

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



July 2022

www.cottoninc.com

Macroeconomic Overview: Financial markets continued to be volatile over the past month. Following drops in stocks and cryptocurrencies, commodity prices became the latest broadly defined sector to suffer steep losses. Cotton futures were among the commodities that experienced sharp declines. The nearby July contract lost 30%, while the December futures contract (reflective of post-harvest price expectations), fell 25%. Given that a wide range of other agricultural and industrial commodities suffered simultaneous losses, the decline in cotton prices can be considered as part of a general pullback in commodity investment rather than a reflection of any specific concern about weakness in demand or oversupply of cotton.

Nonetheless, there are possible sources of concern. It is estimated that around 75% of downstream demand for cotton flows into apparel and that another 20% is devoted to home textiles. Relative to food and energy, spending on both of these categories is more discretionary than spending on food, energy, or housing. U.S. housing costs are up more than 10% relative to their pre-COVID levels. Prices for food and energy have risen 10% or more just in the past twelve months. While there have been year-over-year increases in clothing prices (near five percent most recently), the CPI for apparel remains near pre-COVID levels (up only about one percent versus the average for 2019 in May). As a result, the greater threat to U.S. apparel spending may come from consumers being pinched by price increases from other spending categories rather than from a rise in apparel costs.

Policy responses to inflation may be another source of concern for apparel and fiber demand. Comments made during the latest meeting held by the Federal Reserve led observers to believe that interest rates will continue to rise by at least one-half of a percentage point in late July. However, these comments were accompanied by statements expressing concern about the implications for economic growth. In eight of the last nine periods of monetary tightening, the U.S. slipped into recession. However, not all recessions are as severe as the financial crisis or the one provoked by COVID. Among the factors that could support U.S. consumer demand in future months include a strong labor market, solid wage growth, and the surge in wealth that came with stimulus after COVID.

Employment: The U.S. economy was estimated to have added +372,000 jobs in June. Revisions to previous months were negative. The figure for April decreased -68,000 positions to +436,000. The figure for May decreased -6,000 to +384,000. The twelve-month average for job growth is +523,000. The unemployment rate was 3.6% for the fourth consecutive month. This value is near historic lows and is virtually even with the level before COVID. Wages were +5.1% higher year-over-year in June. This is nearly double the average rate of wage growth that followed the financial crisis.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence decreased -4.5 points month-over-month in June. This followed a -5.4 point drop in May. The current level for the index (98.7) is the lowest since February 2021. After COVID, values for the index climbed as high as 128.9 (June 2021). The lowest value for the index after COVID was 87.1 (January 2021). Before COVID, when the unemployment rate was at a level nearly equal to the current value, the Index of Consumer Confidence was near 130.

Overall consumer spending decreased -0.4% month-over-month in inflation-adjusted terms in May. Year-over-year, real spending was -2.1% lower. Spending on garments decreased -0.6% month-over-month and was down -0.3% year-over-year. Some of the recent weakness in apparel spending growth could be due to difficult year-over-year comparisons. Relative to May 2019, spending on apparel was 24% higher in May 2022. The same was true one year ago, spending in May 2021 was also up 24% relative to the level from May 2019. The average annual rate of growth in clothing spending is near 2%, so there has been sustained outsized growth, even if recent year-over-year rates have flattened.

Another factor that may be contributing to slower growth in apparel spending is a rebalancing of spending between goods and services. Relative to January 2020 (pre-COVID), spending on goods was 13% higher in May 2022 while spending on services was only 0.6% higher. At its post-COVID peak (March 2021), spending on goods was 20% higher than in January 2020. That same month (March 2021), spending on services was down 8% versus January 2020.

Consumer Prices & Import Data: After registering the first month-over-month decrease in six months in April, the CPI for apparel increased +0.6% in May. Year-over-year, retail clothing prices were up +5.1% in May. Despite the series of recent increases, retail prices for clothing are only 1.3% higher than the average from 2019.

Sourcing costs continue to rise. The latest seasonally-adjusted cost per square meter equivalent (SME) of cotton-dominant apparel was the highest since 2011 (\$3.69/SME in May). This represents a +24% increase above the low set in March 2021 (\$2.97/SME) and a 10% increase relative to pre-COVID levels.

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
July 2022



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q3 : 2021	Q4 : 2021	Q1 : 2022		
Growth in US Real GDP	2.7%	2.9%	4.6%	6.9%	2.3%	6.9%	-1.6%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic 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		
ISM Index of Manufacturing Activity	56.1	58.2	56.3	54.8	55.4	56.1	53.0	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.7	60.8	57.2	56.1	57.1	55.9	55.3	Index	Institute for Supply Management
Consumer Confidence	117.3	110.3	105.8	103.5	108.6	103.2	98.7	Index	The Conference Board
Change in Non-Farm Payrolls	89.9	523.5	456.7	374.7	368	384	372	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.0%	4.2%	3.7%	3.6%	3.6%	3.6%	3.6%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.1%	0.3%	0.4%	0.8%	0.3%	0.8%	1.2%	Interest rate	Federal Reserve
10-year Treasury Bill	2.0%	1.9%	2.4%	2.9%	2.8%	2.9%	3.1%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for May

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
Index of Leading Economic Indicators	111.8	118.4	118.9	118.6	118.8	118.8	118.3	Index	The Conference Board
Housing Starts	13.9	16.6	17.1	1.7	1.7	1.8	1.5	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.6	6.0	5.9	5.6	5.8	5.6	5.4	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile Series with Latest Data for May

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
US Industrial Production	100.6	102.2	103.5	104.7	103.0	103.7	105.2	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	111.3	134.3	142.4	148.7	139.9	152.2	153.9	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile Series with Latest Data for April

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	#N/A	#N/A	#N/A	2.6	2.7	#N/A	million 480lb bales	USDA ERS

Industrial & Textile Series with Latest Data for May

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
US Textile Mill Inventory/Shipments Ratio	1.41	1.43	1.48	1.51	1.51	1.49	1.52	Ratio	Department of Commerce

Retail Data

Retail Series with Latest Data for May

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
US Real Consumer Spending									
All Goods and Services	2.5%	5.7%	4.1%	2.0%	2.1%	1.9%	2.1%	% Chg. Year/Year	Department of Commerce
Clothing	7.6%	13.1%	6.7%	-0.5%	-1.5%	0.2%	-0.3%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	2.5%	5.4%	6.2%	6.4%	6.6%	6.3%	6.3%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.6%	4.9%	5.8%	5.9%	6.9%	5.6%	5.1%	% Chg. Year/Year	Bureau of Labor Statistics

Retail Series with Latest Data for April

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.7	1.9	2.0	2.1	2.0	2.0	2.1	Ratio	Department of Commerce
Department Stores	2.0	1.9	2.0	2.1	2.0	2.1	2.1	Ratio	Department of Commerce

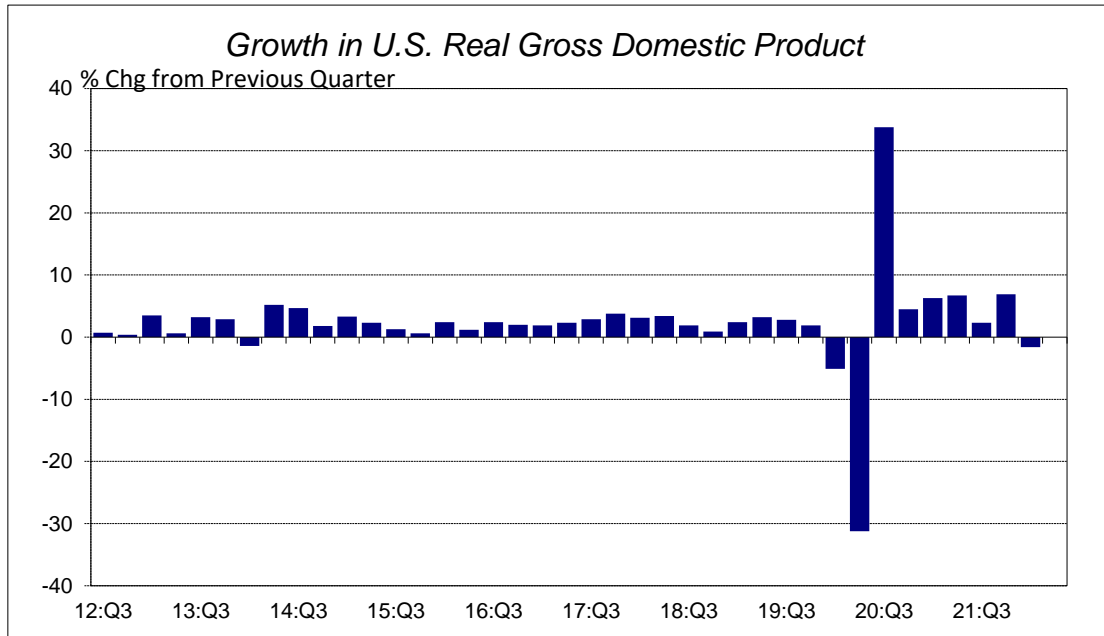
Executive Cotton Update

Daily Cotton Price and Currency Data
July 2022

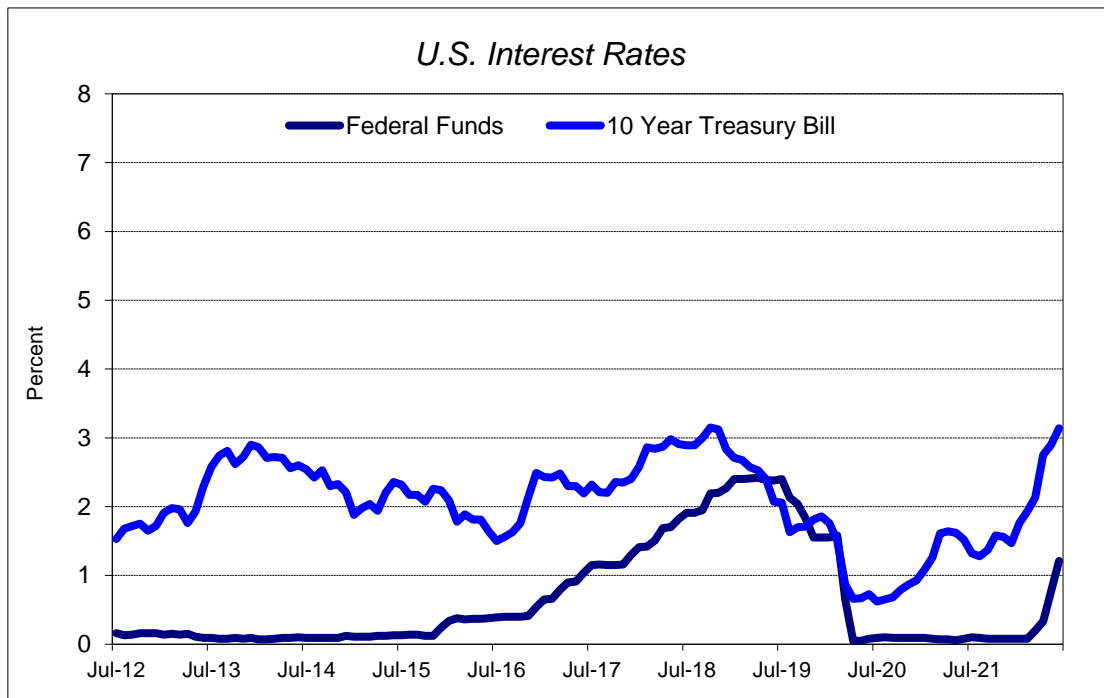


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
NY Nearby	81.6	116.7	131.2	139.4	140.5	145.0	132.7	cents/pound	ICE
A Index	91.4	129.3	147.5	157.7	155.3	163.8	154.2	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
Dollar Trade Weighted Exchange Index	114.5	115.9	117.2	118.4	116.5	120.0	118.6	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.69	6.70	6.46	6.58	6.36	6.68	6.68	Chinese Renminbi/US dollar	Reuters
Indian Rupee	71.40	73.81	76.09	76.86	75.92	76.93	77.74	Indian Rupee/US dollar	Reuters
Japanese Yen	110.58	110.47	122.58	129.55	124.41	130.41	133.84	Japanese Yen/US dollar	Reuters
Pakistani Rupee	147.44	164.54	183.47	190.46	184.60	186.53	200.25	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.44	5.02	5.12	4.89	4.75	5.06	4.87	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.30	1.30	1.27	1.27	1.26	1.29	1.25	Canadian dollar/US dollar	Reuters
Mexican Peso	19.91	20.49	20.39	19.94	20.11	20.10	19.61	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.76	0.76	0.77	0.79	0.77	0.81	0.80	British Pound/US dollar	Reuters
Euro	0.87	0.88	0.91	0.93	0.92	0.94	0.93	Euro/US dollar	Reuters
Swiss Franc	0.96	0.94	0.94	0.96	0.93	0.98	0.97	Swiss Franc/US dollar	Reuters
Turkish Lira	7.10	8.69	14.80	15.60	14.76	14.95	17.11	Turkish Lira/US dollar	Reuters



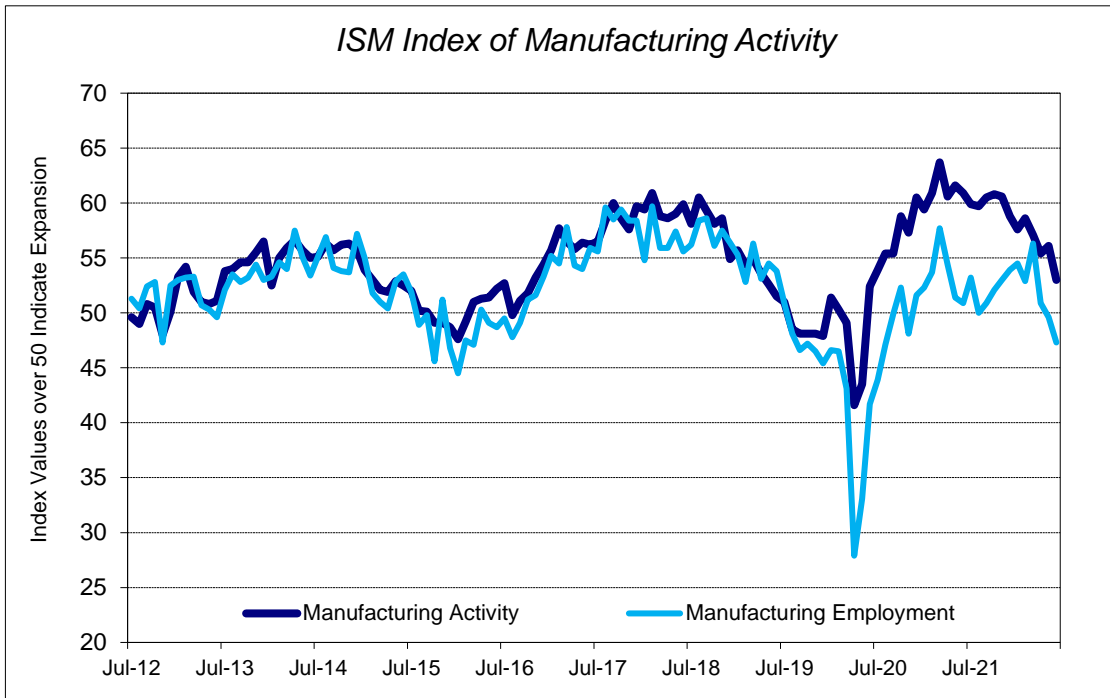
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



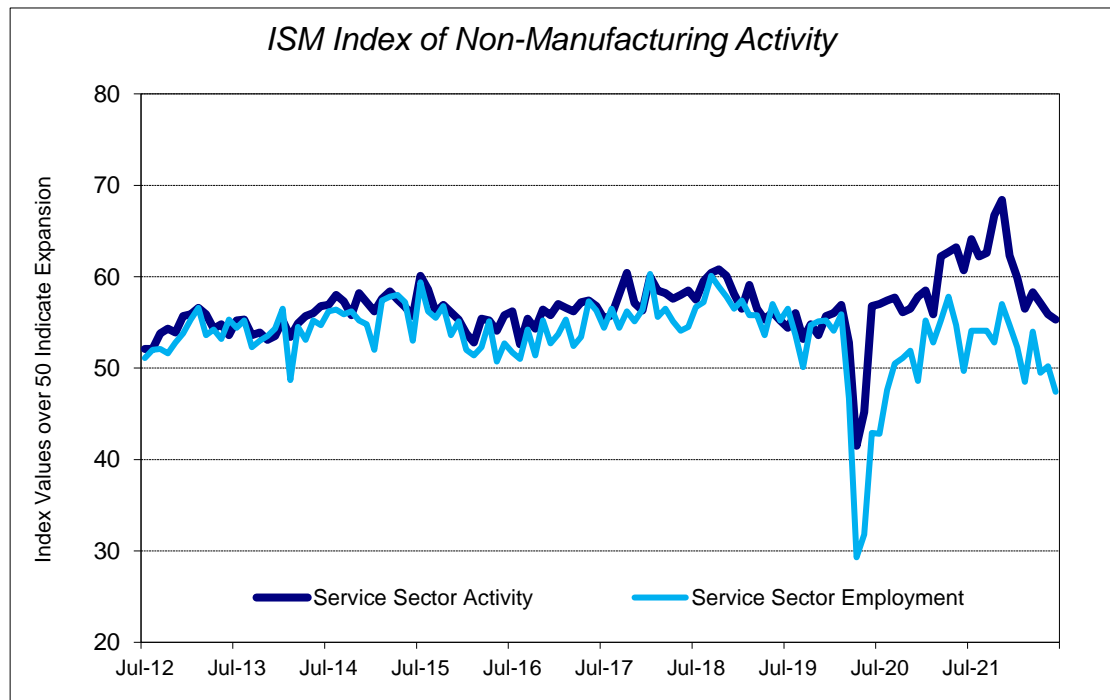
Source: Federal Reserve

[return to text](#)





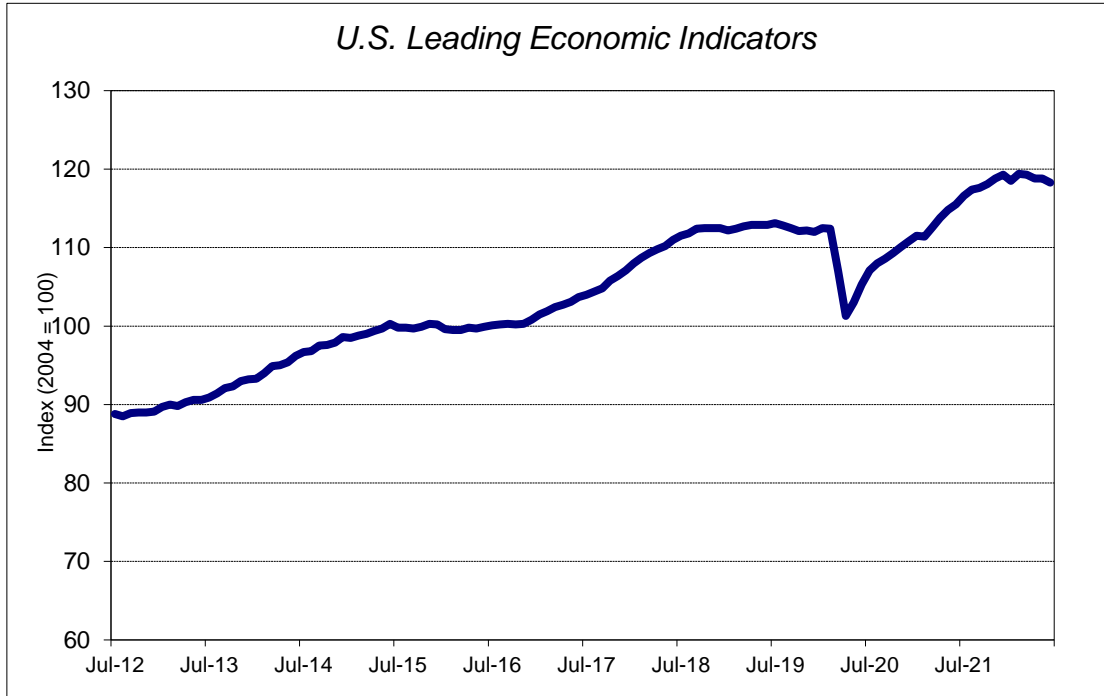
Source: Institute for Supply Chain Management



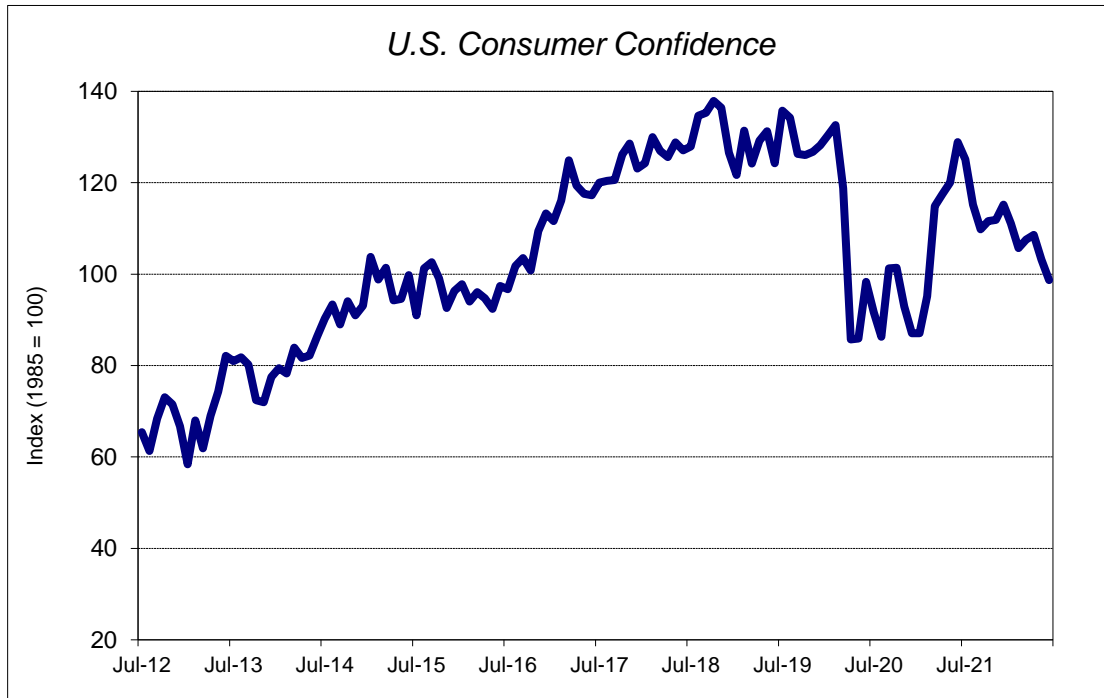
Source: Institute for Supply Chain Management

[return to text](#)





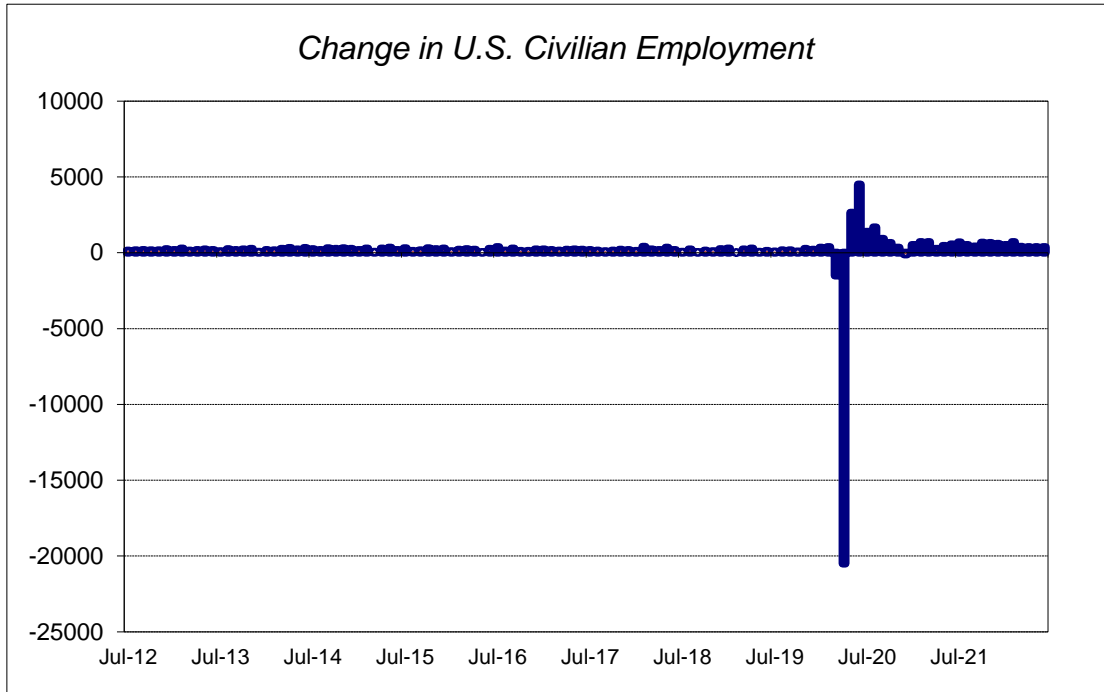
Source: The Conference Board



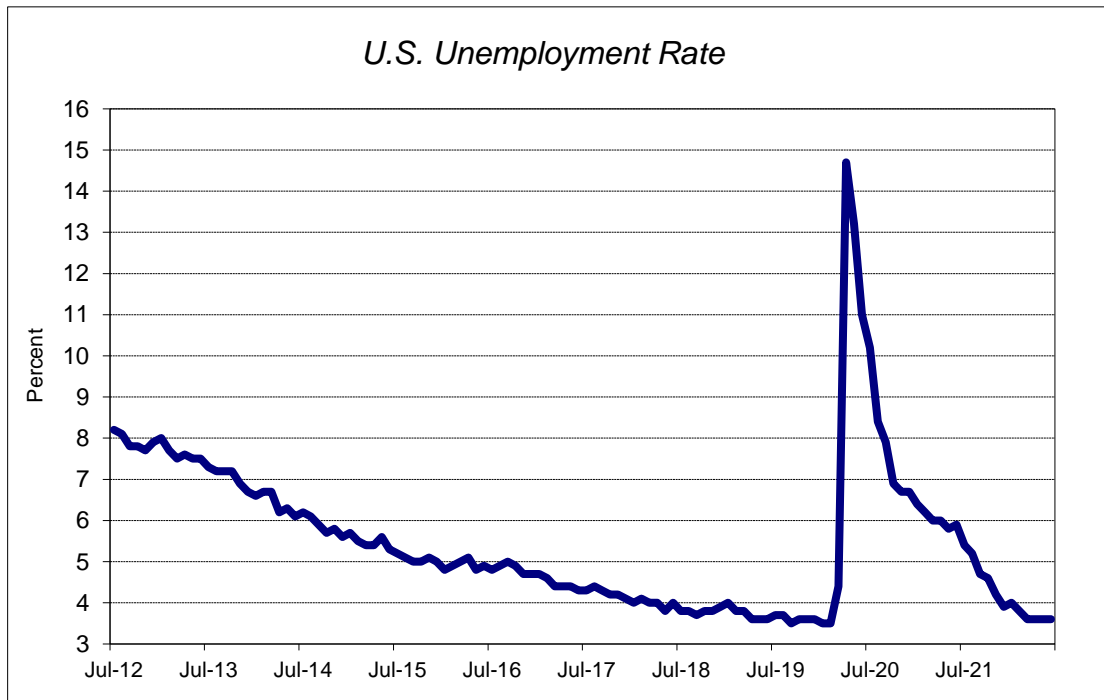
Source: The Conference Board

[return to text](#)





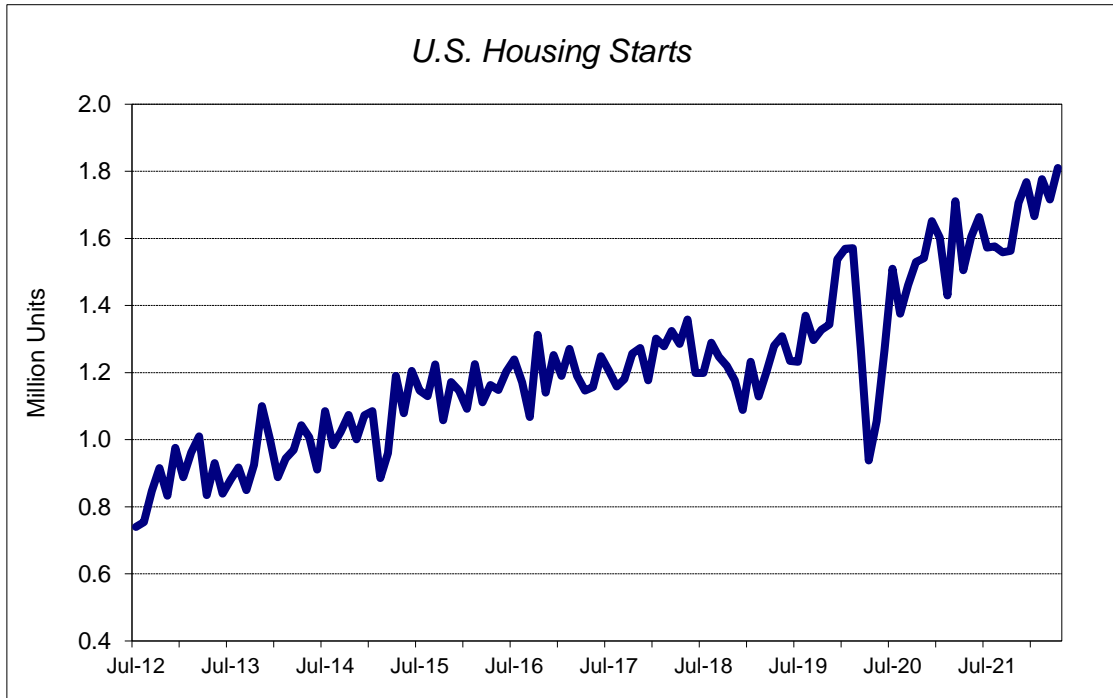
Source: Bureau of Labor Statistics



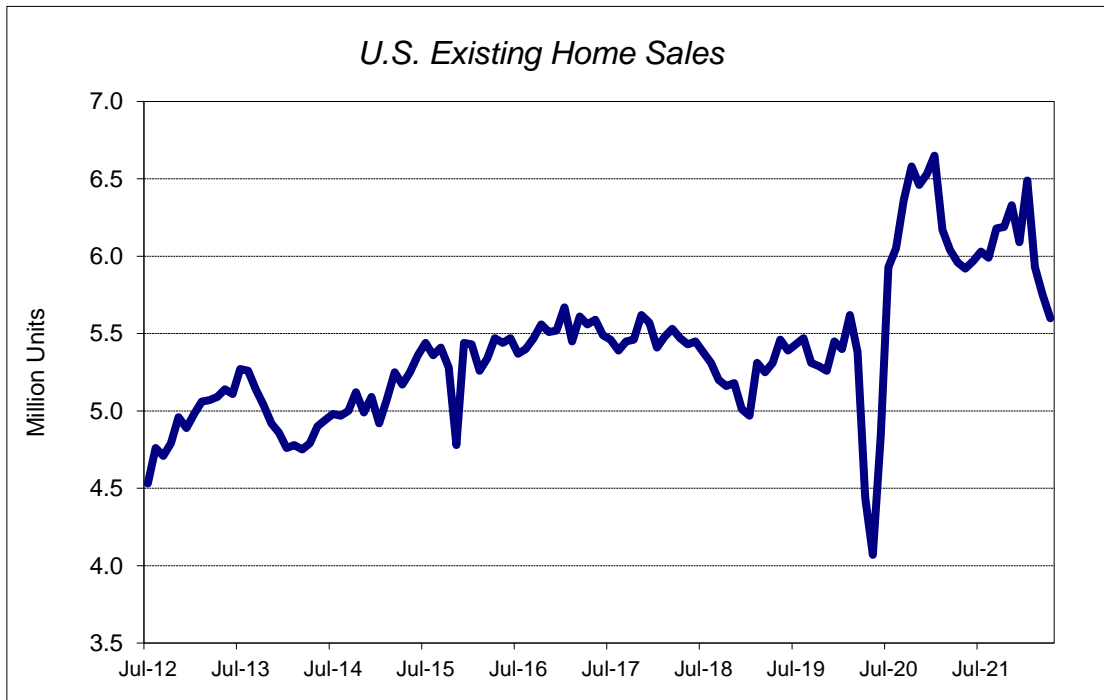
Source: Bureau of Labor Statistics

[return to text](#)





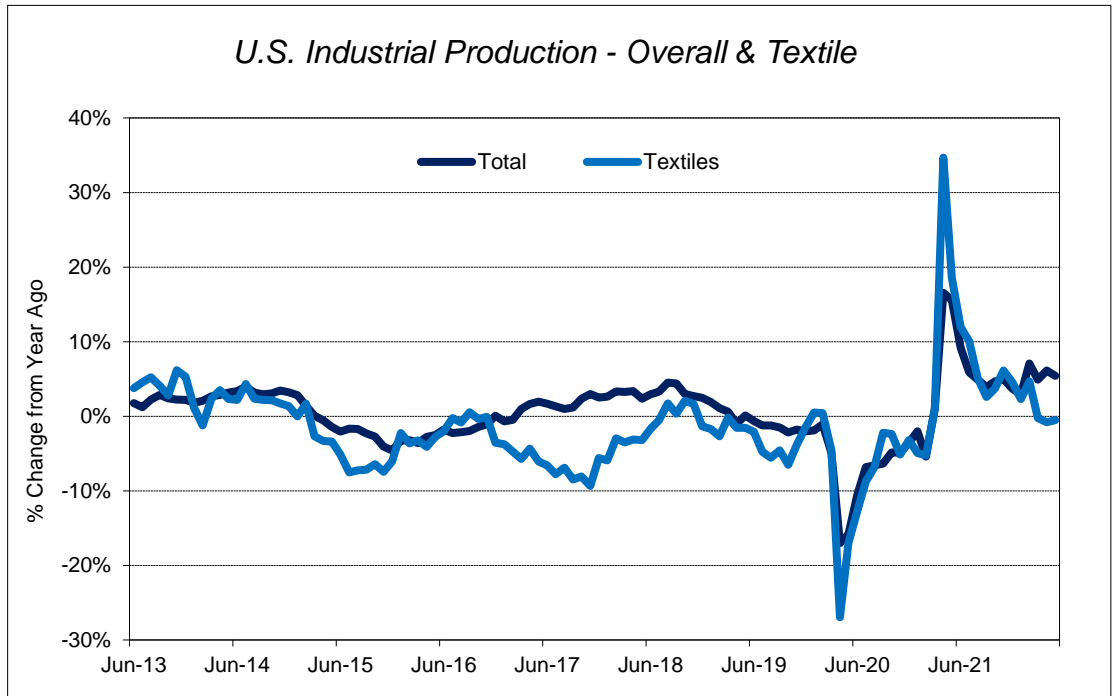
Seasonally Adjusted Annual Rate; Source: Department of Commerce



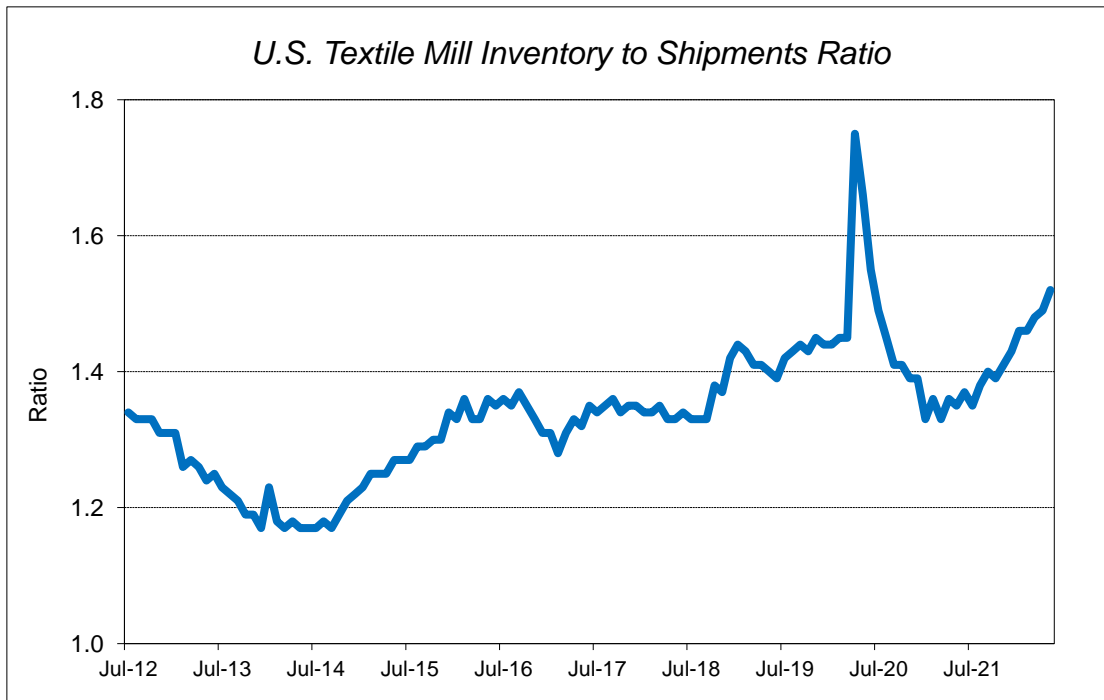
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

[return to text](#)





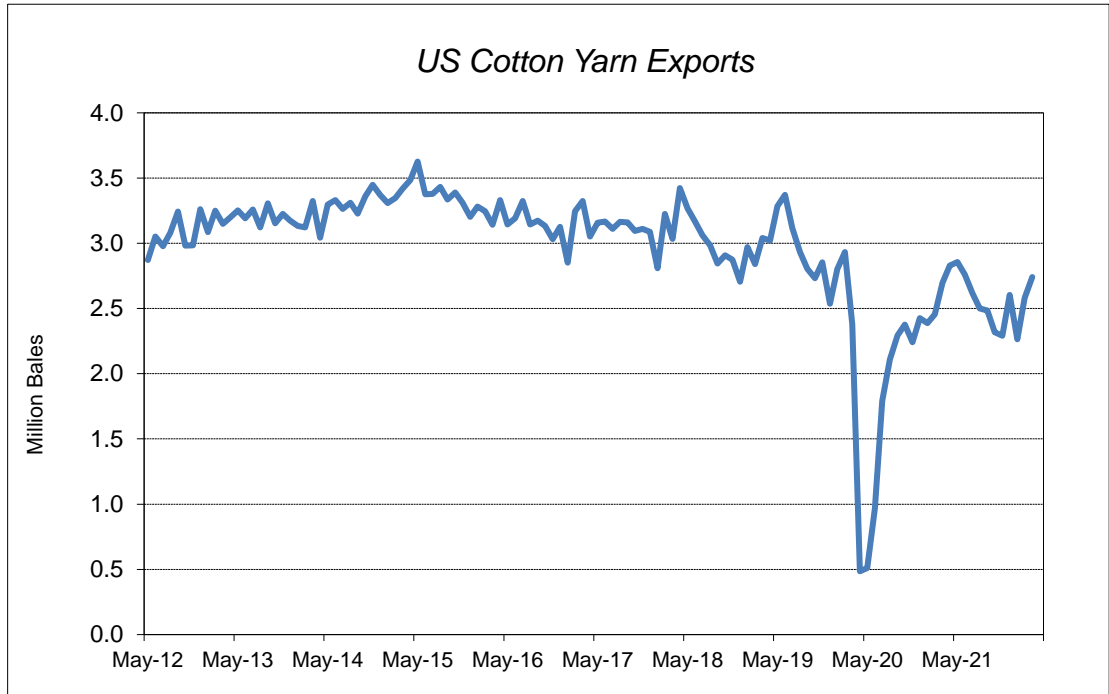
Source: Federal Reserve. Historical data revised to 1997 baseline.



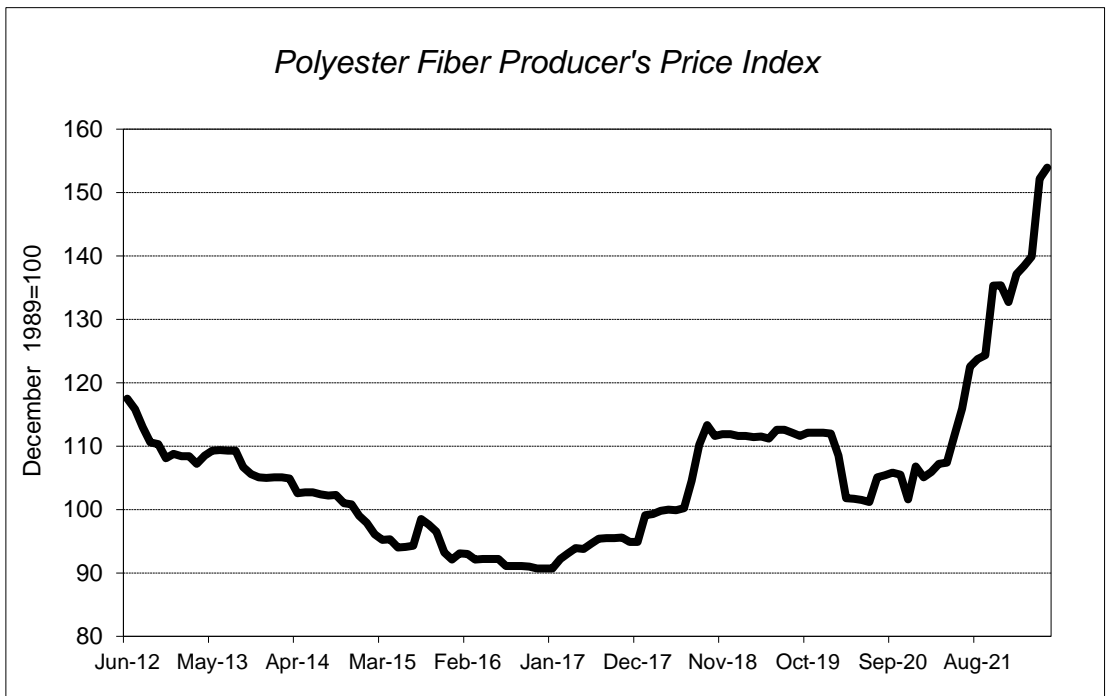
Seasonally Adjusted; Source: Department of Commerce

[return to text](#)





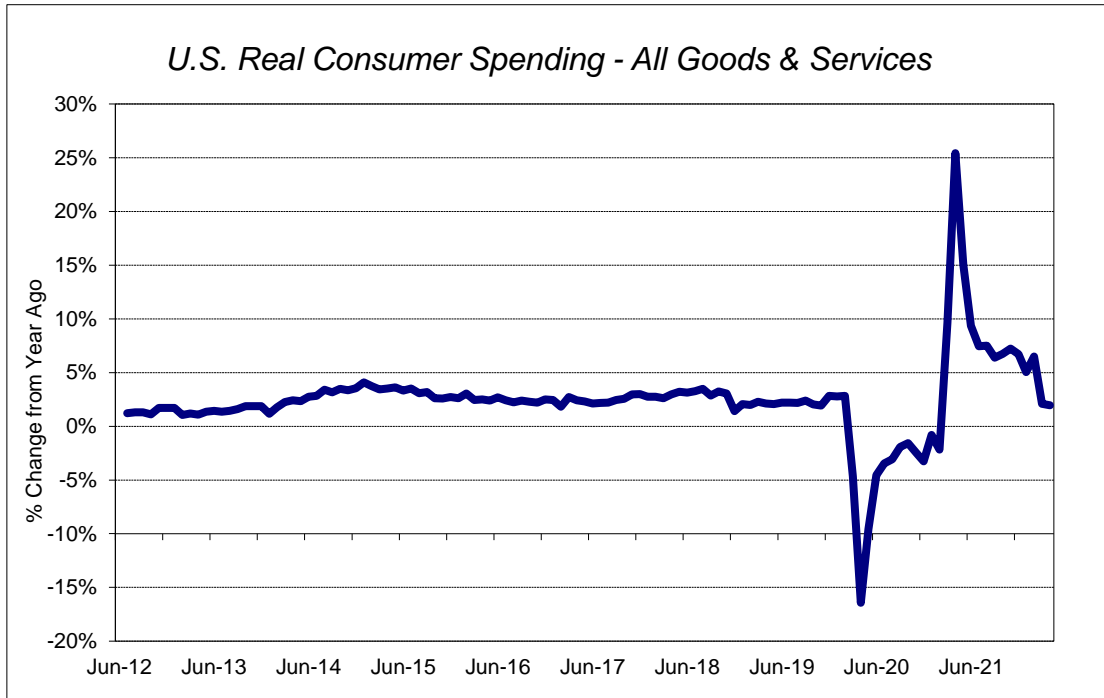
Seasonally Adjusted Annual Rate
 Source: USDA ERS



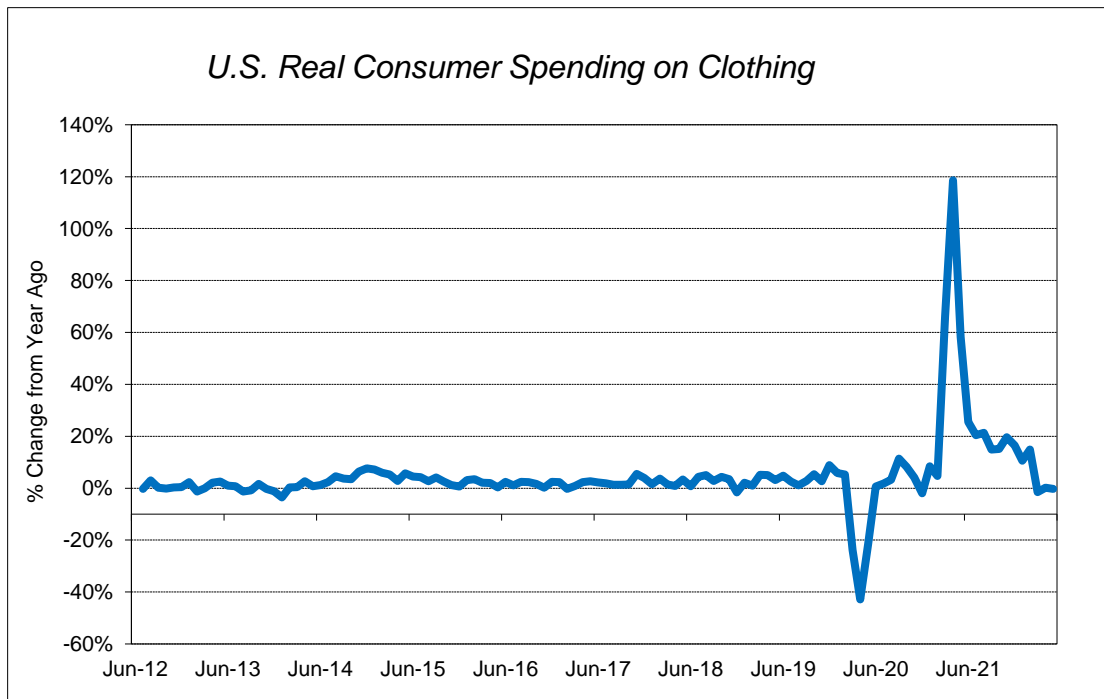
Source: Bureau of Labor Statistics

[return to text](#)





*Based on chained 2005\$.



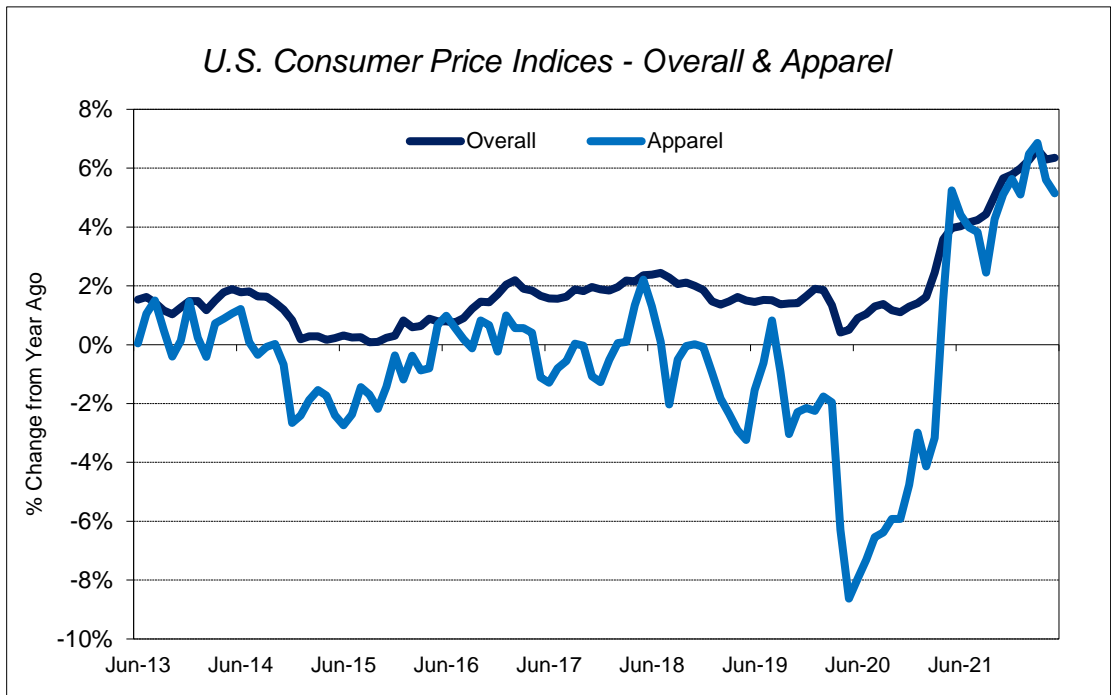
*Based on chained 2005\$.

[return to text](#)





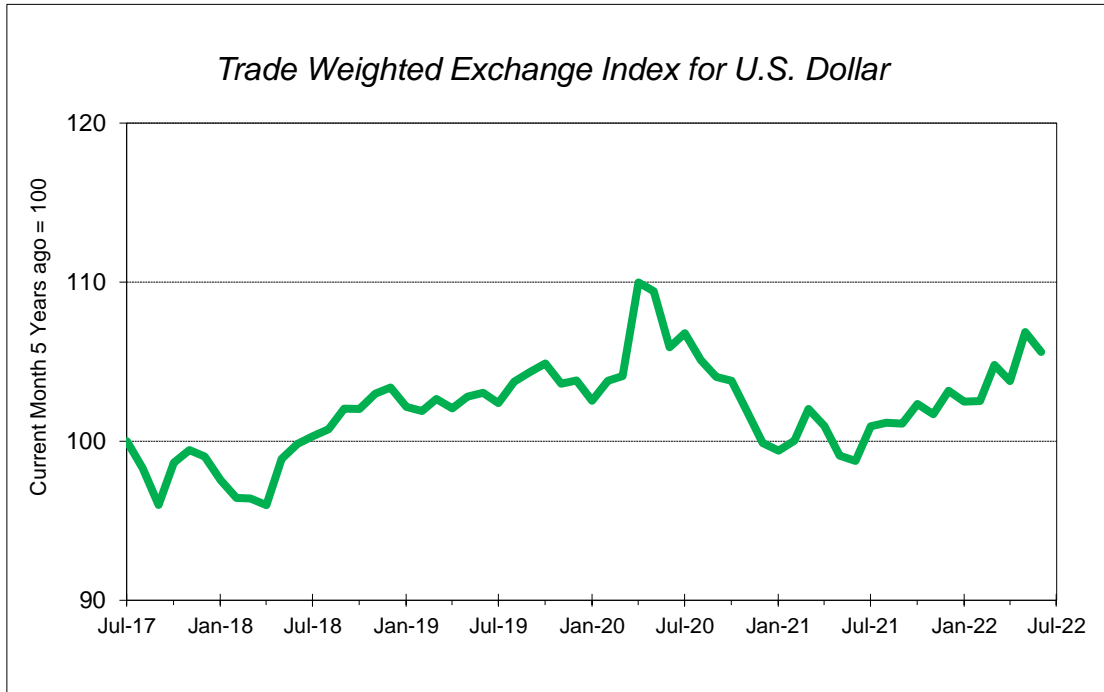
Source: Department of Commerce



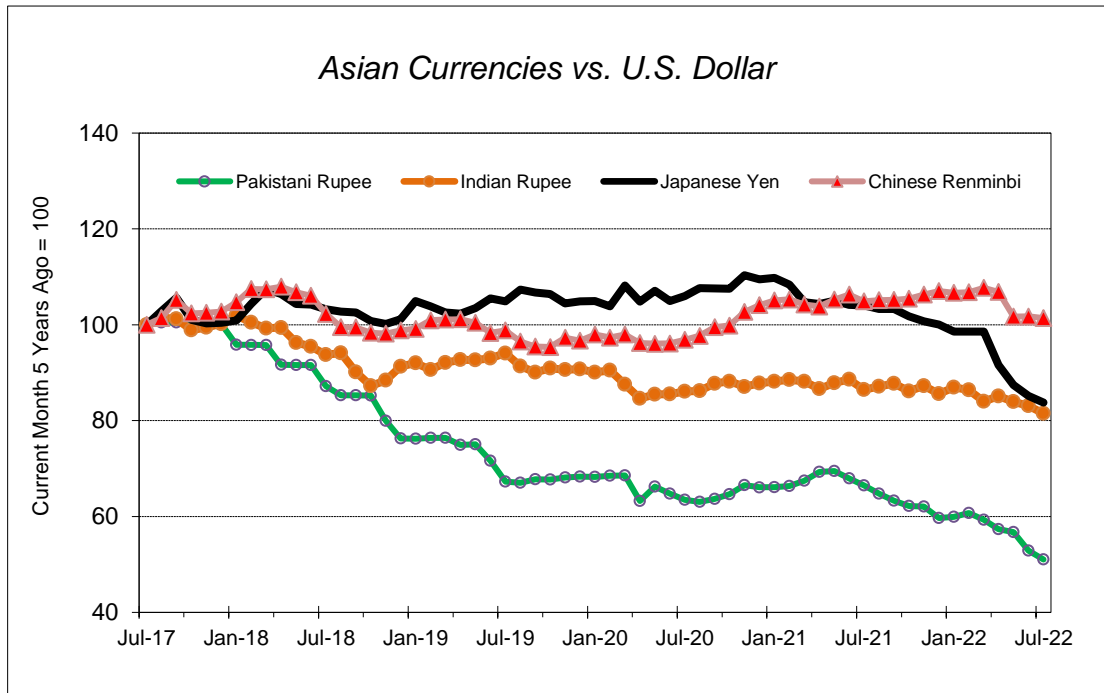
Source: Bureau of Labor Statistics

[return to text](#)





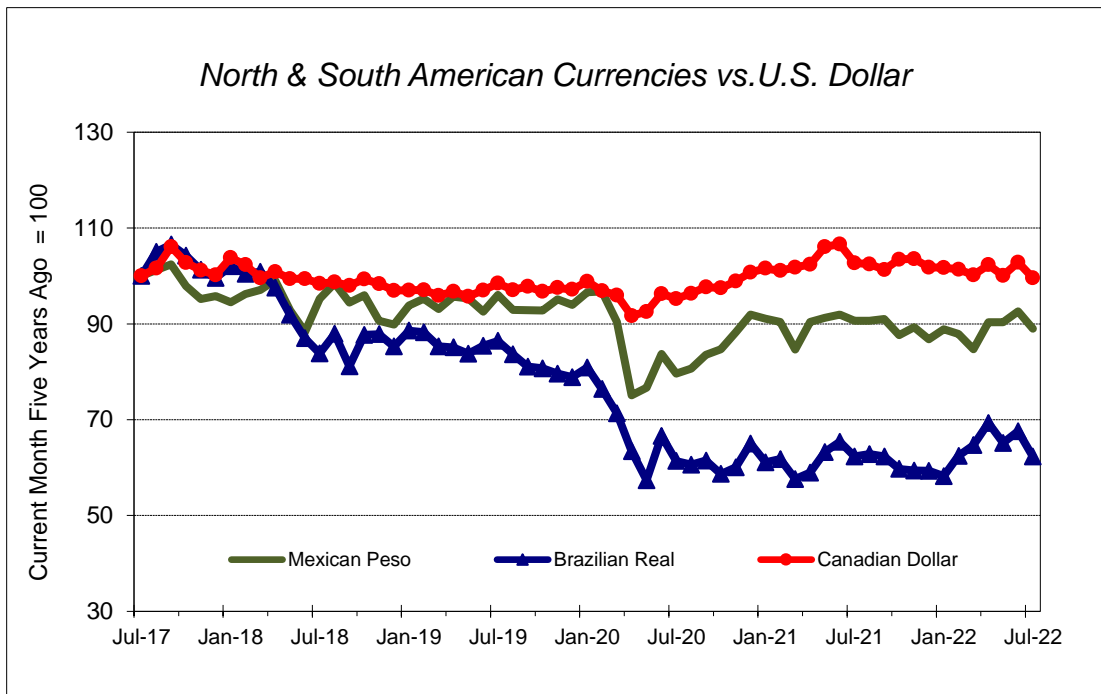
Source: Federal Reserve



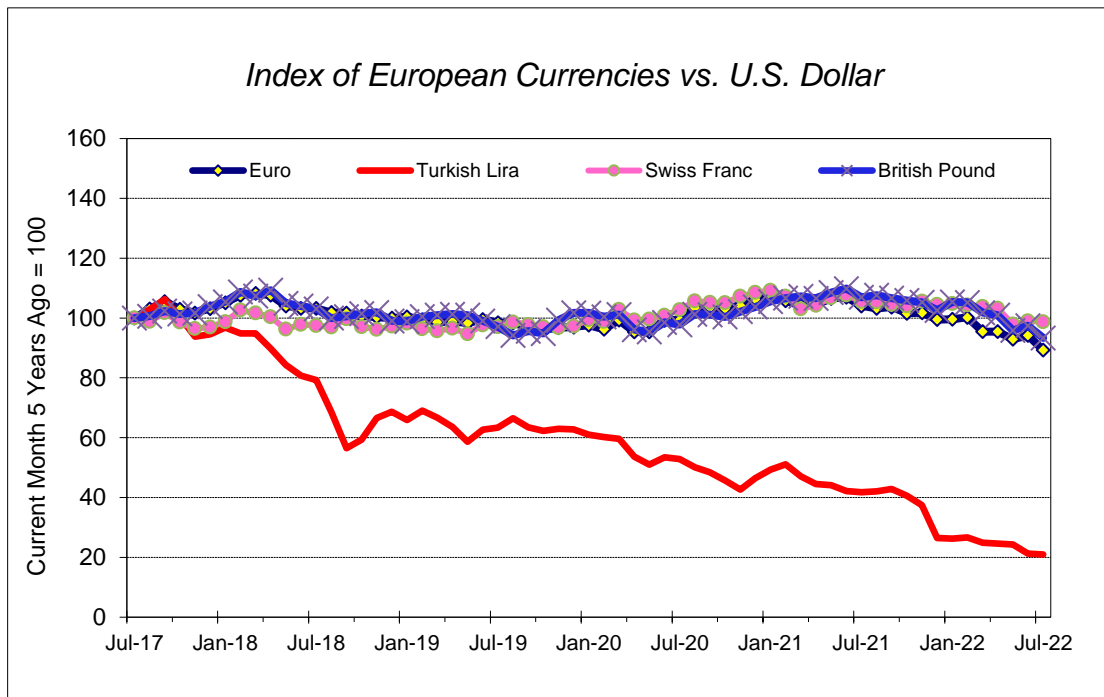
Source: Reuters

[return to text](#)





Source: Reuters



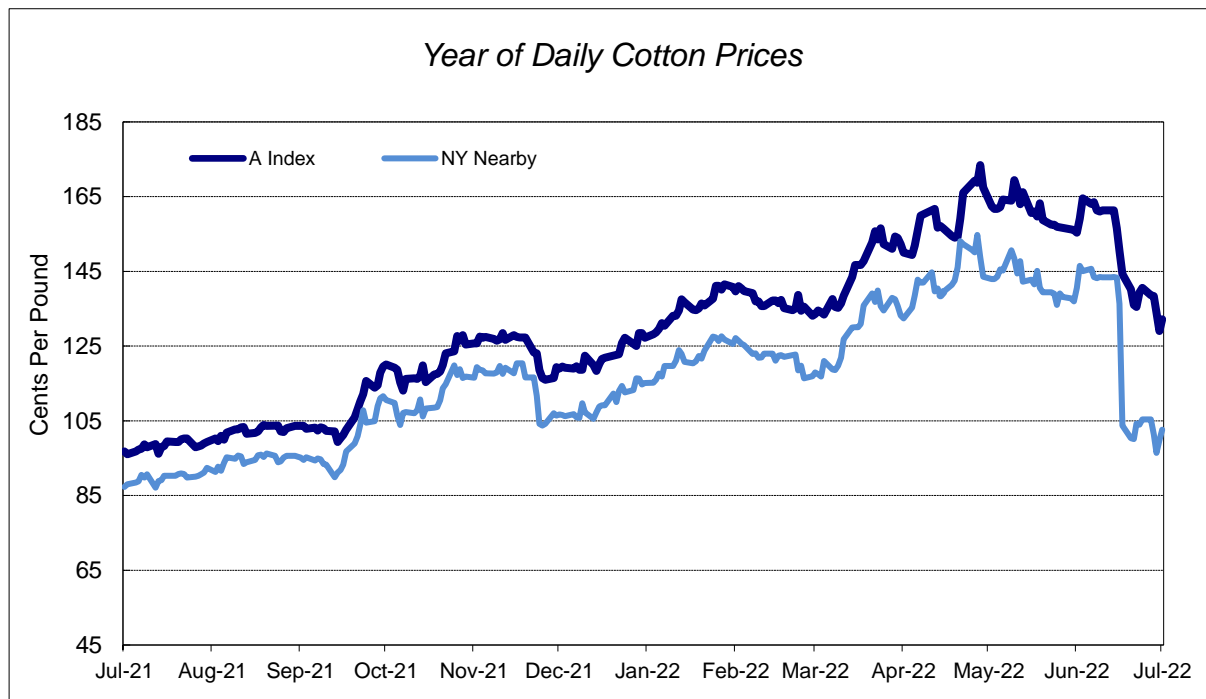
Source: Reuters

[return to text](#)



U.S. Balance Sheet

million 480 lb. bales	2018/19	2019/20	2020/21	2021/22	2022/23	2022/23
					May	June
Beginning Stocks	4.2	4.9	7.3	3.2	3.4	3.4
Production	18.4	19.9	14.6	17.5	16.5	16.5
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	22.6	24.8	21.9	20.7	19.9	19.9
Mill-Use	3.0	2.2	2.4	2.6	2.5	2.5
Exports	14.8	15.5	16.4	14.8	14.5	14.5
Demand	17.8	17.7	18.8	17.3	17.0	17.0
Ending Stocks	4.9	7.3	3.2	3.4	2.9	2.9
Stocks/Use Ratio	27.2%	41.0%	16.8%	19.7%	17.1%	17.1%



Sources: ICE Futures U.S. & Cotton Outlook

[return to text](#)

