

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



September 2019

www.cottoninc.com

Macroeconomic Overview: Concern about slowing economic conditions has resurfaced. Indices of manufacturing activity, which can serve as leading indicators for overall economic activity, signaled contraction for the U.S., the U.K., Germany, South Korea, and Japan last month. It was the first time since 2016 that U.S. manufacturing activity shrank. In the Institute for Supply Management (ISM) survey used to generate the U.S. index, trade-related uncertainty was cited as the most significant issue facing manufacturers.

The ISM report was issued after a month of further escalation in the U.S.-China trade dispute. On August 1st, the U.S. announced it was planning to increase tariffs on all Chinese goods not covered by previous rounds of increases. On August 13th, the U.S. followed up with details indicating that this next increase would be implemented in two steps. The first step was applied to a set of goods referred to as List 4a (valued at \$112 billion) on September 1st. A second step (List 4b, valued at \$160 billion) is planned to take effect December 15th. Both List 4a and 4b were initially supposed to face ten percentage point increases.

A factor that was used to determine which goods were assigned to List 4a or 4b was China's market share of each import category (8-digit HS code). Goods with Chinese share below 75% were assigned to List 4a (September implementation). Goods with Chinese share above 75% were assigned to List 4b (December implementation), allowing retailers selling goods with sourcing concentrated in China a little additional time to try to diversify.

Virtually all apparel and home textiles escaped previous rounds of increases, but are covered by Lists 4a and 4b. Goods classified under HS Chapters 61 (Knit Apparel), 62 (Woven Apparel), and 63 (Made-Ups, spanning most home textiles including sheeting, bedding, and towels) are split across these two lists. These lists are built from 8-digit HS codes (in the U.S., the most specific product classifications are at the 10-digit level) and there are far more apparel goods on List 4a (549 8-digit HS codes) than 4b (77 8-digit codes). In terms of weight, List 4a represents much more volume, with 1.5 million tons of imports from China in 2018 and 4.5 million tons of imports from all locations (China's share was 35%). List 4b represented 172,714 tons of imports from China in 2018 and 206,769 from all locations (China's share was 82%).

The total value of U.S. goods imported by China (\$120 billion in 2018) is much less than the total value of goods that the U.S. imports from China (\$540 billion in 2018). With initial tariff increases symmetric in terms of the value of goods covered (\$34 billion in July 2018 and \$16 billion in August 2018), China quickly became limited by an absence of additional goods it could hit with tariff increases in later rounds. Since last September, essentially all Chinese imports from the U.S. have been subjected to increased tariffs.

Correspondingly, China could not retaliate to the increases announced by the U.S. last month by expanding the set of goods facing higher tariffs. Instead, China reacted by raising tariffs on U.S. goods that were already subject to higher tariffs by another 5 or 10 percentage points. These increases cover goods collectively valued at \$75 billion and will be implemented in two steps, one on September 1st and another on December 15th. U.S. cotton fiber is on the list of goods facing an additional 5 point increase in December, meaning the additional tariff applied to U.S. cotton should soon rise from a 25 to a 30 percentage point increase relative to where duties were before July 2018.

The U.S. responded to the Chinese announcement by also raising tariffs. Goods already subjected to a 25 percentage point increase (Lists 1, 2, and 3) were subjected to an additional 5 point increase (to 30 percentage points total) in October. Lists 4a and 4b, which were initially slated to face 10 percentage point increases now face 15 point increases. From the U.S. side, the latest tariff increases put further pressure cotton prices and retailer profitability. From the Chinese side, a slowdown in export demand and slower economic growth should weigh on manufacturers' order volumes.

Employment: The U.S. economy added 130,000 jobs in August. Revisions to estimates for June and July were both negative, with the figure for June dropping from +193,000 to +178,000 and the figure for July dropping from +164,000 to +159,000. Following the latest monthly revisions, job gains over the past twelve months averaged +173,000. Over the same period last year, job growth averaged +212,000. The unemployment rate was stable at 3.7% in August. Wages were 3.2% higher year-over-year last month, equal to the average annual rate of increase over the past twelve months.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence was nearly unchanged in August (135.1 down 0.7 from 135.8 in July). Values remain near the all-time high registered in the early 2000s. After a slowdown in June, overall consumer spending rebounded in July. In July, overall spending up 0.4% month-over-month and up 2.7% year-over-year. After decreasing 0.3% month-over-month in June, consumer spending on apparel climbed 0.4% in July and was up 2.2 year-over-year.

Consumer Prices & Import Data: After rising 1.0% month-over-month in June, the CPI for apparel rose another 0.6% month-over-month in July. Despite the back-to-back monthly increases, the CPI was still down 0.6% year-over-year in July. In seasonally-adjusted terms, the average price per square meter equivalent of cotton-dominant apparel imports increased slightly month-over-month in June (from \$3.46/SME to \$3.47/SME). Year-over-year, the average import price for cotton-dominant apparel was 2.3% higher.

China's share of cotton-dominant apparel imports was stable at a level near 27% in July (seasonally-adjusted data). China's share of U.S. apparel imports of all fibers was also stable at a level near 41%. The tariffs planned in September and December threaten this stability, but there is no evidence of a major shift in sourcing away from China yet.

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
September 2019



Macroeconomic Data Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q4 : 2018	Q1 : 2019	Q2 : 2019		
Growth in US Real GDP	2.5%	2.5%	2.6%	2.0%	1.1%	3.1%	2.0%	% Chg. Quarter/Quarter	Department of Commerce

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		
ISM Index of Manufacturing Activity	54.7	56.3	52.9	51.7	51.7	51.2	49.1	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.9	57.2	56.2	55.2	55.1	53.7	56.4	Index	Institute for Supply Management
Consumer Confidence	112.7	123.6	129.4	130.5	124.3	135.8	135.1	Index	The Conference Board
Change in Non-Farm Payrolls	205.5	191.3	137.3	133.0	178	159	130	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.6%	4.1%	3.7%	3.7%	3.7%	3.7%	3.7%	Rate	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		
US Interest Rates									
Federal Funds	1.0%	1.5%	2.4%	2.4%	2.4%	2.4%	2.1%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.5%	2.4%	2.2%	2.1%	2.1%	1.6%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	103.7	107.0	111.8	111.8	111.7	111.6	112.2	Index	The Conference Board
Housing Starts	11.8	12.2	12.2	12.3	1.3	1.2	1.2	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.3	5.4	5.4	5.3	5.4	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

Monthly Series with Latest Data for July

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
US Industrial Production	105.4	106.5	109.3	109.3	109.2	109.4	109.2	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	108.1	104.2	102.9	102.4	98.2	97.9	98.2	Index, December 2003=100	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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	3.0	3.0	3.0	2.9	3.0	3.1	million 480lb bales	USDA ERS

Monthly Series with Latest Data for July

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
US Textile Mill Inventory/Shipments Ratio	1.30	1.31	1.37	1.36	1.35	1.35	1.37	Ratio	Department of Commerce

Retail Data

Monthly Series with Latest Data for July

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
US Real Consumer Spending									
All Goods and Services	3.0%	2.8%	2.6%	2.7%	2.6%	2.7%	2.7%	% Chg. Year/Year	Department of Commerce
Clothing	2.9%	2.5%	3.6%	3.3%	3.6%	4.3%	2.2%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.5%	2.1%	1.8%	1.8%	1.8%	1.7%	1.8%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.7%	-0.4%	-2.1%	-1.9%	-3.5%	-1.7%	-0.6%	% Chg. Year/Year	Bureau of Labor Statistics

Monthly Series with Latest Data for June

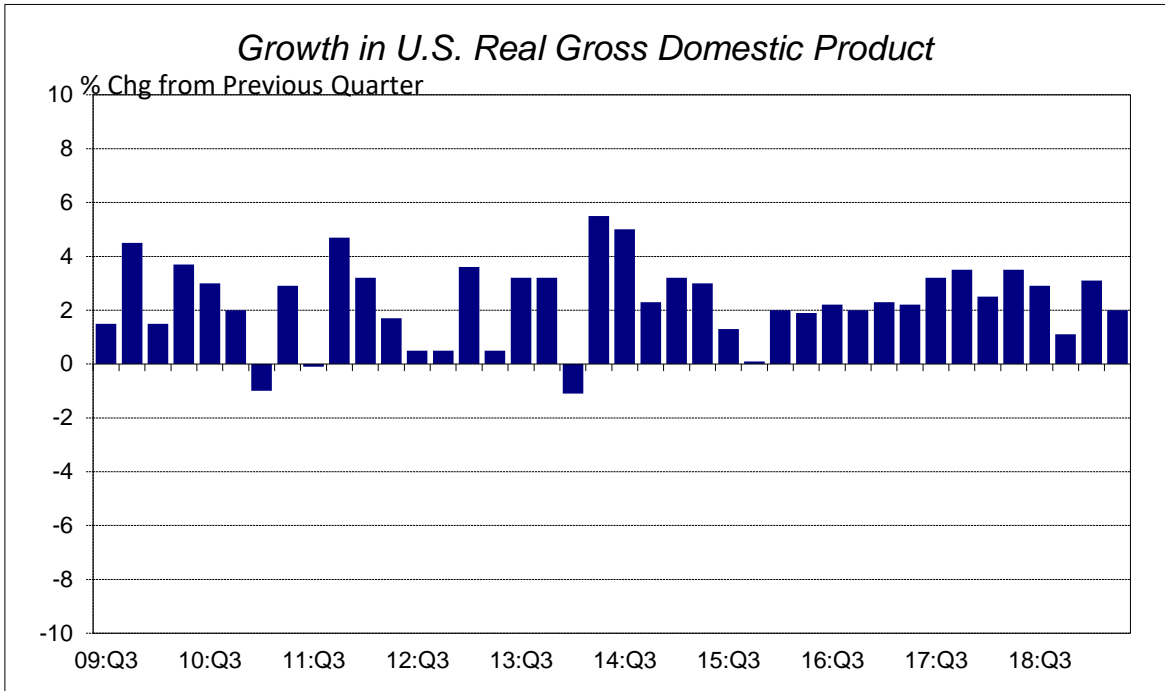
	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.3	2.3	2.3	2.3	2.3	2.3	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.1	2.0	2.1	2.0	2.0	Ratio	Department of Commerce

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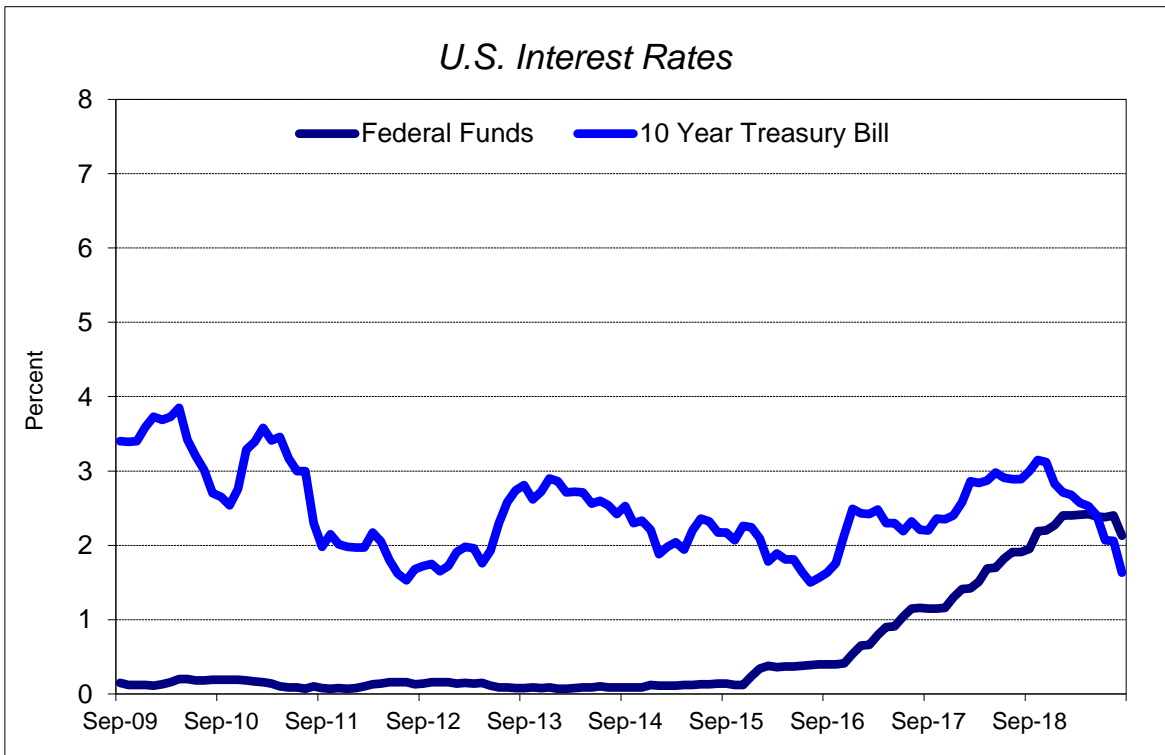
Daily Cotton Price and Currency Data
September 2019



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	June	July	August		
NY Nearby	71.8	72.9	74.3	71.7	66.3	63.8	59.0	cents/pound	ICE
A Index	80.4	82.5	84.2	81.6	77.6	75.5	70.9	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	June	July	August		
Dollar Trade Weighted Exchange Index	111.0	113.2	115.5	116.0	116.0	115.1	116.7	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.57	6.72	6.84	6.94	6.92	6.88	7.03	Chinese Renminbi/US dollar	Reuters
Indian Rupee	66.31	67.44	69.59	69.51	69.29	68.42	70.83	Indian Rupee/US dollar	Reuters
Japanese Yen	112.59	110.37	109.57	107.68	108.19	108.47	106.39	Japanese Yen/US dollar	Reuters
Pakistani Rupee	112.71	119.02	147.34	154.38	147.85	156.73	158.55	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.41	3.50	3.88	3.89	3.88	3.83	3.97	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.29	1.31	1.33	1.32	1.34	1.31	1.32	Canadian dollar/US dollar	Reuters
Mexican Peso	18.01	19.18	19.31	19.48	19.73	19.06	19.65	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.73	0.77	0.78	0.80	0.79	0.80	0.82	British Pound/US dollar	Reuters
Euro	0.88	0.88	0.89	0.89	0.89	0.89	0.89	Euro/US dollar	Reuters
Swiss Franc	0.98	0.99	1.00	0.99	0.99	0.99	0.98	Swiss Franc/US dollar	Reuters
Turkish Lira	3.72	4.40	5.66	5.64	5.77	5.63	5.53	Turkish Lira/US dollar	Reuters



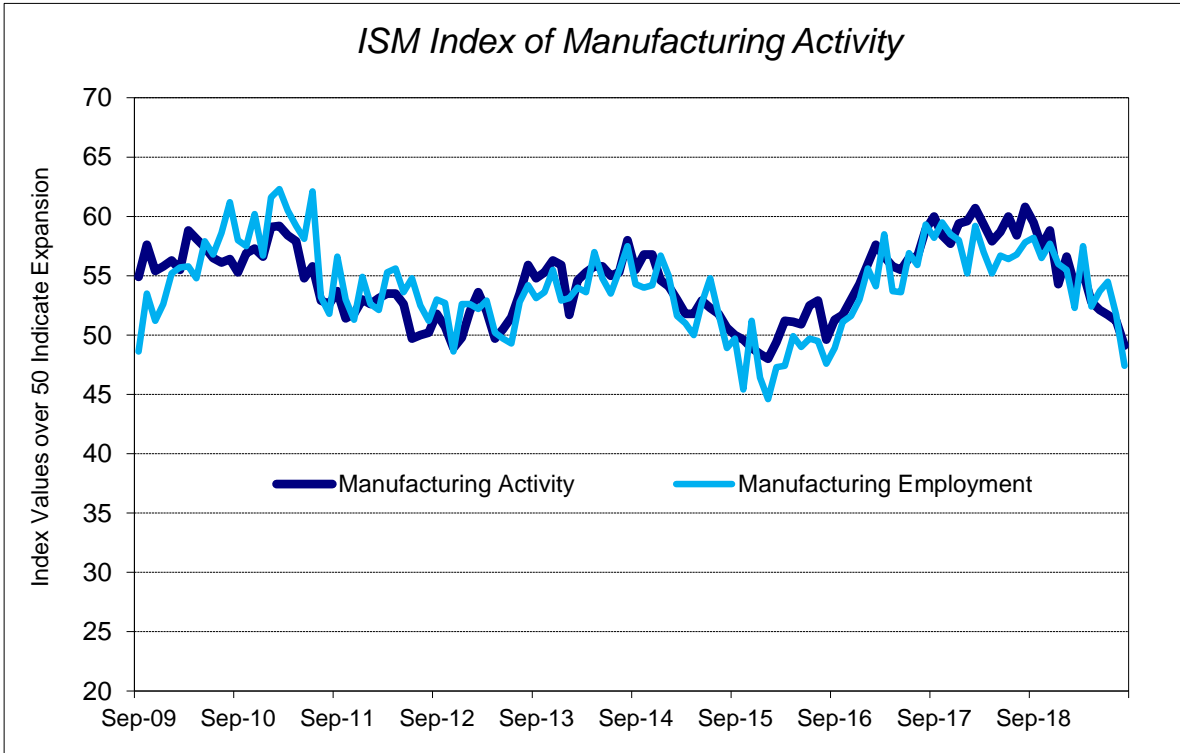
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



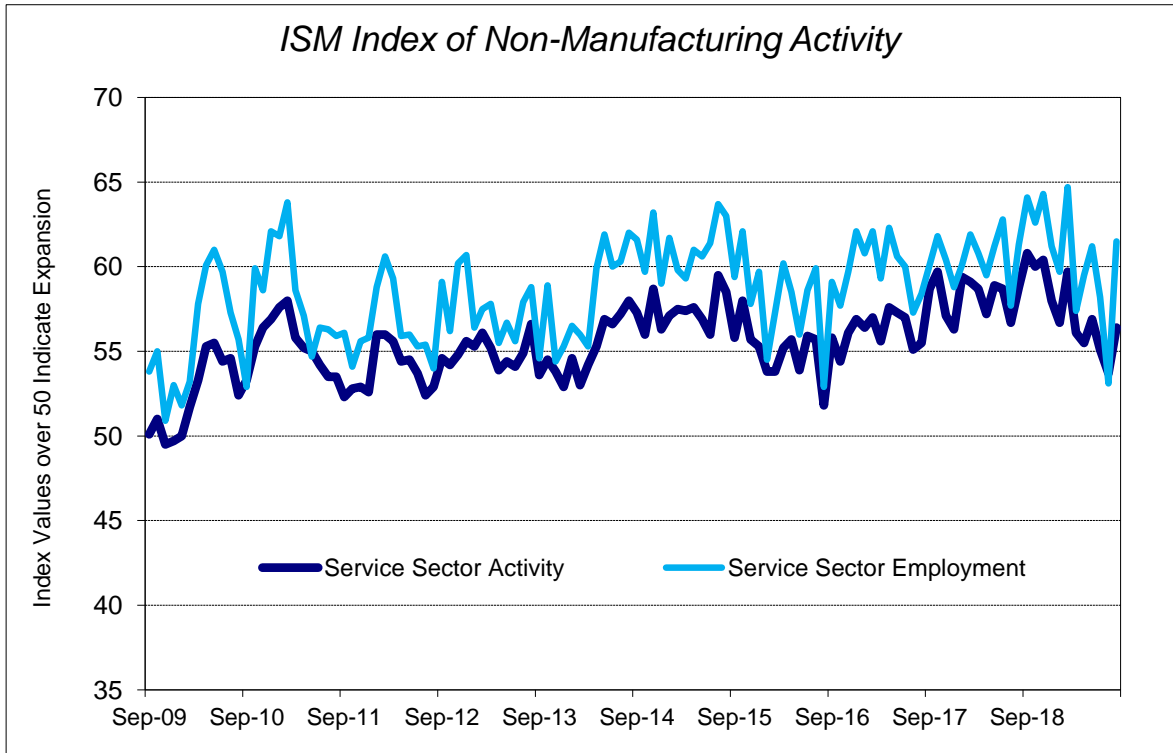
Source: Federal Reserve

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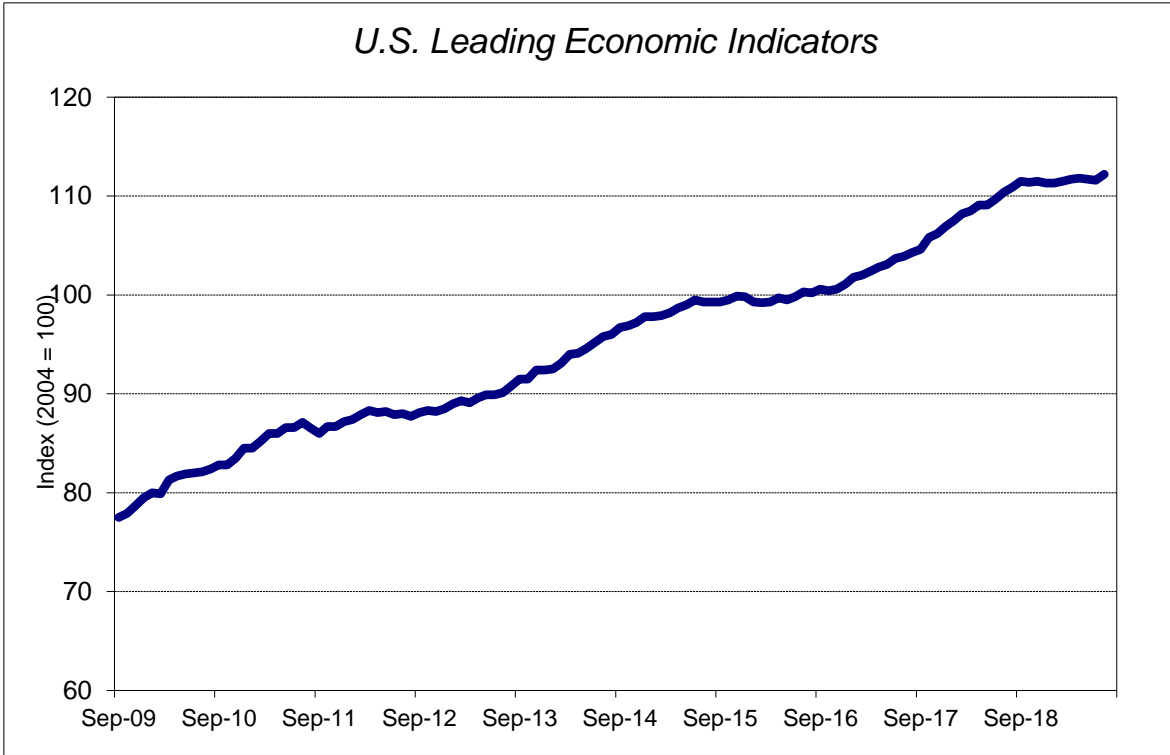
Source: Institute for Supply Chain Management



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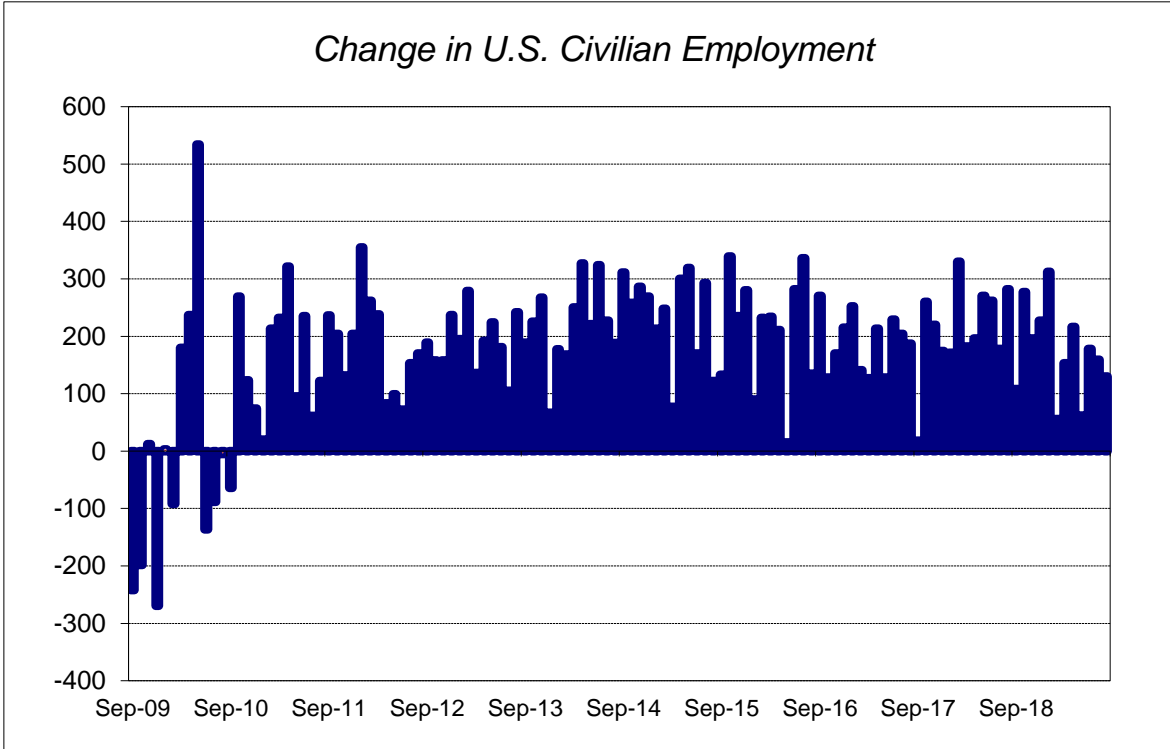
Source: The Conference Board



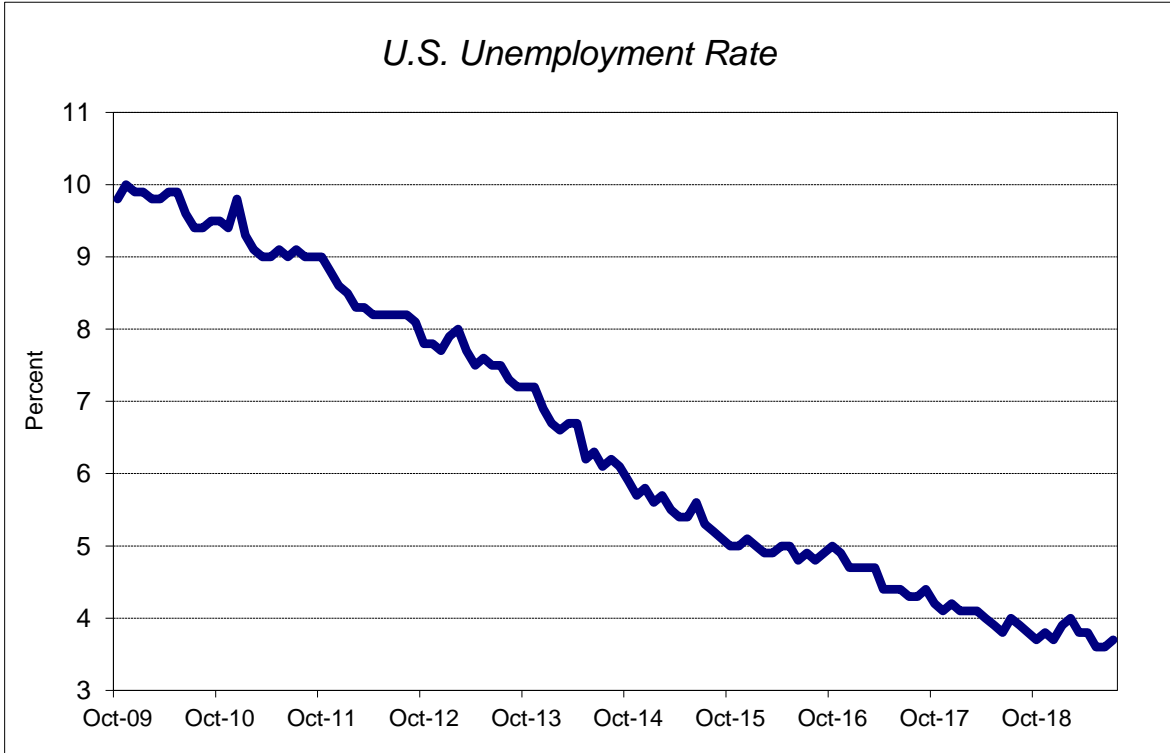
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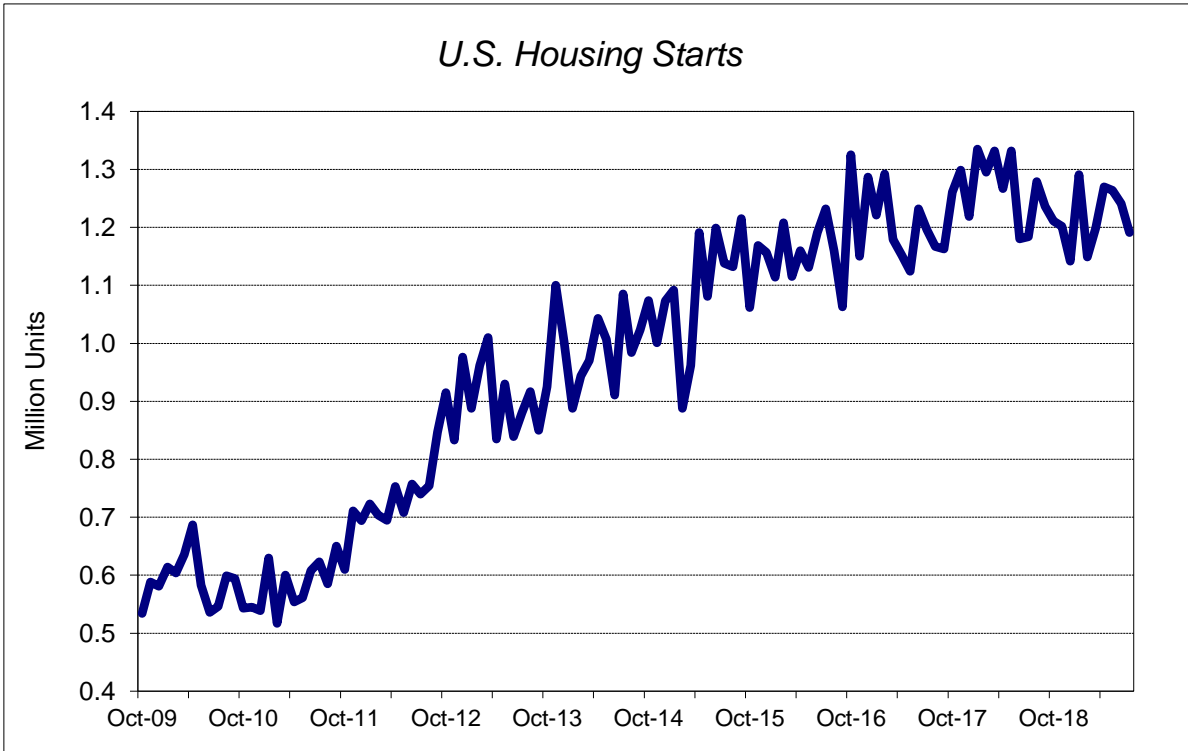
Source: Bureau of Labor Statistics



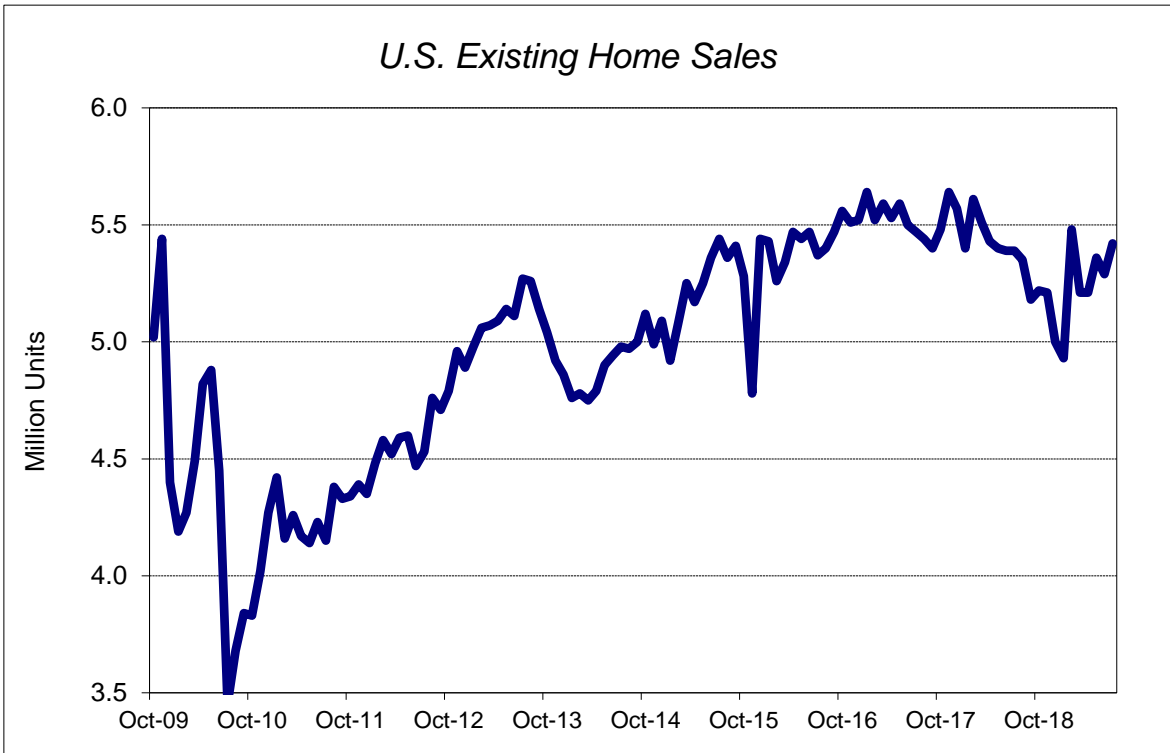
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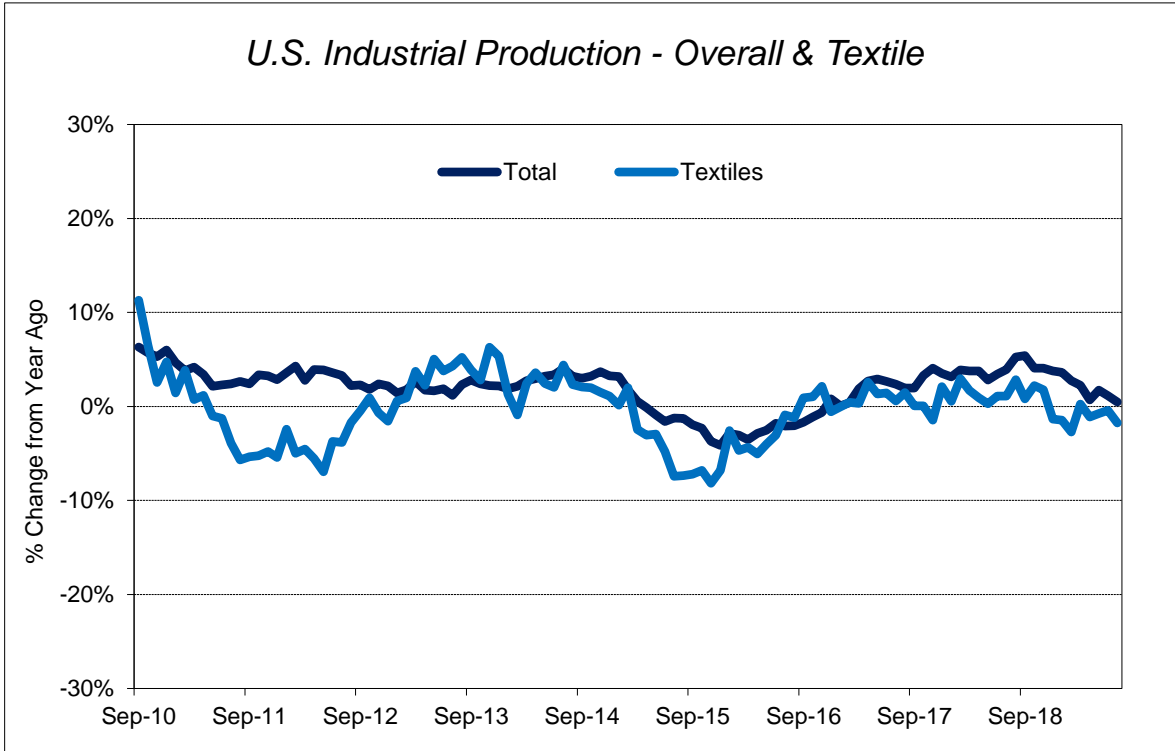
Seasonally Adjusted Annual Rate; Source: Department of Commerce



Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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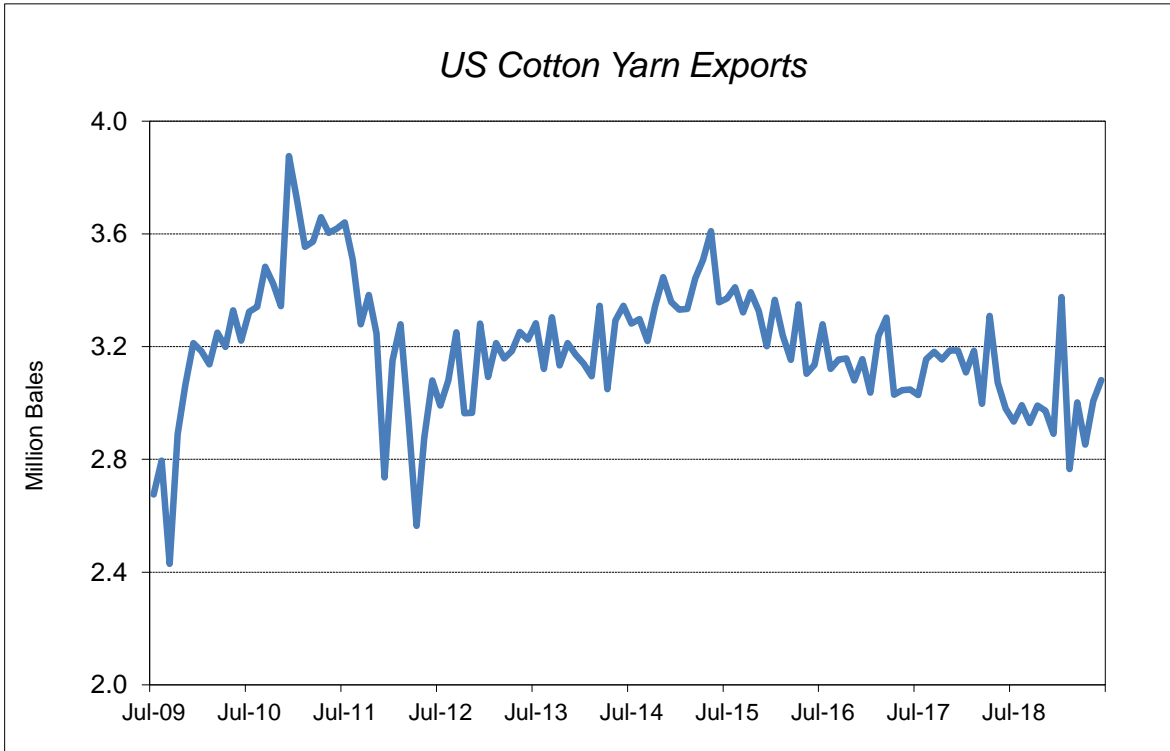
Source: Federal Reserve. Historical data revised to 1997 baseline.



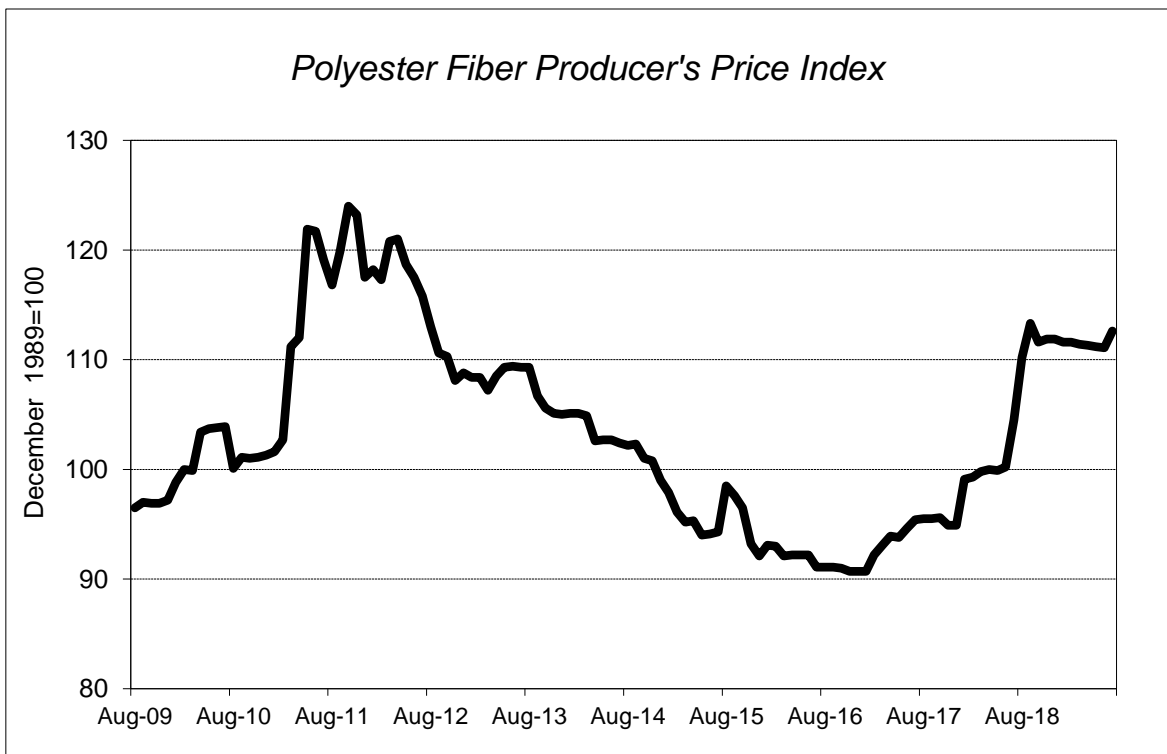
Seasonally Adjusted; Source: Department of Commerce

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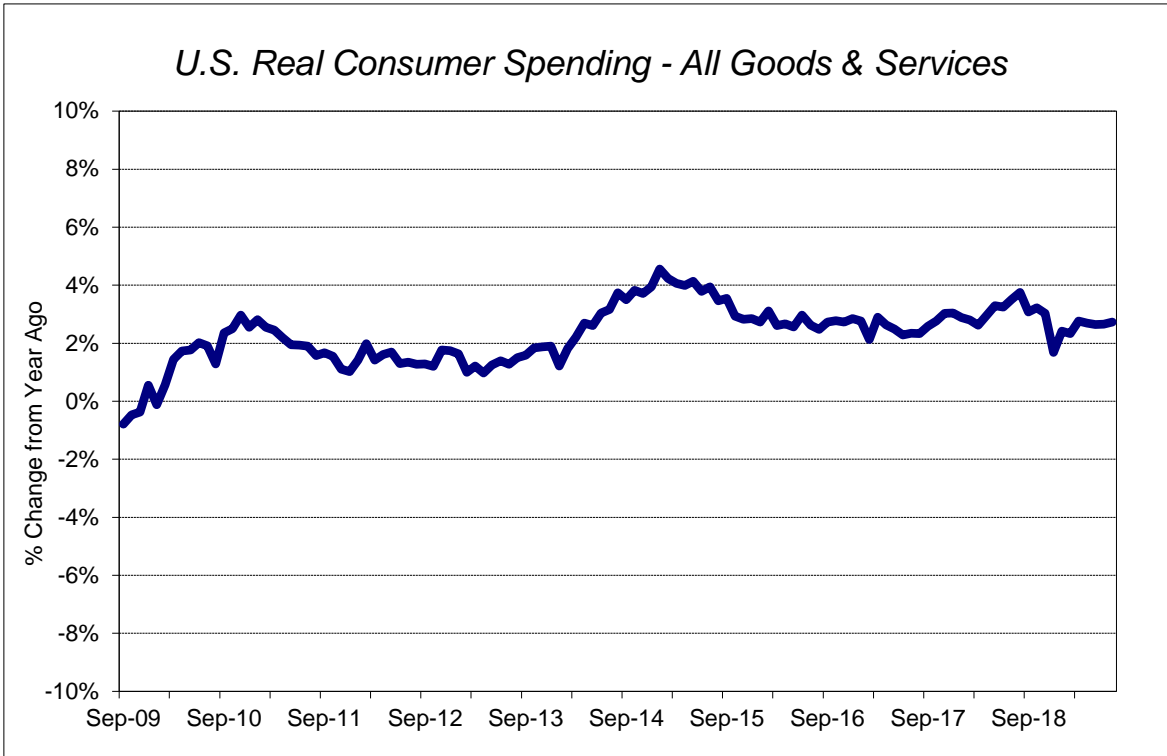
Seasonally Adjusted Annual Rate
 Source: USDA ERS



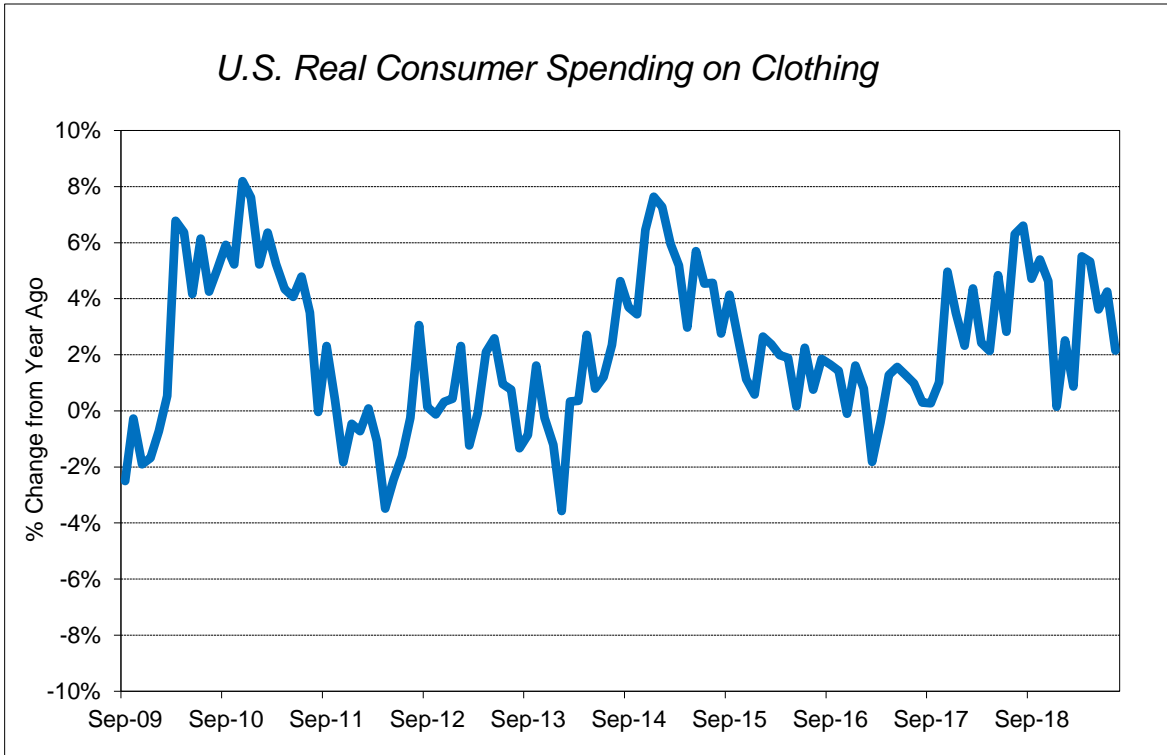
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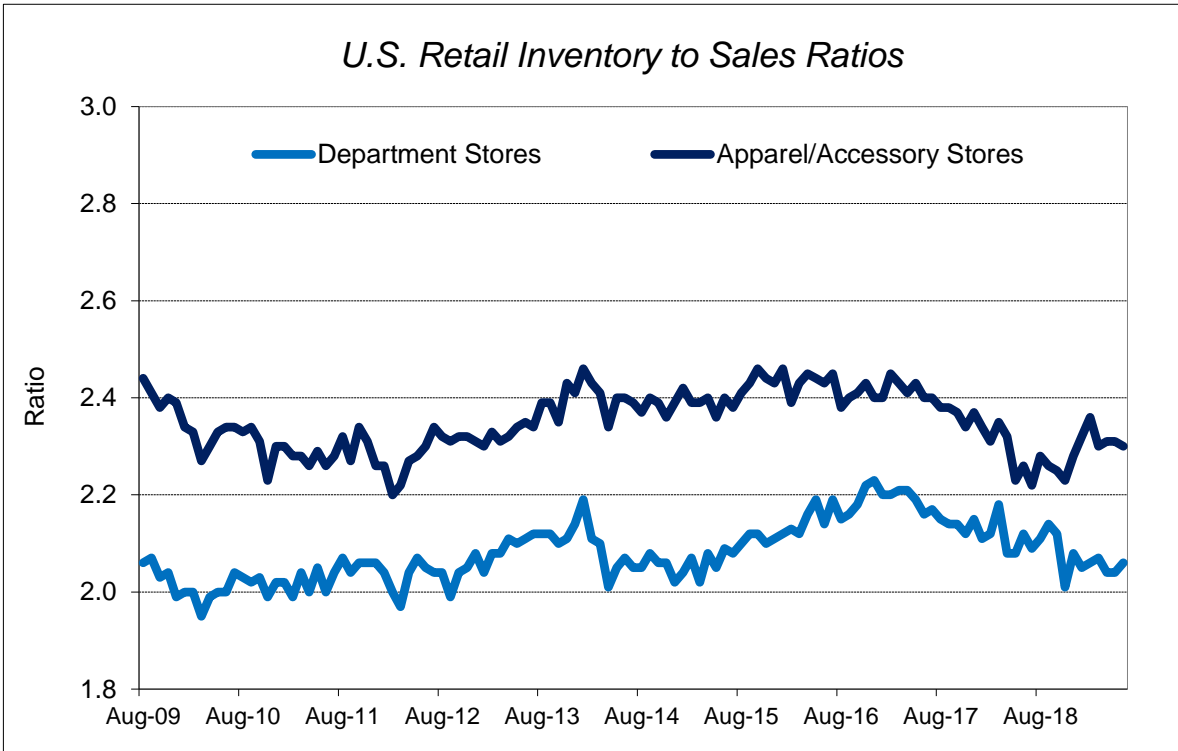
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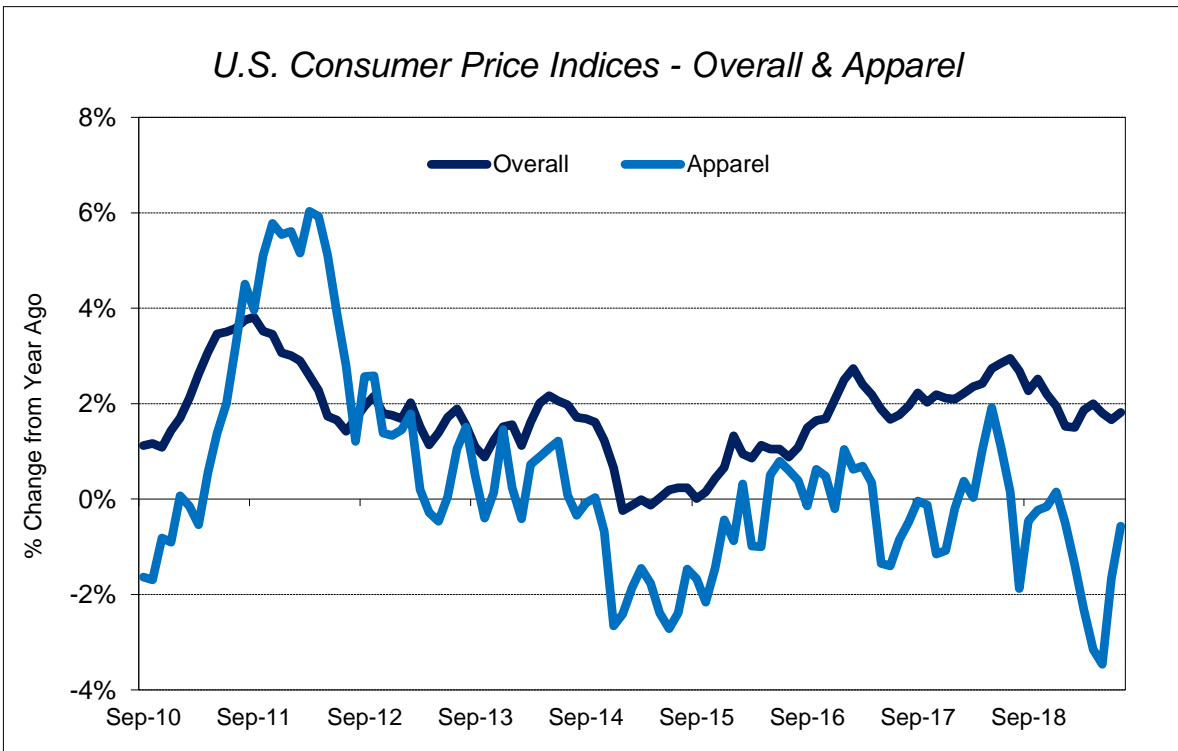
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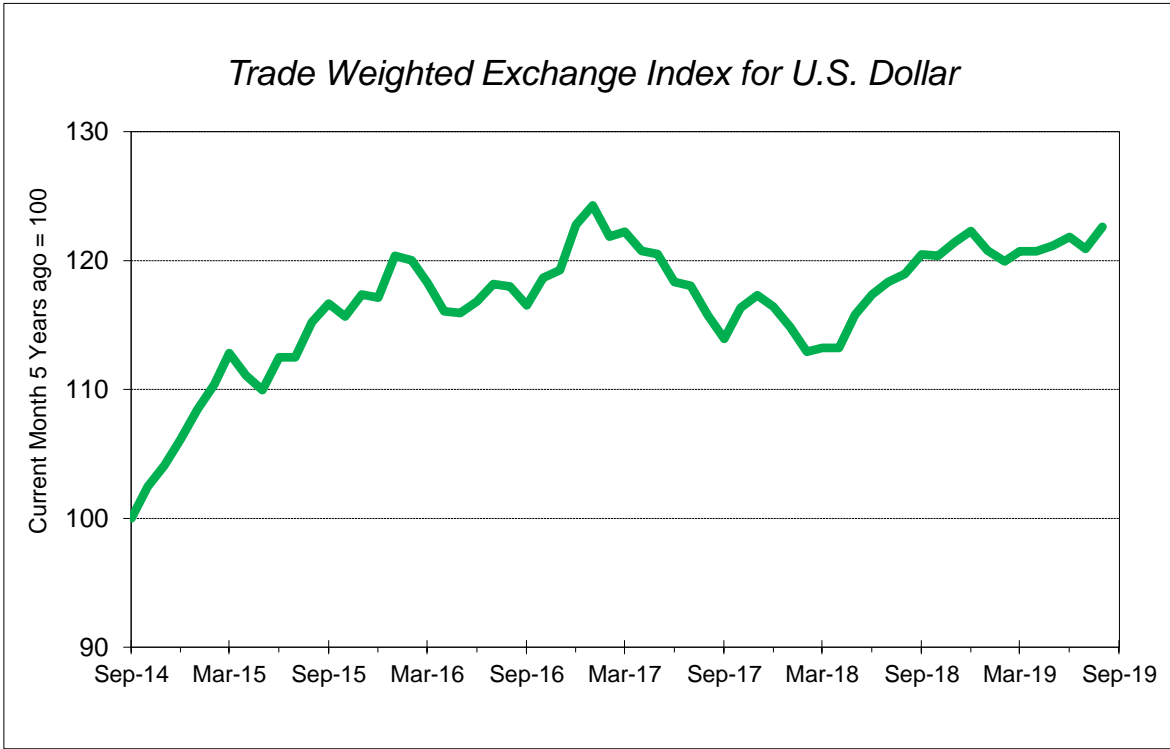
Source: Department of Commerce



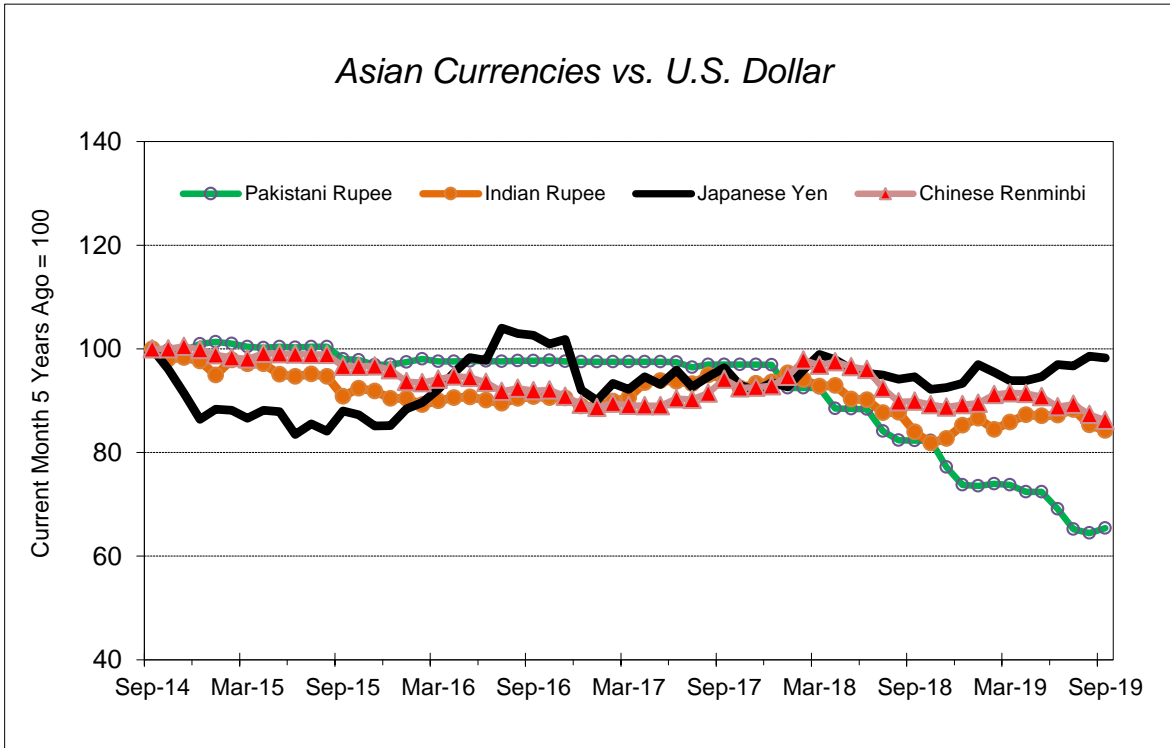
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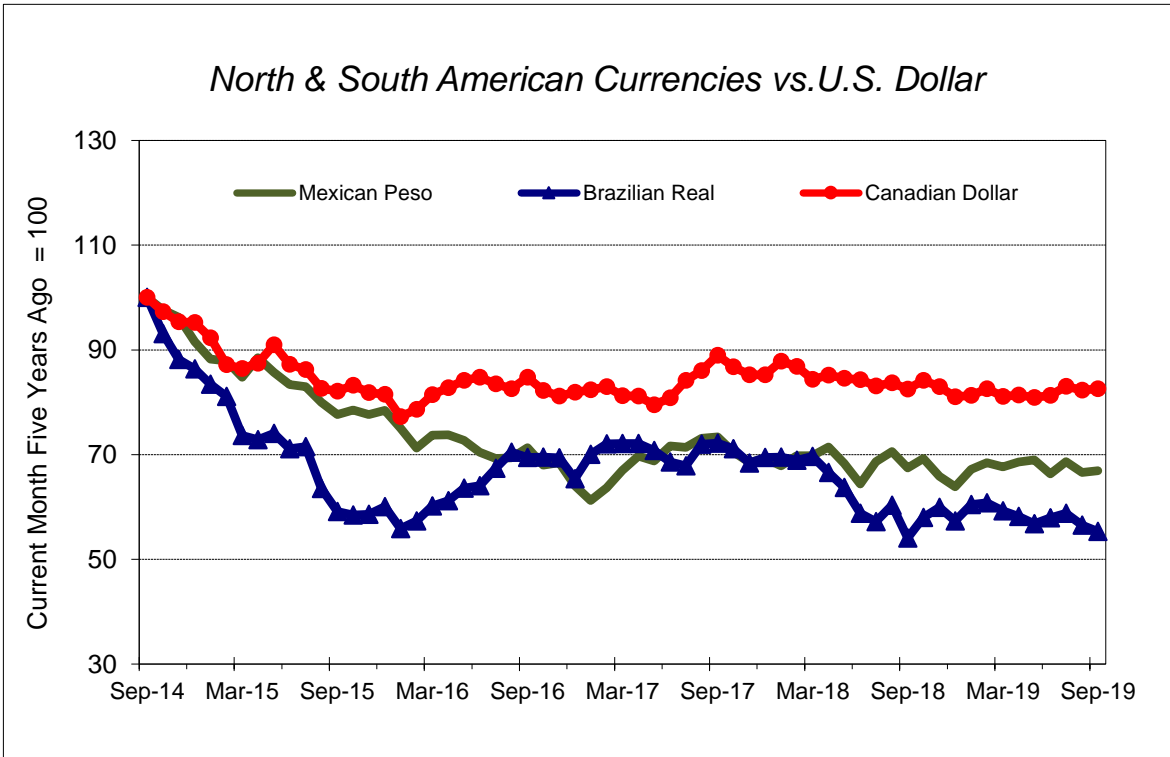
Source: Federal Reserve



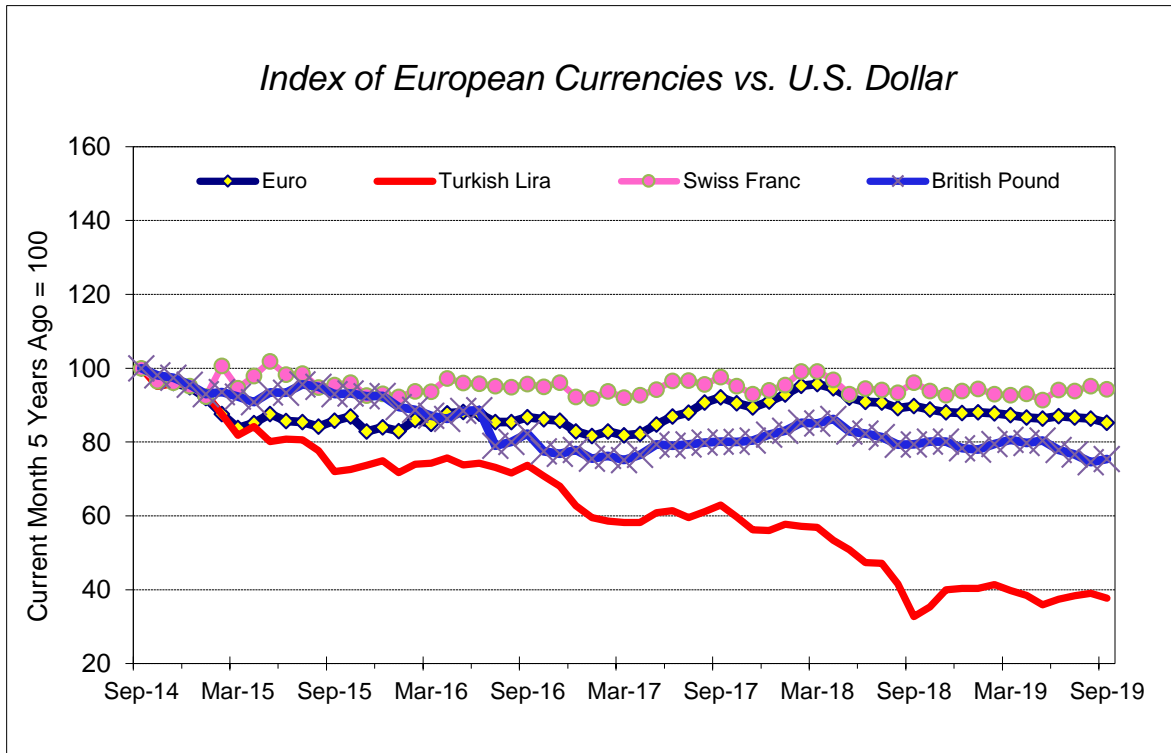
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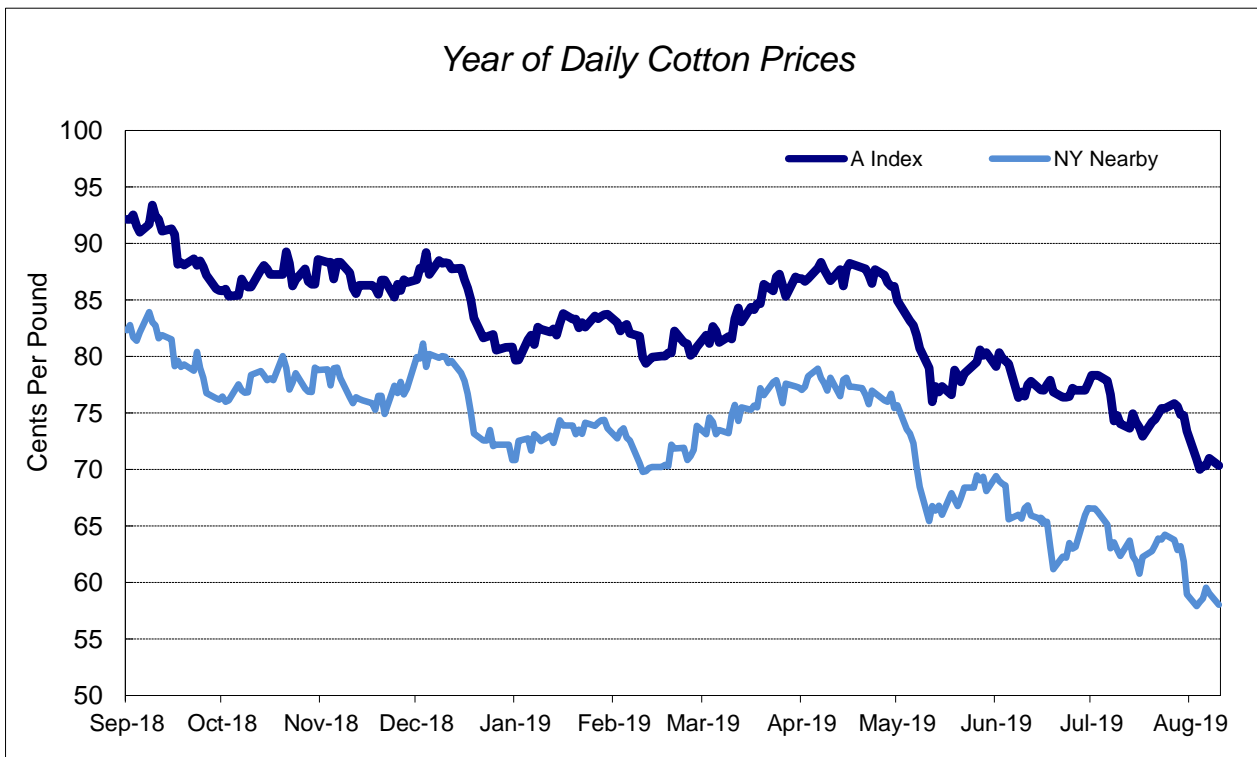
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U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20 July	2019/20 August
Beginning Stocks	3.7	3.8	2.8	4.3	5.0	5.3
Production	12.9	17.2	20.9	18.4	22.0	22.5
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.7	27.0	27.8
Mill-Use	3.5	3.3	3.2	3.0	3.1	3.1
Exports	9.2	14.9	15.8	14.2	17.0	17.2
Demand	12.6	18.2	19.1	17.2	20.1	20.3
Ending Stocks	3.8	2.8	4.3	5.3	6.7	7.2
Stocks/Use Ratio	30.2%	15.1%	22.5%	30.5%	33.3%	35.5%



Sources: ICE Futures U.S. & Cotton Outlook

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