

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



March 2023

www.cottoninc.com

Macroeconomic Overview: The persistently strong labor market continues to defy the expected effects of the Federal Reserve's increases in interest rates. The economy added a high number of jobs again last month, and the unemployment rate remains at a historically low level. With unemployment low, employers face more competition for qualified candidates, and that can put upward pressure on wages. Wages are a cost to employers that can be passed along to consumers. For that reason, wage growth has been associated with inflation, and it may be a data point being tracked for the Federal Reserve's policy decisions.

Rising wages can also support growth in consumer spending. Along with savings accumulated with the stimulus released after the pandemic, recent increases in income likely contributed to the strength in consumer spending in recent years. Consumer spending on clothing has been relatively flat since the first quarter of 2021. Still, it remains at a level nearly 25% higher than it was in 2019 (over the longer term, the average rate of growth in consumer spending on apparel is around two percent, so current spending levels are likely higher with the pandemic and stimulus than they would have been under more normal conditions).

Nonetheless, rates of growth for wages have not been keeping up with overall inflation since June 2021. This has had several implications for consumers. One is that savings rates have plummeted. After the financial crisis and before COVID, savings rates fluctuated between five and ten percent. In the aftermath of COVID, and with stimulus payments, saving rates climbed to record levels, forming one peak of over 33% in April 2020 and another of over 25% in March 2021. Since then, the savings rate has moved sharply lower. Savings rates have been below five percent since the start of the 2022 calendar year, and there have been months when the savings rate was less than three percent.

Consumers may still be holding on to savings accumulated during the pandemic, but with wage growth slower than inflation, those savings are being drawn down to support spending. Further evidence of this comes from data from Federal Reserve regarding credit card debt. After declining -11.2% in 2020, the volume of revolving debt tracked by the central bank, which is primarily for credit cards, increased by 15.5% in 2022 (growth was 6.9% in 2021, and it was near 4.5% in 2018 and 2019). In recent earnings reports, several of the largest U.S. retailers voiced concern about the trajectory of consumer spending given stubborn inflation and rising interest rates. However, was not a shortage of forecasts released over the past year that suggested the U.S. would already be in a recession, and a sharp contraction has yet to surface. Uncertainty persists about whether a more severe downturn may be coming. In one corner, there is the resilient labor market. In the other corner, there is stubborn inflation and rising interest rates.

Employment: The U.S. economy is estimated to added +311,000 jobs in February. Revisions to figures for previous months were negative, with the value for December falling -21,000 to +239,000 and the value for January falling -13,000 to +504,000. The current twelve-month average is +362,000 jobs per month.

The unemployment rate increased from 3.4% to 3.6% between January and February and remains very low by historical standards. Part of the reason for the increase in the unemployment rate in February was the entry of 419,000 workers into the economy. The labor force participation rate (percentage of the population wanting to work) has been moving higher and is approaching levels before COVID (the ratio was near 62.7% before COVID, it fell as low as 60.1% with the onset of the pandemic and was 62.5% in February).

Wage growth has slowed. Average hourly wages have been trending downward since March 2022, when they reached a post-outbreak peak of 5.9% growth year-over-year. All the readings since October have been below five percent, with values for the latest two months (January and February) near 4.5%.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence decreased for the second consecutive month in February. The current value is 102.9. In December, the value was 109.0, which was the second-highest value posted in 2022. After the first quarter, values in 2021 ranged between 110 and 130.

Overall consumer spending increased 1.1% month-over-month in January and was up 2.4% year-over-year. This was the strongest rate of month-over-month growth in total spending since March 2021. Spending on garments was up 3.0% month-over-month and was up 3.2% year-over-year.

Consumer Prices & Import Data: Retail prices for apparel increased 1.0% month-over-month in January. Year-over-year, the CPI for clothing was up 3.7%. Average import costs per square-meter equivalent (SME) of cotton-dominant apparel were \$4.18 in seasonally-adjusted terms in January. This is well-above levels before the pandemic (averaged \$3.36/SME in 2018 and \$3.45/SM in 2019) and significantly higher than the post-COVID low marked in March 2021 (\$2.99/SME).

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
March 2023



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q2 : 2022	Q3 : 2022	Q4 : 2022		
Growth in US Real GDP	2.6%	2.5%	1.3%	3.2%	-0.6%	3.2%	2.7%	% 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	54.9	51.8	48.9	47.8	48.4	47.4	47.7	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.3	55.5	54.2	53.2	49.2	55.2	55.1	Index	Institute for Supply Management
Consumer Confidence	114.6	103.8	104.9	106.0	109.0	106.0	102.9	Index	The Conference Board
Change in Non-Farm Payrolls	121.5	361.7	336.3	351.3	239	504	311	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.9%	3.6%	3.6%	3.5%	3.5%	3.4%	3.6%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.3%	2.4%	3.7%	4.3%	4.1%	4.3%	4.6%	Interest rate	Federal Reserve
10-year Treasury Bill	2.1%	3.3%	3.7%	3.6%	3.6%	3.5%	3.8%	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	111.6	113.6	111.5	110.5	110.6	110.6	110.3	Index	The Conference Board
Housing Starts	14.2	15.3	14.2	1.4	1.4	1.4	1.3	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.5	4.9	4.3	4.1	4.1	4.0	4.0	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	101.0	103.9	103.9	103.3	104.6	104.0	103.0	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	120.2	157.4	165.1	164.6	168.9	163.5	161.3	Index, December 2003=100	Bureau of Labor Statistics

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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	2.4	2.1	1.9	2.2	1.7	1.8	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	1.44	1.57	1.61	1.62	1.62	1.62	1.61	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	2.6%	2.5%	2.0%	2.0%	1.5%	2.0%	2.4%	% Chg. Year/Year	Department of Commerce
Clothing	7.0%	1.3%	1.1%	2.0%	-0.3%	3.1%	3.1%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	3.7%	7.9%	7.4%	6.7%	7.1%	6.5%	6.4%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	0.1%	5.1%	4.5%	3.8%	4.1%	3.6%	3.7%	% Chg. Year/Year	Bureau of Labor Statistics

Retail Series with Latest Data for December

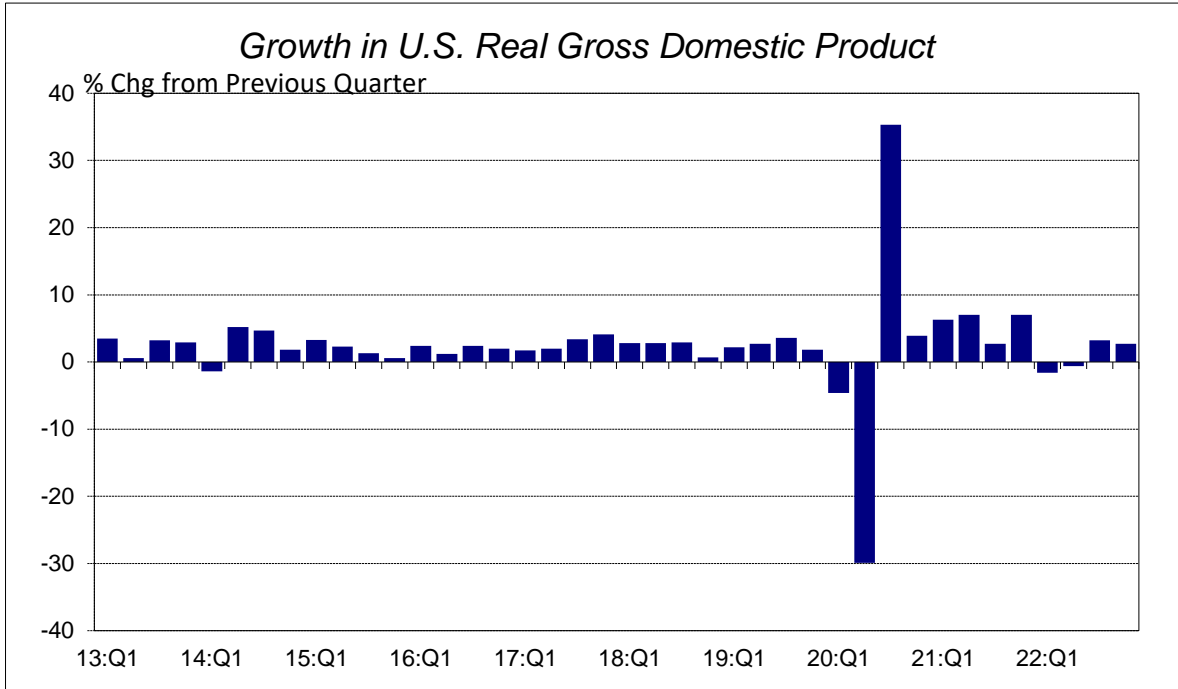
	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	December		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.6	2.1	2.2	2.2	2.2	2.2	2.2	Ratio	Department of Commerce
Department Stores	2.0	2.1	2.2	2.1	2.1	2.1	2.2	Ratio	Department of Commerce

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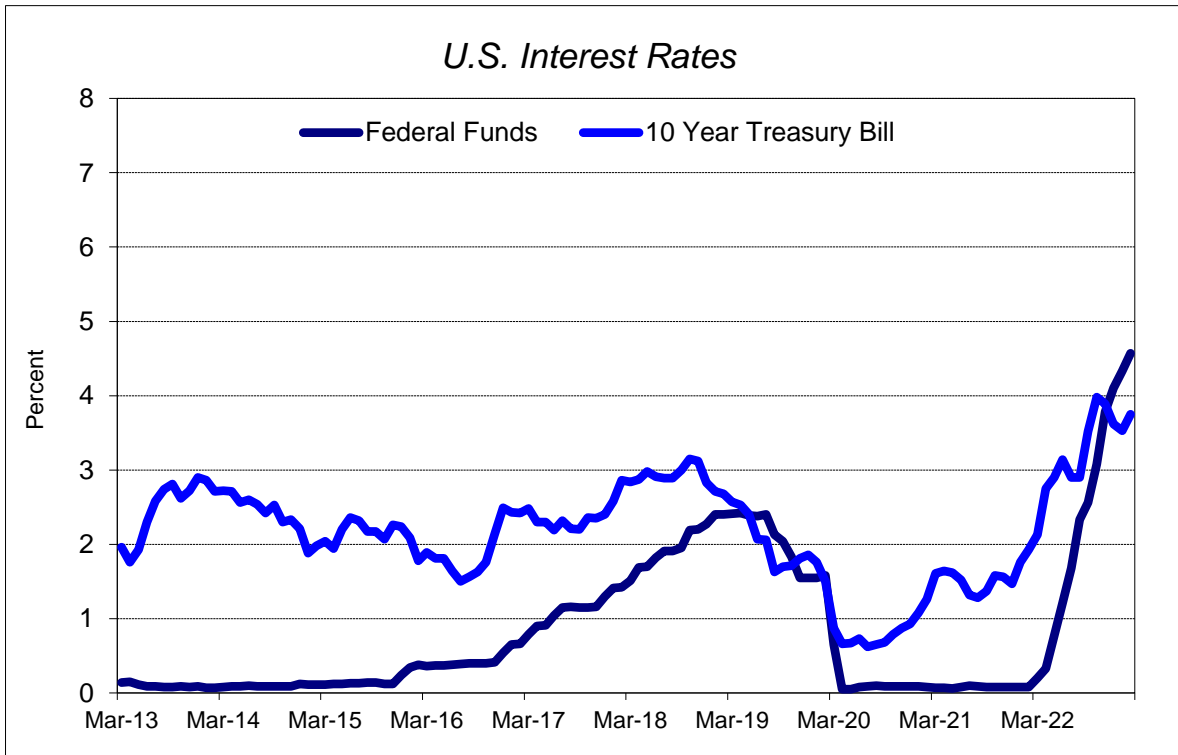
Daily Cotton Price and Currency Data
March 2023



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	84.0	106.0	86.4	84.0	83.4	84.6	83.9	cents/pound	ICE
A Index	94.7	123.4	103.0	100.1	100.9	100.3	99.4	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	116.2	117.3	123.2	121.0	122.5	120.3	120.1	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.73	6.68	6.97	6.84	6.95	6.78	6.80	Chinese Renminbi/US dollar	Reuters
Indian Rupee	73.66	76.09	81.71	82.19	82.28	81.78	82.50	Indian Rupee/US dollar	Reuters
Japanese Yen	113.98	116.91	138.31	133.36	136.60	132.19	131.31	Japanese Yen/US dollar	Reuters
Pakistani Rupee	163.90	180.70	231.55	240.60	224.50	228.00	269.30	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.71	5.27	5.23	5.23	5.23	5.23	5.25	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.30	1.30	1.34	1.35	1.36	1.34	1.34	Canadian dollar/US dollar	Reuters
Mexican Peso	20.04	20.56	19.48	19.22	19.83	19.12	18.70	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.77	0.77	0.85	0.82	0.81	0.82	0.83	British Pound/US dollar	Reuters
Euro	0.89	0.89	0.97	0.94	0.95	0.93	0.94	Euro/US dollar	Reuters
Swiss Franc	0.95	0.93	0.95	0.93	0.93	0.92	0.92	Swiss Franc/US dollar	Reuters
Turkish Lira	9.07	11.48	18.59	18.75	18.64	18.78	18.83	Turkish Lira/US dollar	Reuters



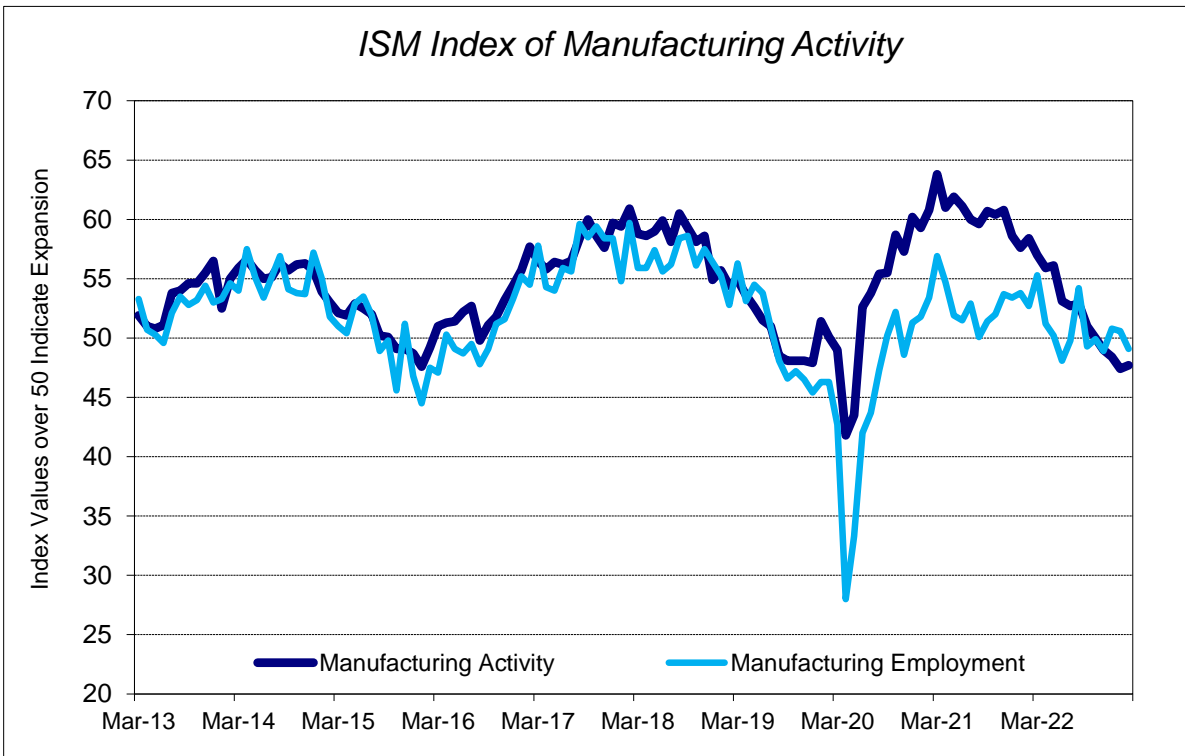
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



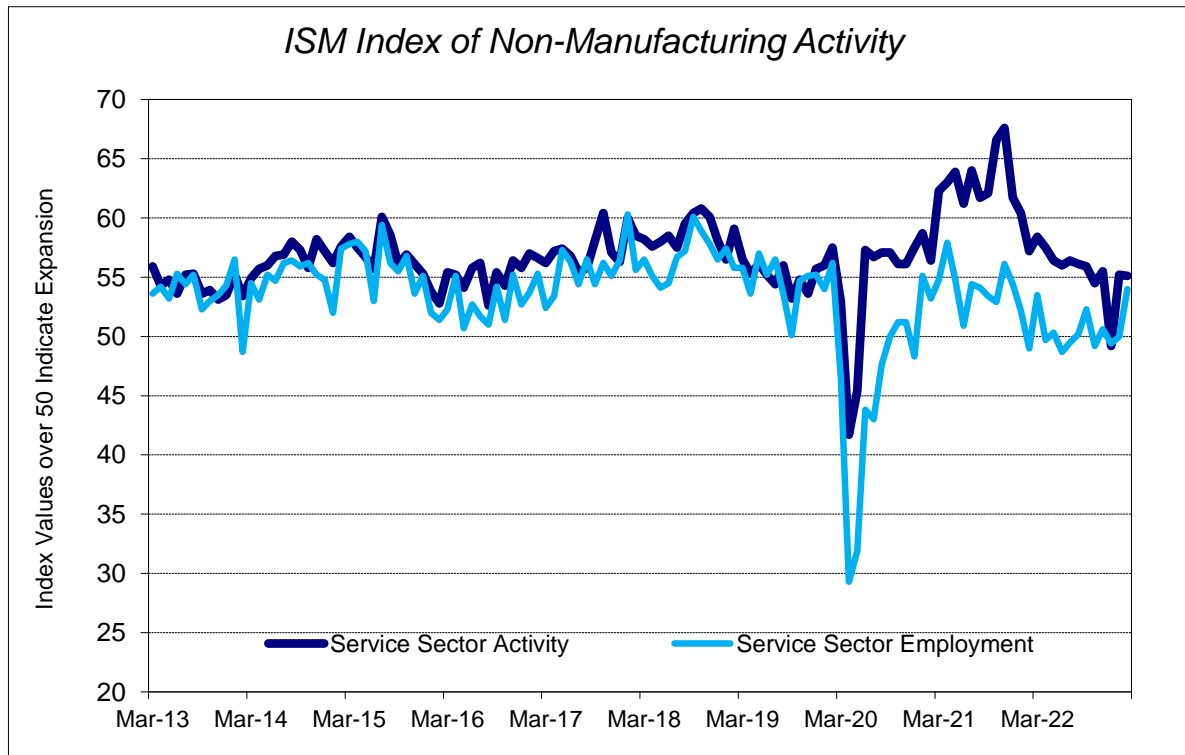
Source: Federal Reserve

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Source: Institute for Supply Chain Management



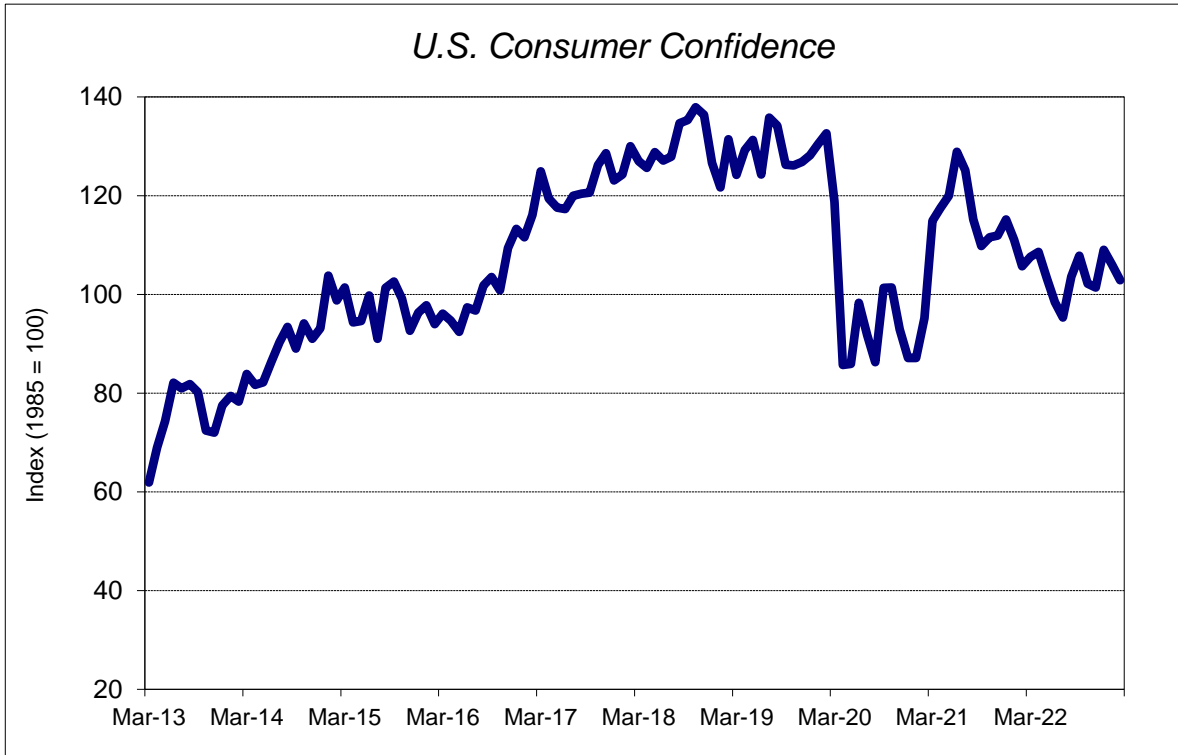
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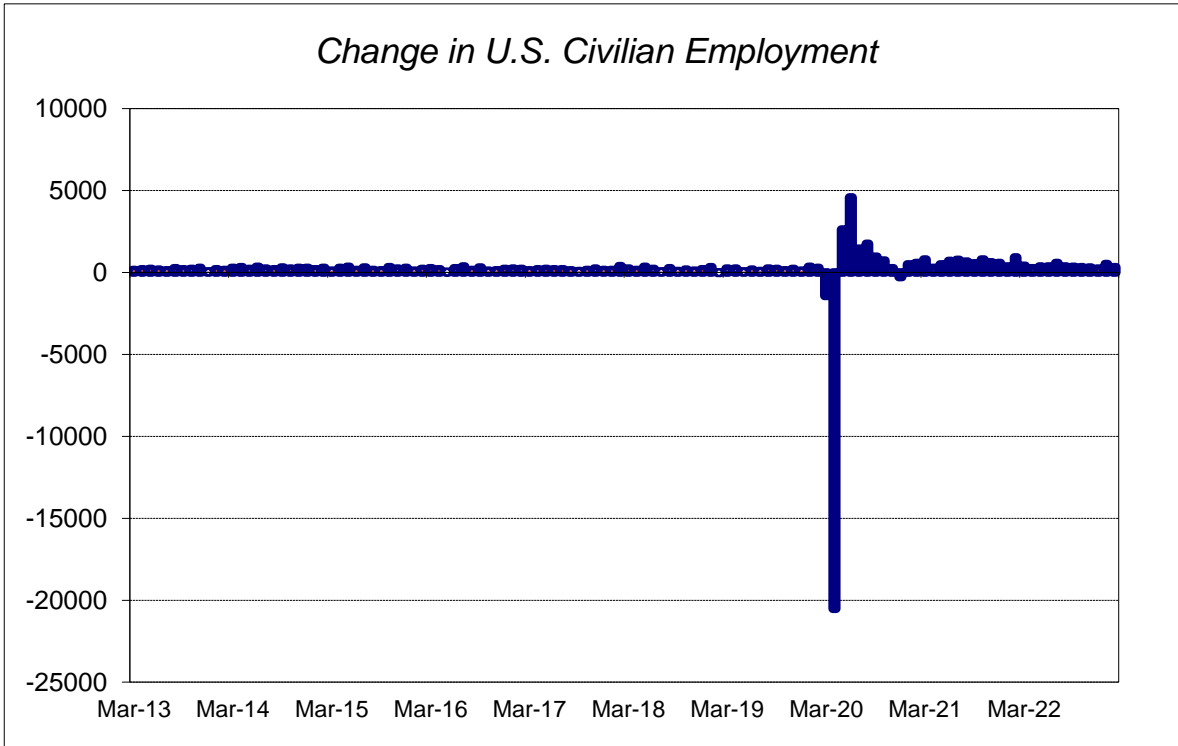
Source: The Conference Board



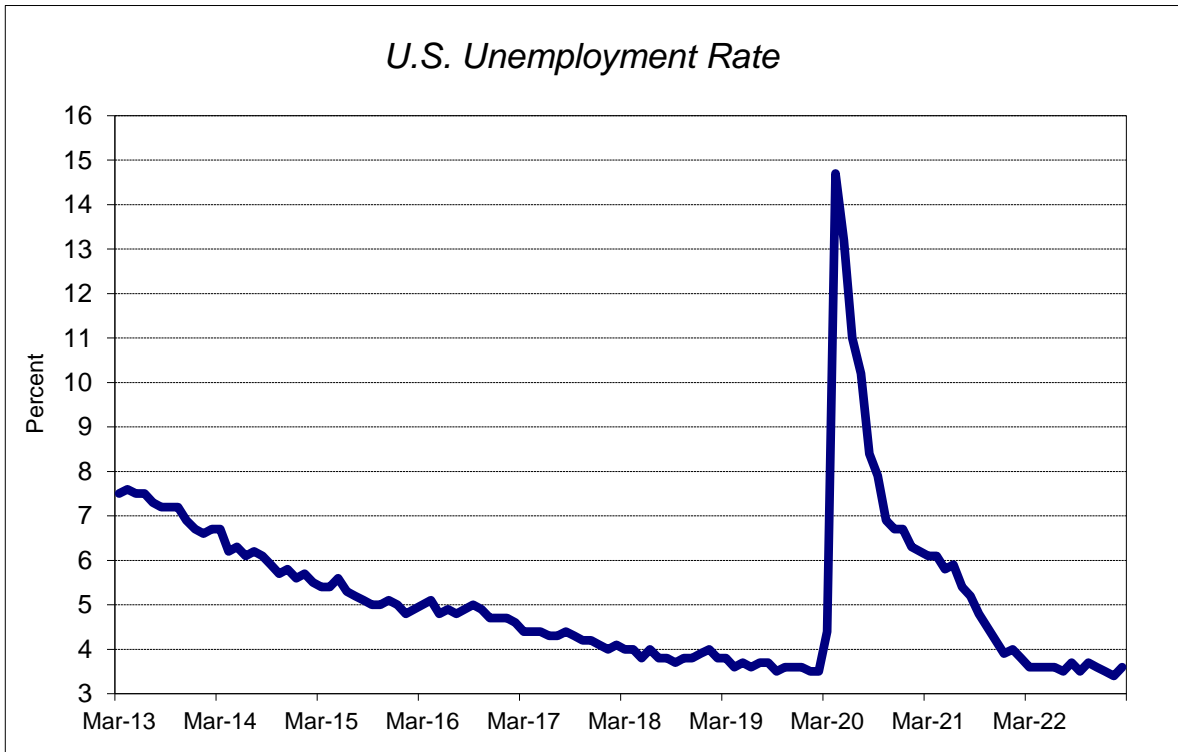
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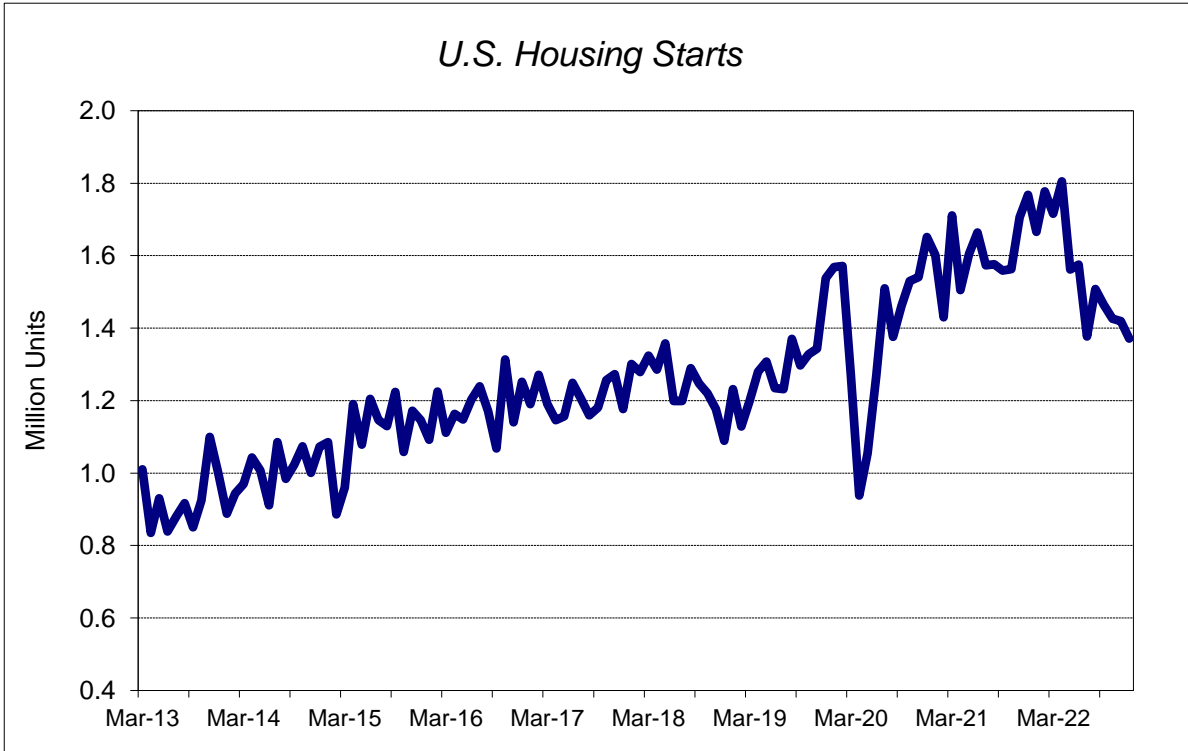
Source: Bureau of Labor Statistics



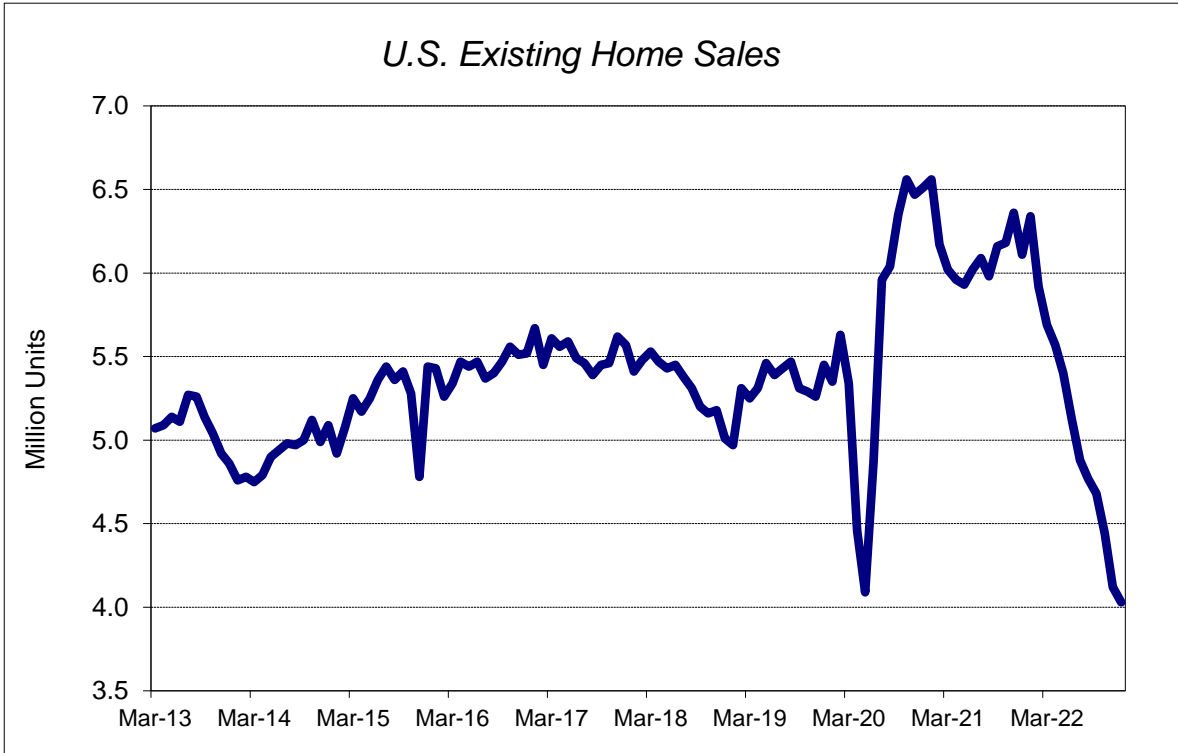
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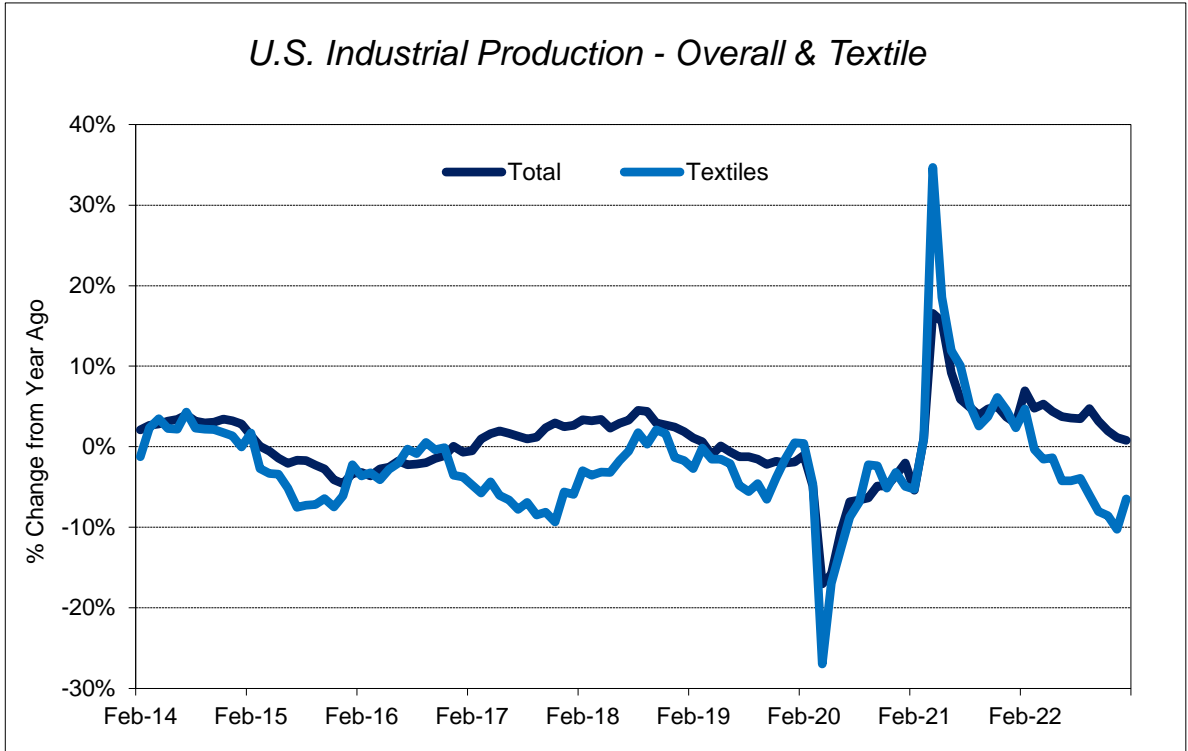
Seasonally Adjusted Annual Rate; Source: Department of Commerce



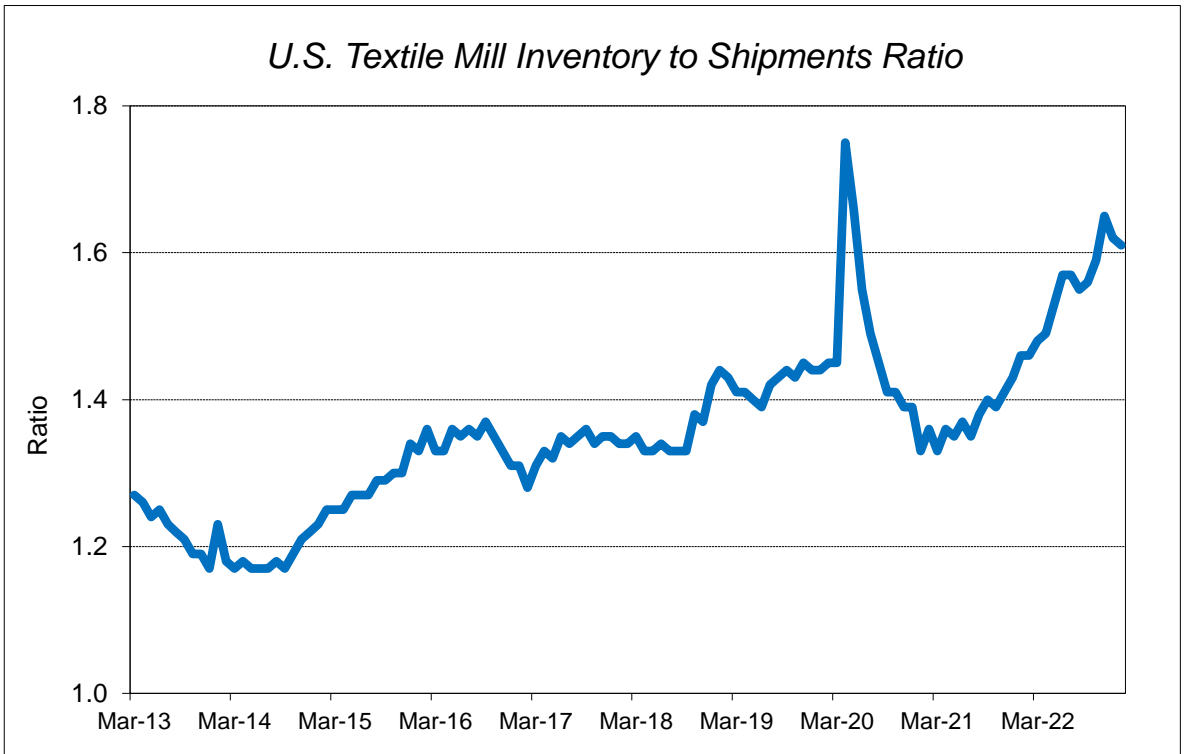
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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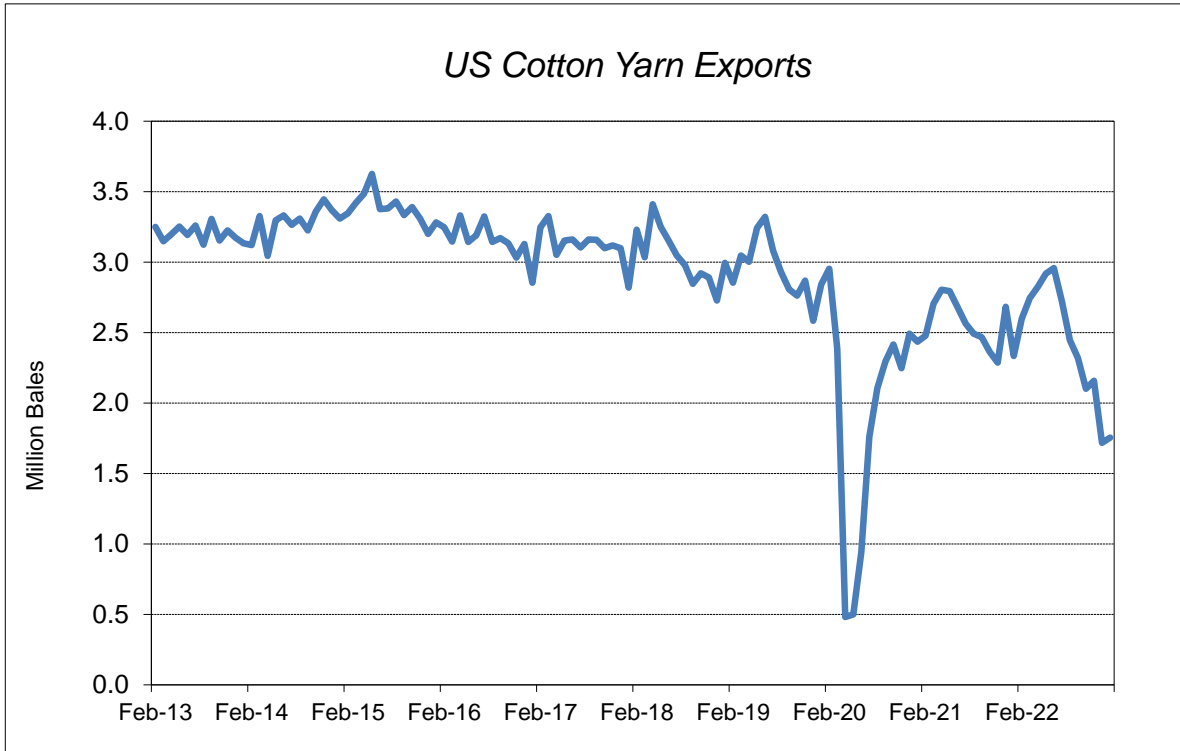
Source: Federal Reserve. Historical data revised to 1997 baseline.



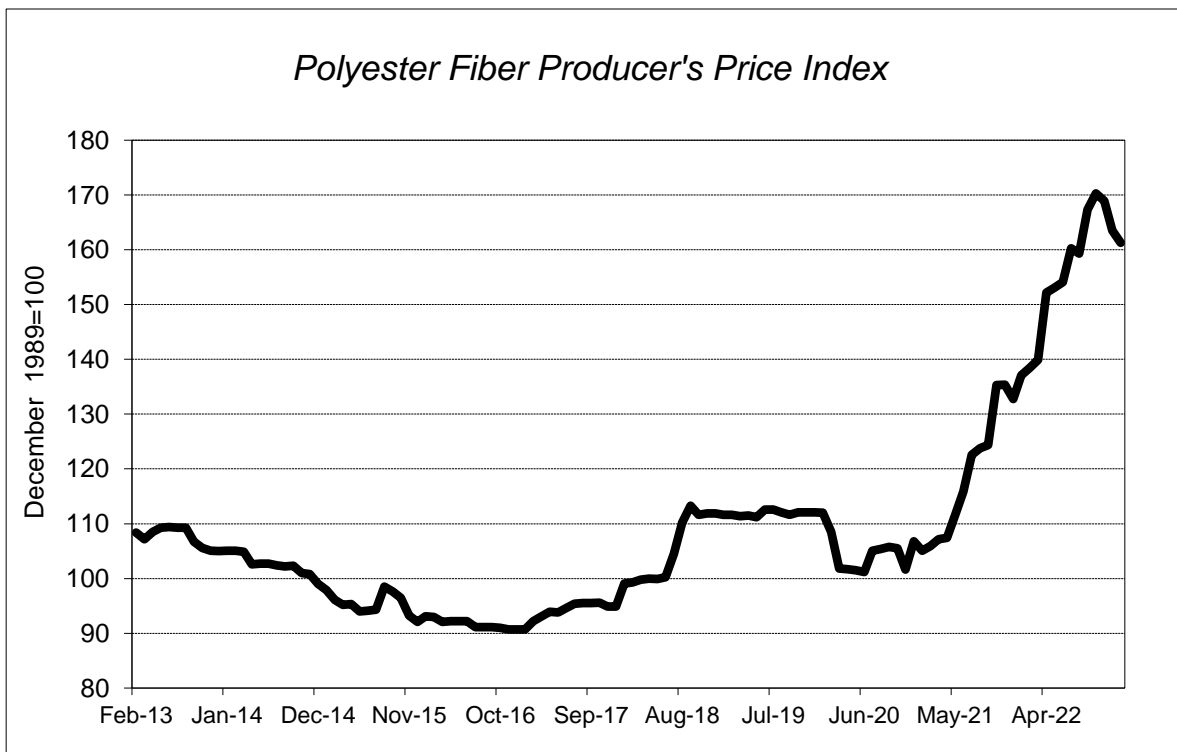
Seasonally Adjusted; Source: Department of Commerce

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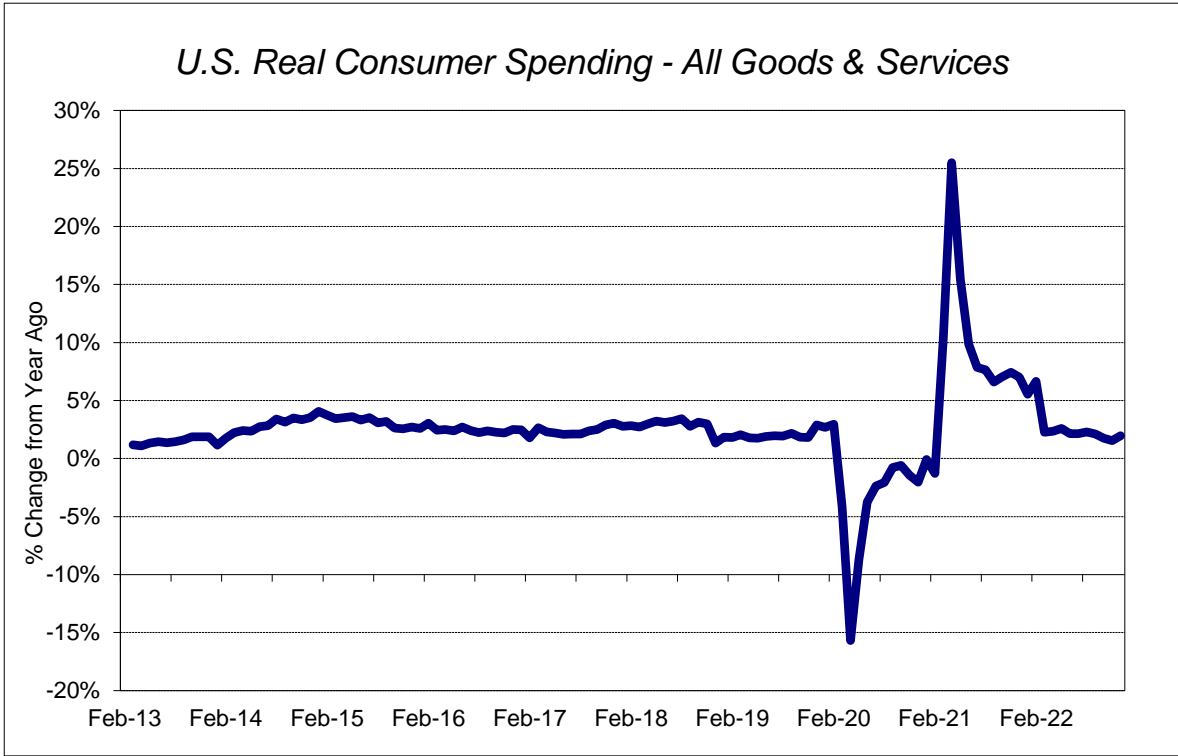
Seasonally Adjusted Annual Rate
Source: USDA ERS



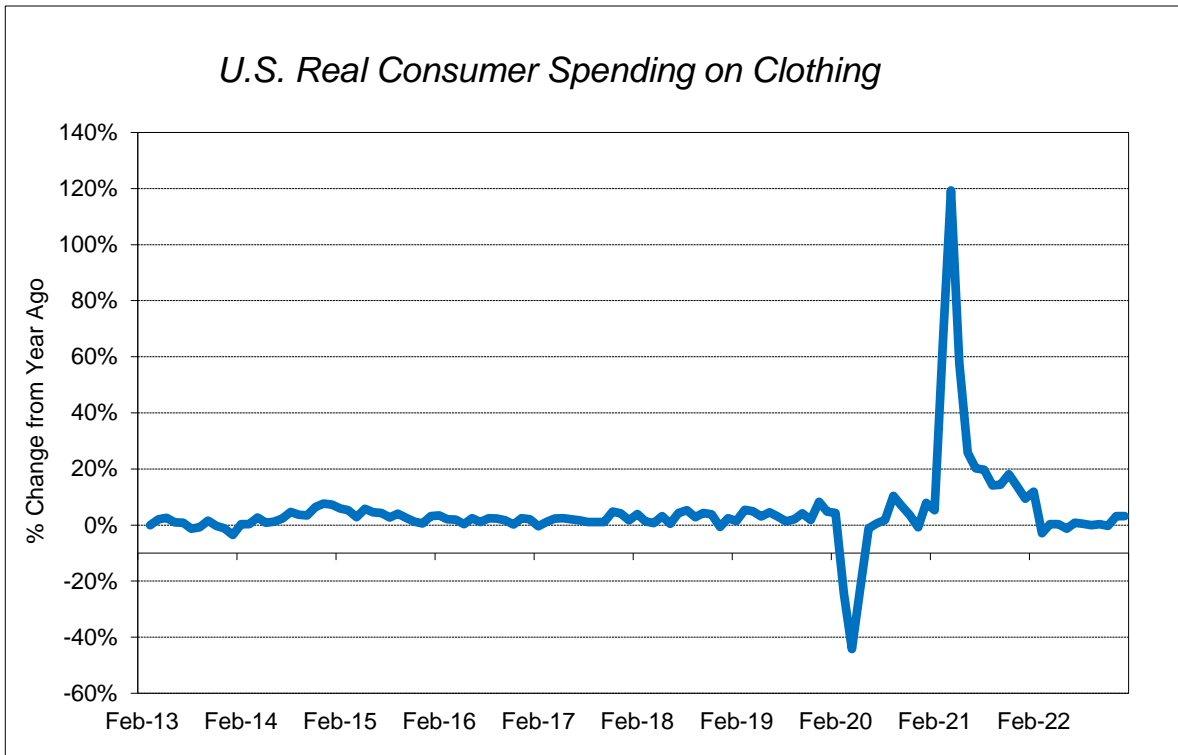
Source: Bureau of Labor Statistics

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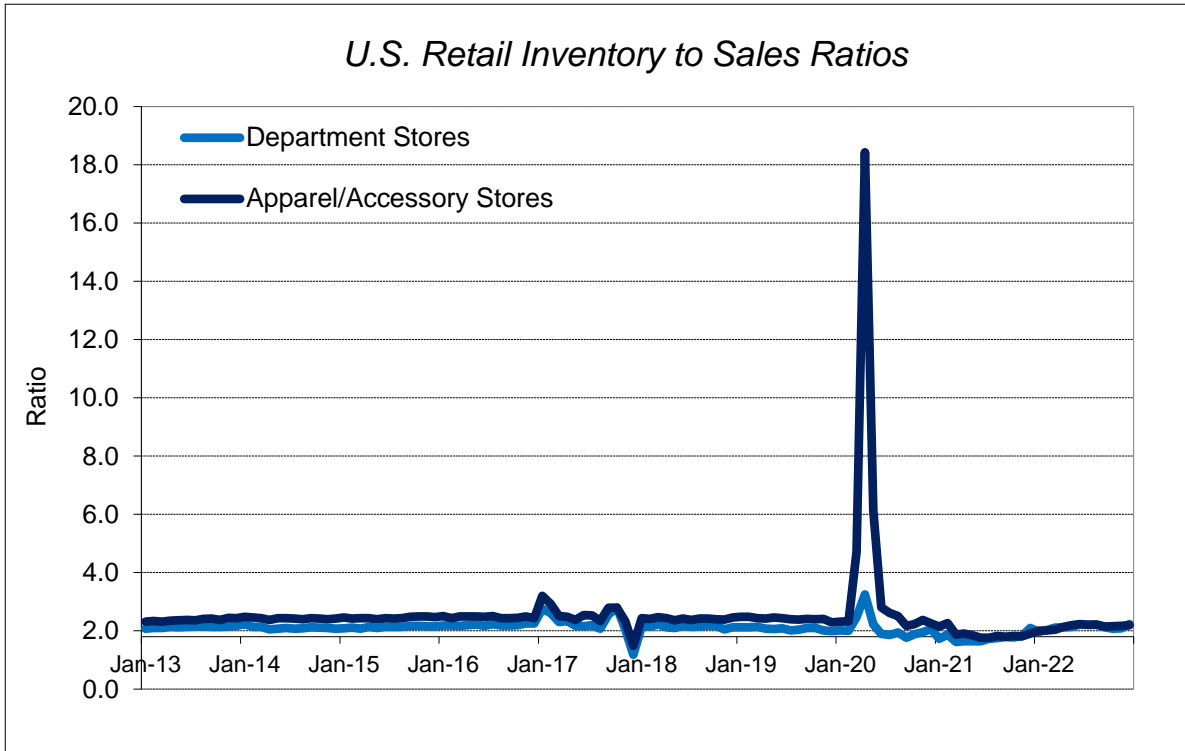
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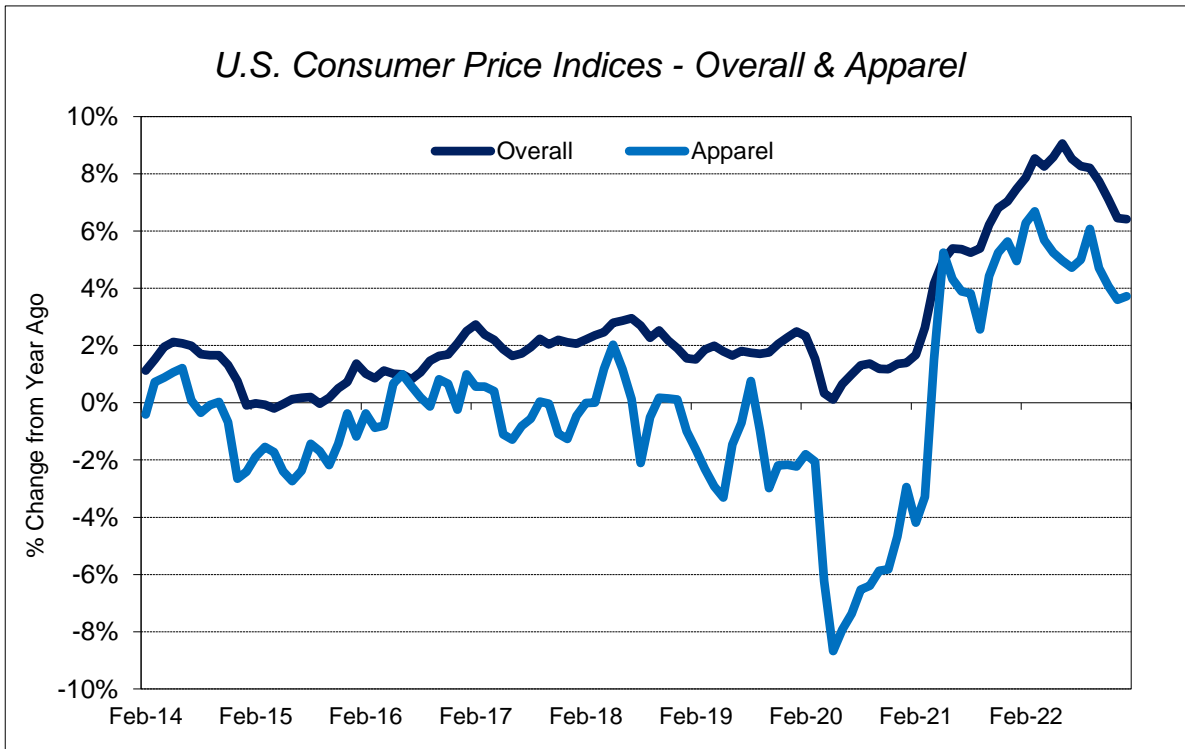
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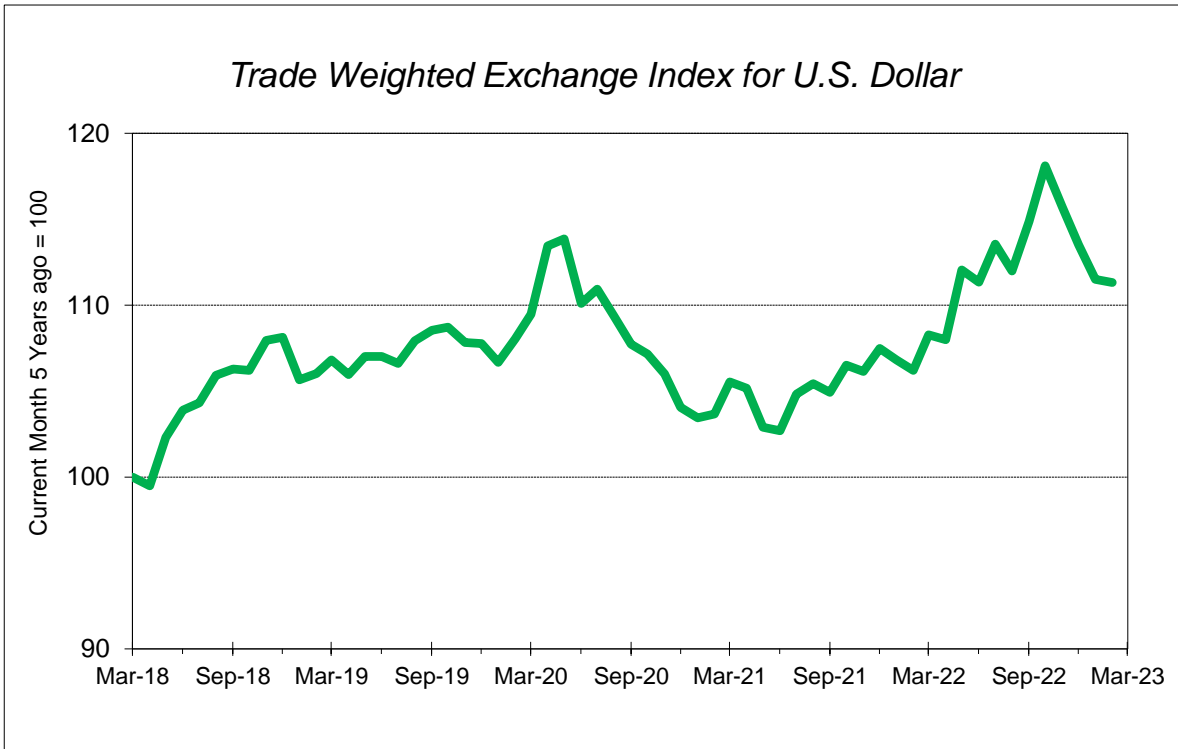
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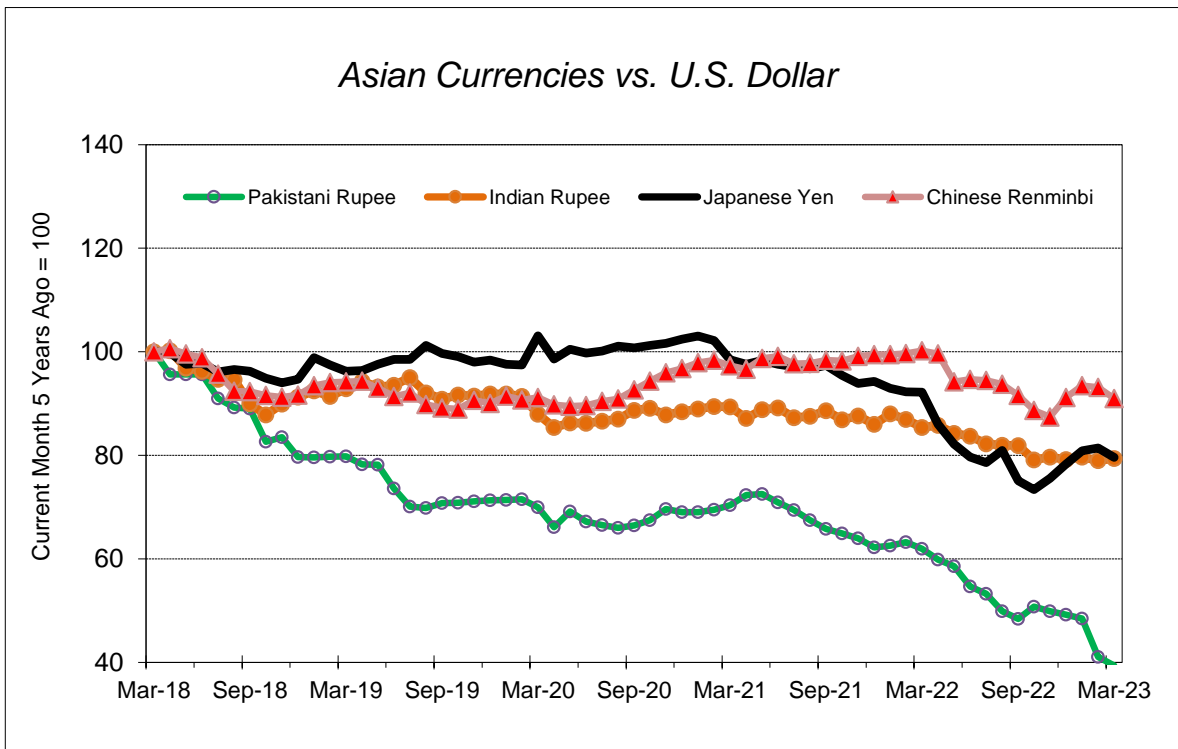
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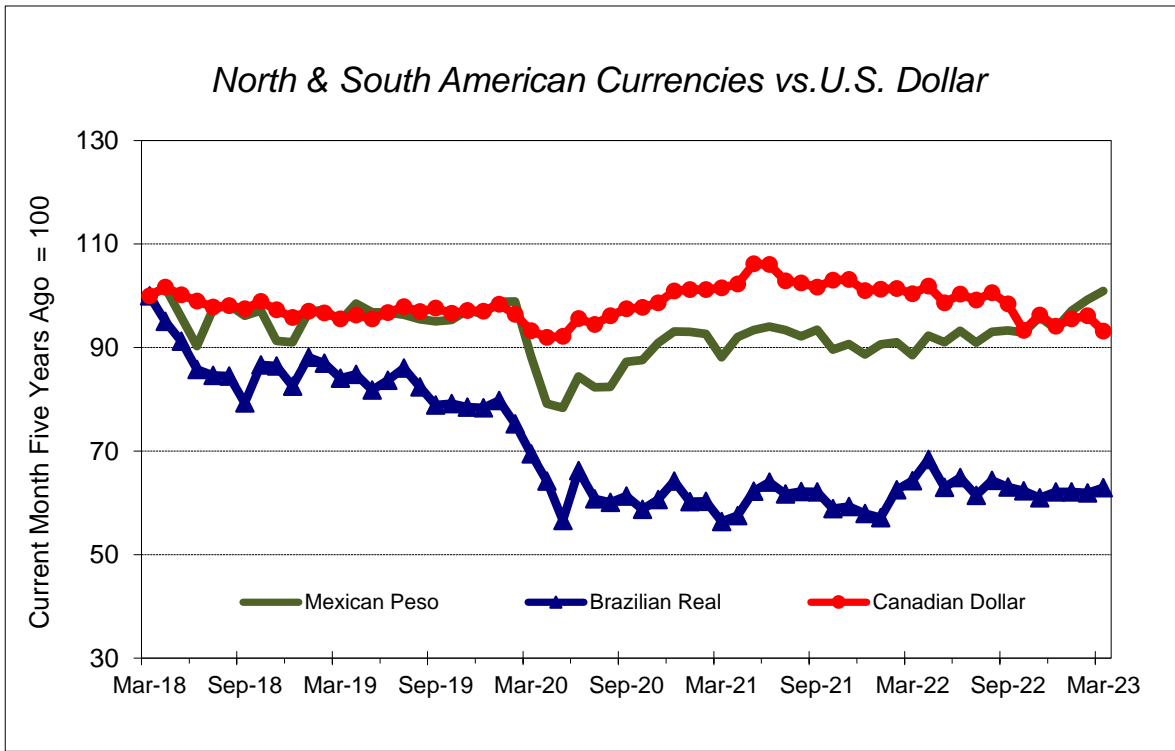
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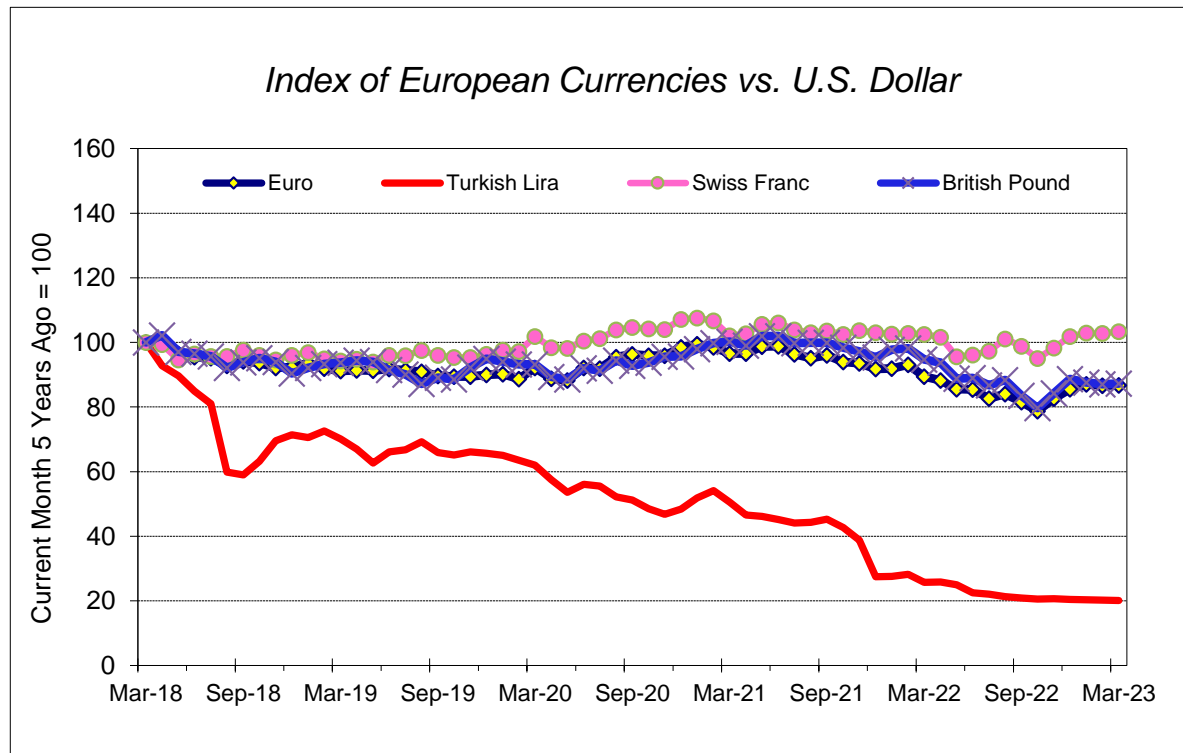
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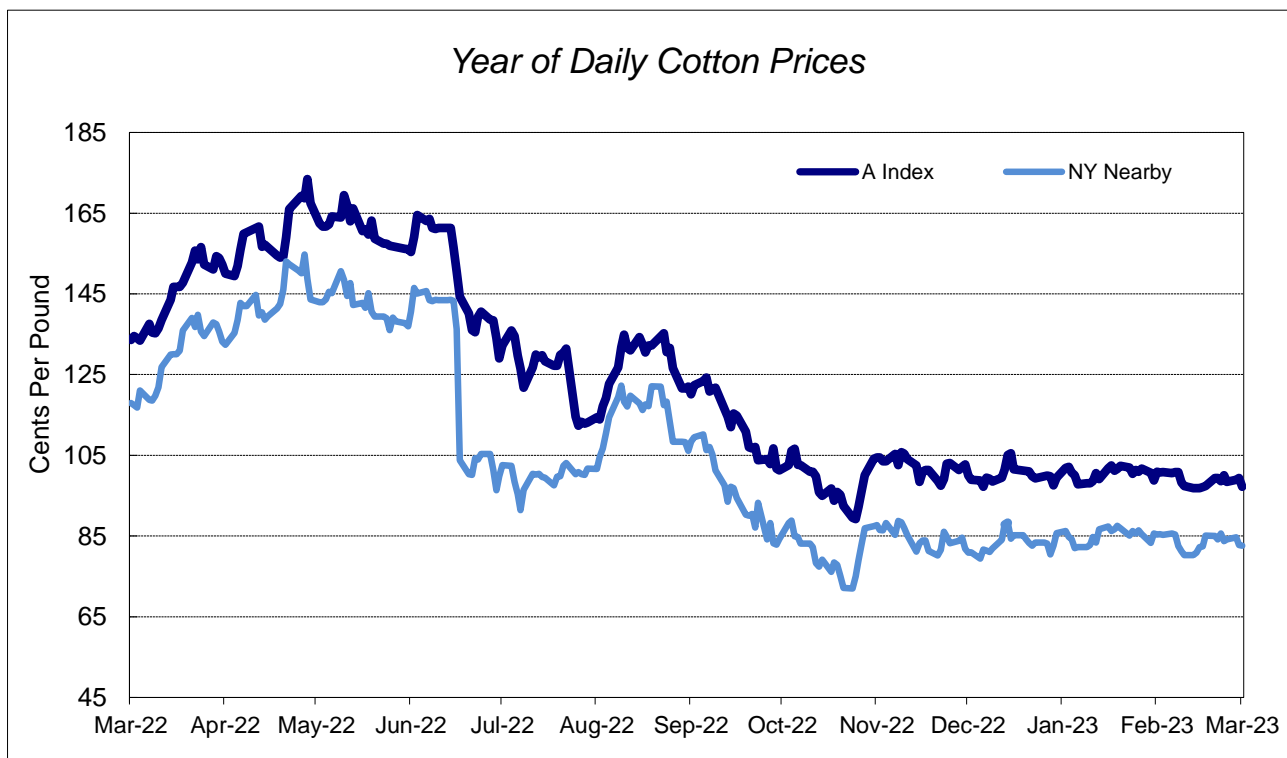
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U.S. Balance Sheet

million 480 lb. bales	2018/19	2019/20	2020/21	2021/22	2022/23 February	2022/23 March
Beginning Stocks	4.2	4.9	7.3	3.2	3.8	3.8
Production	18.4	19.9	14.6	17.5	14.7	14.7
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	22.6	24.8	21.9	20.7	18.4	18.4
Mill-Use	3.0	2.2	2.4	2.6	2.1	2.1
Exports	14.8	15.5	16.4	14.6	12.0	12.0
Demand	17.8	17.7	18.8	17.2	14.1	14.1
Ending Stocks	4.9	7.3	3.2	3.8	4.3	4.3
Stocks/Use Ratio	27.2%	41.0%	16.8%	21.8%	30.5%	30.5%



Sources: ICE Futures U.S. & Cotton Outlook

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