

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



June 2018

www.cottoninc.com

Macroeconomic Overview: This month marks the ninth year of the current U.S. economic expansion, making it the second longest in history. Most macroeconomic indicators suggest the U.S. economy continues to perform, and there are no obvious signs of an impending recession. The labor market continues to add jobs and the unemployment rate has fallen to the lowest level in nearly two decades.

Outside the U.S., economic growth has been less robust. Purchasing manager indexes (PMIs), which are a more contemporaneous measure of aggregate economic activity than GDP (releases of GDP data always lag the present by several months), representing global economic growth have signaled some weakening. Last month, PMIs for Europe posted the lowest readings in more than a year. Recent European political developments cast additional uncertainty on the outlook. In Italy, last month's election results gave rise to fears that an anti-E.U. government could emerge in the country. In turn, this has been seen as a possible threat to the sustainability of the euro. Combined with expectations that the Federal Reserve will further increase interest rates this year (one increase already occurred in March, two more increases are expected this year), these fears contributed to strengthening of the dollar. Since mid-April, the dollar has gained 5% against the world's second most-commonly traded currency (the euro). Movement in other exchange rates has been even more dramatic (e.g., Turkey, where the lira has lost 13% against the dollar since early May).

Volatility in exchange rates is a source of uncertainty for trade. The series of announcements regarding the imposition of tariffs around the world is another. Recently, the U.S. indicated it would remove the temporary exemptions that protected Canada, Mexico, and the E.U. from the U.S. decision (initially made in March) to increase tariffs on steel and aluminum imports. In response, Canada, Mexico, and the E.U. have promised to impose retaliatory tariffs on goods they import from the U.S. In addition, the E.U. pledged to launch a complaint against the U.S. in the World Trade Organization (WTO). The WTO is a forum designed to enable international trade, and provides a framework to settle trade disputes. When they join, WTO member countries sign agreements outlining a set of trade-related promises. When these promises are found to be broken, the WTO can issue judgments in support of counter measures. India, which was not one of the group of countries temporarily excluded, has already initiated the complaint process with the WTO against U.S. steel and aluminum tariffs.

Employment: The U.S. economy was estimated to have added 223,000 jobs in May. Revisions to existing figures were mixed, with the number for March increasing from +135,000 to +155,000 and the number for April decreasing from +164,000 to +159,000. In combination, these updates indicated that 15,000 more jobs were added in recent months than previously believed. Year-to-date, monthly job creation has averaged 207,000. Over the same time period last year, job growth averaged 172,000.

The unemployment rate decreased from 3.9% to 3.8% month-over-month in May. This ties the lowest level since 2000, but is otherwise the lowest level since the late 1960s. Year-over-year, the unemployment rate was 0.5 percentage lower, with 2.5 million more people working and 772,000 fewer people unemployed than in May 2017.

Wages increased at a 2.7% annual rate in May. Average gains year-to-date have been 2.6%. Over the same time period last year, wage growth averaged 2.5%. In addition to data regarding job growth, unemployment and wages, the Bureau of Labor Statistics also tracks the number of job openings. For the first time on record (job opening data back to 2000), there were more job openings in the U.S. than unemployed people.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence increased 2.4 points, to a level of 128.0 in May. Recent values for the index rank among the highest recorded (highest values were those with values over 140 that were registered in the year 2000).

Overall consumer spending increased 0.4% and spending on apparel increased 0.3% month-over-month in April. Year-over-year, growth in overall spending was 2.7% and growth in spending on apparel was 1.6% in April. Year-to-date (January-April), overall spending was 2.6% higher and apparel spending was 2.7% higher. Over the same time period last year, growth in overall spending was 2.8% and growth in apparel spending was 1.6%.

Consumer Prices & Import Data: Retail prices for U.S. apparel increased 0.6% month-over-month and 1.1% year-over-year. Average sourcing costs for cotton-dominant apparel imports decreased 1.1% month-over-month but were 4.4% higher year-over-year.

U.S. Macroeconomic & Cotton Supply Chain Charts

Macroeconomic Indicators	Industry & Textiles	Retail	Currencies	Cotton
GDP Growth	Leading Indicators	Consumer Spending	Weighted Index	U.S. Balance Sheet
Interest Rates	Consumer Conf.	Inventory/Sales	Asia	Fiber Prices
ISM Indices	Employment	Consumer Prices	The Americas	
	Housing	Polyester PPI	Europe	

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U.S. Macroeconomic Indicators & Cotton Prices
June 2018



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q3 : 2017	Q4 : 2017	Q1 : 2018		
Growth in US Real GDP	2.3%	2.1%	2.6%	2.2%	3.2%	2.9%	2.2%	% Chg. Quarter/Quarter	Department of Commerce

Monthly 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		
ISM Index of Manufacturing Activity	54.2	53.9	59.2	59.7	60.8	59.3	57.3	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.2	56.5	58.6	59.4	59.5	58.8	56.8	Index	Institute for Supply Management
Consumer Confidence	98.9	108.2	126.5	127.1	130.0	127.0	125.6	Index	The Conference Board
Change in Non-Farm Payrolls	209.6	204.0	219.5	218.3	324	155	159	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.4%	4.7%	4.1%	4.1%	4.1%	4.1%	3.9%	Rate	Bureau of Labor Statistics

Monthly 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		
US Interest Rates									
Federal Funds	0.4%	0.6%	1.3%	1.4%	1.4%	1.5%	1.7%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.2%	2.6%	2.8%	2.9%	2.8%	2.9%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	98.5	101.8	107.4	108.5	108.6	109.0	109.4	Index	The Conference Board
Housing Starts	11.1	11.9	12.9	13.0	1.3	1.3	#N/A	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.5	5.5	5.6	5.5	#N/A	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

Monthly 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		
US Industrial Production	103.7	103.4	106.0	106.5	106.5	107.3	#N/A	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	98.0	96.0	97.3	99.4	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Monthly Series with Latest Data for March	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	3.1	3.2	3.1	3.1	3.2	3.0	million 480lb bales	USDA ERS

Monthly Series with Latest Data for March	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
US Textile Mill Inventory/Shipments Ratio	1.26	1.30	1.30	1.31	1.31	1.30	1.31	Ratio	Department of Commerce

Retail Data

Monthly 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		
US Real Consumer Spending									
All Goods and Services	2.8%	2.9%	2.7%	2.6%	2.7%	2.4%	2.7%	% Chg. Year/Year	Department of Commerce
Clothing and Shoes	2.8%	2.6%	3.3%	2.8%	3.7%	3.2%	1.6%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.4%	1.4%	2.2%	2.3%	2.3%	2.4%	2.4%	% Chg Year/Year	Bureau of Labor Statistics
Apparel	-0.3%	-0.5%	-0.1%	0.6%	0.6%	0.1%	1.1%	% Chg. Year/Year	Bureau of Labor Statistics

Monthly Series with Latest Data for March	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
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

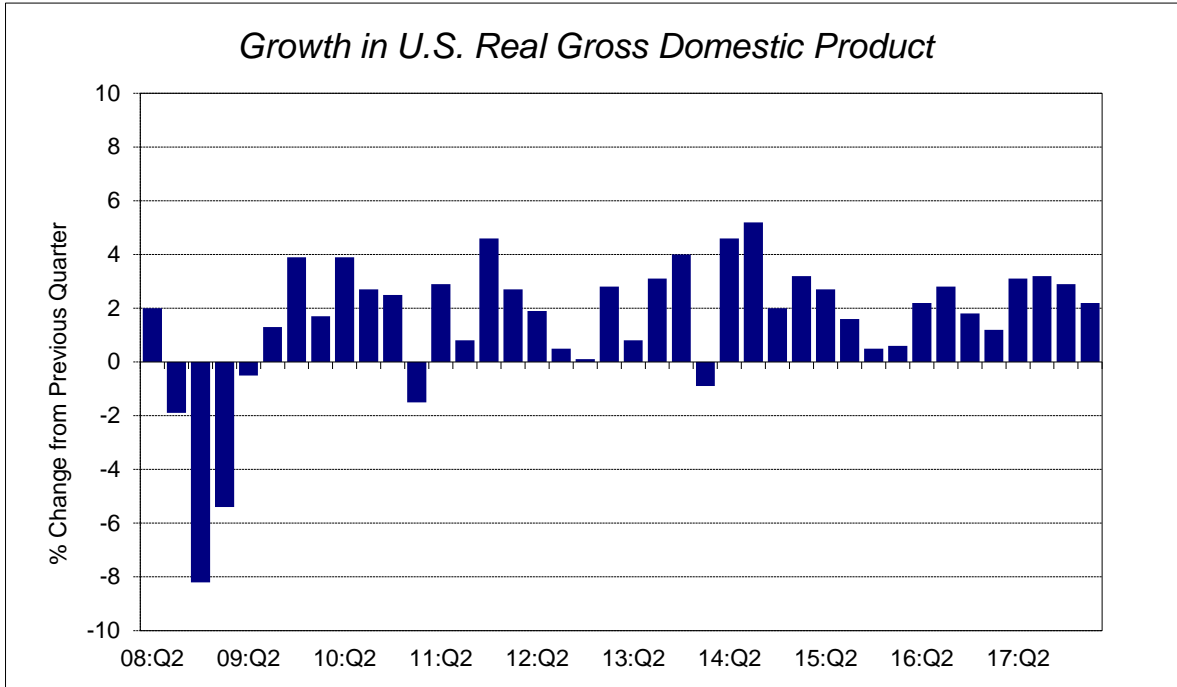
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Daily Cotton Price and Currency Data

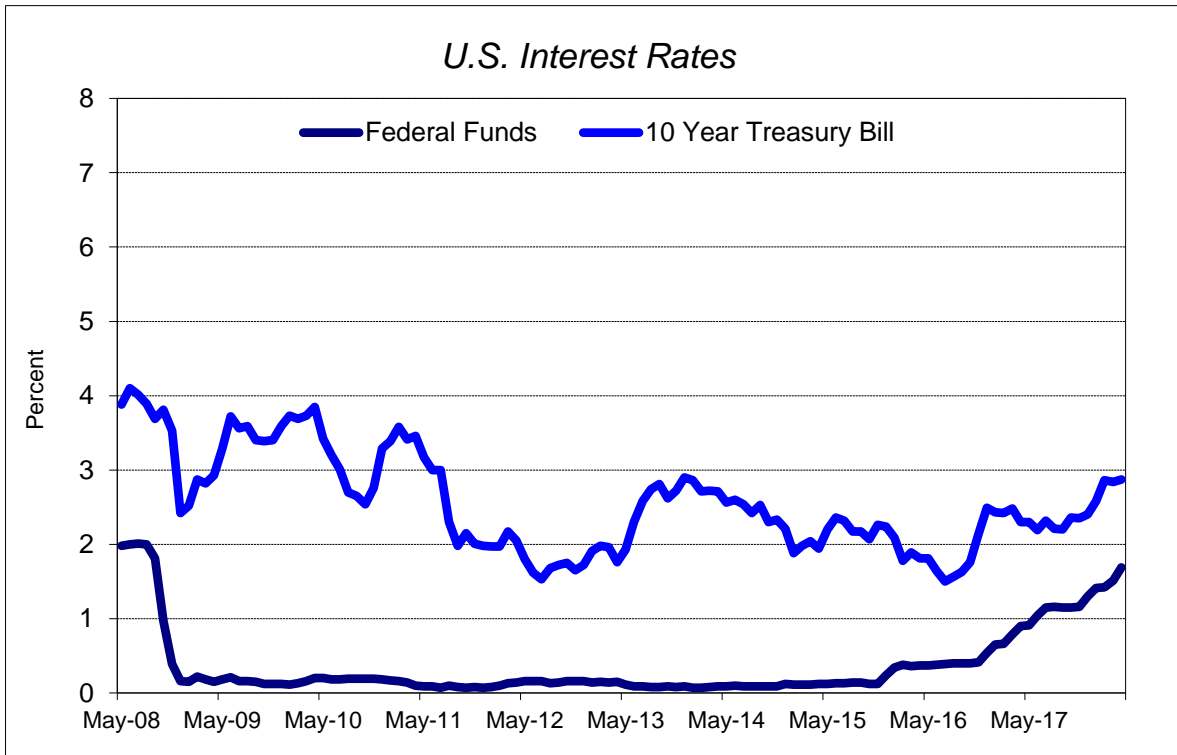
June 2018



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
NY Nearby	72.2	69.4	78.2	81.2	77.9	82.7	83.0	cents/pound	ICE
A Index	80.4	78.4	88.2	90.8	88.3	92.0	92.1	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
Dollar Trade Weighted Exchange Index	114.6	121.0	118.5	117.4	115.9	118.4	117.8	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.40	6.57	6.45	6.31	6.28	6.35	6.30	Chinese Renminbi/US dollar	Reuters
Indian Rupee	63.83	65.65	64.47	64.82	64.07	65.23	65.17	Indian Rupee/US dollar	Reuters
Japanese Yen	110.09	112.87	110.36	107.47	110.39	105.48	106.54	Japanese Yen/US dollar	Reuters
Pakistani Rupee	103.96	105.27	109.64	112.19	110.52	110.55	115.50	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	2.98	3.37	3.27	3.28	3.22	3.26	3.35	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.22	1.30	1.27	1.27	1.24	1.29	1.28	Canadian dollar/US dollar	Reuters
Mexican Peso	16.27	18.18	18.80	18.56	18.54	18.90	18.24	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.69	0.73	0.73	0.71	0.71	0.73	0.71	British Pound/US dollar	Reuters
Euro	0.84	0.89	0.83	0.81	0.80	0.81	0.81	Euro/US dollar	Reuters
Swiss Franc	0.96	0.98	0.96	0.94	0.93	0.94	0.96	Swiss Franc/US dollar	Reuters
Turkish Lira	2.82	3.26	3.85	3.86	3.76	3.82	4.00	Turkish Lira/US dollar	Reuters



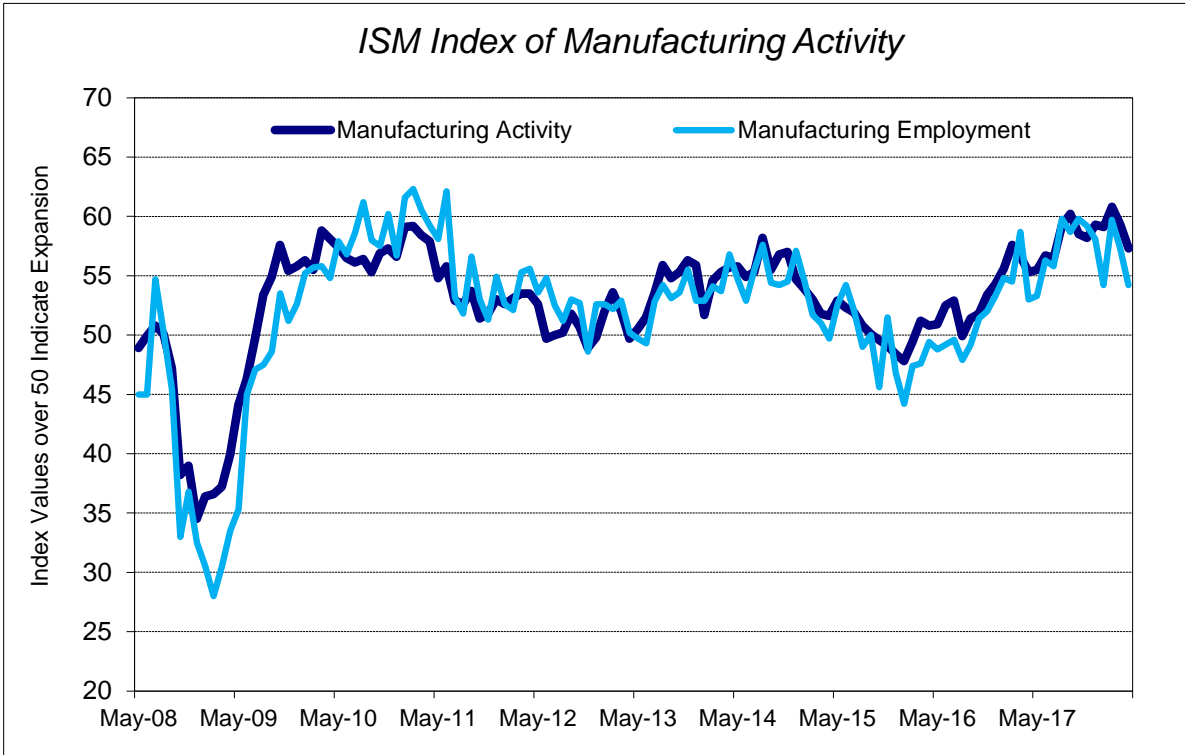
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



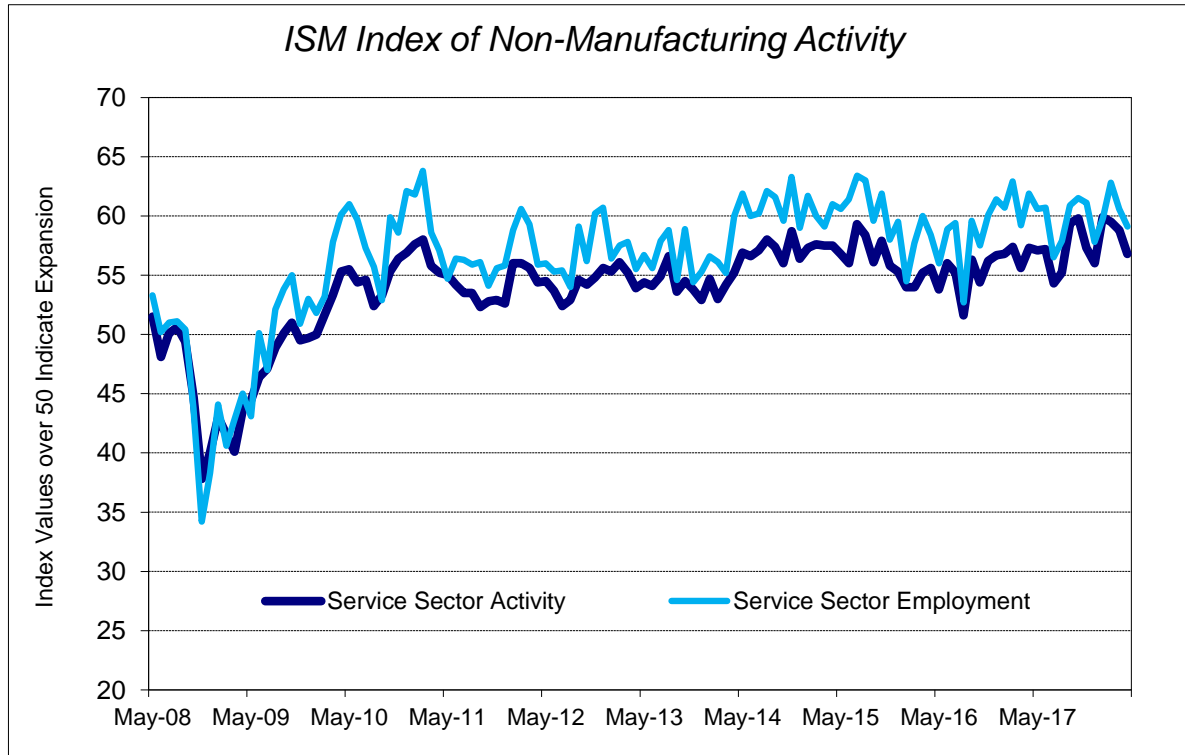
Source: Federal Reserve

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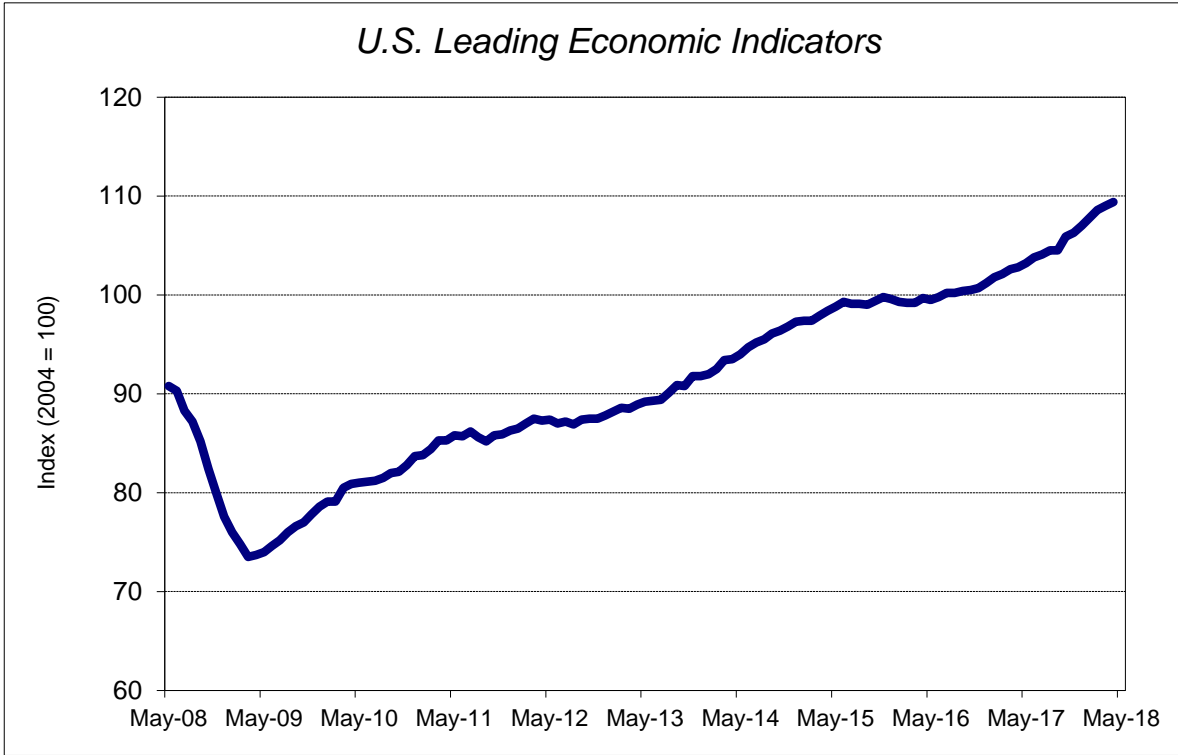
Source: Institute for Supply Chain Management



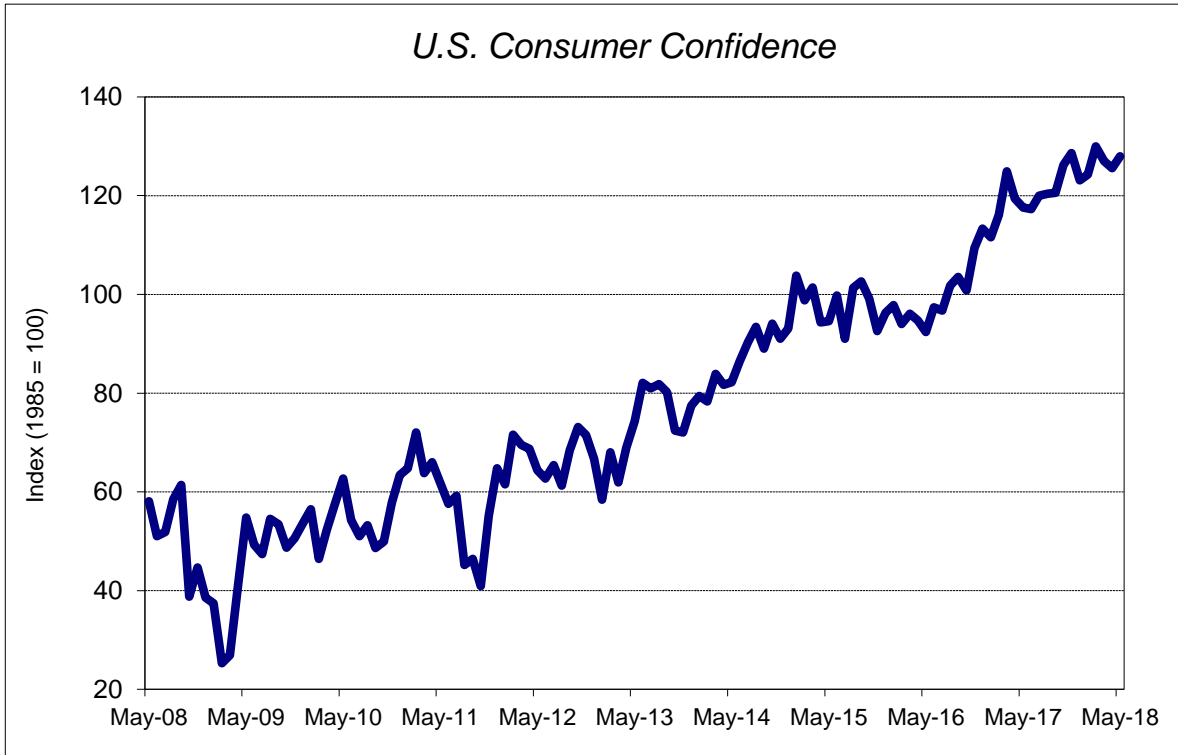
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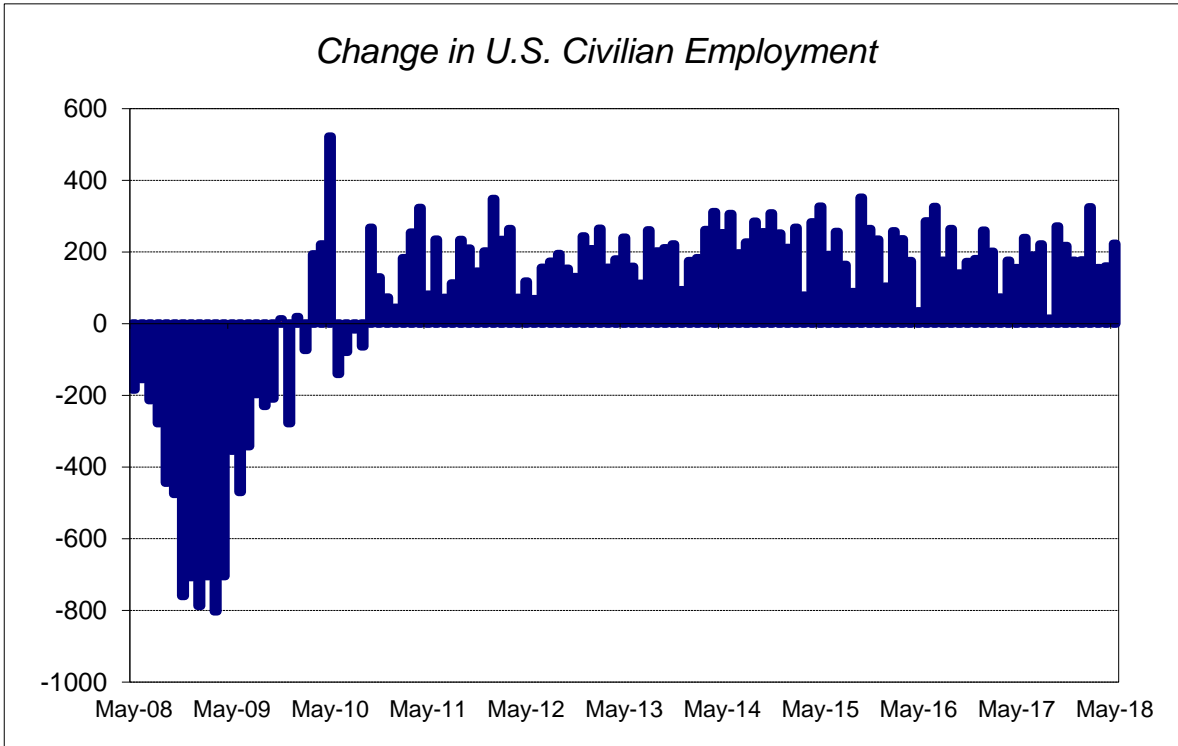
Source: The Conference Board



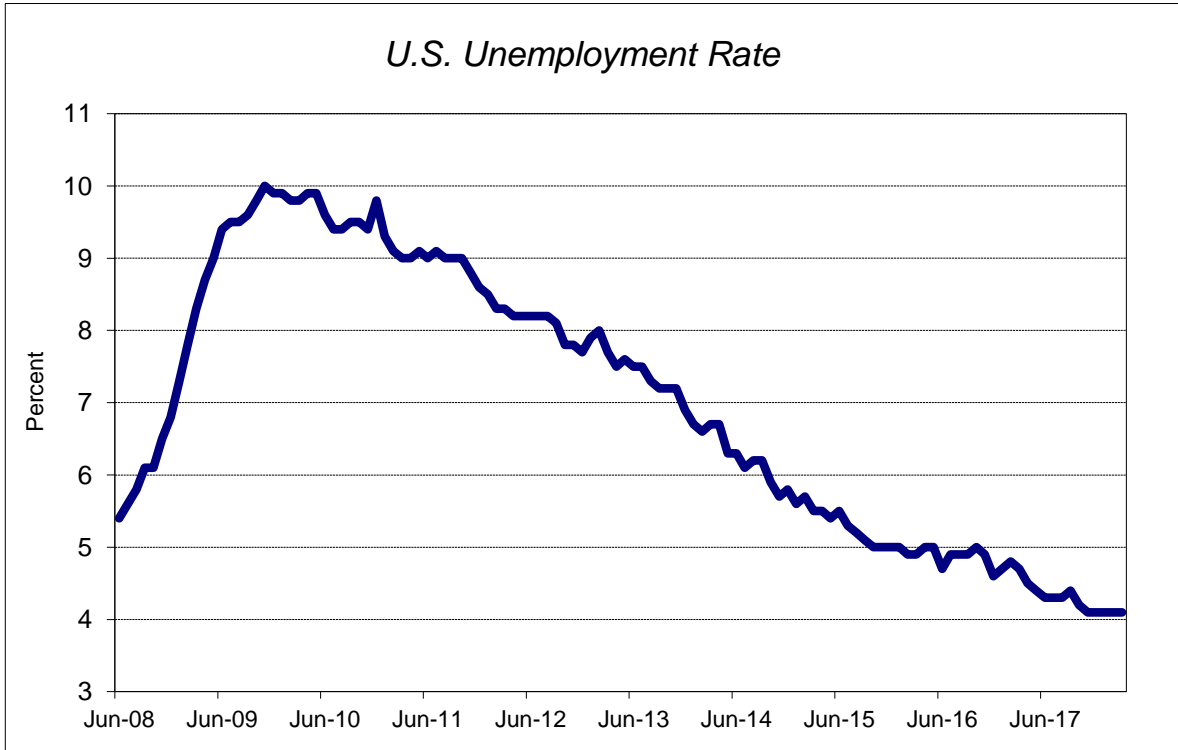
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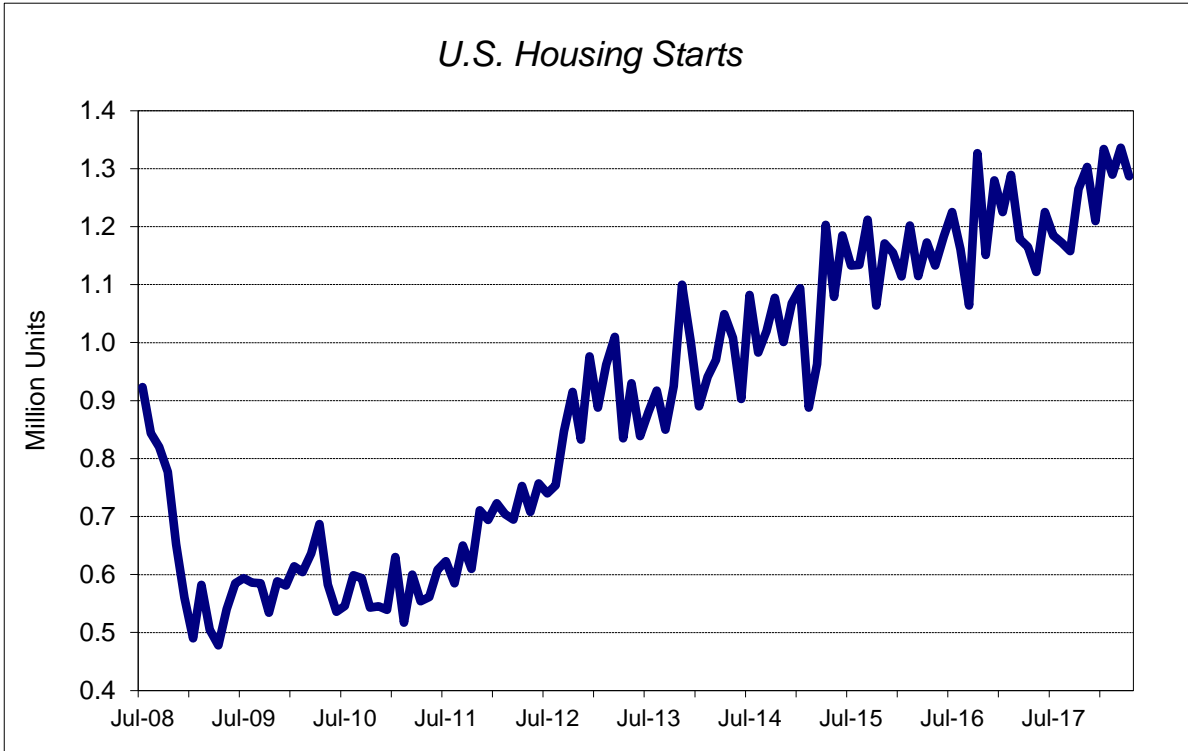
Source: Bureau of Labor Statistics



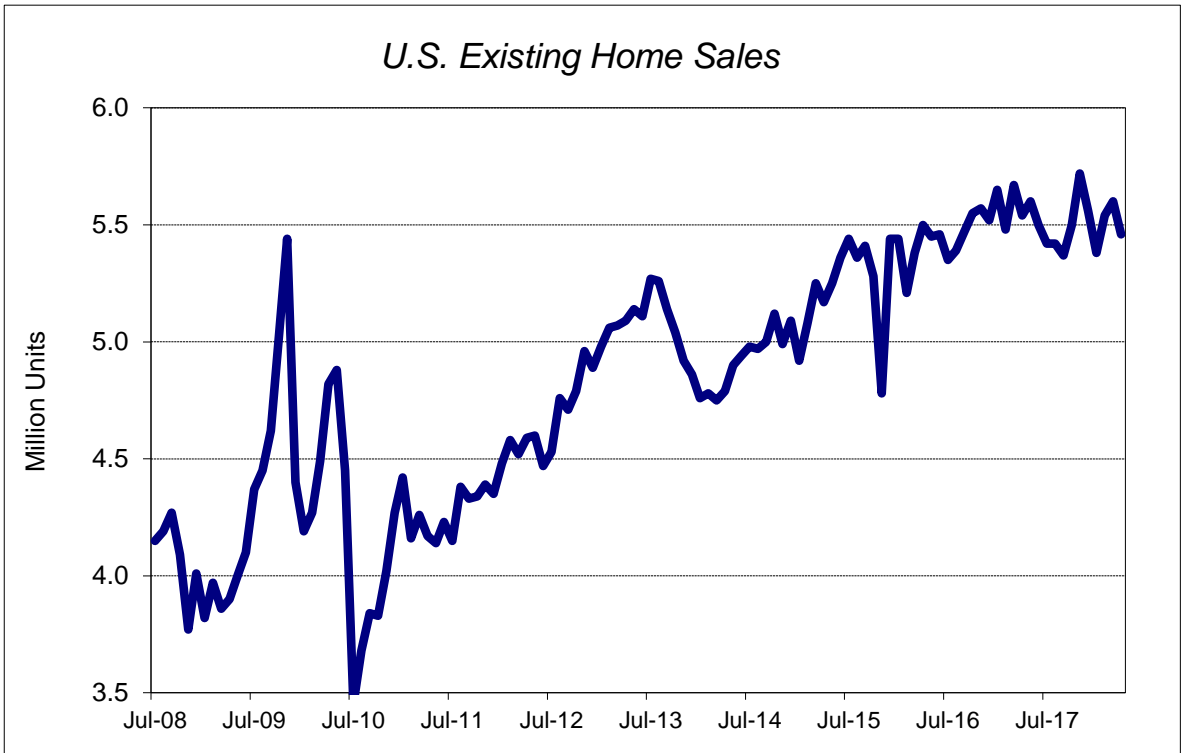
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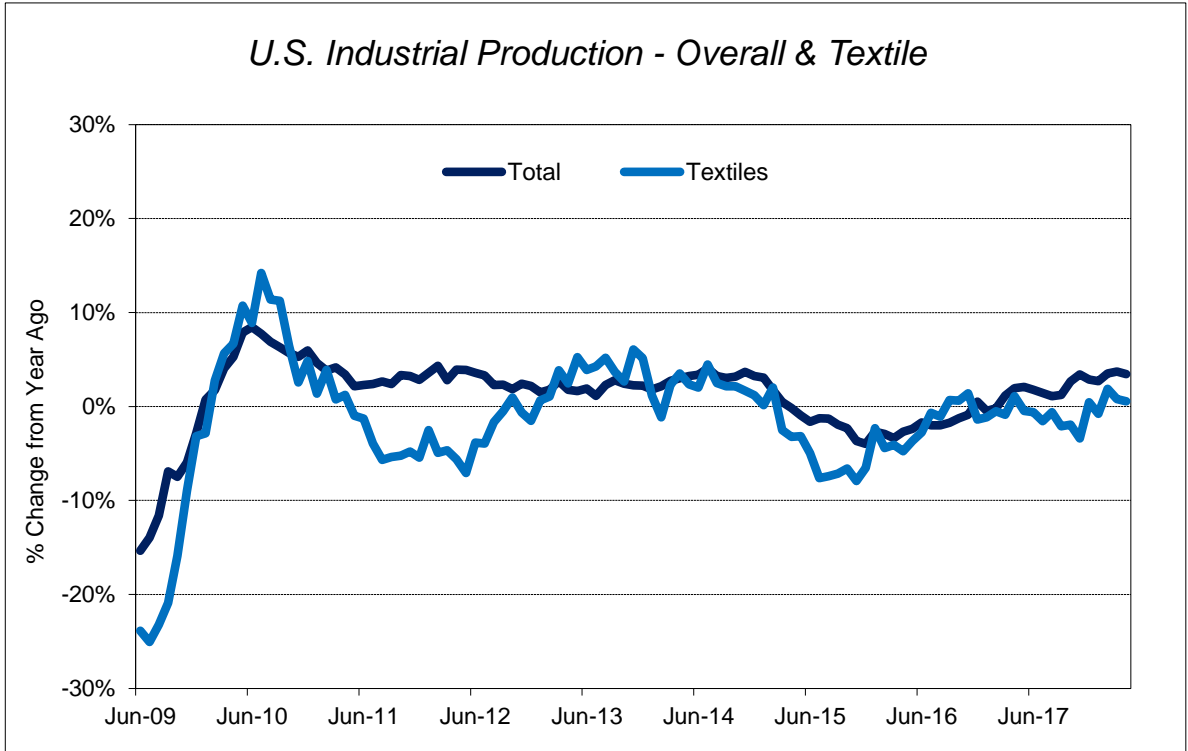
Seasonally Adjusted Annual Rate; Source: Department of Commerce



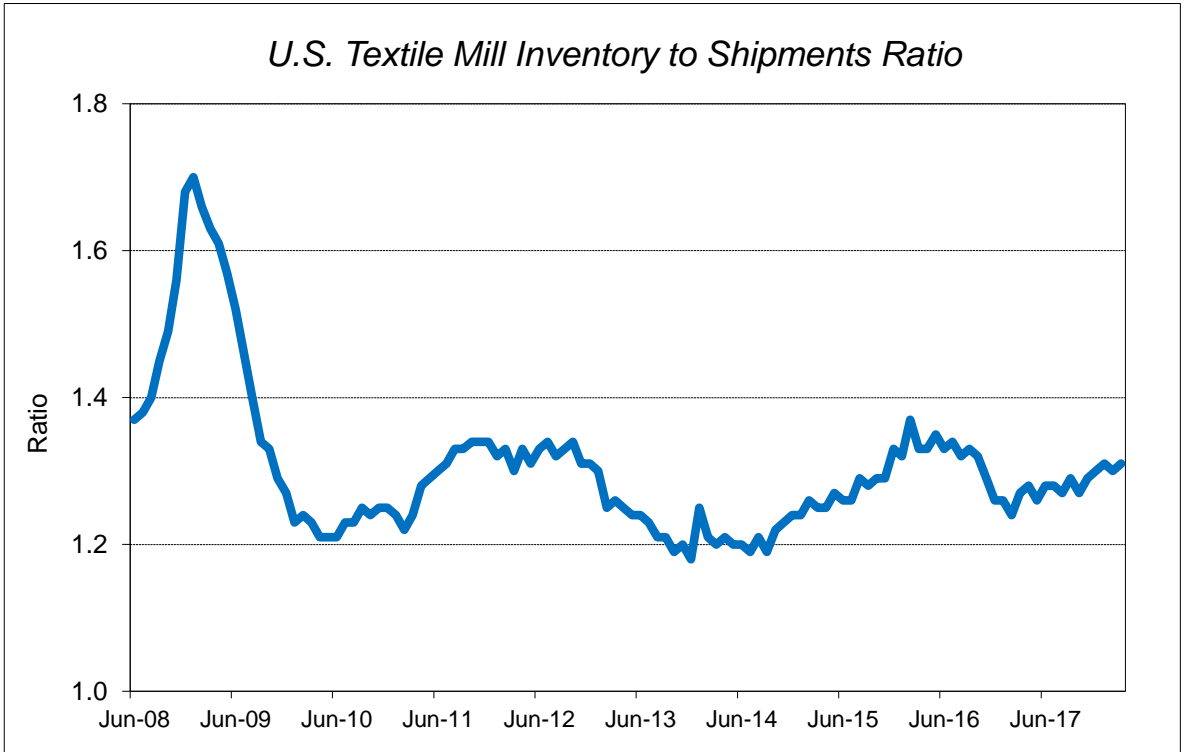
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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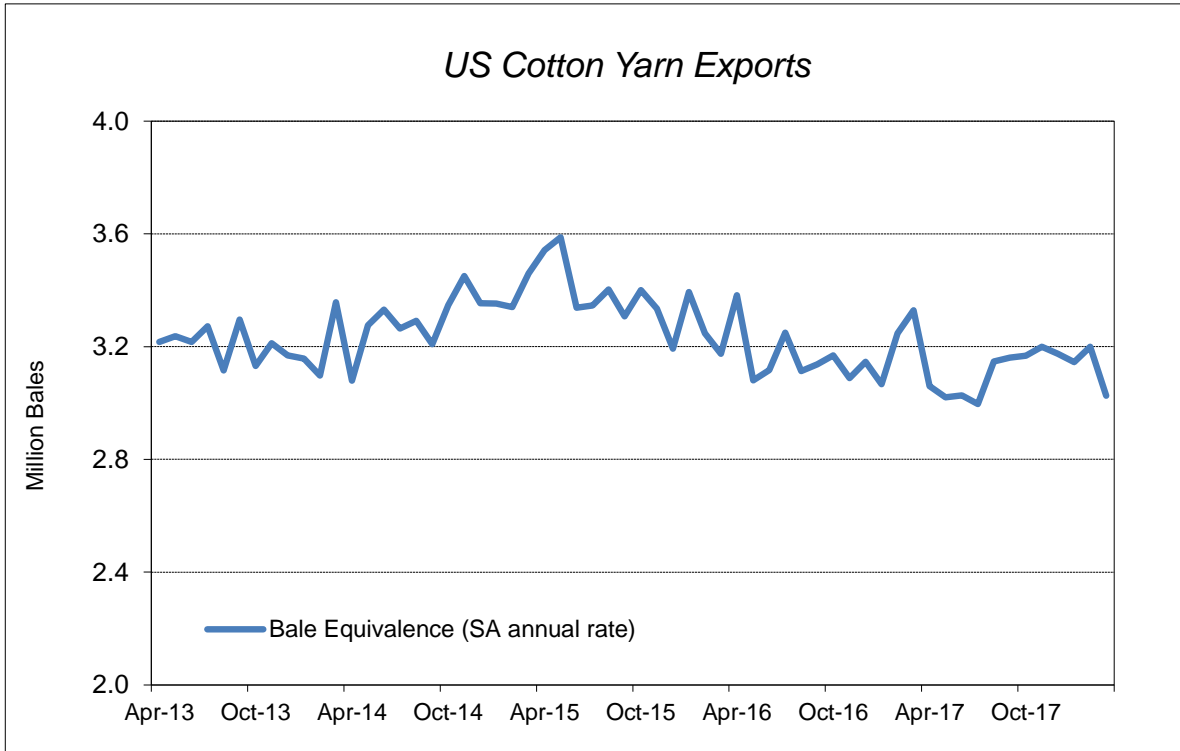
Source: Federal Reserve. Historical data revised to 1997 baseline.



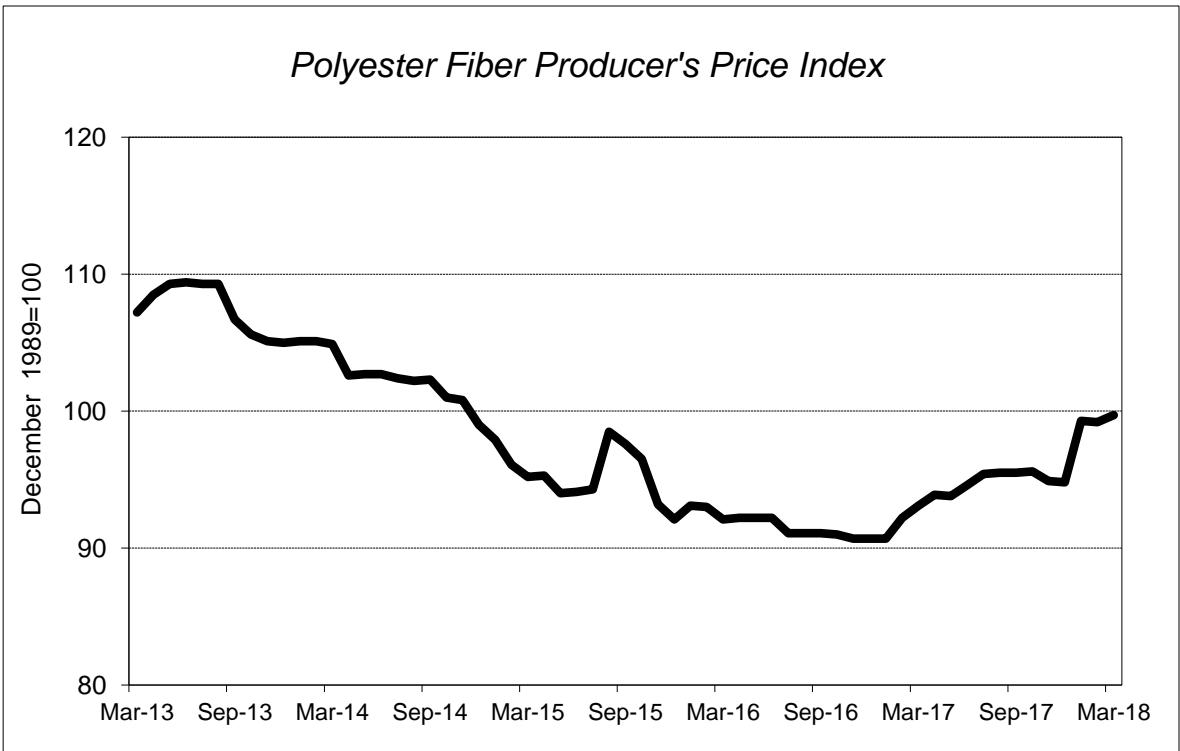
Seasonally Adjusted; Source: Department of Commerce

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Seasonally Adjusted Annual Rate
 Source: USDA ERS



Source: Bureau of Labor Statistics

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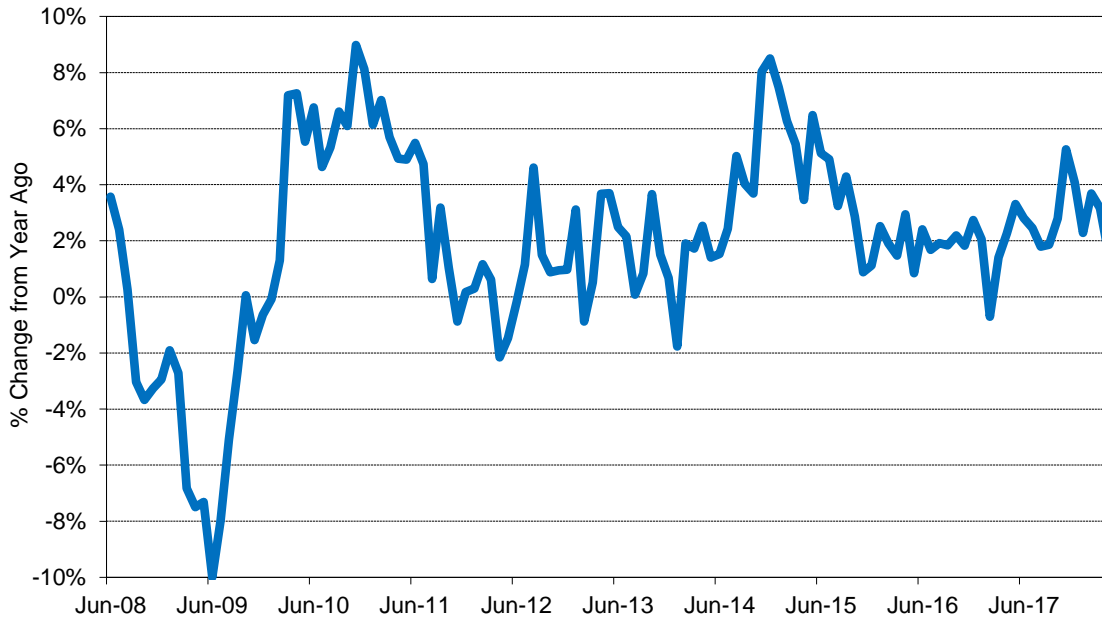


U.S. Real Consumer Spending - All Goods & Services



*Based on chained 2005\$.

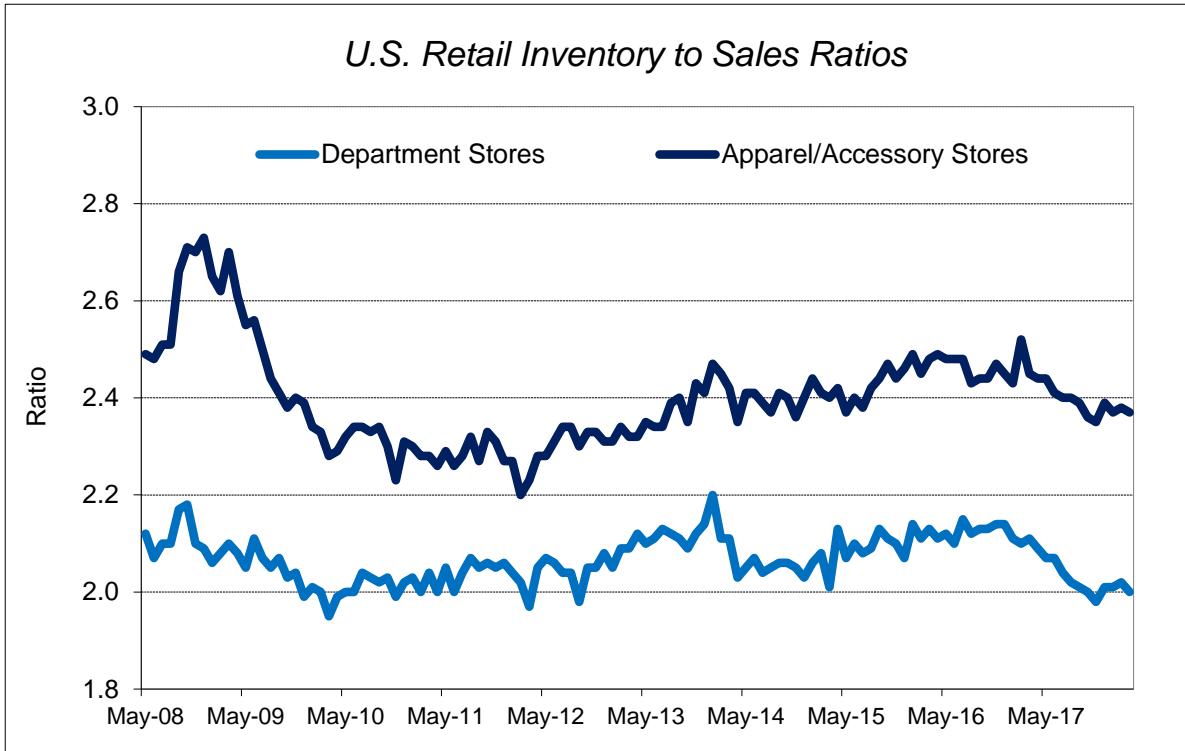
U.S. Real Consumer Spending on Clothing



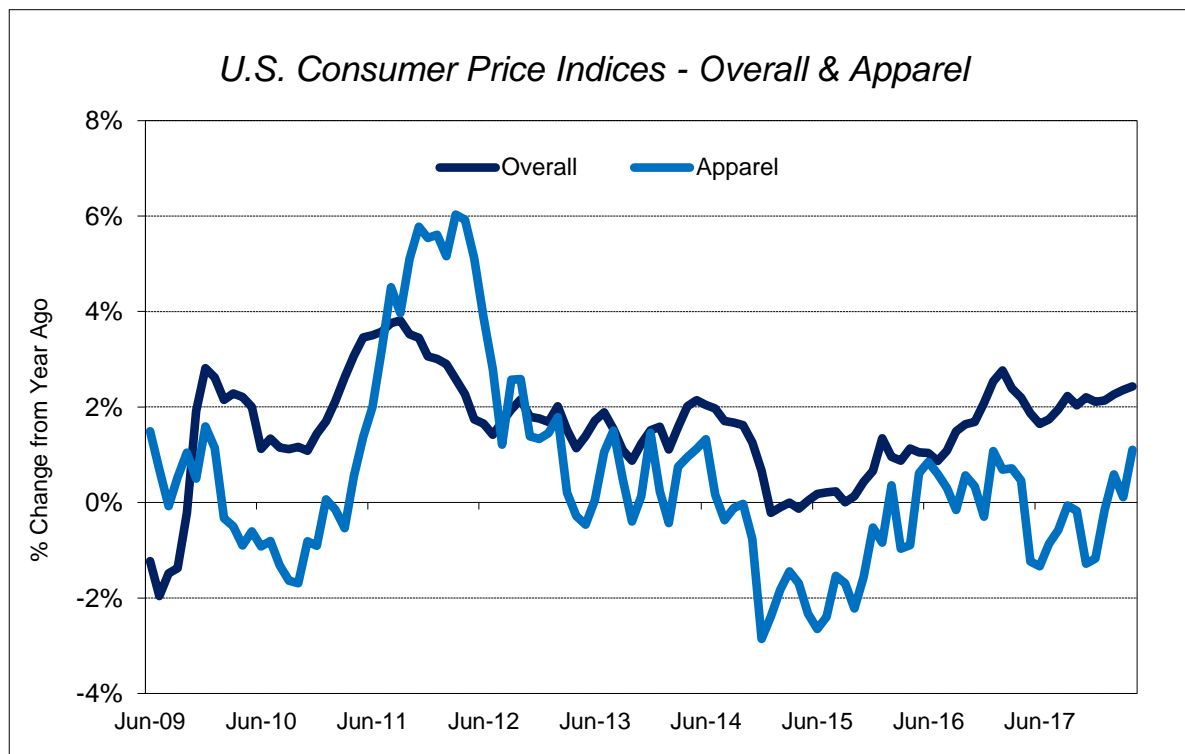
*Based on chained 2005\$.

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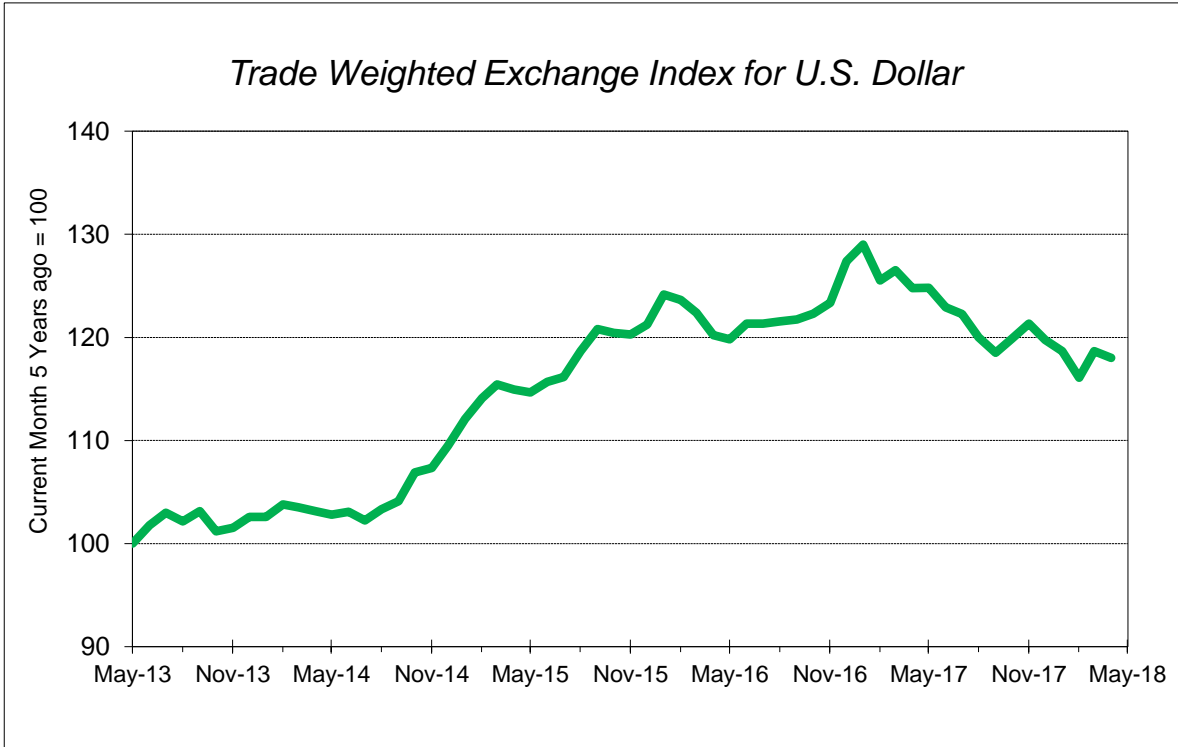
Source: Department of Commerce



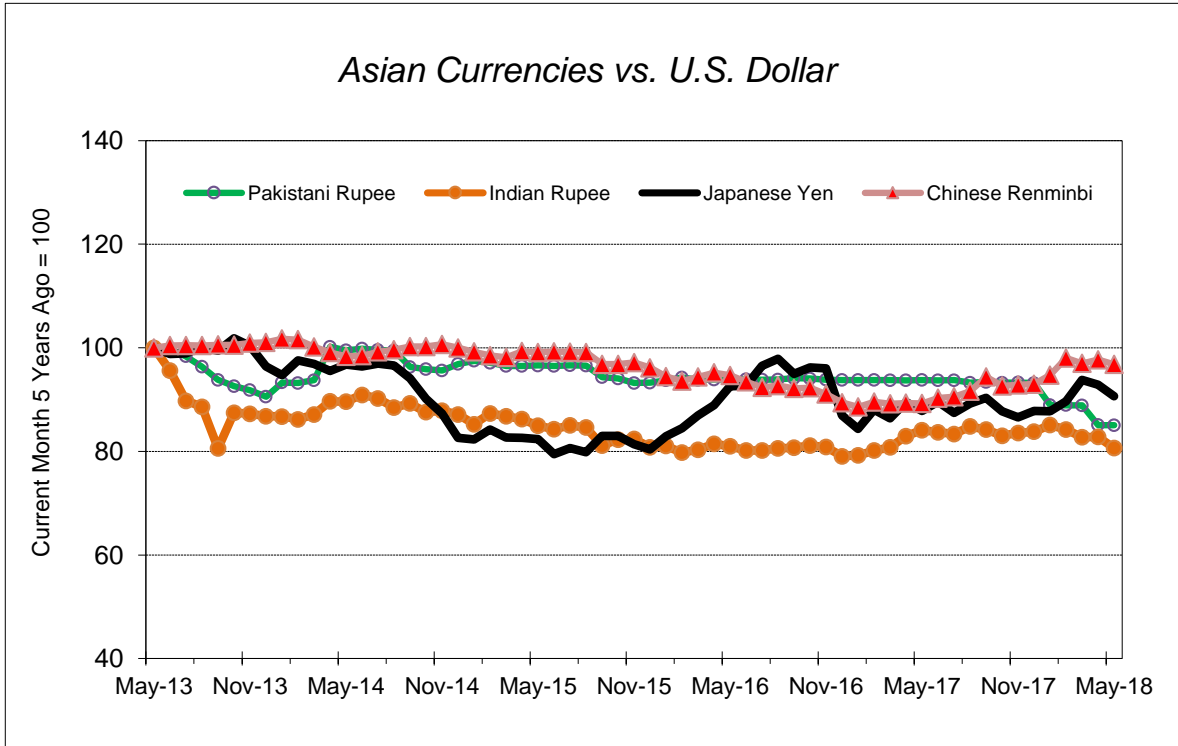
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Source: Federal Reserve

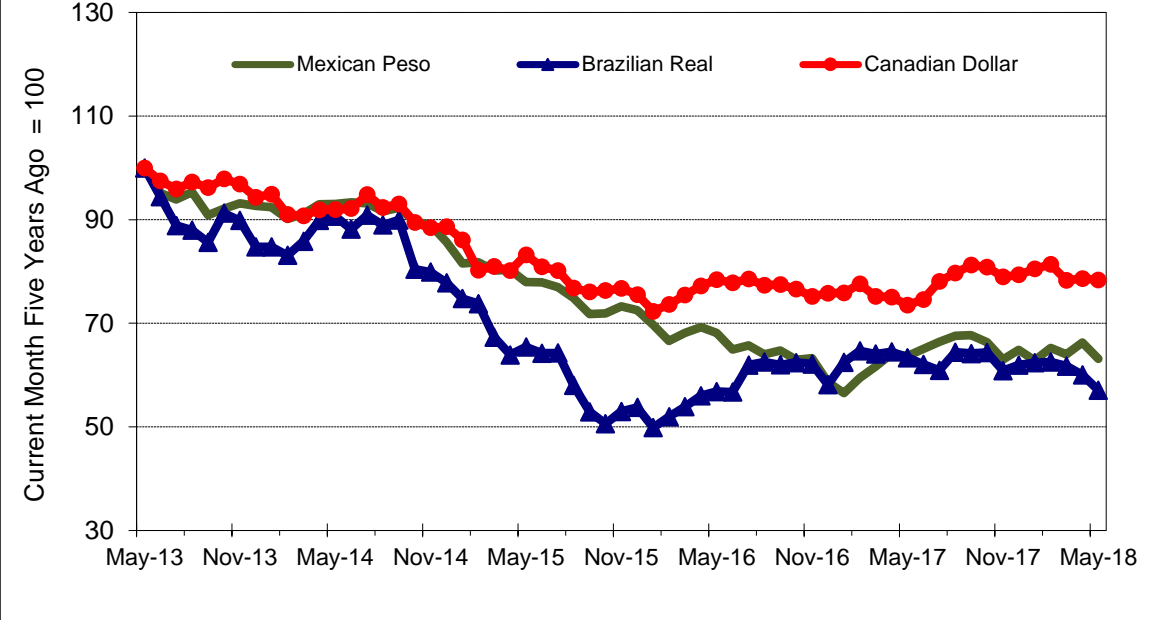


Source: Reuters

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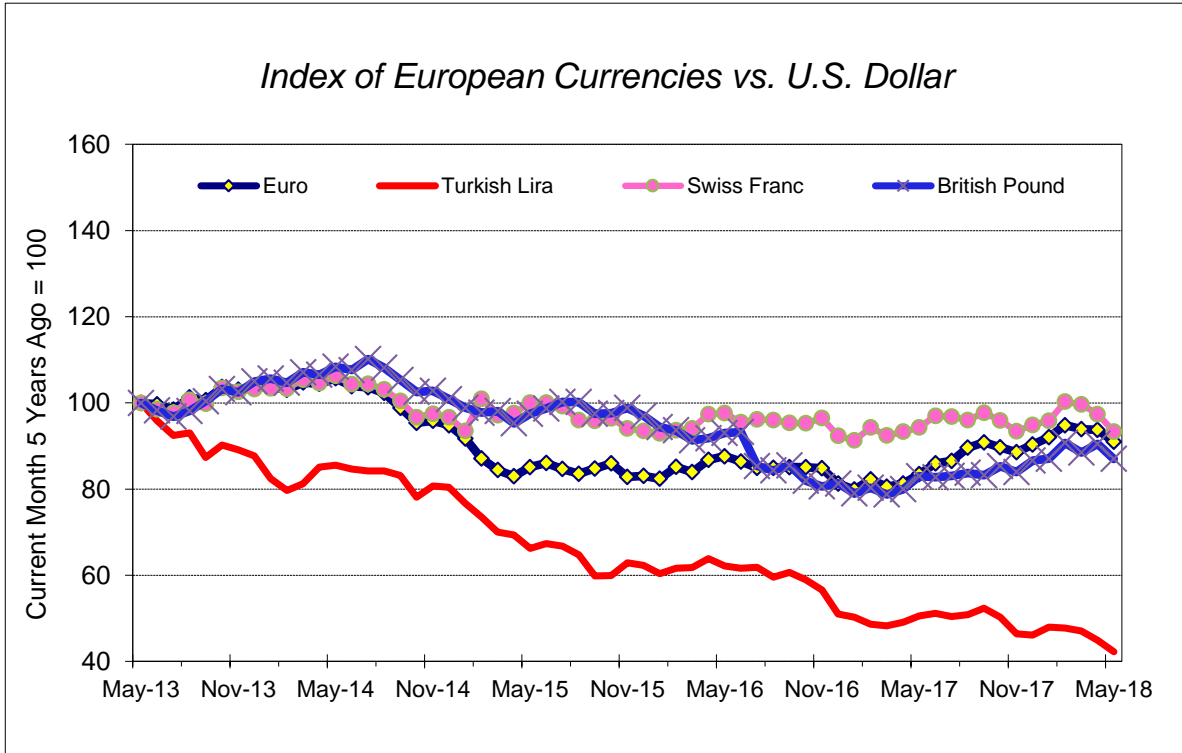


North & South American Currencies vs. U.S. Dollar



Source: Reuters

Index of European Currencies vs. U.S. Dollar



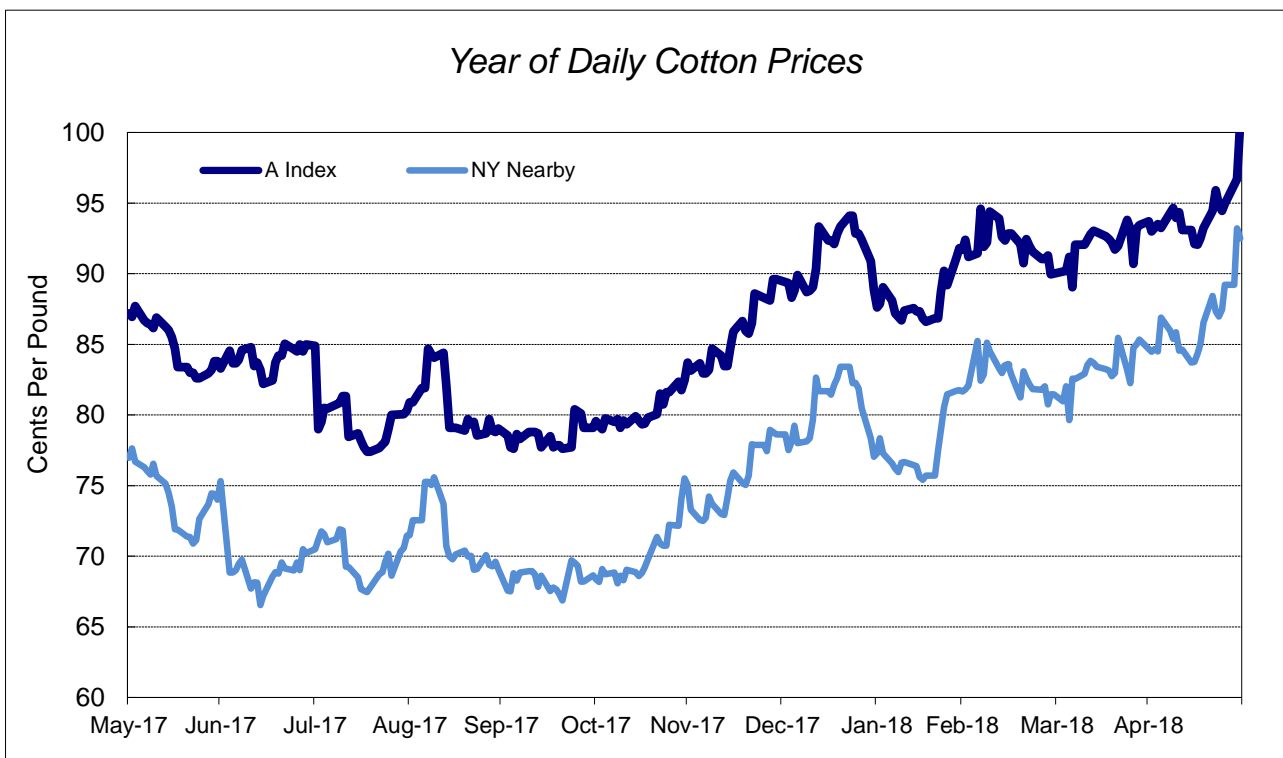
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U.S. Balance Sheet

million 480 lb. bales	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
					May	May
Beginning Stocks	3.8	2.4	3.7	3.8	2.8	4.7
Production	12.9	16.3	12.9	17.2	20.9	19.5
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.7	18.7	16.6	21.0	23.7	24.2
Mill-Use	3.6	3.6	3.5	3.3	3.4	3.4
Exports	10.5	11.2	9.2	14.9	15.5	15.5
Demand	14.1	14.8	12.6	18.2	18.9	18.9
Ending Stocks	2.4	3.7	3.8	2.8	4.7	5.2
Stocks/Use Ratio	16.7%	24.6%	30.2%	15.1%	24.9%	27.5%



Sources: ICE Futures U.S. & Cotton Outlook

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