

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



April 2020

www.cottoninc.com

Macroeconomic Overview: Both the speed and scale of the COVID-19 outbreak are an unprecedented shock to the global economy. Although concerns had surfaced (Washington state declared a state of emergency on February 29th), much of the U.S. was operating normally just one month ago. Schools and restaurants were open, and no “stay at home” orders had been issued (most states issued statements limiting public gatherings and forcing closures around March 15th). This contrasts sharply with current conditions, with most non-essential business operations suspended.

Given the sudden onset, it is too early for many economic statistics to describe the magnitude of the shutdown’s effects. Major banks have released estimates for the potential change in U.S. GDP in the second quarter. Goldman Sachs suggested a 24% reduction. Morgan Stanley predicted a 30% decline. A senior official from the Federal Reserve suggested that it could be as bad as a 50% collapse. For context, the worst quarterly contraction during the financial crisis was 8.4%. With many businesses shutdown, the applicability of the numbers that eventually surface may be limited beyond the simple fact that they will describe the worst shock to the world economy in the modern era.

Acknowledging the seriousness of the situation, the U.S. government moved to mitigate the effects. The U.S. passed the largest ever fiscal stimulus package. Valued at roughly \$2 trillion, this represents about 40% of quarterly U.S. economic activity (U.S. economy was over \$21 trillion in the 2019 calendar year) and is more than double the package signed during the financial crisis in 2008. The goal of the support is to bridge business and consumer incomes through the period of the epidemic.

While the cash infusion from the stimulus will help, the flow of credit is critical. As is true in most recessions, the flow of funds through the financial sector will be needed to keep businesses and consumers operational. In difficult times, like recessions, banks can require accommodation to maintain their confidence that loans can be repaid. This is why the role of central banks is important. To promote lending, the Federal Reserve dropped interest rates to zero, matching the lowest level on record. In addition, the Federal Reserve is increasing the money supply by renewing its purchases of Treasury and mortgage-backed securities and created means to facilitate greater credit access to consumers, businesses, and municipalities.

The core of the crisis is epidemiological. The massive economic consequences are a symptom of a health emergency. As a result, the first step towards economic recovery is containment of the virus. Positive news on the disease front is that certain countries, notably China and some of developed East Asia, appear to have already been able to limit the spread to COVID-19. Also, even in virus-stricken Italy and Spain, there has been evidence that new case numbers are beginning to slow. With any luck, that progress will be maintained and will accelerate around the world, enabling progress towards economic normalization.

Employment: The U.S. economy is estimated to have had a net loss of 701,000 jobs in March (based on data collected early in the month). This put an end to the record 113 months of job increases registered between September 2010 and March 2020. The unemployment rate rose from its lowest rate since the late 1960s (3.5%) to its highest since the spring of 2017 (4.4%). The surveys used for both the job gains/losses and the unemployment rate were conducted in the first half of March and therefore missed the more drastic changes that occurred later in the month.

As was the case during the financial crisis, a labor market indicator that has gained more attention is the weekly change in jobless claims. This is because it is weekly, and therefore more timely. Layoffs are a part of normal business conditions, and readings below 300,000 per week are associated with a healthy labor market and overall job growth. Prior to the latest couple weeks, values had been below 300,000 since 2014. In the week-ending March 21st, initial claims were 3.3 million. In the week-ending March 28th, claims were 6.6 million. The highest value recorded in the wake of the financial crisis was 665,000. The volume of claims is straining the state offices that distribute funds and can be expected to be a weight on budgets for years to come.

Consumer Confidence & Spending: The Conference Board’s Index of Consumer Confidence fell from 132.6 to 120.0 from February to March. This was the largest monthly decrease since August 2011. However, the survey used to generate these figures went out early in March and missed the full effect of widespread business closures. Overall spending was up 0.1% month-over-month and up 3.0% year-over-year in February (latest available). Spending on clothing was down 1.0% month-over-month but was up 4.3% year-over-year.

Consumer Prices & Import Data: The CPI for garments was up 0.6% month-over-month in February, but was down 1.4% year-over-year. On February 14th, the U.S. lowered the level of supplemental tariffs applied to imports of Chinese apparel from 15 to 7.5 percentage points. Between September and February (tariffs initially applied September 1st), U.S. apparel imports from China were down 22% in terms of weight volume. Other countries were able to increase shipments, but that was not enough to match the decline from China, and there was a 7% net loss in apparel import weight. Apparel weight should translate nearly directly to fiber weight. These losses are meaningful, but likely will be dwarfed by the declines that will follow the coronavirus.

U.S. Macroeconomic & Cotton Supply Chain Charts

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

Executive Cotton Update

U.S. Macroeconomic Indicators & Cotton Prices
April 2020



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q3 : 2019	Q4 : 2019	Q1 : 2020		
Growth in US Real GDP	2.3%	2.5%	2.1%	2.1%	2.1%	2.1%	0.0%	% 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	53.9	55.5	48.9	49.6	48.1	47.8	50.9	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.6	57.1	54.9	55.9	53.9	54.9	55.5	Index	Institute for Supply Management
Consumer Confidence	116.7	127.6	128.4	130.4	126.8	128.2	130.4	Index	The Conference Board
Index of Leading Economic Indicators	105.3	109.0	111.6	111.8	111.5	111.2	112.0	Index	The Conference Board
Change in Non-Farm Payrolls	194.1	185.3	221.2	224.3	261.0	184.0	214.0	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.3%	3.9%	3.5%	3.5%	3.5%	3.5%	3.6%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.2%	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.4%	1.7%	1.7%	1.8%	1.9%	1.8%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for February

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	February		
Housing Starts	12.2	12.6	14.3	15.4	1.6	1.6	1.6	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.4	5.4	5.4	5.3	5.5	5.4	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile 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		
US Industrial Production	105.8	107.7	109.5	109.5	110.0	109.6	109.0	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	108.2	100.4	98.3	96.4	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.3	2.9	3.0	3.0	3.0	2.8	3.2	million 480lb bales	USDA ERS

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

Retail Data

Retail 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		
US Real Consumer Spending									
All Goods and Services	2.9%	2.7%	2.6%	2.8%	3.3%	2.8%	3.0%	% Chg. Year/Year	Department of Commerce
Clothing	2.7%	2.8%	3.0%	3.8%	6.4%	3.6%	4.3%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.6%	2.1%	2.0%	2.3%	2.3%	2.5%	2.3%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.7%	-0.7%	-1.6%	-2.0%	-1.9%	-1.9%	-1.4%	% Chg. Year/Year	Bureau of Labor Statistics

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		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.3	2.3	2.2	2.3	2.3	2.2	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.1	2.1	2.1	2.1	2.0	Ratio	Department of Commerce

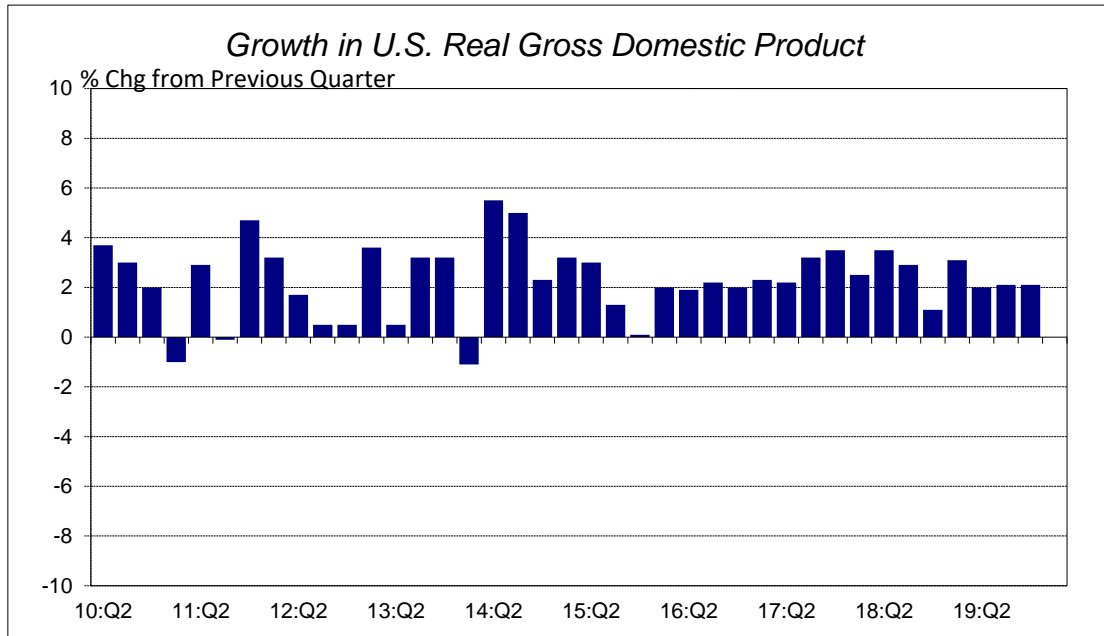
Executive Cotton Update

Daily Cotton Price and Currency Data
April 2020

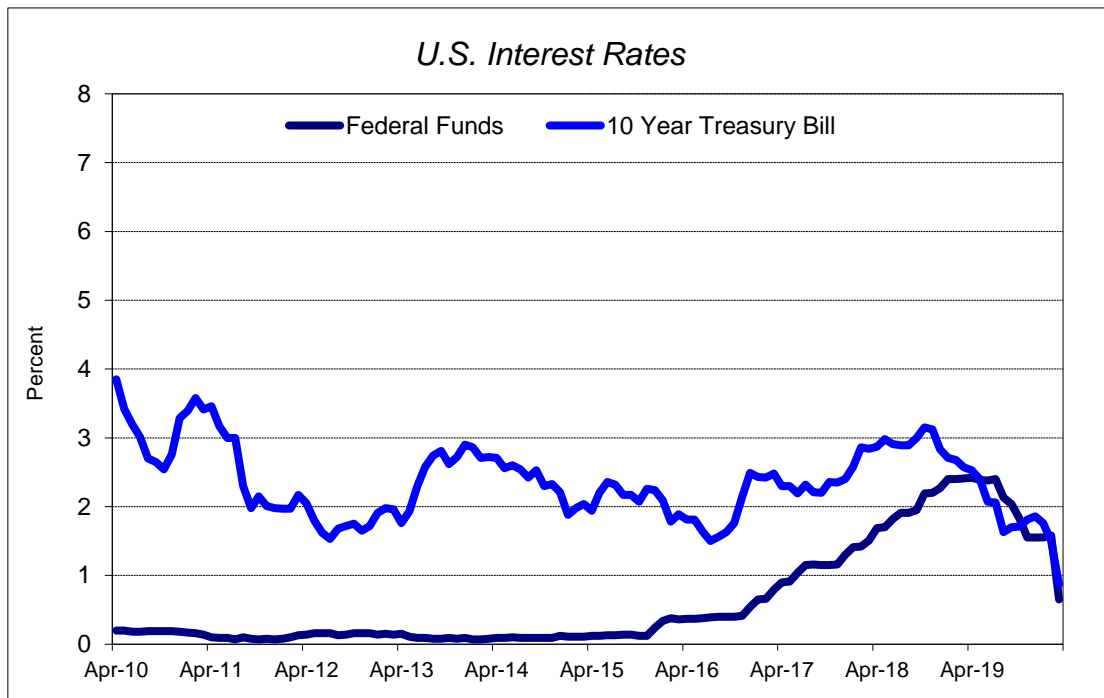


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
NY Nearby	70.1	71.7	71.0	68.8	70.1	67.1	57.6	cents/pound	ICE
A Index	79.1	81.3	80.9	78.8	79.1	76.7	68.2	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
Dollar Trade Weighted Exchange Index	112.8	113.5	116.5	116.1	115.0	116.2	116.9	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.67	6.76	7.03	6.98	6.96	7.02	6.96	Chinese Renminbi/US dollar	Reuters
Indian Rupee	67.38	68.20	71.50	71.81	71.37	71.34	72.72	Indian Rupee/US dollar	Reuters
Japanese Yen	111.88	110.18	108.25	108.30	108.28	108.71	107.93	Japanese Yen/US dollar	Reuters
Pakistani Rupee	118.93	128.80	155.17	154.62	154.93	154.50	154.43	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.59	3.68	4.19	4.25	4.03	4.24	4.49	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.31	1.32	1.32	1.30	1.33	1.34	Canadian dollar/US dollar	Reuters
Mexican Peso	18.59	19.10	19.31	19.14	18.88	18.79	19.75	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.75	0.77	0.78	0.77	0.76	0.77	0.78	British Pound/US dollar	Reuters
Euro	0.89	0.87	0.90	0.90	0.89	0.90	0.90	Euro/US dollar	Reuters
Swiss Franc	0.98	0.98	0.98	0.96	0.97	0.97	0.96	Swiss Franc/US dollar	Reuters
Turkish Lira	4.12	4.87	5.88	6.05	5.95	5.98	6.22	Turkish Lira/US dollar	Reuters



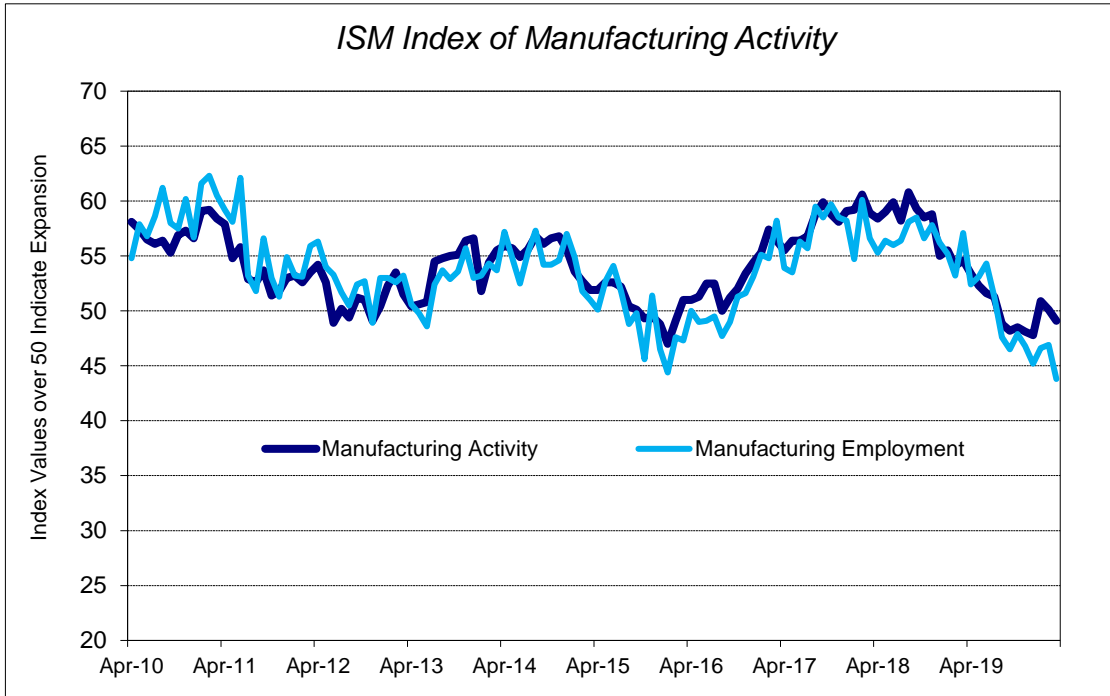
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



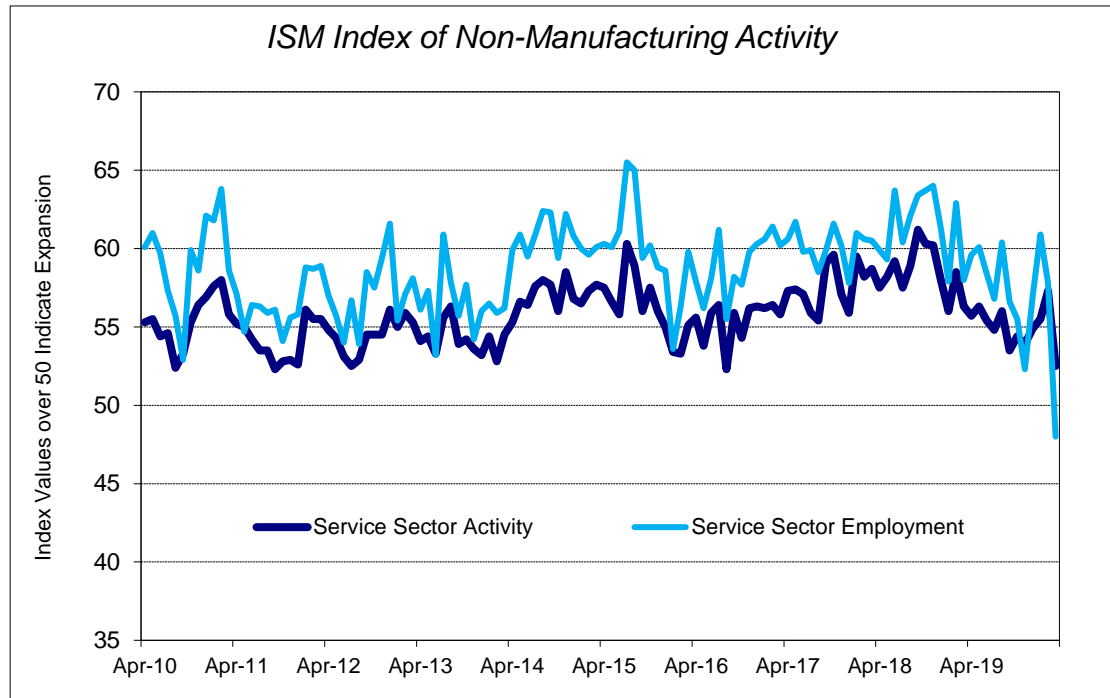
Source: Federal Reserve

[return to text](#)





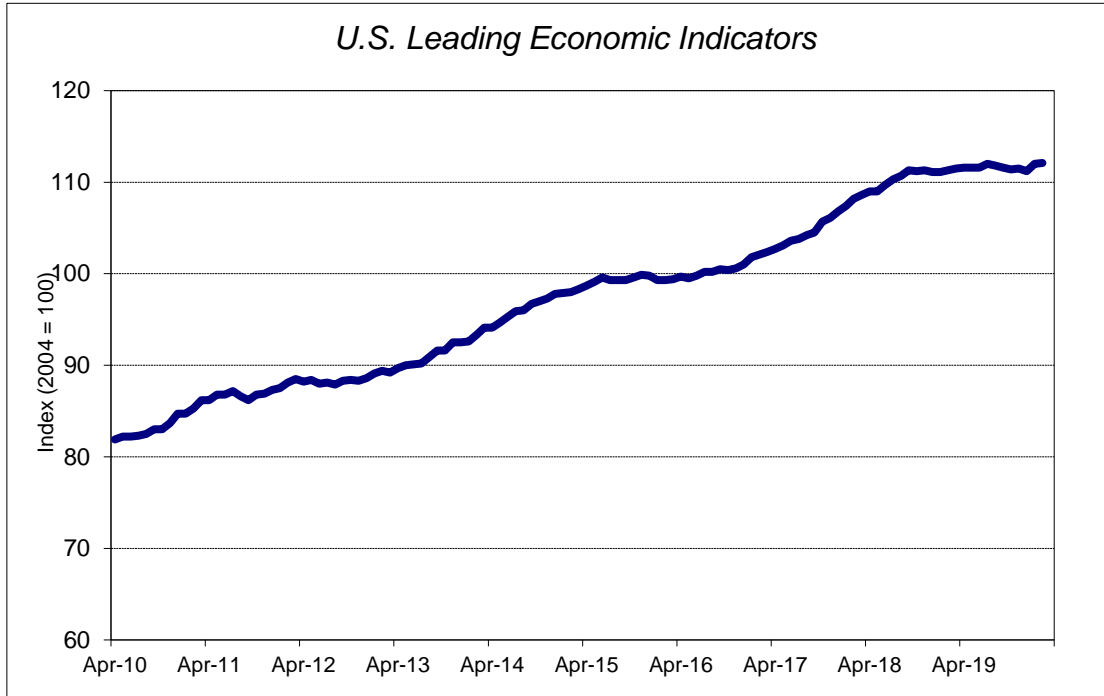
Source: Institute for Supply Chain Management



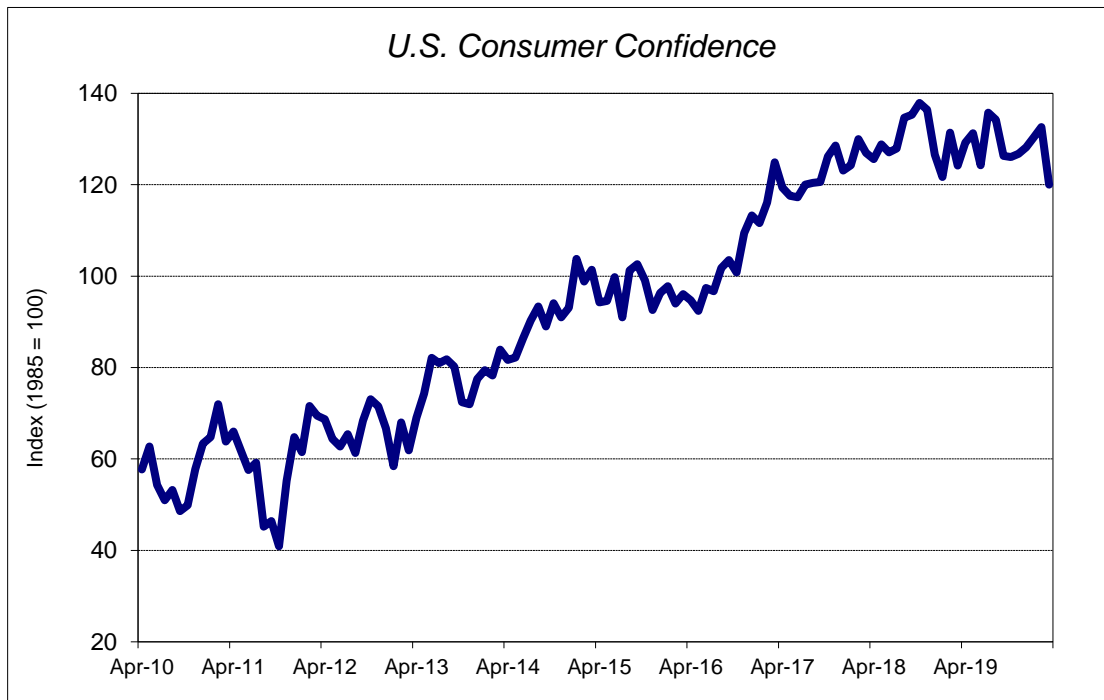
Source: Institute for Supply Chain Management

[return to text](#)





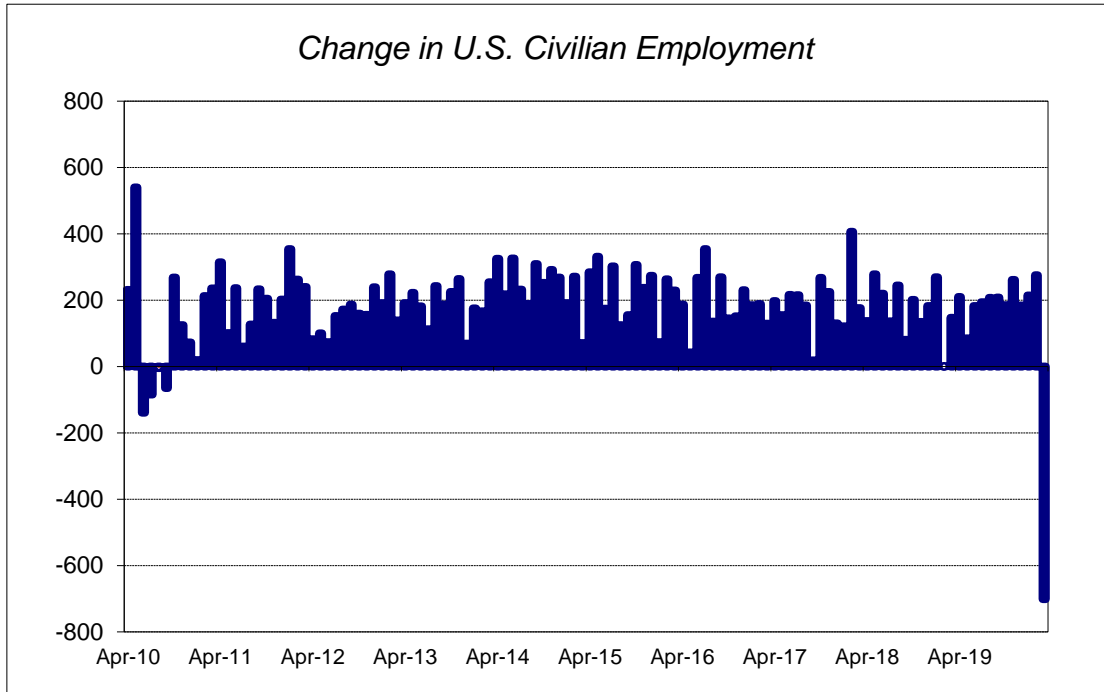
Source: The Conference Board



Source: The Conference Board

[return to text](#)





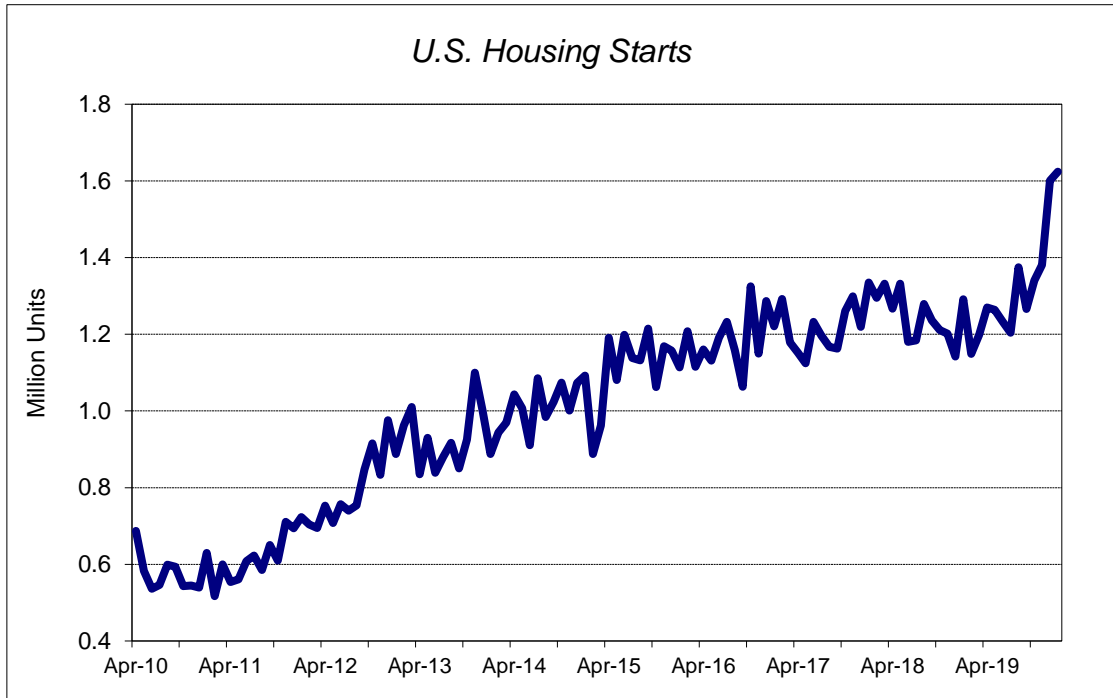
Source: Bureau of Labor Statistics



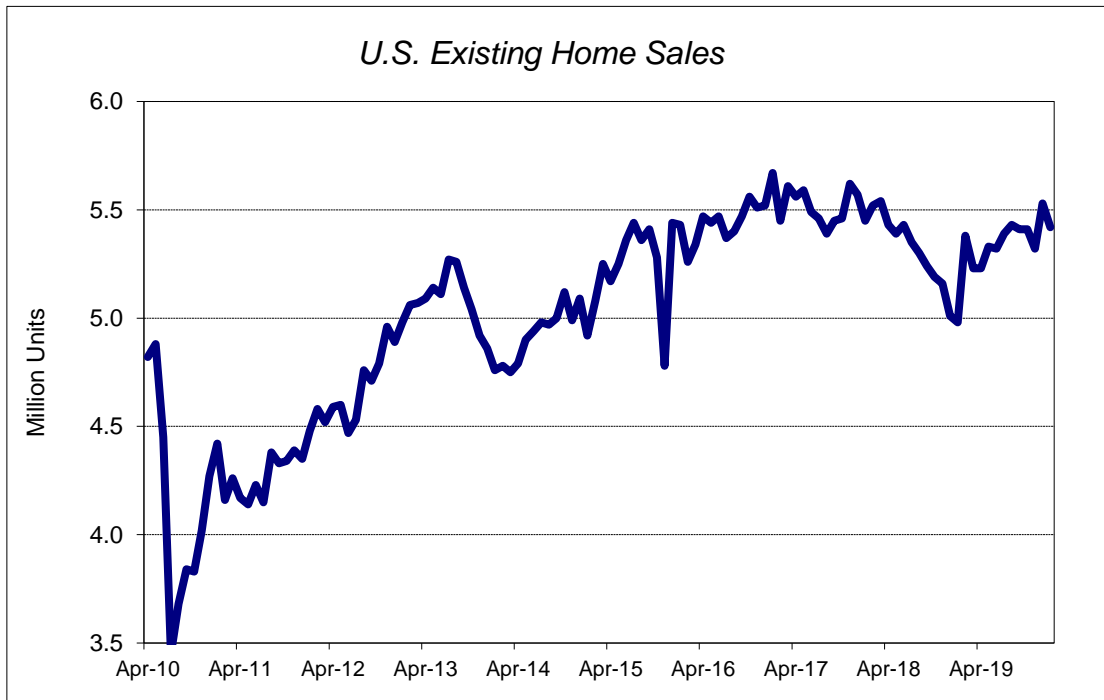
Source: Bureau of Labor Statistics

[return to text](#)





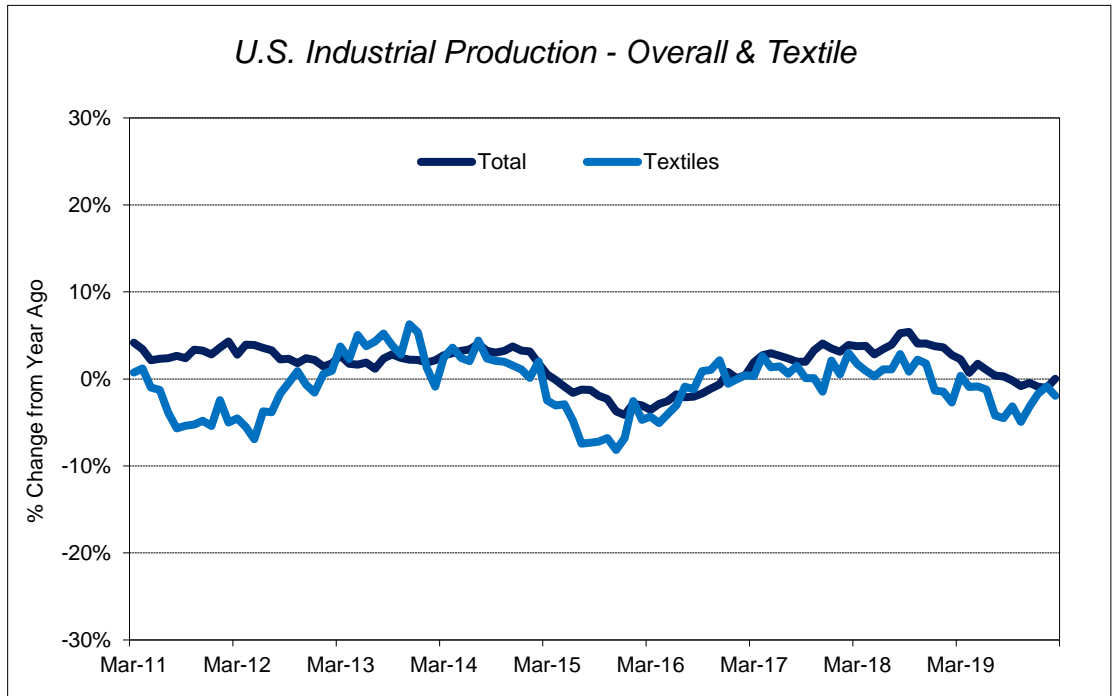
Seasonally Adjusted Annual Rate; Source: Department of Commerce



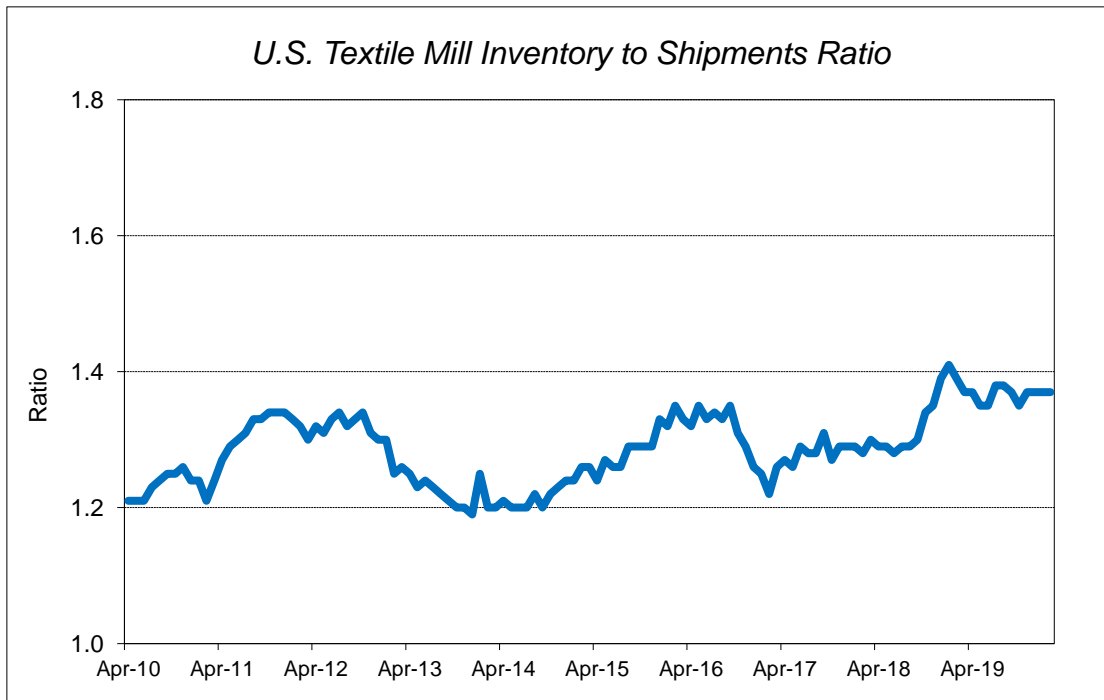
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

[return to text](#)





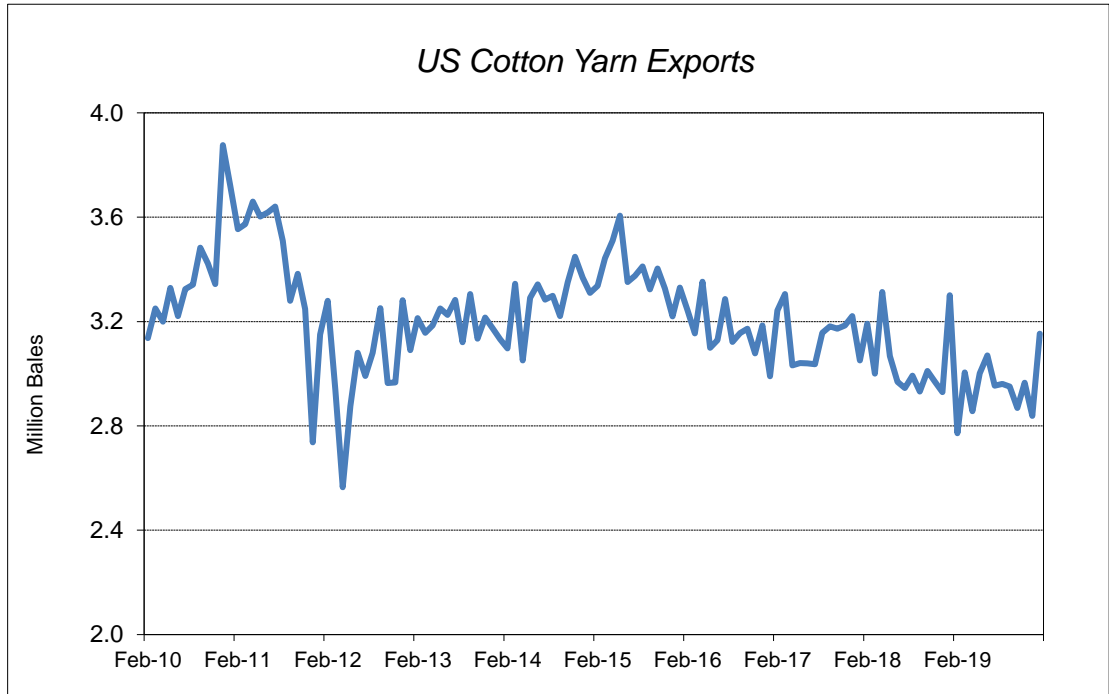
Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

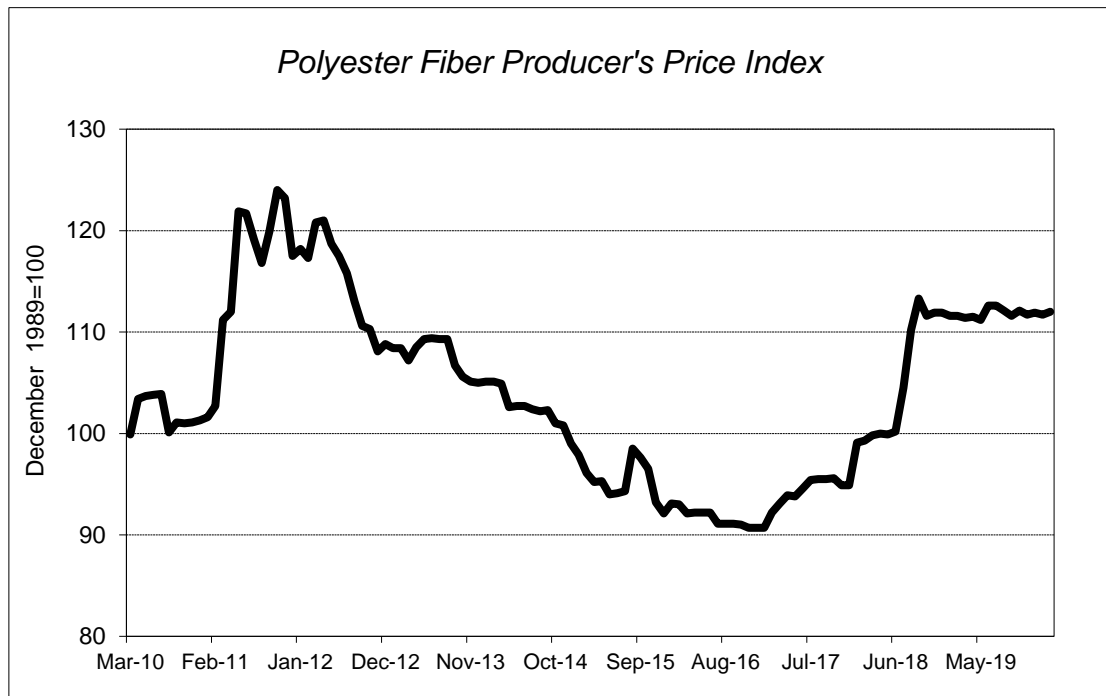
[return to text](#)





Seasonally Adjusted Annual Rate

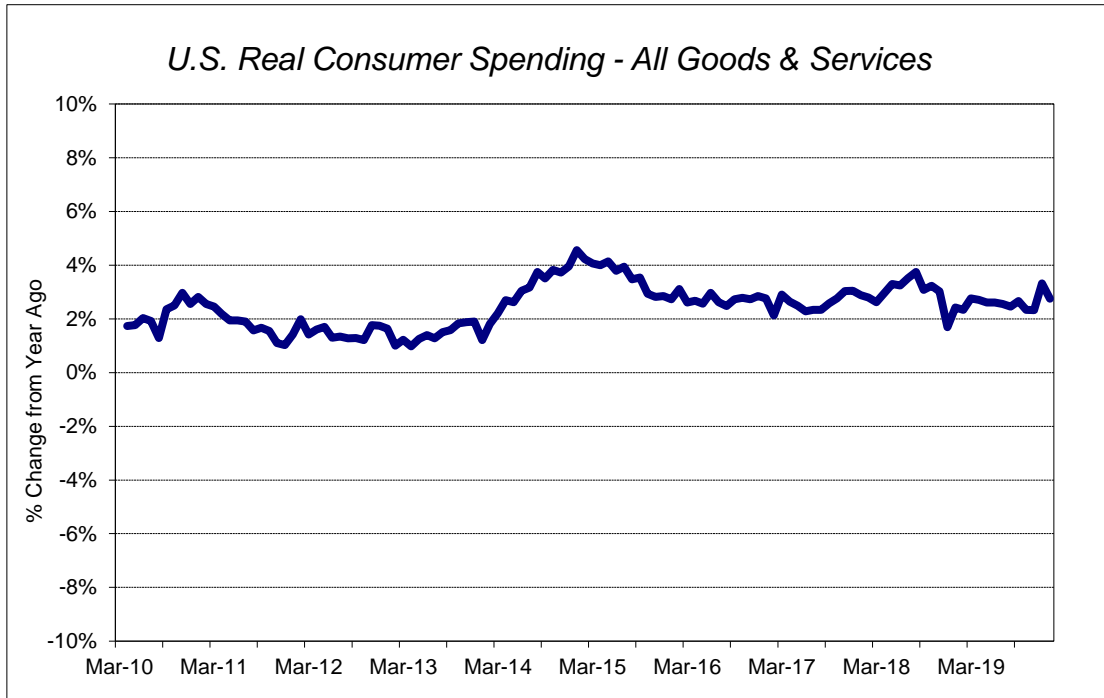
Source: USDA ERS



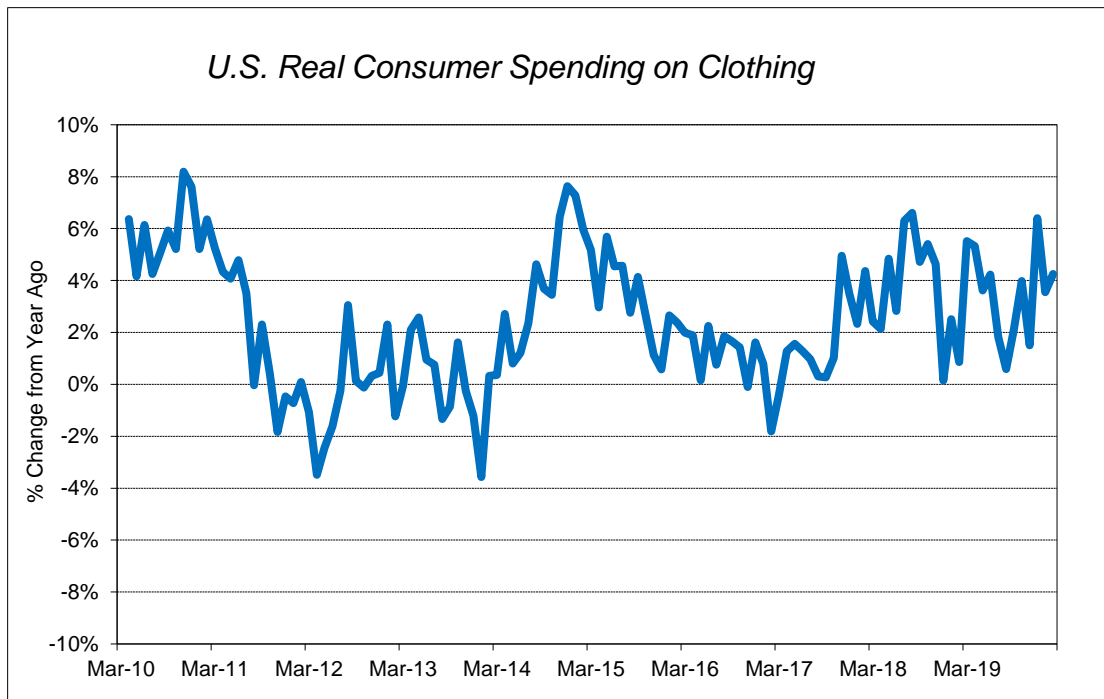
Source: Bureau of Labor Statistics

[return to text](#)





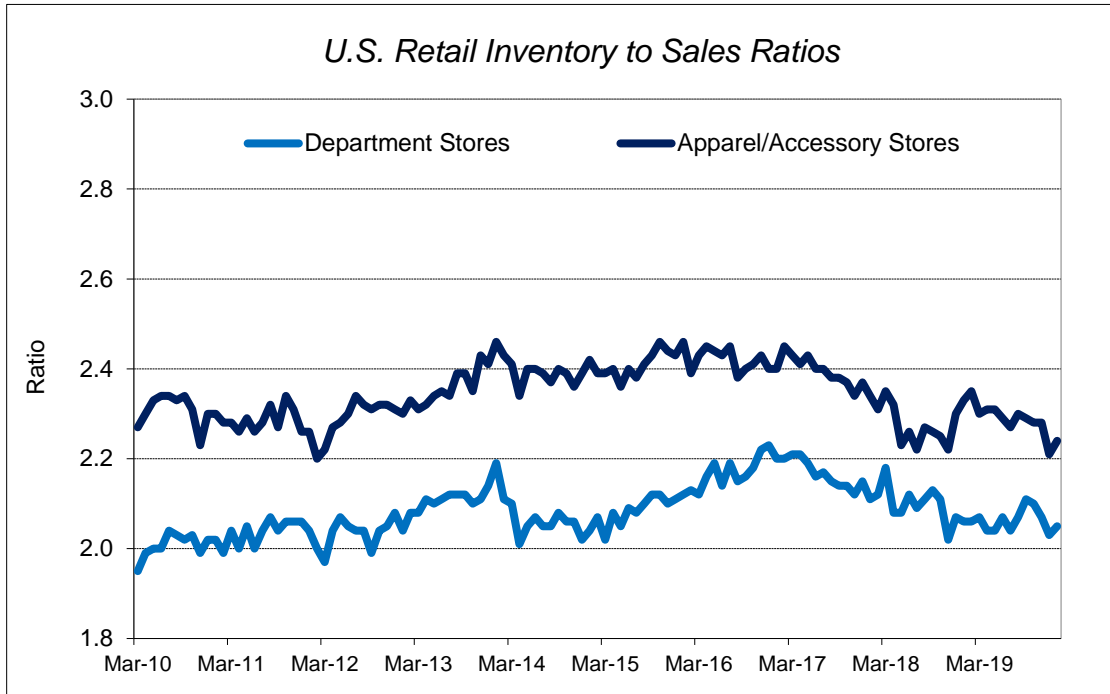
*Based on chained 2005\$.



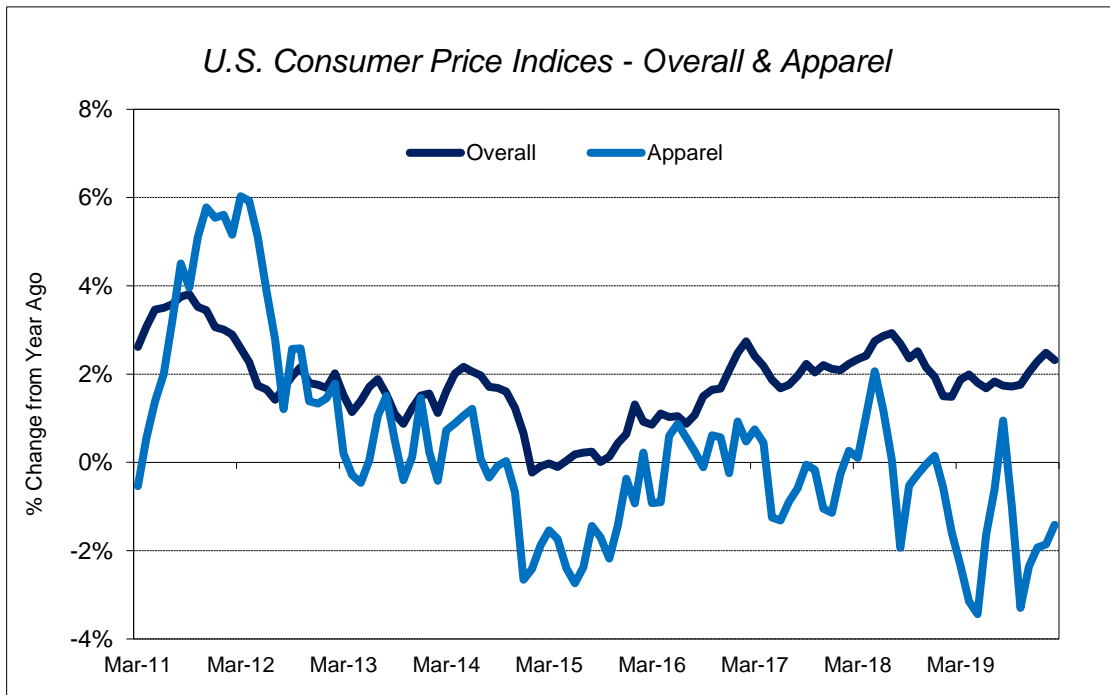
*Based on chained 2005\$.

[return to text](#)





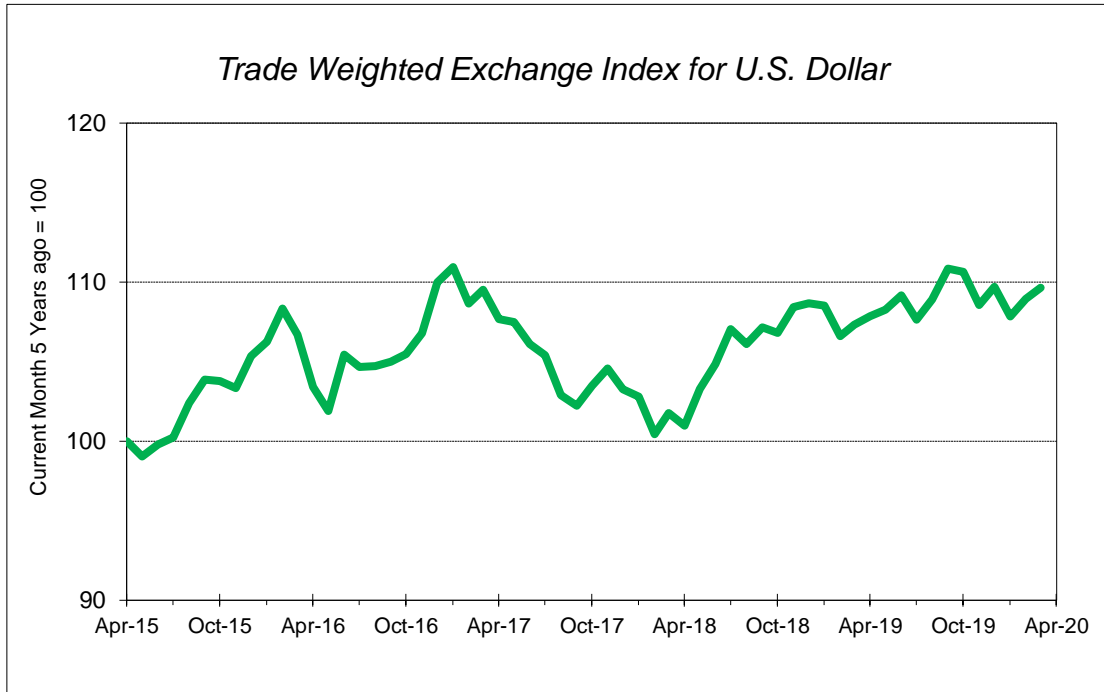
Source: Department of Commerce



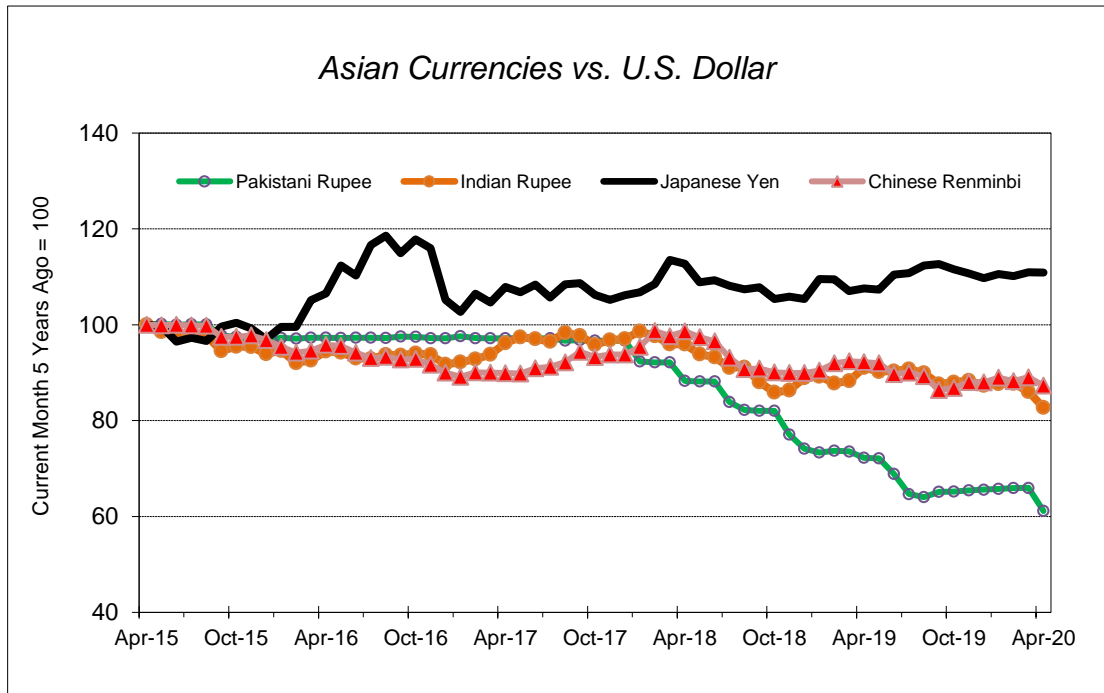
Source: Bureau of Labor Statistics

[return to text](#)





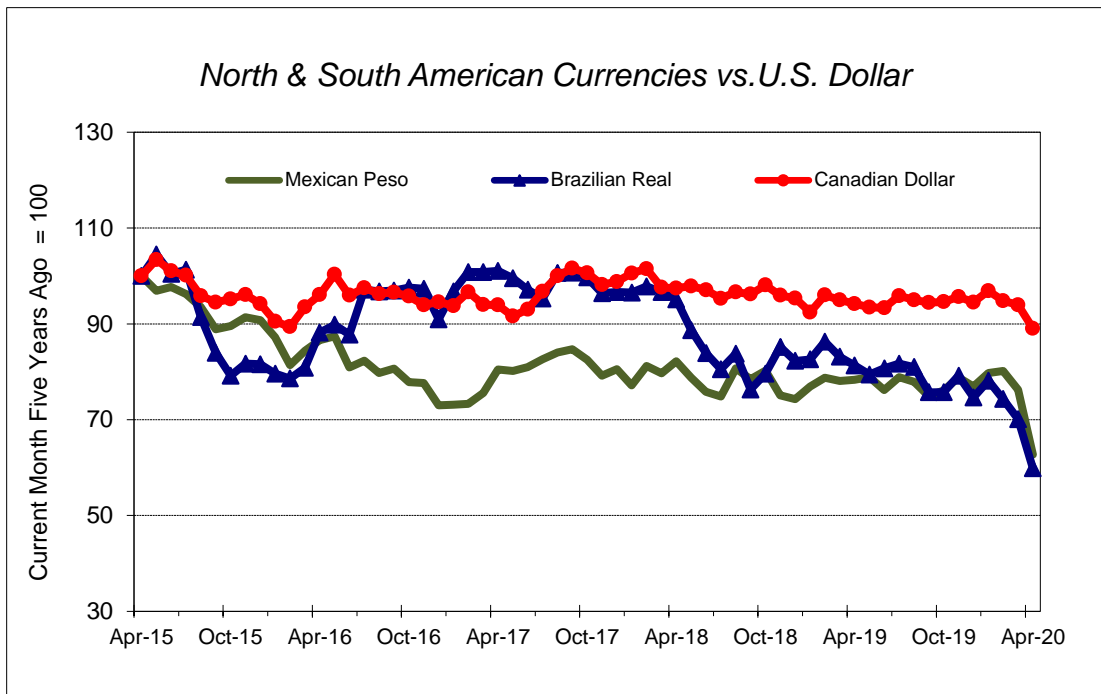
Source: Federal Reserve



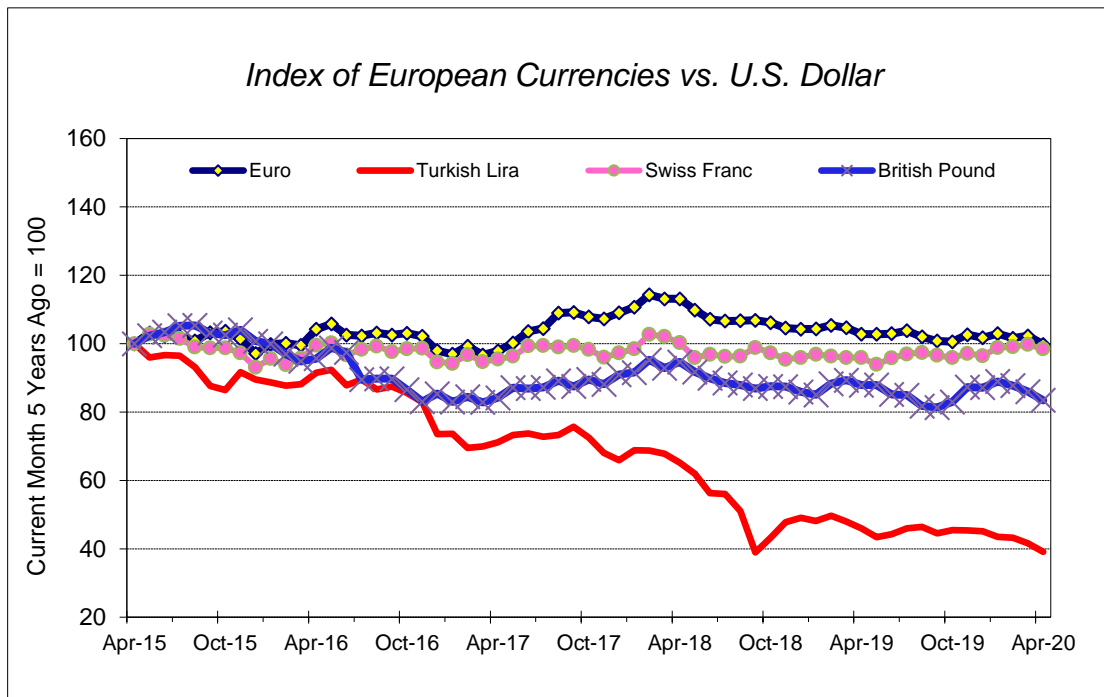
Source: Reuters

[return to text](#)





Source: Reuters



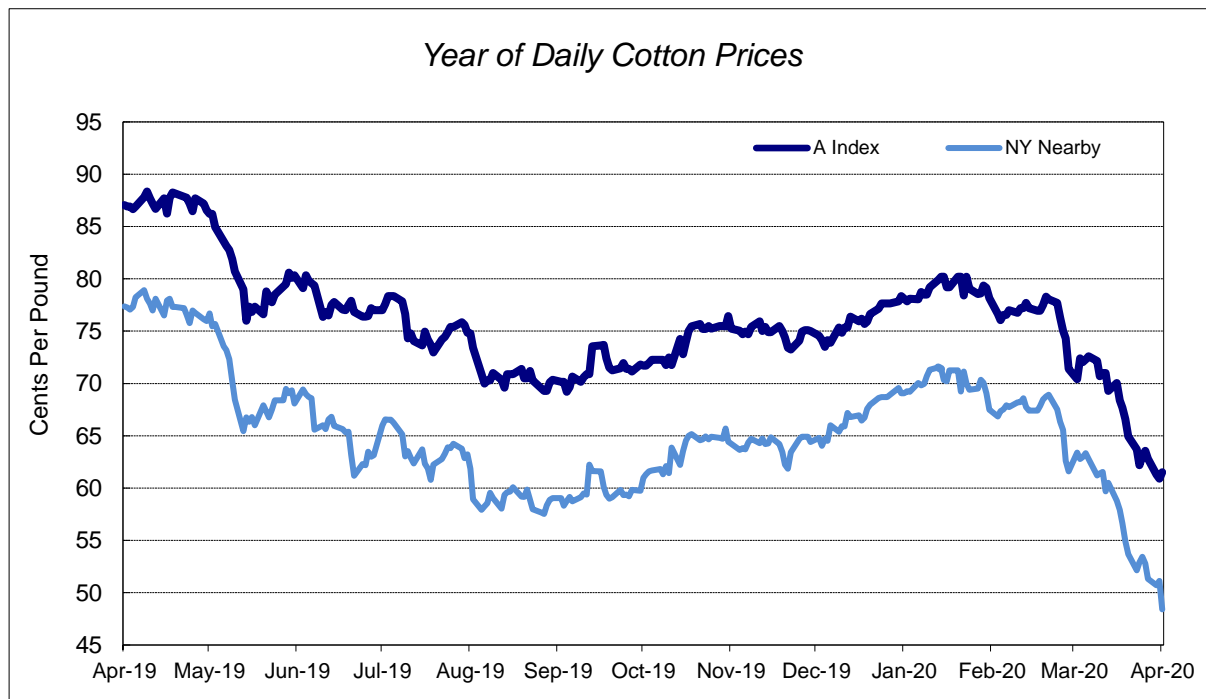
Source: Reuters

[return to text](#)



U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20 February	2019/20 March
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	19.8
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.6	25.0	24.7
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	5.1
Stocks/Use Ratio	30.2%	15.1%	21.5%	27.3%	27.7%	26.2%



Sources: ICE Futures U.S. & Cotton Outlook

[return to text](#)

