

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



April 2019

www.cottoninc.com

Macroeconomic Overview: Following a meeting of Federal Reserve officials last month, Fed Chair Jerome Powell said that U.S. fundamentals were strong and that the economy was “in a good place”. Nonetheless, Federal Reserve forecasts for U.S. GDP growth were lowered, with the projection for 2019 dropping from 2.3% (December forecast) to 2.1%. For 2020, the Federal Reserve is predicting growth will only be 1.9%.

An implication of slower economic growth is that further increases in interest rates become less likely. After steadily increasing rates throughout 2018, expectations are that the central bank will not lift rates in 2019 and that rates might even be lowered to encourage growth. The interest rates that the Federal Reserve controls are influential on other interest rates, and March statements from Federal Reserve officials were followed by decreases in rates on U.S. Treasury notes. A well-publicized effect was that long-term (10-year) Treasury rates fell below short-term (3-month) rates. Historically, when sustained over a period of several months, such inversions have served as a predictor of recession.

All else being equal, stability in U.S. interest rates could support stability in exchange rates. However, global economic conditions generally are not equal over time. A current source of imbalance is the uneven slowdown in growth among major economies. While conditions have weakened in the U.S., greater concern is focused on Europe and China. In the Euro Zone, manufacturing activity contracted at the fastest rate in nearly six years in March. Hit particularly hard was manufacturing in Germany, Europe’s largest economy and exporter. Economic researchers in Germany recently lowered their forecast for German economic growth in 2019 from 1.9% to 0.8%. Slower trade and uncertainty surrounding Brexit are expected to be challenges for all of Europe this year.

China, whose economy has served as an engine for global growth since the financial crisis, is also slowing. The Chinese government’s official growth target for 2019 is a range between 6.0-6.5%. This range is below the 6.6% growth registered in 2018. To stimulate growth, Chinese officials established plans based on tax cuts, infrastructure spending, and easing of residency restrictions. A resolution to the U.S.-China trade dispute could provide another boost. Progress in negotiations has been reported, and rumors suggest a deal may be close (current rumors suggest an agreement could be possible in May). Nonetheless, no official details have been released and it is unknown if/when an agreement might be reached and what a final agreement might entail.

Employment: The U.S. economy is estimated to have added 196,000 jobs in March. This represents a significant rebound from February, when job gains were initially reported to have been only 20,000. Revisions to figures to February and January were positive, with the number for February increasing from 20,000 to 33,000 and the number for January increasing from 311,000 to 312,000. The U.S. has added jobs for 102 consecutive months, setting a new record for continuous growth.

The unemployment rate held steady at 3.8%. This is the lowest level since 1969. In addition to job growth, fewer layoffs are helping keep the unemployment rate down. Initial claims for unemployment insurance, a proxy for layoffs, decreased recently from already low levels. Current values are the lowest since 1969. In 1969, the U.S. labor force was only 81 million. It is now 163 million. As a result, as a percentage of the labor force, layoffs are lower than they have ever been.

Average hourly wages increased at 3.2% rate year-over. This marks the sixth consecutive month that wage growth has been over three percent. Historically, three percent wage growth is not strong. However, inflation has also been weak by historic standards. Since December, the U.S. inflation rate has been below the Federal Reserve target of two percent. In February, it was only 1.5%. A widening gap between wage and inflation growth implies higher disposable income, which can support growth in consumer spending.

Consumer Confidence & Spending: The Conference Board’s Index of Consumer Confidence decreased 7.3 points to 124.1 in March. Since the fall, monthly changes in the index have become larger (average absolute change since 2017 only 3.7 points). Despite the volatility, values for the index continue to rank among the highest on record (the long-term average near 100).

The latest official figures on consumer spending describe a slowdown in late 2018 and early 2019. Overall consumer spending decreased 0.6% in December and increased only 0.1% month-over-month in January (latest available data). Year over-year, overall spending growth was 2.1% in December and 2.3% in January. Spending on apparel was down 3.2% month-over-month in December and down 0.4% in January. Year-over-year, consumer apparel spending was down 1.3%. A factor contributing to the weakness in annual clothing spending growth is the strong growth one year ago (averaged 3.7% in 2018).

Consumer Prices & Import Data: Retail prices for clothing increased 0.4% month-over-month in February (latest available), but were down 1.4% year-over-year. Average import prices for cotton-dominant apparel were unchanged month-over-month in seasonally-adjusted terms from December to January. Year-over-year, average import prices were 2.7% higher.

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		Europe	
	Industrial Production			
	Inventory/Shipments			
	U.S. Yarn Exports			
	Polyester PPI			

Executive Cotton Update

U.S. Macroeconomic Indicators & Cotton Prices
April 2019



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q2 : 2018	Q3 : 2018	Q4 : 2018		
Growth in US Real GDP	2.4%	2.5%	2.8%	2.2%	4.2%	3.4%	2.2%	% Chg. Quarter/Quarter	Department of Commerce

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		
ISM Index of Manufacturing Activity	54.9	56.2	56.8	55.0	56.6	54.2	55.3	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.0	57.2	59.3	58.1	56.7	59.7	56.1	Index	Institute for Supply Management
Consumer Confidence	109.1	119.0	132.5	126.6	121.7	131.4	124.1	Index	The Conference Board
Change in Non-Farm Payrolls	214.8	199.3	192.2	190.7	312	33	196	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.8%	4.3%	3.8%	3.9%	4.0%	3.8%	3.8%	Rate	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		
US Interest Rates									
Federal Funds	0.8%	1.2%	2.2%	2.4%	2.4%	2.4%	2.4%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.4%	2.9%	2.7%	2.7%	2.7%	2.6%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	102.2	105.4	111.4	111.4	111.3	111.3	111.5	Index	The Conference Board
Housing Starts	11.6	12.1	12.0	11.9	1.1	1.3	1.2	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.2	5.1	5.0	4.9	5.5	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

Monthly 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		
US Industrial Production	105.1	105.5	110.2	110.5	110.5	110.4	110.5	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	107.6	106.9	105.1	105.0	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

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

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 Textile Mill Inventory/Shipments Ratio	1.28	1.30	1.34	1.38	1.33	1.35	1.39	Ratio	Department of Commerce

Retail Data

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 Real Consumer Spending									
All Goods and Services	2.9%	2.6%	2.6%	2.4%	2.8%	2.0%	2.3%	% Chg. Year/Year	Department of Commerce
Clothing and Shoes	2.9%	2.7%	3.6%	2.1%	3.5%	0.4%	2.5%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.5%	2.0%	2.0%	1.7%	1.9%	1.5%	1.5%	% Chg Year/Year	Bureau of Labor Statistics
Apparel	-0.4%	-0.1%	-0.4%	-0.6%	0.1%	-0.5%	-1.4%	% Chg. Year/Year	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		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.4	2.2	2.3	2.2	2.2	2.3	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.0	2.0	2.1	1.9	2.0	Ratio	Department of Commerce

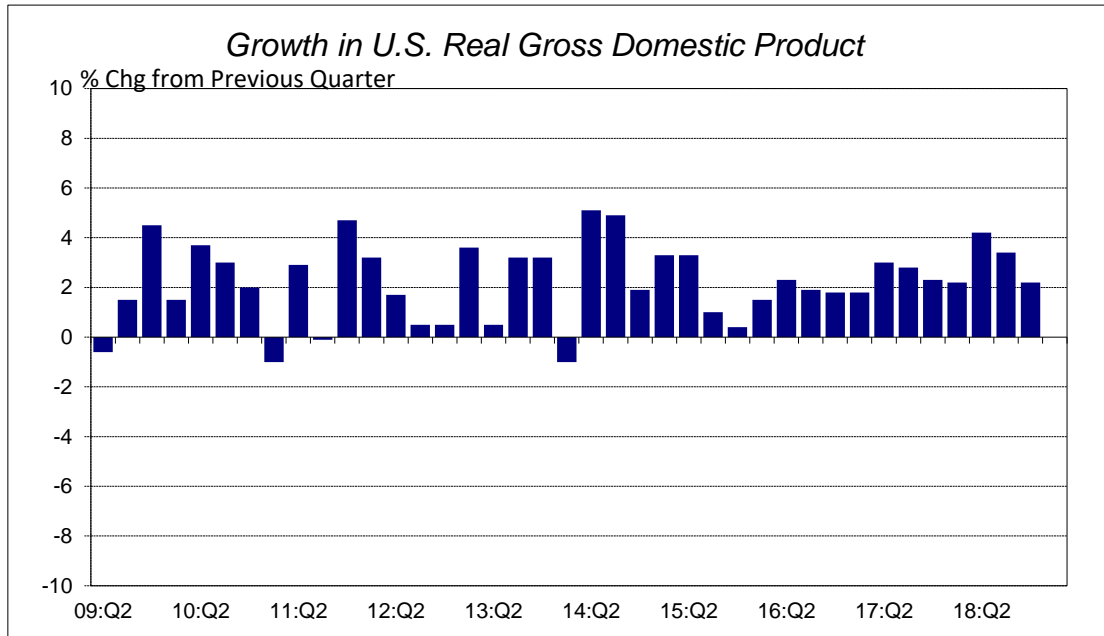
Executive Cotton Update

Daily Cotton Price and Currency Data
April 2019

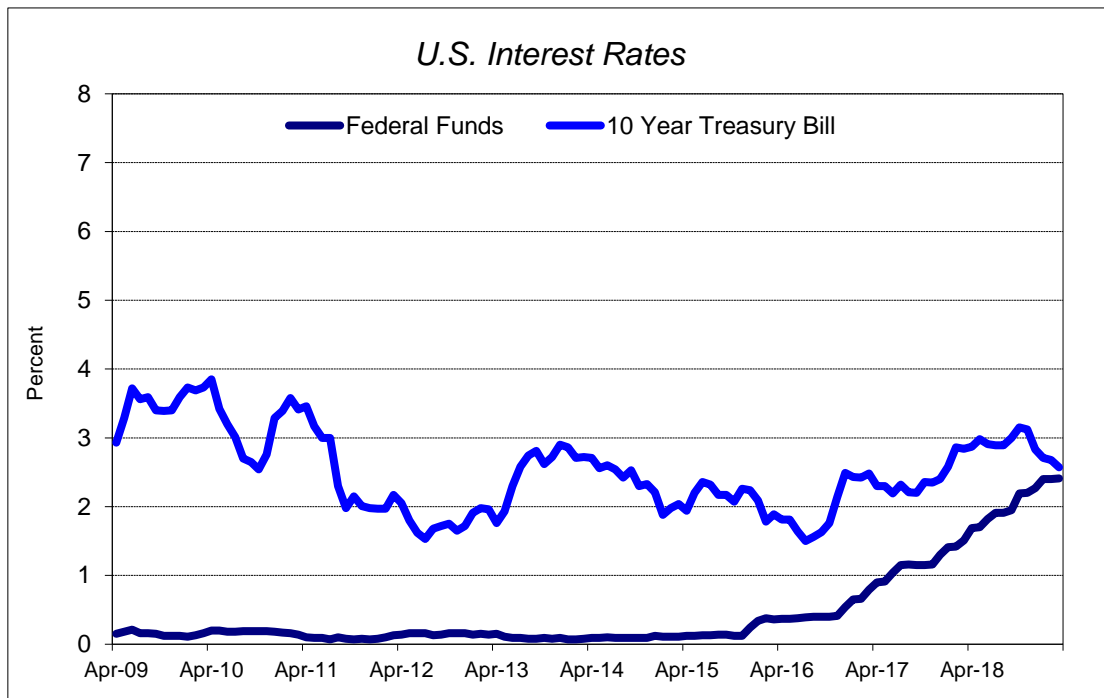


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
NY Nearby	72.1	73.6	78.3	75.4	73.1	71.9	75.3	cents/pound	ICE
A Index	80.6	83.0	87.5	84.4	82.3	81.1	83.8	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
Dollar Trade Weighted Exchange Index	107.6	111.1	113.4	112.9	113.4	112.3	113.1	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.52	6.68	6.82	6.77	6.86	6.74	6.70	Chinese Renminbi/US dollar	Reuters
Indian Rupee	65.52	67.08	71.51	70.79	69.74	71.75	70.87	Indian Rupee/US dollar	Reuters
Japanese Yen	112.05	110.01	111.64	110.01	108.13	110.05	111.85	Japanese Yen/US dollar	Reuters
Pakistani Rupee	108.46	112.77	134.96	138.60	138.90	138.31	138.59	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.26	3.43	3.77	3.72	3.72	3.66	3.78	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.27	1.30	1.32	1.33	1.34	1.31	1.33	Canadian dollar/US dollar	Reuters
Mexican Peso	17.46	19.04	19.58	19.28	19.47	19.06	19.32	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.71	0.76	0.77	0.77	0.79	0.76	0.76	British Pound/US dollar	Reuters
Euro	0.86	0.88	0.88	0.88	0.88	0.88	0.88	Euro/US dollar	Reuters
Swiss Franc	0.97	0.98	1.00	0.99	0.99	1.00	1.00	Swiss Franc/US dollar	Reuters
Turkish Lira	3.42	4.01	5.49	5.32	5.35	5.22	5.37	Turkish Lira/US dollar	Reuters



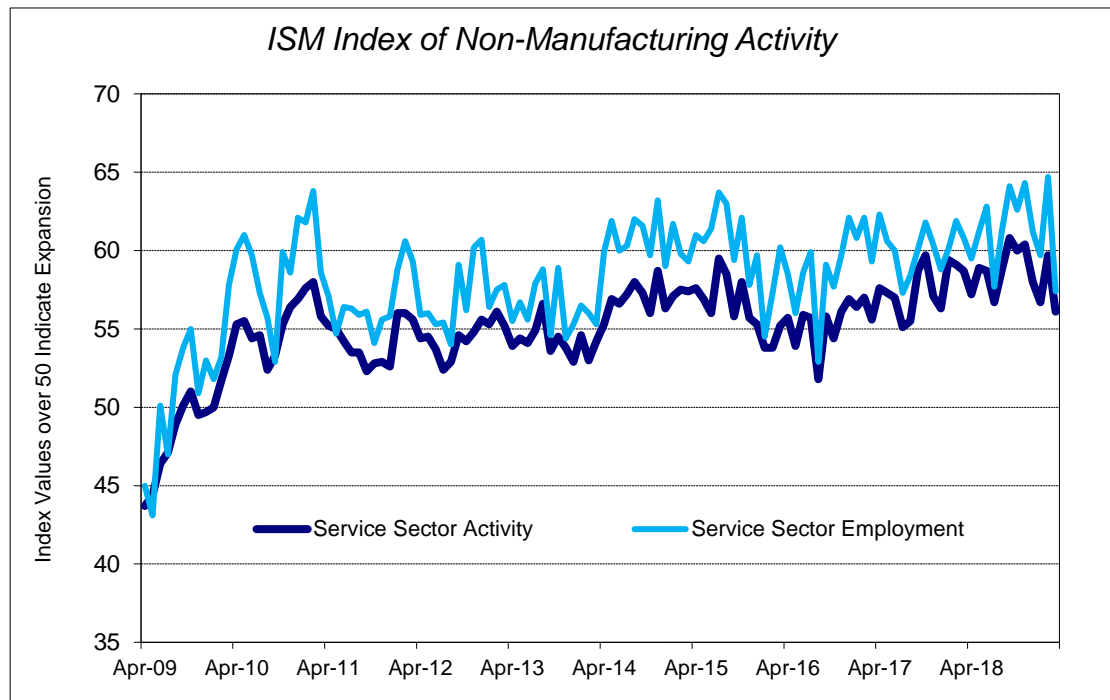
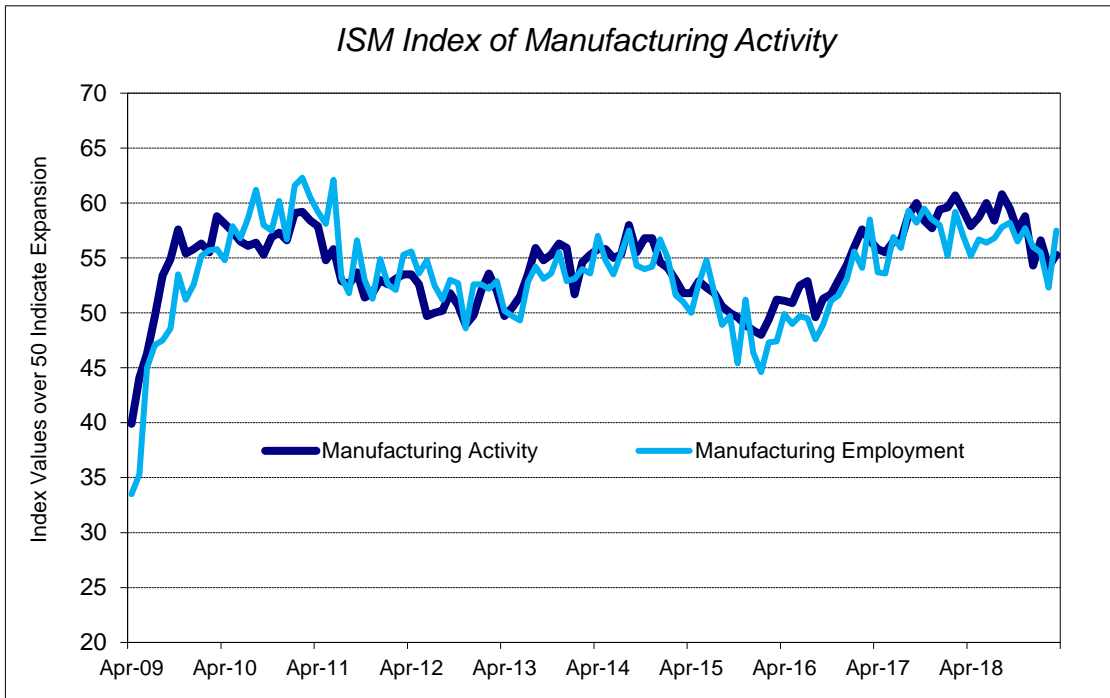
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



Source: Federal Reserve

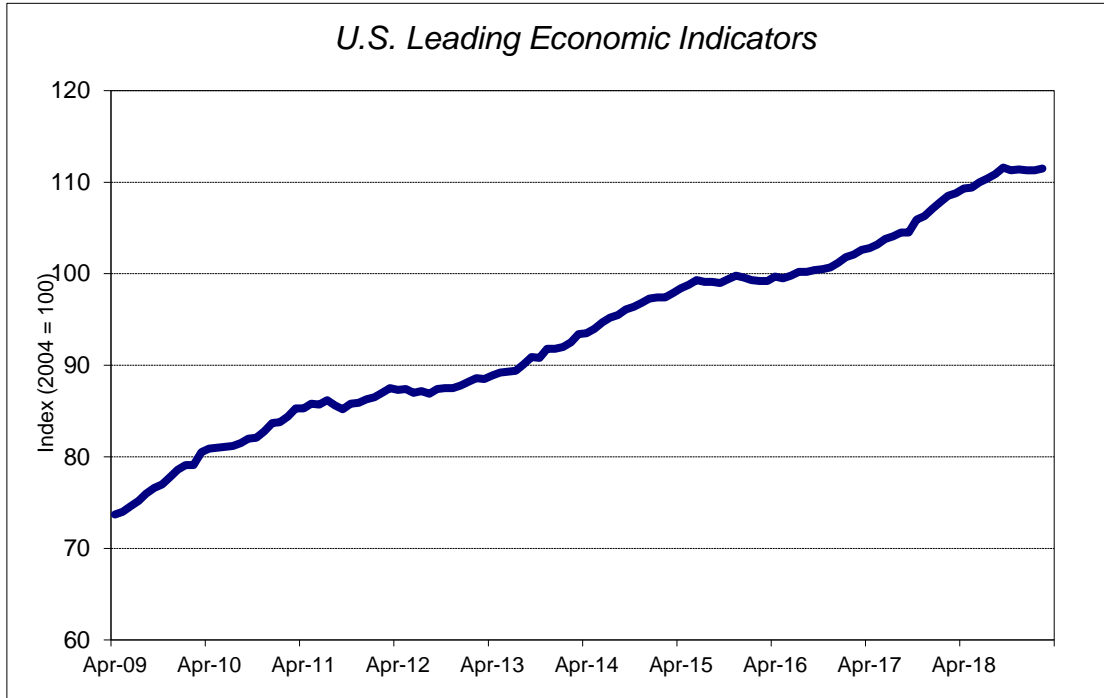
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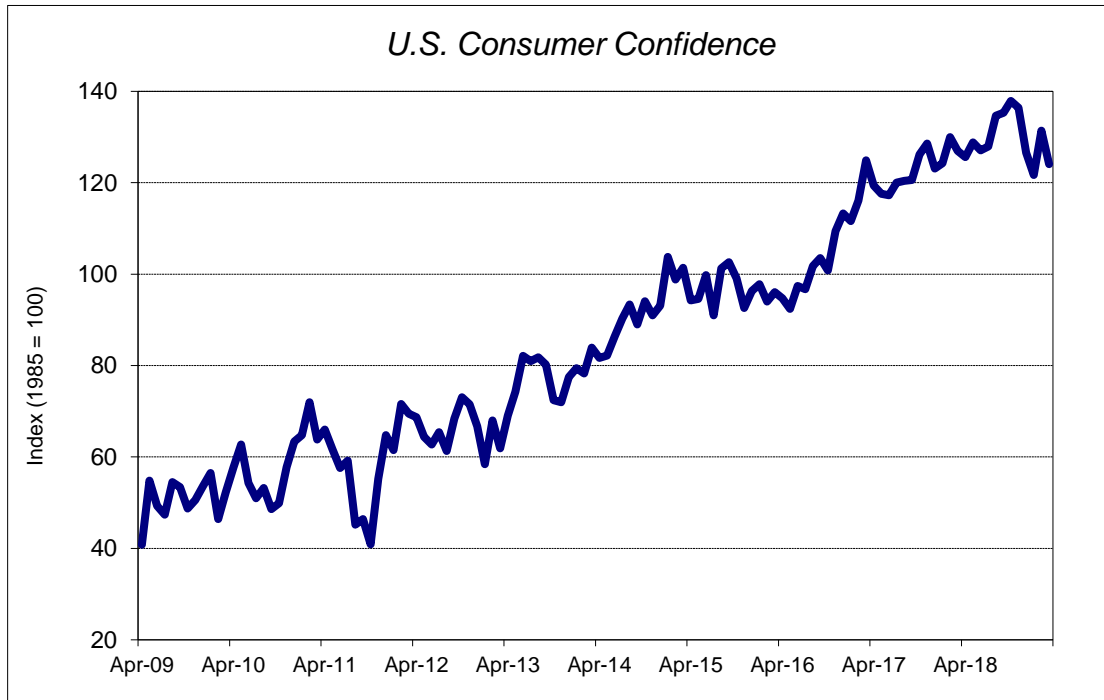


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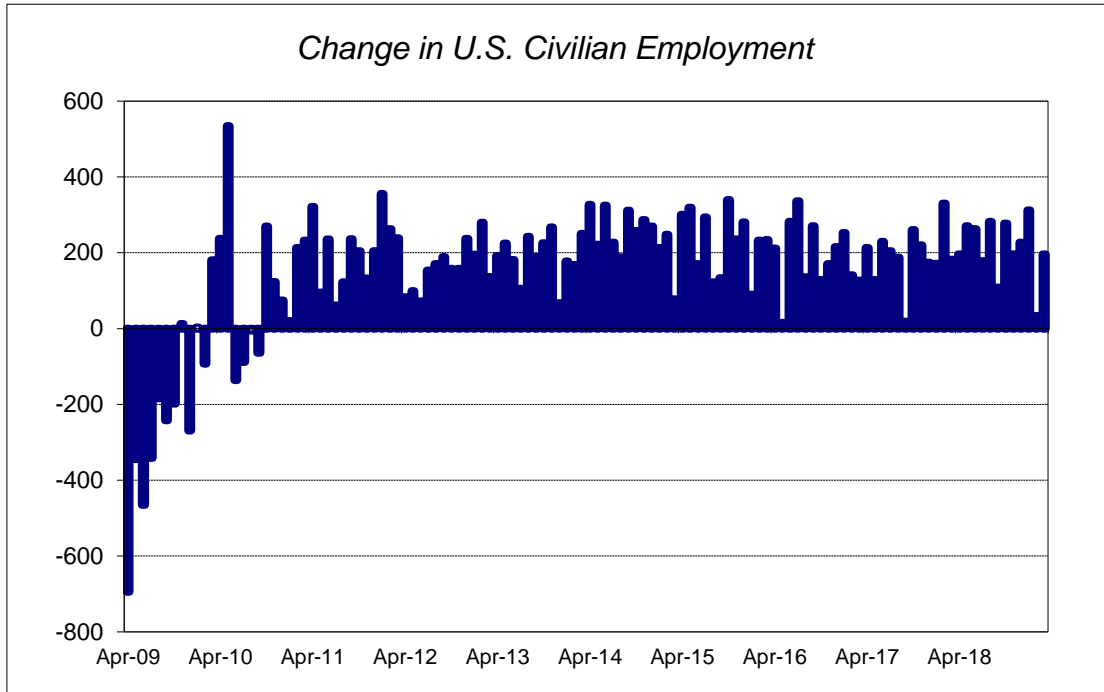
Source: The Conference Board



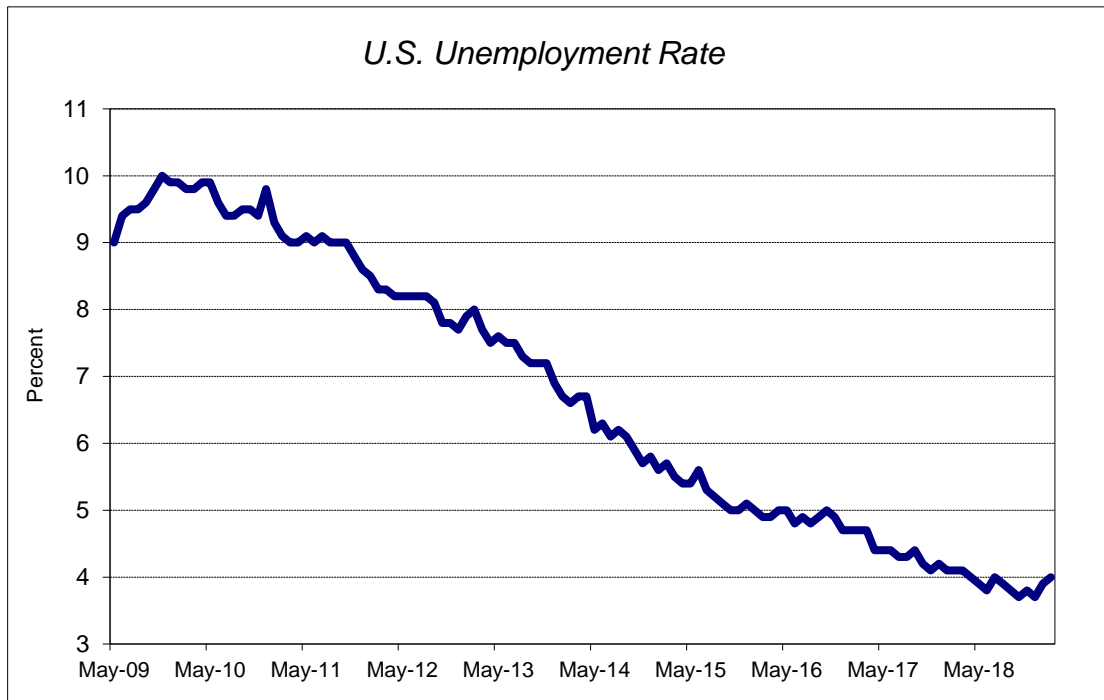
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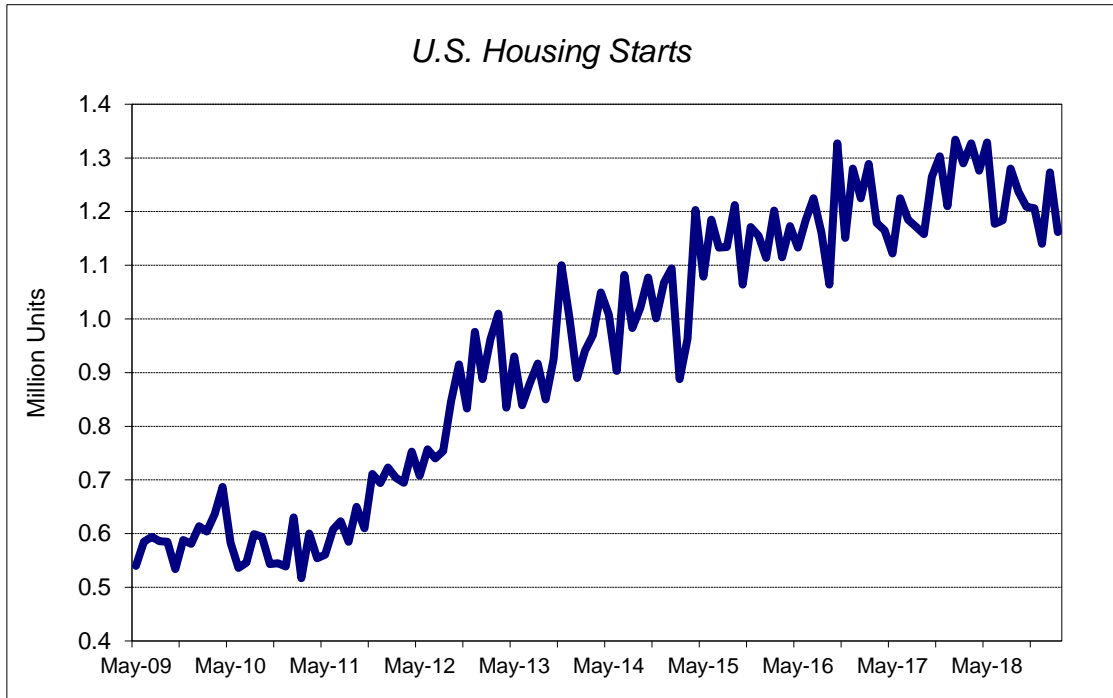
Source: Bureau of Labor Statistics



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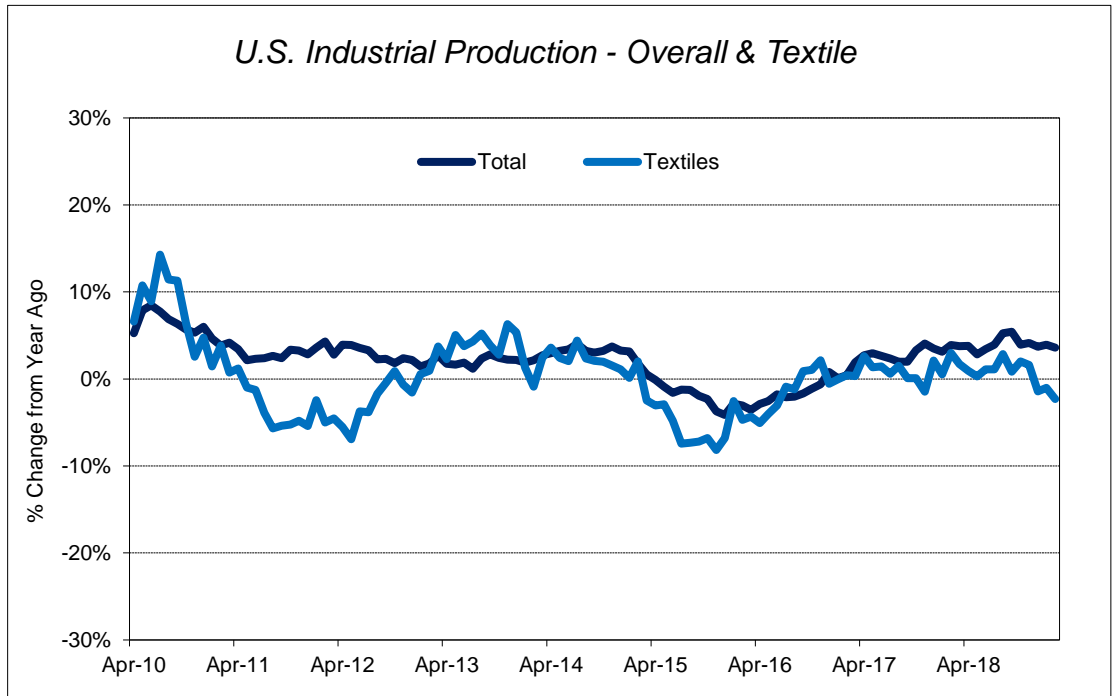
Seasonally Adjusted Annual Rate; Source: Department of Commerce



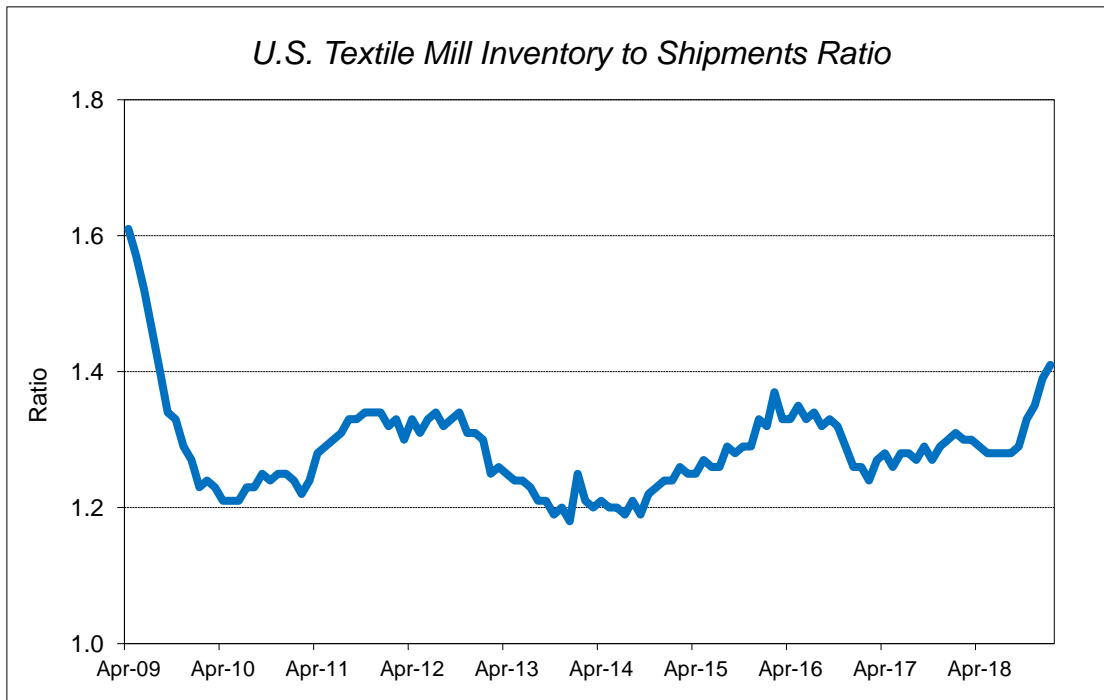
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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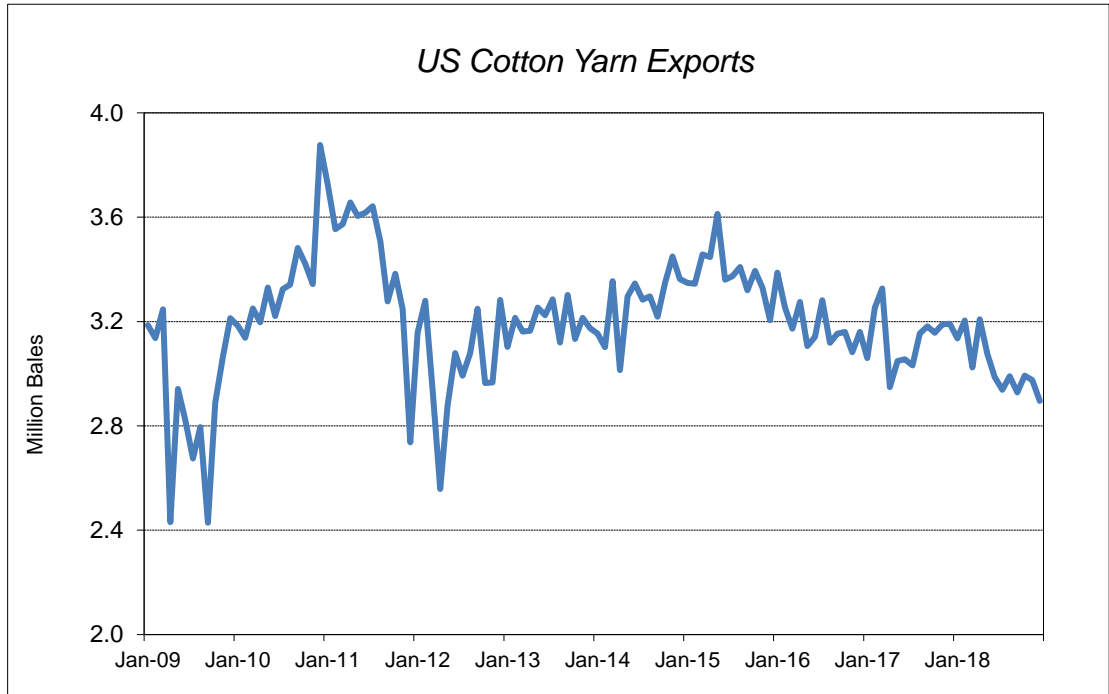
Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

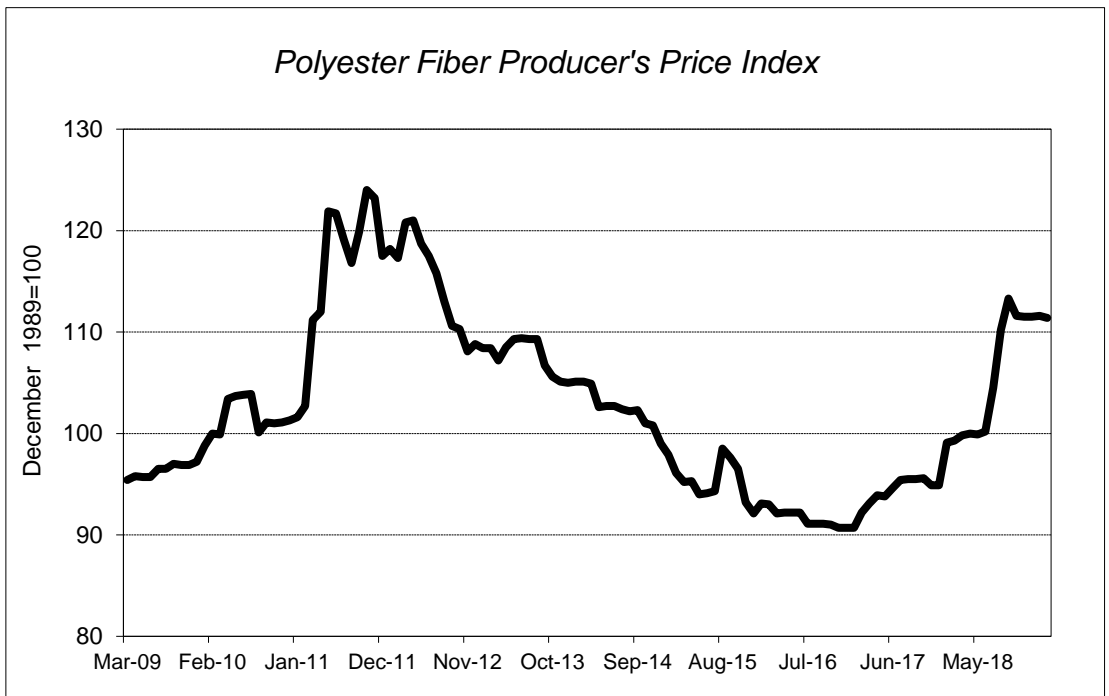
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Seasonally Adjusted Annual Rate

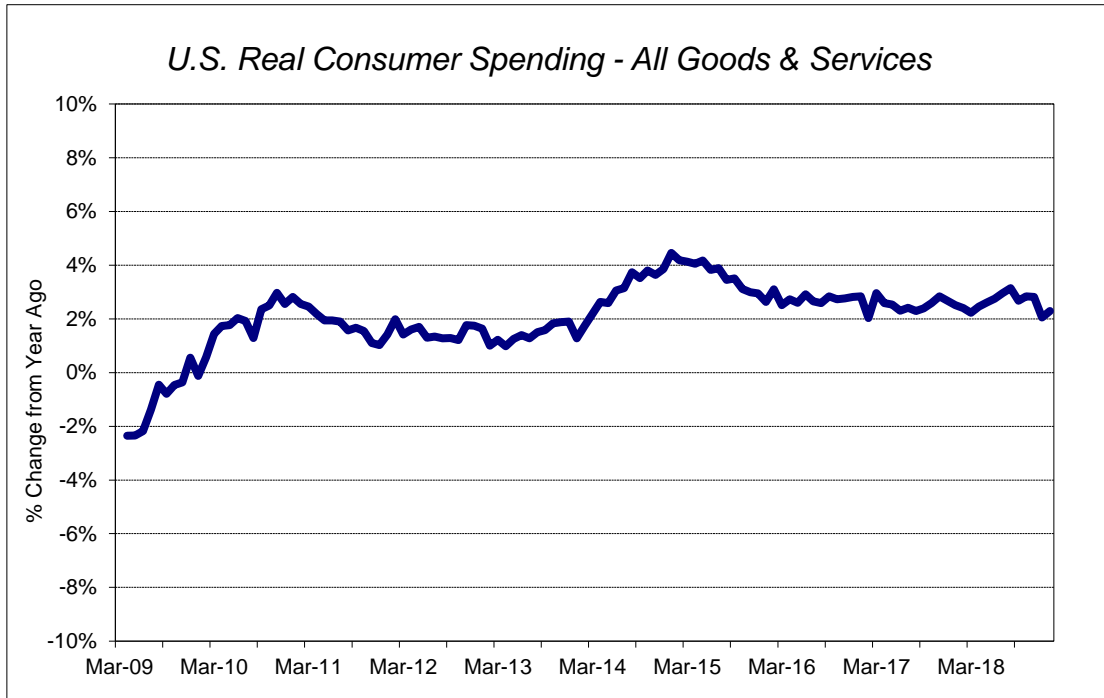
Source: USDA ERS



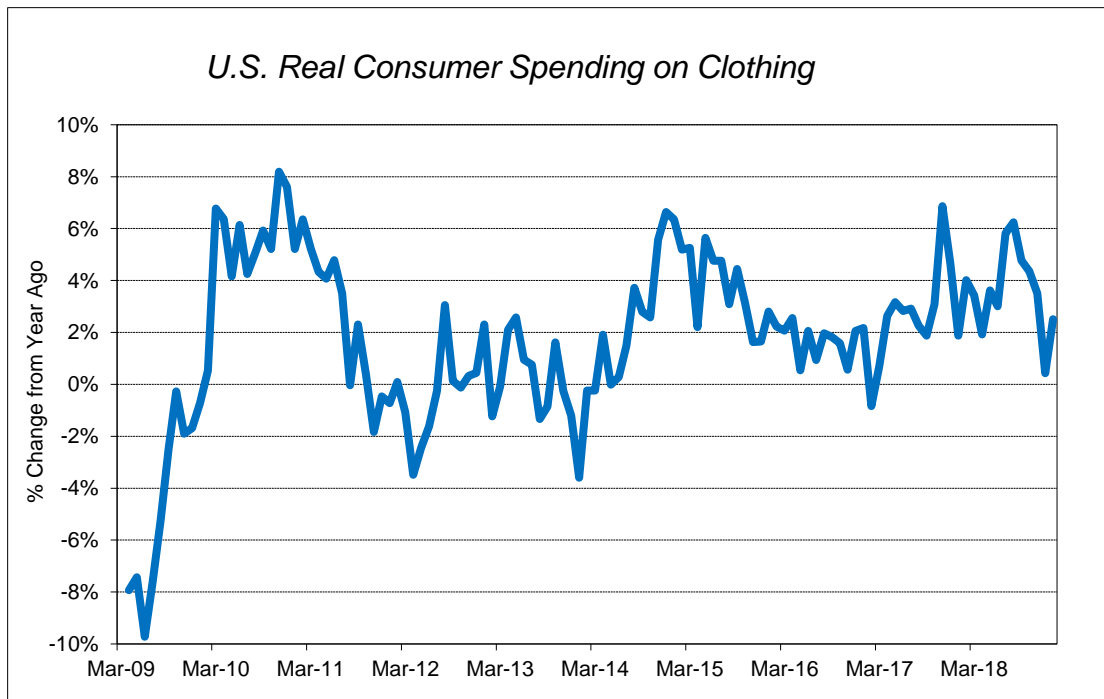
Source: Bureau of Labor Statistics

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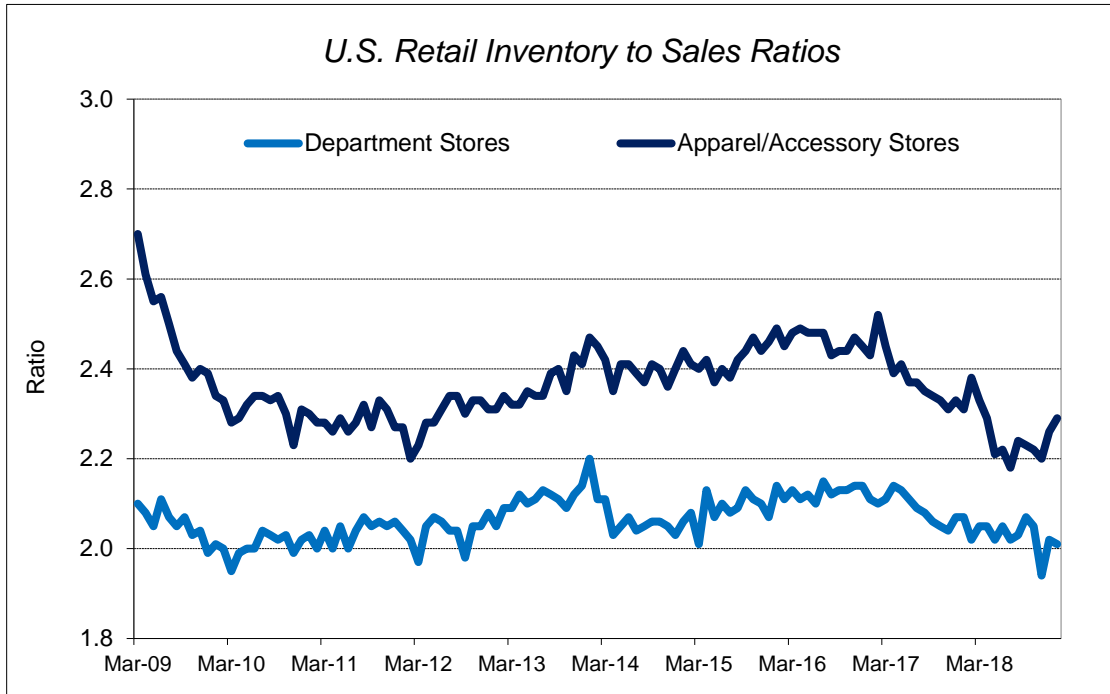
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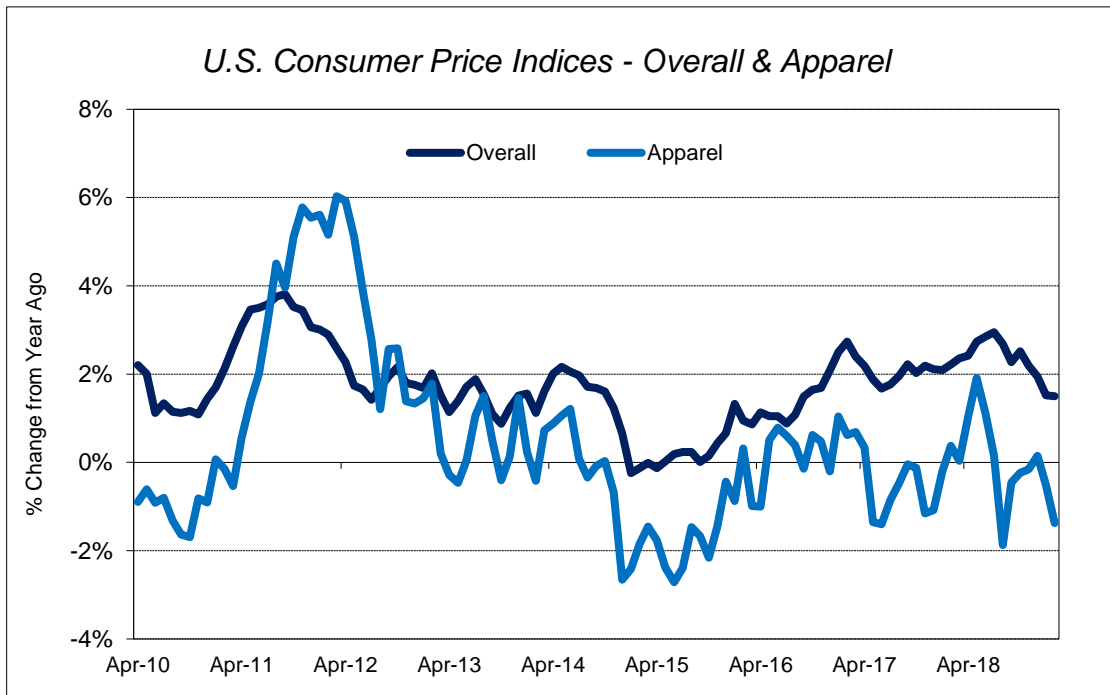
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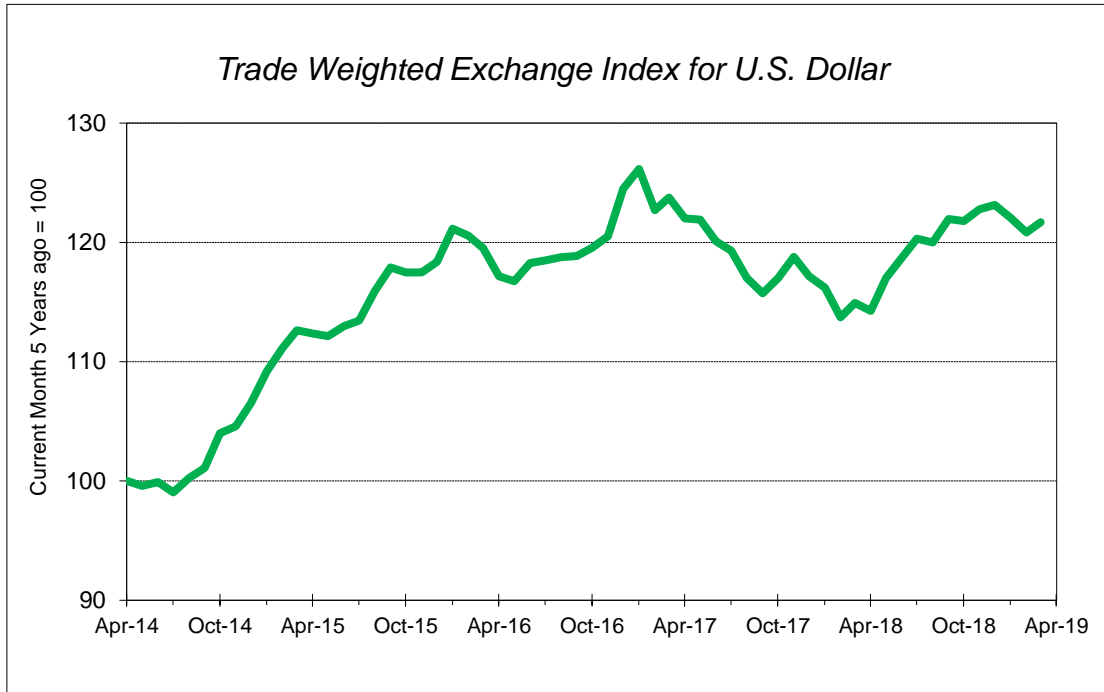
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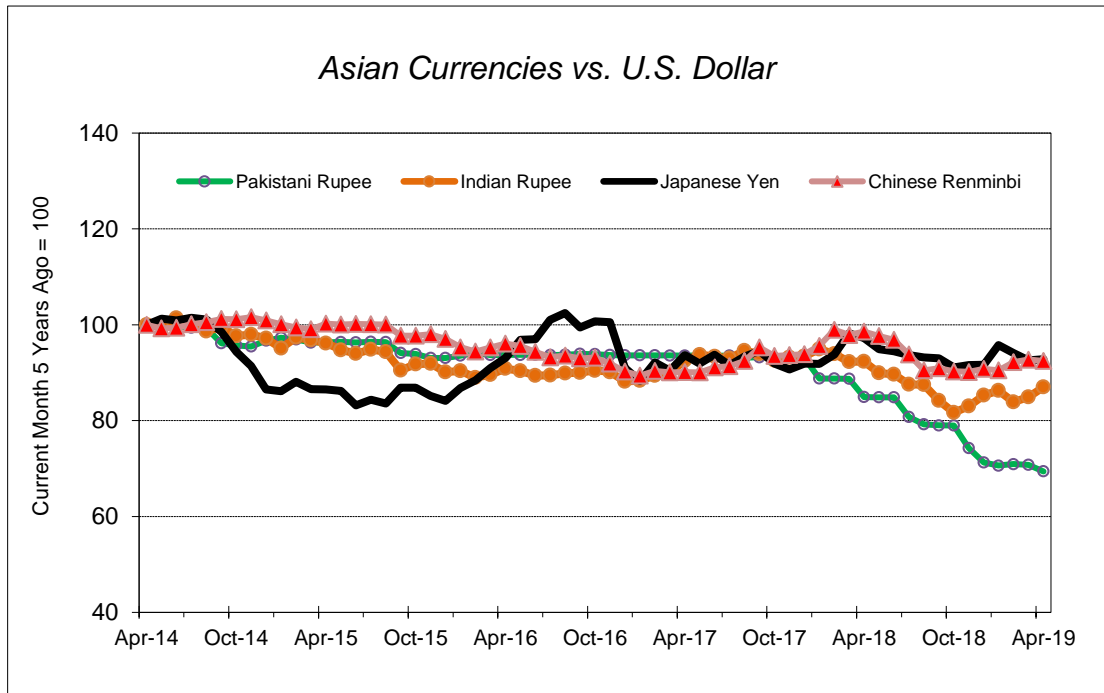
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Source: Federal Reserve

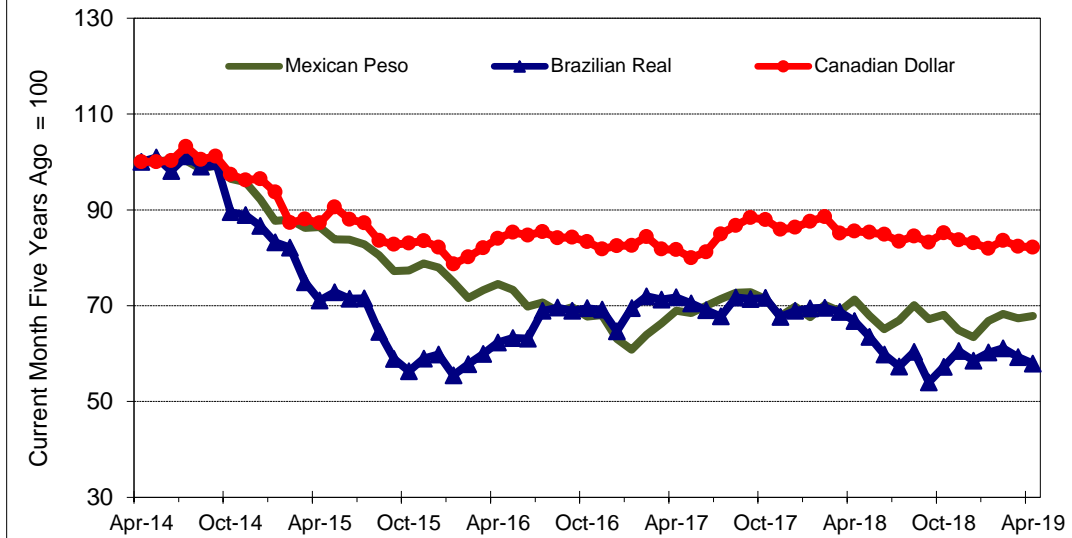


Source: Reuters

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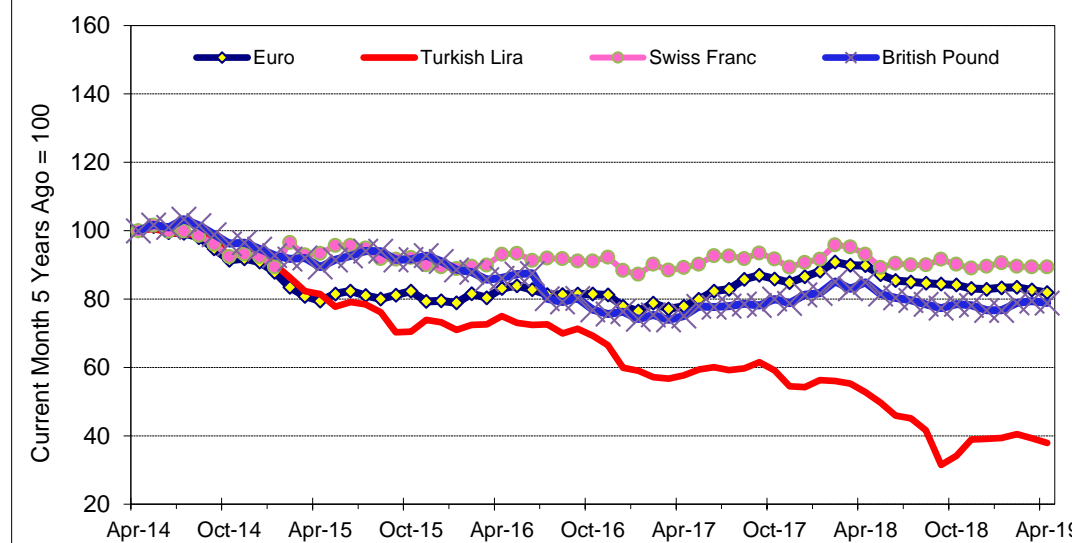


North & South American Currencies vs. U.S. Dollar



Source: Reuters

Index of European Currencies vs. U.S. Dollar



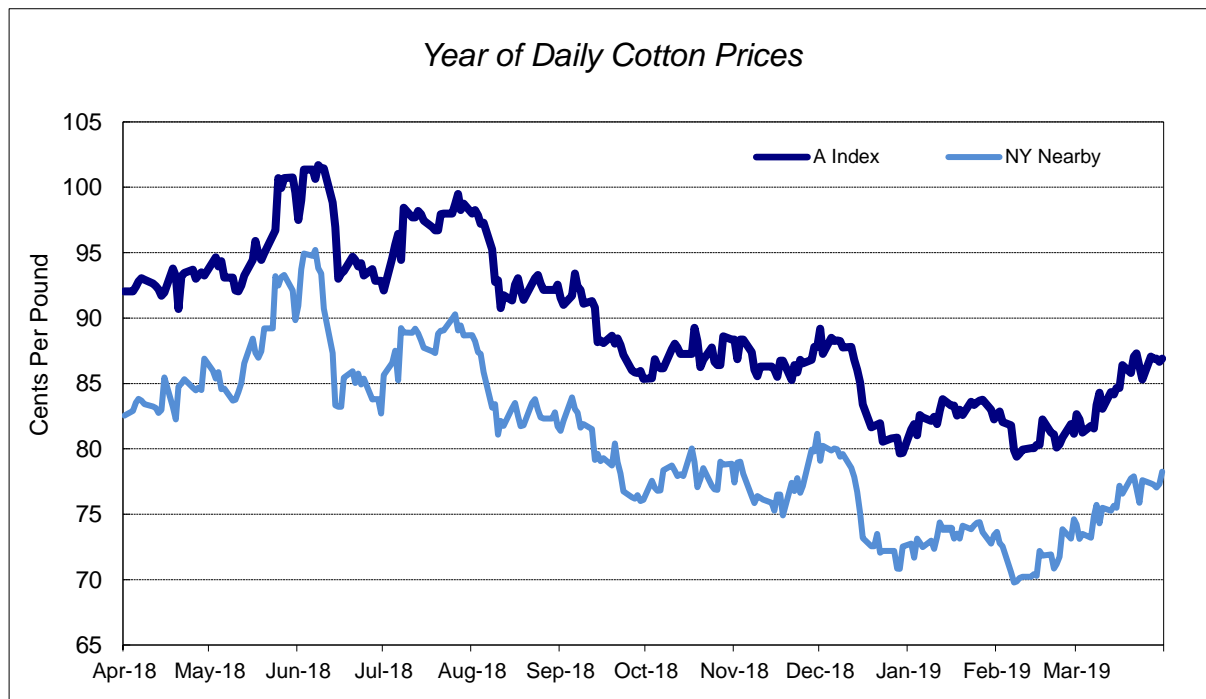
Source: Reuters

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U.S. Balance Sheet

million 480 lb. bales	2014/15	2015/16	2016/17	2017/18	2018/19 February	2018/19 March
Beginning Stocks	2.4	3.7	3.8	2.8	4.3	4.3
Production	16.3	12.9	17.2	20.9	18.4	18.4
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	18.7	16.6	21.0	23.7	22.7	22.7
Mill-Use	3.6	3.5	3.3	3.2	3.2	3.2
Exports	11.2	9.2	14.9	15.8	15.0	15.0
Demand	14.8	12.6	18.2	19.1	18.2	18.2
Ending Stocks	3.7	3.8	2.8	4.3	4.3	4.3
Stocks/Use Ratio	24.6%	30.2%	15.1%	22.5%	23.6%	23.6%



Sources: ICE Futures U.S. & Cotton Outlook

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