

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



December 2019

www.cottoninc.com

Macroeconomic Overview: Since the trade dispute began to escalate in the first half of 2018, there has been an ebb and flow in optimism regarding the potential for a resolution. Although some concessions have been made (a postponement of increases scheduled to go into effect December 15th is possible), the optimism that emerged after talks in early October appears to have faded with the cancellation of the APEC summit (Asia-Pacific Economic Cooperation), where a “phase one” deal was expected to have been signed in mid-November. Since then, both sides have made conflicting comments regarding what a possible deal could contain.

U.S. officials stated that China would import \$40-50 billion of U.S. agricultural goods. This represents a near doubling of the previous record. China has purchased more U.S. soybeans recently, and there have been reports of waived tariff penalties for certain agricultural commodities. However, Chinese officials have generally shied away from numerical commitments. Chinese comments specific to cotton suggest that Chinese mills already have enough supply and that a significant increase in purchases may not be forthcoming. Meanwhile, from the Chinese side, officials stated that tariffs would be eliminated as part of an initial deal. U.S. officials countered those statements and insisted that at least some tariffs would be maintained in an initial agreement.

The back-and-forth with each side saying what they want and the other side indicating they will not get it suggests that there is some distance between the two parties. Recent statements from the U.S., including remarks stating that tariffs could remain in place beyond the 2020 election, provide additional reason to believe that the deal that seemed close to completion in early October has become more distant. The longer that the trade dispute continues, the deeper its disruption to supply chains.

The tariffs on apparel that went into effect in September have already dampened demand for imports not only from China but for U.S. apparel import demand in aggregate. When expanded across industries, the negative influence on global growth becomes apparent. The recently announced expansion of U.S. tariffs beyond China, to Argentina, Brazil, and possibly the E.U., should also not be expected to be helpful for global growth.

In the U.S., the widely followed Institute for Supply Management’s (ISM) purchaser manager index (PMI) for manufacturing signaled contraction for the fourth consecutive month in November. The manufacturing sector can serve as a leading economic indicator for overall economic activity. Thus far, the U.S. economy has been supported by consumer spending. Consumer spending has been buoyed by a strong labor market, and consumer confidence has been holding to high levels.

Over the Thanksgiving weekend, which traditionally marks that start to the important holiday sales period, the National Retail Federation (NRF, a trade group representing U.S. retailers) estimates that U.S. consumers spent 16% more than one year ago. The NRF forecasts spending growth over the entire holiday shopping period will increase by about 4% this year. Last year, holiday spending growth was 2.1%. In 2017, growth was 5.2%. In 2015 and 2016, growth was near 3.2%.

Employment: The U.S. added 266,000 jobs in November. This was the largest monthly increase since January. Revisions to figures for September (+13,000 to +193,000) and October (+28,000 to +156,000) were both positive. Over the past twelve months, the average monthly increase has been 184,000. During the same period last year, job gains averaged 219,000.

The unemployment rate declined slightly, dropping from 3.6% to 3.5%. The unemployment rate has been hovering near this level since April. This level is the lowest since the late 1960s. Wage growth was 3.1%.

Consumer Confidence & Spending: The Conference Board’s Index of Consumer Confidence decreased for the fourth consecutive month in November. The latest decline was marginal month-over-month (-0.6, to 125.5), and despite several months of successively lower readings, the latest value is still high relative to the long-term average near 100.

Overall consumer spending increased 0.1% month-over-month in October and was 2.3% higher year-over-year. Spending on apparel increased at the strongest monthly rate since March, rising 2.3% month-over-month. Year-over-year, apparel spending was 4.0% higher.

Consumer Prices & Import Data: Lower apparel prices may have encouraged spending. The CPI for garments decreased 2.1% month-over-month in October and was 3.3% lower year-over-year. The average cost per square meter of imported cotton-dominant apparel decreased 0.2% month-over-month in October and was 2.7% lower year-over-year.

Further evidence of the negative effects of the trade dispute surfaced in the latest apparel import data, with both overall imports and imports from China falling sharply. In October, total U.S. apparel imports were down 16% year-over-year in volume terms (square-meter-equivalence). Imports from China were down 30%. This followed reductions of 4% (all sources) and 13% (China) in September. From January through August, cumulative shipments from all locations were up 5% and shipments from China were up 4%.

The larger reduction in shipments from China relative to the rest of the world resulted in an erosion of Chinese share (seasonally-adjusted Chinese share was 35% in October, it averaged 41% the first eight months of the year). While import data indicate that China is losing business due to tariffs, it is also notable that other markets have not been able to completely offset those declines, and a net result has been a reduction in U.S. apparel demand.

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 2019



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q1 : 2019	Q2 : 2019	Q3 : 2019		
Growth in US Real GDP	2.3%	2.5%	2.1%	2.1%	3.1%	2.0%	2.1%	% 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	54.3	56.1	50.0	48.4	47.8	48.3	48.1	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.8	57.2	54.9	54.6	52.6	54.7	53.9	Index	Institute for Supply Management
Consumer Confidence	114.5	125.7	129.7	128.9	126.3	126.1	125.5	Index	The Conference Board
Change in Non-Farm Payrolls	202.4	192.4	162.3	189.3	193	156	266	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.5%	4.0%	3.6%	3.6%	3.5%	3.6%	3.5%	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	1.1%	1.6%	2.2%	2.0%	2.0%	1.8%	1.6%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.5%	1.9%	1.7%	1.7%	1.7%	1.8%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	104.5	107.9	111.9	111.8	112.0	111.8	111.7	Index	The Conference Board
Housing Starts	11.9	12.4	12.8	13.2	1.4	1.3	1.3	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.4	5.4	5.4	5.5	5.4	5.5	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	105.6	107.1	109.3	109.4	109.9	109.6	108.7	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	108.3	103.1	101.9	101.4	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	3.0	3.0	3.0	3.1	3.0	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	1.31	1.31	1.37	1.37	1.38	1.37	1.36	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	3.0%	2.7%	2.5%	2.4%	2.4%	2.6%	2.3%	% Chg. Year/Year	Department of Commerce
Clothing	2.9%	2.6%	2.8%	2.3%	0.6%	2.4%	4.0%	% 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%	-0.5%	-1.5%	-1.1%	0.9%	-0.9%	-3.3%	% 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	2.3	2.3	2.3	2.3	2.3	2.3	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.1	2.1	2.1	2.0	2.1	Ratio	Department of Commerce

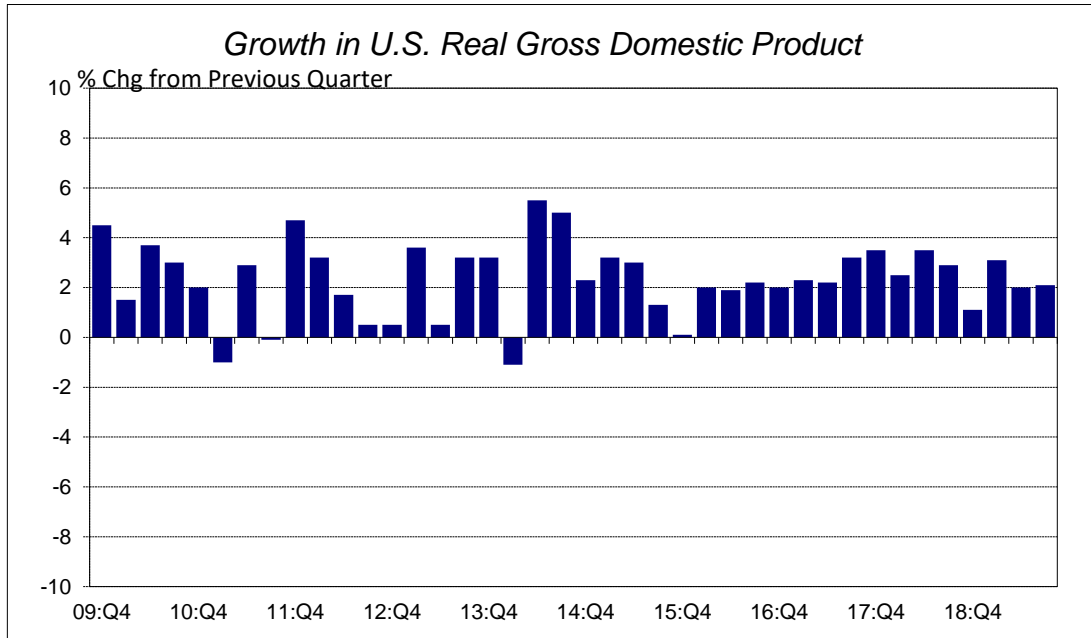
Executive Cotton Update

Daily Cotton Price and Currency Data
December 2019

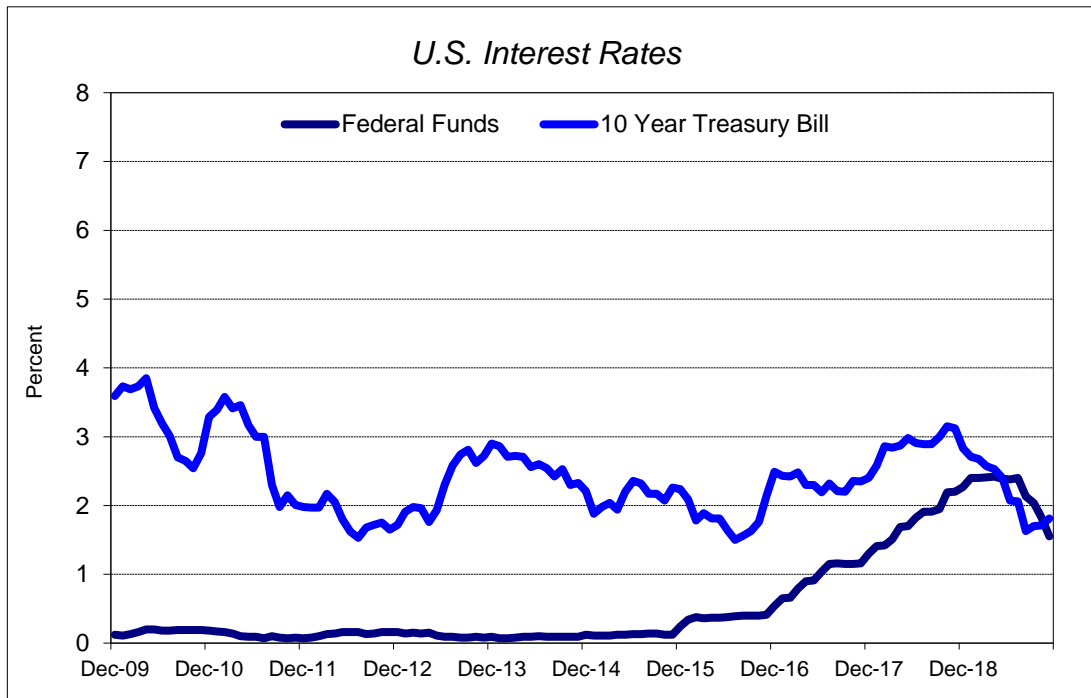


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	September	October	November		
NY Nearby	71.4	72.2	72.3	69.7	60.0	63.5	64.5	cents/pound	ICE
A Index	80.1	81.9	82.3	79.8	71.3	73.8	74.8	cents/pound	Cotlook

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	112.1	113.7	116.5	117.1	117.2	117.8	116.4	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.62	6.76	7.02	7.08	7.13	7.13	6.99	Chinese Renminbi/US dollar	Reuters
Indian Rupee	66.84	67.88	70.47	71.35	71.70	71.07	71.27	Indian Rupee/US dollar	Reuters
Japanese Yen	112.42	110.81	107.69	107.90	107.16	107.39	109.15	Japanese Yen/US dollar	Reuters
Pakistani Rupee	115.48	123.51	155.23	155.93	156.25	156.15	155.40	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.48	3.57	3.99	4.11	4.09	4.10	4.14	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.30	1.31	1.32	1.32	1.32	1.33	1.32	Canadian dollar/US dollar	Reuters
Mexican Peso	18.33	19.23	19.36	19.41	19.56	19.56	19.09	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.74	0.77	0.80	0.80	0.81	0.82	0.78	British Pound/US dollar	Reuters
Euro	0.89	0.88	0.90	0.91	0.90	0.91	0.91	Euro/US dollar	Reuters
Swiss Franc	0.98	0.99	0.99	0.99	0.99	1.00	1.00	Swiss Franc/US dollar	Reuters
Turkish Lira	3.92	4.66	5.74	5.80	5.76	5.87	5.76	Turkish Lira/US dollar	Reuters



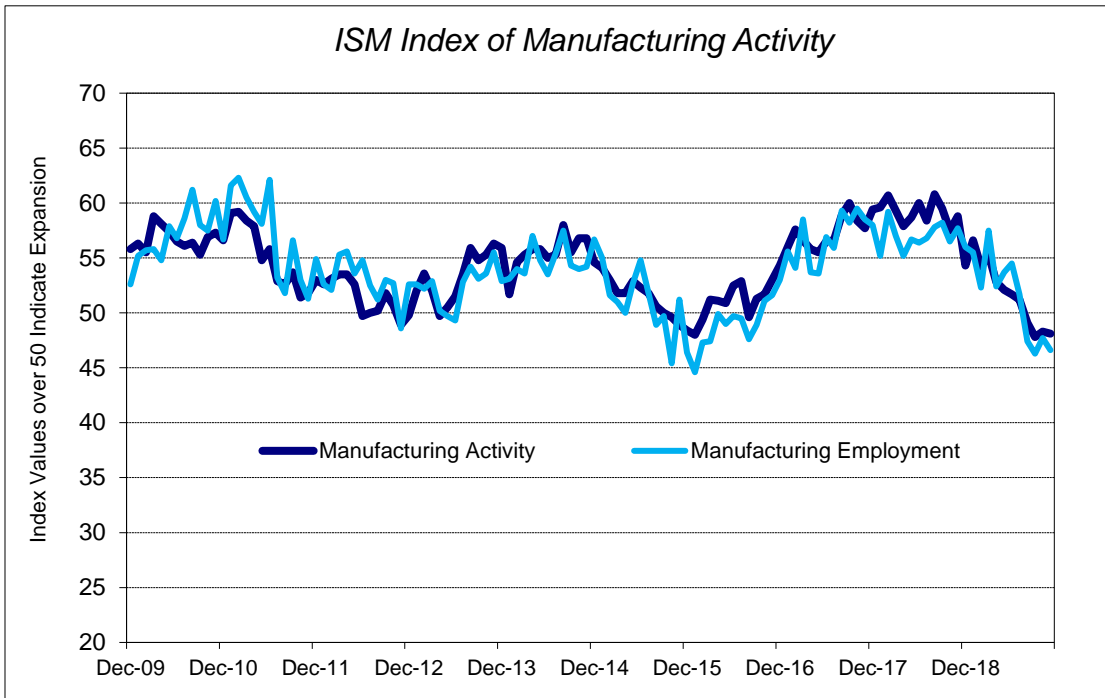
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



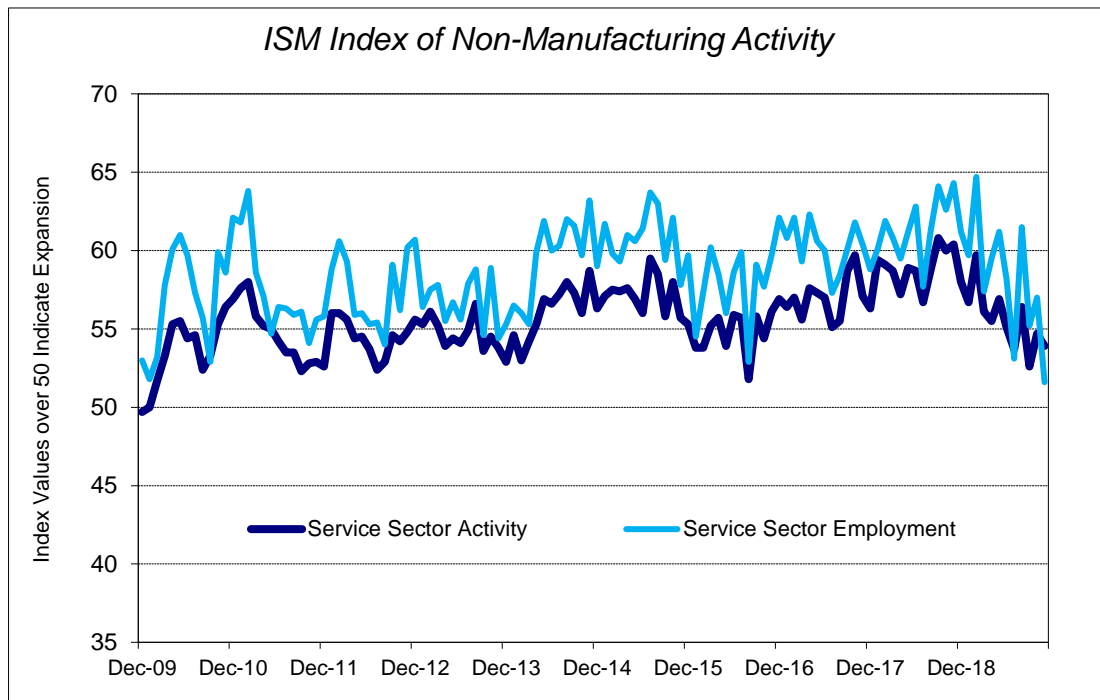
Source: Federal Reserve

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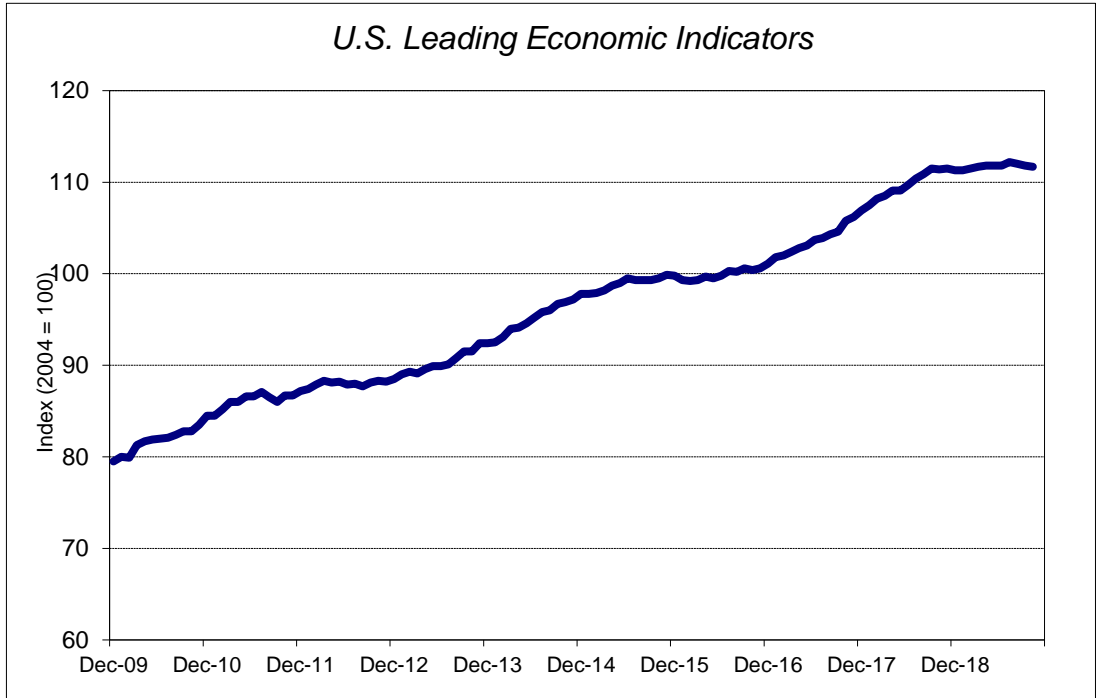
Source: Institute for Supply Chain Management



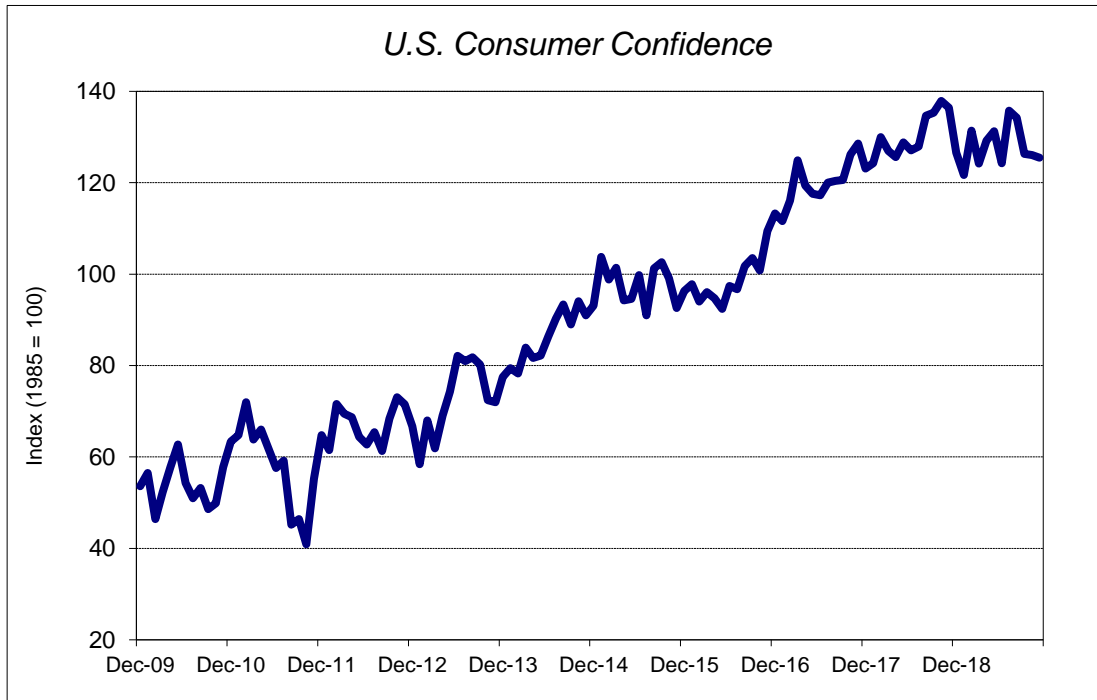
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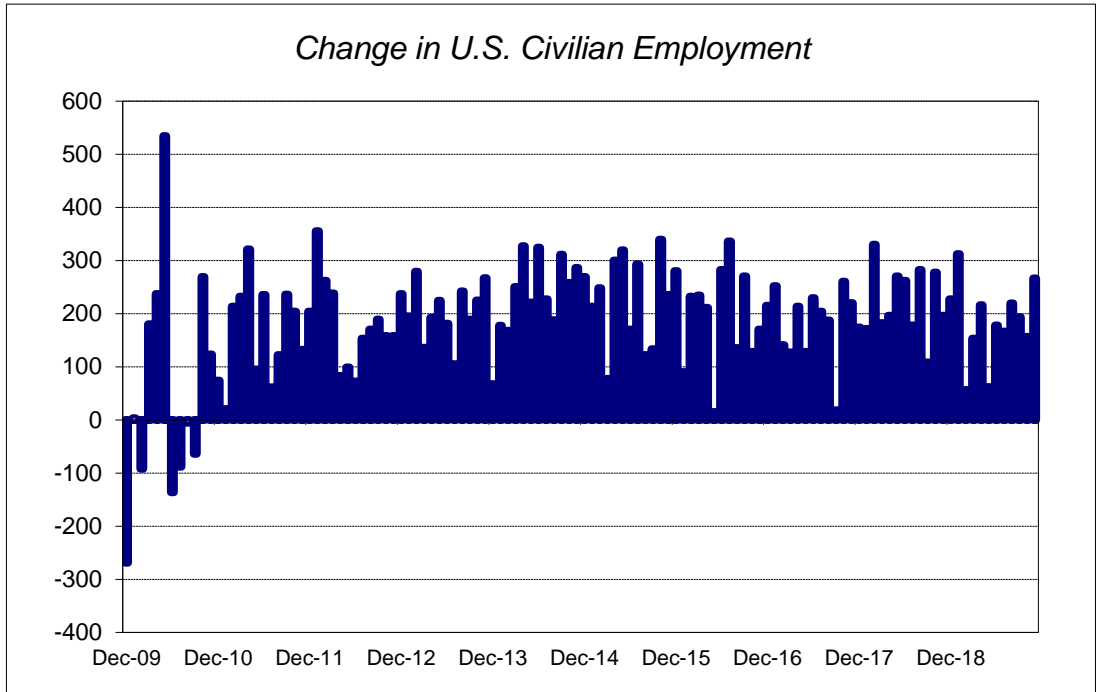
Source: The Conference Board



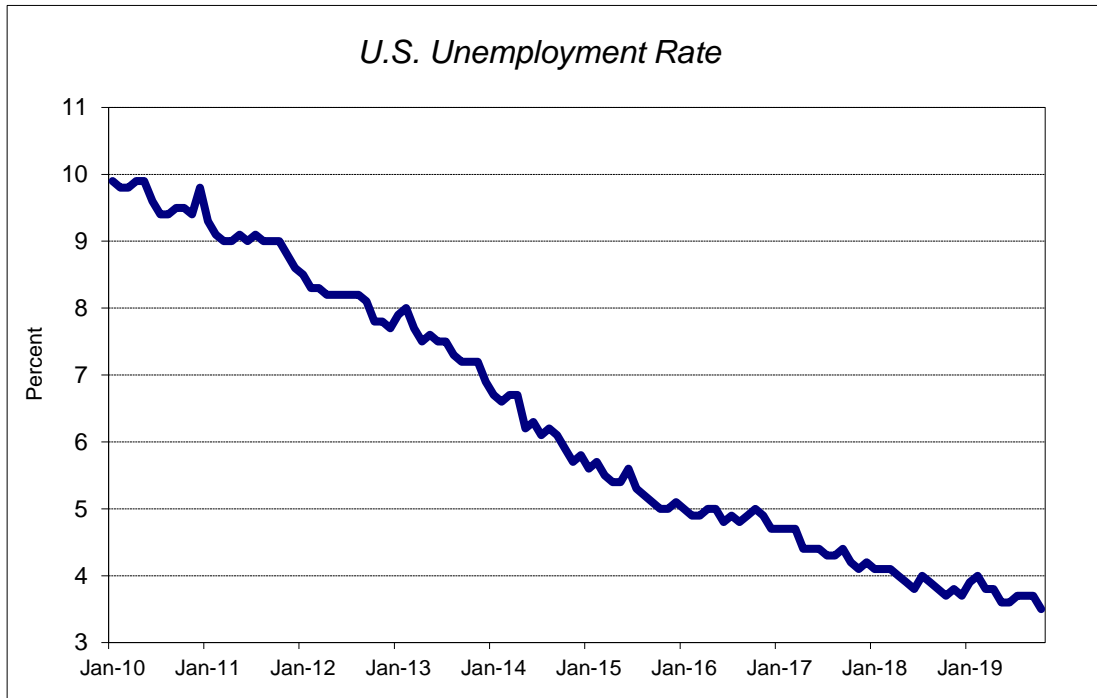
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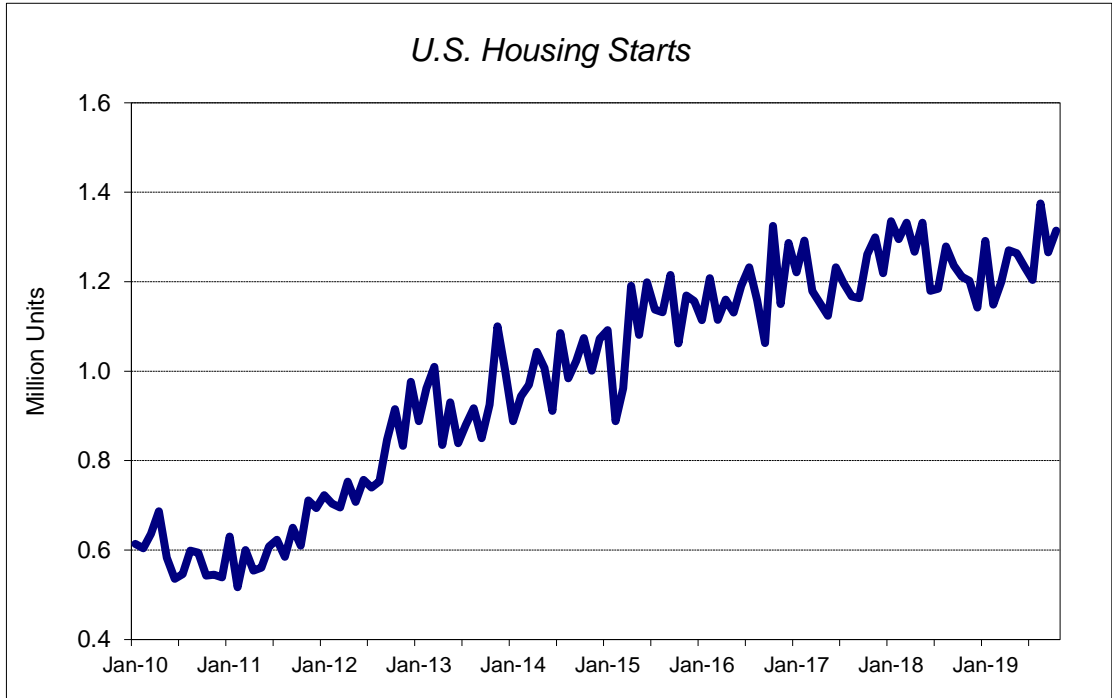
Source: Bureau of Labor Statistics



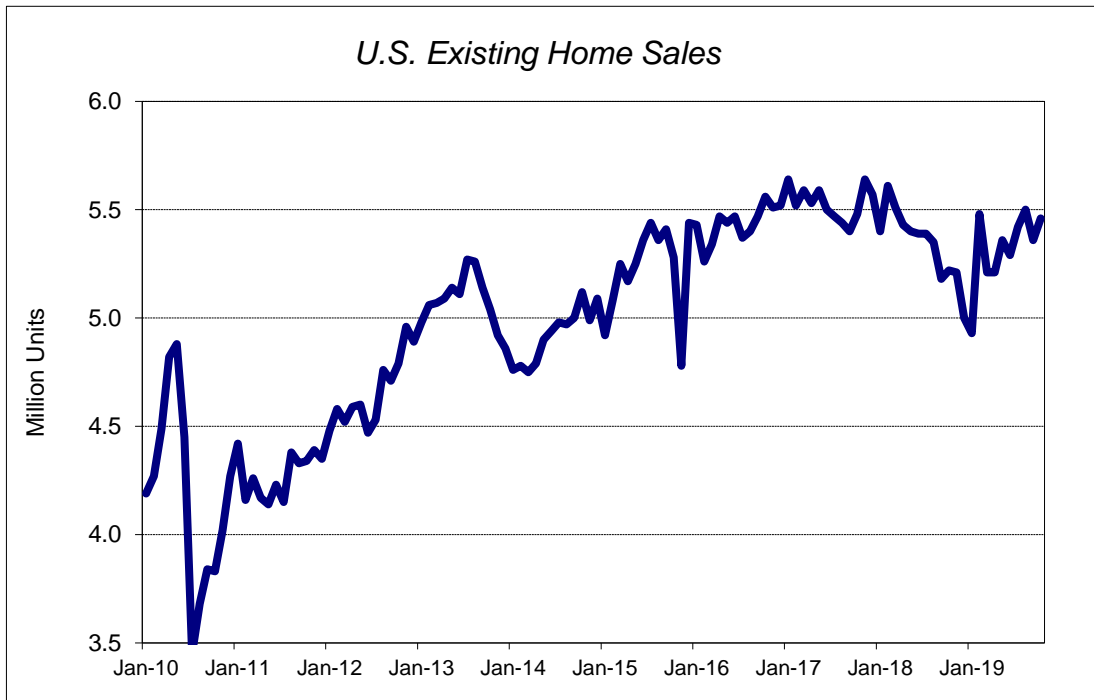
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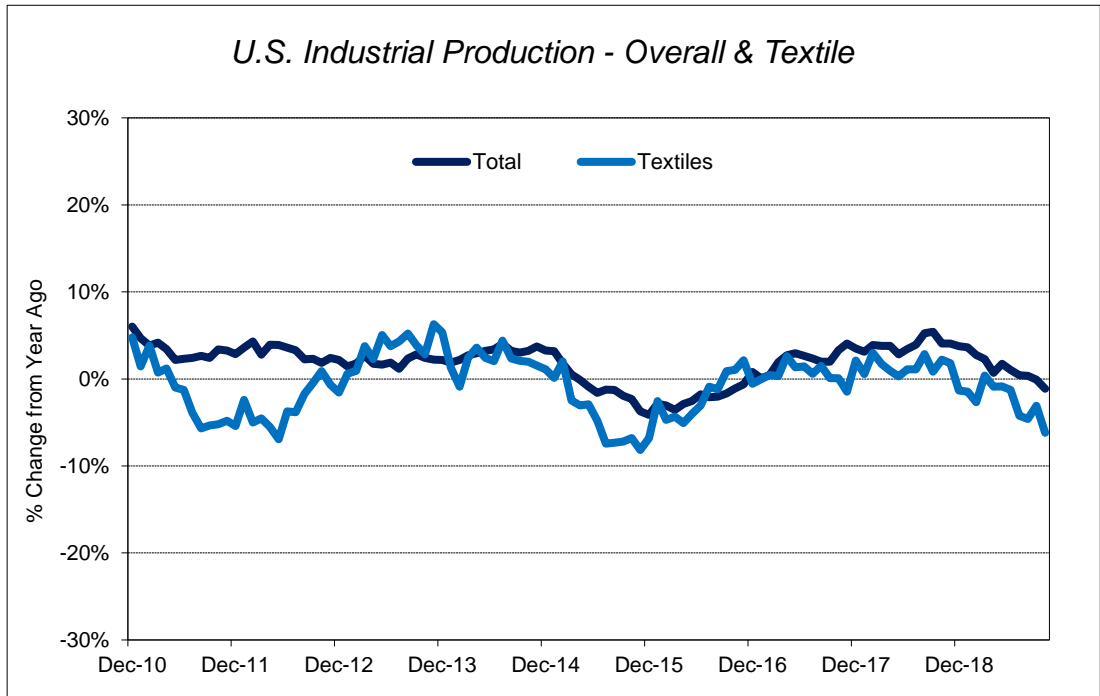
Seasonally Adjusted Annual Rate; Source: Department of Commerce



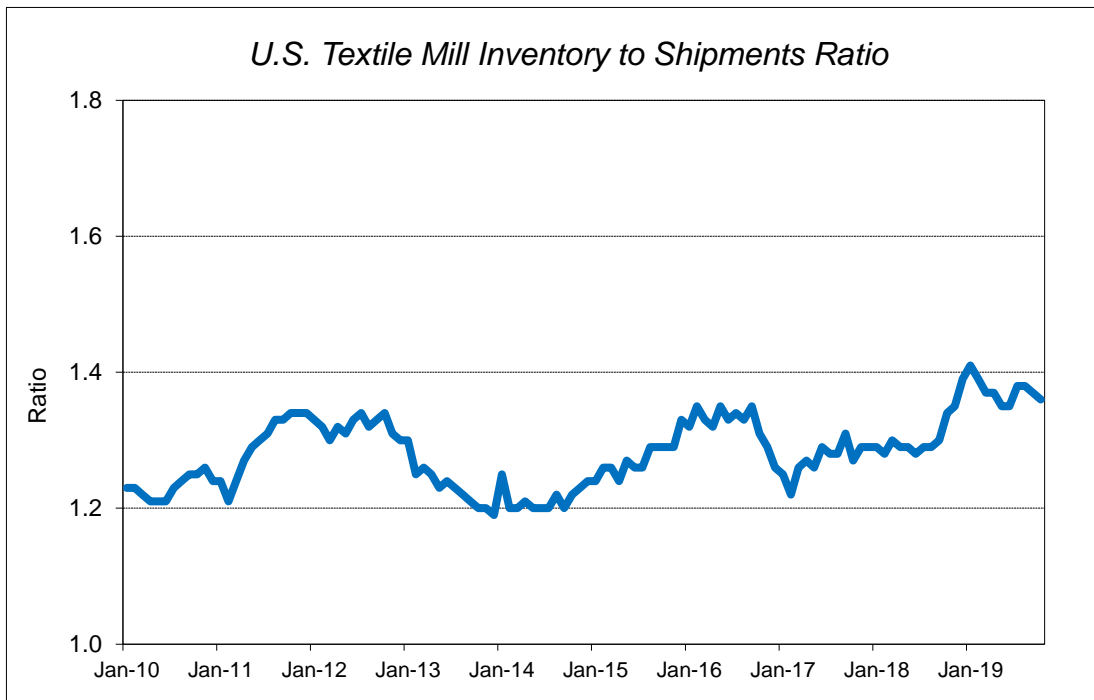
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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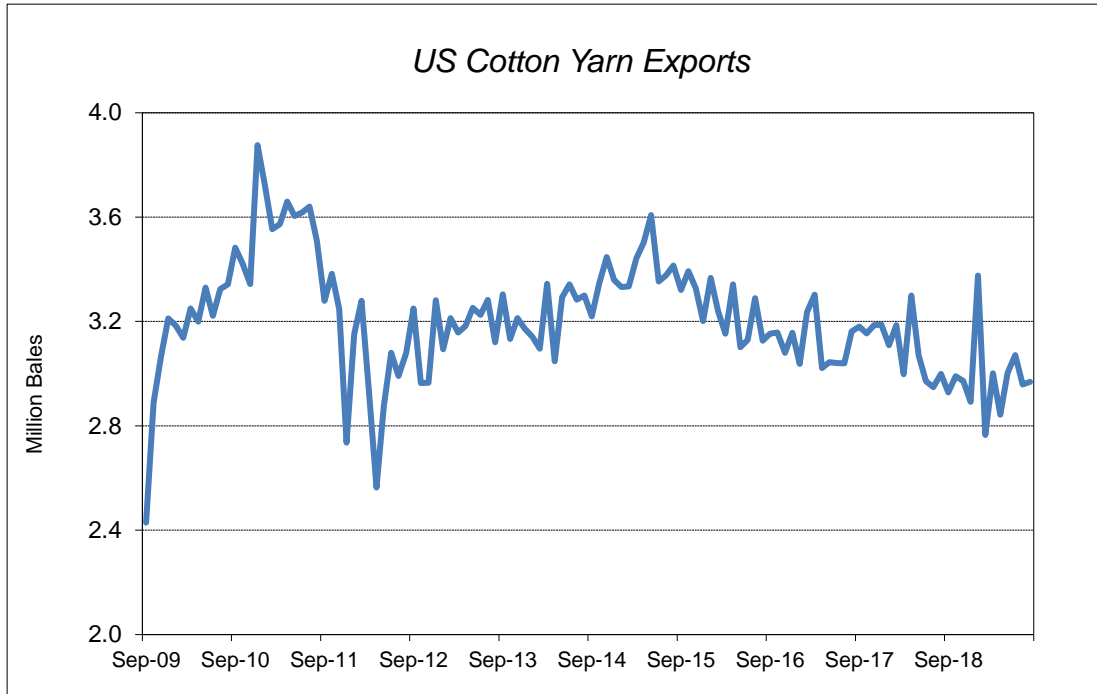
Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

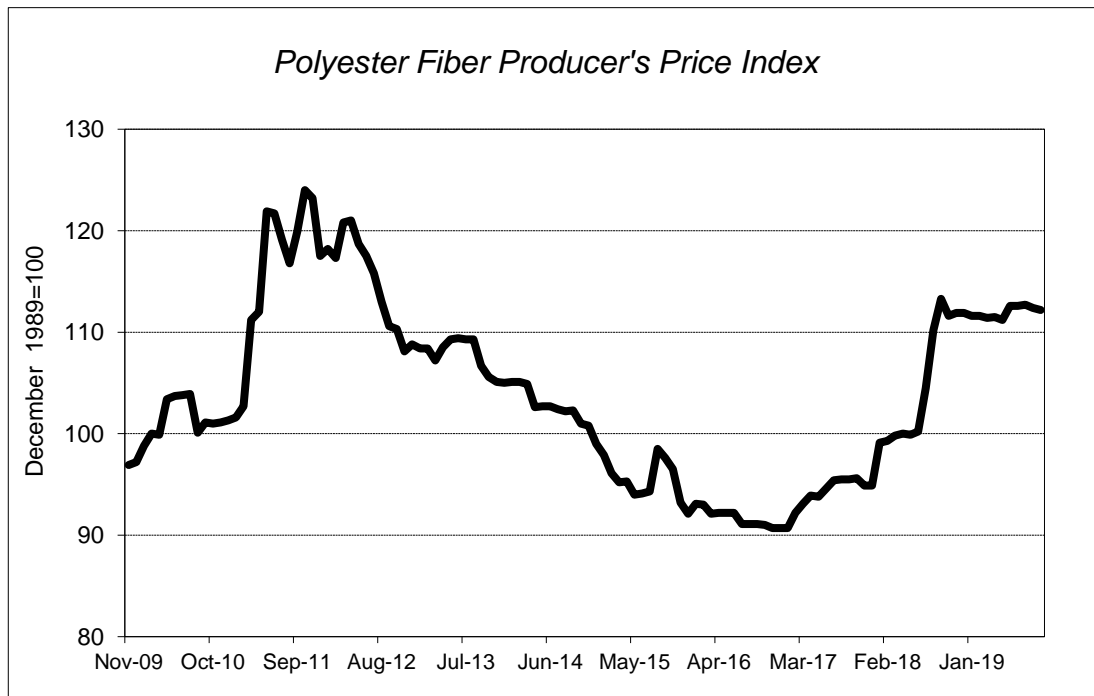
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Seasonally Adjusted Annual Rate

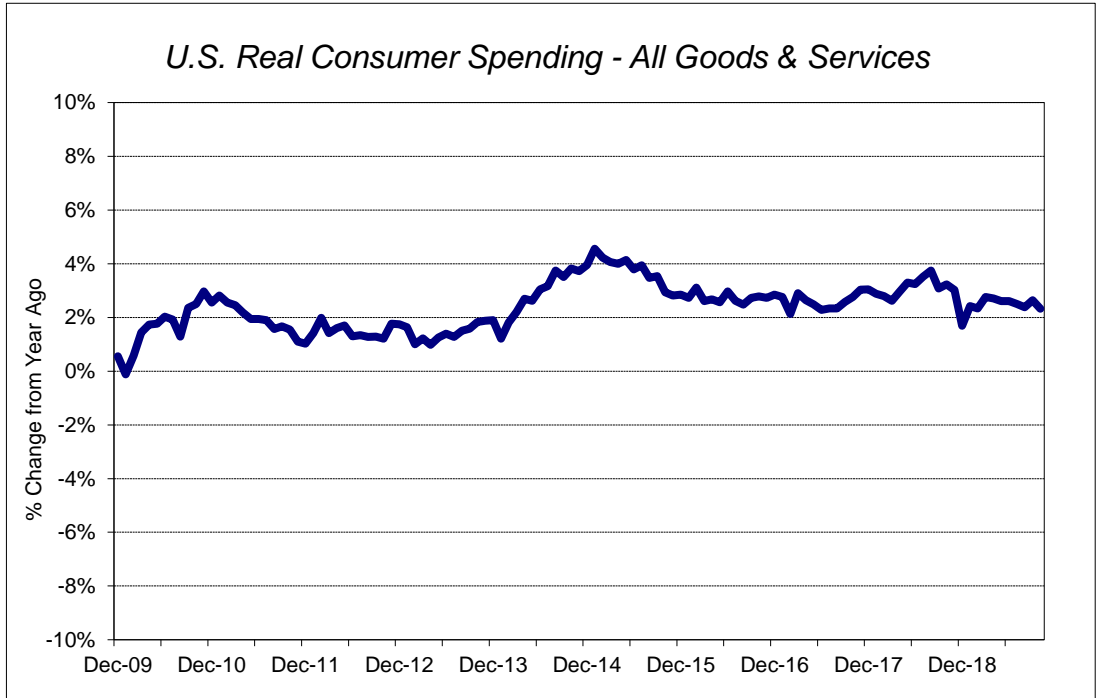
Source: USDA ERS



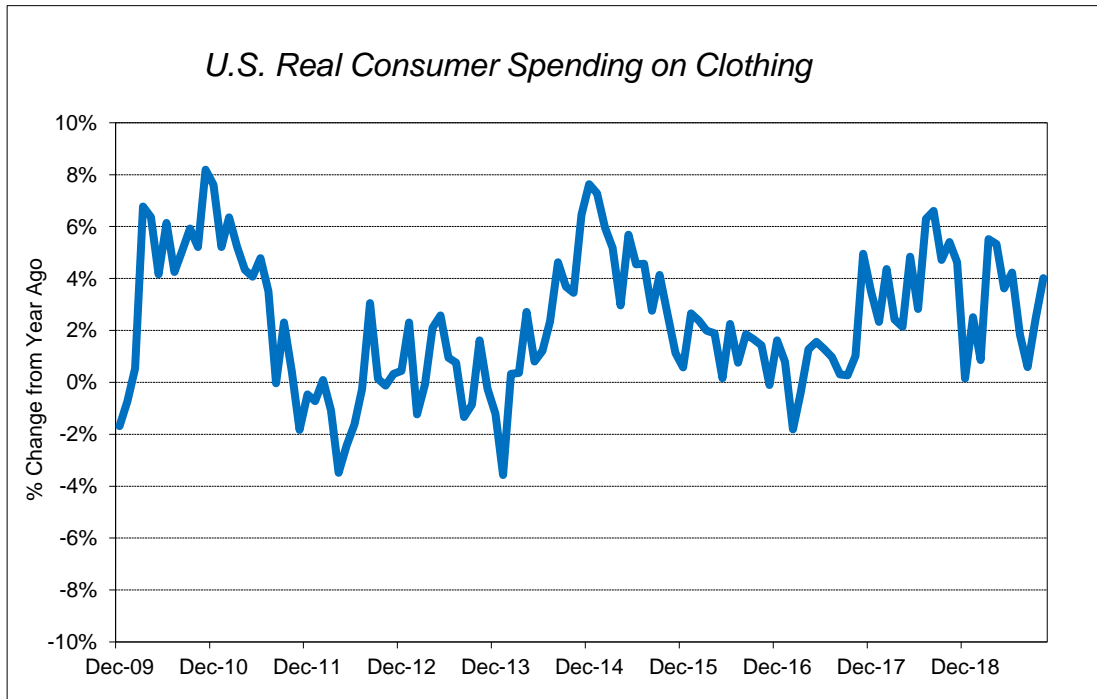
Source: Bureau of Labor Statistics

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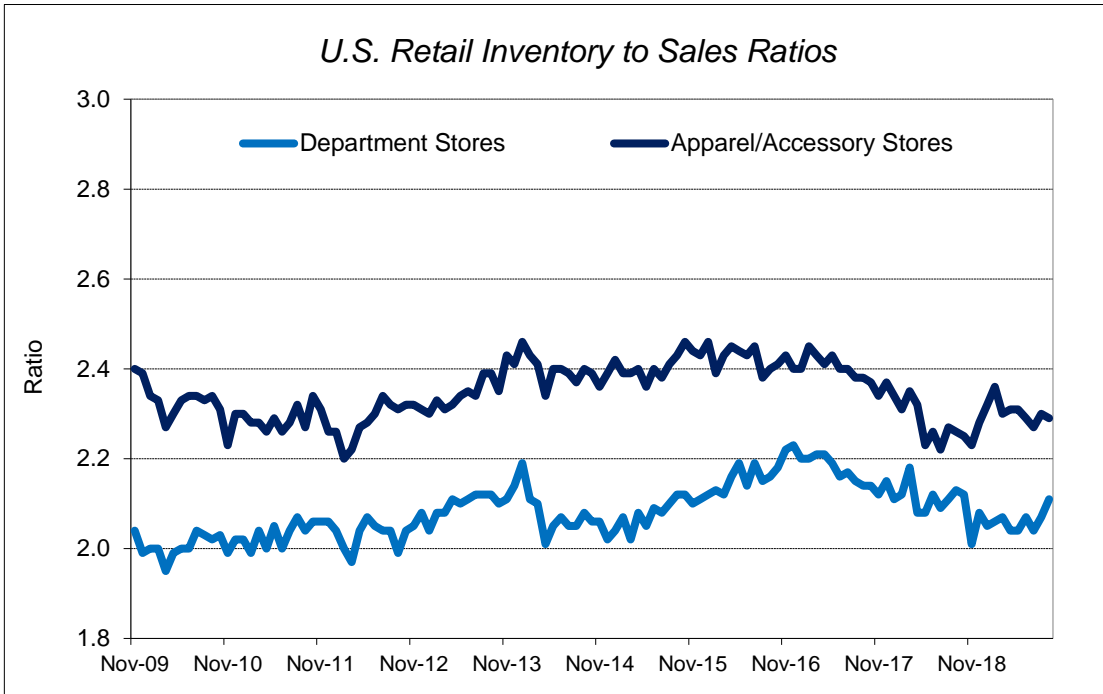
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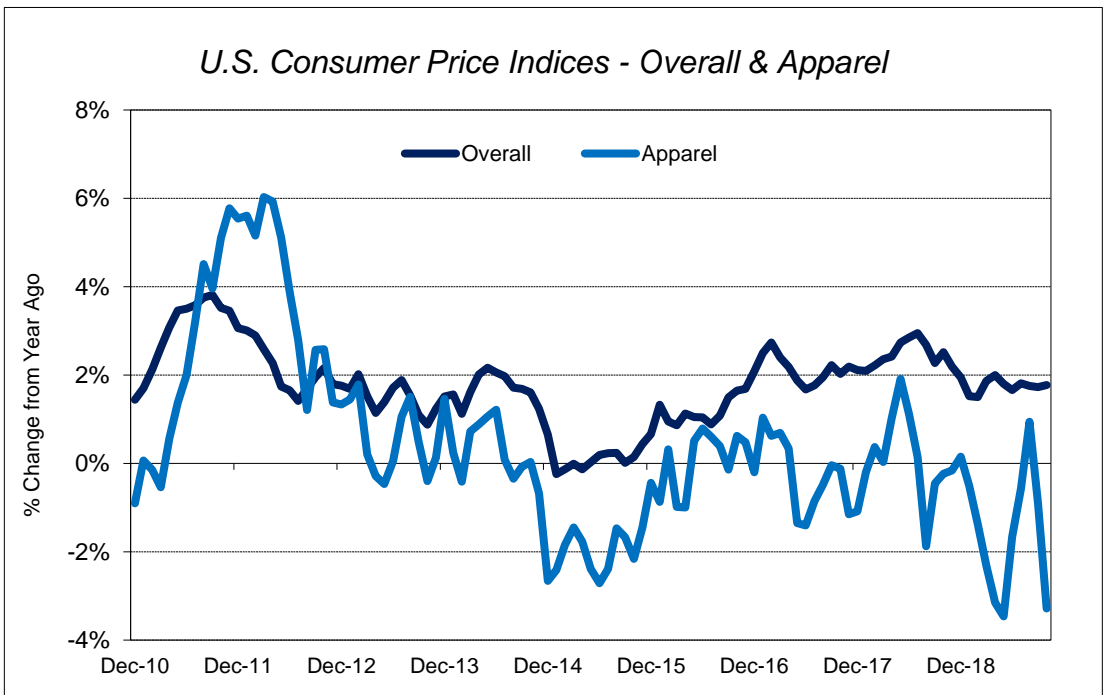
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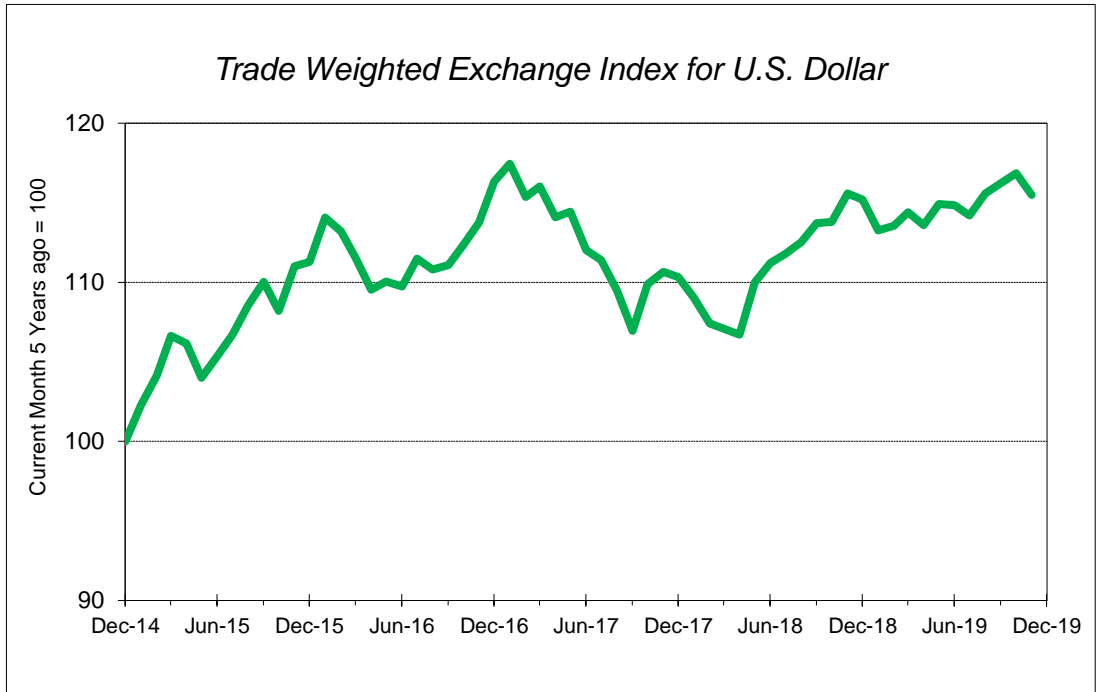
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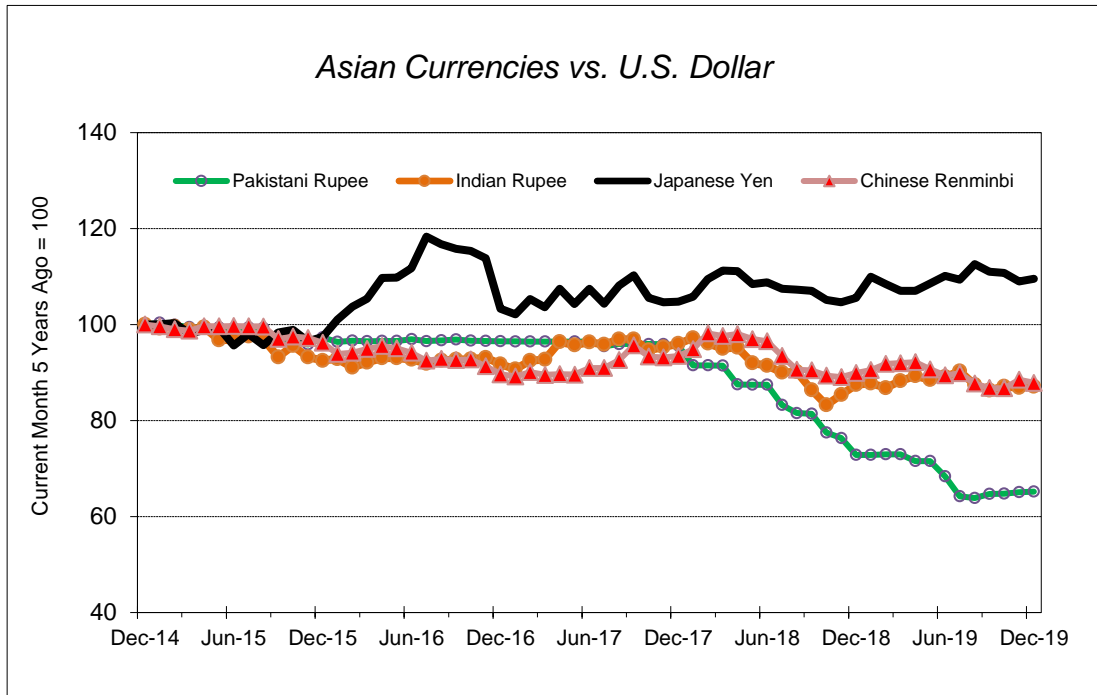
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Source: Federal Reserve

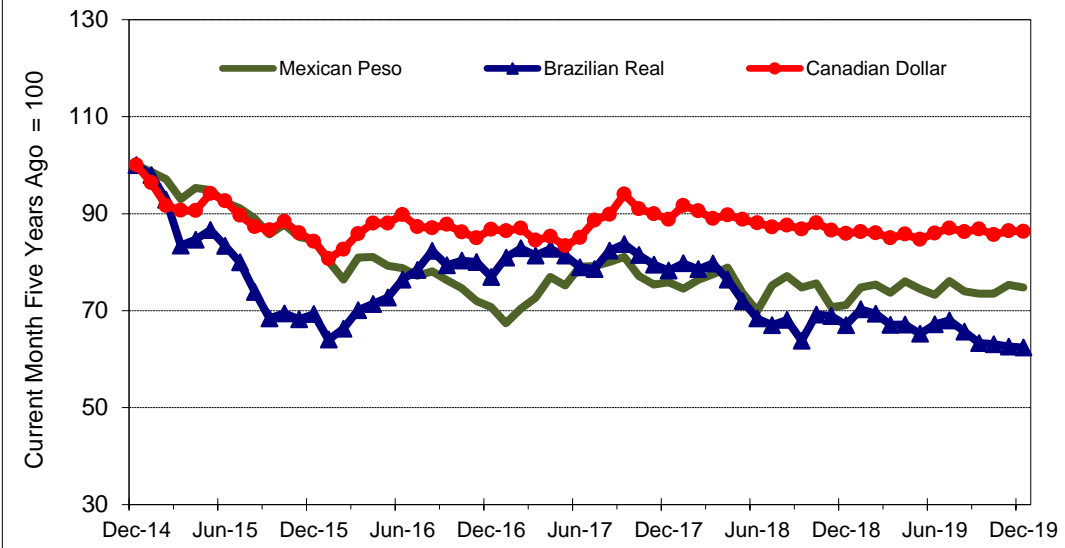


Source: Reuters

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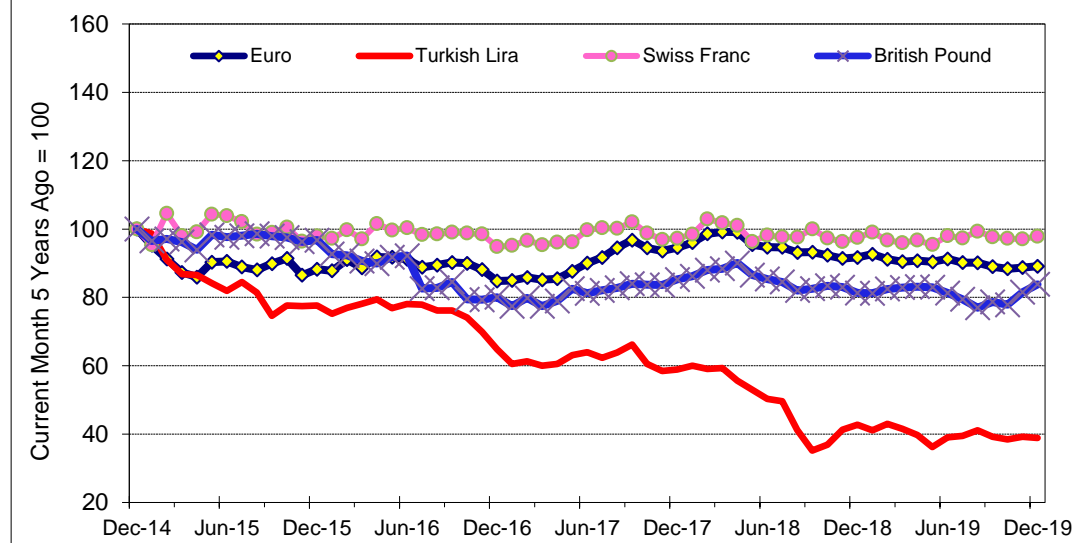


North & South American Currencies vs. U.S. Dollar



Source: Reuters

Index of European Currencies vs. U.S. Dollar



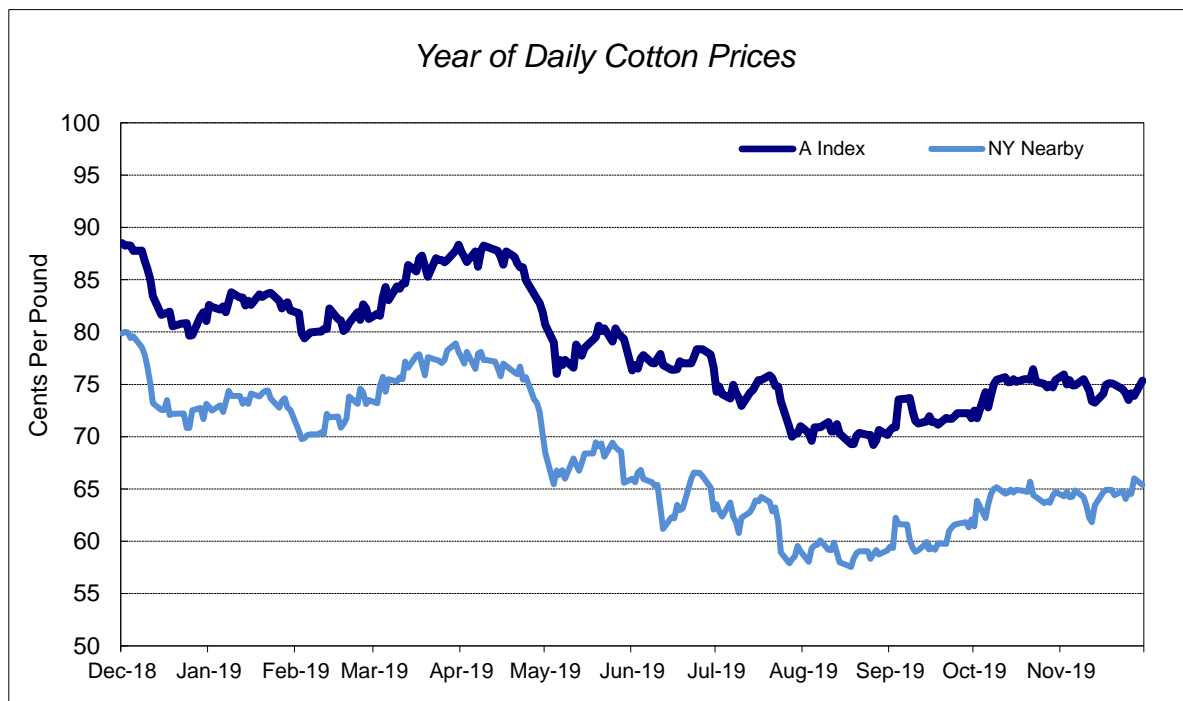
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U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20 November	2019/20 December
Beginning Stocks	3.7	3.8	2.8	4.2	4.9	4.9
Production	12.9	17.2	20.9	18.4	20.8	20.2
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.6	25.7	25.1
Mill-Use	3.5	3.3	3.2	3.0	3.0	3.0
Exports	9.2	14.9	16.3	14.8	16.5	16.5
Demand	12.6	18.2	19.5	17.7	19.5	19.5
Ending Stocks	3.8	2.8	4.2	4.9	6.1	5.5
Stocks/Use Ratio	30.2%	15.1%	21.5%	27.3%	31.3%	28.2%



Sources: ICE Futures U.S. & Cotton Outlook

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