

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



October 2021

www.cottoninc.com

Macroeconomic Overview: The list of challenges facing apparel sourcing professionals seems only to get longer. First, there were trade tensions and tariff increases. Then the worst pandemic in a century hit. More recently, there have been spiraling shipping delays and cost increases. Additions made in the last month include rolling power outages in China and a sharp acceleration in cotton prices.

Unfortunately, this string of supply-related issues has coincided with robust demand growth, meaning that opportunities to provide and sell to consumers may be missed. Year-over-year comparisons are still somewhat affected by the COVID-driven downturn one year ago. Relative to 2019, consumer spending on apparel has averaged increases of 25% levels over the past six months. The five-year average rate of annual growth in clothing spending is 2.1%, so growth has been far beyond normal.

When demand outstrips supply, prices tend to escalate. Despite five months of consecutive increases, the latest reading for the CPI for garments is -1.6% below the levels posted before the pandemic hit the U.S. (percentage change August 2021 versus February 2020). The average import cost per square meter of apparel (cost of goods, excluding shipping and tariffs) set a new record low in March 2021. It has since moved higher, but the latest reading (August) is still -4.5% lower than in February 2020 (pre-COVID).

Further upstream, prices have been surging. Even though global supply and demand estimates do not suggest a shortage of upland cotton, prices have been following momentum higher. Current prices for NY/ICE cotton futures (Oct 11th) are over 110 cents/lb. Near the middle of September, prices were testing levels below 90 cents. Yarn prices have been increasing alongside fiber prices. In monthly averages, both fiber and yarn prices are more than 30% higher than in February 2020.

The disconnect between rising fiber and yarn prices and weak import costs suggests some financial pain in the middle of the supply chain. That pain could reflect the lag between the time when contracts were signed and when apparel is delivered. One year ago, there were serious questions about the direction of economic growth with COVID-driven shutdowns a feature of many markets. That negotiating environment, with fewer orders for manufacturers, could have been favorable for retailers. Since then, the negotiating equation has likely flipped towards manufacturers, with retailers striving to get orders completed and shipped.

Employment: In September, the U.S. economy was estimated to have added +194,000 jobs. Revisions to figures for previous months were positive, with the estimate for July rising +38,000 to +1.1 million and the estimate for August rising +131,000 to +366,000. The 12-month average for job gains is +474,000. Since COVID, there has been a net loss of -5.0 million positions.

The unemployment rate dropped 0.4 percentage points to 4.8%. This is a new post-pandemic low. Initial claims for unemployment insurance continue to trend lower. Average wages increased 4.6% in September. Between the financial crisis and before COVID, annual wage growth peaked near 3.5%. During that time, however, inflation was lower. Wage growth will need to outpace inflation for real consumer spending growth to remain strong. Year-over-year comparison against figures from 2020 can be a distortion, but the overall inflation rate was 5.2% in August.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence decreased for the third consecutive month in September. After the 5.9 point month-over-month drop, the current reading for the index is 109.3. This is above the long-term average of 93. It is also well below the value of 128.9 posted in June and well below the levels near 130 that were common before the pandemic.

Overall consumer spending increased 0.4% month-over-month in August. Year-over-year, spending was up 7.0%. Apparel spending was up 2.0% month-over-month and up 20.9% year-over-year. Relative to August 2019, overall spending was up 3.7%, while spending on apparel was 24.8% higher. Spending on services has been a drag on overall spending, while consumers continue to demonstrate an appetite for goods like clothing.

Consumer Prices & Import Data: The CPI for apparel increased for the fifth consecutive month in August. Despite the string of increases, average retail prices are still -1.6% lower than before the pandemic (August 2021 versus February 2020).

After setting a new record (\$2.95/SME in seasonally-adjusted data) in March 2021, the average cost per square meter (SME) of cotton-dominant apparel imports has increased for the past five months. The latest value, however, remains -4.5% lower than it was before COVID. Rising fiber prices and competition for capacity may eventually pull import prices above pre-COVID levels.

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	

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U.S. Macroeconomic Indicators & Cotton Prices
October 2021



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q4 : 2020	Q1 : 2021	Q2 : 2021		
Growth in US Real GDP	2.2%	2.1%	5.4%	6.3%	4.5%	6.3%	6.7%	% 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	55.8	60.4	60.5	60.2	59.5	59.9	61.1	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.1	60.2	62.4	62.6	64.1	61.7	61.9	Index	Institute for Supply Management
Consumer Confidence	118.3	107.9	119.3	116.5	125.1	115.2	109.3	Index	The Conference Board
Change in Non-Farm Payrolls	43.3	474.0	582.7	550.3	1,091	366	194	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.1%	6.0%	5.5%	5.1%	5.4%	5.2%	4.8%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	Interest rate	Federal Reserve
10-year Treasury Bill	2.0%	1.3%	1.5%	1.3%	1.3%	1.3%	1.4%	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	June	July	August		
Index of Leading Economic Indicators	108.3	112.5	115.3	116.4	116.0	116.0	117.1	Index	The Conference Board
Housing Starts	13.2	15.8	16.1	1.6	1.7	1.6	1.6	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.5	6.2	5.9	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 August

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	June	July	August		
US Industrial Production	100.0	98.7	100.2	101.0	99.9	100.3	101.6	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	104.2	109.5	113.9	119.7	113.5	122.6	123.0	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	3.2	2.5	2.7	2.8	2.8	2.8	2.7	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	1.39	1.36	1.37	1.36	1.36	1.34	1.38	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	2.1%	5.1%	12.3%	7.9%	9.3%	7.3%	7.0%	% Chg. Year/Year	Department of Commerce
Clothing	6.3%	28.7%	51.6%	22.2%	25.5%	20.1%	20.9%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	2.2%	3.0%	4.6%	5.3%	5.3%	5.3%	5.2%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-1.3%	-1.2%	2.6%	4.1%	4.3%	4.1%	3.9%	% 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	2.2	2.0	1.9	1.9	1.8	1.9	Ratio	Department of Commerce
Department Stores	2.1	1.9	1.8	1.7	1.8	1.7	1.7	Ratio	Department of Commerce

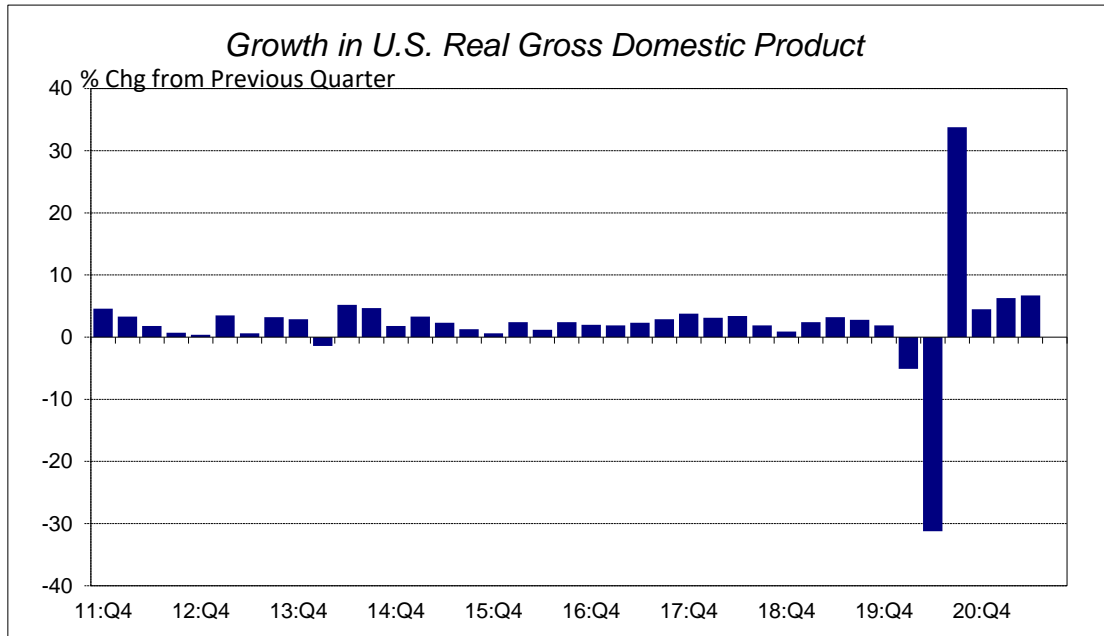
Executive Cotton Update

Daily Cotton Price and Currency Data
October 2021

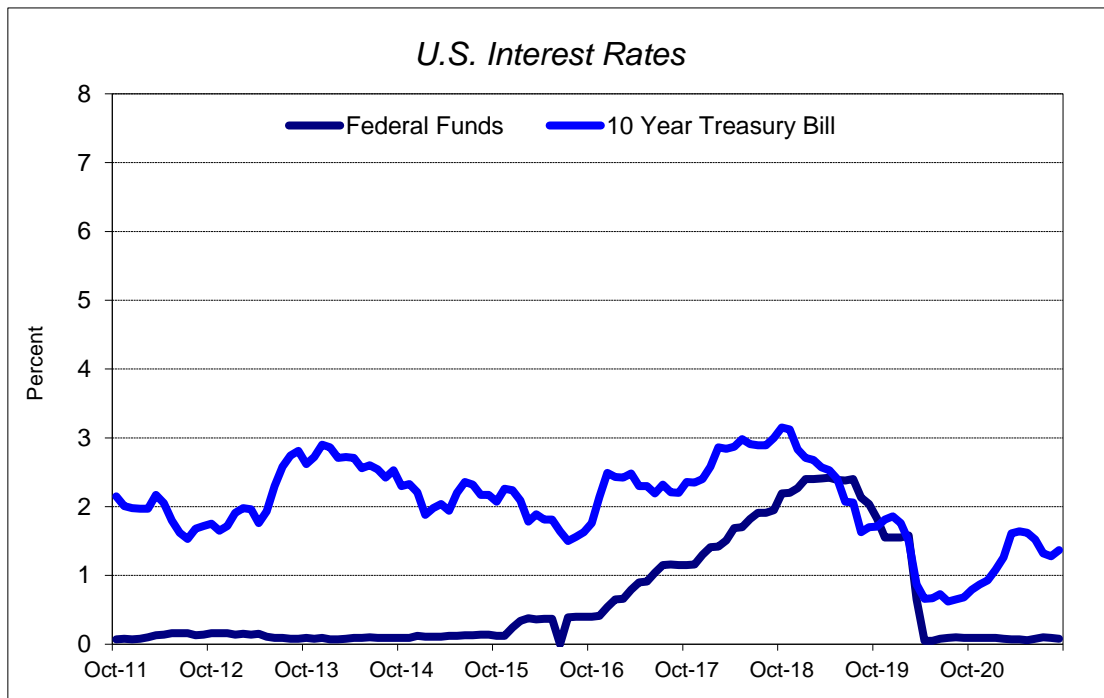


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
NY Nearby	74.0	83.2	88.7	92.8	89.1	93.6	95.7	cents/pound	ICE
A Index	83.1	90.3	96.5	100.9	97.7	101.3	103.7	cents/pound	Cotlook

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	114.3	115.6	112.6	113.4	113.4	113.6	113.3	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.74	6.80	6.47	6.46	6.46	6.47	6.46	Chinese Renminbi/US dollar	Reuters
Indian Rupee	69.94	72.56	73.84	74.07	74.62	74.15	73.43	Indian Rupee/US dollar	Reuters
Japanese Yen	109.35	108.45	109.78	110.40	110.66	110.33	110.22	Japanese Yen/US dollar	Reuters
Pakistani Rupee	136.15	154.03	158.32	163.17	158.60	163.40	167.50	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.14	4.67	5.25	5.22	5.26	5.24	5.17	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.31	1.24	1.26	1.25	1.26	1.26	Canadian dollar/US dollar	Reuters
Mexican Peso	19.77	20.23	19.97	20.00	20.04	20.03	19.93	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.77	0.77	0.72	0.72	0.73	0.72	0.73	British Pound/US dollar	Reuters
Euro	0.87	0.87	0.84	0.85	0.85	0.85	0.84	Euro/US dollar	Reuters
Swiss Franc	0.97	0.96	0.91	0.92	0.93	0.91	0.92	Swiss Franc/US dollar	Reuters
Turkish Lira	5.59	6.72	8.45	8.56	8.70	8.63	8.34	Turkish Lira/US dollar	Reuters



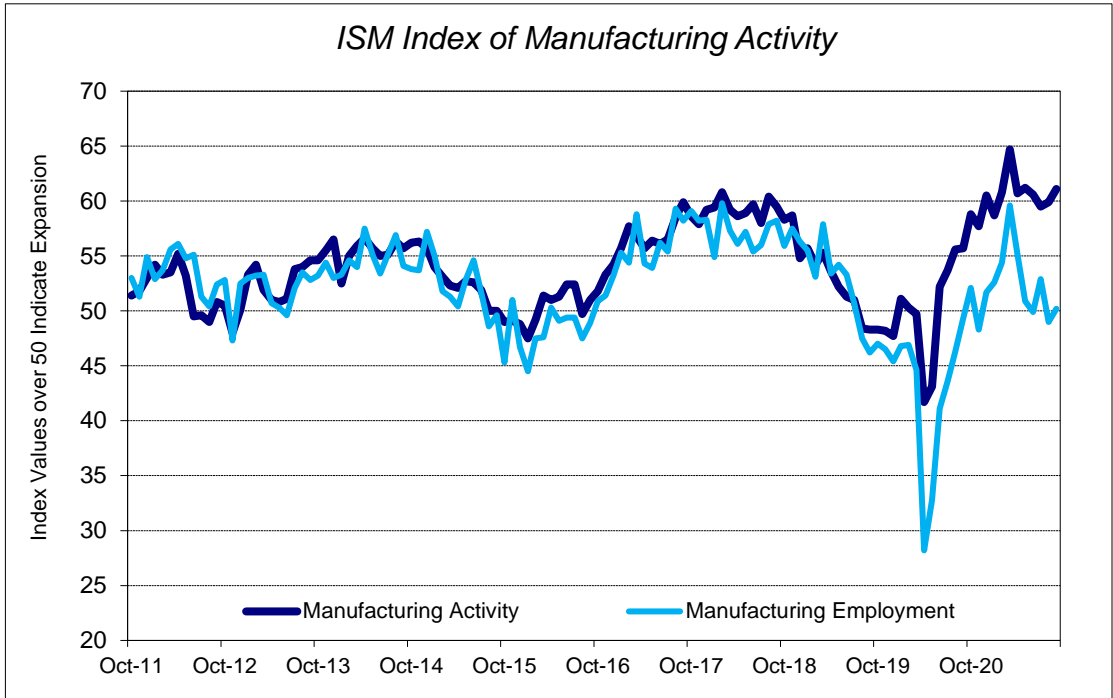
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



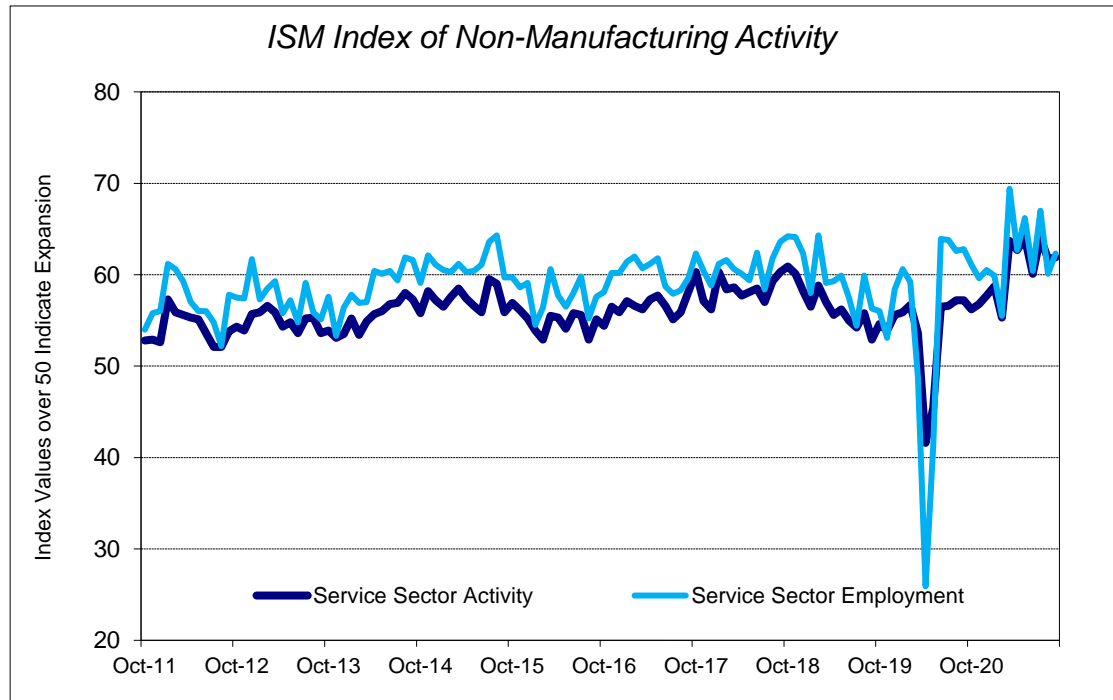
Source: Federal Reserve

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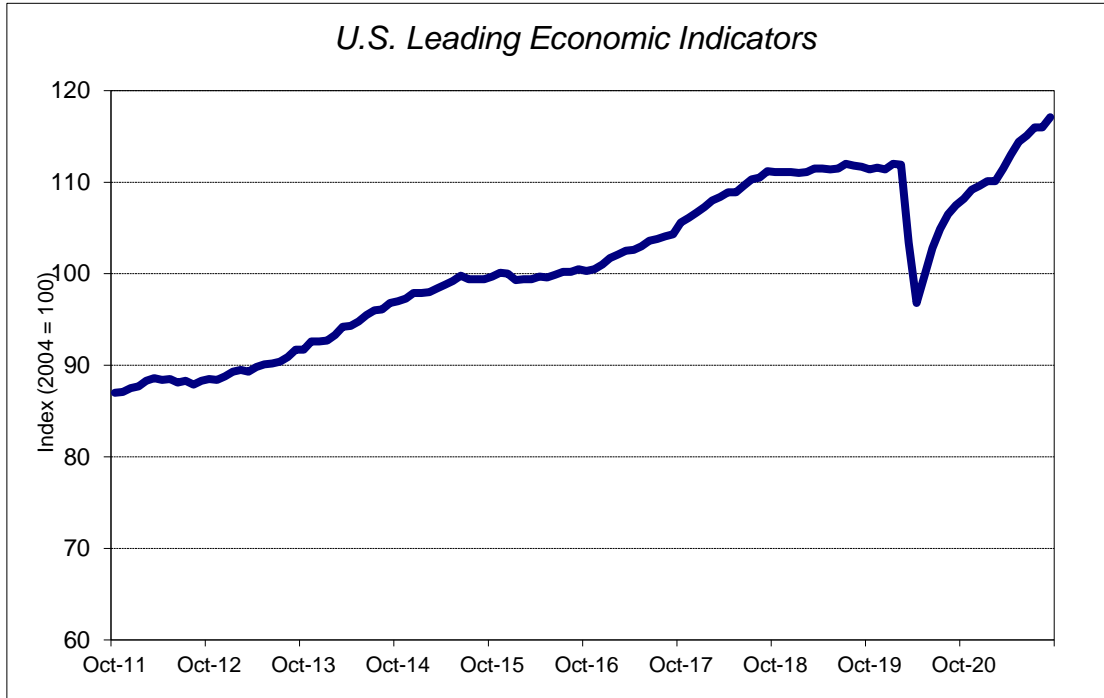
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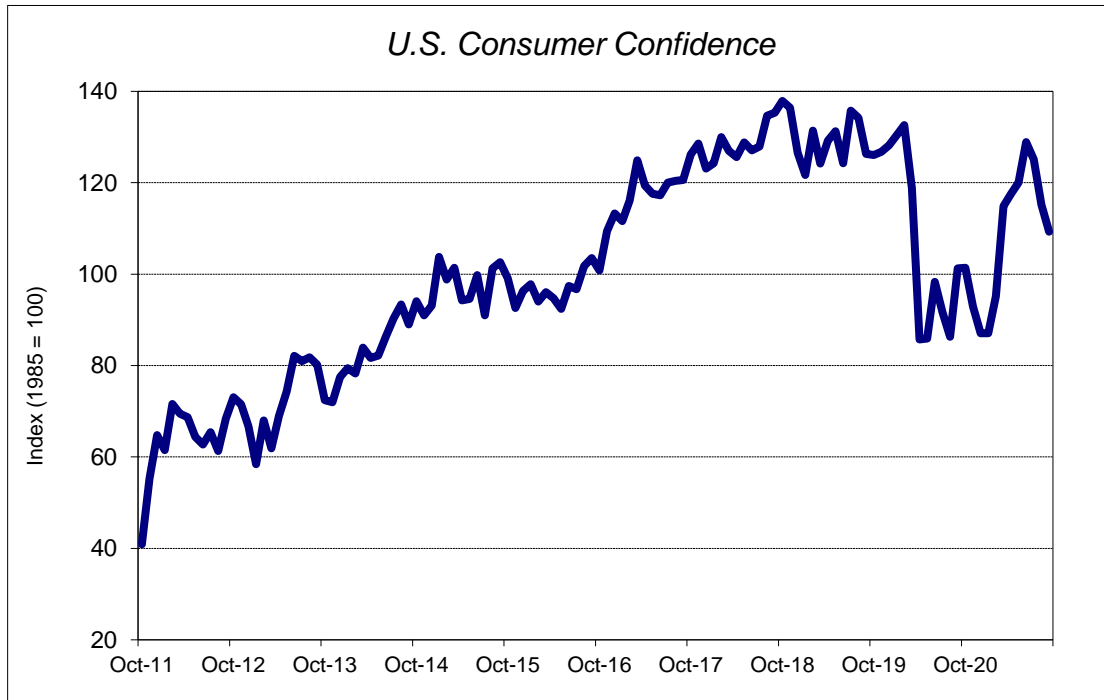
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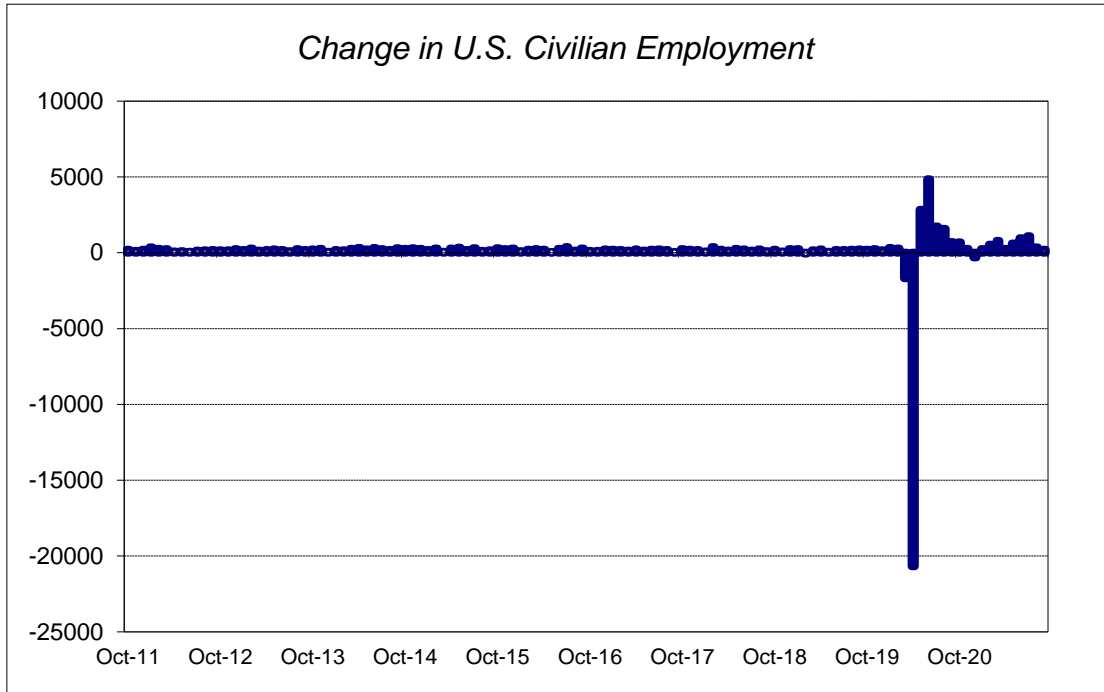
Source: The Conference Board



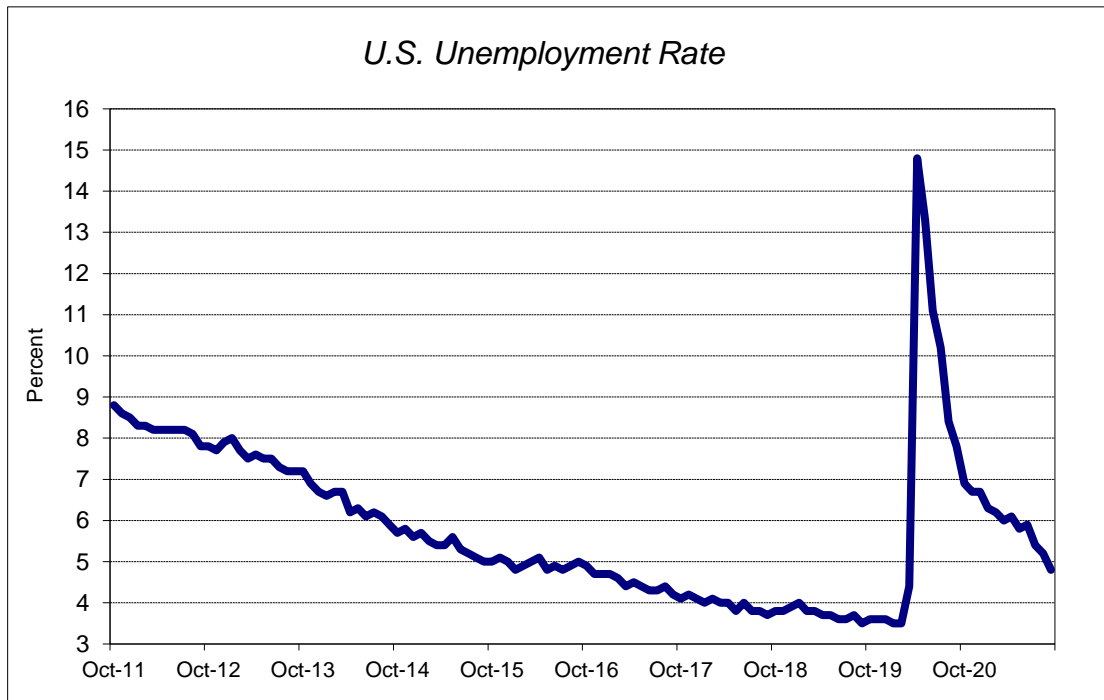
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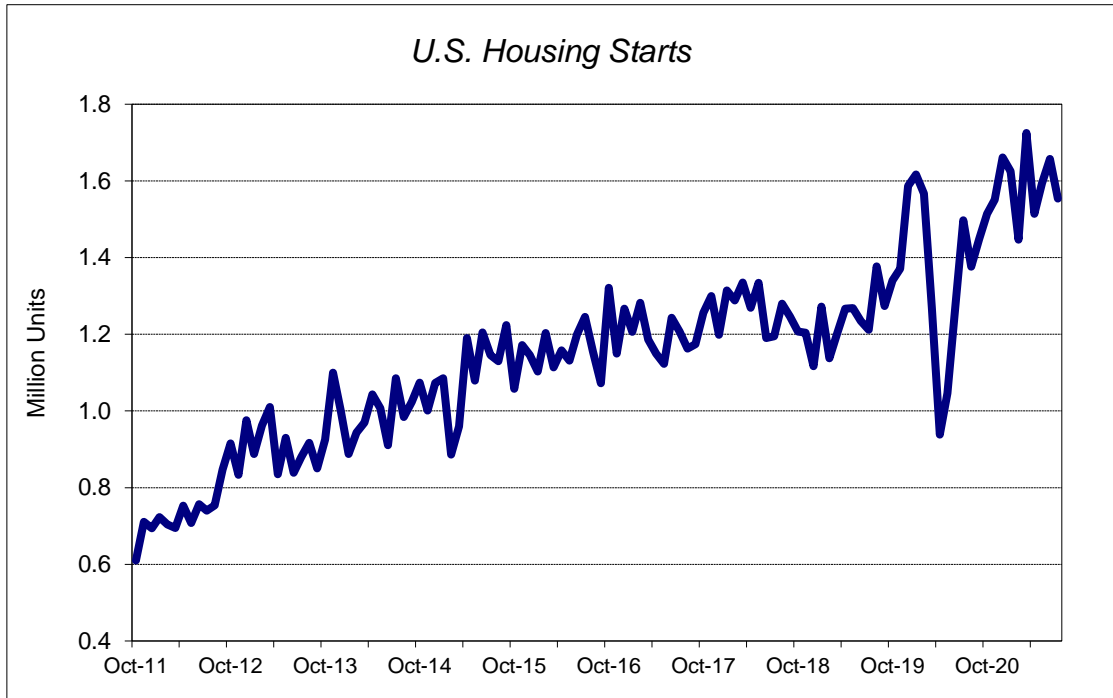
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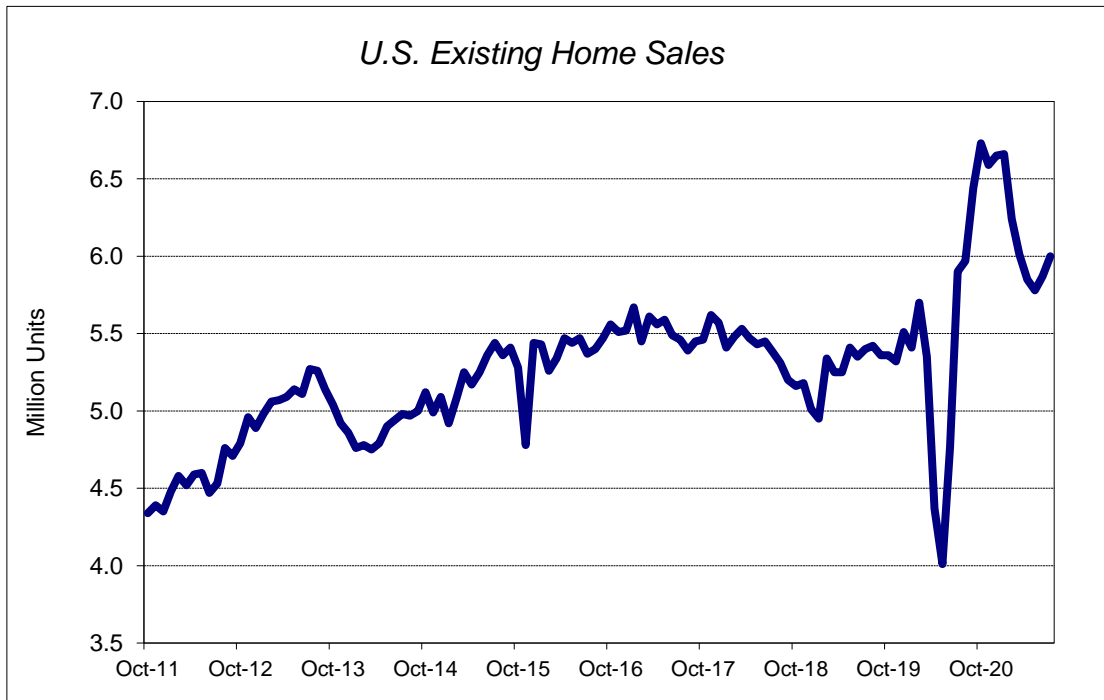
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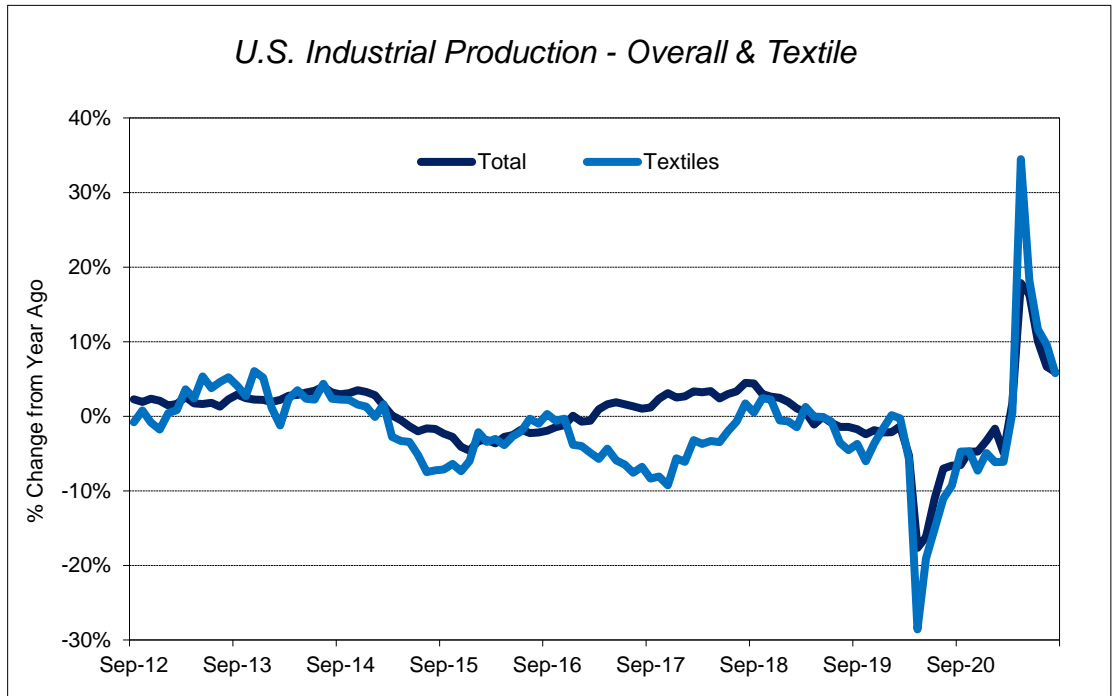
Seasonally Adjusted Annual Rate; Source: Department of Commerce



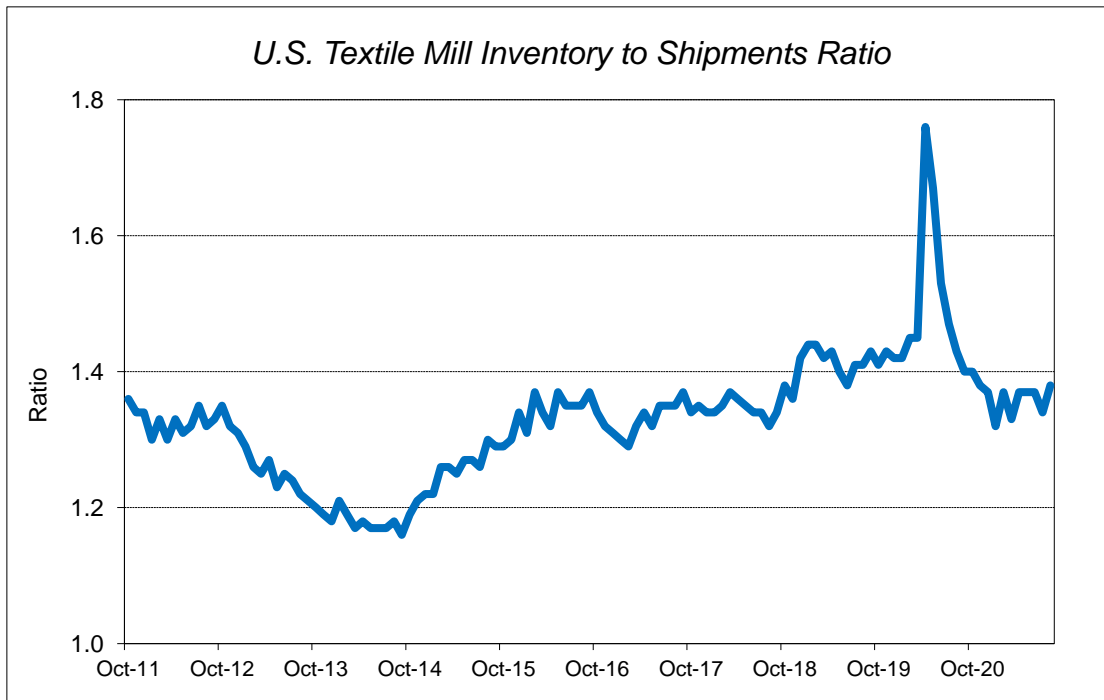
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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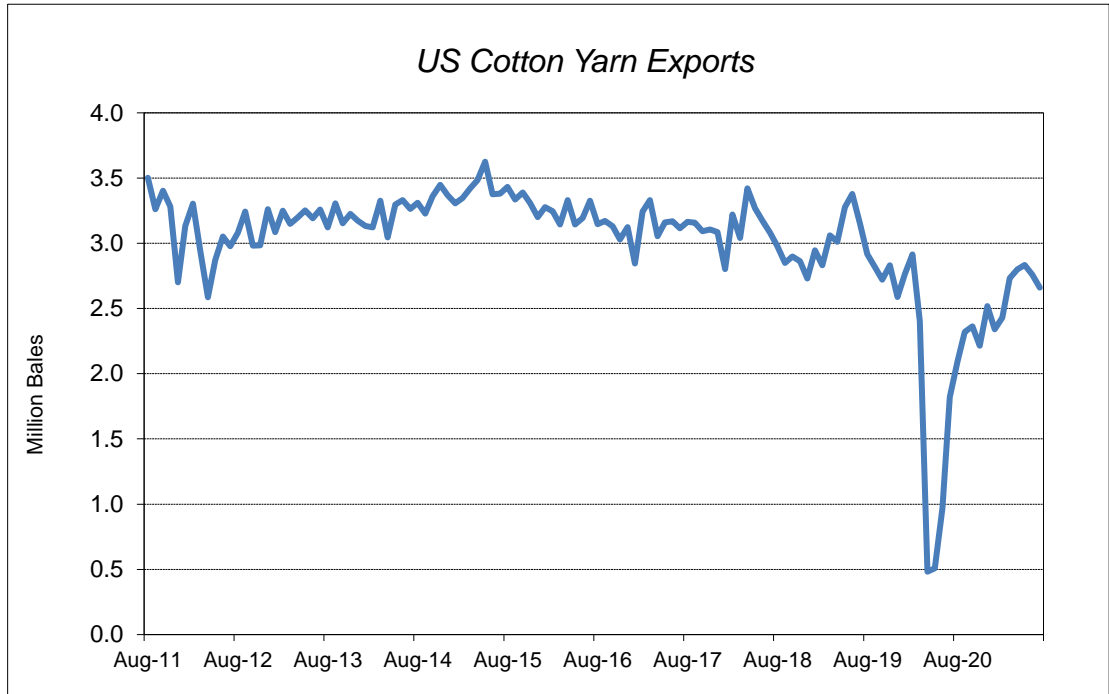
Source: Federal Reserve. Historical data revised to 1997 baseline.



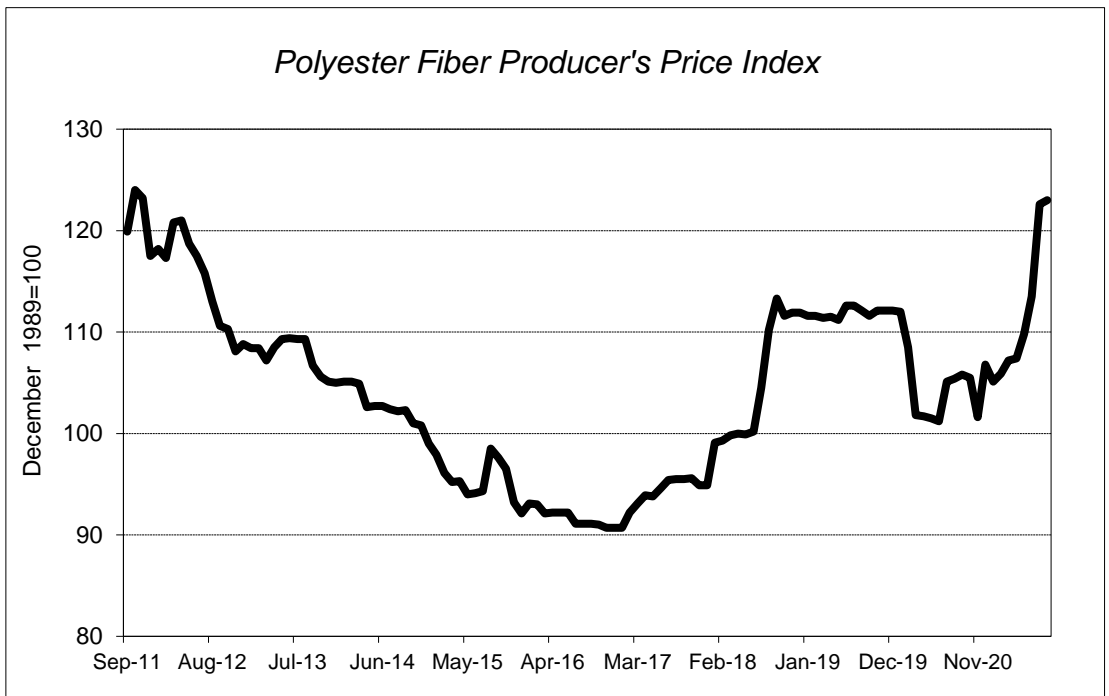
Seasonally Adjusted; Source: Department of Commerce

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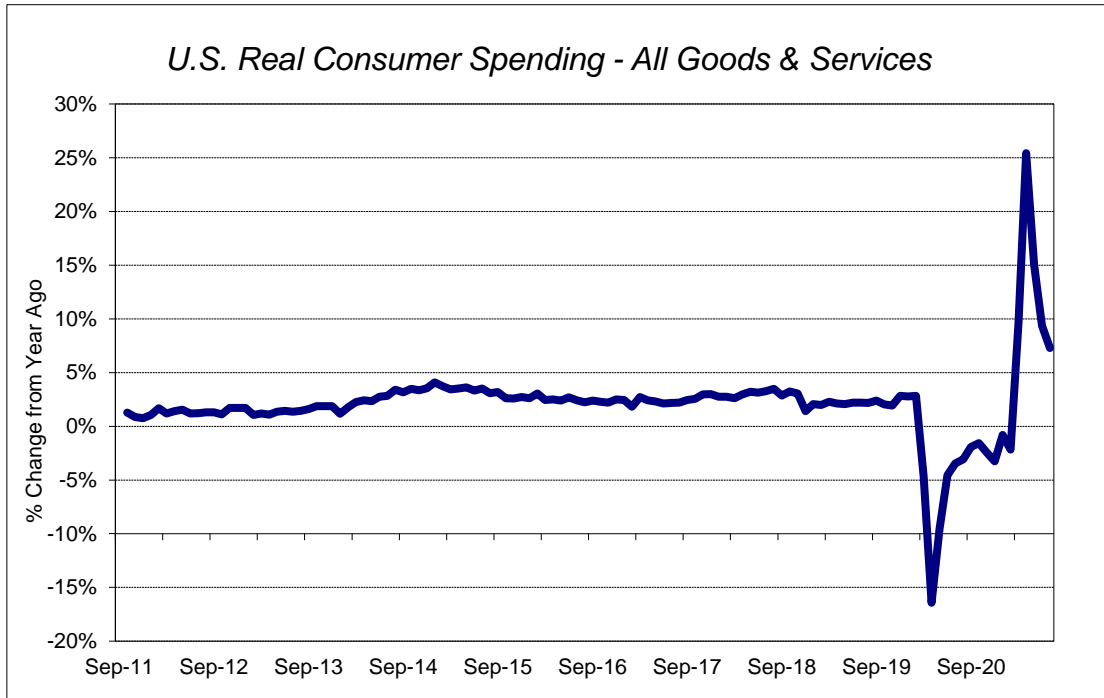
Seasonally Adjusted Annual Rate
 Source: USDA ERS



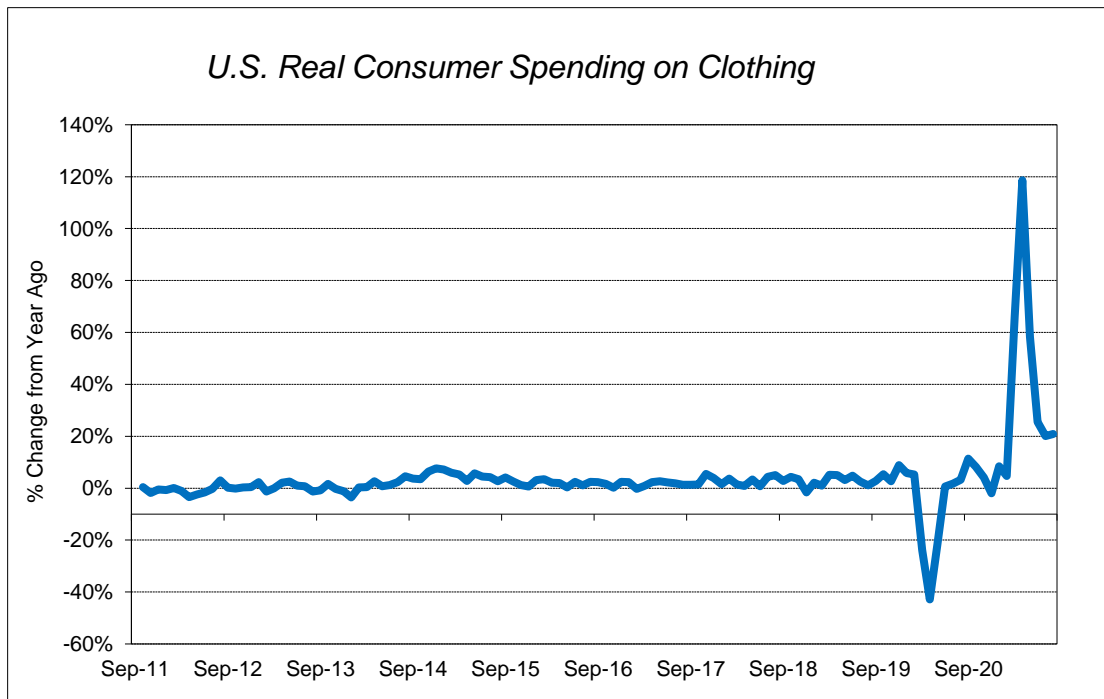
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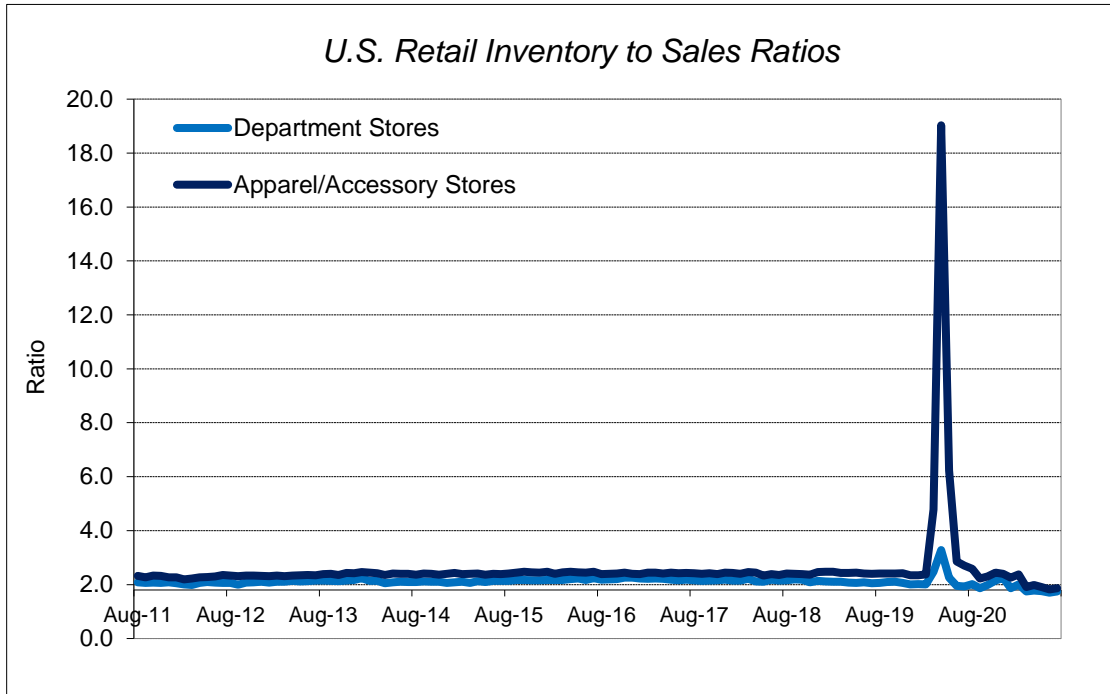
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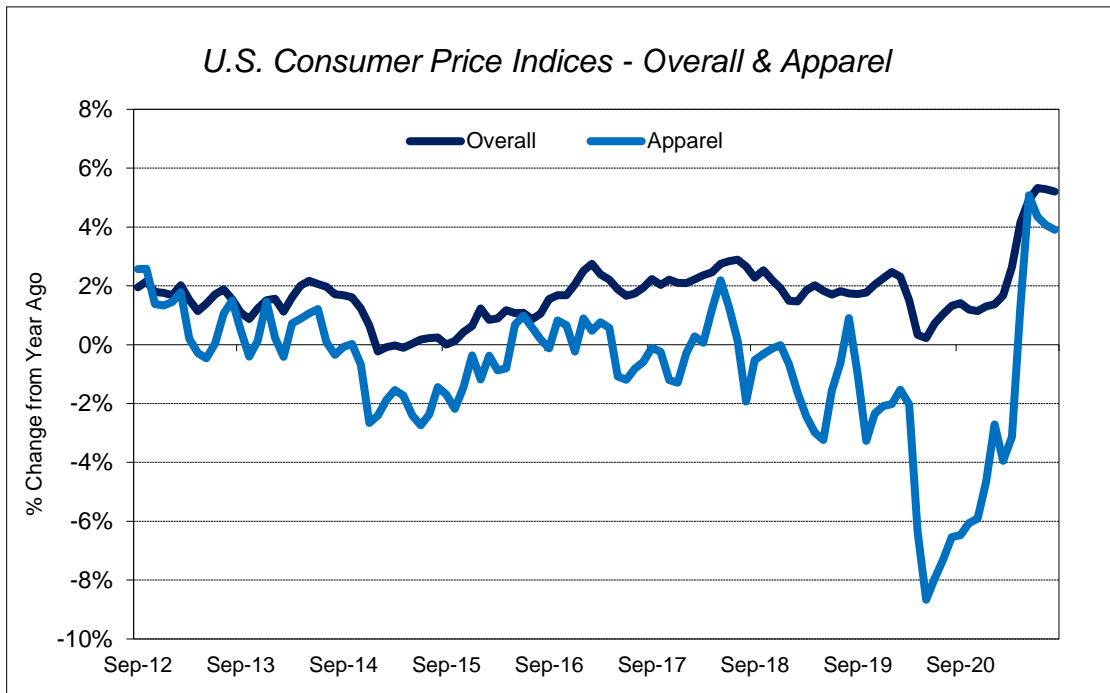
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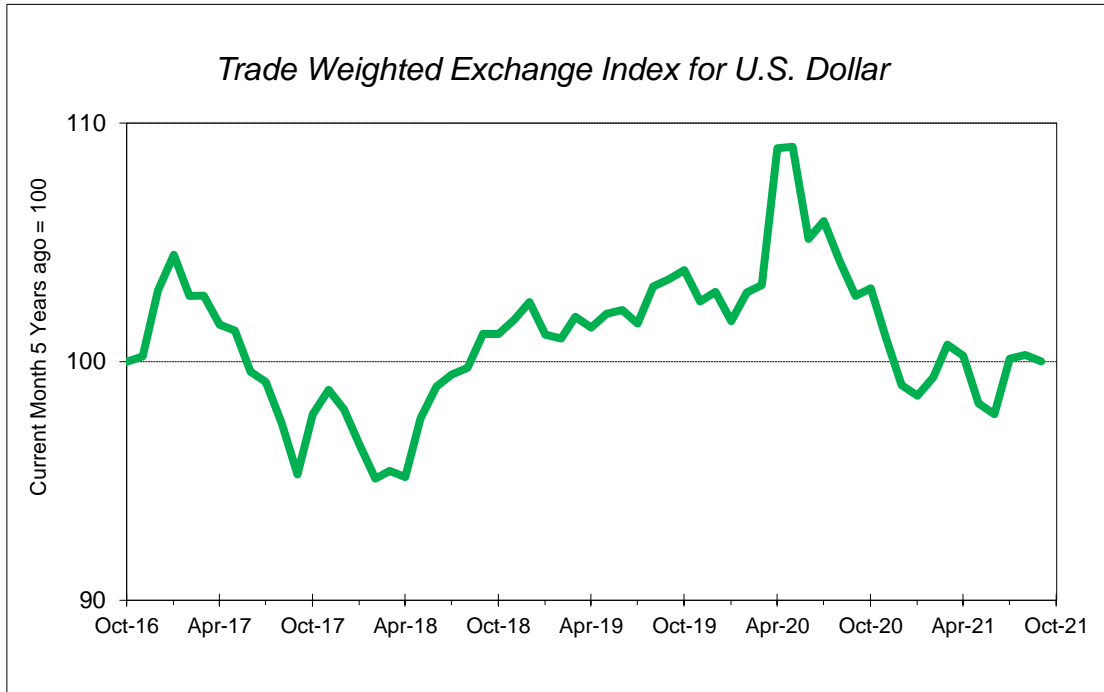
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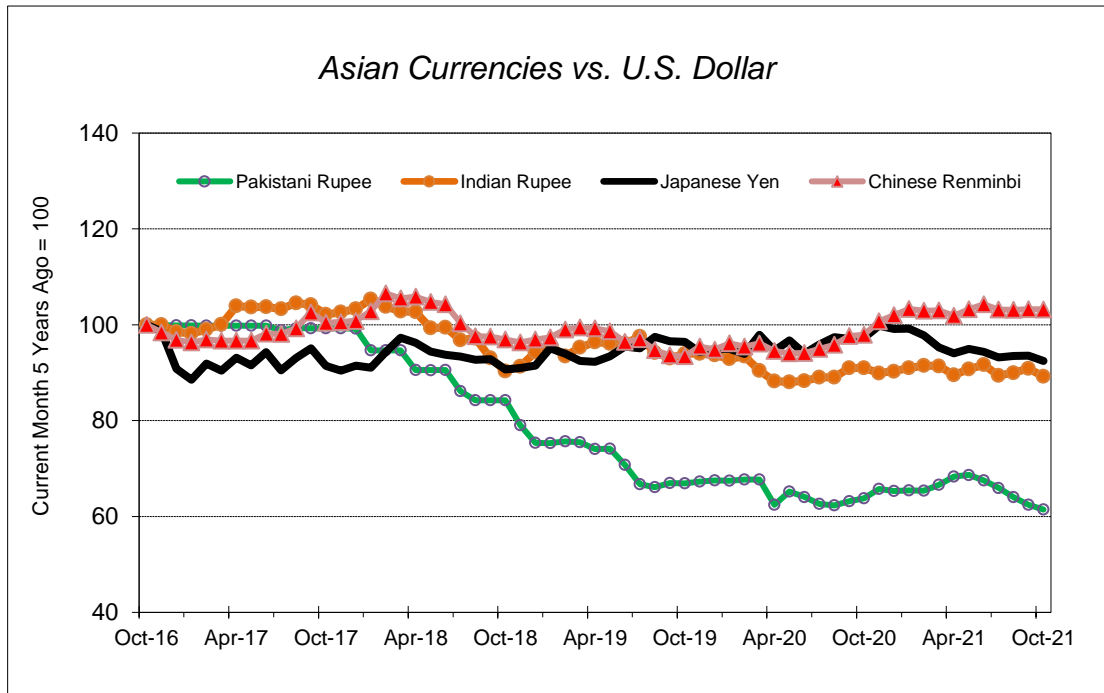
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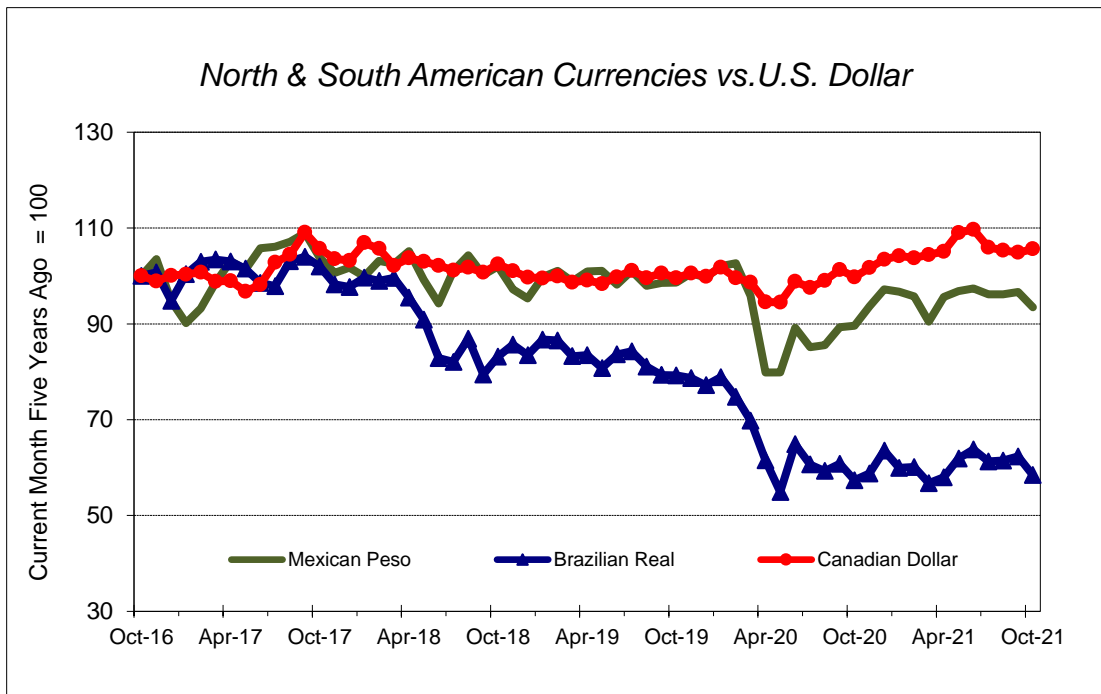
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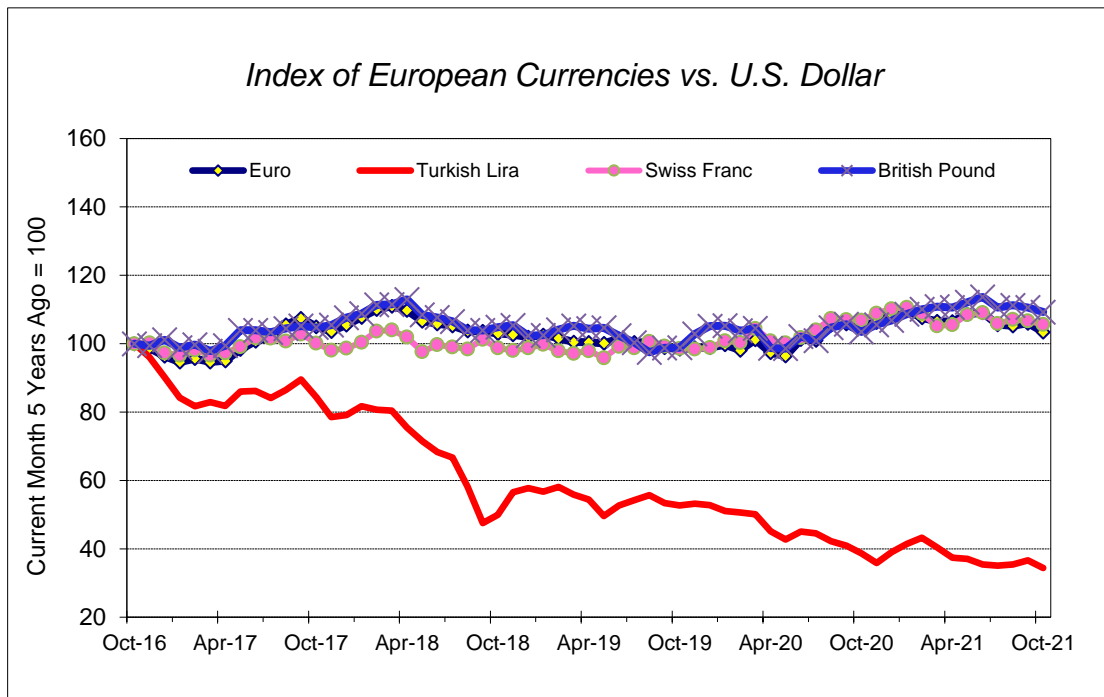
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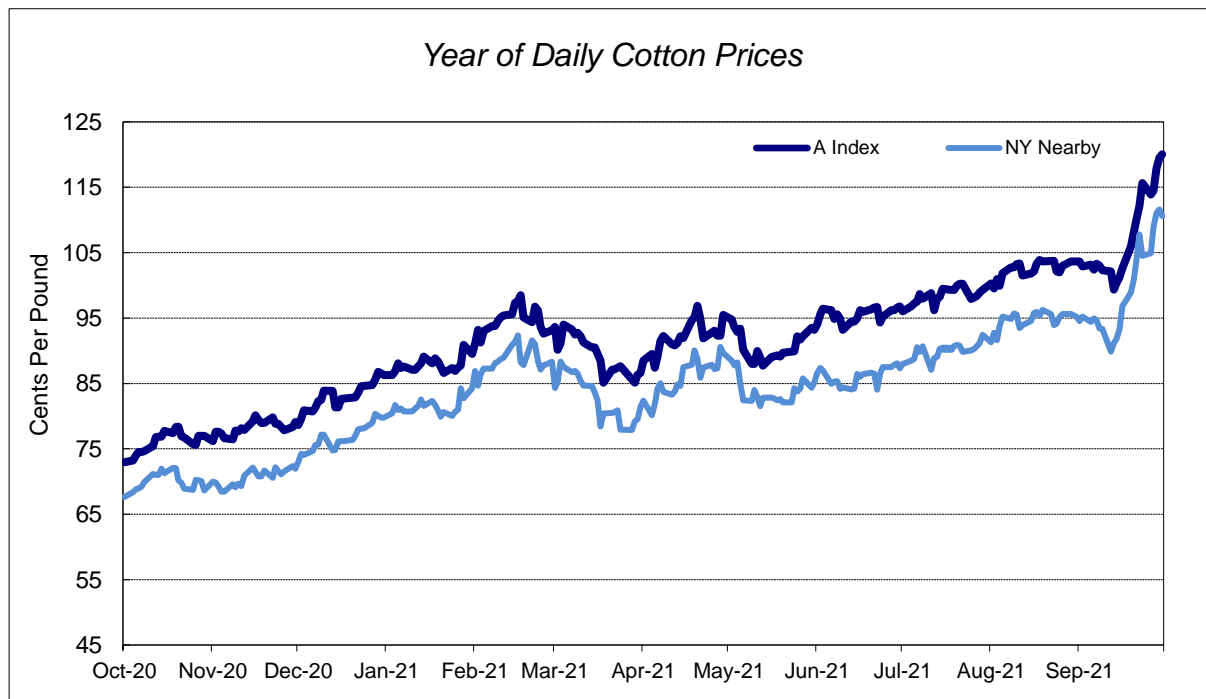
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U.S. Balance Sheet

million 480 lb. bales	2017/18	2018/19	2019/20	2020/21	2021/22 August	2021/22 September
Beginning Stocks	2.8	4.2	4.9	7.3	3.2	3.2
Production	20.9	18.4	19.9	14.6	17.3	18.5
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	23.7	22.6	24.8	21.9	20.5	21.7
Mill-Use	3.2	3.0	2.2	2.4	2.5	2.5
Exports	16.3	14.8	15.5	16.4	15.0	15.5
Demand	19.5	17.8	17.7	18.7	17.5	18.0
Ending Stocks	4.2	4.9	7.3	3.2	3.0	3.7
Stocks/Use Ratio	21.5%	27.2%	41.0%	16.8%	17.1%	20.6%



Sources: ICE Futures U.S. & Cotton Outlook

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