

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



November 2020

www.cottoninc.com

Macroeconomic Overview: The U.S. presidential election is over, and one source of uncertainty for U.S. and global markets has been resolved. While a new president has been chosen, the elections did not generate a clear result for the U.S. Senate. Runoff elections in Georgia will determine whether Republicans hold onto their slight majority. Regardless of the outcome, the majority for either party will be slim and could make the passage of major legislation a challenge for the next couple years. In the next couple months, a legislative action (or inaction) to follow is whether another stimulus measure may be passed.

A combined effect of the shutdown this spring and the reopening that followed was a wide swing in data for the U.S. GDP. After a record contraction in the second quarter, there was a record expansion in the third. In the seasonally-adjusted annual rates that the Bureau of Economic Analysis uses for their headline number, the change was from -31.4% to +33.1%. Seasonally-adjusted annual rates for quarterly change can facilitate more direct comparison with annual rates but may be misleading in times of extreme volatility. An alternate way of examining GDP is in simple year-over-year terms. In the second quarter, the U.S. economy was -9.0% smaller year-over-year. In the third quarter, U.S. economic activity was -2.9% lower than one year ago.

The International Monetary Fund (IMF) released updates to their projections for global GDP last month. The IMF figure for 2020 improved from -4.9% (June estimate) to -4.4%. The increase was a result of stronger than expected growth in China (+0.9 percentage points, or ppt, relative to June, to +1.9%), the U.S. (+3.7 ppt versus June, to -4.3%), and the Euro Zone (+1.9 ppt to +5.2%). For 2021, the IMF is predicting a 5.2% global expansion. This is lower than the 5.4% growth forecast in June. The U.S. is projected to grow 3.1% in 2021. The Euro Zone is expected to grow +5.2%. The Chinese economy is forecast to expand +8.2%.

Meanwhile, global COVID cases continue to climb. Both the U.S. and Europe have been setting new records for daily diagnoses. Several European countries have already announced restrictions on consumer activity. The threat of further surges in caseloads around the world is a downside risk to all economic forecasts. With the uncertainty surrounding COVID and economic conditions, the National Retail Federation (NRF) did not issue their annual projection for holiday sales growth.

Nonetheless, there are reasons to be optimistic about holiday sales. Consumer confidence is above the long-term average, consumer spending has been consistently positive, and savings rates have been elevated for the past several months, suggesting that consumers have resources they could devote to purchases.

Employment: The U.S. economy was estimated to have added 638,000 jobs in October. This is the lowest monthly increase since May (was +2.7 million in May, +4.8 million in June, +1.8 million in August, +672,000 in September). The sum of these gains is 12.1 million. In March and April, losses totaled 22.2 million. The net result is that the U.S. economy is down a little more than ten million jobs since COVID-19.

The unemployment rate fell from 7.9% to 6.9% last month. Initial claims for unemployment insurance, a proxy for layoffs, remain stubbornly high at levels above 750,000. This is about 100,000 losses above the worst weeks during the financial crisis. With layoffs elevated, a factor helping the unemployment rate has been reductions in the labor force. Compared to one year ago, the number of people wanting to work declined by 3.5 million people.

Consumer Confidence & Spending: The Index of Consumer Confidence was nearly unchanged last month (-0.4 points, from 101.3 to 100.9). At its current level, the index is 20% lower than one year ago (126.1) but is above the long-term average (93.3 since 1970).

Overall consumer spending increased 1.2% month-over-month in September but was 2.0% lower year-over-year. Spending on apparel surged 6.4% month-over-month and turned positive year-over-year. The 3.1% year-over-year increase in clothing spending in September is higher than rates commonly posted over much of the past decade.

Consumer Prices & Import Data: Retail apparel prices, as measured by the CPI for garments, decreased 0.3% month-over-month in September. Year-over-year, average apparel prices were 6.4% lower. In terms of USD per square meter-equivalent (SME), average prices for cotton-dominant apparel imports increased 0.8% month-over-month (seasonally-adjusted). Year-over-year, average import prices were 8.8% lower.

In terms of import weight volume, year-over-year levels remain below those from one year ago, but the size of the gap has gotten smaller. The raw fiber equivalence of cotton contained in U.S. apparel imports was down 3.8% in September (latest available). Between April and August, the decreases were -46%, -66%, -45%, -24%, and -11%. Ahead of the pandemic, but after the imposition of tariffs on Chinese-made goods (Sept 2019-Feb 2020), imported cotton weight was down 8% year-over-year.

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
November 2020



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q1 : 2020	Q2 : 2020	Q3 : 2020		
Growth in US Real GDP	0.2%	-0.9%	-18.2%	-31.4%	-5.0%	-31.4%	33.1%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic 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		
ISM Index of Manufacturing Activity	53.8	54.2	50.5	55.2	56.0	55.4	59.3	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.1	56.3	52.9	57.6	56.9	57.8	56.6	Index	Institute for Supply Management
Consumer Confidence	116.1	122.5	91.5	93.1	86.3	101.3	100.9	Index	The Conference Board
Change in Non-Farm Payrolls	-9.1	-144.3	-1559.2	1308.7	1,493	672	638	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.9%	5.0%	10.9%	8.8%	8.4%	7.9%	6.9%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.2%	1.5%	0.1%	0.1%	0.1%	0.1%	0.1%	Interest rate	Federal Reserve
10-year Treasury Bill	2.1%	2.1%	0.7%	0.7%	0.7%	0.7%	0.8%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for September

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	September		
Index of Leading Economic Indicators	105.8	108.9	103.1	106.2	105.0	106.5	107.2	Index	The Conference Board
Housing Starts	12.4	12.9	13.2	14.0	1.5	1.4	1.4	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.3	5.4	6.3	6.3	6.0	6.5	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile 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		
US Industrial Production	105.2	106.8	99.0	101.8	102.2	101.5	101.5	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	107.5	96.6	95.8	97.5	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.3	2.1	1.3	1.6	0.9	1.7	2.1	million 480lb bales	USDA ERS

Industrial & Textile 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		
US Textile Mill Inventory/Shipments Ratio	1.37	1.40	1.48	1.40	1.40	1.41	1.38	Ratio	Department of Commerce

Retail Data

Retail 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		
US Real Consumer Spending									
All Goods and Services	1.6%	0.8%	-4.6%	-2.5%	-3.6%	-3.1%	-2.0%	% Chg. Year/Year	Department of Commerce
Clothing	0.7%	0.1%	-6.0%	-0.1%	-3.2%	-3.3%	3.1%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.8%	1.9%	0.9%	1.4%	1.0%	1.3%	1.4%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-1.2%	-2.0%	-7.4%	-6.4%	-7.2%	-6.4%	-6.4%	% Chg. Year/Year	Bureau of Labor Statistics

Retail Series with Latest Data for August

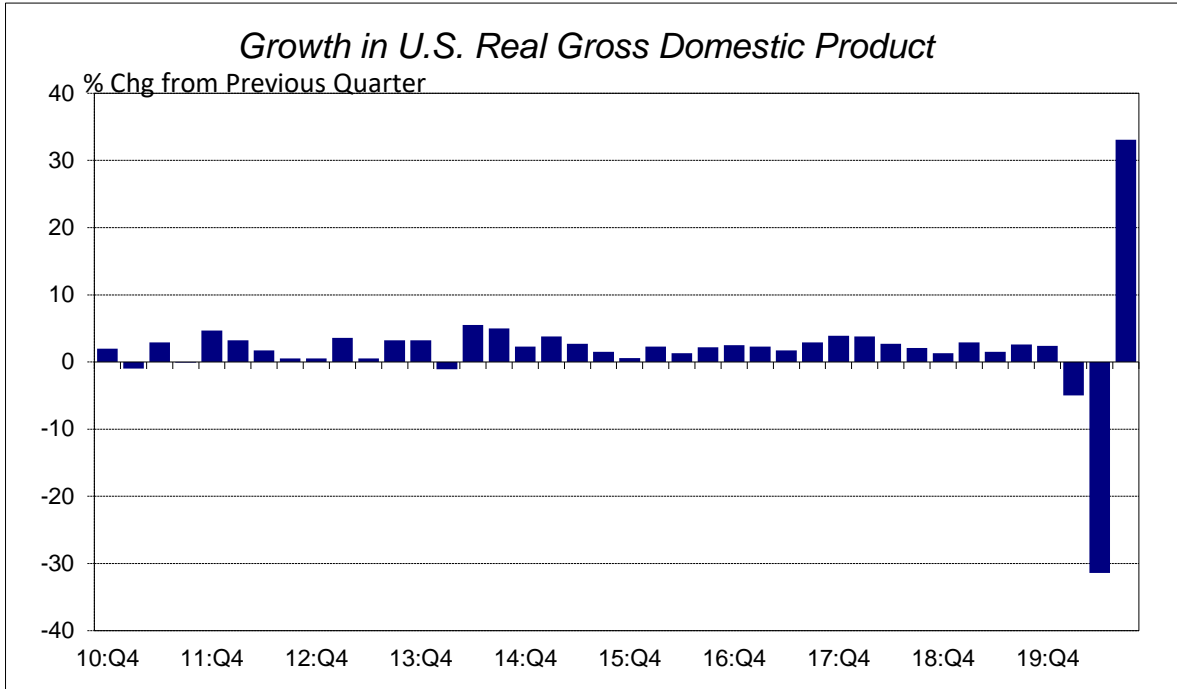
	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	June	July	August		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.8	3.0	3.6	2.7	2.9	2.8	2.7	Ratio	Department of Commerce
Department Stores	2.2	2.2	2.2	2.2	2.2	2.1	2.2	Ratio	Department of Commerce

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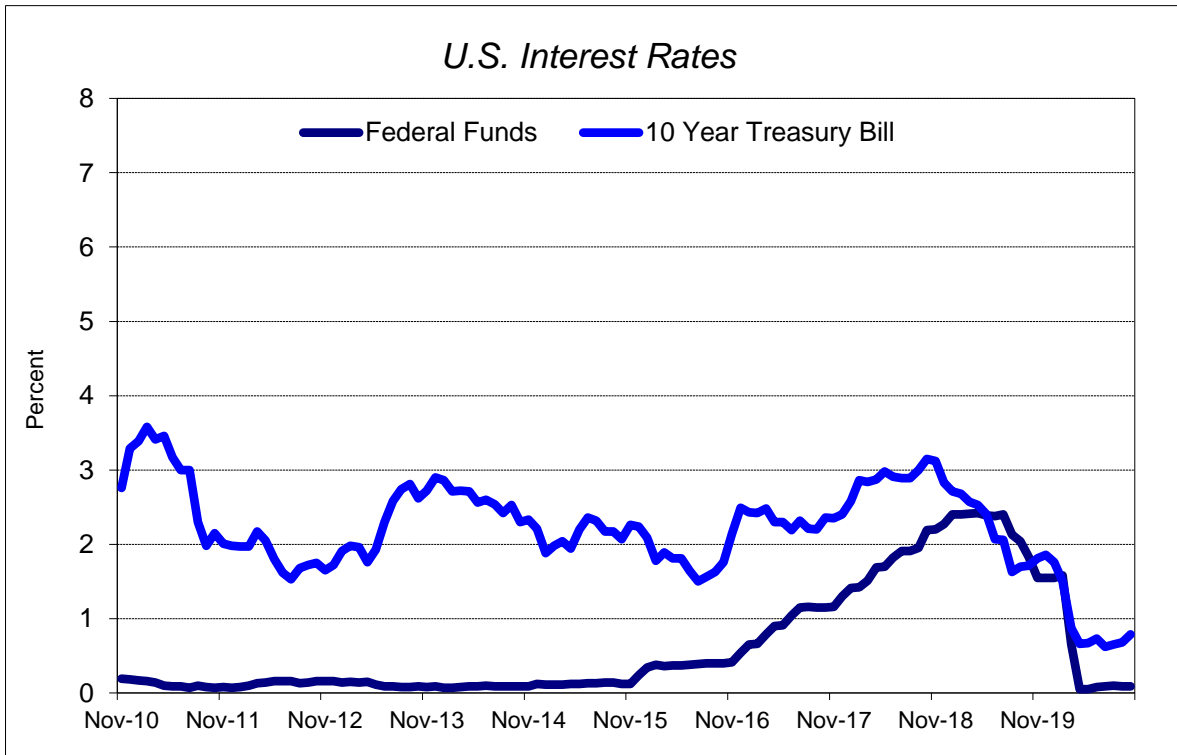
Daily Cotton Price and Currency Data
November 2020



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	October		
NY Nearby	69.1	70.5	68.6	66.8	63.6	64.6	69.2	cents/pound	ICE
A Index	78.1	79.8	77.8	76.0	70.0	70.8	74.8	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	October		
Dollar Trade Weighted Exchange Index	114.3	115.0	118.6	116.7	118.0	116.5	115.6	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.76	6.81	6.95	6.84	6.96	6.85	6.71	Chinese Renminbi/US dollar	Reuters
Indian Rupee	68.74	70.42	74.63	73.87	74.93	73.55	73.15	Indian Rupee/US dollar	Reuters
Japanese Yen	109.90	109.10	106.53	105.93	105.89	106.24	105.66	Japanese Yen/US dollar	Reuters
Pakistani Rupee	126.41	140.79	164.75	166.04	167.85	166.45	163.83	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.81	4.10	5.37	5.42	5.44	5.30	5.53	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.32	1.32	1.34	1.32	1.34	1.32	1.31	Canadian dollar/US dollar	Reuters
Mexican Peso	19.40	19.90	22.21	21.74	22.51	21.51	21.19	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.76	0.77	0.78	0.77	0.77	0.77	0.77	British Pound/US dollar	Reuters
Euro	0.88	0.87	0.87	0.85	0.85	0.85	0.85	Euro/US dollar	Reuters
Swiss Franc	0.98	0.98	0.93	0.91	0.91	0.91	0.91	Swiss Franc/US dollar	Reuters
Turkish Lira	4.67	5.60	7.23	7.53	7.24	7.49	7.86	Turkish Lira/US dollar	Reuters



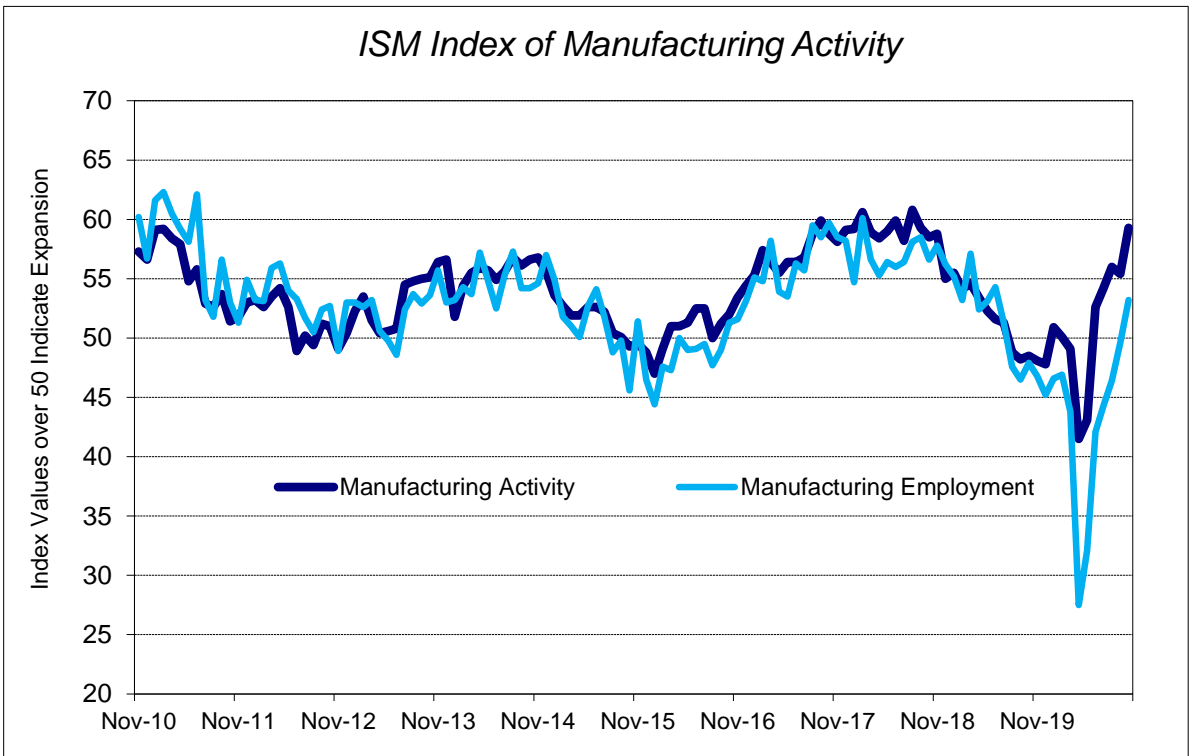
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



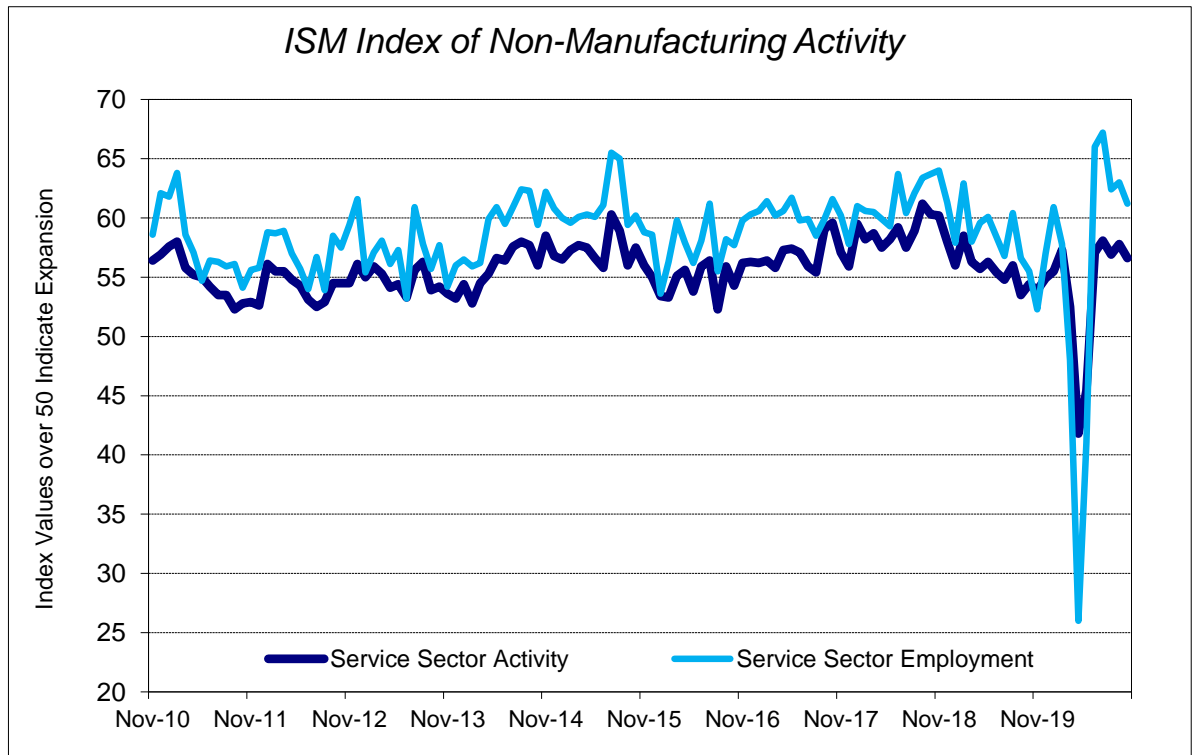
Source: Federal Reserve

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Source: Institute for Supply Chain Management



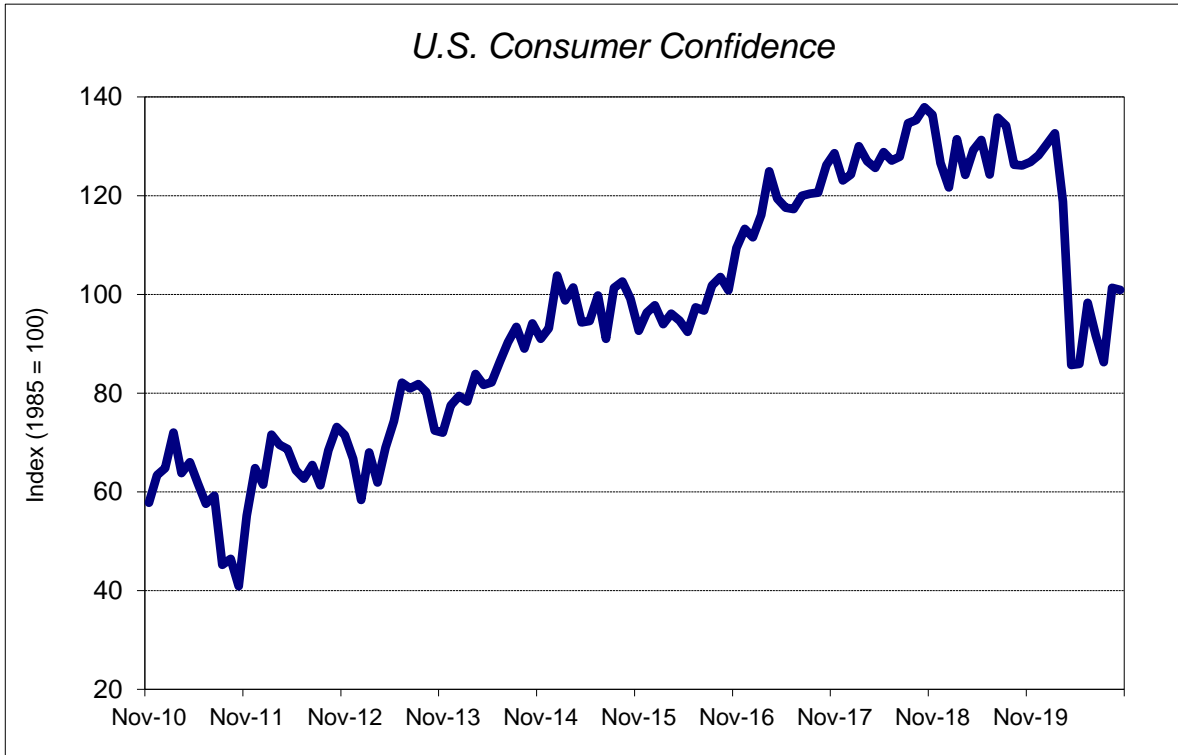
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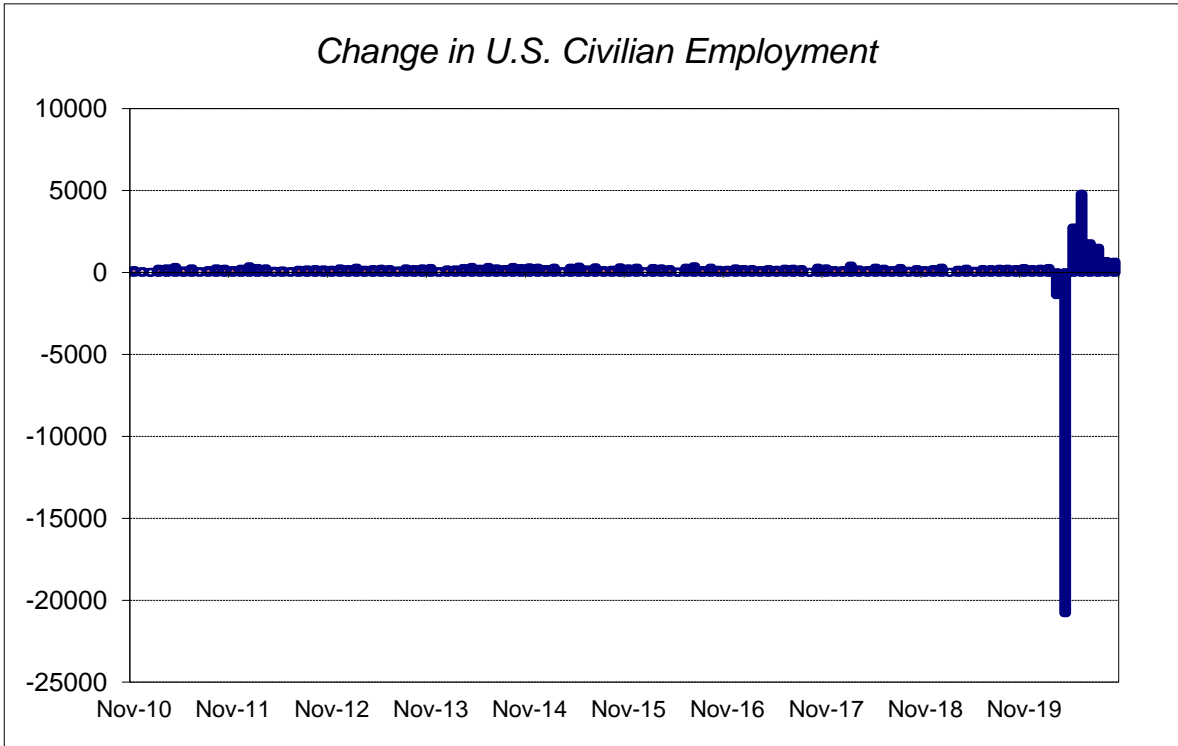
Source: The Conference Board



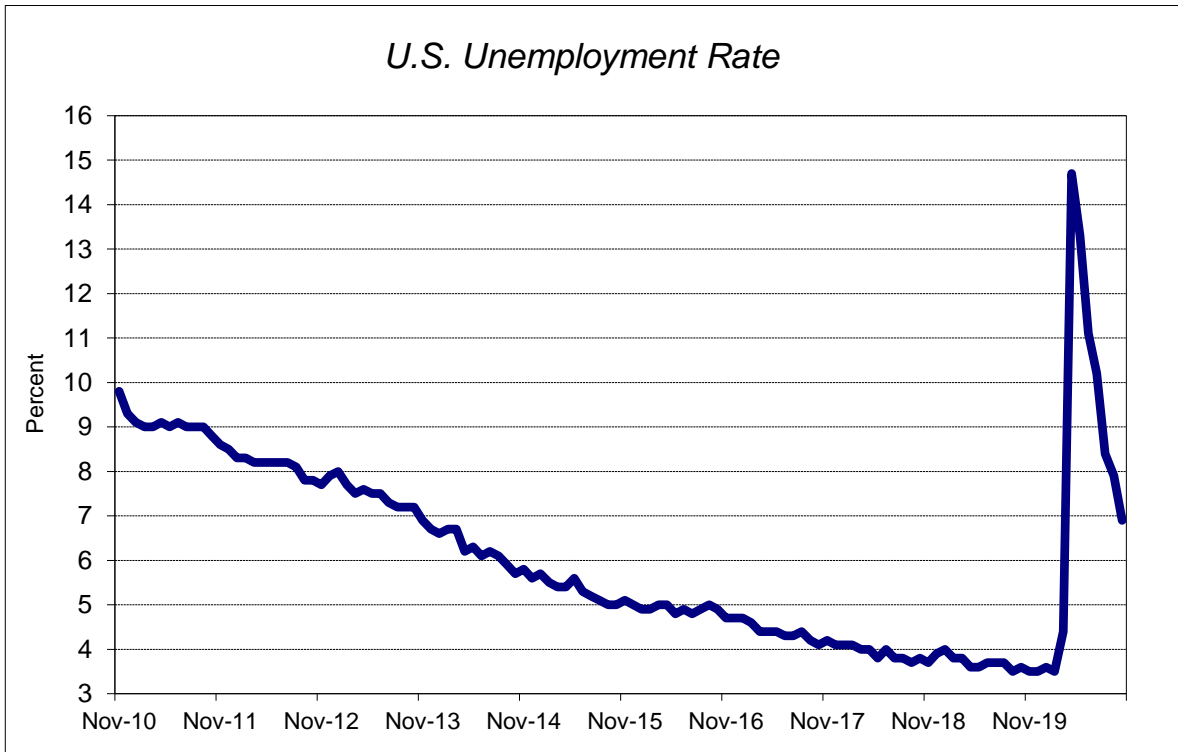
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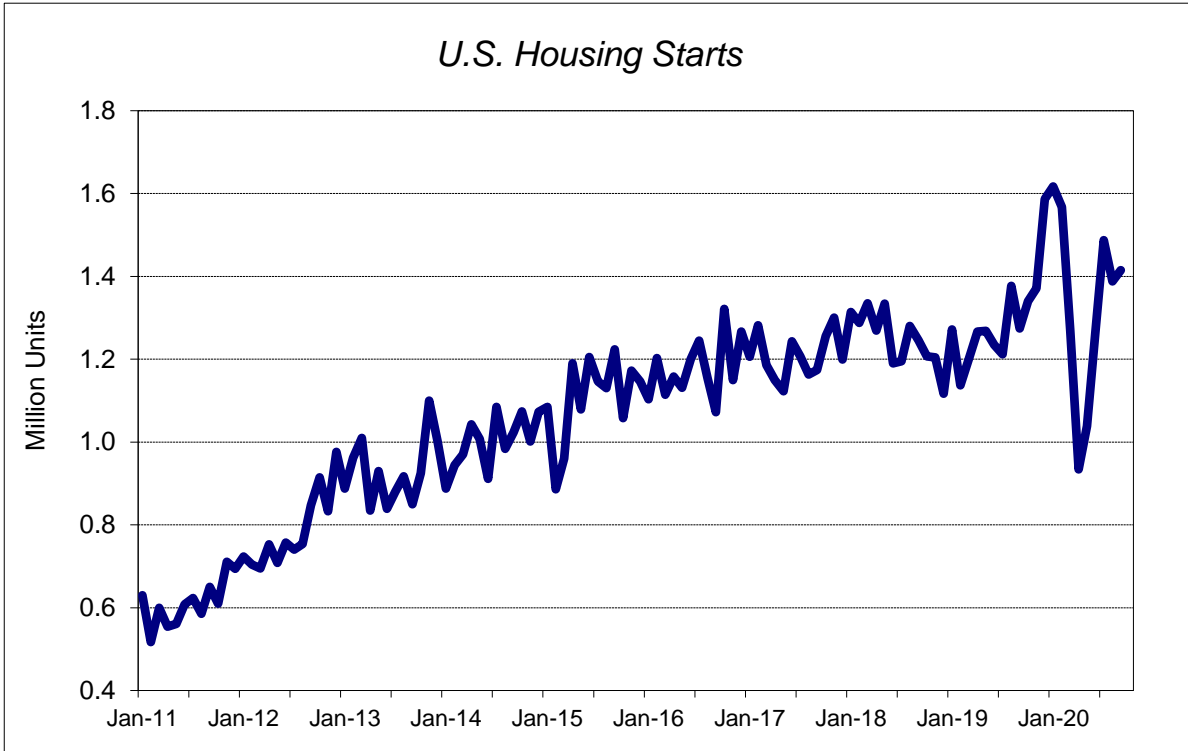
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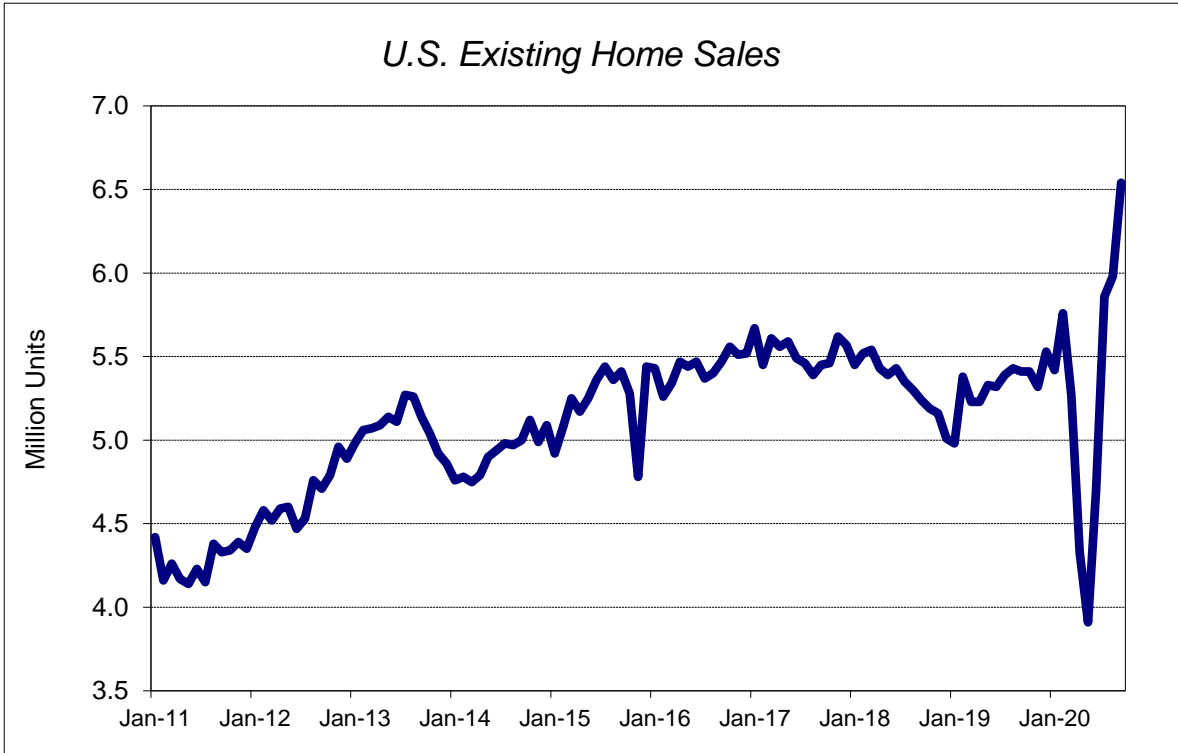
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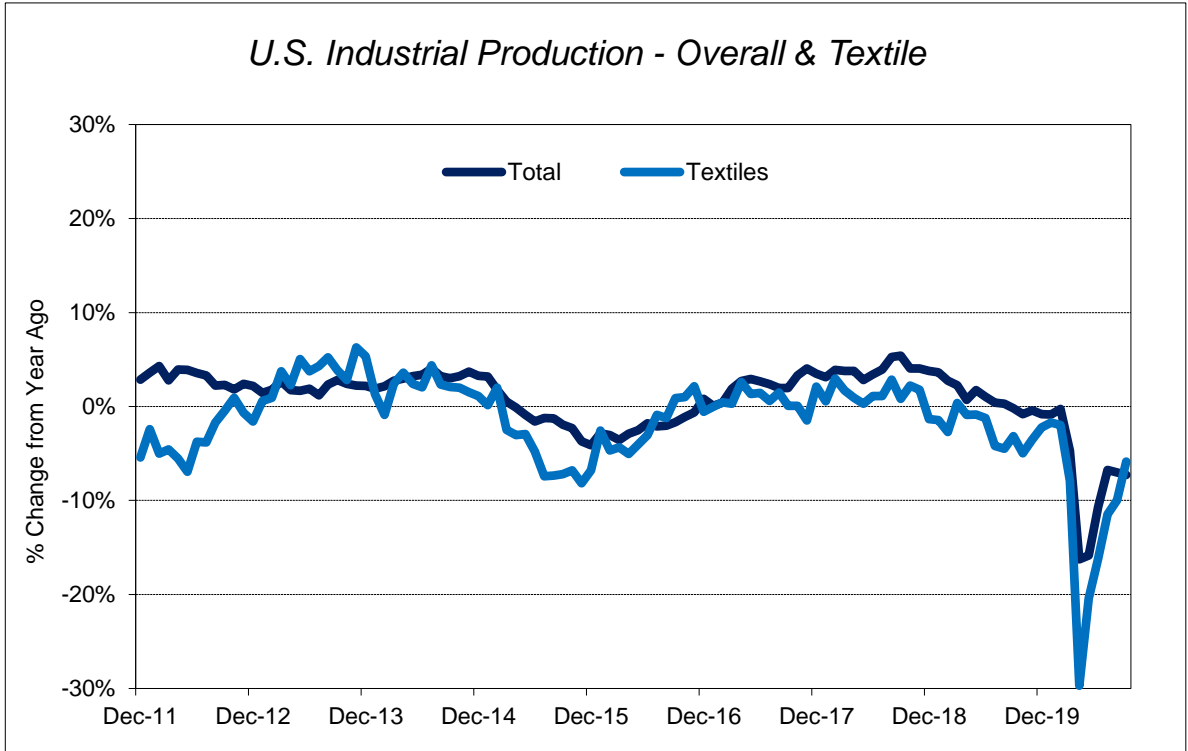
Seasonally Adjusted Annual Rate; Source: Department of Commerce



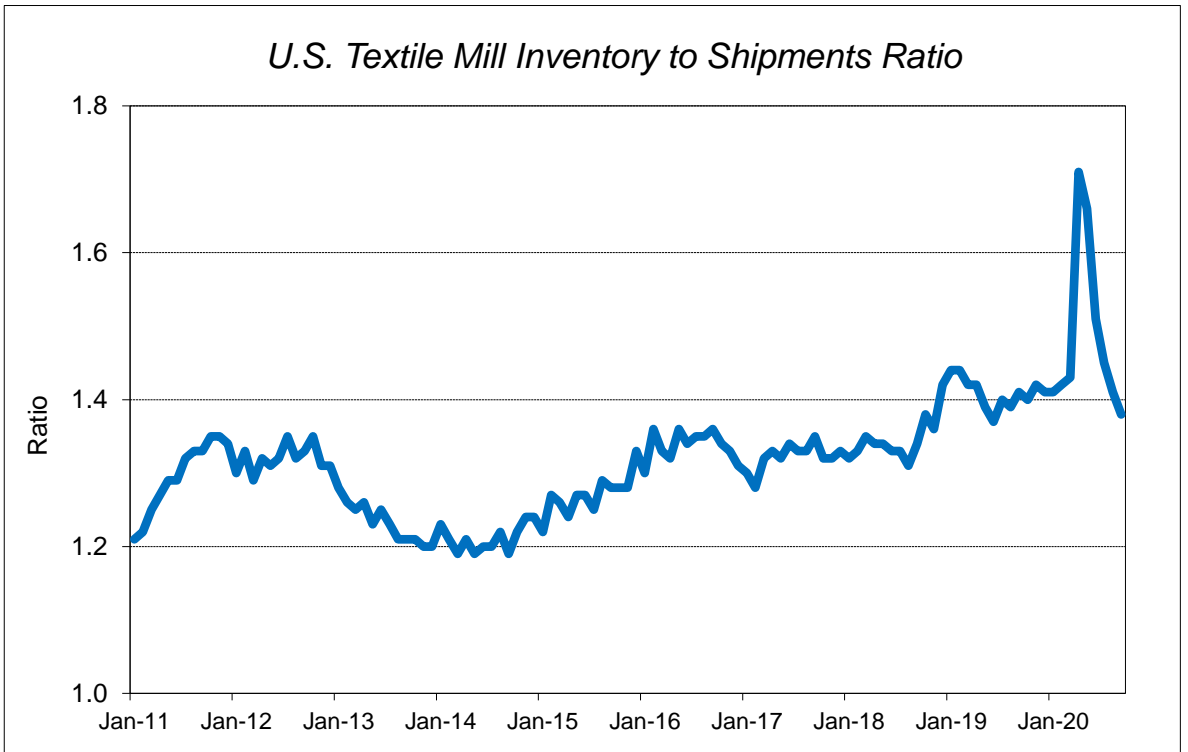
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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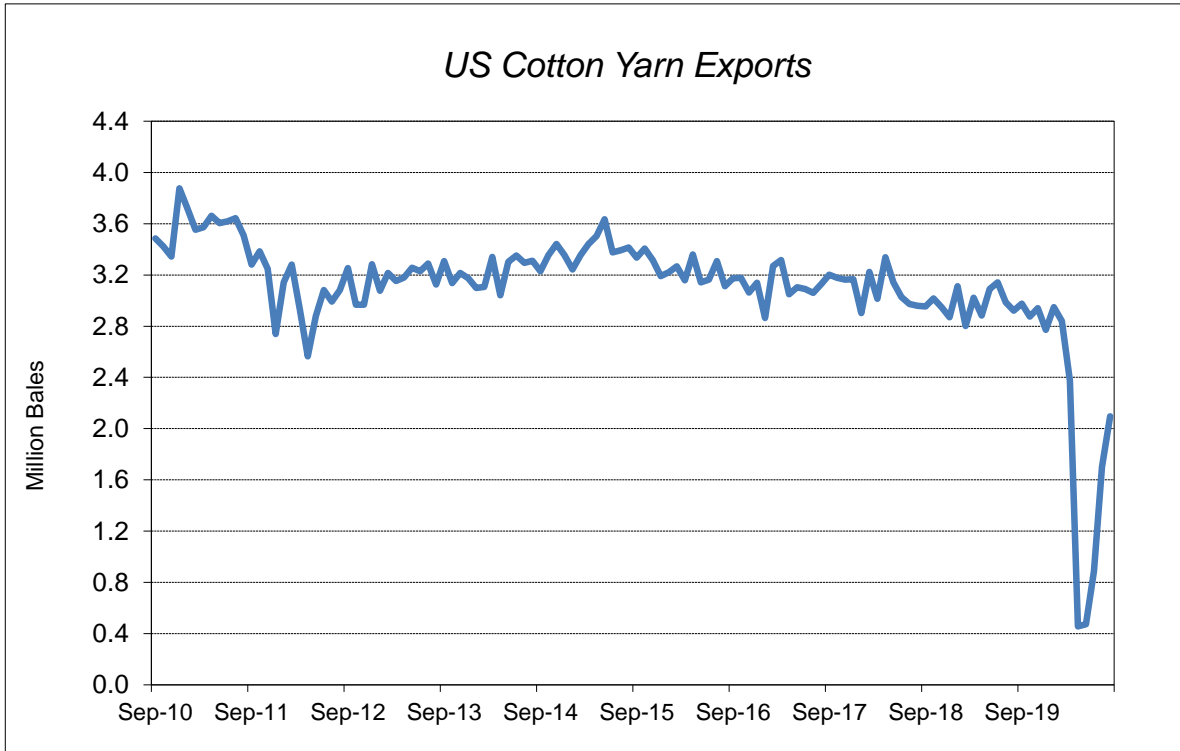
Source: Federal Reserve. Historical data revised to 1997 baseline.



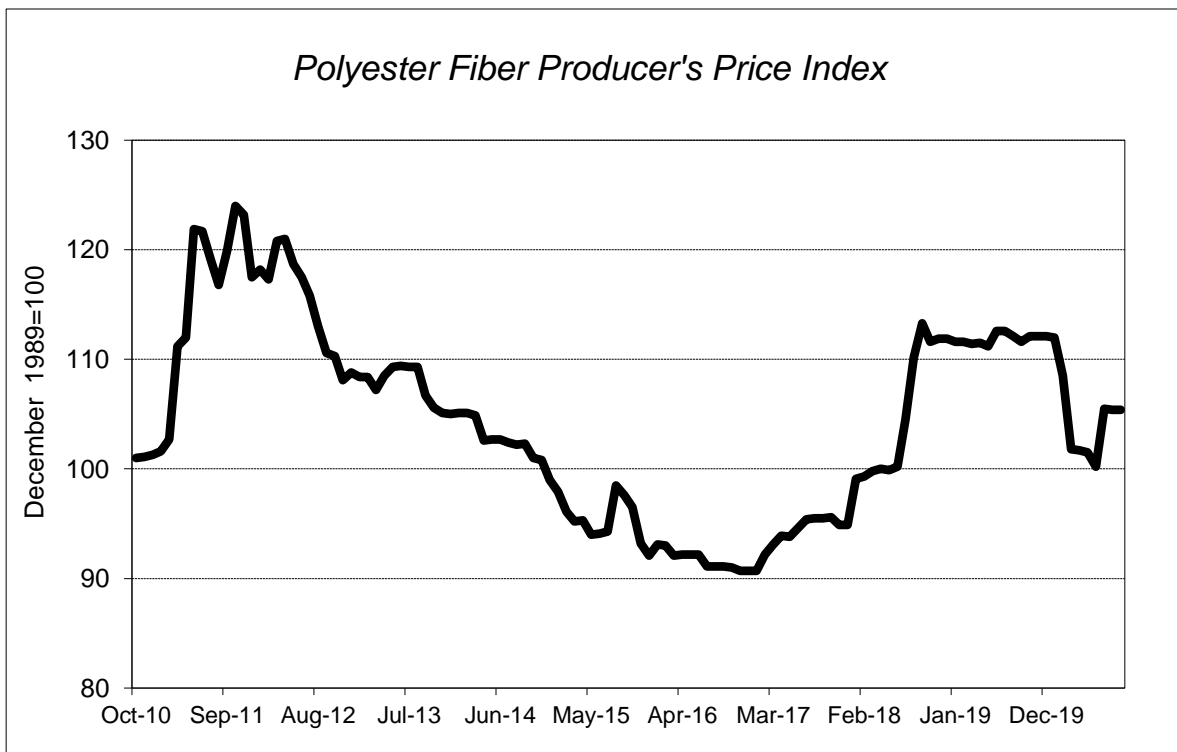
Seasonally Adjusted; Source: Department of Commerce

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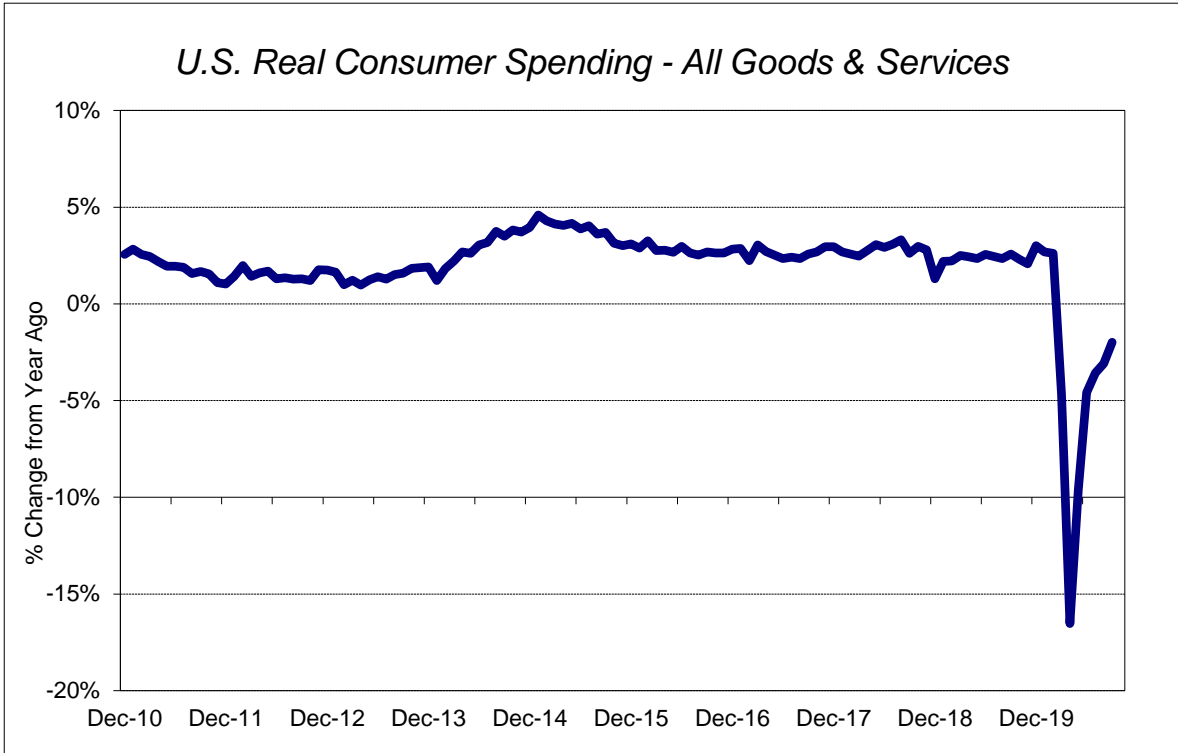
Seasonally Adjusted Annual Rate
 Source: USDA ERS



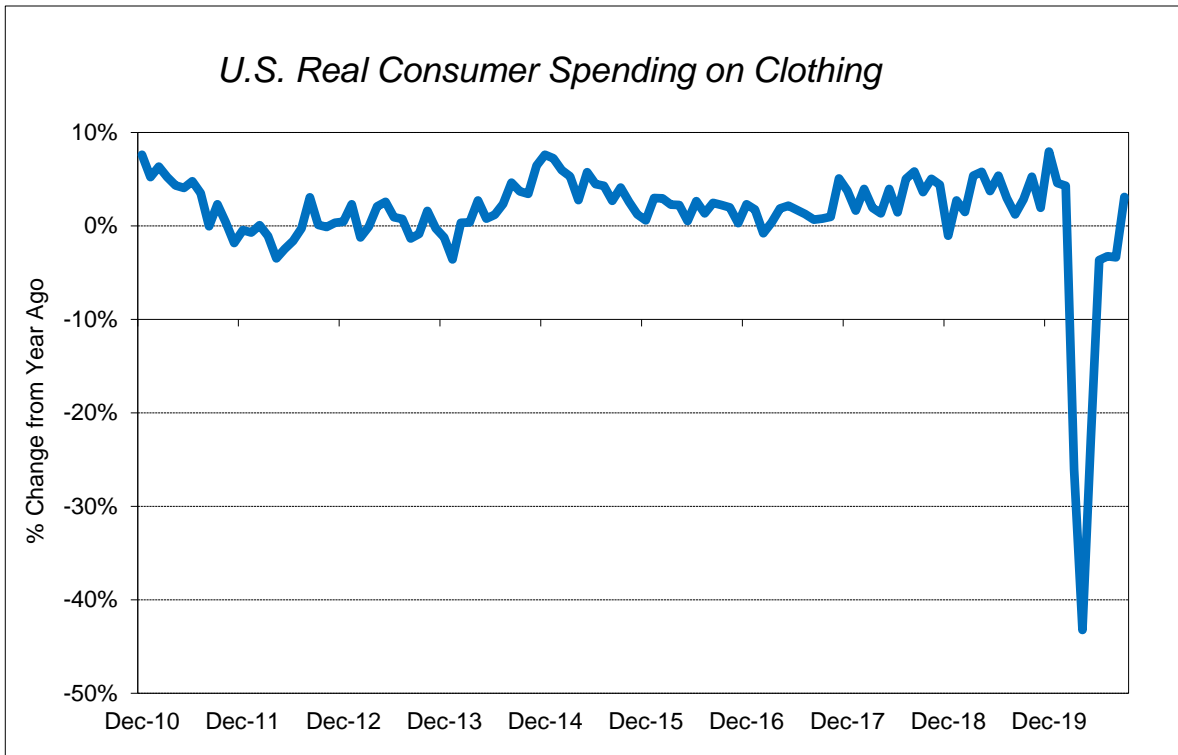
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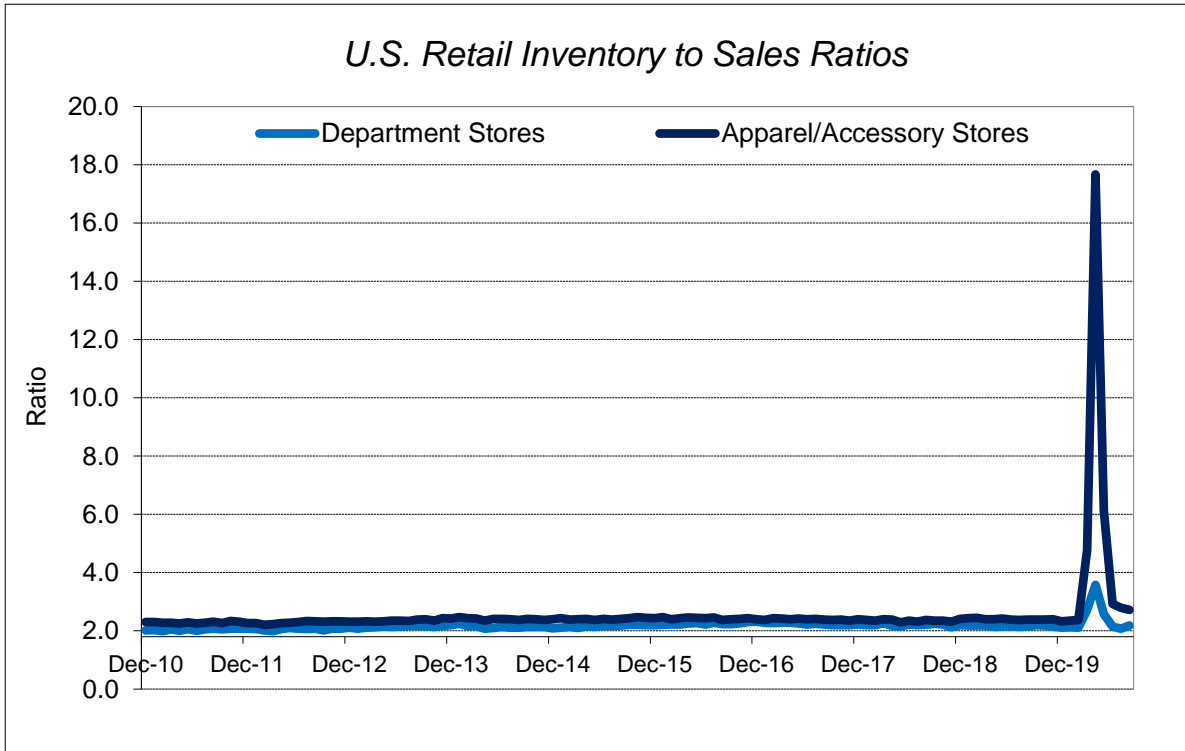
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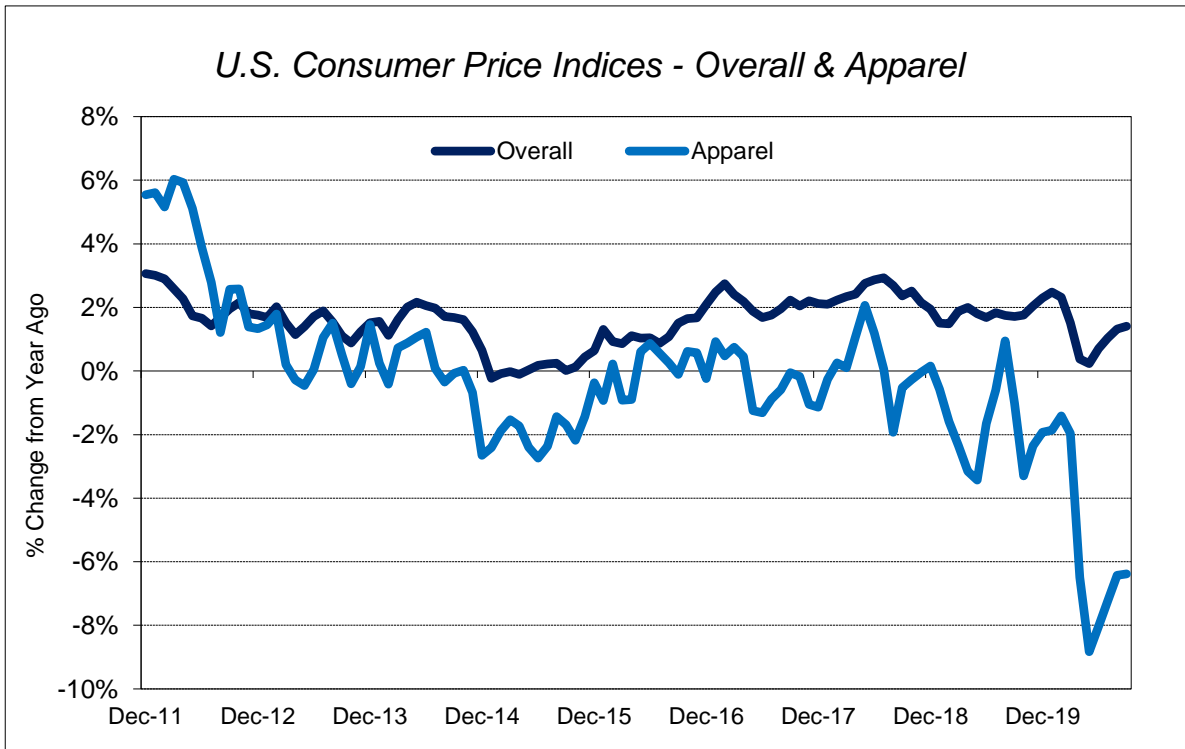
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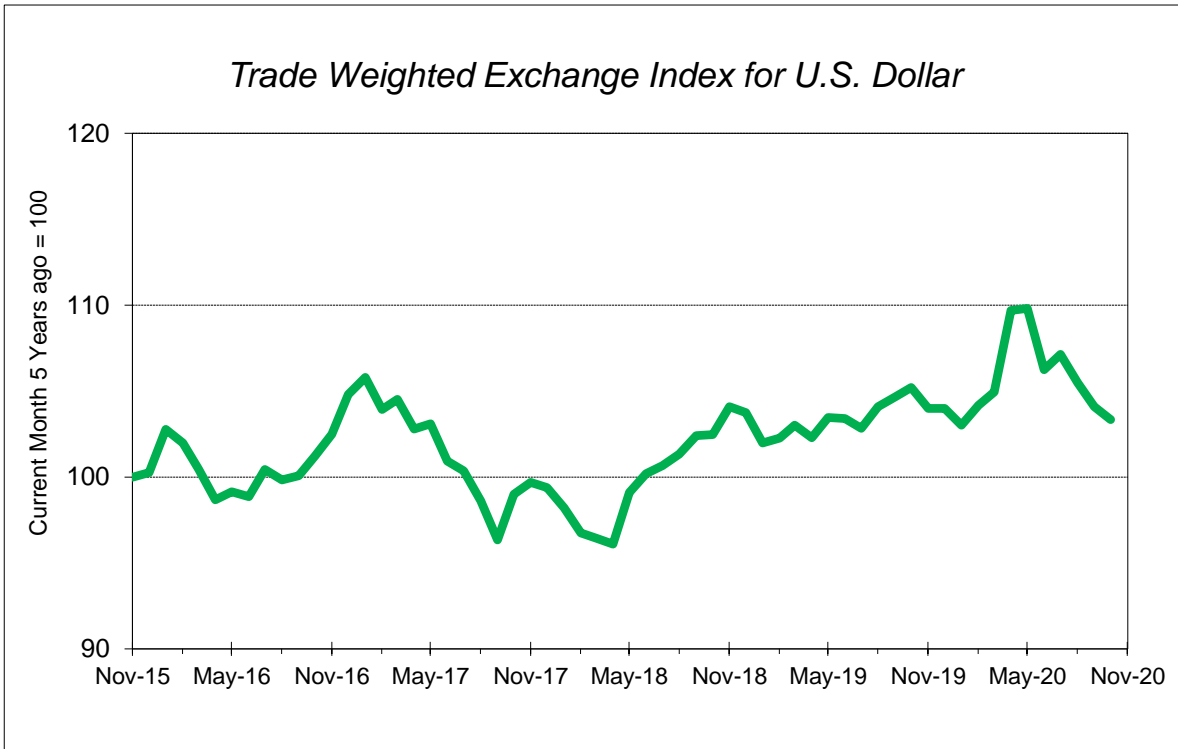
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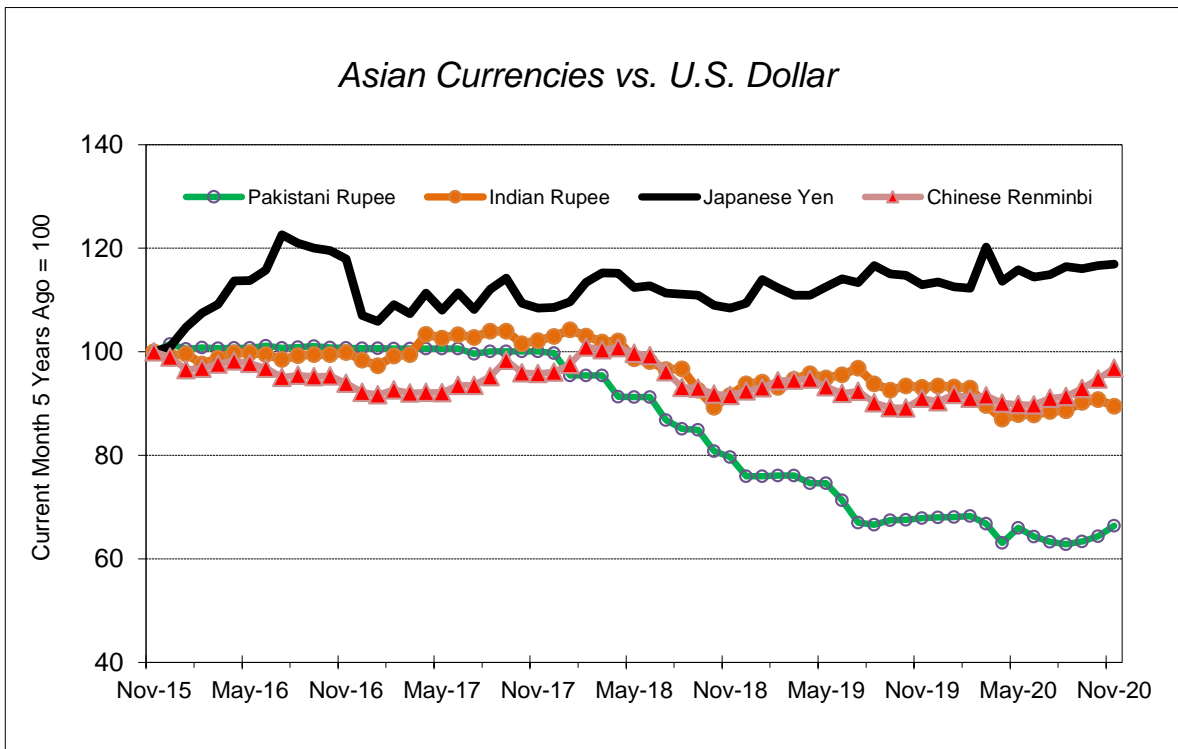
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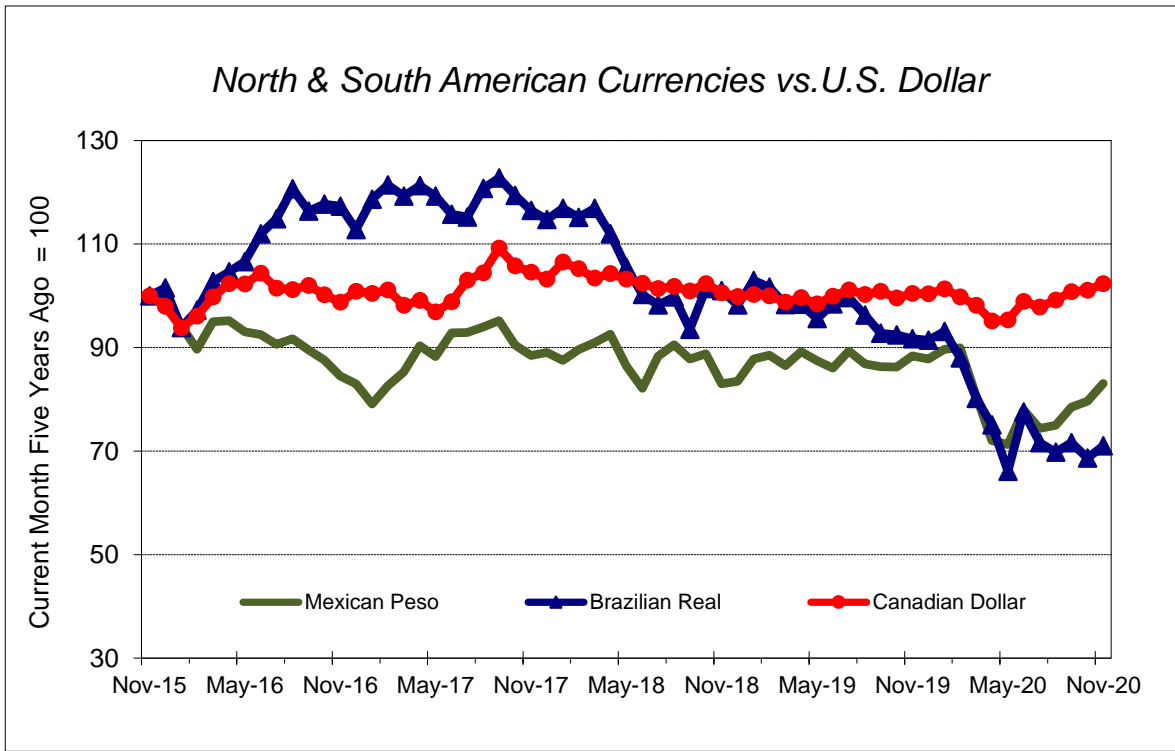
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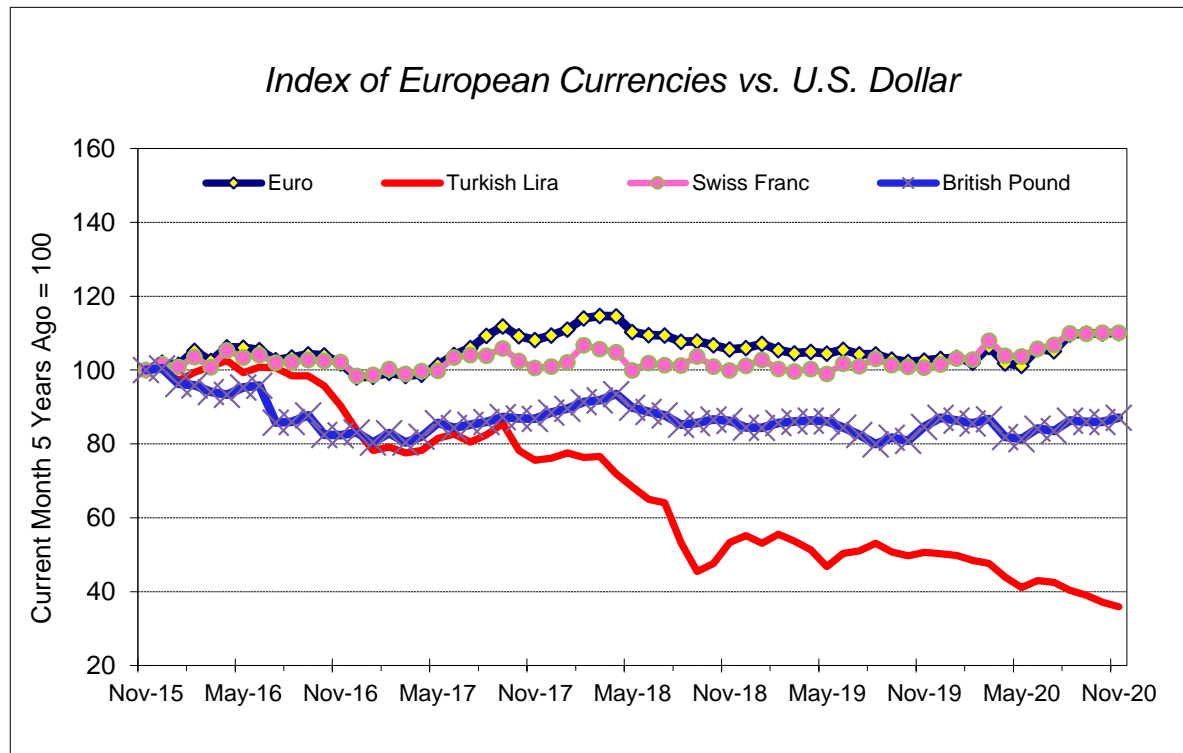
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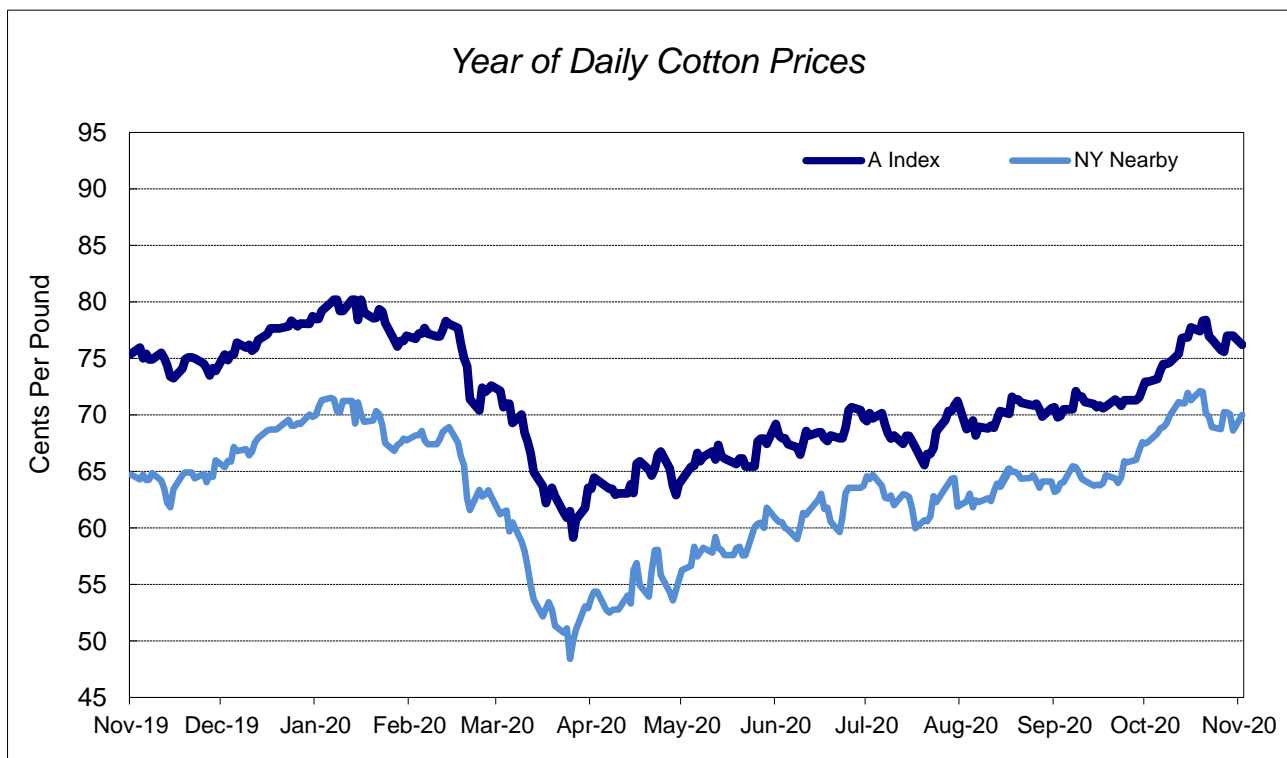
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U.S. Balance Sheet

million 480 lb. bales	2016/17	2017/18	2018/19	2019/20	2020/21 September	2020/21 October
Beginning Stocks	3.8	2.8	4.2	4.9	7.3	7.3
Production	17.2	20.9	18.4	19.9	17.1	17.0
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	21.0	23.7	22.6	24.8	24.3	24.3
Mill-Use	3.3	3.2	3.0	2.2	2.5	2.5
Exports	14.9	16.3	14.8	15.5	14.6	14.6
Demand	18.2	19.5	17.8	17.7	17.1	17.1
Ending Stocks	2.8	4.2	4.9	7.3	7.2	7.2
Stocks/Use Ratio	15.1%	21.5%	27.2%	41.0%	42.1%	42.1%



Sources: ICE Futures U.S. & Cotton Outlook

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