

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



January 2020

www.cottoninc.com

Macroeconomic Overview: January brought about not only a change in year, but also change in decade. Both the past year and decade brought important change to the U.S. and global economies. The past decade was dominated by the recovery from the financial crisis and can be characterized by a global slowdown in GDP growth rates. The deceleration has been more pronounced in developed economies but has also been a feature of emerging markets.

Slower growth has kept stimulative policies in place, most notably the maintenance of extremely low interest rates by central banks in the U.S., the E.U., and Japan. The Federal Reserve began a process of increasing interest rates in 2015 but was forced to reverse course in 2019 due to growth-related concerns. The emergence of the trade dispute in 2018 has been associated with the recent slowdown in global activity. The phase one agreement that is expected to be signed this month could represent a turning point away from further escalation but could also just signify a respite. Regardless of the eventual direction in negotiations, consequences of the evolution in the trade dispute can be expected to be felt in supply chains beyond the U.S. and China in 2020.

Employment: The U.S. added 145,000 jobs in December. Revisions to existing estimates for October (-4,000 to +152,000) and November (-10,000 to +256,000) were negative. The twelve-month average increase in payrolls over the past twelve months is currently +176,000. One year ago, the average was +223,000.

Year-over-year growth in wages was 2.9% last month. Wage growth appears to have formed a peak in February 2019 (at 3.4%) and has since been trending lower. Nonetheless, wage growth remains above levels registered between the financial crisis and the first half of 2018. The unemployment rate was unchanged at 3.5% in November and continues to hold to the lowest levels since the late 1960s.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence was generally unchanged month-over-month in December (-0.3 points to 126.5). This is nearly equal to the value one year ago (126.6 in December 2019). Recent readings are below the levels near 135 that were posted in July and August but remain high compared to long-term averages.

Overall consumer spending increased 0.3% month-over-month in November and was 2.4% higher year-over-year. Spending on apparel decreased 0.2% month-over-month but was up 2.4% year-over-year.

Consumer Prices & Import Data: The CPI for garments was virtually unchanged month-over-month in November (+0.01%) but was 2.5% lower year-over-year. The average cost per square meter of imported cotton-dominant apparel decreased \$0.01 cent/square-meter equivalent (SME) or -0.3% month-over-month in seasonally-adjusted data for November. Year-over-year, average import costs per SME were 2.5% lower.

Effects of U.S. tariffs on Chinese-made apparel continue to surface in U.S. trade data. In the latest available figures (November), China's share of cotton-dominant imports was 22% (seasonally-adjusted). Before tariffs were implemented in September, the average for Chinese share in 2019 was 27%. Last November, Chinese share of U.S. cotton-dominant imports was 29%.

The decreases in Chinese share enabled increases in share from other sourcing options. Collectively, ASEAN nations have surpassed China as the largest source of cotton-dominant apparel (seasonally-adjusted share from ASEAN members exceeded Chinese figures each month since September). In November, ASEAN share of U.S. cotton-dominant imports was 2.2% higher year-over-year (Vietnamese share was up 1.4% and Cambodian share was up 1.7%). The South Asian (Bangladeshi share up 2.0% year-over-year in November, Indian share up 0.7%, Pakistani share up 0.4%) and CAFTA regions (+1.2%) also have been able to increase market share.

However, an important feature of U.S. imports since tariff increases were implemented is that there has been a reduction in total imports alongside the steep decreases in shipments from China. In terms of SMEs, the sum of U.S. cotton-dominant imports between September and November from the world was down 10% (reduction in volume from China was 29%). The increases in share from competing countries can mask it, but the global decline means that competitors have not been able to fully compensate for the losses from China and that there has been a net loss in apparel demand.

Additionally, it is possible for countries to increase market share even with declining volume by simply shipping at a less negative rate than the global figure. For example, India shipped 2.6% less to the U.S. in terms of SMEs September-November but was able to increase share over the same time period (global decline was 10%). Collective imports from the world outside China were down 1.0% September-November. The net reduction in demand for cotton-dominant apparel is mirrored in data for apparel of all fibers and serves as evidence that there are spillover effects of the tariffs extending beyond China, and that retailer demand has been broadly affected.

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
January 2020



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 December

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	December		
ISM Index of Manufacturing Activity	54.1	56.0	49.4	48.1	48.3	48.1	47.2	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.7	57.2	54.4	53.7	54.7	53.9	55.0	Index	Institute for Supply Management
Consumer Confidence	115.1	126.2	128.9	126.4	126.1	126.8	126.5	Index	The Conference Board
Change in Non-Farm Payrolls	201.9	194.7	194.0	200.3	152	256	145	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.4%	4.0%	3.6%	3.5%	3.6%	3.5%	3.5%	Rate	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		
US Interest Rates									
Federal Funds	1.1%	1.6%	2.1%	1.8%	1.8%	1.6%	1.6%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.5%	1.8%	1.7%	1.7%	1.8%	1.9%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	104.7	108.2	111.8	111.7	111.8	111.6	111.6	Index	The Conference Board
Housing Starts	12.0	12.4	12.9	13.2	1.3	1.3	1.4	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.4	5.4	5.4	5.4	5.4	5.4	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

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 Industrial Production	105.7	107.3	109.3	109.2	109.5	108.5	109.7	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	108.4	102.6	101.3	100.3	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.3	3.0	3.0	2.9	3.0	2.9	2.9	million 480lb bales	USDA ERS

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 Textile Mill Inventory/Shipments Ratio	1.31	1.31	1.37	1.36	1.37	1.35	1.37	Ratio	Department of Commerce

Retail Data

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 Real Consumer Spending									
All Goods and Services	2.9%	2.7%	2.5%	2.5%	2.7%	2.4%	2.4%	% Chg. Year/Year	Department of Commerce
Clothing	2.8%	2.6%	2.6%	2.9%	2.1%	4.3%	2.4%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.6%	2.1%	1.9%	2.0%	1.8%	2.0%	2.3%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.7%	-0.6%	-1.4%	-2.6%	-3.3%	-2.5%	-2.0%	% Chg. Year/Year	Bureau of Labor Statistics

Monthly Series with Latest Data for October

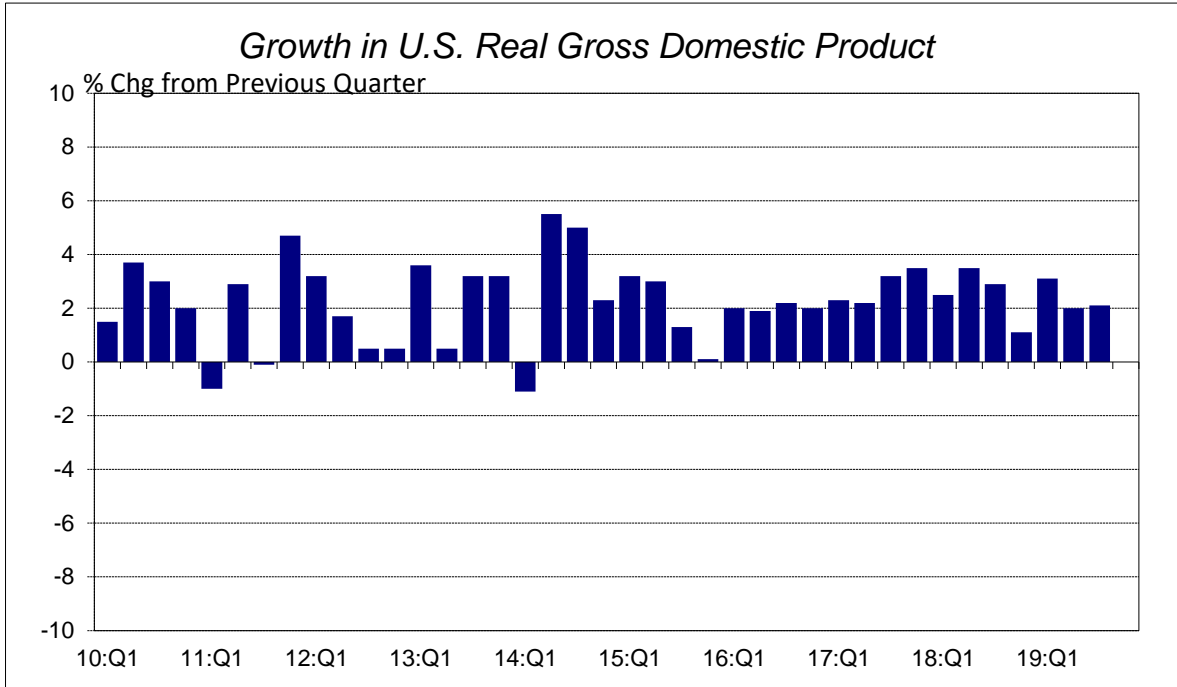
	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	October		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.3	2.3	2.3	2.3	2.3	2.3	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.1	2.1	2.0	2.1	2.1	Ratio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

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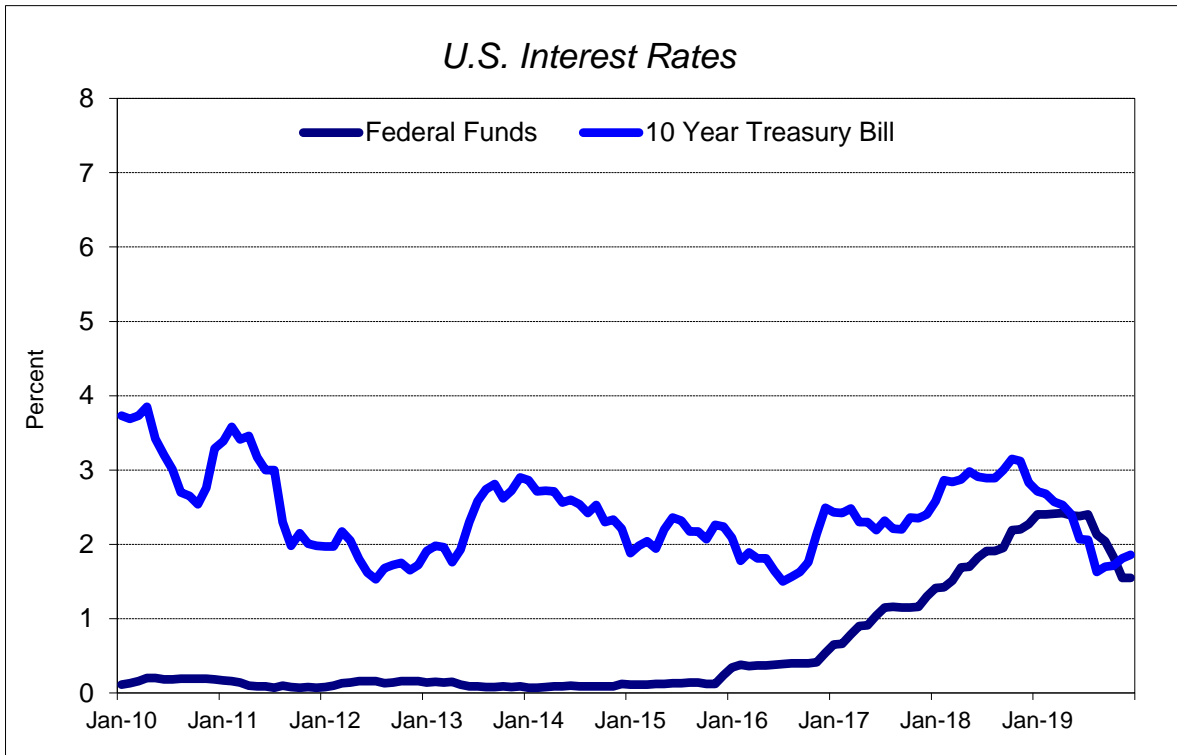
Daily Cotton Price and Currency Data
January 2020



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	December		
NY Nearby	71.1	72.1	72.0	69.5	63.5	64.5	67.0	cents/pound	ICE
A Index	79.9	81.7	81.9	79.6	73.8	74.8	75.9	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	December		
Dollar Trade Weighted Exchange Index	112.3	113.5	116.3	116.5	116.9	116.9	115.7	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.64	6.76	7.02	7.03	7.10	7.02	6.98	Chinese Renminbi/US dollar	Reuters
Indian Rupee	67.08	68.02	70.82	71.31	71.03	72.09	70.83	Indian Rupee/US dollar	Reuters
Japanese Yen	112.33	110.68	108.22	108.86	108.59	108.74	109.27	Japanese Yen/US dollar	Reuters
Pakistani Rupee	116.65	125.34	156.53	155.46	155.95	155.40	155.04	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.52	3.59	4.03	4.13	4.11	4.18	4.11	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.30	1.31	1.32	1.32	1.32	1.32	1.32	Canadian dollar/US dollar	Reuters
Mexican Peso	18.41	19.14	19.29	19.27	19.32	19.44	19.06	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.74	0.77	0.79	0.77	0.79	0.78	0.75	British Pound/US dollar	Reuters
Euro	0.89	0.88	0.90	0.90	0.91	0.91	0.90	Euro/US dollar	Reuters
Swiss Franc	0.98	0.99	0.99	0.99	1.00	0.99	0.98	Swiss Franc/US dollar	Reuters
Turkish Lira	4.00	4.76	5.74	5.81	5.88	5.74	5.82	Turkish Lira/US dollar	Reuters



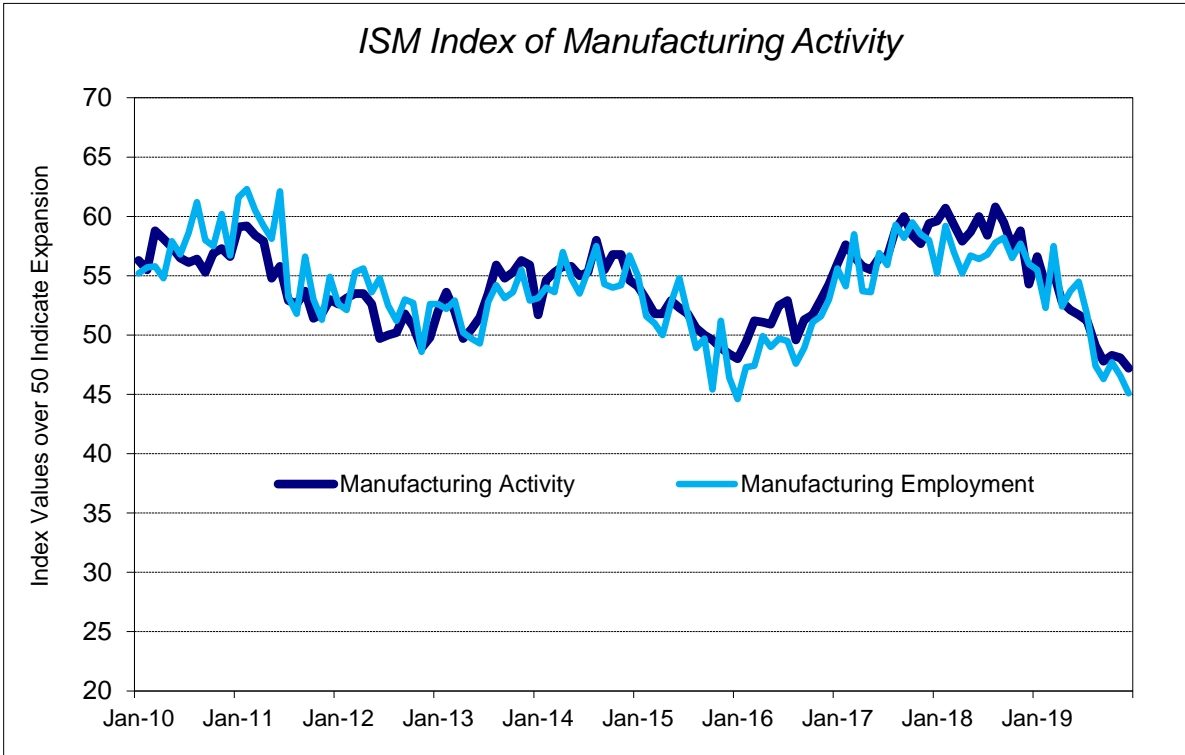
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



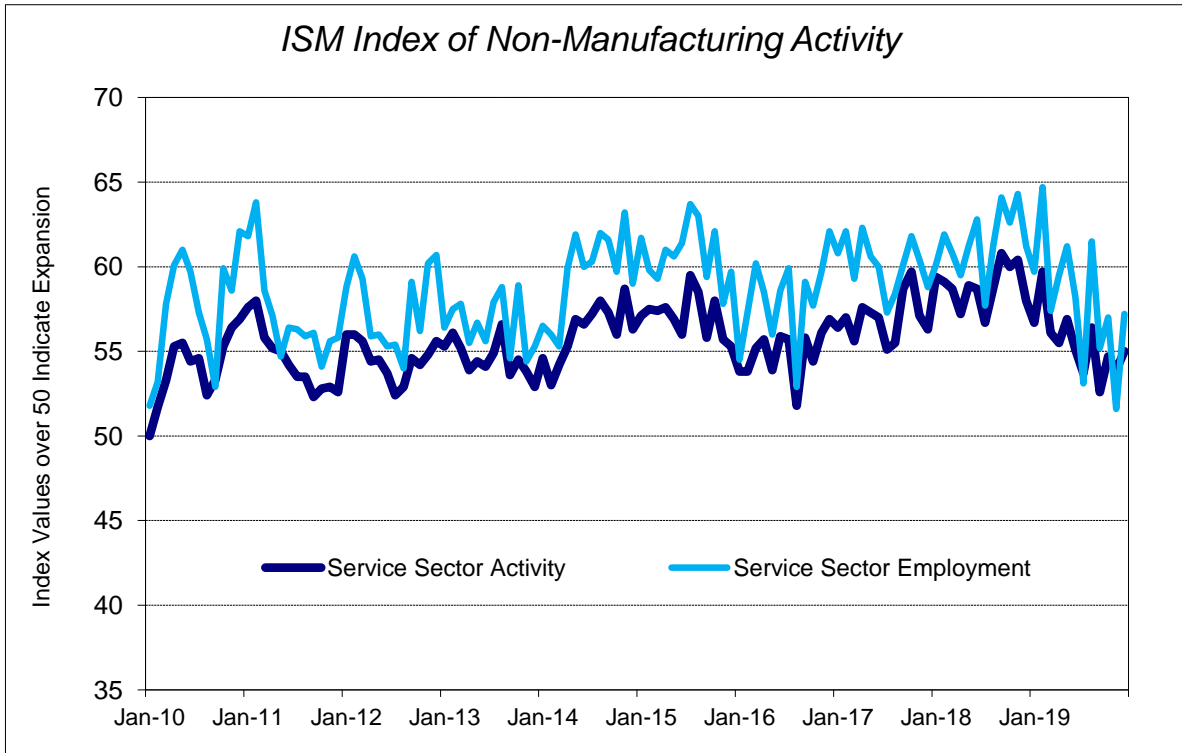
Source: Federal Reserve

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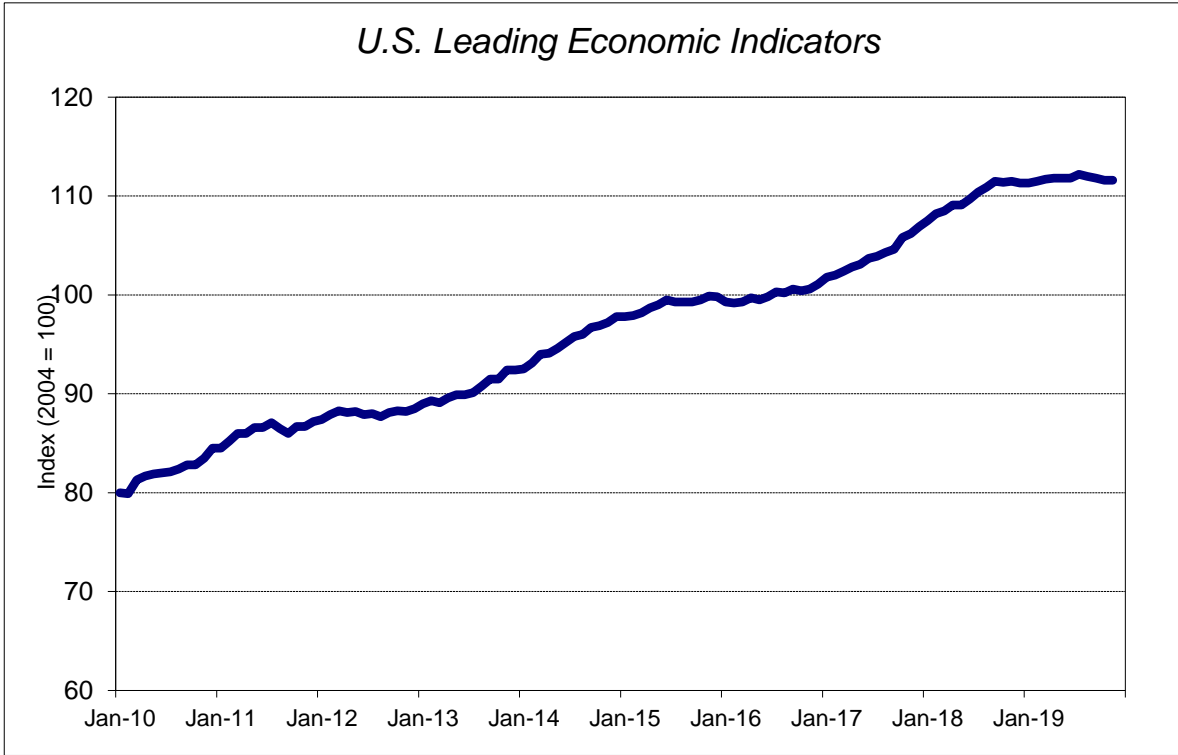
Source: Institute for Supply Chain Management



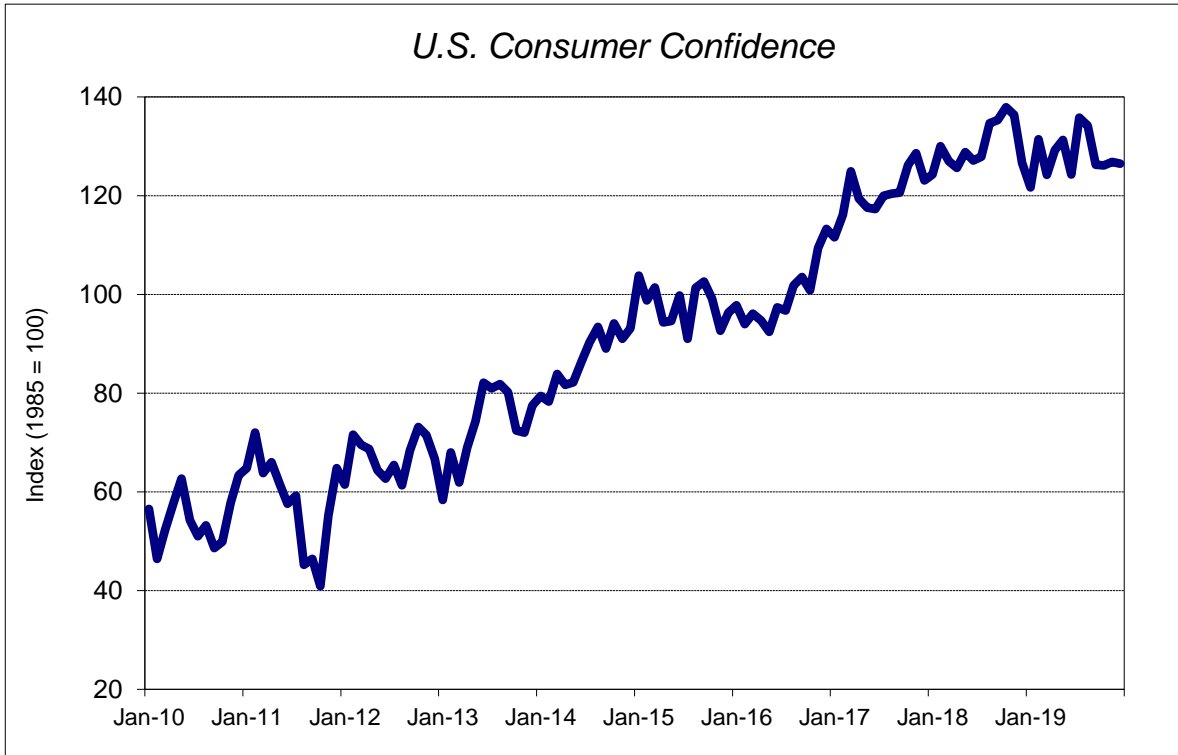
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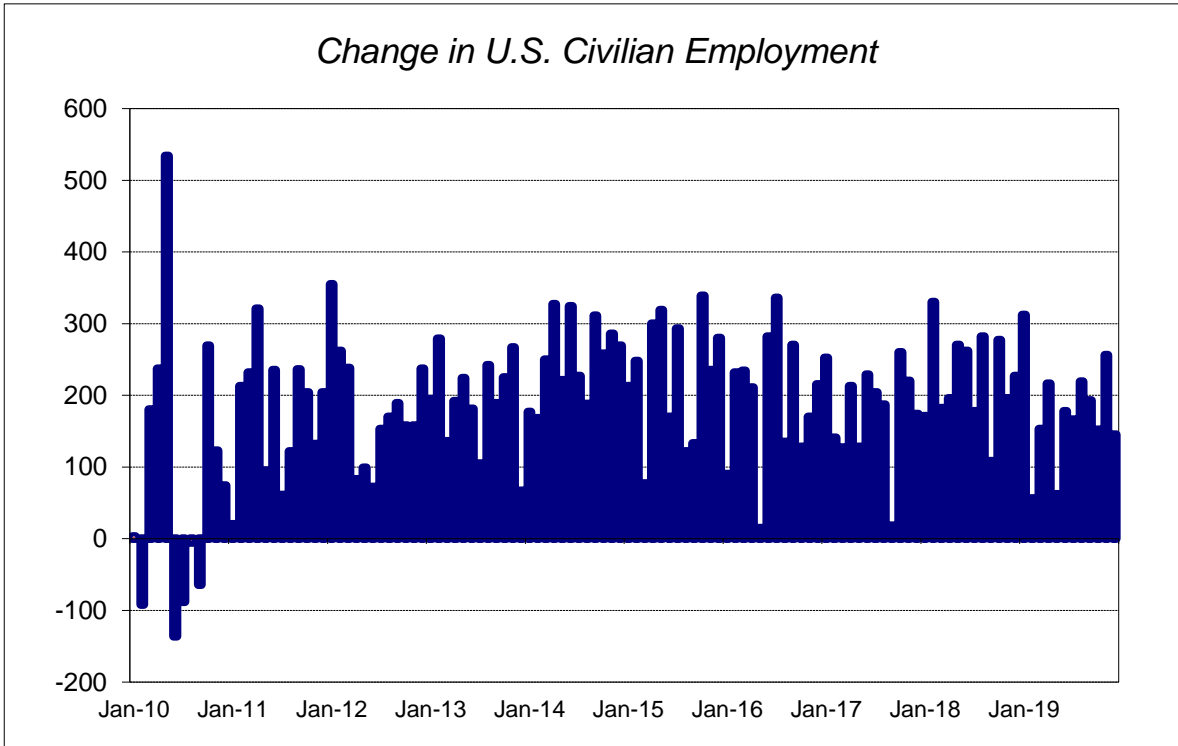
Source: The Conference Board



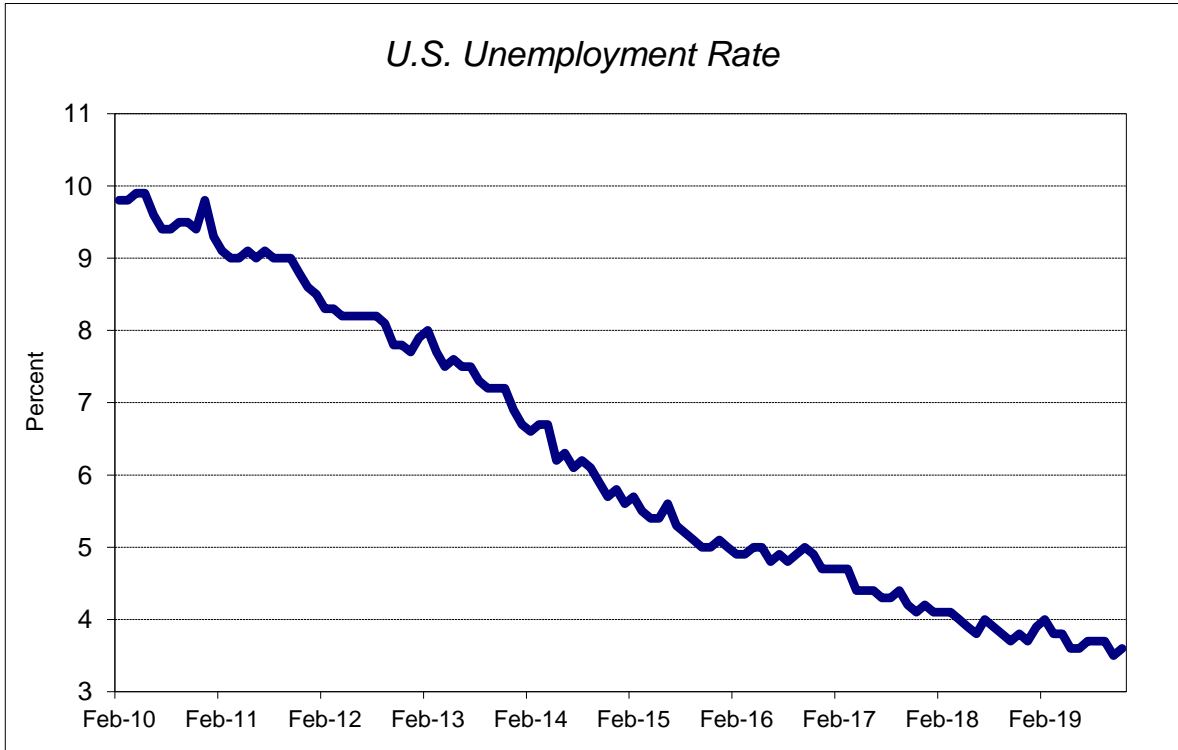
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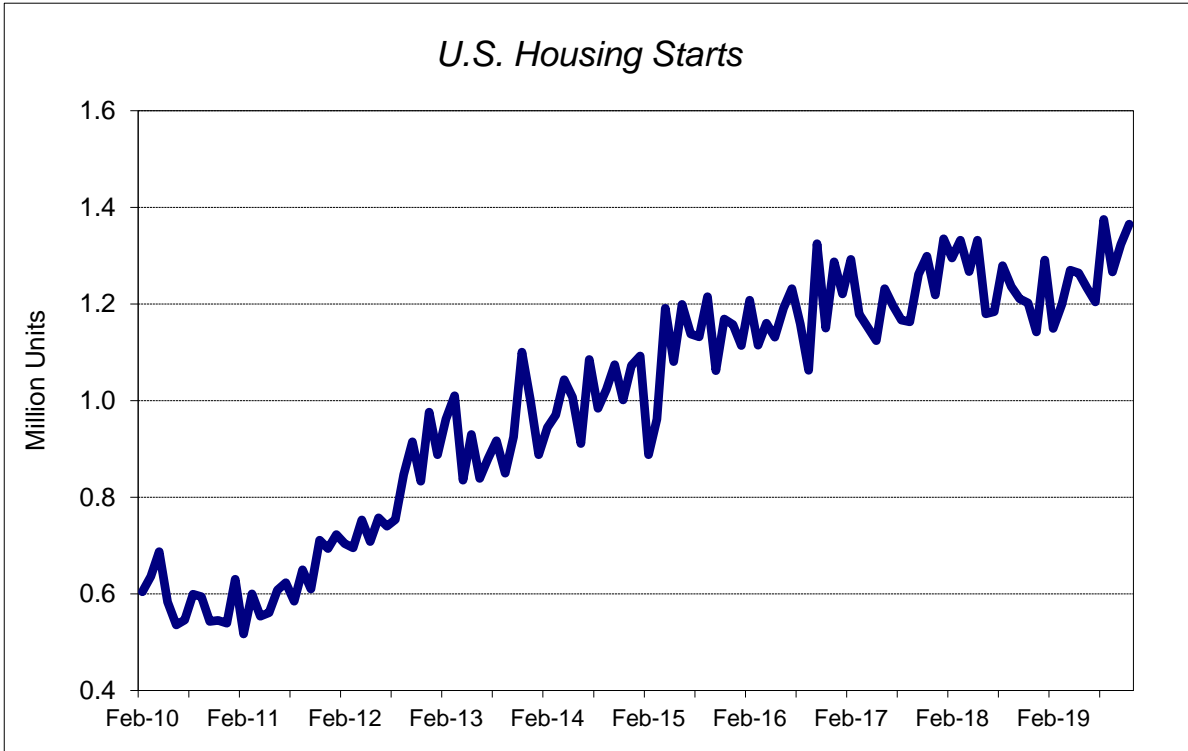
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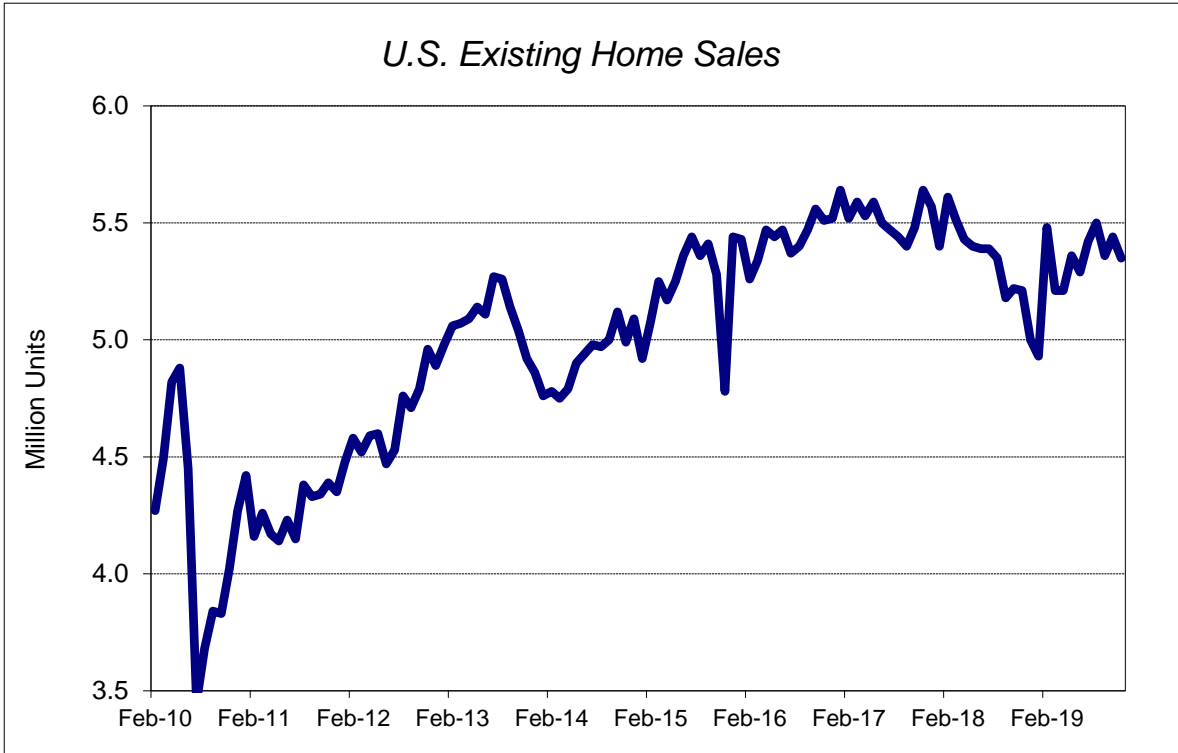
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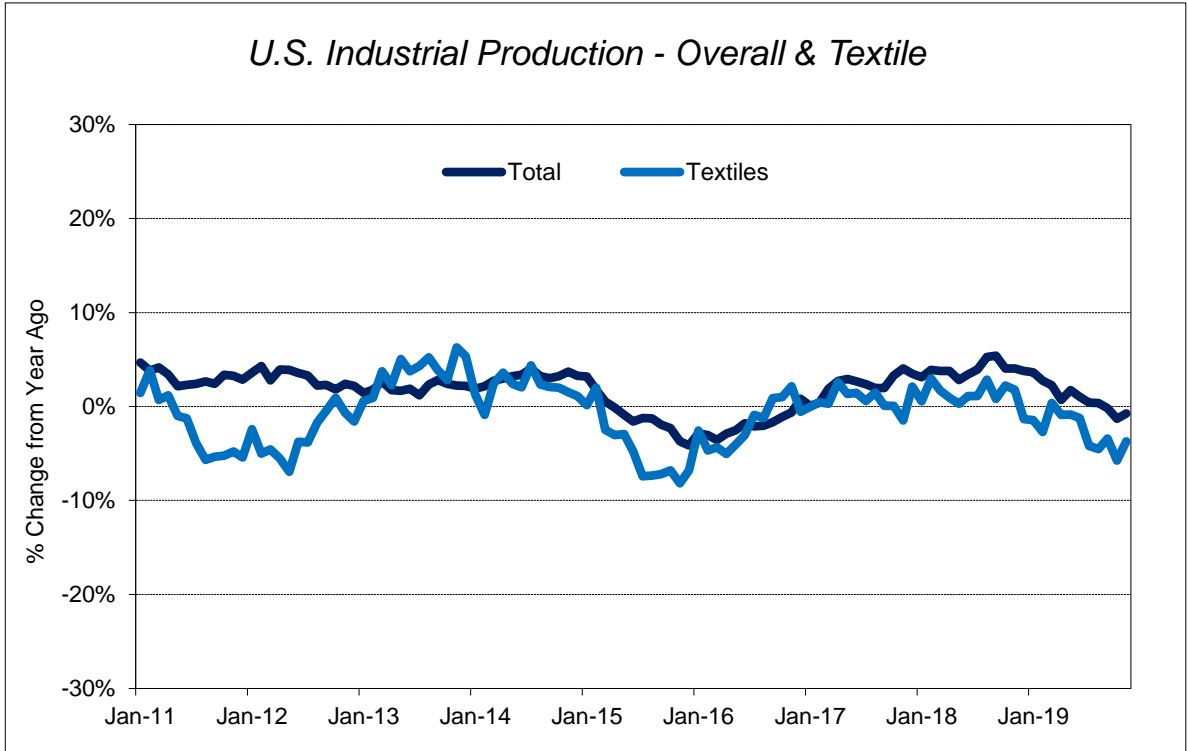
Seasonally Adjusted Annual Rate; Source: Department of Commerce



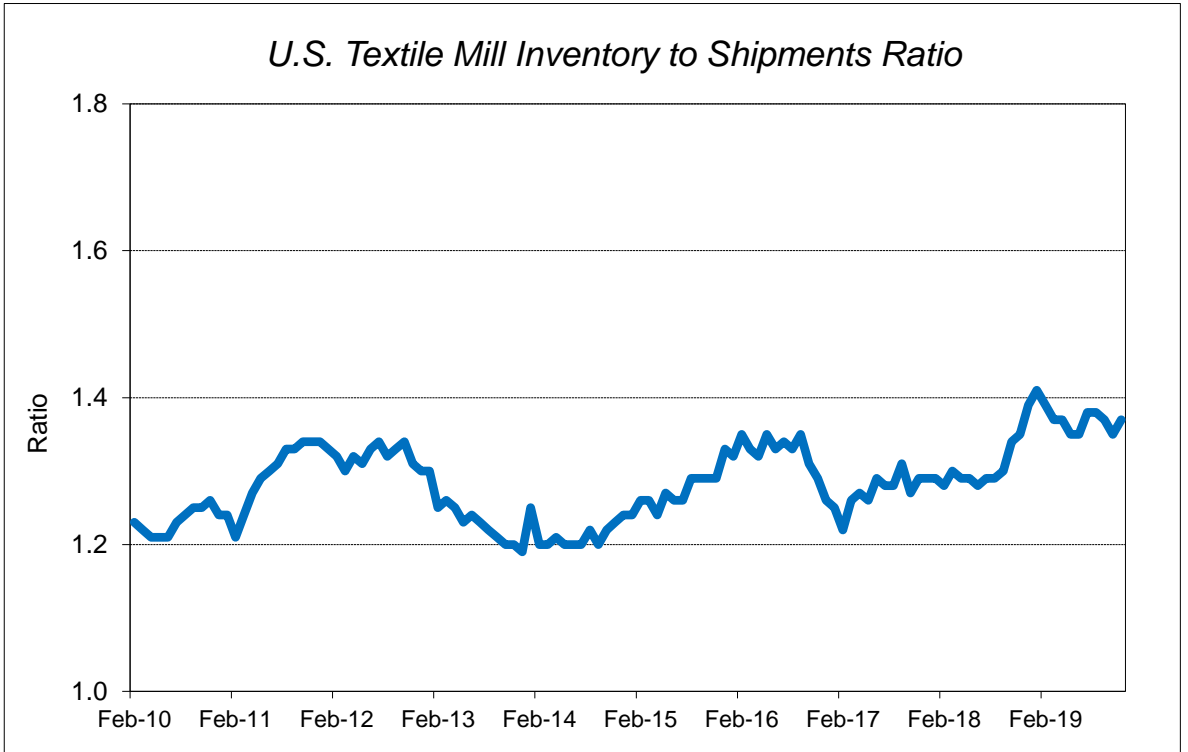
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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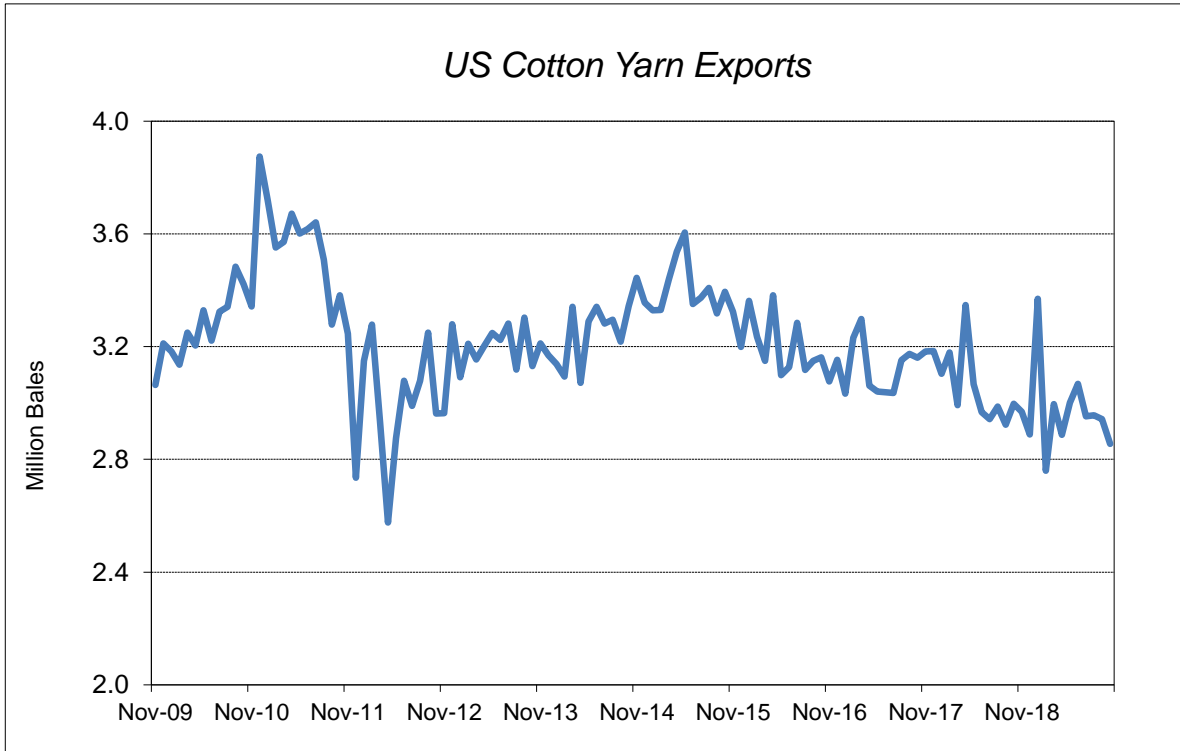
Source: Federal Reserve. Historical data revised to 1997 baseline.



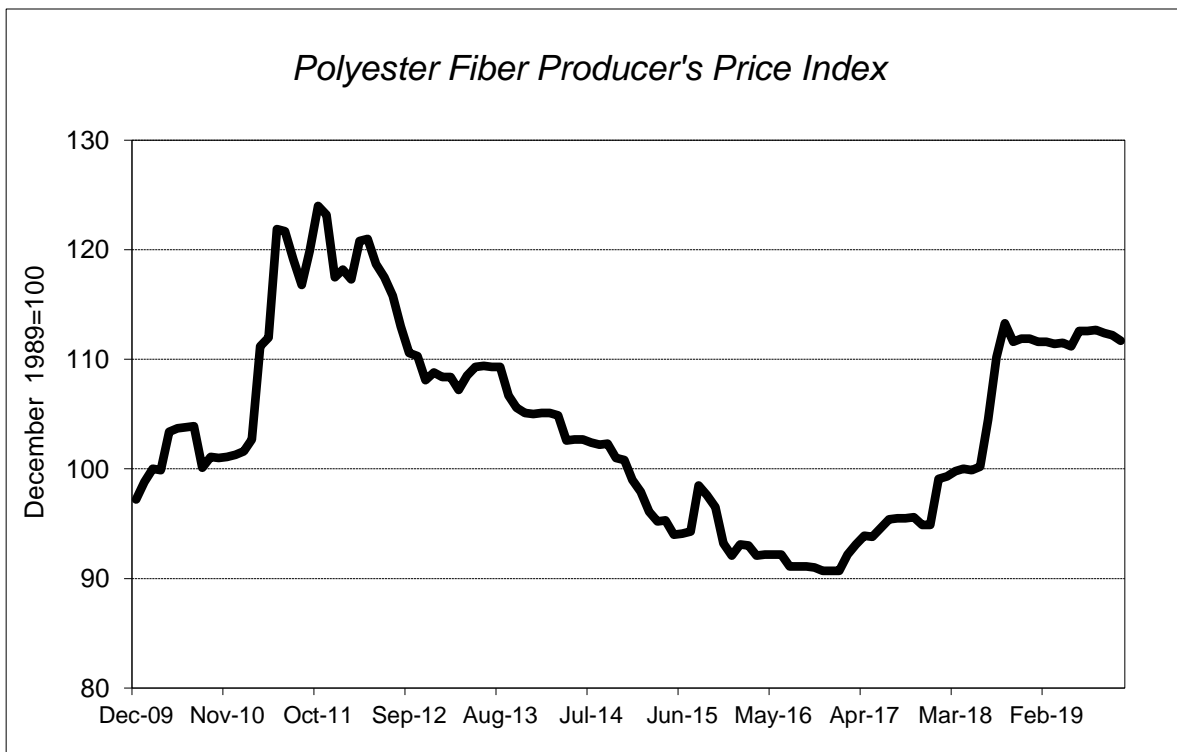
Seasonally Adjusted; Source: Department of Commerce

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Seasonally Adjusted Annual Rate
 Source: USDA ERS

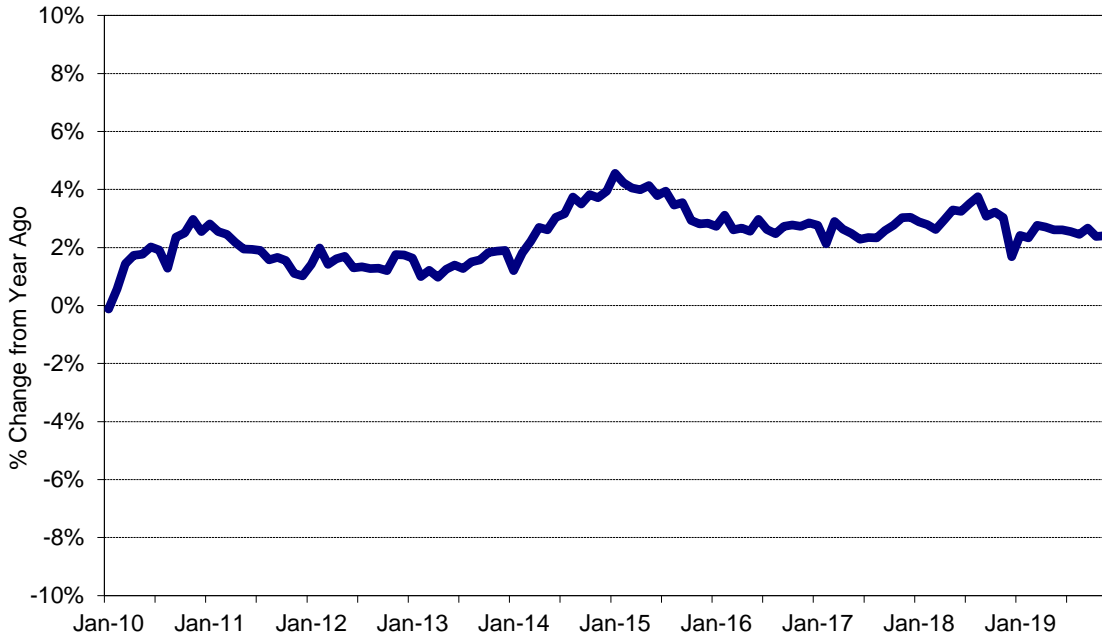


Source: Bureau of Labor Statistics

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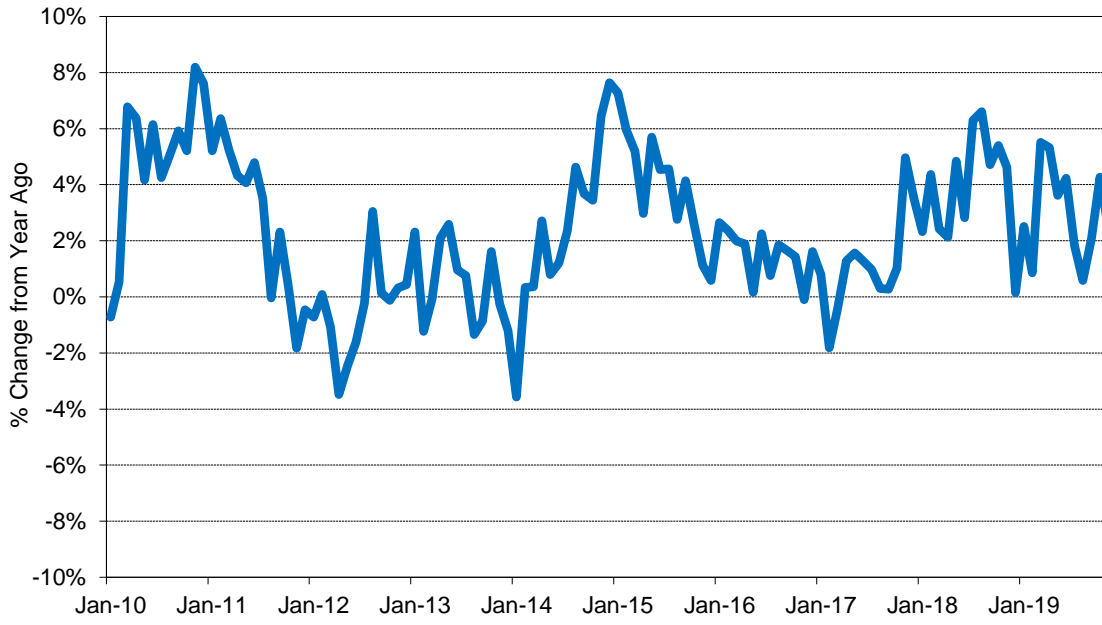


U.S. Real Consumer Spending - All Goods & Services



*Based on chained 2005\$.

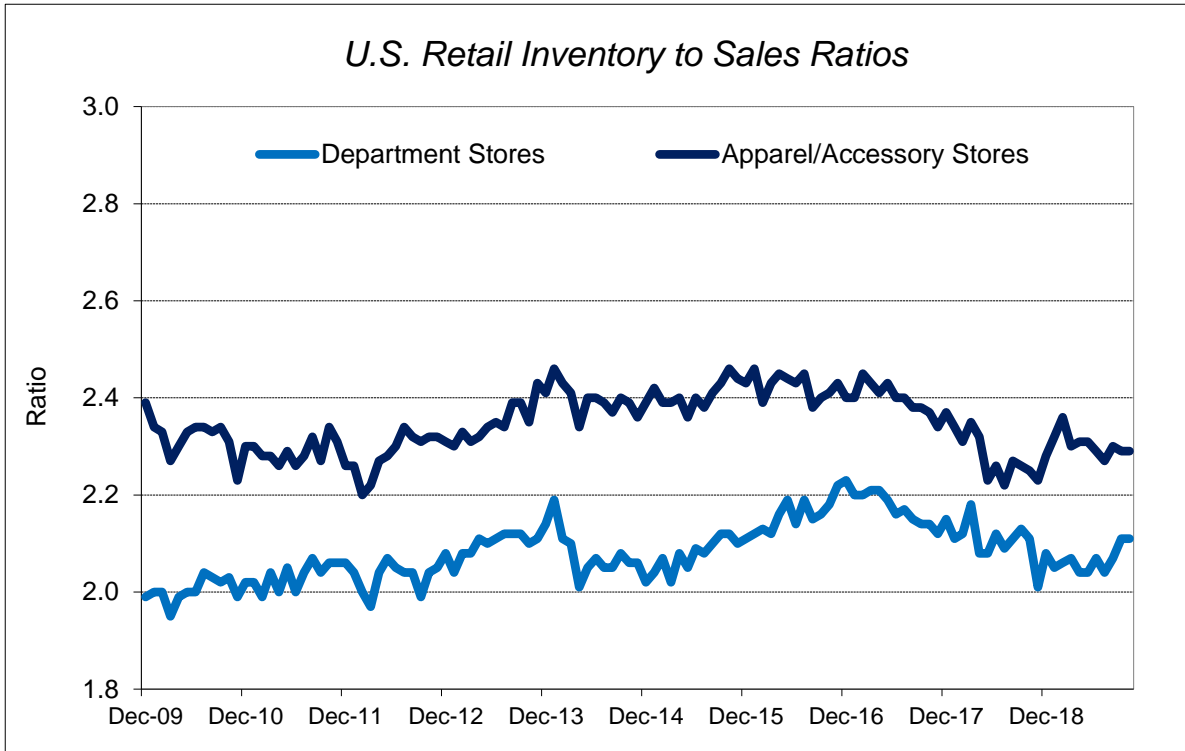
U.S. Real Consumer Spending on Clothing



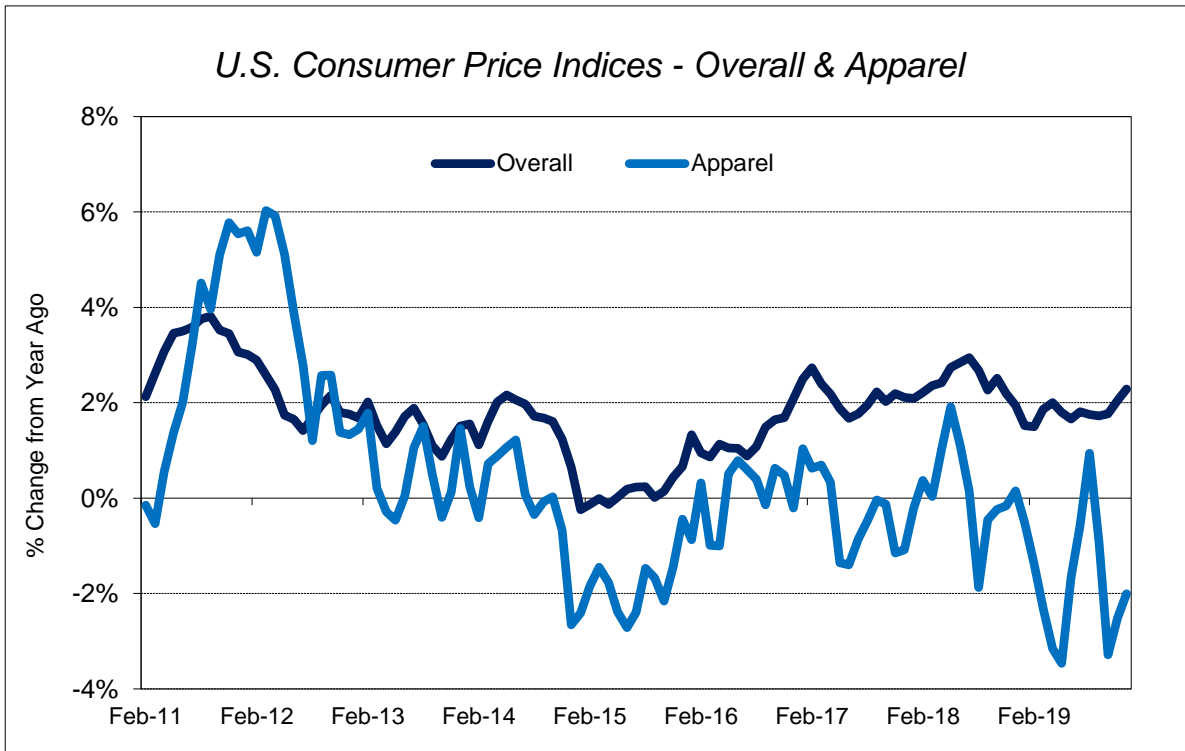
*Based on chained 2005\$.

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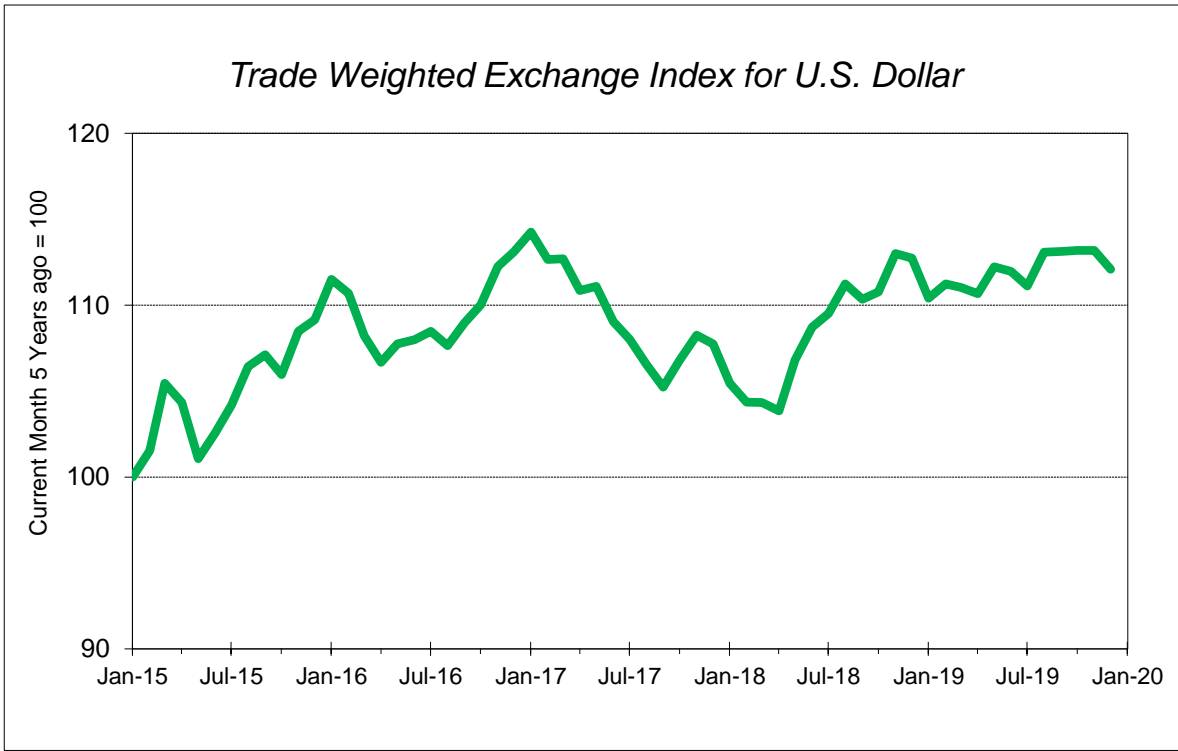
Source: Department of Commerce



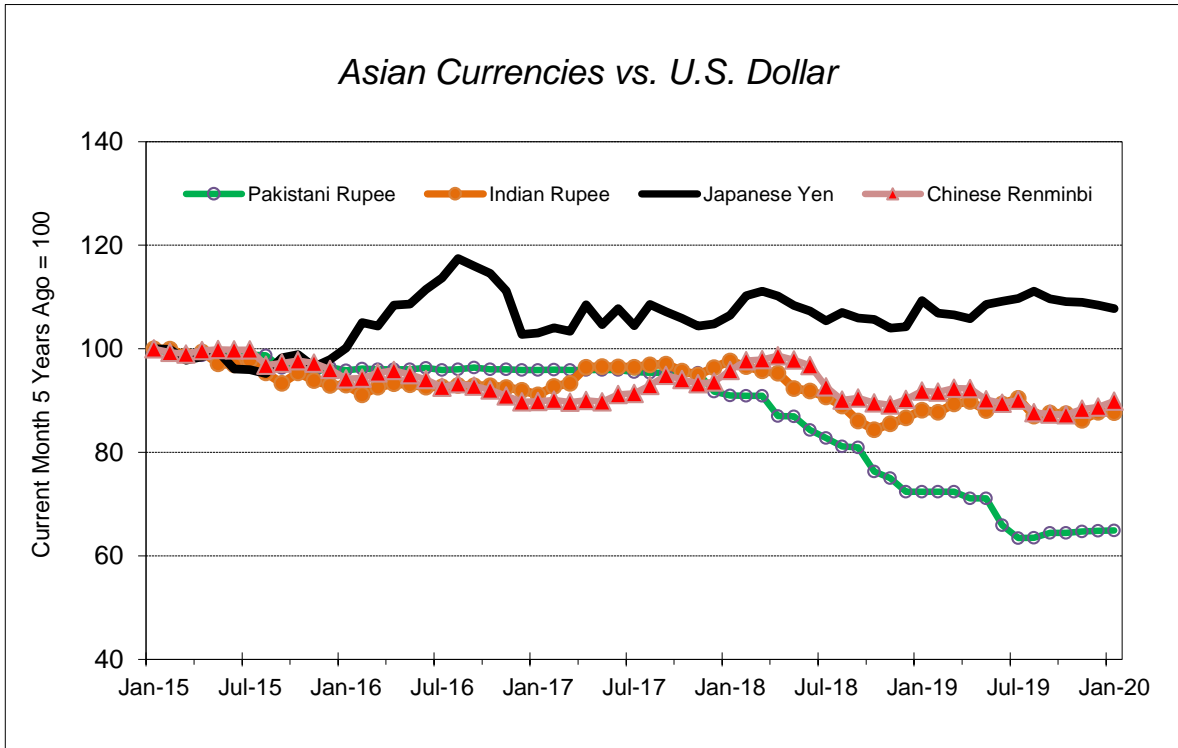
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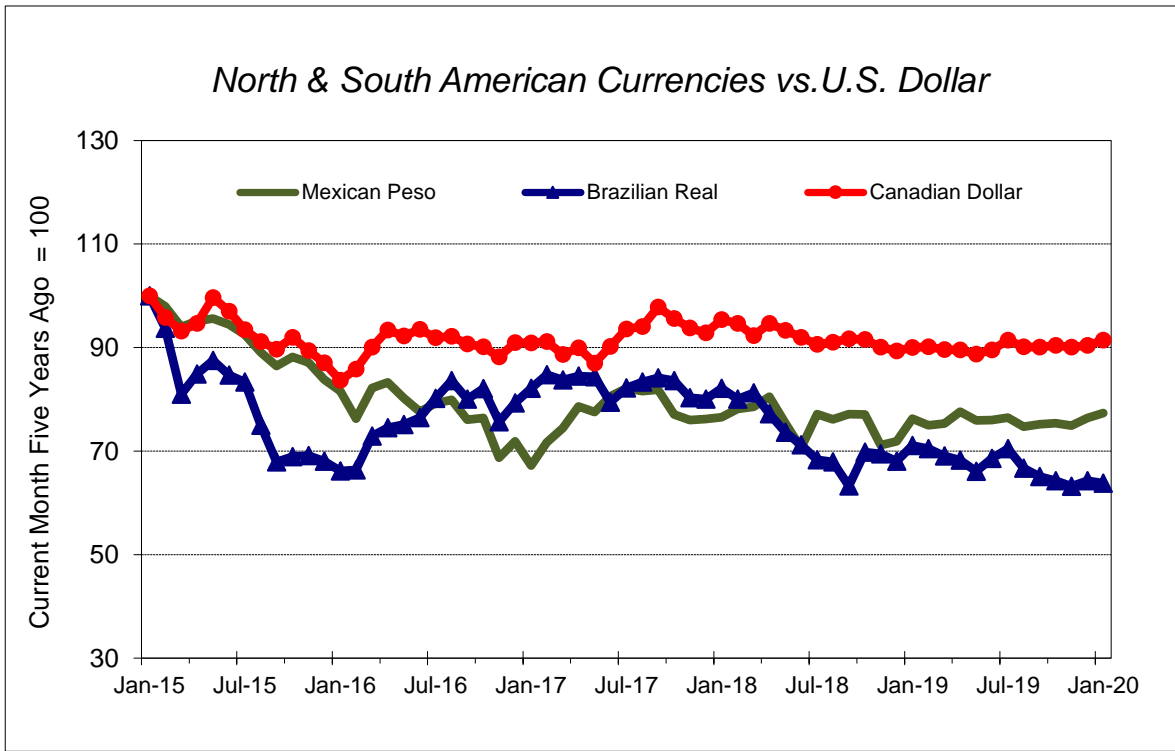
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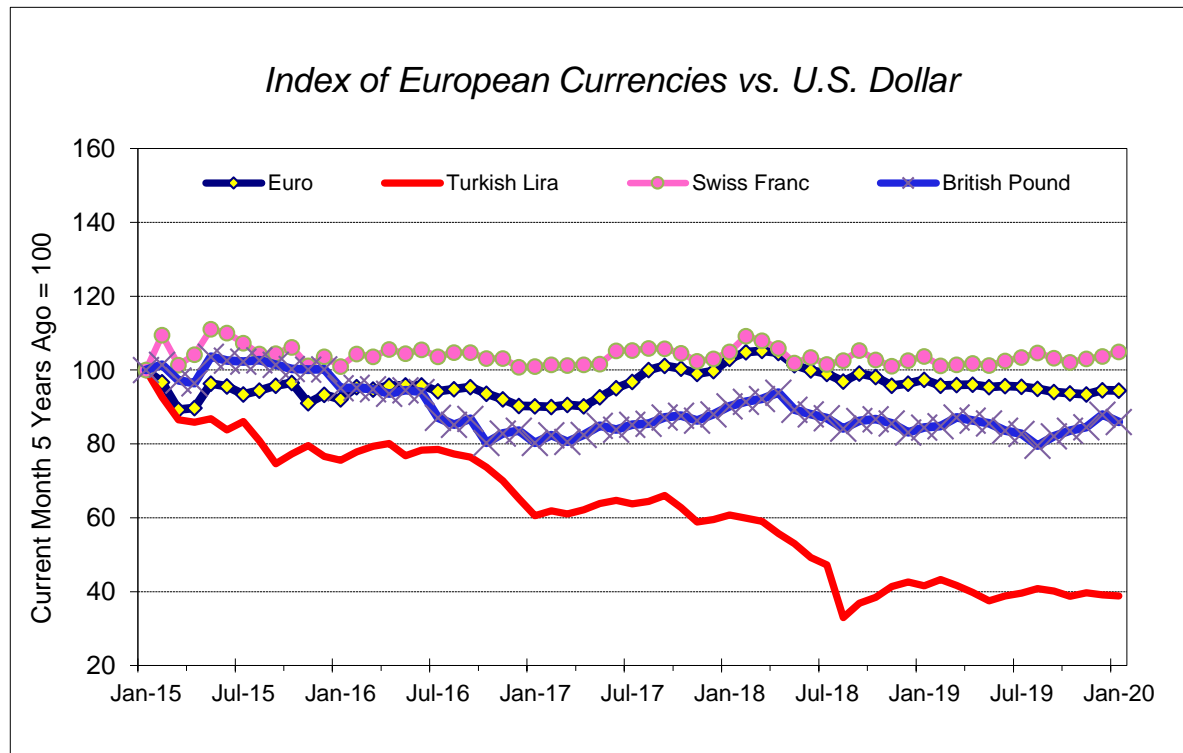
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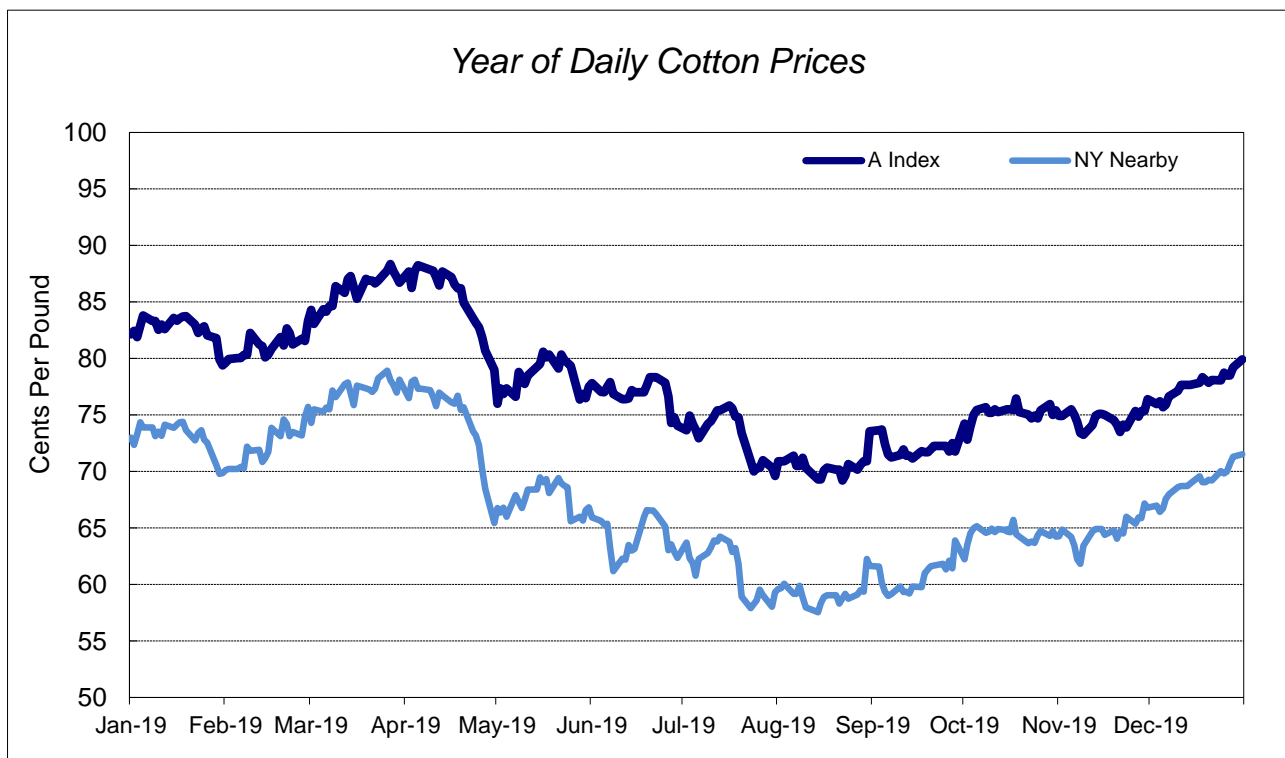
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U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20 December	2019/20 January
Beginning Stocks	3.7	3.8	2.8	4.2	4.9	4.9
Production	12.9	17.2	20.9	18.4	20.2	20.1
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.6	25.1	25.0
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	5.5	5.4
Stocks/Use Ratio	30.2%	15.1%	21.5%	27.3%	28.2%	27.7%



Sources: ICE Futures U.S. & Cotton Outlook

[return to text](#)

