

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



February 2018

www.cottoninc.com

Macroeconomic Overview: In its “advance”, or first, estimate the Bureau of Economic Analysis suggested that the U.S. economy expanded at a 2.6% seasonally-adjusted annualized rate in the fourth quarter. In the third quarter, U.S. economic growth is estimated to have been 3.2%. On an annual basis, the BEA indicates U.S. GDP grew 2.3% in 2017. In 2016, growth was 1.5%.

Consumer spending was strong in the fourth quarter, rising 3.8% (compared to 2.9% in the fourth quarter last year). Simultaneously, the personal saving rate fell below three percent for the first time since 2007. This reveals that a portion of the growth in spending during the holiday period was a result of redirected savings. Reallocation of savings to spending cannot continue indefinitely. Correspondingly, further growth in spending may be limited unless wage growth accelerates. Wages did rise as the fastest rate since the recession in January. If sustained, the positive effects of wage growth on spending will have to be balanced against the tendency for rising wages to lead to higher inflation (as employers pay employees more, they need to raise prices to cover those costs). In response to rising inflation, the Federal Reserve is expected to raise interest rates.

Estimates for global economic growth continue to rise. The International Monetary Fund (IMF) issues updated forecasts in January, and their latest figure for world GDP in 2017 is 3.7%, or 0.1 points higher than the figure released in October. Forecasts for 2018 and 2019 were both lifted 0.2 points (to 3.9% in each year) and suggest the highest rate of global growth since 2011. Stronger than expected growth in Asia and Europe were principally responsible for pulling world GDP figures higher. In accompanying statements, the IMF indicated that global inflation remains weak and that monetary policy should remain accommodative.

The value of the U.S. dollar has been volatile. After falling throughout most of 2017, the dollar rebounded in the early fall, but has since declined rather sharply. The Federal Reserve is expected to raise interest rates three or four times this year. Increases in interest rates are typically associated with stronger demand, and therefore higher values, for currencies. However, another factor that can affect exchange rates is relative economic growth. Although the U.S. is expected to continue to grow in 2018, growth in Europe is expected to outpace that in the U.S. Those expectations of stronger growth in the Euro Zone, which represents the second most commonly traded currency after the dollar, are a likely reason why the euro has gotten stronger against the dollar. The RMB has also appreciated alongside the euro, and since October the dollar has fallen about 7% against both of these currencies.

Employment: The U.S. economy was estimated to have added 200,000 jobs in January. Revisions to previous months’ data were mixed, with the figure for November reduced from +252,000 to +216,000 and the figure for December increased from +148,000 to +160,000. Over the past twelve months, job growth has averaged 176,000. The unemployment rate was unchanged at 4.1%, which remains the lowest level since 2000. With low unemployment, there is more competition among firms for employees, and that competition can drive up wages.

After lagging other improvements in the labor market, wage growth has appeared (subject to revision) to finally have started to accelerate. Revisions pulled the figure for wages in December higher (from 2.5% to 2.7%), and in January, average hourly wages were 2.9% higher than one year ago. Although this rate is still below levels that were common in previous periods of economic expansion (wages growth was consistently over 3.0% before the 2008-09 recession), the estimate for wage growth in January is the highest since the financial crisis. Between 2010 and mid-2015, wage growth was between 1.5% and 2.5%. Between mid-2015 and 2017, wage growth was mostly between 2.5% and 2.7%. Higher wages can support further growth in consumer spending, and also has the potential to pull people back into the labor force. Since the early 2000s, the proportion of the U.S. population wanting to work has fallen 67% to 63%.

Consumer Confidence & Spending: The Conference Board’s Index of Consumer Confidence increased 2.3 points in January, rising from 123.1 to 125.4. Values continue to rank among the strongest since the early 2000s.

Overall consumer spending increased 0.3% month-over-month and was up 0.4% year-over-year in December (latest available data). Consumer spending on apparel was up 0.4% month-over-month in December, compounding the strong 3.2% month-over-month growth registered in November. Year-over-year, consumer spending on apparel was up 5.4% in December, reinforcing private sector reports of a strong holiday sales period.

Consumer Prices & Import Data: The overall inflation rate increased 0.2% month-over-month and 2.1% year-over-year in December (latest available). Retail apparel prices decreased 0.5% month-over-month and were 1.4% lower year-over-year. Average sourcing costs for cotton-dominant apparel were unchanged in seasonally-adjusted terms between November and December. At \$3.27 per square meter equivalent, average import prices were \$0.07/SME or 2.3% higher than a year ago. For the year, cotton-dominant apparel imports were down slightly in 2017 (-2.6%), while overall apparel imports were flat (+0.8%).

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
February 2018



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q2 : 2017	Q3 : 2017	Q4 : 2017		
Growth in US Real GDP	2.4%	2.1%	2.9%	2.6%	3.1%	3.2%	2.6%	% Chg. Quarter/Quarter	Department of Commerce

Monthly 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		
ISM Index of Manufacturing Activity	53.9	53.4	58.7	58.7	58.2	59.3	59.1	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.0	56.3	57.0	57.7	57.3	56.0	59.9	Index	Institute for Supply Management
Consumer Confidence	95.7	106.1	123.2	126.0	128.6	123.1	125.4	Index	The Conference Board
Change in Non-Farm Payrolls	208.9	200.8	178.7	215.7	216	160	200	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.6%	4.8%	4.2%	4.1%	4.1%	4.1%	4.1%	Rate	Bureau of Labor Statistics

Monthly 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 Interest Rates									
Federal Funds	0.3%	0.5%	1.2%	1.2%	1.2%	1.3%	1.4%	Interest rate	Federal Reserve
10-year Treasury Bill	2.2%	2.1%	2.3%	2.4%	2.4%	2.4%	2.6%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	97.5	100.9	105.4	106.4	105.9	106.4	107.0	Index	The Conference Board
Housing Starts	10.8	11.6	12.1	12.5	1.3	1.3	1.2	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.2	5.4	5.5	5.6	5.5	5.8	5.6	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

Monthly 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		
US Industrial Production	103.9	104.2	105.8	106.9	106.6	106.5	107.5	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	98.5	94.1	95.2	95.0	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Monthly 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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	3.1	3.1	3.2	3.2	3.2	3.2	million 480lb bales	USDA ERS

Monthly 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		
US Textile Mill Inventory/Shipments Ratio	1.24	1.24	1.24	1.24	1.23	1.24	1.25	Ratio	Department of Commerce

Retail Data

Monthly 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		
US Real Consumer Spending									
All Goods and Services	2.7%	3.0%	2.7%	2.8%	2.6%	2.9%	2.8%	% Chg. Year/Year	Department of Commerce
Clothing and Shoes	2.8%	3.0%	3.4%	4.7%	2.7%	5.9%	5.4%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.3%	1.2%	2.0%	2.1%	2.0%	2.2%	2.1%	% Chg Year/Year	Bureau of Labor Statistics
Apparel	-0.3%	-0.7%	-0.7%	-0.9%	-0.2%	-1.3%	-1.2%	% Chg. Year/Year	Bureau of Labor Statistics

Monthly Series with Latest Data for November	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	September	October	November		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.4	2.4	2.4	2.4	2.4	2.4	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.0	2.0	2.0	2.0	2.0	Ratio	Department of Commerce

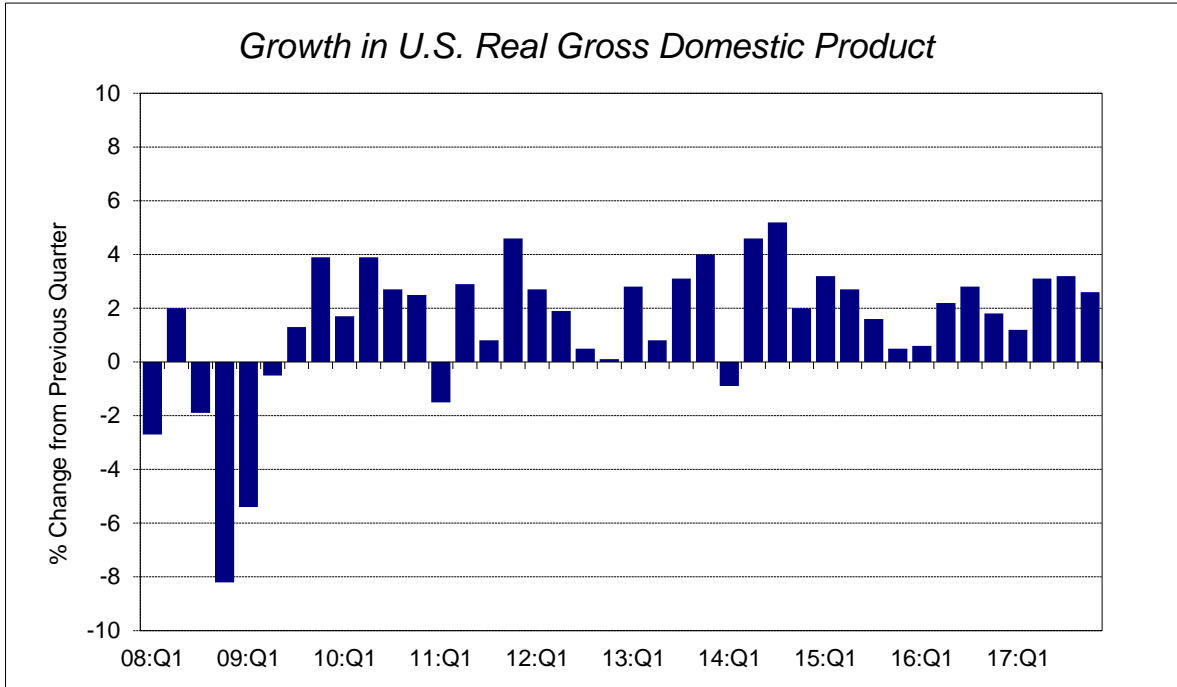
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Daily Cotton Price and Currency Data

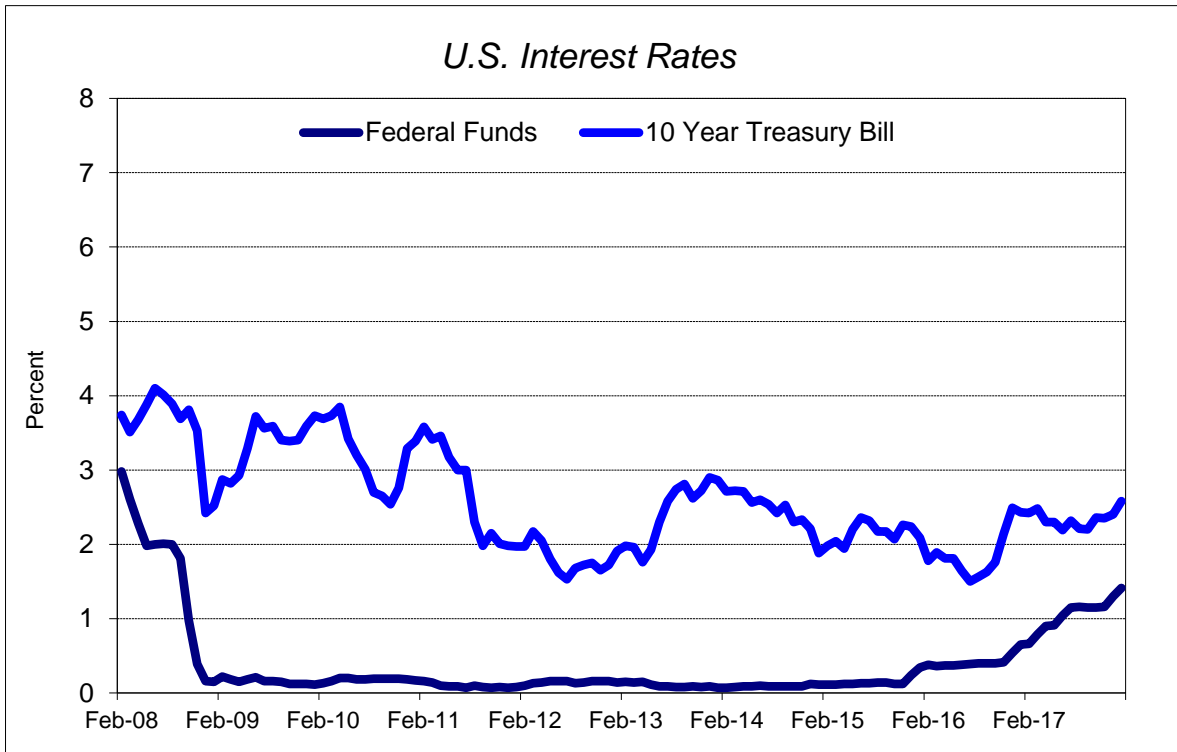
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Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	January		
NY Nearby	72.4	68.0	72.5	75.2	70.0	75.4	80.3	cents/pound	ICE
A Index	80.4	76.7	82.6	85.6	80.4	85.4	91.0	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	January		
Dollar Trade Weighted Exchange Index	113.8	120.9	119.4	119.8	121.1	120.1	118.3	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.40	6.56	6.60	6.58	6.63	6.62	6.49	Chinese Renminbi/US dollar	Reuters
Indian Rupee	63.28	65.42	64.36	64.32	65.01	64.58	63.37	Indian Rupee/US dollar	Reuters
Japanese Yen	109.38	113.76	112.01	113.34	114.05	112.74	113.23	Japanese Yen/US dollar	Reuters
Pakistani Rupee	103.23	104.41	106.25	107.13	105.41	105.48	110.50	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	2.92	3.35	3.20	3.27	3.28	3.30	3.23	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.21	1.30	1.26	1.27	1.28	1.28	1.24	Canadian dollar/US dollar	Reuters
Mexican Peso	16.00	17.92	18.60	19.12	19.15	18.94	19.29	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.69	0.73	0.76	0.75	0.76	0.75	0.74	British Pound/US dollar	Reuters
Euro	0.84	0.90	0.85	0.85	0.86	0.85	0.83	Euro/US dollar	Reuters
Swiss Franc	0.96	0.98	0.98	0.99	1.00	0.99	0.98	Swiss Franc/US dollar	Reuters
Turkish Lira	2.72	3.16	3.67	3.83	3.89	3.86	3.74	Turkish Lira/US dollar	Reuters



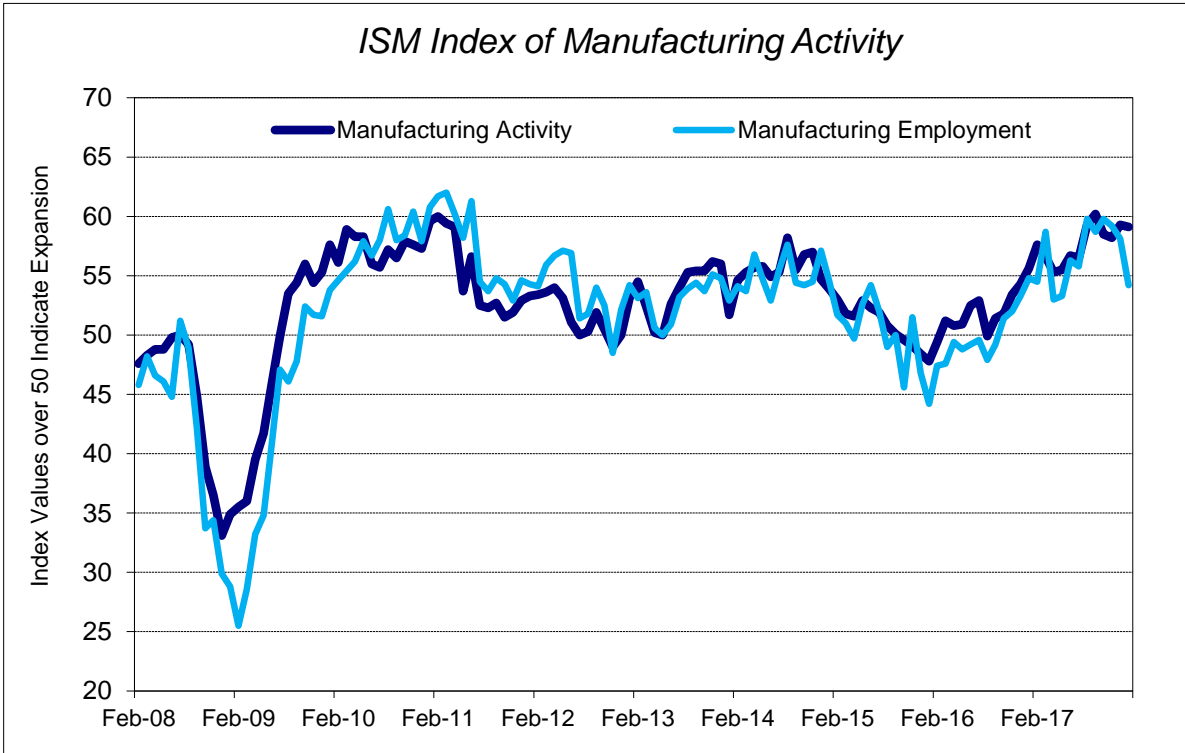
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



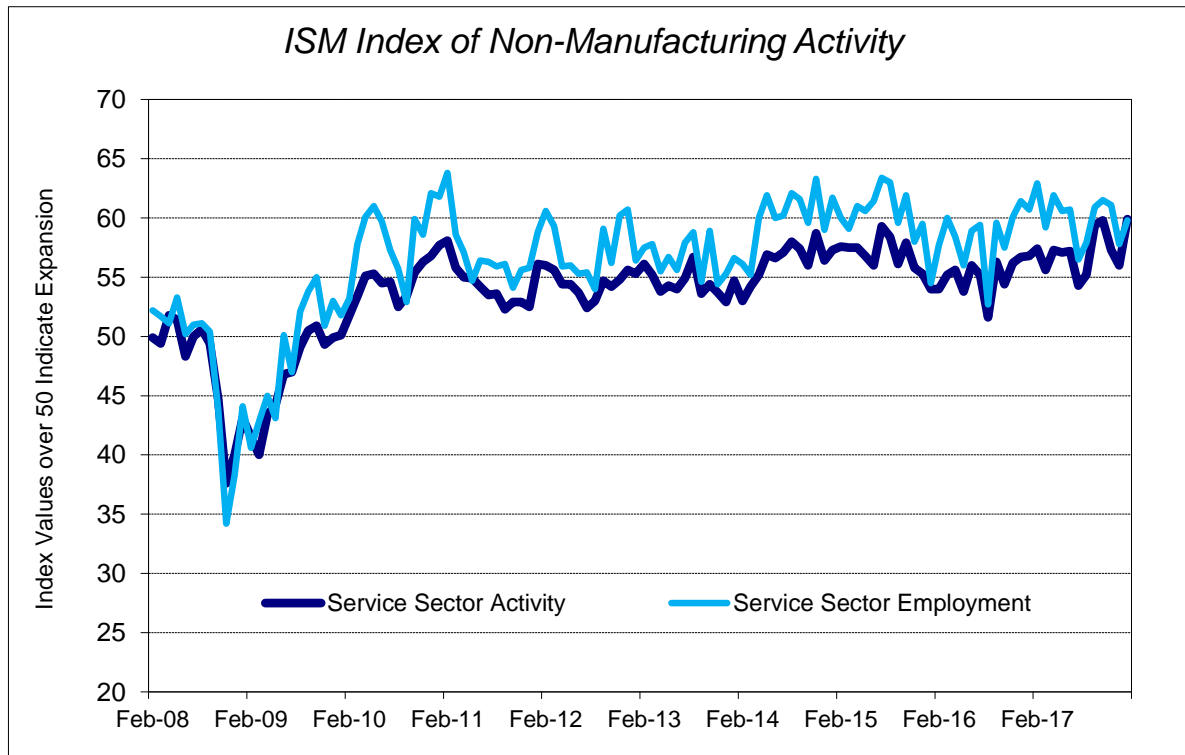
Source: Federal Reserve

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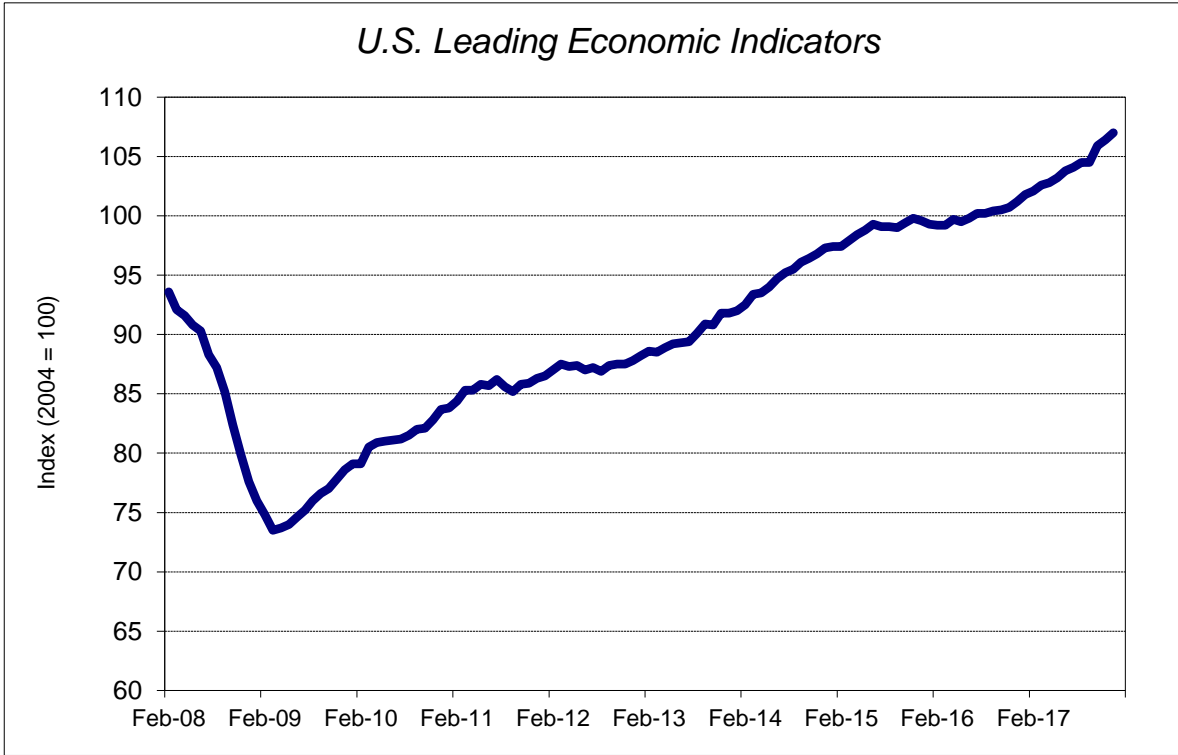
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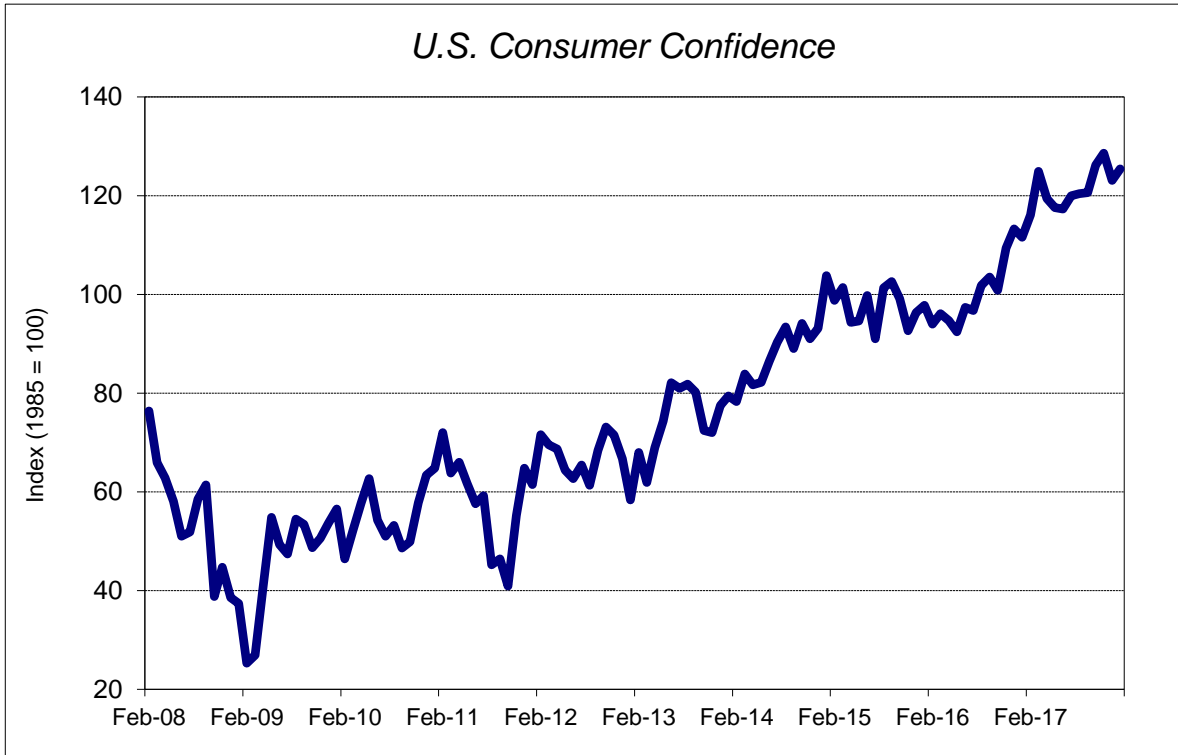
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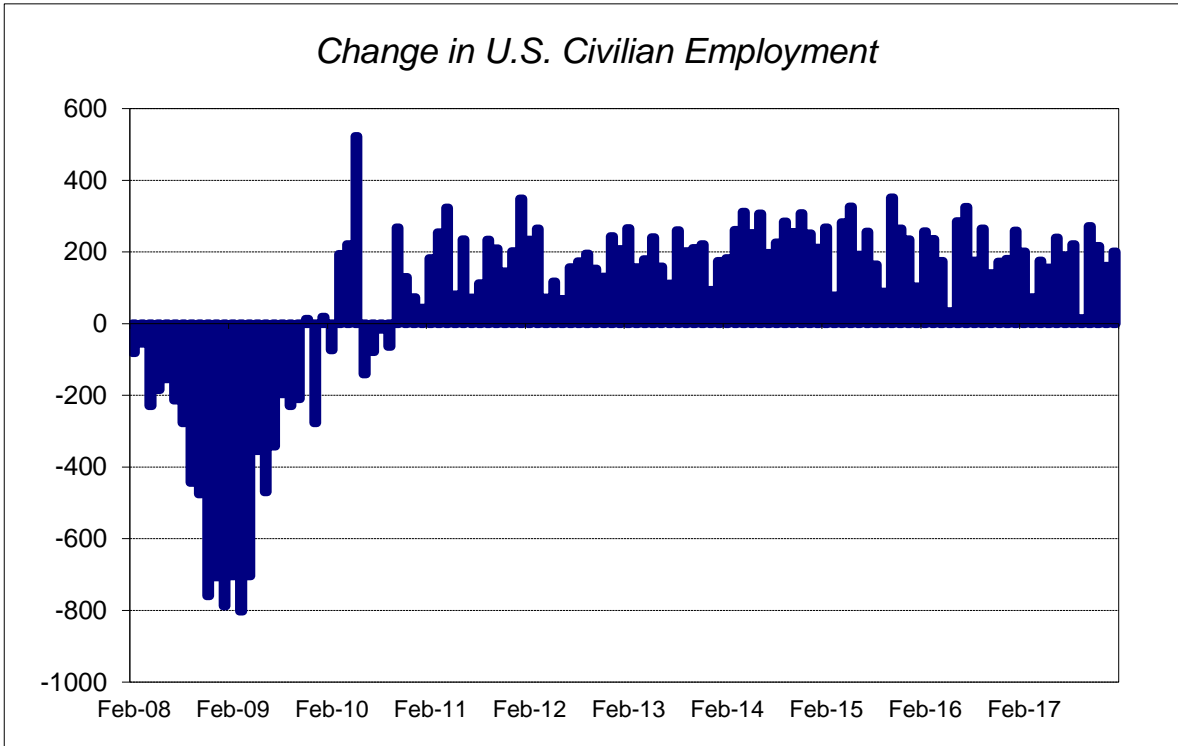
Source: The Conference Board



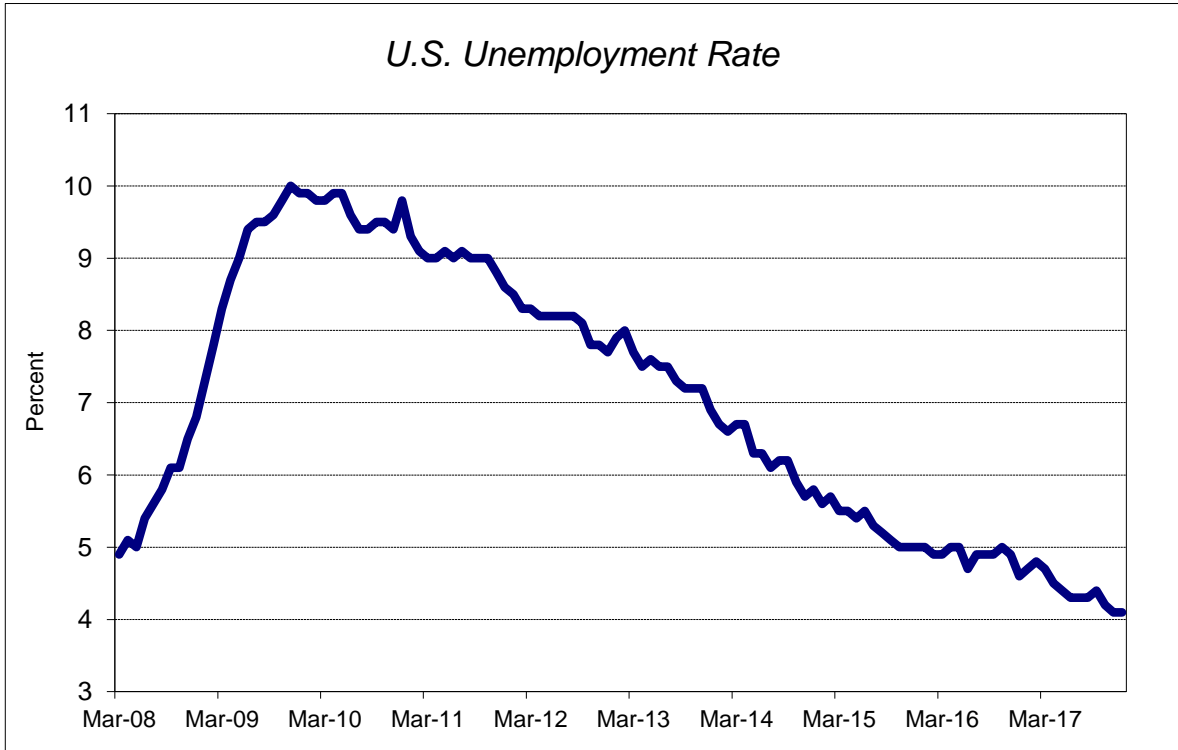
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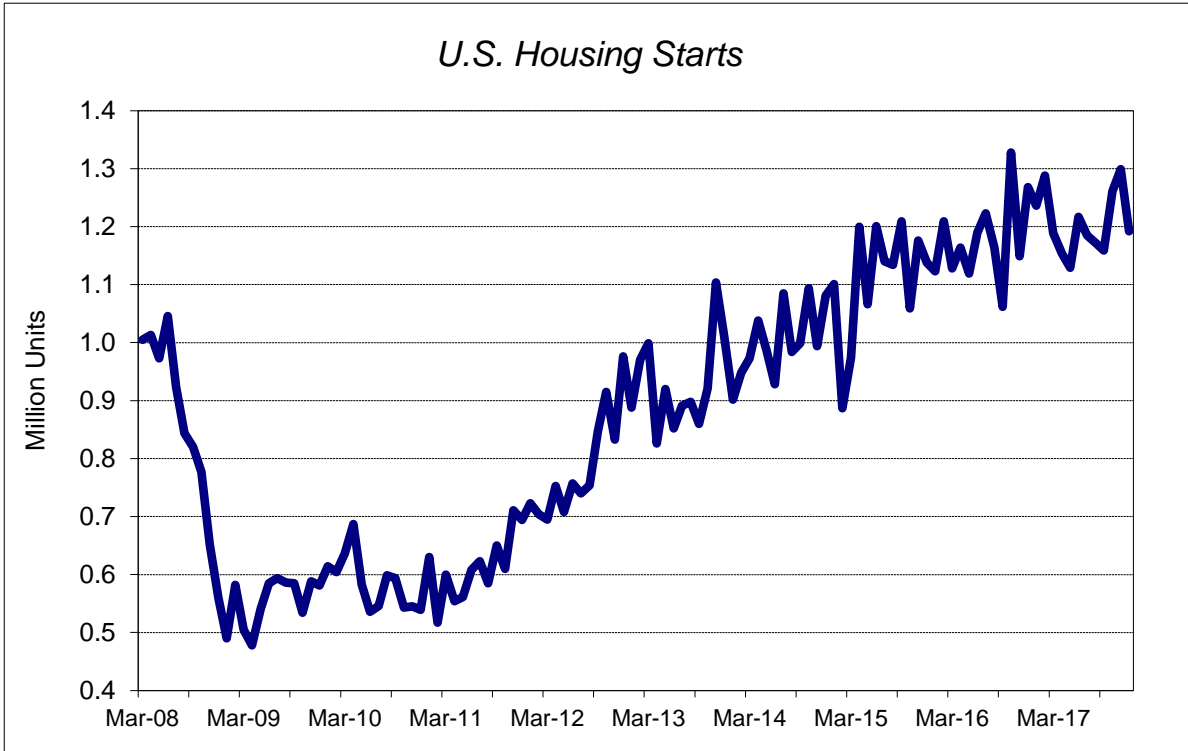
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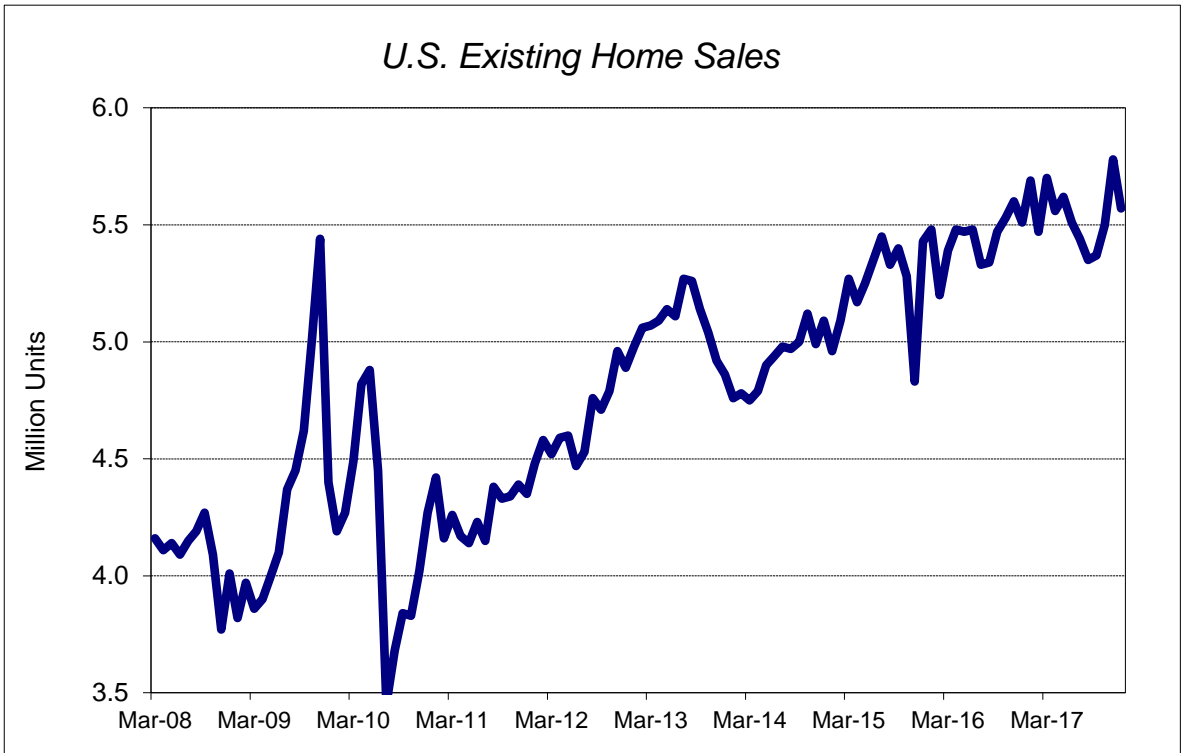
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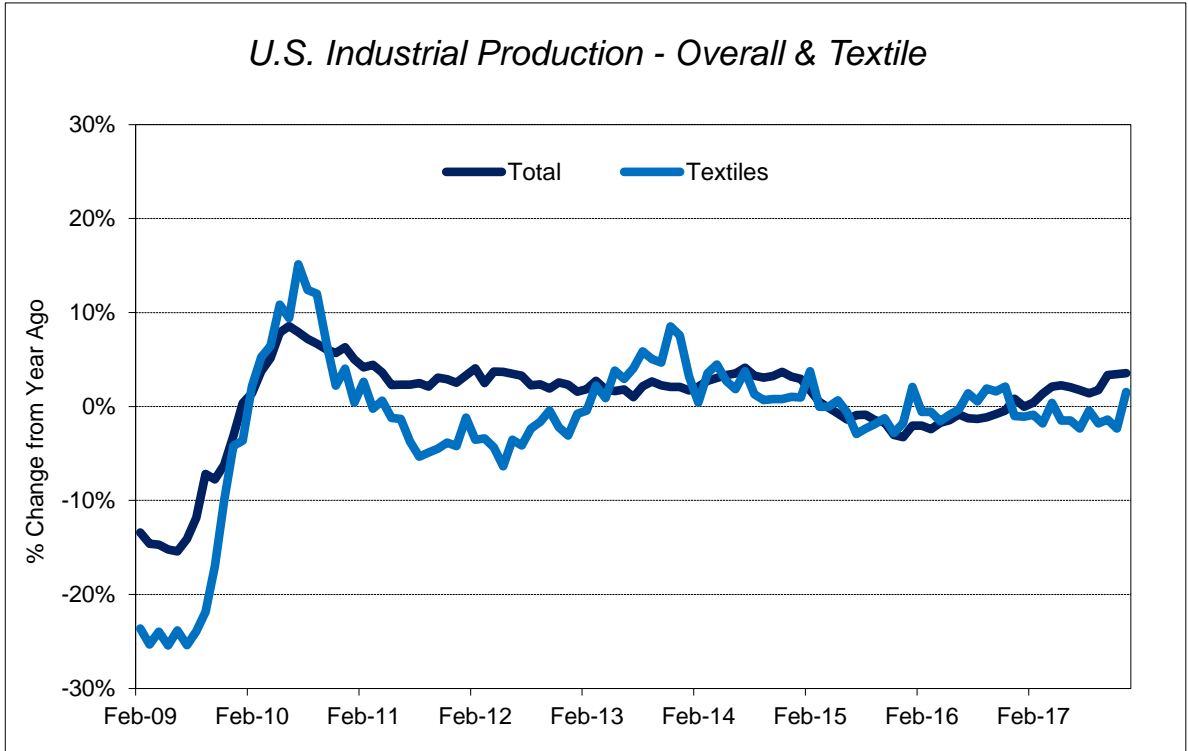
Seasonally Adjusted Annual Rate; Source: Department of Commerce



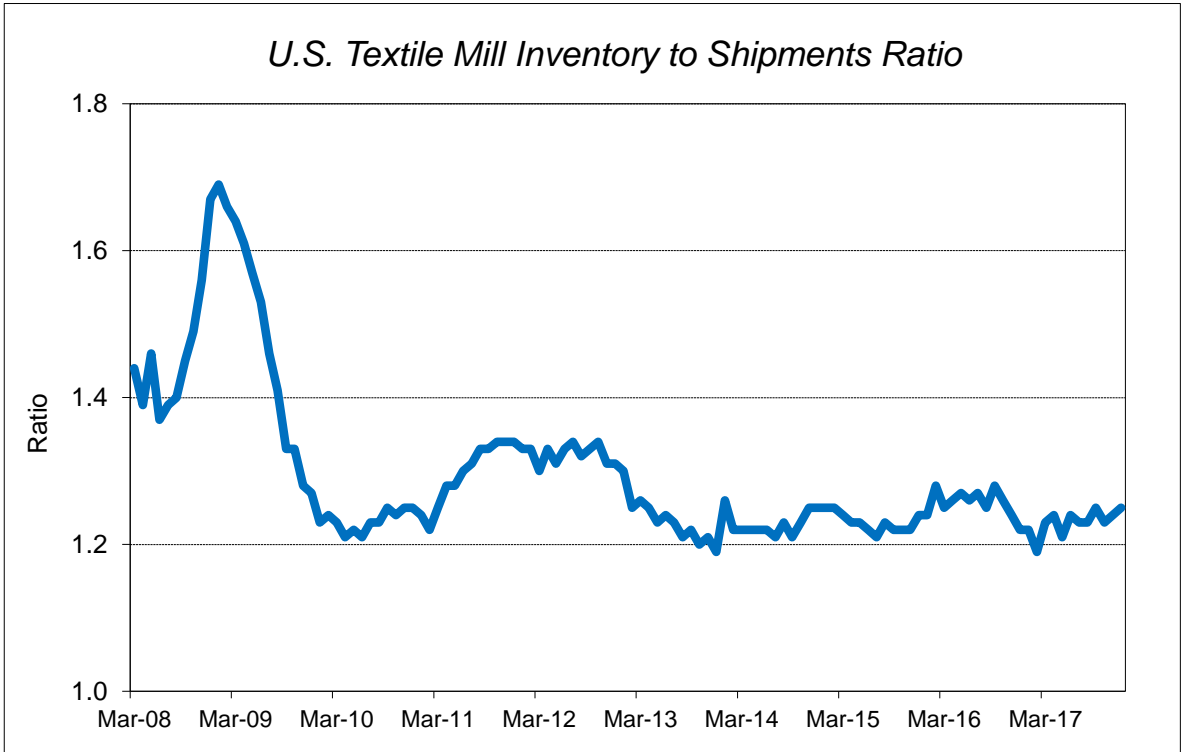
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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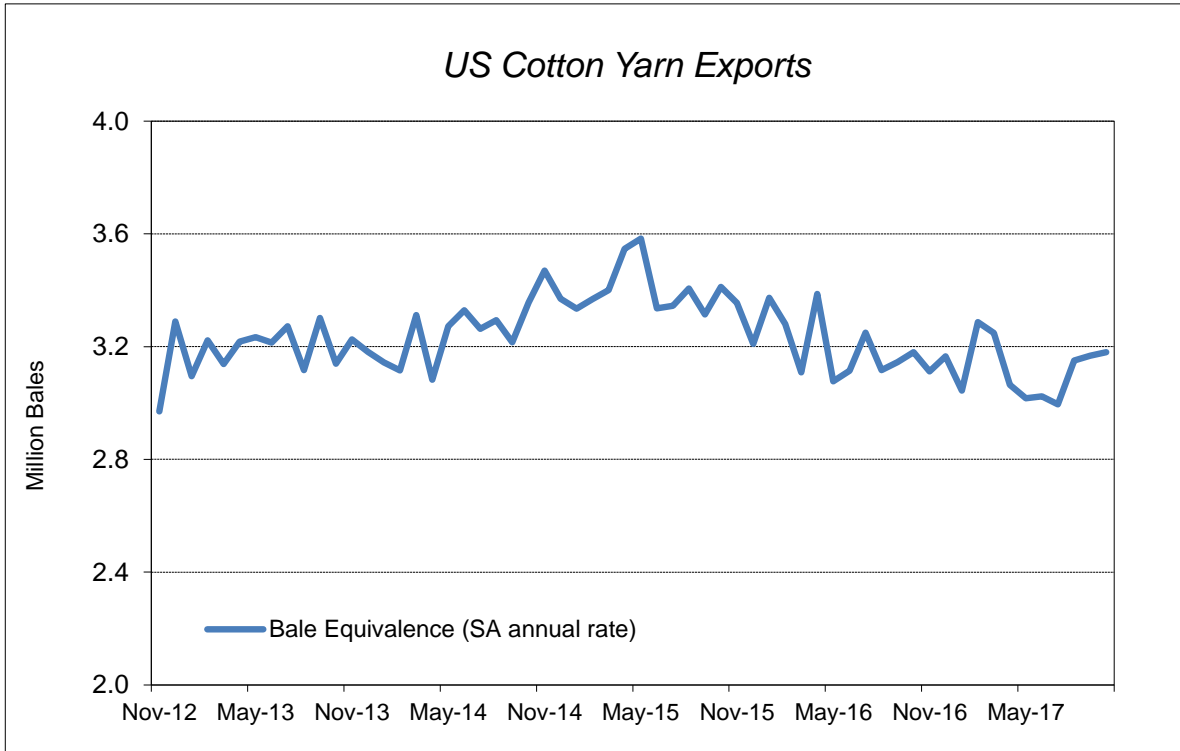
Source: Federal Reserve. Historical data revised to 1997 baseline.



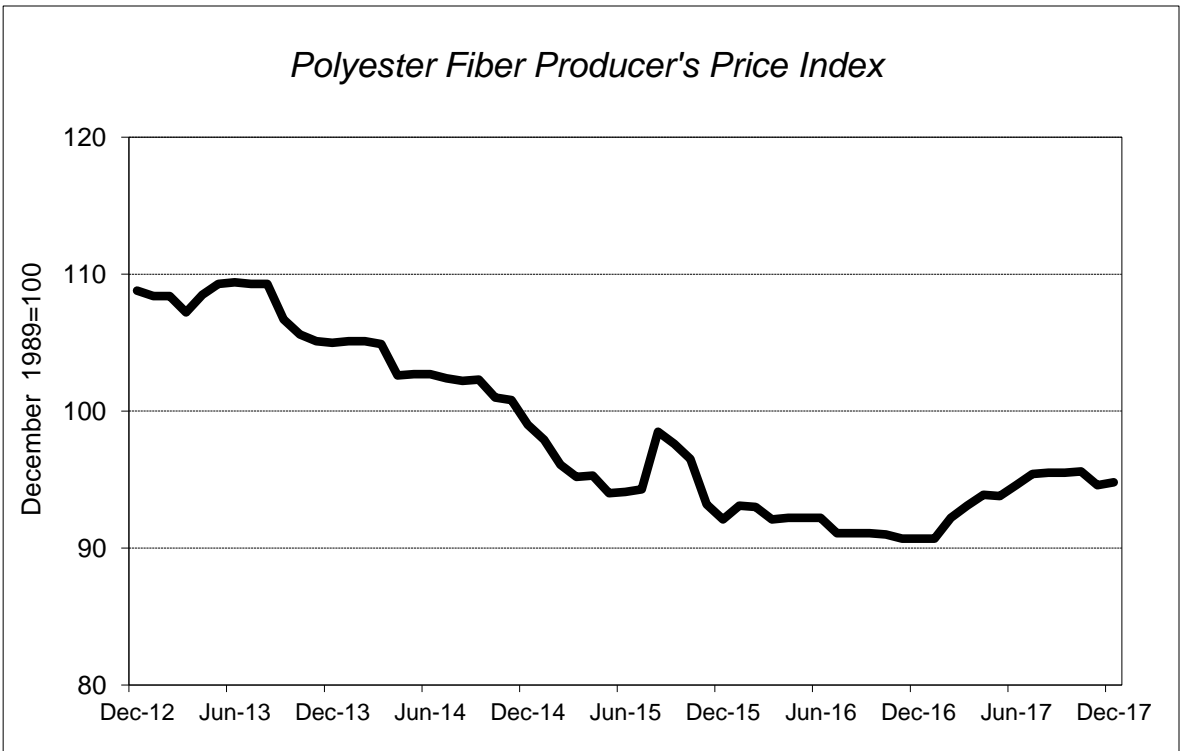
Seasonally Adjusted; Source: Department of Commerce

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Seasonally Adjusted Annual Rate
 Source: USDA ERS



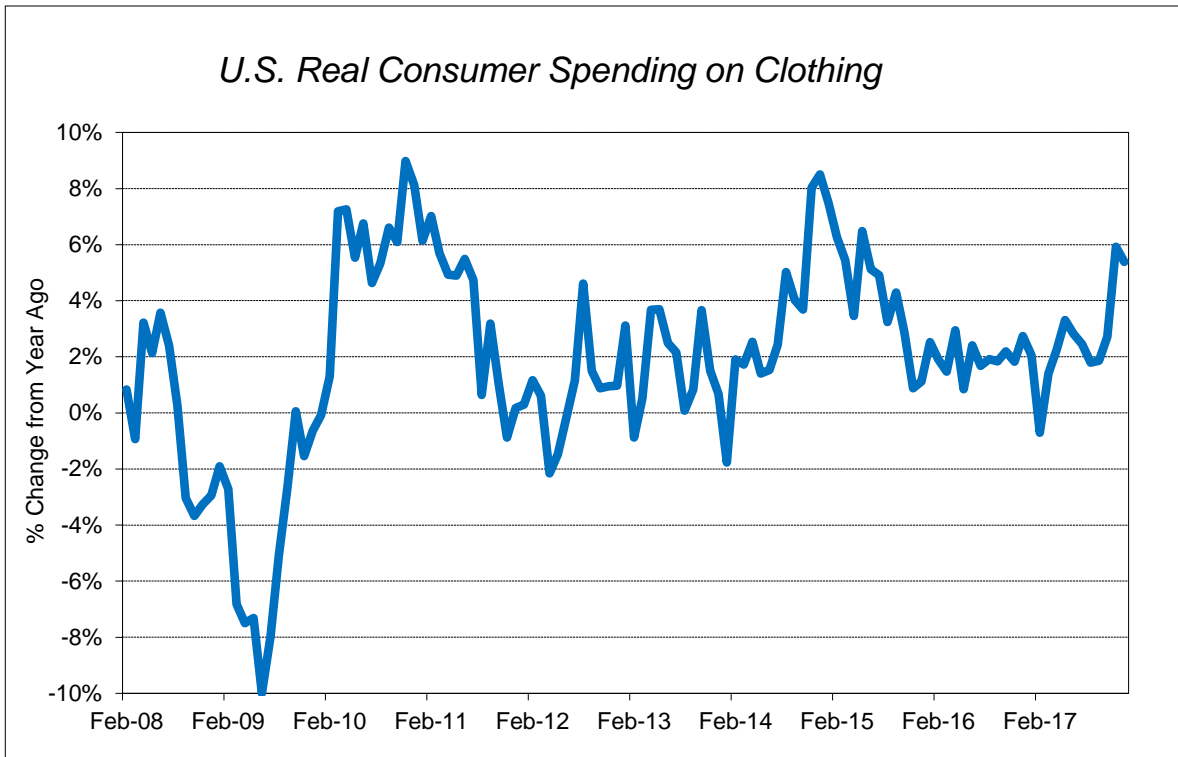
Source: Bureau of Labor Statistics

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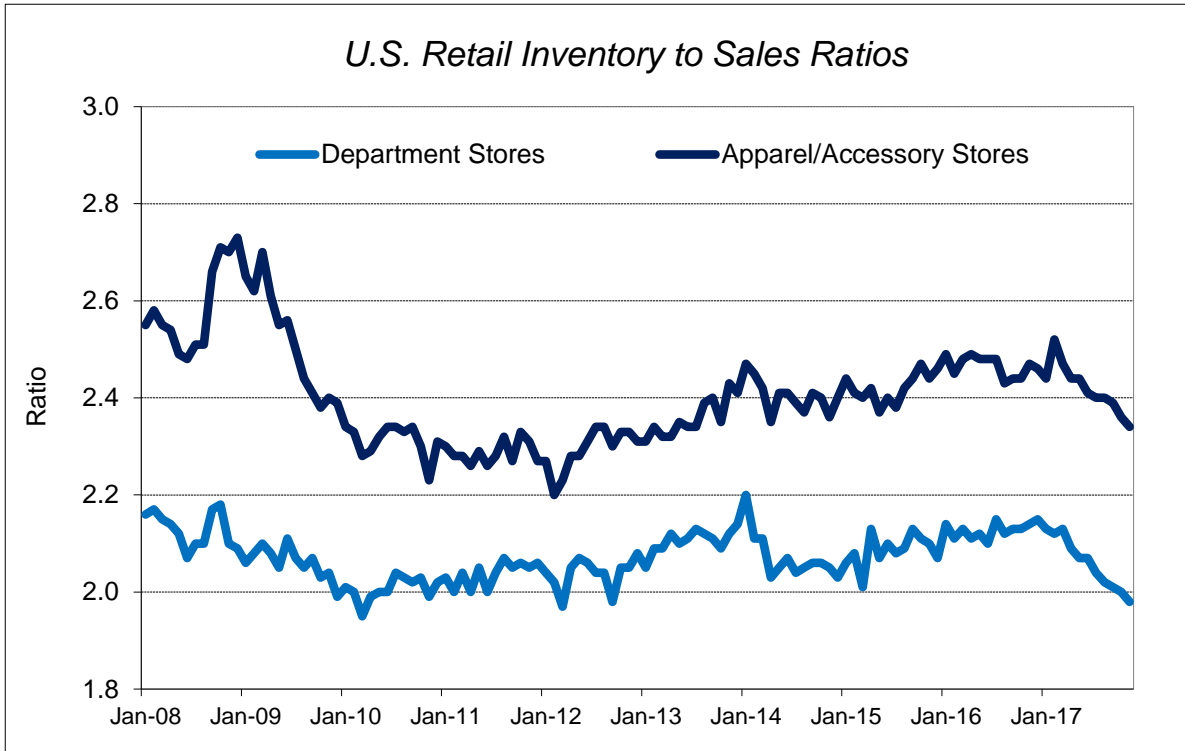
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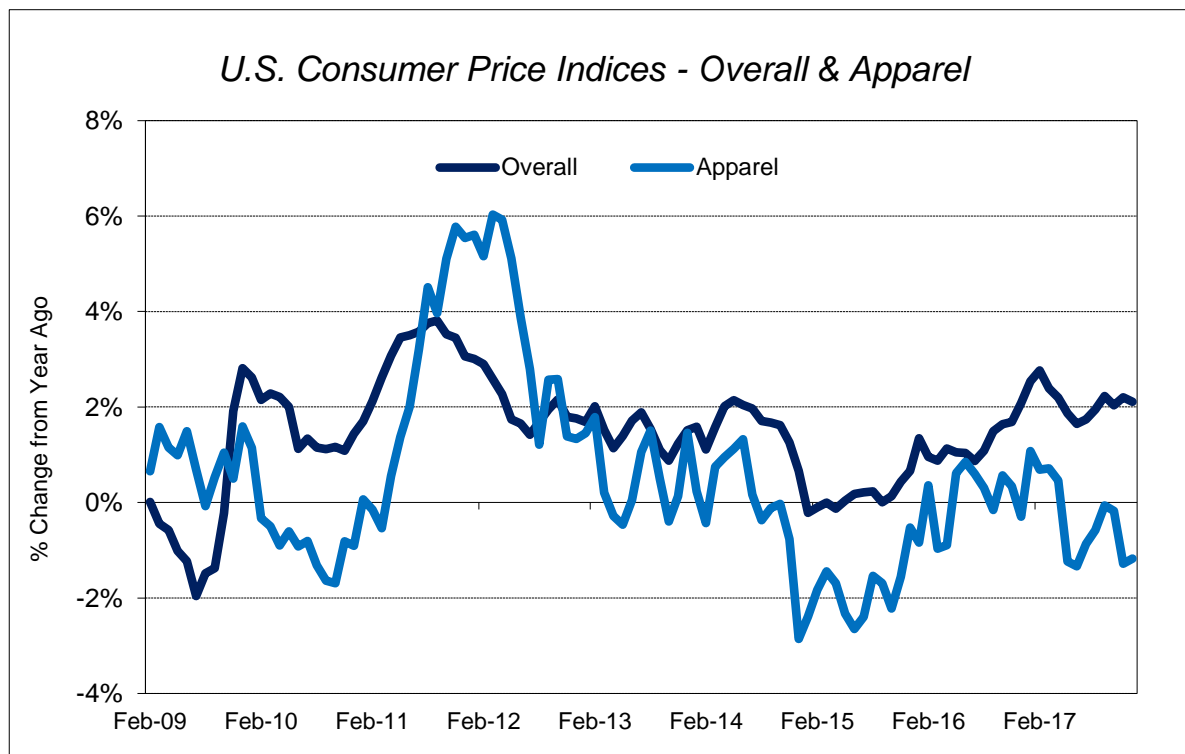
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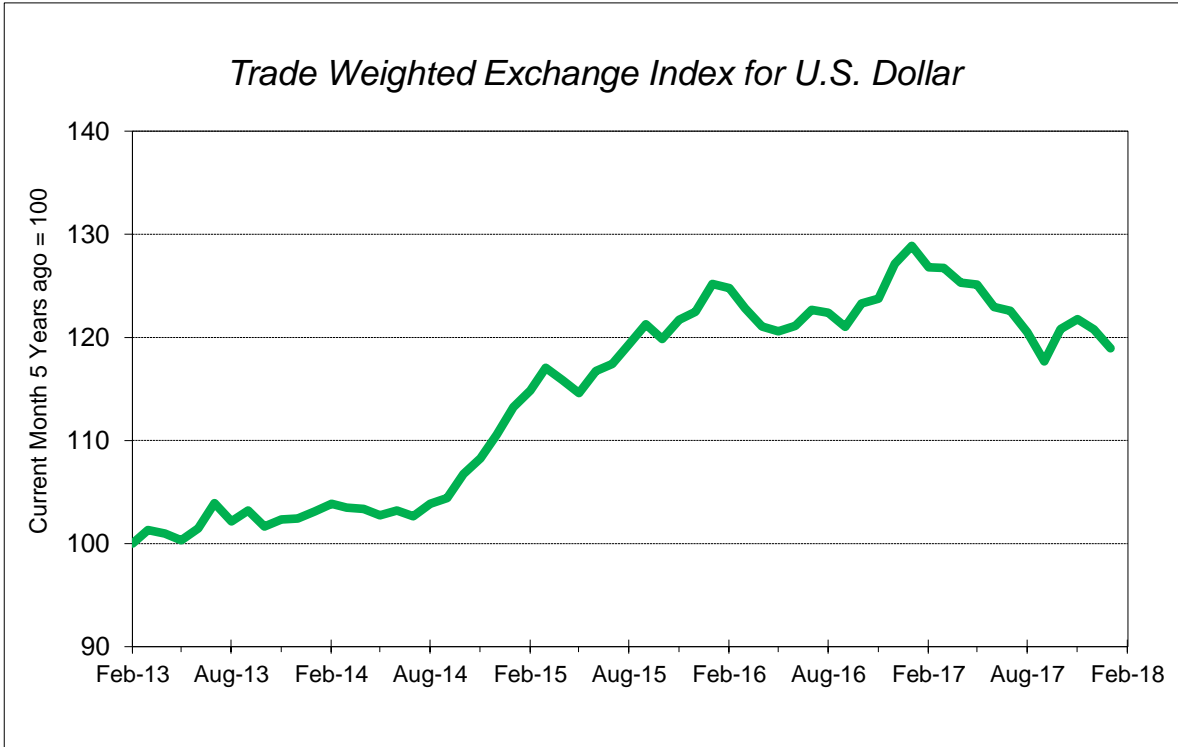
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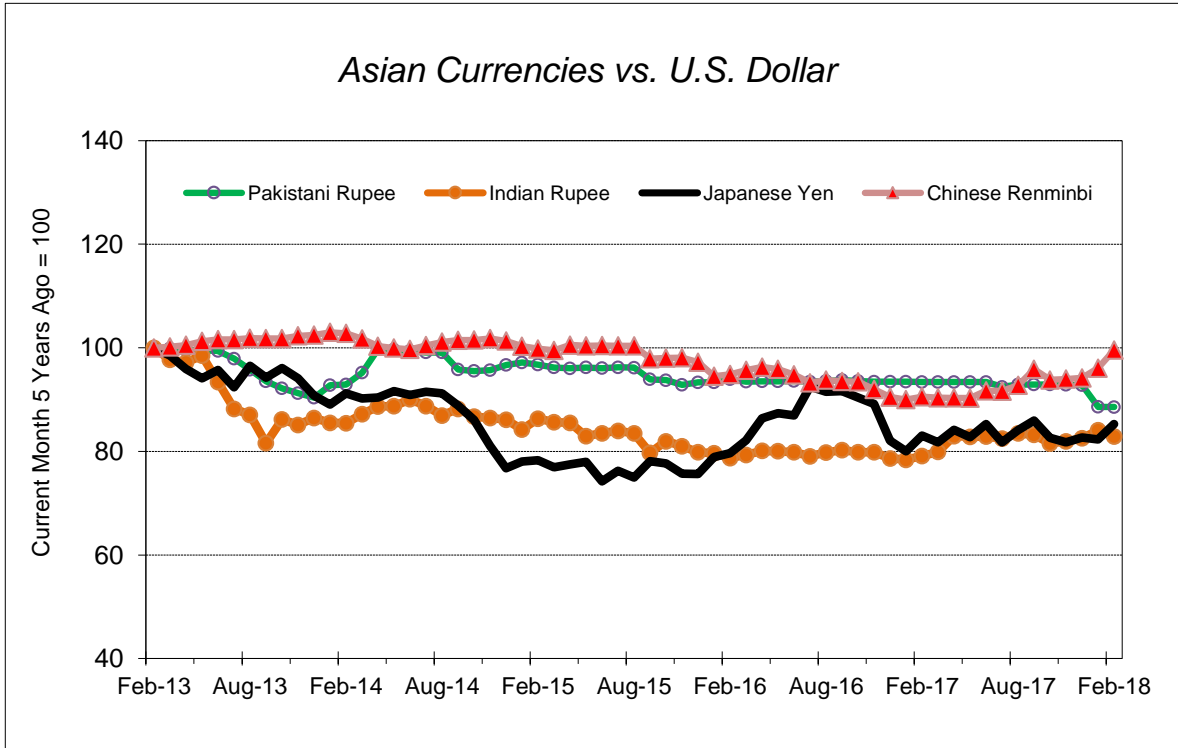
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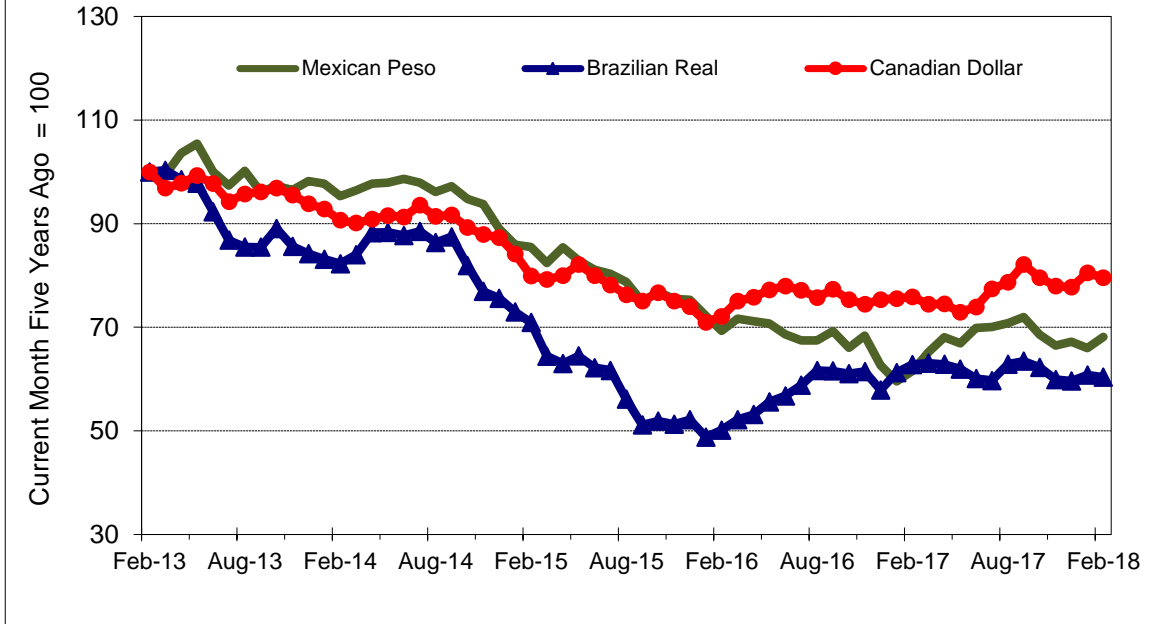


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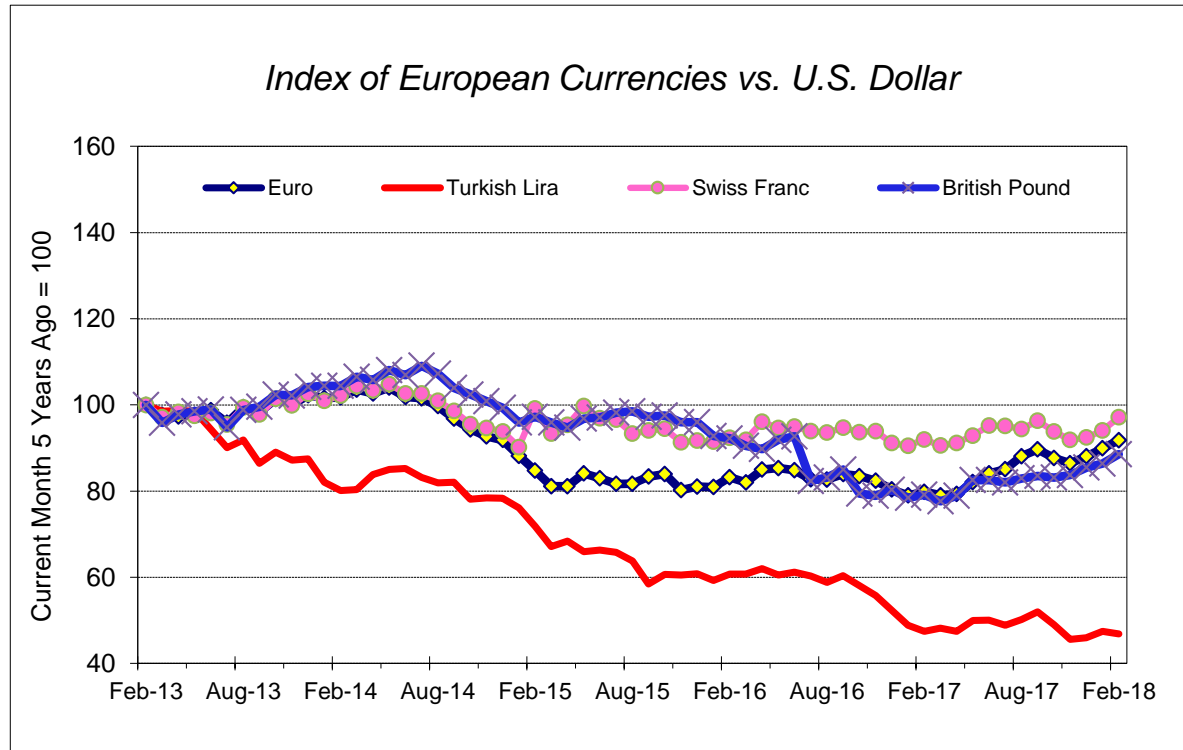


North & South American Currencies vs. U.S. Dollar



Source: Reuters

Index of European Currencies vs. U.S. Dollar



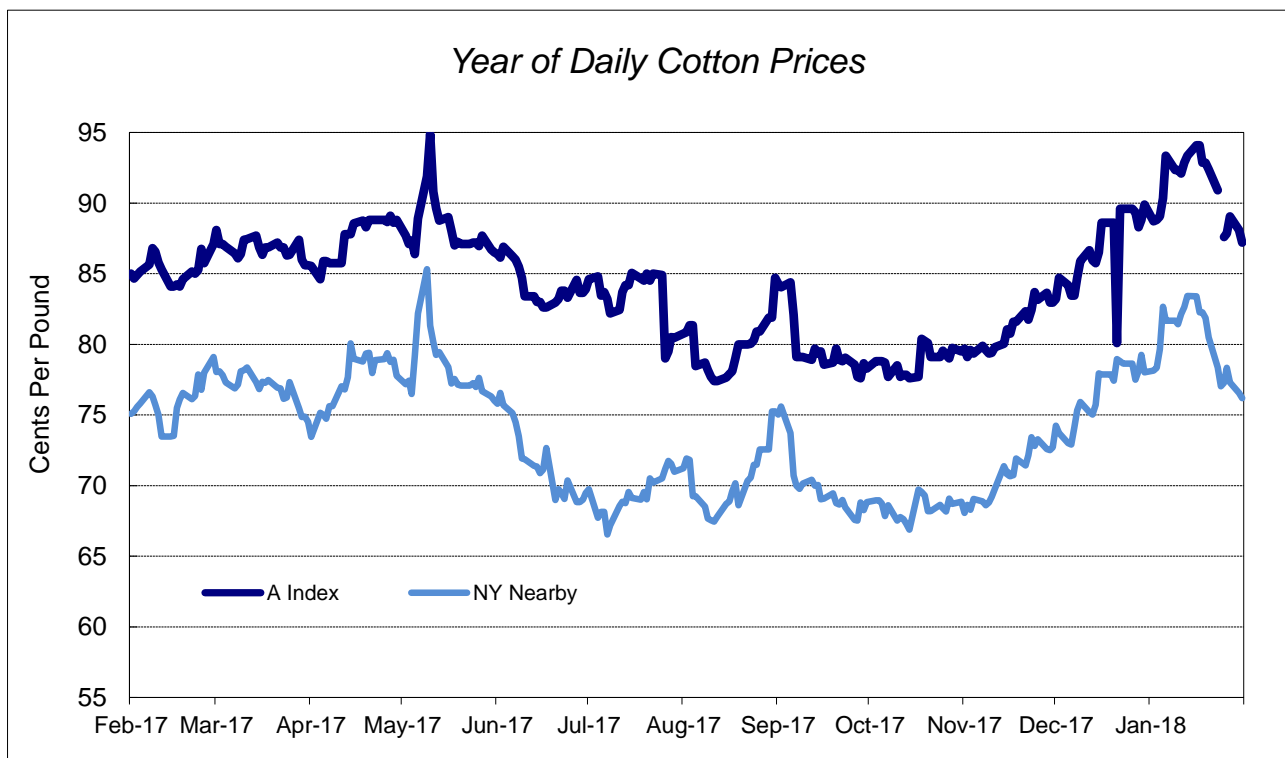
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U.S. Balance Sheet

million 480 lb. bales	2013/14	2014/15	2015/16	2016/17	2017/18 December	2017/18 January
Beginning Stocks	3.8	2.4	3.7	3.8	2.8	2.8
Production	12.9	16.3	12.9	17.2	21.4	21.3
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.7	18.7	16.6	21.0	24.2	24.0
Mill-Use	3.6	3.6	3.5	3.3	3.4	3.4
Exports	10.5	11.2	9.2	14.9	14.8	14.8
Demand	14.1	14.8	12.6	18.2	18.2	18.2
Ending Stocks	2.4	3.7	3.8	2.8	5.8	5.7
Stocks/Use Ratio	16.7%	24.6%	30.2%	15.1%	32.0%	31.4%



Sources: ICE Futures U.S. & Cotton Outlook

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