

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



September 2020

www.cottoninc.com

Macroeconomic Overview: The U.S. economy has significantly improved since the second quarter. Following the record quarter-to-quarter decrease in GDP in the second quarter, a record increase is expected in the third. However, even with the improvement, it is widely expected that it will take years to get the economy back to the level of activity before COVID. The latest International Monetary Fund (IMF) forecasts suggest the U.S. economy will contract -8.0% in 2020.

U.S. consumer spending has improved significantly in recent months. After being down as much as -16.7% year-over-year in April, the latest figures (July) indicate that spending was down only -3.8%. The recovery in spending on apparel has been even stronger, with the level for July nearly even with the value one year ago (-0.4% year-over-year). There are signs that the trend towards improvement may not be steady in later months. Supplemental payments for unemployment insurance expired in July, and consumer confidence has been decreasing since June. Declines after an initial recovery have been experienced in other markets. An example is China, which was the first nation to come out of shutdown. In China, year-over-year rates for overall spending slid between June and July after steadily improving from February to June. Concern about the trajectory of global demand has been linked with recent declines in commodity markets, such as oil, that are sensitive to the outlook for global economic growth.

To support growth, the Federal Reserve recently announced changes in policy. It announced that it will allow the inflation rate to drift above the official target of two percent inflation after periods of lower inflation and slower economic growth. This can lead to a longer period of historically low-interest rates. By keeping borrowing less expensive, a hope is that it will encourage investment and stimulate the economy. By expanding the money supply, however, the central bank may also be allowing for more money to flow into financial markets. These flows likely contributed to recent gains in stock prices that enabled new records for several major U.S. stock indexes - despite the high levels of unemployment and persistently high COVID case numbers.

Employment: The U.S. economy was estimated to have added 1.4 million jobs in August. Last month's increase was smaller than the increases of 2.7, 4.8, and 1.7 million that occurred in May, June, and July. Outside of those months, the increase in August would have ranked as the largest on record.

The gains made since May, followed two of the three largest monthly decreases on record, with 1.4 and 20.8 million jobs lost in March and April (1.9 million jobs were lost at the end World War II). The net result of change in payrolls since COVID has been the loss of 11.5 million positions. This means that even if the historically strong rate of job growth near one million increases per month is maintained, it will take nearly one year to get the labor market back to where it was in February.

The unemployment rate decreased from 10.2% to 8.4% between July and August. The unemployment rate peaked in April at 14.7%. Before the virus, the unemployment rate was 3.5%. The worst rate during the 2008-09 financial crisis was 10.0%.

The Bureau of Labor Statistics continues to issue a statement indicating that there have been data collection and classification issues. In the latest report, the BLS indicated that the share of responses affected by these issues is much smaller than it was in earlier months, but also stated that approaches to compensate for these issues could lift the unemployment rate by as much as one percentage point.

Consumer Confidence & Spending: The Index of Consumer Confidence decreased for the second consecutive month in August. The current value (84.8) is the lowest since COVID tightened its grip in the U.S. in March (the previous low during the COVID period was 85.7 in April).

Overall consumer spending increased 1.6% month-over-month in July but was 3.8% lower year-over-year. Consumer spending on apparel increased 2.5% month-over-month and was only 0.4% lower year-over-year. Besides footwear, the recovery in clothing spending from April to July (from -43.2% to -0.4%, a swing of 42.8 percentage points) ranks as the strongest among all categories of non-durable goods.

Consumer Prices & Import Data: Retail apparel prices, as measured by the CPI for garments, increased 1.0% month-over-month but were 7.2% lower year-over-year. Average import prices (in terms of USD per square meter equivalent or SME) for cotton-dominant apparel were down 2.9% month-over-month in seasonally-adjusted terms and were down 11.2% year-over-year.

Year-over-year decreases in the volume of U.S. apparel imports (in terms of SMEs) have been getting smaller since May. For apparel imports of all fibers, import volumes were -58.4% in May and -22.0% year-over-year in July. For cotton-dominant apparel imports, volumes improved from -66.8% in May to -19.5% in July. With tariffs applied in September, volumes were down ahead of COVID. Between September 2019 and February 2020, import volumes of apparel of all fibers were down 10.2% and imports of cotton-dominant apparel were down 9.5%.

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		Europe	
	Industrial Production			
	Inventory/Shipments			
	U.S. Yarn Exports			
	Polyester PPI			

Executive Cotton Update

U.S. Macroeconomic Indicators & Cotton Prices
September 2020



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q4 : 2019	Q1 : 2020	Q2 : 2020		
Growth in US Real GDP	1.9%	1.9%	-1.3%	-5.0%	2.4%	-5.0%	-31.7%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic Series with Latest Data for August

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	June	July	August		
ISM Index of Manufacturing Activity	53.6	54.4	48.4	50.0	52.6	54.2	56.0	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.1	56.3	52.0	53.5	57.1	58.1	56.9	Index	Institute for Supply Management
Consumer Confidence	116.7	124.4	102.2	92.0	98.3	91.7	84.8	Index	The Conference Board
Change in Non-Farm Payrolls	-41.0	-199.6	-2111.5	3080.0	4,781	1,734	1,371	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.8%	4.8%	9.5%	11.5%	11.1%	10.2%	8.4%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.2%	1.6%	0.4%	0.1%	0.1%	0.1%	0.1%	Interest rate	Federal Reserve
10-year Treasury Bill	2.1%	2.2%	0.8%	0.7%	0.7%	0.6%	0.7%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for July

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	June	July	July		
Index of Leading Economic Indicators	105.5	108.8	103.3	102.5	100.0	103.0	104.4	Index	The Conference Board
Housing Starts	12.4	12.7	11.9	13.6	1.0	1.2	1.5	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.3	4.8	5.3	5.3	4.7	5.9	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile Series with Latest Data for July

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
US Industrial Production	105.3	106.9	97.0	98.7	97.2	100.2	100.2	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	107.6	97.4	95.2	95.6	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile 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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.3	2.3	1.7	0.6	0.5	0.5	0.9	million 480lb bales	USDA ERS

Industrial & Textile Series with Latest Data for July

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
US Textile Mill Inventory/Shipments Ratio	1.37	1.40	1.56	1.50	1.50	1.51	1.48	Ratio	Department of Commerce

Retail Data

Retail Series with Latest Data for July

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
US Real Consumer Spending									
All Goods and Services	1.8%	1.1%	-8.0%	-4.4%	-9.9%	-5.1%	-3.8%	% Chg. Year/Year	Department of Commerce
Clothing	0.9%	0.2%	-19.0%	-1.6%	-22.8%	-2.7%	-0.4%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.7%	2.0%	0.8%	0.9%	0.2%	0.7%	1.0%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-1.1%	-1.6%	-6.5%	-7.6%	-8.8%	-8.0%	-7.2%	% Chg. Year/Year	Bureau of Labor Statistics

Retail 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		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.8	3.0	7.9	2.9	17.7	6.1	2.9	Ratio	Department of Commerce
Department Stores	2.2	2.2	2.7	2.1	3.6	2.6	2.1	Ratio	Department of Commerce

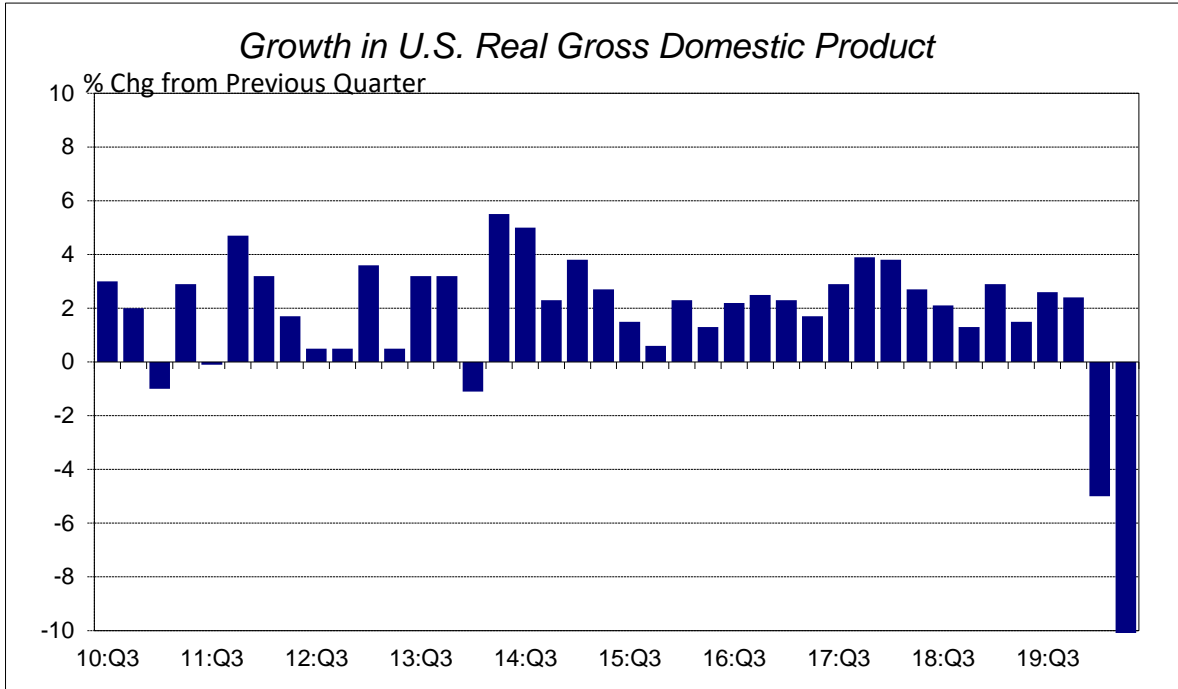
Executive Cotton Update

Daily Cotton Price and Currency Data

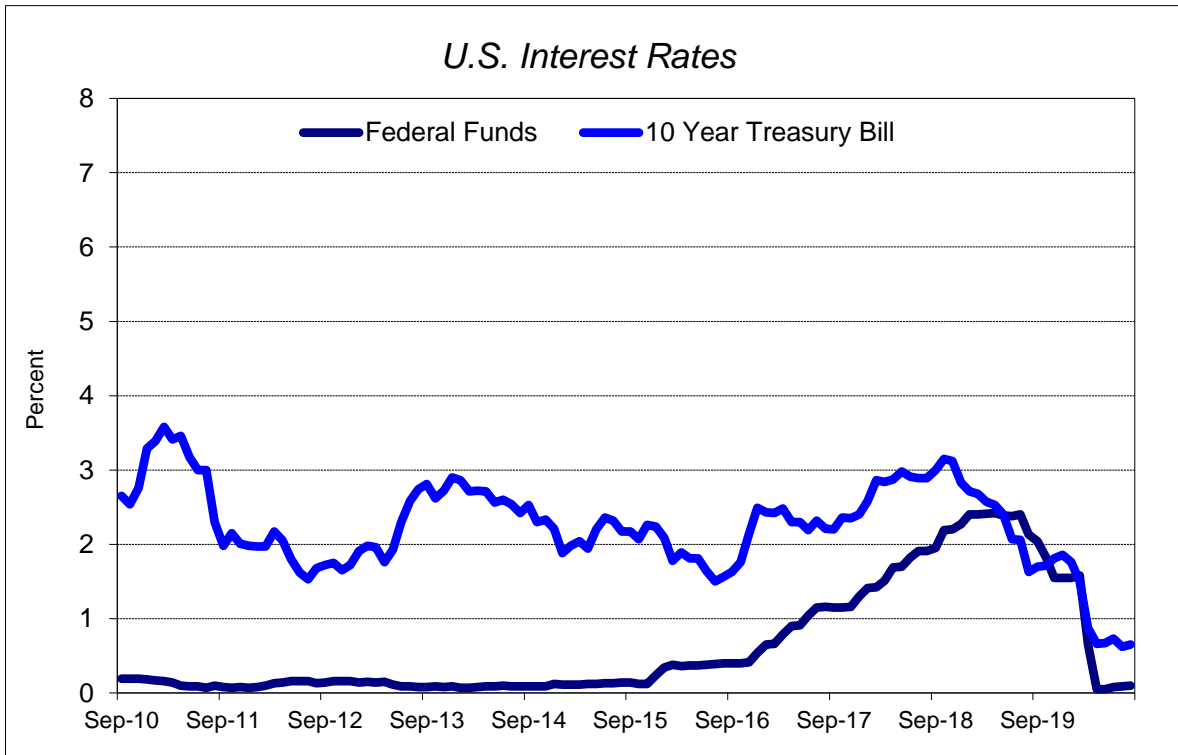
September 2020



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	June	July	August		
NY Nearby	69.0	70.6	68.8	66.8	60.6	62.7	63.6	cents/pound	ICE
A Index	77.9	80.1	78.2	76.2	67.8	68.7	70.0	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	June	July	August		
Dollar Trade Weighted Exchange Index	114.0	114.6	120.0	119.0	118.9	119.9	118.0	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.74	6.80	7.02	7.02	7.08	7.02	6.96	Chinese Renminbi/US dollar	Reuters
Indian Rupee	68.46	69.93	75.19	75.16	75.53	75.02	74.93	Indian Rupee/US dollar	Reuters
Japanese Yen	110.37	109.46	107.09	107.33	108.59	107.52	105.89	Japanese Yen/US dollar	Reuters
Pakistani Rupee	124.21	137.20	163.31	166.03	163.50	166.75	167.85	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.76	3.98	5.22	5.25	4.94	5.37	5.44	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.32	1.31	1.36	1.34	1.34	1.35	1.34	Canadian dollar/US dollar	Reuters
Mexican Peso	19.21	19.71	22.50	22.34	21.70	22.80	22.51	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.76	0.77	0.79	0.78	0.79	0.79	0.77	British Pound/US dollar	Reuters
Euro	0.89	0.87	0.89	0.87	0.88	0.88	0.85	Euro/US dollar	Reuters
Swiss Franc	0.98	0.98	0.95	0.94	0.96	0.94	0.91	Swiss Franc/US dollar	Reuters
Turkish Lira	4.50	5.36	6.81	6.96	6.79	6.86	7.24	Turkish Lira/US dollar	Reuters



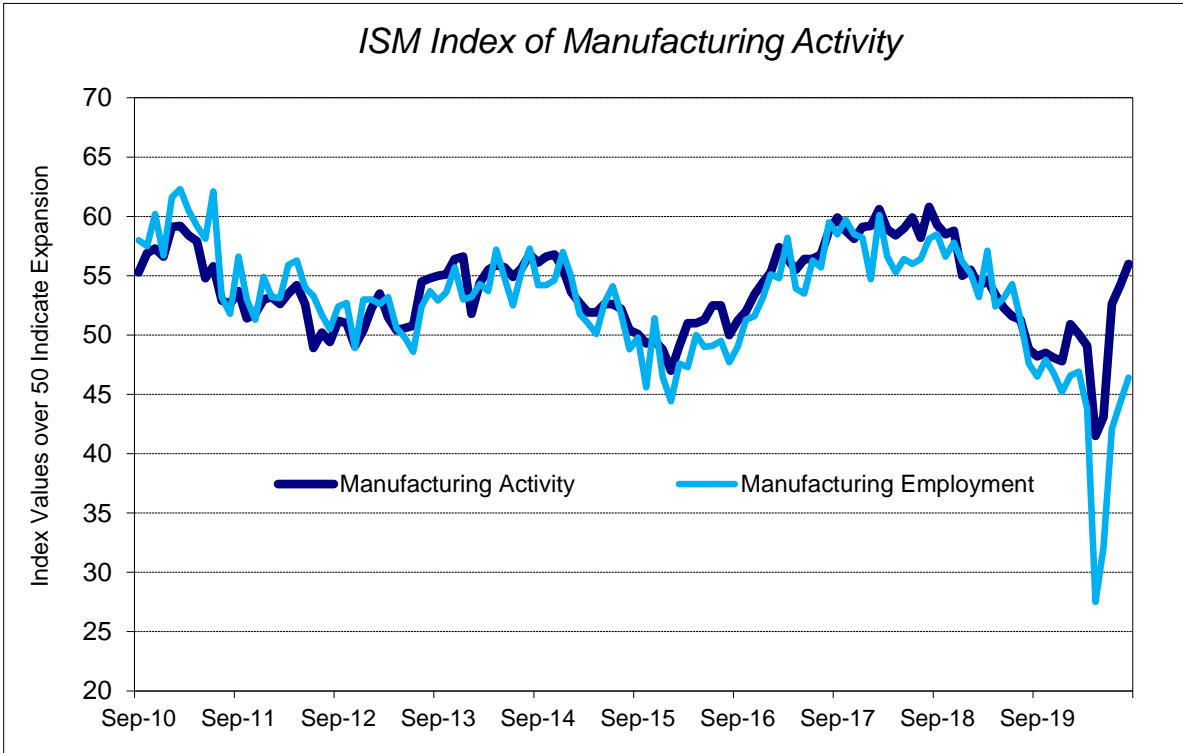
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



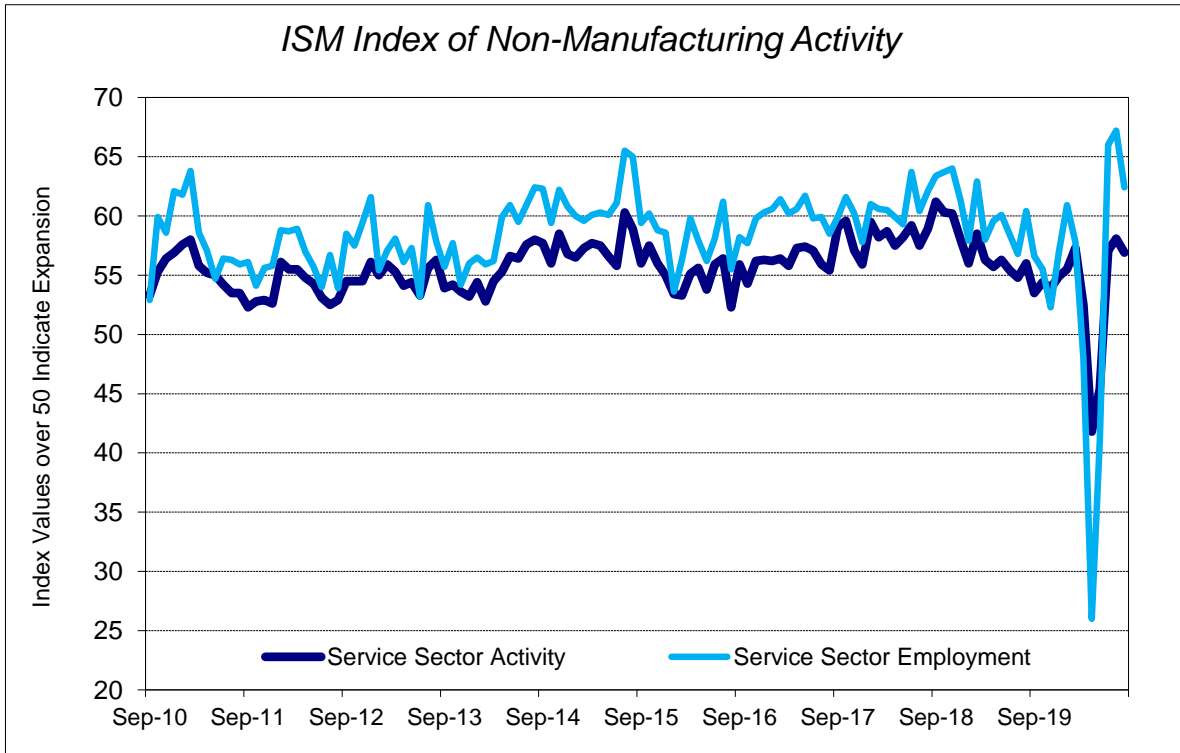
Source: Federal Reserve

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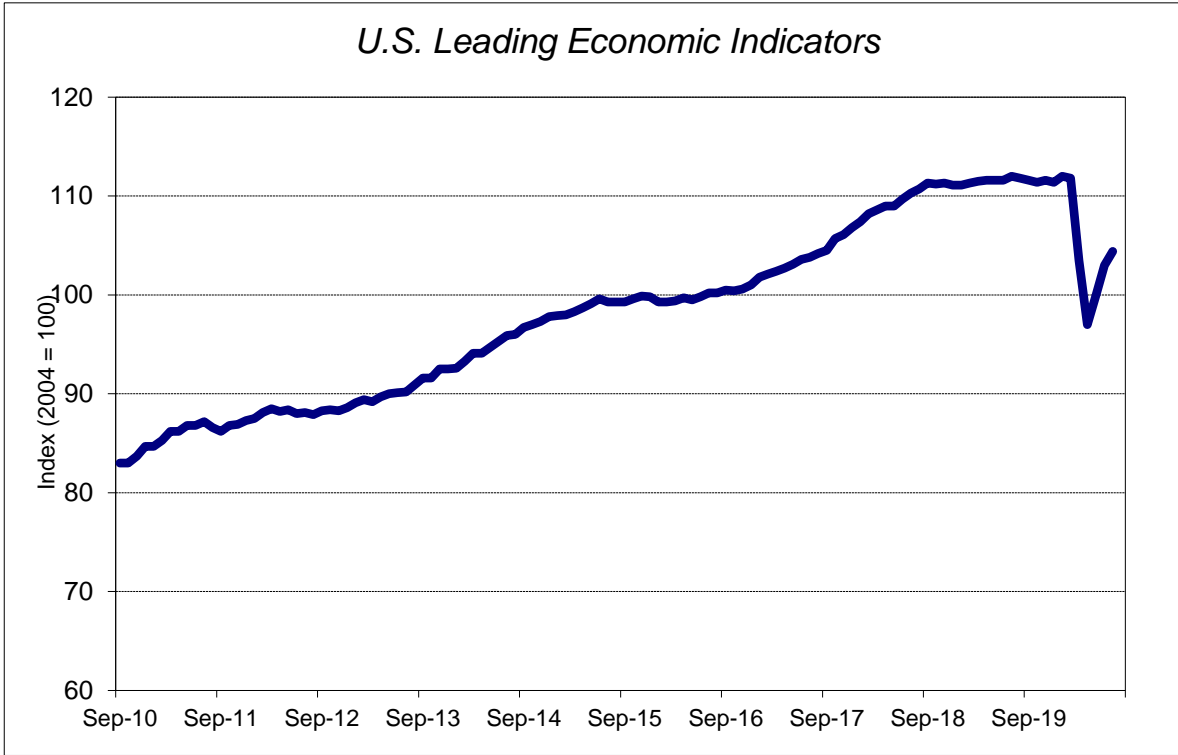
Source: Institute for Supply Chain Management



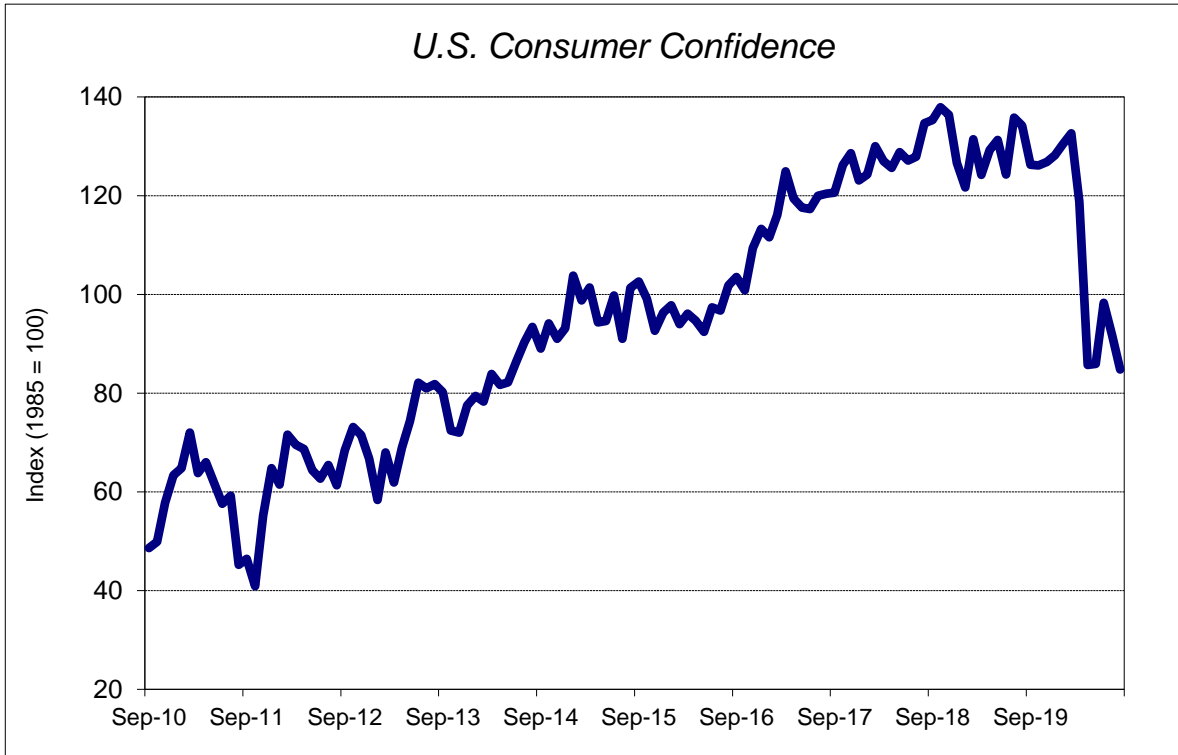
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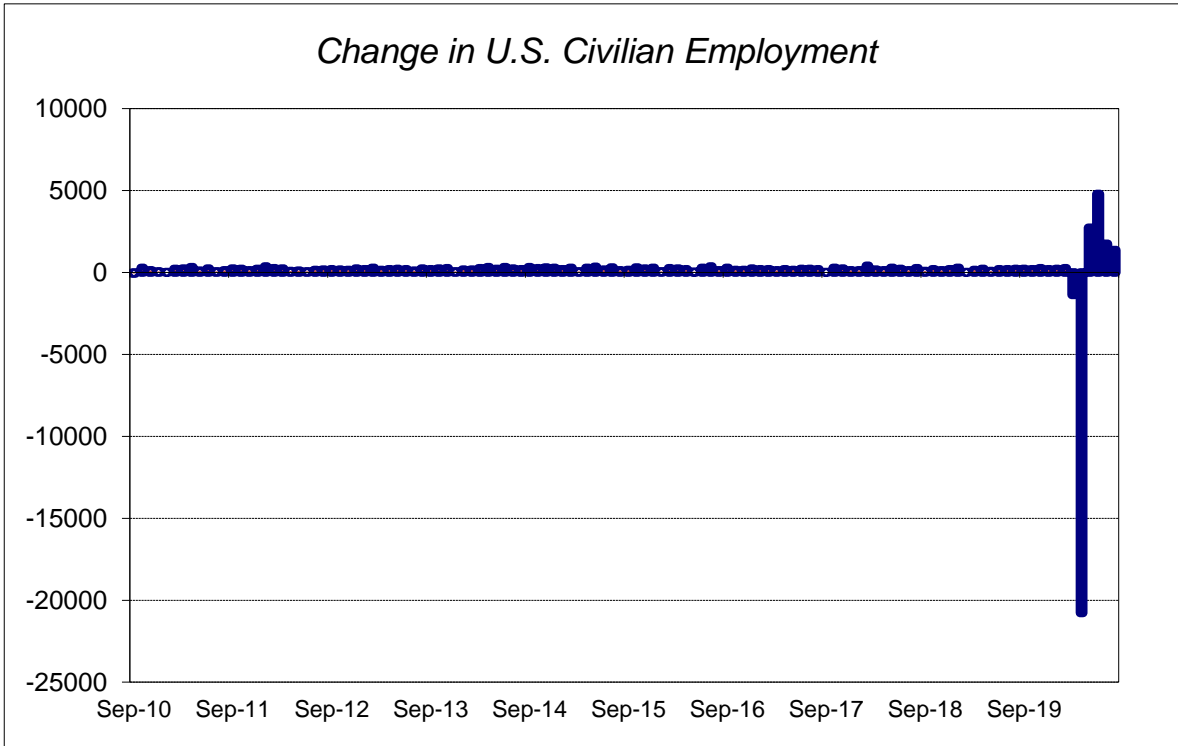
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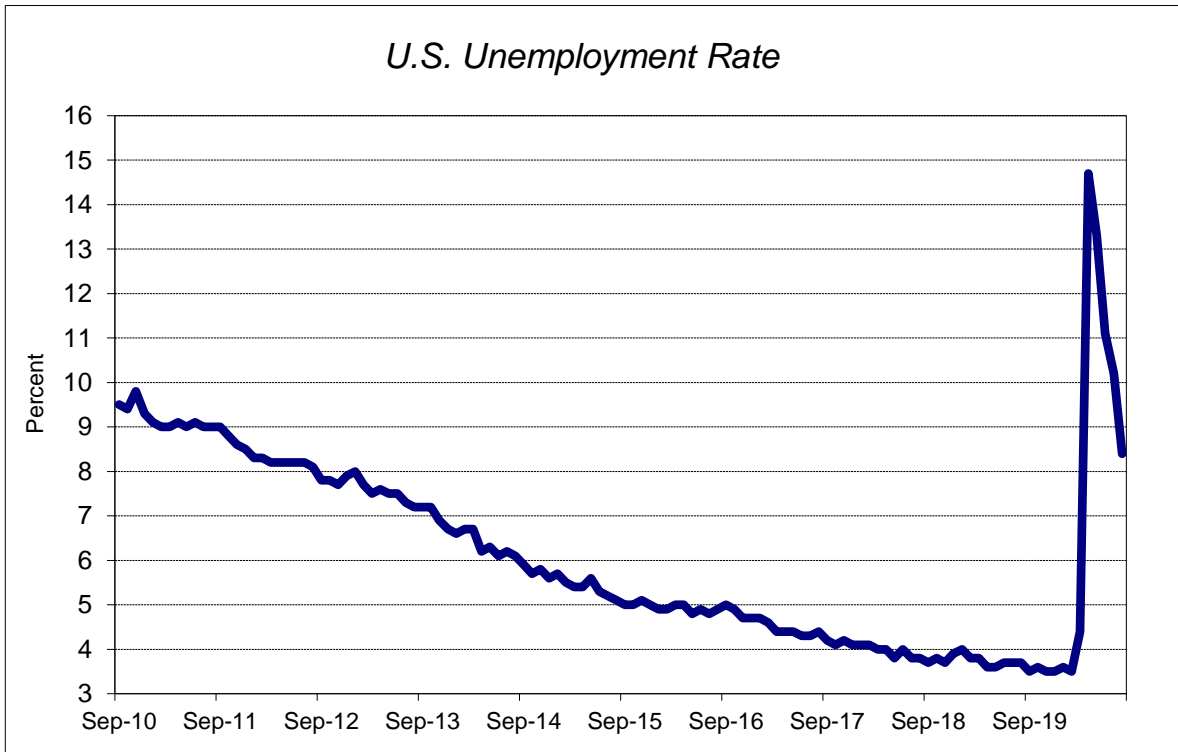
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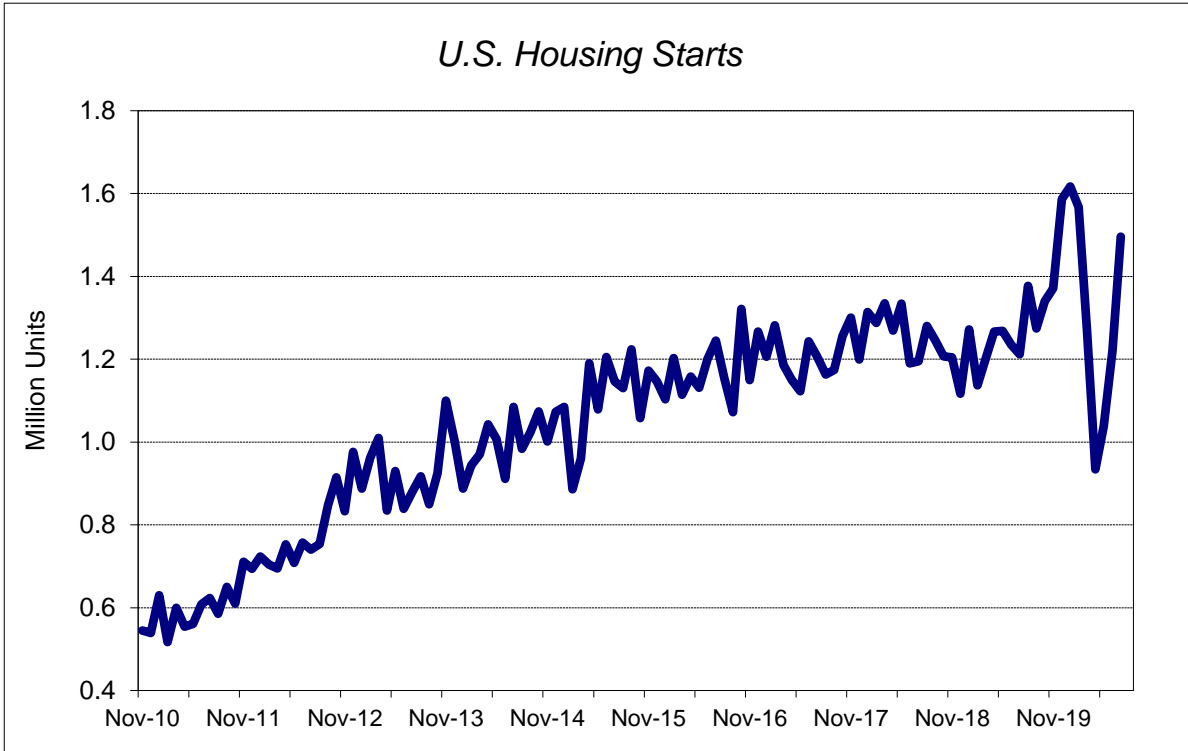
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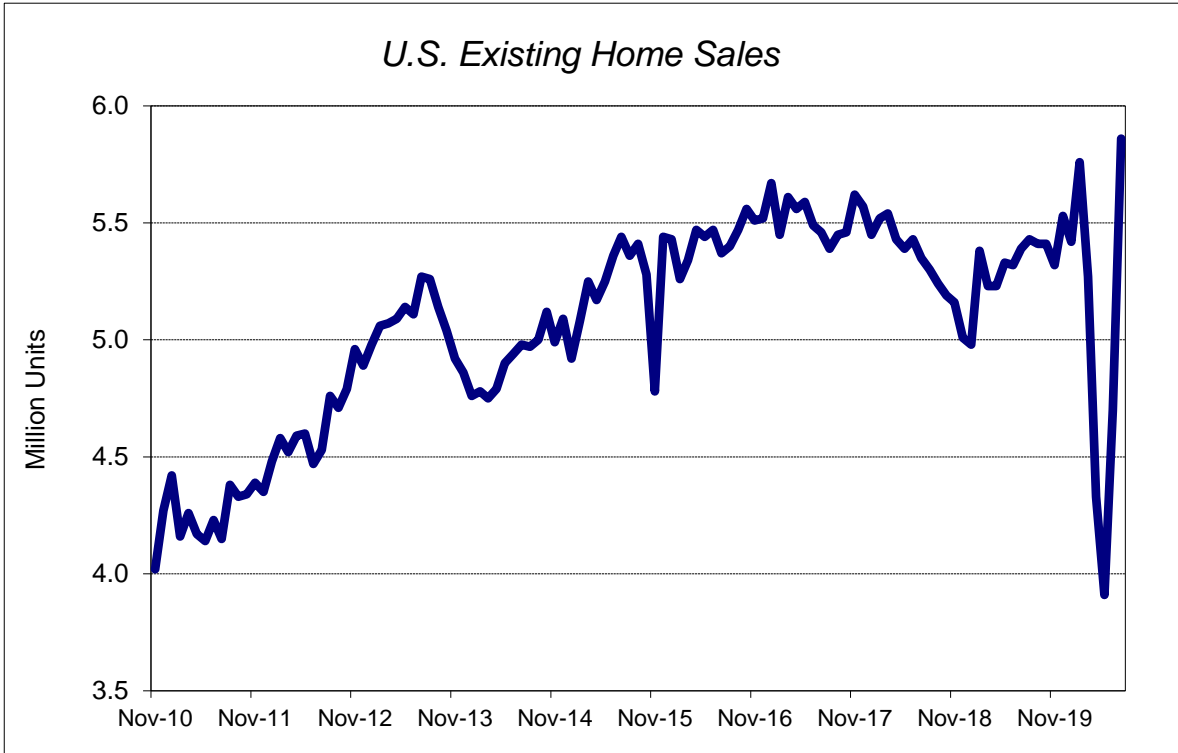
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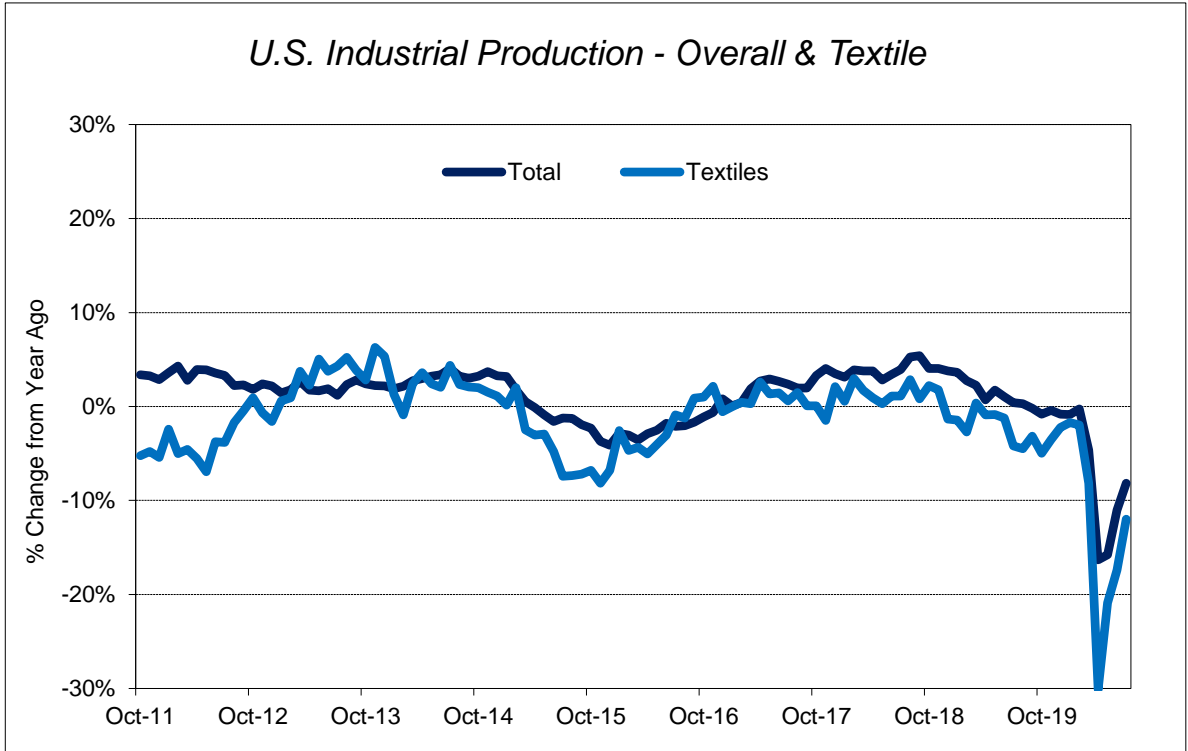
Seasonally Adjusted Annual Rate; Source: Department of Commerce



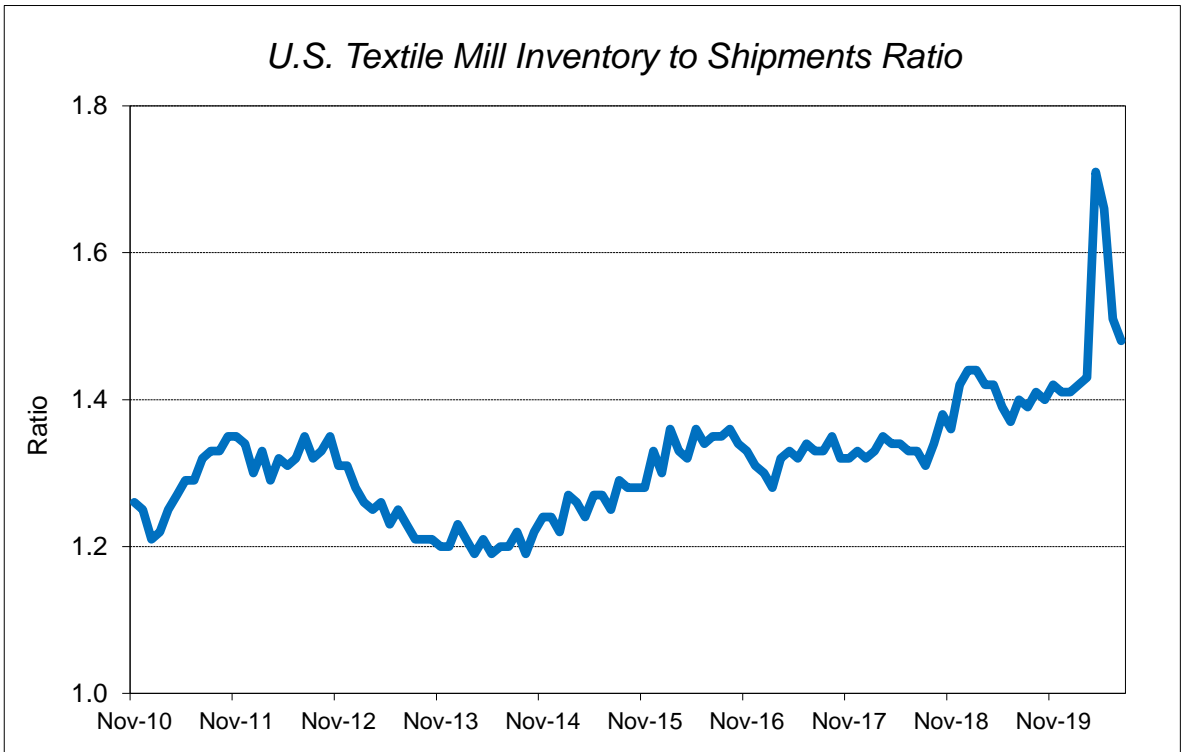
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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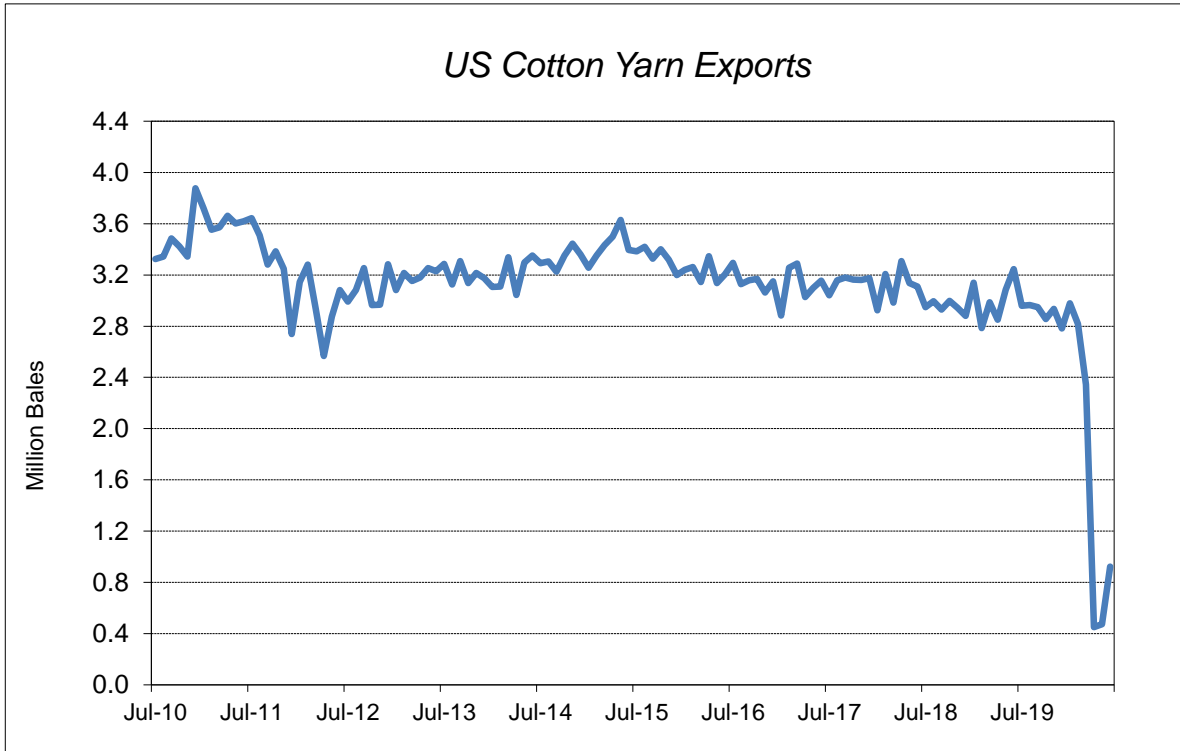
Source: Federal Reserve. Historical data revised to 1997 baseline.



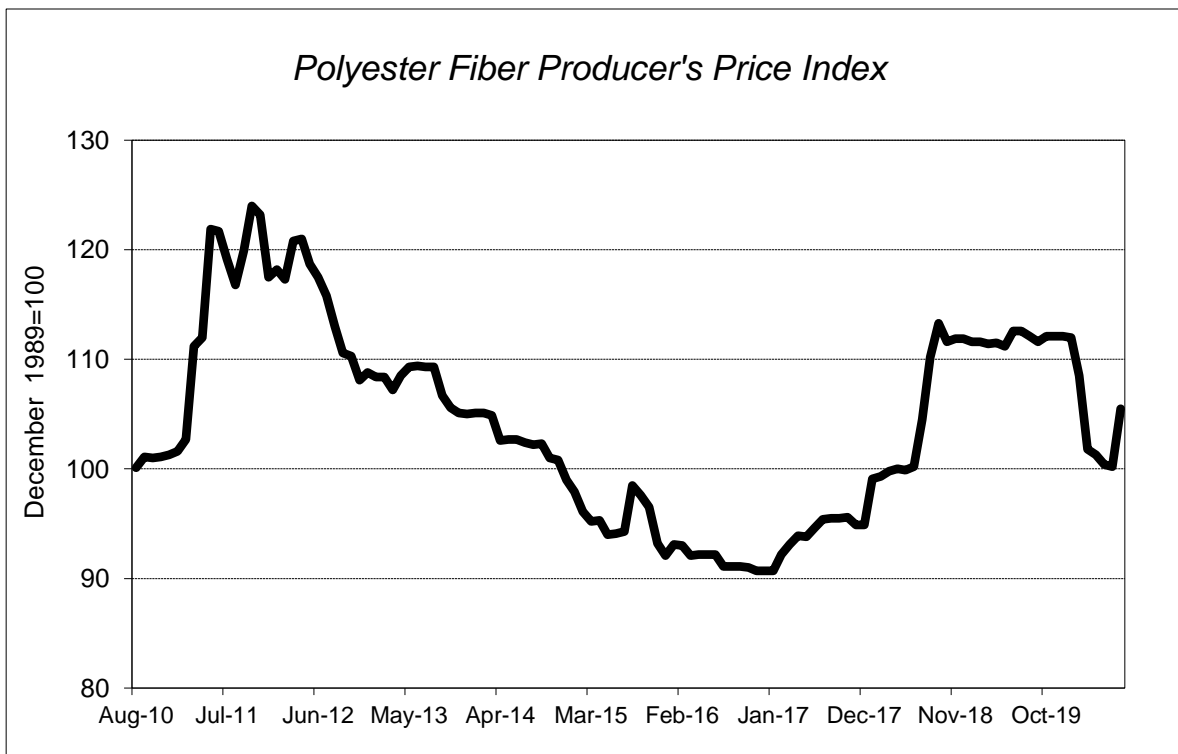
Seasonally Adjusted; Source: Department of Commerce

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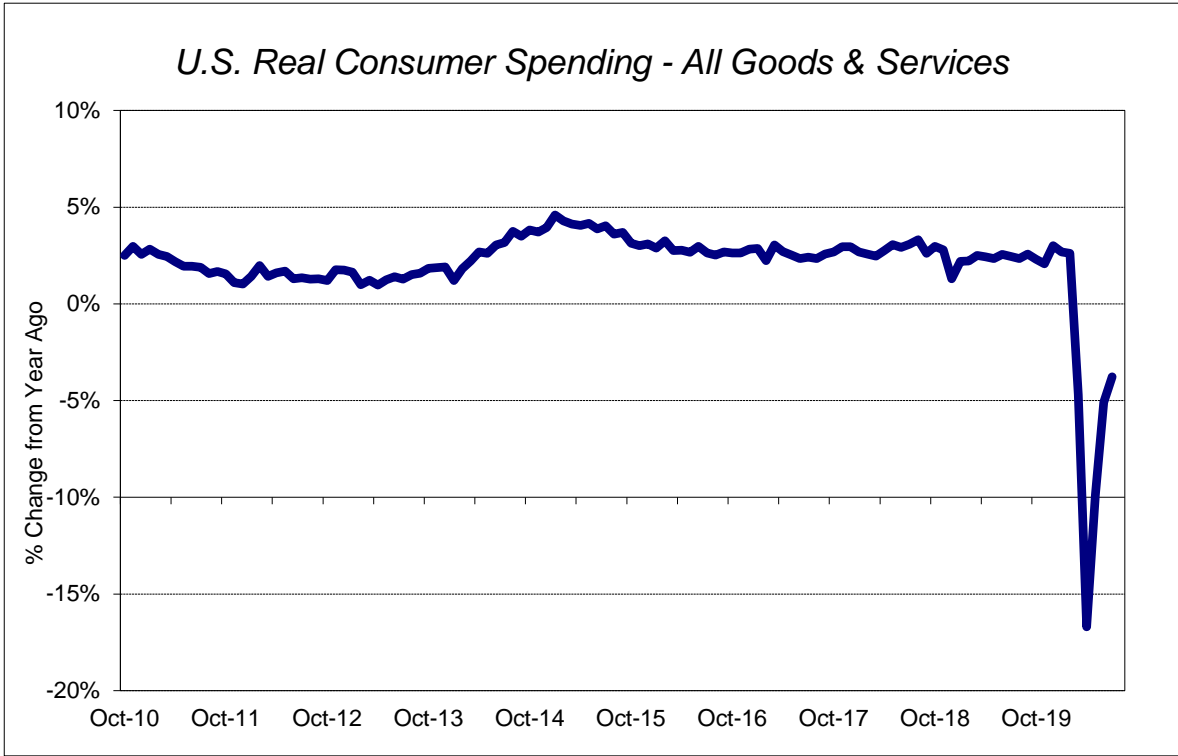
Seasonally Adjusted Annual Rate
 Source: USDA ERS



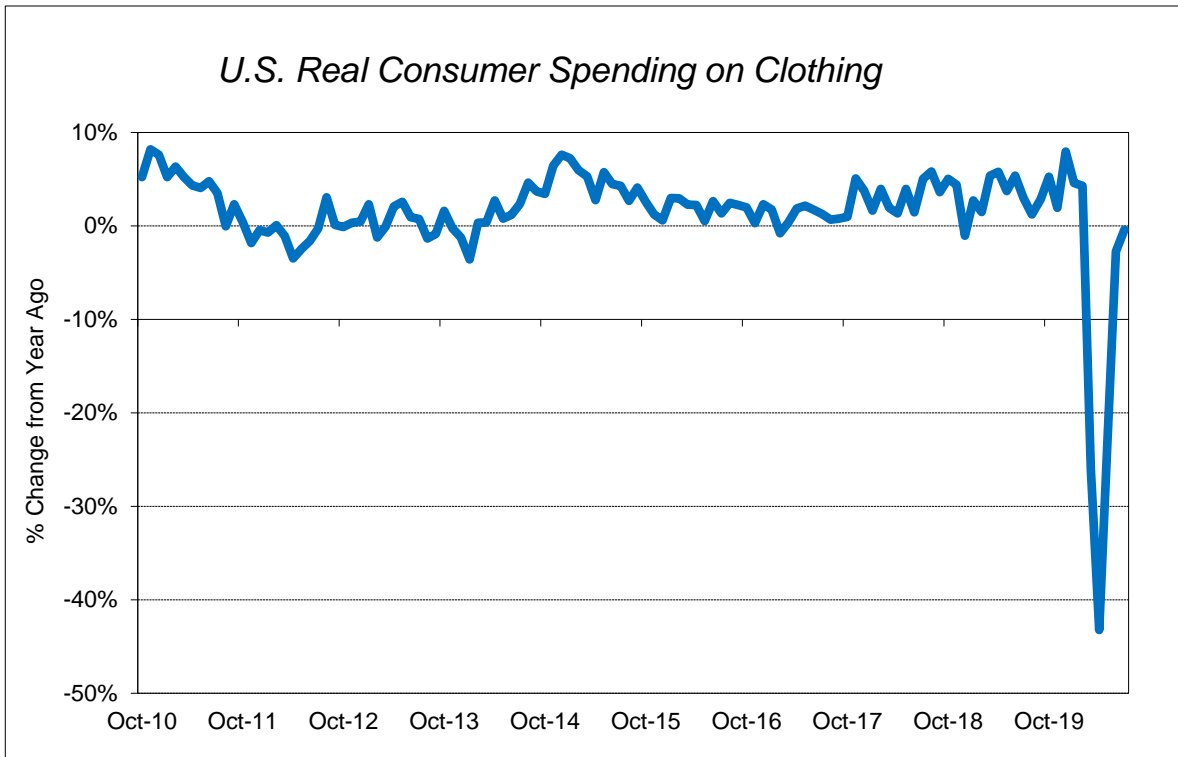
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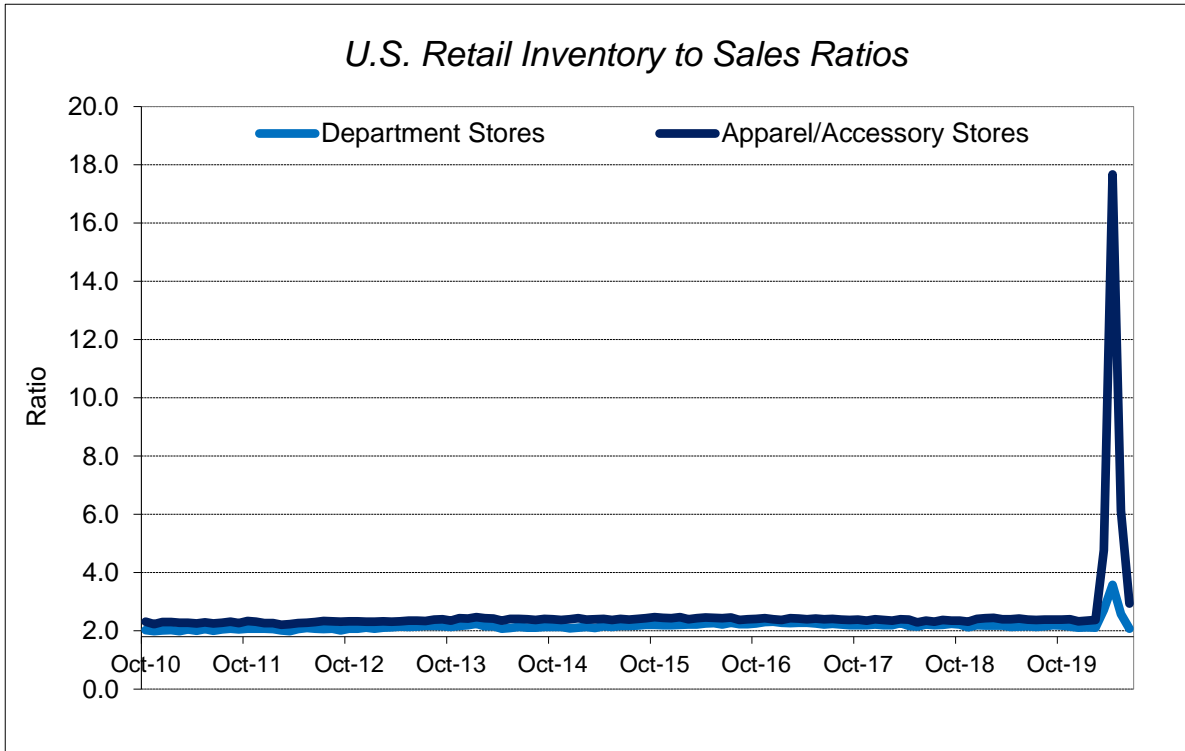
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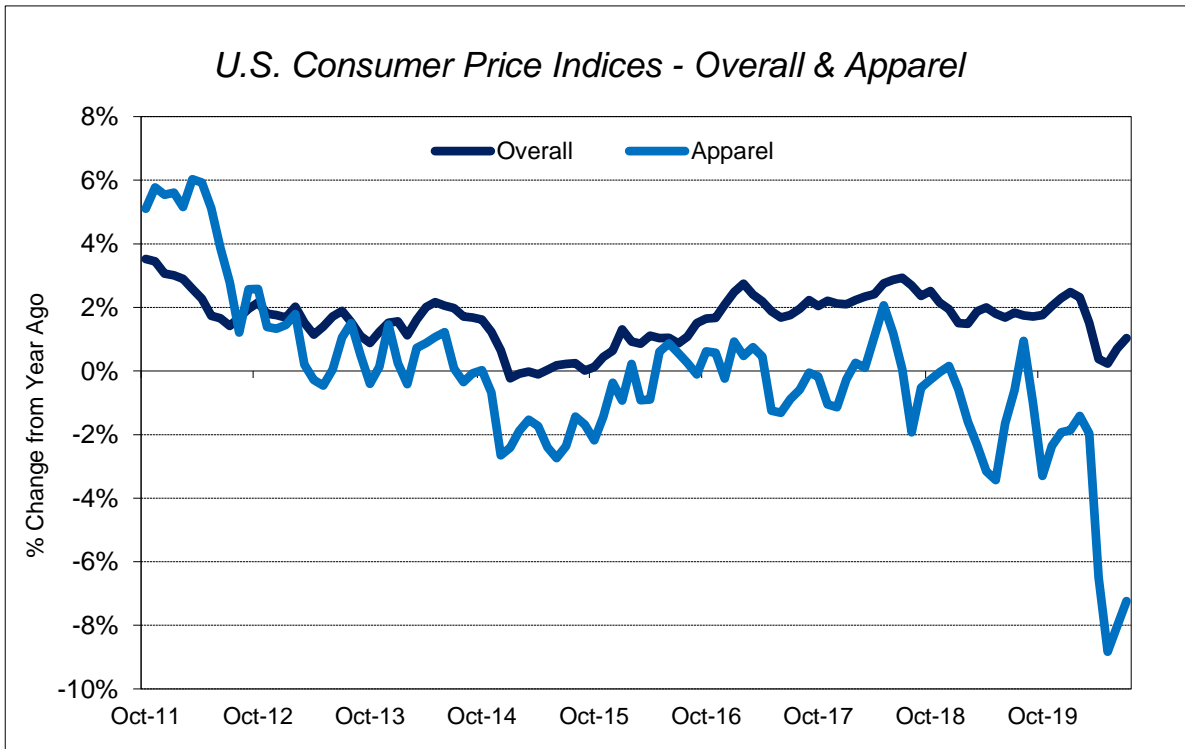
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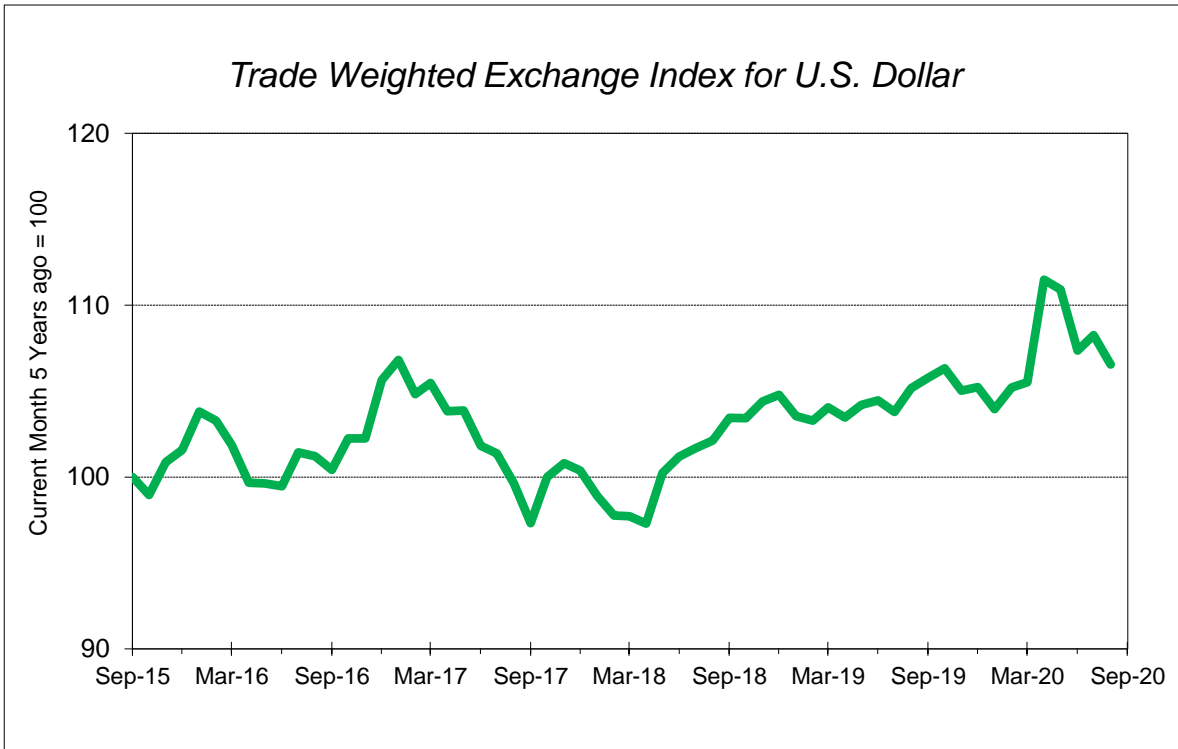
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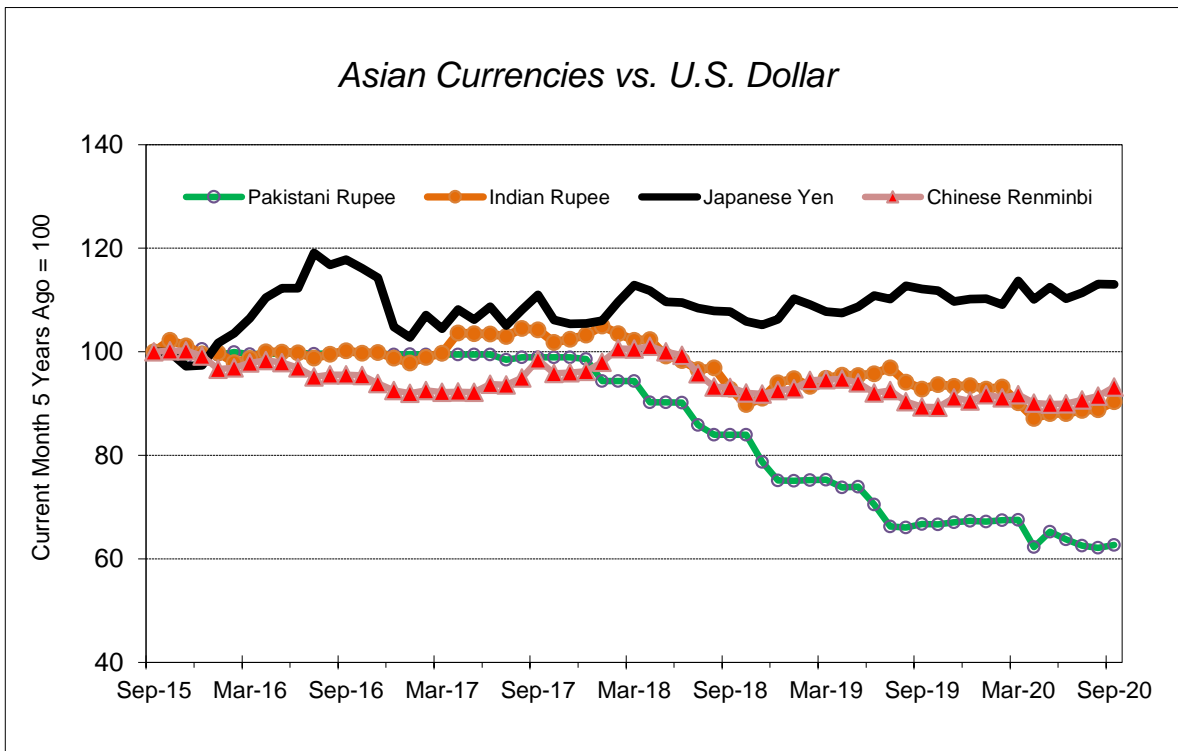
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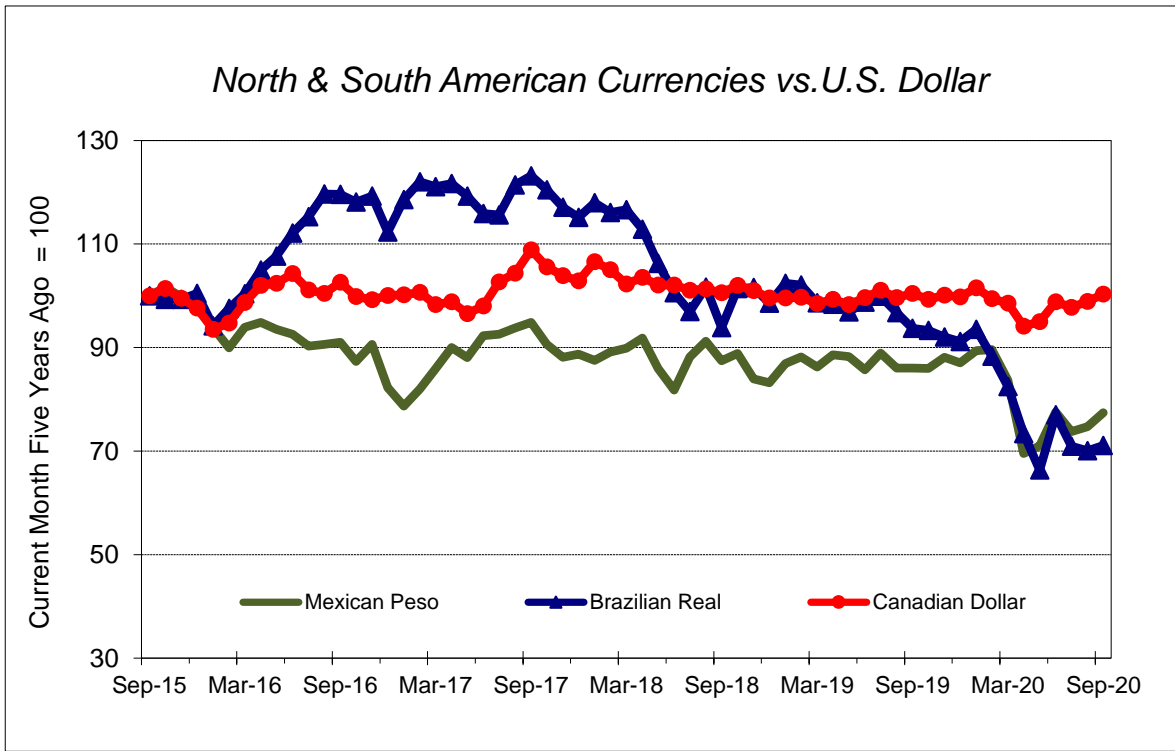
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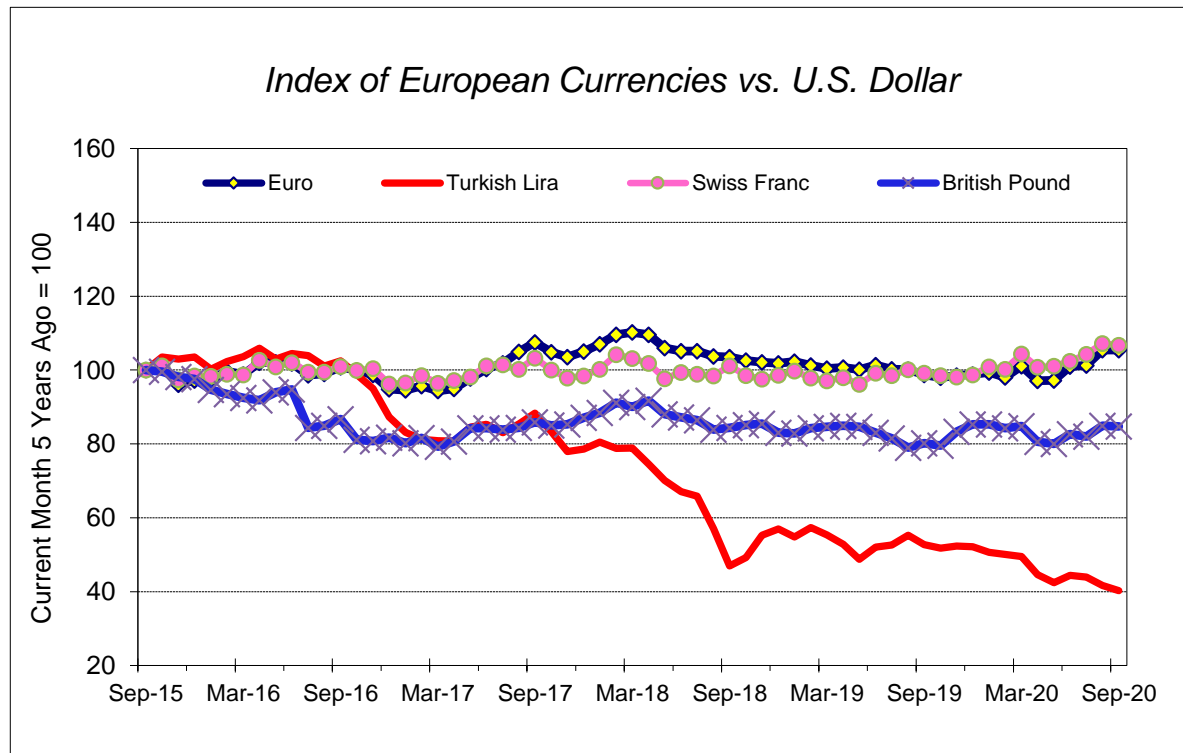
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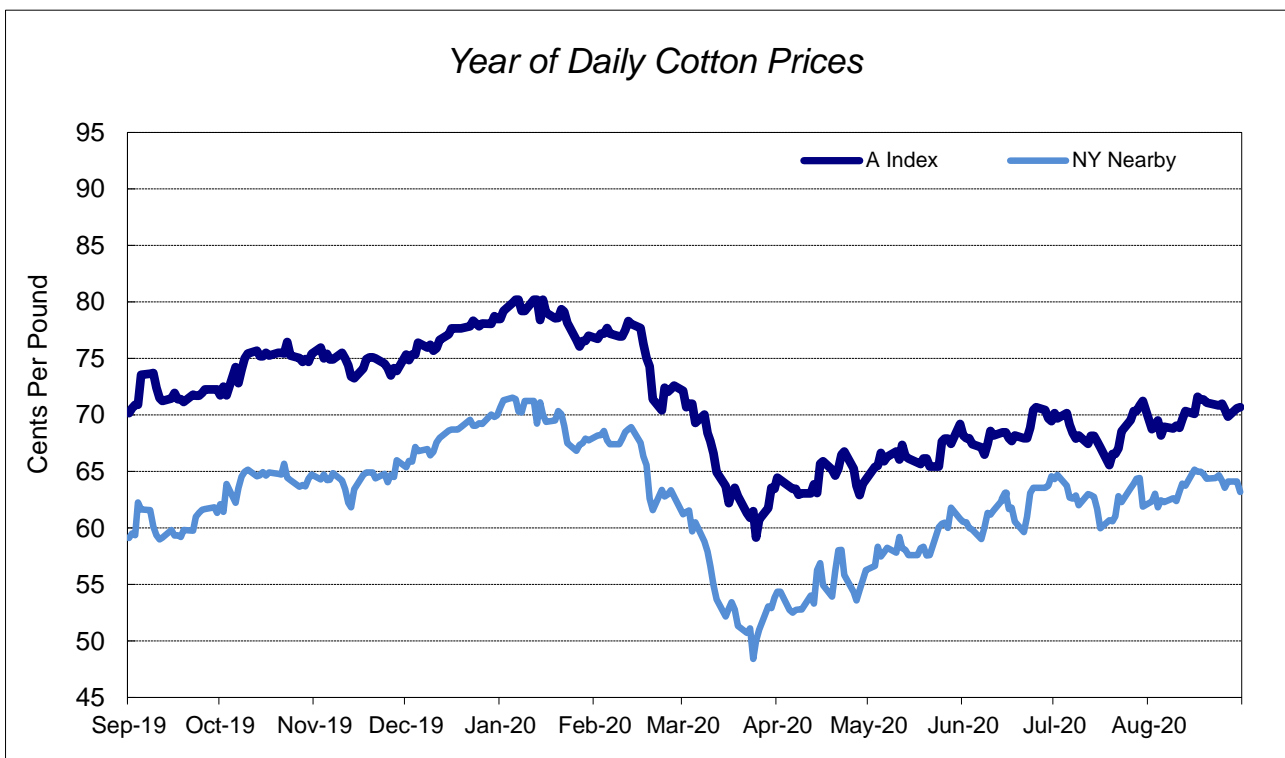
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U.S. Balance Sheet

million 480 lb. bales	2016/17	2017/18	2018/19	2019/20	2020/21	2020/21
					July	August
Beginning Stocks	3.8	2.8	4.2	4.9	7.1	7.2
Production	17.2	20.9	18.4	19.9	17.5	18.1
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	21.0	23.7	22.6	24.8	24.6	25.3
Mill-Use	3.3	3.2	3.0	2.2	2.8	2.7
Exports	14.9	16.3	14.8	15.4	15.0	15.0
Demand	18.2	19.5	17.8	17.6	17.8	17.7
Ending Stocks	2.8	4.2	4.9	7.2	6.8	7.6
Stocks/Use Ratio	15.1%	21.5%	27.2%	40.9%	38.2%	42.9%



Sources: ICE Futures U.S. & Cotton Outlook

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