

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



December 2018

www.cottoninc.com

Macroeconomic Overview: Speculation regarding details discussed and agreed upon at a meeting between President Trump and President Xi on December 1st has been identified as a cause of recent volatility in a range of financial markets. Other than a 90-day delay in the planned increase in tariff rates on a set of U.S. imports from China valued at \$200 billion, little has emerged in terms of confirmed results (this planned increase would raise U.S. tariffs another 15 percentage points, from the 10 percentage point increase imposed on the same set of goods in late September to a 25 percentage point increase relative to rates that existed prior to this year's changes).

Cotton futures were among the markets experiencing volatility, with values being pushed both higher and lower. Prices for the March contract climbed as high as 82 cents/lb immediately after the meeting (from levels near 78 cents/lb ahead of the meeting) before retreating to levels below 80 cents/lb in later trading.

While potential resolution or escalation of the tariff issue has been most strongly associated with recent volatility, questions about the outlook for the global economy may have also been a contributing factor. Concerns about economic growth, notably those in China, have been attributed as a driver for recent decreases in oil prices. Since early October, Brent oil futures (the international benchmark for oil prices) decreased 25%. Another source of concern may be that U.S. Treasury bonds with near-term expiration currently carry a higher rate of interest (yield) than bonds with more distant expiration. This is opposite the normal relationship, and such inversions have commonly preceded U.S. recessions.

Nonetheless, most indicators for the U.S. economy signal growth. The U.S. economy continues to add jobs, wage growth is accelerating, and consumer confidence is near all-time highs. These data, along with a recent drop in gasoline prices, should be encouraging for retailers in the near-term because they are coincident with the important holiday season.

Reports covering the important Thanksgiving weekend indicate sales were strong. The National Retail Federation (NRF, trade group representing U.S. retailers), indicated that spending between Thanksgiving Day and Cyber Monday was the highest ever. A NRF survey indicated that the most popular spending category was apparel, with 57% of consumers reporting that they bought apparel over the weekend. The NRF is maintaining its forecast for 4.3-4.8% year-over-year growth in overall holiday-related spending.

Employment: The U.S. economy is estimated to have added 155,000 jobs in November. Revisions to figures for previous months were mixed. The number for October was lowered from +250,000 to +237,000. The number for September was increased from +118,000 to +119,000. The average increase in payrolls over the past twelve months is +204,000. Over the same time period last year, the twelve-month average was +183,000. The unemployment rate held steady at 3.7% in November. This is the third consecutive month with the same reading. The value of 3.7% is the lowest since the late 1960s.

Average hourly earnings for private employees increased 3.1% year-over-year in November. This follows 3.1% annual growth in October. Both of these values represent the only times since the financial crisis that wages have increased by more than three percent.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence decreased 2.2 points last month. This dropped index readings from 137.9 to 135.7. Despite the reduction, values remain close to the all-time high of 144.7 set in January 2000.

Overall consumer spending increased at the strongest rate in six months in October (+0.4% month-over-month). Year-over-year, overall spending was 2.9% higher.

Consumer spending on apparel was up 0.5% month-over-month in October. This is the strongest monthly rate of increase since July. Year-over-year, consumer apparel spending was 4.9% higher in October. Since June, the rate of annual growth in consumer spending on clothing has accelerated, picking up from rates generally between two and three percent to those near or above five percent.

Consumer Prices & Import Data: Retail prices for apparel increased 0.2% month-over-month in October. Year-over-year, consumer prices were 0.3% lower.

Average import prices for cotton-dominant apparel increased 0.9% month-over-month in seasonally-adjusted terms (USD per square-meter-equivalent or SME). Year-over-year, cotton-dominant apparel import prices were 2.7% higher. Over the past twelve months, the volume of cotton-dominant apparel imports is 0.8% higher (SME volume).

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
December 2018



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q1 : 2018	Q2 : 2018	Q3 : 2018		
Growth in US Real GDP	2.5%	2.3%	3.9%	3.5%	2.2%	4.2%	3.5%	% Chg. Quarter/Quarter	Department of Commerce

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		
ISM Index of Manufacturing Activity	54.9	55.4	59.3	59.6	59.8	57.7	59.3	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.6	56.7	59.0	60.1	61.6	60.3	60.7	Index	Institute for Supply Management
Consumer Confidence	105.2	114.8	132.0	136.0	135.3	137.9	135.7	Index	The Conference Board
Change in Non-Farm Payrolls	211.3	198.4	213.8	214.0	119	237	155	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.0%	4.4%	3.8%	3.8%	3.7%	3.7%	3.7%	Rate	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		
US Interest Rates									
Federal Funds	0.6%	1.0%	1.9%	2.0%	2.0%	2.2%	2.2%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.3%	3.0%	3.0%	3.0%	3.2%	3.1%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	100.9	104.1	110.9	111.8	111.3	112.0	112.1	Index	The Conference Board
Housing Starts	11.4	12.1	12.3	12.4	1.3	1.2	1.2	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.3	5.2	5.3	5.2	5.2	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

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		
US Industrial Production	104.3	104.1	108.2	108.9	108.8	109.0	109.1	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	107.2	108.0	107.6	105.8	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Monthly 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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	3.1	3.0	3.0	3.0	2.9	3.0	million 480lb bales	USDA ERS

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		
US Textile Mill Inventory/Shipments Ratio	1.27	1.30	1.29	1.30	1.28	1.29	1.34	Ratio	Department of Commerce

Retail Data

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		
US Real Consumer Spending									
All Goods and Services	2.9%	2.7%	2.9%	2.9%	3.1%	2.8%	2.9%	% Chg. Year/Year	Department of Commerce
Clothing and Shoes	2.7%	2.7%	4.8%	5.4%	6.2%	5.1%	4.9%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.5%	1.9%	2.6%	2.5%	2.7%	2.3%	2.5%	% Chg Year/Year	Bureau of Labor Statistics
Apparel	-0.4%	-0.1%	0.1%	-0.9%	-1.9%	-0.5%	-0.2%	% Chg. Year/Year	Bureau of Labor Statistics

Monthly Series with Latest Data for September

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.4	2.2	2.2	2.2	2.2	2.2	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.0	2.0	2.1	2.0	2.0	Ratio	Department of Commerce

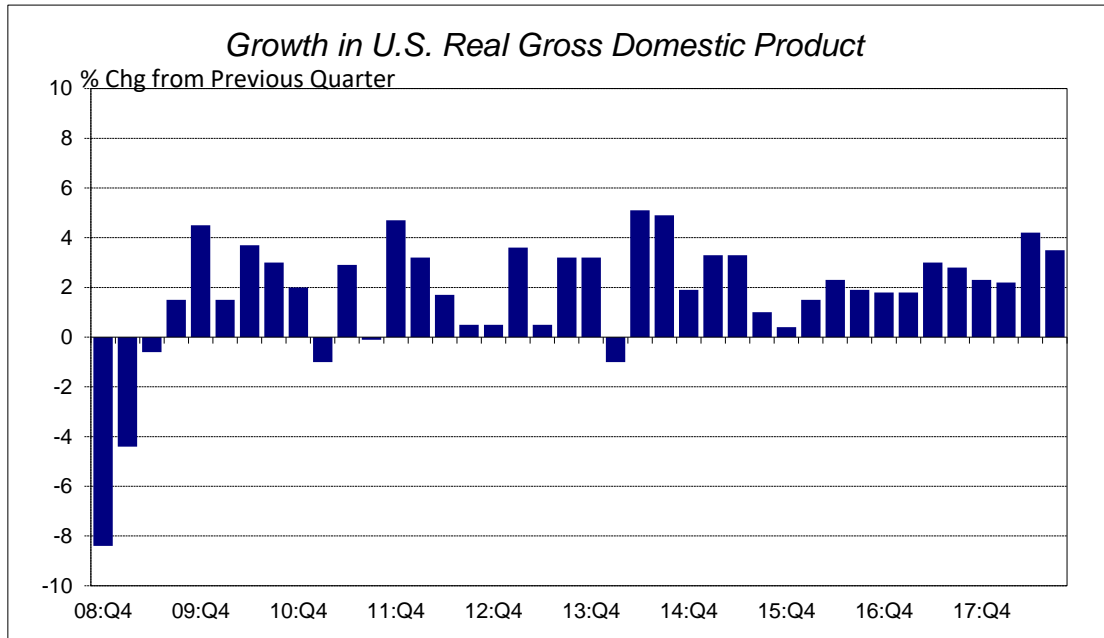
Executive Cotton Update

Daily Cotton Price and Currency Data
December 2018

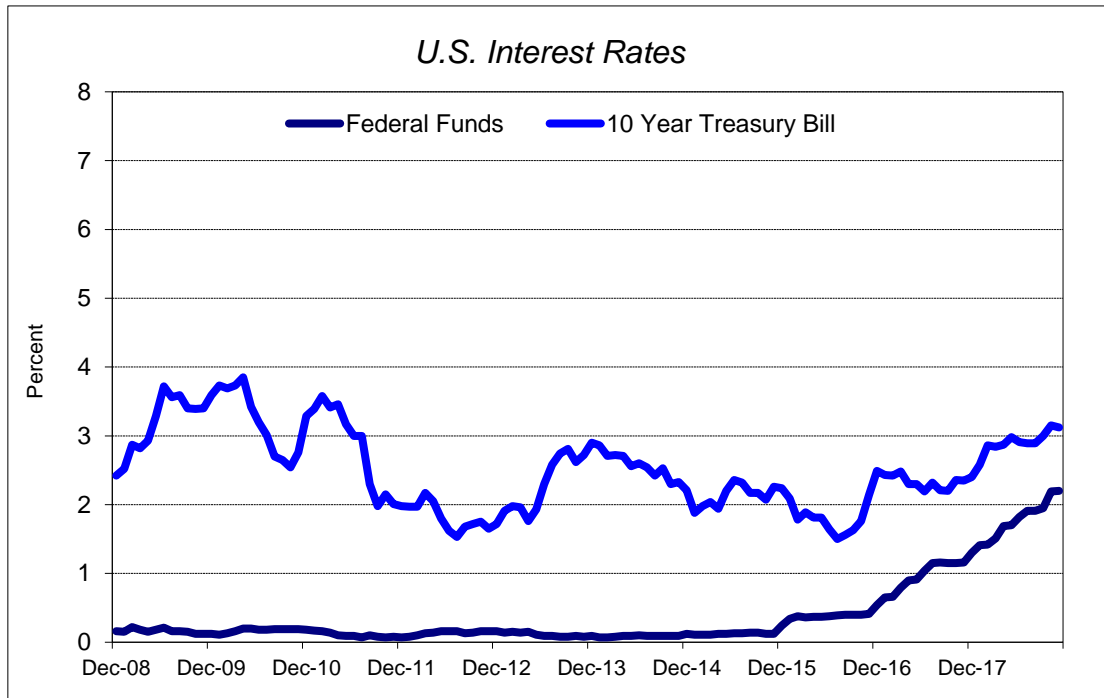


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	September	October	November		
NY Nearby	72.2	73.2	82.8	78.5	80.6	77.5	77.4	cents/pound	ICE
A Index	80.6	82.6	92.0	88.0	90.4	86.8	86.8	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	September	October	November		
Dollar Trade Weighted Exchange Index	117.3	122.3	125.2	126.9	126.6	126.6	127.6	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.47	6.65	6.75	6.88	6.83	6.88	6.92	Chinese Renminbi/US dollar	Reuters
Indian Rupee	64.95	66.70	70.59	72.94	71.91	73.85	73.06	Indian Rupee/US dollar	Reuters
Japanese Yen	111.53	110.69	111.66	112.67	110.90	113.75	113.37	Japanese Yen/US dollar	Reuters
Pakistani Rupee	106.30	109.09	123.65	126.92	124.15	124.20	132.40	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.17	3.44	3.88	3.93	4.16	3.88	3.75	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.25	1.31	1.30	1.31	1.32	1.29	1.31	Canadian dollar/US dollar	Reuters
Mexican Peso	17.05	18.83	19.35	19.39	19.40	18.89	19.87	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.70	0.75	0.76	0.77	0.77	0.77	0.76	British Pound/US dollar	Reuters
Euro	0.86	0.88	0.86	0.87	0.86	0.87	0.88	Euro/US dollar	Reuters
Swiss Franc	0.96	0.98	0.99	0.99	0.97	0.99	1.00	Swiss Franc/US dollar	Reuters
Turkish Lira	3.21	3.74	5.41	6.04	6.60	6.11	5.40	Turkish Lira/US dollar	Reuters



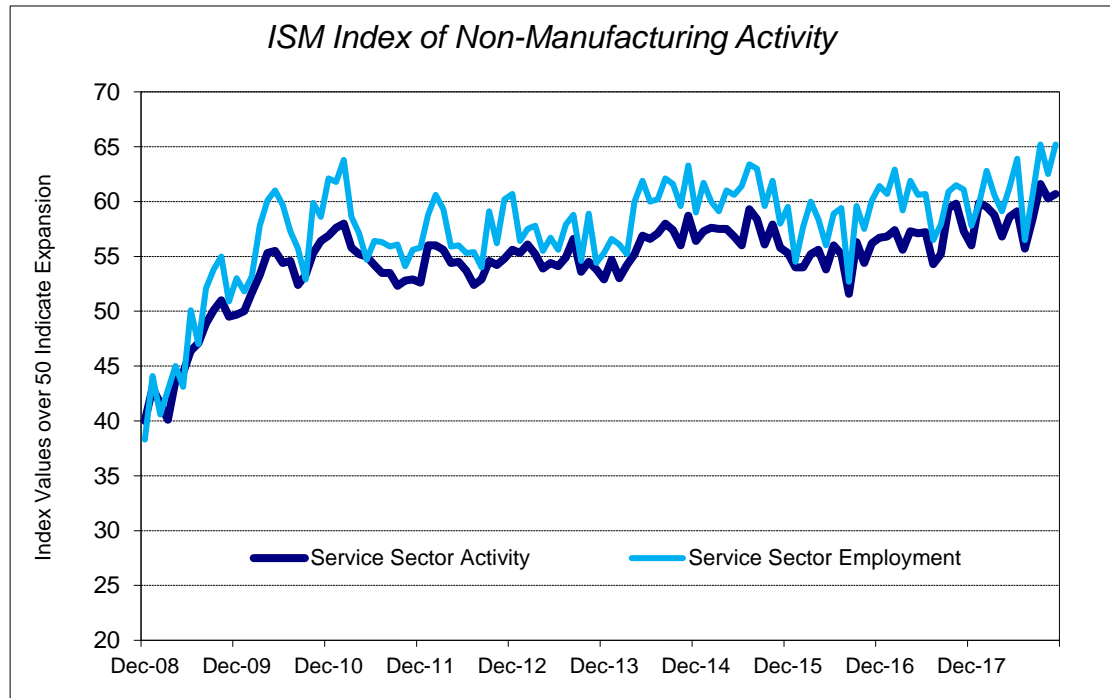
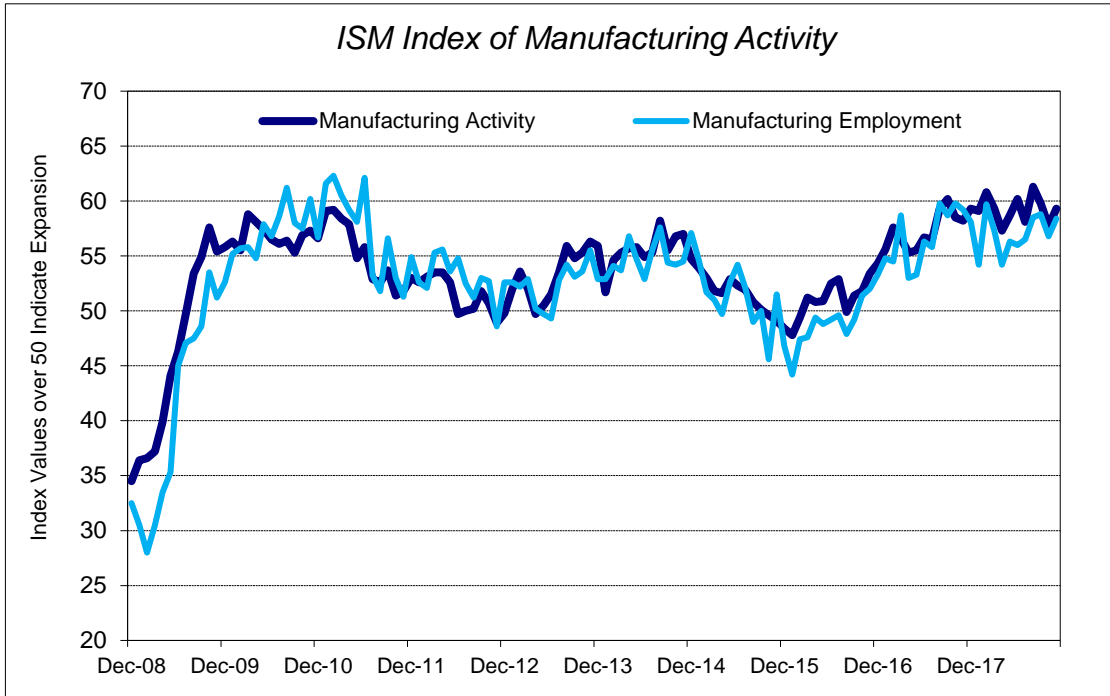
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



Source: Federal Reserve

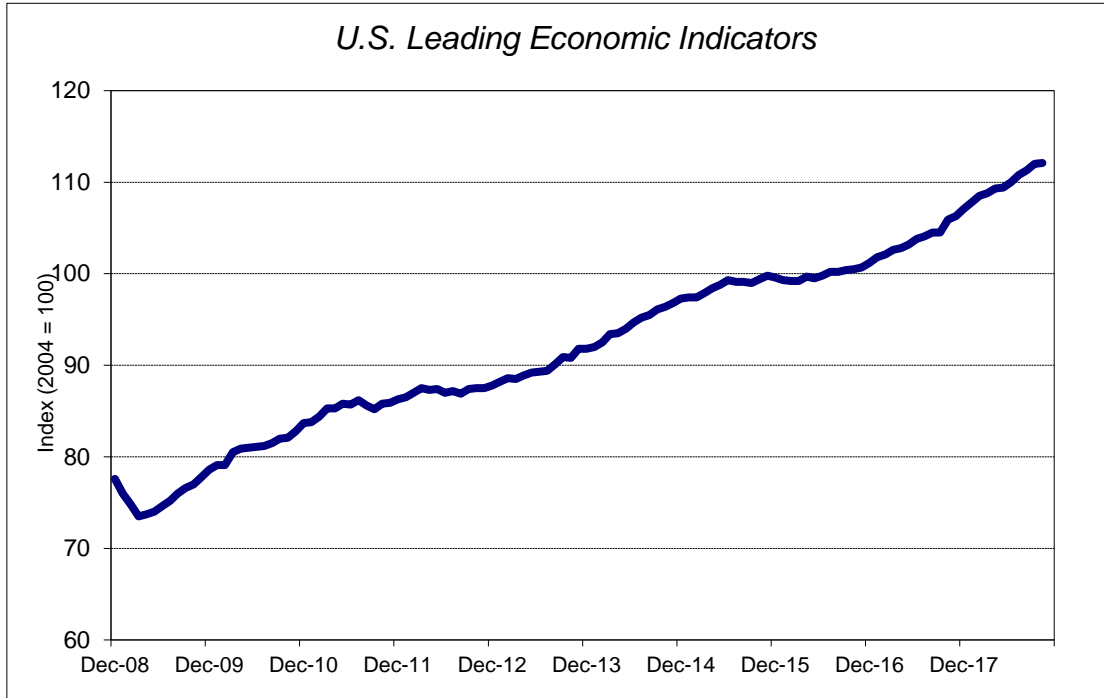
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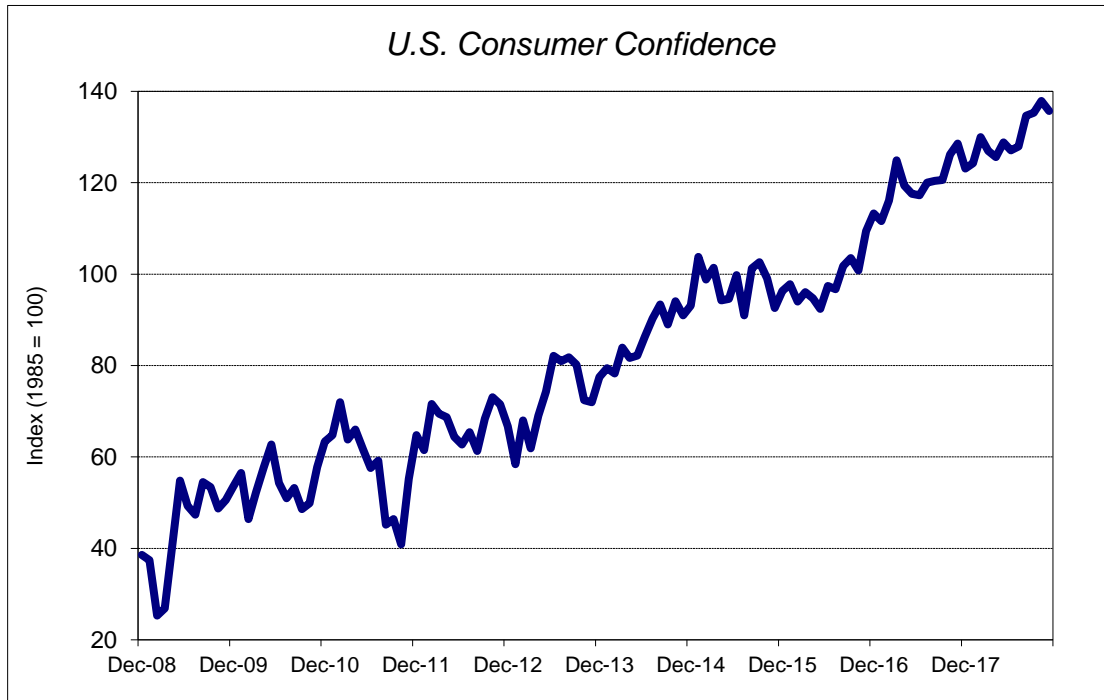


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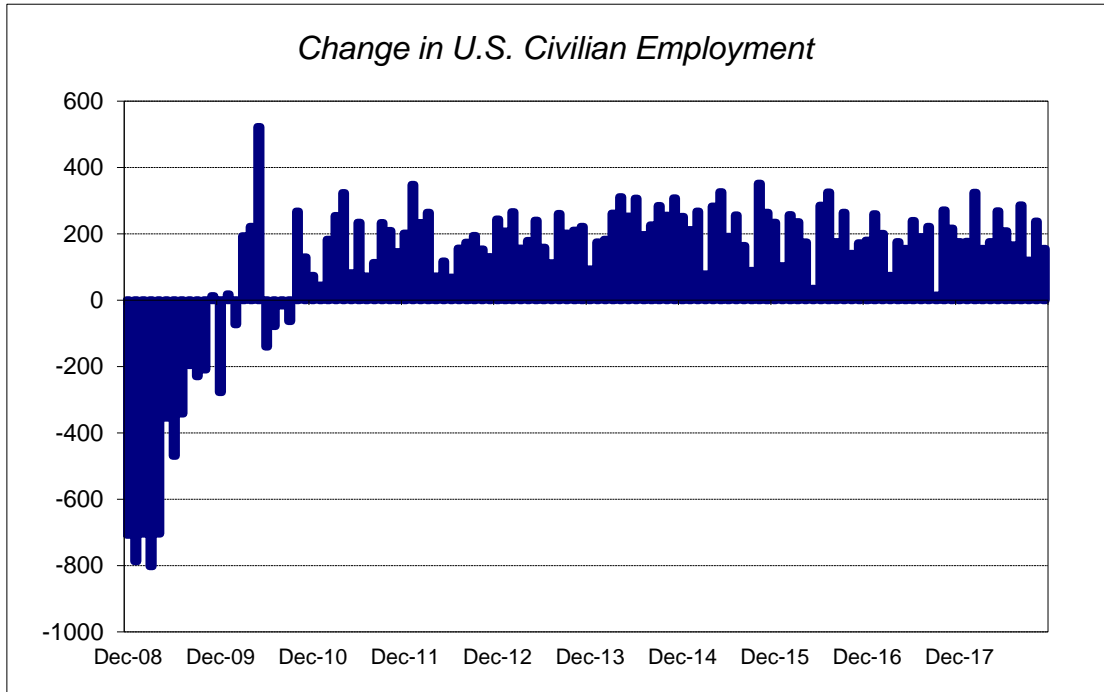
Source: The Conference Board



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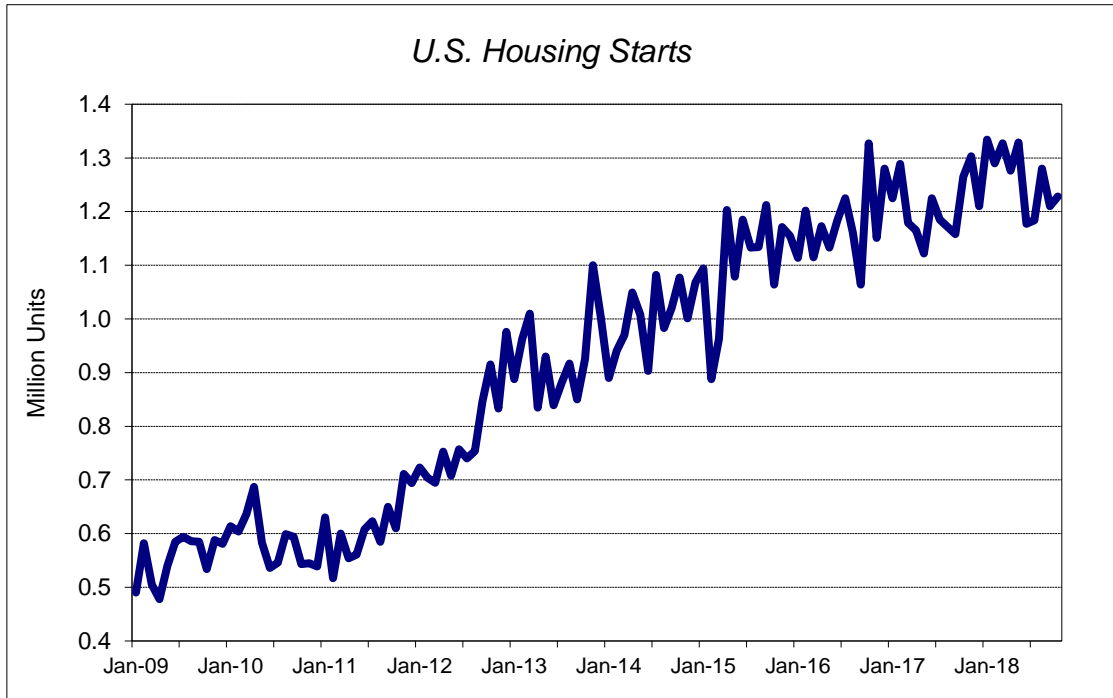
Source: Bureau of Labor Statistics



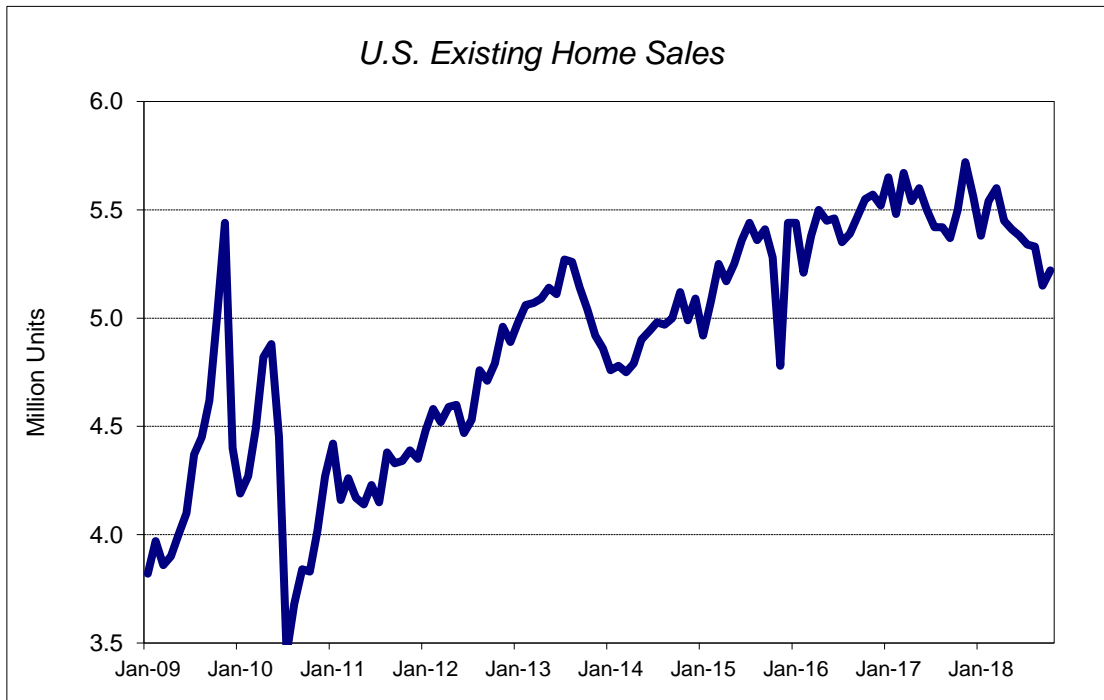
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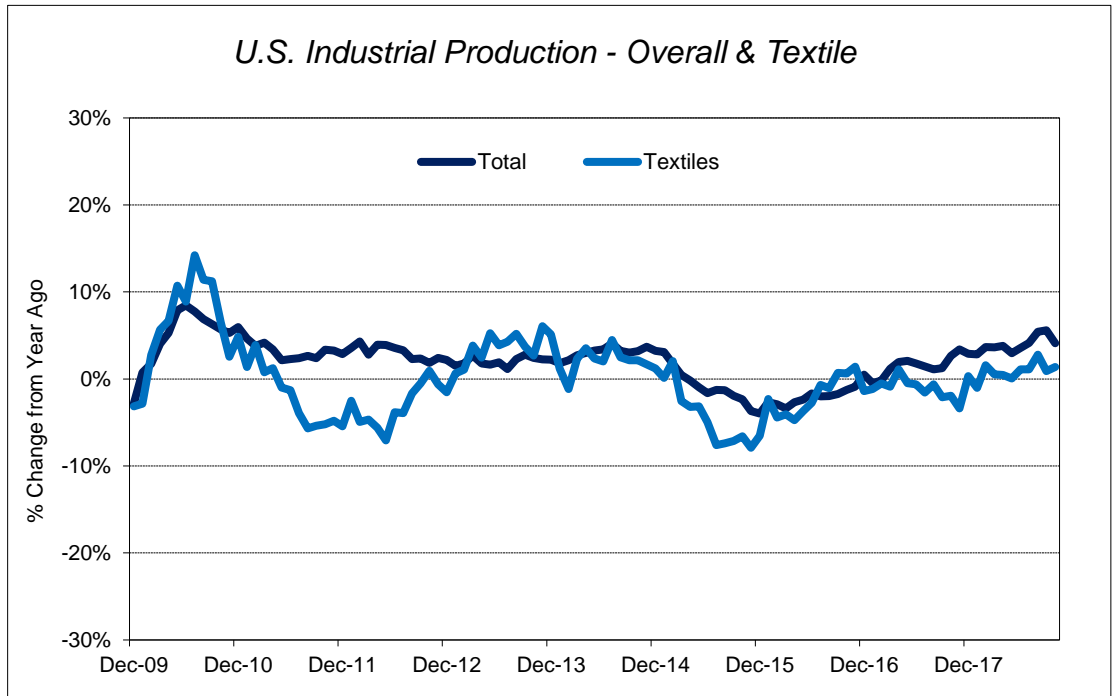
Seasonally Adjusted Annual Rate; Source: Department of Commerce



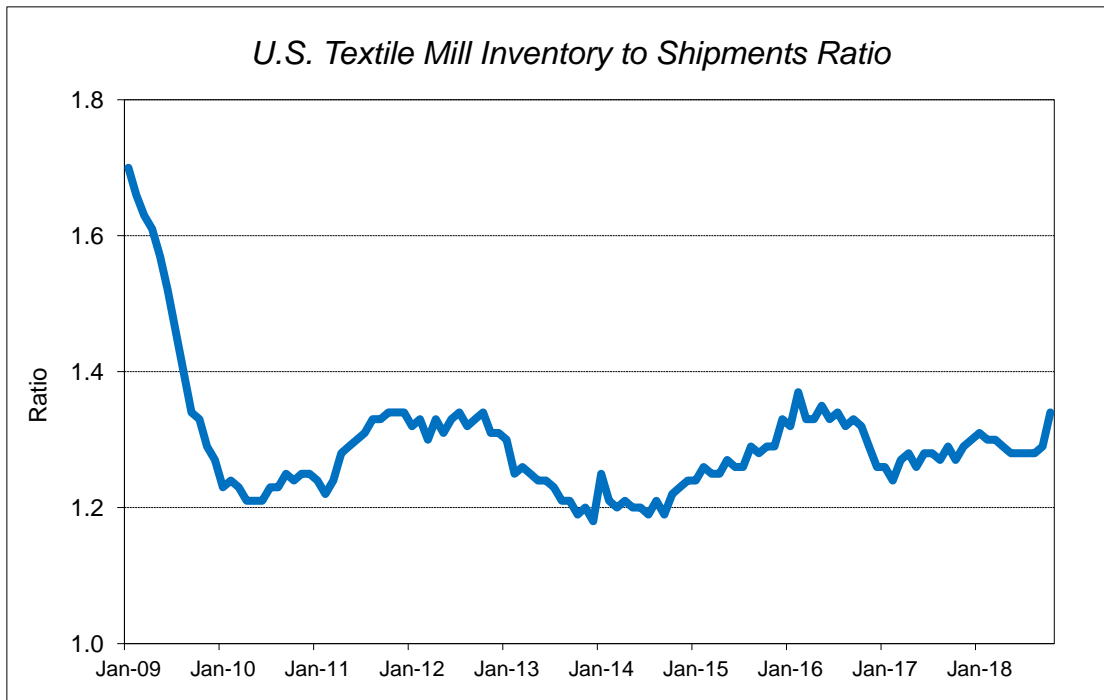
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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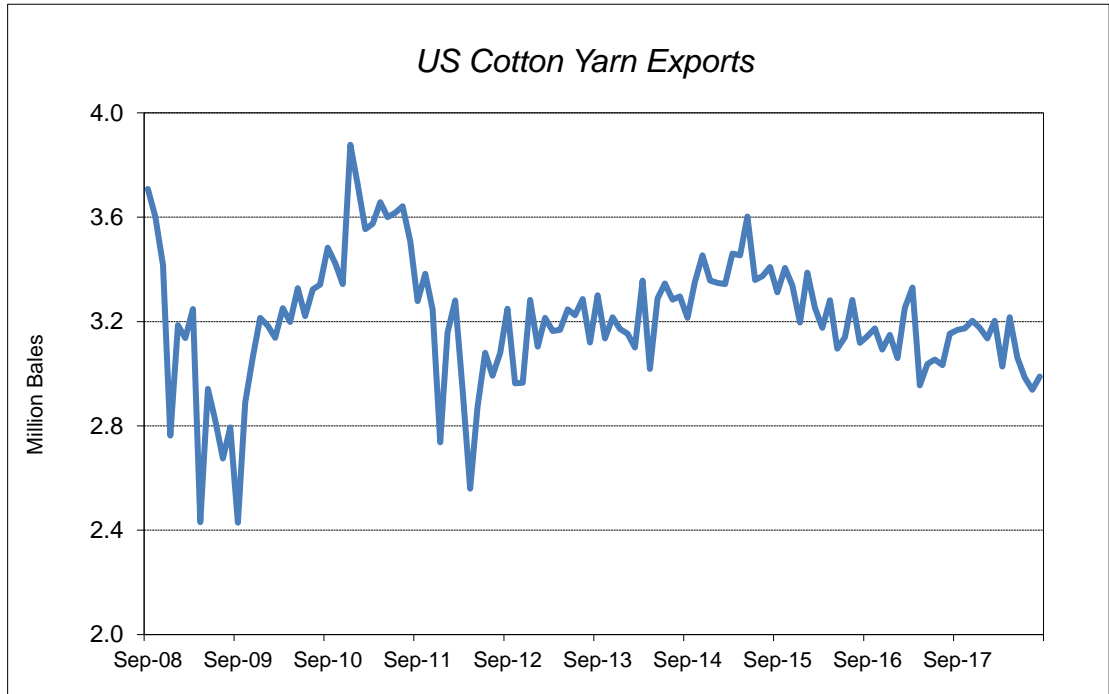
Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

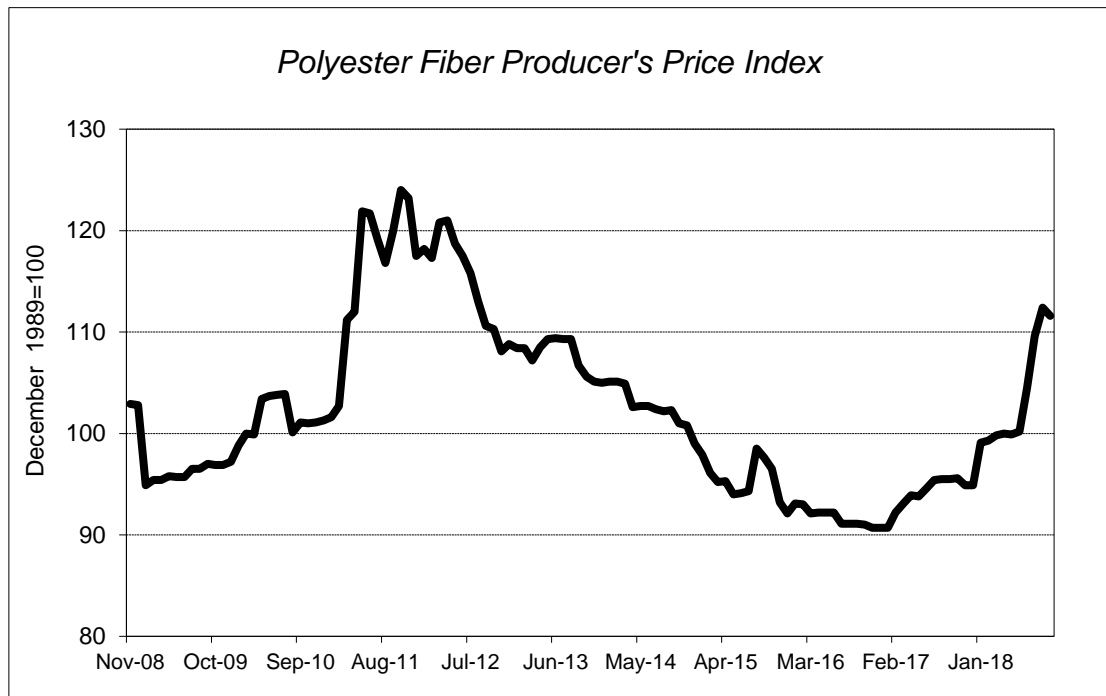
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Seasonally Adjusted Annual Rate

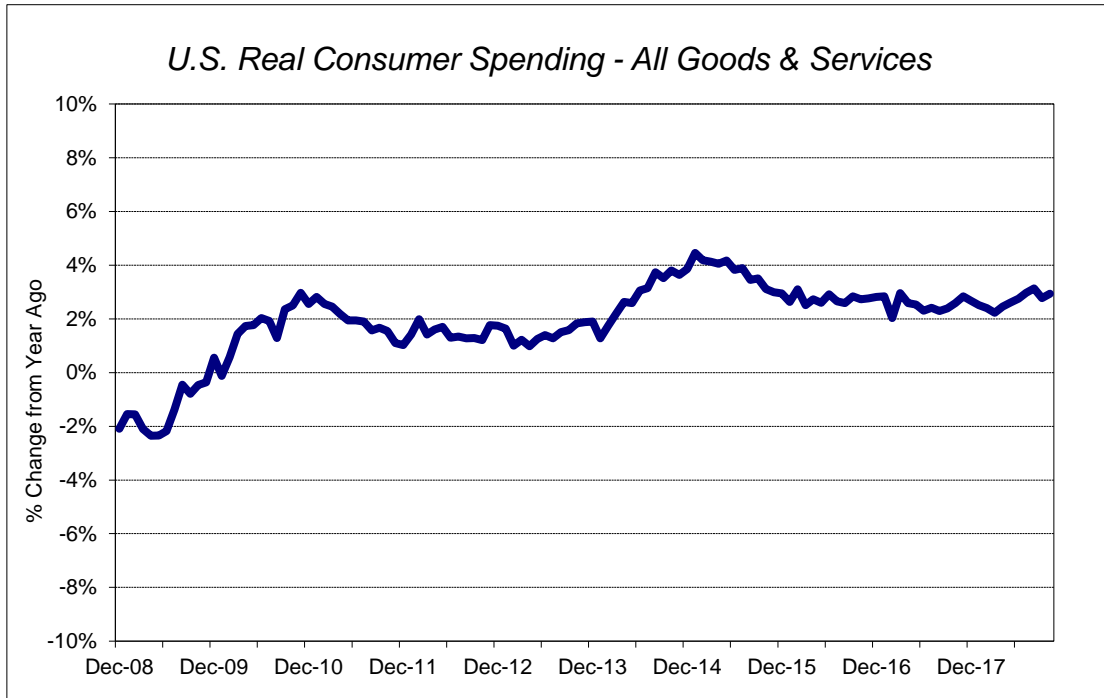
Source: USDA ERS



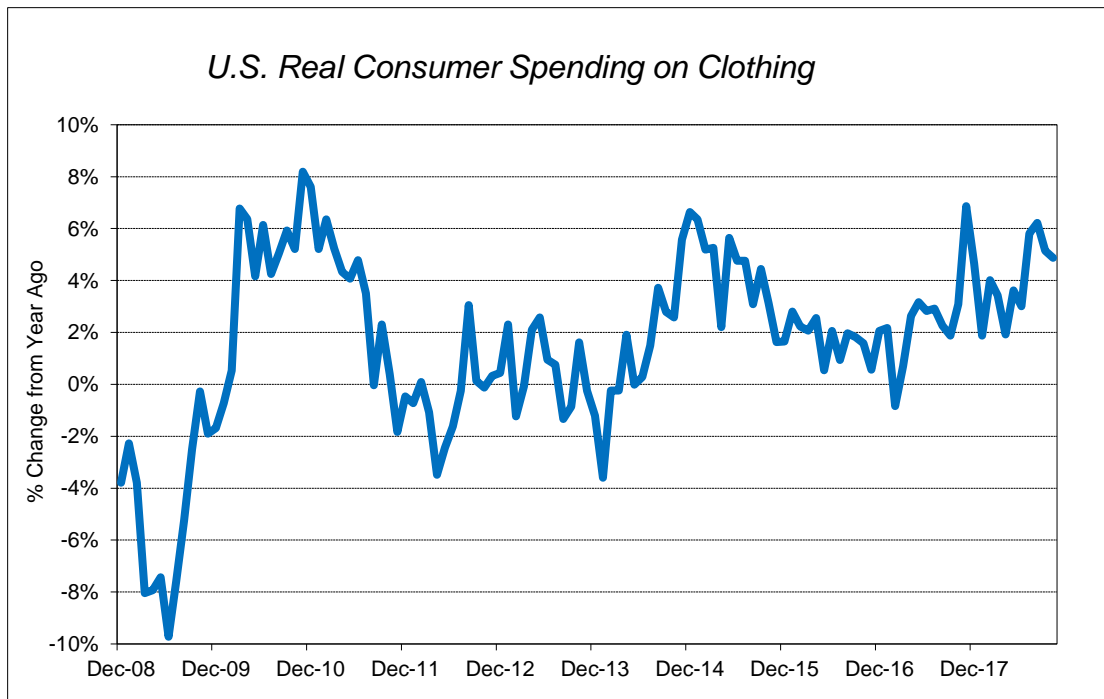
Source: Bureau of Labor Statistics

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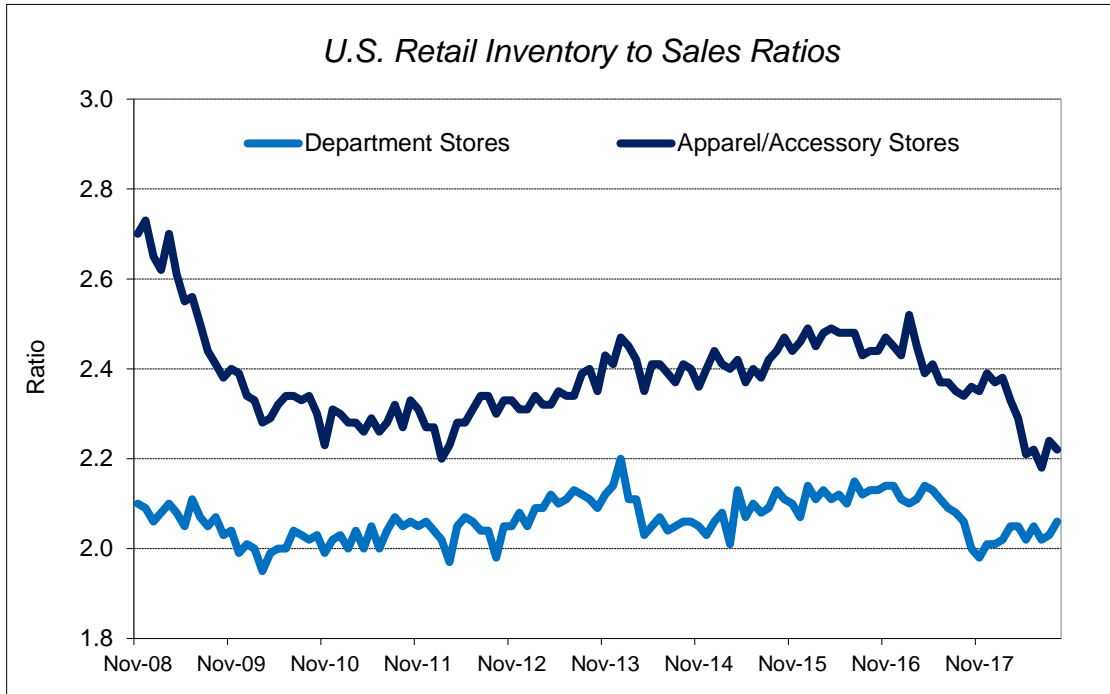
*Based on chained 2005\$.



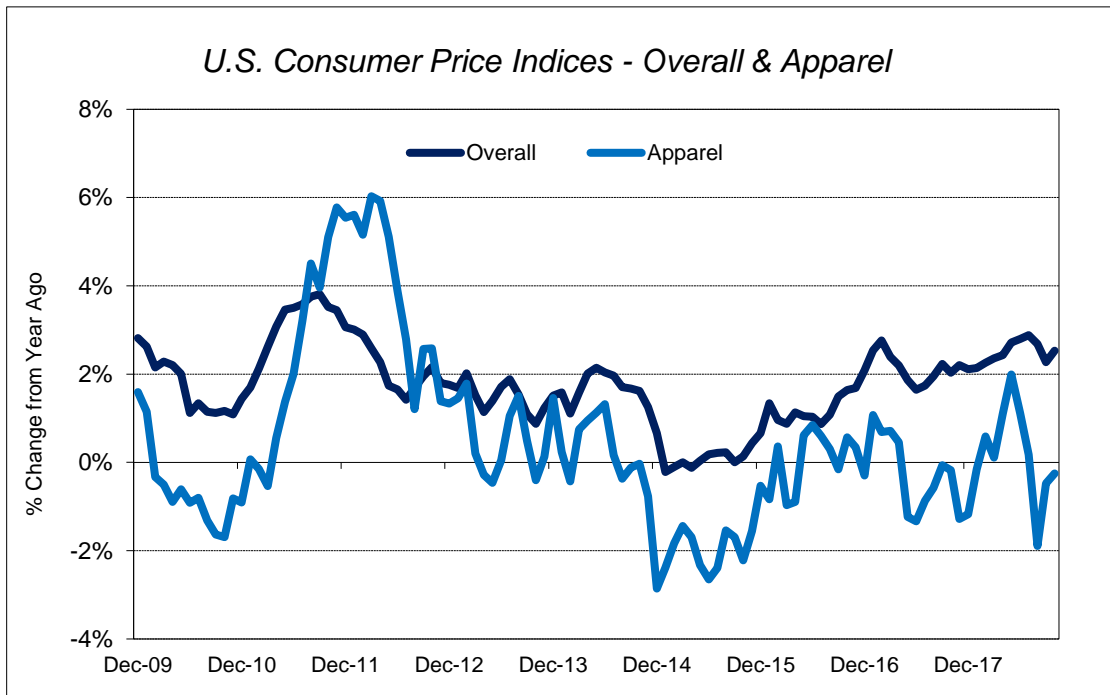
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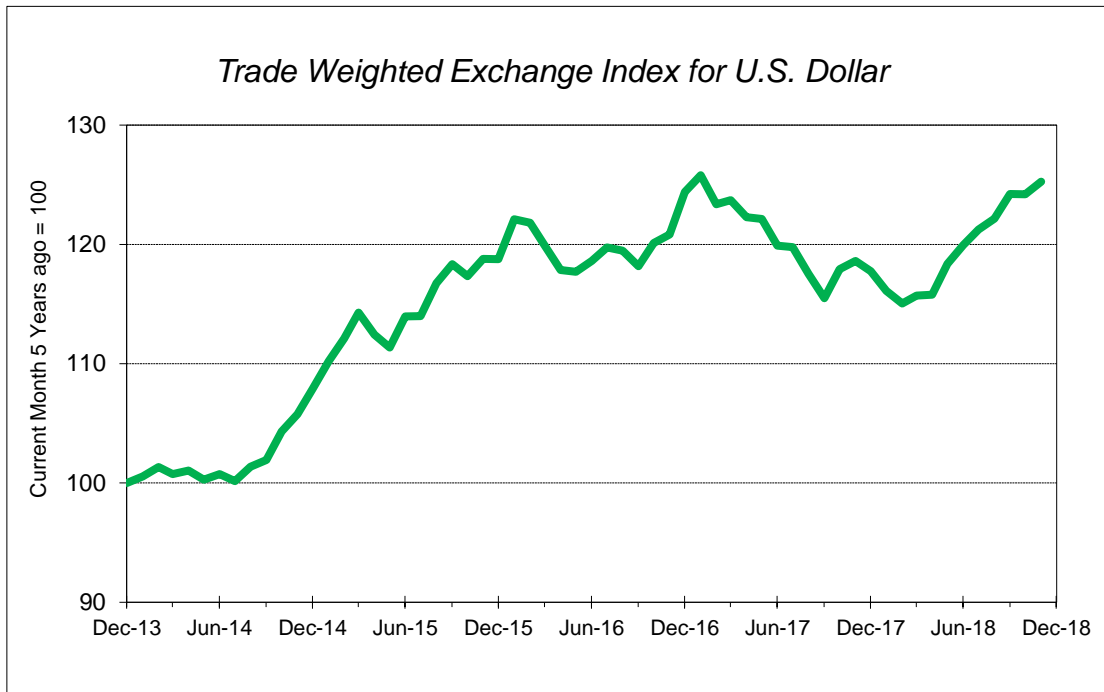
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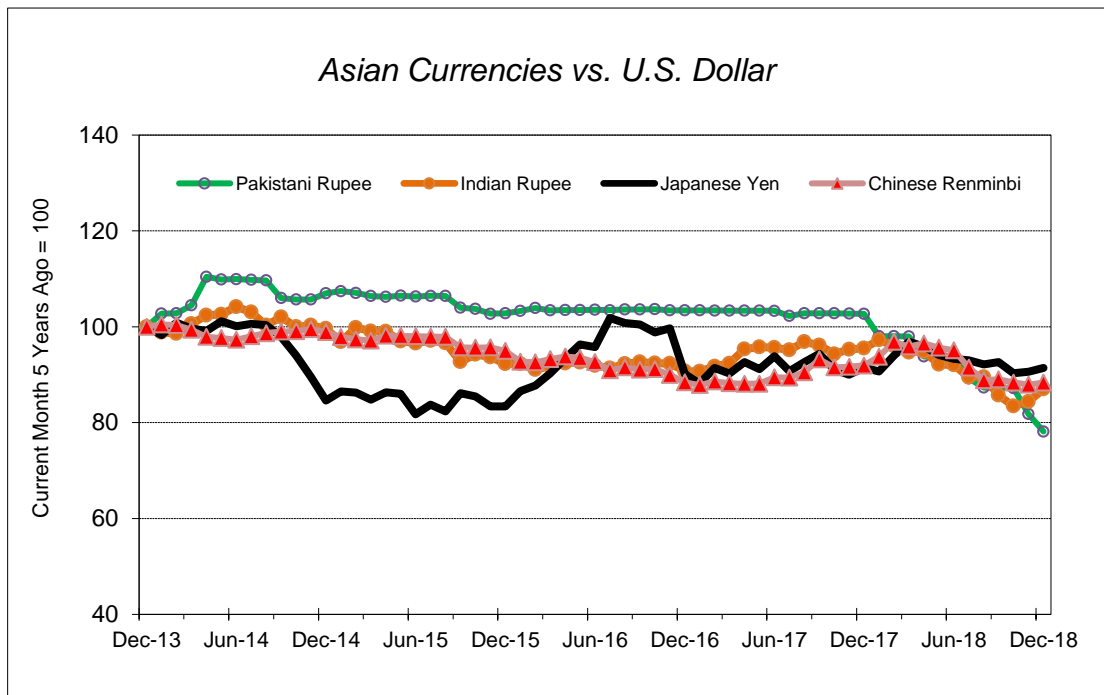
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Source: Federal Reserve
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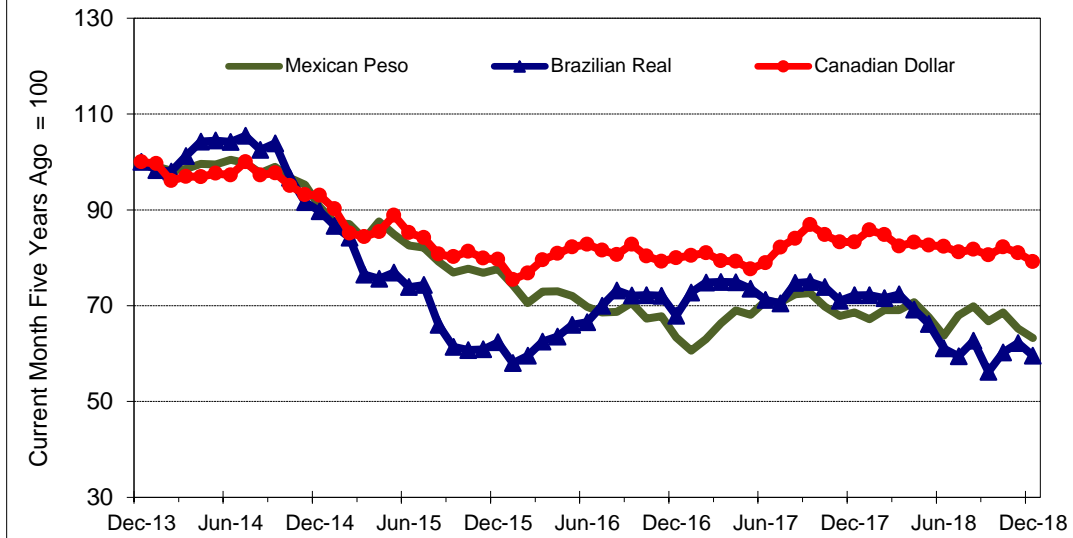


Source: oanda.com
 Source: Reuters

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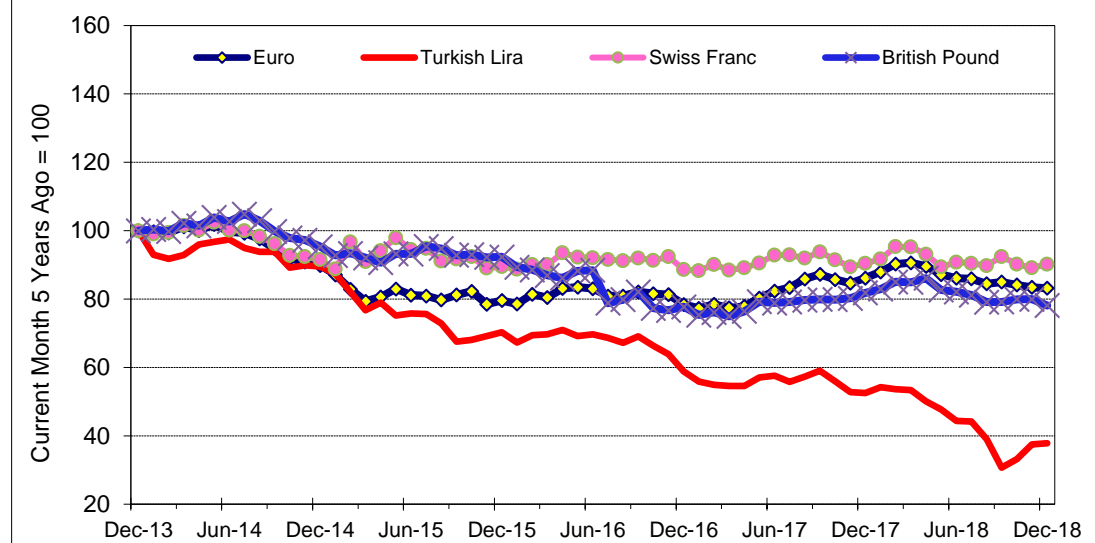
North & South American Currencies vs. U.S. Dollar



Source: oanda.com

Source: Reuters

Index of European Currencies vs. U.S. Dollar



Source: oanda.com

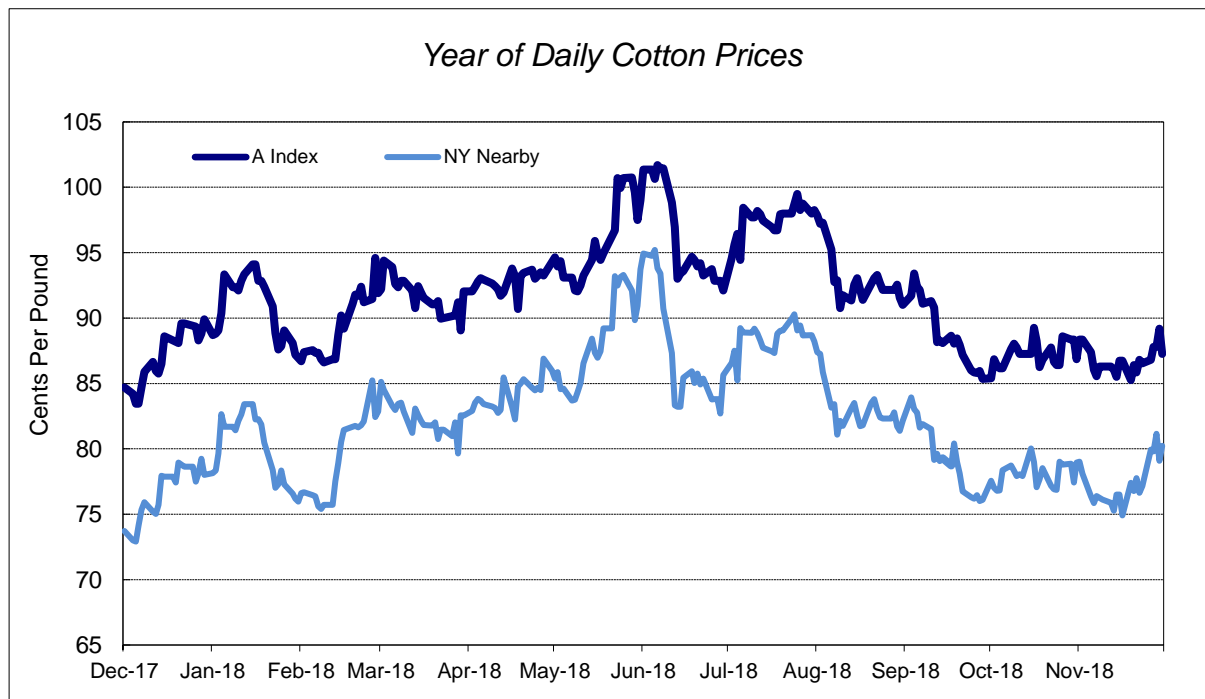
Source: Reuters

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U.S. Balance Sheet

million 480 lb. bales	2014/15	2015/16	2016/17	2017/18	2018/19 October	2018/19 November
Beginning Stocks	2.4	3.7	3.8	2.8	4.3	4.3
Production	16.3	12.9	17.2	20.9	19.8	18.4
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	18.7	16.6	21.0	23.7	24.1	22.7
Mill-Use	3.6	3.5	3.3	3.2	3.4	3.3
Exports	11.2	9.2	14.9	15.8	15.5	15.0
Demand	14.8	12.6	18.2	19.1	18.9	18.3
Ending Stocks	3.7	3.8	2.8	4.3	5.0	4.3
Stocks/Use Ratio	24.6%	30.2%	15.1%	22.5%	26.5%	23.5%



Sources: ICE Futures U.S. & Cotton Outlook

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