

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



July 2021

www.cottoninc.com

Macroeconomic Overview: The labor market continues to show signs of improvement, with job growth in June estimated to be the strongest in nearly a year. Accumulated savings, rising confidence, and lower COVID case numbers suggest that consumer spending should be strong throughout the summer and support GDP growth in the third quarter.

Inflation has emerged as a concern. A wide range of commodity prices increased significantly over the past twelve months. Transportation bottlenecks have increased costs of getting commodities and finished goods to markets. Employers are reporting difficulty in finding workers and may need to boost wages to attract talent.

If the Federal Reserve chooses to move away from its current set of stimulative policies, impacts could be expected for both markets and the growth outlook. The Federal Reserve follows a dual mandate, requiring officials to maintain inflation near two percent while pursuing full employment. The net change in jobs since the pandemic is -6.7 million, and 3.4 million people have left the workforce. With millions still out of work, a priority has been the employment-related mandate. Current year-over-year rates of inflation are being affected by comparison against the worst of the COVID-affected months. Those distortions may cause the Fed to wait for more data before beginning a reversal of policy direction.

Employment: In June, the U.S. economy was estimated to have added +850,000 jobs. This represents the strongest monthly increase since August of last year. Revisions to existing figures for April (-9,000 to +269,000) and May (+24,000 to +583,000) were mixed, but slightly net positive. Over the past twelve months, job growth averaged +660,000.

The rate of job loss continues to ease. The latest value for initial claims for unemployment insurance set a new post-pandemic low of 364,000 claims/week. This is less than half the average over the past twelve months (826,000).

The unemployment rate was essentially unchanged last month (rose from 5.8% to 5.9%). The labor force increased slightly in June (+151,000 workers) and was +1.3 million workers higher year-over-year.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence posted a solid increase month-over-month in June (+7.3 points, from 120.0 to 127.3). The index remains below levels before COVID (132.6 in February 2020) but is above the long-term average near 93.

Overall consumer spending was down slightly month-over-month in May (-0.4%). This followed a slight increase in April (+0.3%) and a robust increase in March (+4.4%). A net result through these few months is that the gain in March was generally maintained. Year-over-year comparisons are distorted because many U.S. states were under general shutdown orders one year ago. Year-over-year, overall spending was up +16.4% in March, down -0.9% in April, and down -1.0% in May. In February, before year-ago comparisons against shutdown months started, overall spending was down -1.1%.

The pullback in spending on consumer services has weighed on overall spending since the onset of the pandemic in the U.S. Spending on consumer goods, like clothing, has fared better. In all but one month since the pandemic, consumer spending on clothing outperformed spending overall. However, spending growth on apparel has been volatile. There was strong month-over-month growth in January and March (+10.2% and +16.4% respectively), but there have been contractions in other months in 2021 (-4.2% in February, -0.9% in April, and -1.0% in May). Year-over-year, growth was +62.0%, +107.2%, and +50.0% between March and May (months of most severe COVID-related shutdowns). In January and February (pre-COVID comparisons), year-over-year spending on apparel was up +4.6% and +1.1%.

Consumer Prices & Import Data: Retail prices for apparel increased month-over-month in May (+1.1%). Figures for year-over-year changes in prices are also affected by comparison against the most severe months of COVID-driven shutdown. In May, average prices were +5.1% higher than one year ago. Last spring, the accumulation of inventory resulting from store closures resulted in widespread discounting.

Average import costs for cotton-dominant apparel shifted higher in the past two months of available data. In March 2021, the landed cost of goods set a record low (data back to 1989) in cost per square meter equivalent (SME). The deflation in sourcing costs stood in contrast to rising fiber and yarn prices over the past twelve months. Those upstream pressures, along with competition for capacity, could be pulling import costs higher. The latest value (\$3.13/SME for May) is 6% higher than two months ago (seasonally-adjusted data). It remains well below the values near \$3.40/SME that were common before COVID but can be expected to continue to rise in coming months.

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
July 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 June

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
ISM Index of Manufacturing Activity	55.2	54.4	61.1	62.2	60.7	61.2	60.6	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.7	56.6	60.4	63.5	62.7	64.0	60.1	Index	Institute for Supply Management
Consumer Confidence	116.9	117.0	103.6	117.5	117.5	120.0	127.3	Index	The Conference Board
Change in Non-Farm Payrolls	17.0	-104.4	350.0	545.7	269	583	850	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.1%	5.5%	6.2%	6.0%	6.1%	5.8%	5.9%	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%	1.4%	1.6%	1.6%	1.6%	1.5%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for May

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	May		
Index of Leading Economic Indicators	107.2	109.6	111.5	113.0	111.6	113.0	114.5	Index	The Conference Board
Housing Starts	13.0	13.6	15.8	15.4	1.7	1.5	1.6	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.5	5.5	6.1	5.8	5.8	5.9	5.8	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile 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		
US Industrial Production	99.9	99.6	98.7	99.4	99.0	99.9	99.9	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	105.7	93.9	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 April

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	2.8	3.9	5.2	4.6	5.4	5.7	million 480lb bales	USDA ERS

Industrial & Textile Series with Latest Data for May

US Textile Mill Inventory/Shipments Ratio	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
	1.39	1.42	1.35	1.37	1.37	1.37	1.37	Ratio	Department of Commerce

Retail Data

Retail 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		
US Real Consumer Spending									
All Goods and Services	1.8%	1.2%	9.0%	19.6%	9.2%	24.7%	14.5%	% Chg. Year/Year	Department of Commerce
Clothing	4.3%	5.9%	45.0%	78.6%	62.1%	107.2%	50.0%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	2.0%	1.9%	3.0%	4.5%	2.6%	4.2%	4.9%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-1.5%	-2.6%	-0.7%	3.2%	-3.1%	1.3%	5.1%	% Chg. Year/Year	Bureau of Labor Statistics

Retail Series with Latest Data for April

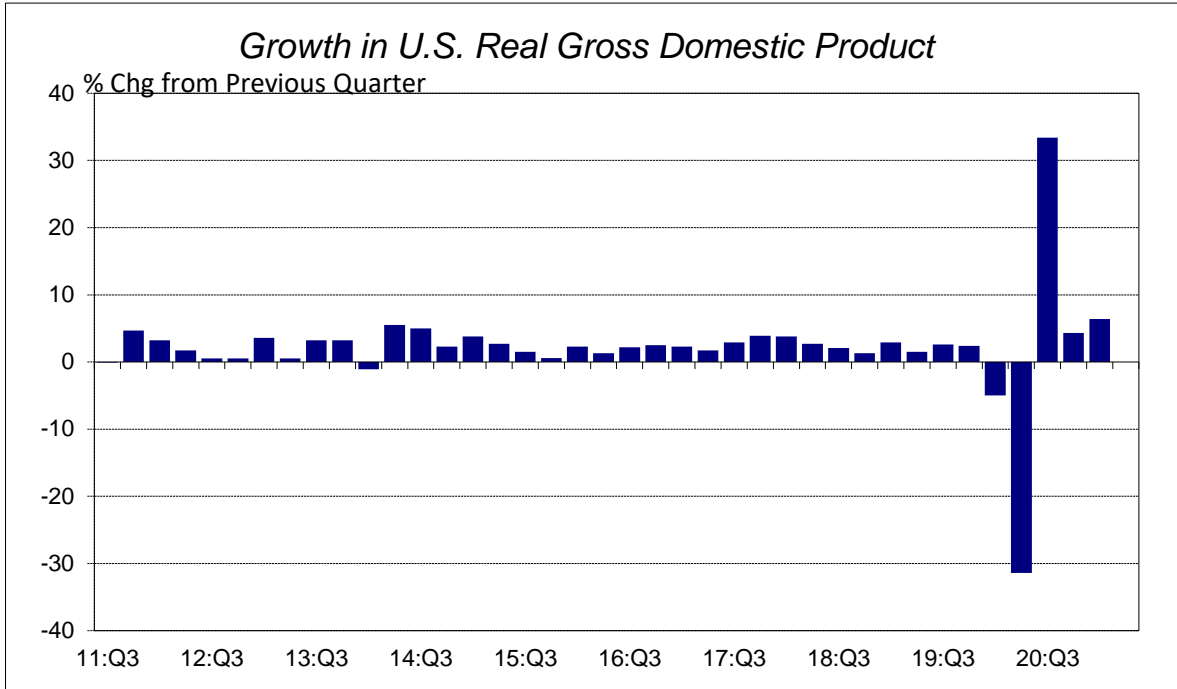
	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	February	March	April		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.8	3.1	2.1	2.0	2.4	1.9	2.0	Ratio	Department of Commerce
Department Stores	2.1	2.1	1.9	1.8	2.0	1.8	1.8	Ratio	Department of Commerce

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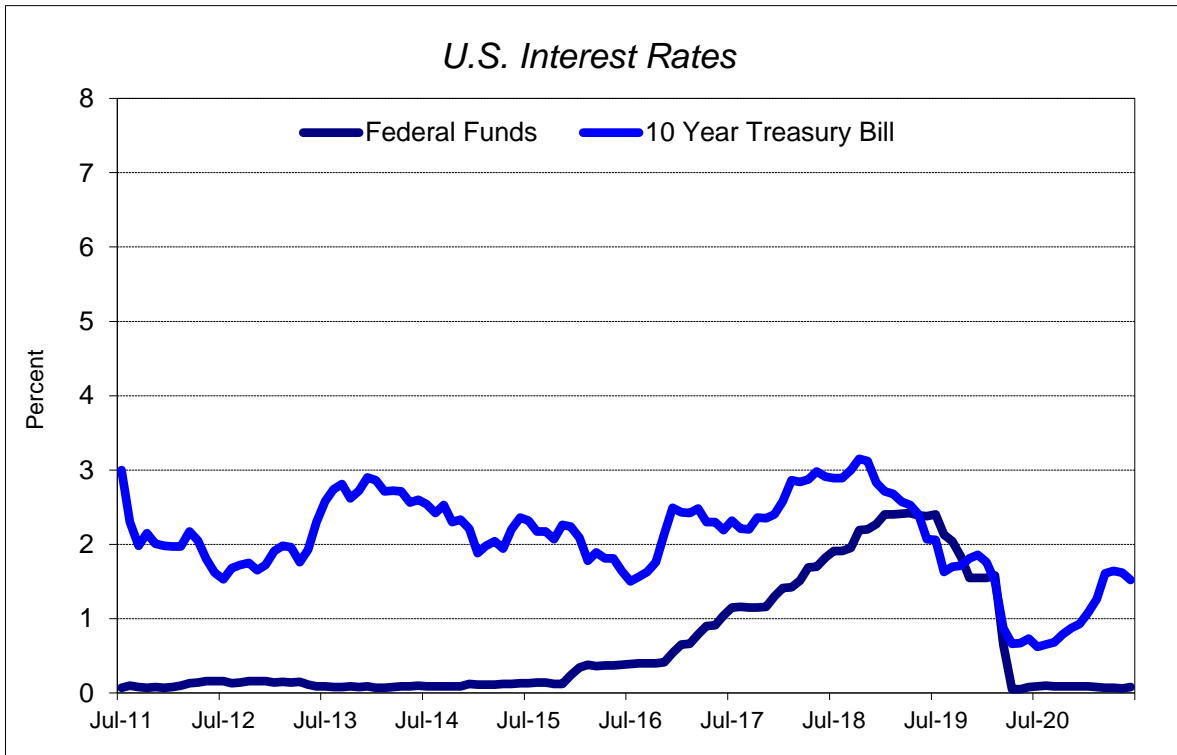
Daily Cotton Price and Currency Data
July 2021



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
NY Nearby	71.2	71.8	71.5	70.4	83.7	84.9	85.7	cents/pound	ICE
A Index	80.1	80.8	80.2	78.9	90.5	90.9	94.6	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
Dollar Trade Weighted Exchange Index	114.2	115.6	112.4	112.2	113.4	112.1	111.0	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.76	6.83	6.48	6.48	6.55	6.47	6.41	Chinese Renminbi/US dollar	Reuters
Indian Rupee	69.58	72.19	73.21	73.40	73.42	73.77	73.01	Indian Rupee/US dollar	Reuters
Japanese Yen	108.89	108.48	107.58	109.45	109.75	109.08	109.52	Japanese Yen/US dollar	Reuters
Pakistani Rupee	133.18	150.64	156.22	153.35	153.18	152.25	154.63	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.03	4.55	5.39	5.31	5.61	5.26	5.07	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.32	1.25	1.23	1.25	1.22	1.21	Canadian dollar/US dollar	Reuters
Mexican Peso	19.73	20.17	20.25	20.10	20.16	20.19	19.95	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.77	0.77	0.72	0.72	0.72	0.72	0.71	British Pound/US dollar	Reuters
Euro	0.87	0.87	0.83	0.83	0.84	0.83	0.82	Euro/US dollar	Reuters
Swiss Franc	0.97	0.96	0.91	0.91	0.93	0.91	0.90	Swiss Franc/US dollar	Reuters
Turkish Lira	5.31	6.45	7.84	8.37	8.15	8.28	8.67	Turkish Lira/US dollar	Reuters



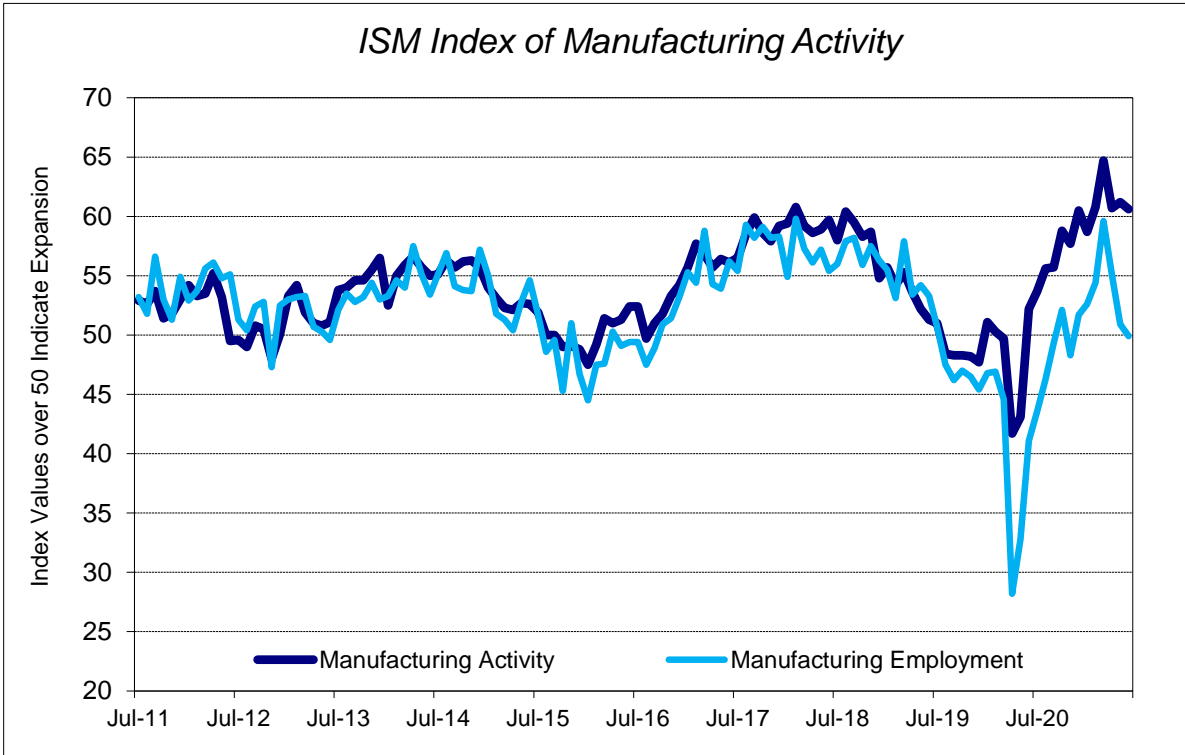
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



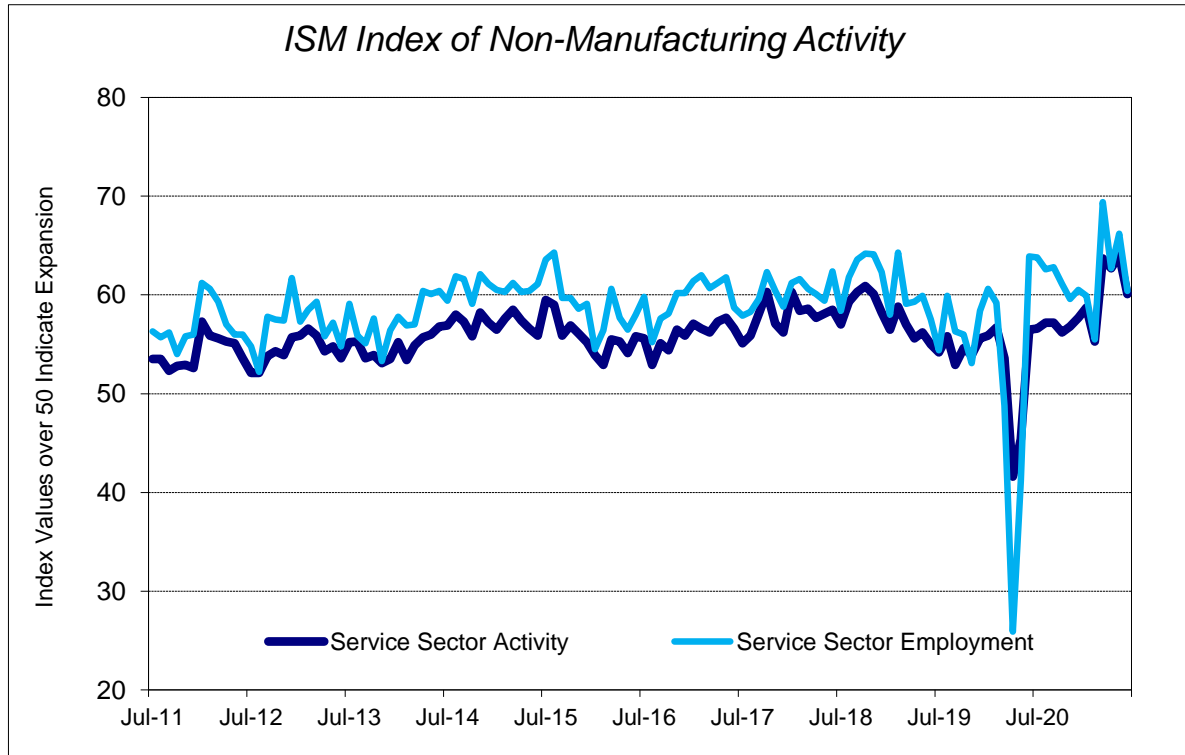
Source: Federal Reserve

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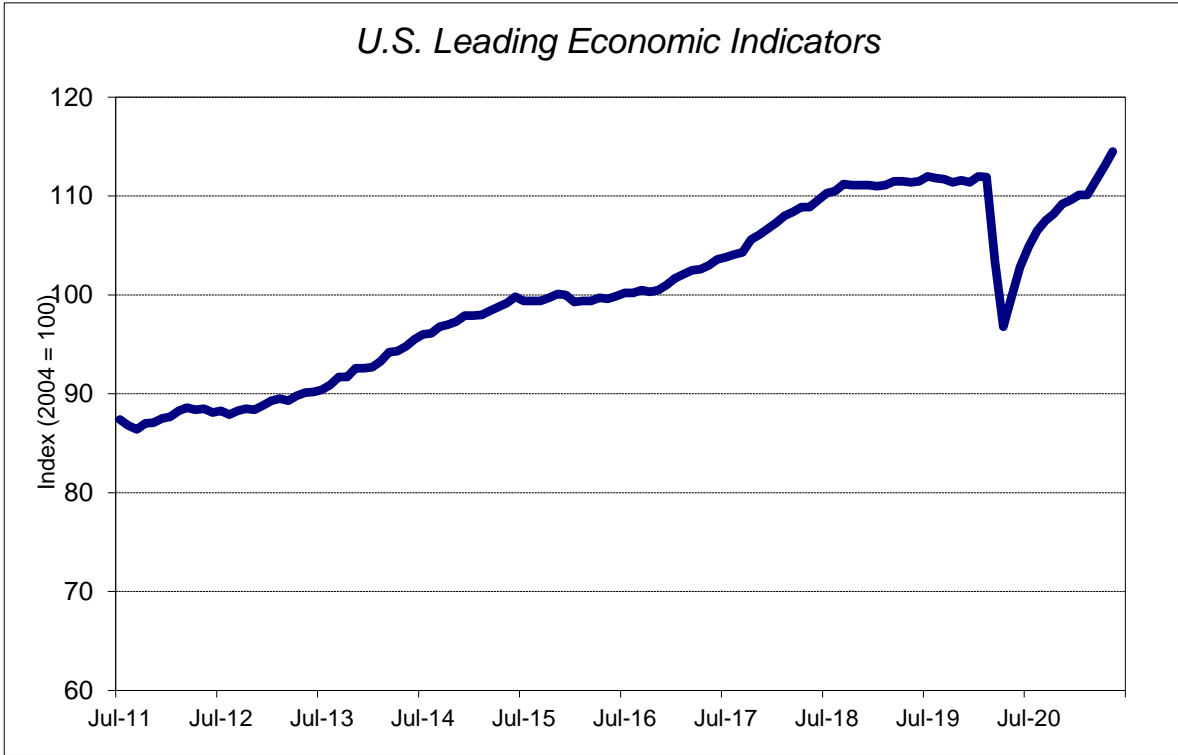
Source: Institute for Supply Chain Management



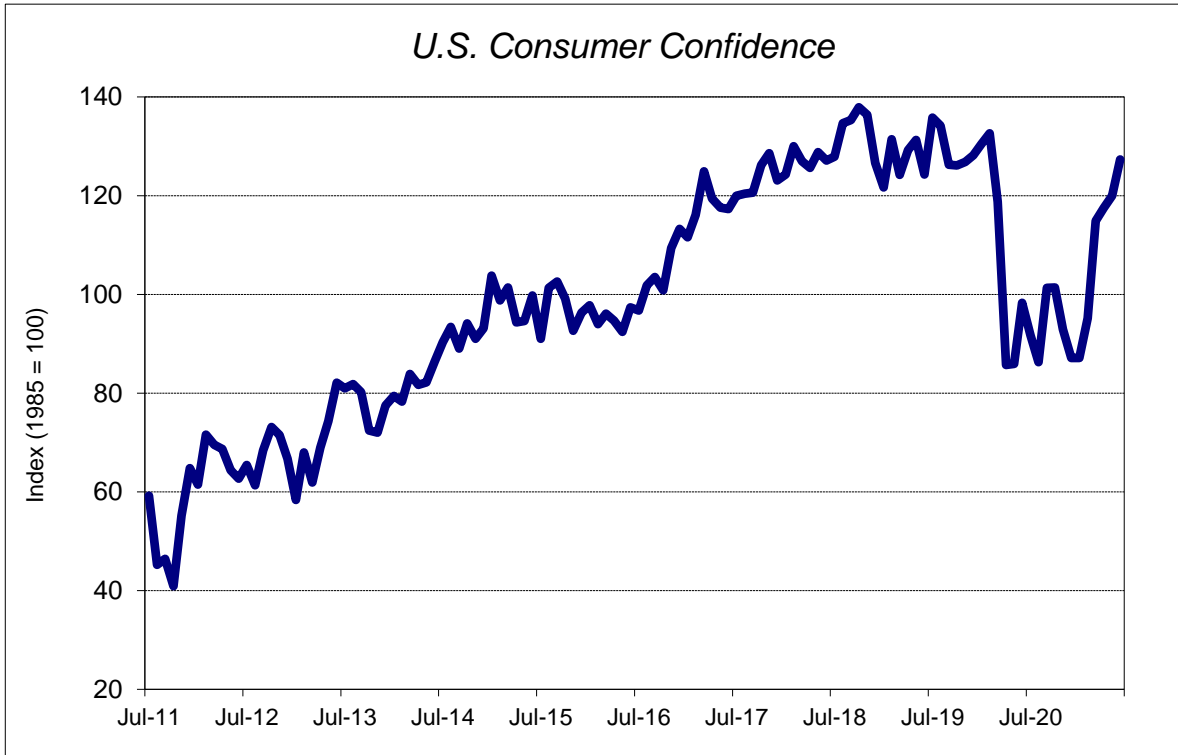
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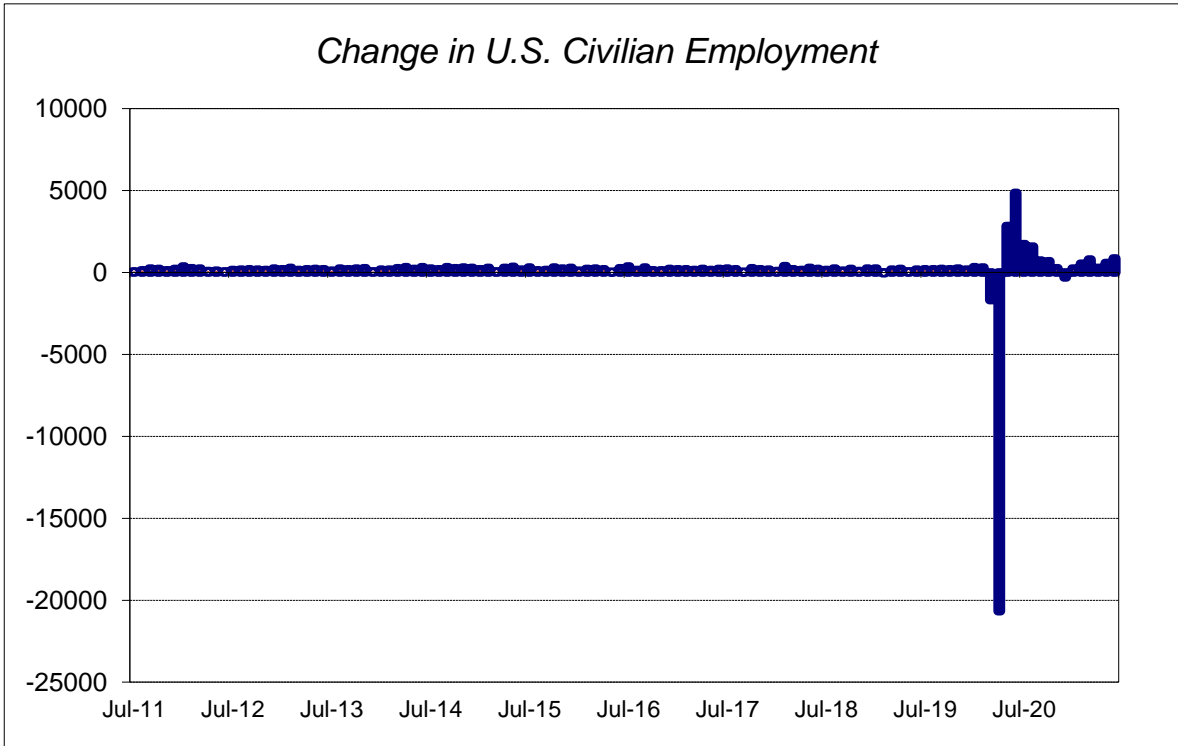
Source: The Conference Board



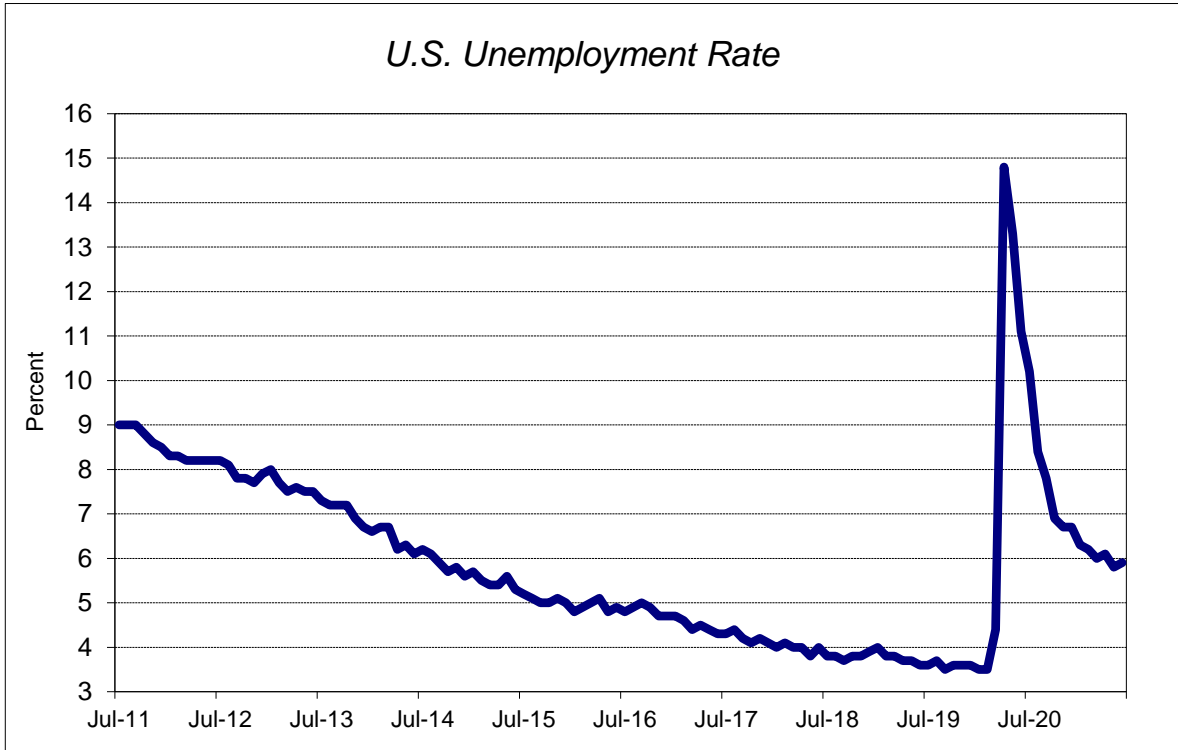
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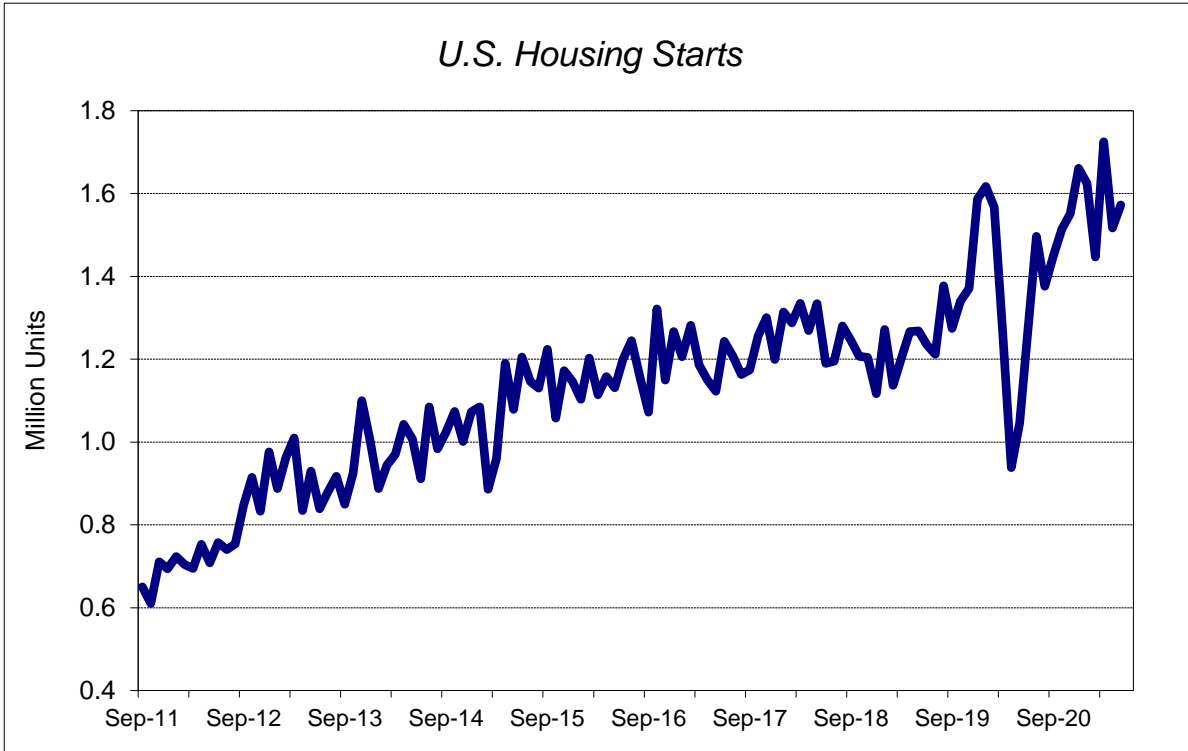
Source: Bureau of Labor Statistics



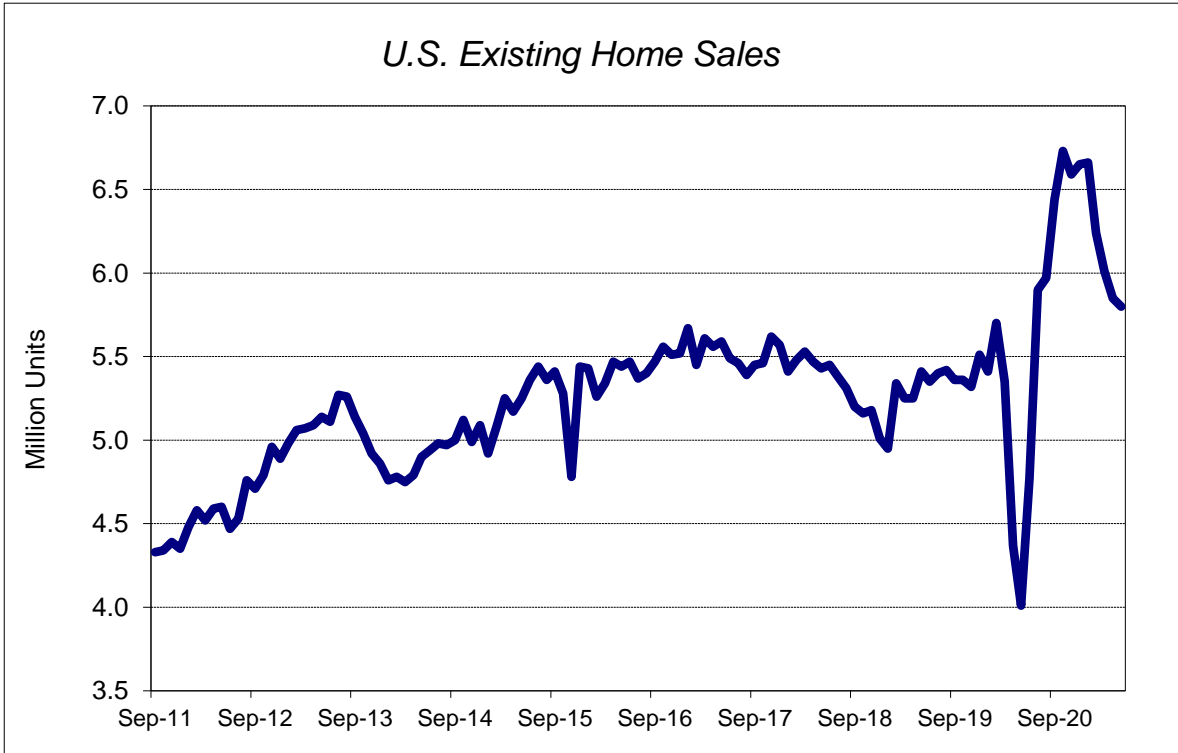
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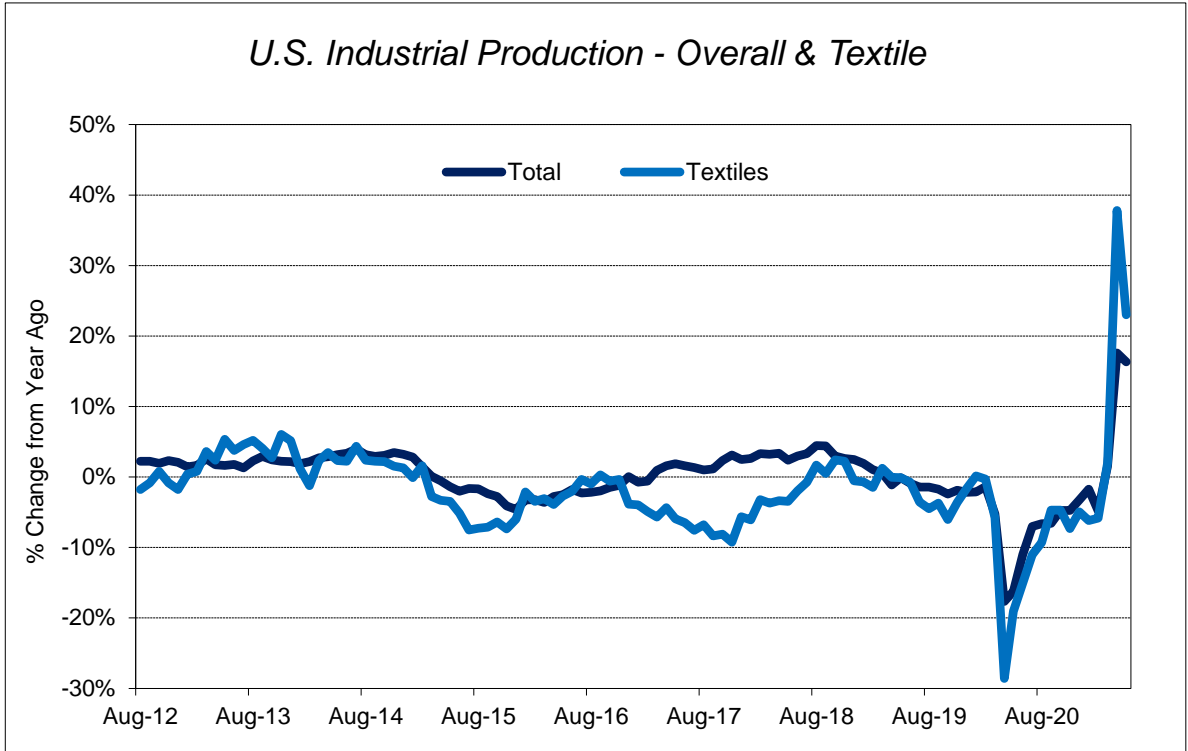
Seasonally Adjusted Annual Rate; Source: Department of Commerce



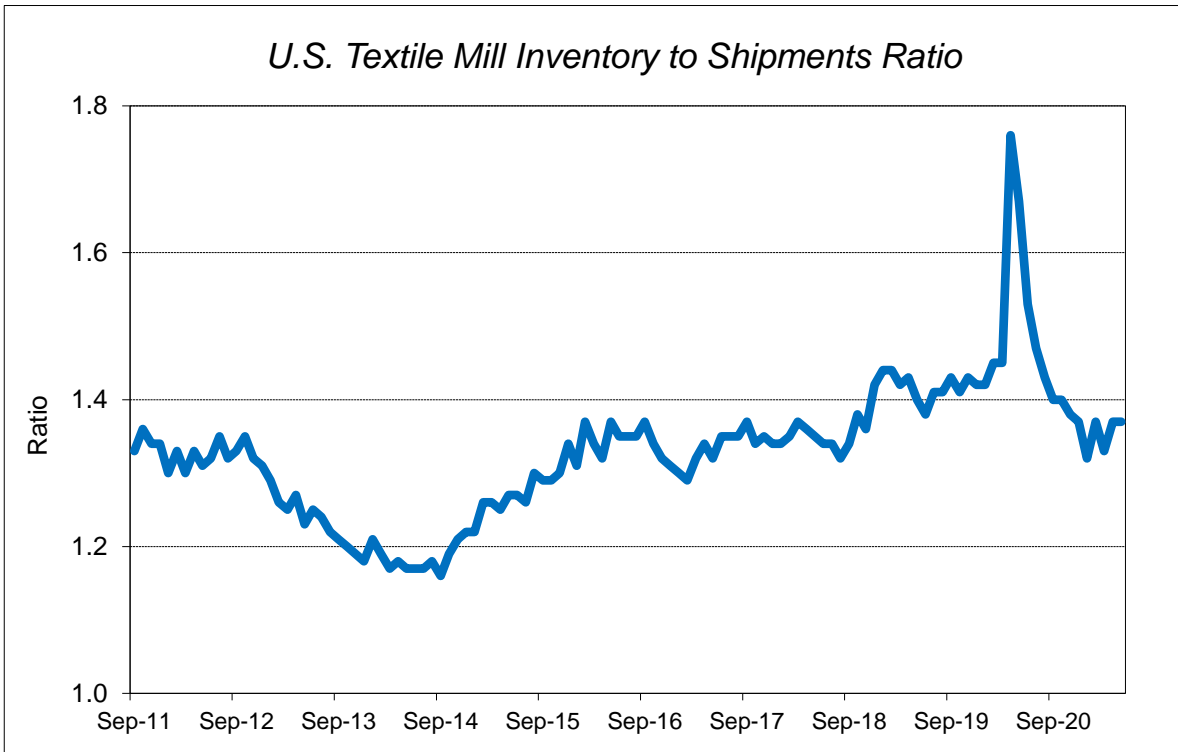
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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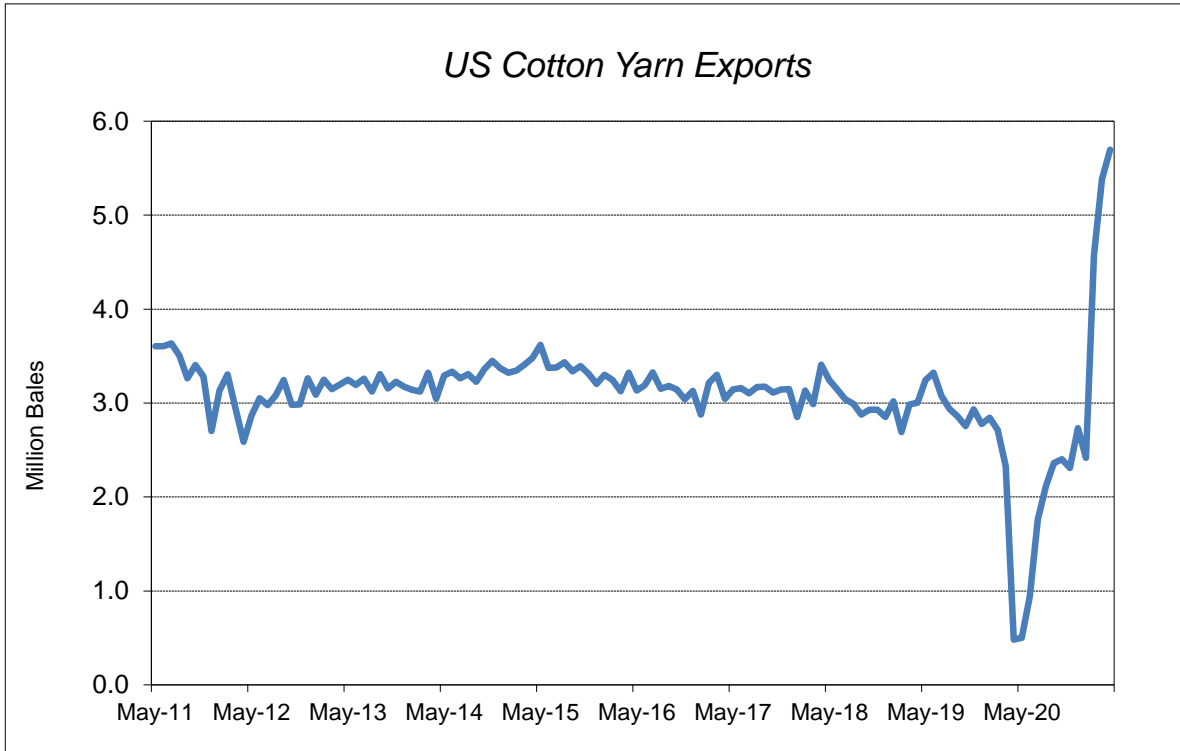
Source: Federal Reserve. Historical data revised to 1997 baseline.



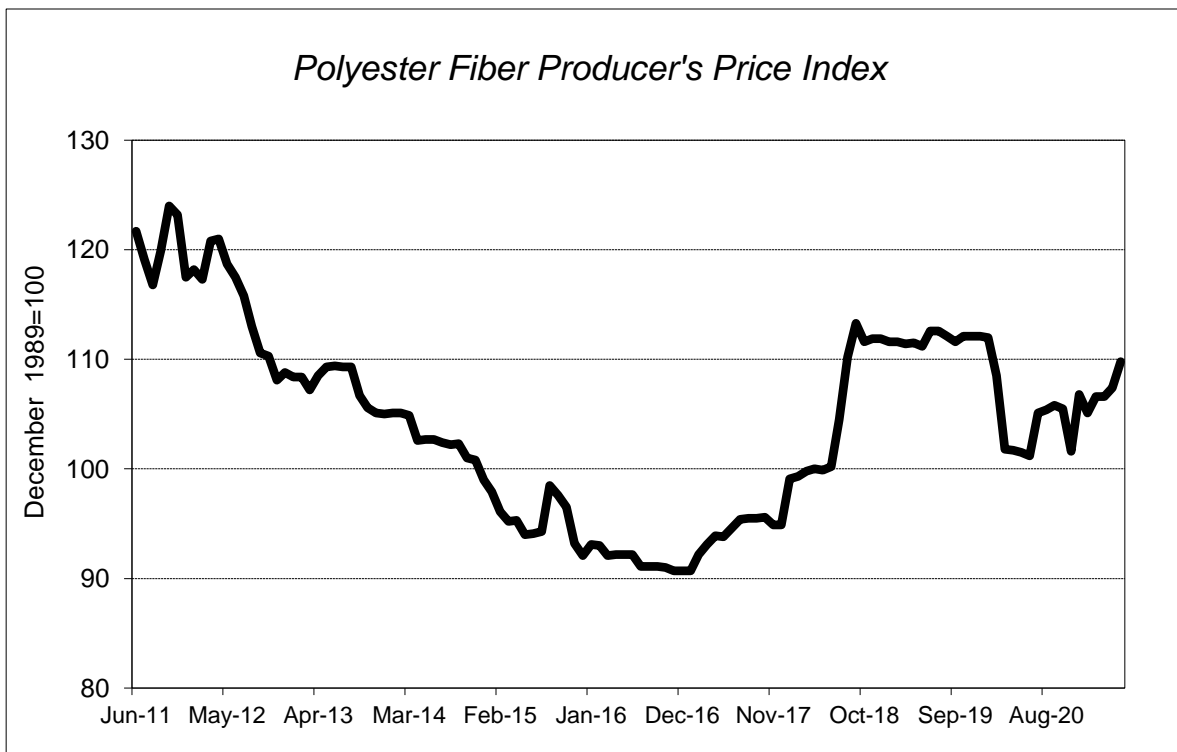
Seasonally Adjusted; Source: Department of Commerce

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Seasonally Adjusted Annual Rate
 Source: USDA ERS

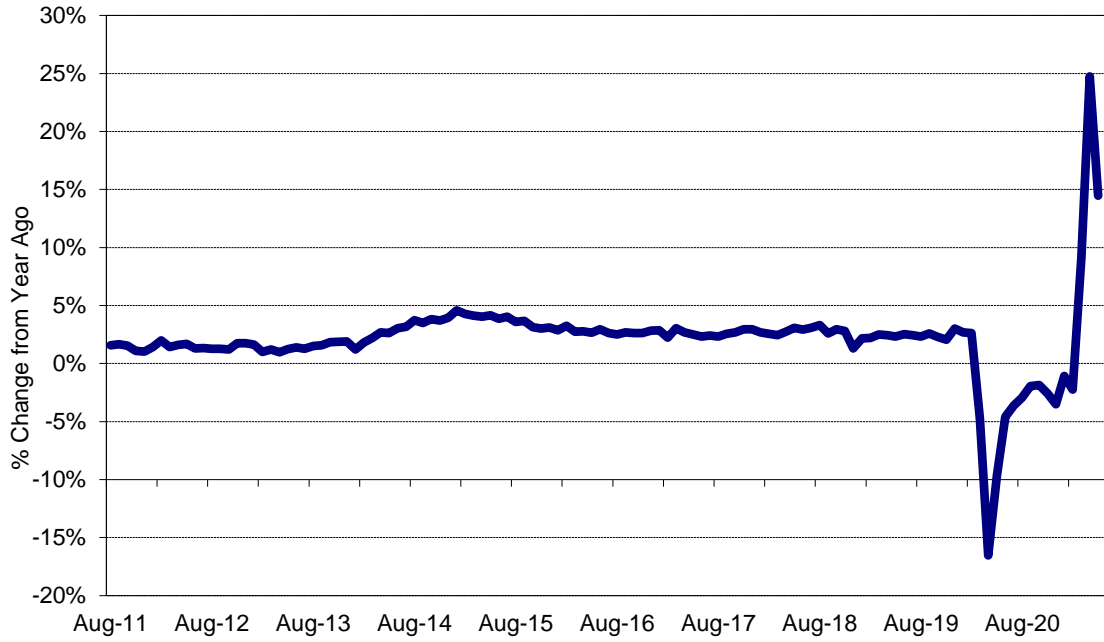


Source: Bureau of Labor Statistics

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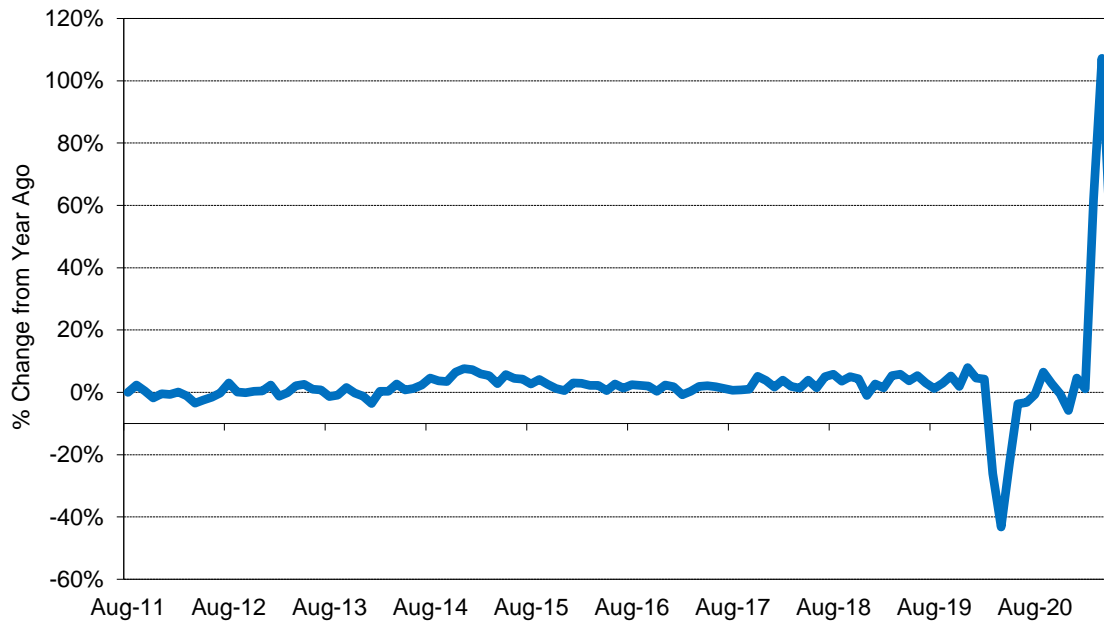


U.S. Real Consumer Spending - All Goods & Services



*Based on chained 2005\$.

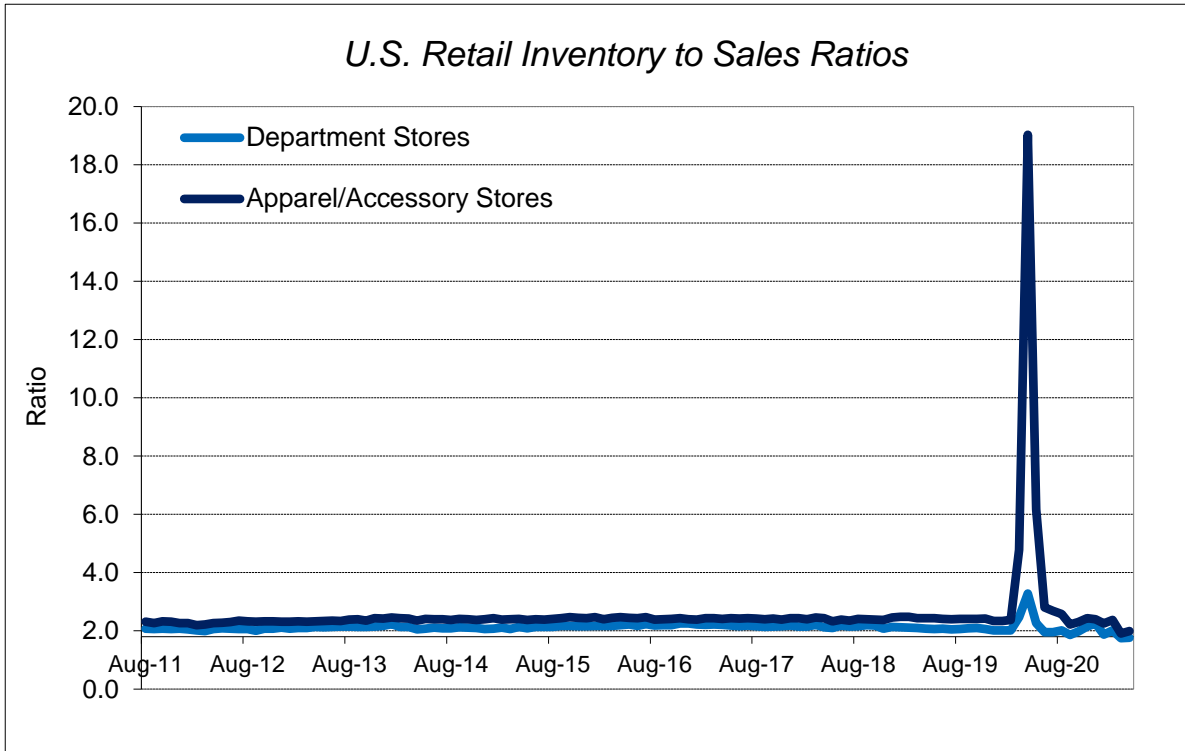
U.S. Real Consumer Spending on Clothing



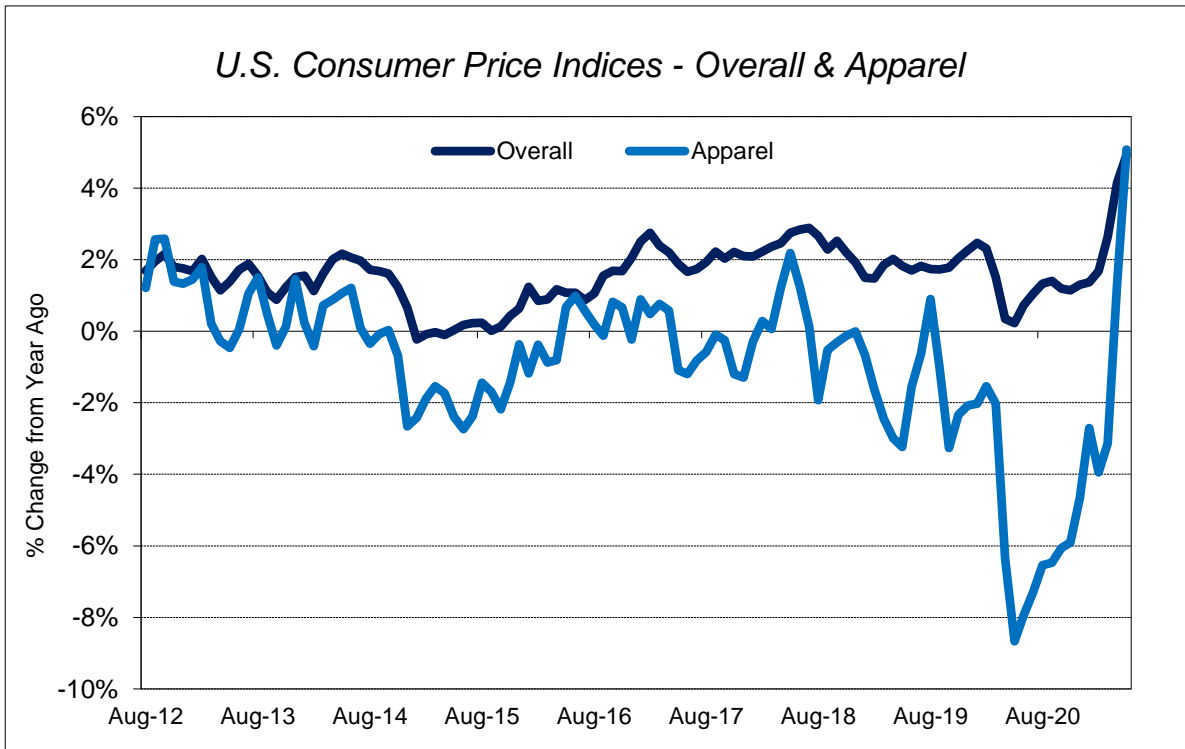
*Based on chained 2005\$.

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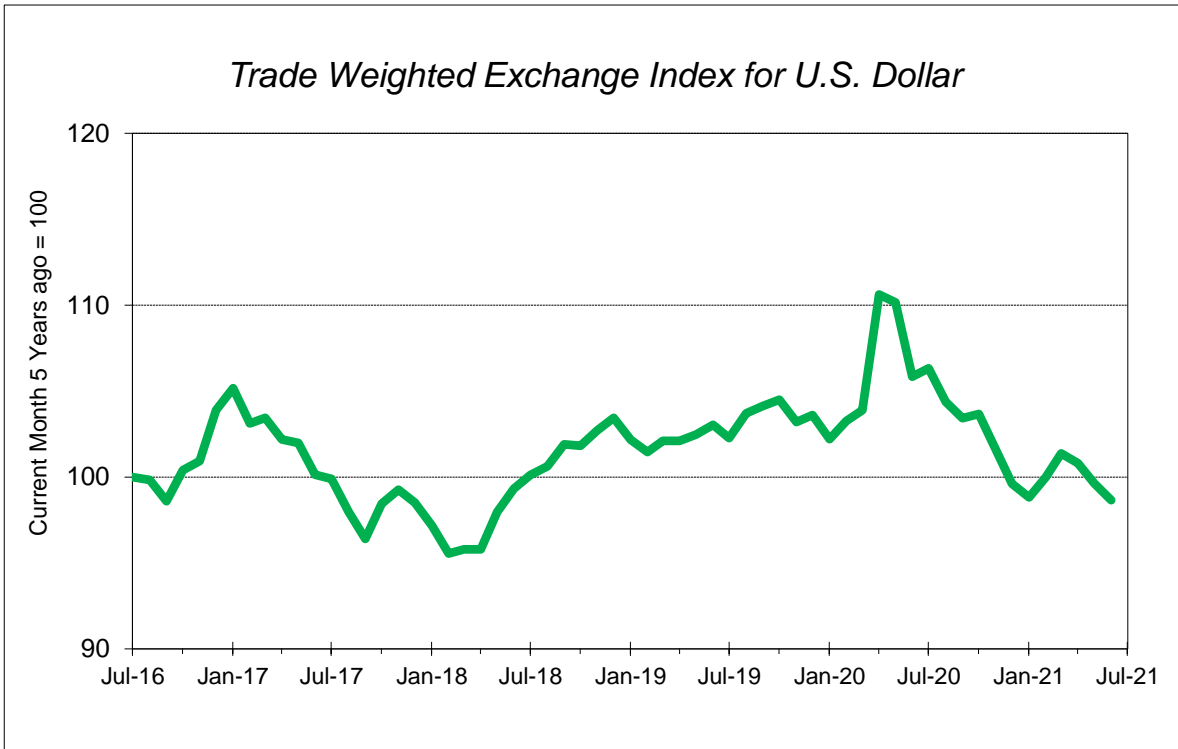
Source: Department of Commerce



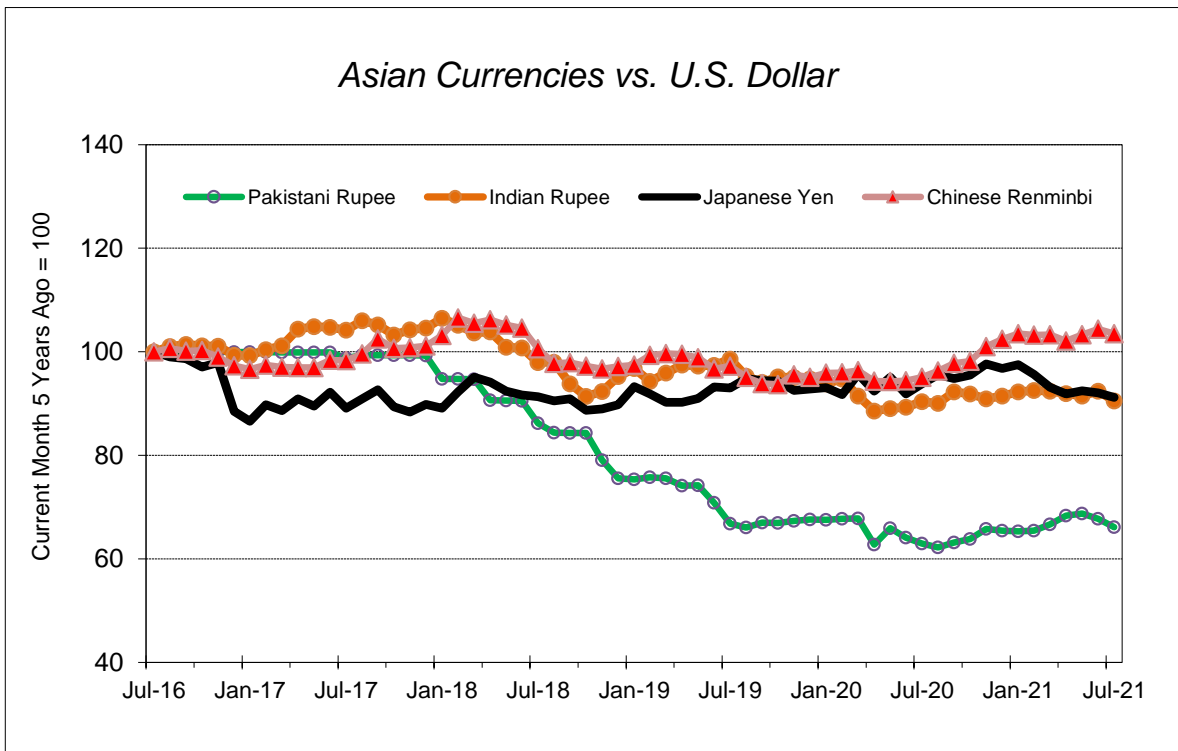
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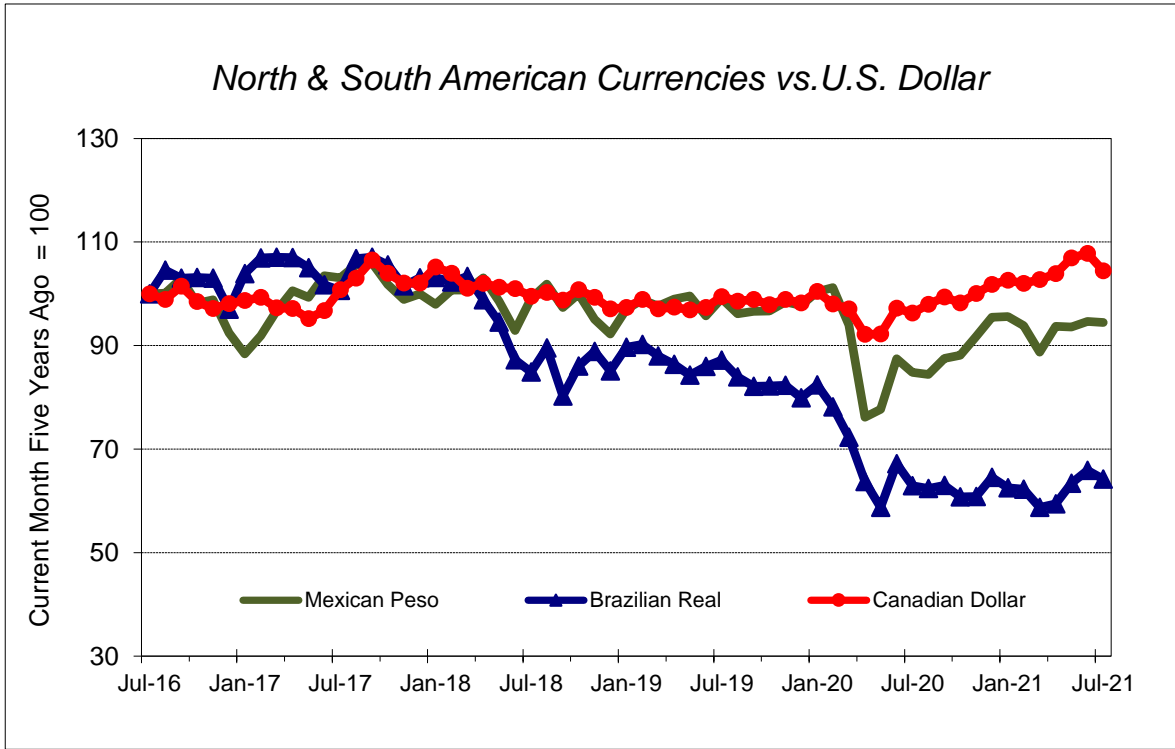
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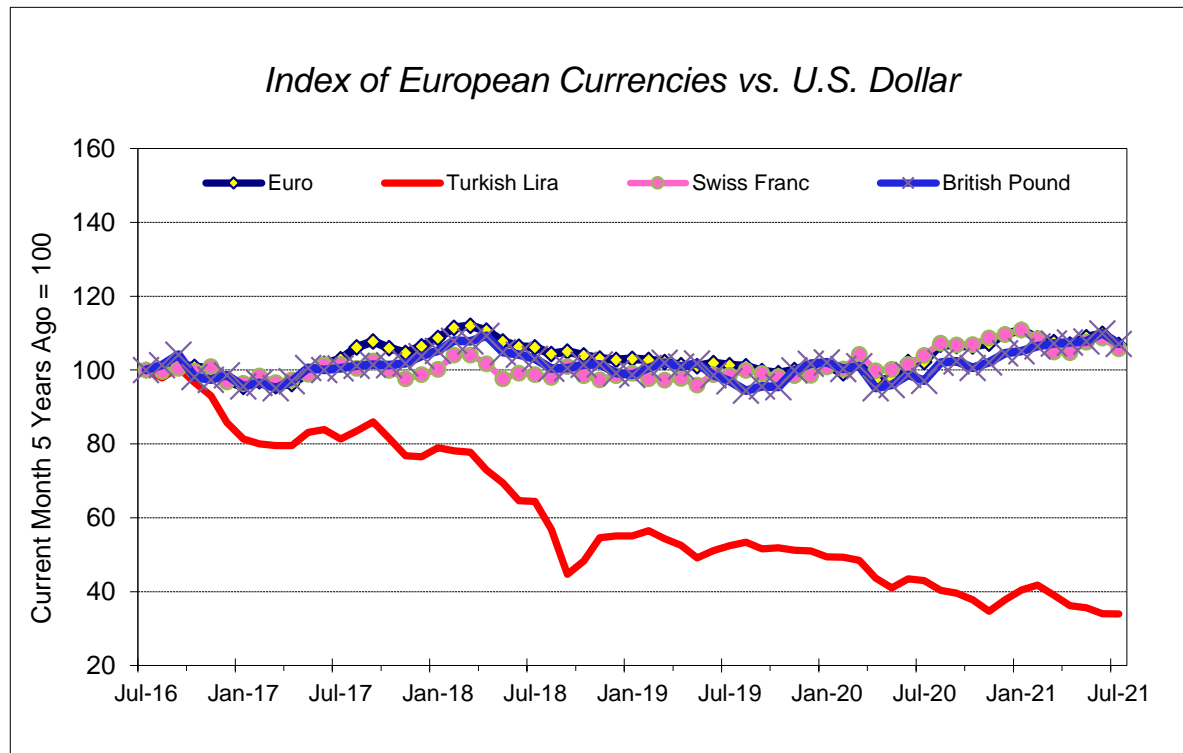
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Source: Reuters



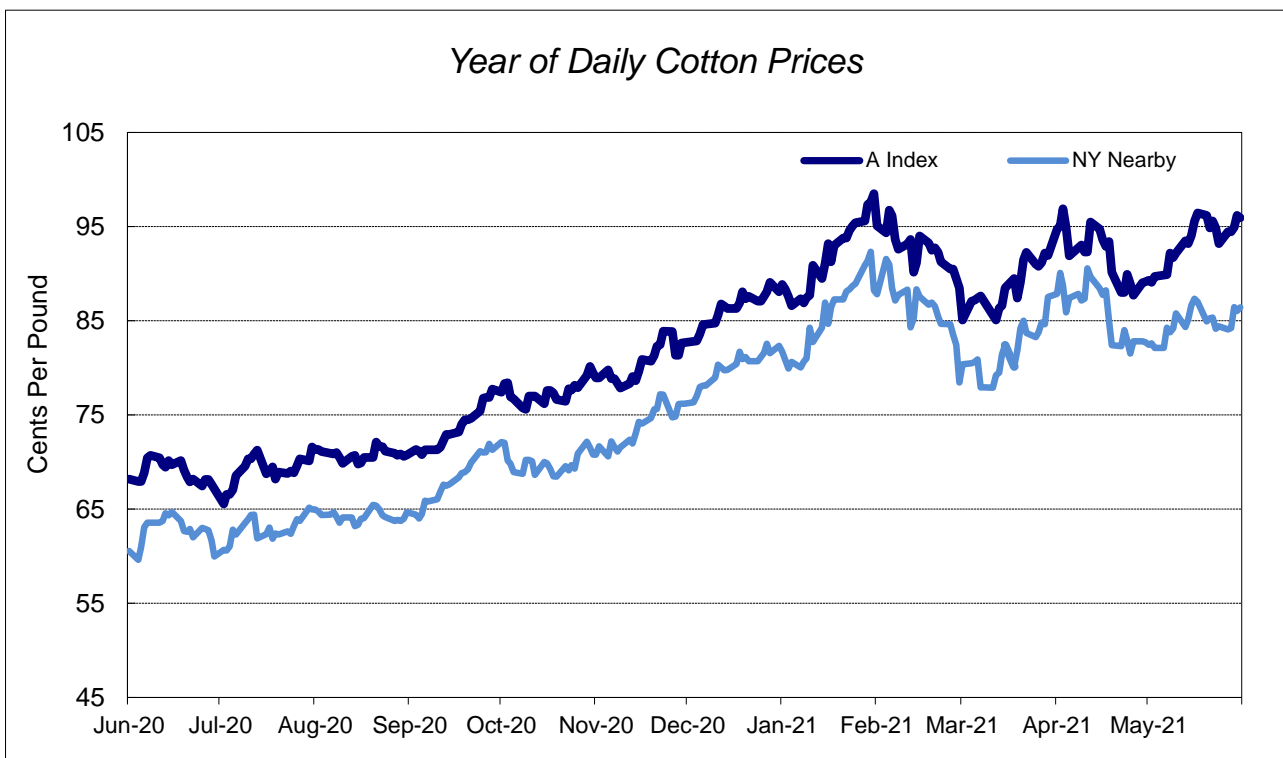
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U.S. Balance Sheet

million 480 lb. bales	2017/18	2018/19	2019/20	2020/21	2021/22	2021/22
					May	June
Beginning Stocks	2.8	4.2	4.9	7.3	3.3	3.2
Production	20.9	18.4	19.9	14.6	17.0	17.0
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	23.7	22.6	24.8	21.9	20.3	20.2
Mill-Use	3.2	3.0	2.2	2.3	2.5	2.5
Exports	16.3	14.8	15.5	16.4	14.7	14.8
Demand	19.5	17.8	17.7	18.7	17.2	17.3
Ending Stocks	4.2	4.9	7.3	3.2	3.1	2.9
Stocks/Use Ratio	21.5%	27.2%	41.0%	16.8%	18.0%	16.8%



Sources: ICE Futures U.S. & Cotton Outlook

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