

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



May 2020

www.cottoninc.com

Macroeconomic Overview: The Bureau of Economic Analysis released its first estimate for U.S. GDP growth in the first quarter. The 4.8% contraction (seasonally-adjusted annual rate) is the biggest drop since the 8.4% decrease in the fourth quarter of 2008. Most state-level shutdowns in the U.S. went into effect around the middle of March. This means that only a couple weeks of the nearly complete national shutdown were covered by the first quarter. This also means that figures for the second quarter can be expected to be much worse. The Euro Zone, where the virus became widespread a little earlier than the U.S., reported at 14% contraction in the first quarter.

The labor market is experiencing its worst shock on record. Since mid-March, initial claims for unemployment insurance have totaled 33.5 million. For context, the U.S. labor force was 165 million before COVID-19. An effect has been that the unemployment rate whipsawed from the lowest level in 50 years (near 3.5% from September 2019 to February 2020) to the highest on record (data back to 1948) within only two months. With so many consumers out of work and with uncertainty around surrounding income, consumer spending has been under pressure. In March, overall spending was down 5% year-over-year. Spending on apparel was down 28%. Among all spending categories for goods (as opposed to services), clothing suffered the largest year-over-year decline.

The pullback in consumer spending on clothing has meant that apparel retailer revenue has evaporated. Meanwhile, costs associated with floor space, marketing, and general operations continue to accumulate. In efforts to stave off bankruptcy, cost-cutting has been widespread. Order cancellations have been making headlines for more than a month. Major retailers have also gained attention for delays in rent payments. Others have already been pushed into bankruptcy negotiations.

The latest import data are for March. In March, apparel import volume was down 13% year-over-year (square meter equivalence, apparel of all fibers). Given that the full effects of the virus did not begin to be felt until the end of March, and that imports tend to have a lagged response to changes in market conditions, later decreases can be expected to be much more significant. Meanwhile, season-specific shipments that have arrived are missing their window for sales. It may be possible to warehouse some of these items for next year, but that involves costs and the risk of being out of style. Another option is discounting, but with consumers still under social distancing mandates, it may still be difficult to move goods. All implies further strain on retailer finances.

In parallel, manufacturers are also facing a cash crunch. Canceled retailer orders mean less revenue. Meanwhile, the rapid onset of the crisis means that orders for raw materials can still be arriving. These arrivals imply costs, and with limited revenue, costs threaten insolvency. As manufacturers cut costs and cancel upstream orders, fiber demand will be affected. The USDA made a record cut to its cotton consumption forecast last month. Another cut can be expected in their May set of estimates.

China, which was the first country to suffer from COVID-19, and was also the first to remove itself from a general shutdown. As a result, China may provide some guidance for the rest of the world in terms of what can be expected of consumers after shutdown orders are lifted. Unfortunately, the latest Chinese retail sales data have been describing year-over-year declines. In both March and April, Chinese sales were down 20% year-over-year. This contrasts with year-over-year growth rates near 10% before the shutdown.

Employment: The U.S. economy is estimated to have lost a record 20.5 million jobs in April (the payroll figures used for net job losses/gains are derived from surveys of companies, initial claims for unemployment insurance come from states and describe job losses). For comparison, the worst month of the 2008-09 financial crisis resulted in a net lost of 800,000 jobs. The unemployment rate increased from 4.4% in March to a record 14.7% in April. Initial claims for employment insurance were 3.2 million in week-ending May 2nd. This is below the recent peak over six million but remains far above anything witnessed historically (pre-COVID record was 695,000).

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence suffered a record monthly decrease in April. Month-over-month, the decline was 31.9 points, lowering the index from 118.8 to 86.9. The current value is the lowest since 2014. Overall consumer spending fell 7.3% month-over-month and 5.0% year-over-year. Spending on clothing was down 29% month-over-month and 28% lower year-over-year.

Consumer Prices & Import Data: The CPI for garments was decreased 1.8% month-over-month and was down 2.0% year-over-year. The average import cost per square meter (SME) of cotton-dominant apparel was 7.1% lower month-over-month (seasonally-adjusted) and was 6.3% lower year-over-year. Apparel import volumes have been affected by tariff increases on Chinese-made clothing since September. From September to February, the volume of U.S. cotton-dominant apparel imports from all sources fell 9.5% year-over-year (was -12.8% for apparel of all fibers). In March, cotton-dominant volumes were down 10.0% (-10.3% for apparel of all fibers).

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
May 2020



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q3 : 2019	Q4 : 2019	Q1 : 2020		
Growth in US Real GDP	2.3%	2.5%	2.1%	2.1%	2.1%	2.1%	-4.8%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic 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	53.9	55.3	49.1	50.0	50.1	49.1	41.5	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.6	57.0	54.8	55.1	57.3	52.5	41.8	Index	Institute for Supply Management
Consumer Confidence	117.0	127.4	127.2	127.3	132.6	118.8	86.9	Index	The Conference Board
Change in Non-Farm Payrolls	178.1	156.9	37.5	-135.0	251	-870	-20,500	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.3%	3.9%	3.7%	3.8%	3.5%	4.4%	14.7%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.2%	1.7%	1.5%	1.3%	1.6%	0.7%	0.1%	Interest rate	Federal Reserve
10-year Treasury Bill	2.2%	2.4%	1.6%	1.4%	1.5%	0.9%	0.7%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for March

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	March		
Index of Leading Economic Indicators	105.4	109.0	110.4	109.3	111.9	111.7	104.2	Index	The Conference Board
Housing Starts	12.3	12.8	14.8	13.9	1.6	1.6	1.2	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.4	5.5	5.5	5.5	5.8	5.3	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile 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	105.9	108.0	108.4	106.6	109.6	103.7	103.7	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	108.2	99.8	97.4	95.5	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile 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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.3	3.0	2.9	3.0	2.8	3.2	2.8	million 480lb bales	USDA ERS

Industrial & Textile 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	1.32	1.33	1.37	1.37	1.37	1.37	1.36	Ratio	Department of Commerce

Retail Data

Retail 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	2.7%	2.5%	1.4%	-0.9%	3.0%	3.2%	-5.0%	% Chg. Year/Year	Department of Commerce
Clothing	2.1%	2.3%	-2.2%	-11.7%	4.2%	4.8%	-28.2%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.7%	2.1%	2.1%	1.9%	2.5%	2.3%	1.5%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.7%	-0.9%	-1.9%	-1.7%	-1.9%	-1.4%	-2.0%	% Chg. Year/Year	Bureau of Labor Statistics

Retail Series with Latest Data for February

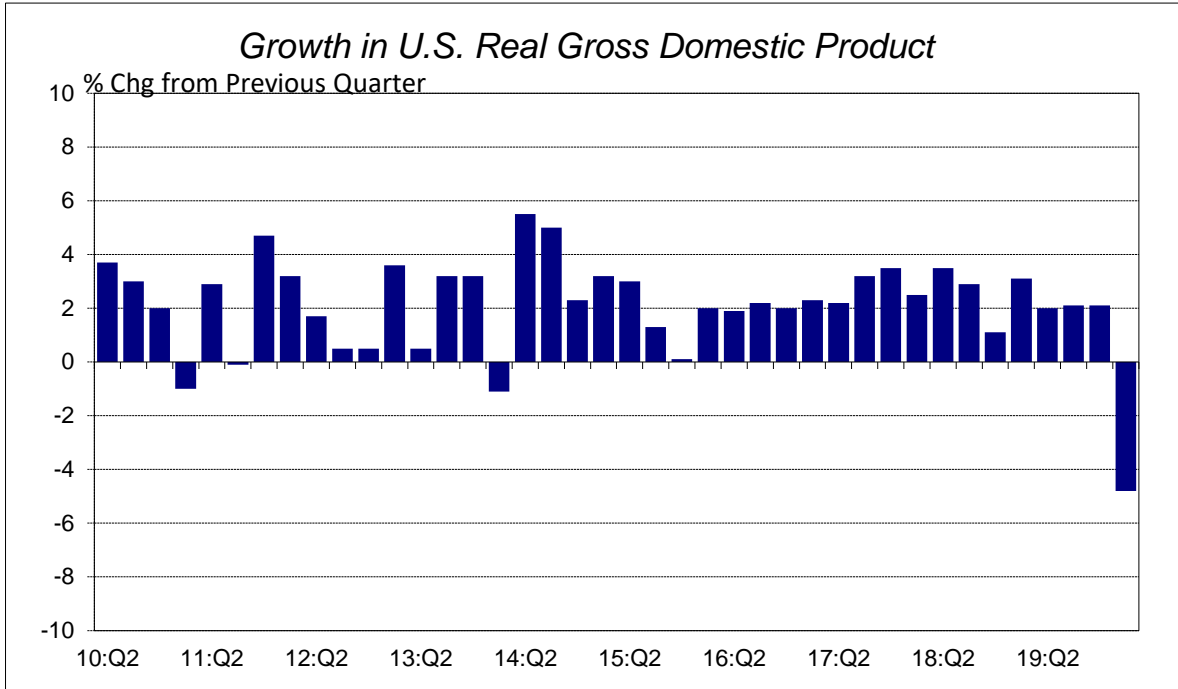
	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	December	January	February		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.4	2.4	2.4	2.4	2.4	#N/A	Ratio	Department of Commerce
Department Stores	2.2	2.2	2.1	2.1	2.1	2.1	#N/A	Ratio	Department of Commerce

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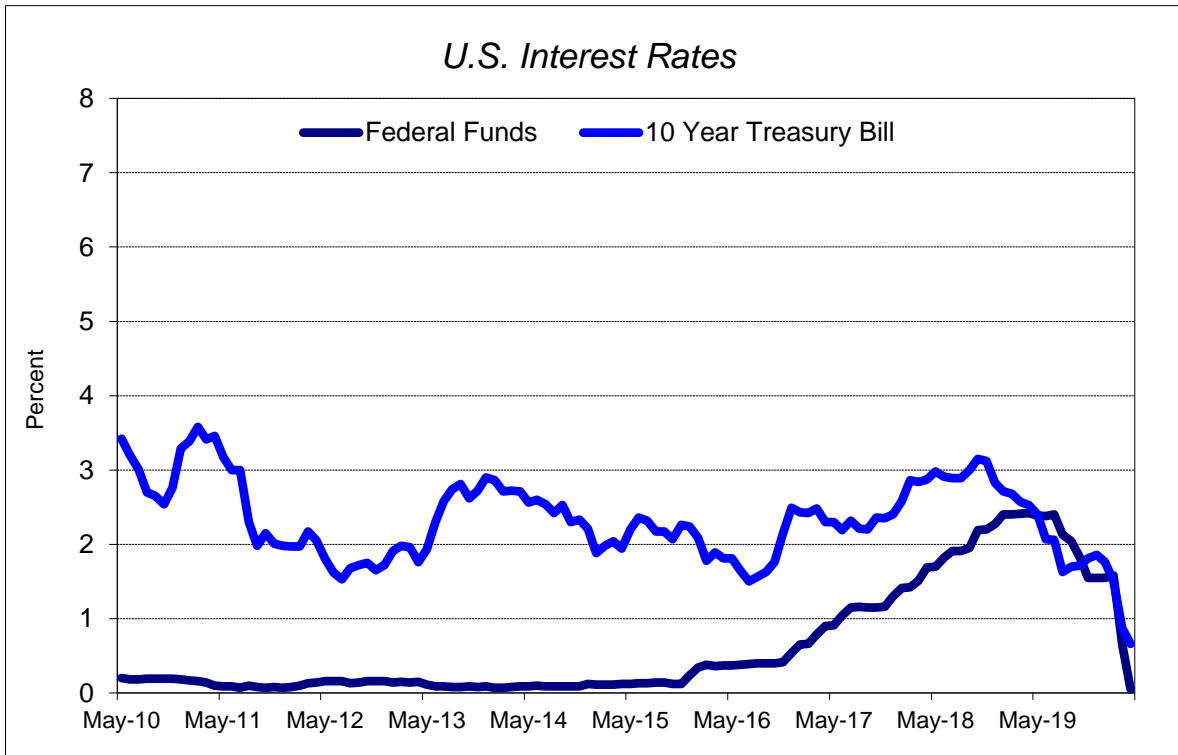
Daily Cotton Price and Currency Data
May 2020



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	69.6	71.3	70.2	68.0	67.1	57.6	53.7	cents/pound	ICE
A Index	78.7	81.0	80.1	77.9	76.7	68.2	63.4	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	113.2	113.8	117.5	119.1	116.4	118.5	122.4	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.69	6.77	6.99	7.00	6.98	6.95	7.06	Chinese Renminbi/US dollar	Reuters
Indian Rupee	67.74	68.73	72.41	73.74	71.28	73.64	76.29	Indian Rupee/US dollar	Reuters
Japanese Yen	111.52	110.06	108.44	107.76	109.92	104.85	108.51	Japanese Yen/US dollar	Reuters
Pakistani Rupee	120.36	131.16	157.58	160.05	154.40	158.55	167.20	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.62	3.74	4.40	4.69	4.32	4.68	5.05	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.31	1.34	1.37	1.33	1.37	1.40	Canadian dollar/US dollar	Reuters
Mexican Peso	18.79	19.20	20.06	21.11	18.68	21.21	23.45	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.75	0.77	0.78	0.79	0.77	0.78	0.81	British Pound/US dollar	Reuters
Euro	0.89	0.87	0.90	0.91	0.92	0.89	0.91	Euro/US dollar	Reuters
Swiss Franc	0.98	0.98	0.97	0.96	0.98	0.94	0.97	Swiss Franc/US dollar	Reuters
Turkish Lira	4.25	5.03	6.05	6.29	6.02	6.20	6.64	Turkish Lira/US dollar	Reuters



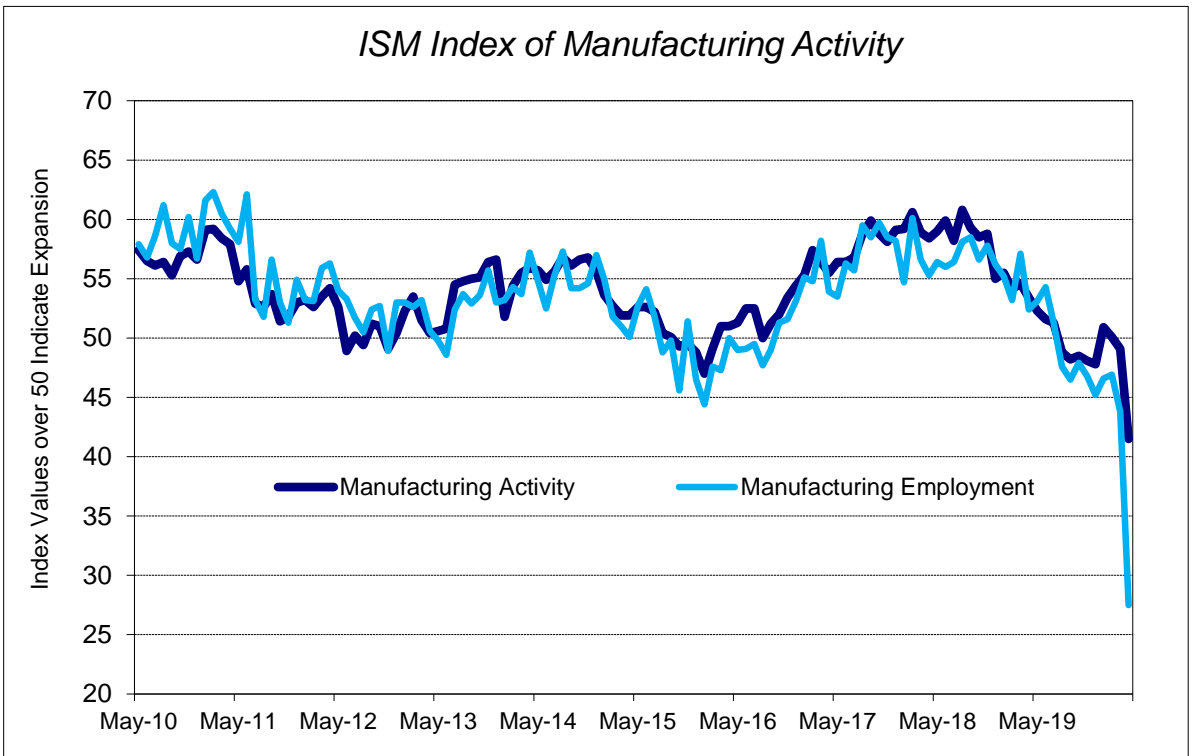
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



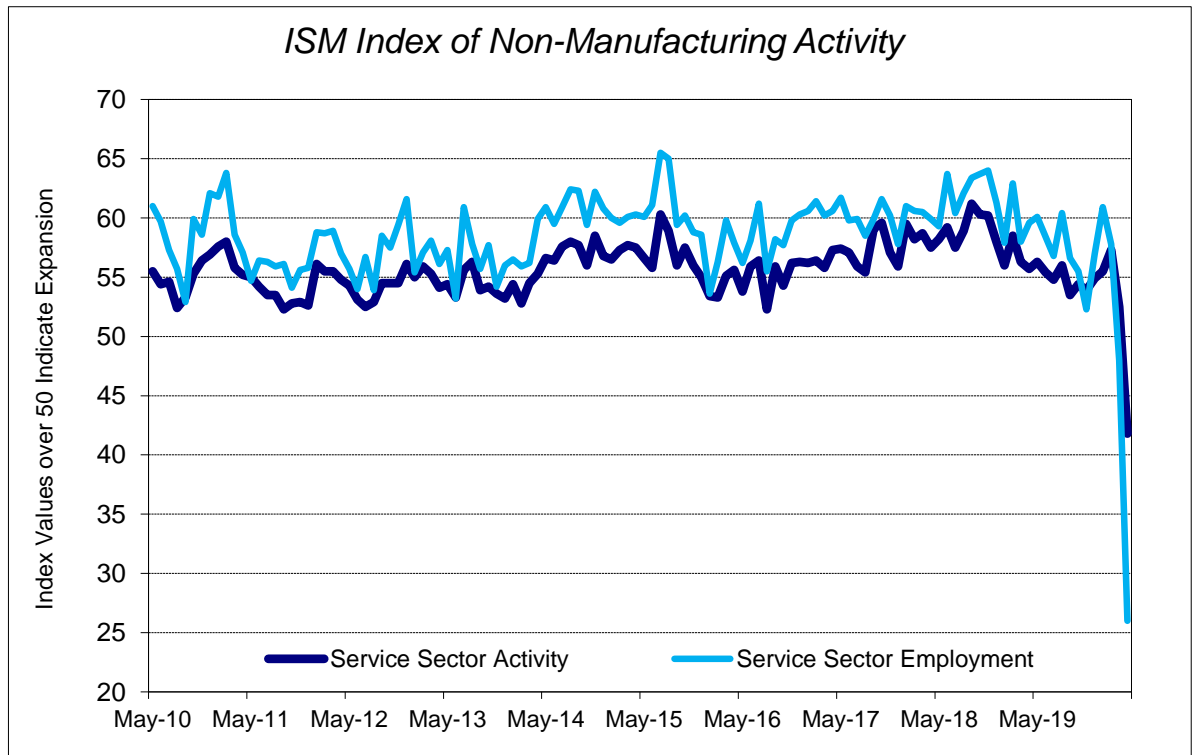
Source: Federal Reserve

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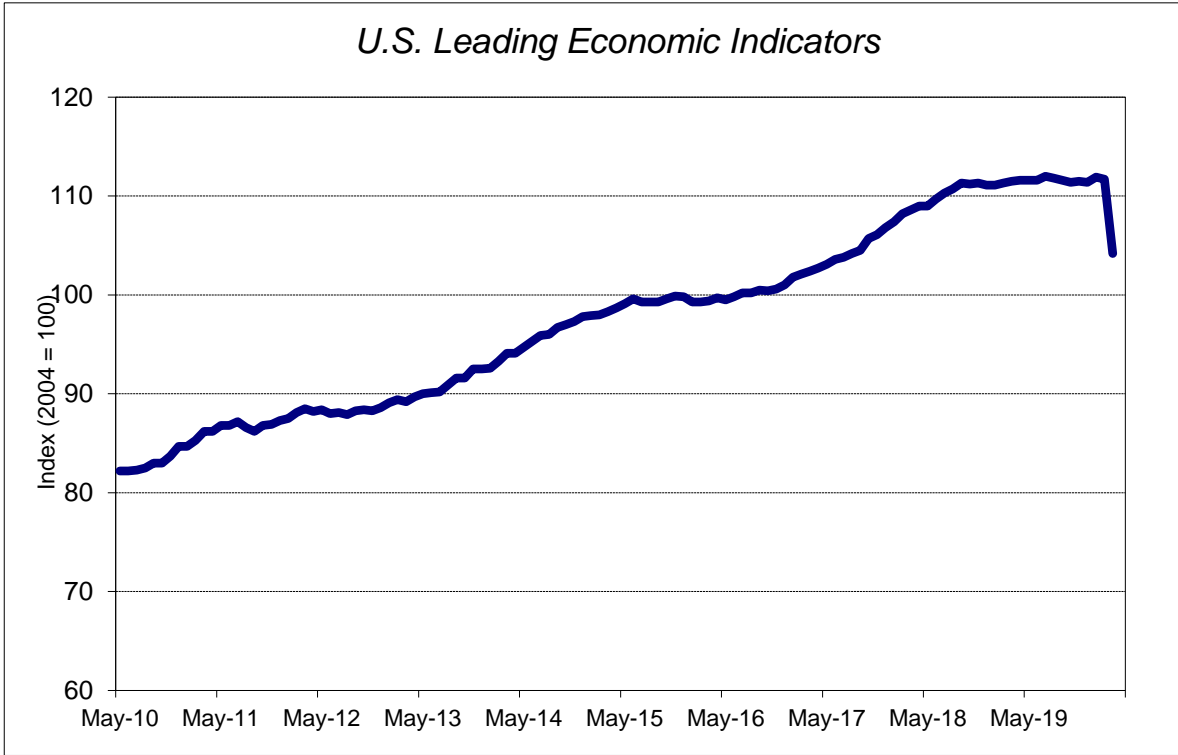
Source: Institute for Supply Chain Management



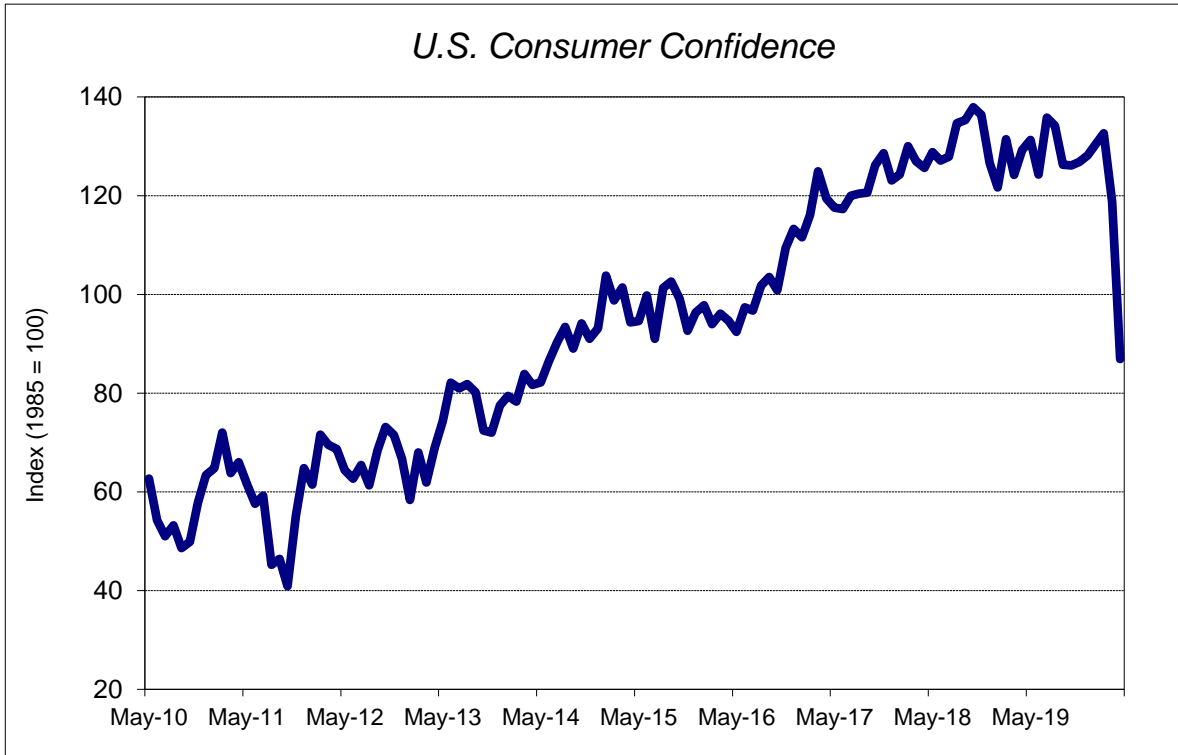
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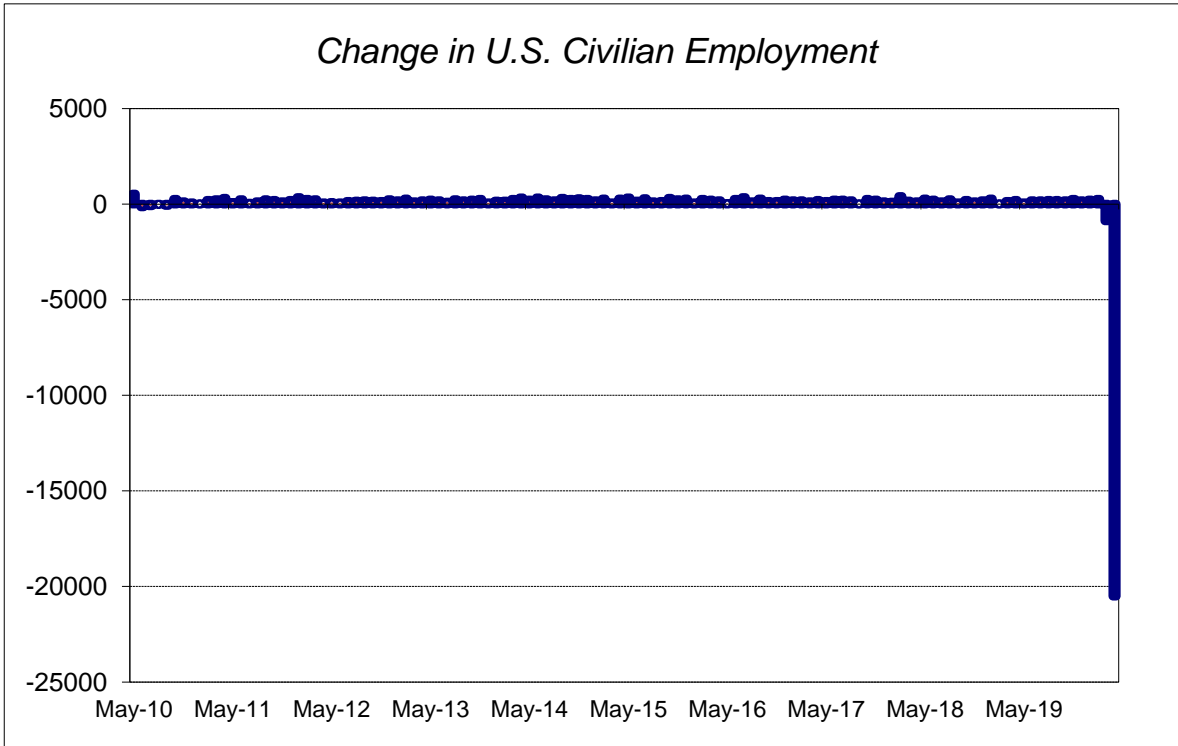
Source: The Conference Board



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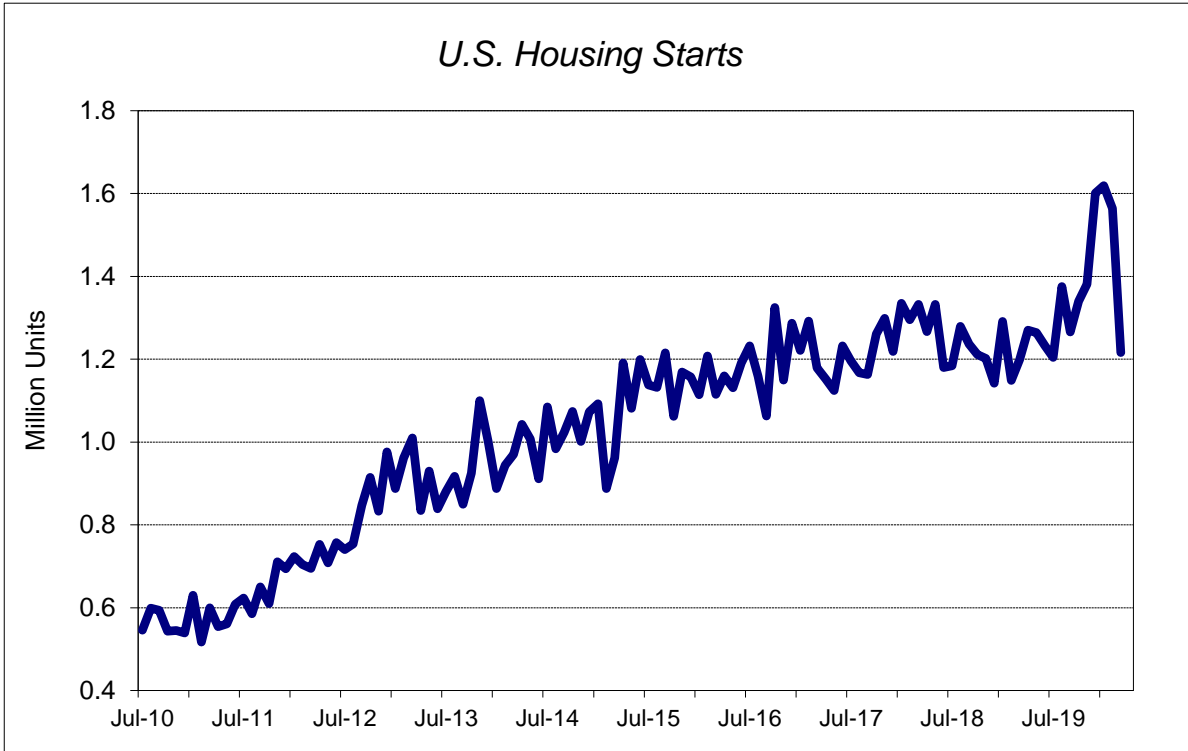
Source: Bureau of Labor Statistics



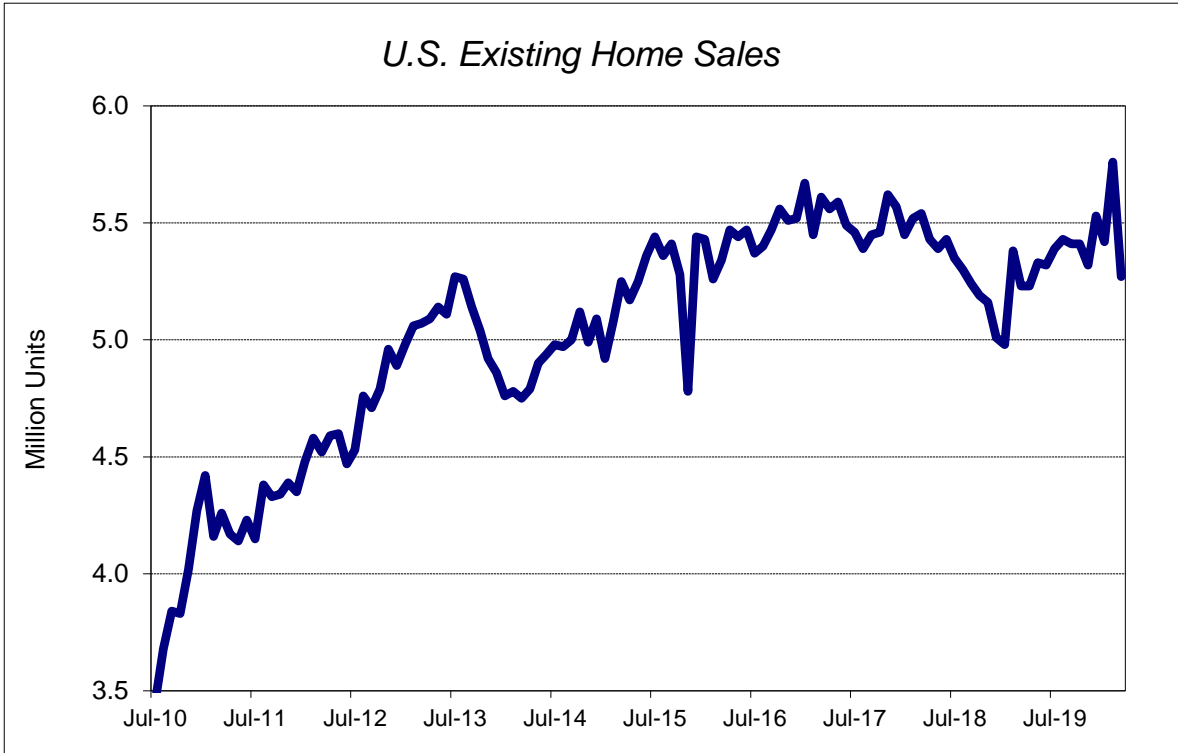
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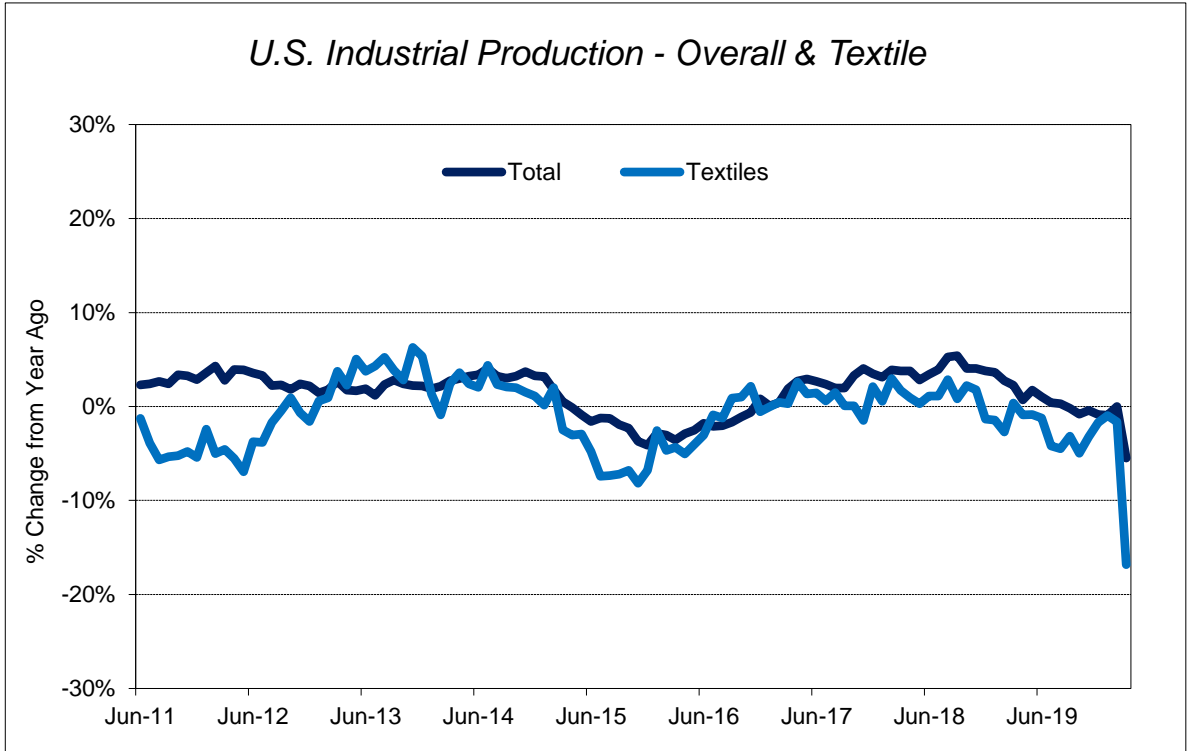
Seasonally Adjusted Annual Rate; Source: Department of Commerce



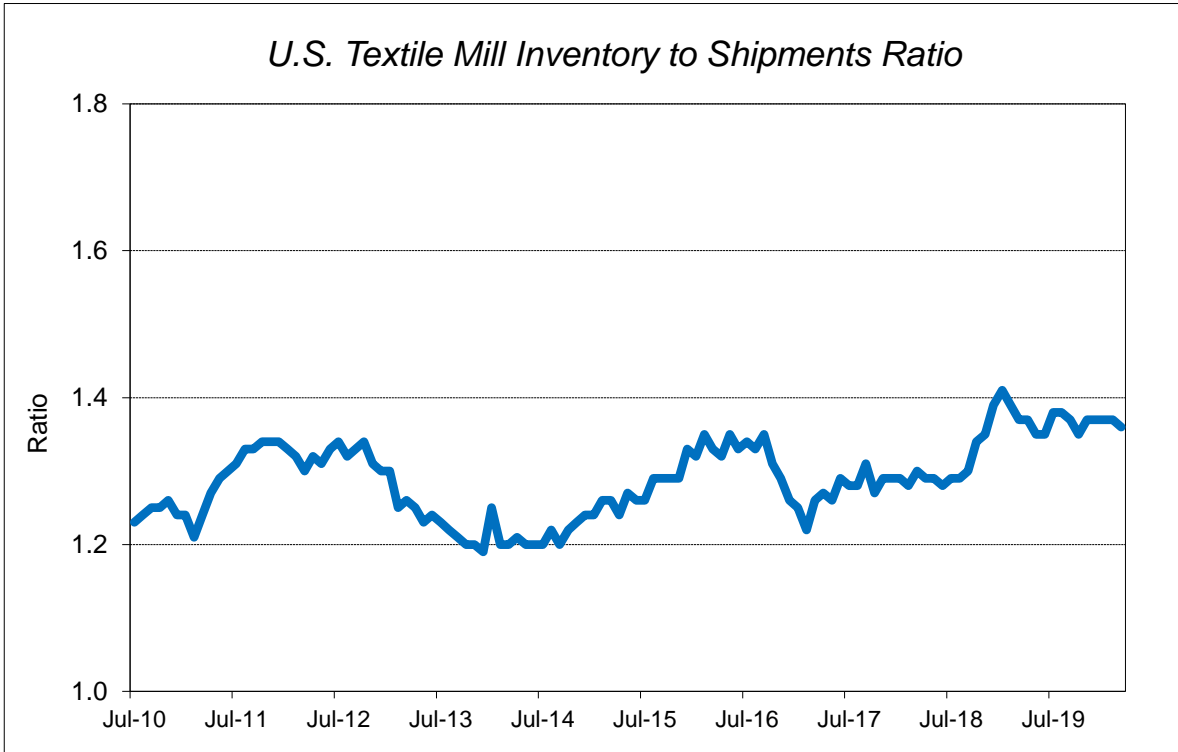
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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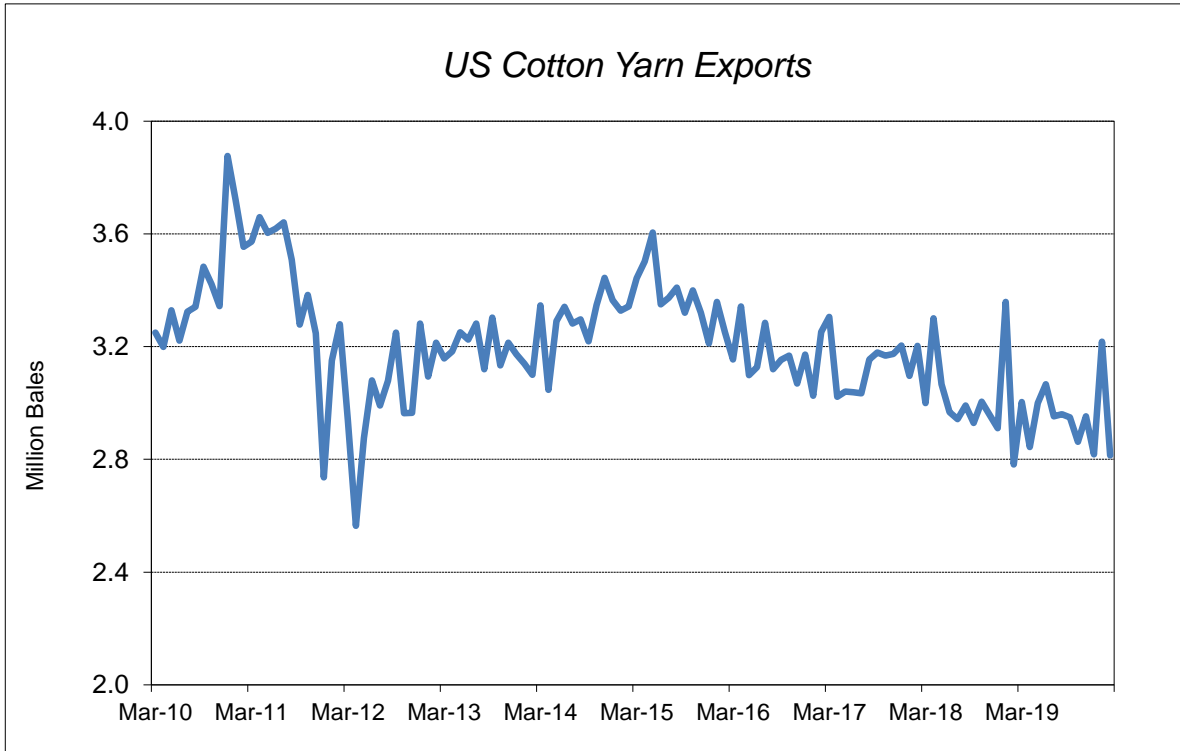
Source: Federal Reserve. Historical data revised to 1997 baseline.



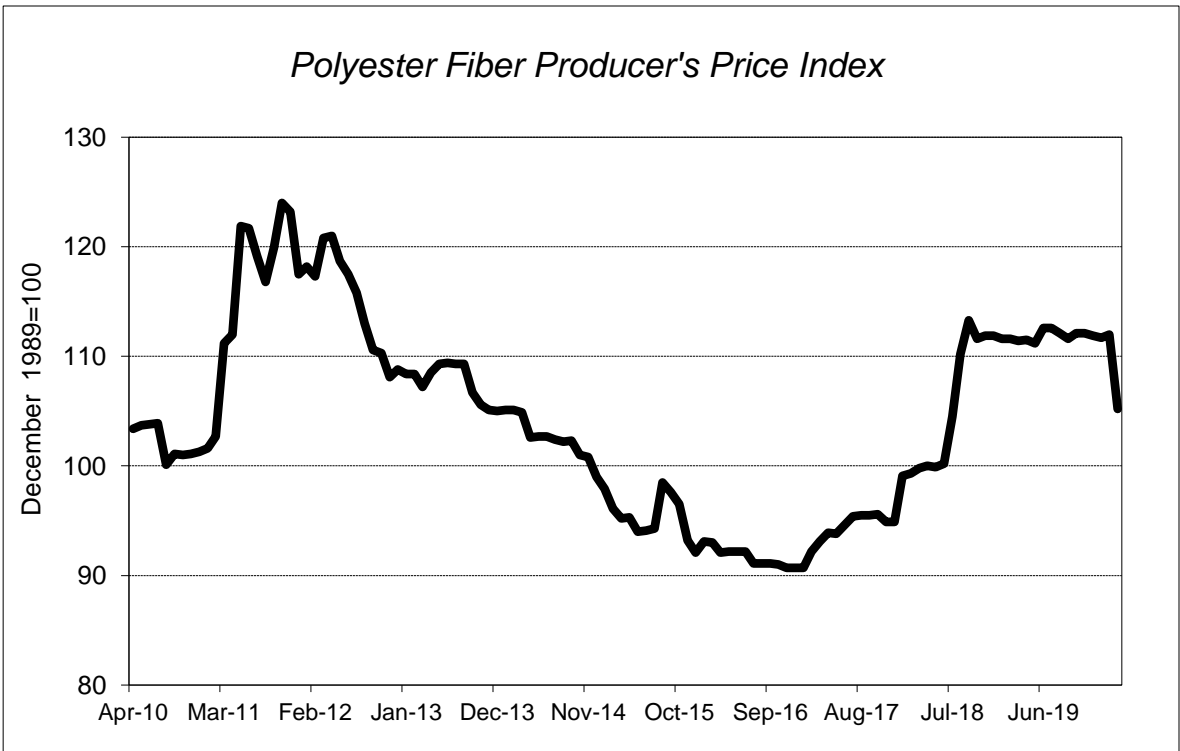
Seasonally Adjusted; Source: Department of Commerce

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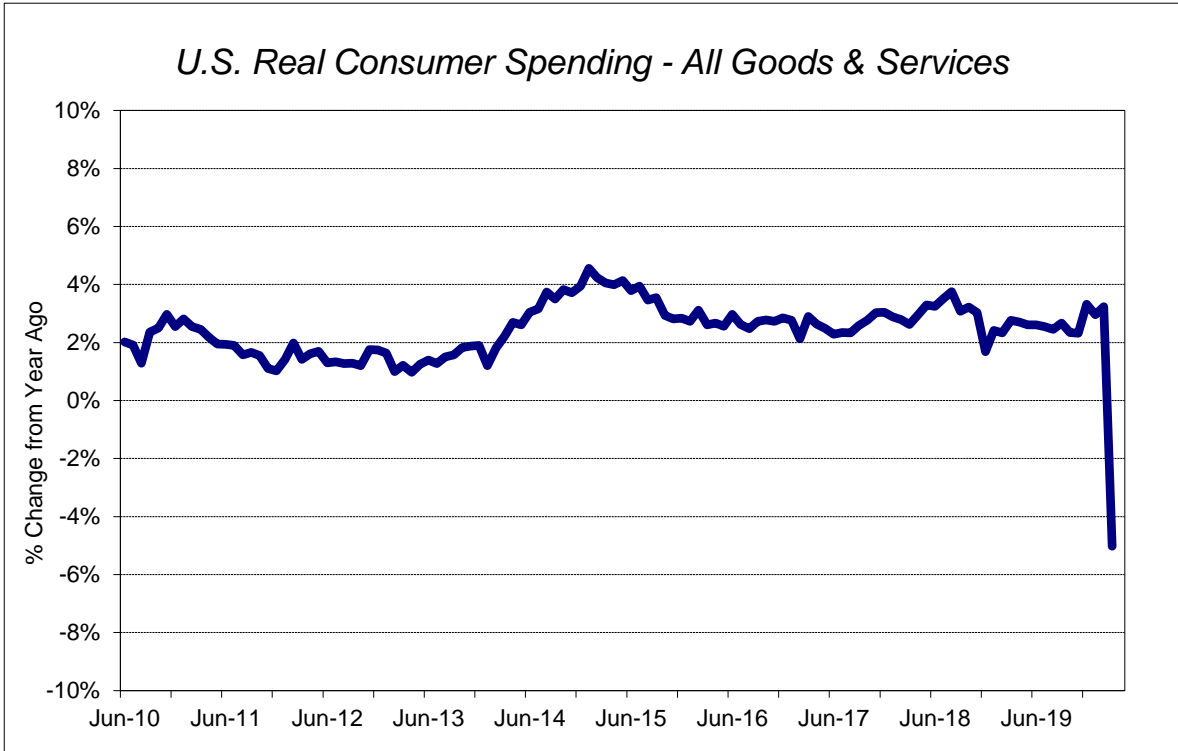
Seasonally Adjusted Annual Rate
 Source: USDA ERS



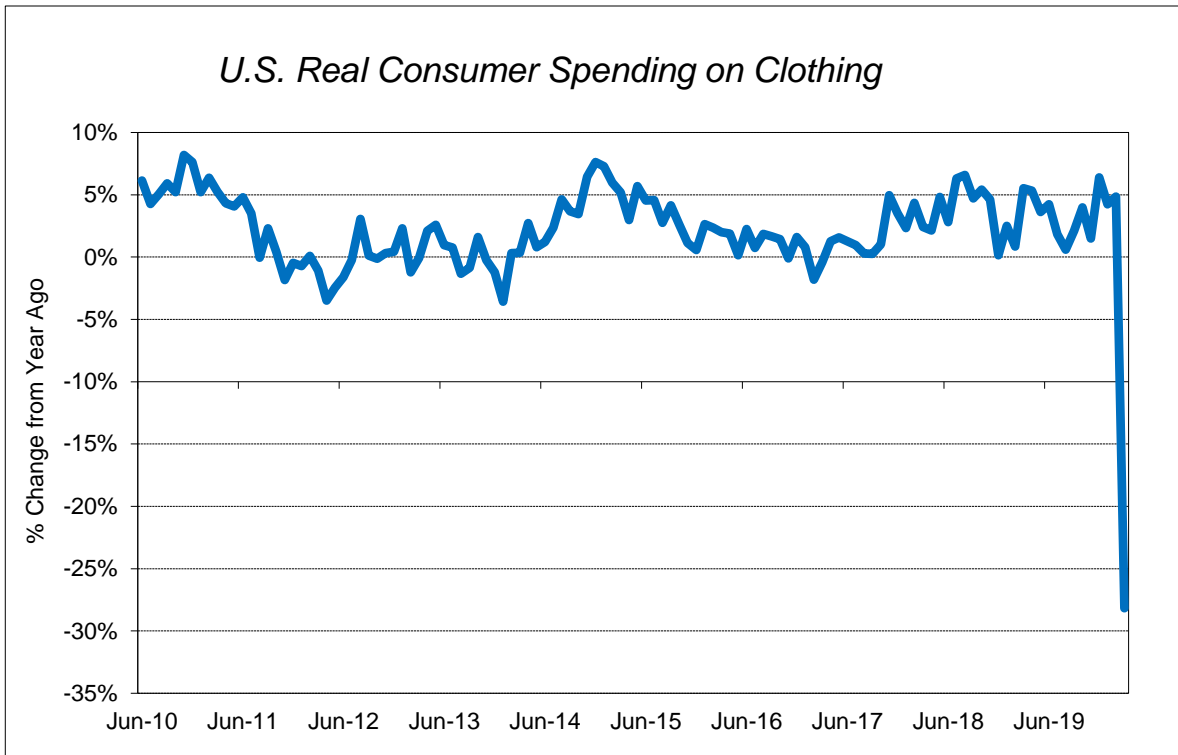
Source: Bureau of Labor Statistics

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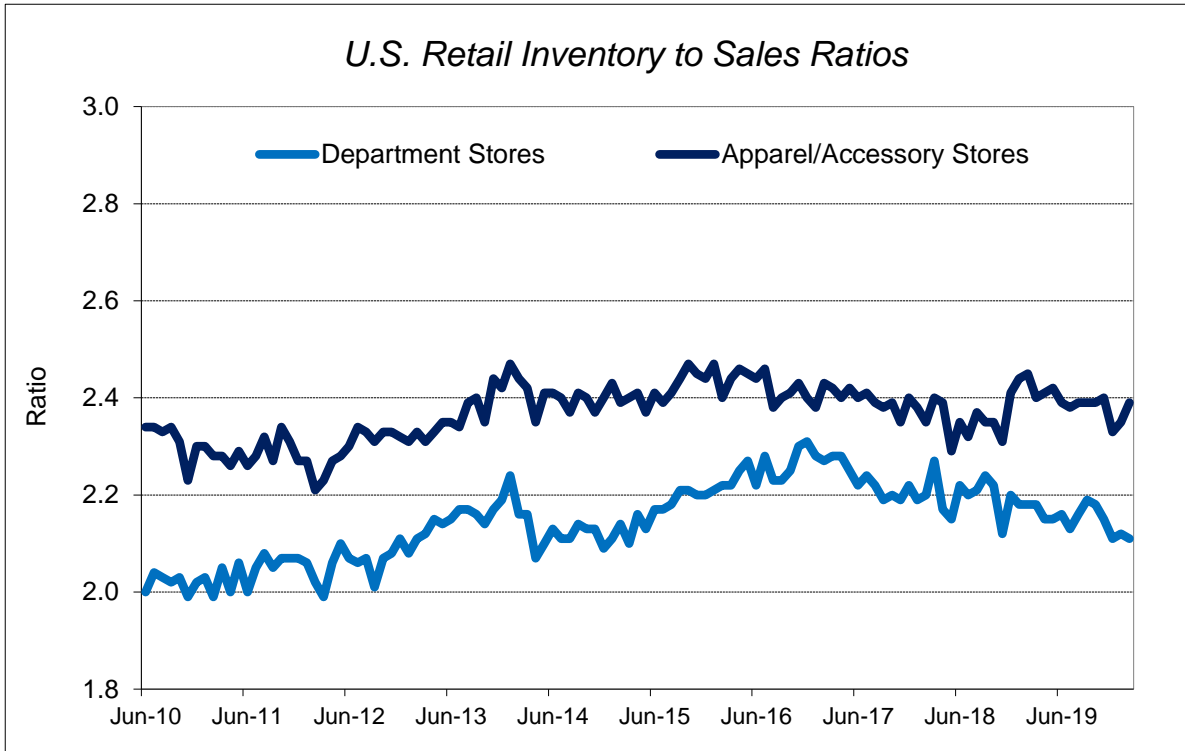
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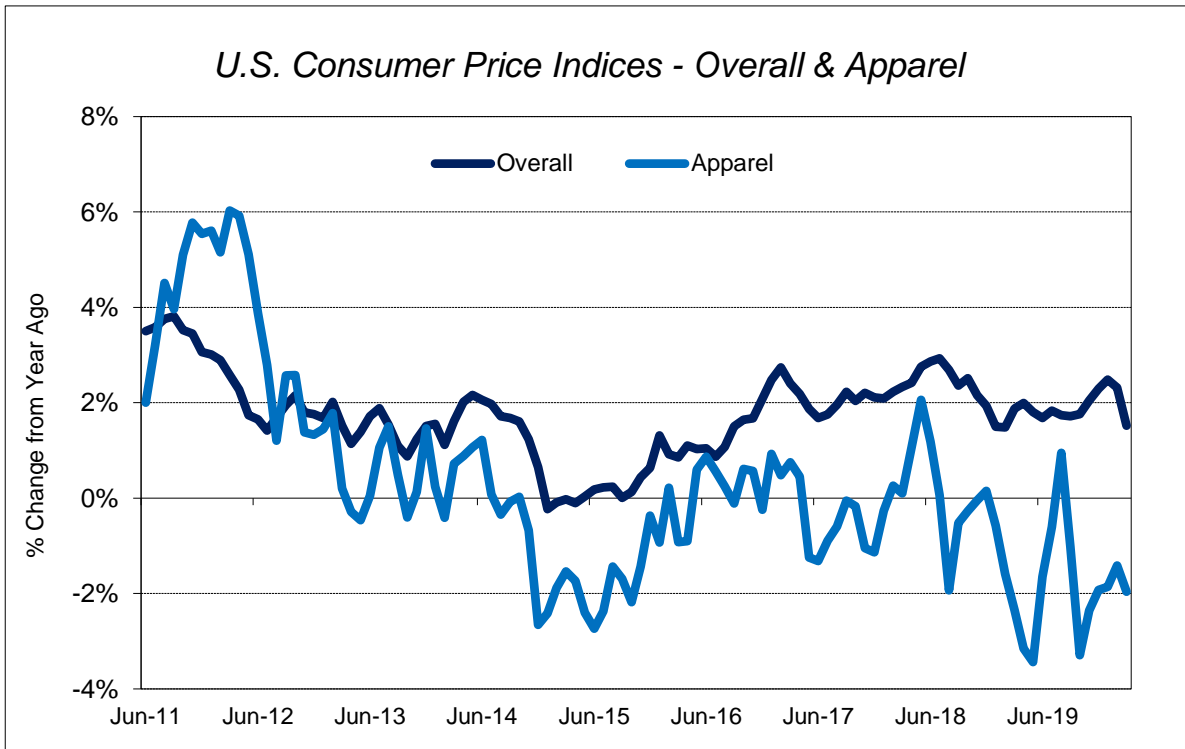
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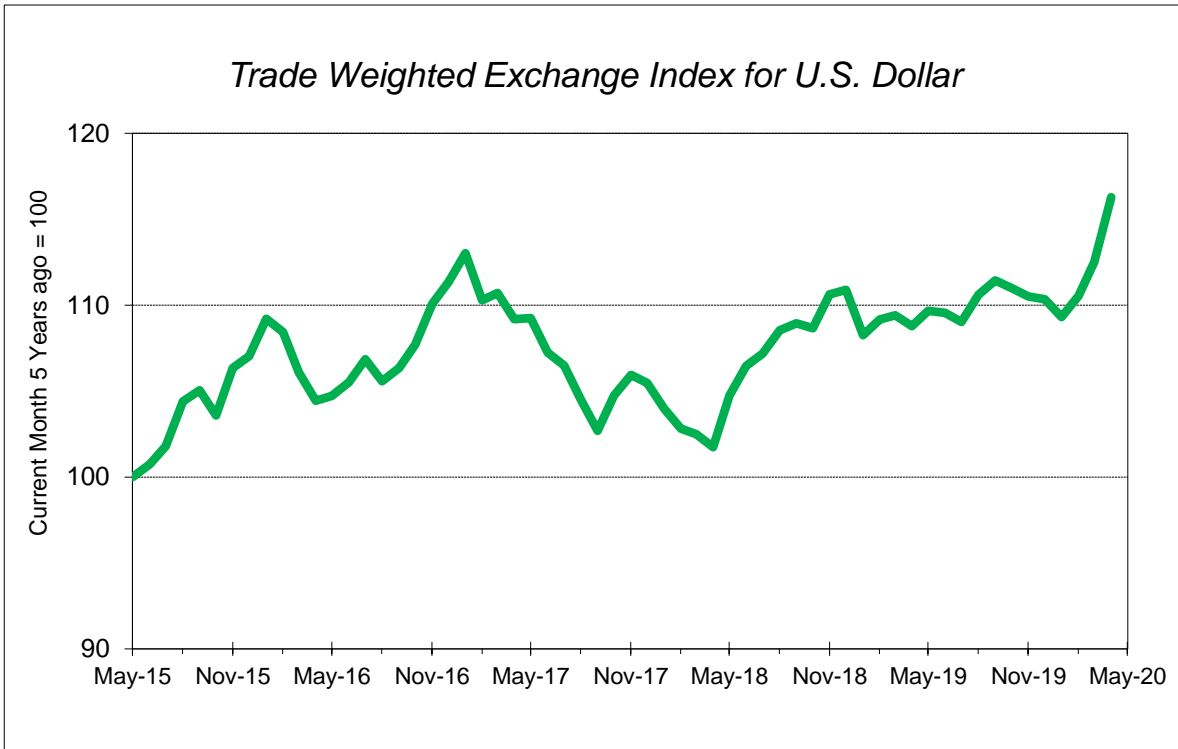
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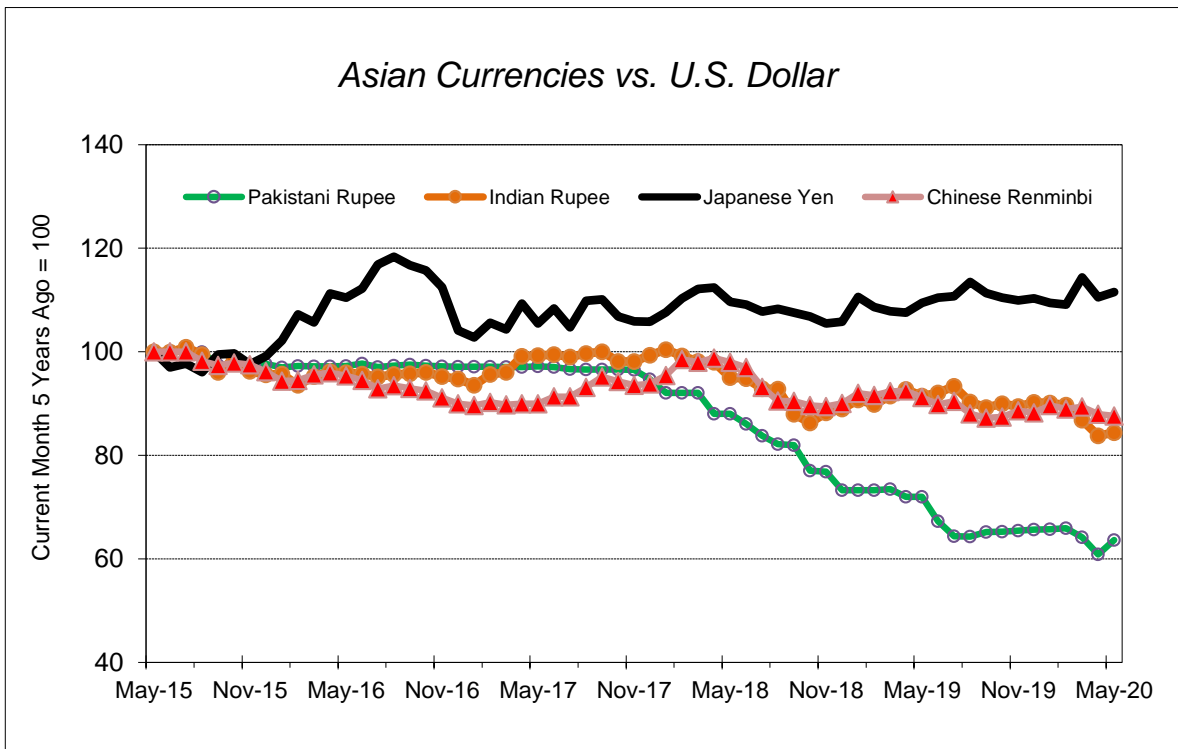
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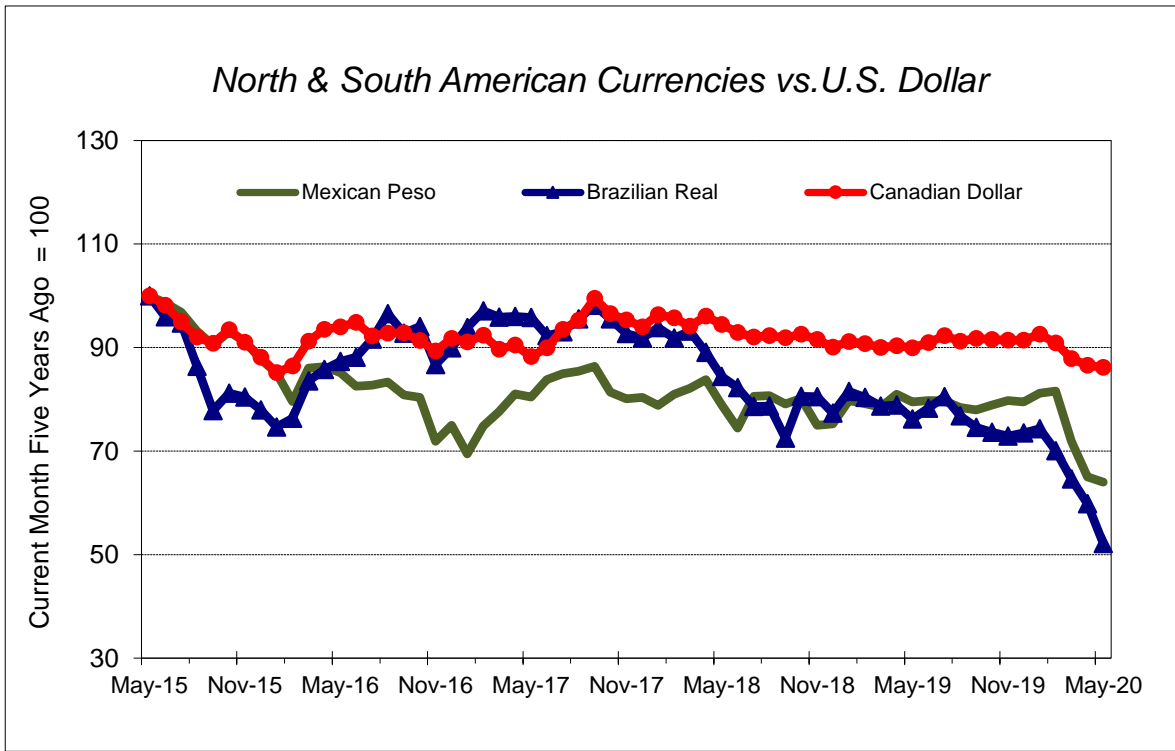
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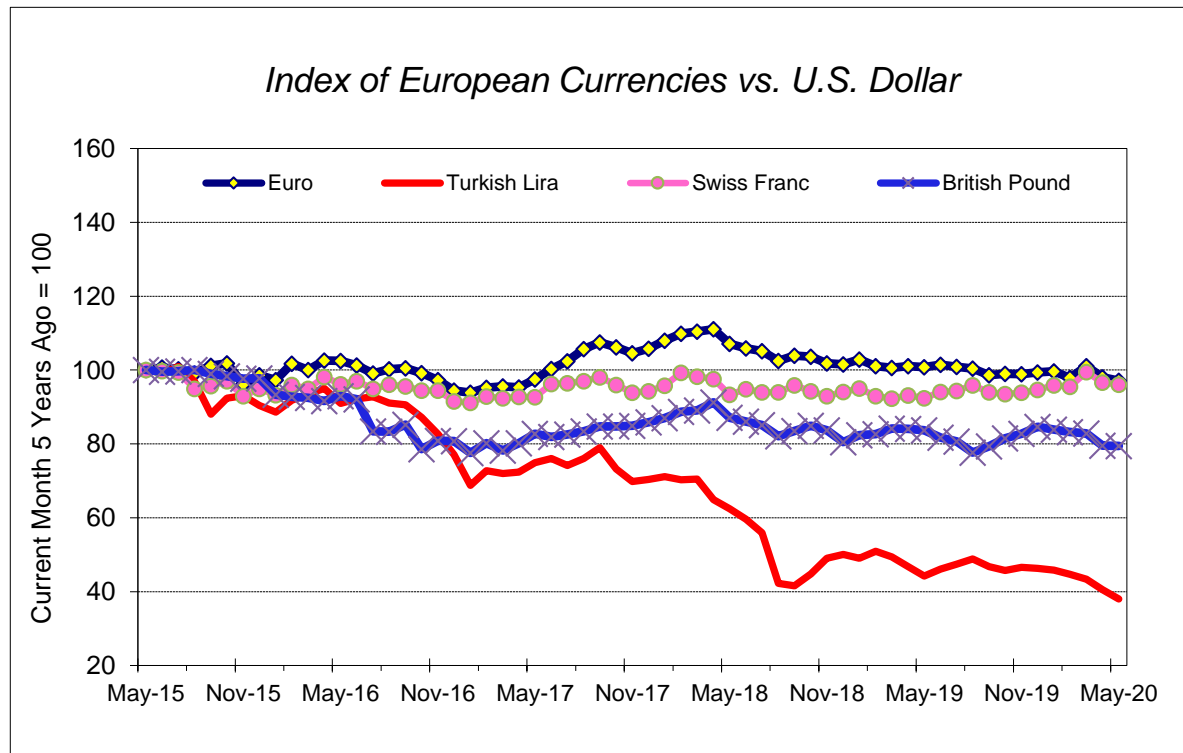
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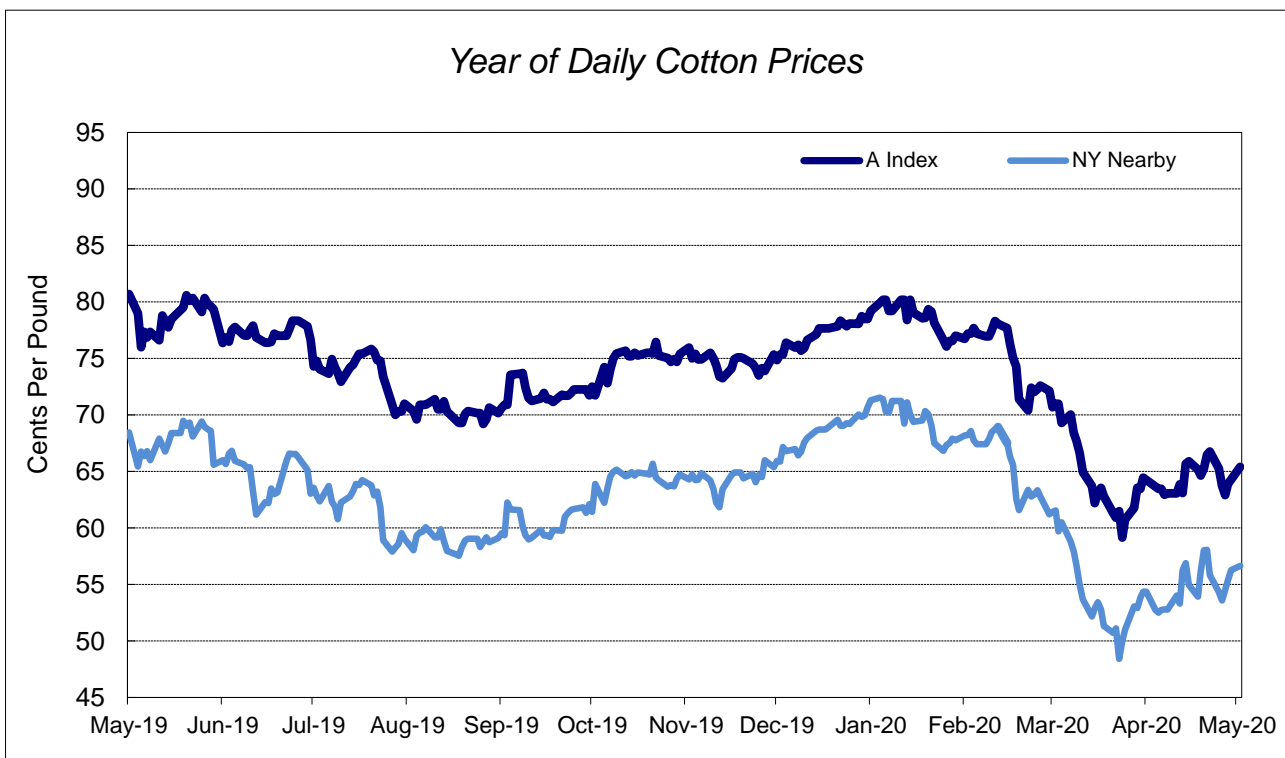
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U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20 March	2019/20 April
Beginning Stocks	3.7	3.8	2.8	4.2	4.9	4.9
Production	12.9	17.2	20.9	18.4	19.8	19.8
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.6	24.7	24.7
Mill-Use	3.5	3.3	3.2	3.0	3.0	2.9
Exports	9.2	14.9	16.3	14.8	16.5	15.0
Demand	12.6	18.2	19.5	17.7	19.5	17.9
Ending Stocks	3.8	2.8	4.2	4.9	5.1	6.7
Stocks/Use Ratio	30.2%	15.1%	21.5%	27.3%	26.2%	37.4%



Sources: ICE Futures U.S. & Cotton Outlook

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