Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain

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Macroeconomic Overview: The U.S. economy was estimated to have contracted at a 32.9% seasonally-adjusted annual rate in the second quarter. This followed a 5.0% contraction in the first quarter and easily ranks as the sharpest decline on record (since 1947).

In comparison to other major economies, the figure of 32.9% appears very large. Part of the reason for this is that the U.S. reports GDP as an annual rate. Annual rates compound quarter-over-quarter change (similar to calculations for interest) and describe what the annual effect would be if quarter-over-quarter change were extended over an entire year.

Other major economies take different approaches. For example, the Euro Zone reports GDP in terms of a simple quarter-over-quarter change in seasonally-adjusted data (was -12.1% in Q2 2020 versus Q1 2020) or as a simple year-over-year change (was -15.0% in Q2 2020 versus Q2 2019). China reports GDP in terms of year-over-year change. After a 6.8% year-over-year contraction in the first quarter, China indicated its economy expanded 3.2% in the second quarter.

While the U.S. headline number for GDP data is the seasonally-adjusted annual rate, other figures are published that are more directly comparable to other economies. In the second quarter, the year-over-year change in U.S. GDP was -9.5%, which is much closer to the COVID-driven lows registered in other markets (i.e., -15.0% year-over-year in the Euro Zone and -6.8% year-over-year in China).

After a strong resurgence in the U.S., COVID will shape economic activity in current and future quarters. The number of confirmed COVID cases in the U.S. is now over five million. The U.S. population is near 330 million. This means that about one of every 65 Americans has been diagnosed with the virus.

Population-related context is important for the labor market as well. The number of continuing claims for unemployment insurance is 16.1 million. The labor force is 160 million, so an implication is that one out of every ten Americans who want to work are out of a job. A $600/week supplement to unemployment insurance served as a financial bridge for many consumers, supporting spending and helping to boost the national savings rate to record highs (19-34% between April and June). That benefit expired in July. Negotiations are underway for a second round of stimulus, but it is unknown what may be included and when it will become available.

Employment: The U.S. economy was estimated to have added 1.8 million jobs in July. Last month's increase was smaller than the 2.7 and 4.8 million increases that occurred in May and June but otherwise would rank as the largest on record. Despite three months of job gains over one million positions, the labor market still requires significant healing to approach the level of employment before the virus. In April alone, job losses were 20.8 million.

The unemployment rate decreased from 11.1% to 10.2% between June and July. The unemployment rate peaked in April at 14.7%. Before the virus, the unemployment rate was 3.5%.

The Bureau of Labor Statistics continues to issue a statement indicating that there have been data collection and classification issues. In the latest report, the BLS indicated that the share of responses affected by these issues is much smaller than it was in earlier months, but also stated that approaches to compensate for these issues could lift the unemployment rate by as much as one percentage point.

Consumer Confidence & Spending: After a strong increase in June, the Index of Consumer Confidence decreased in July (from 98.3 to 92.6). Overall consumer spending increased 5.2% month-over-month in June but was 5.5% lower year-over-year. Consumer spending on apparel increased 28.5% month-over-month and was 1.5% lower year-over-year.

Consumer Prices & Import Data: Retail apparel prices, as measured by the CPI for garments, increased 1.8% month-over-month but were 8.0% lower year-over-year. Average import prices (in terms of USD per square meter equivalent or SME) for cotton-dominant apparel were down 9.0% month-over-month in seasonally-adjusted terms and were down 8.8% year-over-year.

The volume of U.S. imports (in terms of SMEs) has been down since tariff increases on Chinese-made clothing were implemented in September. From September through February (pre-COVID), apparel import volume (all fibers) from all locations was down 10.3% year-over-year. Since COVID hit the U.S. (March-June), the volume of U.S. cotton-dominant apparel imports from all locations was down 37.3%. In the latest data (for June), import volume was down 34.3% year-over-year. This was smaller than the decline in May (-58.4%).

Despite supplemental tariffs still being in place, China's share of U.S. apparel imports (all fibers) has stabilized in recent months. Between September and April, year-over-year decreases in China's share of U.S apparel imports were between -5 to -11 percentage points. In May and June, China's share of cotton-dominant apparel imports was slightly higher than levels one year ago (+3.9 percentage points in May and +1.2 points in June).

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	