

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



March 2022

www.cottoninc.com

Macroeconomic Overview: With the invasion of Ukraine, the world suddenly became a different place. Along with the pandemic, shipping constraints, and inflation, the war represents yet another source of uncertainty and volatility.

One market notably affected by the conflict is oil. Current oil prices sharply contrast to the situation less than two years ago, when oil futures briefly traded at negative values. A barrel of (Brent) oil has recently been trading at over \$130/barrel. In December, the average was below \$75/barrel (about half of current values).

Energy is a prerequisite for most economic activity, making higher energy costs difficult to mitigate for businesses and consumers. The national average price for gasoline in the U.S. climbed over four dollars a gallon in early March and was near the all-time record set in 2008 (\$4.11/gallon, not adjusted for inflation).

Energy is just one source of inflation-related concerns for the economy. The overall inflation rate was over seven percent in December and January. The Federal Reserve initially regarded inflation as transitory, driven by short-term factors associated with the immediate recovery following the pandemic. Their thinking has evolved, and the Federal Reserve is widely expected to begin increasing interest rates at their meeting in the middle of March. Higher interest rates can slow inflation but can also slow economic growth.

Retail clothing prices have been rising but have only recently caught up to pre-pandemic levels. With the onset of the pandemic, the CPI for garments was down as much as 8.6% year-over-year. Consumer apparel prices increased month-over-month in the four past months of data (through January) and have been higher year-over-year for the past ten months. However, with the sharp declines that followed the initial spread of COVID, values did not surpass the levels from early 2020 (pre-pandemic) until December 2021. The latest value (for January) is still below readings from the summer and fall of 2019.

Sourcing costs lag fiber prices by about nine months. Given the run in fiber prices, it can be expected that import costs will continue to rise. Statistically, the relationship between fiber prices and retail prices is less consistent, but the trajectory of sourcing costs and overall inflation suggest further increases in clothing prices are possible.

An offsetting and enabling factor relative to inflation is rising wages. For consumers, higher incomes can allow purchases to continue despite higher prices. However, higher wages are a cost for businesses, and the added cost pressure can lead businesses to raise prices. Central banks attempt to break the cycle of rising wages, costs, and prices by increasing interest rates. The process requires delicate handling. The timing and magnitude of rate increases can be expected to contribute to volatility across financial markets.

Employment: In February, the U.S. economy was estimated to have added +678,000 jobs. Previous estimates for December increased by +78,000 to +588,000, and the previous figure for January rose by +14,000 to +481,000. The 12-month average for job gains is +561,000. Since COVID, there has been a net loss of -2.7 million workers.

The unemployment rate fell -0.2 points to 3.8% and is low by historical standards. There have been only six other periods since World War II that unemployment fell below four percent. Wages increased 5.1% year-over-year in February. Excluding the volatility in wage growth that occurred with the pandemic and direct payments, recent wage growth has been the strongest since at least 2007 (as far back as the wage data series goes).

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence decreased for a second consecutive month in February, dropping 0.6 points to 110.5. This is below the recent peak of 128.9 set in June 2021 and below pre-pandemic levels near 130. Current values are also above pandemic-related lows near 85 and above the long-term (since 1970) average of 93.5.

Both overall and apparel spending rebounded in January. After dropping 1.3% month-over-month in December, overall consumer spending was up +1.5% month-over-month and +5.4% year-over-year in January. After dropping 6.9% month-over-month in December, apparel spending was up +4.8% month-over-month and +10.8% year-over-year in January.

Consumer Prices & Import Data: The CPI for apparel increased +1.2% month-over-month in January (latest available) and has been higher for each of the last ten months. Year-over-year, the CPI was 5.1% higher.

In seasonally-adjusted terms, the average price per square meter equivalent (SME) of cotton-dominant apparel has been stable for the past three months (Nov-Jan). Year-over-year, the import prices were 12.6% higher in January. Compared to pre-pandemic levels (February 2020), import costs were 2.1% higher in the first month of the year.

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	

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U.S. Macroeconomic Indicators & Cotton Prices
March 2022



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q2 : 2021	Q3 : 2021	Q4 : 2021		
Growth in US Real GDP	2.7%	5.6%	4.7%	7.0%	6.7%	2.3%	7.0%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic 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		
ISM Index of Manufacturing Activity	56.2	60.3	59.5	58.3	58.8	57.6	58.6	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.7	62.6	62.7	59.6	62.3	59.9	56.5	Index	Institute for Supply Management
Consumer Confidence	118.4	116.0	111.7	112.3	115.2	111.1	110.5	Index	The Conference Board
Change in Non-Farm Payrolls	76.4	556.0	582.5	582.3	588	481	678	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.1%	5.0%	4.2%	3.9%	3.9%	4.0%	3.8%	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	1.9%	1.6%	1.6%	1.7%	1.5%	1.8%	1.9%	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		
Index of Leading Economic Indicators	109.9	117.0	119.1	119.9	120.0	120.0	119.6	Index	The Conference Board
Housing Starts	13.6	16.0	16.2	1.7	1.7	1.7	1.6	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.6	6.1	6.2	6.3	6.3	6.1	6.5	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	100.2	100.5	101.6	102.5	101.2	102.1	103.5	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	107.7	121.6	131.4	135.0	135.5	132.5	137.1	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile 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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	2.6	2.5	2.4	2.3	2.3	2.6	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	1.39	1.38	1.40	1.41	1.41	1.40	1.42	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	2.4%	8.8%	6.7%	6.6%	7.4%	6.9%	5.4%	% Chg. Year/Year	Department of Commerce
Clothing	7.5%	32.7%	16.4%	15.7%	19.6%	16.8%	10.8%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	2.5%	5.2%	6.4%	7.2%	6.8%	7.1%	7.5%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-1.0%	2.9%	4.4%	5.3%	5.1%	5.6%	5.1%	% 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	2.7	2.0	1.9	1.9	1.9	1.9	2.0	Ratio	Department of Commerce
Department Stores	2.1	1.8	1.8	1.9	1.8	1.9	2.1	Ratio	Department of Commerce

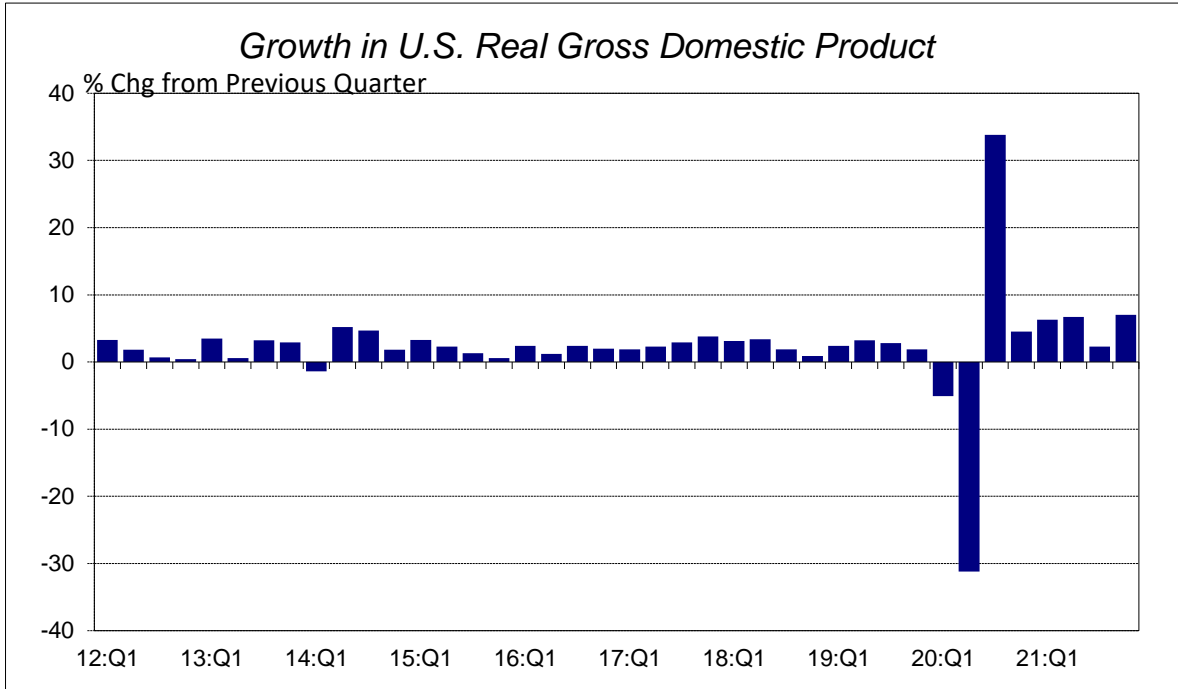
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Daily Cotton Price and Currency Data

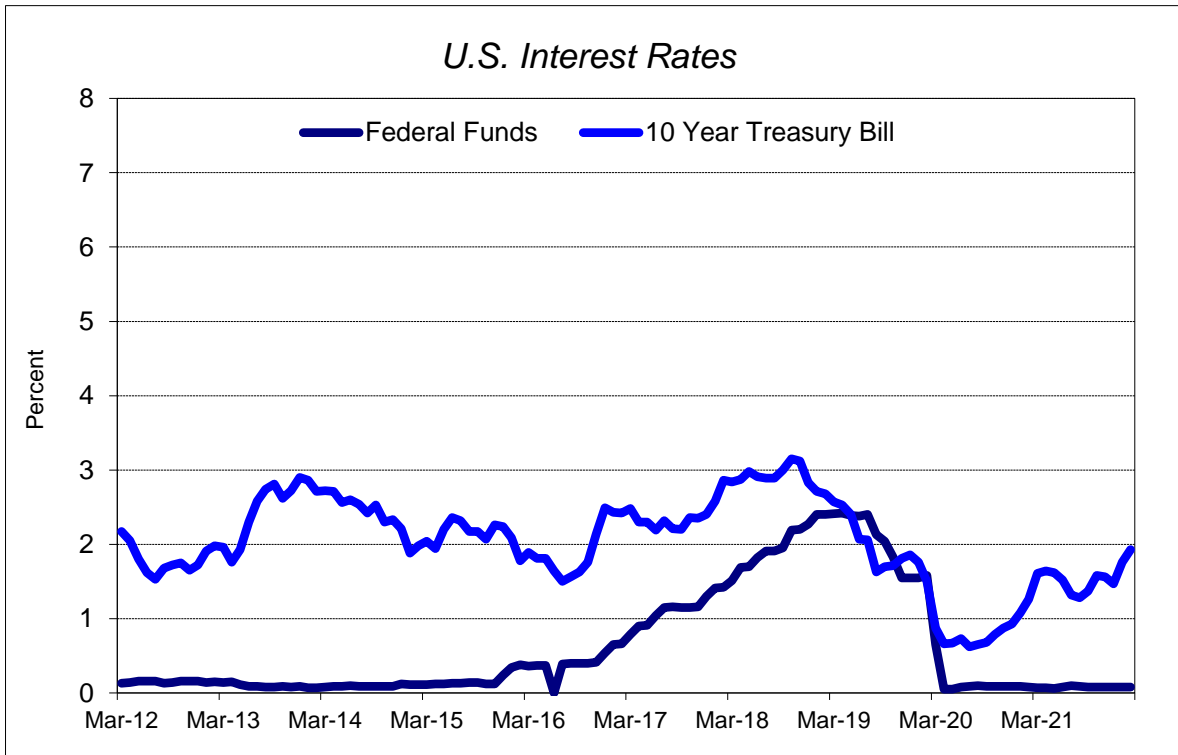
March 2022



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	77.6	99.6	112.3	117.2	107.9	119.3	124.2	cents/pound	ICE
A Index	86.9	108.7	123.1	130.3	120.0	132.3	138.4	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	114.2	115.6	114.8	115.5	116.3	115.1	115.0	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.70	6.73	6.40	6.37	6.37	6.37	6.36	Chinese Renminbi/US dollar	Reuters
Indian Rupee	70.63	72.97	74.52	74.82	75.44	74.31	74.71	Indian Rupee/US dollar	Reuters
Japanese Yen	109.60	108.76	113.26	114.78	113.67	115.63	115.06	Japanese Yen/US dollar	Reuters
Pakistani Rupee	142.52	159.47	172.61	175.95	176.80	176.60	174.46	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.35	4.91	5.47	5.53	5.64	5.66	5.29	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.30	1.30	1.26	1.27	1.26	1.27	1.27	Canadian dollar/US dollar	Reuters
Mexican Peso	19.82	20.39	20.52	20.72	21.12	20.44	20.61	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.76	0.76	0.74	0.74	0.76	0.74	0.74	British Pound/US dollar	Reuters
Euro	0.87	0.87	0.87	0.88	0.89	0.88	0.87	Euro/US dollar	Reuters
Swiss Franc	0.96	0.95	0.92	0.92	0.93	0.92	0.92	Swiss Franc/US dollar	Reuters
Turkish Lira	6.35	7.61	11.32	13.66	13.57	13.82	13.60	Turkish Lira/US dollar	Reuters



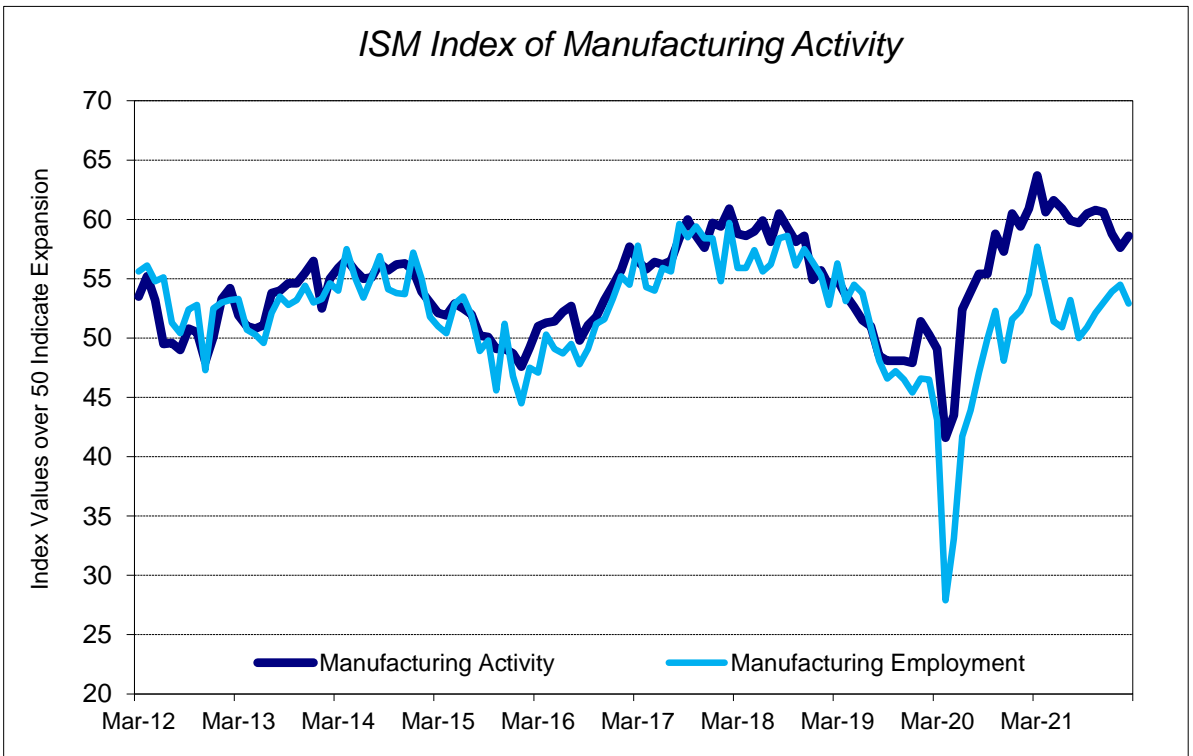
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



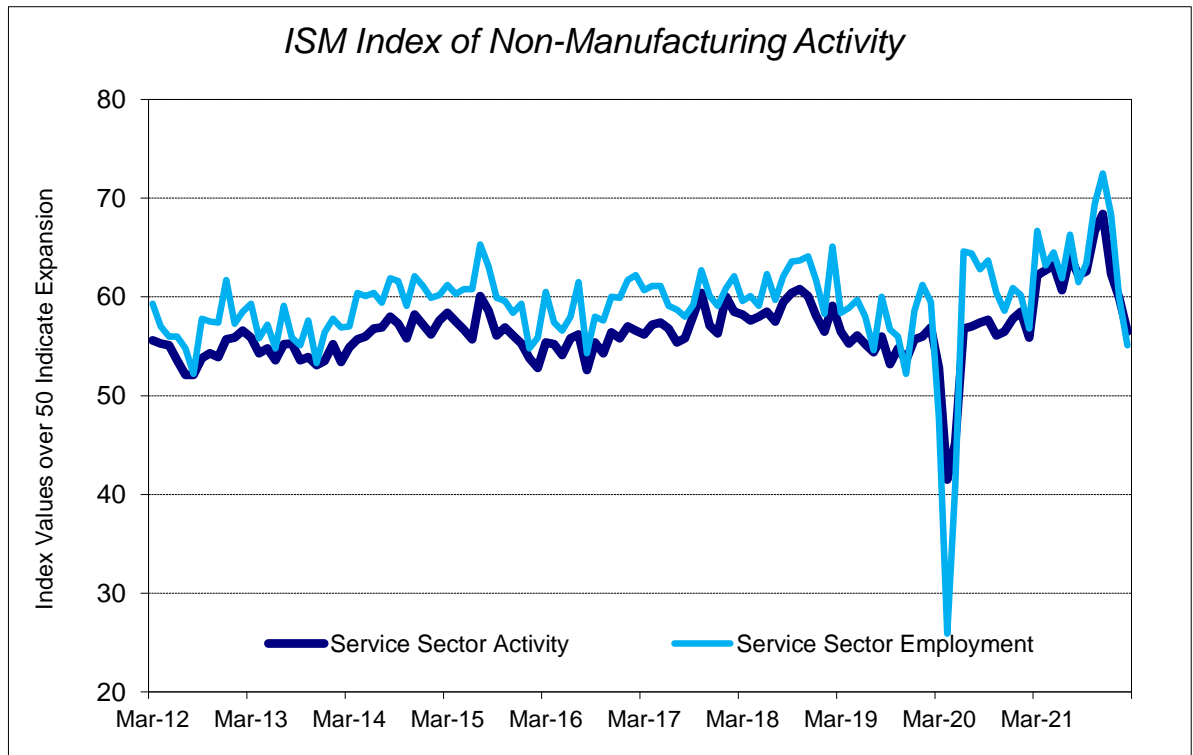
Source: Federal Reserve

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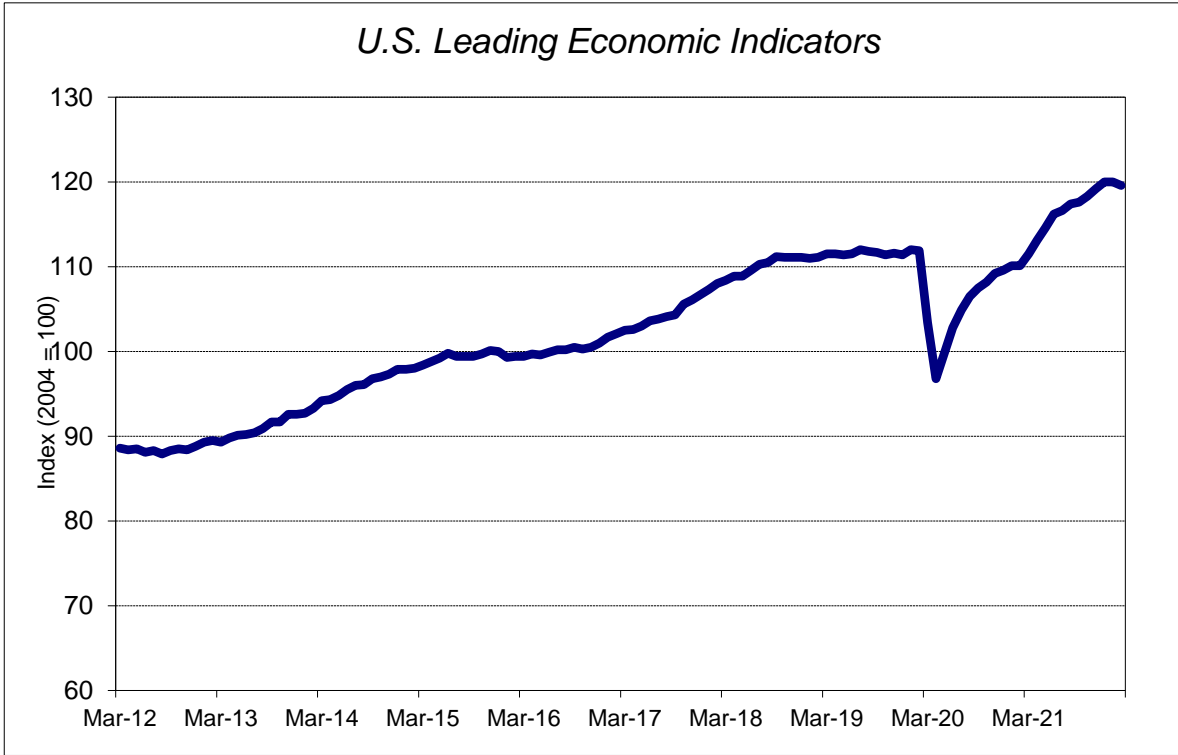
Source: Institute for Supply Chain Management



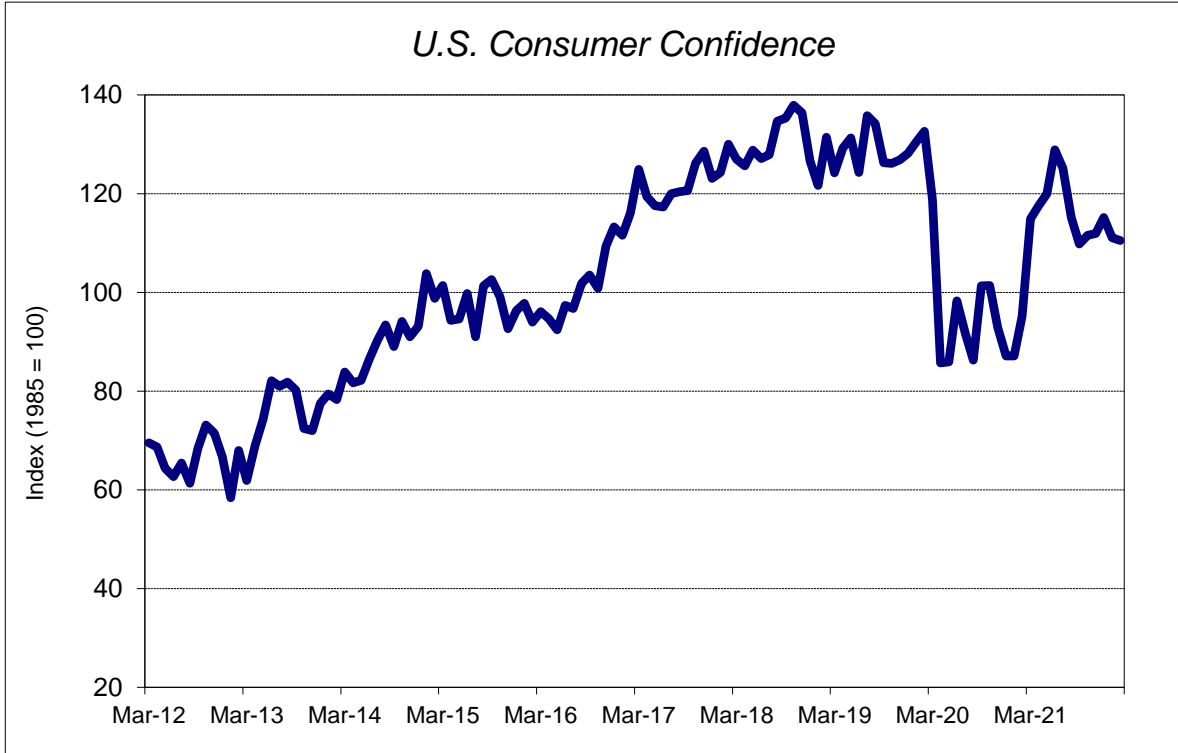
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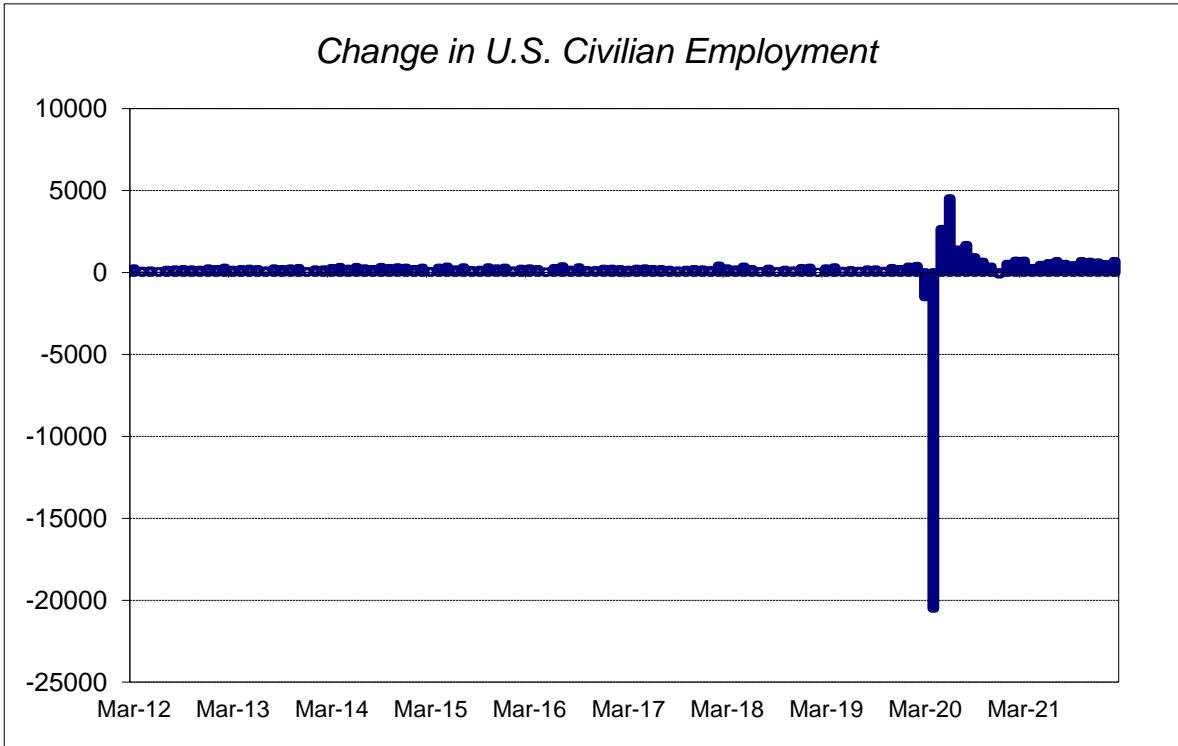
Source: The Conference Board



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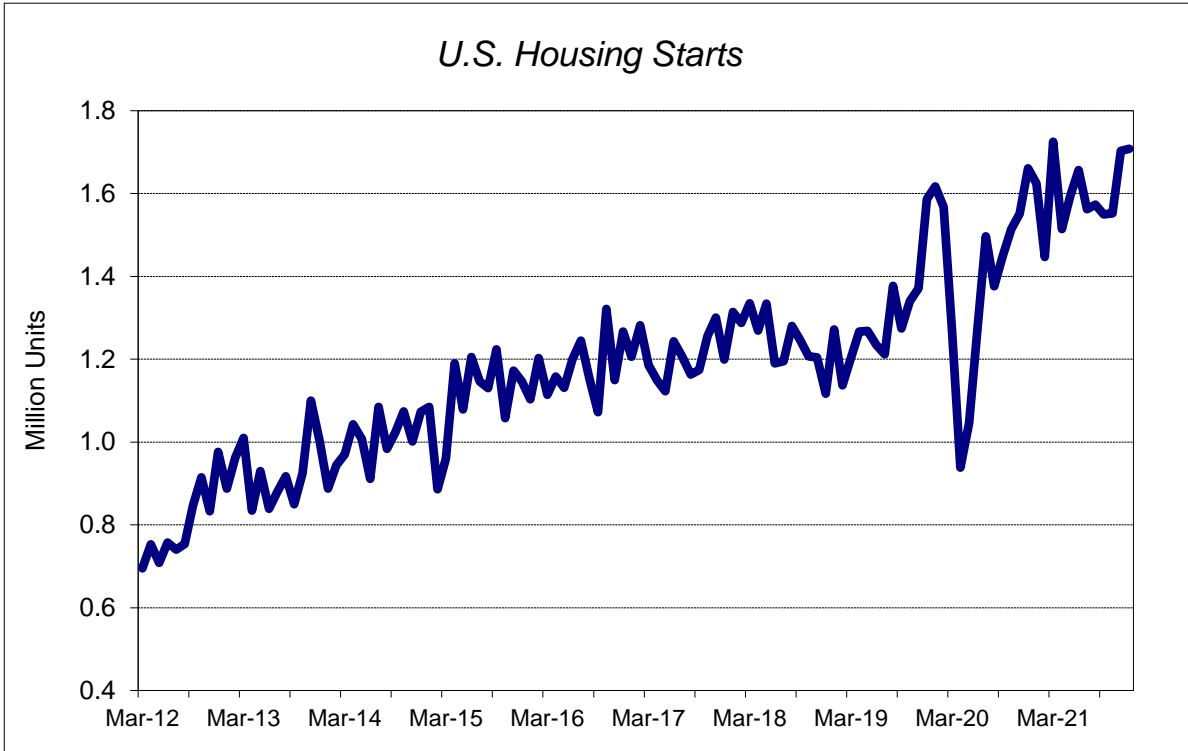
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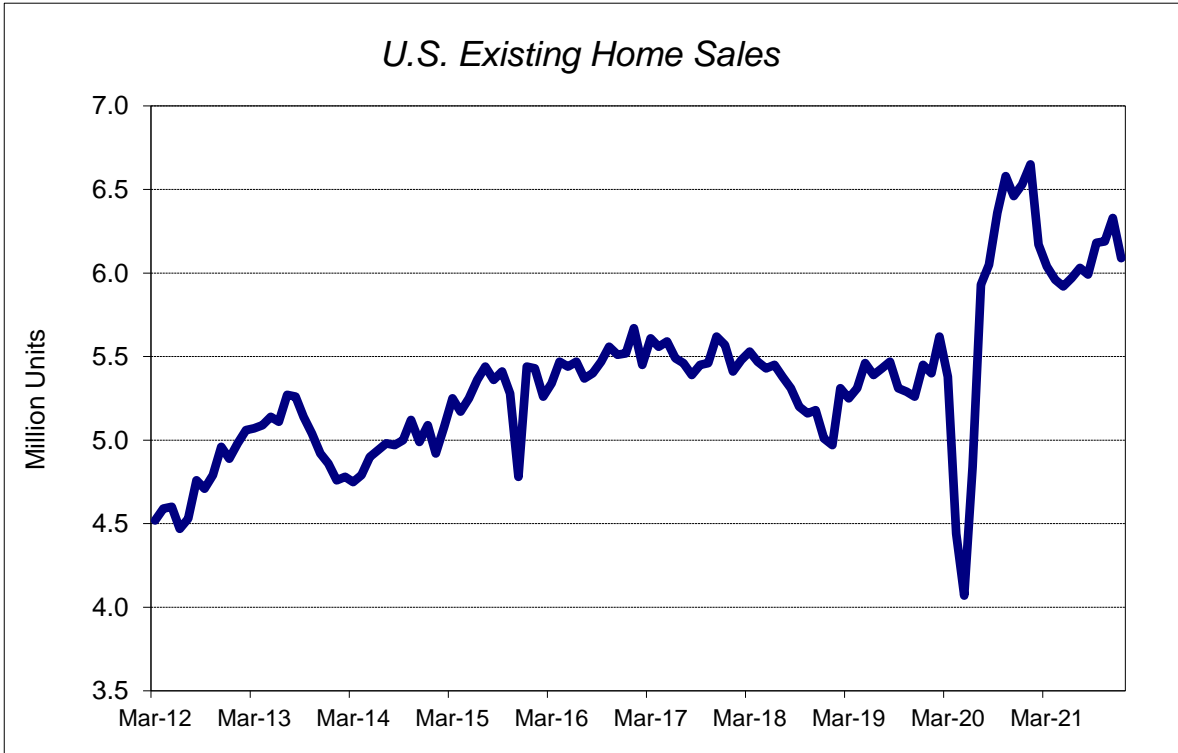
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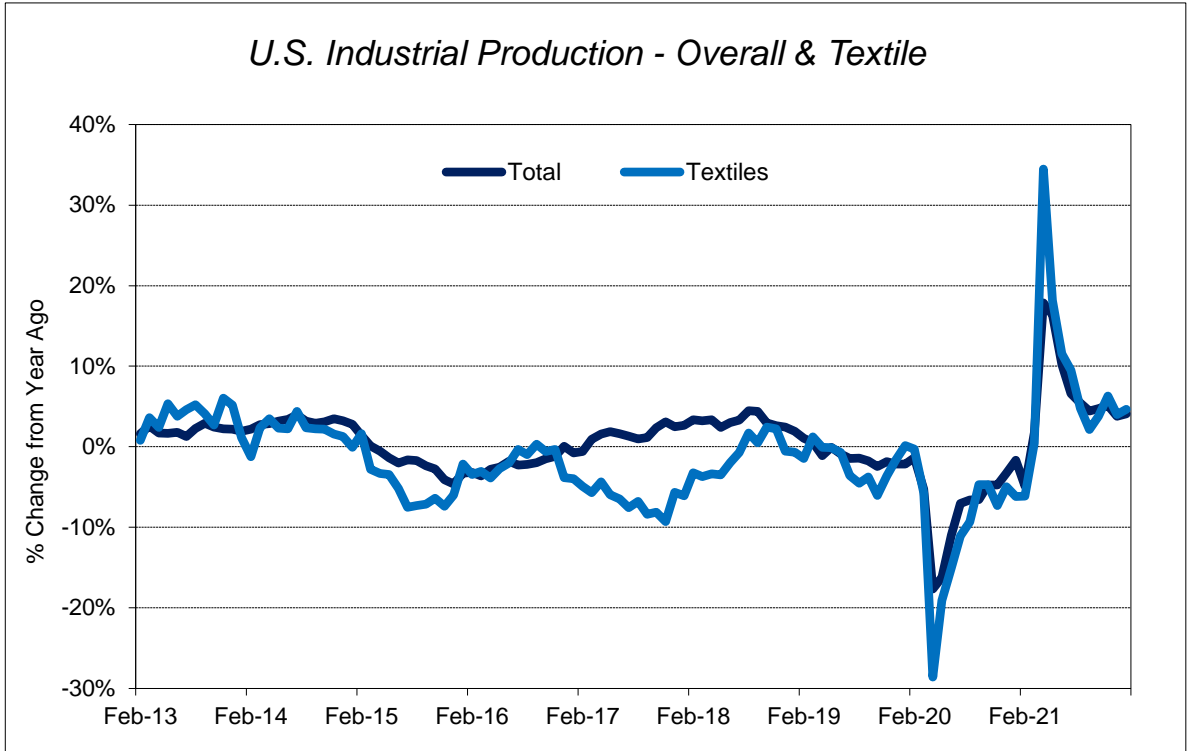
Seasonally Adjusted Annual Rate; Source: Department of Commerce



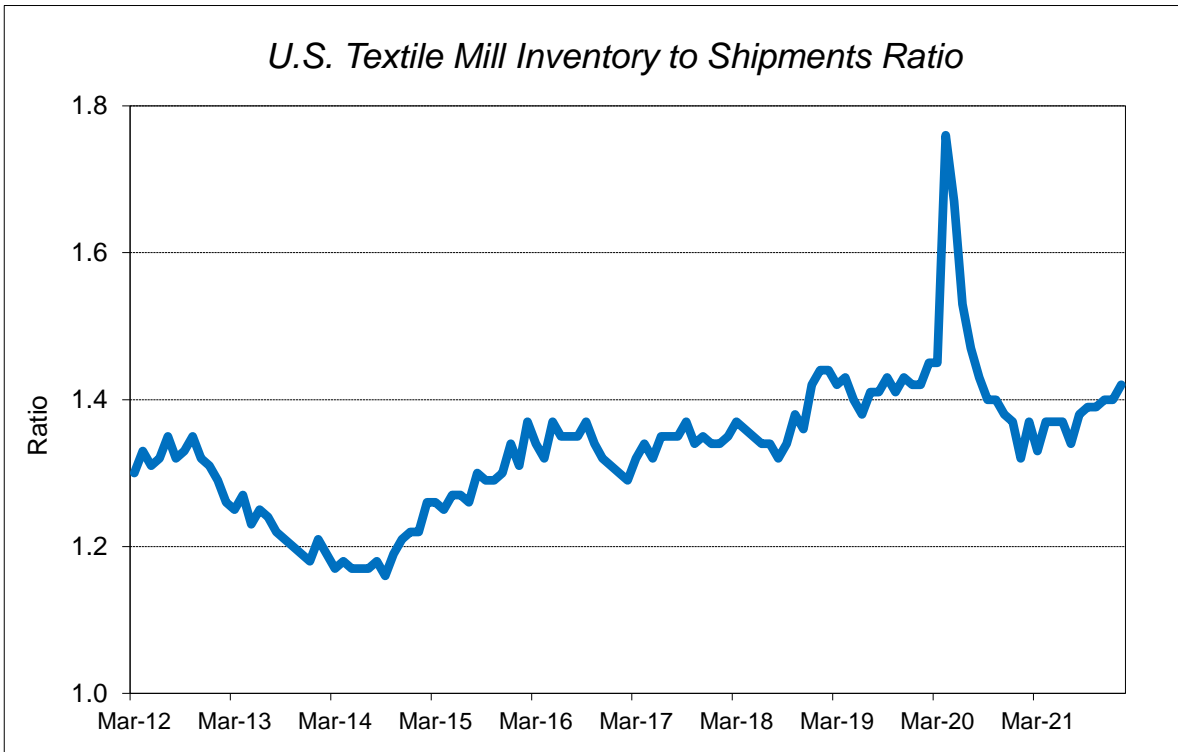
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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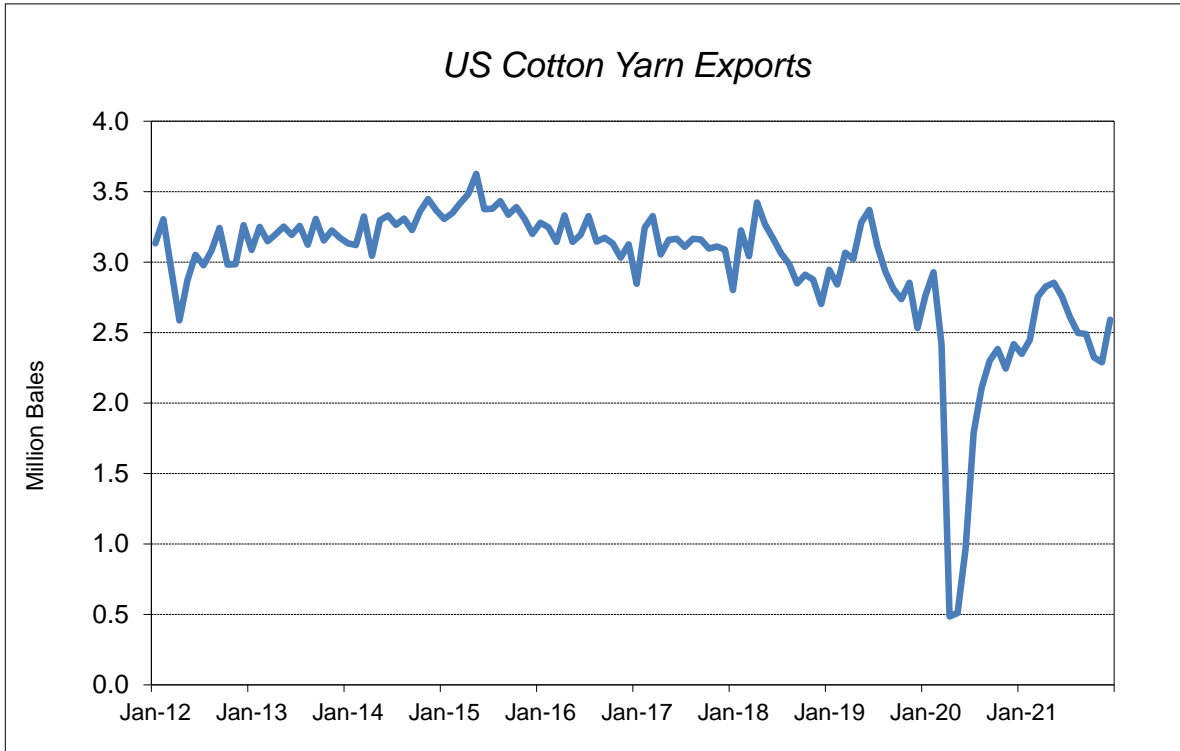
Source: Federal Reserve. Historical data revised to 1997 baseline.



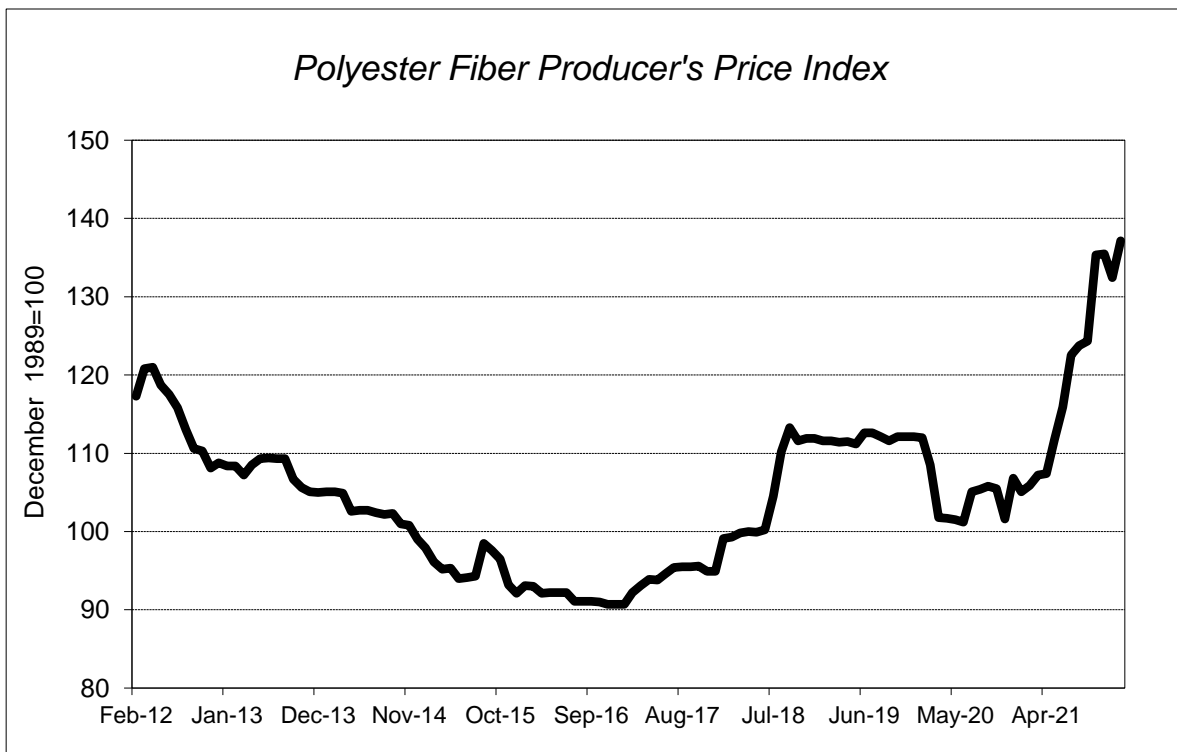
Seasonally Adjusted; Source: Department of Commerce

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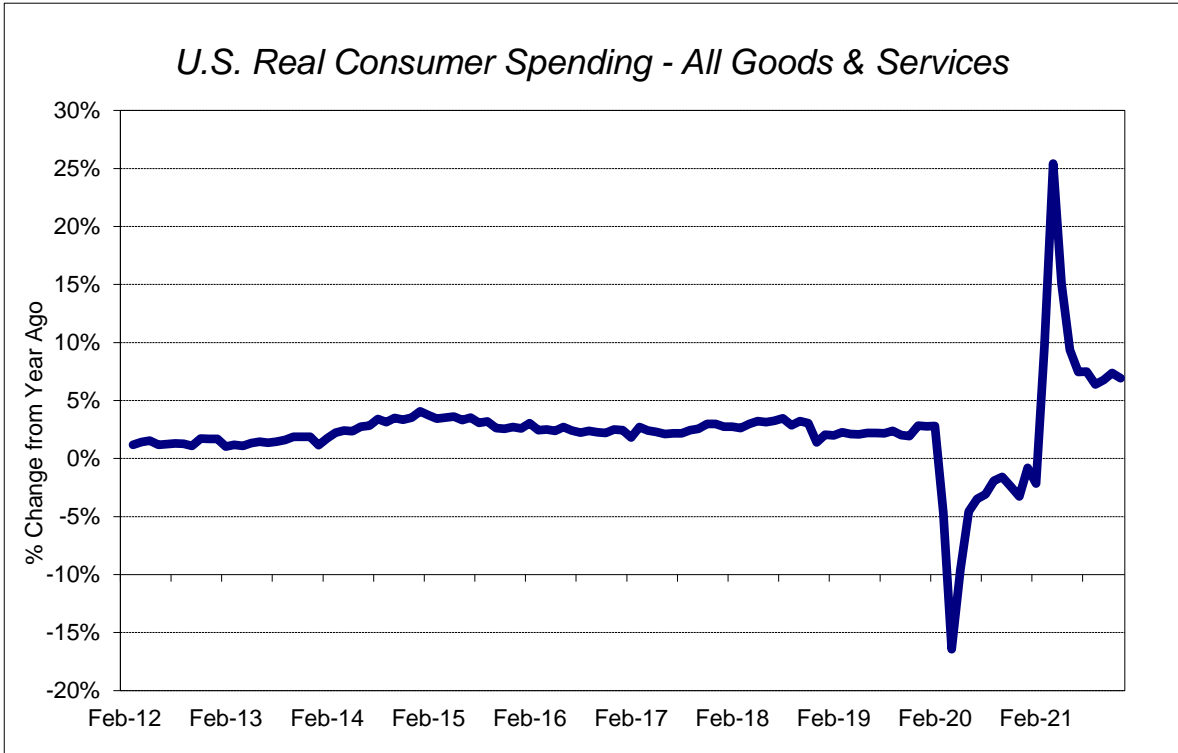
Seasonally Adjusted Annual Rate
 Source: USDA ERS



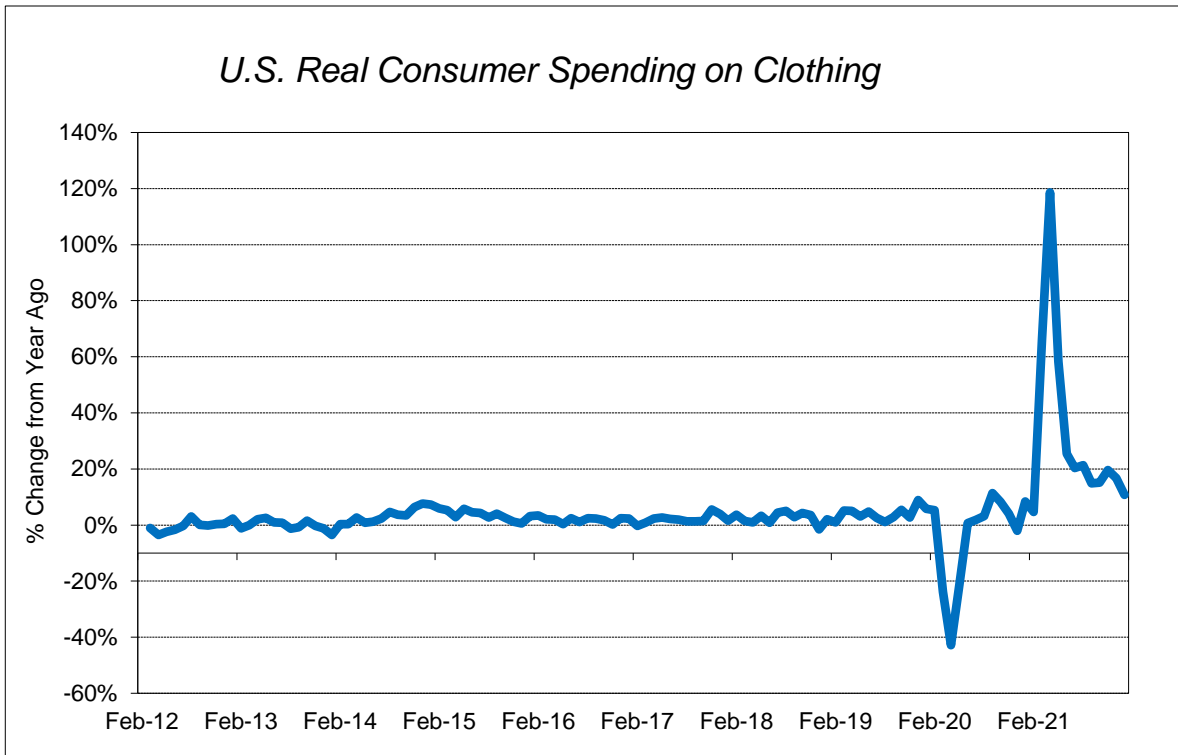
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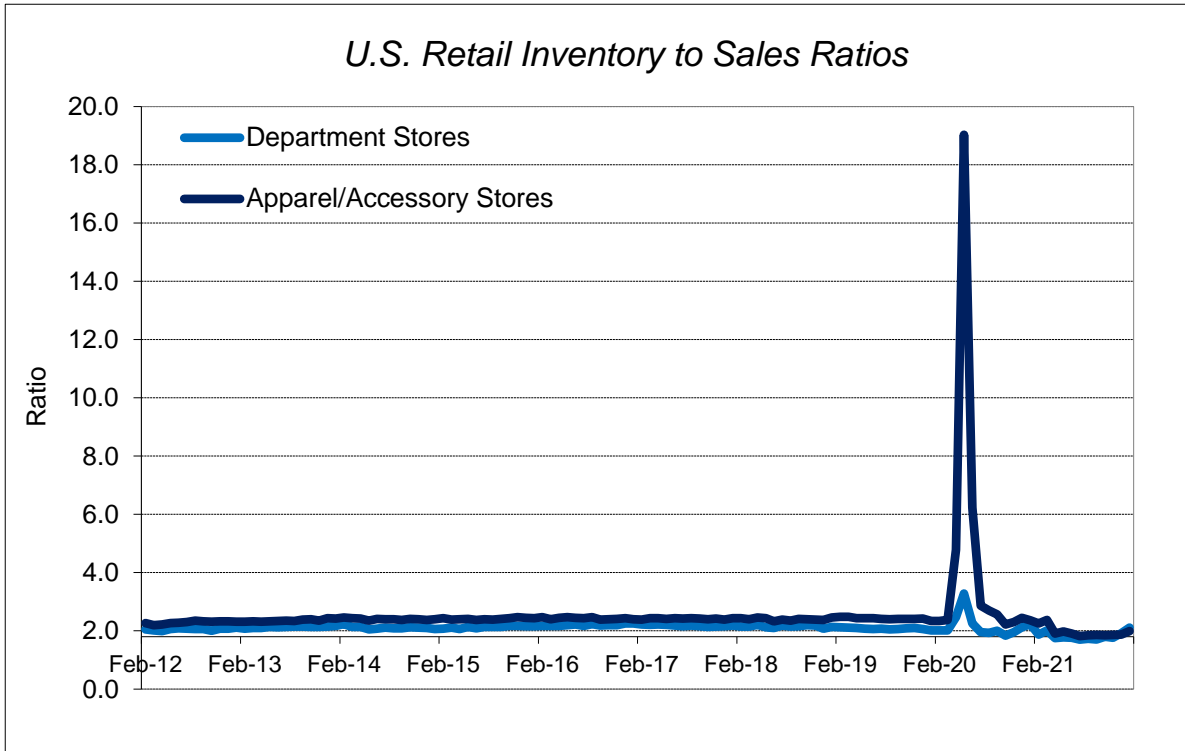
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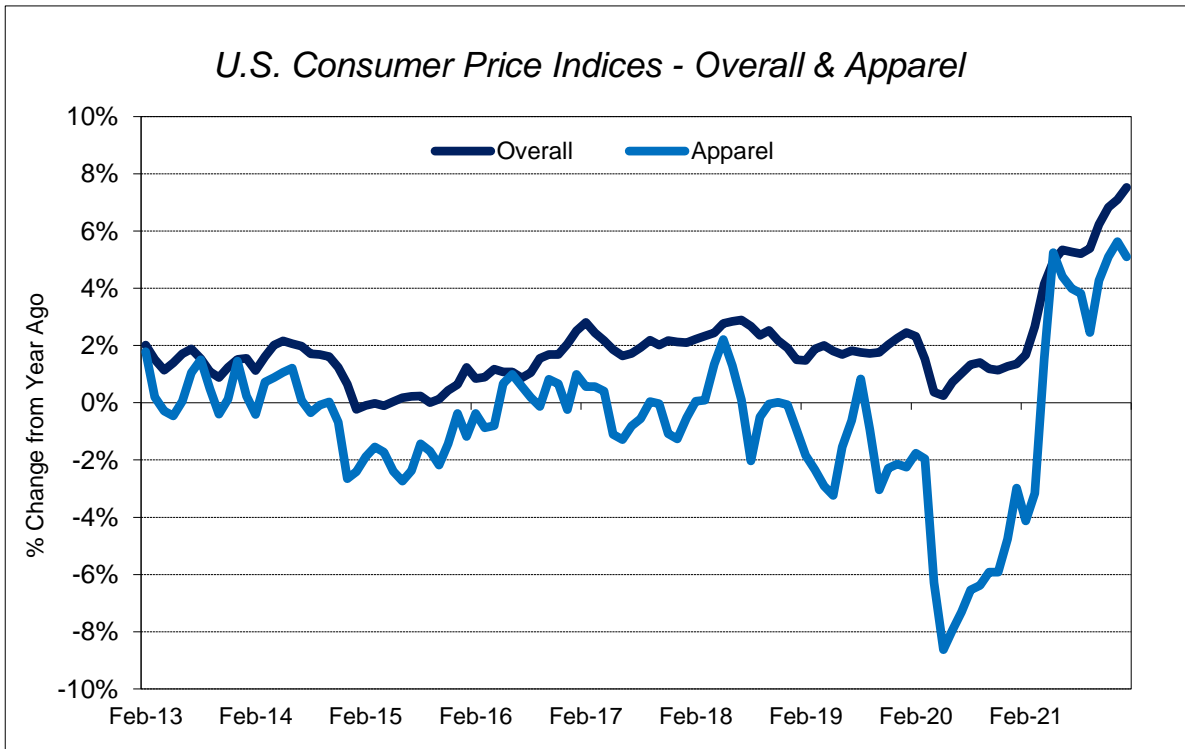
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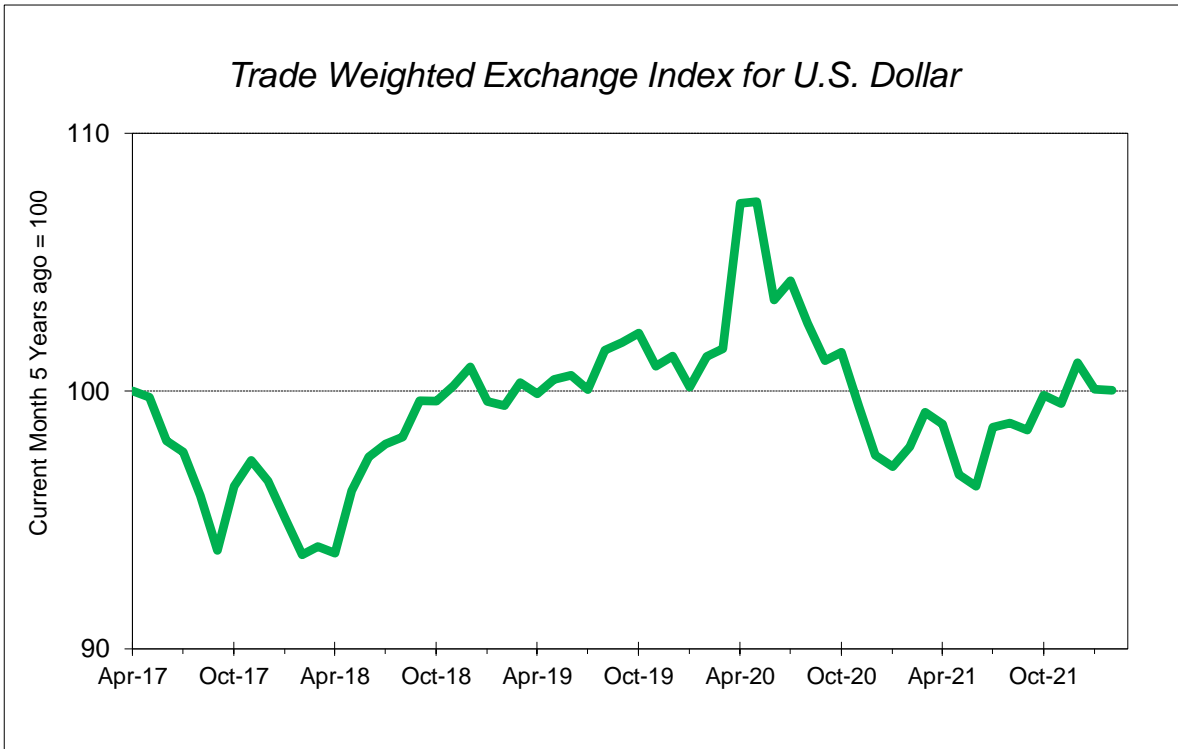
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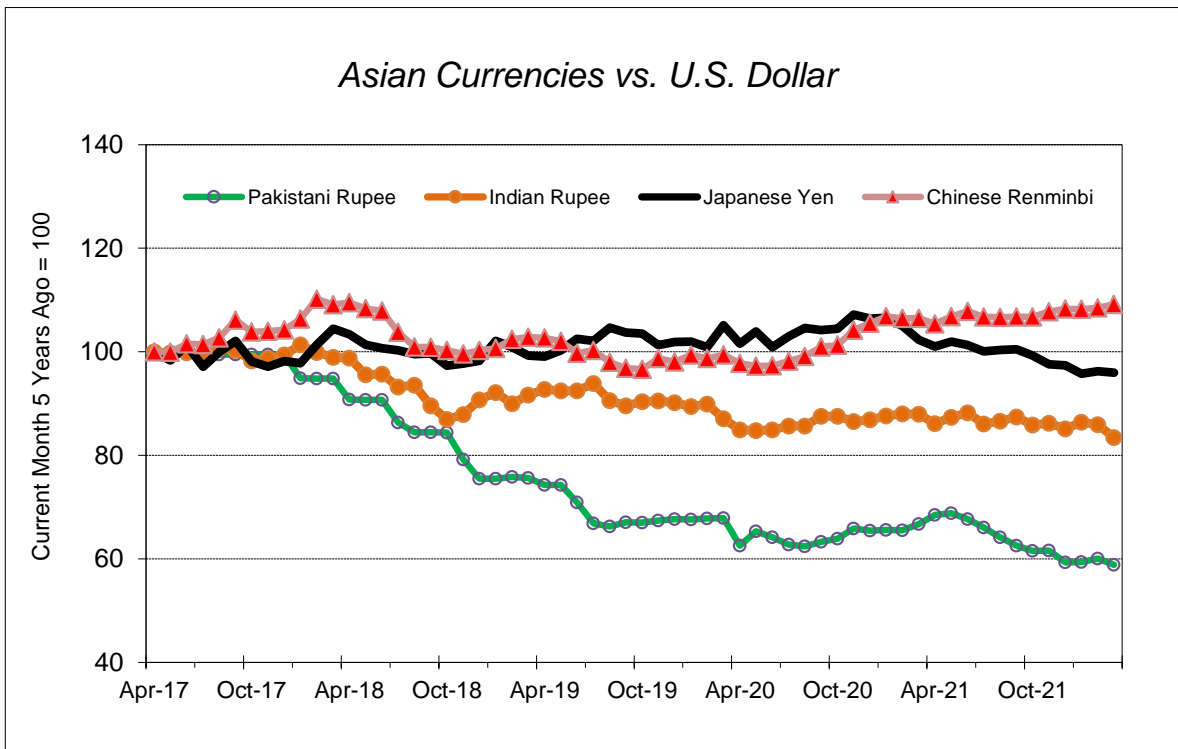
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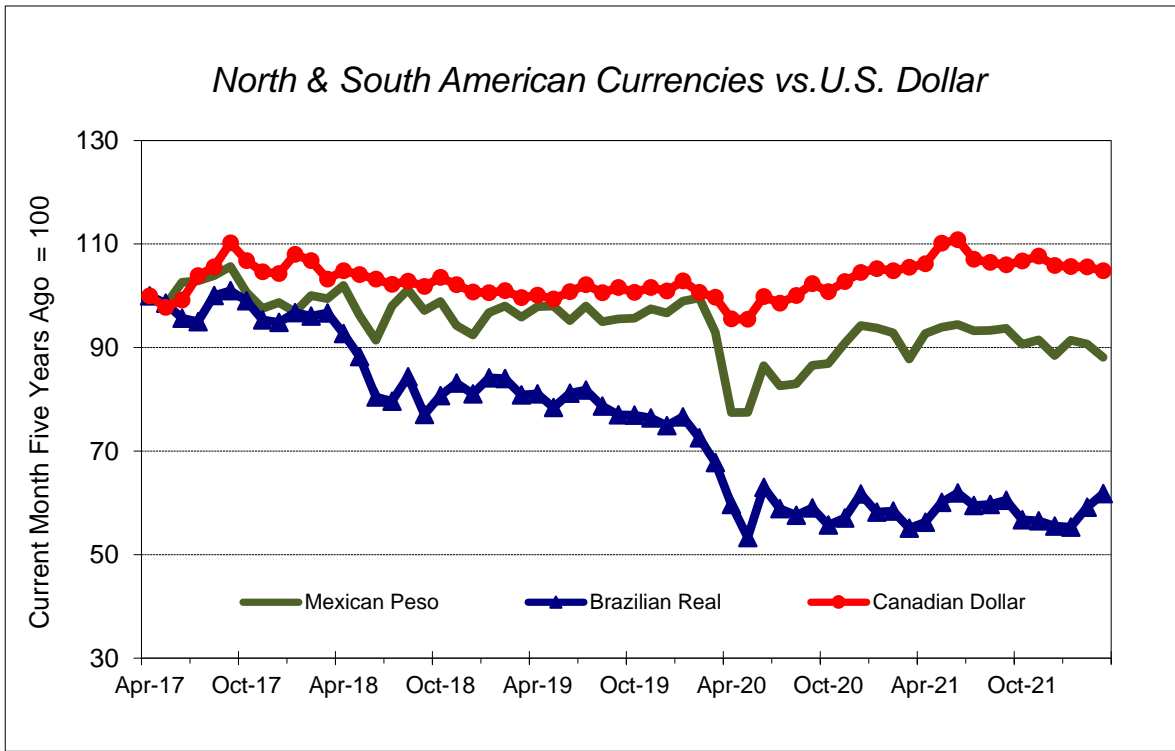
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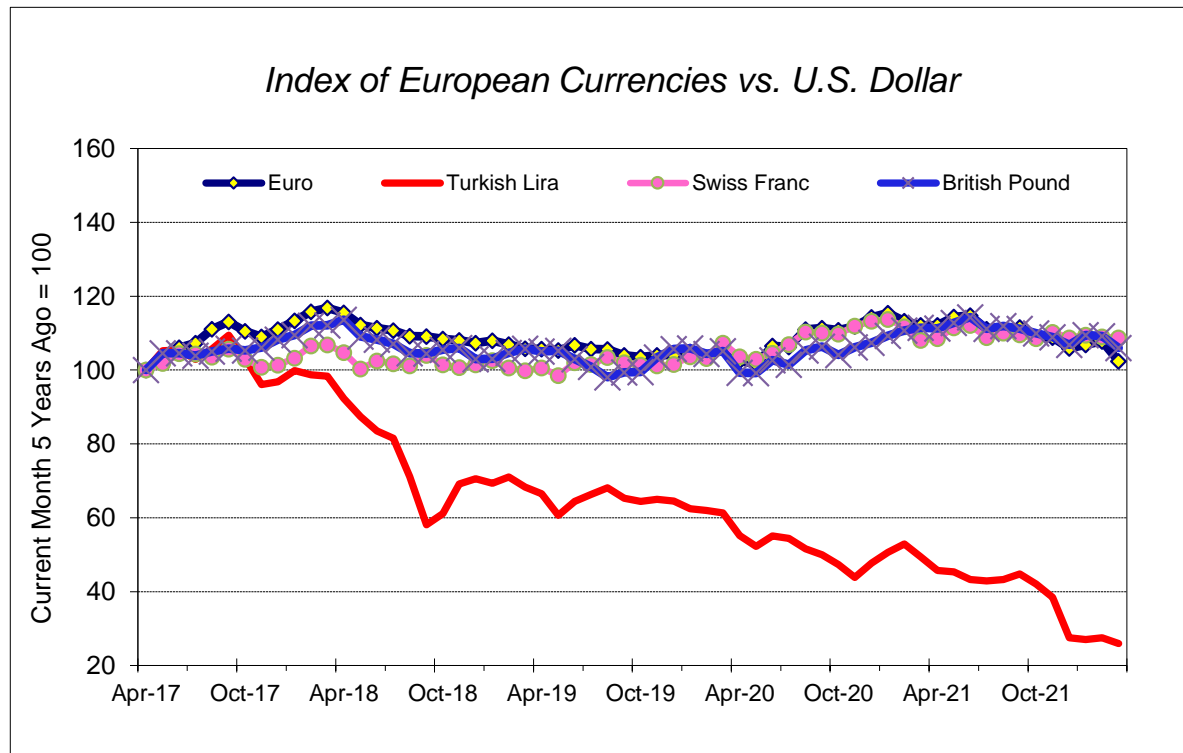
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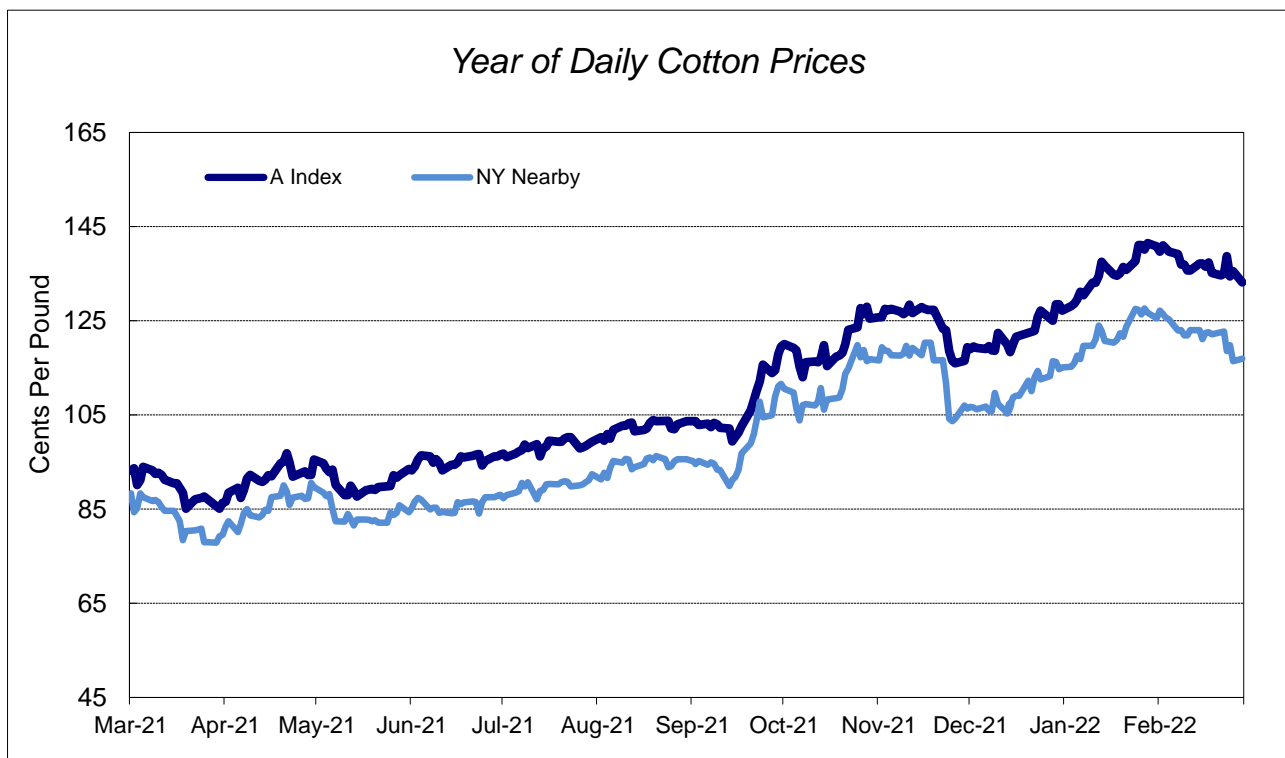
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U.S. Balance Sheet

million 480 lb. bales	2017/18	2018/19	2019/20	2020/21	2021/22 January	2021/22 February
Beginning Stocks	2.8	4.2	4.9	7.3	3.2	3.2
Production	20.9	18.4	19.9	14.6	17.6	17.6
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	23.7	22.6	24.8	21.9	20.8	20.8
Mill-Use	3.2	3.0	2.2	2.4	2.6	2.6
Exports	16.3	14.8	15.5	16.4	15.0	14.8
Demand	19.5	17.8	17.7	18.8	17.6	17.3
Ending Stocks	4.2	4.9	7.3	3.2	3.2	3.5
Stocks/Use Ratio	21.5%	27.2%	41.0%	16.8%	18.2%	20.2%



Sources: ICE Futures U.S. & Cotton Outlook

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