

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



September 2022

www.cottoninc.com

Macroeconomic Overview: In recent comments, the Federal Reserve reiterated that it is willing to continue to increase interest rates until the threat of inflation has definitively eased. The latest comments from the Fed's chairman made in late August, was followed by losses in several markets, including cotton.

Several spending categories have already experienced price decreases. Notably, U.S. gasoline prices have been declining since June. The most recent national average was \$3.86/gallon, down from the peak of \$5.11/gallon in the middle of June. The rate of year-over-year increases in U.S. clothing prices has slowed from rates near seven percent to those below five percent. Despite year-over-year gains, price levels for apparel have not moved too far beyond values before COVID (July 2022 CPI was +1.8% versus the average from 2019).

The labor market can influence inflation. While the latest job numbers described a deceleration in hiring in August, but jobs are still being added at a rate above the long-term average and the job market is tight. Tightness in the labor supply can support wage growth. As wages rise, businesses may need to pass along the cost increases to consumers. Higher wages can also help reduce the difficulty in securing staff by pulling more workers into the economy. The Federal Reserve has a dual mandate of supporting employment and managing inflation. Both objectives require careful balancing as interest rates rise and the economy slows.

Employment: The U.S. economy was estimated to have added +315,000 jobs in August. Revisions to previous months were negative (figure for June reduced -105,000 to +293,000, July reduced -2,000 to +526,000). The twelve-month average for job gains is +487,000.

The unemployment rate increased marginally, from 3.5% to 3.7%. This was primarily due to a substantial month-over-month increase in the labor force (+786,000 workers in August versus July). Relative one year ago, +2.6 million more people were in the labor force and +5.5 million more people were working in August. The larger increase in workers relative to the labor force over the past year implied a tightening in the labor market (the unemployment rate fell from 5.2% to 3.7% year-over-year).

Tightness in the labor market has been supportive of wage growth. Wages were up 5.2% year-over-year in August, nearly even with the average over the past 12 months (5.3%) and well above the peak rate of increase between the financial crisis and the onset of the pandemic (3.6% in February 2019).

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence increased for the first time in three months in August (+7.9 points month-over-month, from 95.3 to 103.2). The current value matches the level in May. Since COVID, the index has been between 87.1 (February 2021) and 128.9 (June 2021). The long-term average is 93.8 (since 1970).

In July, overall consumer spending increased +0.2% month-over-month in inflation-adjusted terms. Year-over-year, real spending was +2.2% higher. Spending on garments rose +0.7% month-over-month and was up +2.1% year-over-year. Relative to the same month in 2019 (pre-COVID), spending on apparel was +25.1% higher. Over the long term, the average annual growth in consumer spending on clothing is close to two percent. In the 26 months since the COVID-driven shutdown (June 2020-July 2022), spending growth on apparel outpaced overall spending in each of the first 21 months. For the past five months, spending growth on apparel was lower than growth in overall spending.

This suggests a rebalancing as consumers shift away from spending on goods and towards services. Spending in 2019 averaged 36% for goods and 64% for services. Following the pandemic, the share of spending on goods climbed as high as 42% (58% on services) in the spring of 2021. The latest proportions are 39% for goods and 61% for services (July 2022). At the same time, consumers are rebalancing spending between goods and services; they are grappling with inflation for necessities such as housing (up 7% year-over-year in CPI data for July), food (up 11% year-over-year), and utilities (up 17% year-over-year).

Consumer Prices & Import Data: The CPI for apparel decreased -0.1% in July. Year-over-year, retail clothing prices were +4.7% higher. This is down from the peak year-over-year rate of +6.9% in March 2022. The latest value for the CPI for apparel is +1.8% higher than the average in 2019.

Import volumes have been strong, with recent seasonally-adjusted annual rates 35% higher than they were before COVID (weight volume of apparel of all fibers imported in the U.S., past three months versus the average for 2019). Import costs continue to rise. In July, the average import cost per square meter (SME) of cotton-dominant apparel was up +23% year-over-year, reaching the highest value since 1990. The influx of imports followed the rise in inflationary pressure at the consumer level. Any pullback in consumer spending resulting from inflation could contribute to inventory accumulation and discounting.

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
September 2022



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q4 : 2021	Q1 : 2022	Q2 : 2022		
Growth in US Real GDP	2.6%	2.5%	2.7%	-1.6%	6.9%	-1.6%	-0.6%	% 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	55.9	57.0	54.5	52.9	53.0	52.8	52.8	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.7	59.7	56.7	56.3	55.3	56.7	56.9	Index	Institute for Supply Management
Consumer Confidence	116.6	106.8	102.7	99.0	98.4	95.3	103.2	Index	The Conference Board
Change in Non-Farm Payrolls	97.2	486.7	381.0	378.0	293	526	315	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.0%	3.9%	3.6%	3.6%	3.6%	3.5%	3.7%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.1%	0.6%	1.1%	1.7%	1.2%	1.7%	2.3%	Interest rate	Federal Reserve
10-year Treasury Bill	2.0%	2.2%	2.8%	3.0%	3.1%	2.9%	2.9%	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	May	June	July		
Index of Leading Economic Indicators	112.2	118.2	117.8	116.9	117.1	117.1	116.6	Index	The Conference Board
Housing Starts	14.0	16.5	16.5	1.5	1.6	1.6	1.4	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.6	5.8	5.4	5.1	5.4	5.1	4.8	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	100.7	102.7	104.0	104.4	104.3	104.2	104.8	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	113.3	140.5	149.7	155.8	153.1	154.1	160.3	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	3.2	2.6	2.8	3.0	2.9	3.0	3.1	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	1.42	1.47	1.53	1.58	1.58	1.57	1.58	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	2.5%	4.7%	2.8%	2.1%	2.3%	1.7%	2.2%	% Chg. Year/Year	Department of Commerce
Clothing	7.6%	9.4%	2.5%	0.5%	0.8%	-1.4%	2.1%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	3.2%	7.4%	8.5%	8.7%	8.6%	9.1%	8.5%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.4%	5.0%	5.6%	5.0%	5.1%	5.0%	4.7%	% 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	2.6	2.0	2.1	2.2	2.1	2.2	2.2	Ratio	Department of Commerce
Department Stores	2.0	2.0	2.1	2.2	2.1	2.1	2.2	Ratio	Department of Commerce

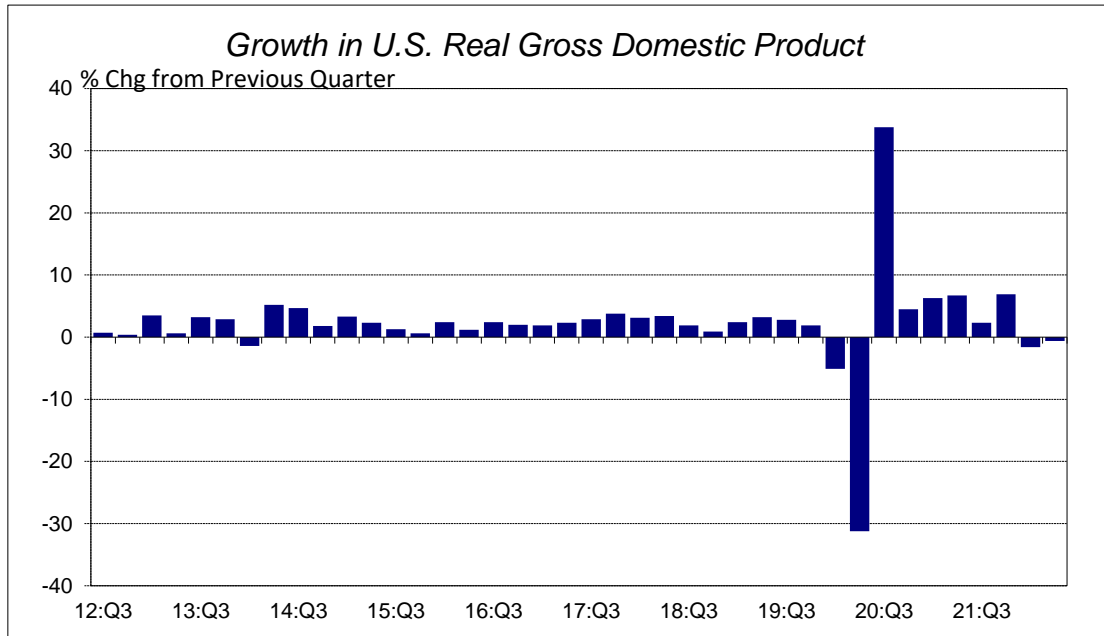
Executive Cotton Update

Daily Cotton Price and Currency Data
September 2022

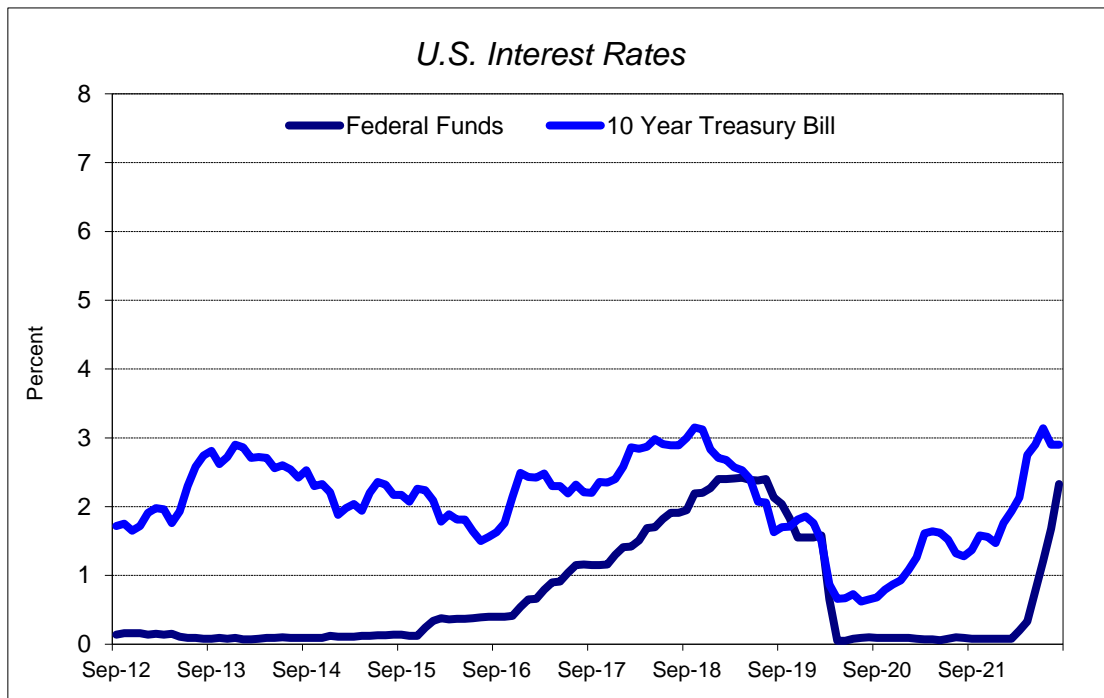


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	June	July	August		
NY Nearby	81.6	116.7	131.2	139.4	140.5	145.0	132.7	cents/pound	ICE
A Index	91.4	129.3	147.5	157.7	155.3	163.8	154.2	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	June	July	August		
Dollar Trade Weighted Exchange Index	114.9	116.3	119.6	121.3	118.6	122.8	122.4	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.68	6.69	6.58	6.71	6.67	6.71	6.75	Chinese Renminbi/US dollar	Reuters
Indian Rupee	71.86	74.32	77.67	78.72	77.72	79.18	79.28	Indian Rupee/US dollar	Reuters
Japanese Yen	111.38	112.03	128.91	134.59	132.48	135.95	135.35	Japanese Yen/US dollar	Reuters
Pakistani Rupee	151.14	167.85	197.56	210.91	201.65	207.45	223.63	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.52	5.10	5.05	5.14	4.90	5.34	5.19	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.30	1.29	1.28	1.28	1.25	1.30	1.29	Canadian dollar/US dollar	Reuters
Mexican Peso	19.99	20.56	20.34	20.19	19.58	20.62	20.36	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.76	0.76	0.80	0.82	0.79	0.83	0.83	British Pound/US dollar	Reuters
Euro	0.87	0.88	0.95	0.97	0.93	0.98	0.98	Euro/US dollar	Reuters
Swiss Franc	0.96	0.94	0.96	0.97	0.97	0.97	0.96	Swiss Franc/US dollar	Reuters
Turkish Lira	7.54	9.33	16.00	17.31	16.74	17.24	17.95	Turkish Lira/US dollar	Reuters



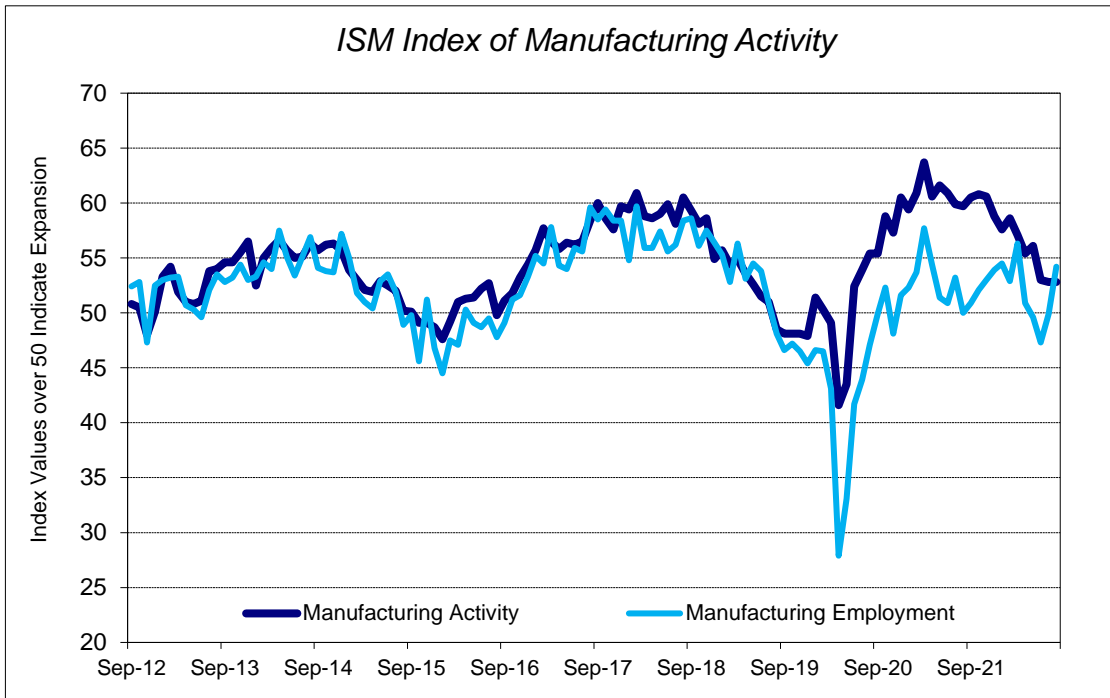
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



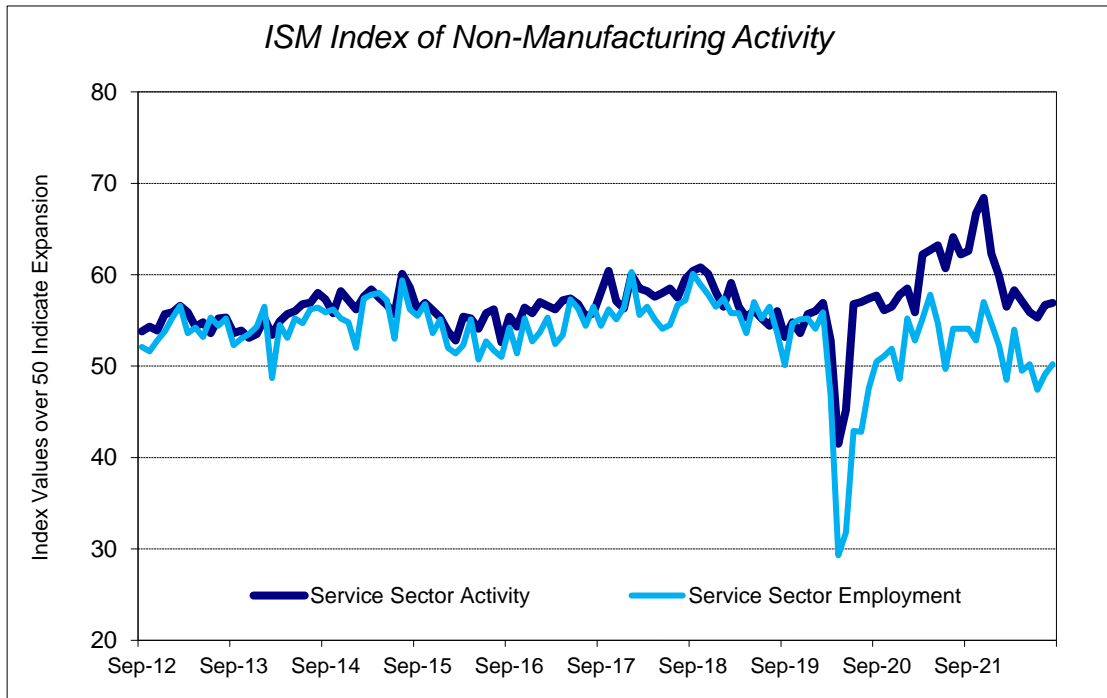
Source: Federal Reserve

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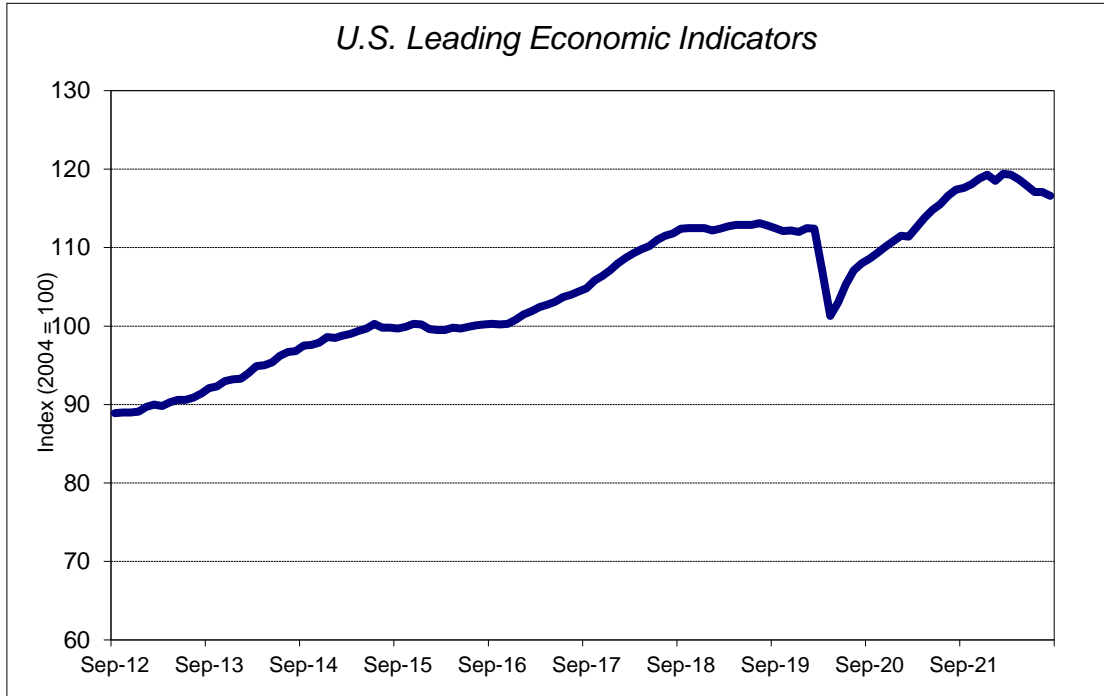
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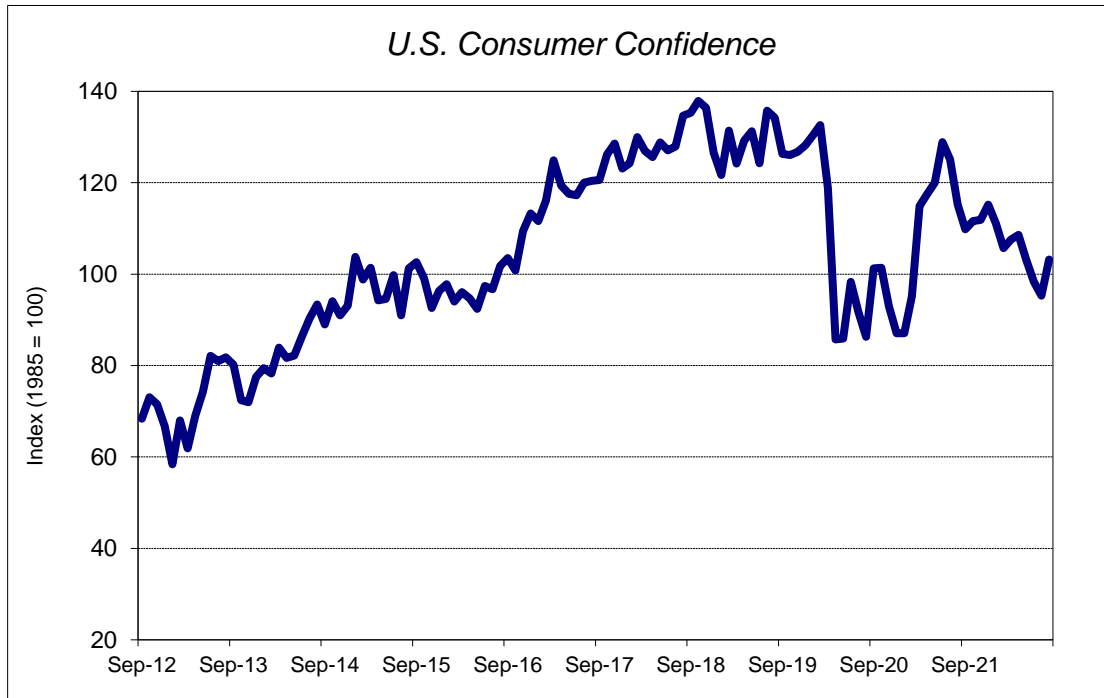
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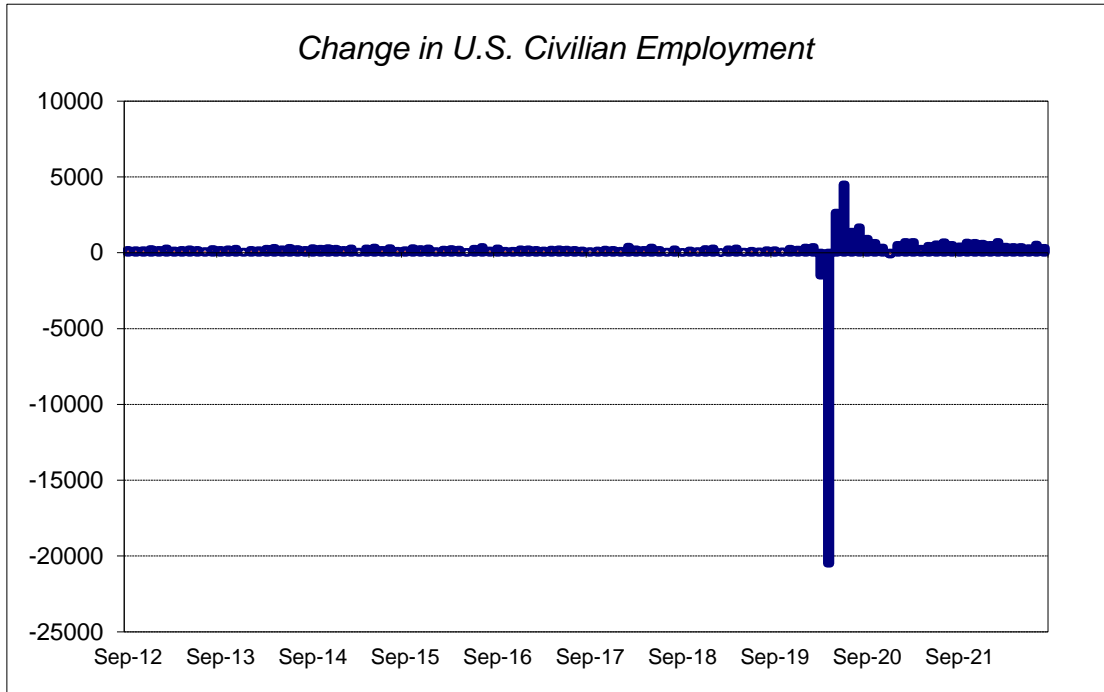
Source: The Conference Board



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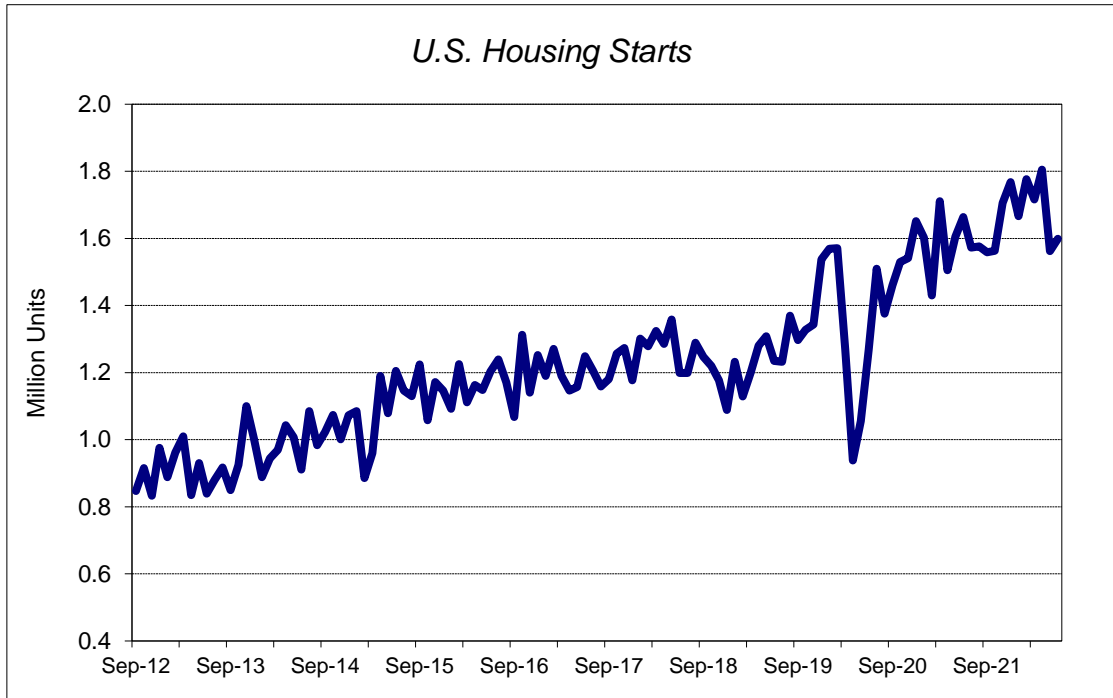
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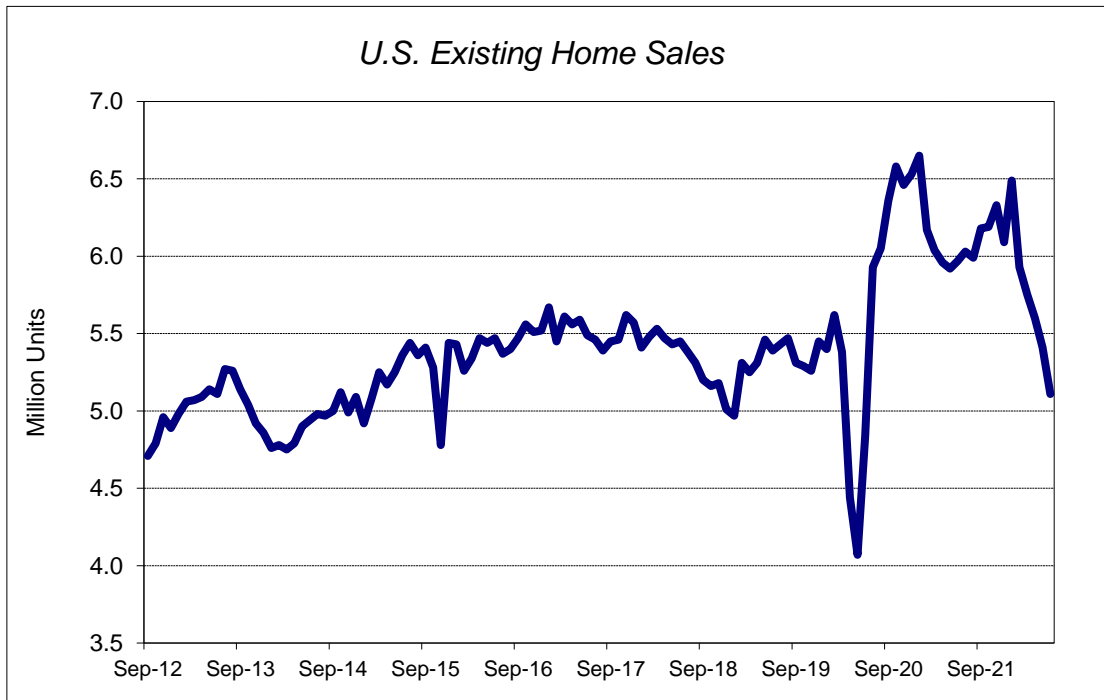
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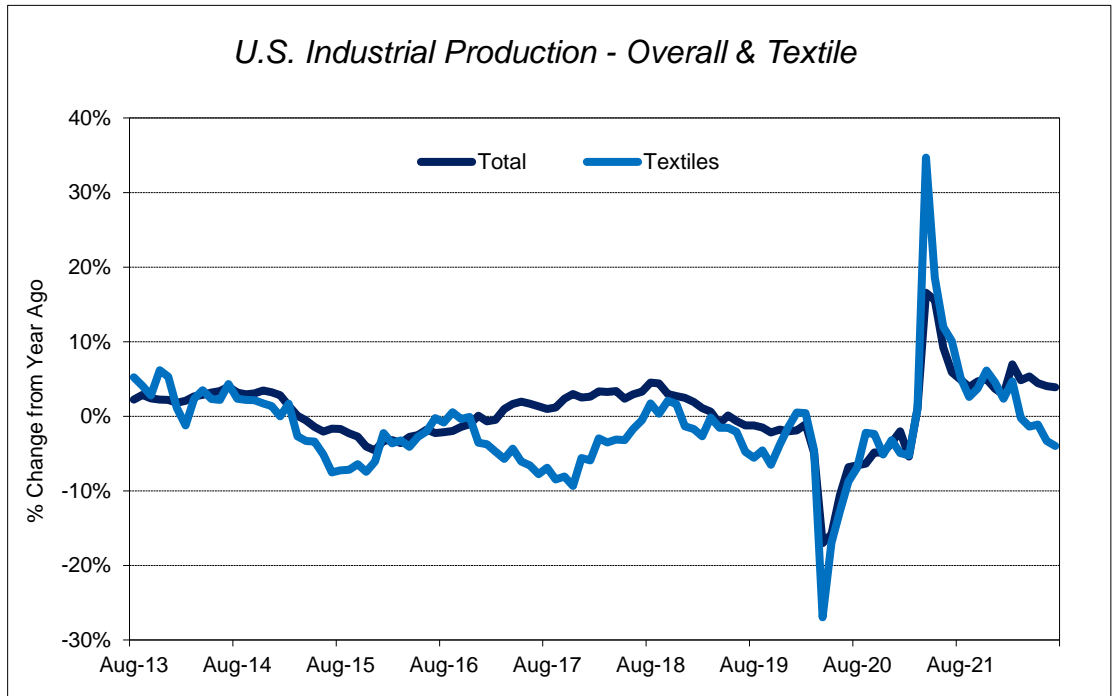
Seasonally Adjusted Annual Rate; Source: Department of Commerce



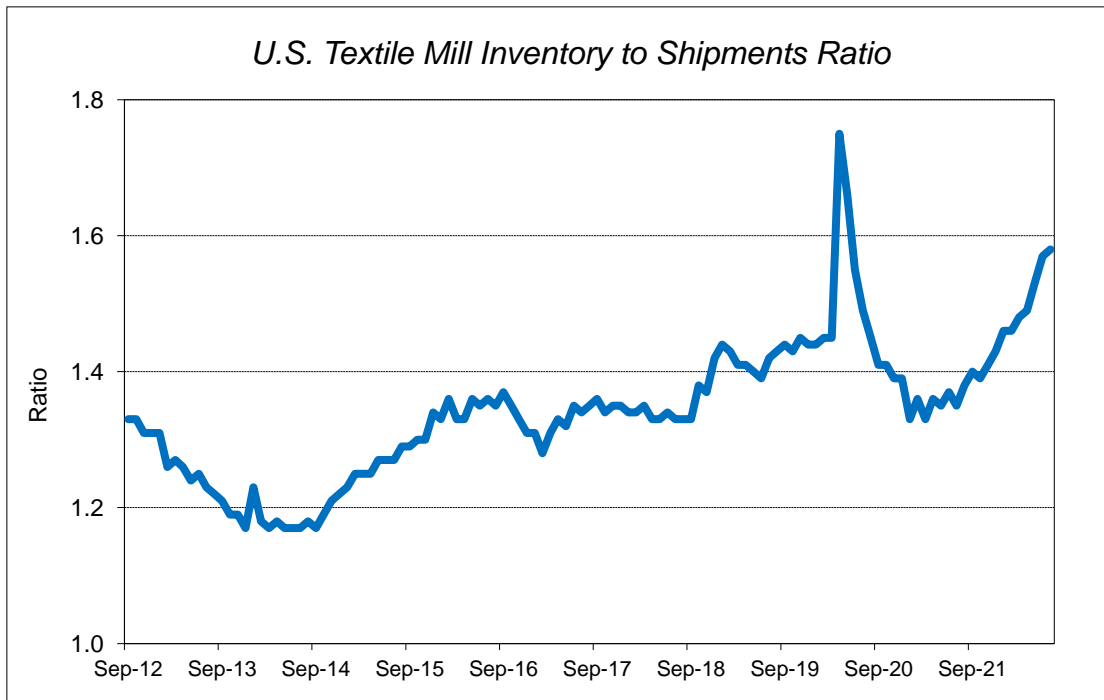
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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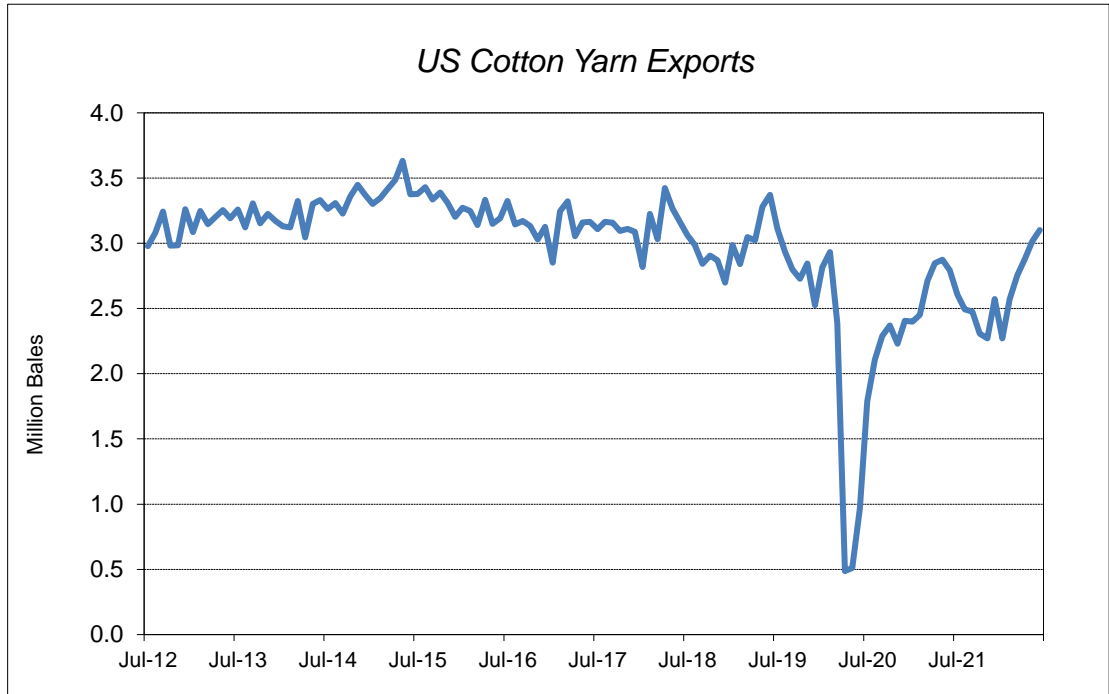
Source: Federal Reserve. Historical data revised to 1997 baseline.



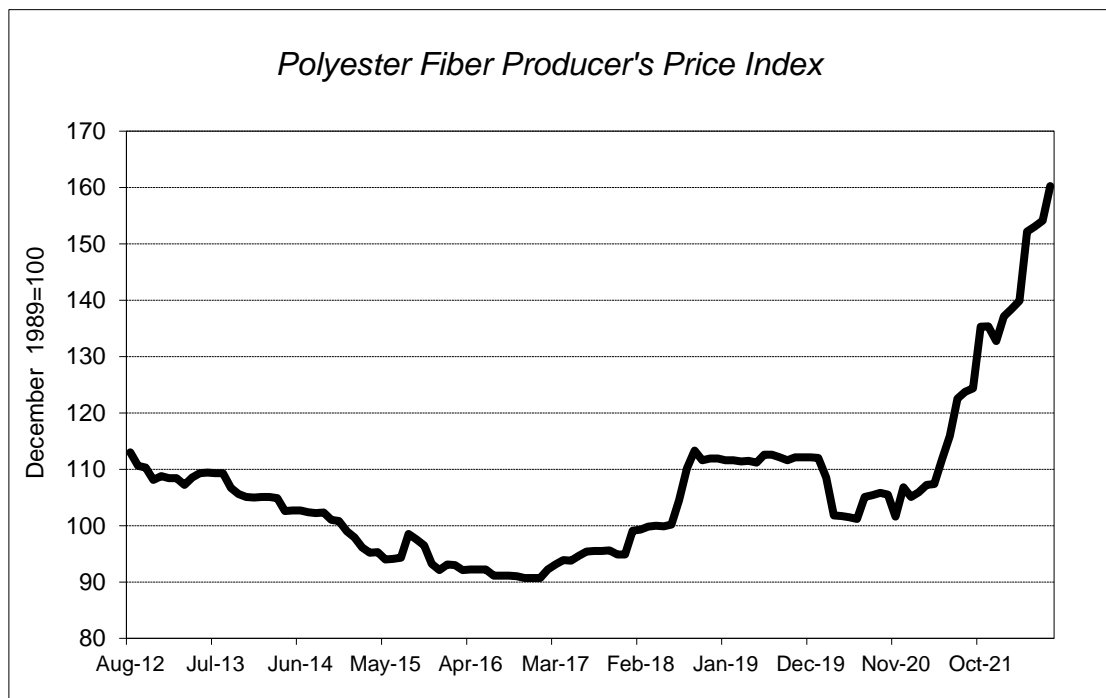
Seasonally Adjusted; Source: Department of Commerce

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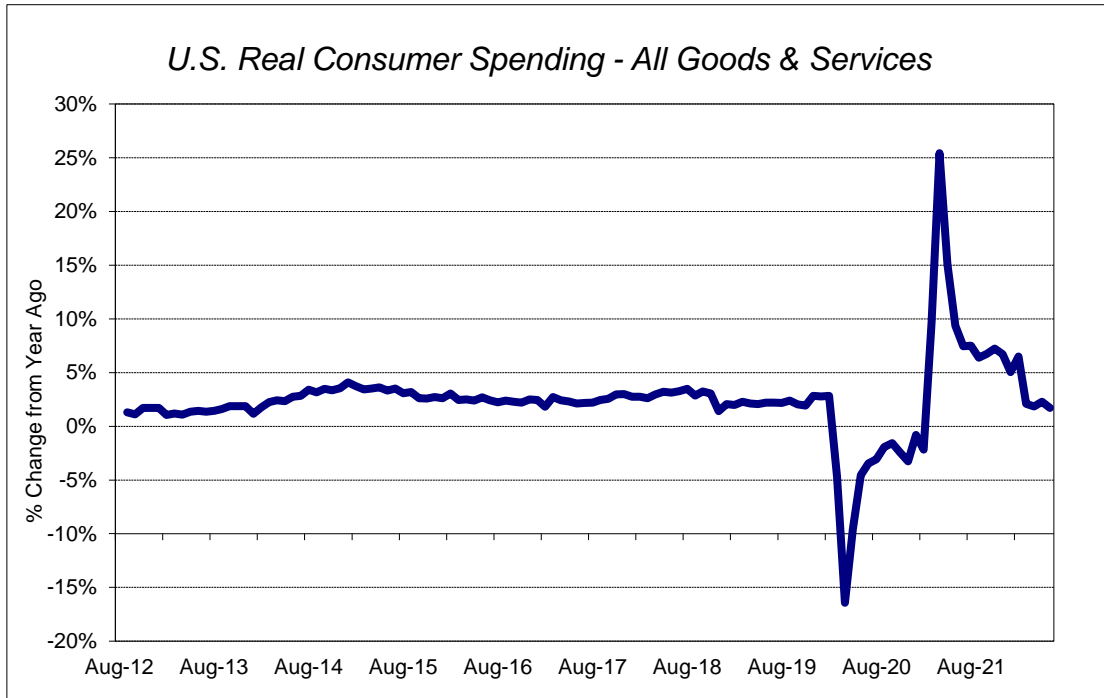
Seasonally Adjusted Annual Rate
Source: USDA ERS



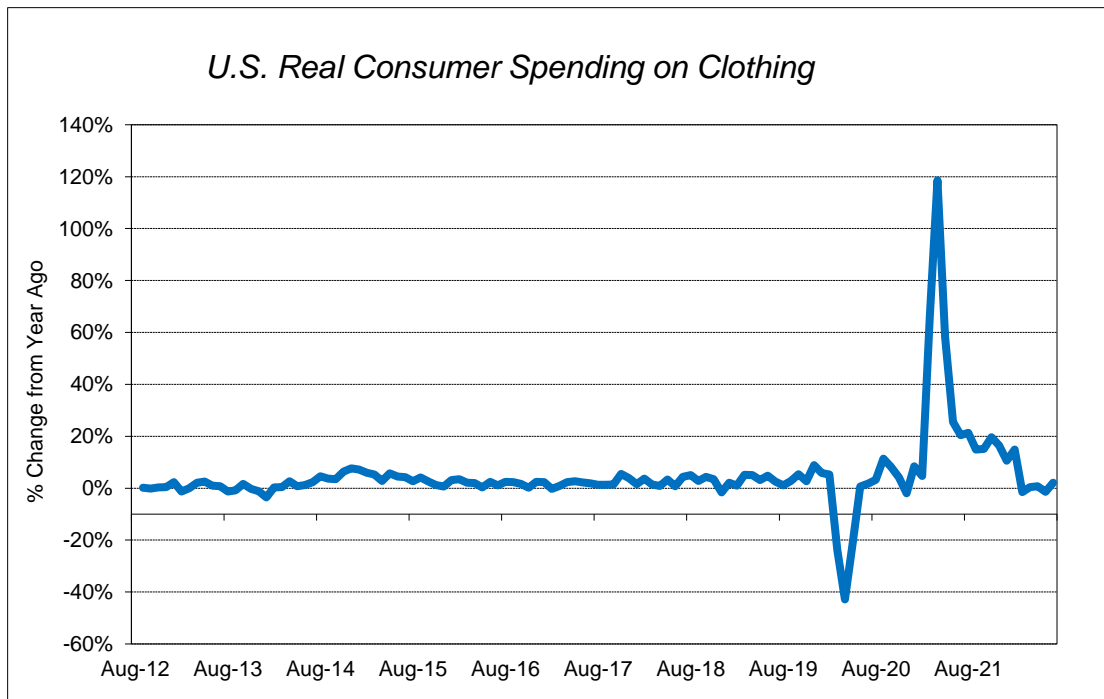
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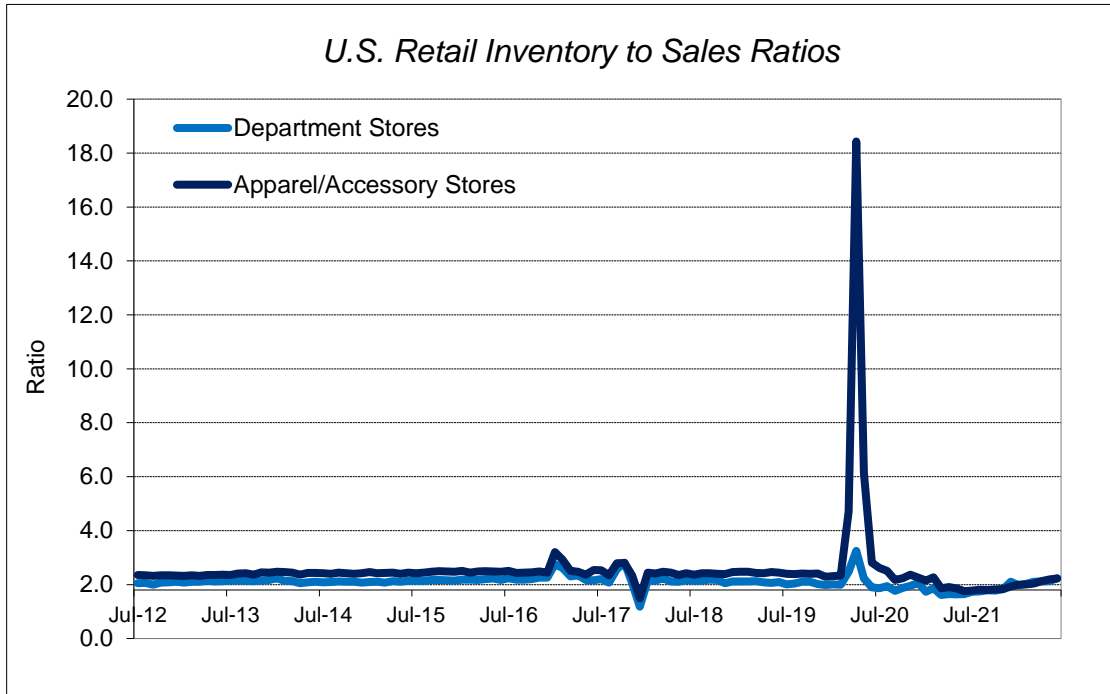
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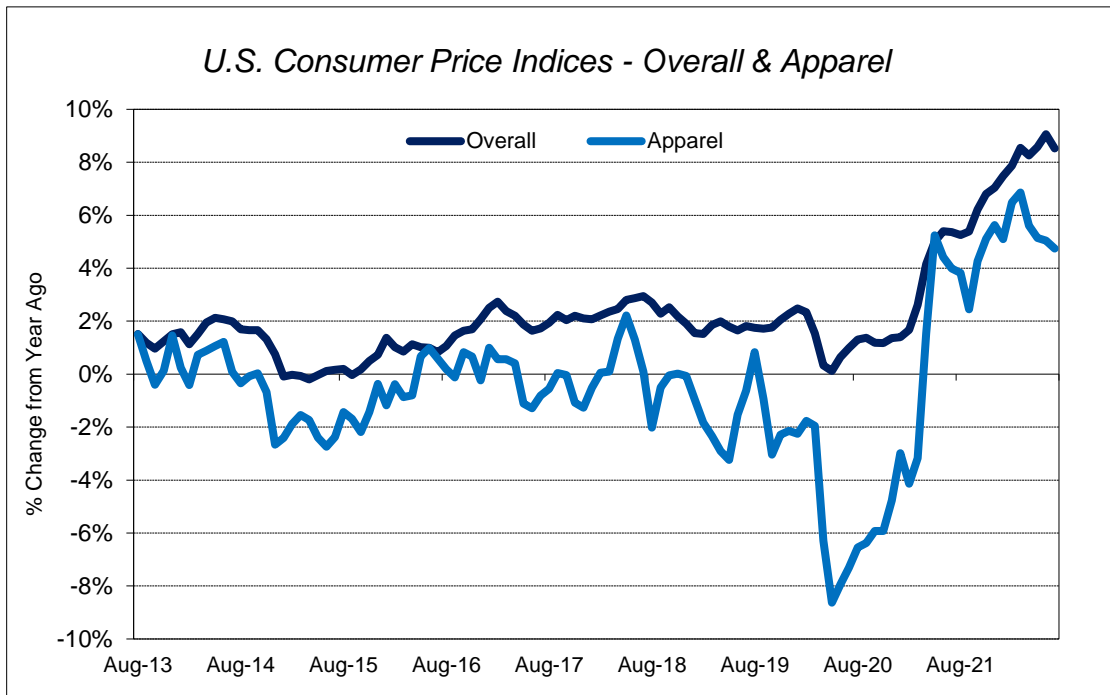
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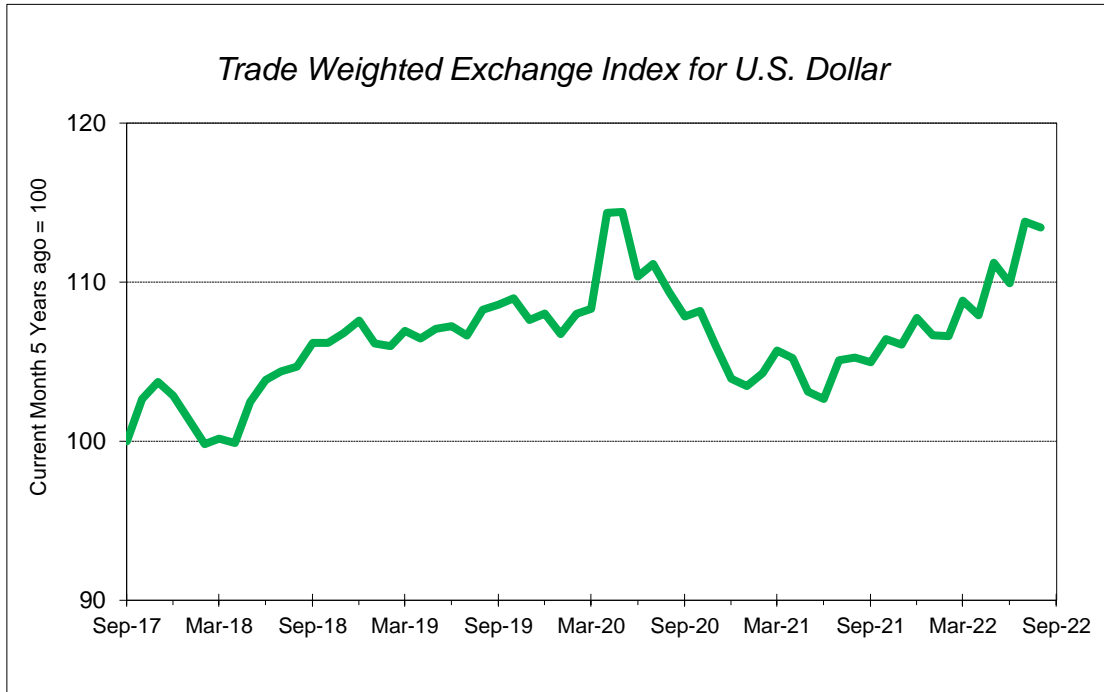
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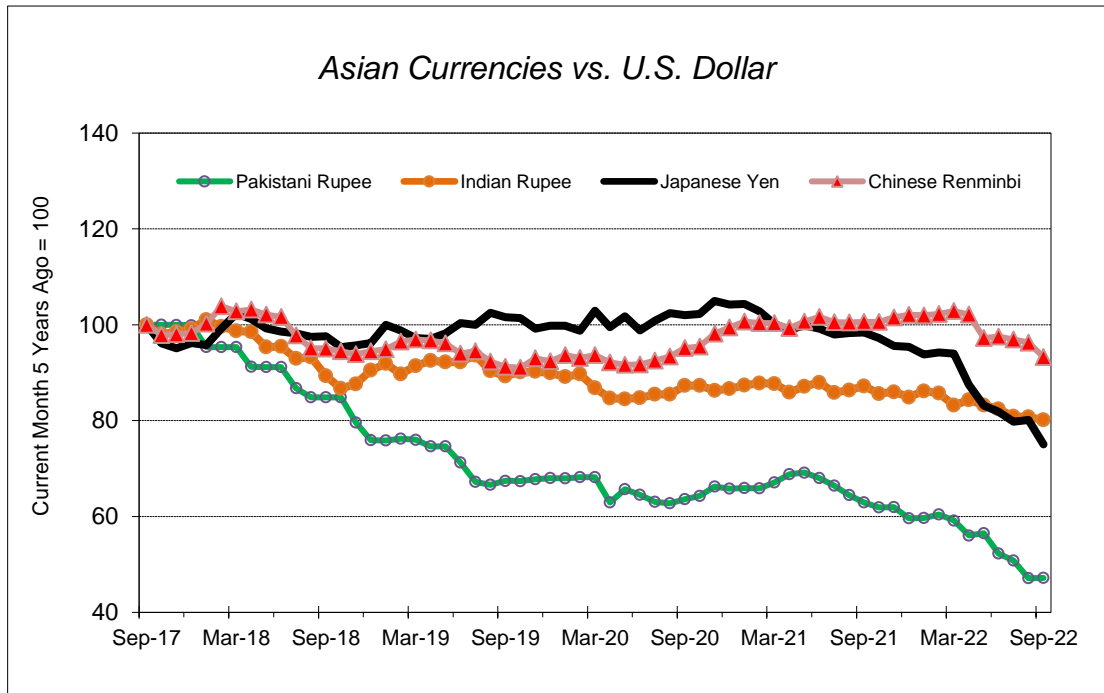
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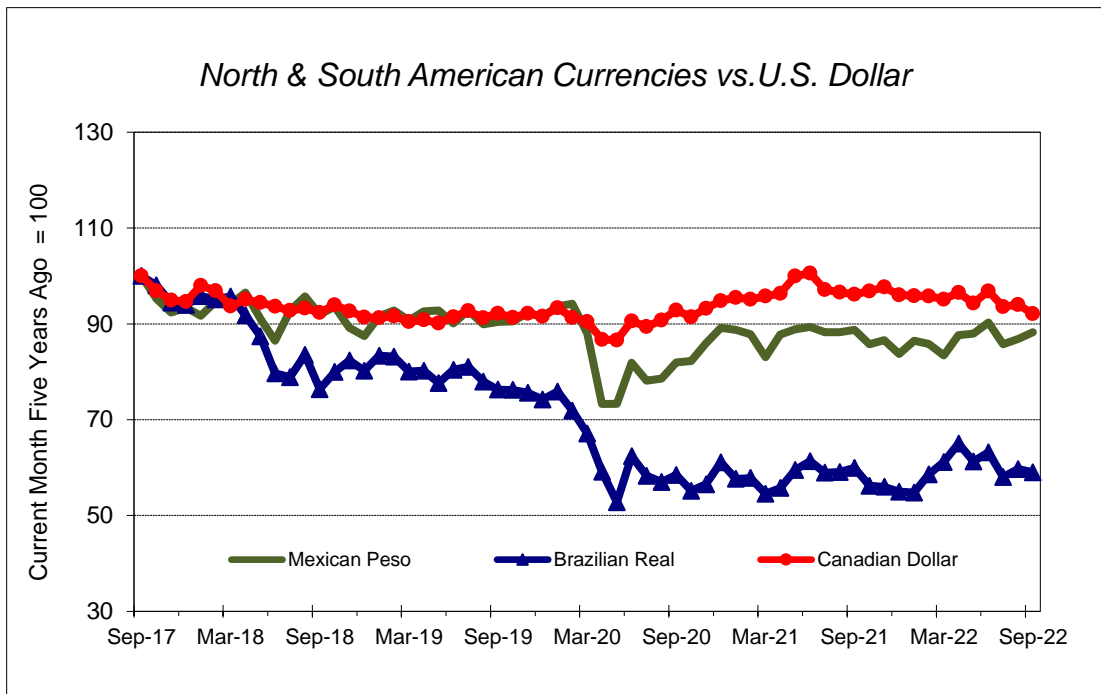
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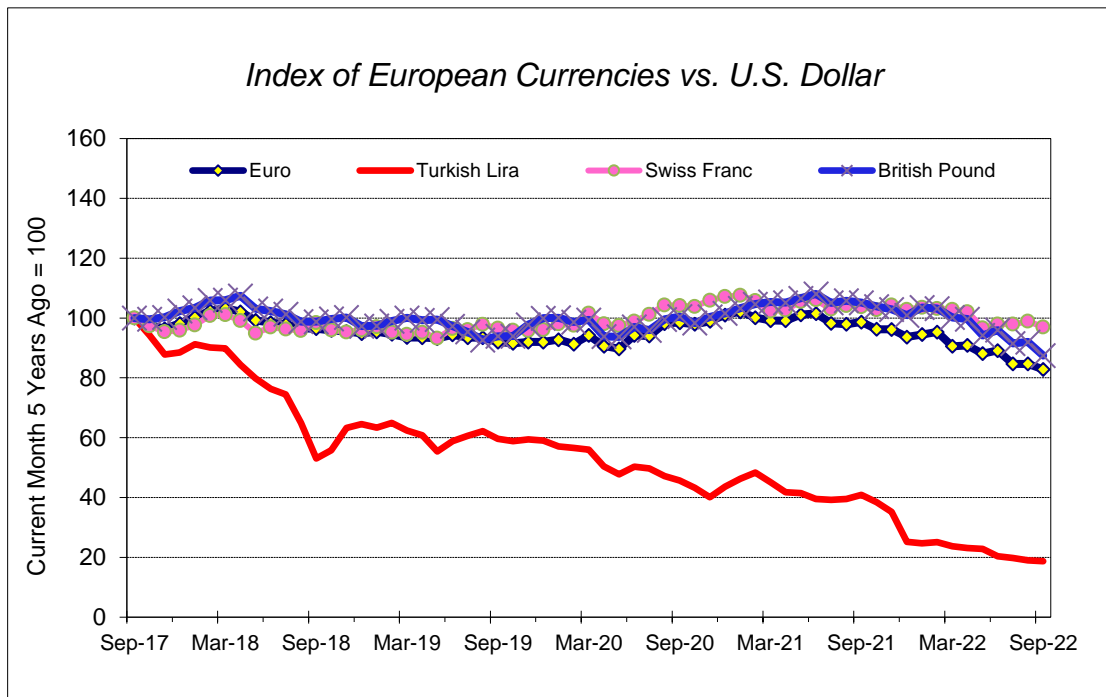
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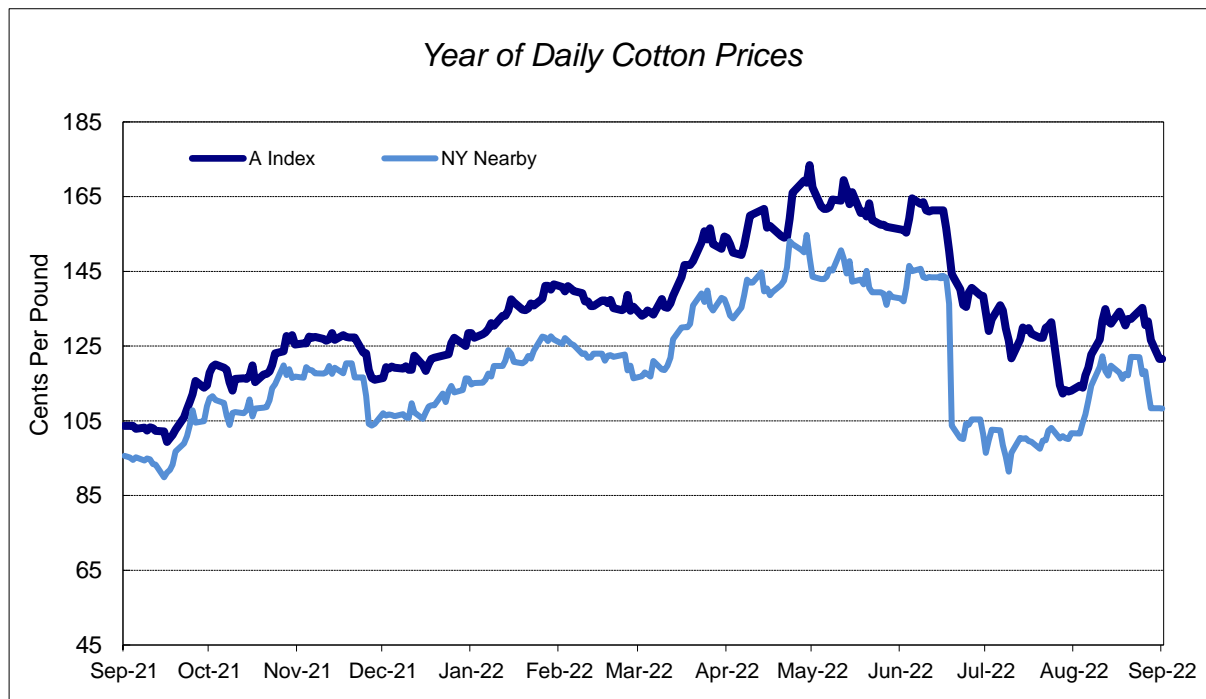
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U.S. Balance Sheet

million 480 lb. bales	2018/19	2019/20	2020/21	2021/22	2022/23	2022/23
					July	August
Beginning Stocks	4.2	4.9	7.3	3.2	3.4	3.5
Production	18.4	19.9	14.6	17.5	15.5	12.6
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	22.6	24.8	21.9	20.7	18.9	16.1
Mill-Use	3.0	2.2	2.4	2.6	2.5	2.3
Exports	14.8	15.5	16.4	14.7	14.0	12.0
Demand	17.8	17.7	18.8	17.2	16.5	14.3
Ending Stocks	4.9	7.3	3.2	3.5	2.4	1.8
Stocks/Use Ratio	27.2%	41.0%	16.8%	20.3%	14.5%	12.6%



Sources: ICE Futures U.S. & Cotton Outlook

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