

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



October 2020

www.cottoninc.com

Macroeconomic Overview: The COVID diagnosis for the president, along with rising daily case counts in locations such as Europe, emphasize how the coronavirus remains a threat to global health. As the pandemic lingers, the possibility of a resurgence in emergency shutdown orders remains, and the virus remains a threat to global economic growth.

After the improvement in recent months, there are signs that progress in U.S. economic growth may be stalling. In August (the latest month with data available), real disposable income decreased 3.5% month-over-month. This decrease in income corresponded with the expiration of supplemental unemployment payments that were part of the stimulus package signed in late March.

With incomes lower, growth in consumer spending slowed. Overall spending increased 0.7% month-over-month in August. This was the slowest rate of monthly spending growth since April (was -12.7%). In May, overall spending increased 8.5% month-over-month from the low level in April. In June and July, growth was 5.9% and 1.1%.

In April, when direct payment checks were distributed, real disposable income increased 15.5% month-over-month. That same month, overall spending decreased 12.3%. The combination of higher income and lower spending resulted in a record increase in the savings rate. In April, the savings rate was 33.6%. As spending increased in later months, the savings rate remained elevated. In August, it was 14.1%. In the twelve months before the coronavirus (March 2019-February 2020), it averaged 7.4%.

The elevated savings rate suggests that consumers have money they could devote to spending. If those savings were spent, it would be a boost to economic growth. Consumer confidence in their financial outlook could help unlock spending. After setting a new post-COVID low in August, the Index of Consumer Confidence rebounded strongly in September and set a new post-COVID high.

One key to building confidence should be the labor market. In March and April, the economy lost 22.2 million jobs. Since May, the economy is estimated to have added 11.4 million jobs. By historical standards, the monthly rate of job gains since May is strong (661,000). However, the number of jobs added each month has been declining over the past three months. At September's rate of job growth, it would take another 17 months to fill the gap between the number of jobs lost and the number already restored. Given the time expected to get the economy back to where it was before COVID, officials from the Federal Reserve have been advocating for more stimulus.

Employment: The U.S. economy was estimated to have added 661,000 jobs in September. This would rank as the highest monthly increase in payrolls after the 2008/09 financial crisis, but it is sharply lower than the job gains in recent months (+2.7 million in May, +4.8 million in June, +1.8 million in July). Revisions to figures to both July (+27,000) and August (+118,000) were both positive.

The unemployment rate fell from 8.4% to 7.9%. The decline was due to the increase in employment as well as a decrease in the number of people looking for work. Relative to February (pre-COVID), 4.4 million people dropped out of the labor force.

Consumer Confidence & Spending: After two months of decreases, the Index of Consumer Confidence posted its largest month-over-month increase since 2003 (+15.5 points, from 86.3 to 101.8). The current value is above the long-term average (95.5 from the late 1960s to the present) but is down 24.5 points year-over-year.

Overall consumer spending increased 0.7% month-over-month in August. Year-over-year, overall spending was 3.2% lower. Apparel spending was 0.5% higher month-over-month but was 2.5% lower year-over-year. Revisions lowered last month's figure for the year-over-year change in apparel spending from -0.4% to -3.6%. With the revisions, there has been consistent improvement in the rates of year-over-year change in consumer apparel spending every month since April.

Consumer Prices & Import Data: Retail apparel prices, as measured by the CPI for garments, increased month-over-month for the third consecutive month in August. Despite the monthly increases, the CPI is 6.4% lower year-over-year, and outside of the COVID-affected months, it is the lowest value since the late 1980s. In seasonally-adjusted terms, the average price per square-meter equivalent (SME) of cotton-dominant apparel increased 1.3% month-over-month in August. Year-over-year, average import prices for cotton-dominant apparel were 10.2% lower.

The rate of year-over-year decrease in apparel import volumes narrowed in August. For cotton-dominant apparel, SME volume was -8.0% lower. In other COVID-affected months, volumes were -41.4%, -66.9%, -42.4%, and -20.2% (April to July). Man-made-fiber (MMF) dominant volume was 15.5% lower in August. In other COVID-affected months, MMF-dominant volumes were -40.1%, -52.5%, -28.2%, and -23.9% year-over-year.

U.S. Macroeconomic & Cotton Supply Chain Charts

Macroeconomic Indicators	Industry & Textiles	Retail	Currencies	Cotton
GDP Growth	Leading Indicators	Consumer Spending	Weighted Index	U.S. Balance Sheet
Interest Rates	Consumer Conf.	Inventory/Sales	Asia	Fiber Prices
ISM Indices	Employment	Consumer Prices	The Americas	
	Housing		Europe	
	Industrial Production			
	Inventory/Shipments			
	U.S. Yarn Exports			
	Polyester PPI			

Executive Cotton Update

U.S. Macroeconomic Indicators & Cotton Prices
October 2020



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q4 : 2019	Q1 : 2020	Q2 : 2020		
Growth in US Real GDP	1.9%	1.9%	-1.3%	-5.0%	2.4%	-5.0%	-31.4%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic 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		
ISM Index of Manufacturing Activity	53.7	54.3	49.4	54.3	54.2	56.0	55.4	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.1	56.4	52.0	57.4	58.1	56.9	57.8	Index	Institute for Supply Management
Consumer Confidence	116.4	123.4	94.5	92.1	91.7	86.3	101.8	Index	The Conference Board
Change in Non-Farm Payrolls	-17.8	-162.6	-1900.7	2677.0	1,761	1,489	661	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.8%	4.9%	10.4%	9.9%	10.2%	8.4%	7.9%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.2%	1.6%	0.2%	0.1%	0.1%	0.1%	0.1%	Interest rate	Federal Reserve
10-year Treasury Bill	2.1%	2.2%	0.7%	0.7%	0.6%	0.7%	0.7%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for August

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	August		
Index of Leading Economic Indicators	105.7	108.8	102.6	104.9	103.1	105.2	106.5	Index	The Conference Board
Housing Starts	12.4	12.8	12.3	14.5	1.3	1.5	1.4	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.3	5.0	5.9	5.9	5.9	6.0	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile 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 Industrial Production	105.2	106.9	96.6	101.2	101.0	101.4	101.4	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	107.6	97.0	95.6	96.8	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile 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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.3	2.2	1.5	1.0	0.5	0.9	1.7	million 480lb bales	USDA ERS

Industrial & Textile 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 Textile Mill Inventory/Shipments Ratio	1.37	1.40	1.55	1.43	1.43	1.45	1.41	Ratio	Department of Commerce

Retail Data

Retail 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 Real Consumer Spending									
All Goods and Services	1.7%	0.9%	-7.5%	-3.5%	-4.6%	-3.7%	-3.2%	% Chg. Year/Year	Department of Commerce
Clothing	0.7%	0.0%	-15.1%	-3.0%	-3.7%	-3.6%	-2.5%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.7%	1.9%	0.7%	1.2%	0.7%	1.0%	1.3%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-1.2%	-1.8%	-7.4%	-6.8%	-8.0%	-7.2%	-6.4%	% Chg. Year/Year	Bureau of Labor Statistics

Retail 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		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.8	3.0	7.4	2.8	6.1	2.9	2.8	Ratio	Department of Commerce
Department Stores	2.2	2.2	2.6	2.1	2.6	2.2	2.1	Ratio	Department of Commerce

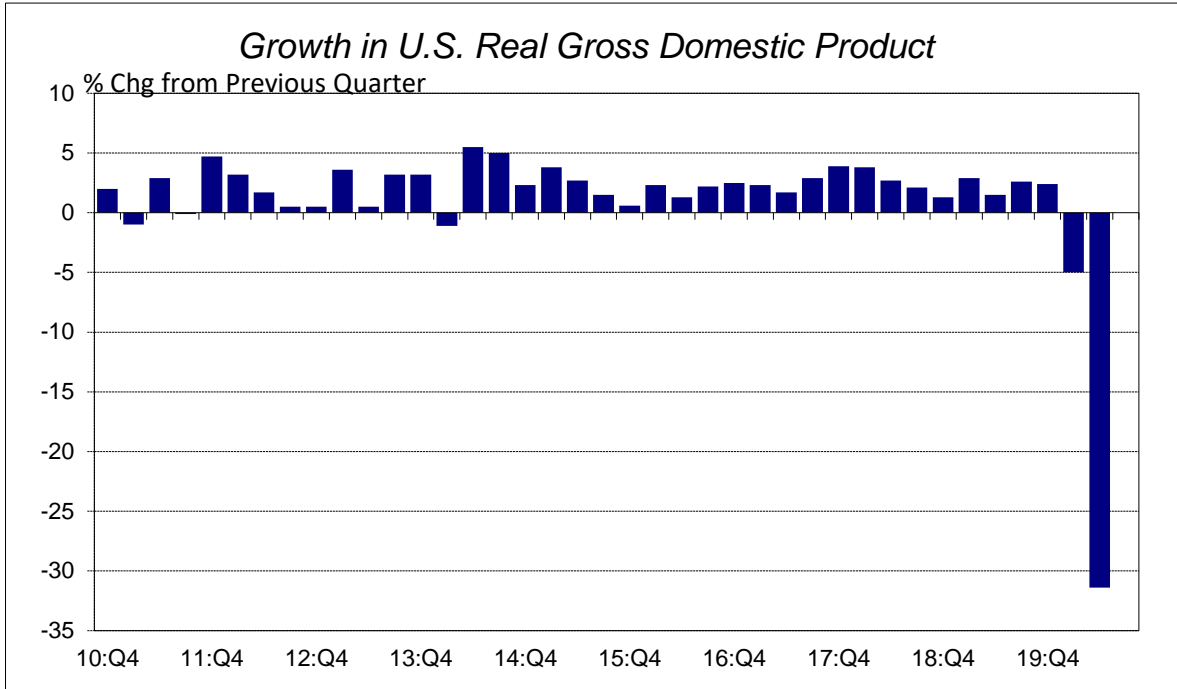
Executive Cotton Update

Daily Cotton Price and Currency Data

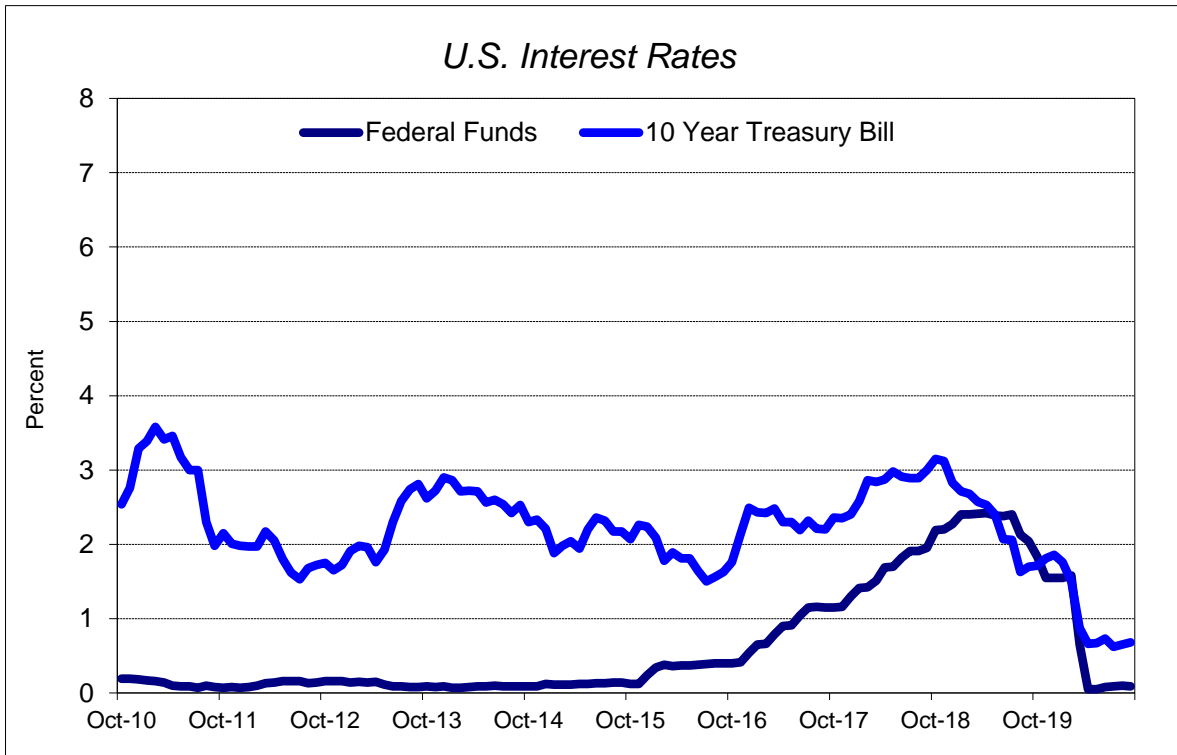
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Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
NY Nearby	69.0	70.5	68.6	66.7	62.7	63.6	64.6	cents/pound	ICE
A Index	78.0	79.9	78.0	76.0	68.7	70.0	70.8	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
Dollar Trade Weighted Exchange Index	114.1	114.8	120.2	117.8	119.6	117.4	116.4	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.75	6.80	7.02	6.94	7.03	6.94	6.84	Chinese Renminbi/US dollar	Reuters
Indian Rupee	68.57	70.12	75.04	74.25	74.68	74.94	73.13	Indian Rupee/US dollar	Reuters
Japanese Yen	110.25	109.47	107.38	106.44	107.48	105.53	106.33	Japanese Yen/US dollar	Reuters
Pakistani Rupee	125.23	138.81	164.89	166.75	166.25	168.30	165.70	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.79	4.04	5.30	5.32	5.30	5.35	5.29	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.32	1.32	1.36	1.33	1.35	1.33	1.31	Canadian dollar/US dollar	Reuters
Mexican Peso	19.31	19.83	22.83	22.08	22.27	22.38	21.59	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.76	0.77	0.79	0.77	0.80	0.76	0.76	British Pound/US dollar	Reuters
Euro	0.88	0.87	0.89	0.86	0.88	0.84	0.85	Euro/US dollar	Reuters
Swiss Franc	0.98	0.98	0.95	0.92	0.94	0.91	0.92	Swiss Franc/US dollar	Reuters
Turkish Lira	4.57	5.46	7.06	7.21	6.86	7.31	7.45	Turkish Lira/US dollar	Reuters



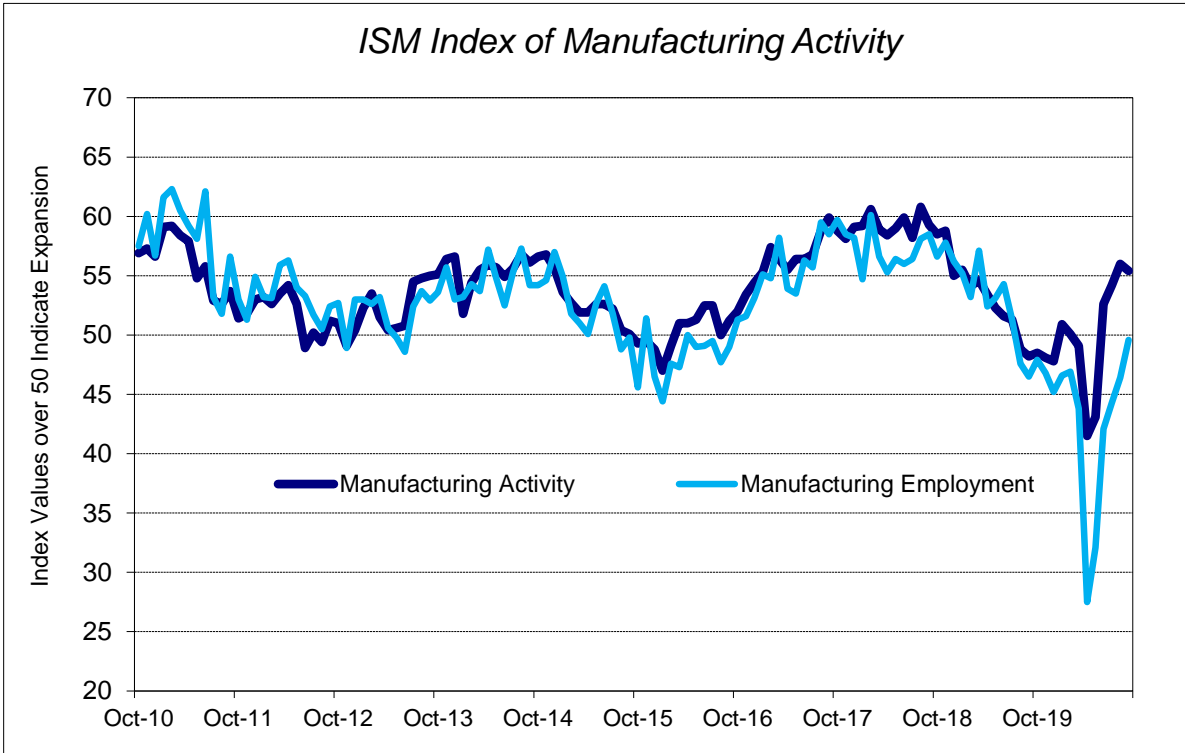
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



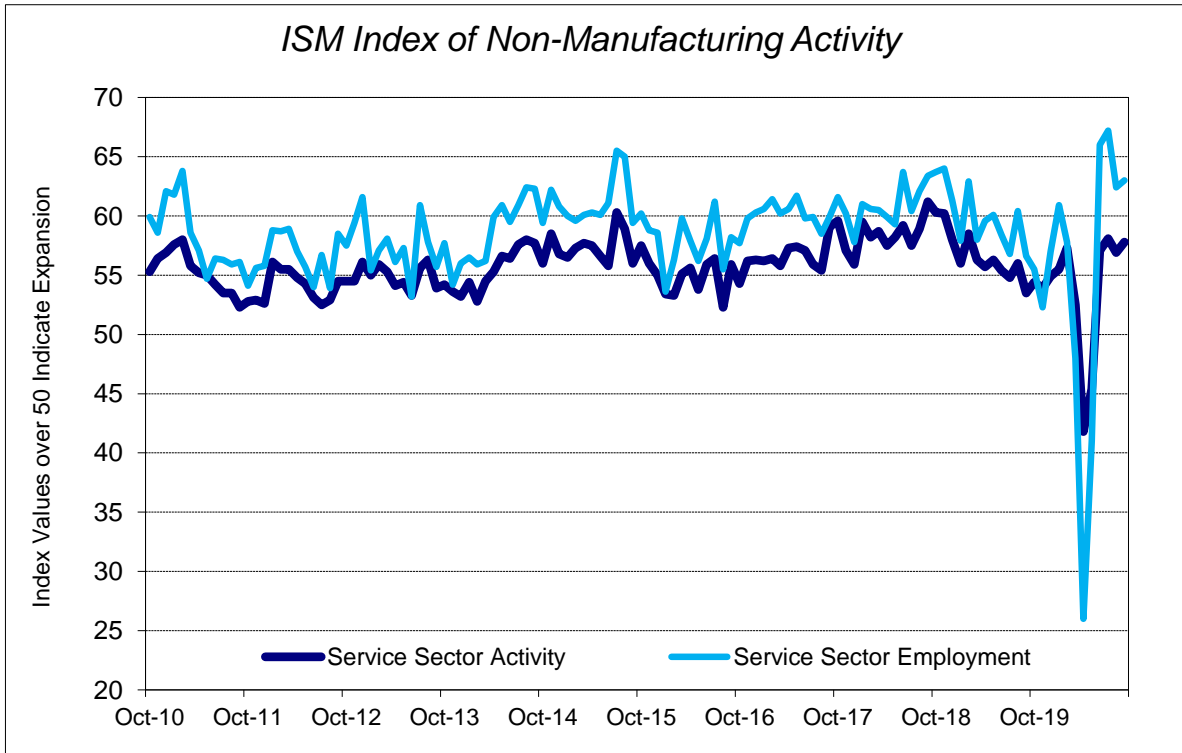
Source: Federal Reserve

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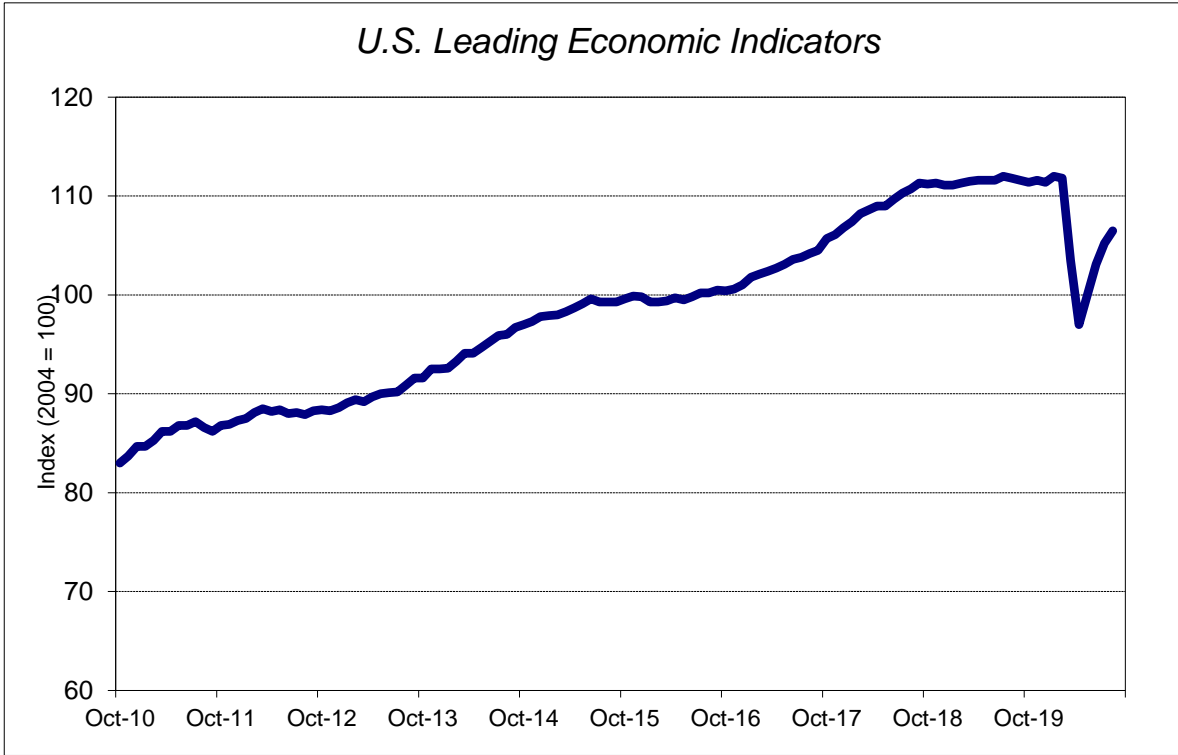
Source: Institute for Supply Chain Management



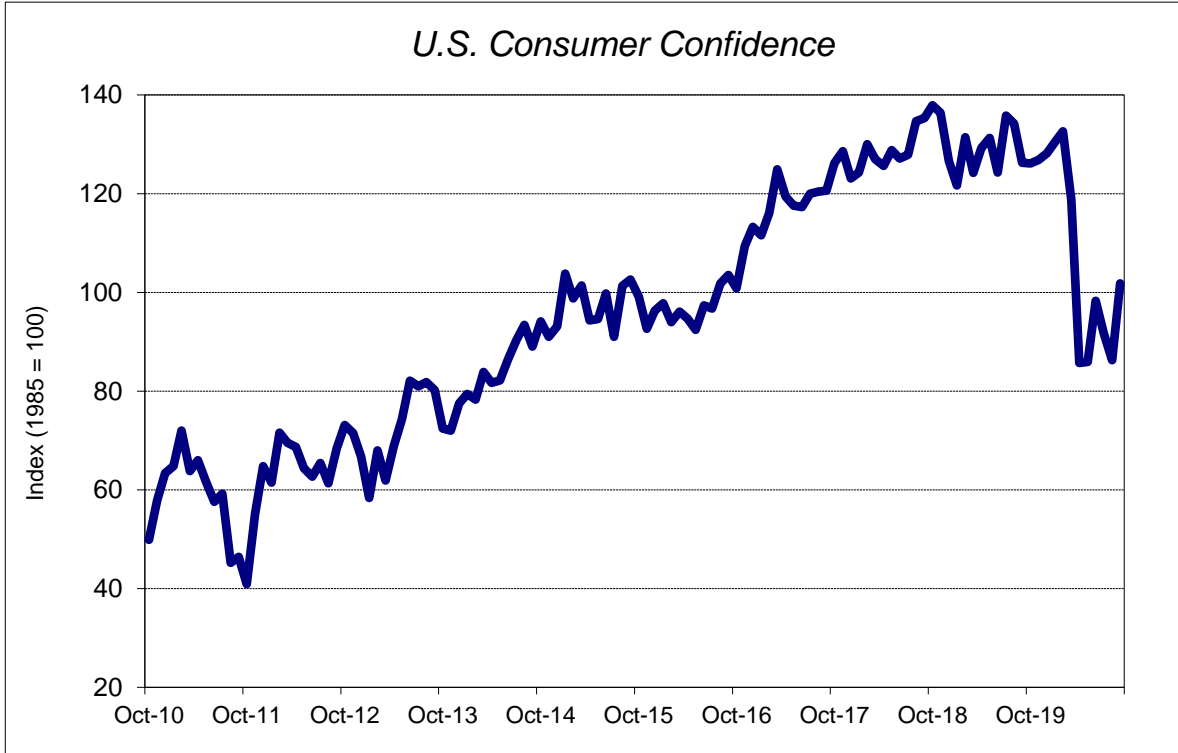
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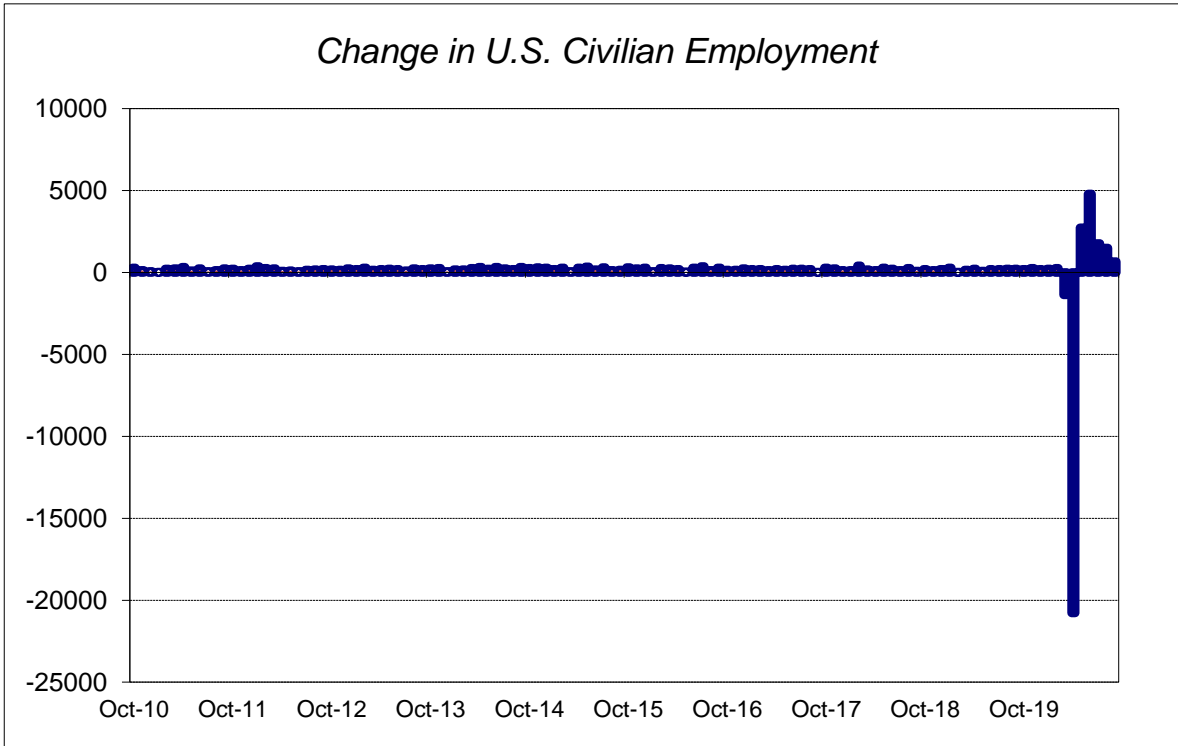
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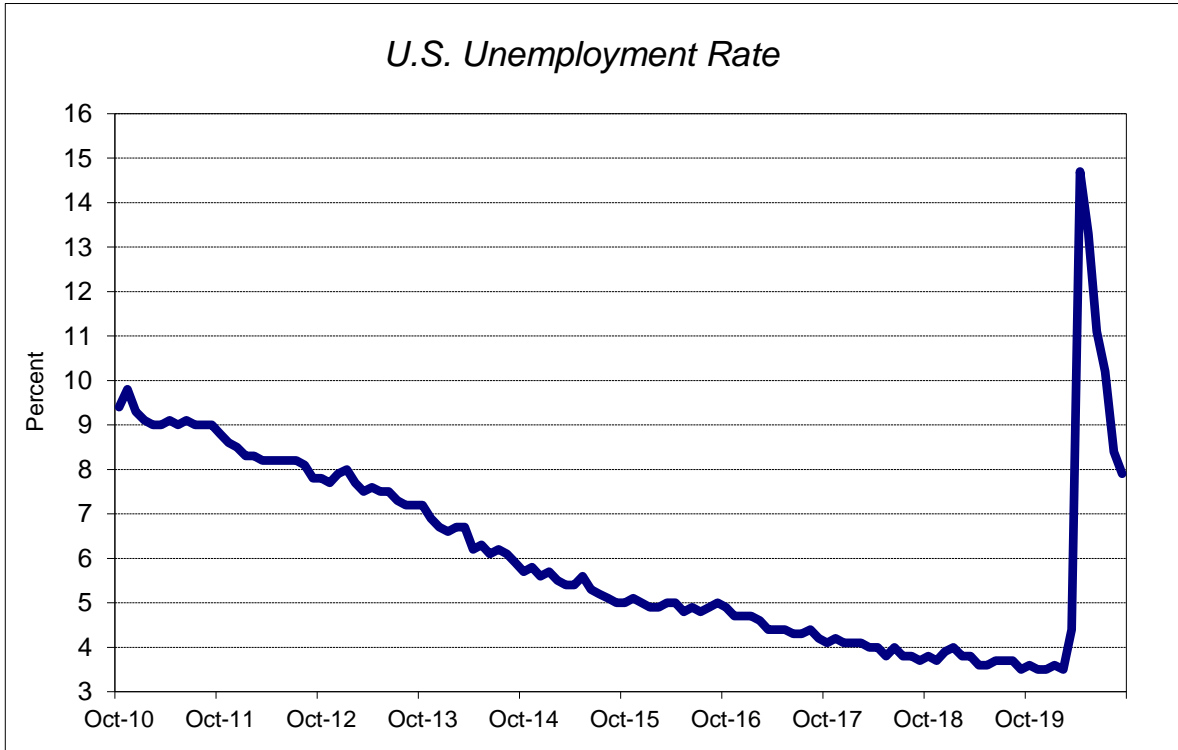
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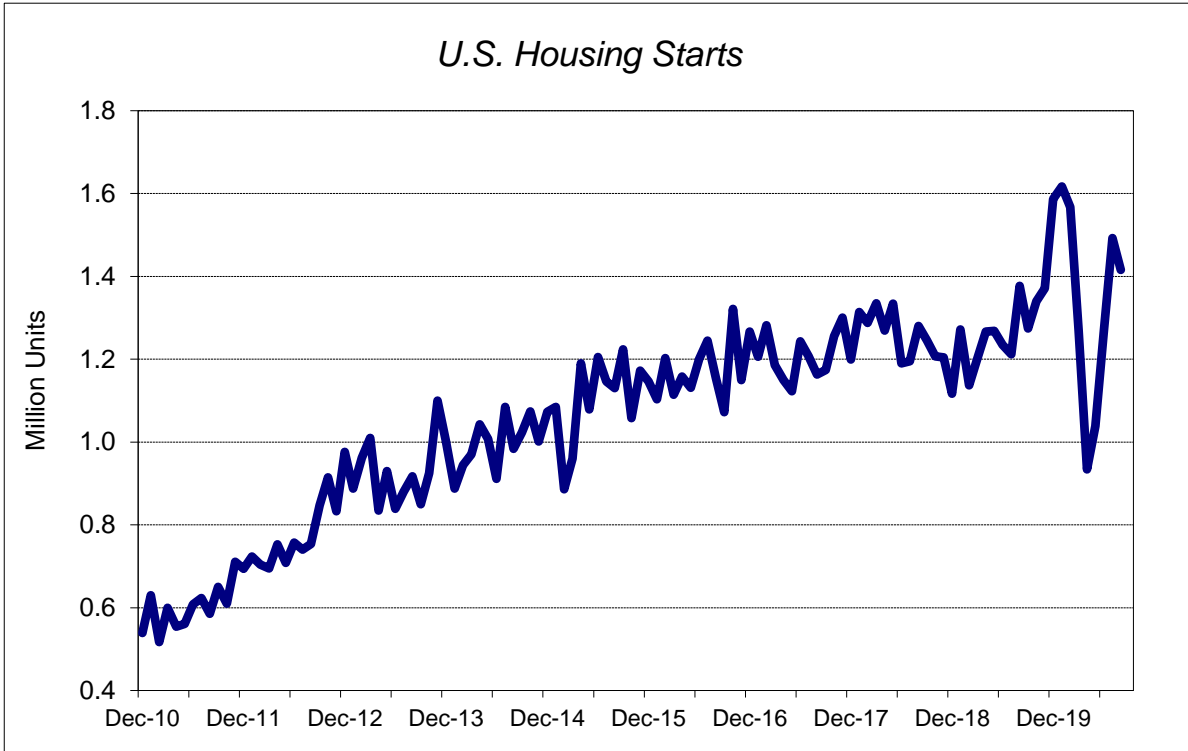
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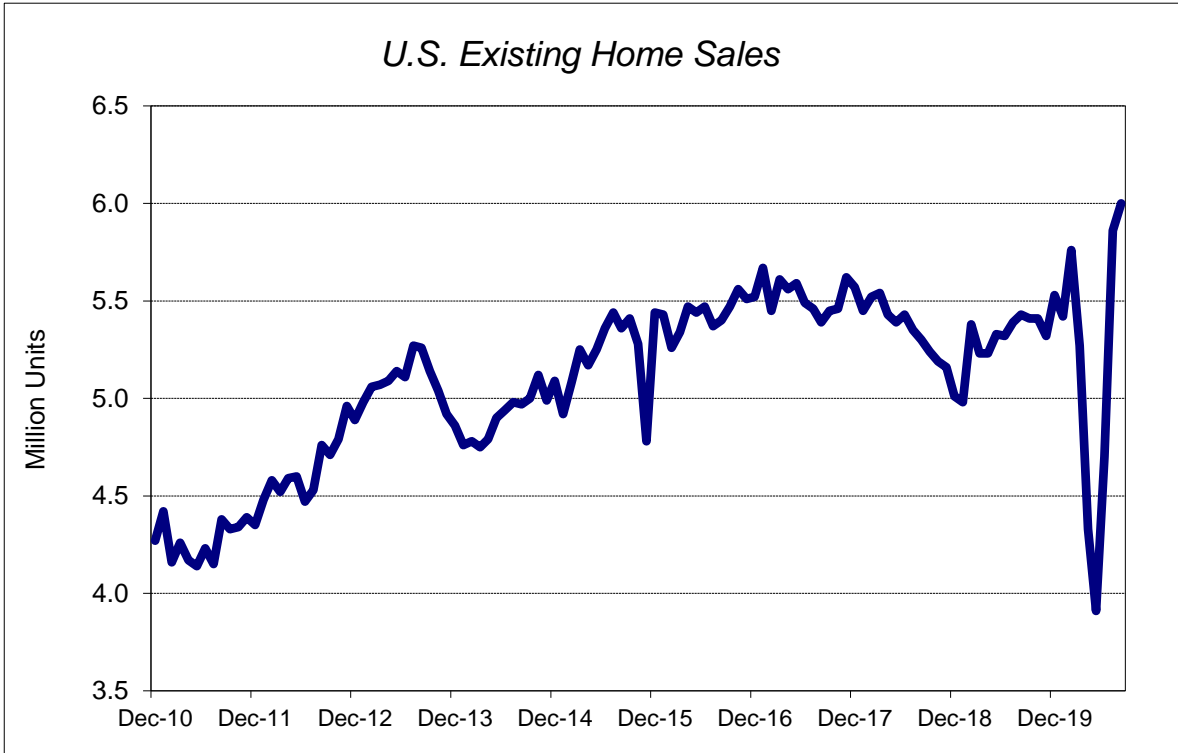
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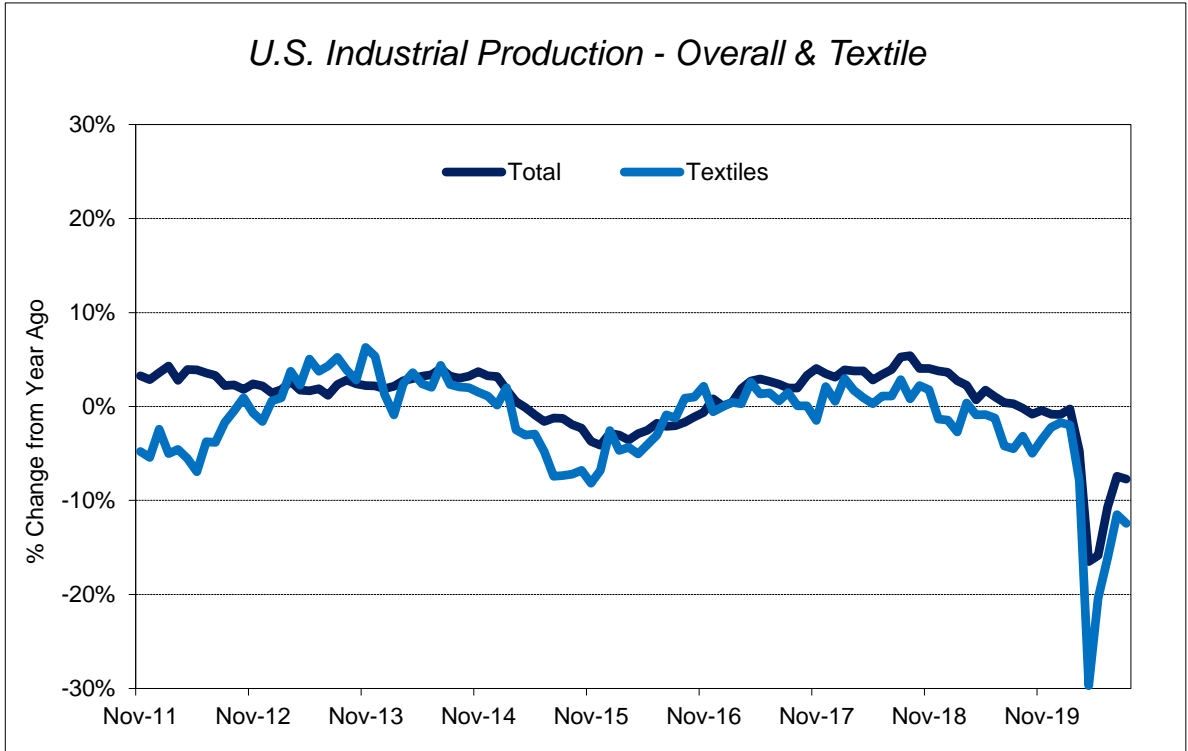
Seasonally Adjusted Annual Rate; Source: Department of Commerce



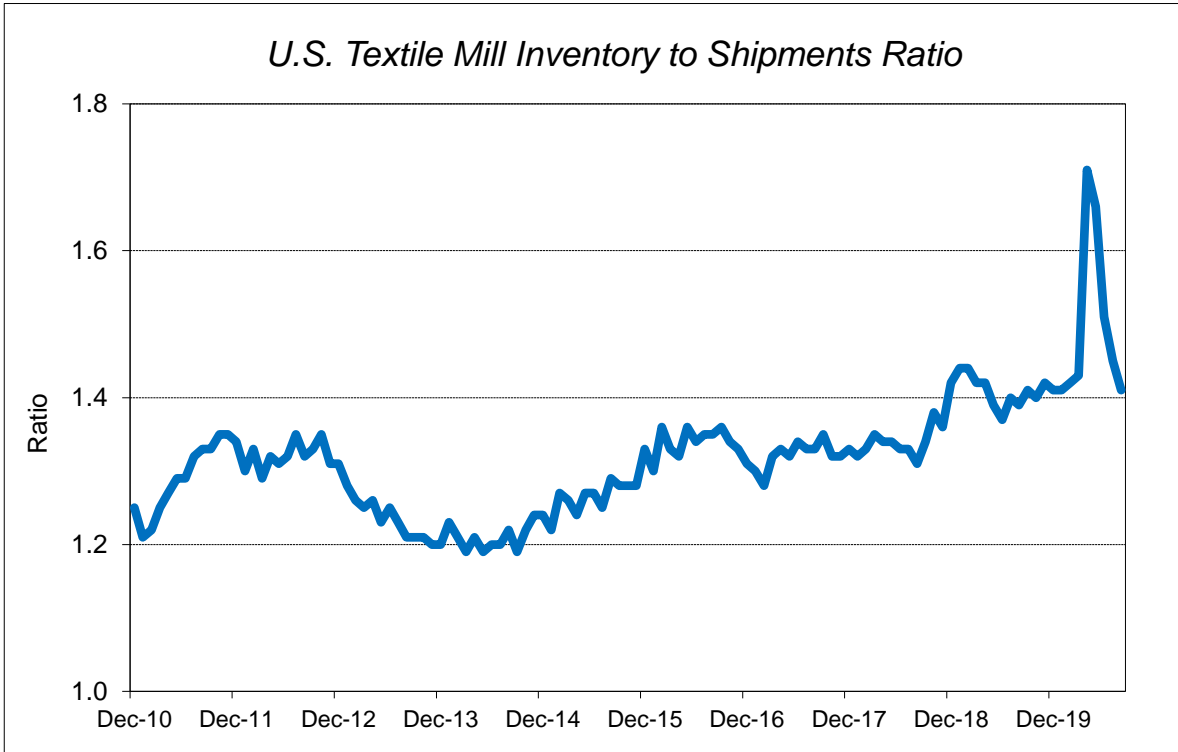
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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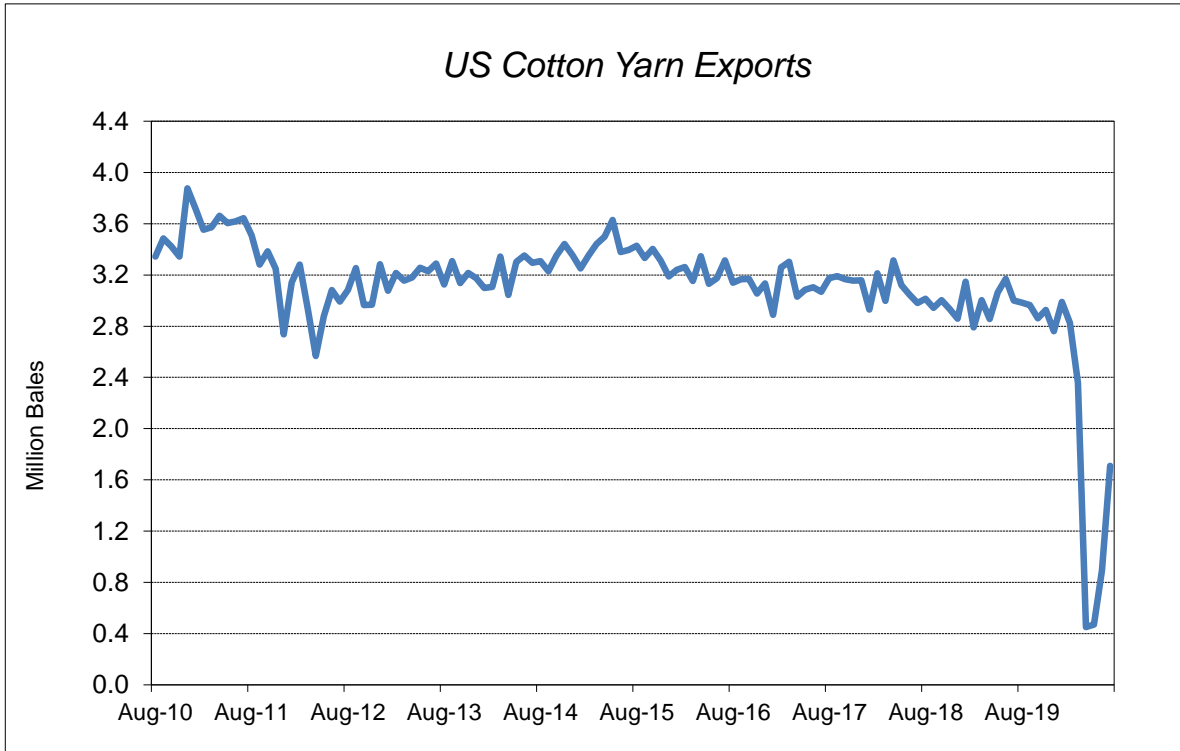
Source: Federal Reserve. Historical data revised to 1997 baseline.



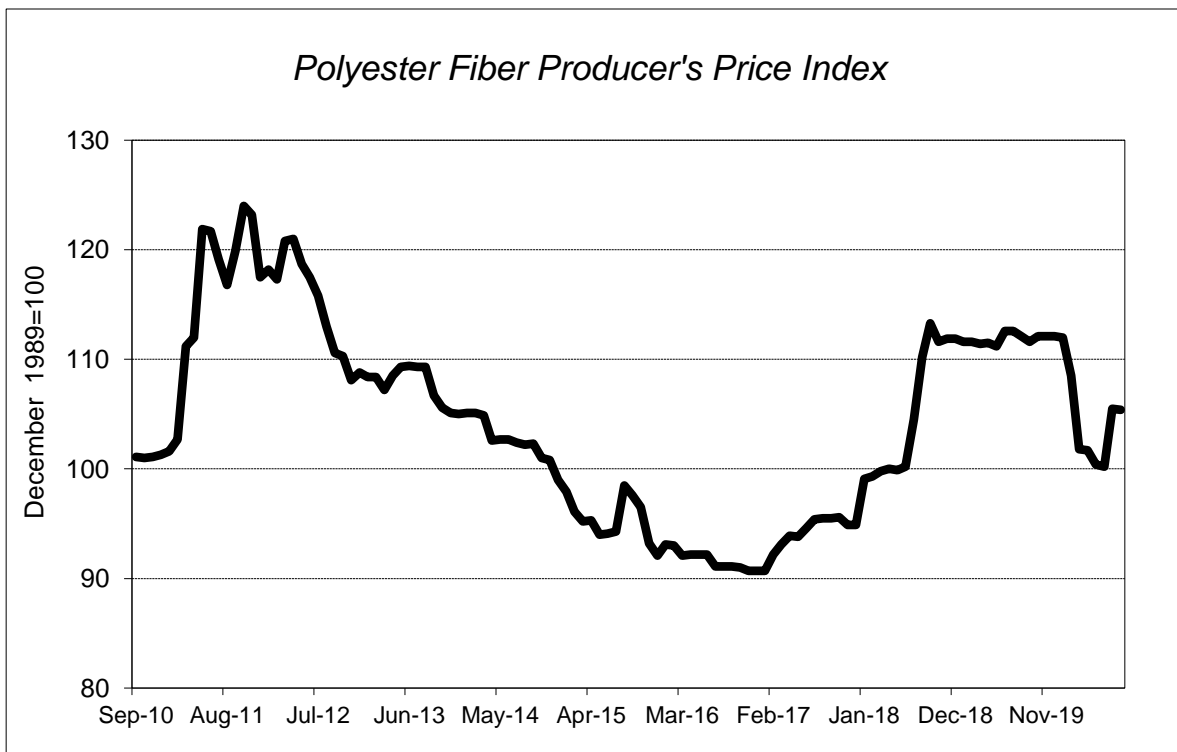
Seasonally Adjusted; Source: Department of Commerce

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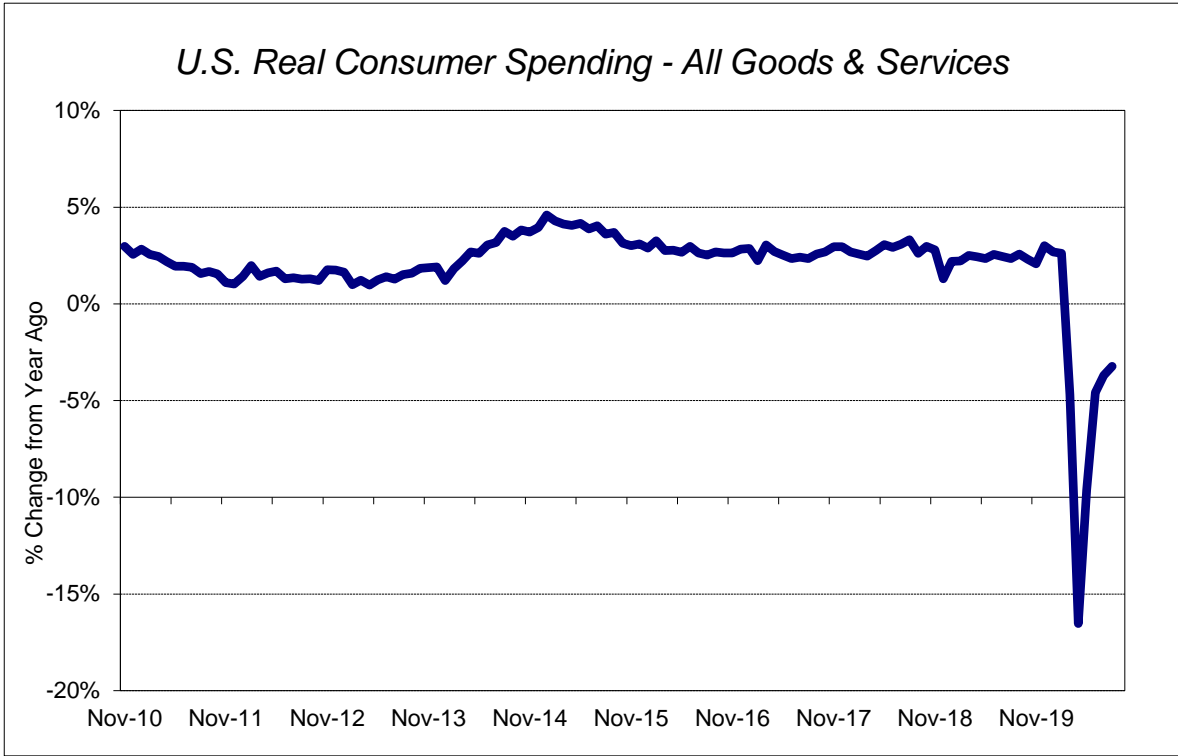
Seasonally Adjusted Annual Rate
 Source: USDA ERS



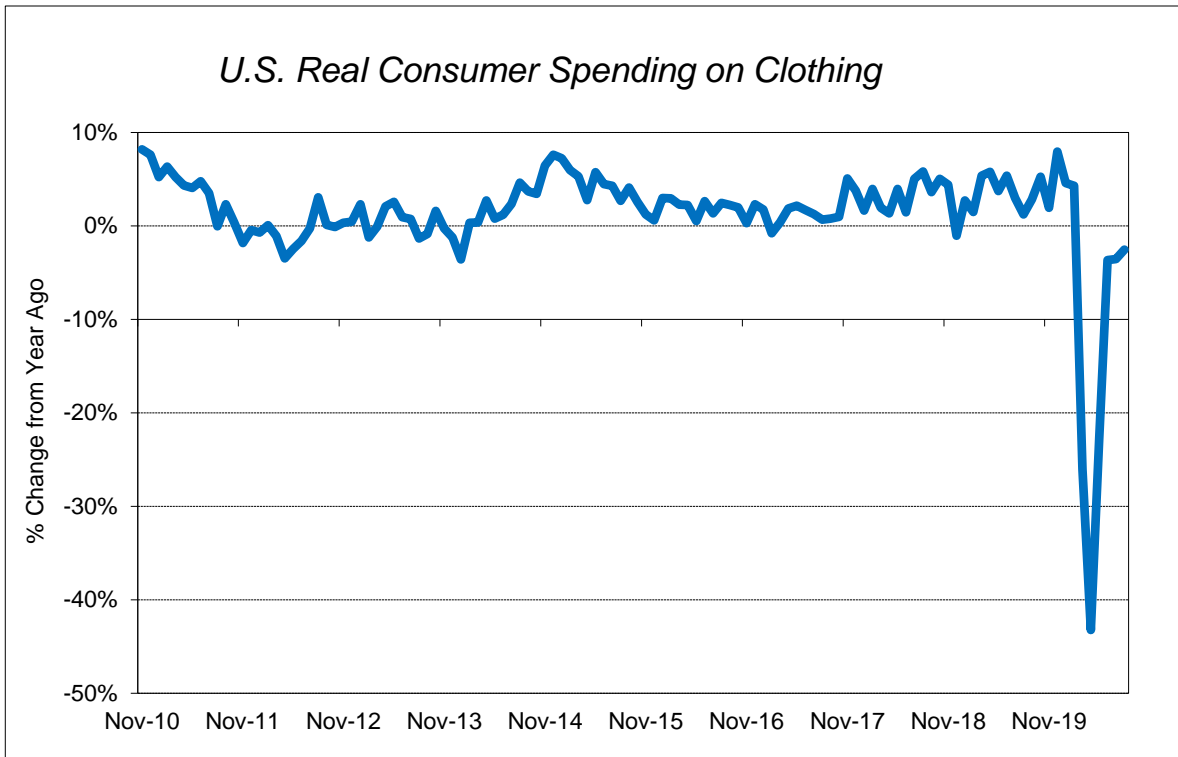
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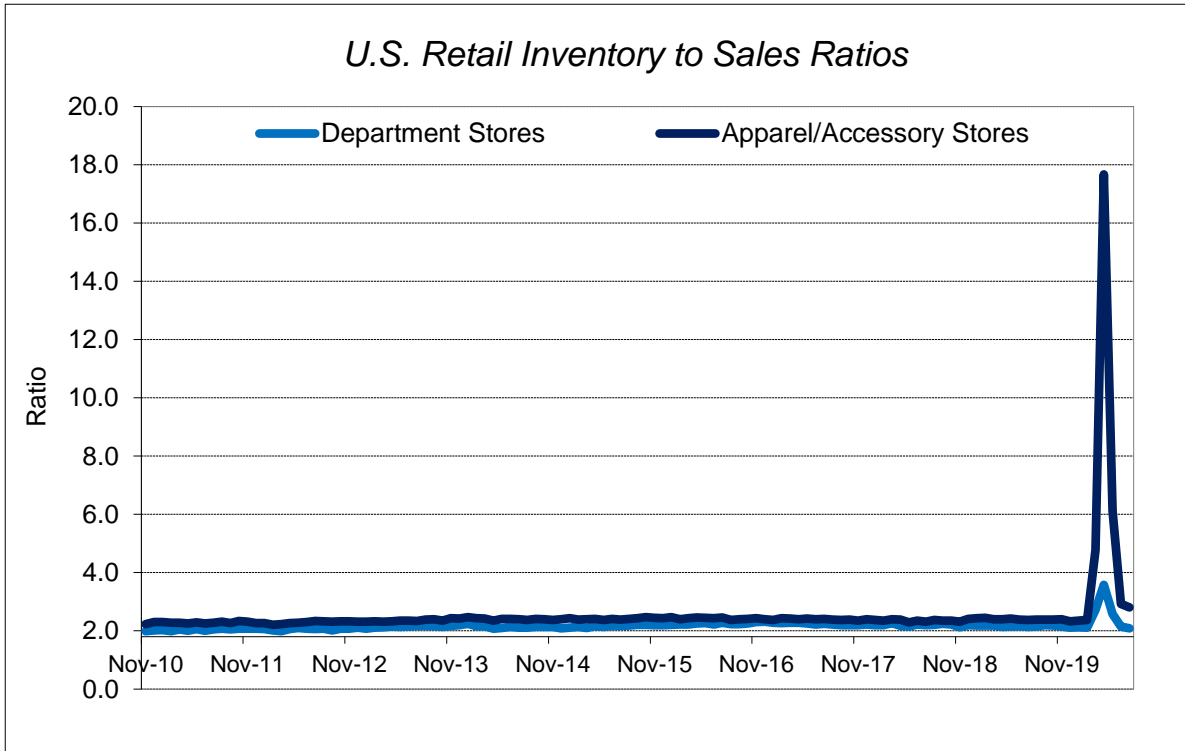
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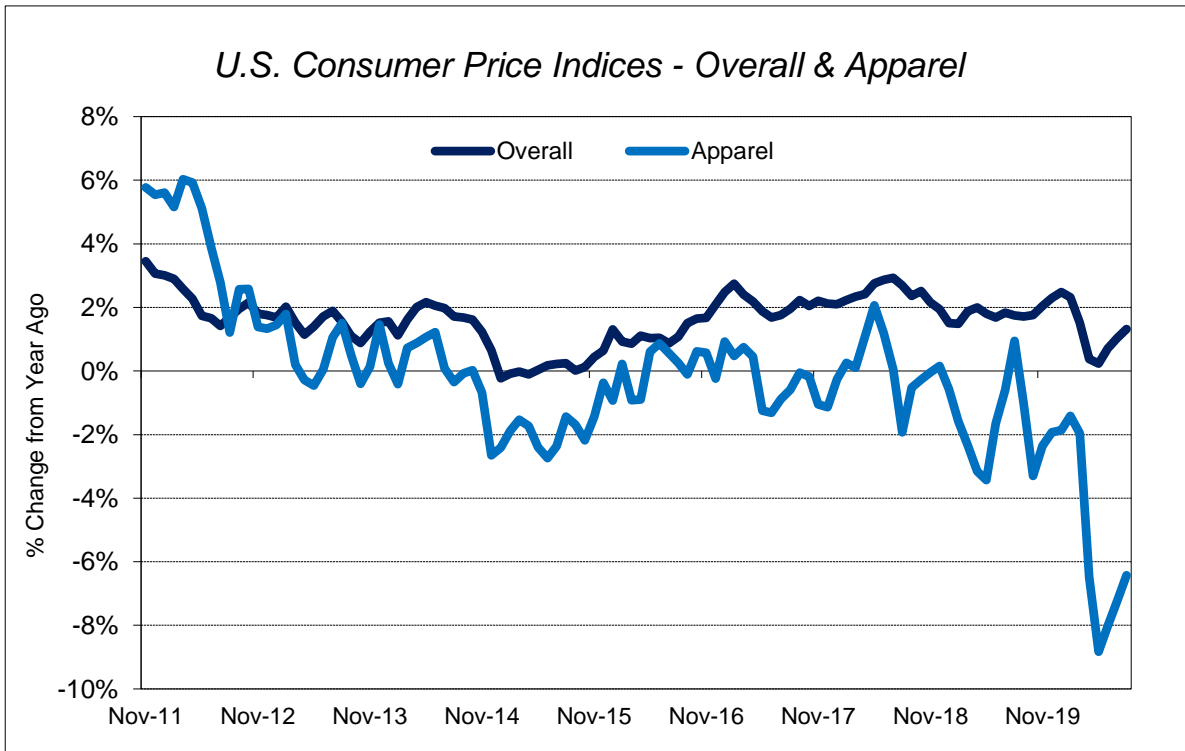
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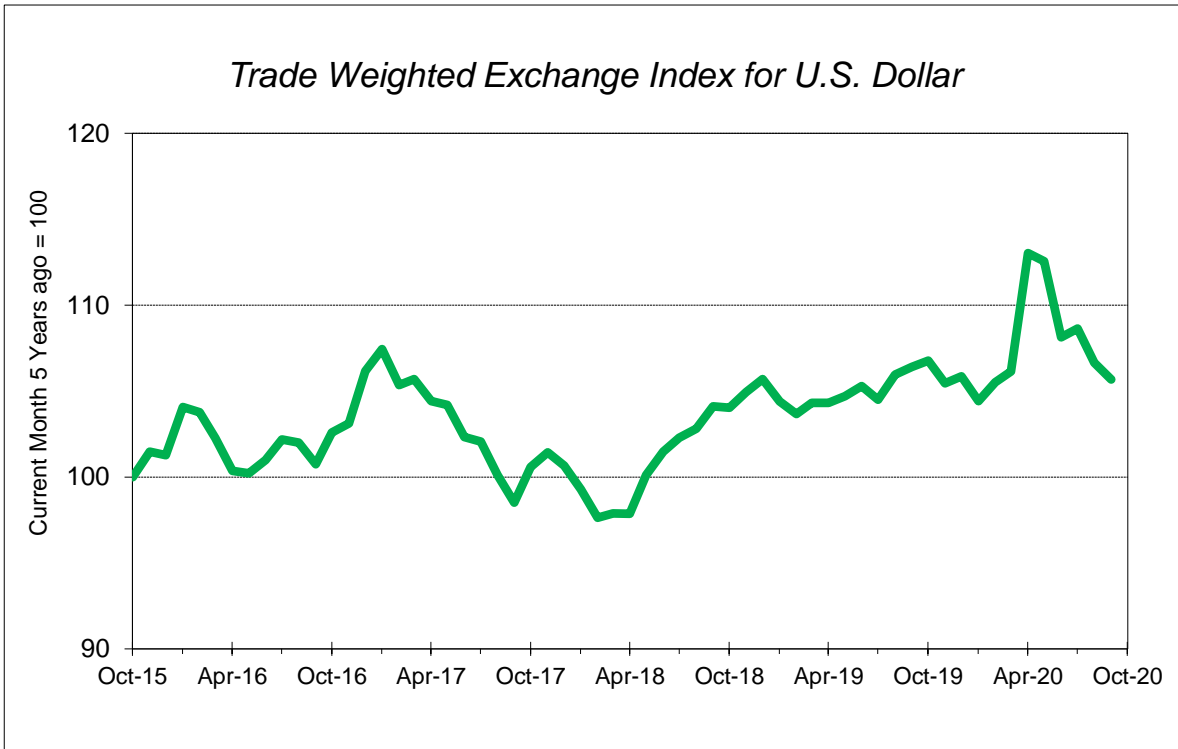
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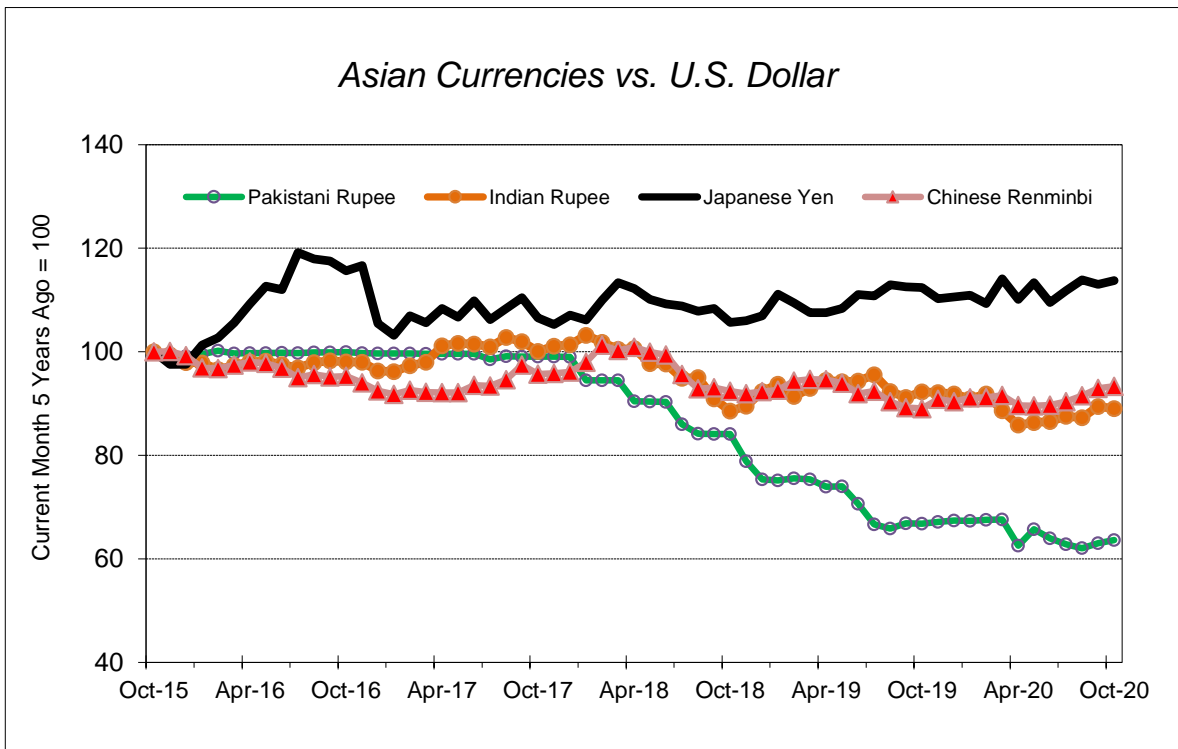
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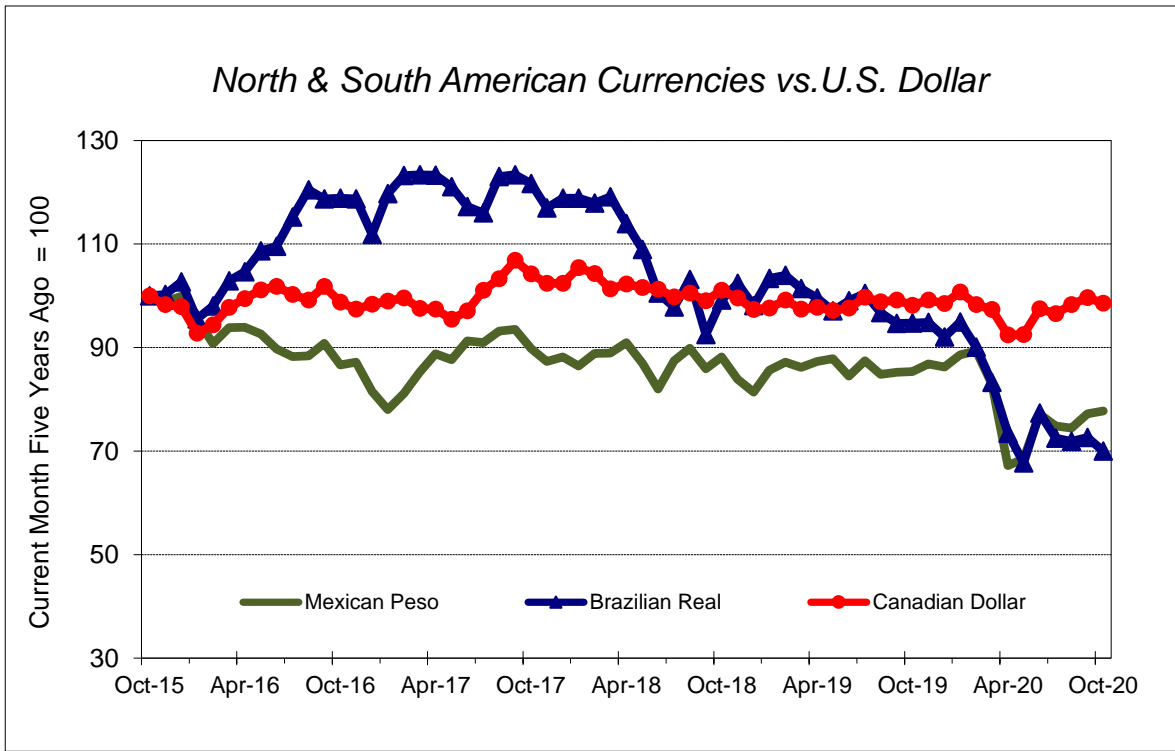
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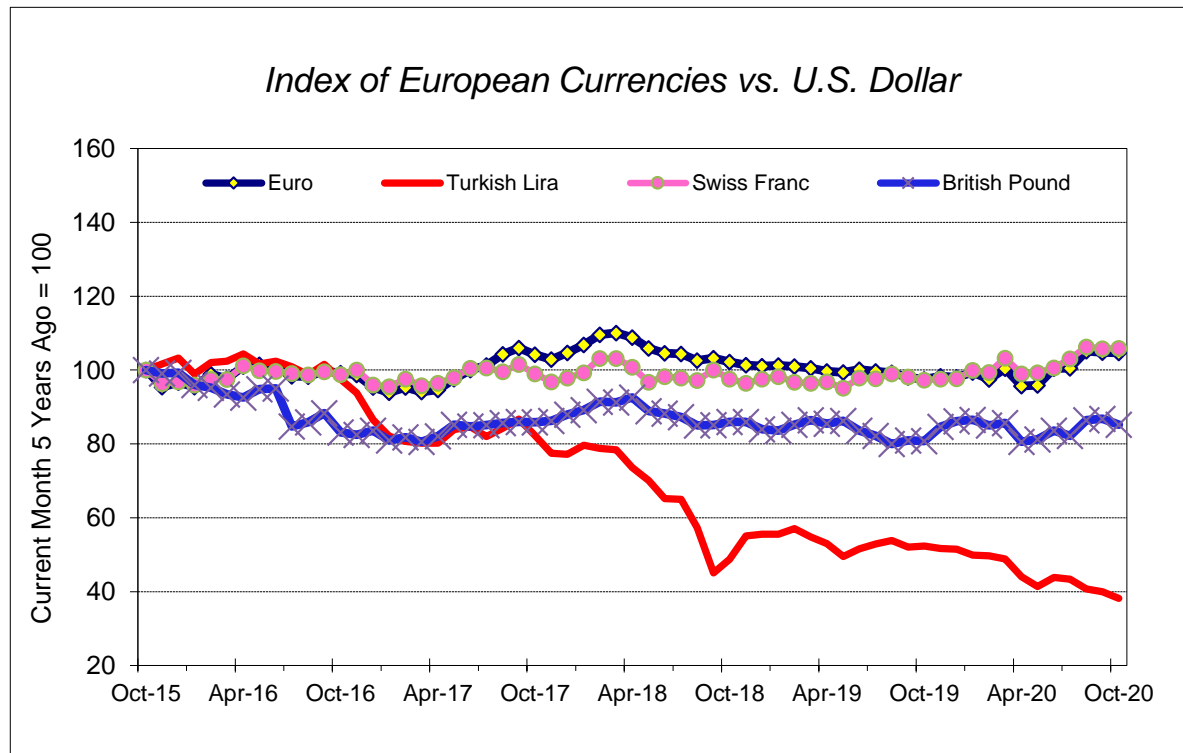
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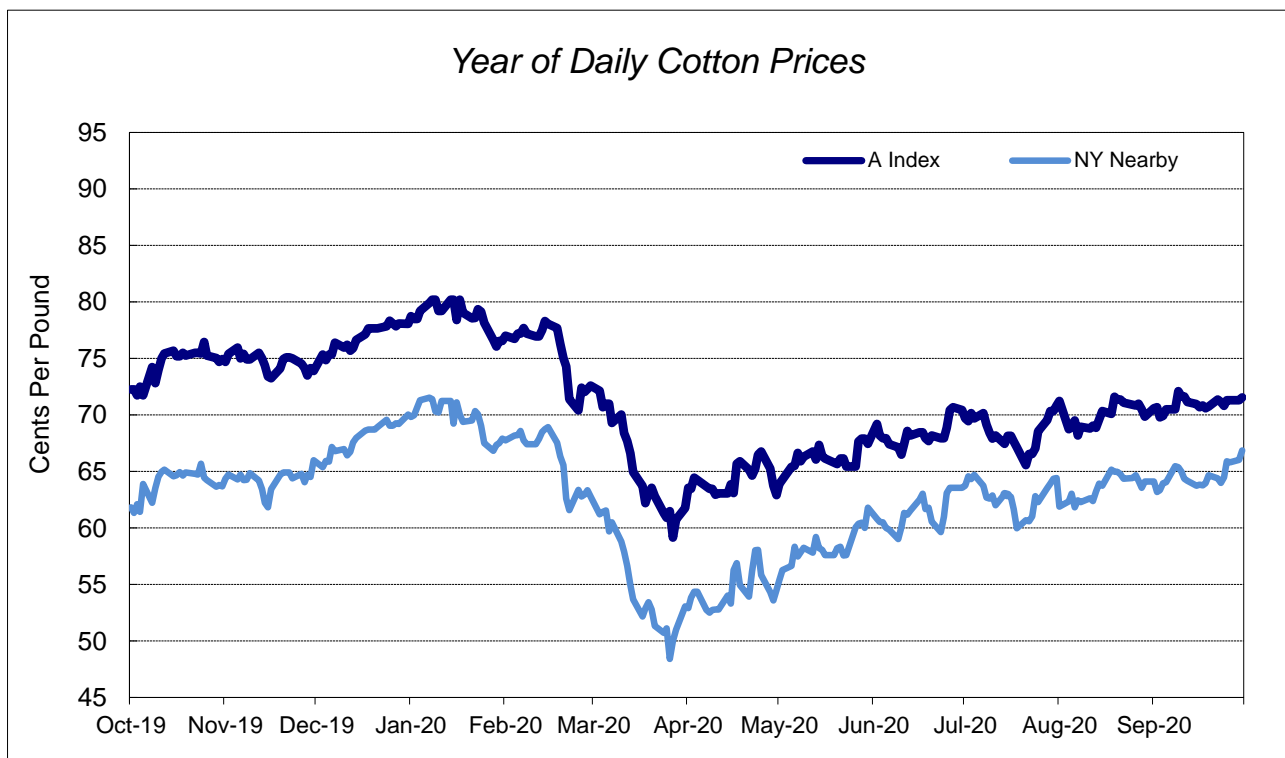
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U.S. Balance Sheet

million 480 lb. bales	2016/17	2017/18	2018/19	2019/20	2020/21 August	2020/21 September
Beginning Stocks	3.8	2.8	4.2	4.9	7.2	7.3
Production	17.2	20.9	18.4	19.9	18.1	17.1
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	21.0	23.7	22.6	24.8	25.3	24.3
Mill-Use	3.3	3.2	3.0	2.2	2.7	2.5
Exports	14.9	16.3	14.8	15.5	15.0	14.6
Demand	18.2	19.5	17.8	17.7	17.7	17.1
Ending Stocks	2.8	4.2	4.9	7.3	7.6	7.2
Stocks/Use Ratio	15.1%	21.5%	27.2%	41.0%	42.9%	42.1%



Sources: ICE Futures U.S. & Cotton Outlook

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