

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



March 2020

www.cottoninc.com

Macroeconomic Overview: Spread of the coronavirus has dominated headlines and mindsets of financial traders. Fear of outbreaks outside China pulled U.S. stock indexes off record levels with the steepest declines since the financial crisis. Recent volatility was sufficient to cause trading on the NY Stock Exchange to be temporarily suspended. Virtually all markets have been affected, including cotton, which has fallen from levels near 70 cents/lb to those approaching 60 cents/lb.

Measures of factory activity signaled a record contraction in Chinese manufacturing in February. Progress towards a return to normal has been reported from China, but the shutdown that occurred in recent weeks is still being digested by supply chains. Even if garments are assembled outside of China, many other major apparel exporting nations, notably those in Southeast Asia, are dependent on Chinese manufacturing for inputs. For example, a significant proportion of Vietnamese cut and sew operations rely on Chinese fabric. This means that retailers and brands that have shifted clothing imports away from China can still face delays and cost increases stemming from the effects of the virus within China.

On top of these supply chain specific issues, there are macroeconomic consequences. China represents about one-third of global economic growth, and Chinese economic growth has become increasingly dependent on domestic consumer demand. With many Chinese people forced to stay home over the past month, they were not earning or spending as they would have otherwise. Some spending may be recovered as conditions return to normal, but some purchases can also be expected to have been lost. The same set of consequences can be expected outside of China as the virus spreads. Many flights and meetings have already been canceled, meaning lost revenue lost by airlines, hotels, and restaurants. If other countries move towards a more general shutdown, as in China, impacts will compound.

In early March, the Organization for Economic Development and Cooperation (OECD) ventured an estimate for global GDP growth in 2020 of 2.4%. This figure was based on the assumption that the epidemic will have peaked in China in the first quarter and that the virus will be mostly contained in other countries. In 2019, global growth was a sluggish 2.9%, and central banks around the world were active in lowering rates last year to stimulate growth. This included three quarter-point rate cuts by the Federal Reserve. Due to concerns about the coronavirus, the Fed cut the rate by half a percentage point at their meeting in early March. Rates on longer-term U.S. Treasuries dropped to record lows ahead of the announcement and have continued to slide since then.

The virus is just one of many sources of uncertainty that markets are contending with. Another is the series of U.S. elections this year, with primaries on-going and the general election this fall. Yet another is the trade dispute. On February 14th, the U.S. lowered the tariff increases applied to List 4a (covers apparel products where Chinese share is less than 75%) that went into effect in September from 15 to 7.5 percentage points. The reduction in duties will ease some cost pressure, but there is already evidence of significant damage to apparel import demand.

In the five months of available data since tariffs on Chinese-made apparel were raised (September-January), imports of clothing from China were down 29% for cotton-dominant items and down 22% for garments of all-fiber content. While there has been some growth in imports from other countries, it has not been sufficient to make up for the losses suffered from China. Cotton-dominant apparel imports from all sources were down 9% over the past five months. Apparel imports of all-fiber contents from all sources were down 10%. The effects have been even more significant for certain products. For example, imports of Chinese jeans are down more than 40% for both men's and women's categories since September (jeans imports from all sources were down 13%).

Employment: The U.S. economy is estimated to have added 273,000 jobs in February. Revisions to both December (from +147,000 to +184,000) and January (from +225,000 to +273,000) were positive. Following this month's revisions, job growth over the past twelve months is 201,000. During the same period one year ago, job growth was 171,000. The unemployment rate dropped to 3.5%. Over the past six months, the unemployment rate has been either 3.5% or 3.6%, holding to the lowest levels since the late 1960s. Wages increased 3.1%, which is near the low end of the range of 3.0% to 3.5% that has held between August 2018 and the present.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence was nearly unchanged in February, increasing 0.3 points to 130.7. It remains high by historical standards. Overall consumer spending rose 0.1% month-over-month in January and was 2.8% higher year-over-year. Consumer spending on apparel decreased 2.3% month-over-month but was up 2.4% year-over-year.

Consumer Prices & Import Data: The CPI for garments increased 0.5% month-over-month in January but was 1.9% lower year-over-year. The average import price for cotton-dominant apparel (USD per square-meter equivalent or SME) was slightly lower month-over-month in January (from \$3.43 to \$3.41/SME). Year-over-year, the average was 0.6% 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
March 2020



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q2 : 2019	Q3 : 2019	Q4 : 2019		
Growth in US Real GDP	2.3%	2.5%	2.1%	2.1%	2.0%	2.1%	2.1%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic 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	54.0	55.7	48.7	48.9	48.1	47.8	50.9	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.6	57.1	54.7	54.8	53.9	54.9	55.5	Index	Institute for Supply Management
Consumer Confidence	116.1	127.1	128.7	128.5	126.8	128.2	130.4	Index	The Conference Board
Index of Leading Economic Indicators	105.1	108.7	111.6	111.6	111.4	111.5	111.2	Index	The Conference Board
Change in Non-Farm Payrolls	195.1	184.6	219.7	239.3	261.0	184.0	273.0	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.4%	3.9%	3.6%	3.5%	3.5%	3.5%	3.6%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.1%	1.7%	1.8%	1.6%	1.6%	1.6%	1.6%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.4%	1.7%	1.8%	1.8%	1.9%	1.8%	Interest rate	Federal Reserve

Macroeconomic 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		
Housing Starts	12.1	12.5	13.7	14.5	1.4	1.4	1.6	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.4	5.4	5.4	5.4	5.3	5.5	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile 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 Industrial Production	105.7	107.5	109.5	109.5	109.0	110.0	109.5	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	108.3	101.2	99.5	97.7	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile 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	3.3	3.0	3.0	2.9	3.0	2.9	2.9	million 480lb bales	USDA ERS

Industrial & Textile 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 Textile Mill Inventory/Shipments Ratio	1.31	1.32	1.37	1.36	1.35	1.37	1.37	Ratio	Department of Commerce

Retail Data

Retail 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 Real Consumer Spending									
All Goods and Services	2.9%	2.7%	2.6%	2.6%	2.3%	3.3%	2.7%	% Chg. Year/Year	Department of Commerce
Clothing	2.7%	2.7%	2.7%	3.9%	1.5%	6.3%	2.4%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.6%	2.1%	1.9%	2.0%	2.0%	2.3%	2.5%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.7%	-0.6%	-1.4%	-2.5%	-2.4%	-1.9%	-1.9%	% Chg. Year/Year	Bureau of Labor Statistics

Retail Series with Latest Data for December

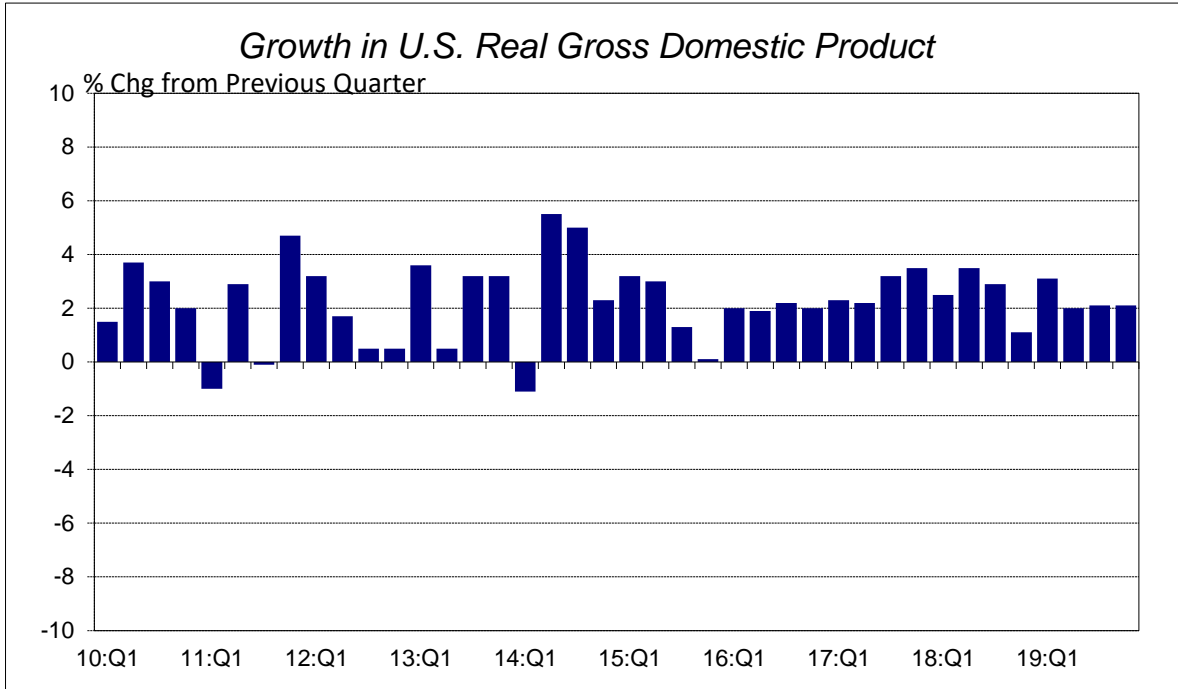
	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	December		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.3	2.3	2.3	2.3	2.3	2.3	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.1	2.1	2.1	2.1	2.1	Ratio	Department of Commerce

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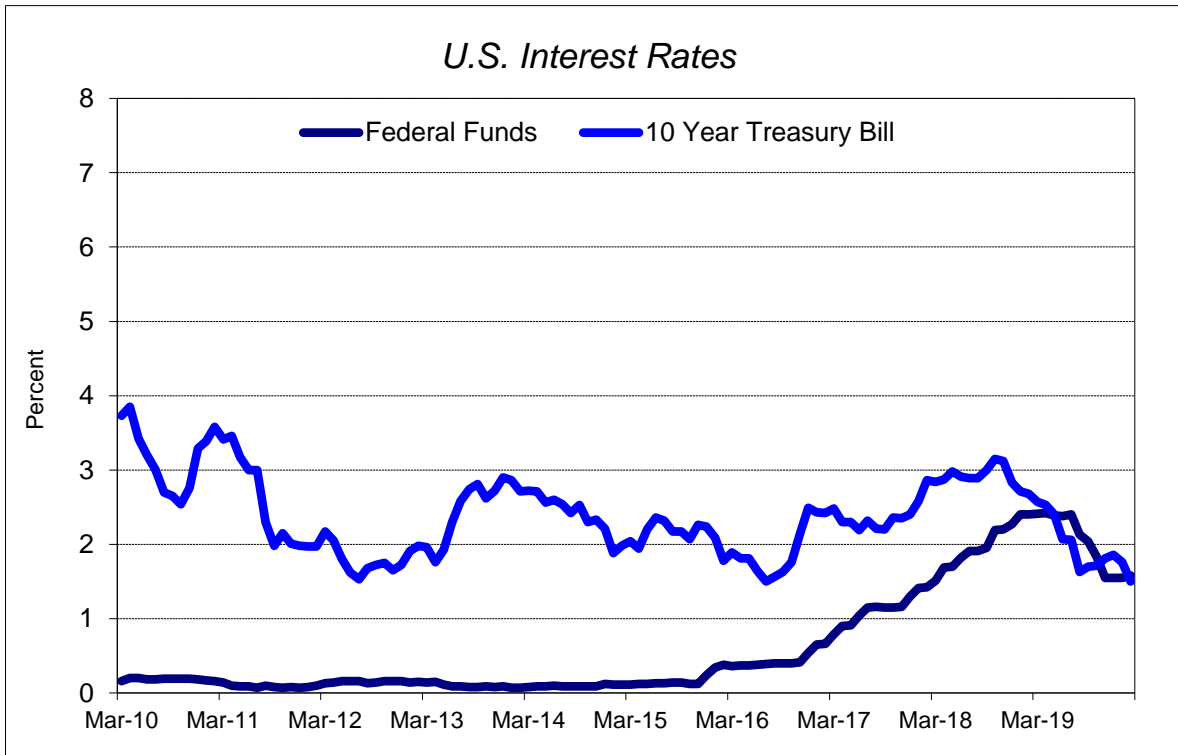
Daily Cotton Price and Currency Data
March 2020



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	December	January	February		
NY Nearby	70.5	72.0	71.6	69.4	67.0	70.1	67.1	cents/pound	ICE
A Index	79.4	81.6	81.5	79.4	75.9	79.1	76.7	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	December	January	February		
Dollar Trade Weighted Exchange Index	112.8	113.6	116.6	116.1	116.4	115.3	116.6	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.66	6.76	7.03	6.99	7.04	6.93	6.99	Chinese Renminbi/US dollar	Reuters
Indian Rupee	67.29	68.18	71.28	71.22	71.05	71.21	71.40	Indian Rupee/US dollar	Reuters
Japanese Yen	111.94	110.35	108.60	109.31	108.61	109.55	109.78	Japanese Yen/US dollar	Reuters
Pakistani Rupee	118.17	127.68	155.37	154.81	155.04	154.87	154.52	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.56	3.65	4.14	4.18	4.15	4.08	4.31	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.31	1.32	1.32	1.32	1.31	1.33	Canadian dollar/US dollar	Reuters
Mexican Peso	18.55	19.08	19.17	18.94	19.23	18.83	18.76	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.75	0.77	0.78	0.77	0.76	0.77	0.77	British Pound/US dollar	Reuters
Euro	0.89	0.88	0.91	0.91	0.90	0.90	0.91	Euro/US dollar	Reuters
Swiss Franc	0.98	0.99	0.99	0.98	0.99	0.97	0.98	Swiss Franc/US dollar	Reuters
Turkish Lira	4.10	4.85	5.85	5.90	5.81	5.86	6.03	Turkish Lira/US dollar	Reuters



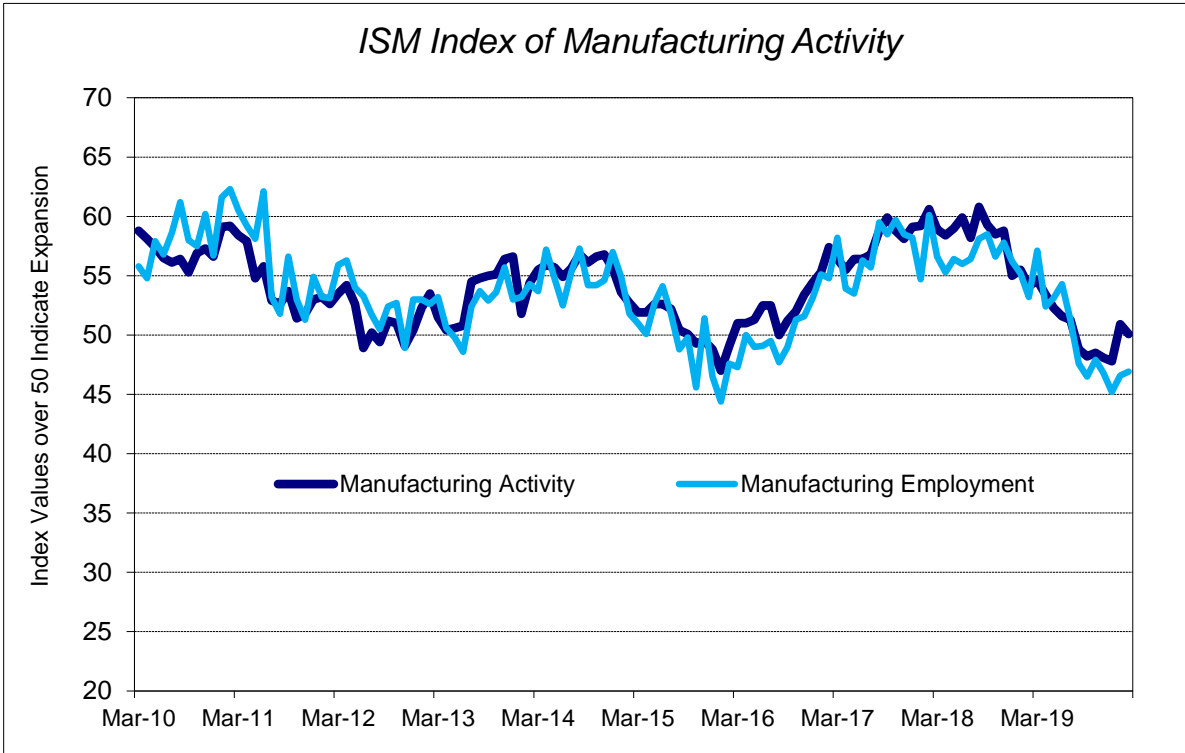
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



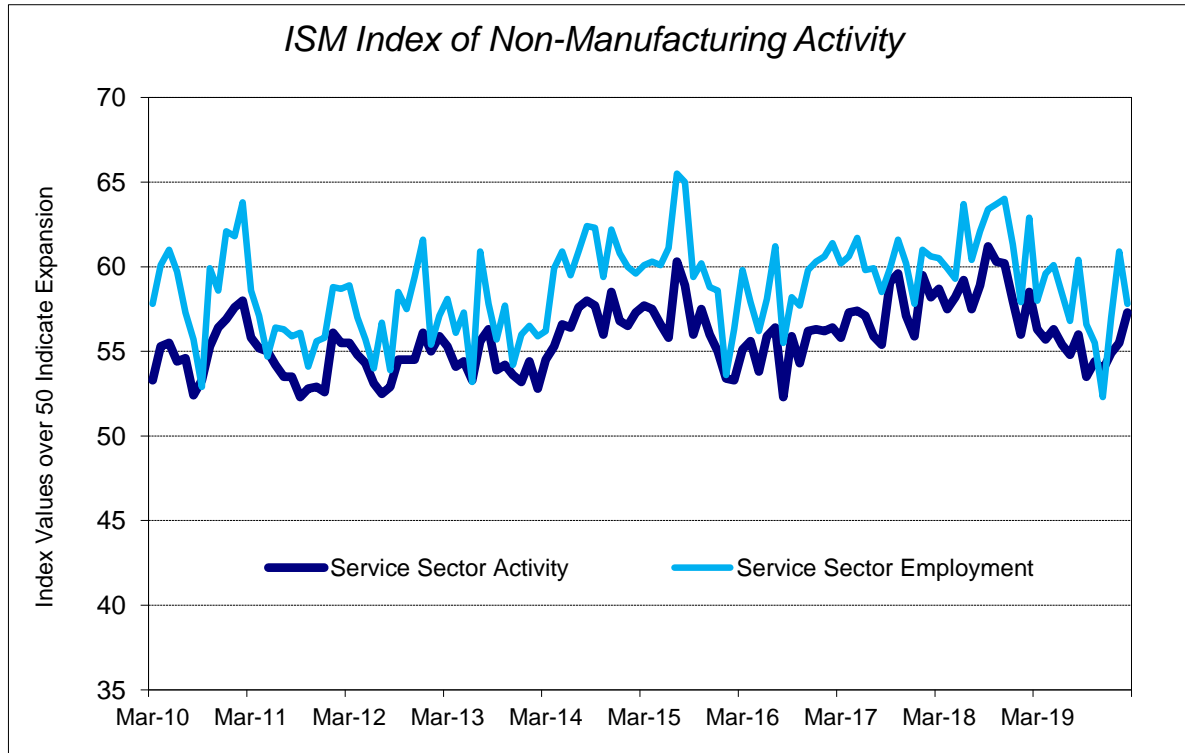
Source: Federal Reserve

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Source: Institute for Supply Chain Management



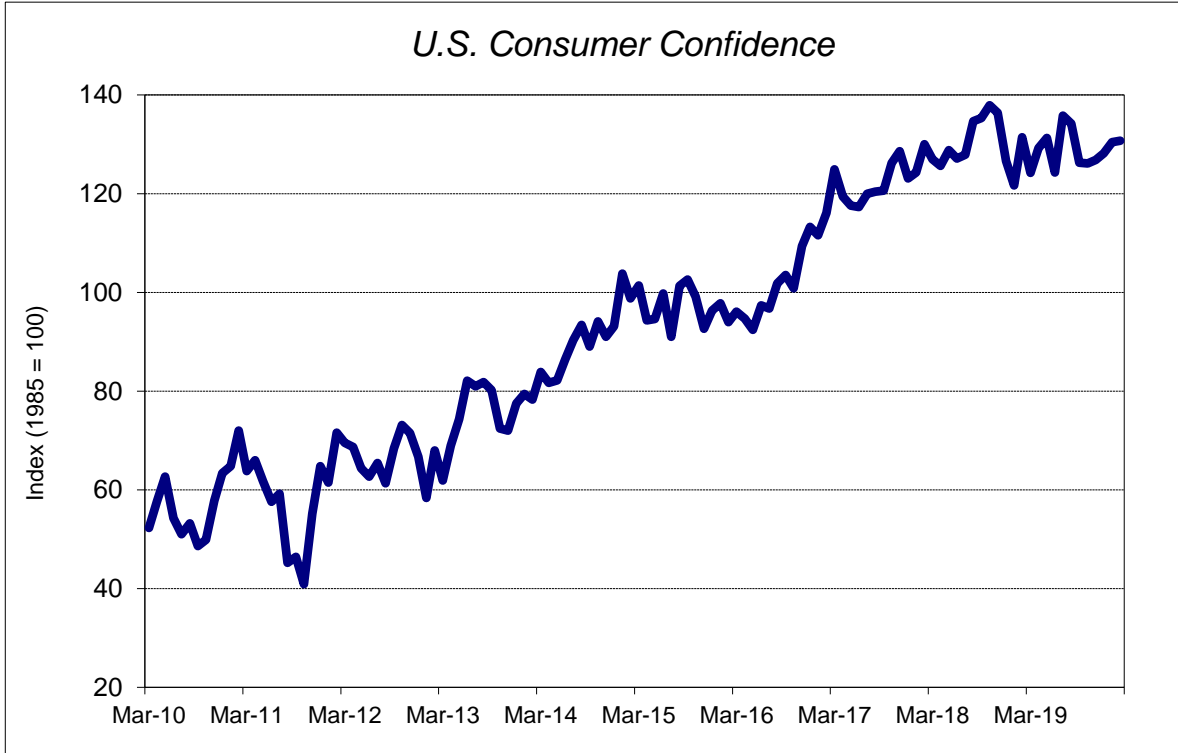
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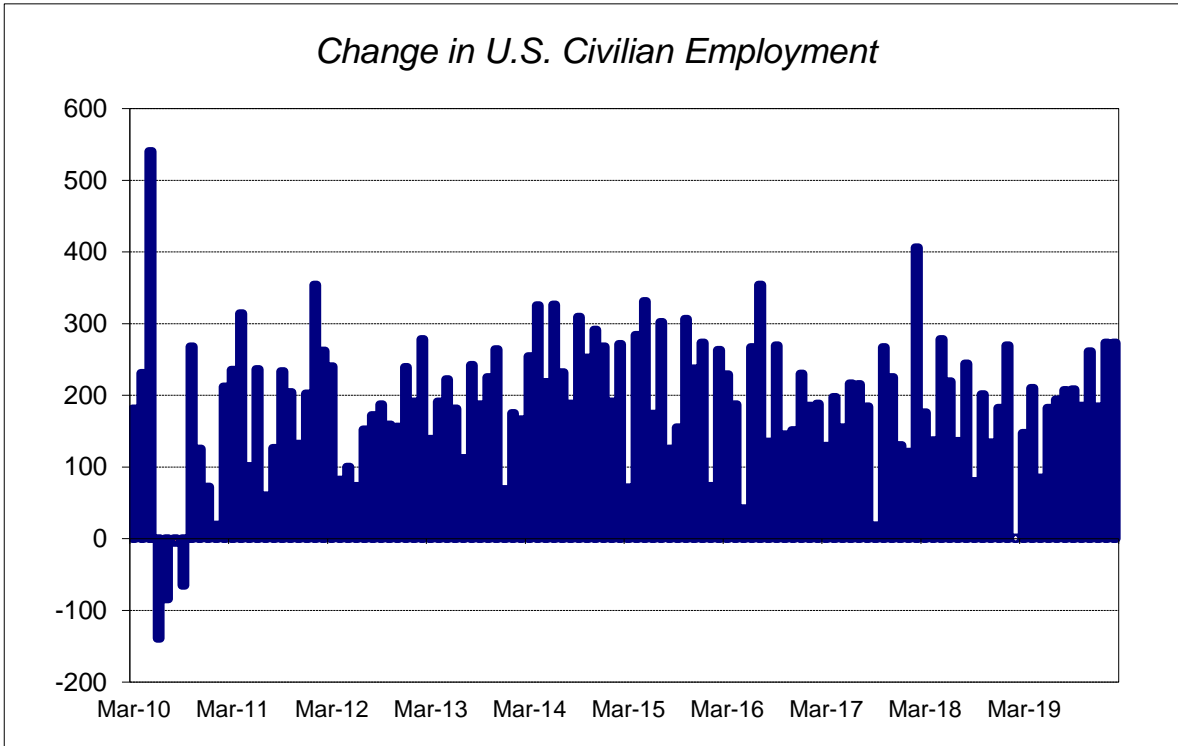
Source: The Conference Board



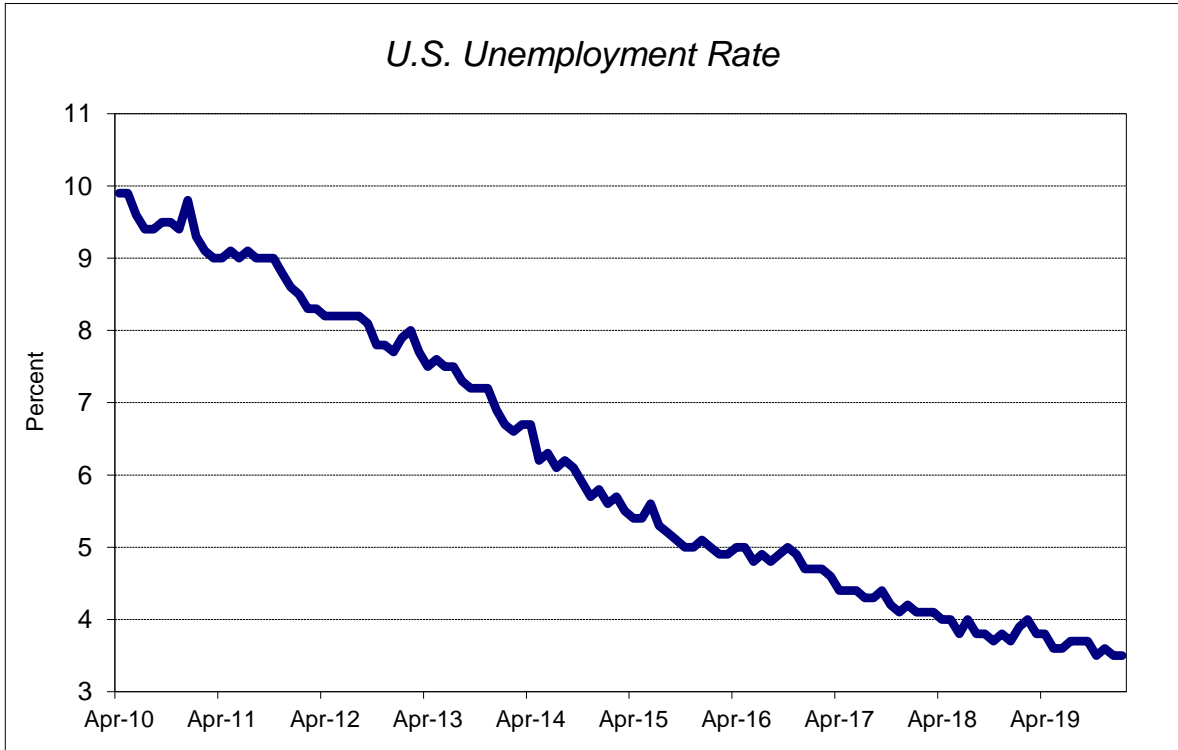
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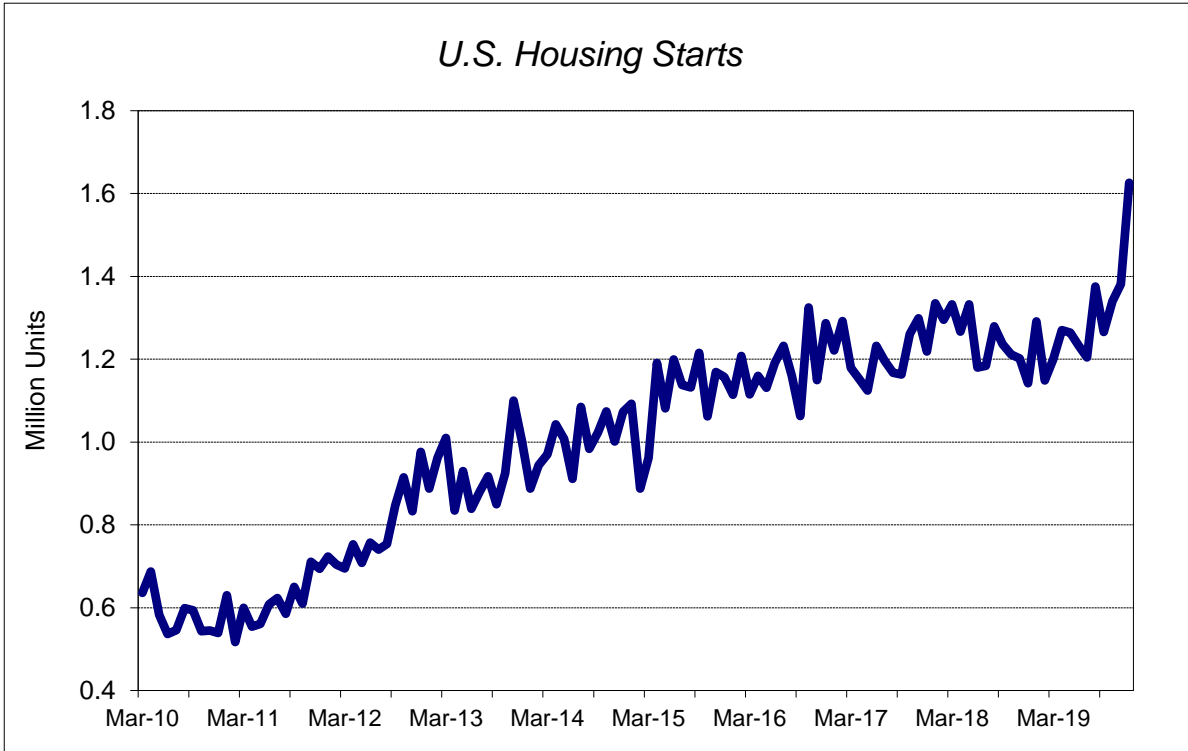
Source: Bureau of Labor Statistics



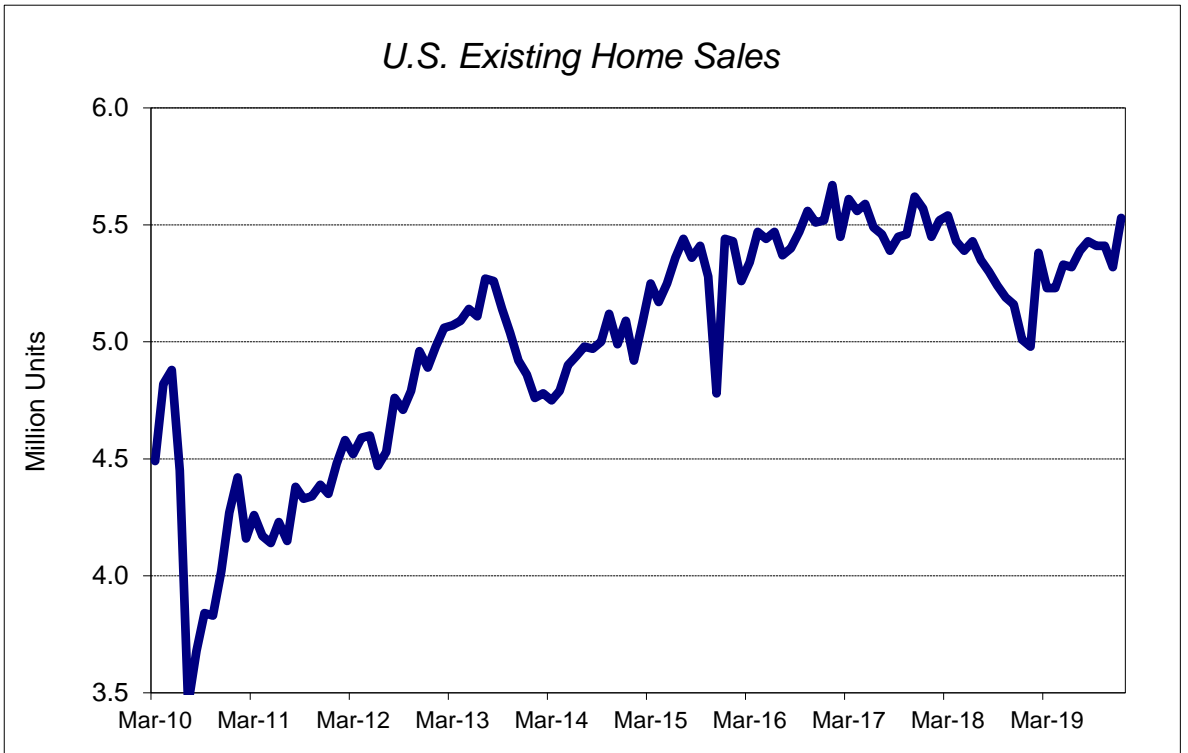
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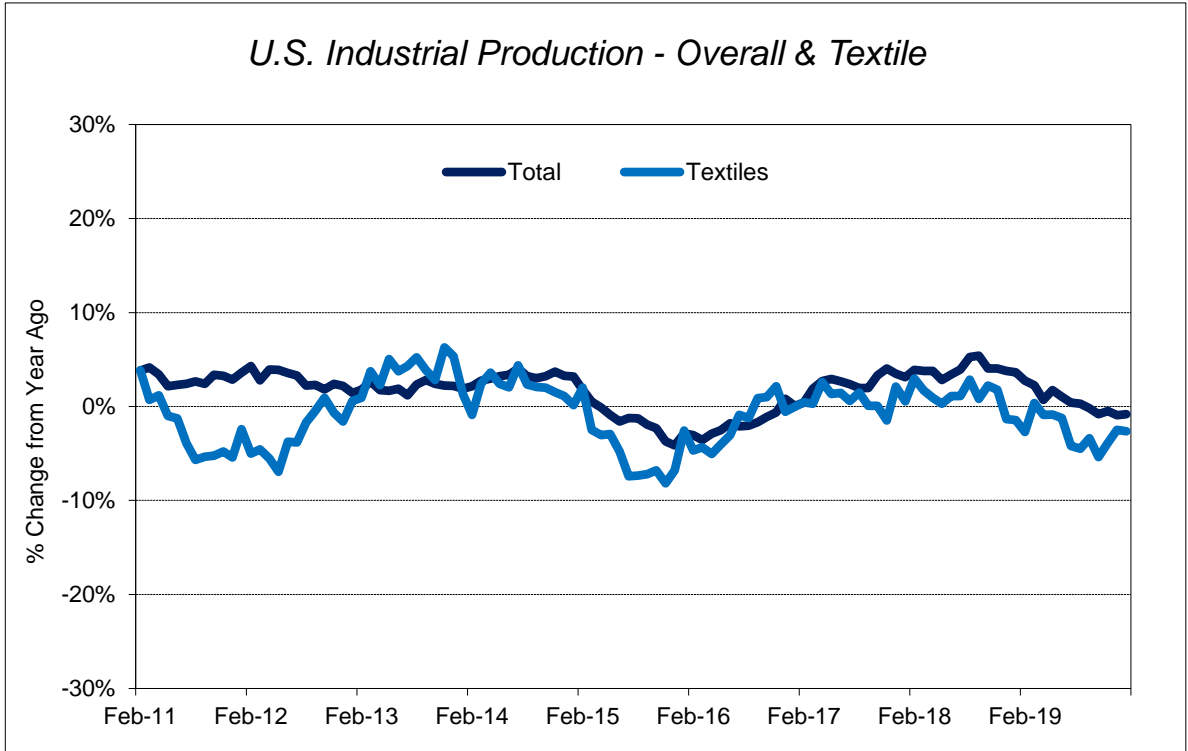
Seasonally Adjusted Annual Rate; Source: Department of Commerce



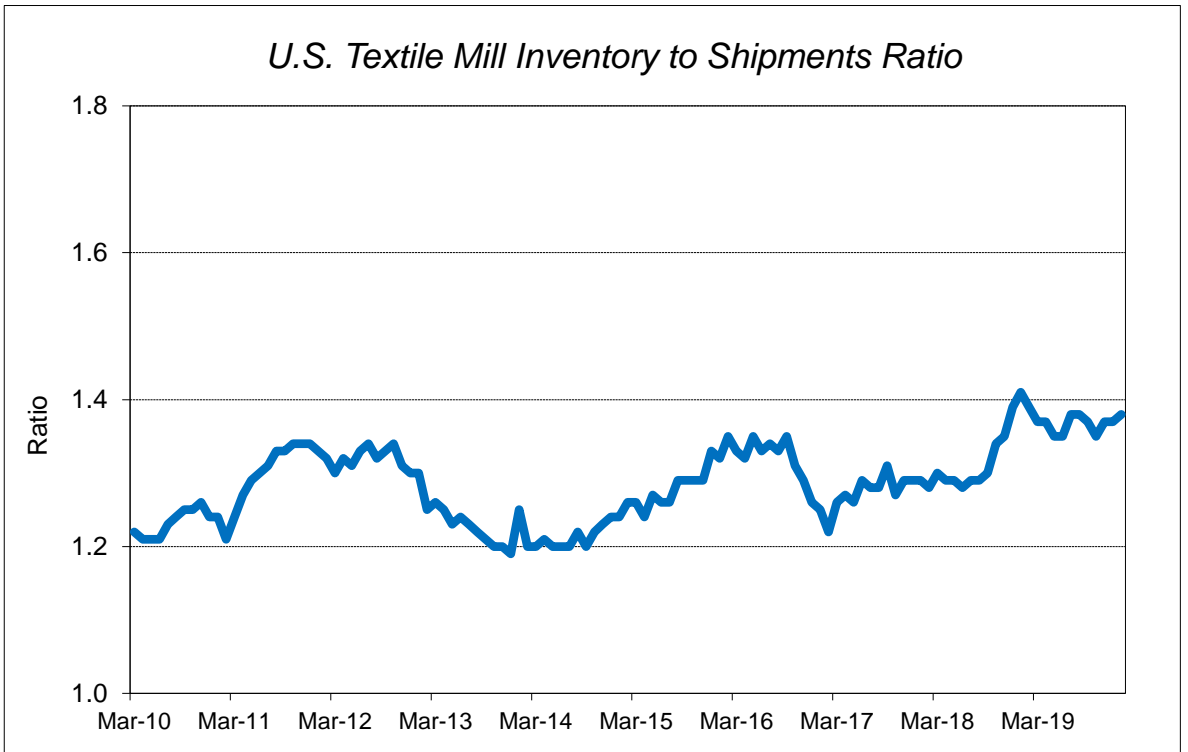
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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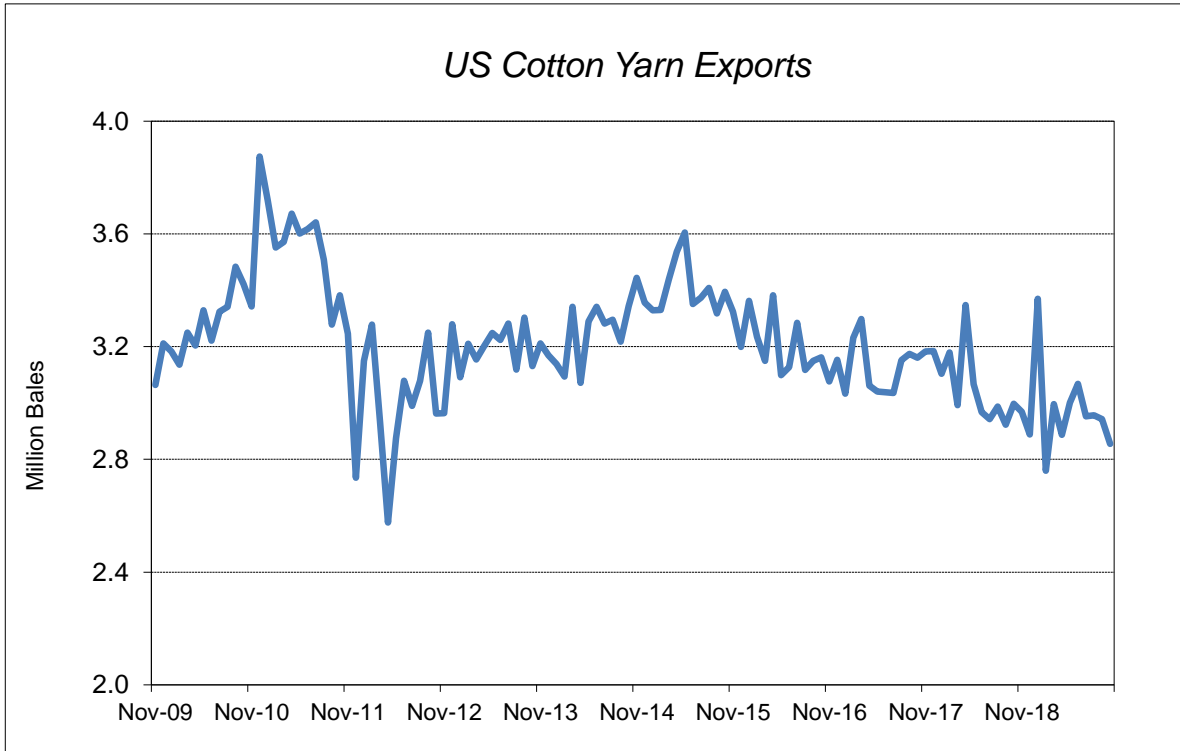
Source: Federal Reserve. Historical data revised to 1997 baseline.



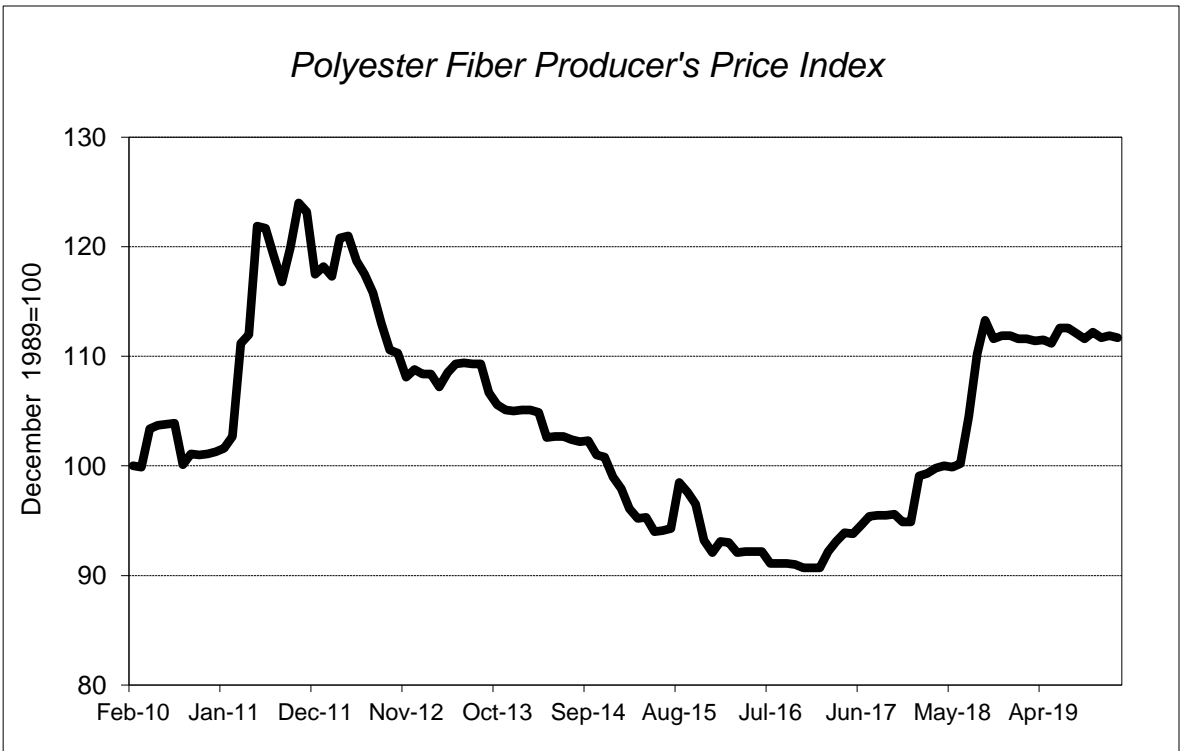
Seasonally Adjusted; Source: Department of Commerce

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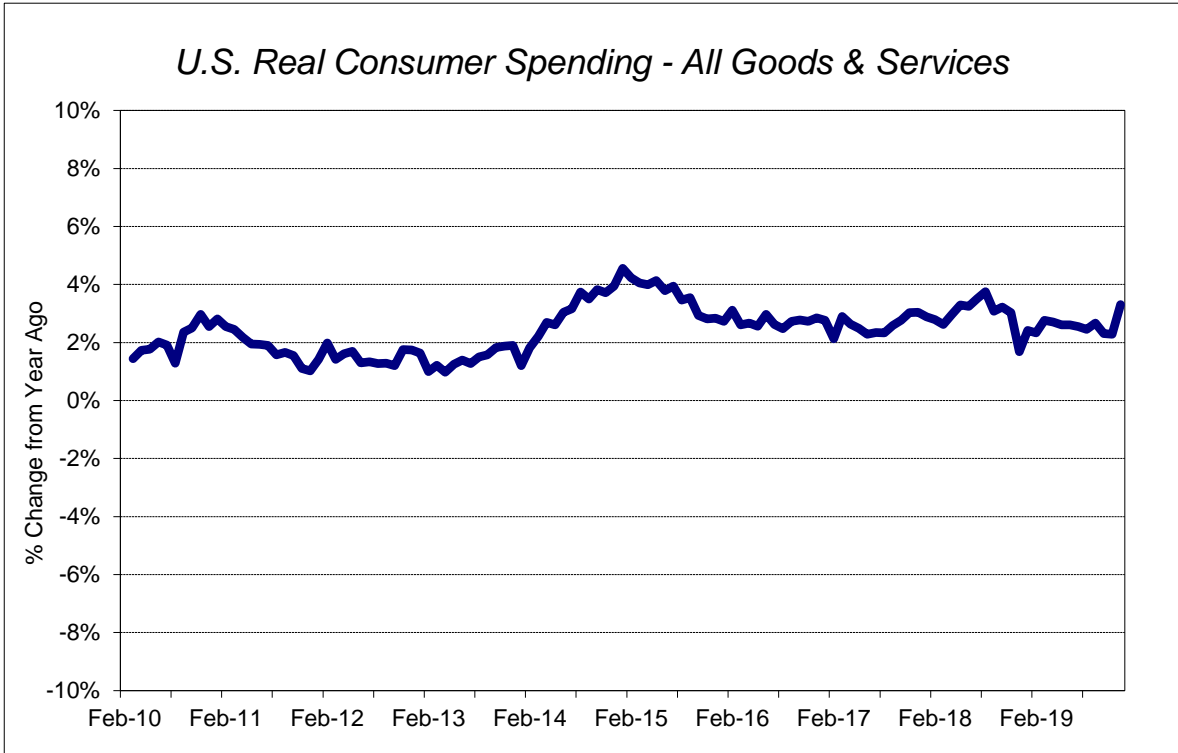
Seasonally Adjusted Annual Rate
 Source: USDA ERS



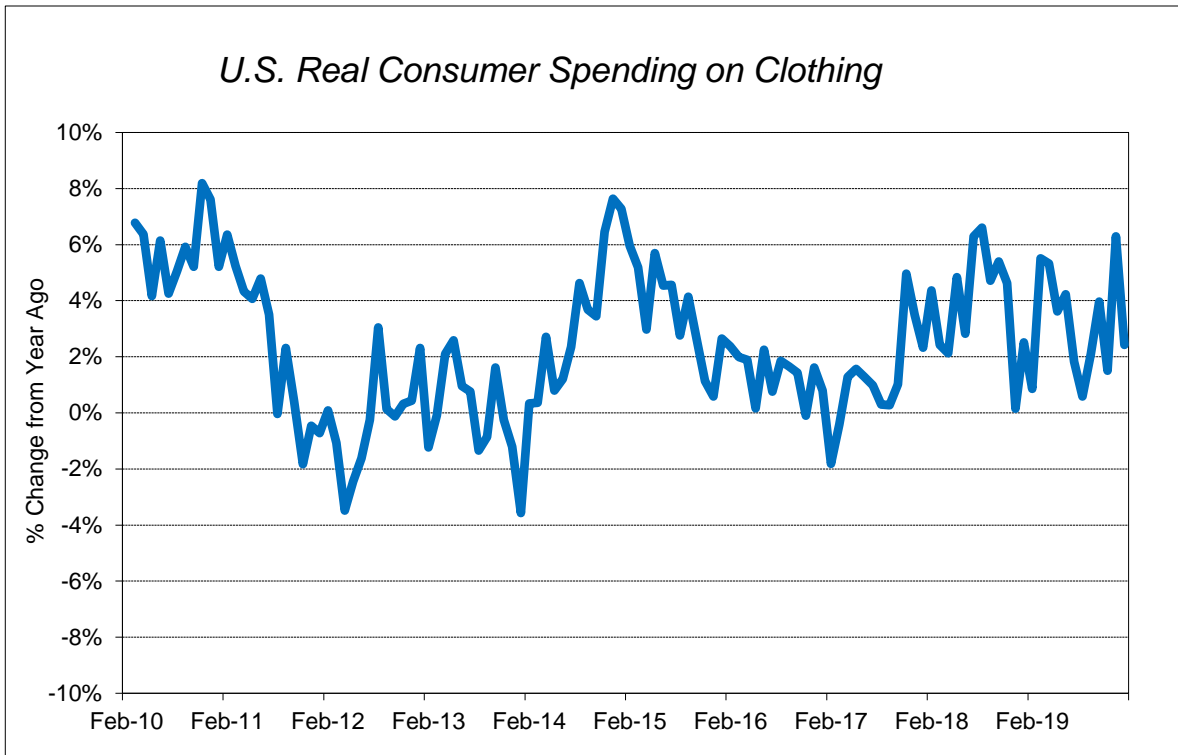
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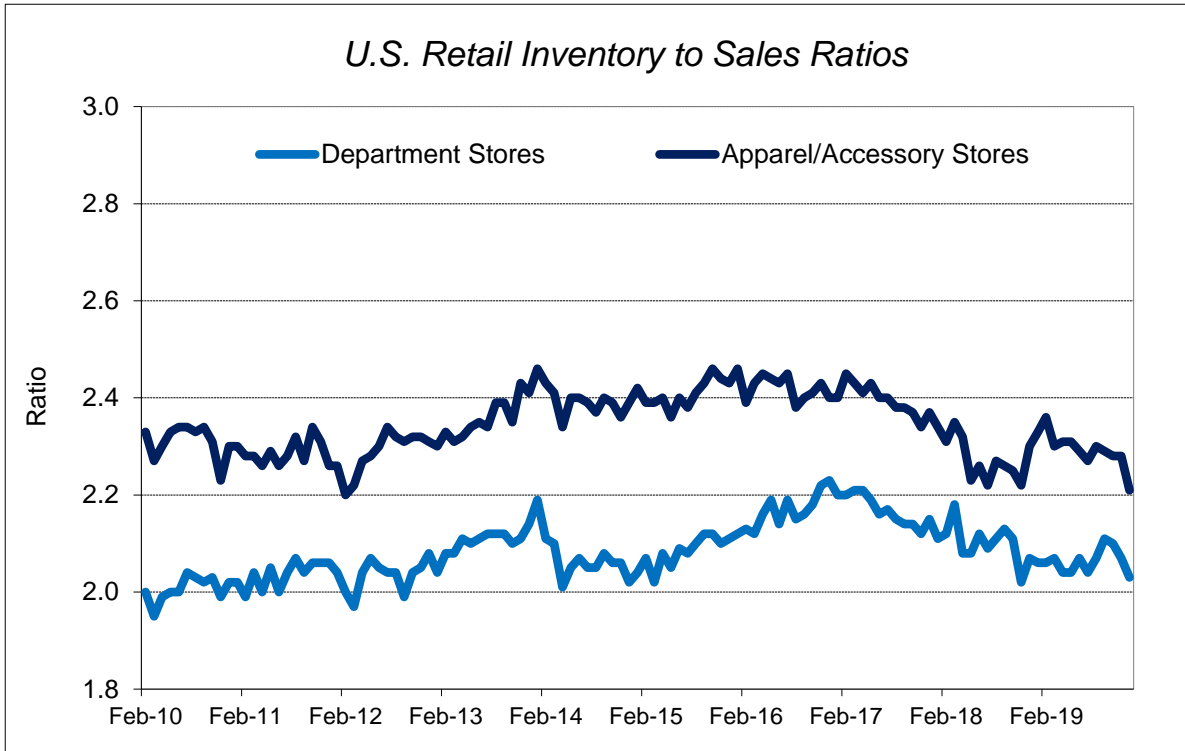
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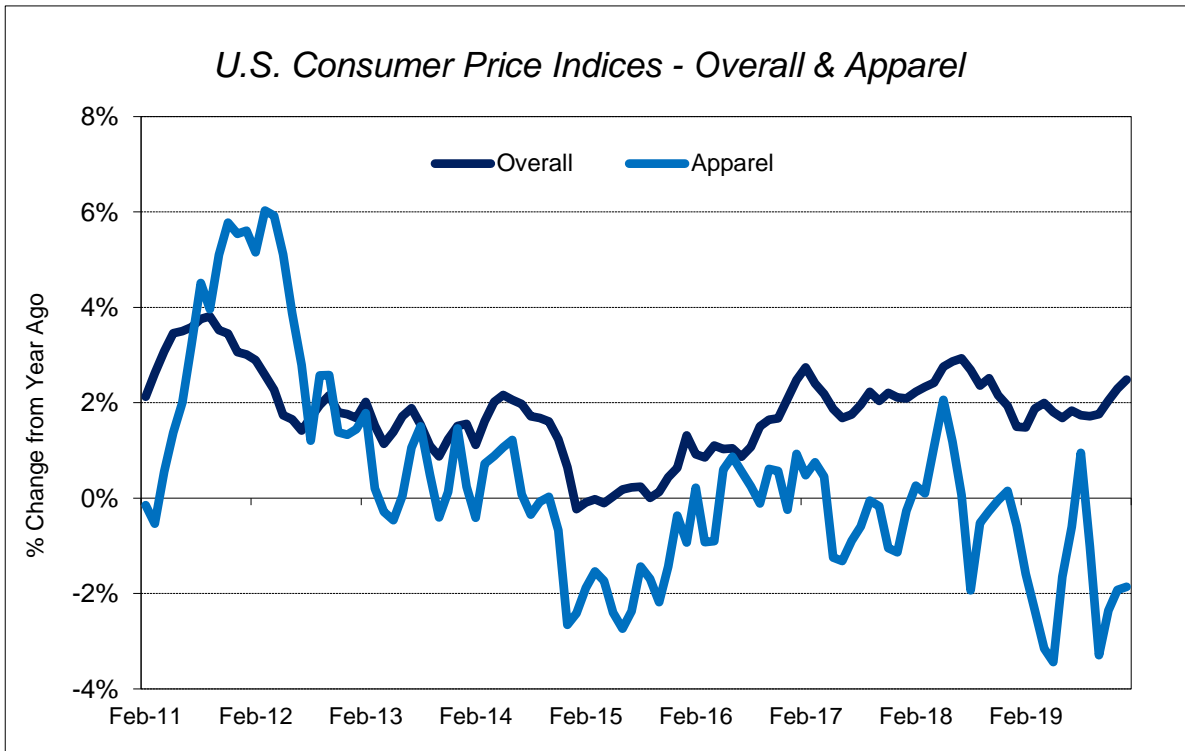
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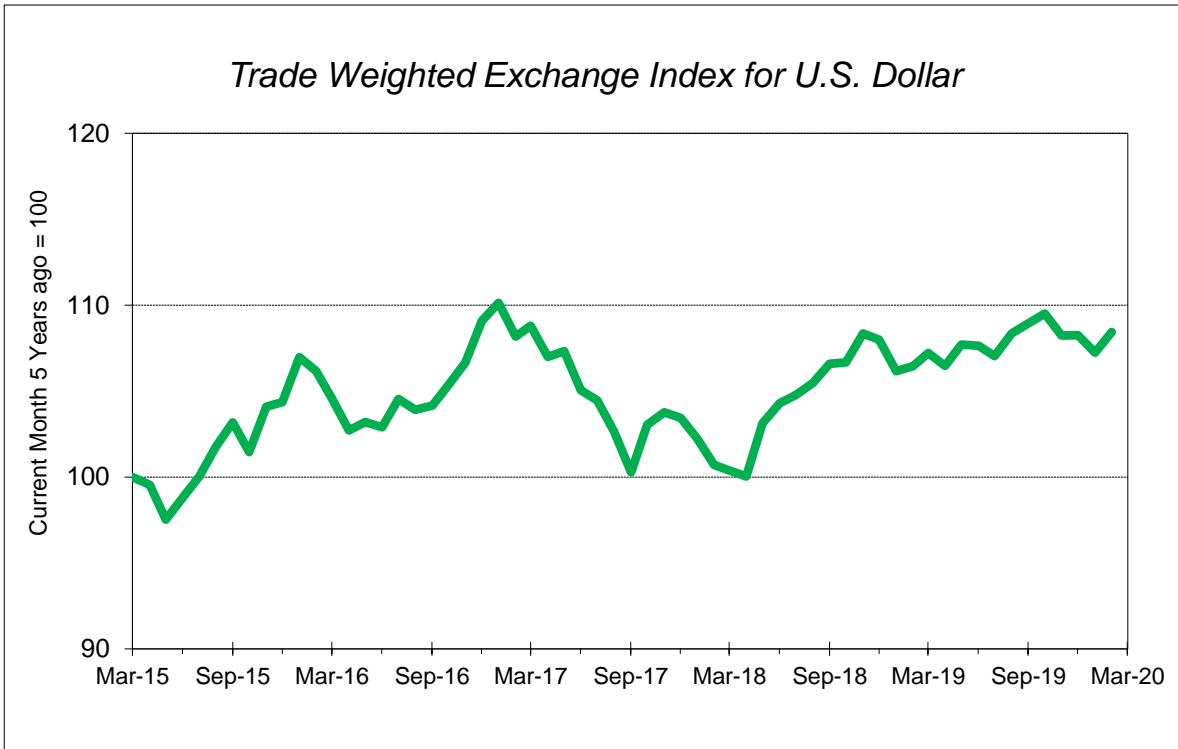
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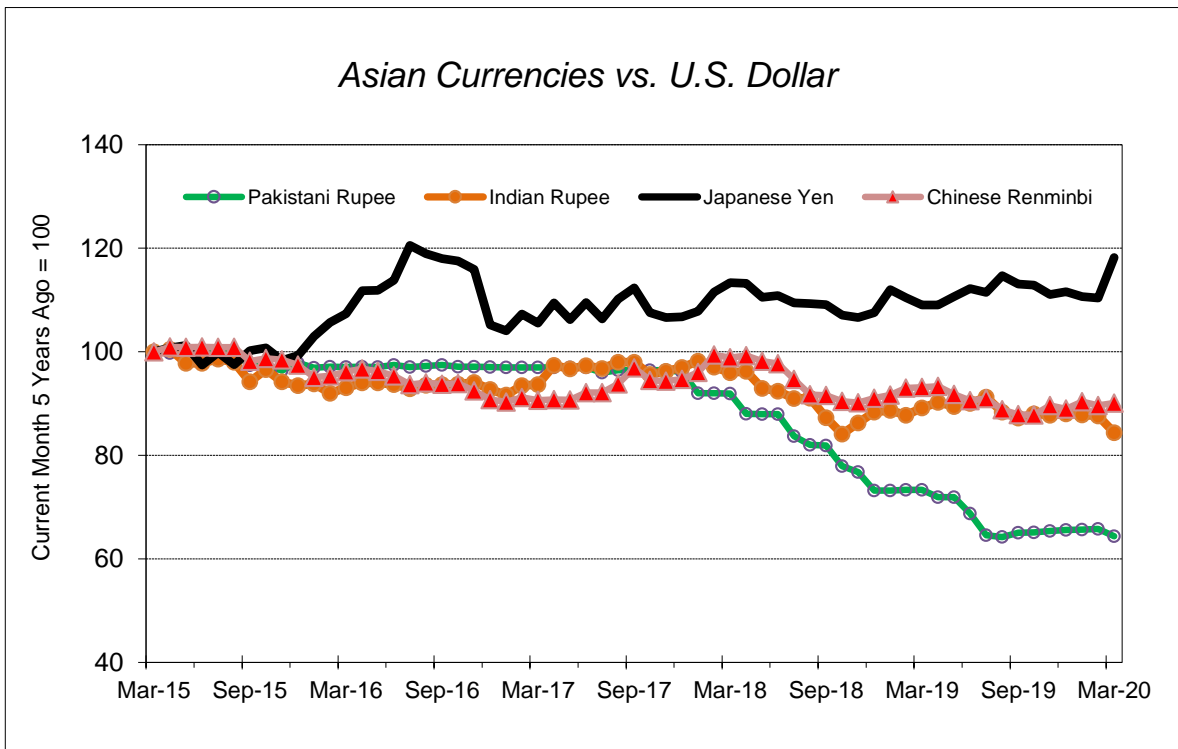
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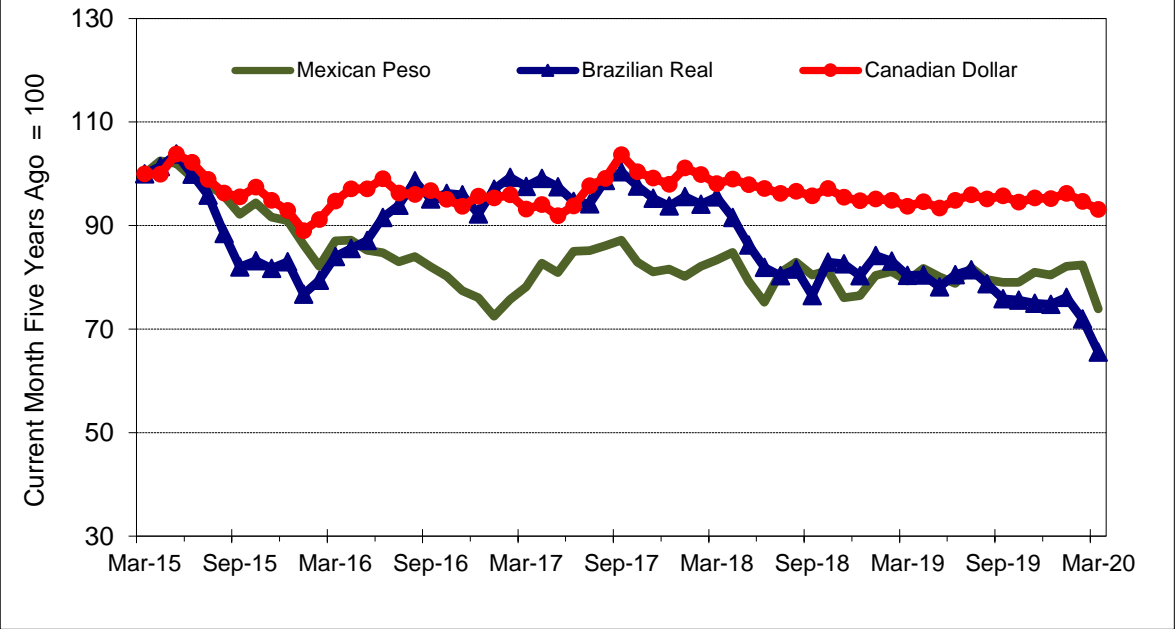


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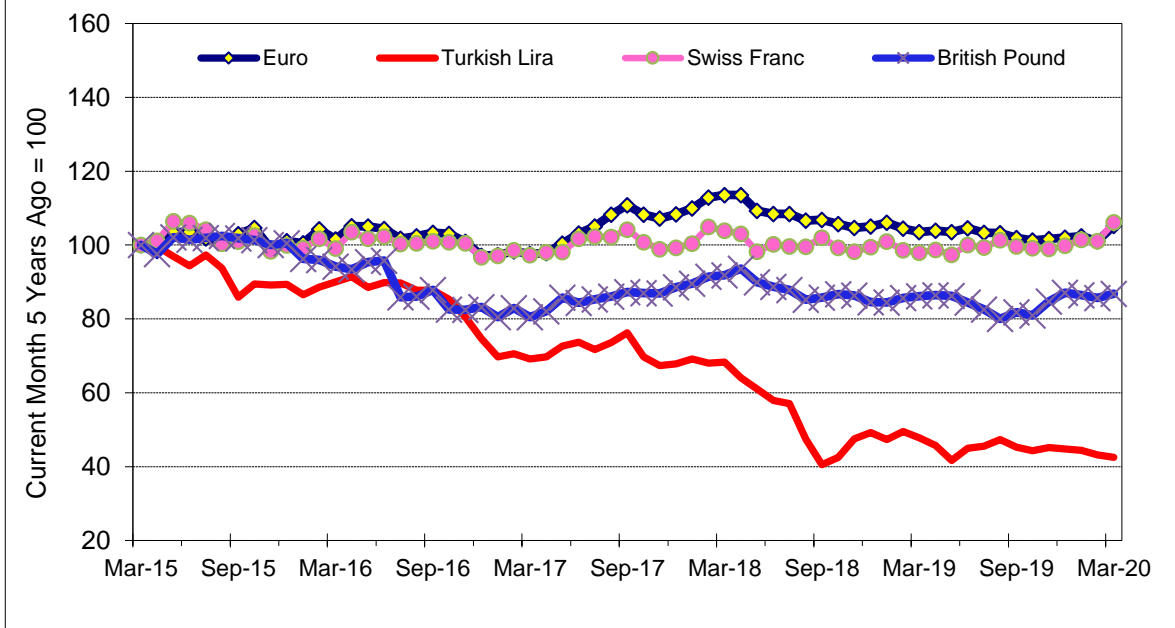


North & South American Currencies vs. U.S. Dollar



Source: Reuters

Index of European Currencies vs. U.S. Dollar



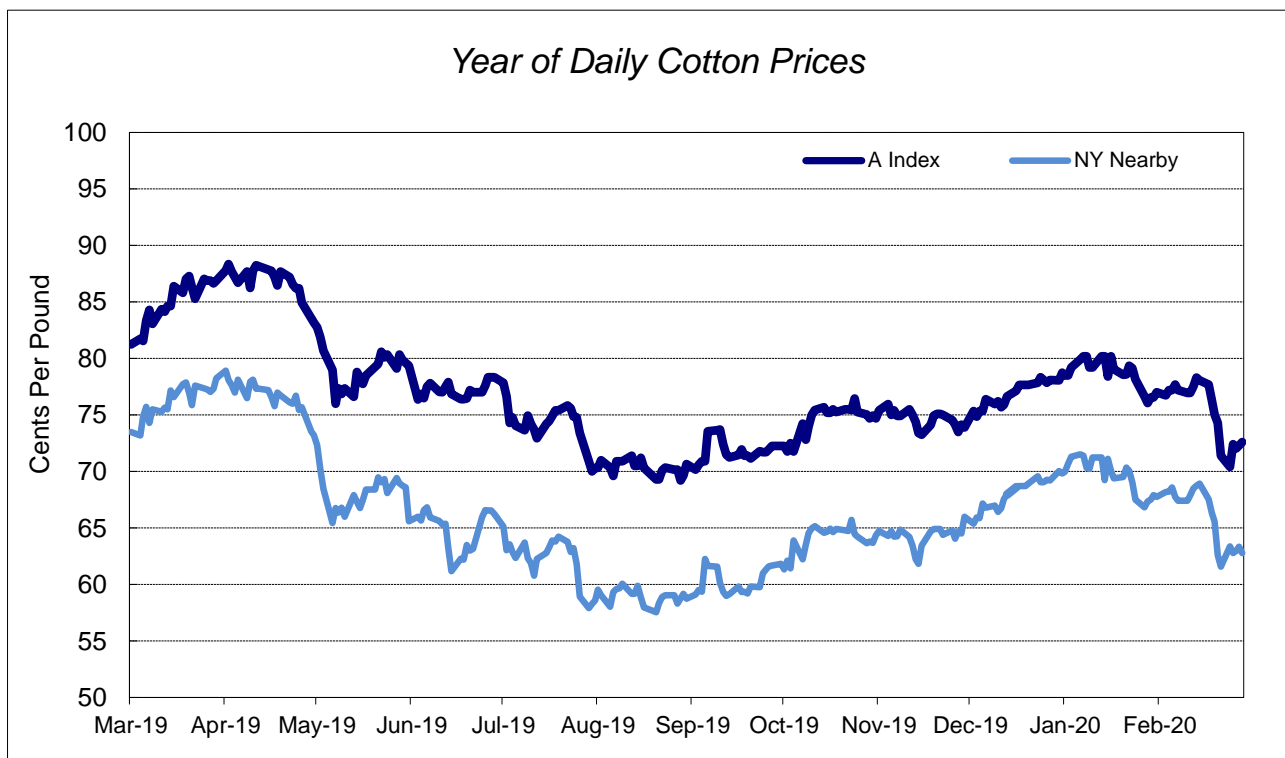
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U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20 January	2019/20 February
Beginning Stocks	3.7	3.8	2.8	4.2	4.9	4.9
Production	12.9	17.2	20.9	18.4	20.1	20.1
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.6	25.0	25.0
Mill-Use	3.5	3.3	3.2	3.0	3.0	3.0
Exports	9.2	14.9	16.3	14.8	16.5	16.5
Demand	12.6	18.2	19.5	17.7	19.5	19.5
Ending Stocks	3.8	2.8	4.2	4.9	5.4	5.4
Stocks/Use Ratio	30.2%	15.1%	21.5%	27.3%	27.7%	27.7%



Sources: ICE Futures U.S. & Cotton Outlook

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