

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



December 2021

www.cottoninc.com

Macroeconomic Overview: The U.S. economy was estimated to have added fewer jobs last month. Nonetheless, the unemployment rate posted a significant drop (-0.4 percentage points). At its current level, the unemployment rate is only 0.7 points above the value before the pandemic (3.5% in February 2020). Before COVID, the unemployment rate was exceptionally low, reaching its lowest level in five decades. The current value is also low by historical standards. There have been only three periods since the 1970s when unemployment was below five percent.

Inflation rates were also low before COVID. One contributing factor to the low rate of inflation ahead of the outbreak was sluggish wage growth. After the last recession and before COVID, wages did not grow more than 3.5% year-over-year. Since COVID, wage growth has been as strong as 8.2% year-over-year (April 2020) and has been holding to levels over four percent for the past five months. Higher wages imply higher costs for employers. As additional employment costs are passed on to consumers, it can lead to inflation.

Inflation can affect consumer spending. If inflation exceeds wage growth, consumers cannot purchase the same volume of goods and services. The current rate of overall inflation is 5.0%. Since June, it has been nearly even with wage growth but was more than one percentage point higher than wage growth in April and May. However, wage growth was three or more points higher than inflation during the other COVID months. Although current inflation rates suggest that much of the current wage growth is needed to simply cover price increases, the separation in the recent past resulted in the accumulation of savings that can support spending despite rising prices.

In addition, several categories of goods and services experienced sharp decreases in prices during COVID. A notable example is clothing, where average retail prices declined as much as 8.7% year-over-year. Year-over-year rates of inflation for clothing have been relatively high in recent months (4.1% in October). Nonetheless, they have not been enough to pull prices above the levels before the pandemic and were -3.1 lower in October 2021 than they were in February 2020.

The accumulation of savings and lower prices for apparel could support consumer spending throughout the holiday season. Consumer confidence has been a little lower since case counts in the U.S. began their latest climb, and the Omicron variant is a reminder that the virus is still a threat to health and economic activity. Nonetheless, expectations are that holiday spending will be strong this year.

Employment: In November, the U.S. economy was estimated to have added +210,000 jobs. Revisions to figures for previous months were positive. The estimate for September rose +67,000 to +379,000. The estimate for October rose +15,000 to +546,000. The 12-month average for job gains is +474,000. Since COVID, there has been a net loss of -4.2 million positions.

The unemployment rate dropped 0.4 percentage points to 4.2%. After the financial crisis, it took eight years for the unemployment rate to reach this level.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence was virtually unchanged in November (+2.1 points, to 109.5). The current value is well above the long-term average of 93. The current value is also below the recent high point reached in June (128.9) and below the levels near 130 that were common before the pandemic. Year-over-year, the index was 16.6 points lower in November.

Overall consumer spending increased 0.7% month-over-month in October. Year-over-year, spending was up 6.6%. Apparel spending was up 0.8% month-over-month and up 16.4% year-over-year. COVID can distort comparisons against figures from 2020. Relative to October 2019, overall spending was up 4.9%, while spending on apparel was 26.0% higher. The long-term average annual growth rate in spending on clothing is near 2.0%, so recent growth in apparel spending has been exceptional.

Consumer Prices & Import Data: The CPI for apparel edged slightly higher in October. Despite recent increases, average retail prices are still lower than before the pandemic (-3.1% in October 2021 versus February 2020, seasonally-adjusted data). COVID caused retail clothing prices to drop as much as 8.7% year-over-year (May 2020). Year-over-year, prices were 4.1% higher in October.

Average monthly prices per square meter equivalent have increased for seven straight months. This has been coming off the record low set in March 2021 (\$2.95/SME in seasonally-adjusted data). The latest average cost per square meter (SME) is \$3.27/SME (October). This figure is -2.4% lower than before COVID (\$3.35/SME in February 2020). Given increases in fiber prices in recent months and the ongoing shipping crisis, import costs can be expected to continue to increase 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
December 2021



Macroeconomic Data

Quarterly Data

| | Recent Averages | | | | Values in Recent Quarters | | | Unit | Source |
|-----------------------|-----------------|--------|---------|---------|---------------------------|-----------|-----------|------------------------|------------------------|
| | 5-year | 1-year | 6-month | 3-month | Q1 : 2021 | Q2 : 2021 | Q3 : 2021 | | |
| Growth in US Real GDP | 2.5% | 2.3% | 6.5% | 6.7% | 6.3% | 6.7% | 2.1% | % Chg. Quarter/Quarter | Department of Commerce |

Macroeconomic 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 | | |
| ISM Index of Manufacturing Activity | 56.0 | 60.8 | 60.5 | 61.0 | 61.1 | 60.8 | 61.1 | Index | Institute for Supply Management |
| ISM Index of Non-Manufacturing Activity | 57.6 | 62.1 | 63.9 | 65.9 | 61.9 | 66.7 | 69.1 | Index | Institute for Supply Management |
| Consumer Confidence | 118.5 | 110.2 | 116.7 | 110.3 | 109.8 | 111.6 | 109.5 | Index | The Conference Board |
| Change in Non-Farm Payrolls | 56.8 | 483.5 | 611.8 | 378.3 | 379 | 546 | 210 | Thousands of jobs | Bureau of Labor Statistics |
| Unemployment Rate | 5.1% | 5.6% | 5.0% | 4.5% | 4.8% | 4.6% | 4.2% | 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% | 1.4% | 1.4% | 1.5% | 1.4% | 1.6% | 1.6% | Interest rate | Federal Reserve |

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 | | |
| Index of Leading Economic Indicators | 108.9 | 114.2 | 117.0 | 117.6 | 117.3 | 117.3 | 118.3 | Index | The Conference Board |
| Housing Starts | 13.3 | 15.8 | 15.7 | 1.5 | 1.6 | 1.5 | 1.5 | Annual pace, millions of units | Department of Commerce |
| Existing Home Sales | 5.6 | 6.2 | 6.0 | 6.2 | 5.9 | 6.3 | 6.3 | Annual pace, millions of units | National Association of Realtors |

Industrial & Textile Data

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 | | |
| US Industrial Production | 100.0 | 99.5 | 100.7 | 101.0 | 101.3 | 101.3 | 101.6 | Index, 2002=100 | Federal Reserve |
| Polyester Fiber PPI | 105.5 | 113.9 | 122.2 | 127.6 | 123.0 | 124.4 | 135.3 | 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 | 3.2 | 2.5 | 2.7 | 2.6 | 2.7 | 2.6 | 2.5 | million 480lb bales | USDA ERS |

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 | | |
| US Textile Mill Inventory/Shipments Ratio | 1.39 | 1.36 | 1.37 | 1.39 | 1.39 | 1.39 | 1.39 | Ratio | Department of Commerce |

Retail Data

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 | | |
| US Real Consumer Spending | | | | | | | | | |
| All Goods and Services | 2.2% | 6.5% | 8.7% | 6.8% | 7.4% | 6.3% | 6.6% | % Chg. Year/Year | Department of Commerce |
| Clothing | 6.8% | 29.8% | 26.3% | 17.8% | 21.4% | 15.8% | 16.4% | % Chg. Year/Year | Department of Commerce |
| Consumer Price Indices | | | | | | | | | |
| Overall | 2.3% | 3.7% | 5.4% | 5.6% | 5.2% | 5.4% | 6.2% | % Chg Year/Year | Bureau of Labor Statistics |
| Clothing | -1.2% | 0.4% | 4.0% | 3.5% | 3.9% | 2.5% | 4.1% | % Chg. Year/Year | Bureau of Labor Statistics |

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 | | |
| Retail Inventory/Sales Ratio | | | | | | | | | |
| Clothing and Clothing Accessory Stores | 2.7 | 2.1 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | Ratio | Department of Commerce |
| Department Stores | 2.1 | 1.9 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | Ratio | Department of Commerce |

Executive Cotton Update

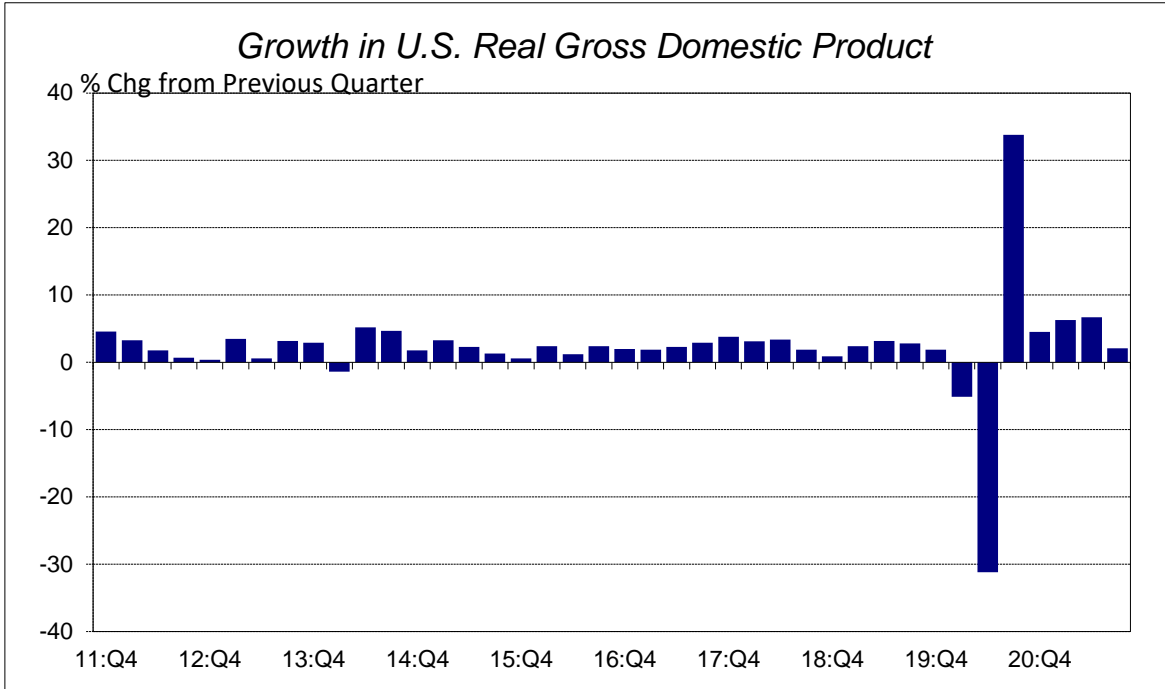
Daily Cotton Price and Currency Data

December 2021

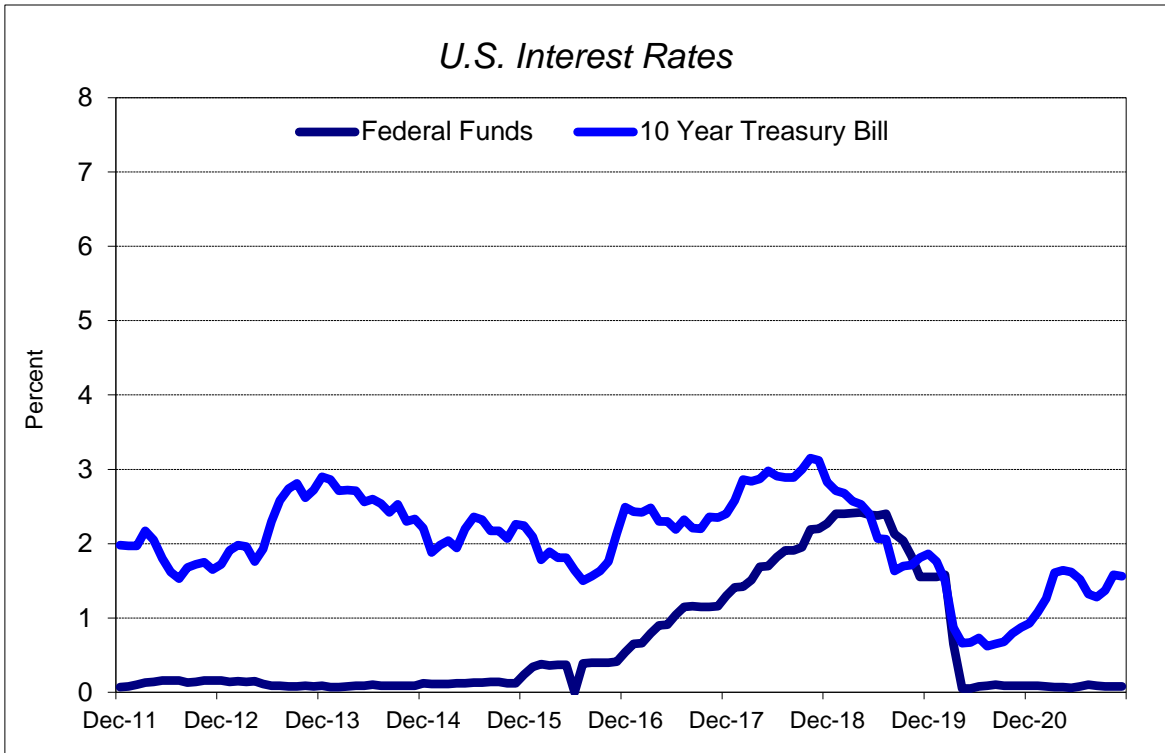


| Daily Cotton Price Data | Recent Averages | | | | Averages over Recent Months | | | Unit | Source |
|-------------------------|-----------------|--------|---------|---------|-----------------------------|---------|----------|-------------|---------|
| | 5-year | 1-year | 6-month | 3-month | September | October | November | | |
| NY Nearby | 75.4 | 90.5 | 98.4 | 107.5 | 95.7 | 108.7 | 118.0 | cents/pound | ICE |
| A Index | 84.5 | 97.9 | 106.9 | 115.9 | 103.7 | 117.4 | 126.5 | cents/pound | Cotlook |

| Daily Currency Data | Recent Averages | | | | Averages over Recent Months | | | Unit | Source |
|--------------------------------------|-----------------|--------|---------|---------|-----------------------------|---------|----------|----------------------------|-----------------|
| | 5-year | 1-year | 6-month | 3-month | September | October | November | | |
| Dollar Trade Weighted Exchange Index | 114.4 | 115.6 | 113.4 | 114.2 | 113.3 | 114.8 | 114.5 | Index, January 1997=100 | Federal Reserve |
| Asian Currencies | | | | | | | | | |
| Chinese Renminbi | 6.73 | 6.77 | 6.44 | 6.44 | 6.46 | 6.46 | 6.40 | Chinese Renminbi/US dollar | Reuters |
| Indian Rupee | 70.21 | 72.62 | 74.04 | 74.23 | 73.43 | 74.79 | 74.47 | Indian Rupee/US dollar | Reuters |
| Japanese Yen | 109.64 | 108.39 | 110.91 | 111.74 | 110.22 | 111.53 | 113.46 | Japanese Yen/US dollar | Reuters |
| Pakistani Rupee | 138.33 | 156.36 | 164.13 | 169.28 | 167.50 | 170.25 | 170.08 | Pakistani Rupee/US dollar | Reuters |
| North & South American Currencies | | | | | | | | | |
| Brazilian Real | 4.22 | 4.76 | 5.30 | 5.41 | 5.17 | 5.52 | 5.53 | Brazilian Real/US dollar | Reuters |
| Canadian Dollar | 1.30 | 1.31 | 1.25 | 1.25 | 1.26 | 1.25 | 1.24 | Canadian dollar/US dollar | Reuters |
| Mexican Peso | 19.82 | 20.29 | 20.14 | 20.32 | 19.93 | 20.62 | 20.42 | Mexican Peso/US dollar | Reuters |
| European Currencies | | | | | | | | | |
| British Pound | 0.76 | 0.76 | 0.73 | 0.73 | 0.73 | 0.73 | 0.74 | British Pound/US dollar | Reuters |
| Euro | 0.87 | 0.87 | 0.85 | 0.86 | 0.84 | 0.87 | 0.87 | Euro/US dollar | Reuters |
| Swiss Franc | 0.96 | 0.95 | 0.92 | 0.92 | 0.92 | 0.93 | 0.91 | Swiss Franc/US dollar | Reuters |
| Turkish Lira | 5.80 | 6.91 | 8.81 | 8.97 | 8.34 | 8.88 | 9.70 | Turkish Lira/US dollar | Reuters |



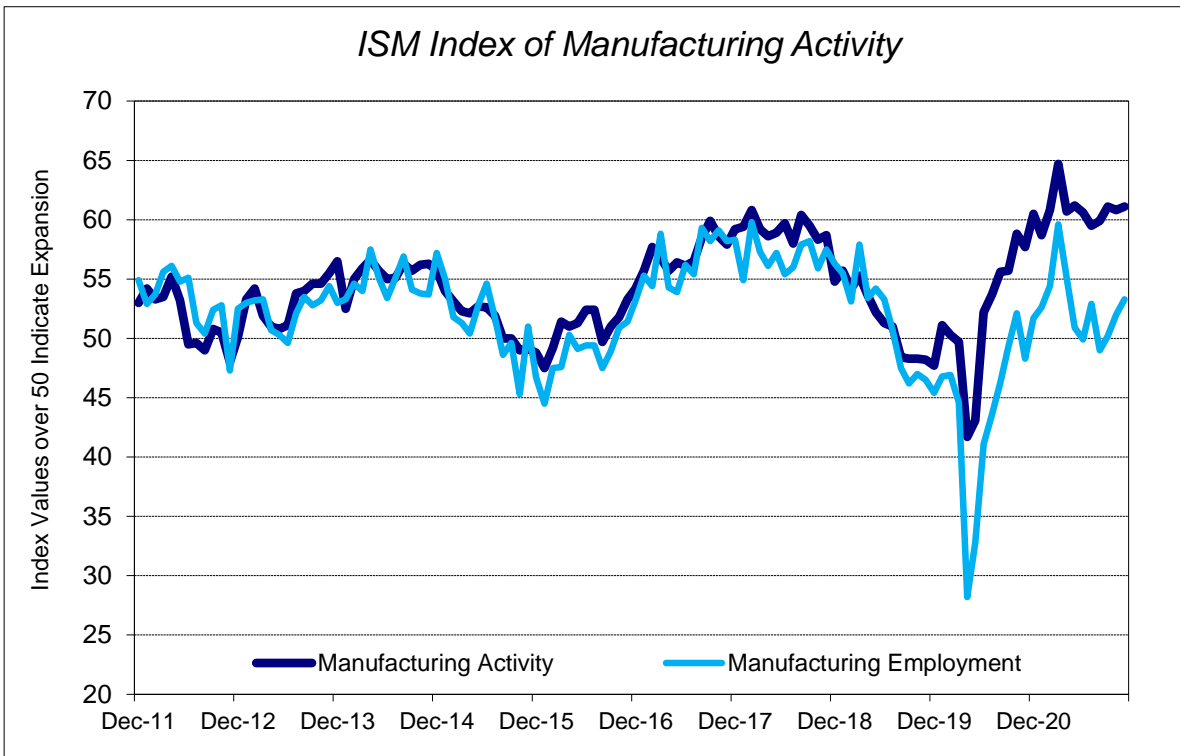
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



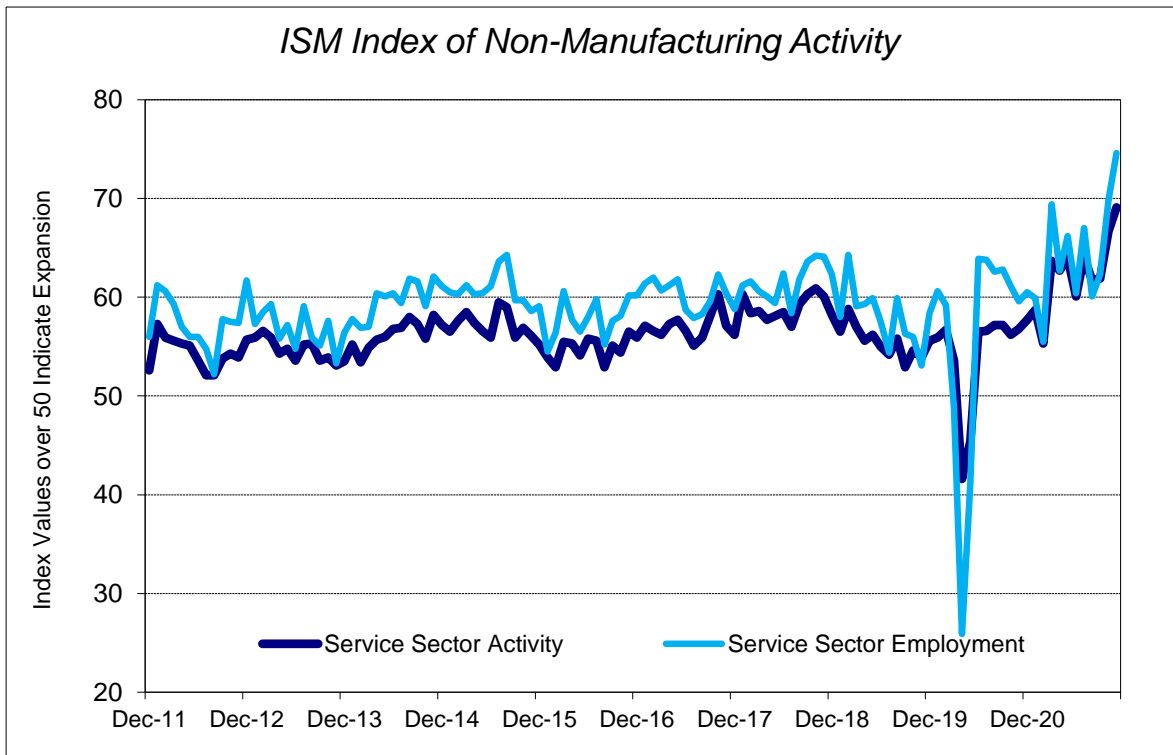
Source: Federal Reserve

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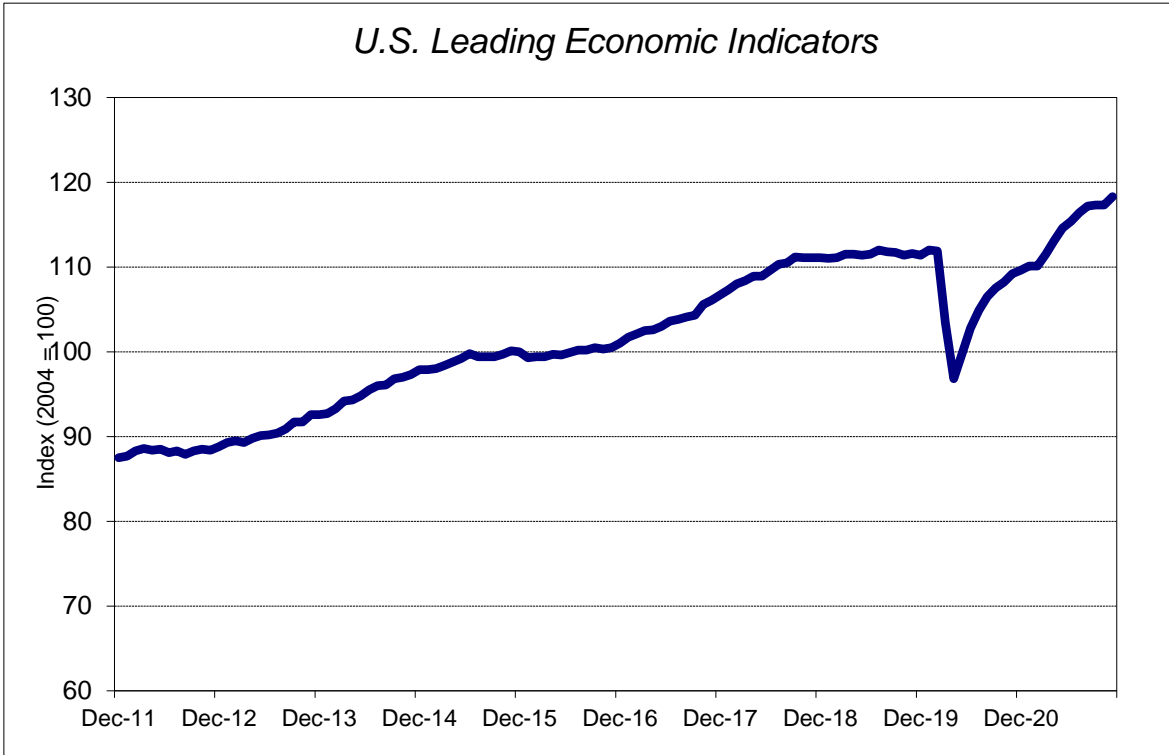
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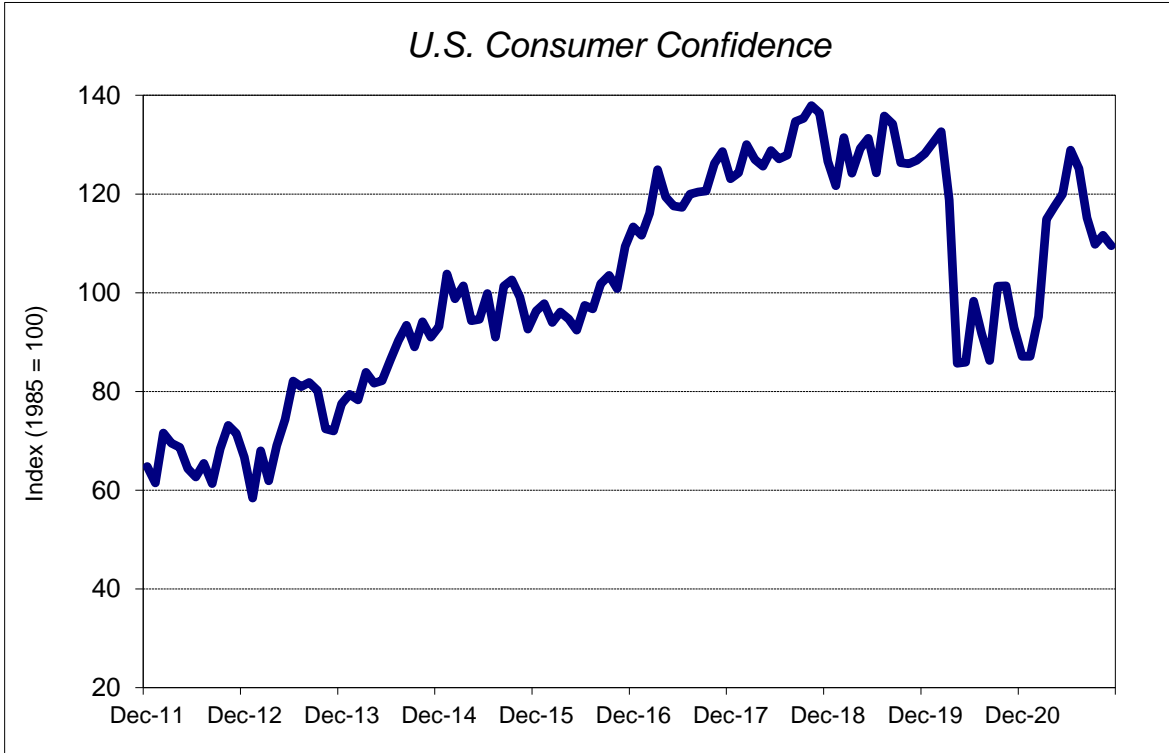
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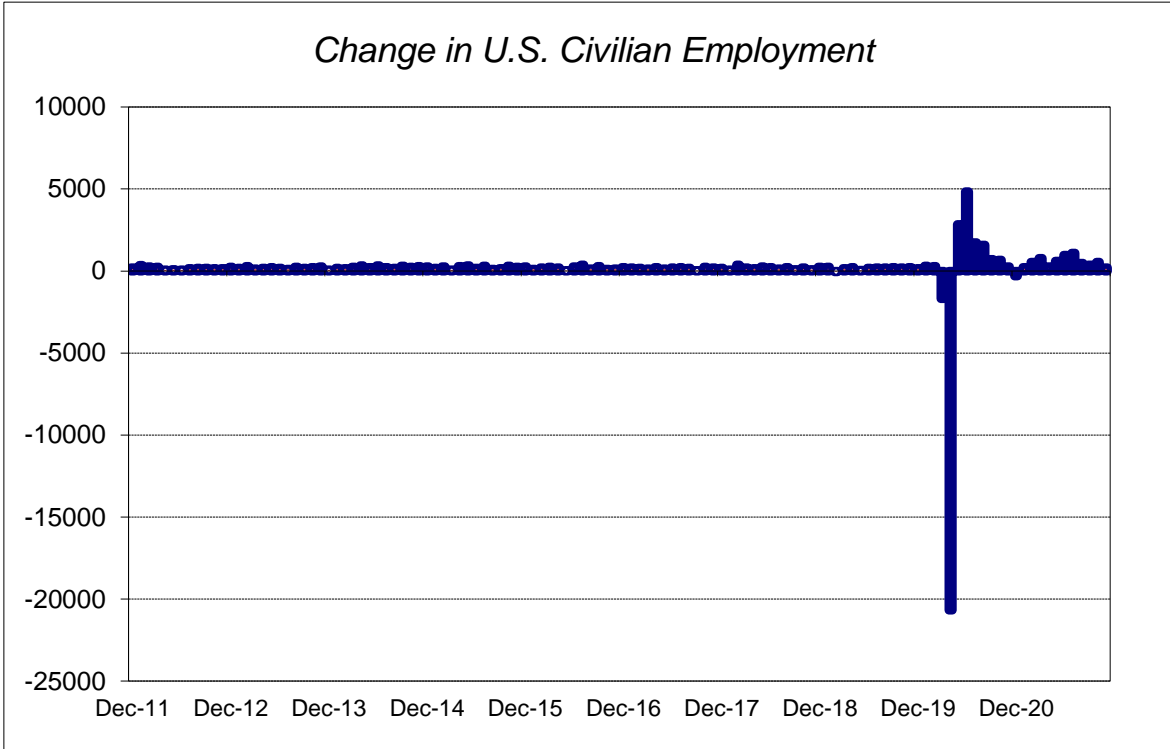
Source: The Conference Board



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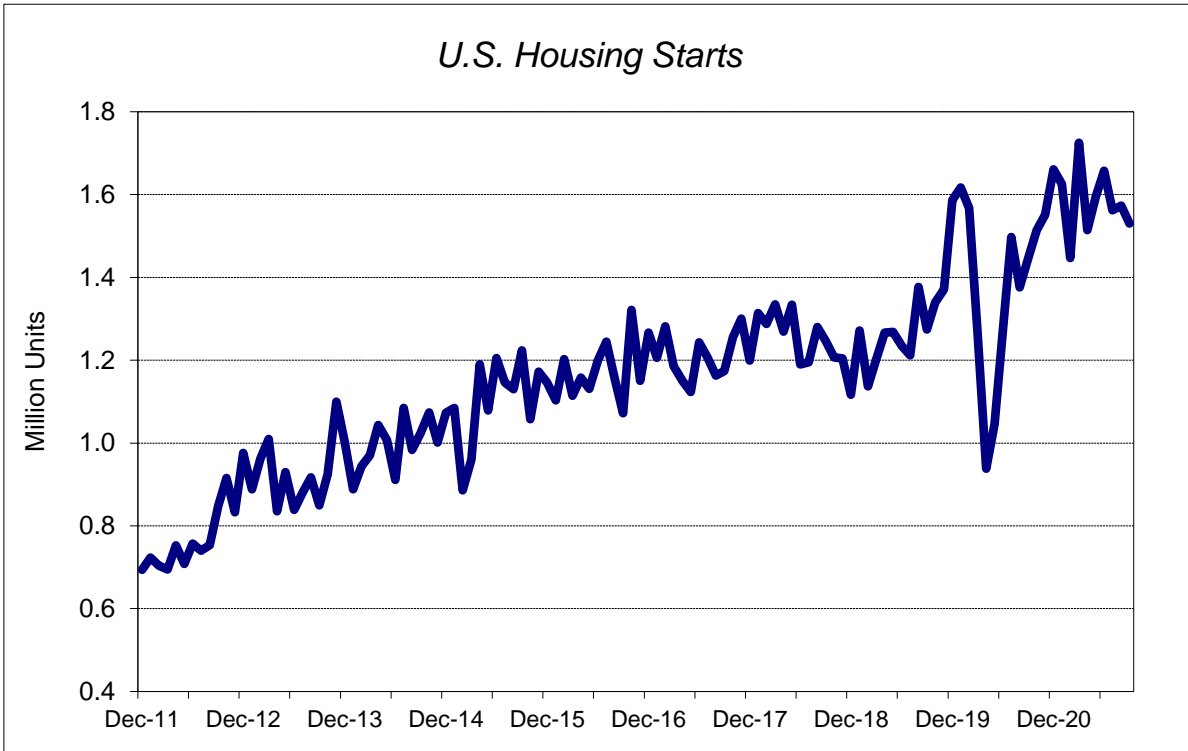
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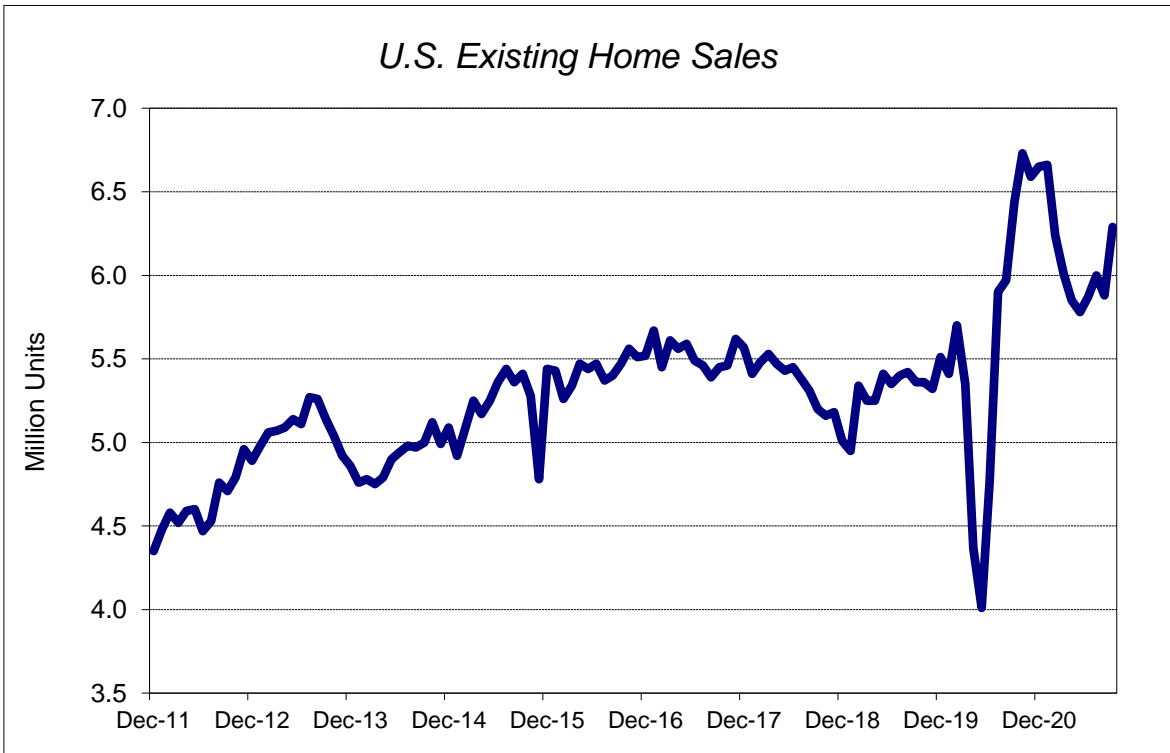
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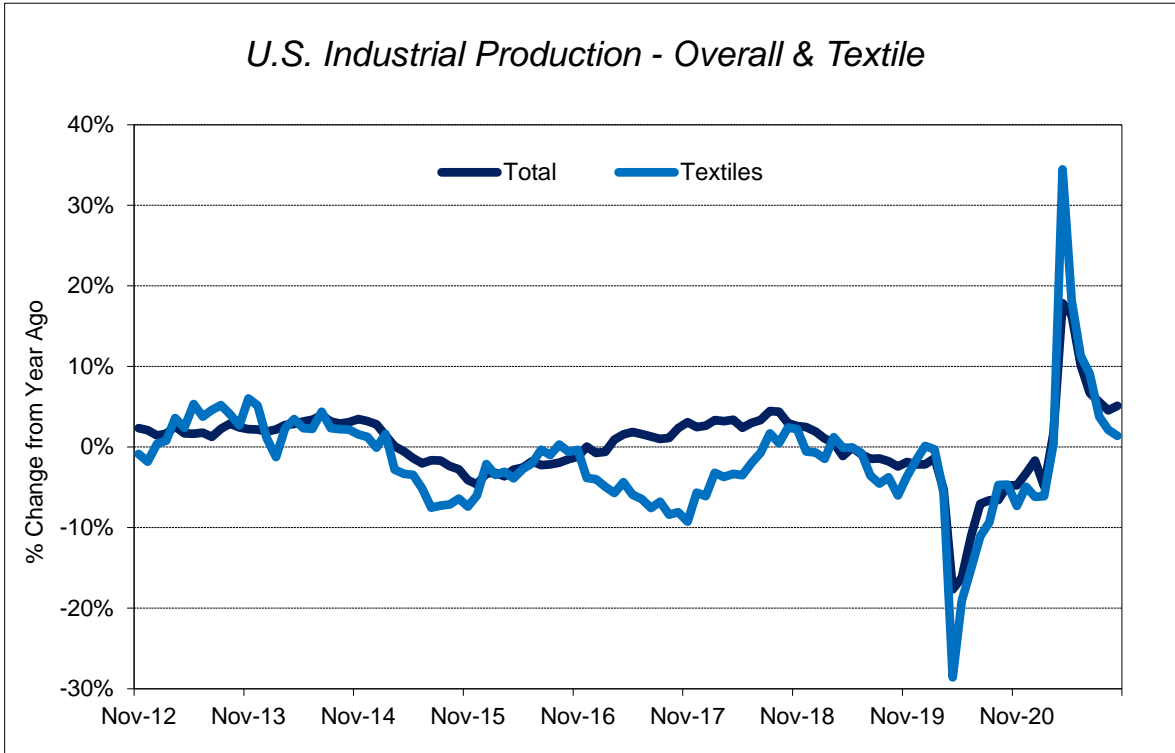
Seasonally Adjusted Annual Rate; Source: Department of Commerce



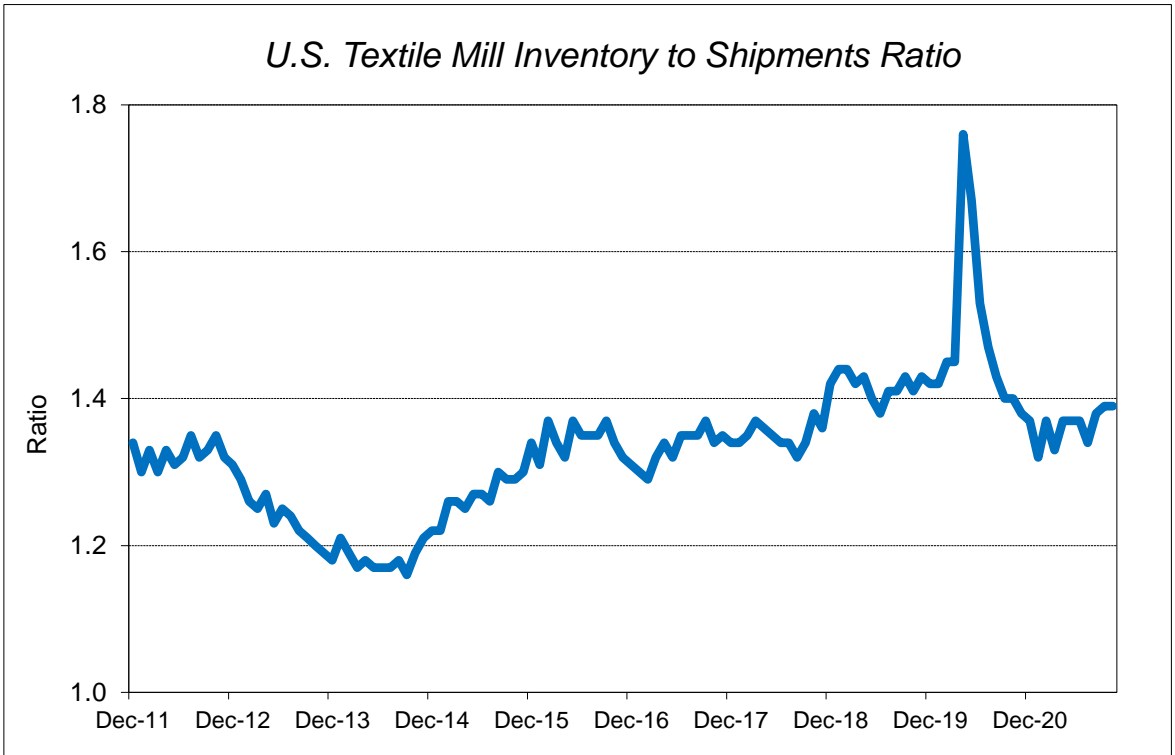
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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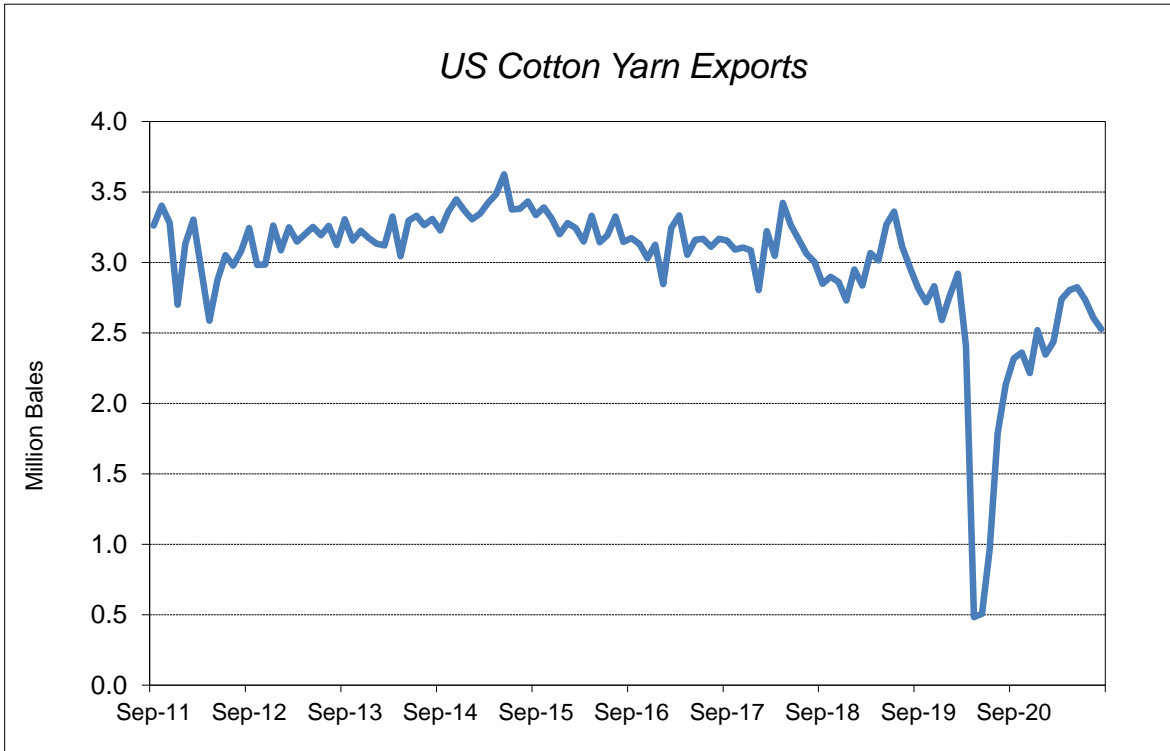
Source: Federal Reserve. Historical data revised to 1997 baseline.



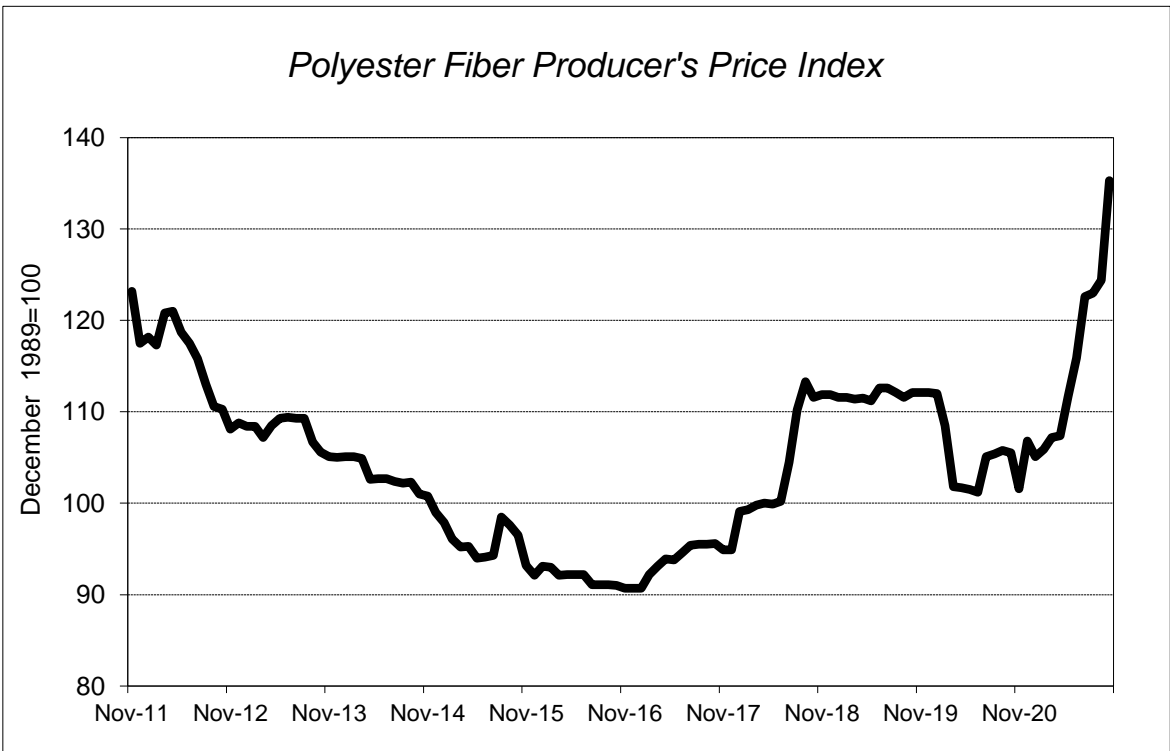
Seasonally Adjusted; Source: Department of Commerce

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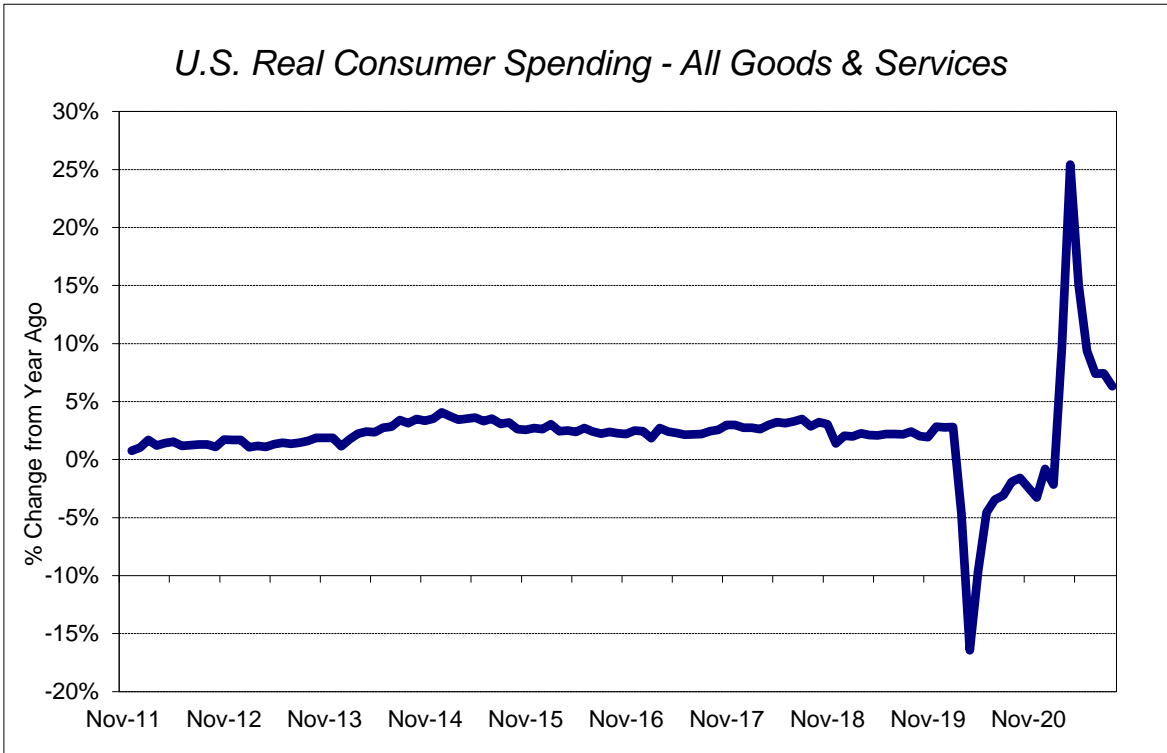
Seasonally Adjusted Annual Rate
 Source: USDA ERS



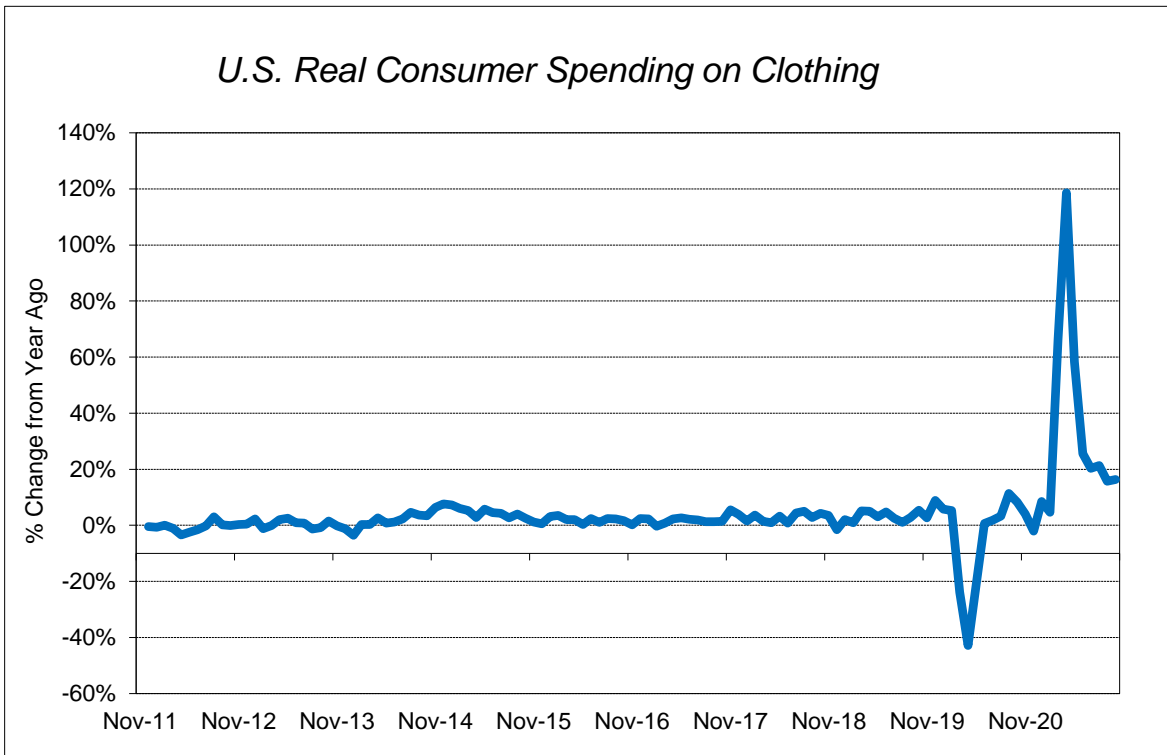
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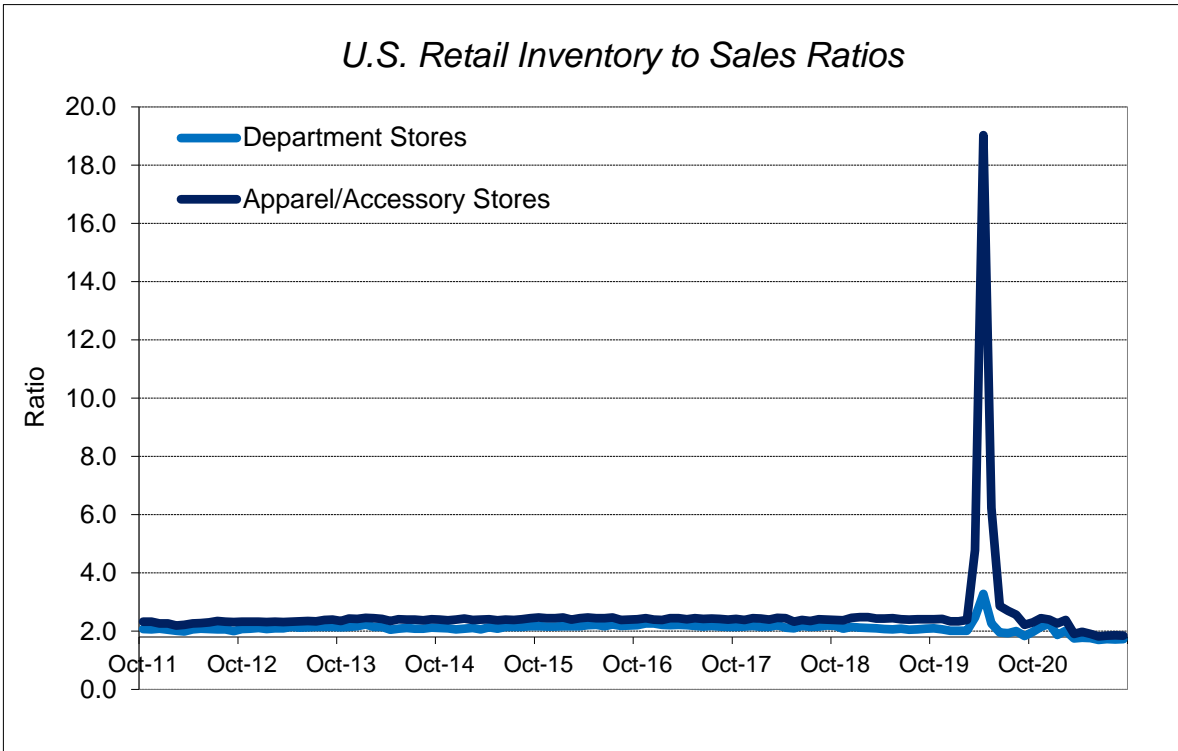
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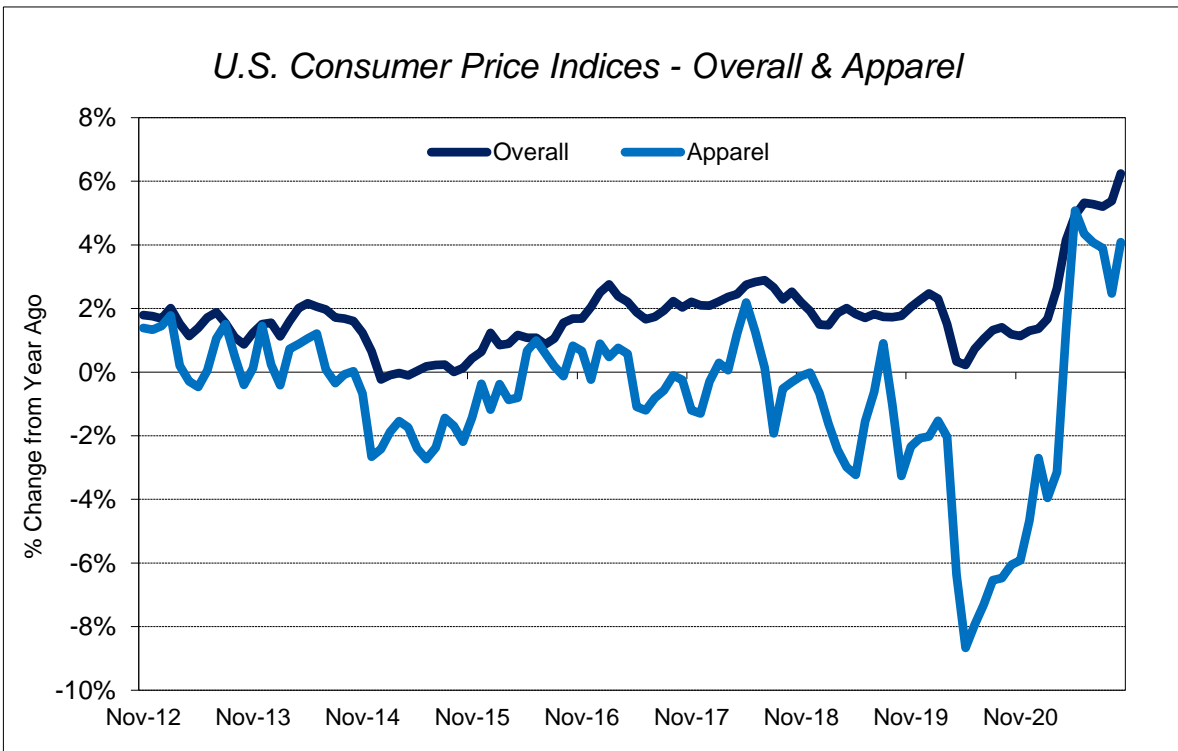
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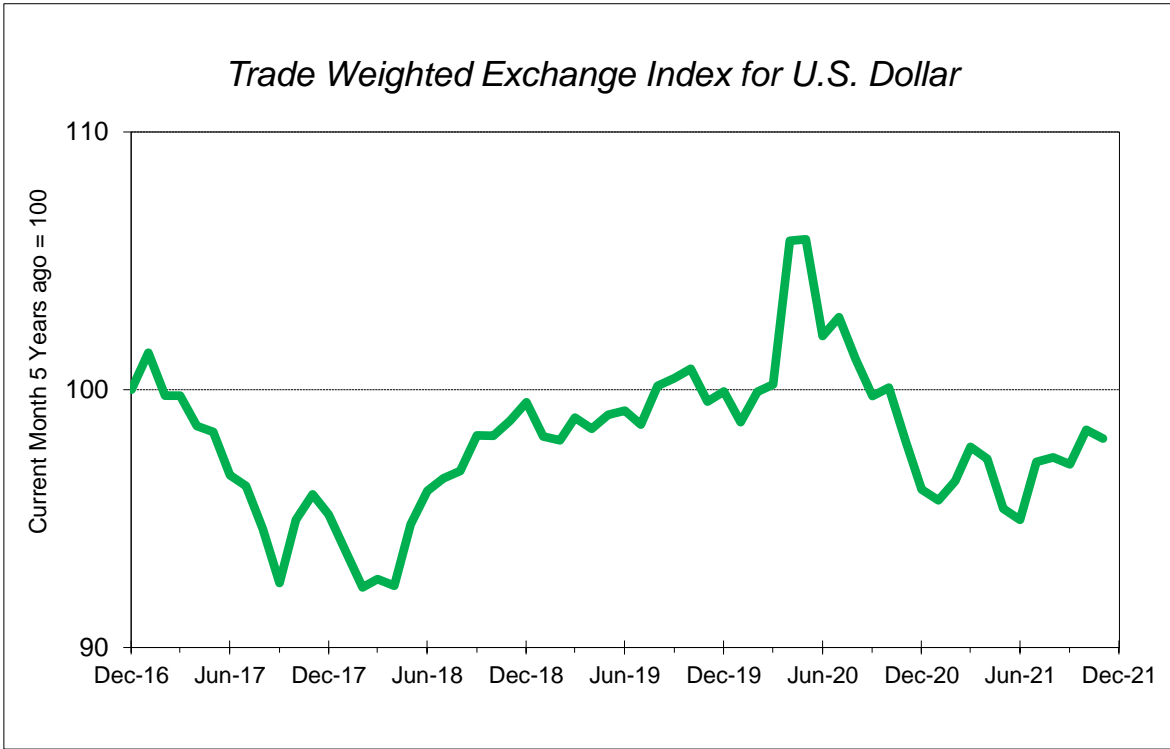
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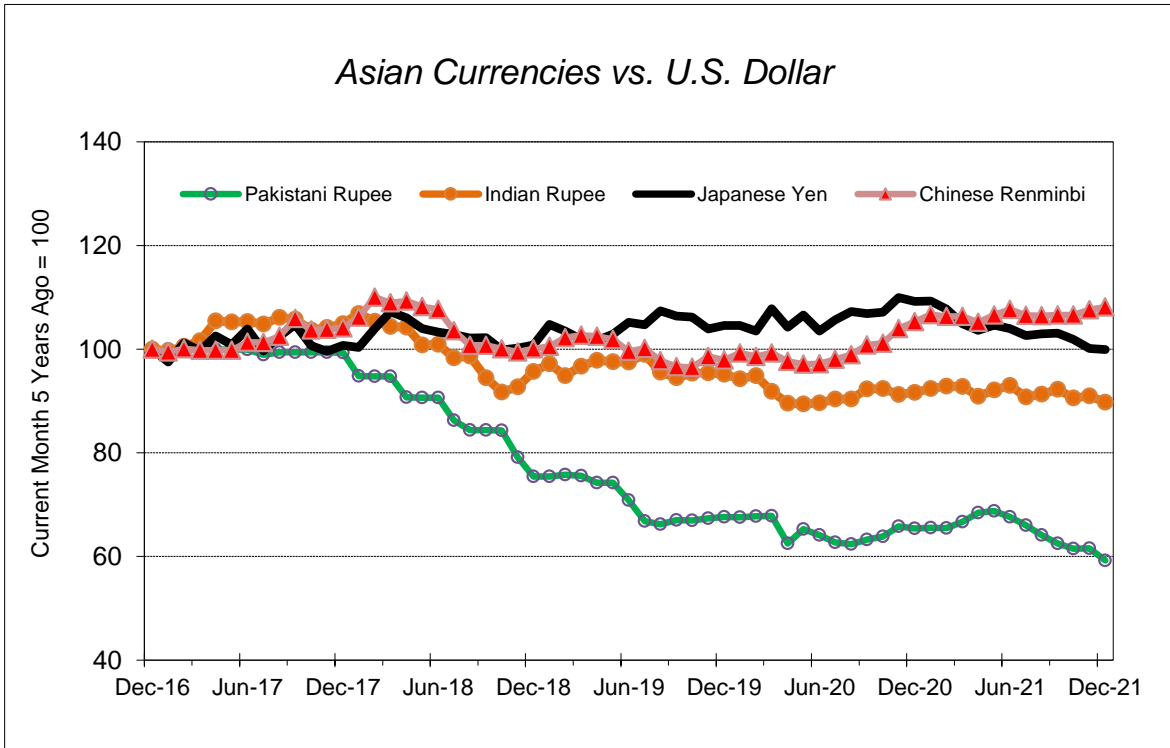
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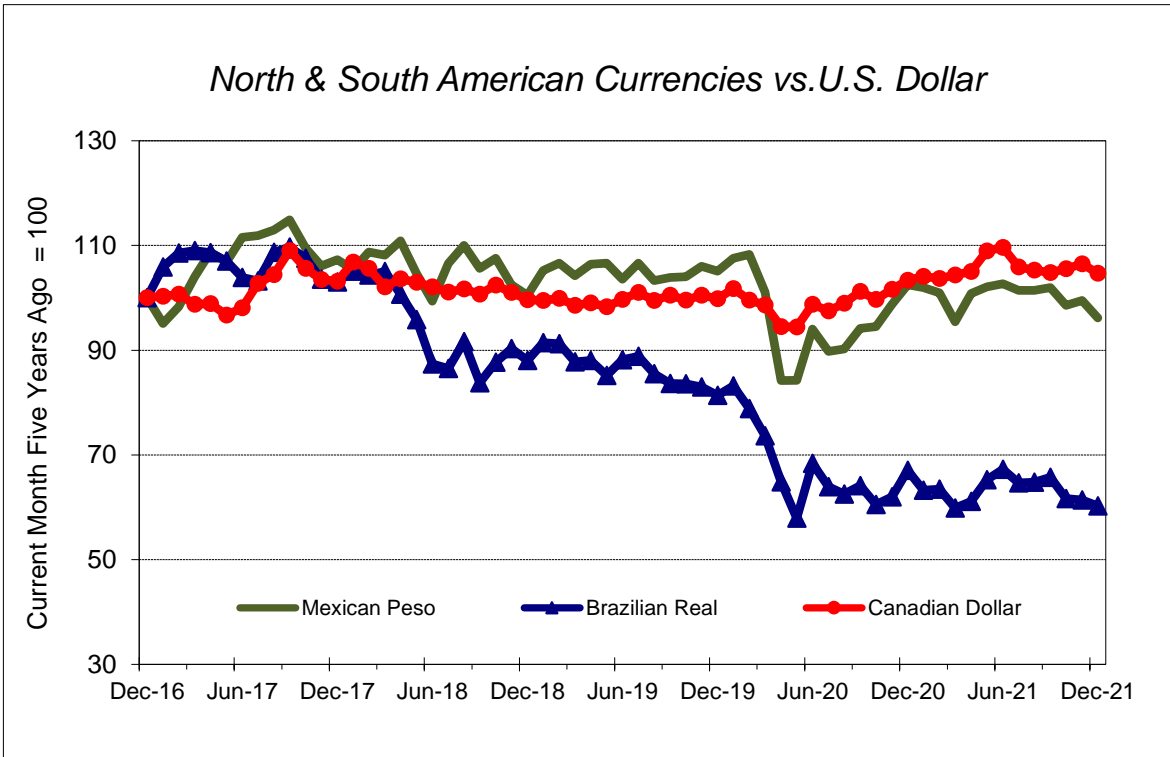
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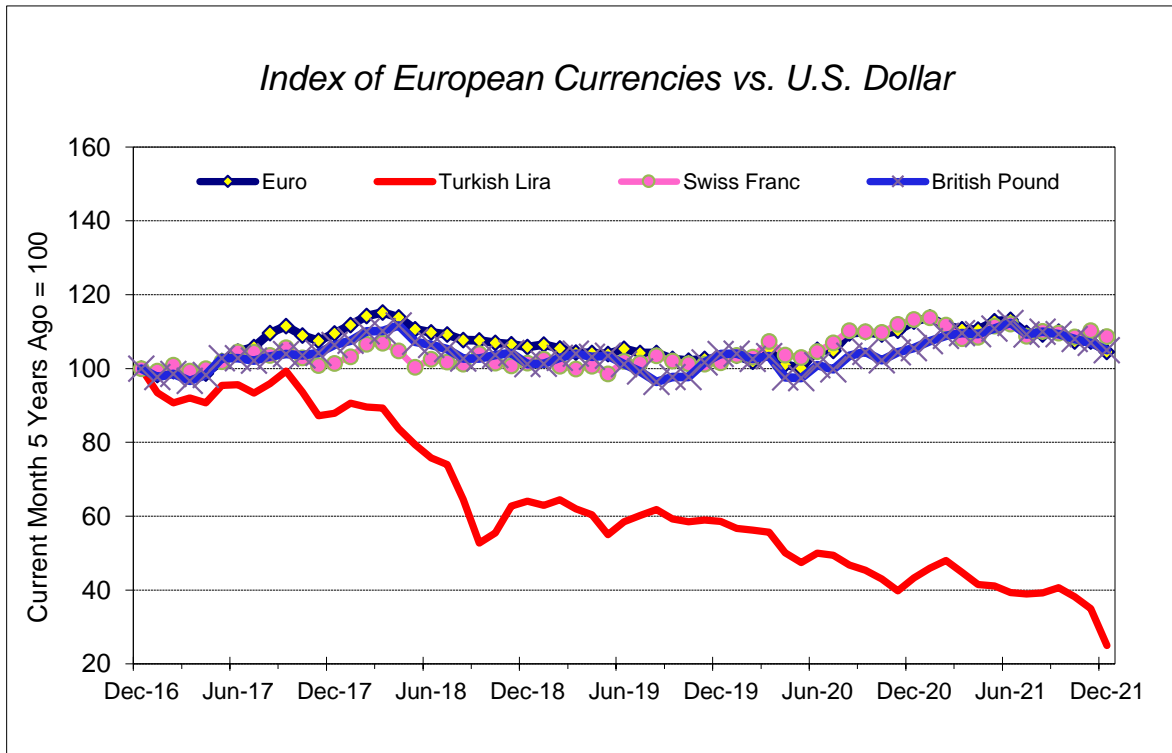
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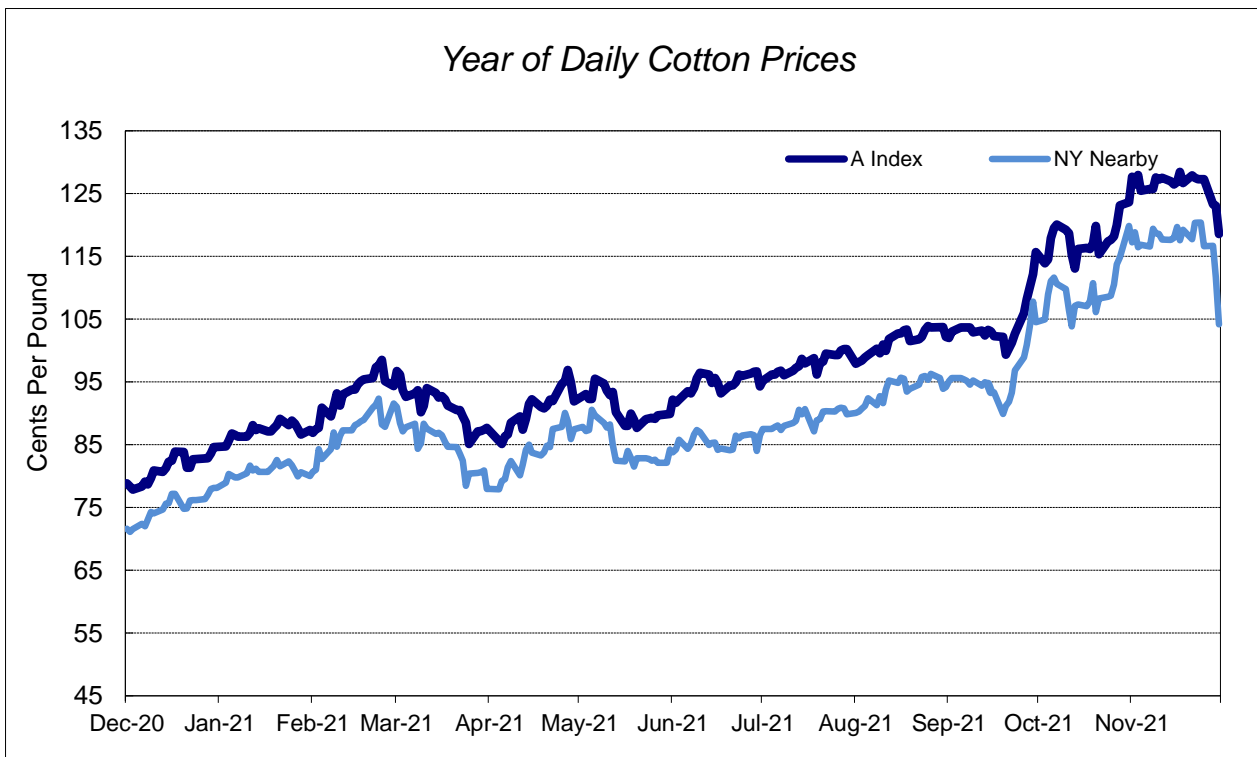
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U.S. Balance Sheet

| million 480 lb. bales | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 October | 2021/22 November |
|-----------------------|---------|---------|---------|---------|--------------------|---------------------|
| Beginning Stocks | 2.8 | 4.2 | 4.9 | 7.3 | 3.2 | 3.2 |
| Production | 20.9 | 18.4 | 19.9 | 14.6 | 18.0 | 18.2 |
| Imports | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Supply | 23.7 | 22.6 | 24.8 | 21.9 | 21.2 | 21.4 |
| Mill-Use | 3.2 | 3.0 | 2.2 | 2.4 | 2.5 | 2.5 |
| Exports | 16.3 | 14.8 | 15.5 | 16.4 | 15.5 | 15.5 |
| Demand | 19.5 | 17.8 | 17.7 | 18.8 | 18.0 | 18.0 |
| Ending Stocks | 4.2 | 4.9 | 7.3 | 3.2 | 3.2 | 3.4 |
| Stocks/Use Ratio | 21.5% | 27.2% | 41.0% | 16.8% | 17.8% | 18.9% |



Sources: ICE Futures U.S. & Cotton Outlook

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