

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



June 2021

www.cottoninc.com

Macroeconomic Overview: Job growth picked up in May, but the U.S. economy is still down 7.6 million positions since the onset of the COVID crisis. Simultaneously, employers have been reporting difficulty in finding applicants for work. Rising wages could help pull workers back into the economy. The latest data show that the rate of year-over-year change in average hourly earnings accelerated in May (from +0.4% in April to 2.0%). Before COVID, year-over-year rates of wage increase were between 3.0% and 3.5%.

A concern associated with rising wages is inflation. There have already been significant price increases in several segments of the economy. One is the housing market. The latest value (March) for the widely tracked S&P/Case-Shiller index of home prices was up 13.2% year-over-year. Many commodity prices are at multi-year highs. The hack of a pipeline was a temporary accelerant, but energy costs have been trending higher. Bottlenecks in shipping have been associated with price increases for a range of consumer goods.

If inflationary pressures continue, the Federal Reserve may intervene and begin to increase interest rates. However, recent comments from officials with the Federal Reserve indicate that they expect price pressures to be transitory and that stimulative policies will remain in place. Ahead of COVID, the U.S. economy was operating with the lowest unemployment rate in five decades, wages were rising, and interest rates were low by historical standards. Nonetheless, inflation was subdued before COVID, generally holding to levels below the two percent value targeted by the Fed. If the stimulative policies from the Federal Reserve or other central banks are withdrawn, it could hamper economic growth.

Employment: In May, the U.S. economy was estimated to have added +559,000 jobs. Existing figures for March and April were both revised higher (+15,000 for March, +12,000). The number for May is significantly above the gain posted in April (+278,000) but is below the value from March (+785,000). The net change in jobs since the pandemic hit in March 2020 is -7.6 million.

The rate of job loss has continued to decrease. The latest value for initial claims for unemployment insurance was below 400,000 claims/week for the first time since the onset of the pandemic. For context, the worst weeks of the 2007-09 recession had 665,000 claims/week. Following COVID, initial claims did not fall below the peak from the previous recession until early April 2021.

The unemployment rate fell 0.3 points month-over-month in May (from 6.1% to 5.8%). The estimated size of the labor force was stable, so the decline was driven by job growth. Before COVID, there were 3.5 million more people in the labor force, and the unemployment rate was near 3.5%.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence did not change much month-over-month between April and May (117.5 to 117.2). The index remains below levels before COVID (132.6 in February 2020) but is above the long-term average near 93.

After a strong month-over-month increase in March (+4.1%), overall consumer spending was nearly flat in April (-0.1% month-over-month). Year-over-year comparisons are being made against April 2020, which was the month with the steepest COVID-driven declines. In April 2020, overall spending was down 16.5% year-over-year. In April 2021, overall spending was 24.0% higher year-over-year. Relative to 2019 (pre-COVID), overall spending in April 2021 was 3.5% higher.

Figures for spending on apparel are more volatile. In March, clothing spending grew 14.6% month-over-month but was down 2.7% in April. In April 2020, apparel spending was down 43.2% year-over-year. In April 2021, apparel spending was up 100.2% year-over-year. Relative to April 2019 (pre-COVID), apparel spending was 13.7% higher.

Consumer Prices & Import Data: Retail prices for apparel increased month-over-month in April (+0.3%). Values for year-over-year changes in prices are also affected by comparison against the most severe months of COVID-driven shutdown.

Even ahead of the shutdown, there had been a downtrend in retail prices. Year-over-year, prices were lower in 17 of the 18 months that preceded the outbreak (August 2018 through February 2020). In April 2020, retail apparel prices were down -6.4% year-over-year. Against this lower level, retail prices posted their first year-over-year increase since the pandemic (+1.3% in April 2021).

Average import costs for cotton-dominant apparel may have formed a post-COVID bottom. In terms of cost per square meter equivalent (SME), values hovered near \$3.00/SME between December and March (seasonally adjusted). In the latest available data (April), values rose to \$3.11/SME.

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
June 2021



Macroeconomic Data

| Quarterly Data | Recent Averages | | | | Values in Recent Quarters | | | Unit | Source |
|-----------------------|-----------------|--------|---------|---------|---------------------------|-----------|-----------|------------------------|------------------------|
| | 5-year | 1-year | 6-month | 3-month | Q3 : 2020 | Q4 : 2020 | Q1 : 2021 | | |
| Growth in US Real GDP | 2.0% | 1.7% | 18.9% | 4.3% | 33.4% | 4.3% | 6.4% | % Chg. Quarter/Quarter | Department of Commerce |

Macroeconomic Series with Latest Data for May

| | Recent Averages | | | | Values in Recent Months | | | Unit | Source |
|---|-----------------|--------|---------|---------|-------------------------|-------|-------|-------------------|---------------------------------|
| | 5-year | 1-year | 6-month | 3-month | March | April | May | | |
| ISM Index of Manufacturing Activity | 55.0 | 54.4 | 60.5 | 62.1 | 64.7 | 60.7 | 61.2 | Index | Institute for Supply Management |
| ISM Index of Non-Manufacturing Activity | 56.5 | 56.4 | 59.2 | 60.6 | 63.7 | 62.7 | 64.0 | Index | Institute for Supply Management |
| Consumer Confidence | 116.5 | 117.3 | 99.1 | 109.2 | 114.9 | 117.5 | 117.2 | Index | The Conference Board |
| Change in Non-Farm Payrolls | 8.1 | -112.8 | 298.3 | 533.0 | 785 | 278 | 559 | Thousands of jobs | Bureau of Labor Statistics |
| Unemployment Rate | 5.1% | 5.5% | 6.3% | 6.1% | 6.0% | 6.1% | 5.8% | Rate | Bureau of Labor Statistics |
| US Interest Rates | | | | | | | | | |
| Federal Funds | 1.1% | 1.3% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | Interest rate | Federal Reserve |
| 10-year Treasury Bill | 2.0% | 1.8% | 1.2% | 1.5% | 1.6% | 1.6% | 1.6% | Interest rate | Federal Reserve |

Macroeconomic Series with Latest Data for April

| | Recent Averages | | | | Values in Recent Months | | | Unit | Source |
|--------------------------------------|-----------------|--------|---------|---------|-------------------------|-------|-------|--------------------------------|----------------------------------|
| | 5-year | 1-year | 6-month | 3-month | March | April | April | | |
| Index of Leading Economic Indicators | 107.0 | 109.4 | 110.7 | 111.6 | 110.1 | 111.5 | 113.3 | Index | The Conference Board |
| Housing Starts | 13.0 | 13.5 | 16.1 | 16.5 | 1.4 | 1.7 | 1.6 | Annual pace, millions of units | Department of Commerce |
| Existing Home Sales | 5.5 | 5.5 | 6.3 | 5.9 | 5.9 | 6.0 | 5.9 | Annual pace, millions of units | National Association of Realtors |

Industrial & Textile Data

Industrial & Textile 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 | | |
| US Industrial Production | 105.7 | 106.5 | 105.6 | 106.0 | 105.6 | 106.3 | 106.3 | Index, 2002=100 | Federal Reserve |
| Polyester Fiber PPI | 106.1 | 94.1 | 92.5 | 92.2 | 98.2 | 97.9 | 98.2 | Index, December 2003=100 | Bureau of Labor Statistics |

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 | | |
| Bale Equivalence of US Cotton Yarn & Fabric Exports | 3.2 | 2.3 | 3.2 | 4.0 | 2.4 | 4.3 | 5.2 | million 480lb bales | USDA ERS |

Industrial & Textile 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 | | |
| US Textile Mill Inventory/Shipments Ratio | 1.39 | 1.42 | 1.35 | 1.36 | 1.36 | 1.33 | 1.38 | Ratio | Department of Commerce |

Retail Data

Retail 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 | | |
| US Real Consumer Spending | | | | | | | | | |
| All Goods and Services | 1.6% | 0.9% | 5.3% | 16.5% | -2.1% | 8.9% | 24.0% | % Chg. Year/Year | Department of Commerce |
| Clothing | 3.3% | 4.3% | 31.9% | 79.9% | 1.1% | 59.6% | 100.2% | % Chg. Year/Year | Department of Commerce |
| Consumer Price Indices | | | | | | | | | |
| Overall | 1.9% | 1.8% | 2.2% | 3.4% | 1.7% | 2.6% | 4.2% | % Chg Year/Year | Bureau of Labor Statistics |
| Clothing | -1.6% | -2.8% | -2.6% | -0.9% | -3.9% | -3.1% | 1.3% | % Chg. Year/Year | Bureau of Labor Statistics |

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 | | |
| Retail Inventory/Sales Ratio | | | | | | | | | |
| Clothing and Clothing Accessory Stores | 2.8 | 3.1 | 2.2 | 1.9 | 2.3 | 2.4 | 1.9 | Ratio | Department of Commerce |
| Department Stores | 2.1 | 2.1 | 2.0 | 1.8 | 1.9 | 2.0 | 1.8 | Ratio | Department of Commerce |

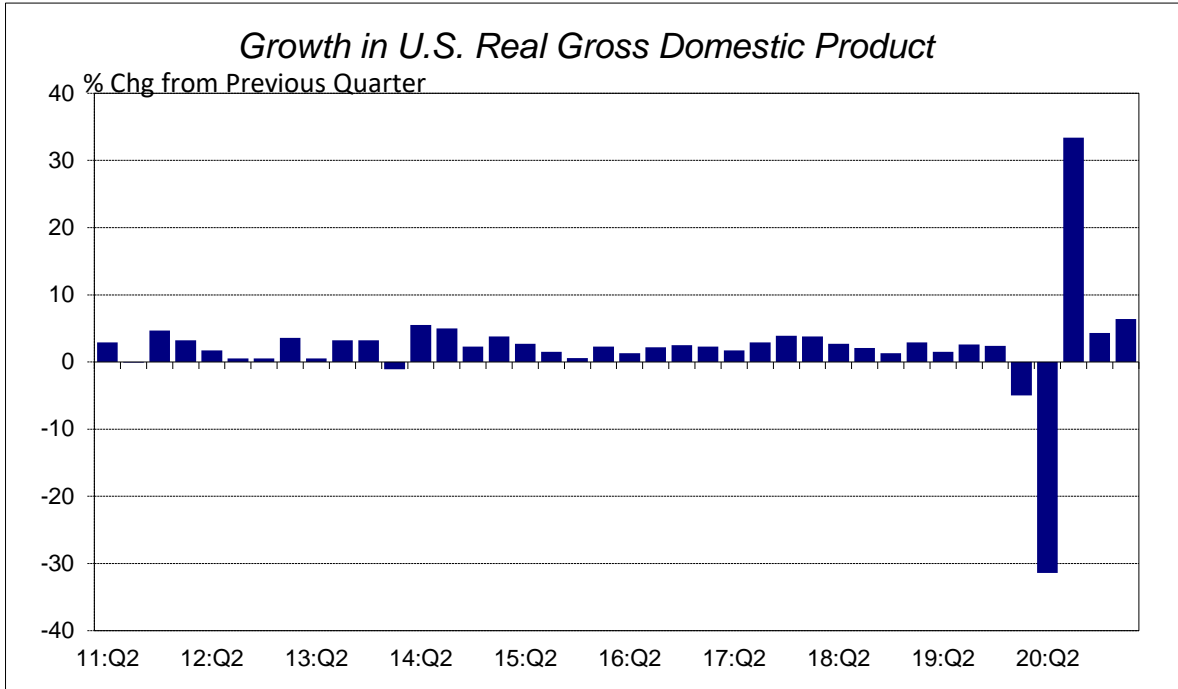
Executive Cotton Update

Daily Cotton Price and Currency Data

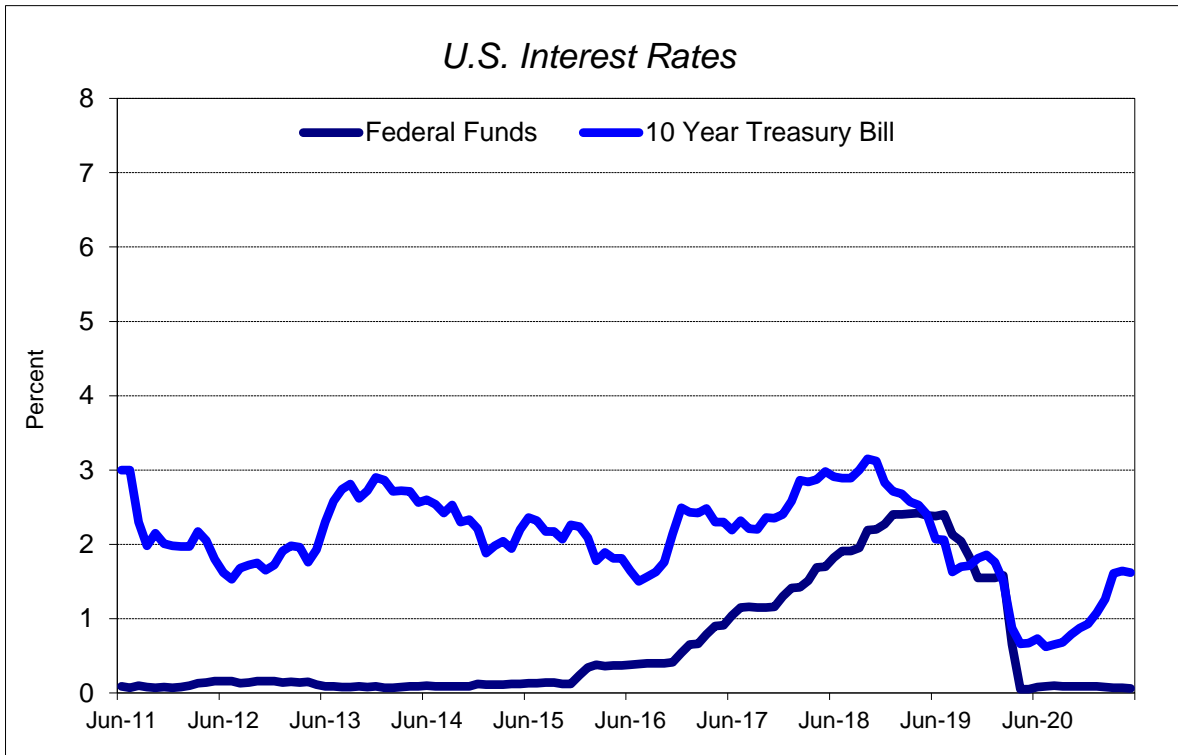
June 2021



| Daily Cotton Price Data | Recent Averages | | | | Averages over Recent Months | | | Unit | Source |
|--------------------------------------|-----------------|--------|---------|---------|-----------------------------|--------|--------|----------------------------|-----------------|
| | 5-year | 1-year | 6-month | 3-month | March | April | May | | |
| NY Nearby | 70.9 | 71.6 | 71.1 | 69.9 | 85.3 | 83.7 | 84.9 | cents/pound | ICE |
| A Index | 79.7 | 80.6 | 79.7 | 78.4 | 91.3 | 90.5 | 90.9 | cents/pound | Cotlook |
| Daily Currency Data | Recent Averages | | | | Averages over Recent Months | | | Unit | Source |
| | 5-year | 1-year | 6-month | 3-month | March | April | May | | |
| Dollar Trade Weighted Exchange Index | 114.3 | 115.7 | 112.6 | 113.1 | 114.6 | 113.4 | 111.3 | Index, January 1997=100 | Federal Reserve |
| Asian Currencies | | | | | | | | | |
| Chinese Renminbi | 6.76 | 6.83 | 6.50 | 6.51 | 6.52 | 6.55 | 6.46 | Chinese Renminbi/US dollar | Reuters |
| Indian Rupee | 69.51 | 72.12 | 73.52 | 73.77 | 73.25 | 74.56 | 73.51 | Indian Rupee/US dollar | Reuters |
| Japanese Yen | 108.84 | 108.42 | 106.63 | 108.90 | 108.86 | 109.27 | 108.57 | Japanese Yen/US dollar | Reuters |
| Pakistani Rupee | 132.38 | 149.60 | 156.99 | 154.05 | 156.98 | 152.80 | 152.38 | Pakistani Rupee/US dollar | Reuters |
| North & South American Currencies | | | | | | | | | |
| Brazilian Real | 4.01 | 4.51 | 5.38 | 5.50 | 5.72 | 5.58 | 5.21 | Brazilian Real/US dollar | Reuters |
| Canadian Dollar | 1.31 | 1.32 | 1.26 | 1.25 | 1.27 | 1.26 | 1.22 | Canadian dollar/US dollar | Reuters |
| Mexican Peso | 19.67 | 20.16 | 20.20 | 20.48 | 21.45 | 20.09 | 19.90 | Mexican Peso/US dollar | Reuters |
| European Currencies | | | | | | | | | |
| British Pound | 0.77 | 0.77 | 0.73 | 0.72 | 0.72 | 0.73 | 0.72 | British Pound/US dollar | Reuters |
| Euro | 0.88 | 0.87 | 0.83 | 0.84 | 0.84 | 0.84 | 0.82 | Euro/US dollar | Reuters |
| Swiss Franc | 0.97 | 0.96 | 0.91 | 0.92 | 0.94 | 0.93 | 0.90 | Swiss Franc/US dollar | Reuters |
| Turkish Lira | 5.23 | 6.36 | 7.73 | 8.03 | 7.71 | 8.15 | 8.23 | Turkish Lira/US dollar | Reuters |



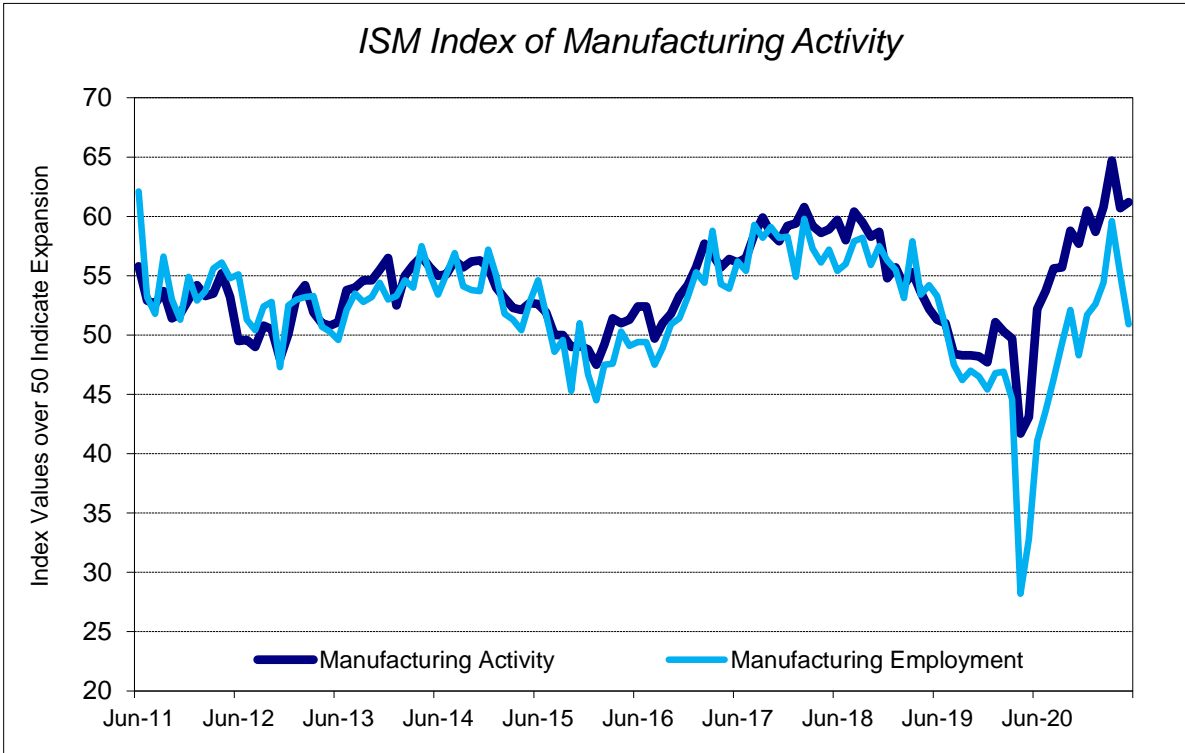
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



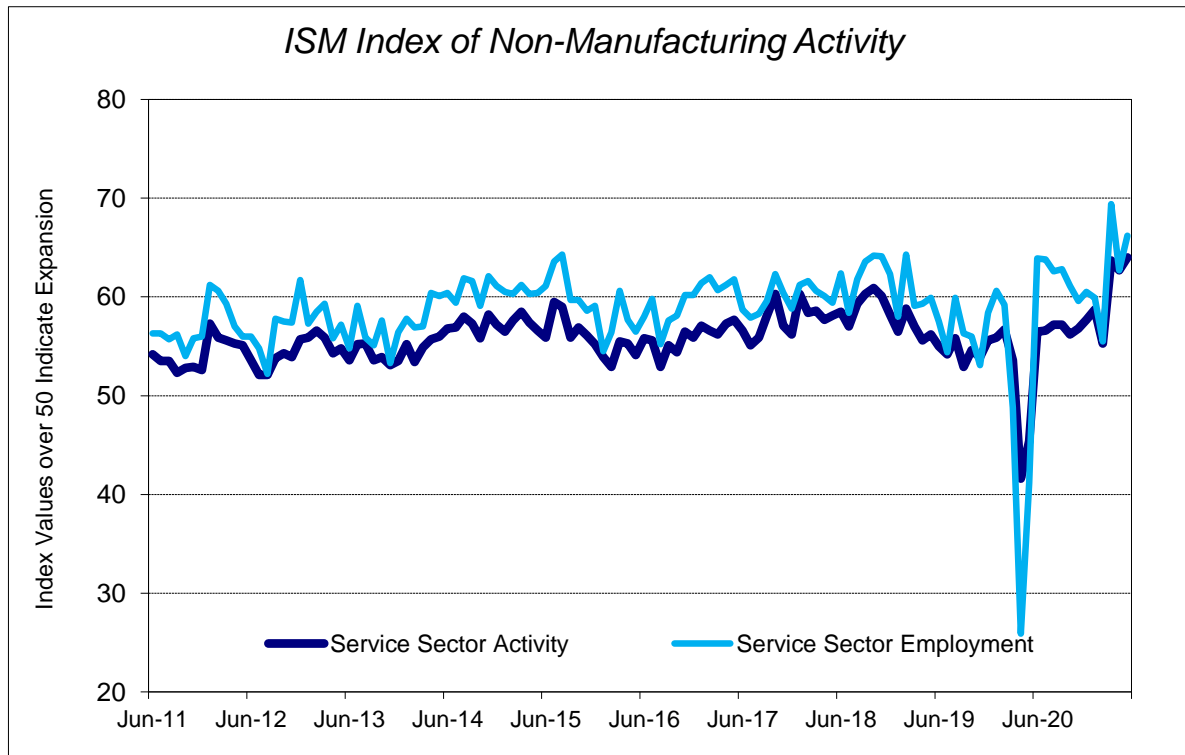
Source: Federal Reserve

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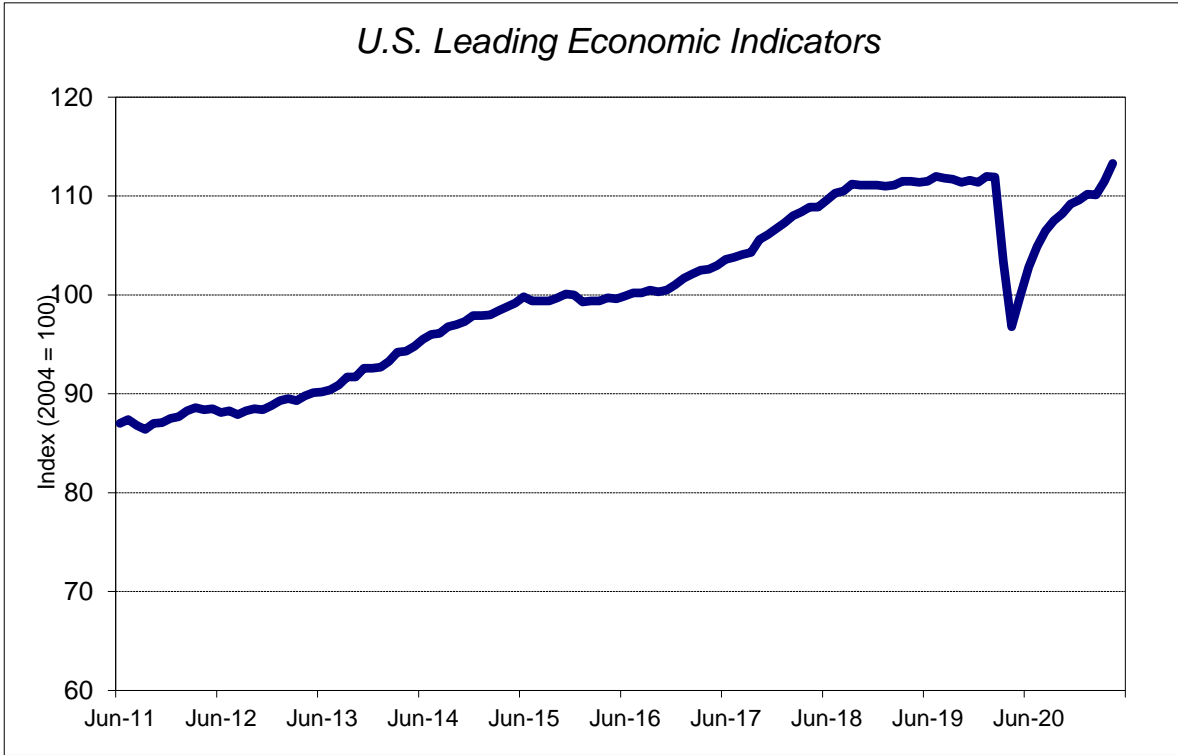
Source: Institute for Supply Chain Management



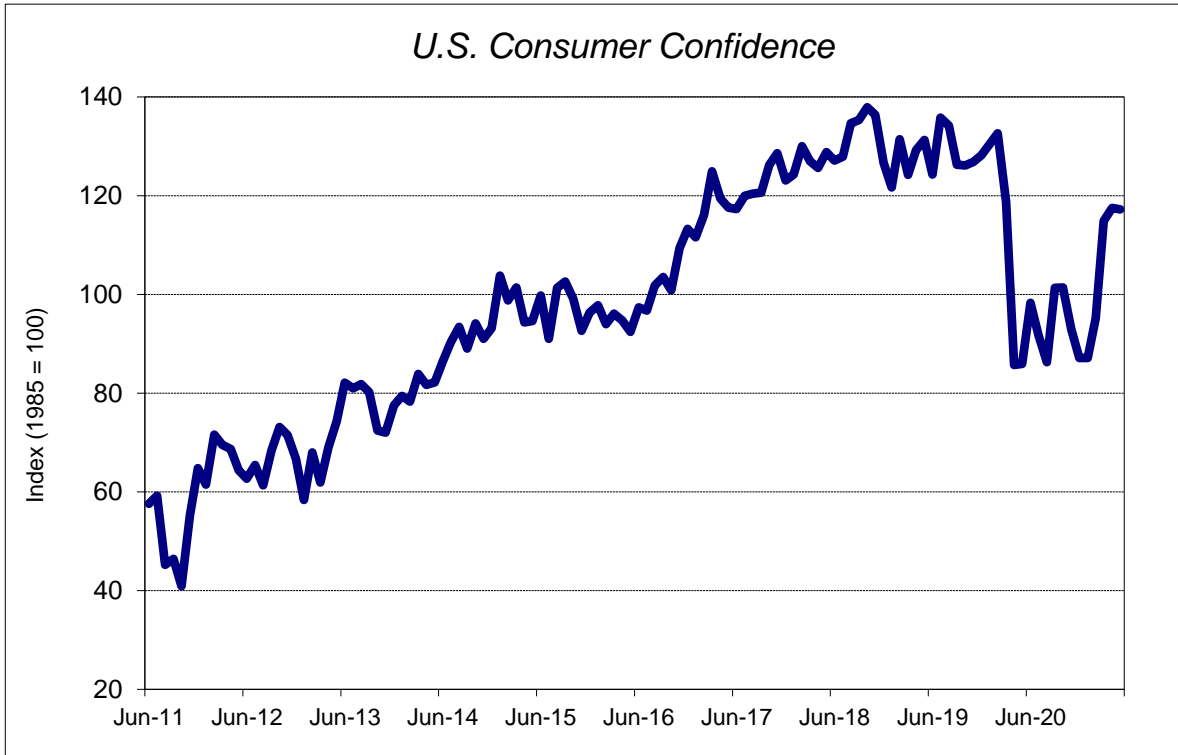
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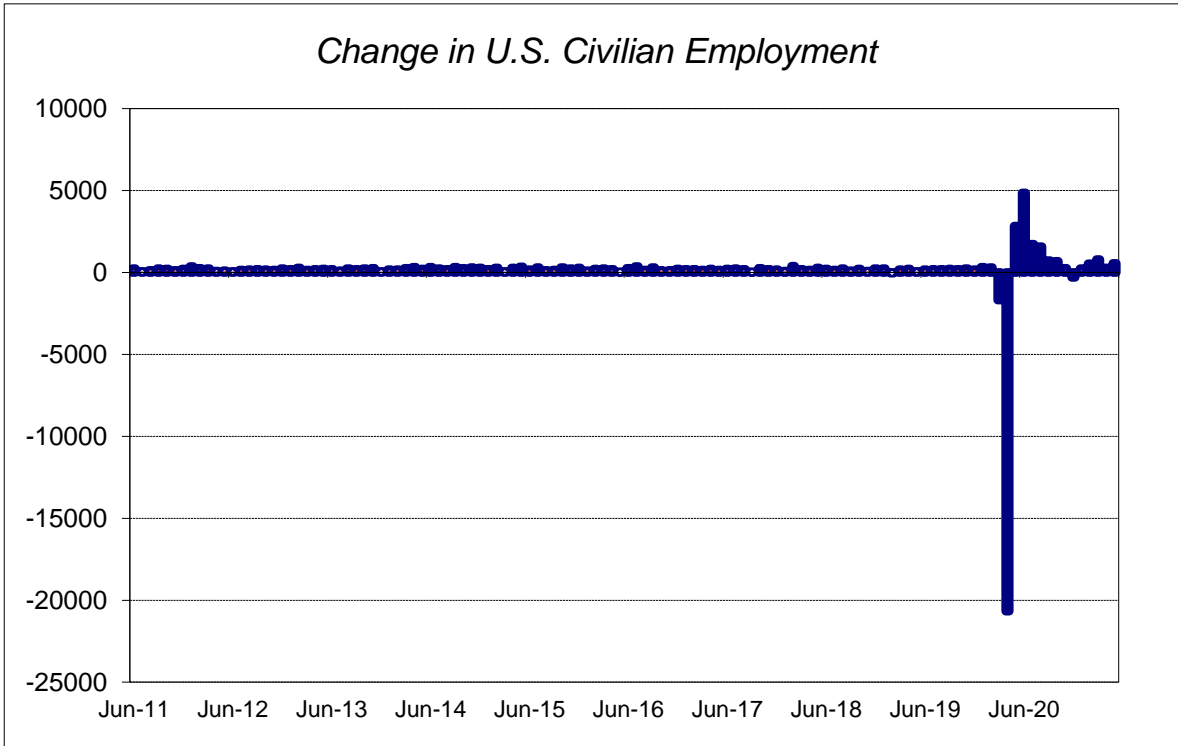
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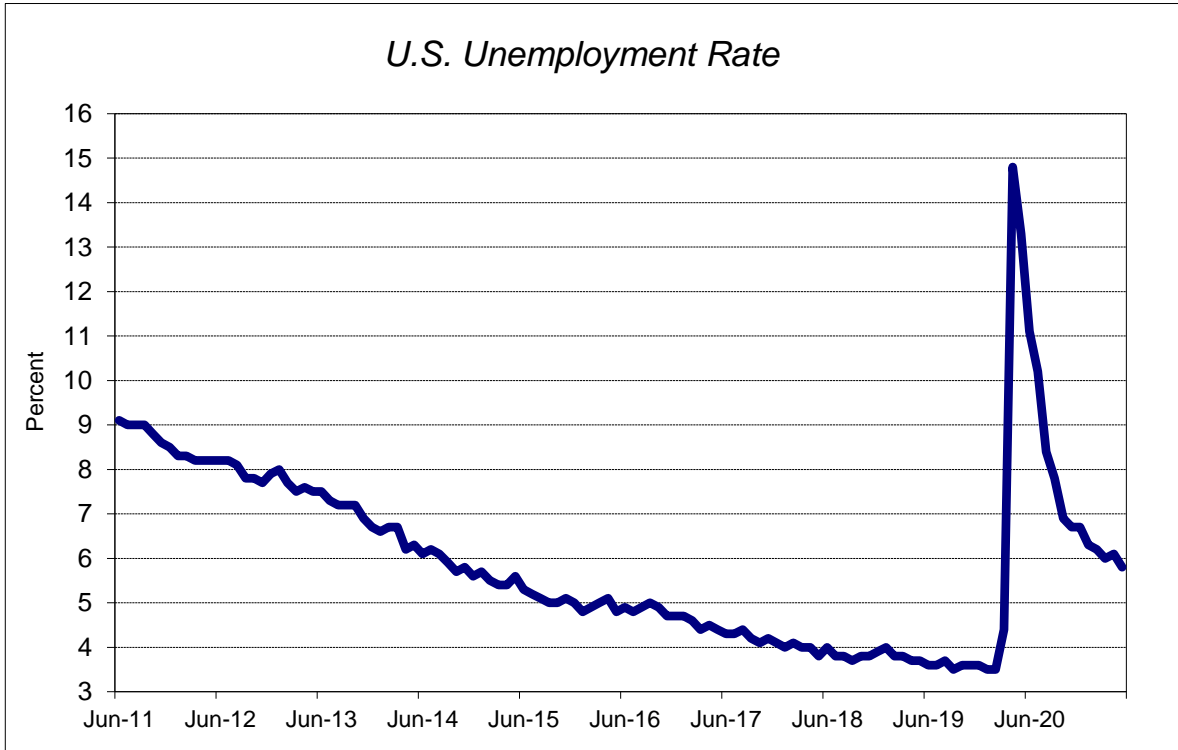
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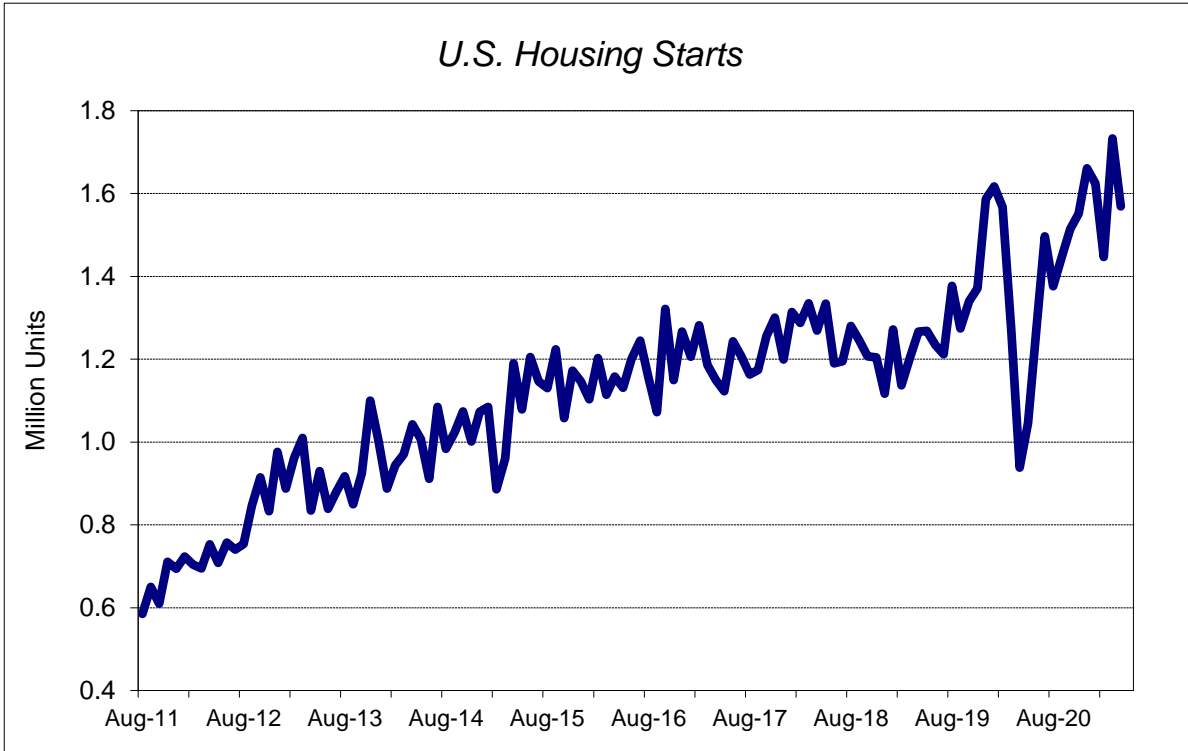
Source: Bureau of Labor Statistics



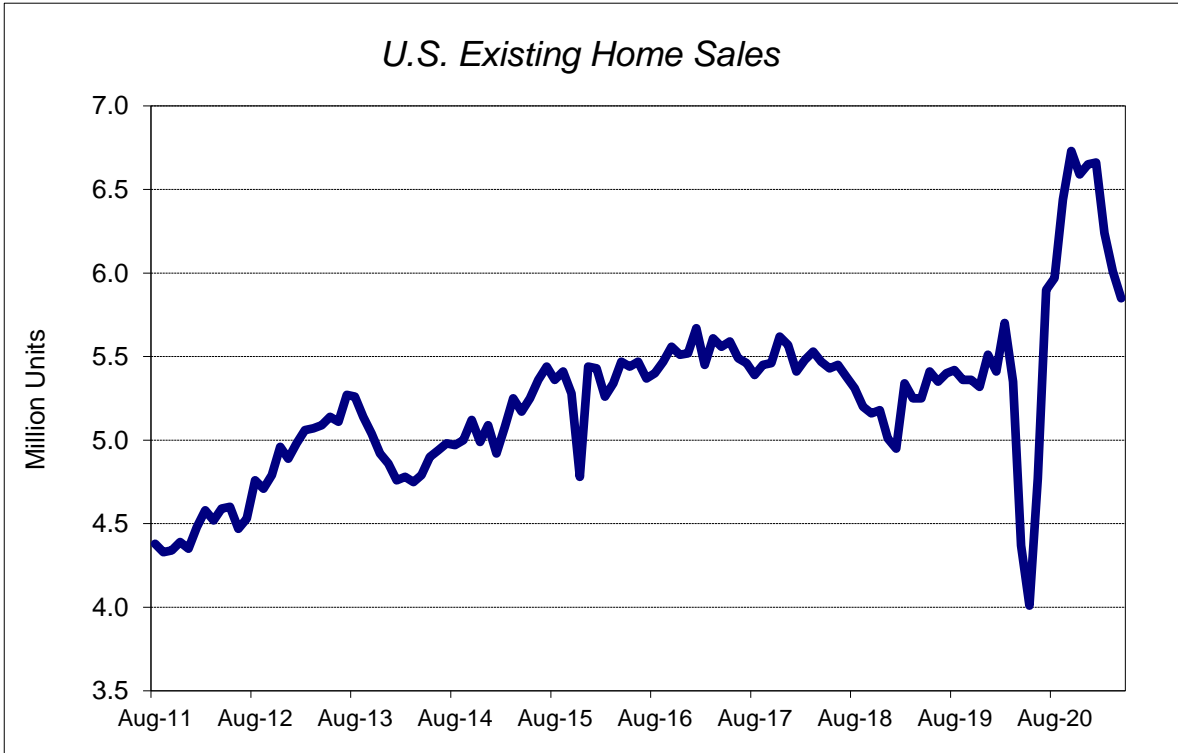
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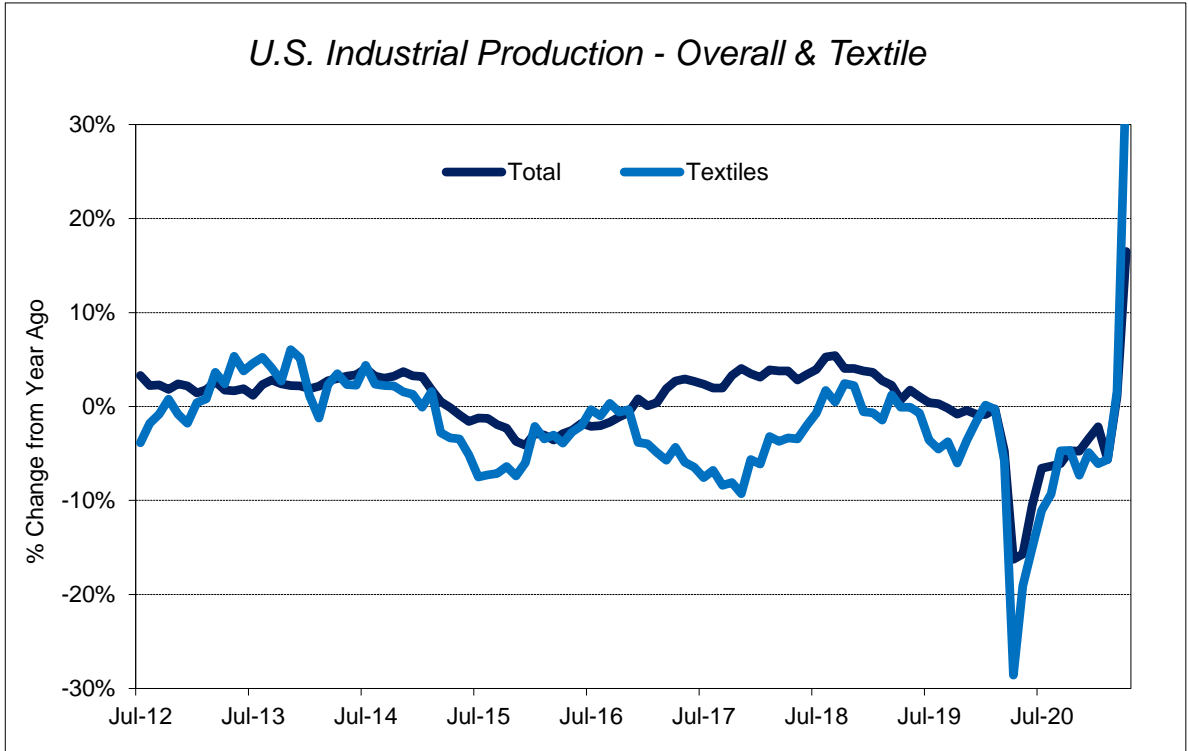
Seasonally Adjusted Annual Rate; Source: Department of Commerce



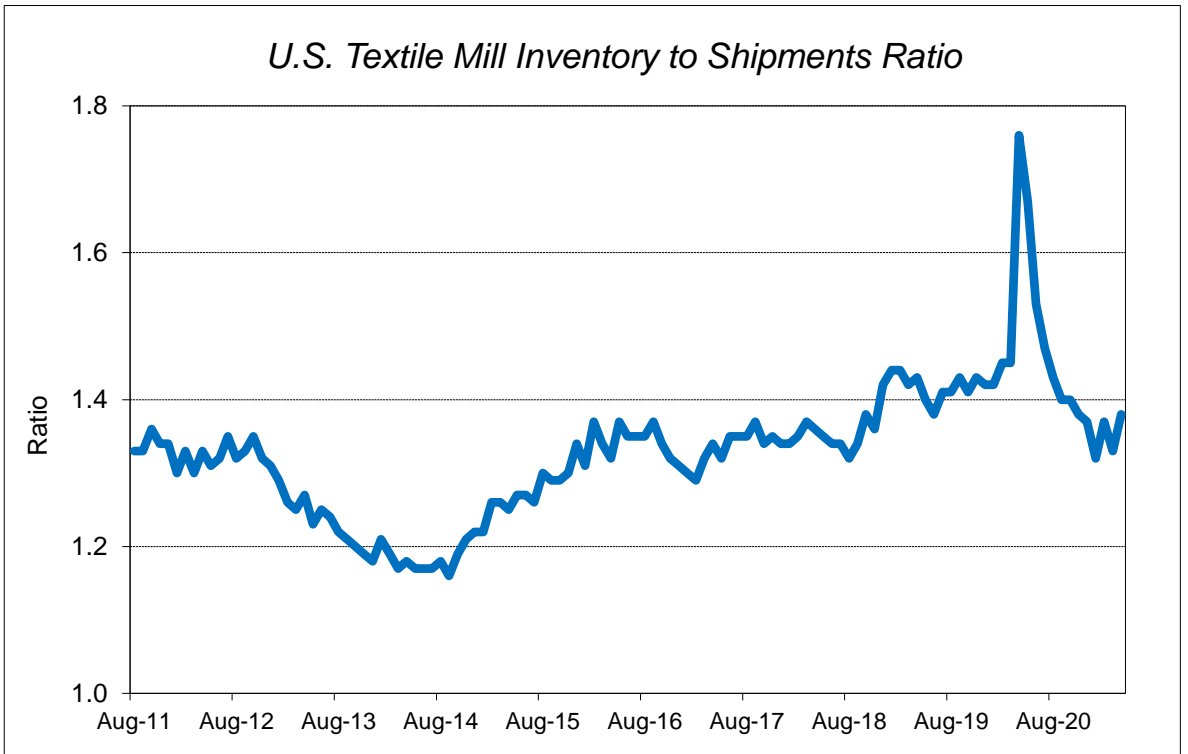
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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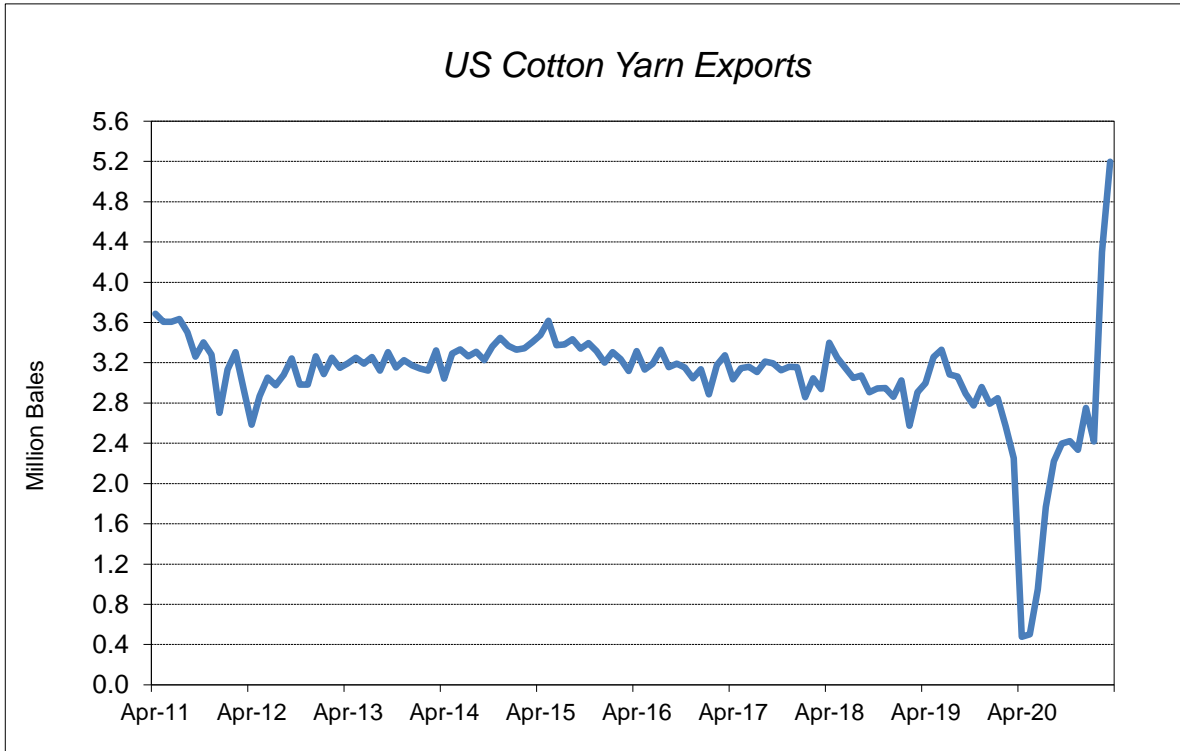
Source: Federal Reserve. Historical data revised to 1997 baseline.



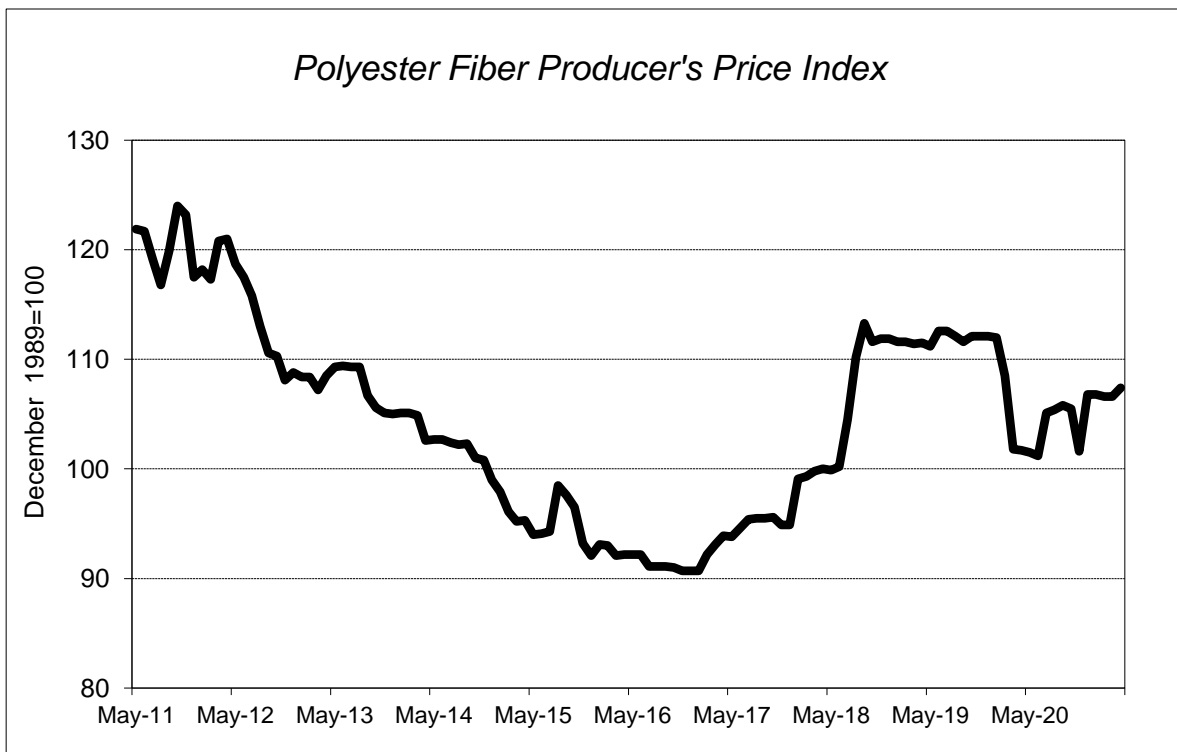
Seasonally Adjusted; Source: Department of Commerce

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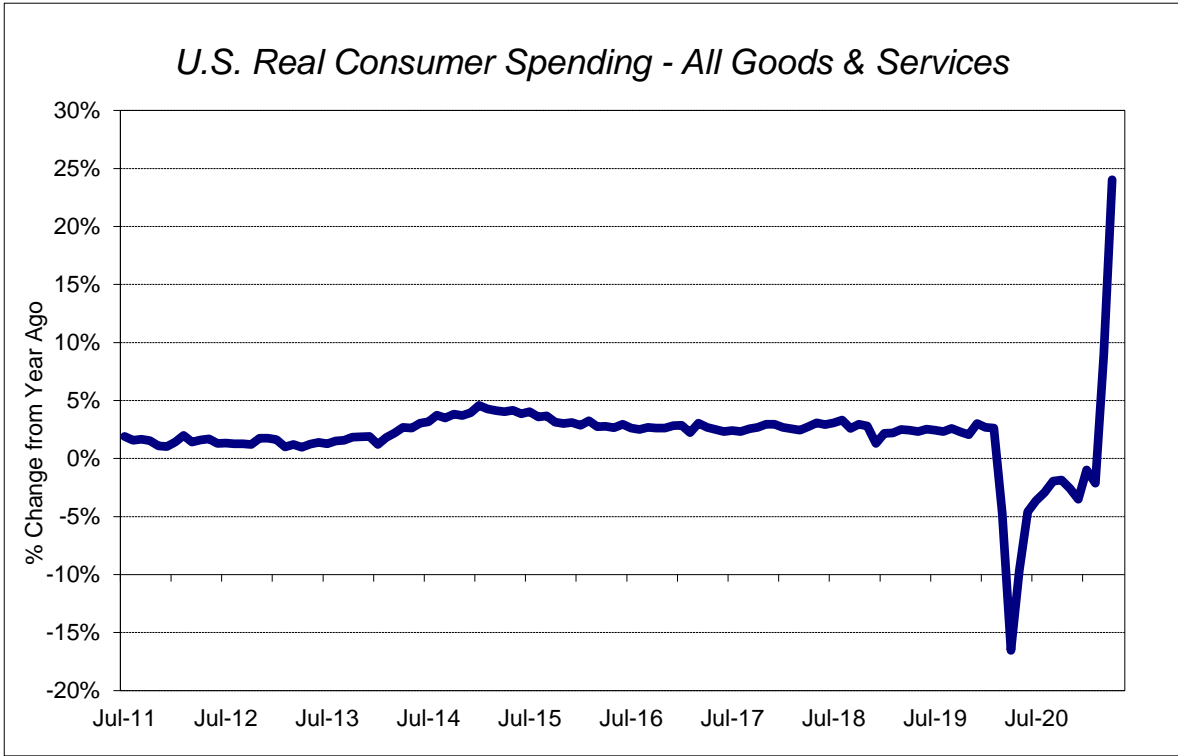
Seasonally Adjusted Annual Rate
 Source: USDA ERS



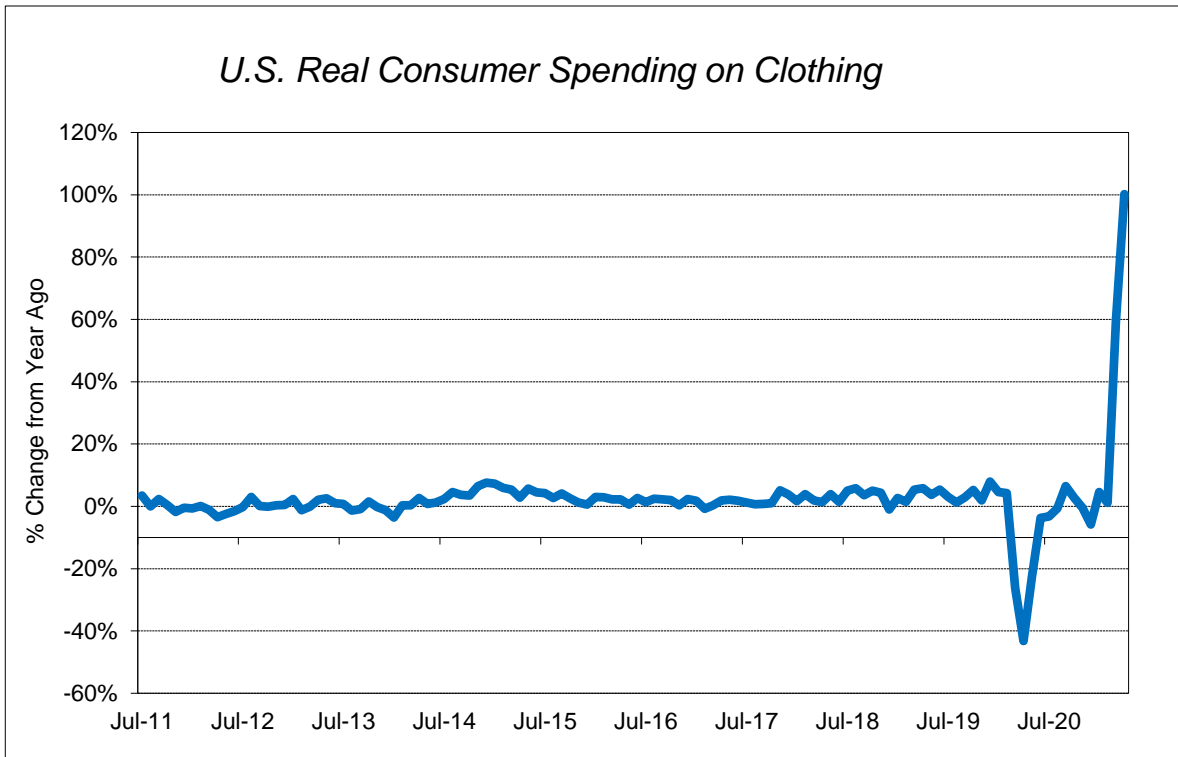
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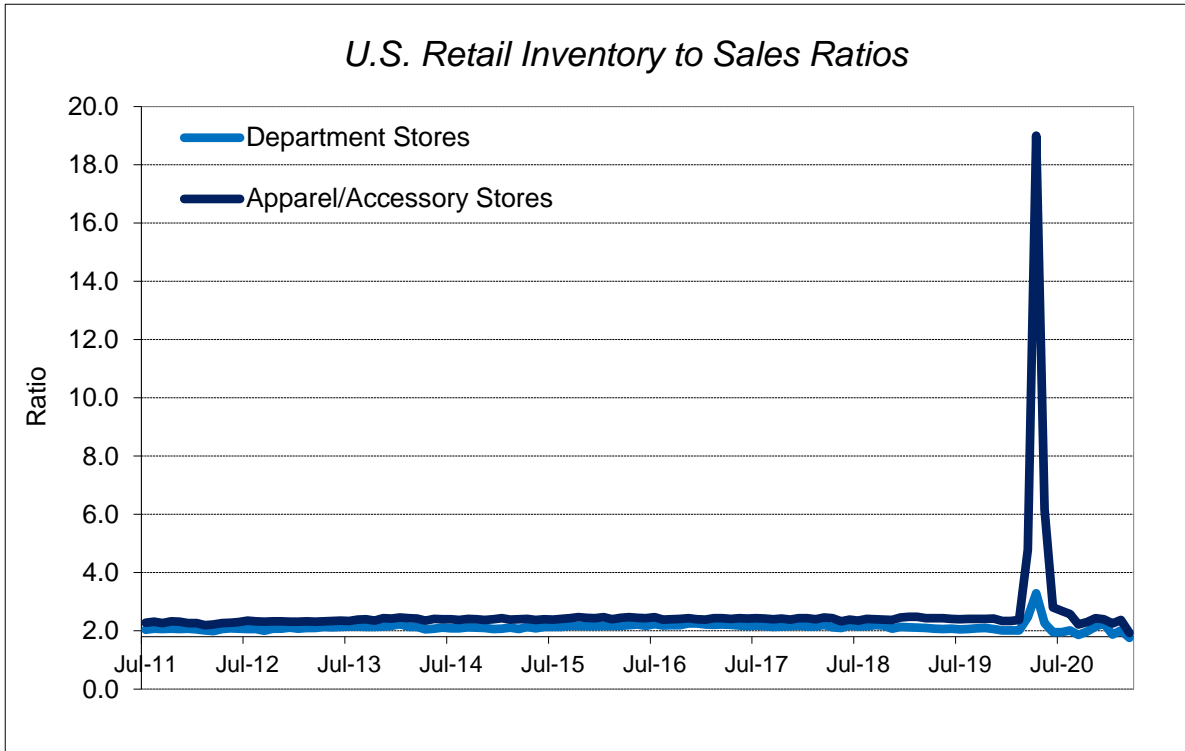
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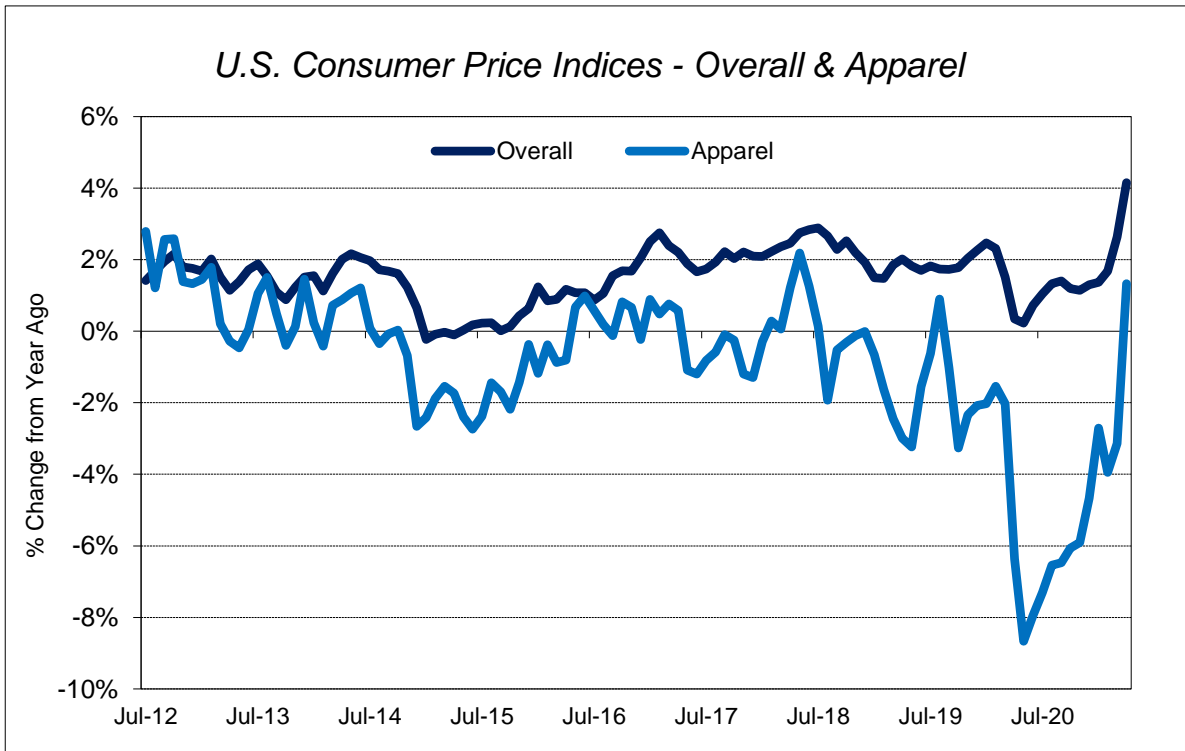
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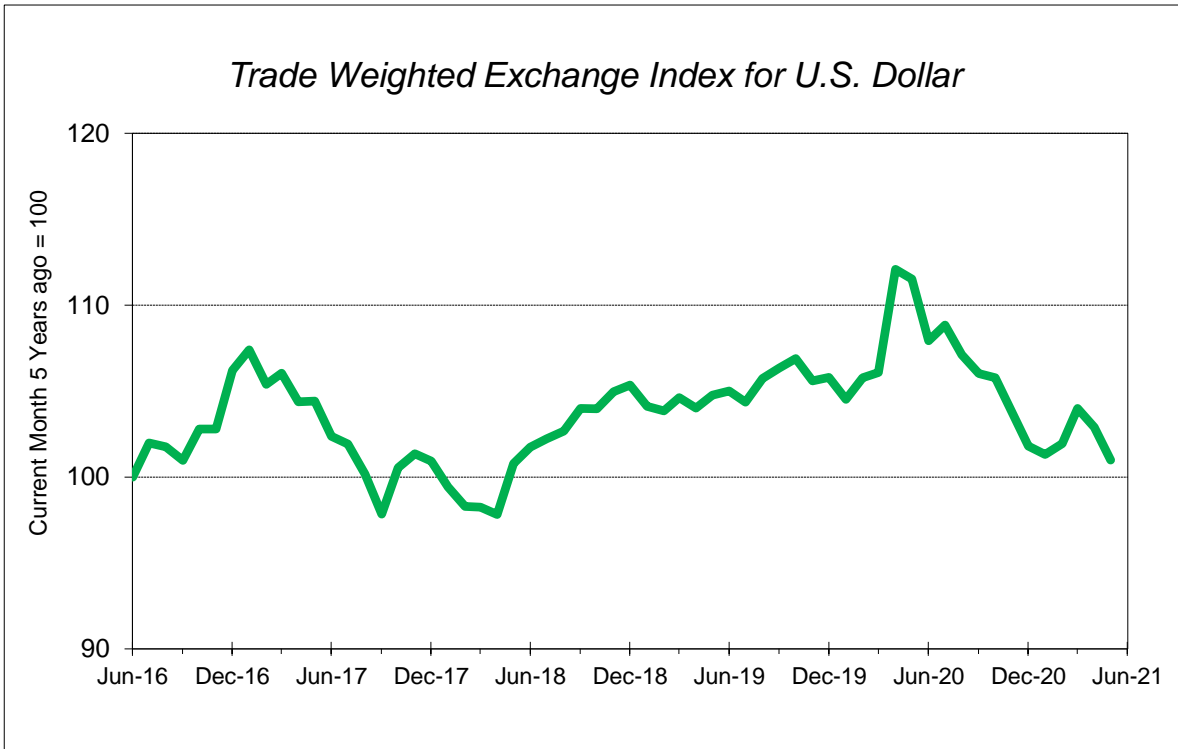
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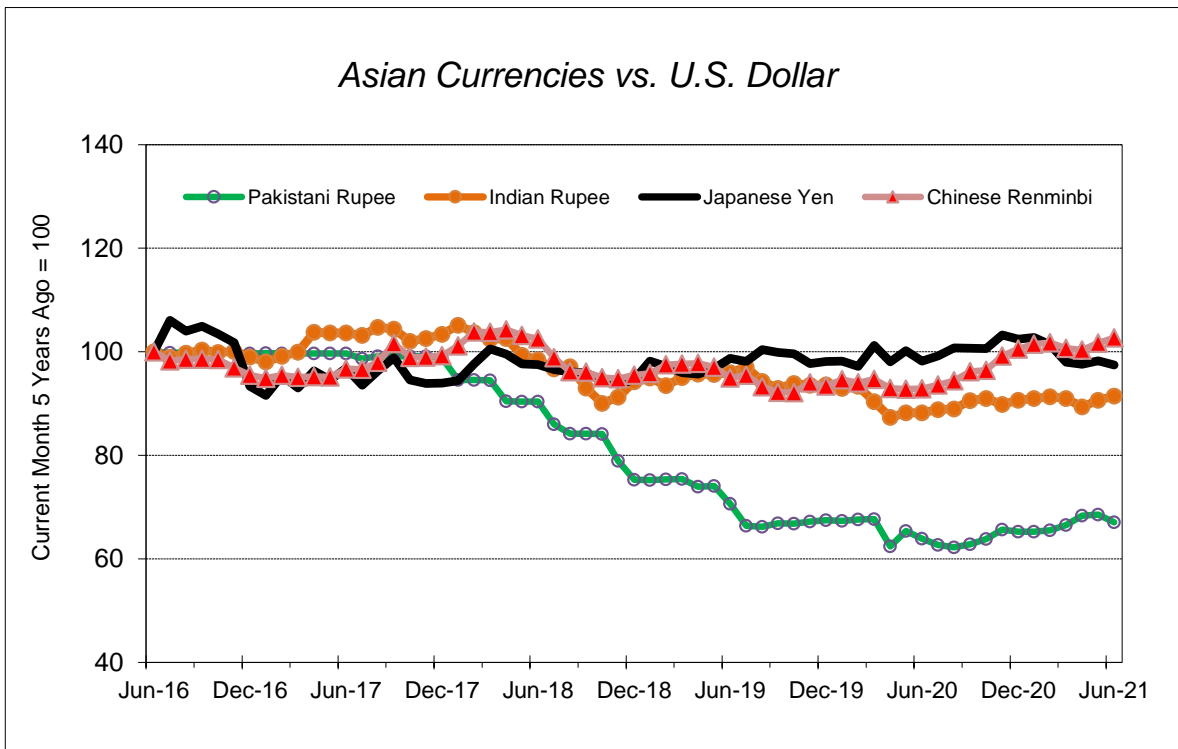
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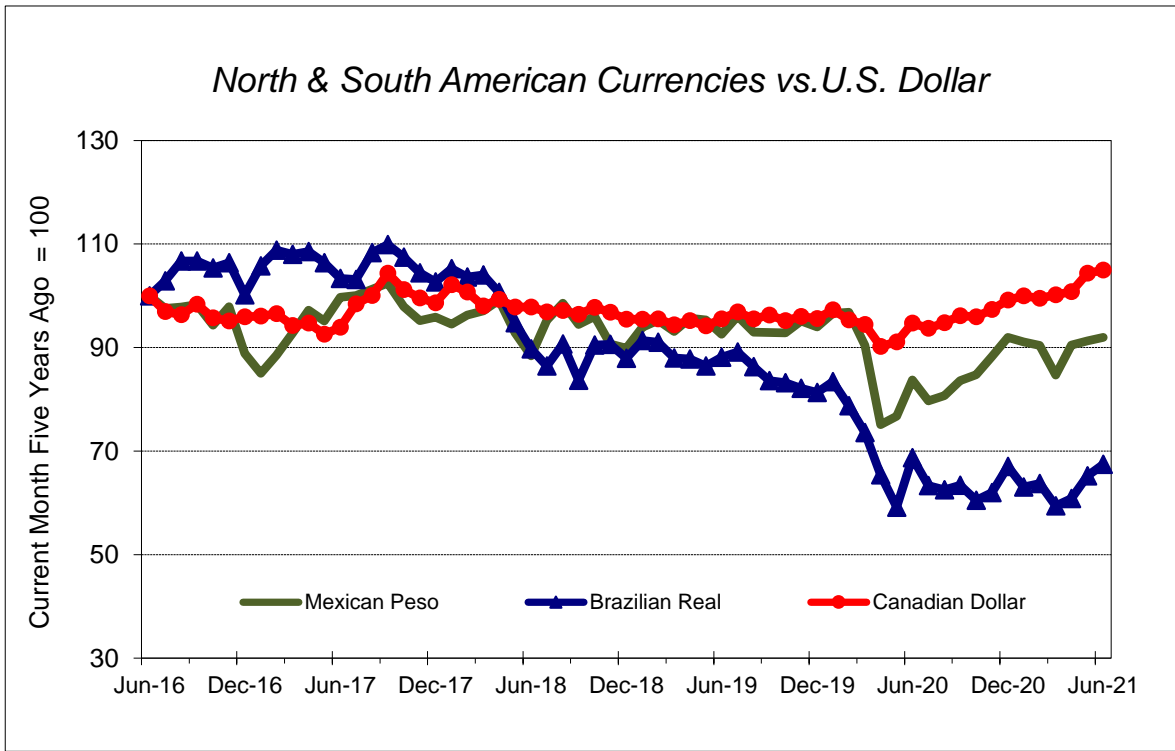
Source: Federal Reserve



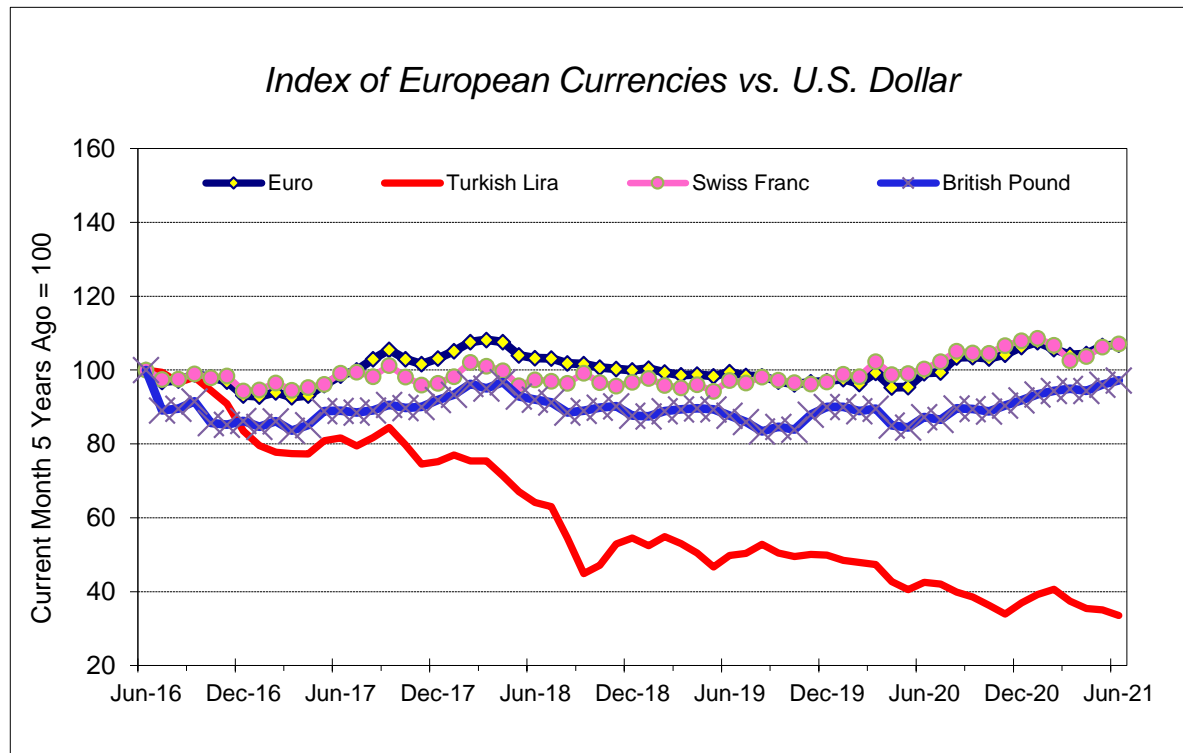
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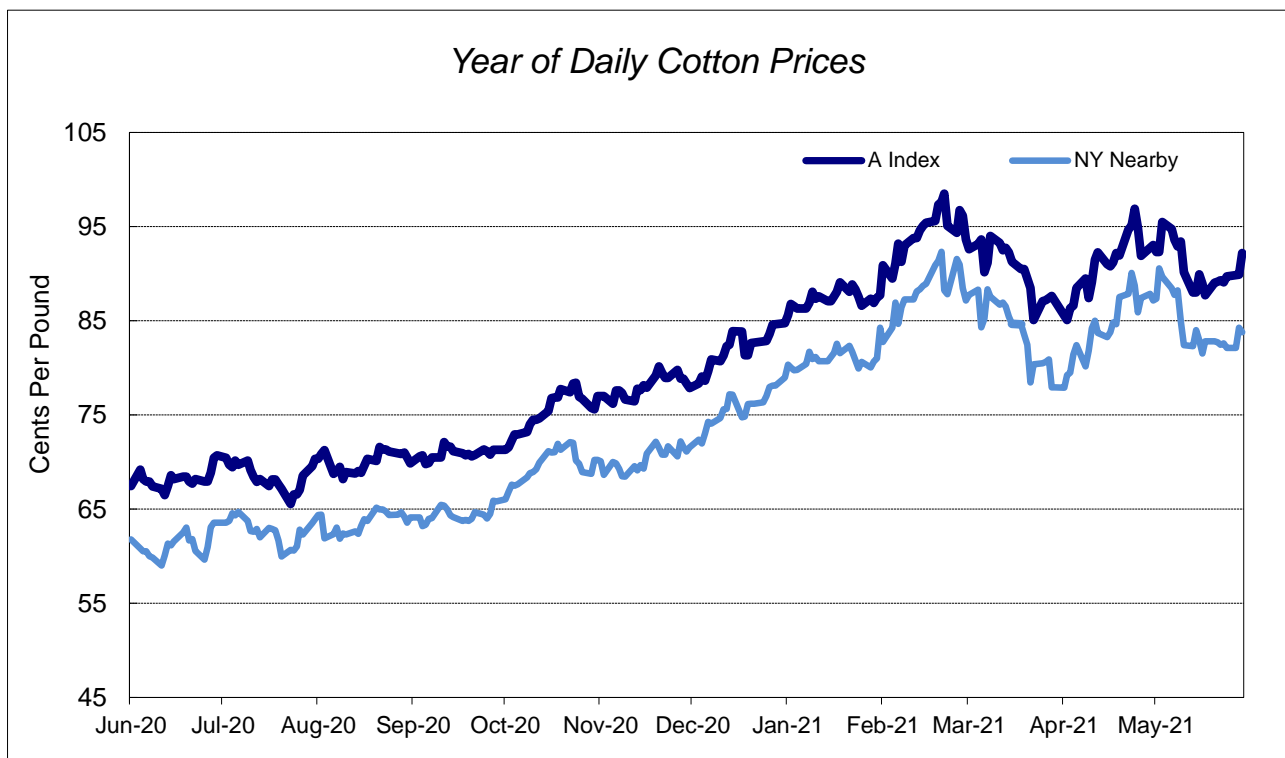
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U.S. Balance Sheet

| million 480 lb. bales | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 May |
|-----------------------|---------|---------|---------|---------|---------|----------------|
| Beginning Stocks | 3.8 | 2.8 | 4.2 | 4.9 | 7.3 | 3.3 |
| Production | 17.2 | 20.9 | 18.4 | 19.9 | 14.6 | 17.0 |
| Imports | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Supply | 21.0 | 23.7 | 22.6 | 24.8 | 21.9 | 20.3 |
| Mill-Use | 3.3 | 3.2 | 3.0 | 2.2 | 2.3 | 2.5 |
| Exports | 14.9 | 16.3 | 14.8 | 15.5 | 16.3 | 14.7 |
| Demand | 18.2 | 19.5 | 17.8 | 17.7 | 18.6 | 17.2 |
| Ending Stocks | 2.8 | 4.2 | 4.9 | 7.3 | 3.3 | 3.1 |
| Stocks/Use Ratio | 15.1% | 21.5% | 27.2% | 41.0% | 17.8% | 18.0% |



Sources: ICE Futures U.S. & Cotton Outlook

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