

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



January 2021

www.cottoninc.com

Macroeconomic Overview: COVID was a dominant force in 2020, and it has already underlined its importance in 2021. In the U.S., daily rates for new case counts, hospitalizations, and deaths are all at near-record levels. A surge followed the Thanksgiving holiday and triggered new restrictions in several cities and states. Concerns remain about further increases after the December holidays. There has already been an observable economic response to recent restrictions on consumer activity. Most notably, the monthly change in payrolls turned negative in December, representing the first monthly decrease since April.

The vaccination process in the U.S. is behind schedule but promises to provide an eventual solution to the health crisis. In the meantime, a second round of stimulus was eventually approved to address COVID's economic consequences. Direct payments of as much as \$600 per individual have already begun being distributed.

Alongside the simple reopening process, the strength of fiscal and monetary stimulus has been credited with pulling the U.S. economy to record quarter-over-quarter growth in the third quarter. Official data for the fourth quarter have not been released yet, but a Federal Reserve prediction tool (GDPNow) is projecting growth near 8%. Due to the current rise in COVID, growth in the first quarter of 2021 is expected to be sluggish. Later in the year, as more vaccines are given, expectations are that growth will accelerate.

Consumer spending over the important holiday sales period got off to a strong start but momentum faded. Government spending data for December are not yet available. Mastercard Spending Pulse estimates that retail sales (excluding cars and gasoline) from November 1st through Christmas Eve increased +2.4% year-over-year. E-commerce sales were reported to have risen +47.2% year-over-year. Retail sales for apparel through all channels (includes online sales) were down -19.1%, while online apparel sales were +15.7% higher year-over-year.

The events of January 6th alone suggest that 2021 will be a year remembered for political unrest. Whether or not the bout of violence at the capitol will quell tensions is unknown. Financial markets have proven resilient. U.S. stock indices were flat to higher throughout early January, including on January 6th. The same was true for cotton prices, whose upward trend remains intact.

Employment: The U.S. economy was estimated to have lost 140,000 jobs in December. This is the first monthly decline since April. Current estimates indicate that the net change in U.S. jobs in 2020 was -9.4 million. There has also been a decline in the number of people wanting to work. The labor force is currently estimated to be four million workers lower than it was at the start of 2020.

The decrease in the labor force is a factor that has helped keep the unemployment rate lower (the unemployment rate is the ratio of the number of people working over the number of people wanting to work). Month-over-month, the unemployment rate held steady at 6.7%. In early 2020, the unemployment rate was 3.5%.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence decreased 4.3 points month-over-month to a level of 88.6 in December. Last December, the value was 128.2. The long-term average is near 93.

Overall consumer spending was down -0.5% month-over-month in November (latest month with available data). Year-over-year, overall spending was down -2.4%. Spending on apparel was down -4.3% month-over-month in November but was +0.5% higher year-over-year.

Consumer Prices & Import Data: After two months of decreases, the CPI for apparel was +0.8% higher month-over-month in November. Year-over-year apparel prices were -6.1% lower. Import prices for cotton-dominant apparel continue to move lower (in seasonally-adjusted terms of USD per square meter equivalent or SME). In November, the average price was \$3.04/SME. This is the lowest value since September 2010, which was before the price spike and during a time when values were still being negatively affected by the global financial crisis.

Import volumes of cotton-dominant apparel have been higher year-over-year in the past two months of available data (+6.3% in October, +9.3% in November). However, year-ago comparisons are being made against months from 2019 after the U.S. imposed supplement tariffs on Chinese apparel. Although they targeted China, the tariffs had an effect of lowering U.S. imports from all locations. In October and November of 2019, U.S. imports from all sources were down -13.6% and -8.9% year-over-year. Comparing recent months in 2020 against 2018 levels (before tariffs), show that imports in October and November were down -8.2% and -0.04%

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 2021



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%	33.4%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic 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	54.2	55.8	57.4	59.3	57.5	60.7	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.1	56.2	57.1	56.8	56.6	55.9	57.2	Index	Institute for Supply Management
Consumer Confidence	116.1	120.8	95.3	98.5	101.4	92.9	88.6	Index	The Conference Board
Change in Non-Farm Payrolls	-1.0	-129.4	1622.7	567.0	654	336	-140	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.0%	5.2%	8.5%	7.1%	6.9%	6.7%	6.7%	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	2.0%	2.0%	0.7%	0.8%	0.8%	0.9%	0.9%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for November

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	November		
Index of Leading Economic Indicators	106.1	109.1	106.6	108.3	107.5	108.4	109.1	Index	The Conference Board
Housing Starts	12.6	13.0	14.7	15.4	1.4	1.5	1.5	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.4	6.4	6.8	6.8	6.9	6.7	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile 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	105.3	106.7	102.9	103.8	103.6	104.0	104.0	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	107.2	95.4	95.4	93.9	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile 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	2.0	1.7	2.3	2.1	2.4	2.5	million 480lb bales	USDA ERS

Industrial & Textile 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	1.37	1.41	1.40	1.38	1.38	1.38	1.38	Ratio	Department of Commerce

Retail Data

Retail 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	1.4%	0.5%	-2.5%	-2.1%	-1.9%	-1.8%	-2.4%	% Chg. Year/Year	Department of Commerce
Clothing	0.8%	0.1%	1.3%	2.0%	6.5%	3.6%	0.5%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.8%	1.9%	1.2%	1.2%	1.4%	1.2%	1.2%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-1.4%	-2.3%	-6.5%	-6.1%	-6.4%	-6.2%	-6.0%	% Chg. Year/Year	Bureau of Labor Statistics

Retail Series with Latest Data for October

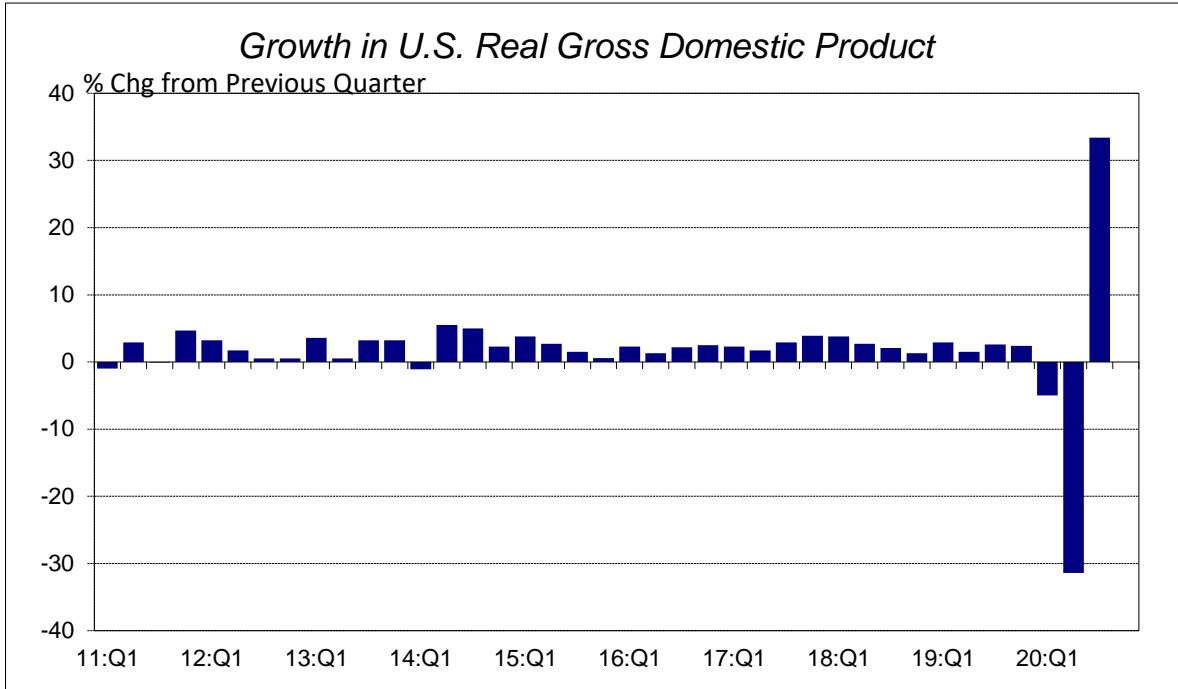
	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	October		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.8	3.0	2.5	2.4	2.7	2.3	2.4	Ratio	Department of Commerce
Department Stores	2.2	2.2	2.1	2.2	2.2	2.0	2.2	Ratio	Department of Commerce

Executive Cotton Update

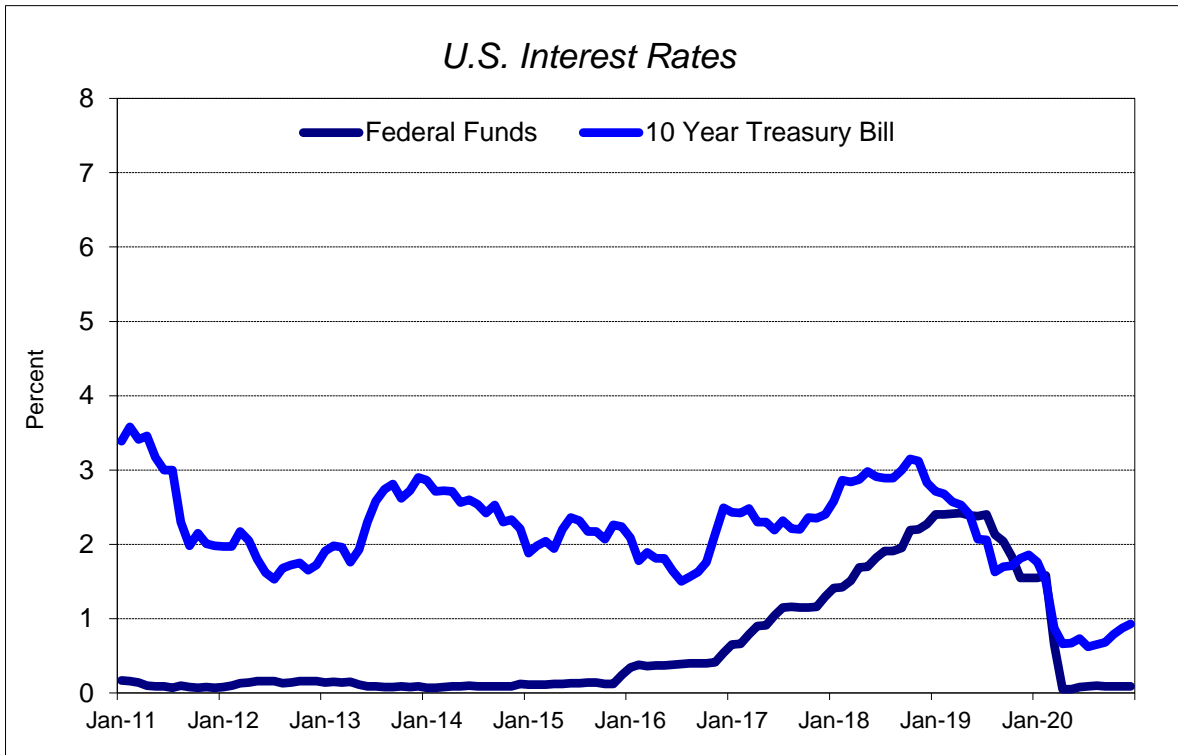
Daily Cotton Price and Currency Data
January 2021



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	69.5	70.5	68.9	67.2	69.2	70.6	74.8	cents/pound	ICE
A Index	78.4	79.8	78.0	76.2	74.8	77.7	81.2	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	114.3	115.1	116.3	114.4	116.6	114.3	112.2	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.76	6.81	6.80	6.65	6.81	6.62	6.53	Chinese Renminbi/US dollar	Reuters
Indian Rupee	68.97	70.93	74.09	73.67	73.24	74.21	73.56	Indian Rupee/US dollar	Reuters
Japanese Yen	109.26	108.67	105.47	104.49	106.03	103.31	104.13	Japanese Yen/US dollar	Reuters
Pakistani Rupee	128.07	143.52	163.99	161.02	163.73	159.13	160.20	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.87	4.22	5.39	5.39	5.61	5.48	5.07	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.32	1.32	1.32	1.30	1.32	1.30	1.28	Canadian dollar/US dollar	Reuters
Mexican Peso	19.48	19.97	21.47	20.59	21.44	20.58	19.76	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.77	0.77	0.77	0.76	0.77	0.76	0.75	British Pound/US dollar	Reuters
Euro	0.88	0.87	0.85	0.84	0.85	0.84	0.83	Euro/US dollar	Reuters
Swiss Franc	0.98	0.97	0.91	0.90	0.92	0.90	0.89	Swiss Franc/US dollar	Reuters
Turkish Lira	4.83	5.84	7.64	8.09	7.94	8.51	7.81	Turkish Lira/US dollar	Reuters



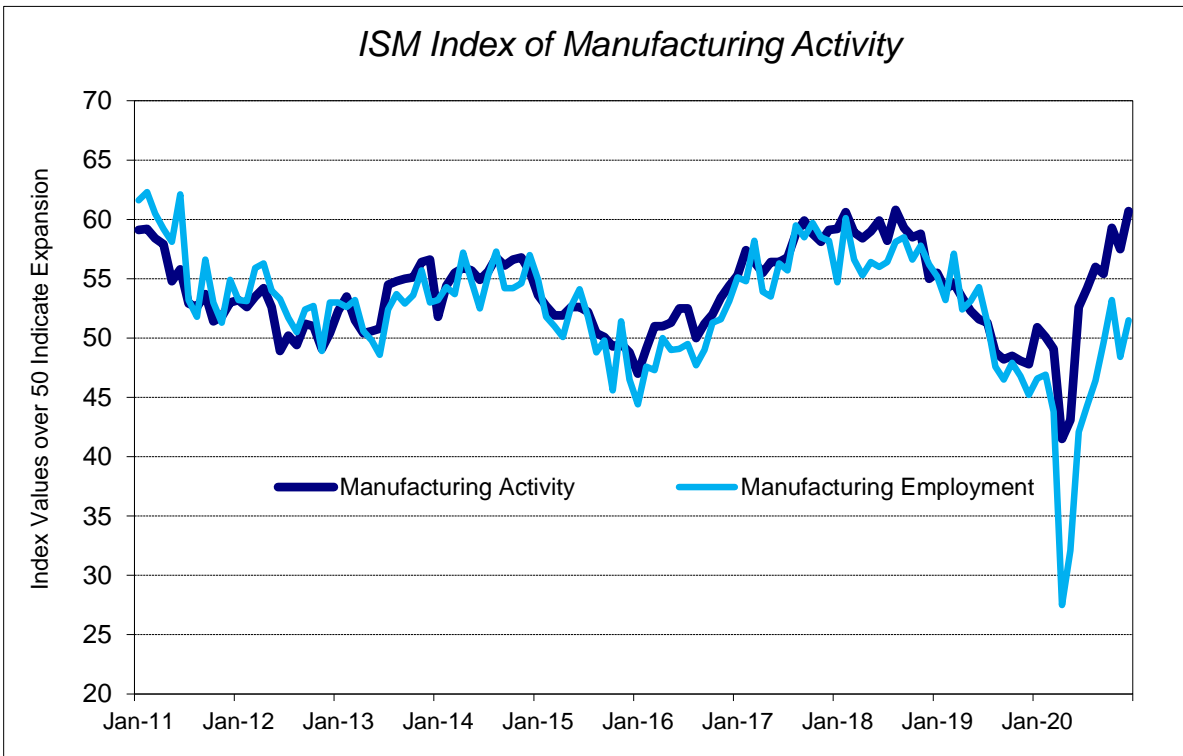
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



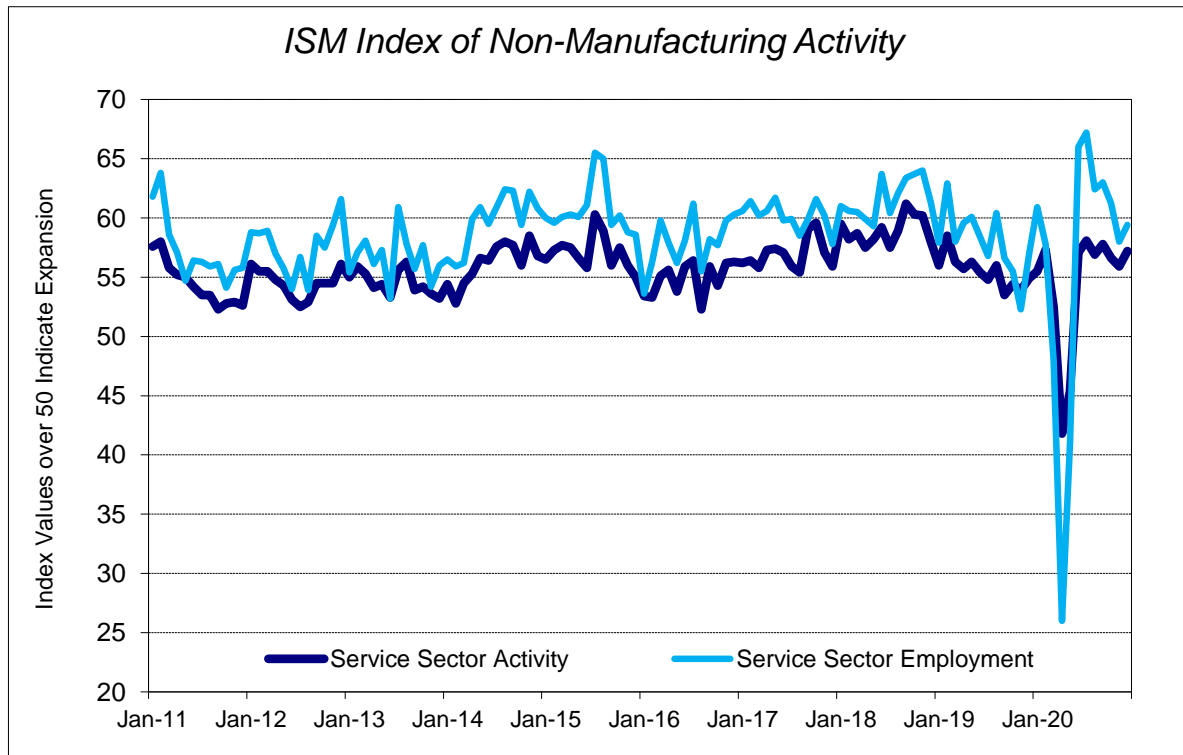
Source: Federal Reserve

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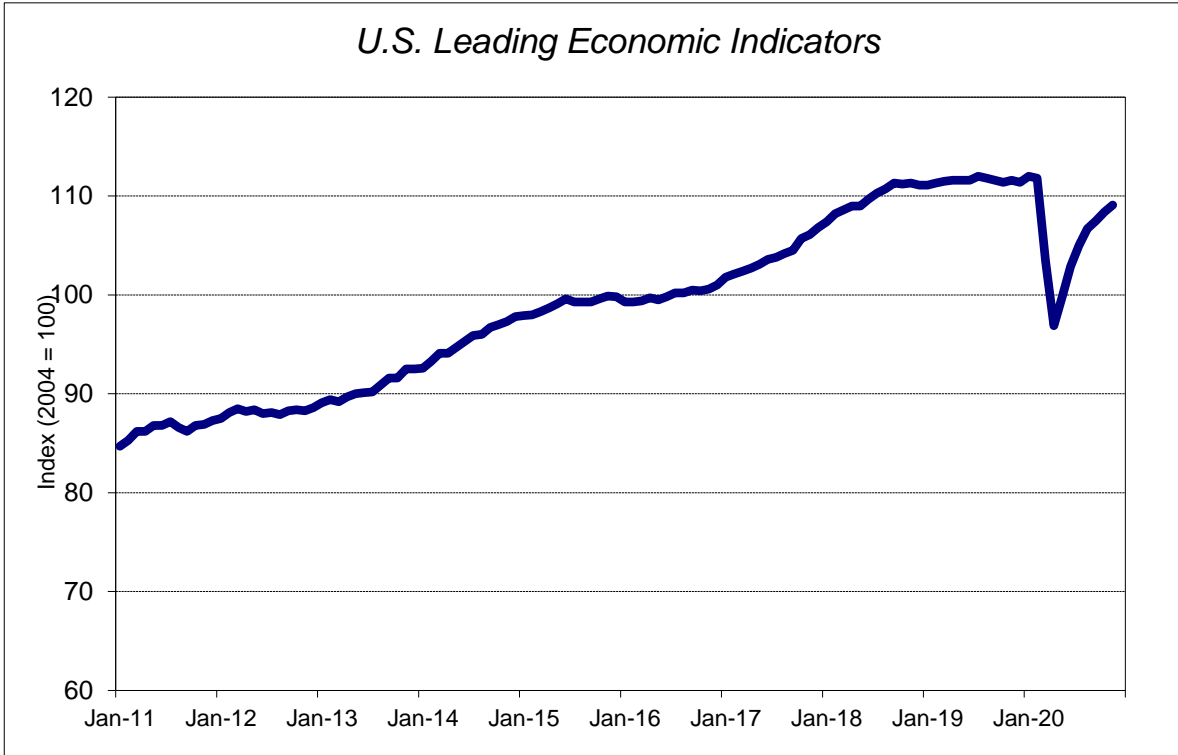
Source: Institute for Supply Chain Management



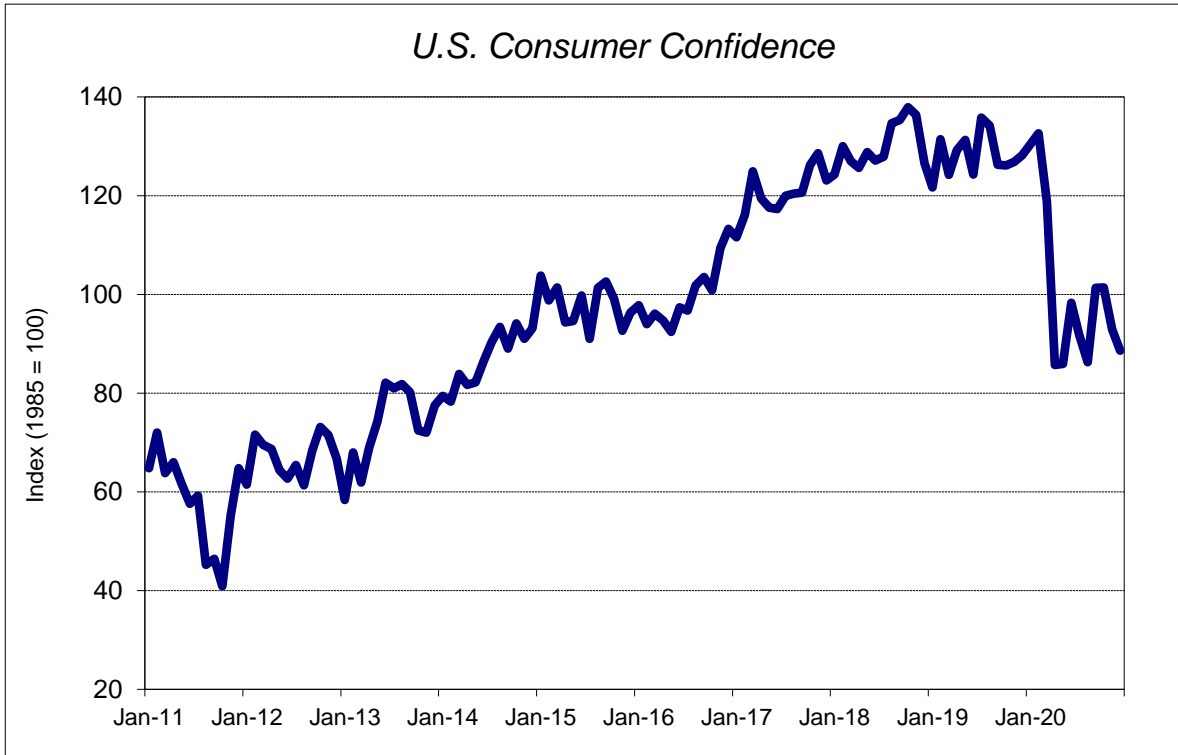
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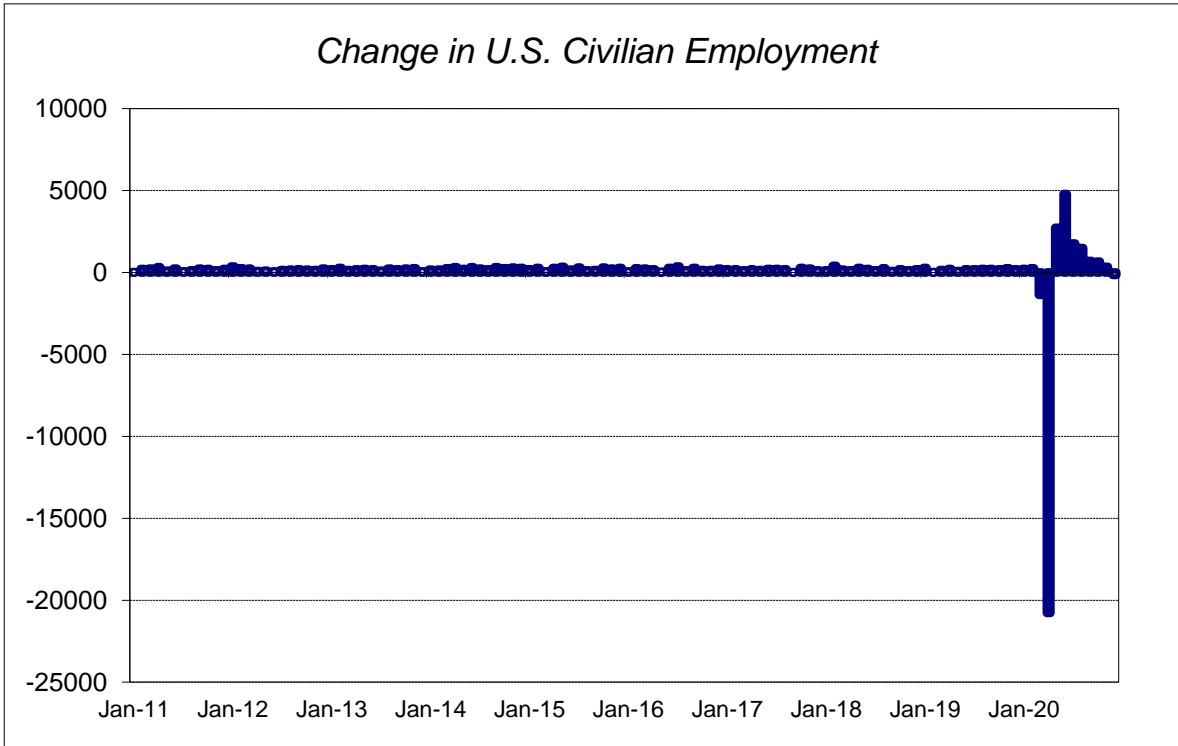
Source: The Conference Board



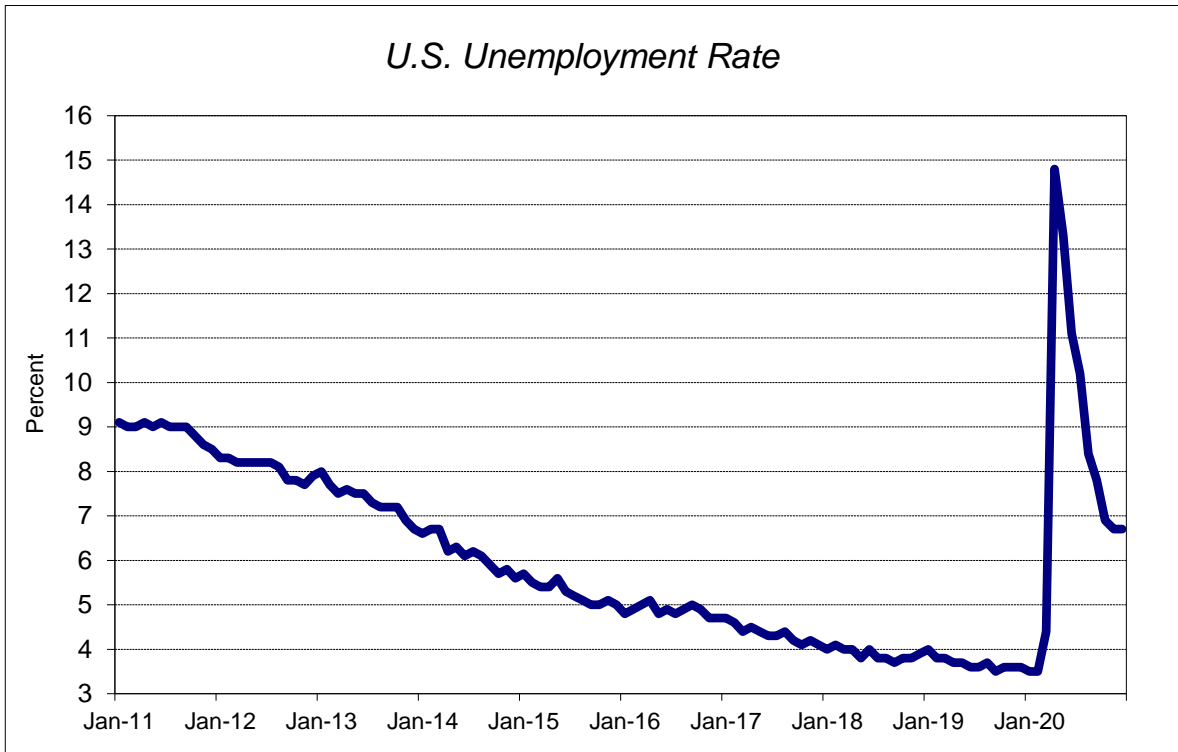
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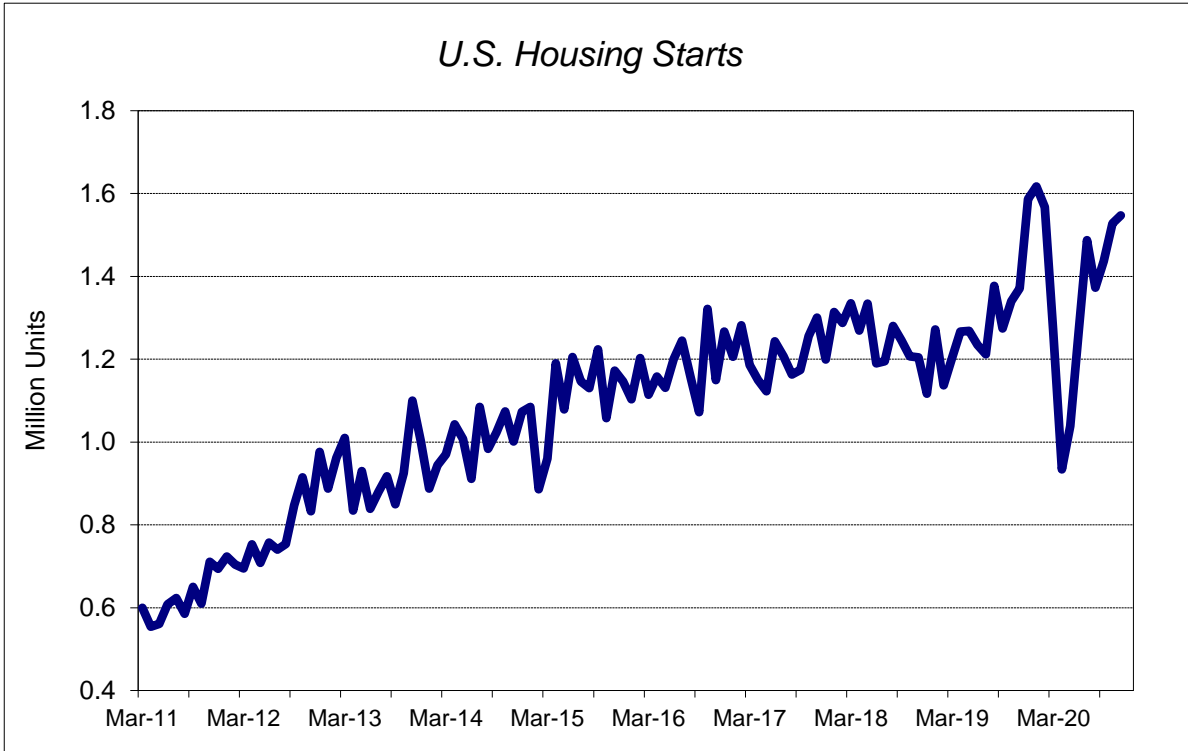
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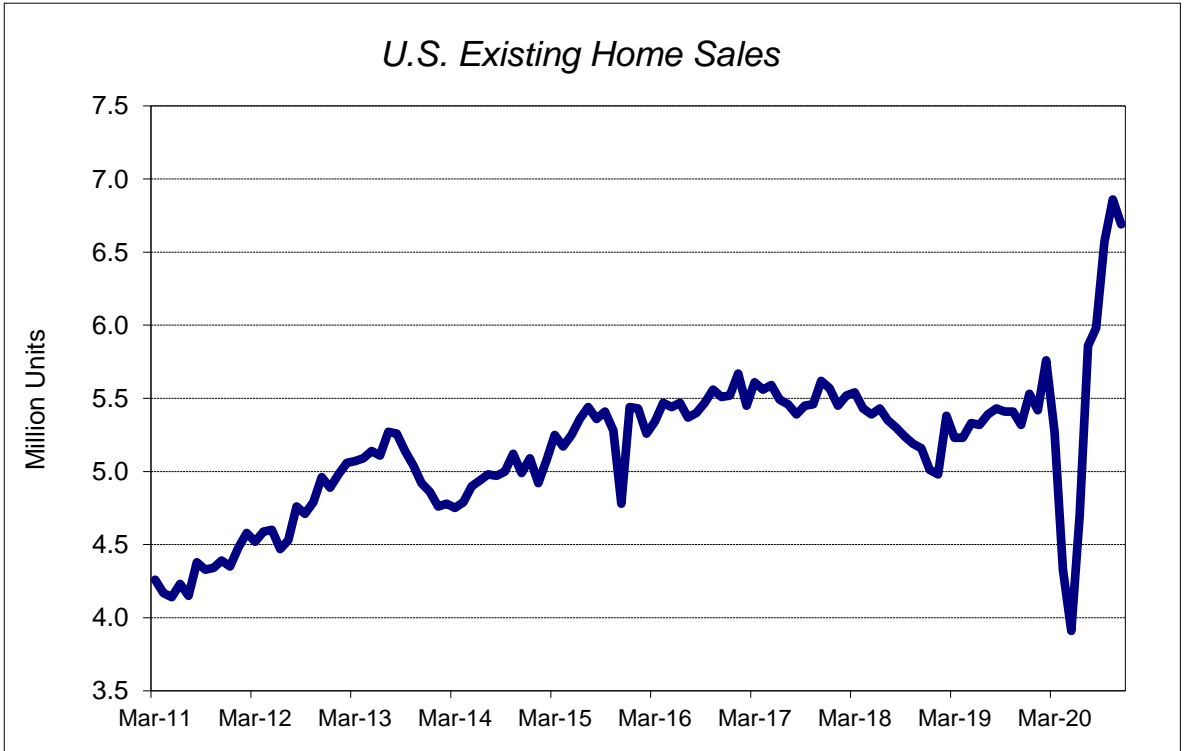
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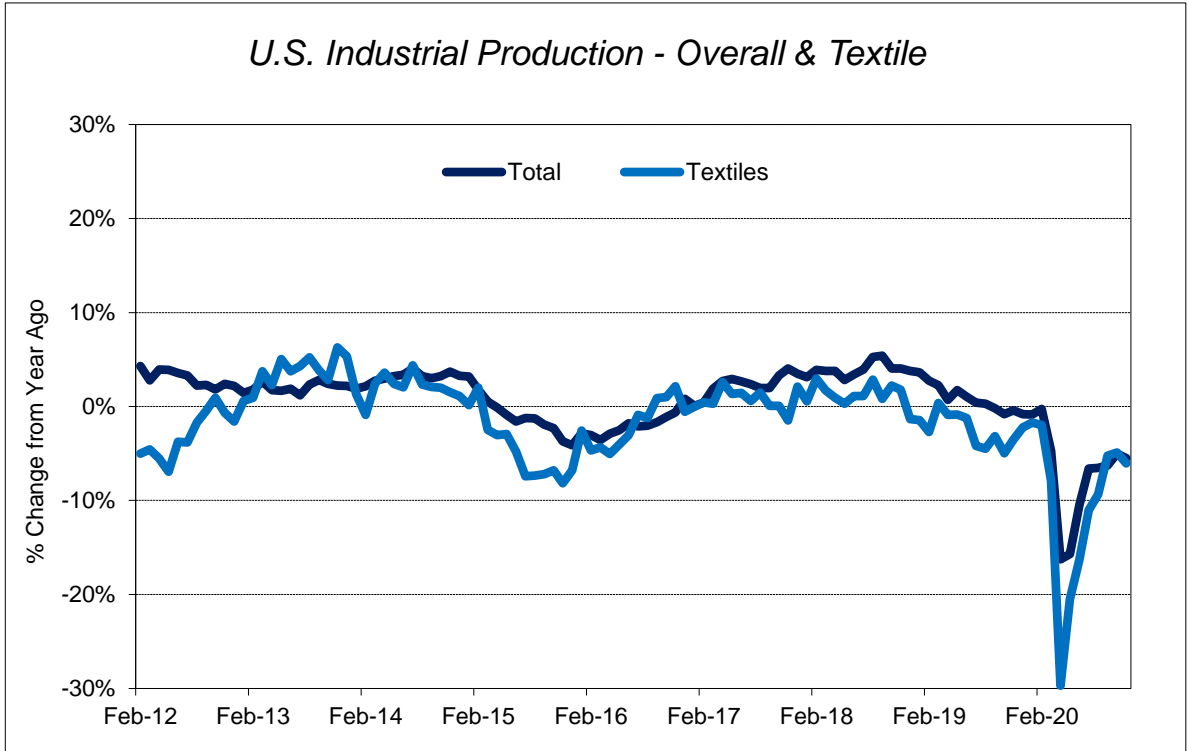
Seasonally Adjusted Annual Rate; Source: Department of Commerce



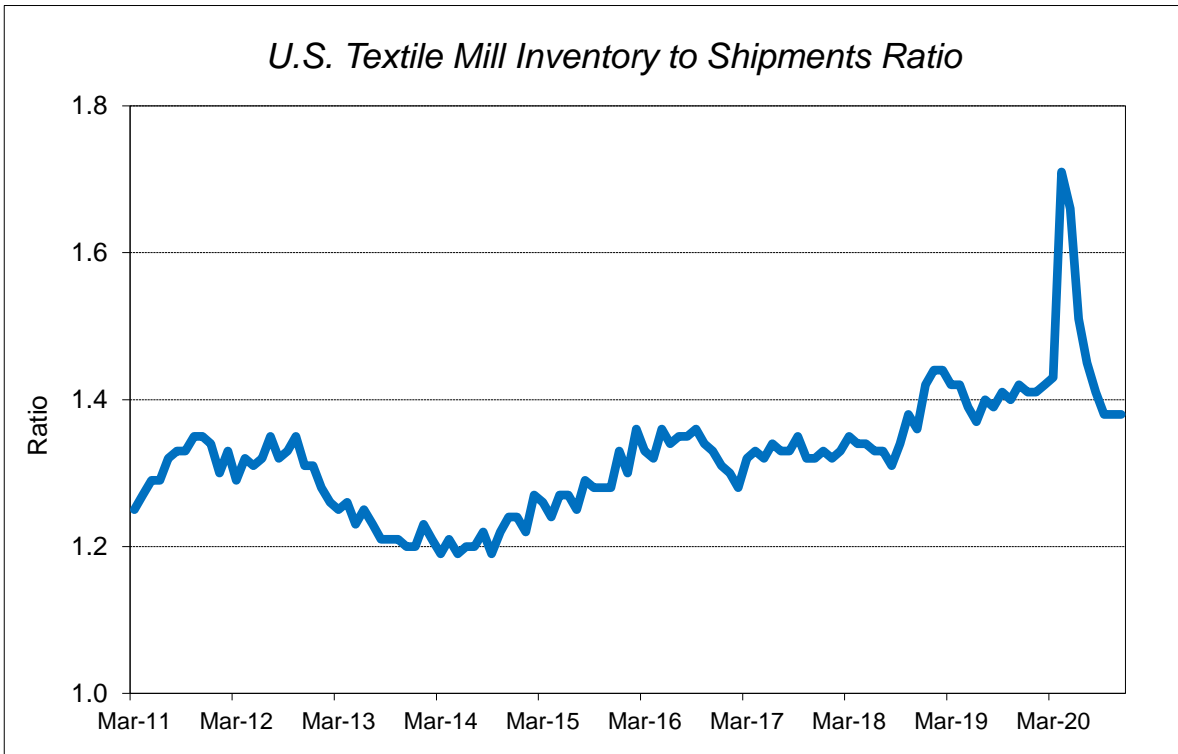
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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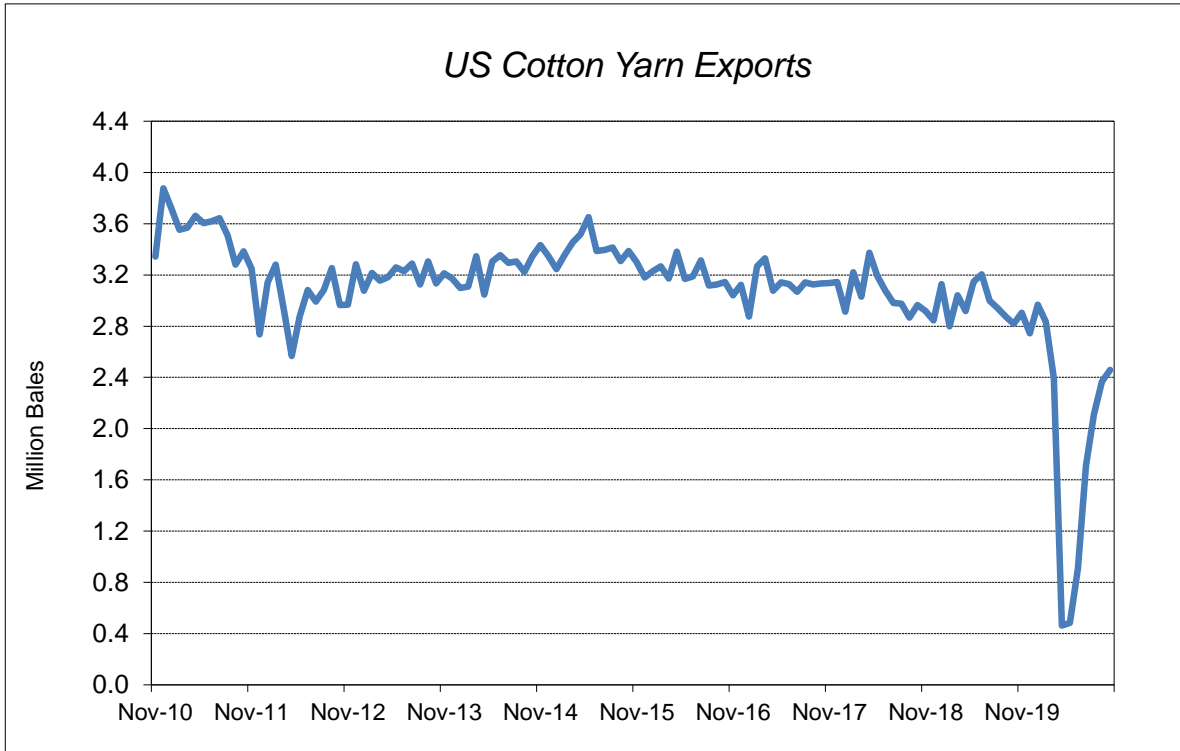
Source: Federal Reserve. Historical data revised to 1997 baseline.



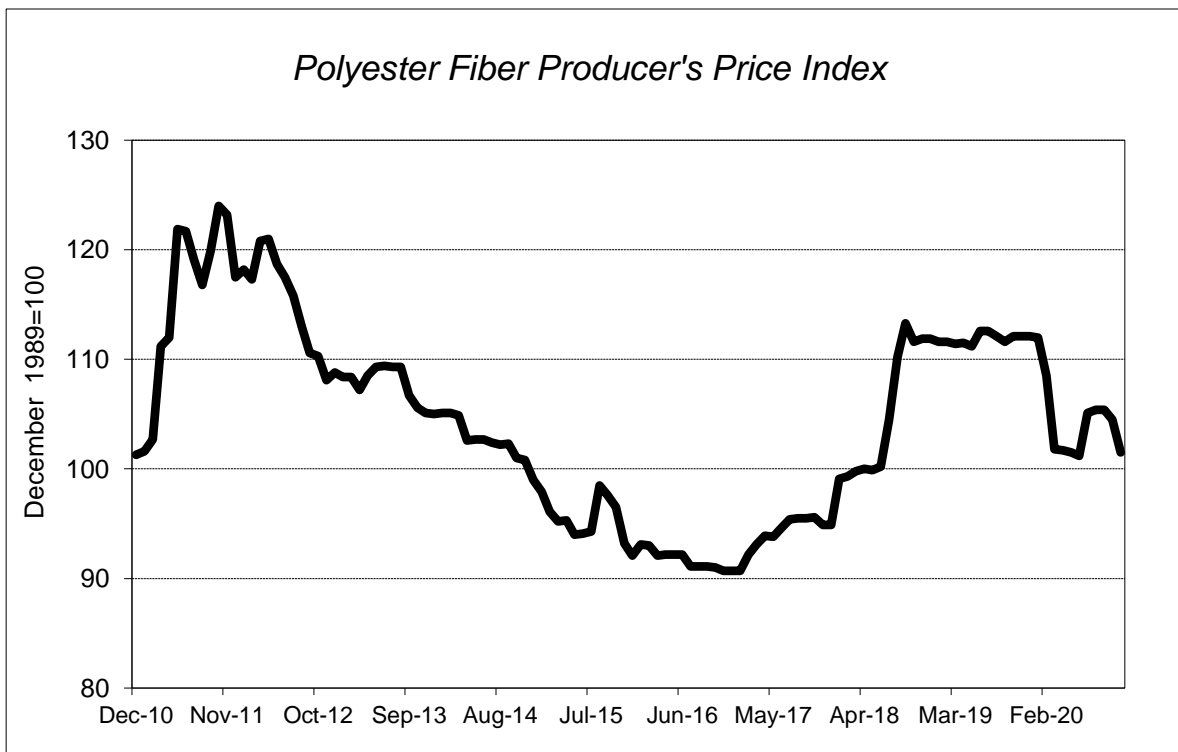
Seasonally Adjusted; Source: Department of Commerce

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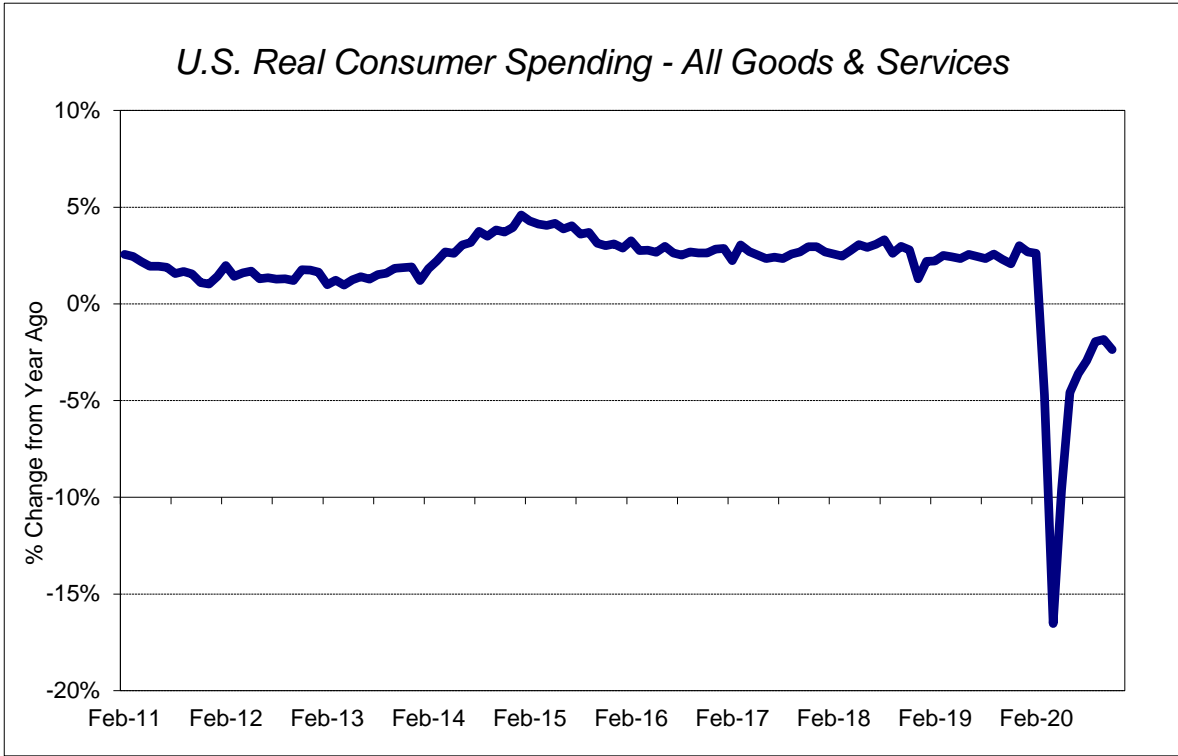
Seasonally Adjusted Annual Rate
 Source: USDA ERS



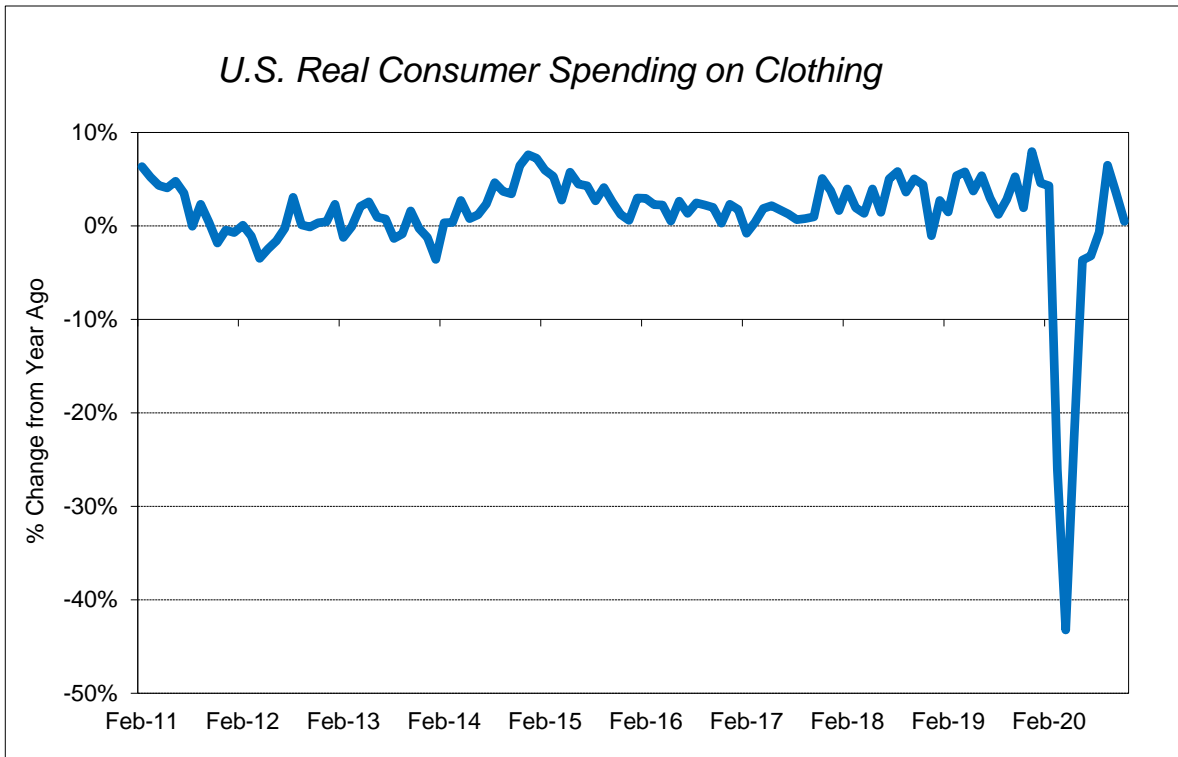
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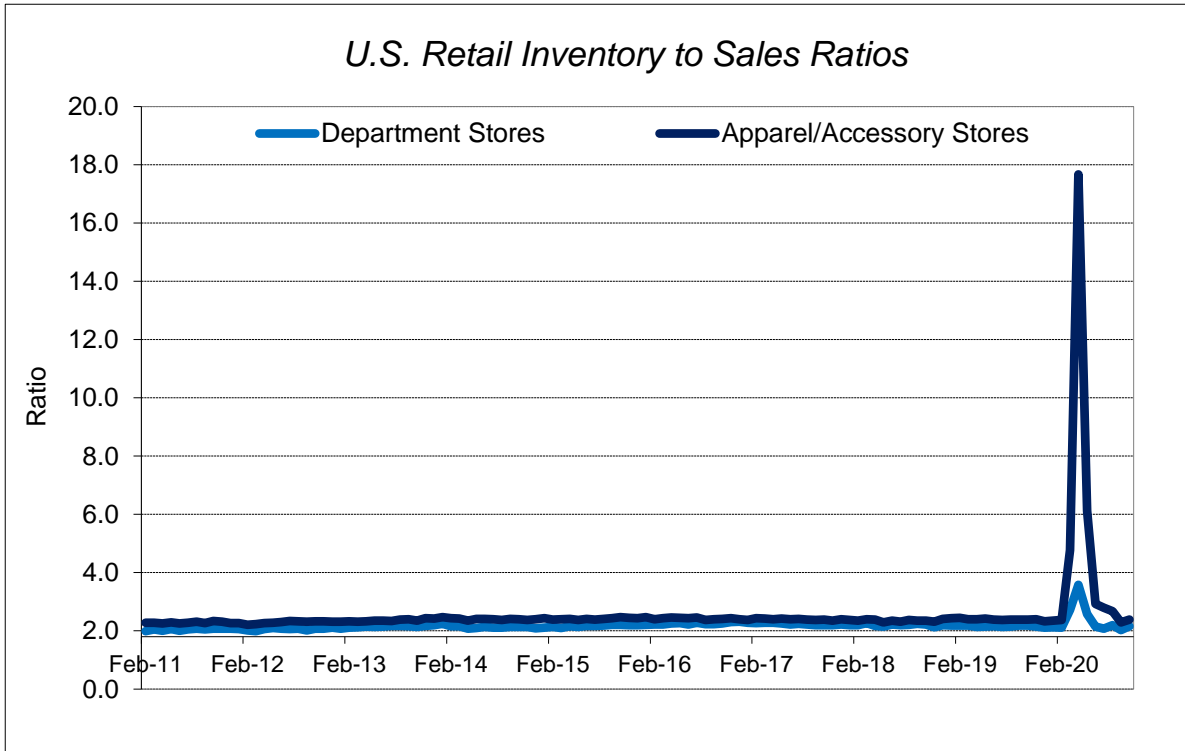
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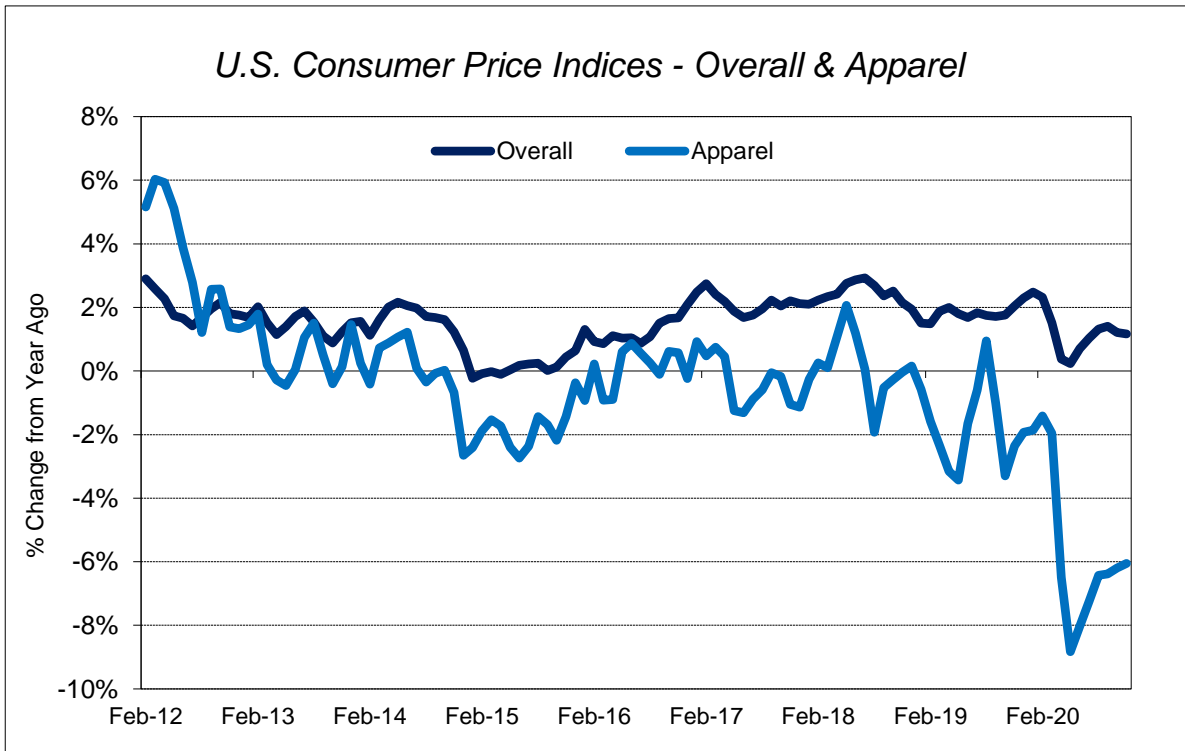
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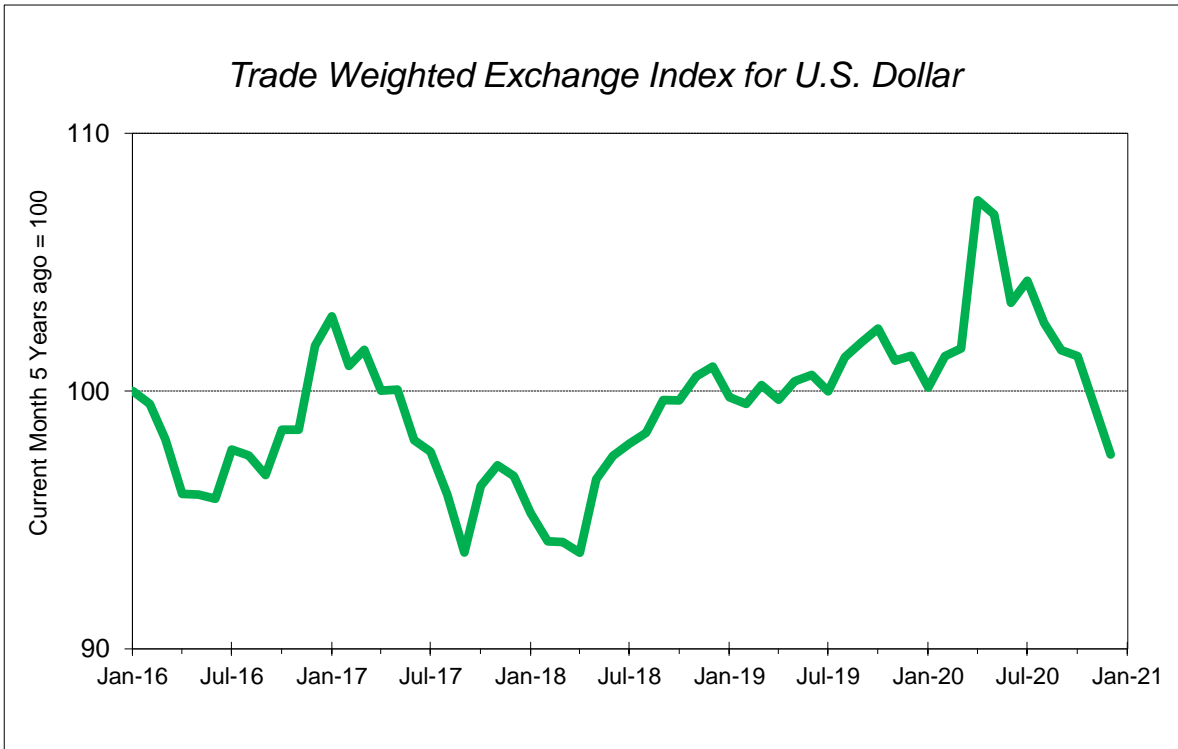
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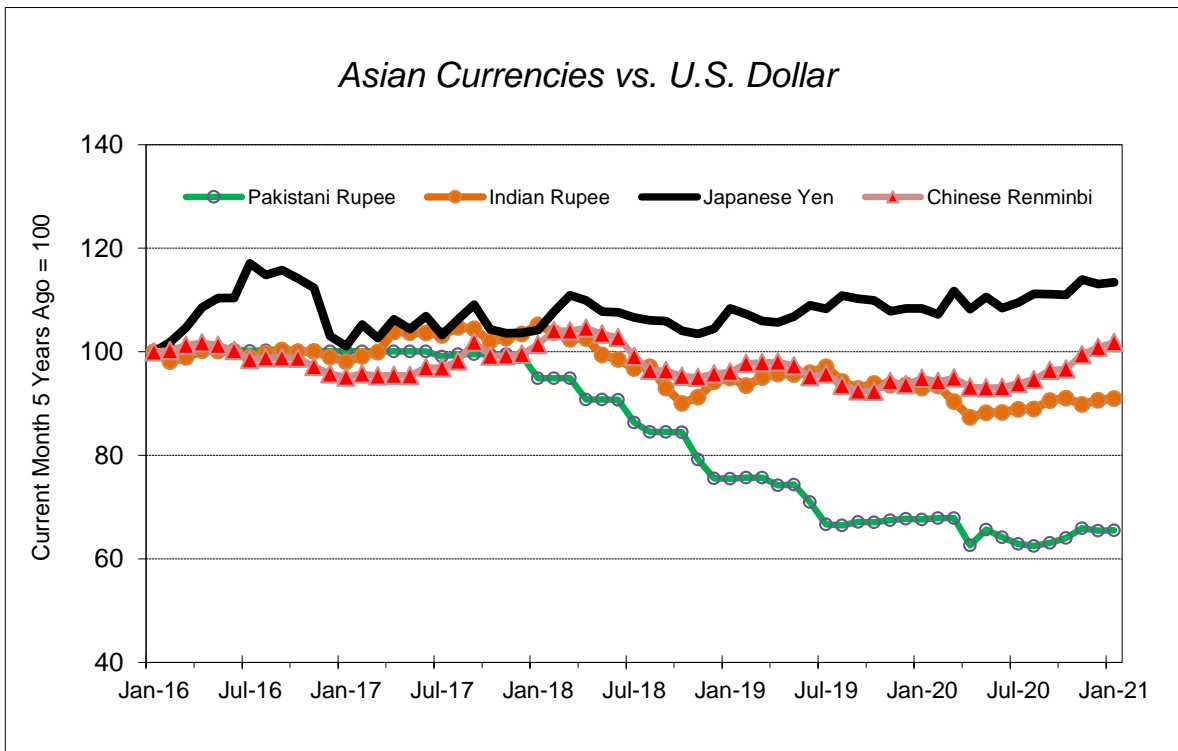
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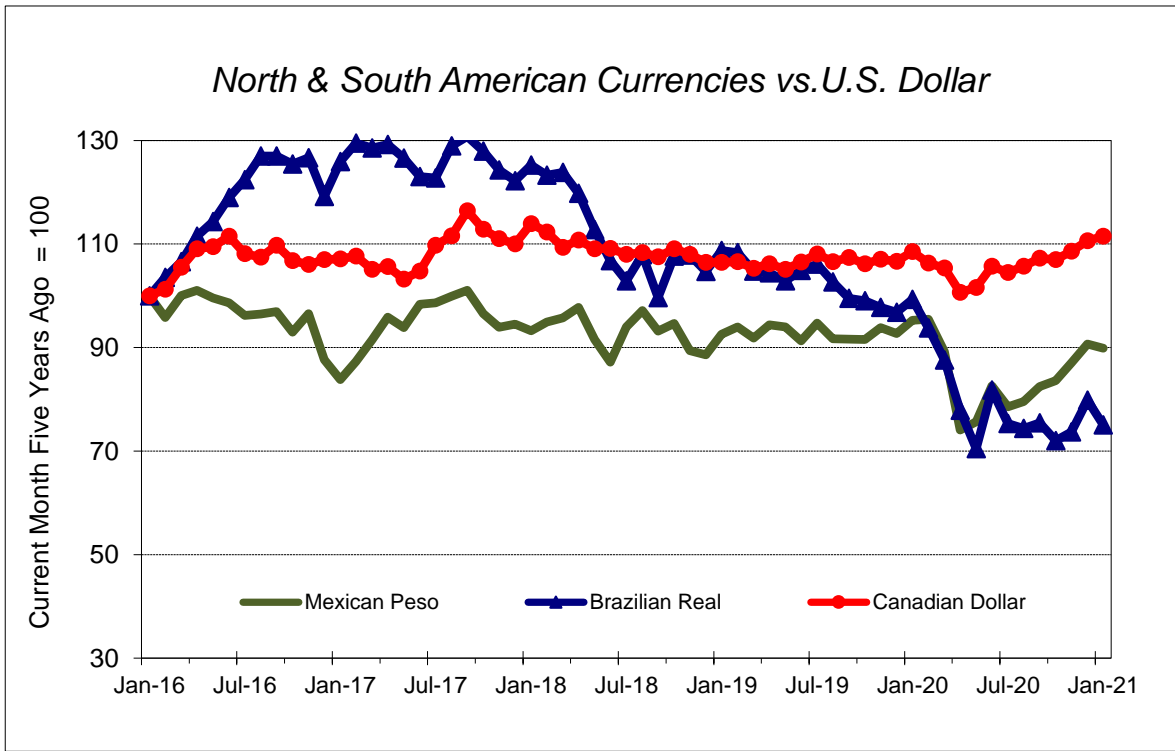
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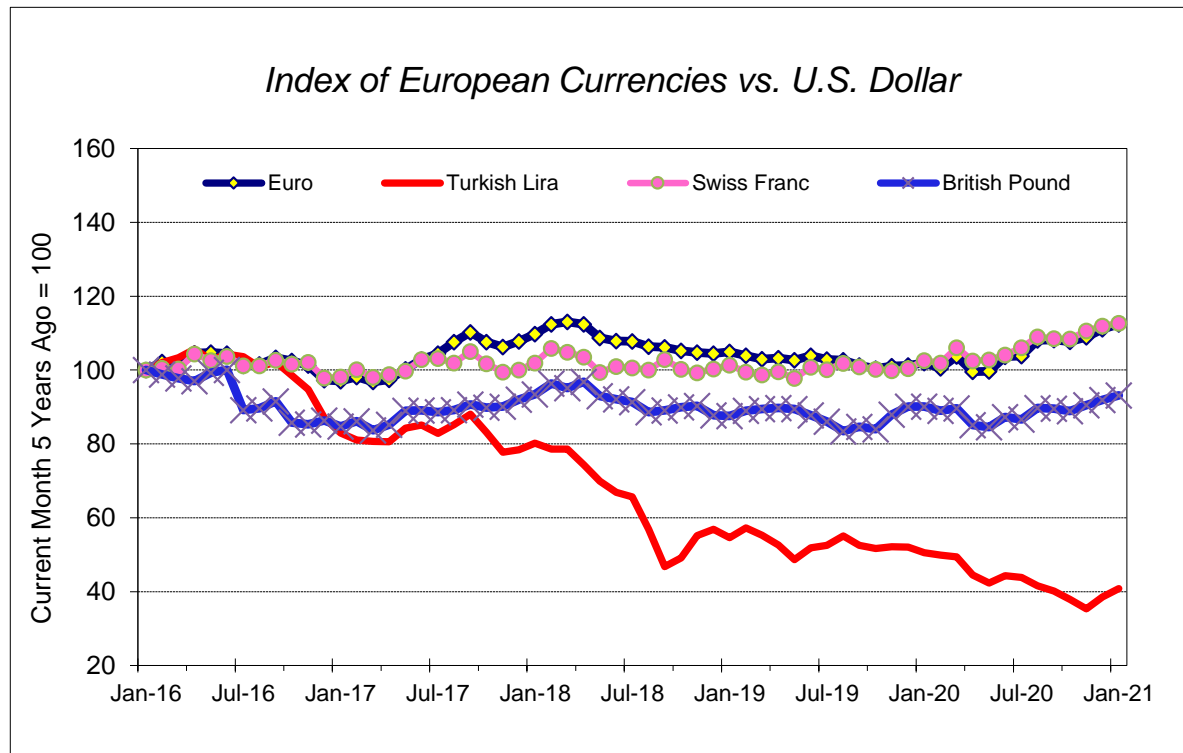
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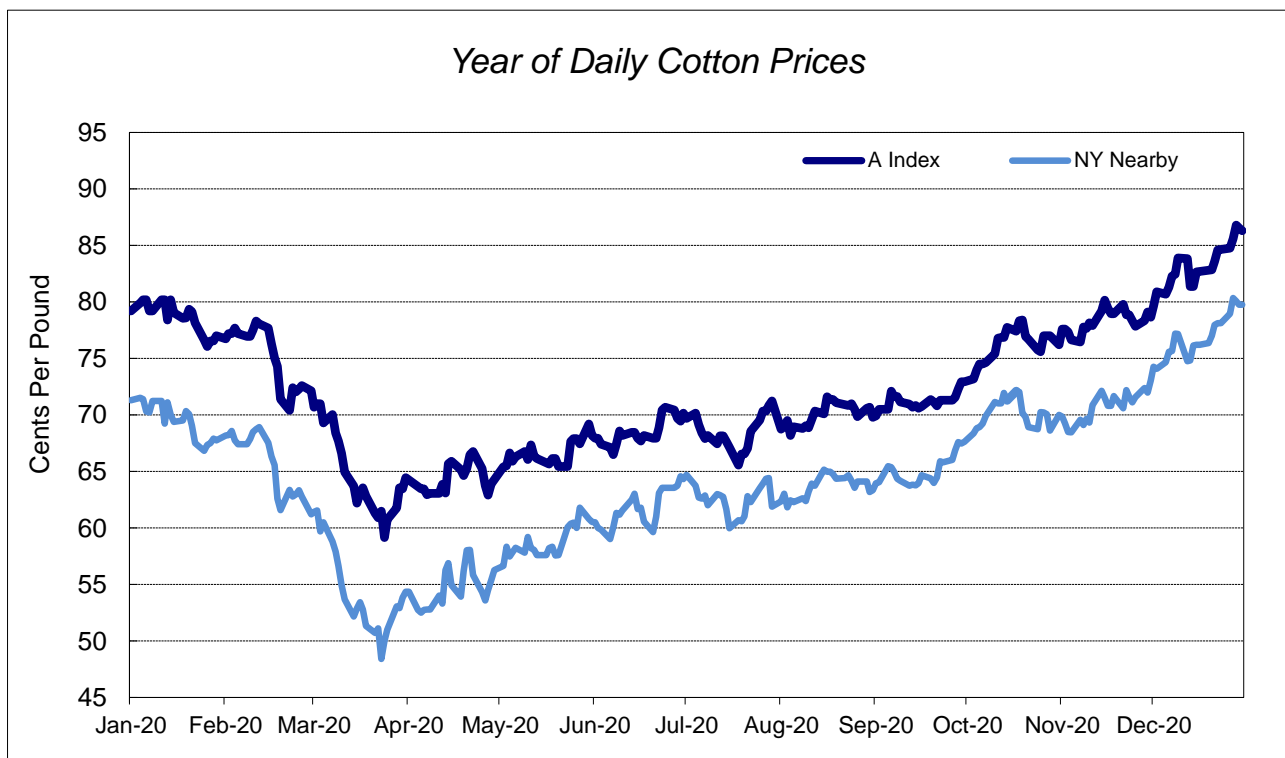
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U.S. Balance Sheet

million 480 lb. bales	2016/17	2017/18	2018/19	2019/20	2020/21 November	2020/21 December
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	15.9
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	21.0	23.7	22.6	24.8	24.3	23.2
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	15.0
Demand	18.2	19.5	17.8	17.7	17.1	17.5
Ending Stocks	2.8	4.2	4.9	7.3	7.2	5.7
Stocks/Use Ratio	15.1%	21.5%	27.2%	41.0%	42.1%	32.6%



Sources: ICE Futures U.S. & Cotton Outlook

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