

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



July 2019

www.cottoninc.com

Macroeconomic Overview: Economic expectations and financial markets have been pushed and pulled by a rapidly evolving swirl of influences. Concern regarding a global slowdown built expectations that central banks and governments around the world will move to provide stimulus. Belief that stimulus is forthcoming has been a factor associated with the rise in stock market values that led to a series of new records for multiple U.S. stock indices.

A commonly cited cause of concern for the global economic environment is escalation in the U.S.-China trade dispute. Threats issued in early May included the possibility of the U.S. increasing tariffs on a set of goods covering all U.S. imports not yet affected by previous increases (valued at \$250 billion). This would include more consumer goods than the lists of goods already facing higher duties (most goods already affected are inputs for manufacturing). As a result, there has been concern that the threatened tariff increases might lead to higher consumer prices and lower consumer demand. Demand-related fears have affected a range of commodity prices, such as oil, copper, and cotton.

Since the G-20 meeting in late June, however, the pendulum of expectations regarding the trade dispute has swung away from escalation and towards reconciliation. This has reversed some of the declines in commodity prices and provided support for stock markets. However, as an agreement has appeared more likely, confidence that central banks (notably the Federal Reserve) will provide stimulus has weakened.

The speed at which reversals in trade expectations have come and gone has been a source of volatility and uncertainty. For much of the winter and spring, it appeared that the U.S. and China were heading closer to an agreement before the sharp reversal in early May. The rapid back-and-forth has not been limited to U.S.-China relations either. On May 30th, the U.S. threatened to increase tariffs on the entirety of its imports from Mexico by as much as 25 percentage points by the end of the year. By June 7th, those tariff threats were indefinitely removed. This means that in about one week, a credible threat for tariffs on all U.S. imports of Mexican goods was announced and lifted.

Employment: The U.S. economy is estimated to have added 224,000 jobs in June. Revisions to previous month's data were negative, with the figure for April falling from +224,000 to +216,000 and the figure for May falling from +75,000 to +72,000. Over the past twelve months, the average increase in the number of employed people has been 192,000 per month. During the same time period last year, the average rate of growth was 206,000 per month. The weaker job reading in May supported the belief that a slowdown in hiring would push the Federal Reserve to increase interest rates. Along with the shift in expectations regarding a U.S.-China trade agreement, the strong jobs number in June makes an impending decrease in interest rates appear less likely than just a few weeks ago.

The unemployment rate rose marginally, from 3.6% to 3.7%. With job growth, the reason the unemployment rate ticked higher was because of an increase in the number of people in the labor force. Average hourly wages increased 3.1% in June. This was nearly even with the value posted in May. Although the wage growth for the past two months was lower than the levels above 3.3% registered throughout the fall and winter, they remain among the highest values recorded since the financial crisis (wage growth did not climb above three percent until August 2018).

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence fell sharply in June, dropping 9.8 points from 131.3 to 121.5. Despite the decrease, readings over 100 are generally considered above average and values over 120 have been rare (the highest recorded value on record was 144.7, set in January 2000).

Overall consumer spending increased 0.3% month-over-month in seasonally-adjusted terms in May (latest month with data available). Year-over-year, overall apparel spending increased 2.7%. Consumer spending on apparel increased 0.6% month-over-month in seasonally-adjusted data for May. Year-over-year, apparel spending was 4.8% higher. Annual rates for spending on apparel have been strong in recent months (up 5.1% in March, up 6.3% in April). For comparison, the average annual rate of increase in 2018 was 3.6%. In 2017, the average was 2.7%.

Consumer Prices & Import Data: Retail apparel prices have fallen month-over-month for the past three months (-1.9% in March, -0.5% in April, and -0.1% in May) and were down 3.5% year-over-year in May. Average import prices for cotton-dominant apparel were nearly unchanged in seasonally-adjusted data for May, rising \$0.01/square meter equivalent (SME) to \$3.49/SME.

It has been about a year since the first round of major tariff increases were put into place (U.S. and China implemented tariff increases on goods valued at \$34 billion on July 7, 2018). Tariff increases have not applied to U.S. apparel and home textile imports from China yet, but threats that the U.S. would move to increase tariffs surfaced last summer (initial threats calmed last fall, threats were renewed in early May, and were lifted once again just a few weeks ago). Even though tariffs have not been enacted, uncertainty surrounding that possibility has been in place for nearly a year. Given the complexity of supply chains, it takes a while for results from decisions to surface in shipments.

In volume terms (SME), apparel imports of all fibers from China increased 1.2% in the first five months of the year. Over the same time period, U.S. apparel imports from all locations increased 4.3%. As a result, the data indicate that there has not been an exodus from sourcing from China, just that Chinese apparel shipments have been growing at a slower rate than those from the rest of the world. China's share in the first five months of the year was 39.8%, down marginally from 41.1% last year.

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
July 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%	3.1%	3.4%	2.2%	3.1%	% Chg. Quarter/Quarter	Department of Commerce

Monthly Series with Latest Data for June

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
ISM Index of Manufacturing Activity	54.8	56.4	54.2	53.4	52.8	52.1	51.7	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.0	57.3	57.2	56.2	55.5	56.9	55.1	Index	Institute for Supply Management
Consumer Confidence	111.4	121.8	127.4	128.2	129.2	131.3	121.5	Index	The Conference Board
Change in Non-Farm Payrolls	209.2	199.4	172.7	147.0	216	72	224	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.7%	4.2%	3.8%	3.7%	3.6%	3.6%	3.7%	Rate	Bureau of Labor Statistics

Monthly Series with Latest Data for June

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
US Interest Rates									
Federal Funds	0.9%	1.4%	2.4%	2.4%	2.4%	2.4%	2.4%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.5%	2.6%	2.5%	2.5%	2.4%	2.1%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	103.1	106.3	111.6	111.8	111.7	111.8	111.8	Index	The Conference Board
Housing Starts	11.7	12.2	12.2	12.5	1.2	1.3	1.3	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.2	5.3	5.2	5.2	5.3	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

Monthly Series with Latest Data for May

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
US Industrial Production	105.3	106.1	109.7	109.4	109.6	109.2	109.6	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	107.9	105.3	103.9	102.7	98.2	97.9	98.2	Index, December 2003=100	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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	#N/A	#N/A	#N/A	2.8	3.0	#N/A	million 480lb bales	USDA ERS

Monthly Series with Latest Data for May

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
US Textile Mill Inventory/Shipments Ratio	1.29	1.31	1.38	1.37	1.37	1.37	1.36	Ratio	Department of Commerce

Retail Data

Monthly Series with Latest Data for May

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
US Real Consumer Spending									
All Goods and Services	3.0%	2.6%	2.6%	2.8%	2.8%	2.8%	2.7%	% Chg. Year/Year	Department of Commerce
Clothing	3.2%	3.0%	3.8%	5.4%	5.1%	6.3%	4.8%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.5%	2.0%	1.8%	1.9%	1.9%	2.0%	1.8%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.6%	-0.3%	-1.8%	-3.0%	-2.3%	-3.2%	-3.5%	% Chg. Year/Year	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		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.4	2.3	2.3	2.3	2.4	2.3	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.1	2.1	2.1	2.1	2.1	Ratio	Department of Commerce

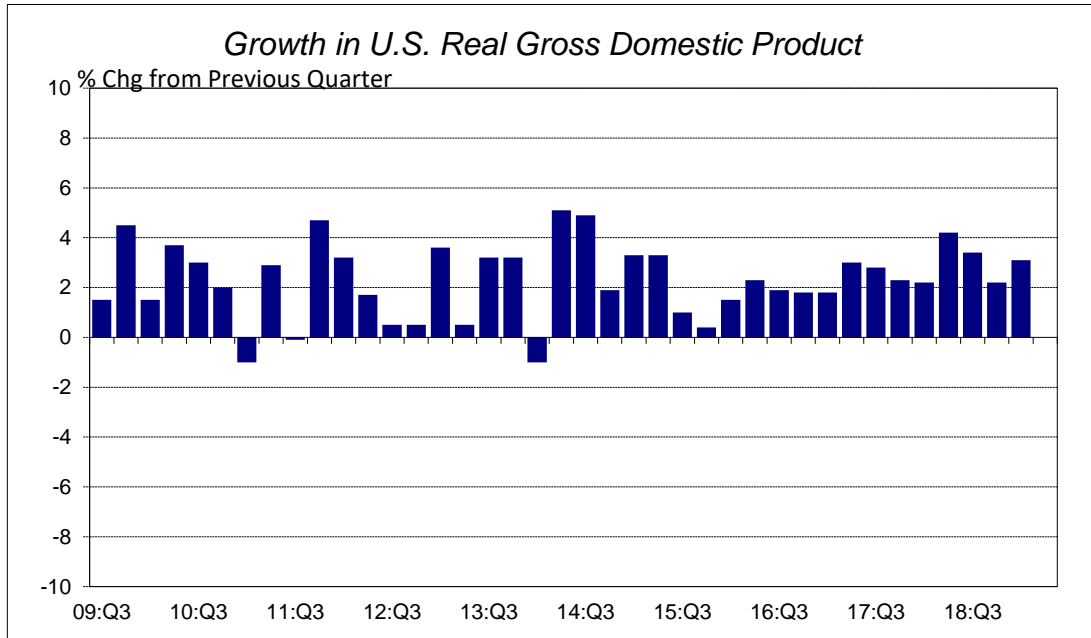
Executive Cotton Update

Daily Cotton Price and Currency Data
July 2019

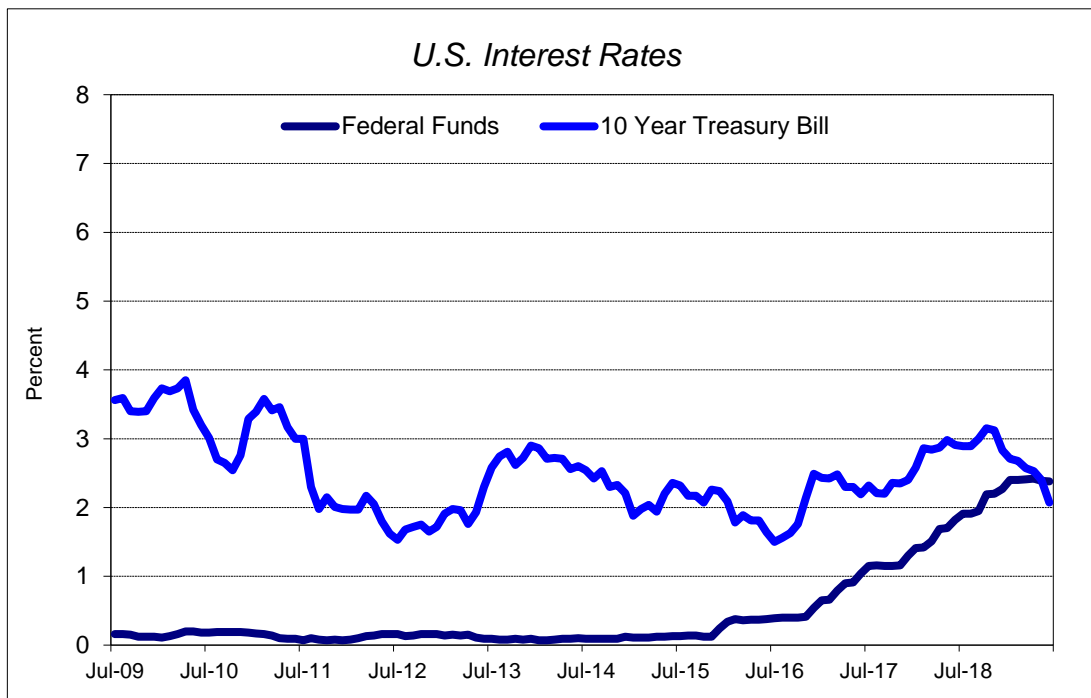


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
NY Nearby	72.1	73.4	76.5	73.9	77.6	69.5	66.3	cents/pound	ICE
A Index	80.7	82.9	86.0	83.5	87.4	80.2	77.6	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
Dollar Trade Weighted Exchange Index	108.8	111.5	113.4	113.8	113.3	113.6	114.4	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.54	6.70	6.78	6.79	6.72	6.74	6.91	Chinese Renminbi/US dollar	Reuters
Indian Rupee	65.99	67.31	69.92	69.24	69.23	69.22	69.26	Indian Rupee/US dollar	Reuters
Japanese Yen	112.53	110.20	110.16	110.33	111.75	111.25	108.01	Japanese Yen/US dollar	Reuters
Pakistani Rupee	110.78	116.12	141.01	143.41	141.18	141.20	147.85	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.35	3.46	3.81	3.89	3.86	3.94	3.87	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.28	1.31	1.33	1.34	1.34	1.34	1.34	Canadian dollar/US dollar	Reuters
Mexican Peso	17.79	19.15	19.25	19.24	19.09	19.02	19.60	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.72	0.77	0.77	0.77	0.77	0.76	0.79	British Pound/US dollar	Reuters
Euro	0.87	0.88	0.89	0.89	0.89	0.89	0.89	Euro/US dollar	Reuters
Swiss Franc	0.98	0.99	1.00	1.00	1.00	1.02	0.99	Swiss Franc/US dollar	Reuters
Turkish Lira	3.60	4.25	5.54	5.77	5.61	5.97	5.71	Turkish Lira/US dollar	Reuters



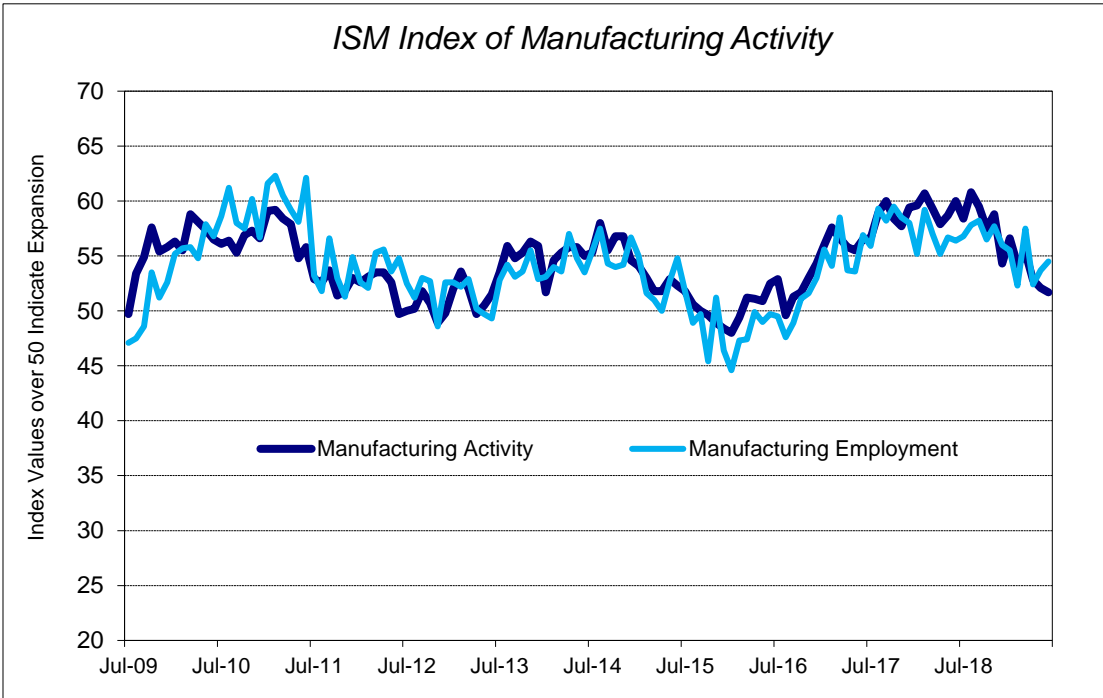
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



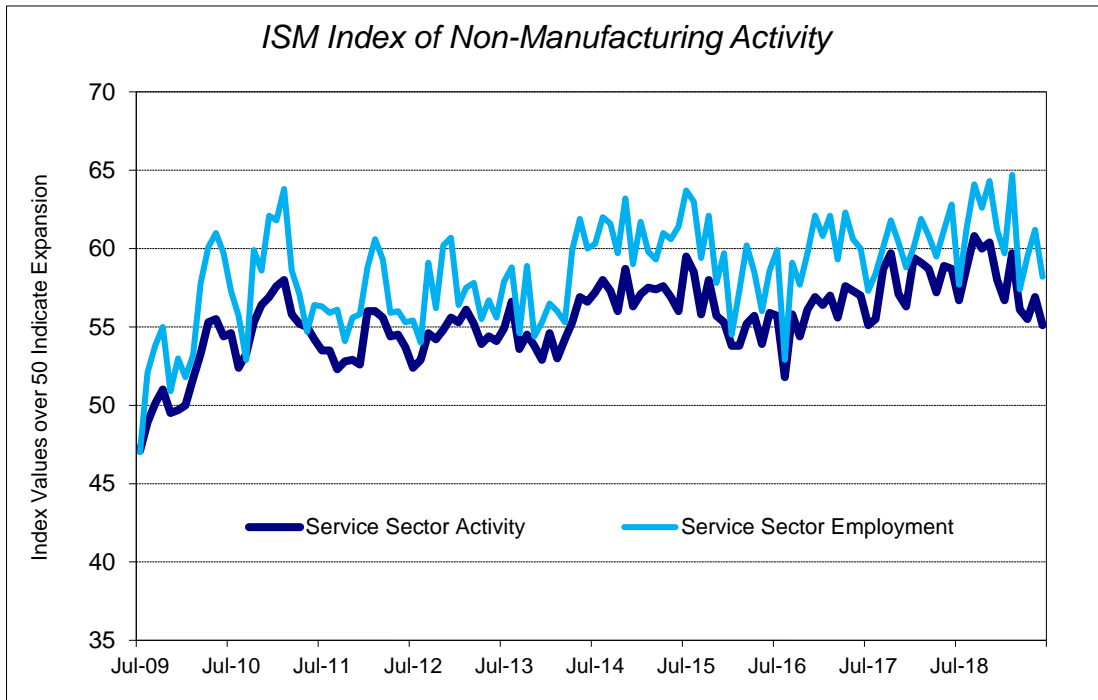
Source: Federal Reserve

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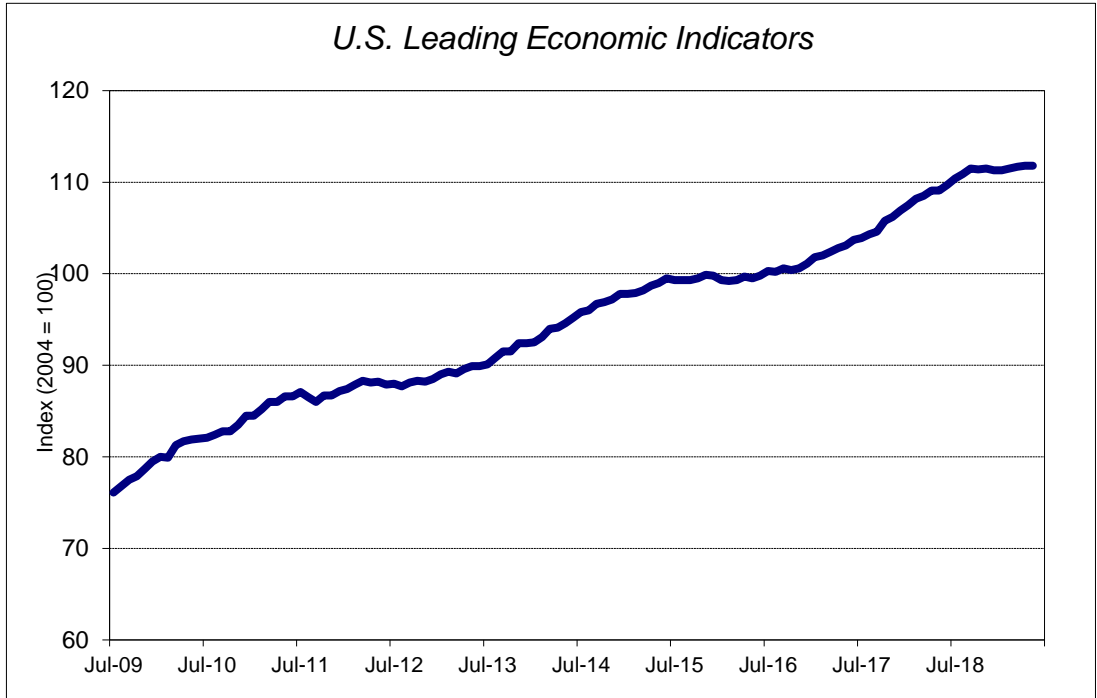
Source: Institute for Supply Chain Management



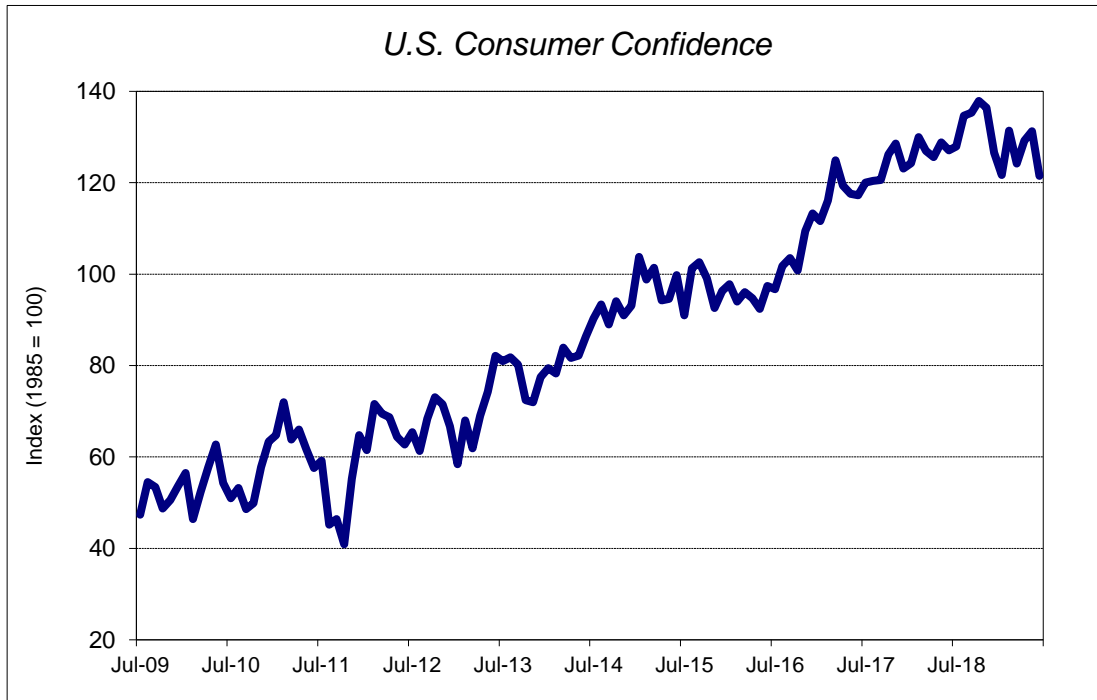
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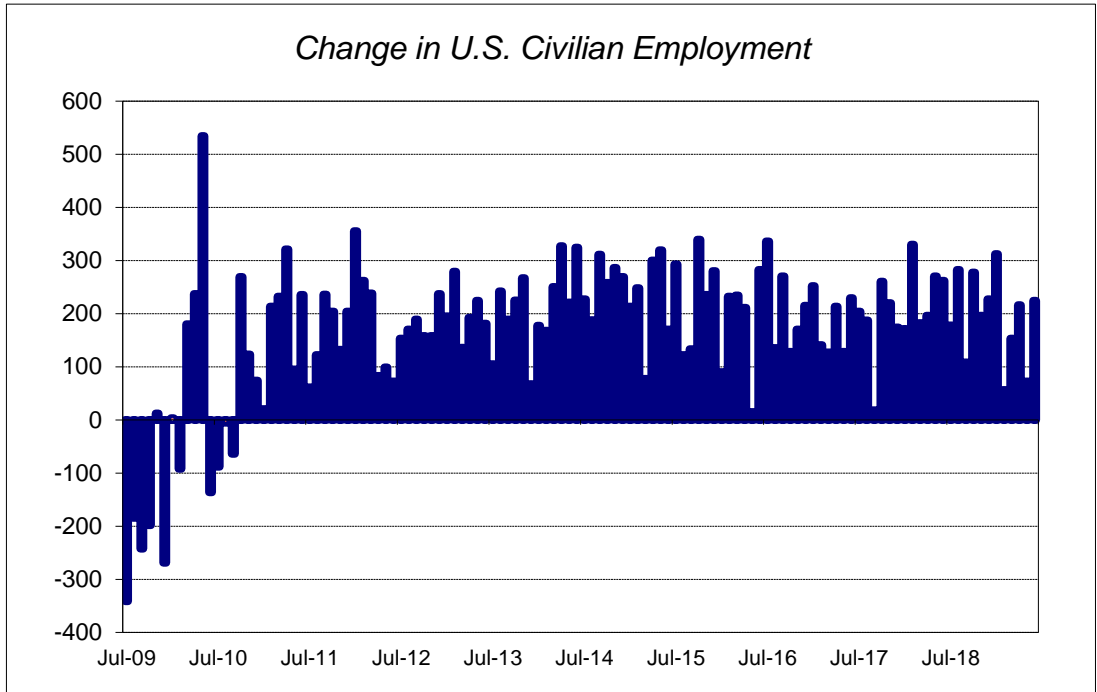
Source: The Conference Board



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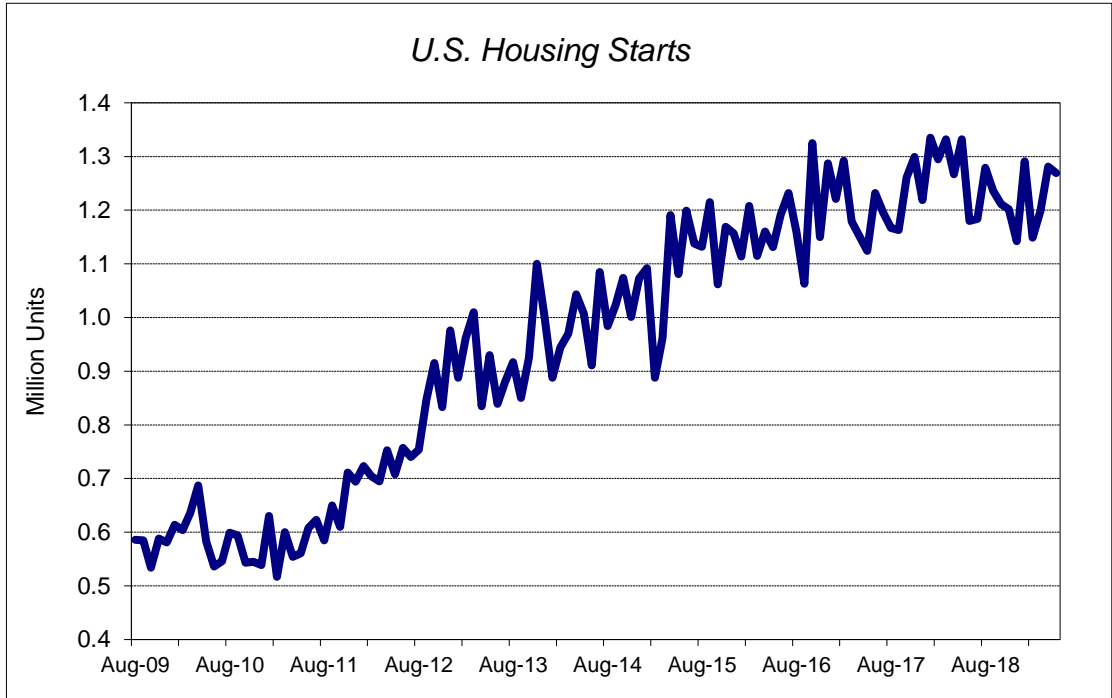
Source: Bureau of Labor Statistics



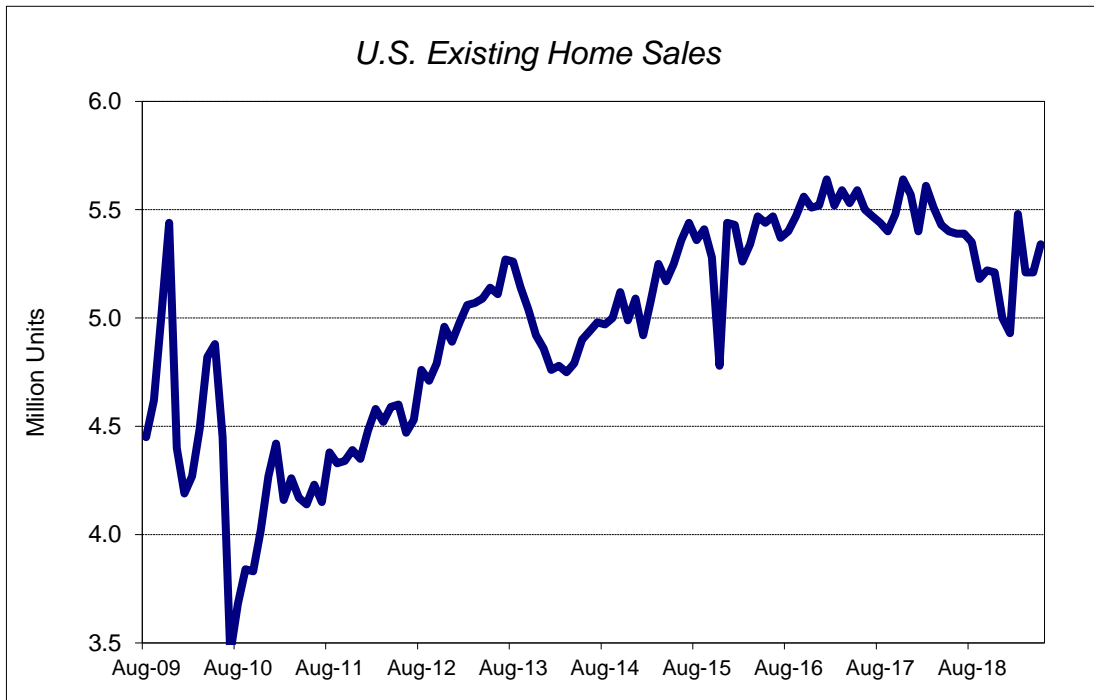
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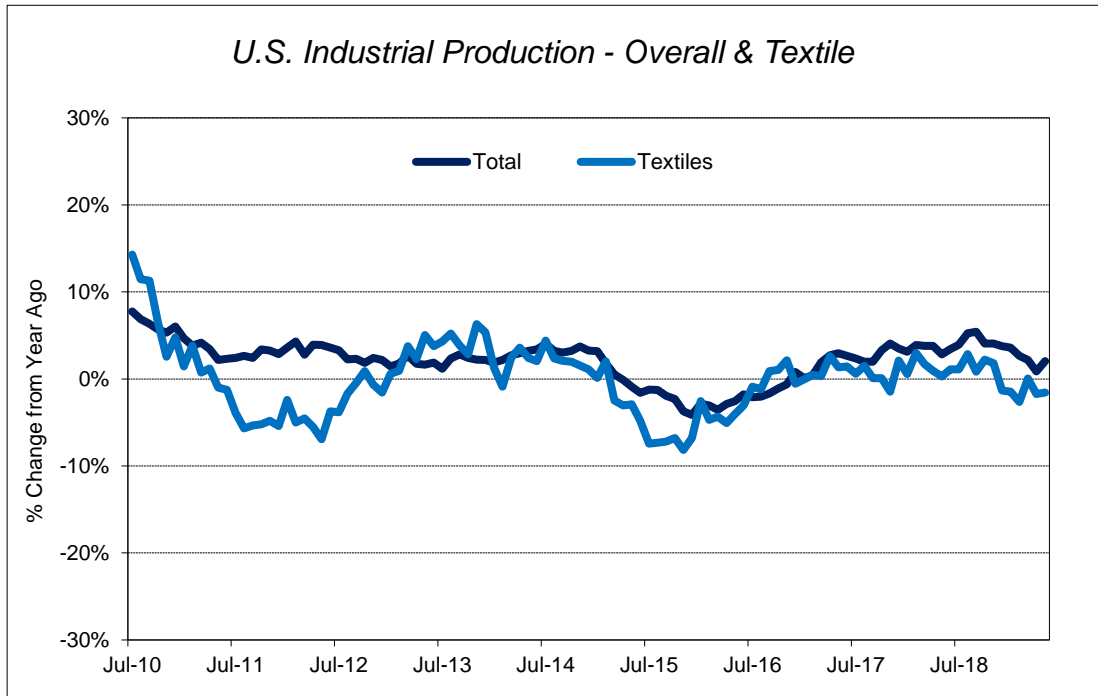
Seasonally Adjusted Annual Rate; Source: Department of Commerce



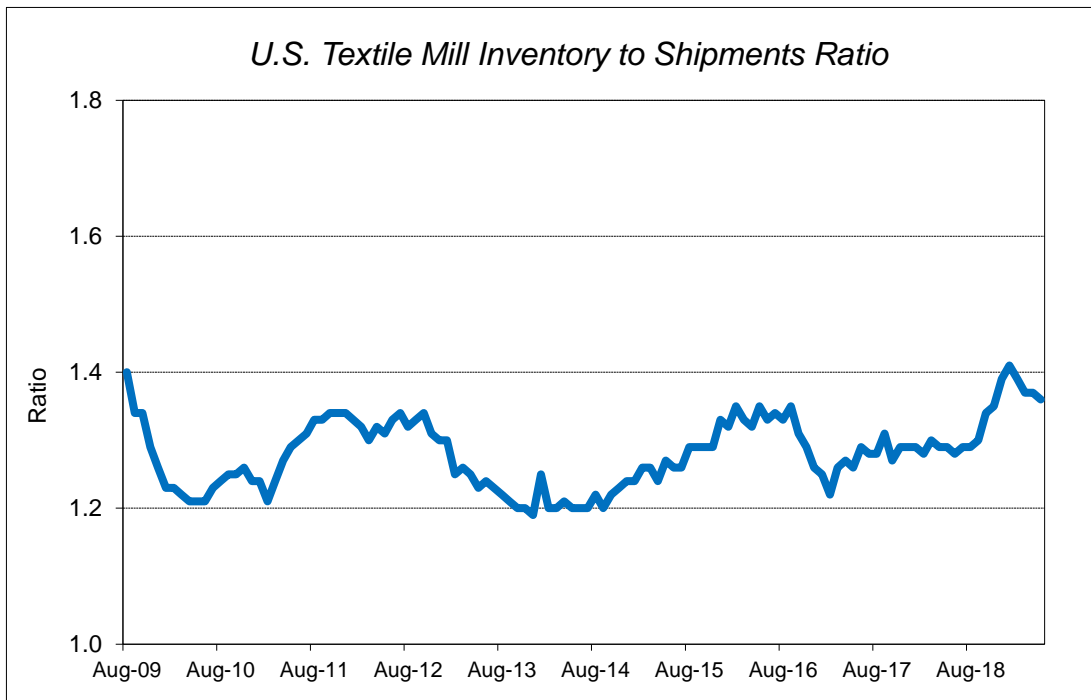
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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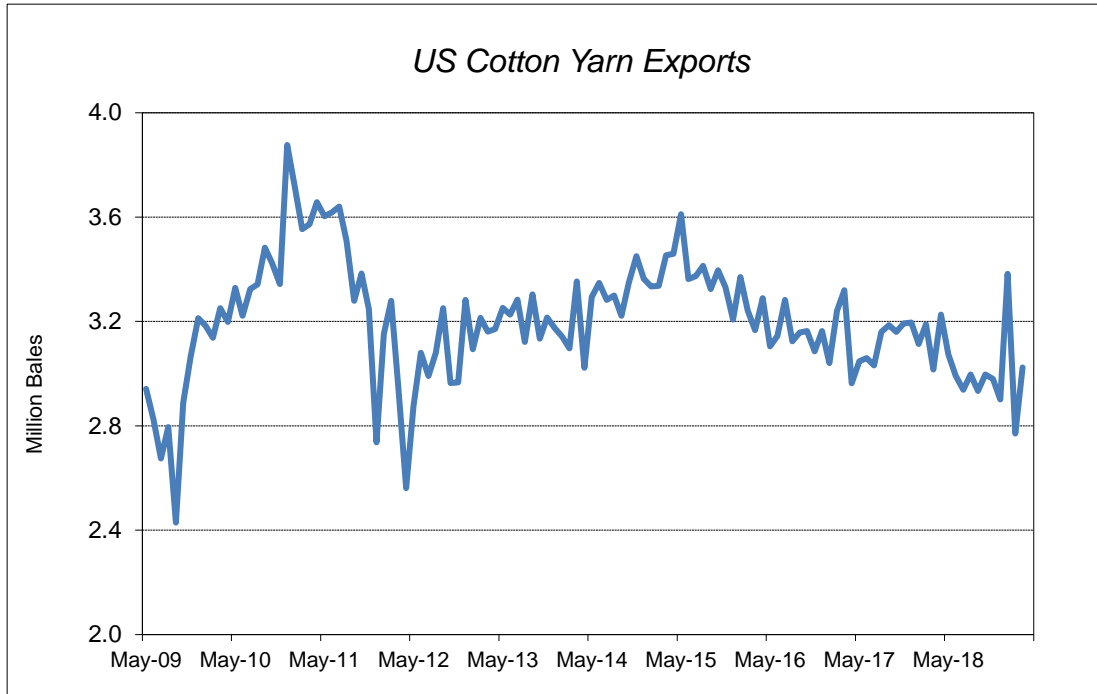
Source: Federal Reserve. Historical data revised to 1997 baseline.



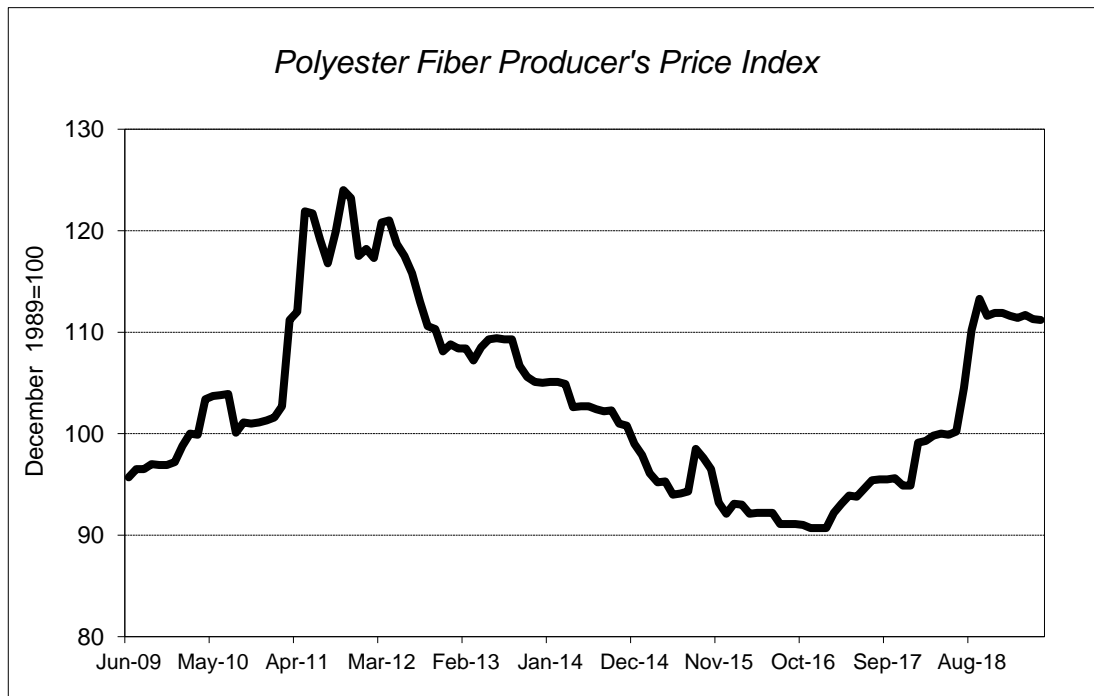
Seasonally Adjusted; Source: Department of Commerce

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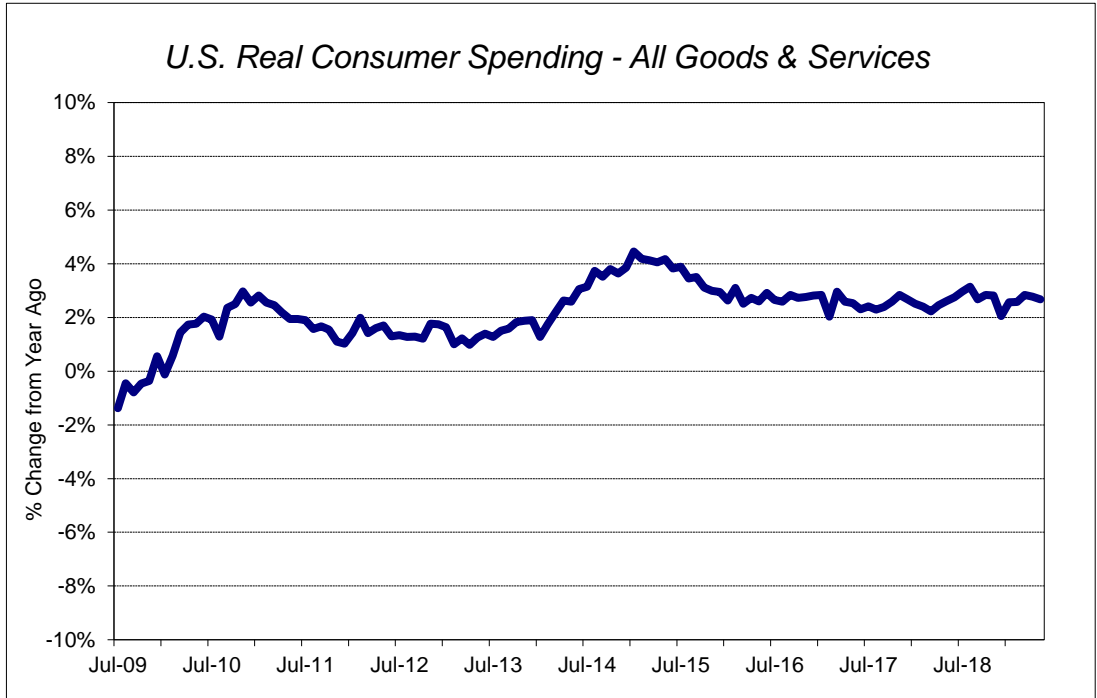
Seasonally Adjusted Annual Rate
 Source: USDA ERS



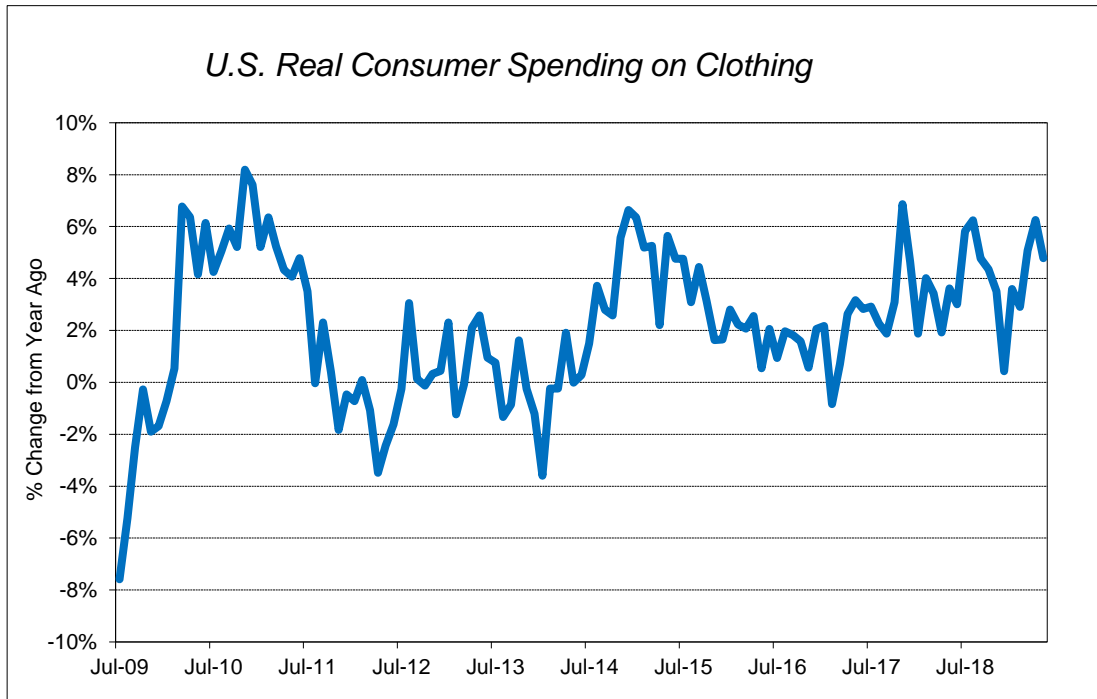
Source: Bureau of Labor Statistics

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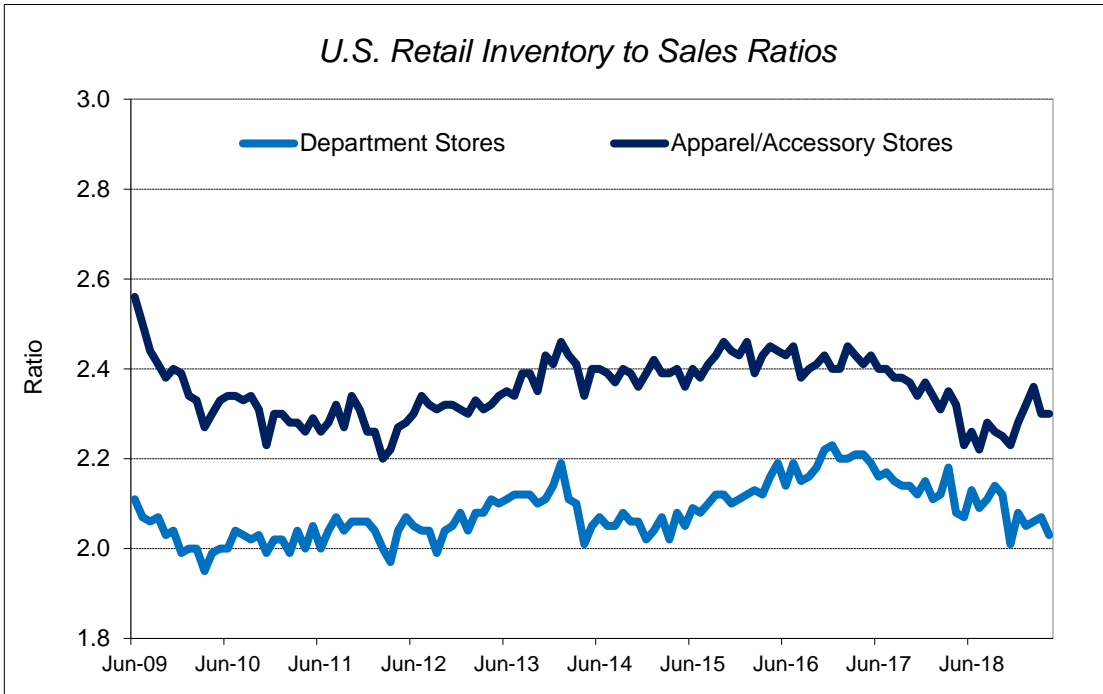
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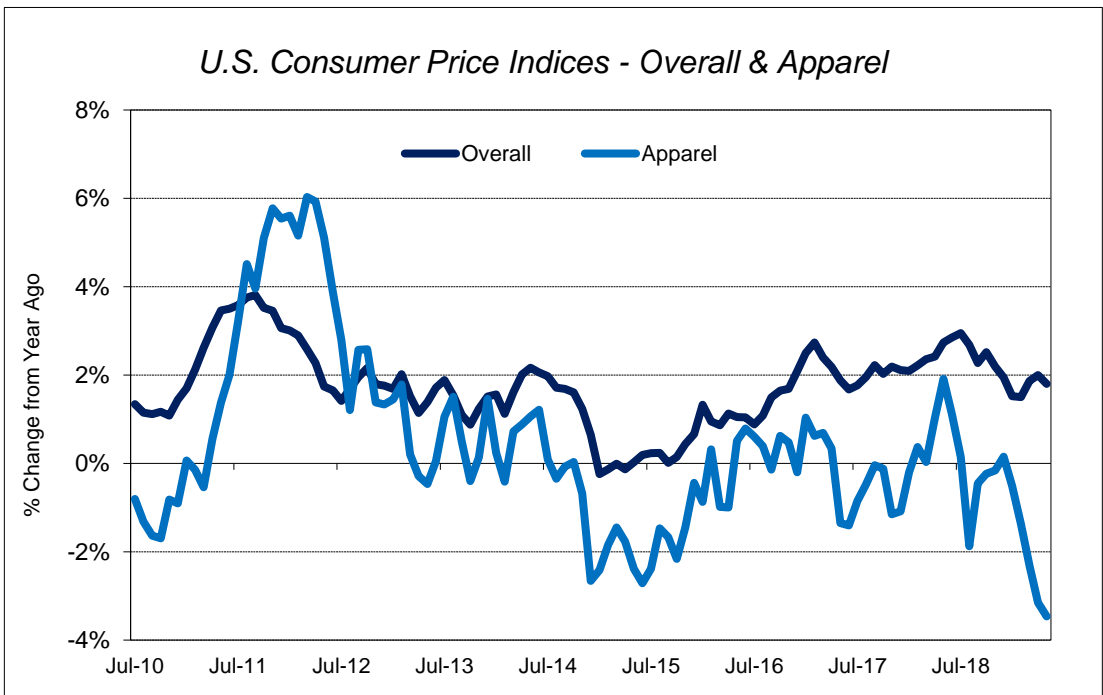
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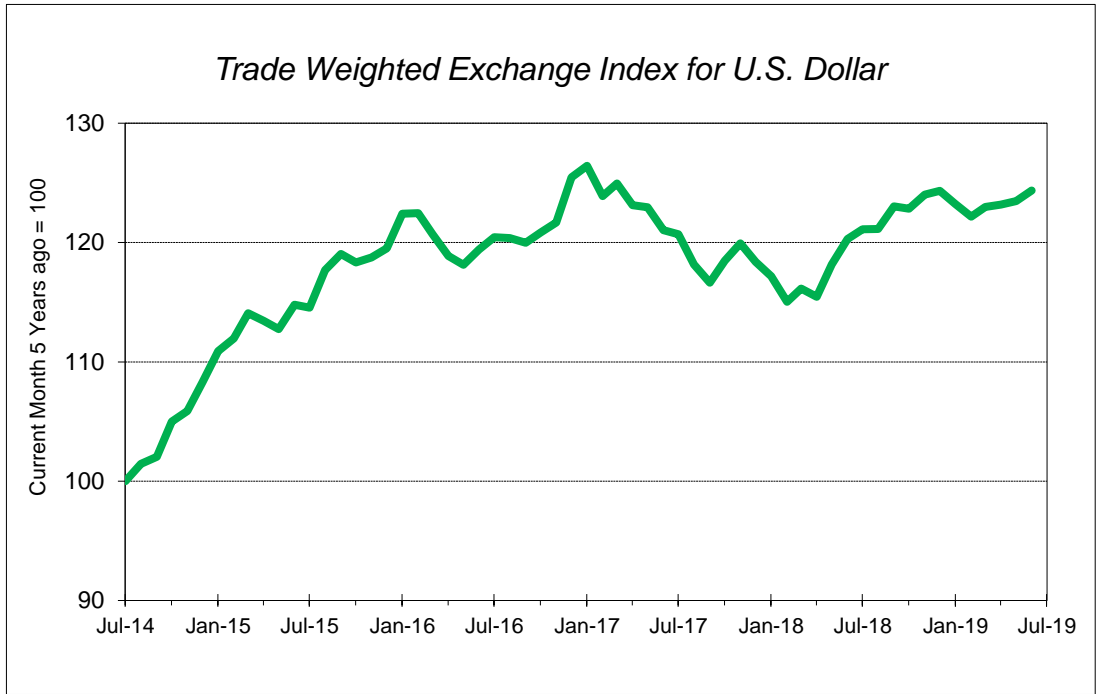
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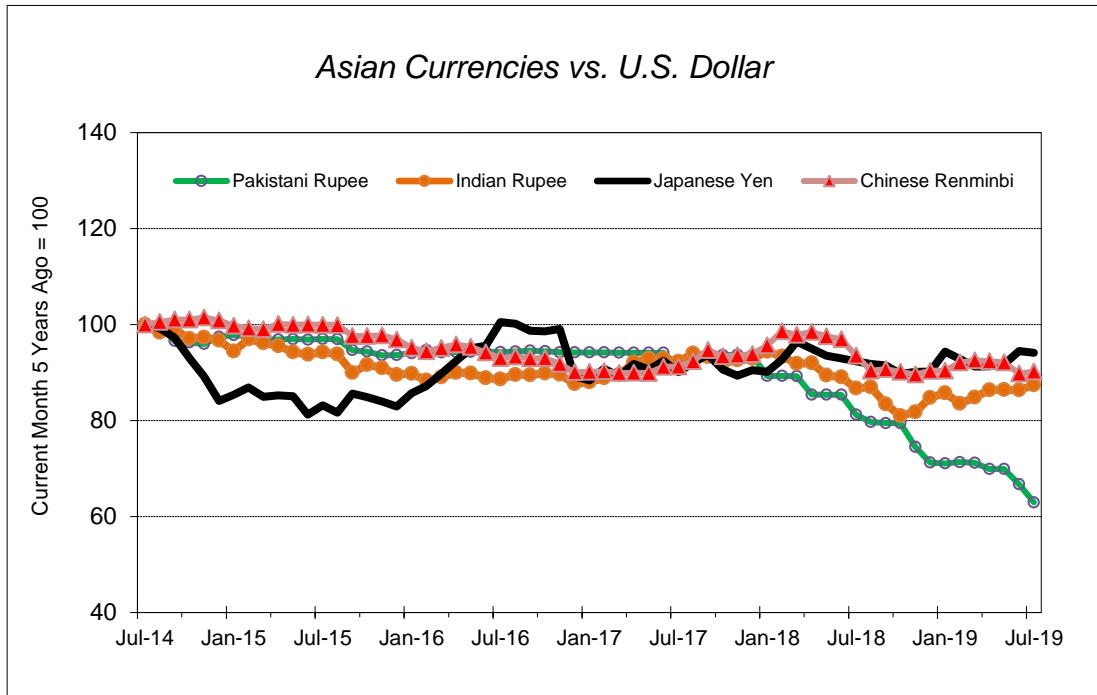
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Source: Federal Reserve

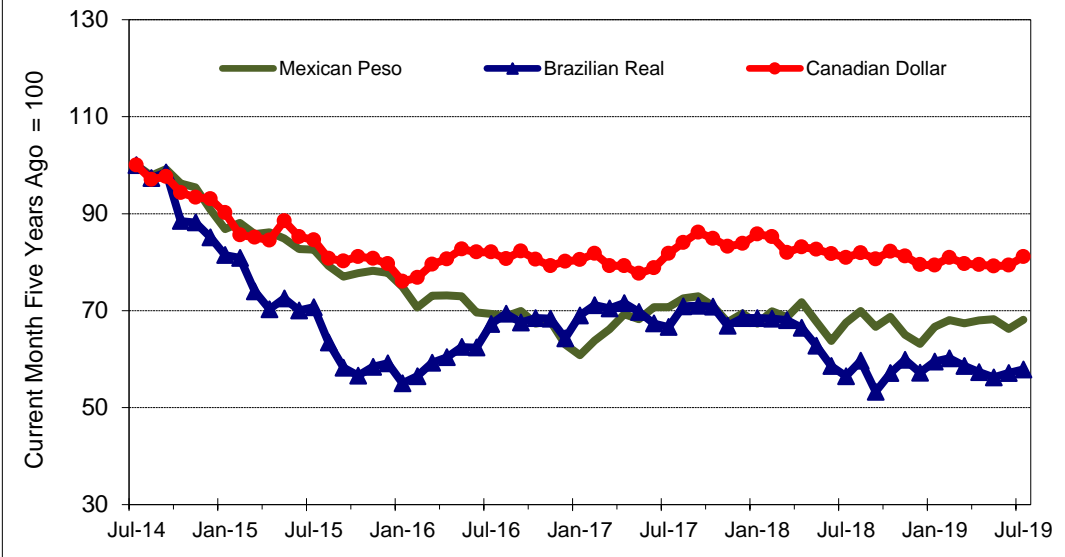


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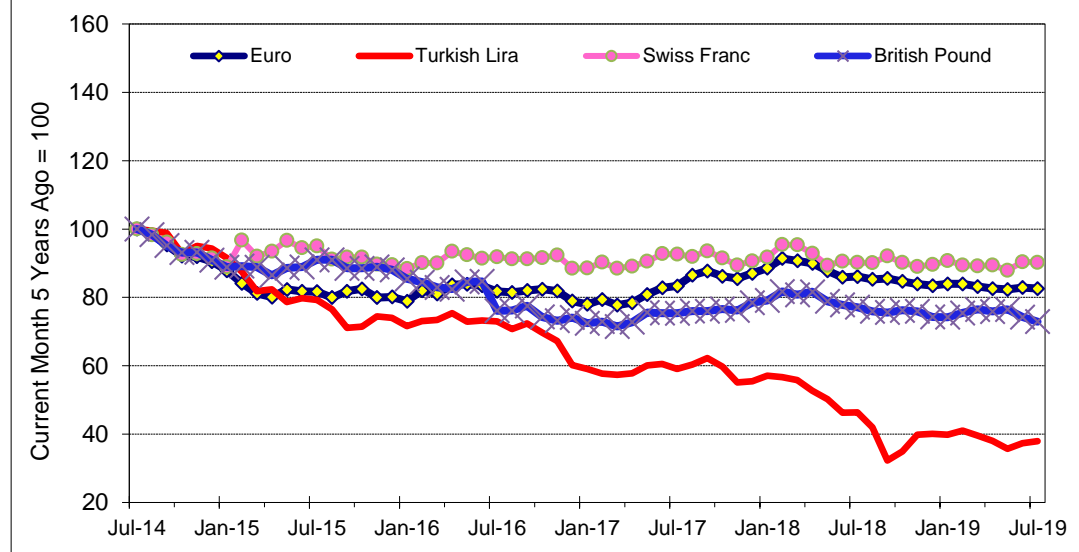


North & South American Currencies vs. U.S. Dollar



Source: Reuters

Index of European Currencies vs. U.S. Dollar



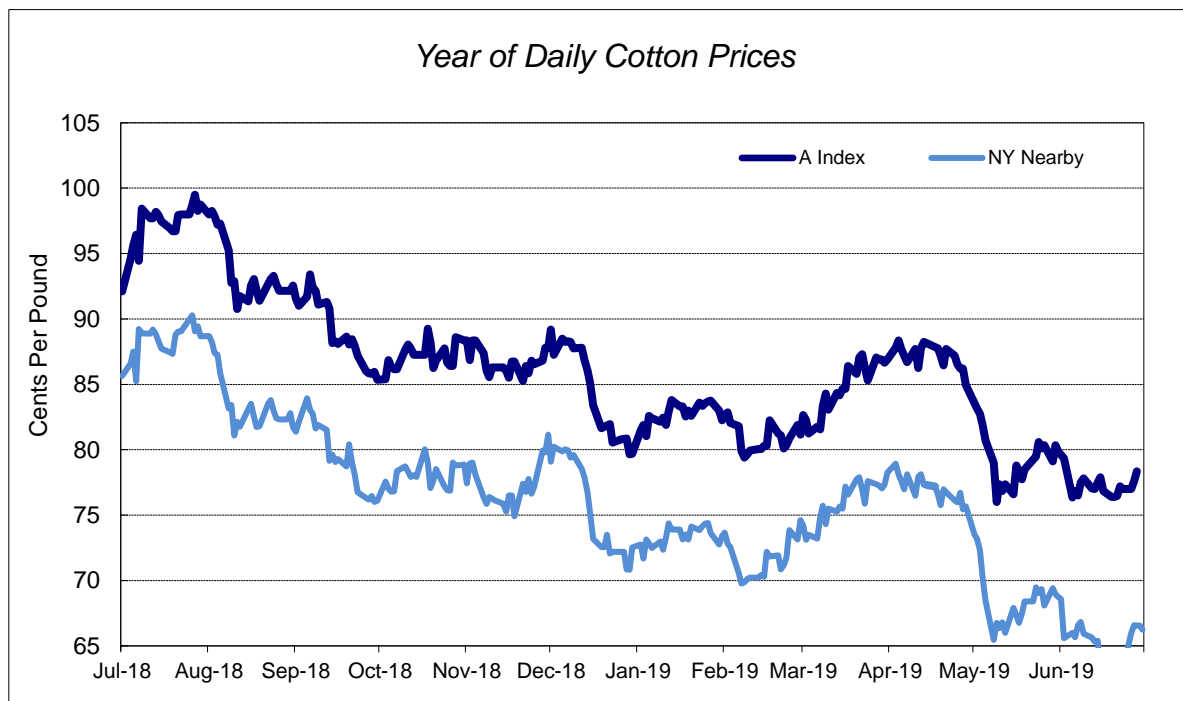
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U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20 May	2019/20 June
Beginning Stocks	3.7	3.8	2.8	4.3	4.7	4.7
Production	12.9	17.2	20.9	18.4	22.0	22.0
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.7	26.7	26.7
Mill-Use	3.5	3.3	3.2	3.1	3.1	3.1
Exports	9.2	14.9	15.8	14.8	17.0	17.0
Demand	12.6	18.2	19.1	17.9	20.1	20.1
Ending Stocks	3.8	2.8	4.3	4.7	6.4	6.4
Stocks/Use Ratio	30.2%	15.1%	22.5%	26.1%	31.8%	31.8%



Sources: ICE Futures U.S. & Cotton Outlook

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