

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



May 2019

www.cottoninc.com

Macroeconomic Overview: The U.S. Bureau of Economic Analysis (BEA) published preliminary estimates for GDP growth in the first quarter. Given the government shutdown and weather-related issues, expectations were that growth in the first quarter would have been weak. Contrary to expectations, the figure of 3.2% (seasonally-adjusted annualized rate) was higher than in the fourth quarter (2.2%) and would rank as the strongest rate in either 2016 or 2017 (GDP grew 4.2% in Q2 2018 and 3.4% in Q3 2018, but has otherwise been below 3.2% since Q2 2015).

The stronger than expected increase in GDP in the first quarter was primarily a result of stronger than expected growth in state and local government spending, inventory accumulation, and the combination of higher exports and lower imports. The inventory component of GDP is notorious for its difficulty to estimate. Real final sales to domestic purchasers, a measure derived by the BEA that does not include inventory, was the lowest (1.4%) since Q4 2015. Growth in consumer spending was also weaker in the first quarter (1.2%) than in the fourth quarter (2.5%) and was the weakest rate in a year.

The International Monetary Fund (IMF) released an updated set of forecasts and analysis for the global economy in April. This report was issued before the latest GDP figures were published by the U.S. and China (6.4% rate of annual growth in the first quarter), both of which were better than anticipated. In the IMF's analysis, a focus was the deceleration that has occurred over the past year and how expectations for strong growth that were in place last spring were replaced by recent concerns of a global slowdown. Factors identified as contributing to the reversal include recessions in Turkey and Argentina, the disruption in Germany's auto sector, tighter credit policies in China, tighter monetary policy by central banks in developed economies, and the U.S.-China trade dispute.

After several months of negotiations that appeared to move the two sides closer to a resolution, the President Trump threatened two new rounds of tariff increases. The list of goods valued at \$200 billion that was subject to 10 percentage point rise in rates in September was threatened with another 15 percentage point increase. If realized, this would bring the total increase for that list to 25 percentage points. Beyond that, President Trump also threatened to increase tariffs by 25 percentage points on any U.S. imports from China that have not yet been affected by increases. Until now, the goods subjected to higher tariffs have not included many consumer goods. However, if this round of increases happens, it would include apparel. China's share of U.S. apparel imports has held steady if not increased slightly (at levels just over 40%), since threats to cover the entire set of U.S. imports from China were initially made last summer.

The trade dispute is a source of uncertainty. Nonetheless, the IMF expects global growth to accelerate in the second half of the year. Reasons cited by the IMF for the pickup include actions already taken by central banks, such as the pause in interest rate increases by the Federal Reserve and the adoption of more accommodative positions by Chinese, European, and Japanese central banks. On an annual basis, however, IMF forecasts suggest global growth in 2019 (3.3%) will be slower than in 2017 (3.8%) and 2018 (3.6%). The IMF's current forecast for 2020 (3.6%) predicts that the acceleration expected late in 2019 will carry through into next year.

Employment: The U.S. economy is estimated to have added 263,000 jobs in April. This represents a strong increase relative to values posted in past two months. Following revisions, job growth in February is currently estimated to have been +56,000 (revised up from last month's estimate of +33,000) and job growth in March is currently estimated to have been +189,000 (revised down from last month's estimate of +196,000). Over the past twelve months, the average monthly growth in payrolls has been 213,000. Over the same time period one year ago, the average was 192,000.

The unemployment rate fell from 3.8% to 3.6%. This is the lowest rate since December 1969. Beyond job growth, a decrease in the labor force participation helped to lower the unemployment rate (which is the ratio of people looking for work relative to those wanting to work). Average wages rose 3.2% year-over-year in April. This is the seventh consecutive month that wages have increased by more than three percent. Wages began to trend higher in early 2018 and recent gains of over three percent are the strongest since the financial crisis.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence increased five points, to 129.2 in April. Since December, there have been a series of relatively large month-over-month changes. Despite the volatility, values remain high compared to historic averages.

Overall consumer spending increased 0.7% month-over-month (seasonally-adjusted data) and was up 2.9% year-over-year in March. Apparel spending increased sharply in March. The 3.7% gain relative to February represented the largest monthly increase (subject to revision) in the last ten years. Year-over-year, consumer spending on clothing was up 4.6%, which is the strongest since September.

Consumer Prices & Import Data: Retail apparel prices decreased month-over-month 1.9% in March. Year-over-year, consumer prices were 2.3% lower. Average import prices for cotton-dominant apparel were up 1.3% month-over-month (seasonally-adjusted) and up 4.1% year-over-year in February (latest available data).

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	

Executive Cotton Update

U.S. Macroeconomic Indicators & Cotton Prices
May 2019



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q3 : 2018	Q4 : 2018	Q1 : 2019		
Growth in US Real GDP	2.6%	2.6%	2.7%	3.2%	3.4%	2.2%	3.2%	% 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	54.9	56.3	56.1	55.4	54.2	55.3	52.8	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.0	57.2	58.5	57.5	59.7	56.1	55.5	Index	Institute for Supply Management
Consumer Confidence	109.8	119.8	130.9	125.8	131.4	124.2	129.2	Index	The Conference Board
Change in Non-Farm Payrolls	214.1	198.6	209.5	185.7	56	189	263	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.8%	4.3%	3.8%	3.9%	3.8%	3.8%	3.6%	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	0.8%	1.2%	2.3%	2.4%	2.4%	2.4%	2.4%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.4%	2.8%	2.7%	2.7%	2.6%	2.5%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	102.5	105.7	111.5	111.6	111.4	111.5	111.9	Index	The Conference Board
Housing Starts	11.6	12.2	11.9	11.9	1.3	1.1	1.1	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.2	5.2	4.9	5.5	5.2	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

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 Industrial Production	105.2	105.7	110.3	110.3	110.2	110.3	110.2	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	107.7	106.5	104.6	104.2	98.2	97.9	98.2	Index, December 2003=100	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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	3.1	3.0	3.1	3.0	2.9	3.4	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	1.29	1.31	1.37	1.39	1.40	1.39	1.37	Ratio	Department of Commerce

Retail Data

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 Real Consumer Spending									
All Goods and Services	3.0%	2.6%	2.7%	2.7%	2.5%	2.8%	2.9%	% Chg. Year/Year	Department of Commerce
Clothing	3.0%	2.8%	3.1%	3.5%	3.4%	2.5%	4.6%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.5%	2.0%	1.9%	1.6%	1.5%	1.5%	1.9%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.5%	-0.1%	-0.7%	-1.4%	-0.5%	-1.4%	-2.3%	% Chg. Year/Year	Bureau of Labor Statistics

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		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.3	2.3	2.3	2.2	2.3	2.3	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.0	2.0	1.9	2.0	2.0	Ratio	Department of Commerce

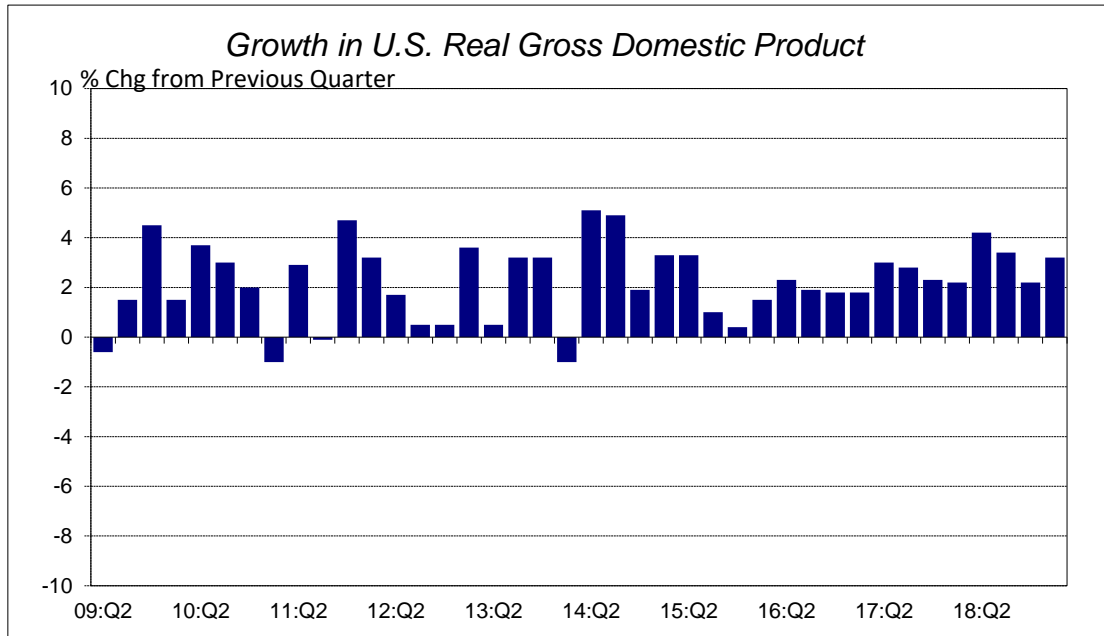
Executive Cotton Update

Daily Cotton Price and Currency Data
May 2019

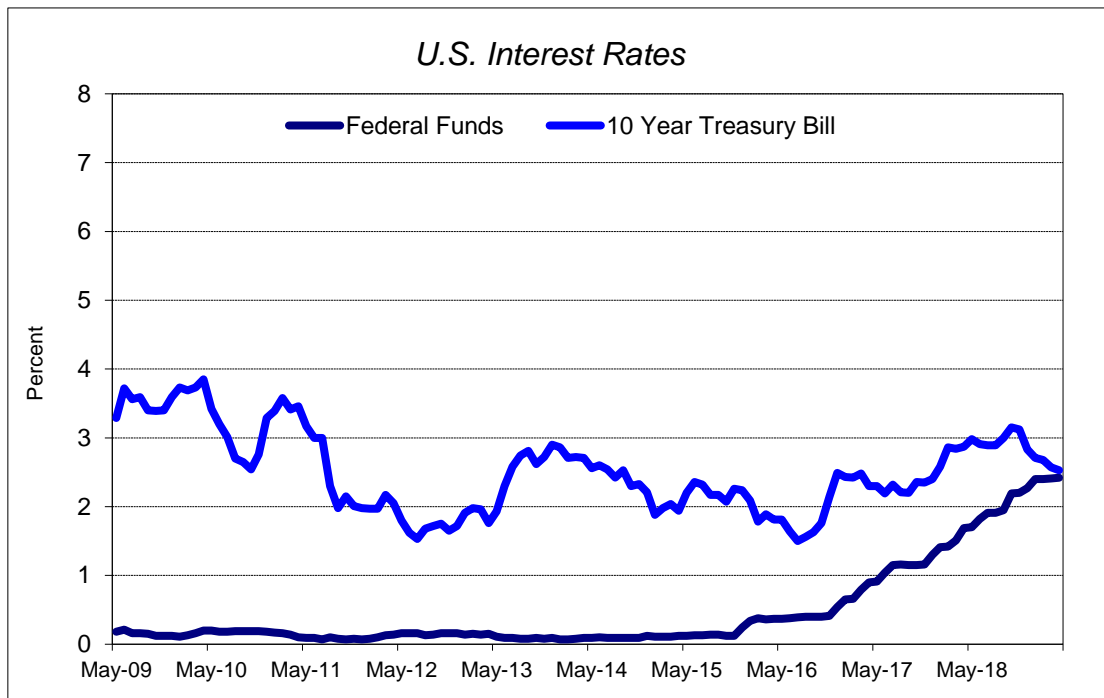


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
NY Nearby	72.2	73.7	78.2	75.7	71.9	75.3	77.6	cents/pound	ICE
A Index	80.7	83.1	87.5	84.8	81.1	83.8	87.4	cents/pound	Cotlook

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	108.0	111.2	113.6	113.1	112.6	113.3	113.3	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.53	6.69	6.81	6.72	6.74	6.71	6.72	Chinese Renminbi/US dollar	Reuters
Indian Rupee	65.68	67.17	70.80	70.38	71.56	70.37	69.23	Indian Rupee/US dollar	Reuters
Japanese Yen	112.17	109.89	111.19	111.10	109.82	111.73	111.75	Japanese Yen/US dollar	Reuters
Pakistani Rupee	109.21	113.86	137.98	139.32	138.20	138.60	141.18	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.30	3.44	3.79	3.78	3.70	3.79	3.86	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.27	1.30	1.33	1.33	1.32	1.34	1.34	Canadian dollar/US dollar	Reuters
Mexican Peso	17.59	19.10	19.56	19.18	19.11	19.34	19.09	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.72	0.76	0.77	0.77	0.77	0.76	0.77	British Pound/US dollar	Reuters
Euro	0.87	0.88	0.88	0.88	0.88	0.88	0.89	Euro/US dollar	Reuters
Swiss Franc	0.97	0.98	1.00	1.00	1.00	1.00	1.00	Swiss Franc/US dollar	Reuters
Turkish Lira	3.48	4.09	5.40	5.42	5.22	5.43	5.61	Turkish Lira/US dollar	Reuters



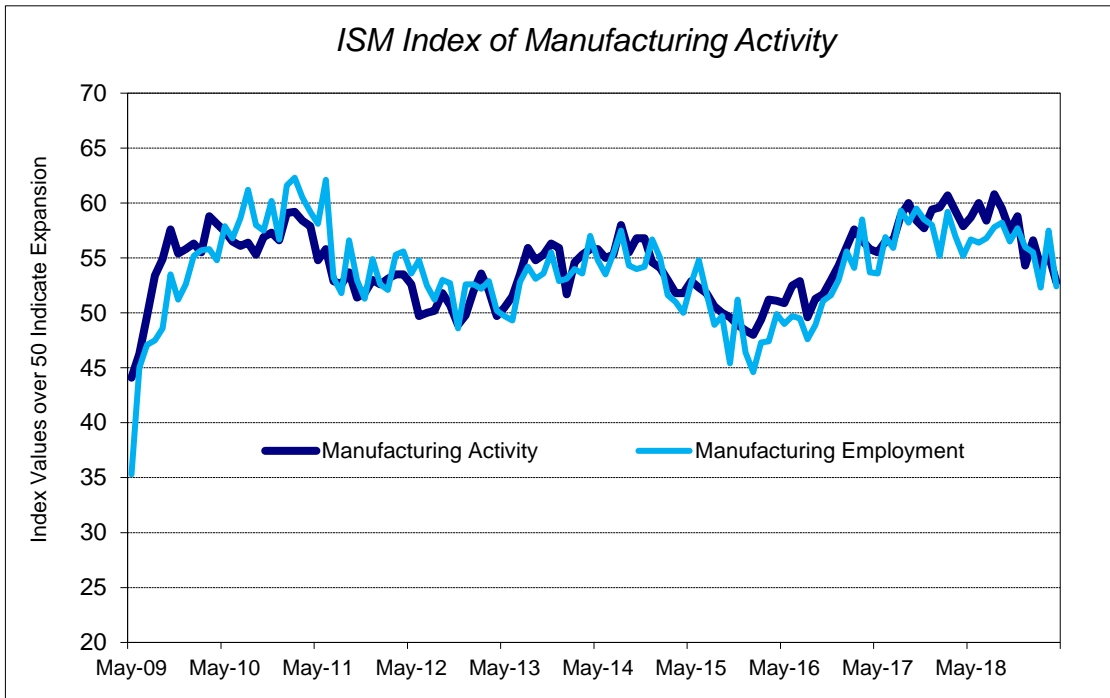
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



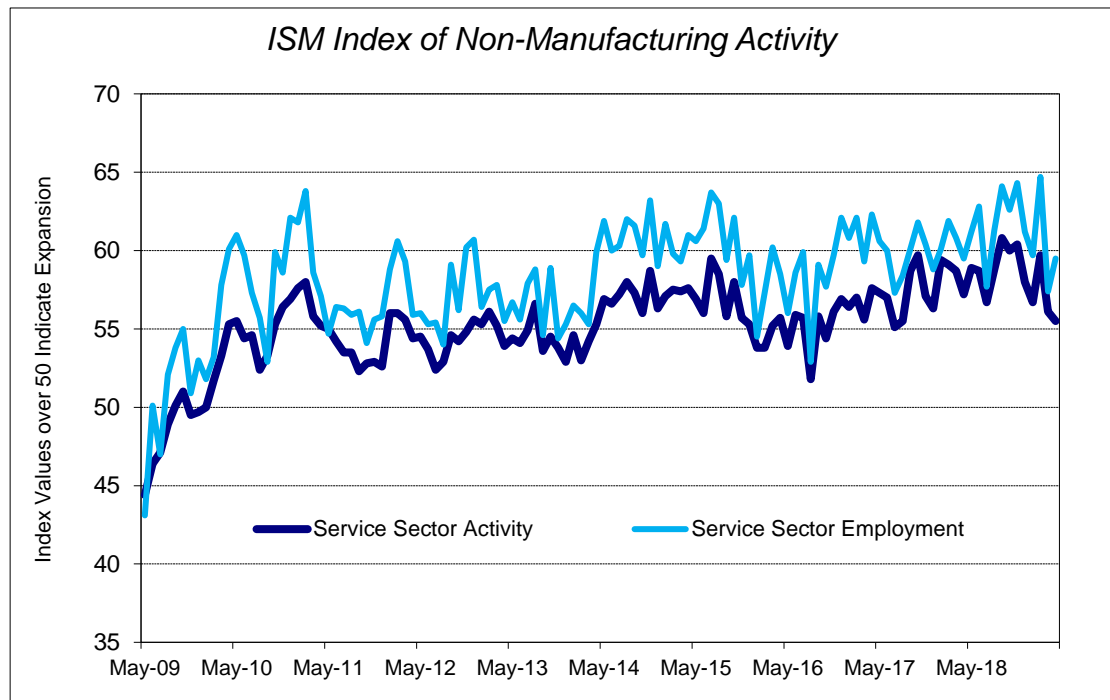
Source: Federal Reserve

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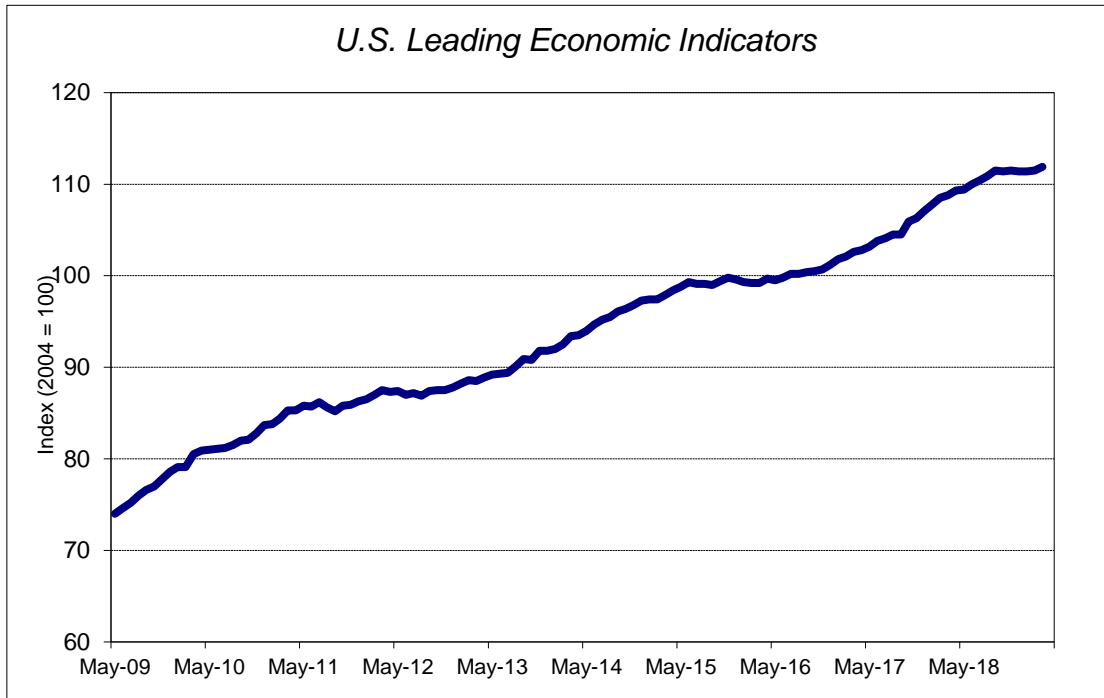
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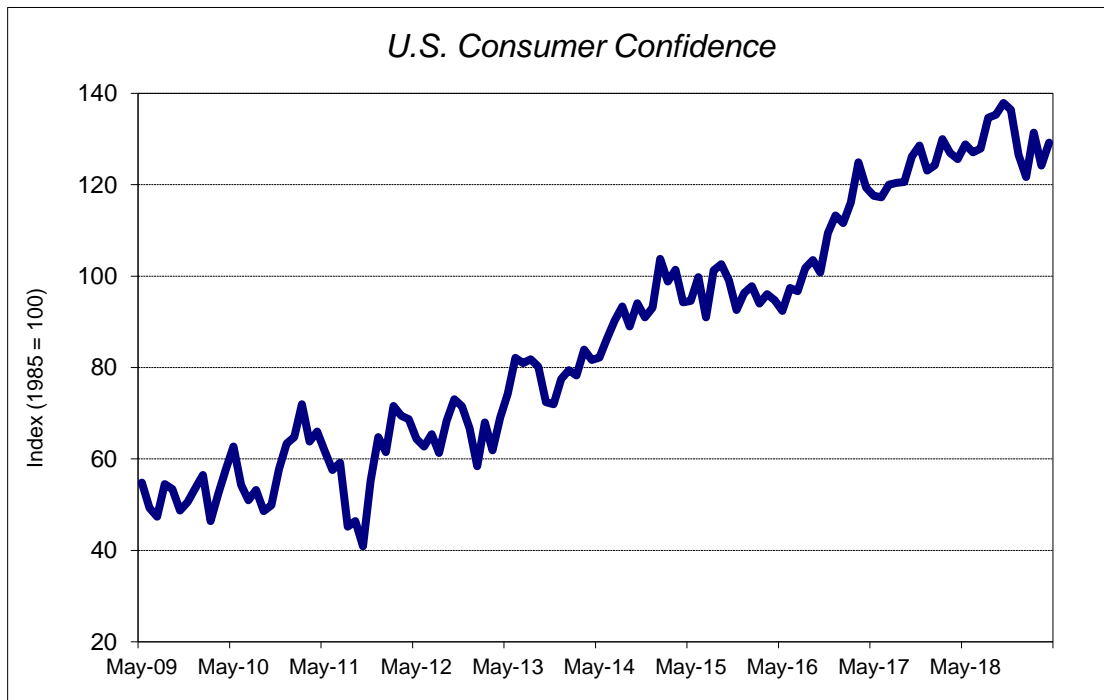
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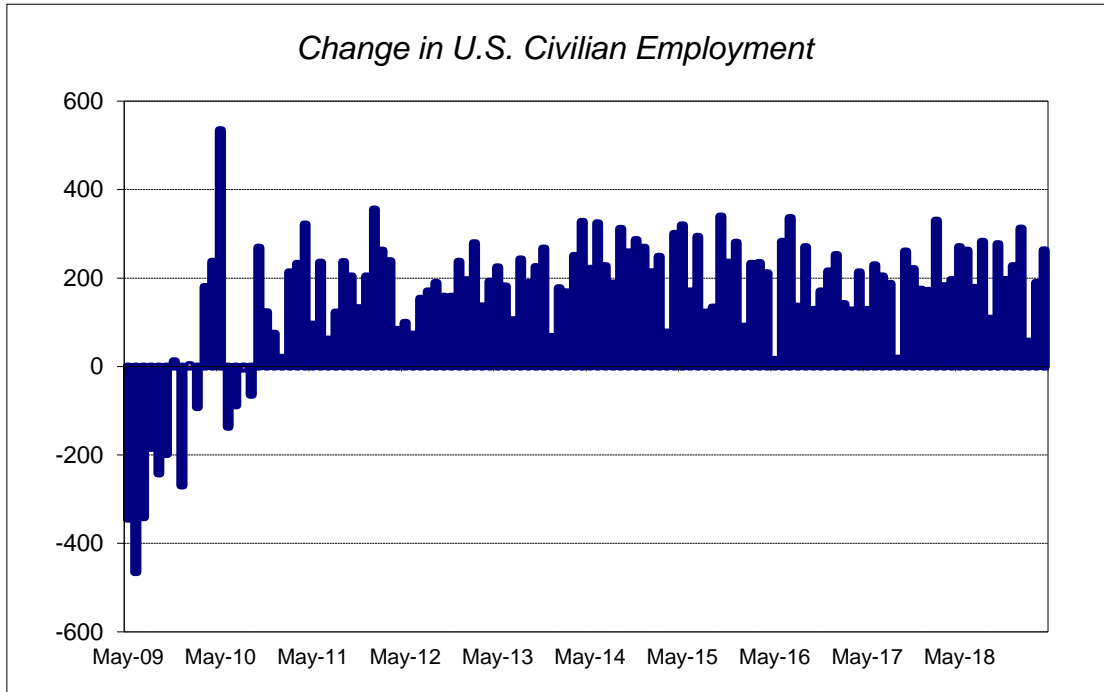
Source: The Conference Board



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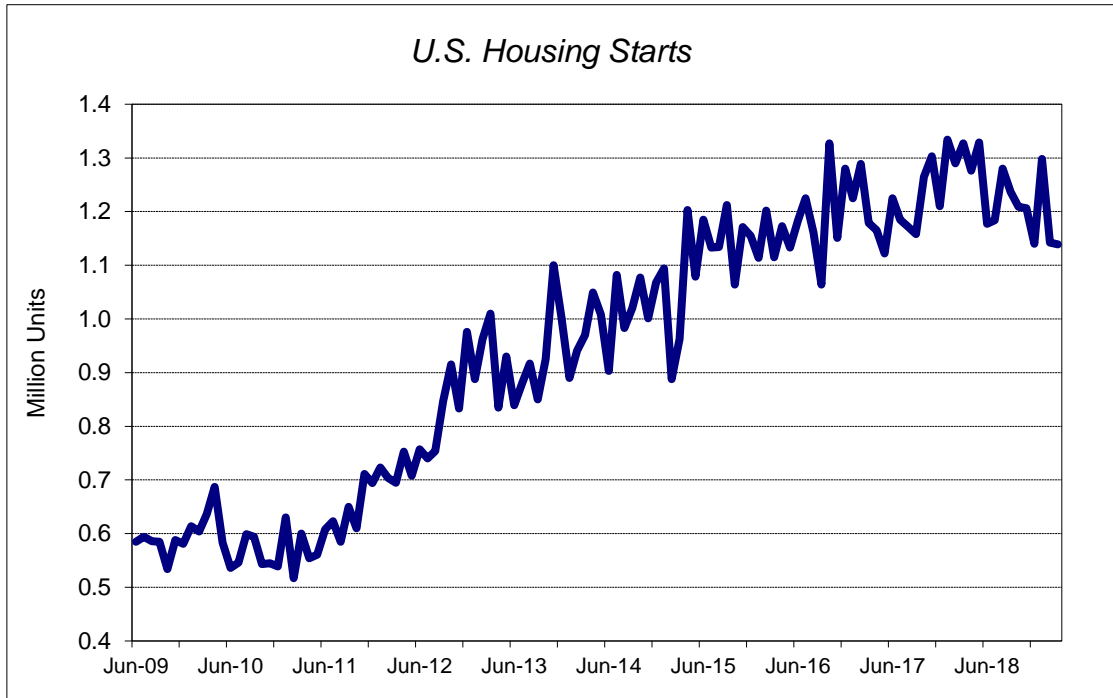
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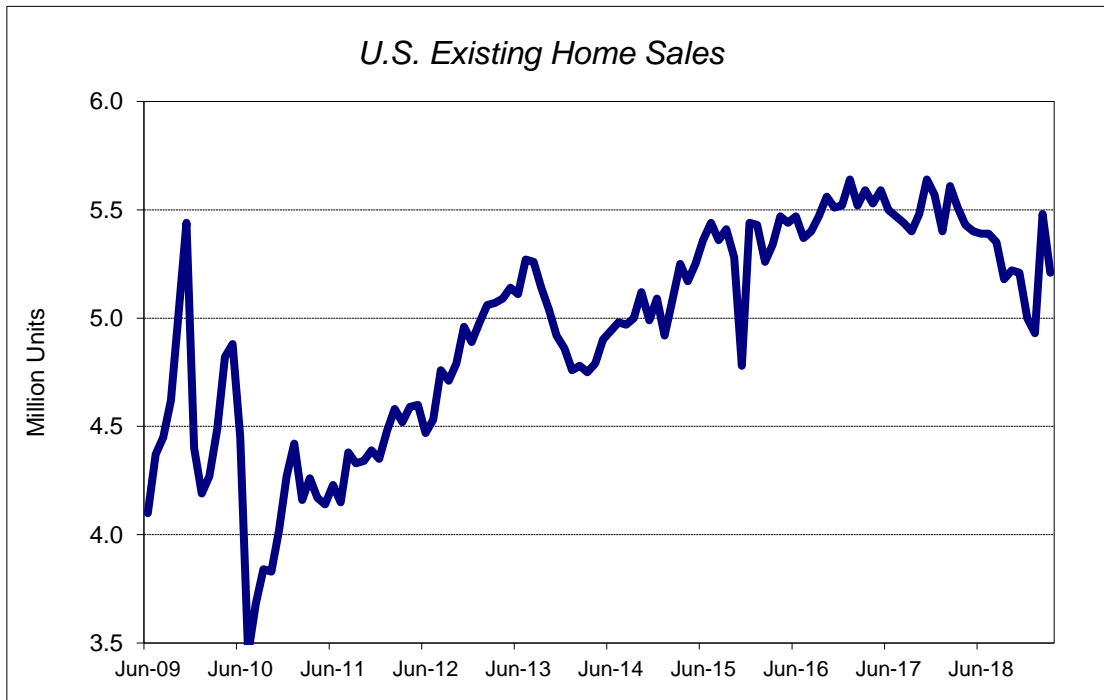
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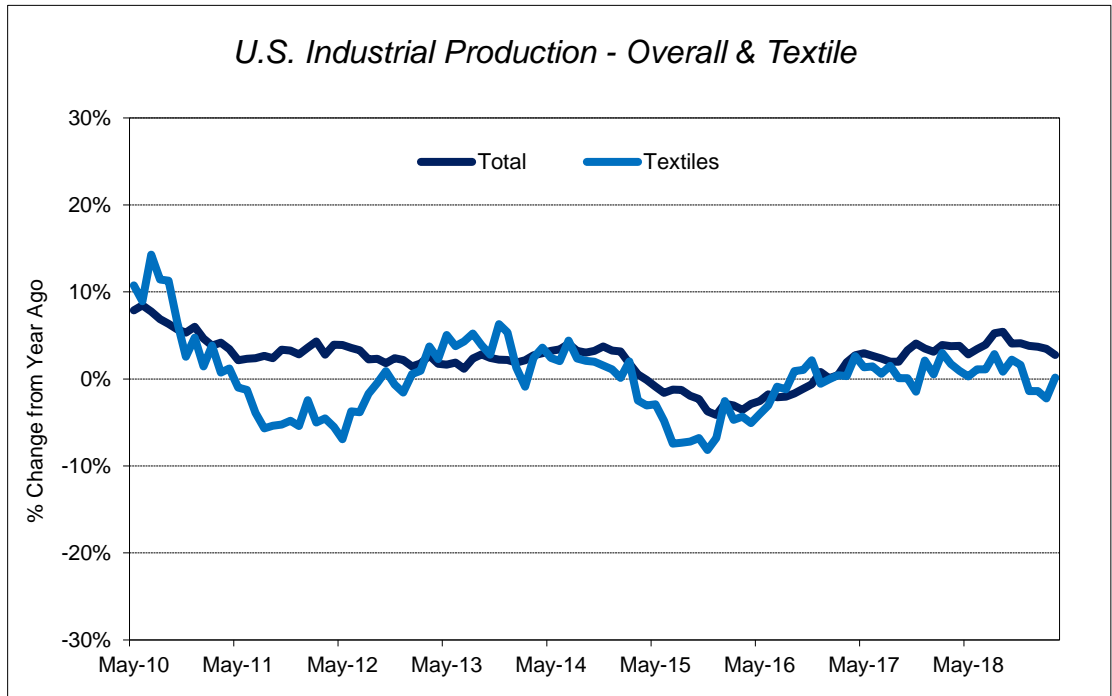
Seasonally Adjusted Annual Rate; Source: Department of Commerce



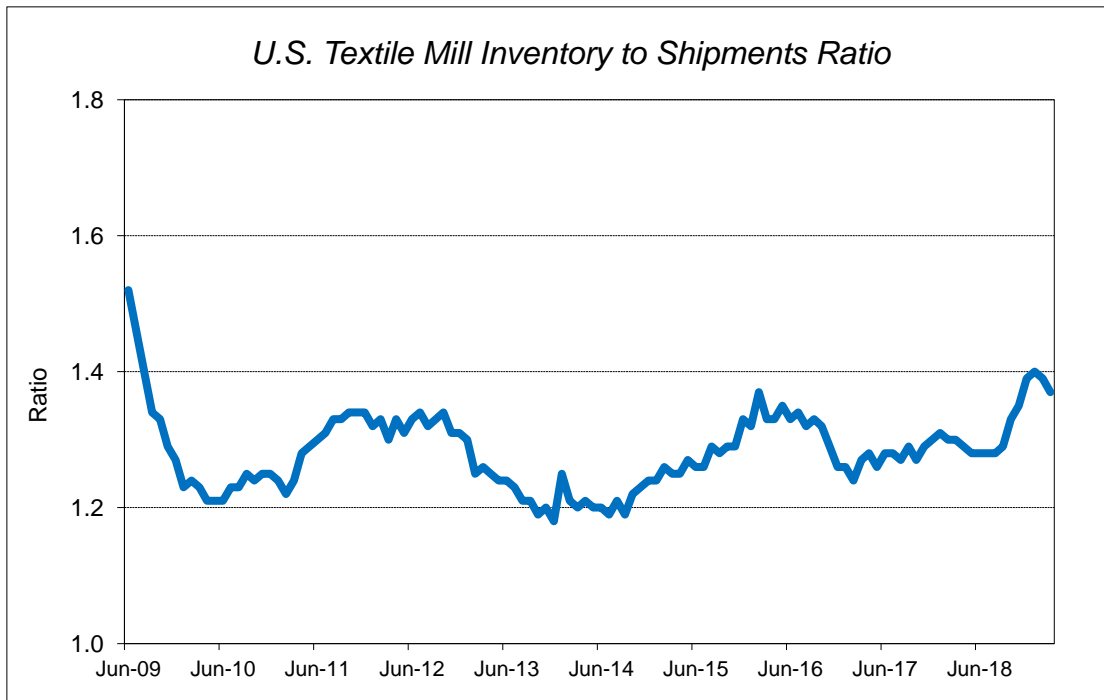
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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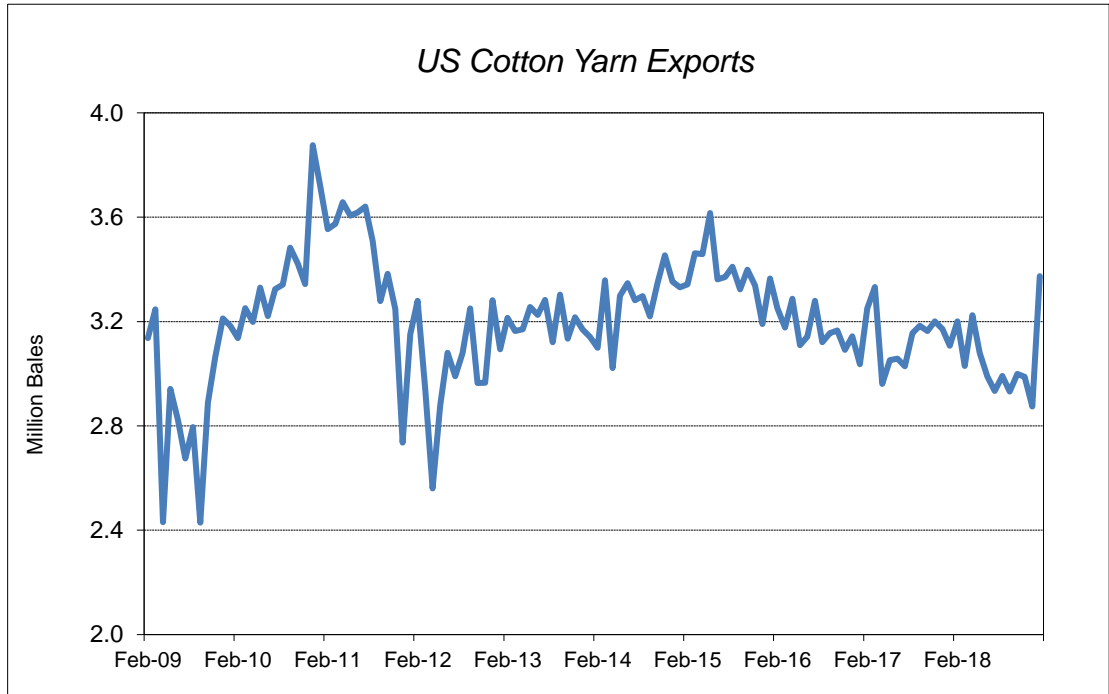
Source: Federal Reserve. Historical data revised to 1997 baseline.



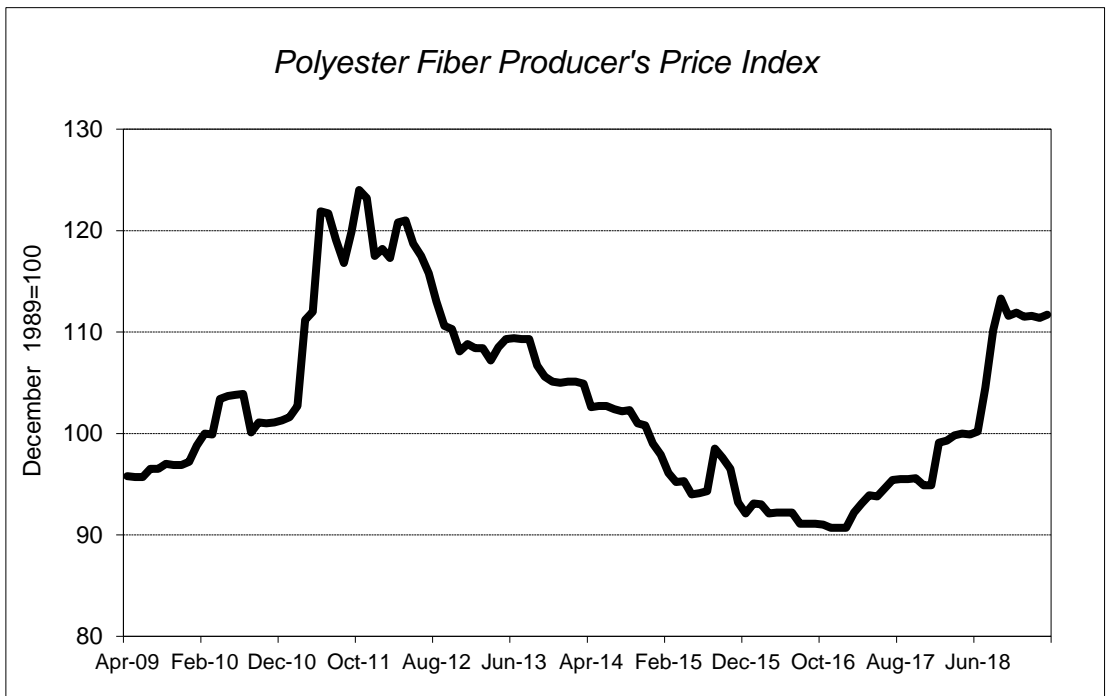
Seasonally Adjusted; Source: Department of Commerce

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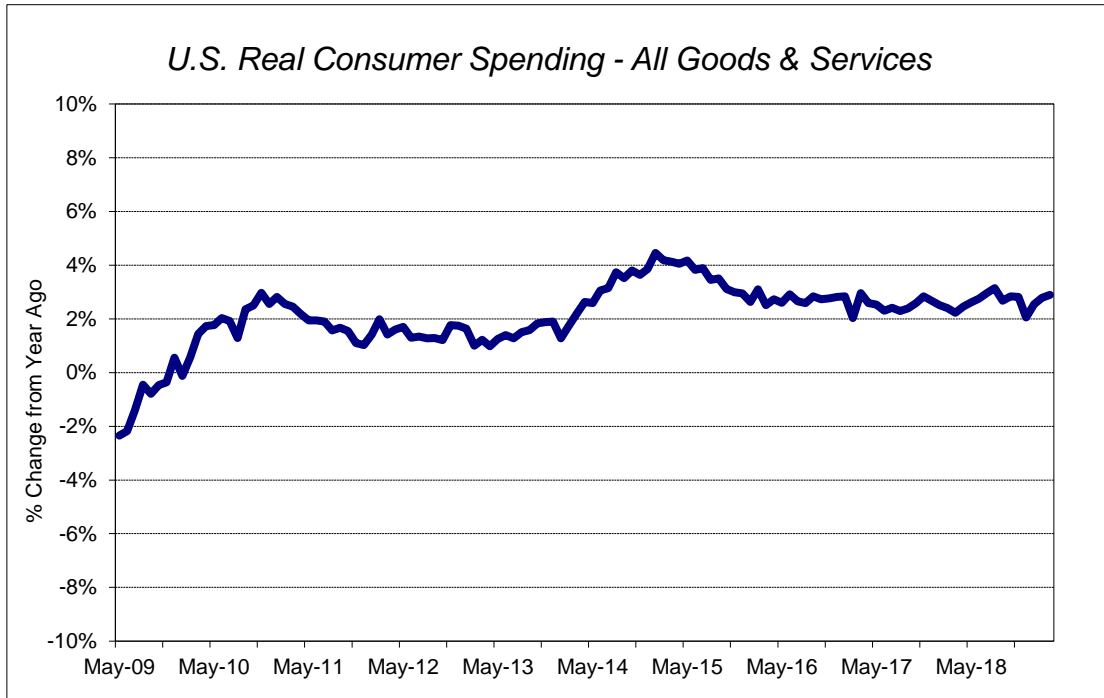
Seasonally Adjusted Annual Rate
 Source: USDA ERS



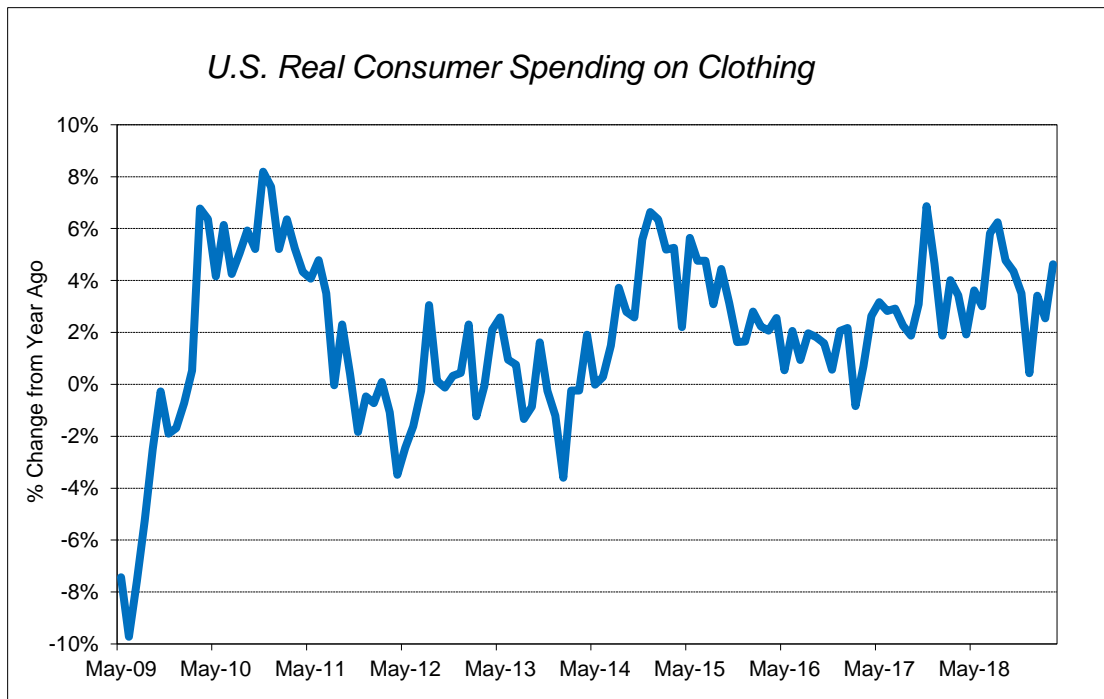
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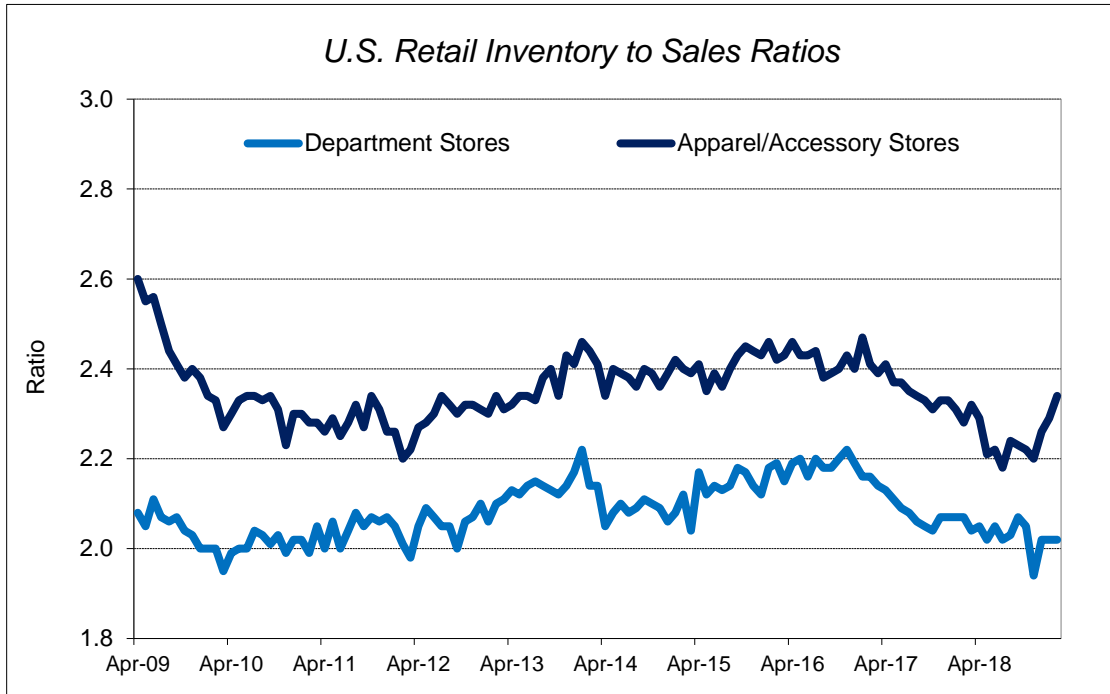
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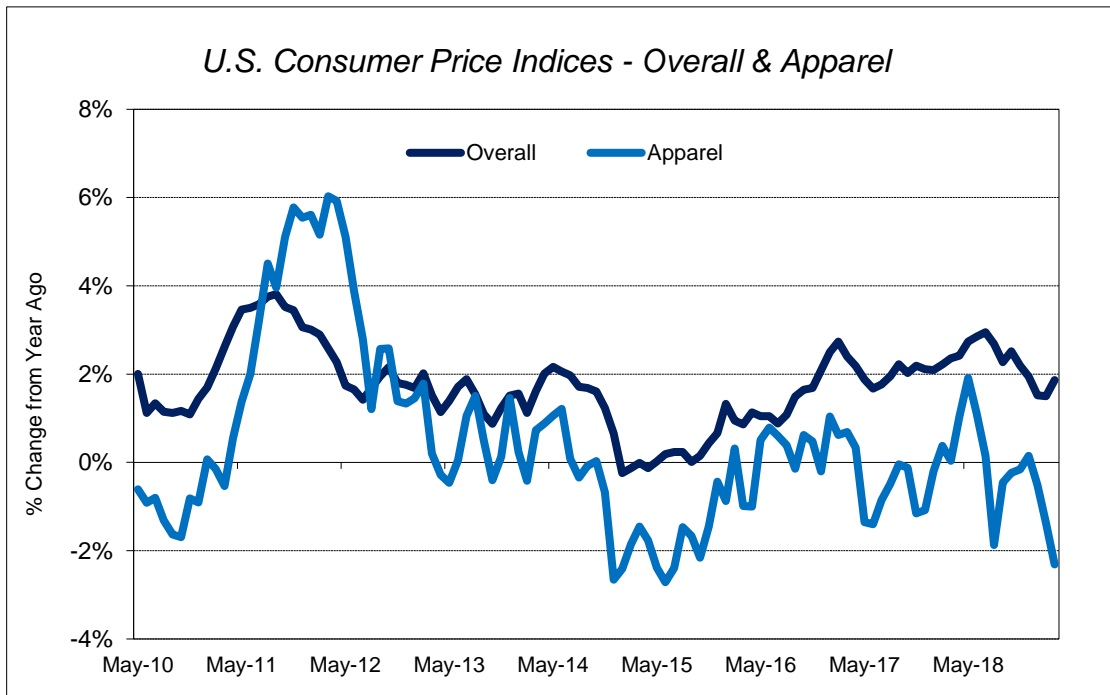
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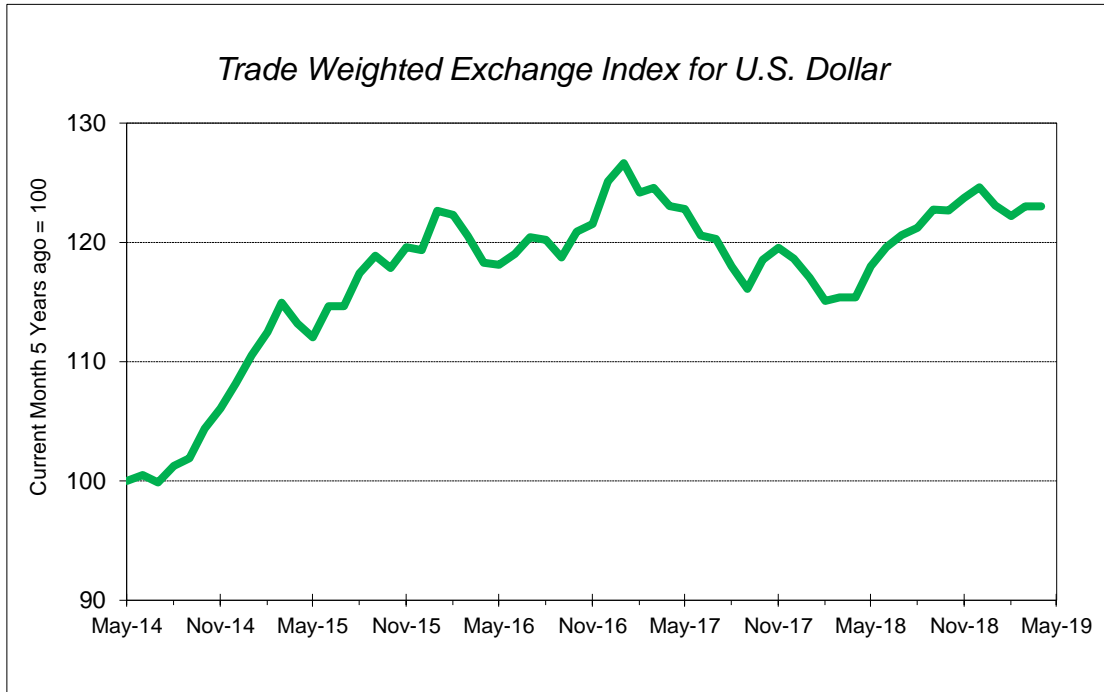
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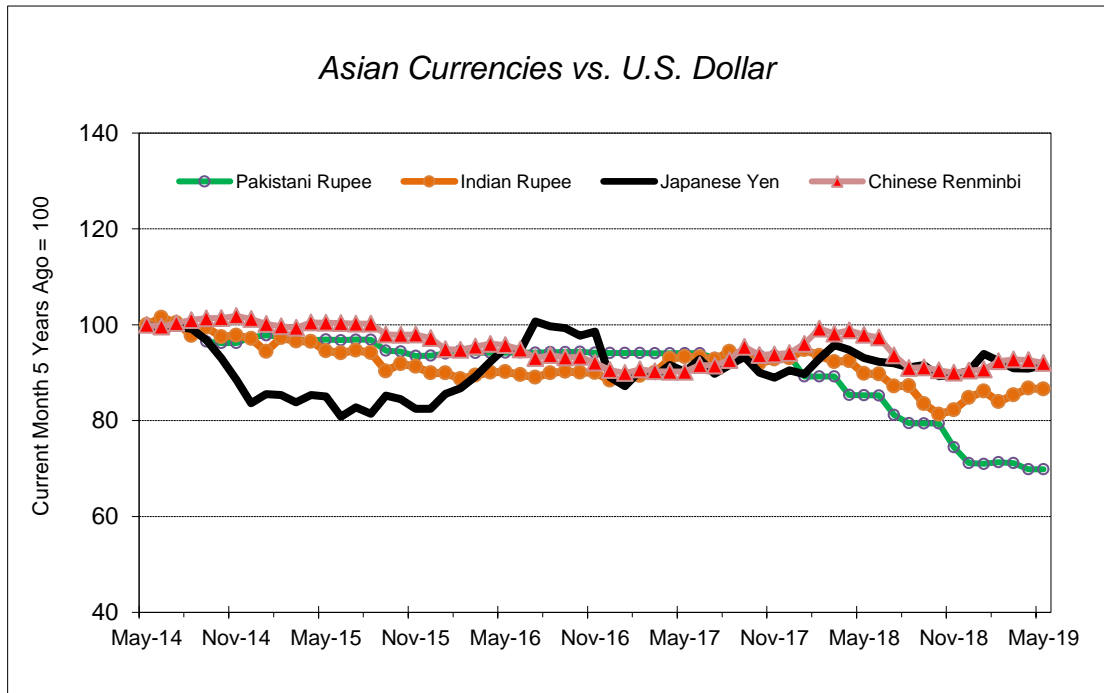
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Source: Federal Reserve

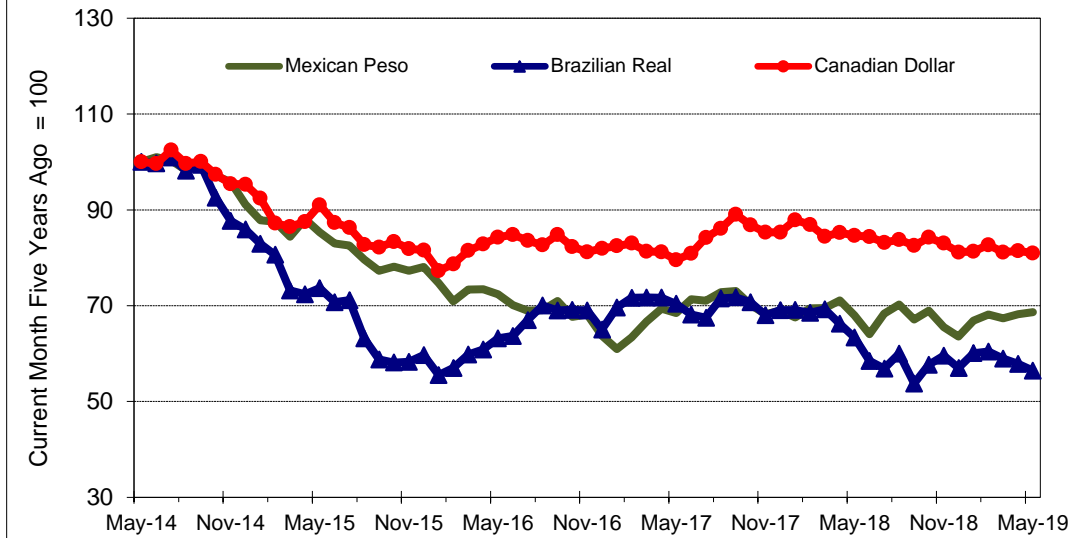


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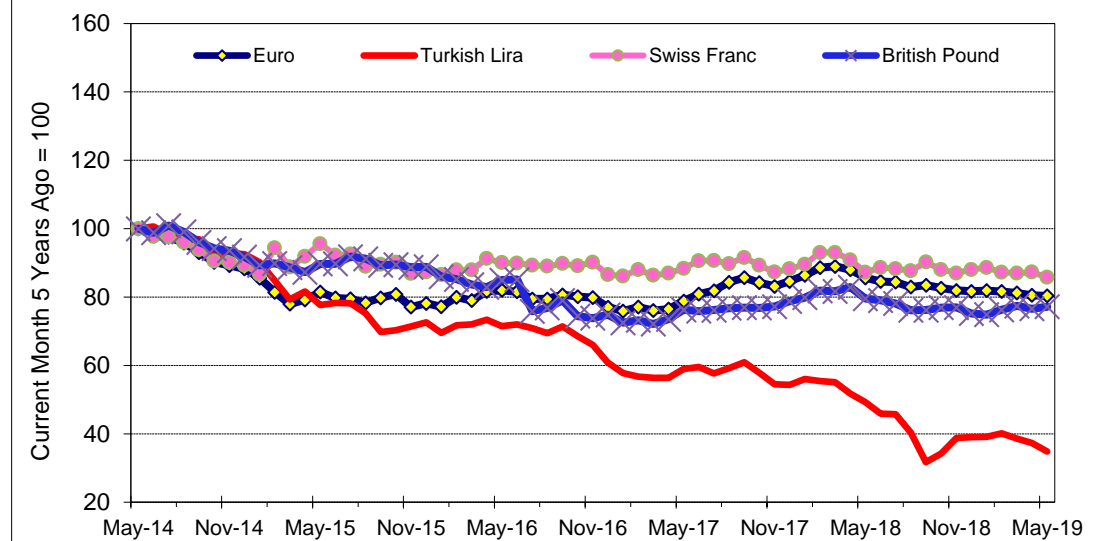


North & South American Currencies vs. U.S. Dollar



Source: Reuters

Index of European Currencies vs. U.S. Dollar



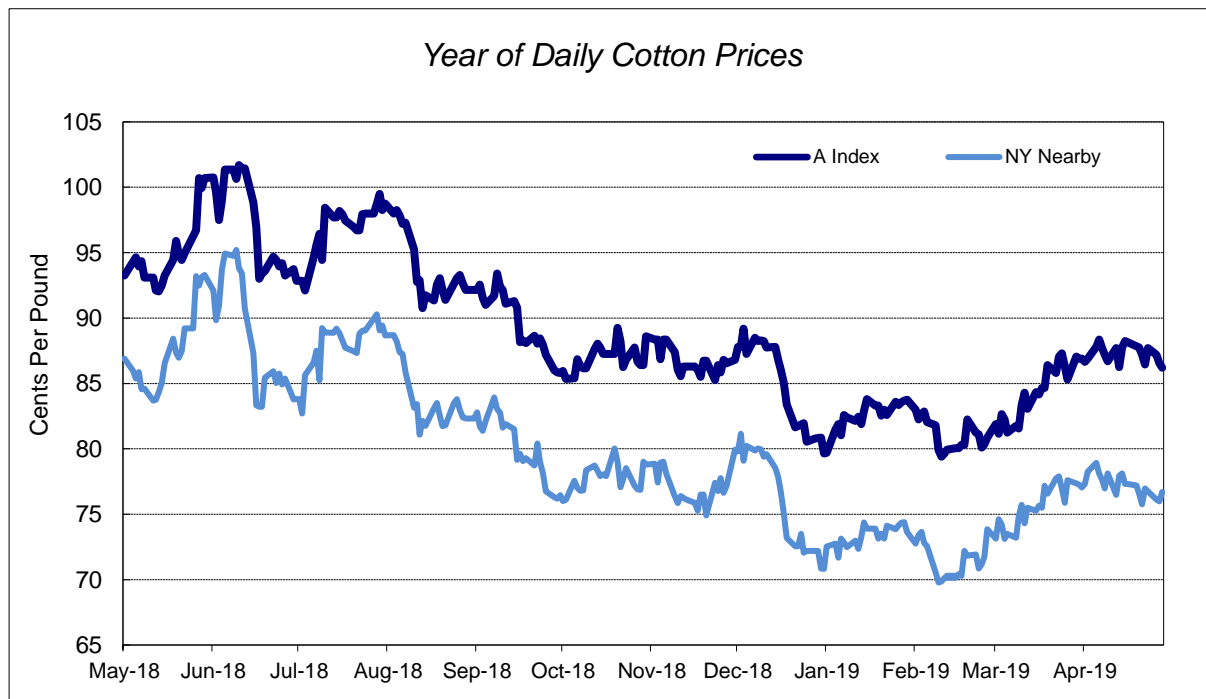
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U.S. Balance Sheet

million 480 lb. bales	2014/15	2015/16	2016/17	2017/18	2018/19 March	2018/19 April
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	3.1
Exports	11.2	9.2	14.9	15.8	15.0	15.0
Demand	14.8	12.6	18.2	19.1	18.2	18.1
Ending Stocks	3.7	3.8	2.8	4.3	4.3	4.4
Stocks/Use Ratio	24.6%	30.2%	15.1%	22.5%	23.6%	24.3%



Sources: ICE Futures U.S. & Cotton Outlook

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