

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



November 2021

www.cottoninc.com

Macroeconomic Overview: The Bureau of Economic Analysis estimates the U.S. economy grew at a 2.0% seasonally-adjusted annual rate in the third quarter (Q3 2021). This is lower than the 6.7% growth in Q2 2021 and the 6.3% growth registered in Q1 2021. One reason for the slower overall growth was a slowdown in consumer spending. Consumer spending growth was 1.6% annualized rate in Q3 2021. In Q2 2021, it was 12.0%. In Q1 2021, it was 11.4%.

The slowdown in spending was concentrated on physical goods (as opposed to services). Service spending, which includes outlays for travel and restaurants, was disproportionately affected by COVID. While service spending was lower, consumer spending on goods surged. Slower spending on goods in the third quarter (-9.2%) and higher spending on services (+7.9%) suggests a rebalancing is underway. Despite slower spending on goods overall, spending on clothing remains strong. Year-over-year, growth in spending on apparel was 19.0% higher in the third quarter. Relative to the same period in 2019, consumers spent 25.4% more this year.

A challenge facing retailers is keeping up with consumer demand. Shipping constraints may lead to missed sales during the important holiday sales period. Forecasts from the National Retail Federation suggest that consumers could spend 8.5% to 10.5% more this holiday than last year. Average increases are near 3%. If realized, this year's growth would represent a record increase.

U.S. apparel imports have been strong in 2021. In terms of weight volume, apparel imports are on pace to reach their highest level since 2010. Imports of home textiles are on pace to set a new record. Nonetheless, the clock is ticking for this year's holiday, and logistics may prevent retailers from having all the goods they would like to offer to consumers.

When supply lags demand, prices can increase. Despite shipping constraints and increases in fiber prices, both import prices and retail apparel prices are below their levels before COVID. Further increases in import costs can be expected. However, fiber prices represent just a fraction of retail prices, and the influence of other factors can easily outweigh fiber at retail.

Employment: In October, the U.S. economy was estimated to have added +531,000 jobs. Revisions to figures for previous months were positive. The estimate for August rose +117,000 to +483,000. The estimate for September rose +118,000 to +312,000. The 12-month average for job gains is +474,000. Since COVID, there has been a net loss of -4.2 million positions.

The unemployment rate dropped 0.2 percentage points to 4.6%. This is a new post-pandemic low. Before the pandemic, unemployment was 3.5%, which was the lowest level in fifty years. Since the 1970s, unemployment rates below five percent have been rare. After the financial crisis, it took six years for the unemployment rate to fall below that level.

Average wages increased 4.9% in October. Stimulus measures boosted incomes soon after COVID hit the U.S., but apart from other post-COVID months, recent values are the strongest on record (data only go back to 2007). Wages are relevant to discussions surrounding inflation. For inflation to persist, wages need to rise alongside prices. If inflation outpaces wage growth, consumers' spending power diminishes. In recent months, the overall inflation rate has been as high as 4.4% year-over-year.

Consumer Confidence & Spending: After three months of decline, the Conference Board's Index of Consumer Confidence increased in October (+4.0 points, to 113.8). The current value is well above the long-term average of 93. The current value is also below the value posted in June (128.9) and below the levels near 130 that were common before the pandemic.

Overall consumer spending increased 0.3% month-over-month in September. Year-over-year, spending was up 6.2%. Apparel spending was up 2.4% month-over-month and up 15.5% year-over-year. COVID distorts comparison against figures from 2020. Relative to September 2019, overall spending was up 4.2%, while spending on apparel was 28.6% higher. The long-term average annual growth rate in spending on clothing is near 2.0%, so recent apparel spending has been extraordinarily strong.

Consumer Prices & Import Data: After five consecutive monthly increases, the CPI for apparel decreased in September. Despite recent increases, average retail prices are still lower than before the pandemic (-3.2% in September 2021 versus February 2020, seasonally-adjusted data). COVID caused retail clothing prices to drop as much as 8.7% year-over-year (May 2020). In September, prices were 3.0% higher year-over-year.

After setting a new record low (\$2.95/SME in seasonally-adjusted data) in March 2021, average import prices for cotton-dominant apparel have increased six straight months (seasonally-adjusted data). The current average cost per square meter (SME) is \$3.24/SME. This figure is -3.4% lower than before COVID (\$3.35/SME in February 2020). The most significant correlation between fiber prices and imports occurs with a nine-month lag, so import prices can be expected to continue to climb.

U.S. Macroeconomic & Cotton Supply Chain Charts

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

Executive Cotton Update

U.S. Macroeconomic Indicators & Cotton Prices
November 2021



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q1 : 2021	Q2 : 2021	Q3 : 2021		
Growth in US Real GDP	2.5%	2.3%	6.5%	6.7%	6.3%	6.7%	2.0%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic 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		
ISM Index of Manufacturing Activity	55.9	60.5	60.5	60.6	59.9	61.1	60.8	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.3	61.1	63.1	63.4	61.7	61.9	66.7	Index	Institute for Supply Management
Consumer Confidence	118.5	109.0	118.8	112.9	115.2	109.8	113.8	Index	The Conference Board
Change in Non-Farm Payrolls	54.1	481.2	665.5	442.0	483	312	531	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.1%	5.8%	5.3%	4.9%	5.2%	4.8%	4.6%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	Interest rate	Federal Reserve
10-year Treasury Bill	2.0%	1.3%	1.4%	1.4%	1.3%	1.4%	1.6%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for September

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
Index of Leading Economic Indicators	108.6	113.5	116.4	117.4	117.3	117.3	117.5	Index	The Conference Board
Housing Starts	13.3	15.8	15.8	1.6	1.6	1.6	1.6	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.6	6.2	5.9	6.1	6.0	5.9	6.3	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile Series with Latest Data for September

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
US Industrial Production	100.0	99.1	100.4	100.9	100.4	101.4	100.0	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	104.7	111.2	117.1	123.3	122.6	123.0	124.4	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile 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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	2.5	2.7	2.6	2.7	2.6	2.5	million 480lb bales	USDA ERS

Industrial & Textile Series with Latest Data for September

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
US Textile Mill Inventory/Shipments Ratio	1.39	1.36	1.37	1.39	1.39	1.38	1.40	Ratio	Department of Commerce

Retail Data

Retail Series with Latest Data for September

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
US Real Consumer Spending									
All Goods and Services	2.2%	5.9%	11.8%	7.0%	7.4%	7.4%	6.2%	% Chg. Year/Year	Department of Commerce
Clothing	6.6%	29.1%	43.3%	19.1%	20.4%	21.3%	15.5%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	2.2%	3.3%	5.0%	5.3%	5.3%	5.2%	5.4%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-1.3%	-0.4%	3.5%	3.5%	4.1%	3.9%	2.5%	% Chg. Year/Year	Bureau of Labor Statistics

Retail 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		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.7	2.1	1.9	1.8	1.8	1.9	1.9	Ratio	Department of Commerce
Department Stores	2.1	1.9	1.7	1.7	1.7	1.7	1.7	Ratio	Department of Commerce

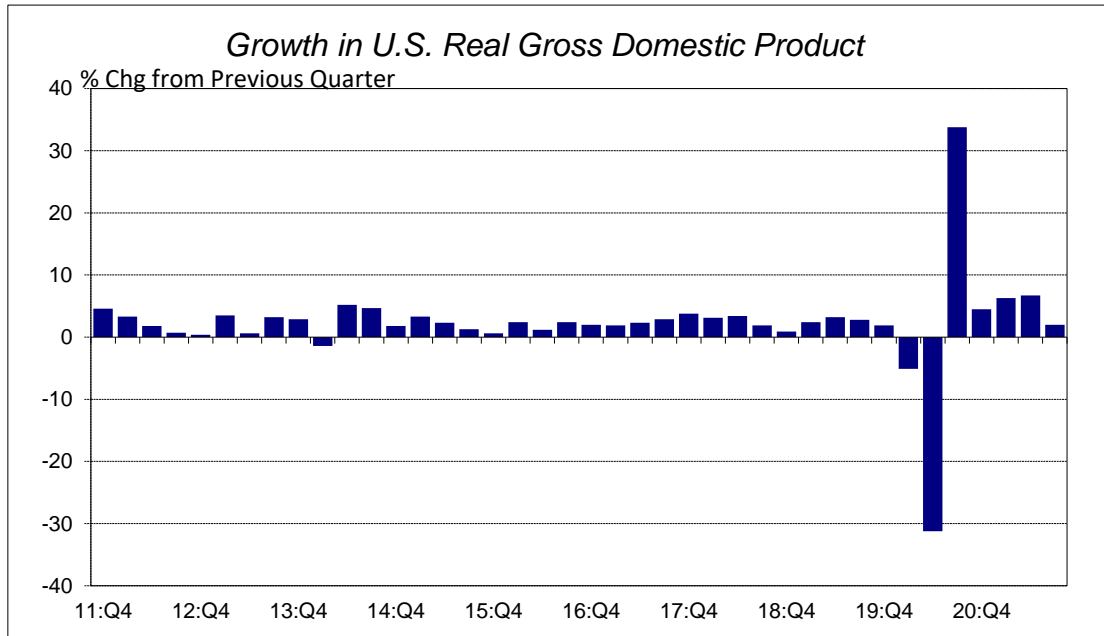
Executive Cotton Update

Daily Cotton Price and Currency Data
November 2021

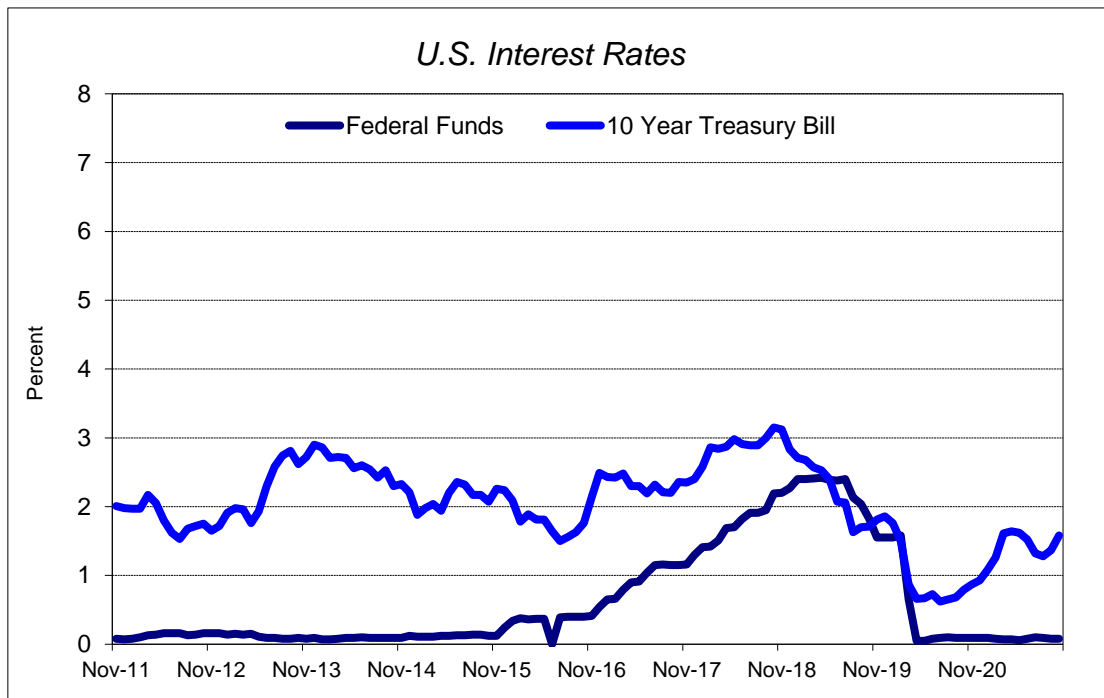


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	October		
NY Nearby	74.6	86.5	92.9	99.4	93.6	95.7	108.7	cents/pound	ICE
A Index	83.7	93.9	100.9	107.5	101.3	103.7	117.4	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	October		
Dollar Trade Weighted Exchange Index	114.4	115.7	112.8	113.5	113.2	112.8	114.6	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.75	6.79	6.46	6.46	6.46	6.46	6.46	Chinese Renminbi/US dollar	Reuters
Indian Rupee	70.03	72.49	73.86	73.84	74.19	73.02	74.32	Indian Rupee/US dollar	Reuters
Japanese Yen	109.51	108.38	110.02	110.03	109.56	109.67	110.86	Japanese Yen/US dollar	Reuters
Pakistani Rupee	137.16	155.21	161.09	167.02	163.50	166.95	170.60	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.17	4.69	5.23	5.28	5.22	5.17	5.44	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.31	1.24	1.25	1.25	1.25	1.26	Canadian dollar/US dollar	Reuters
Mexican Peso	19.83	20.32	20.08	20.14	19.94	19.90	20.59	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.77	0.77	0.72	0.72	0.72	0.72	0.74	British Pound/US dollar	Reuters
Euro	0.87	0.87	0.84	0.85	0.84	0.84	0.86	Euro/US dollar	Reuters
Swiss Franc	0.97	0.95	0.91	0.91	0.91	0.91	0.92	Swiss Franc/US dollar	Reuters
Turkish Lira	5.67	6.76	8.55	8.55	8.47	8.30	8.87	Turkish Lira/US dollar	Reuters



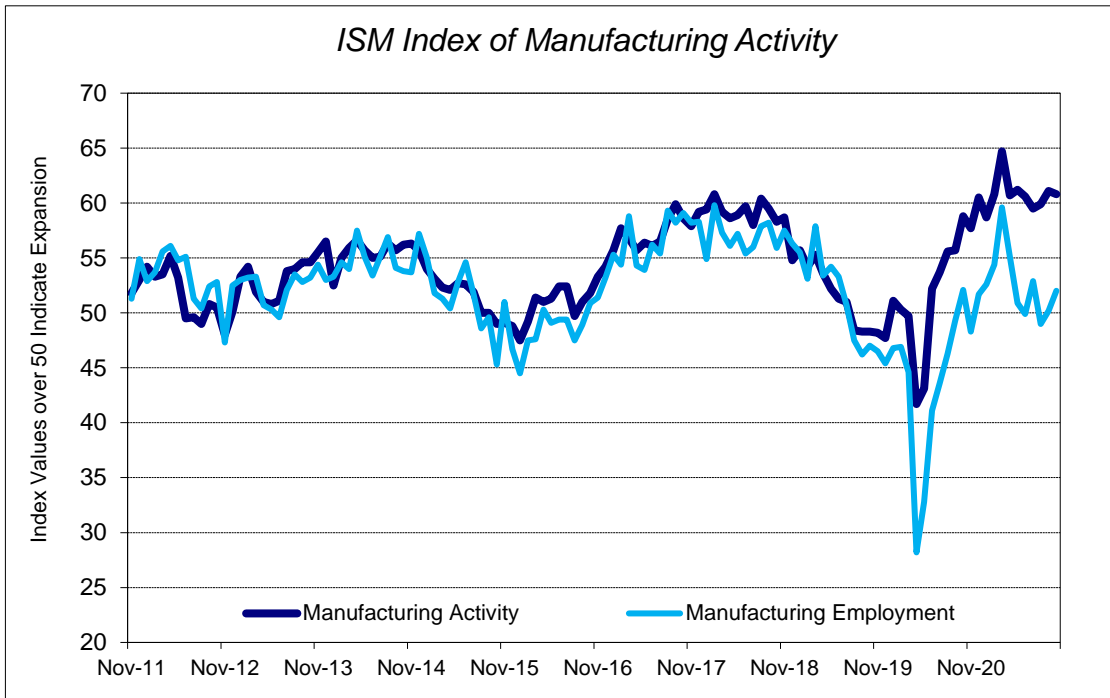
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



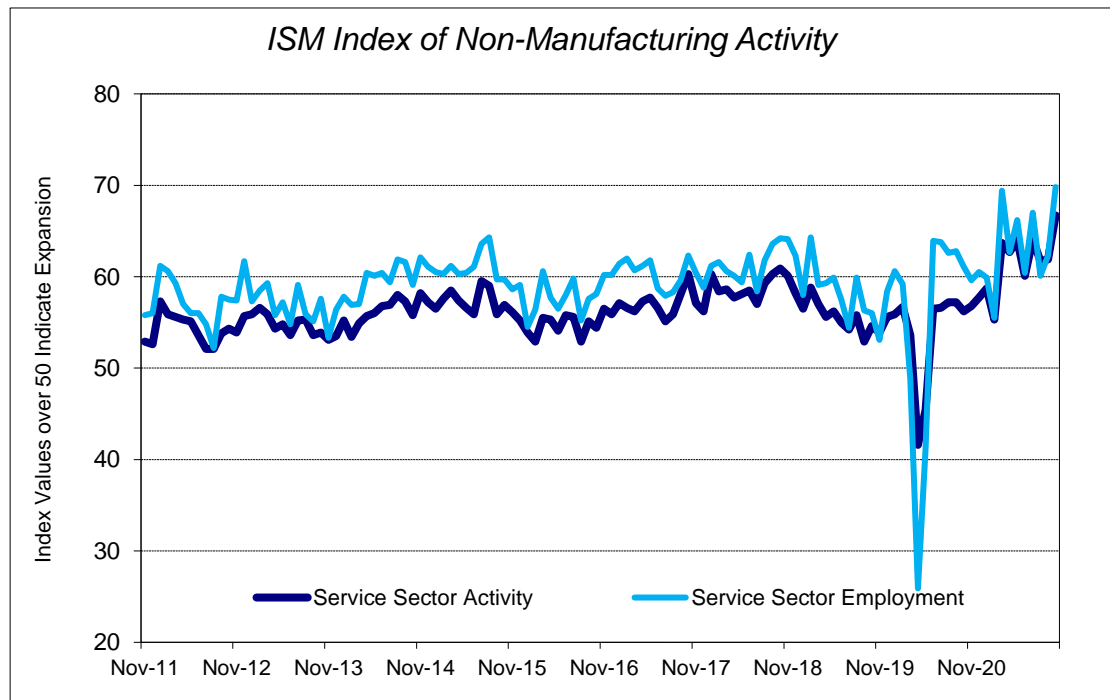
Source: Federal Reserve

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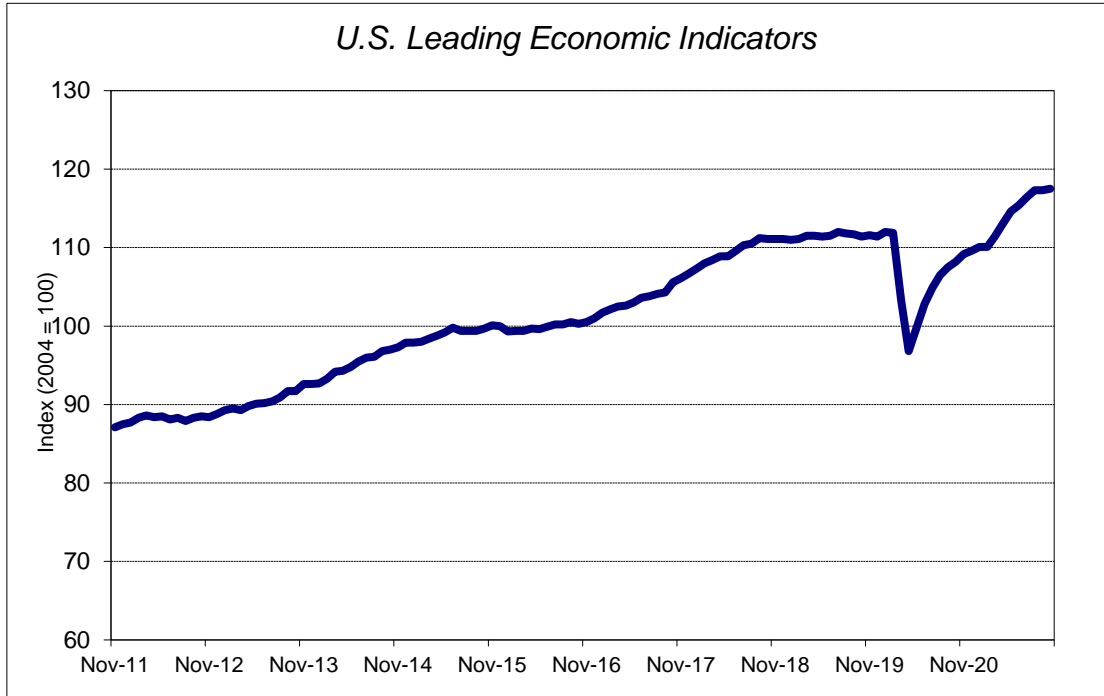
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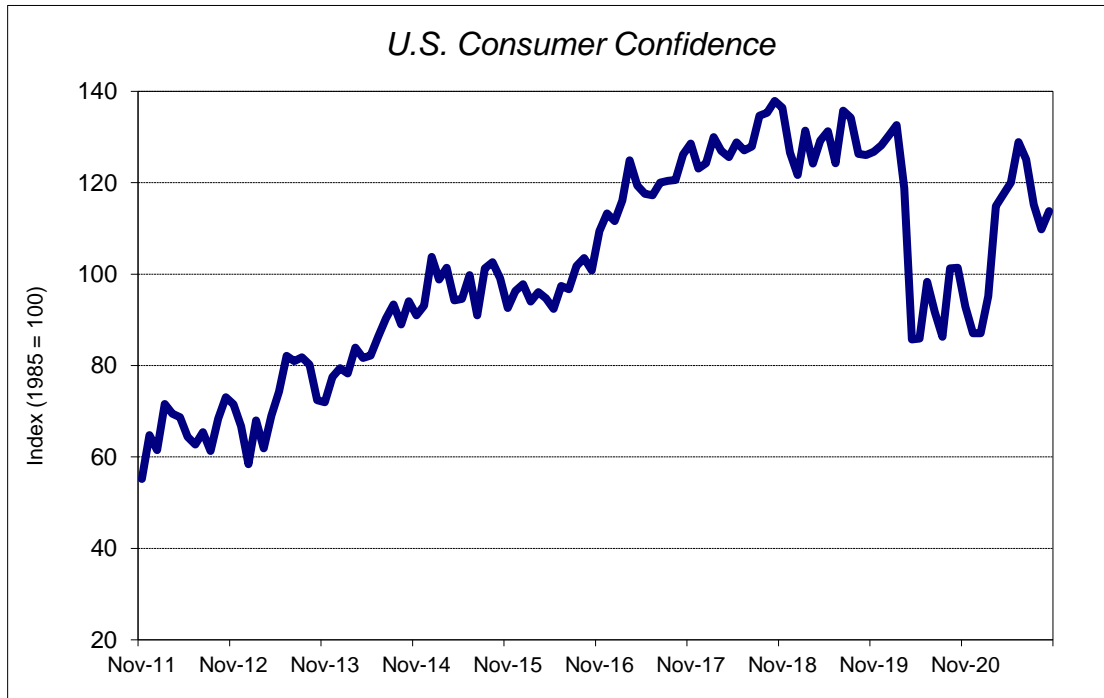
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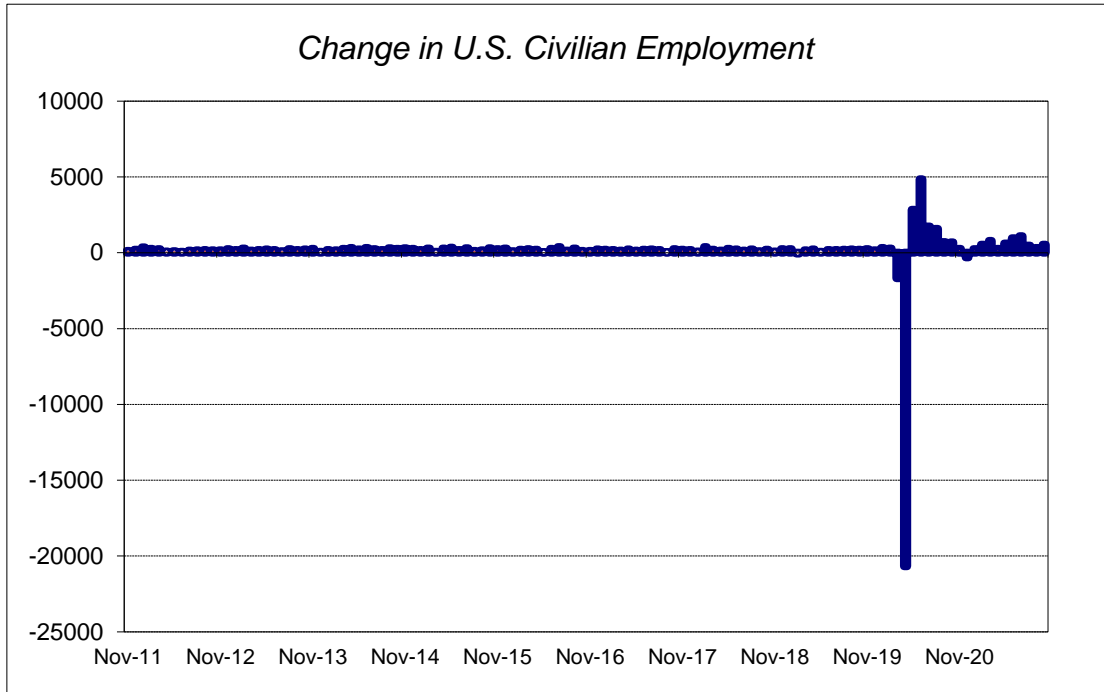
Source: The Conference Board



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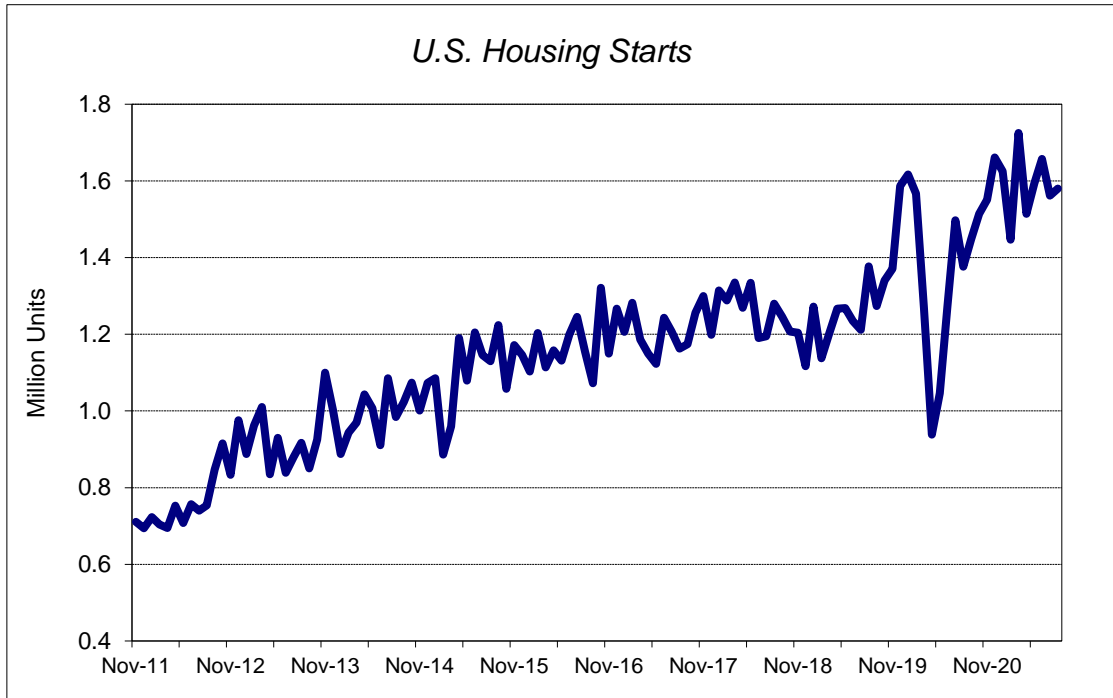
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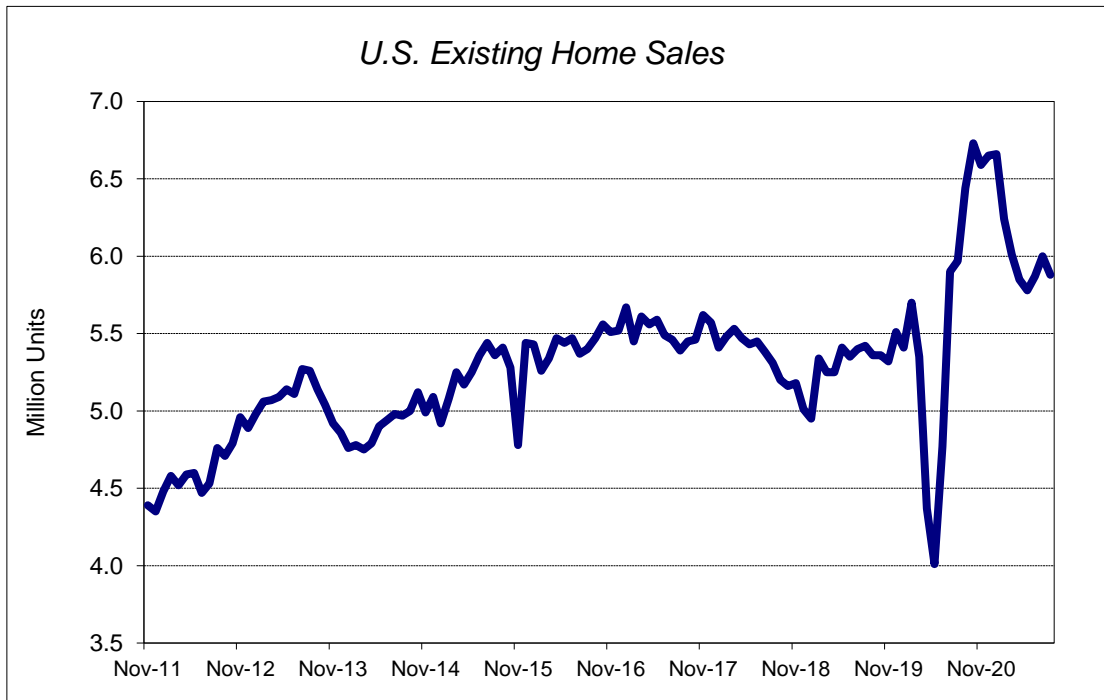
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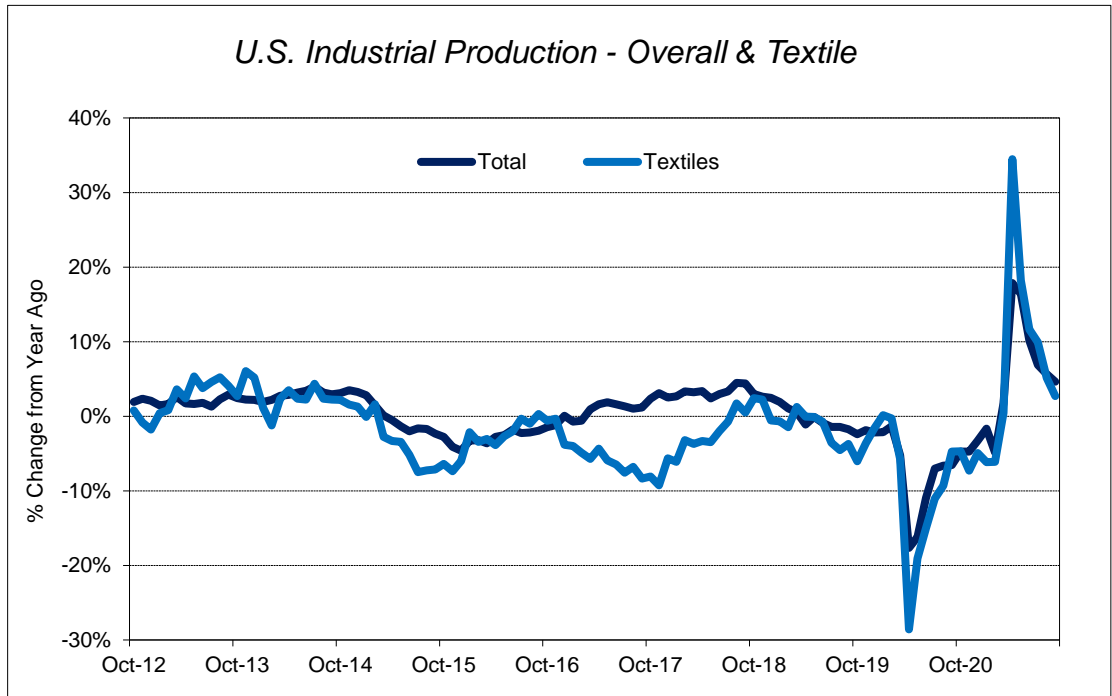
Seasonally Adjusted Annual Rate; Source: Department of Commerce



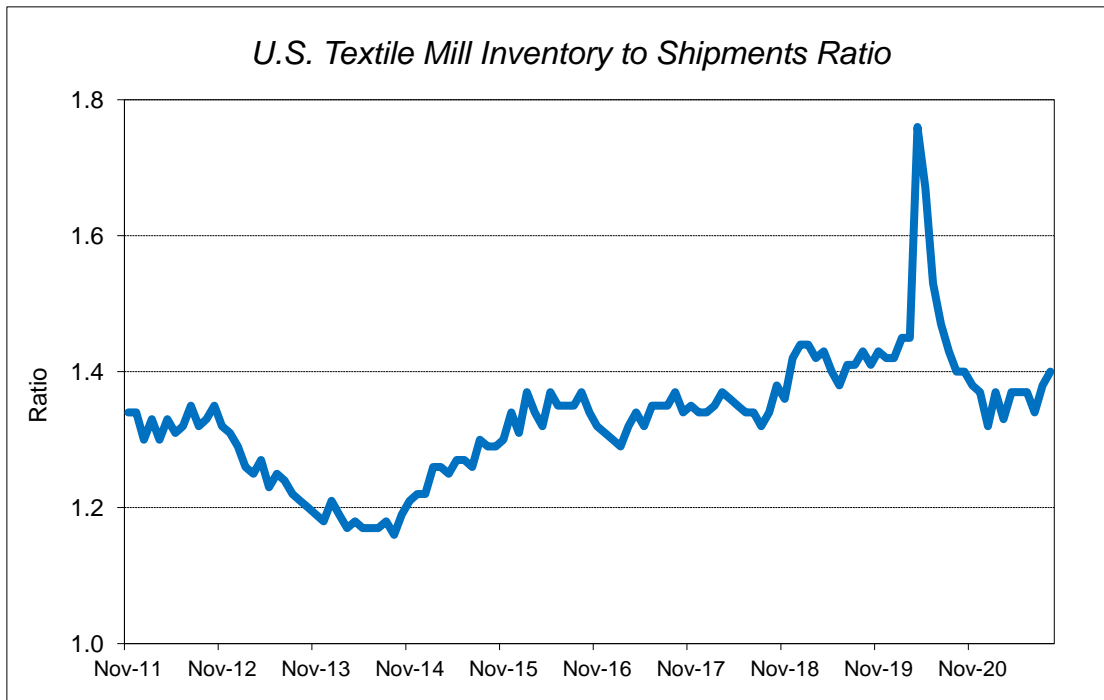
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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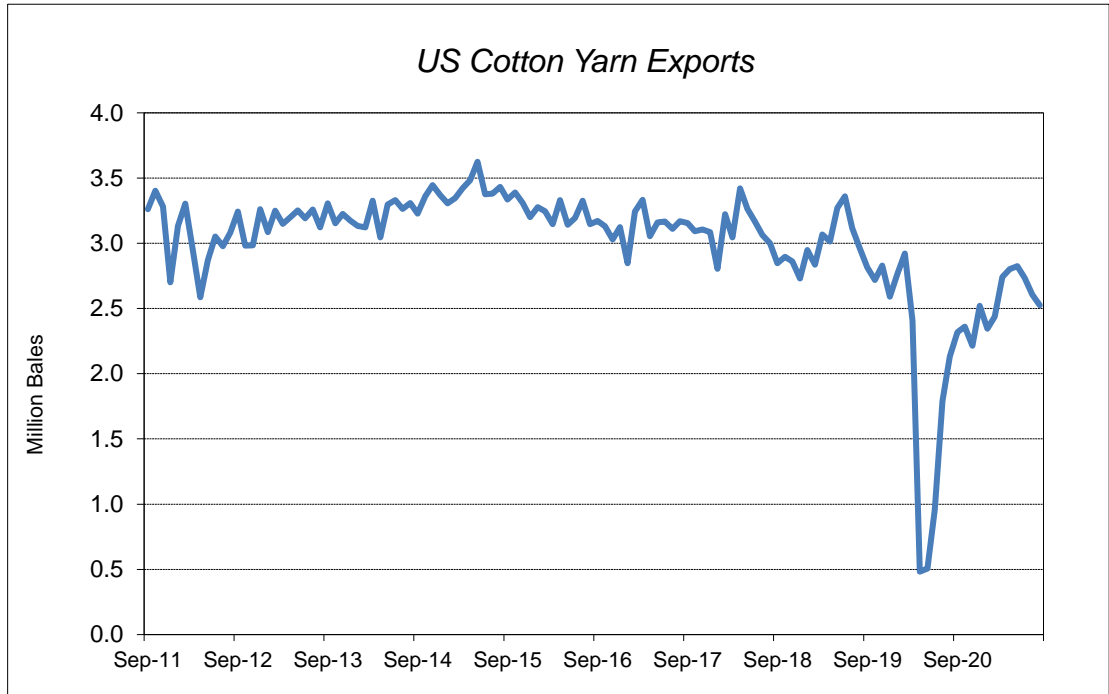
Source: Federal Reserve. Historical data revised to 1997 baseline.



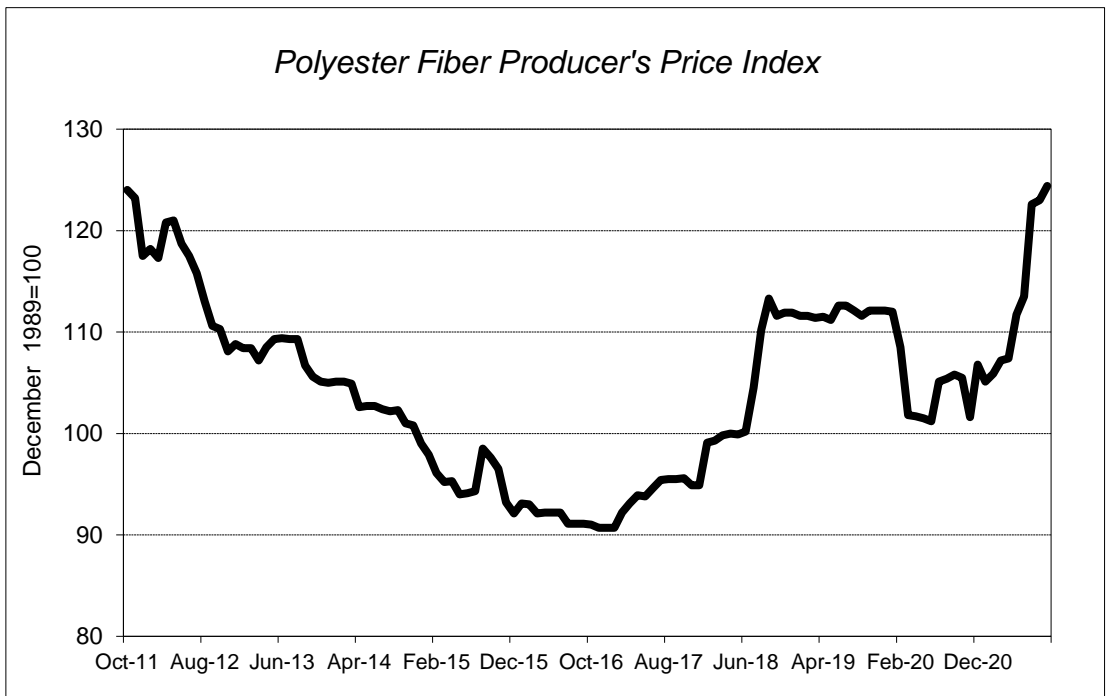
Seasonally Adjusted; Source: Department of Commerce

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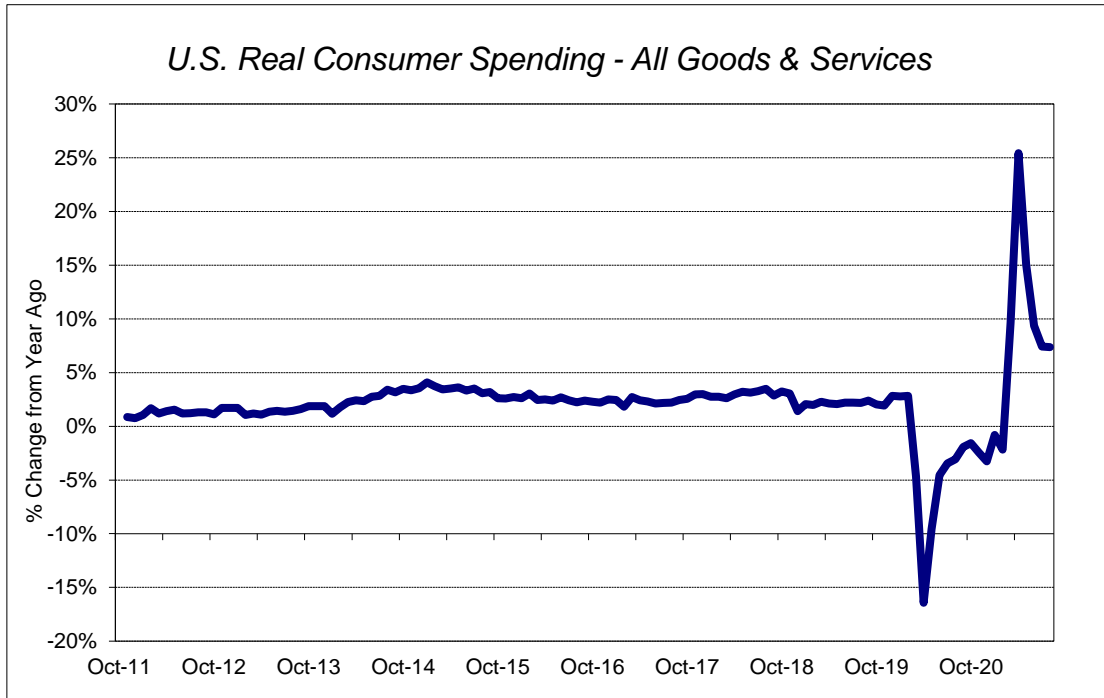
Seasonally Adjusted Annual Rate
 Source: USDA ERS



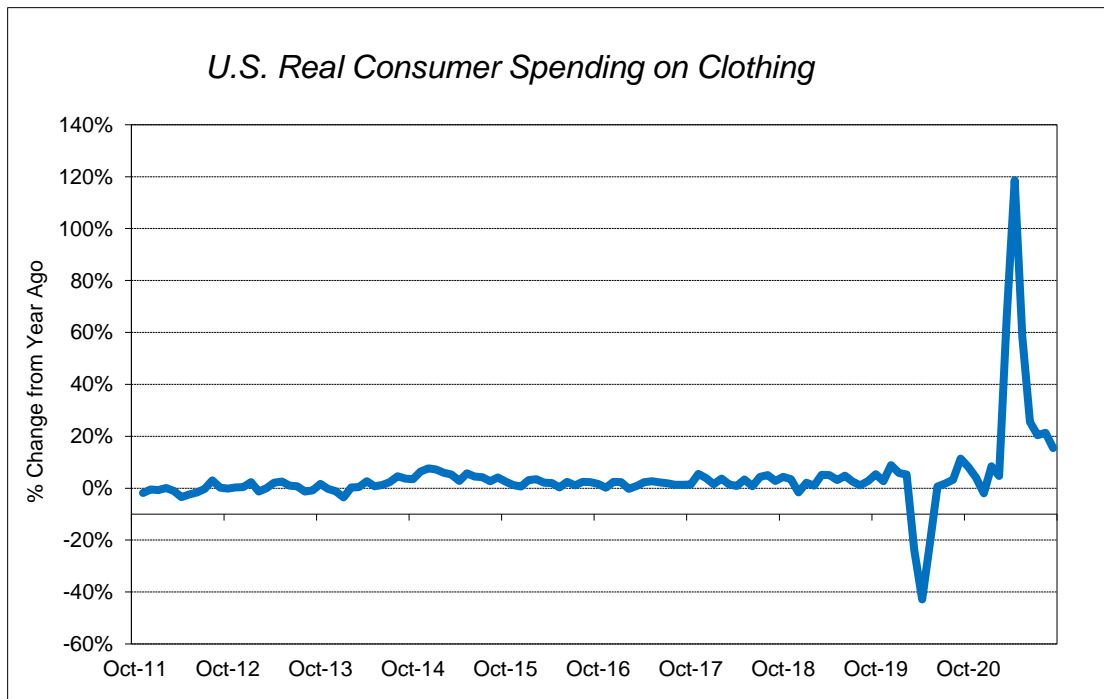
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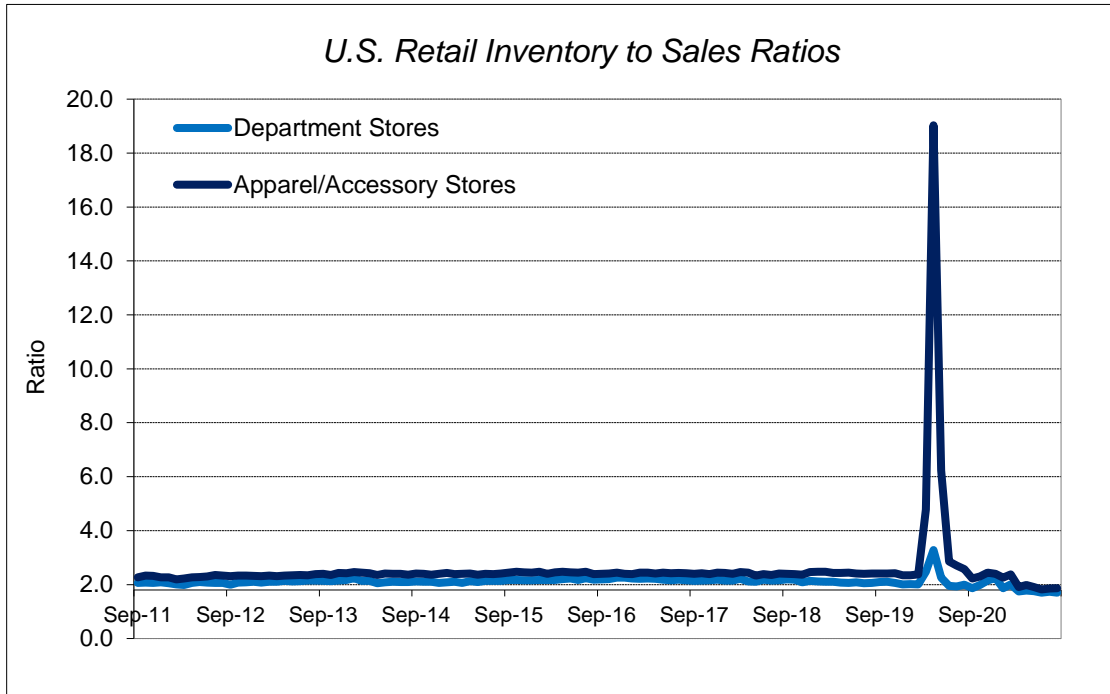
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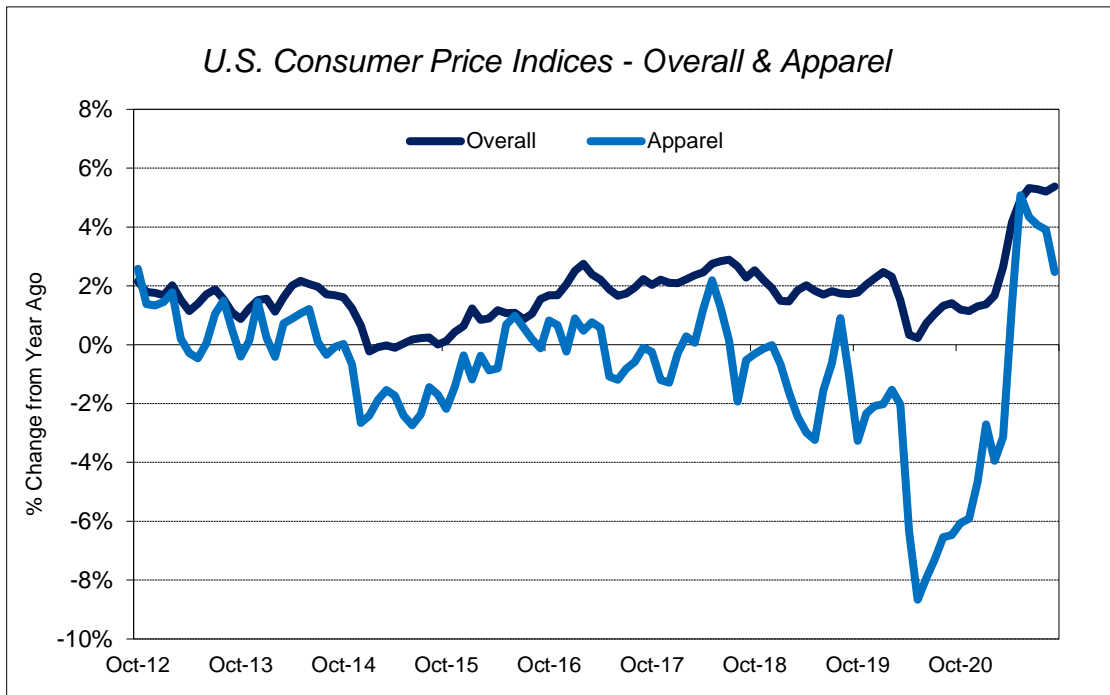
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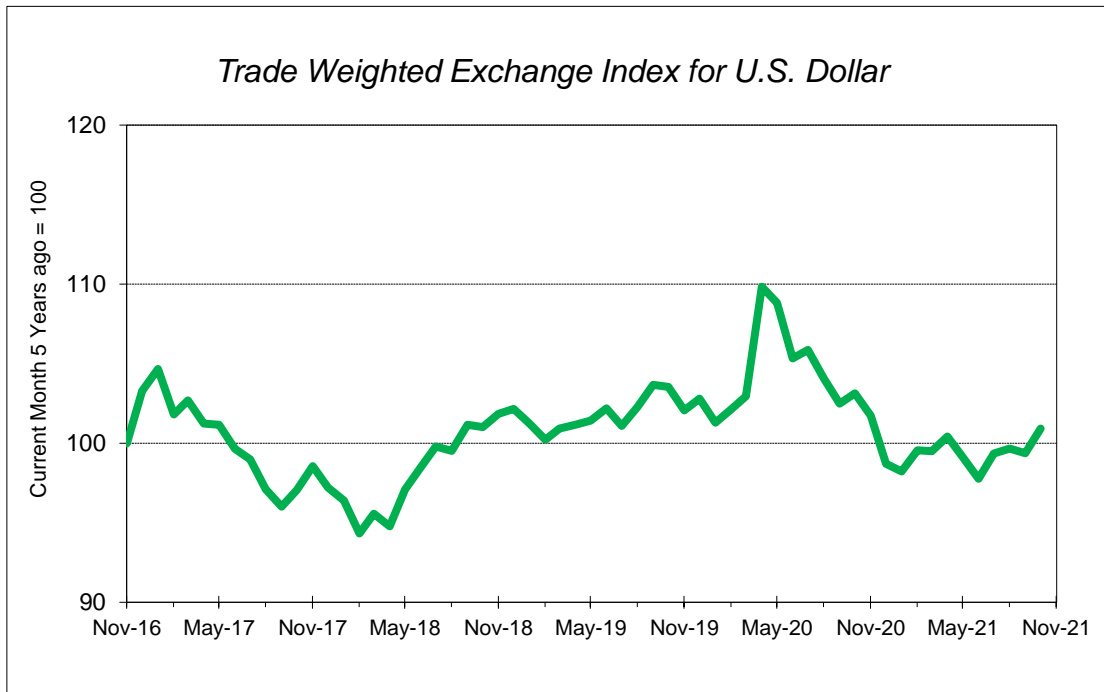
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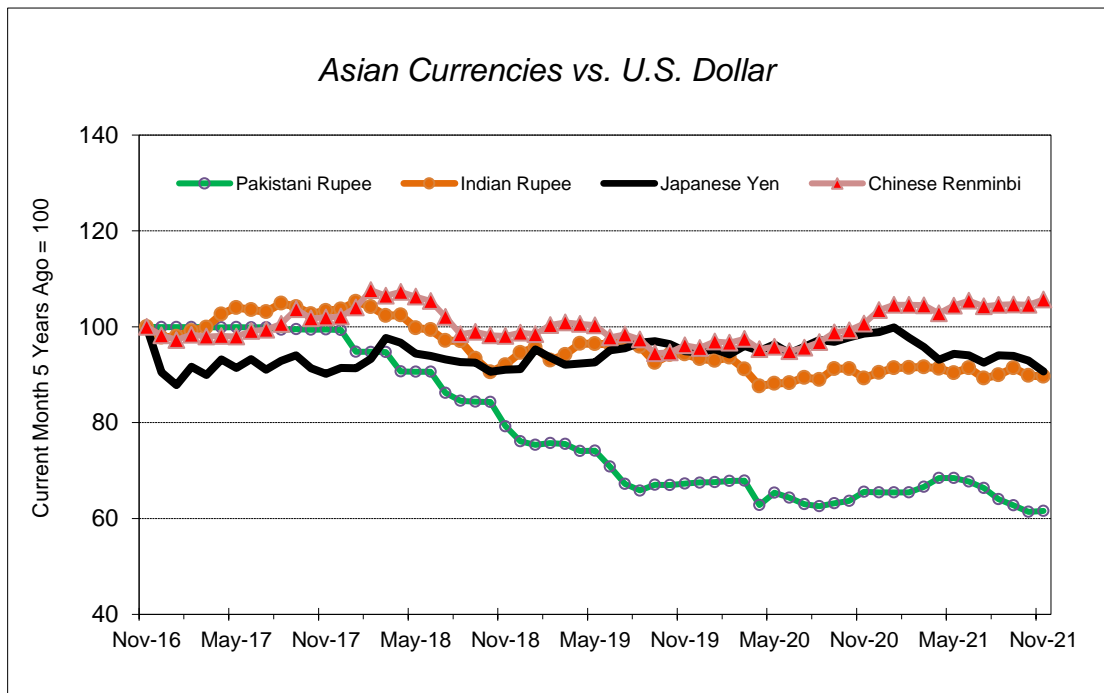
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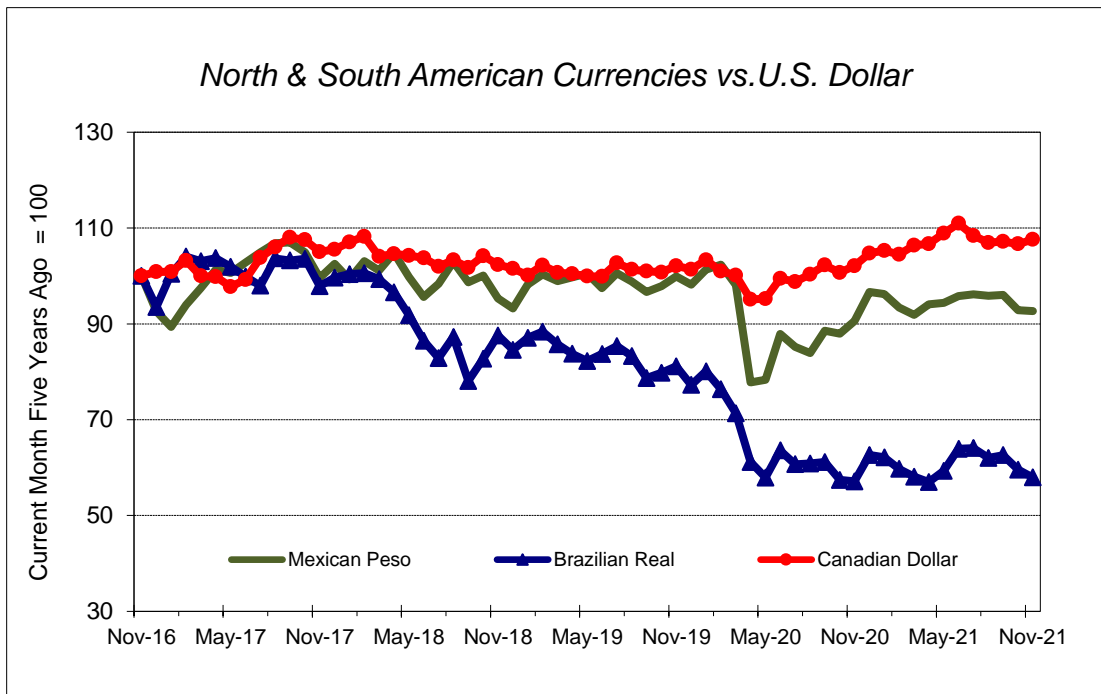
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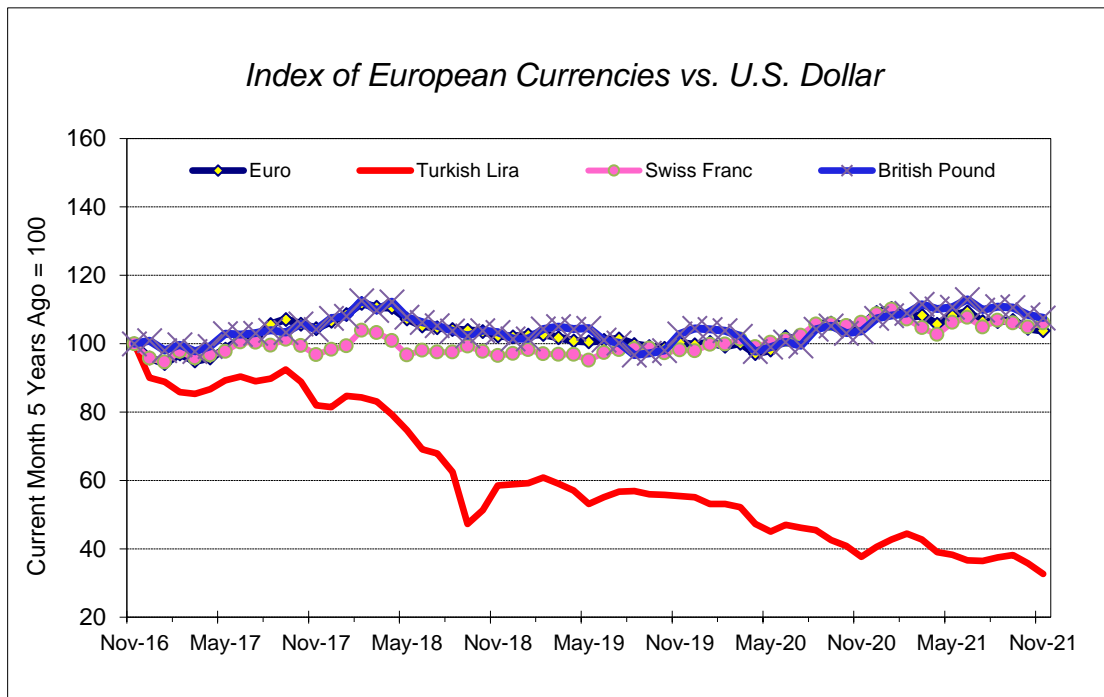
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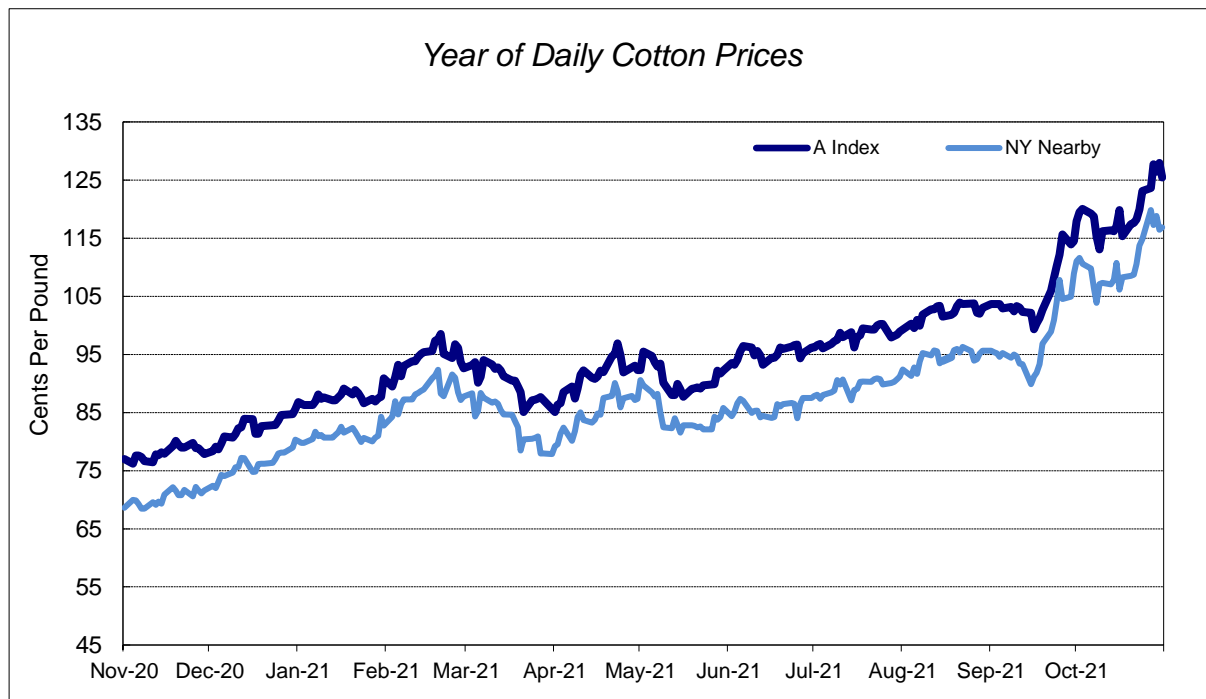
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U.S. Balance Sheet

million 480 lb. bales	2017/18	2018/19	2019/20	2020/21	2021/22 September	2021/22 October
Beginning Stocks	2.8	4.2	4.9	7.3	3.2	3.2
Production	20.9	18.4	19.9	14.6	18.5	18.0
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	23.7	22.6	24.8	21.9	21.7	21.2
Mill-Use	3.2	3.0	2.2	2.4	2.5	2.5
Exports	16.3	14.8	15.5	16.4	15.5	15.5
Demand	19.5	17.8	17.7	18.8	18.0	18.0
Ending Stocks	4.2	4.9	7.3	3.2	3.7	3.2
Stocks/Use Ratio	21.5%	27.2%	41.0%	16.8%	20.6%	17.8%



Sources: ICE Futures U.S. & Cotton Outlook

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