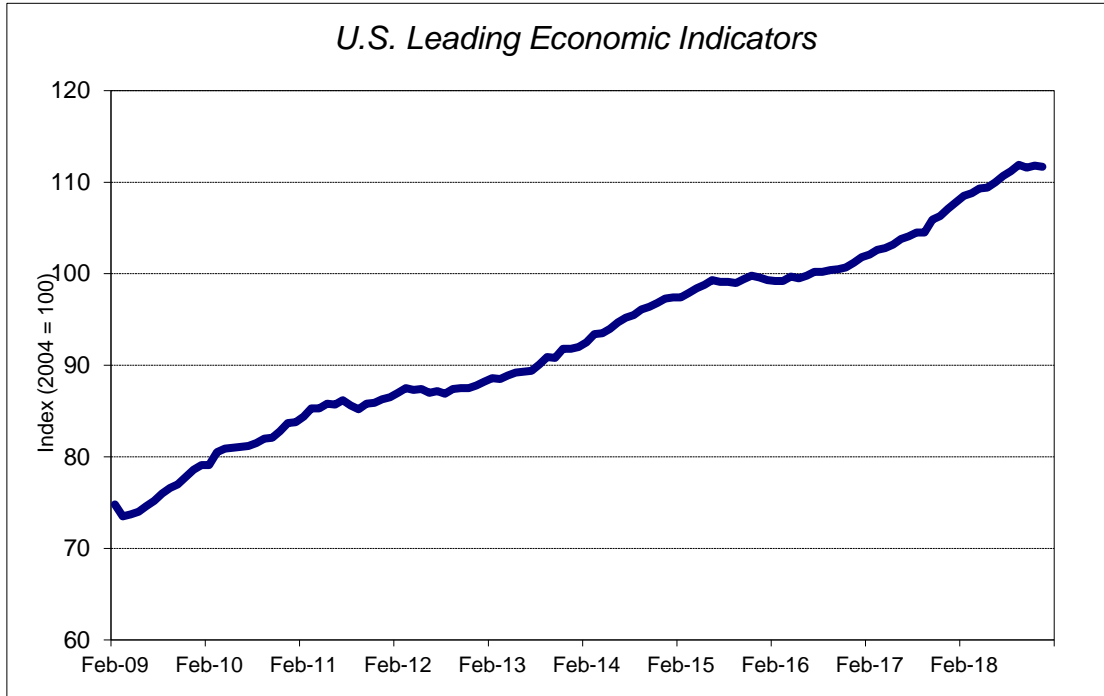
Source: Institute for Supply Chain Management



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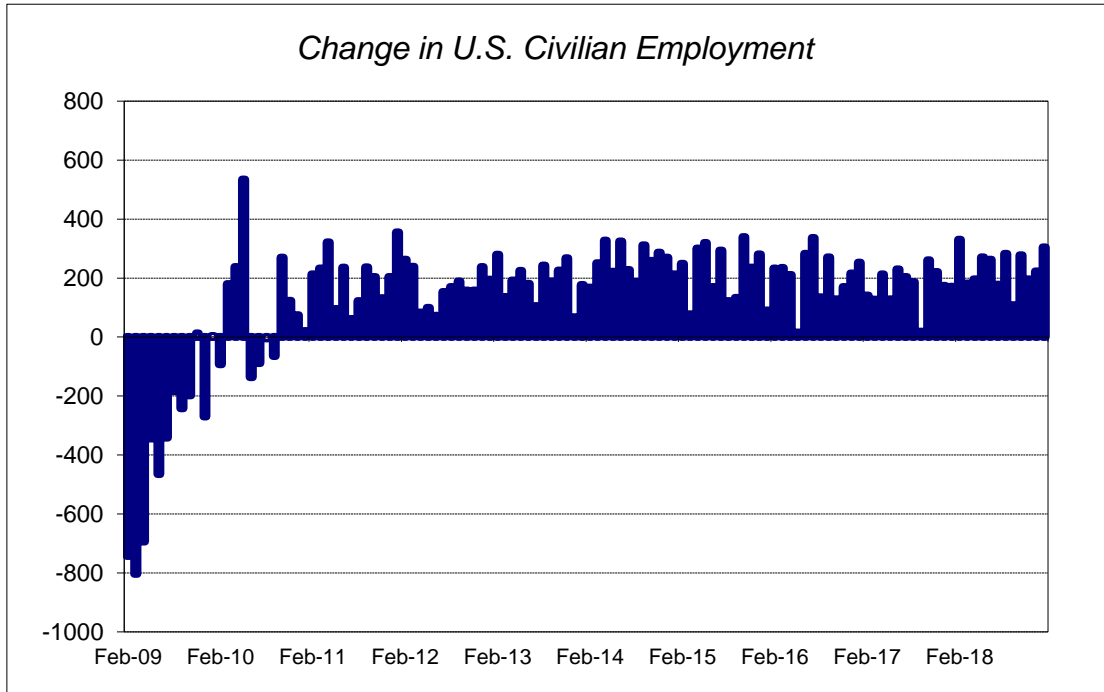
Source: The Conference Board



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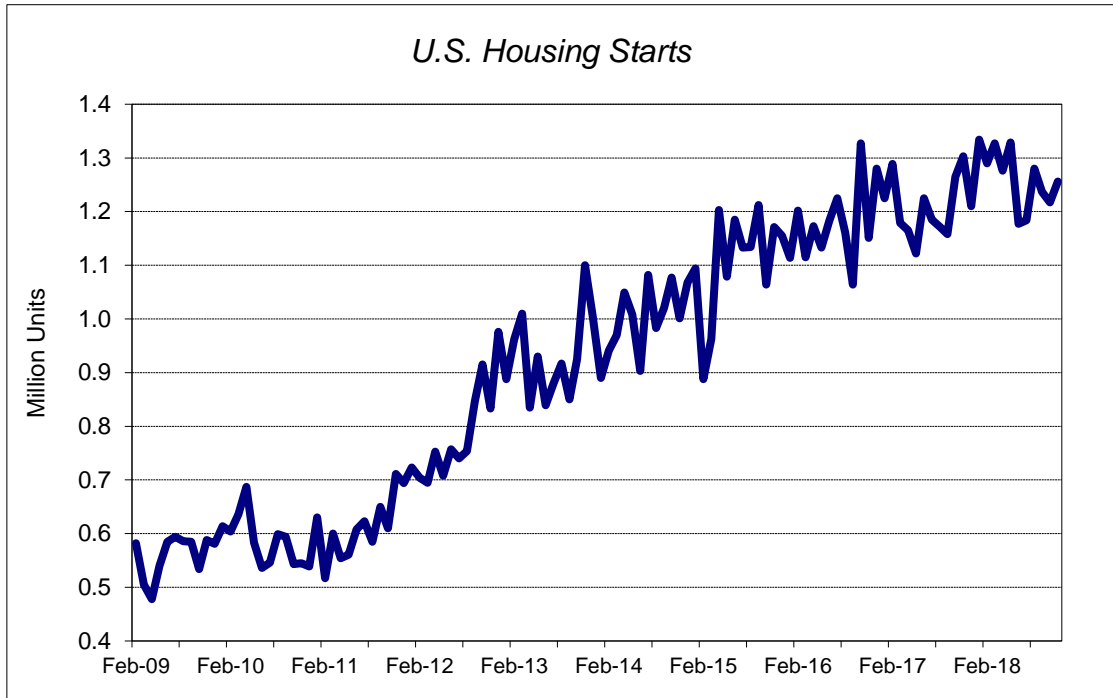
Source: Bureau of Labor Statistics



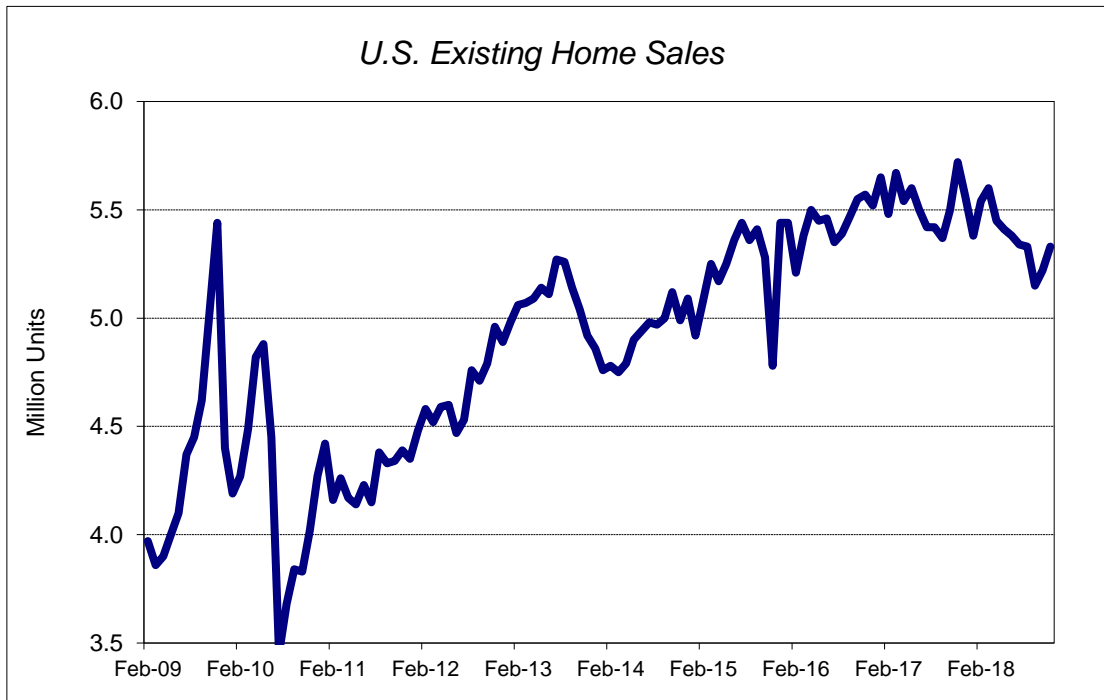
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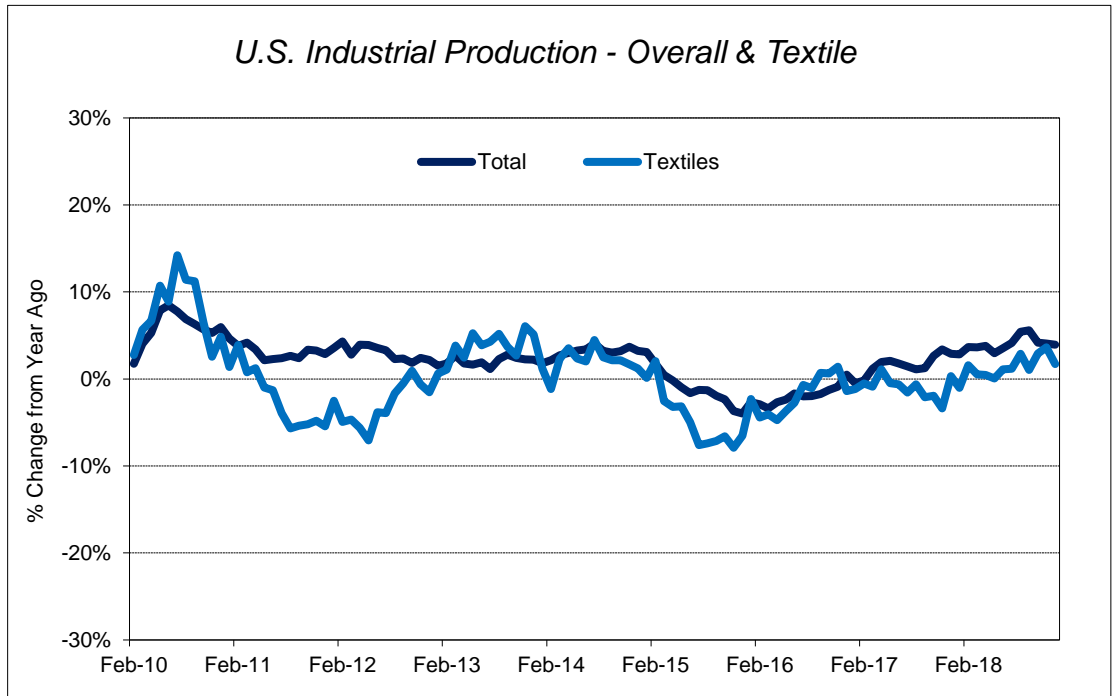
Seasonally Adjusted Annual Rate; Source: Department of Commerce



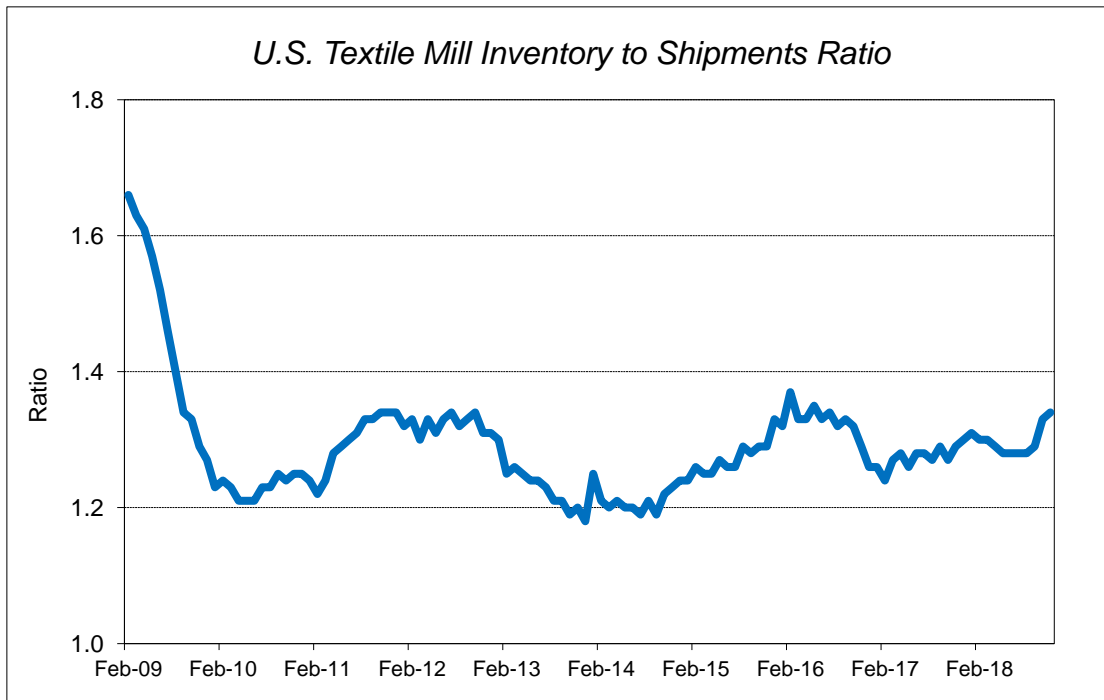
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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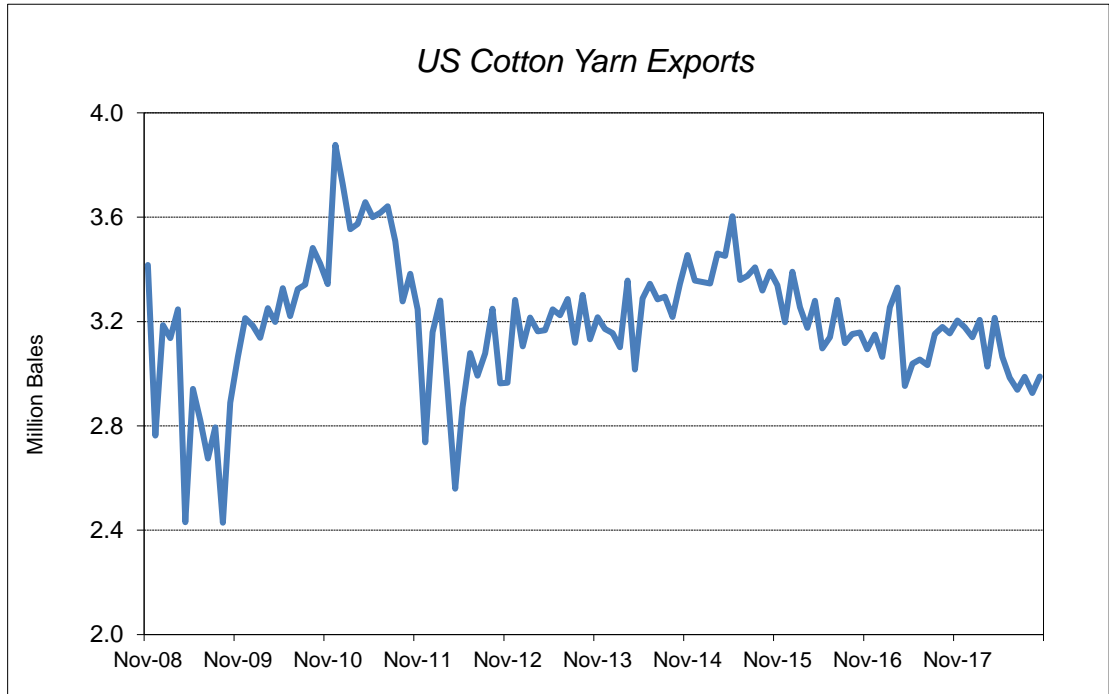
Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

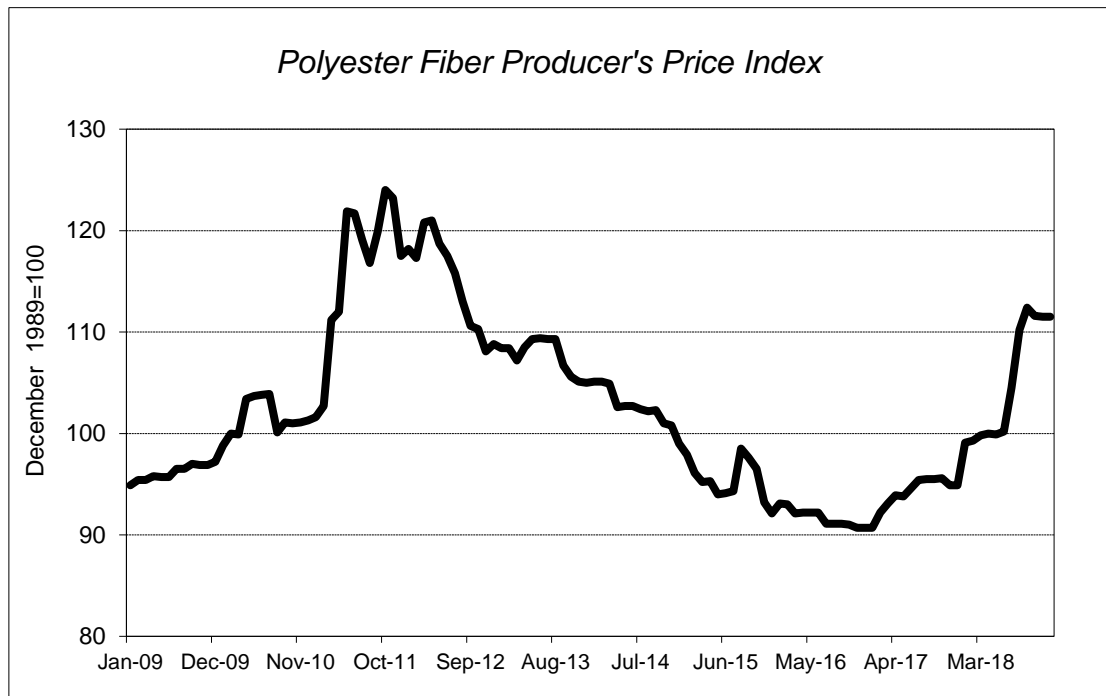
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Seasonally Adjusted Annual Rate

Source: USDA ERS



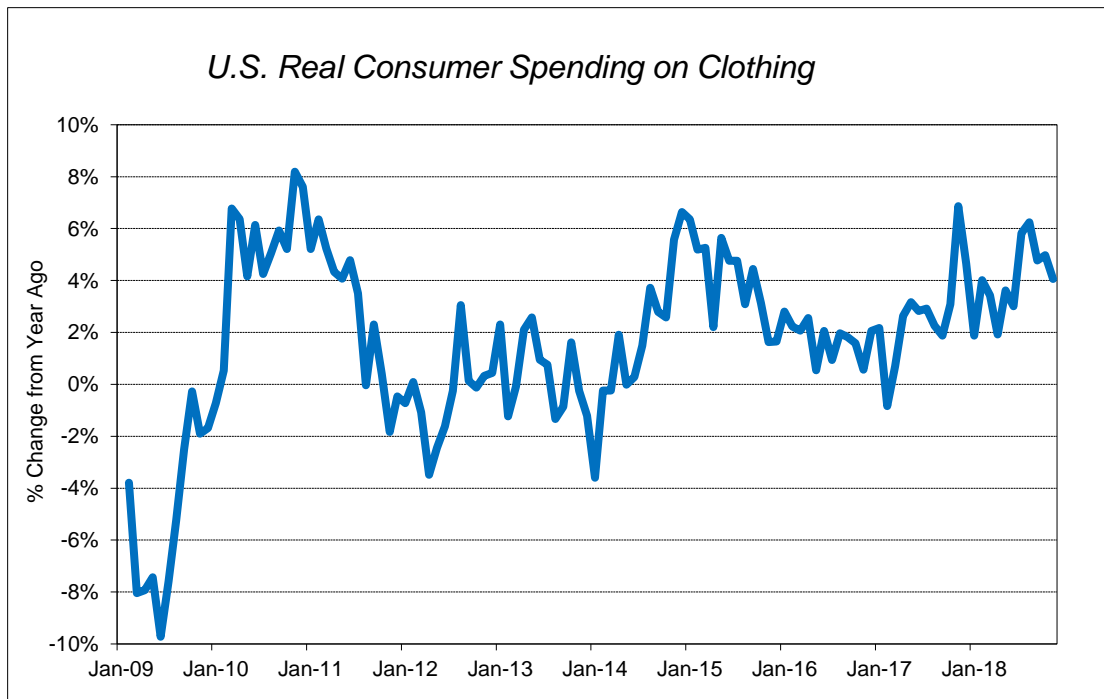
Source: Bureau of Labor Statistics

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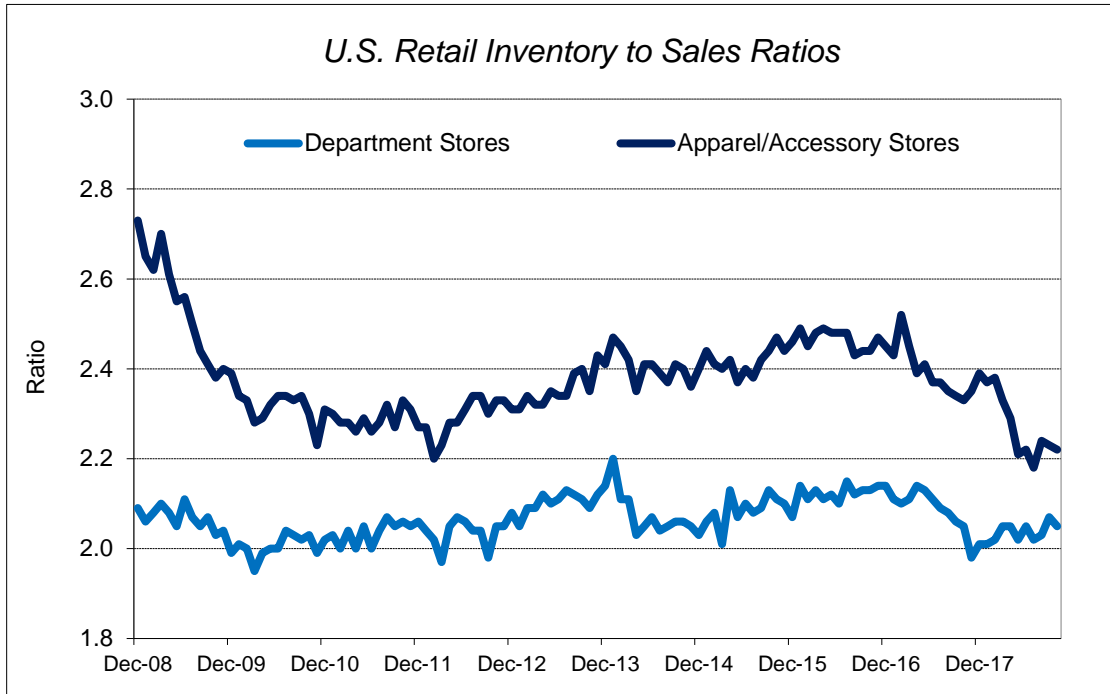
*Based on chained 2005\$.



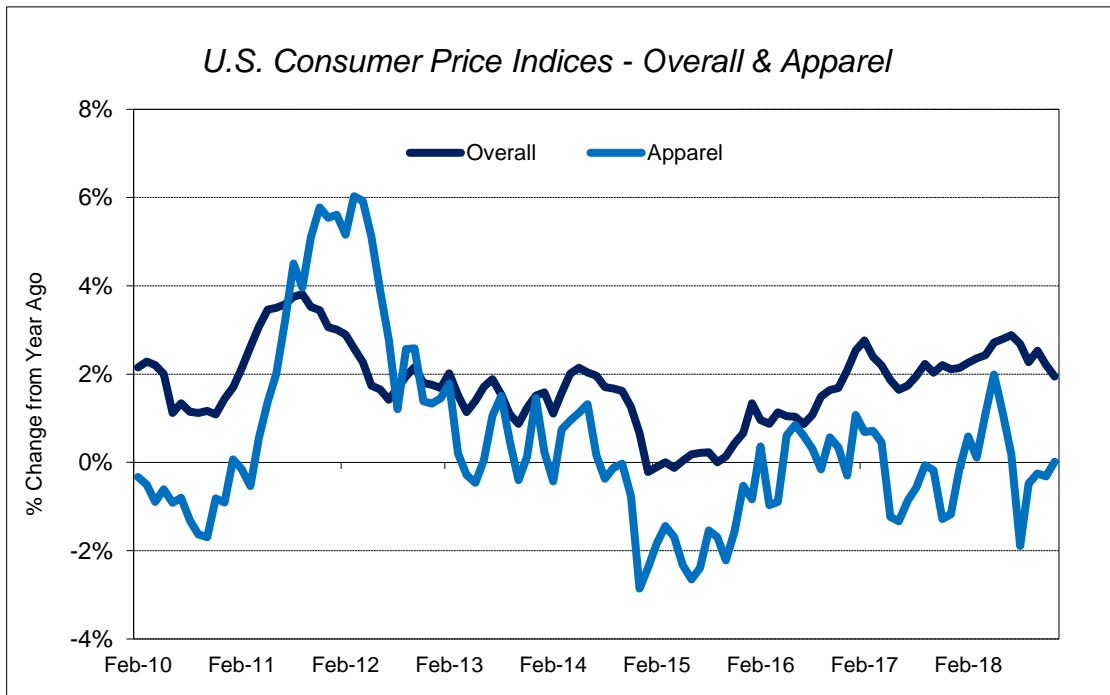
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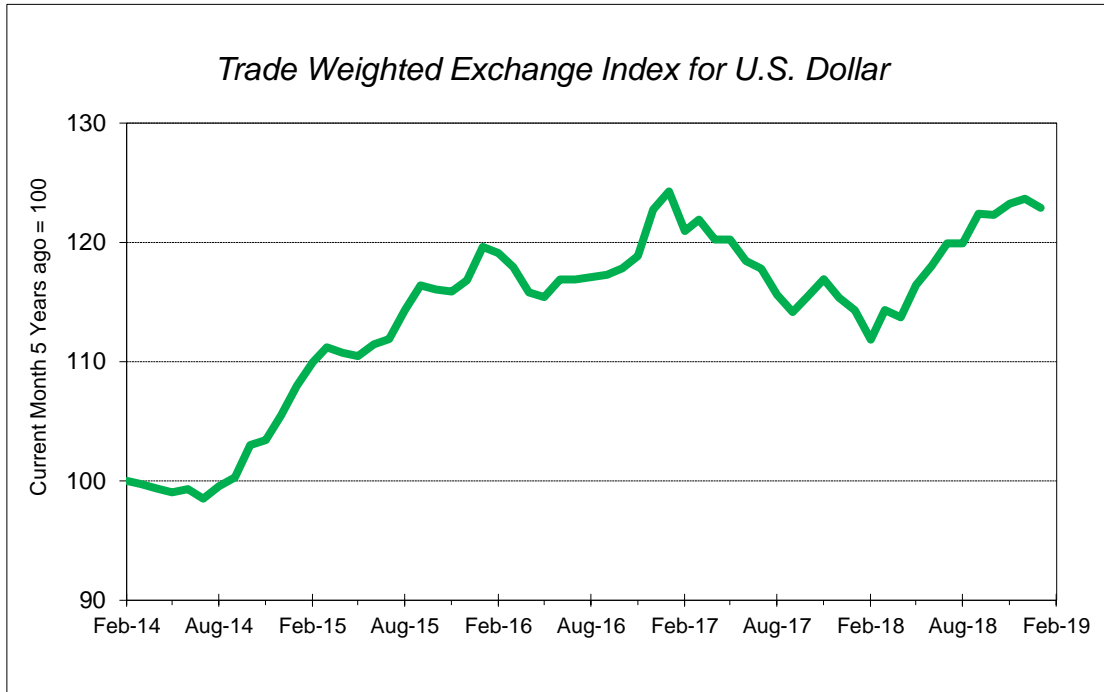
Source: Department of Commerce



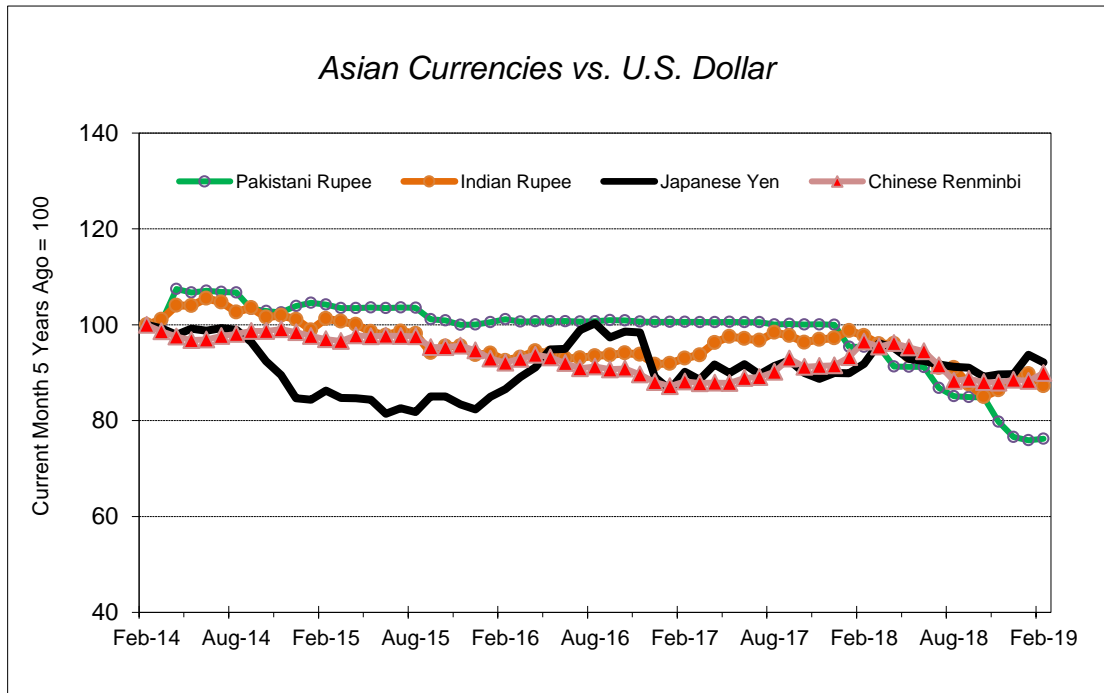
Source: Bureau of Labor Statistics

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Source: Federal Reserve
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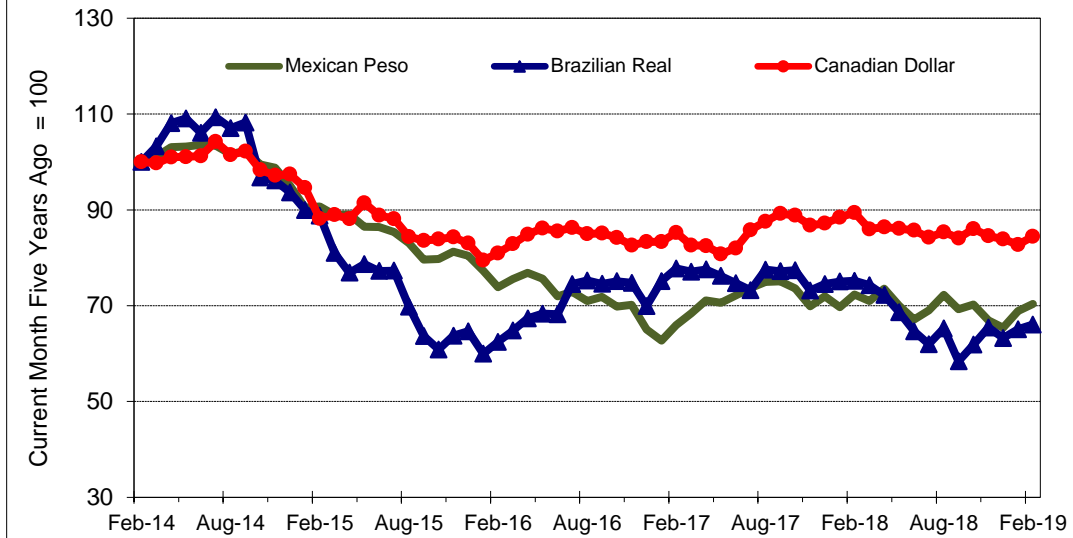


Source: oanda.com
Source: Reuters

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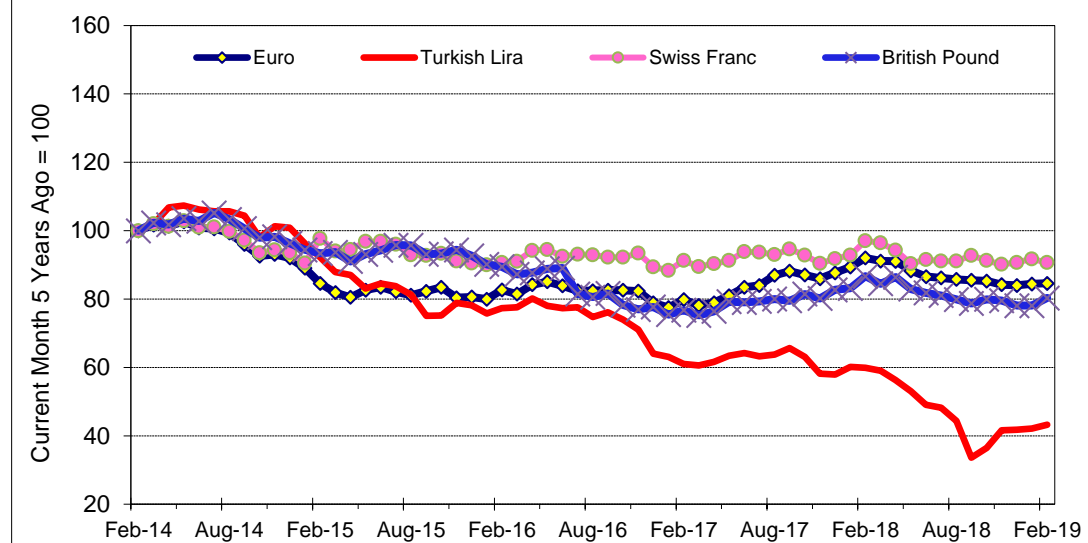
North & South American Currencies vs. U.S. Dollar



Source: oanda.com

Source: Reuters

Index of European Currencies vs. U.S. Dollar



Source: oanda.com

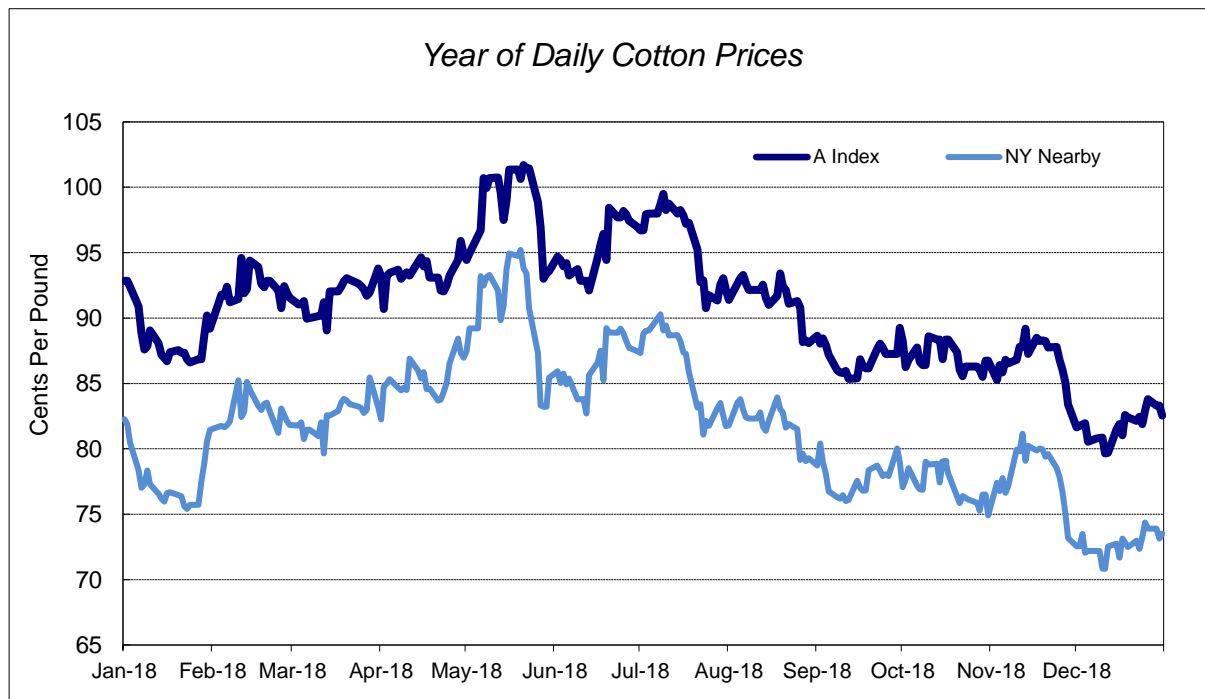
Source: Reuters

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U.S. Balance Sheet

million 480 lb. bales	2014/15	2015/16	2016/17	2017/18	2018/19 November	2018/19 December
Beginning Stocks	2.4	3.7	3.8	2.8	4.3	4.3
Production	16.3	12.9	17.2	20.9	18.4	18.6
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	18.7	16.6	21.0	23.7	22.7	22.9
Mill-Use	3.6	3.5	3.3	3.2	3.3	3.3
Exports	11.2	9.2	14.9	15.8	15.0	15.0
Demand	14.8	12.6	18.2	19.1	18.3	18.3
Ending Stocks	3.7	3.8	2.8	4.3	4.3	4.4
Stocks/Use Ratio	24.6%	30.2%	15.1%	22.5%	23.5%	24.0%



Sources: ICE Futures U.S. & Cotton Outlook

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