

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



August 2022

www.cottoninc.com

Macroeconomic Overview: The U.S. Bureau of Economic Analysis released its initial estimate of -0.9% for GDP growth in Q2 2022. This was the second consecutive quarter when the economy contracted (-1.6% in Q1 2022), which meets the unofficial definition of a recession (U.S. recessions are officially delineated by the National Bureau of Economic Research, a trade group that releases their determinations with a lag). Regardless of whether the U.S. officially entered a recession, growth has slowed. The U.S. came into this slowdown with a strong labor market and a surge in consumer wealth (housing and stock market values rose with COVID stimulus). Consumers' financial situation could provide some cushion for spending, but the support may be transient given inflation and slower growth.

The Federal Reserve is at the center of discussions regarding inflation and the trajectory of the U.S. economy. For much of the modern era (data since 1954), the Federal Funds rate that the Federal Reserve controls has been higher than the overall inflation rate. The opposite has been true since the financial crisis. Even after the latest 0.75 point increase in interest rates, the Federal Funds target rate is between 2.25-2.50%. The latest inflation reading is 9.1% (June). The gap between these two series indicates that the Federal Reserve has plenty of room to increase interest rates further. However, the faster the Federal Reserve increases interest rates, the more susceptible the economy may be to a deeper downturn.

Inflation is a global issue and a concern for economies and central banks worldwide. The International Monetary Fund (IMF) recently updated its forecasts for economic growth in late July. Global GDP growth is now expected to reach only 3.2% in 2022 and only 2.9% in 2023. The current figures are much lower than estimates released earlier in the year. In January, the IMF forecast that the world economy would grow 4.4% in 2022 and 3.8% in 2023. In April, after the invasion of Ukraine, IMF forecasts suggested global growth rates of 3.6% for both 2022 and 2023.

Global economic growth is closely associated with demand for commodities, including cotton. Expectations of slower global growth have already translated into sharp decreases for a range of commodity prices, including cotton. Price decreases at the front end of supply chains may provide some relief for inflationary pressures. Other contributors to inflation remain. An example is wage growth, which continues to hold near five percent. For comparison, in the period between the financial crisis and COVID, wage growth peaked at 3.5%. Higher wages can help consumer spending, but they also are a cost for businesses. To the extent these costs are passed on to consumers, wage growth can contribute to inflation.

Employment: The U.S. economy was estimated to have added +528,000 jobs in July. With last month's job growth, the count of U.S. workers fully recovered from the 22.0 million jobs lost with the onset of COVID. Revisions to previous months were positive (May up +2,000 to +384,000, June up +26,000 to +398,000). The twelve-month average for job gains is +512,000. The unemployment rate decreased marginally, from 3.6% to 3.5%. This is the lowest value since the pandemic, and it is equal to the historically low levels before the outbreak. Wages were up 5.2% year-over-year in July, slightly higher than the average over the past two years. Continued strength in the labor market gives the Federal Reserve more room to increase interest rates.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence decreased -2.7 points month-over-month in July. This followed a -5.4 point drop in May and a -4.8 point drop in June. The current level for the index (95.7) is the lowest since February 2021 (95.2). After COVID, the index climbed as high as 128.9 (June 2021).

In June, overall consumer spending increased +0.1% month-over-month in inflation-adjusted terms. Year-over-year, real spending was +1.6% higher. Spending on garments decreased -0.4% month-over-month and was down -2.6% year-over-year. Relative to the same month in 2019 (pre-COVID), spending on apparel was 23.0% higher. Over the long term, average annual growth in consumer spending on clothing is near two percent. While the growth rate has slowed in recent months, spending remains elevated compared to levels before the pandemic.

Consumer Prices & Import Data: The CPI for apparel increased +0.5% in June. Year-over-year, retail clothing prices were up +5.1% higher. Despite the recent increases, retail prices for clothing are only 1.9% higher than the average from 2019. Overall prices (CPI for all goods and services) were 15.9% higher in June versus the average from 2019.

Sourcing costs continue to rise. The latest seasonally-adjusted cost per square meter equivalent (SME) of cotton-dominant apparel was the highest since 1992 (\$3.86/SME in June). The latest reading is +23% higher year-over-year and up +30% versus the post-COVID low set in March 2021 (\$2.97/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
August 2022



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q4 : 2021	Q1 : 2022	Q2 : 2022		
Growth in US Real GDP	2.6%	2.5%	2.7%	-1.6%	6.9%	-1.6%	-0.9%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic 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		
ISM Index of Manufacturing Activity	56.0	57.6	55.5	54.0	56.1	53.0	52.8	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.7	60.2	56.6	56.0	55.9	55.3	56.7	Index	Institute for Supply Management
Consumer Confidence	116.9	107.8	103.2	99.1	103.2	98.4	95.7	Index	The Conference Board
Change in Non-Farm Payrolls	96.1	512.4	465.3	437.3	386	398	528	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.0%	4.0%	3.6%	3.6%	3.6%	3.6%	3.5%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.1%	0.4%	0.7%	1.2%	0.8%	1.2%	1.7%	Interest rate	Federal Reserve
10-year Treasury Bill	2.0%	2.1%	2.6%	3.0%	2.9%	3.1%	2.9%	Interest rate	Federal Reserve

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		
Index of Leading Economic Indicators	112.0	118.4	118.4	117.7	118.0	118.0	117.1	Index	The Conference Board
Housing Starts	14.0	16.5	16.9	1.7	1.8	1.6	1.6	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.6	5.9	5.7	5.4	5.6	5.4	5.1	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile 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		
US Industrial Production	100.6	102.4	103.7	104.5	103.7	104.5	104.4	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	112.3	137.5	145.9	153.4	152.2	153.9	154.0	Index, December 2003=100	Bureau of Labor Statistics

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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	2.6	2.7	2.9	2.8	2.9	3.0	million 480lb bales	USDA ERS

Industrial & Textile 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		
US Textile Mill Inventory/Shipments Ratio	1.41	1.45	1.50	1.55	1.55	1.53	1.56	Ratio	Department of Commerce

Retail Data

Retail 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		
US Real Consumer Spending									
All Goods and Services	2.5%	5.1%	3.2%	1.8%	1.9%	2.1%	1.6%	% Chg. Year/Year	Department of Commerce
Clothing	7.5%	10.8%	3.5%	-0.9%	0.4%	-0.5%	-2.6%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	3.1%	7.2%	8.3%	8.6%	8.3%	8.6%	9.1%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.5%	5.0%	5.7%	5.3%	5.6%	5.1%	5.0%	% Chg. Year/Year	Bureau of Labor Statistics

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		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.6	1.9	2.0	2.1	2.0	2.1	2.2	Ratio	Department of Commerce
Department Stores	2.0	1.9	2.1	2.1	2.1	2.1	2.1	Ratio	Department of Commerce

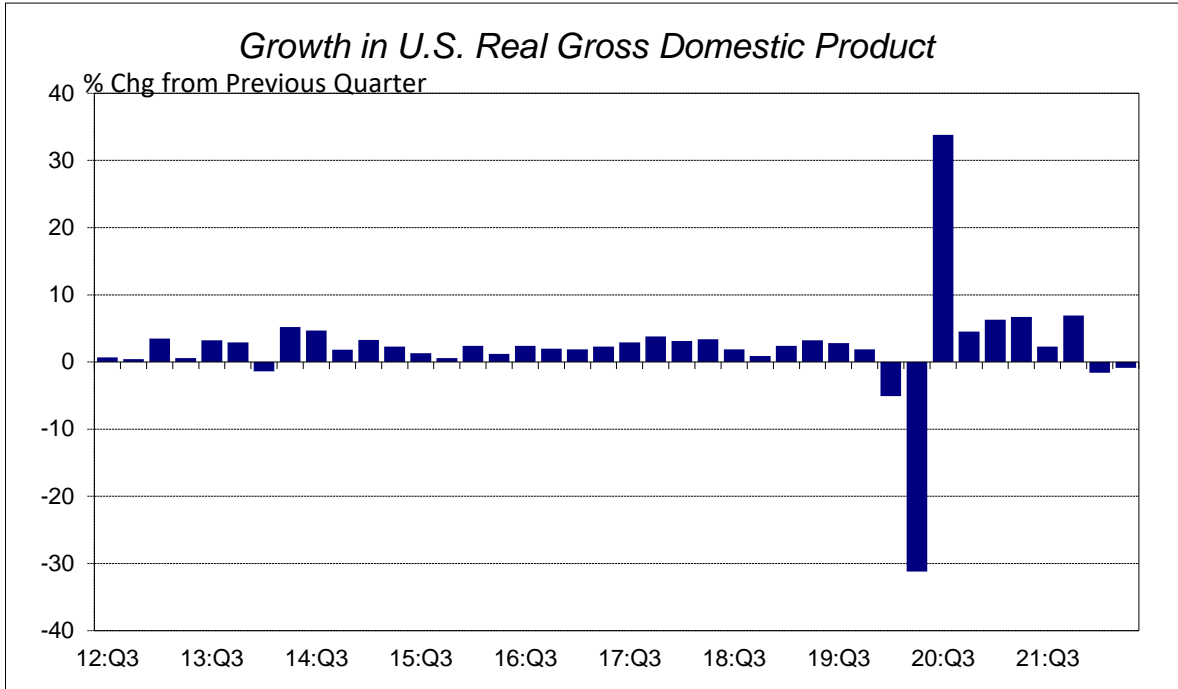
Executive Cotton Update

Daily Cotton Price and Currency Data
August 2022

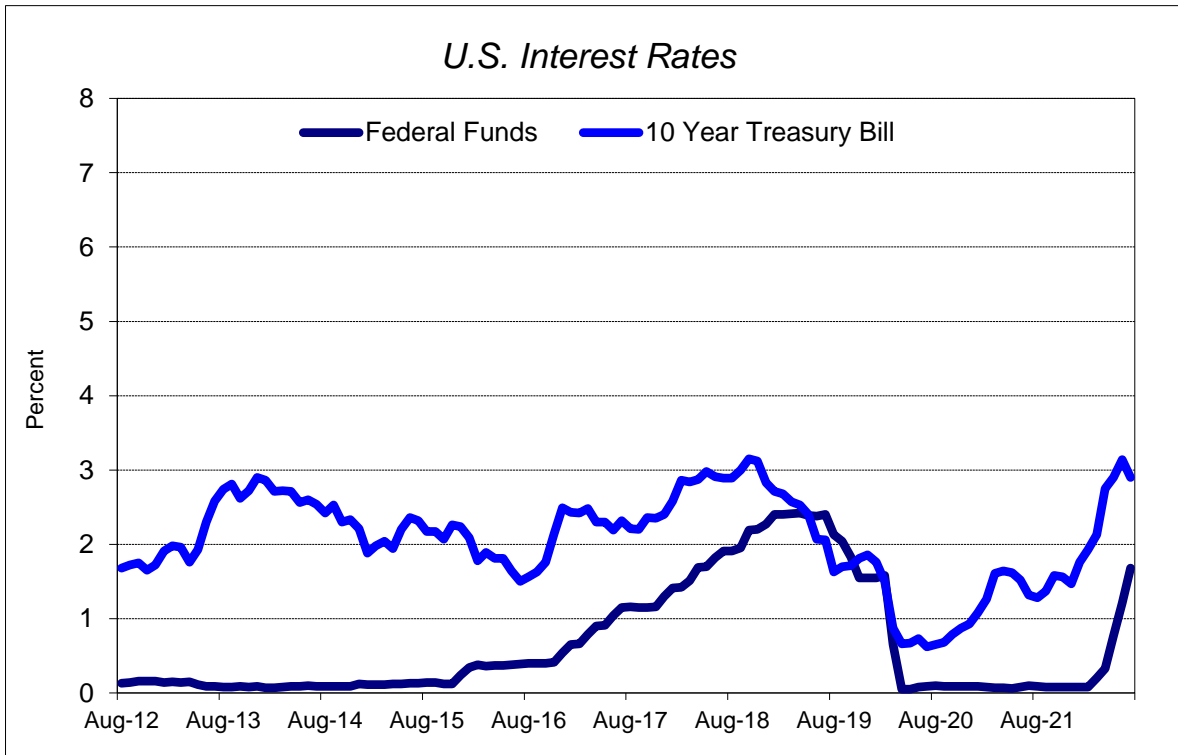


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
NY Nearby	81.6	116.7	131.2	139.4	140.5	145.0	132.7	cents/pound	ICE
A Index	91.4	129.3	147.5	157.7	155.3	163.8	154.2	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
Dollar Trade Weighted Exchange Index	114.7	116.1	118.2	120.4	120.1	118.4	122.7	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.69	6.70	6.51	6.67	6.62	6.68	6.70	Chinese Renminbi/US dollar	Reuters
Indian Rupee	71.51	73.95	76.58	77.75	76.26	77.63	79.36	Indian Rupee/US dollar	Reuters
Japanese Yen	110.97	111.12	125.06	132.33	130.25	130.73	136.01	Japanese Yen/US dollar	Reuters
Pakistani Rupee	148.94	165.67	187.43	195.93	185.70	197.75	204.35	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.47	5.05	5.05	5.07	5.02	4.79	5.40	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.30	1.29	1.27	1.28	1.28	1.26	1.30	Canadian dollar/US dollar	Reuters
Mexican Peso	19.94	20.53	20.32	20.12	20.20	19.57	20.58	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.76	0.76	0.78	0.82	0.81	0.80	0.84	British Pound/US dollar	Reuters
Euro	0.87	0.88	0.93	0.95	0.95	0.93	0.98	Euro/US dollar	Reuters
Swiss Franc	0.96	0.94	0.95	0.97	0.99	0.96	0.97	Swiss Franc/US dollar	Reuters
Turkish Lira	7.27	8.94	15.14	16.12	14.86	16.52	16.98	Turkish Lira/US dollar	Reuters



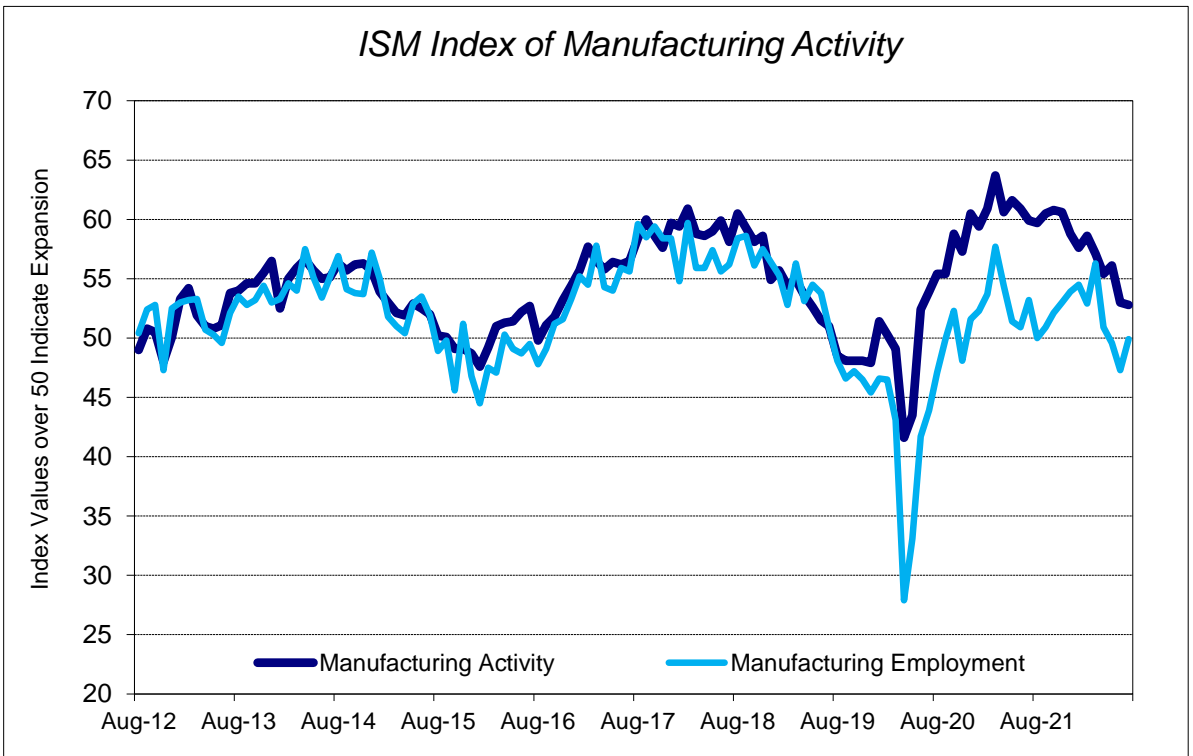
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



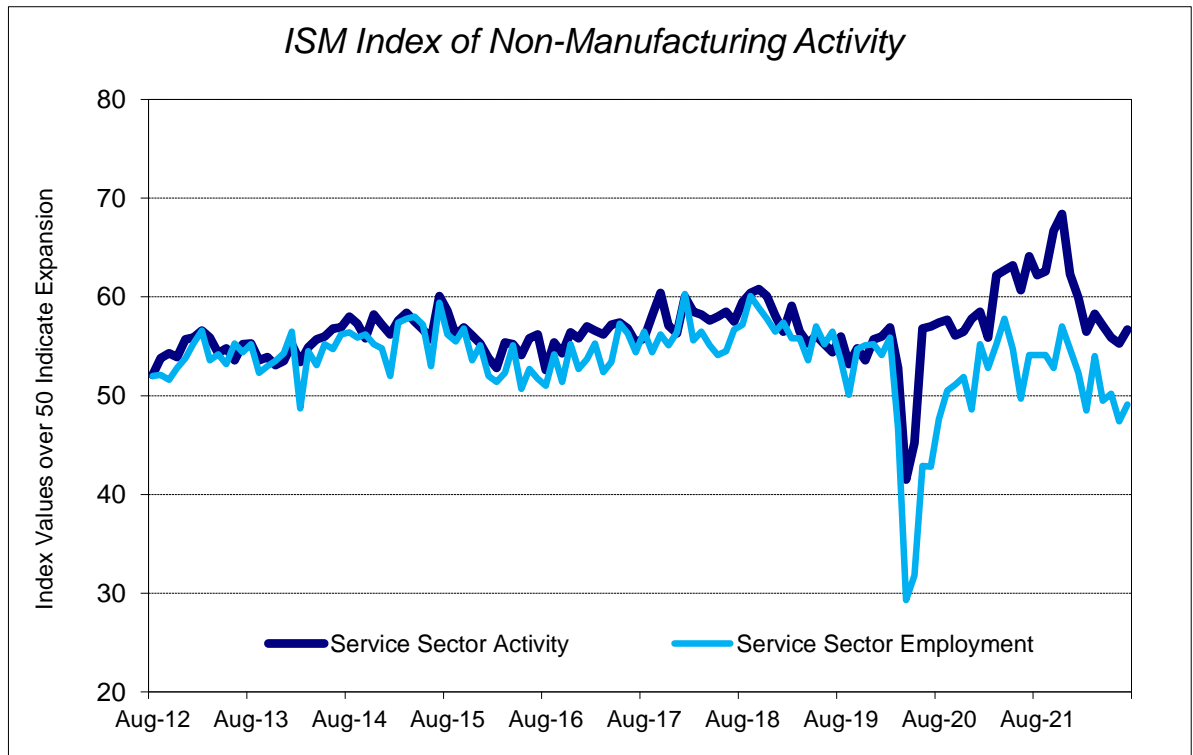
Source: Federal Reserve

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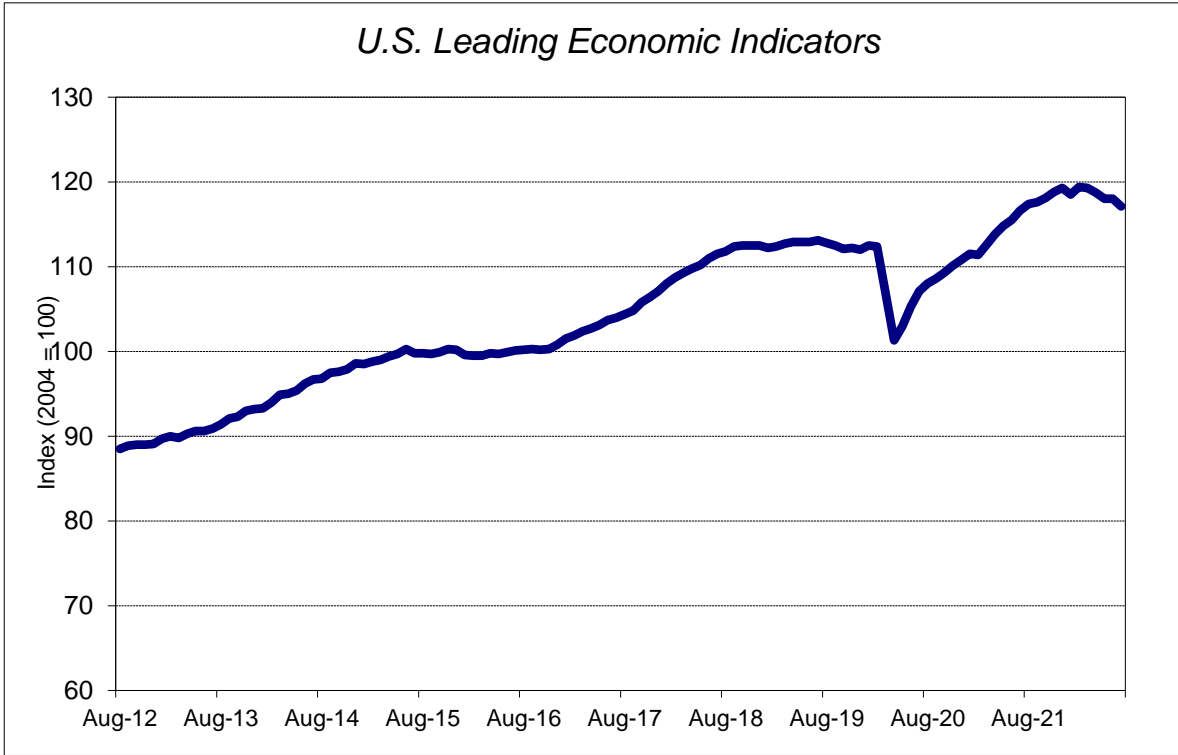
Source: Institute for Supply Chain Management



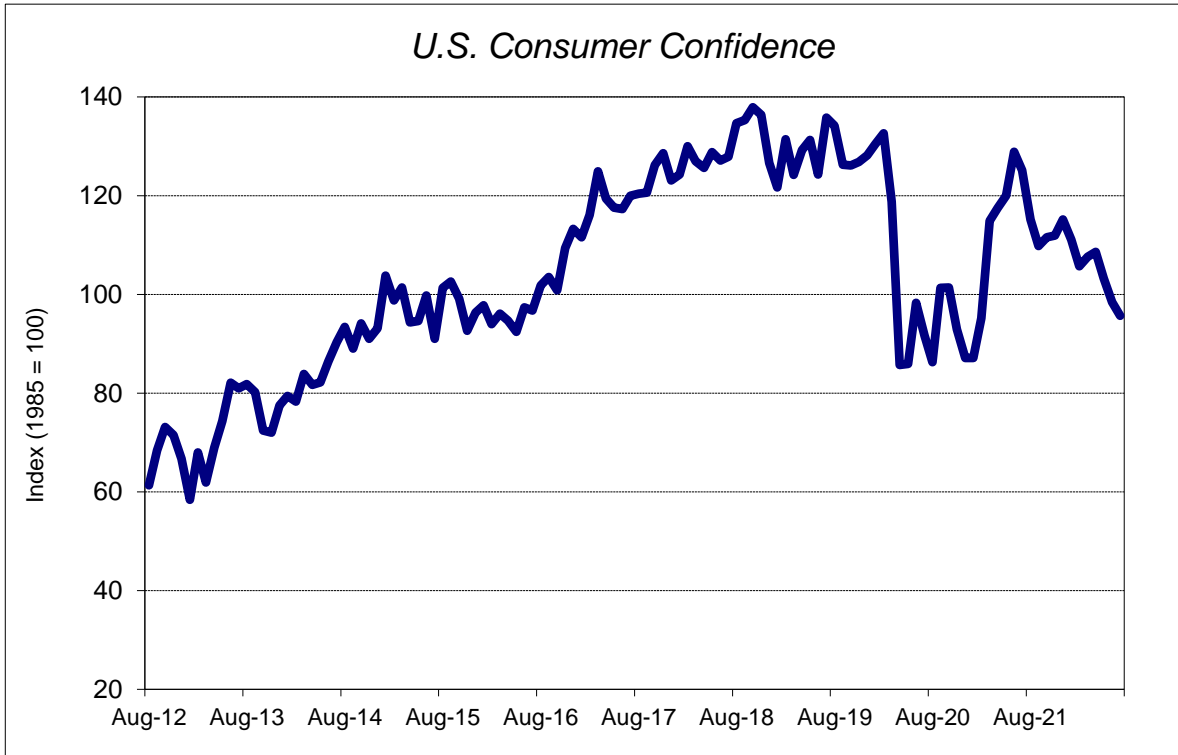
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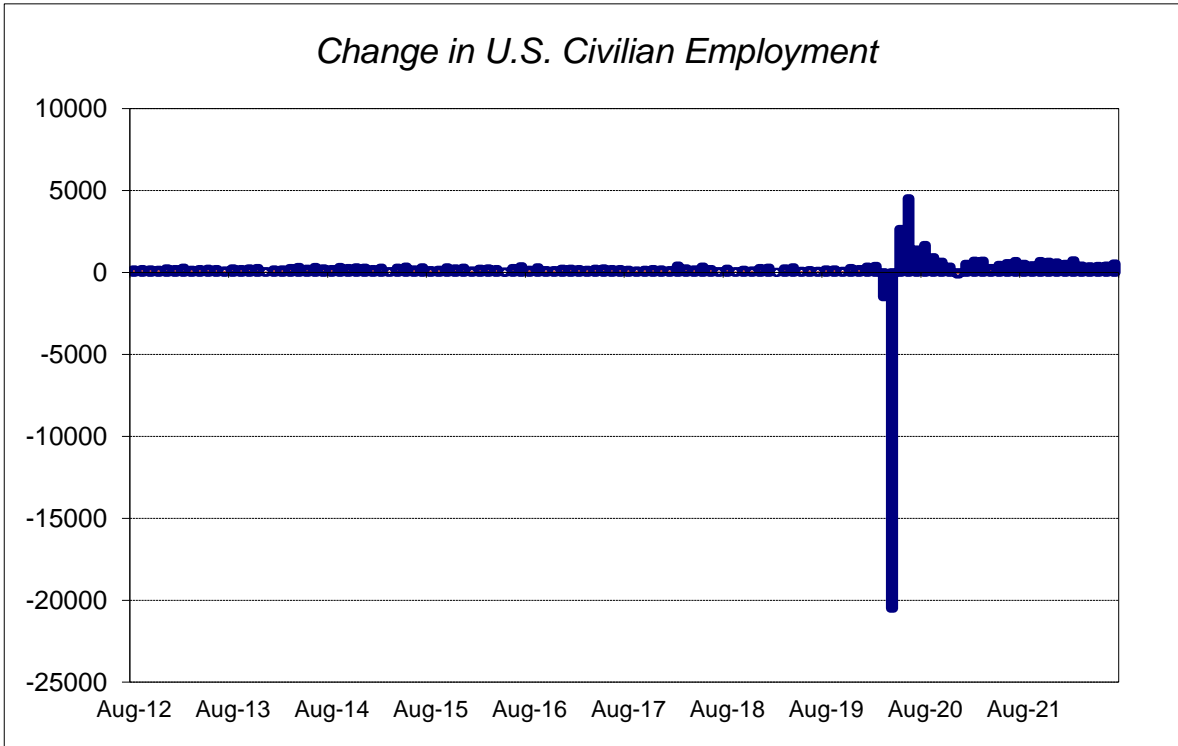
Source: The Conference Board



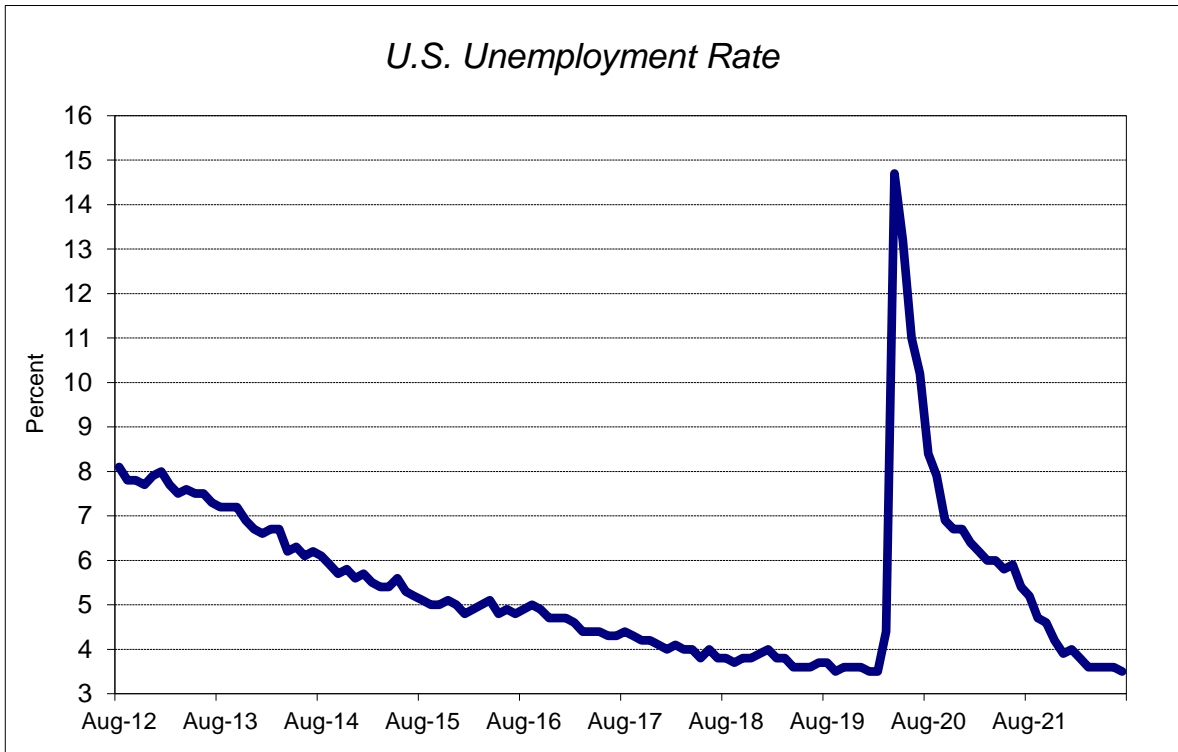
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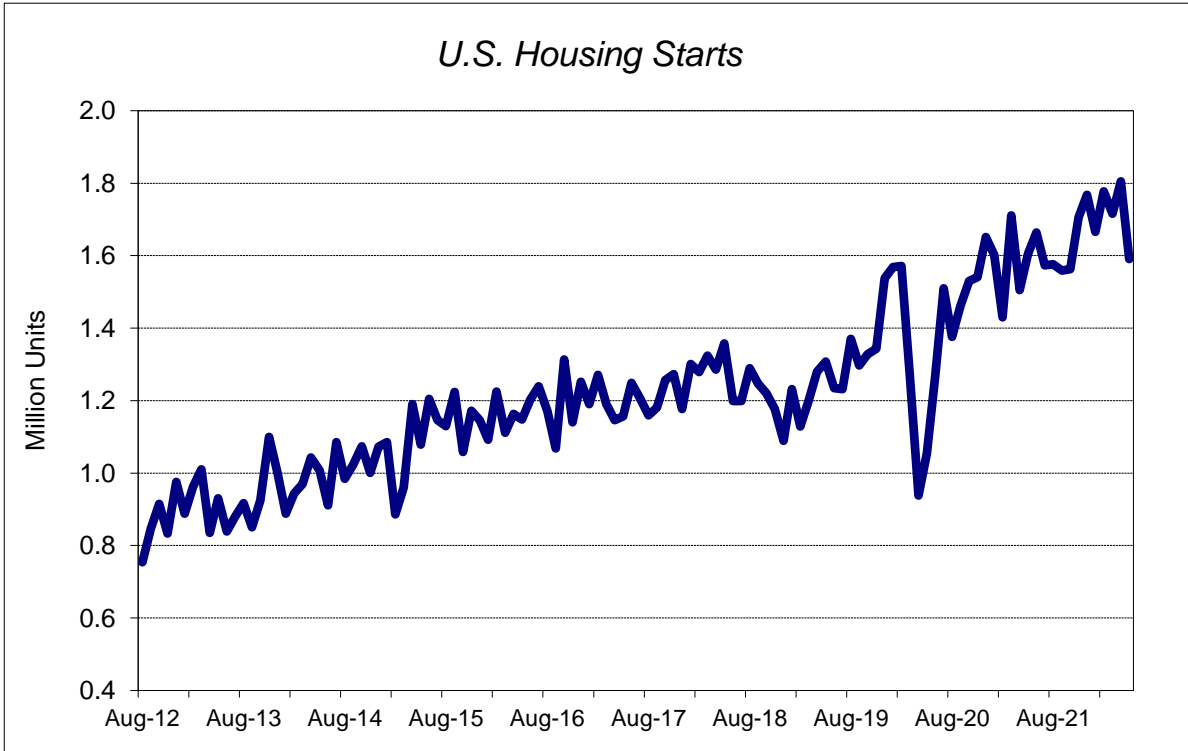
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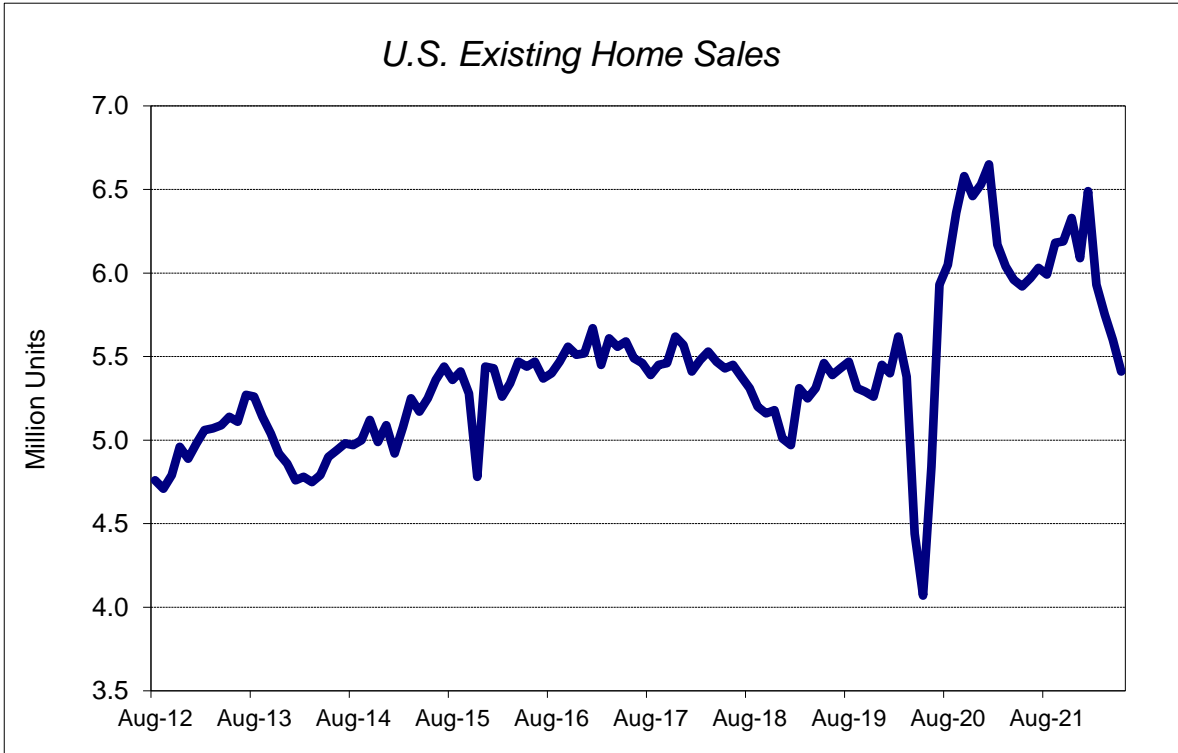
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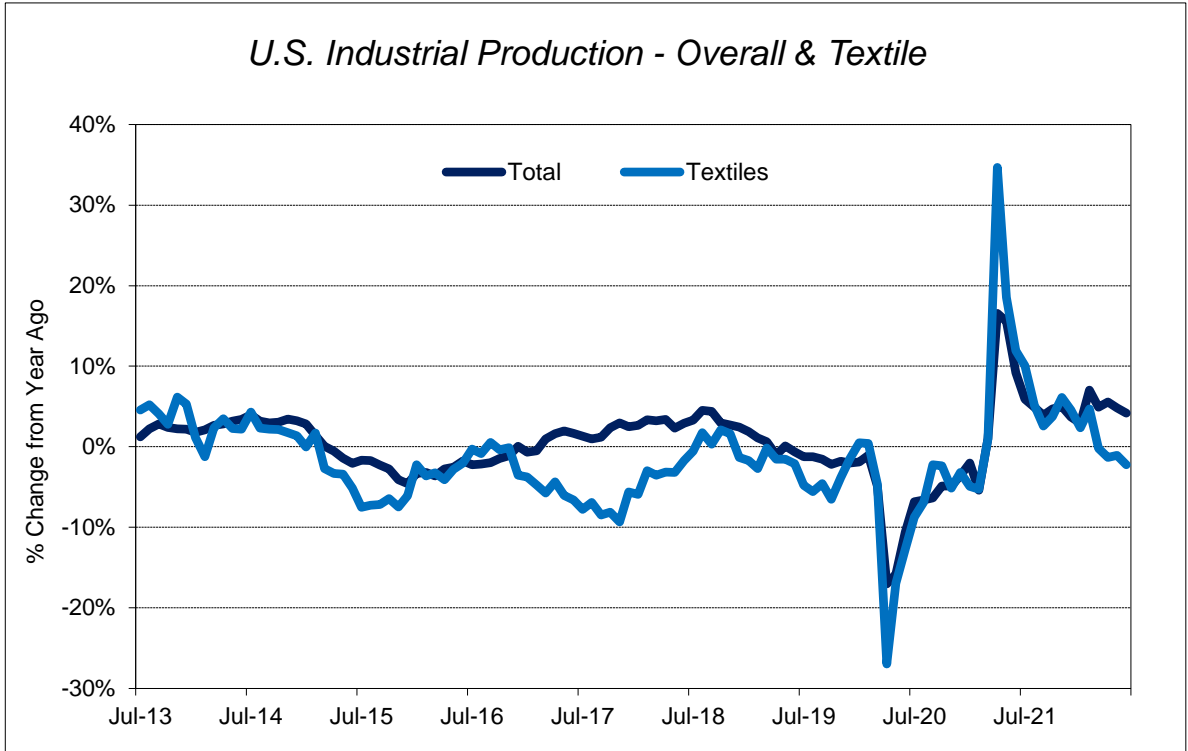
Seasonally Adjusted Annual Rate; Source: Department of Commerce



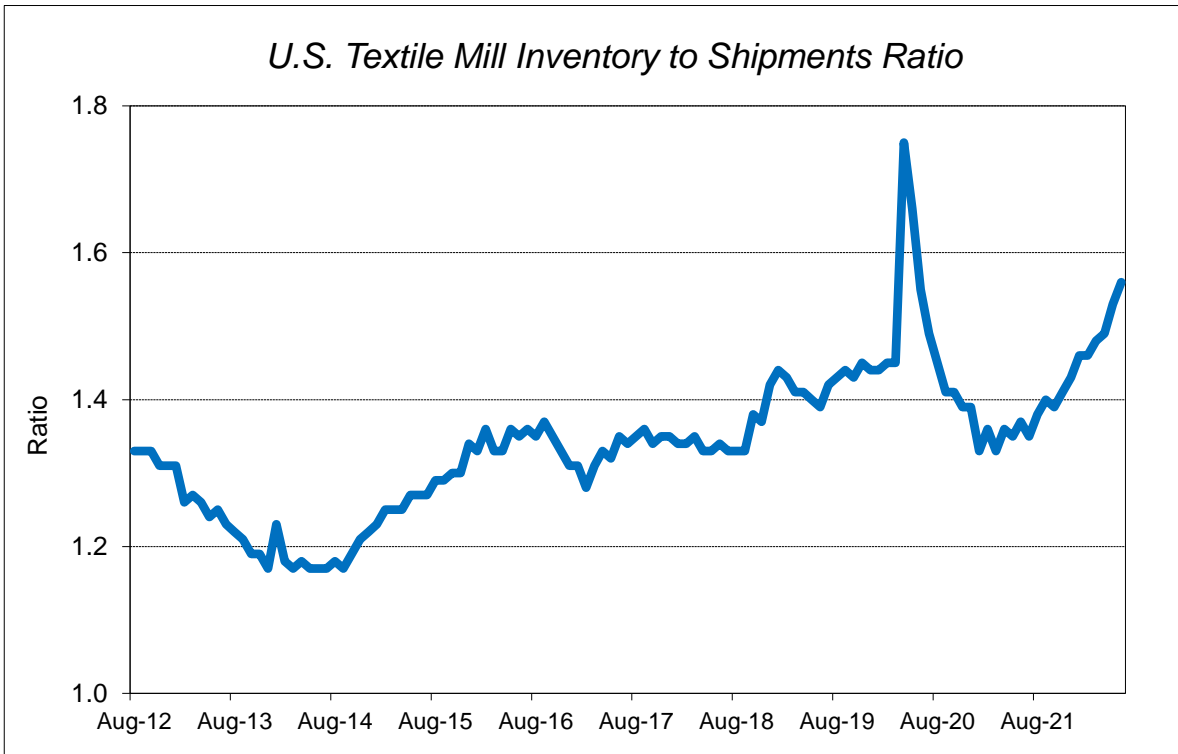
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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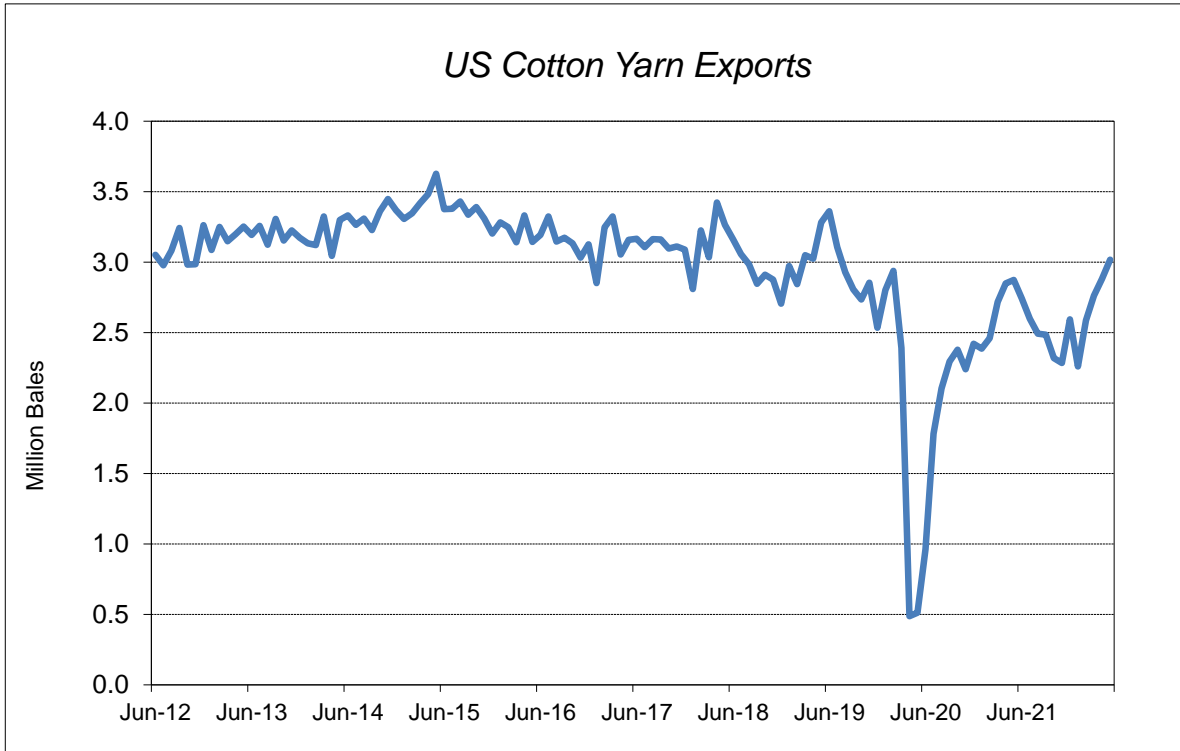
Source: Federal Reserve. Historical data revised to 1997 baseline.



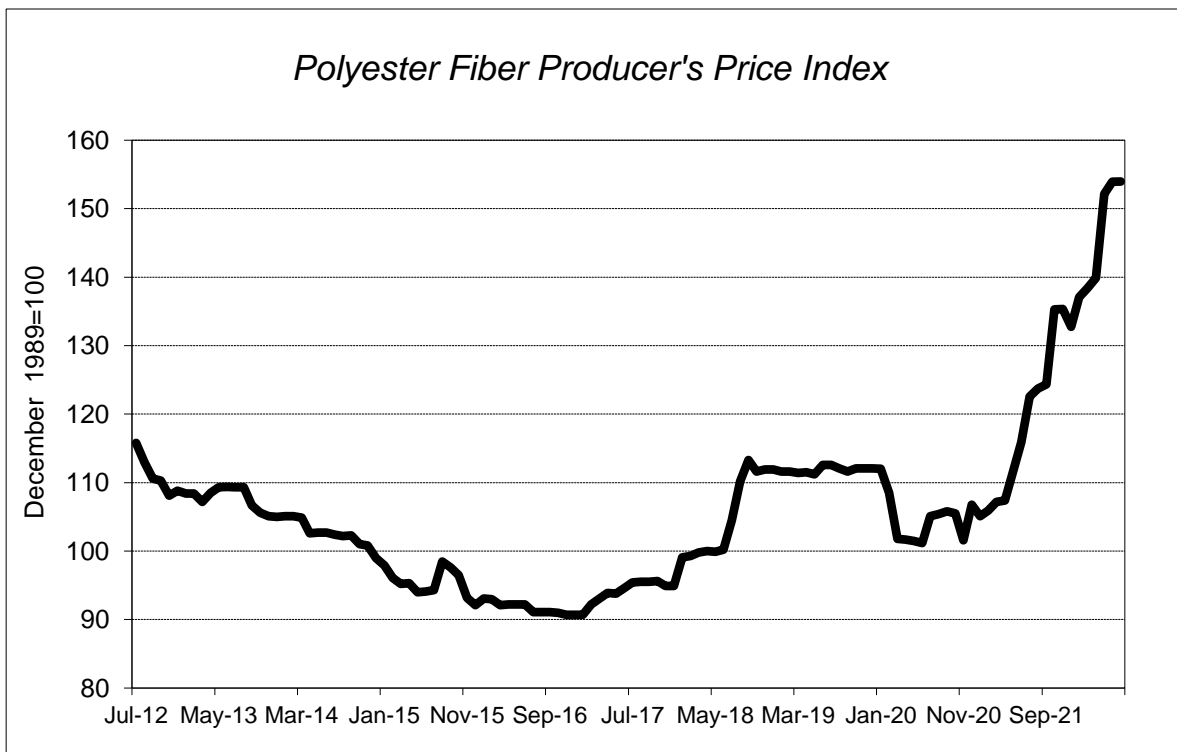
Seasonally Adjusted; Source: Department of Commerce

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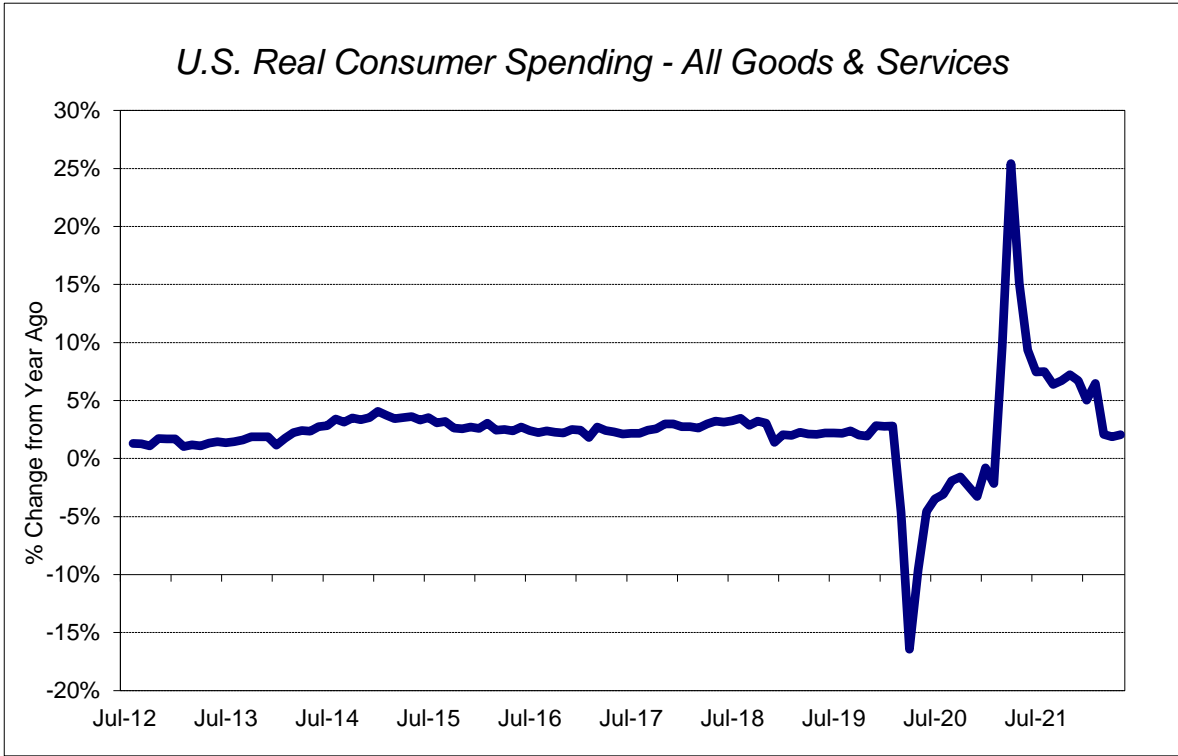
Seasonally Adjusted Annual Rate
 Source: USDA ERS



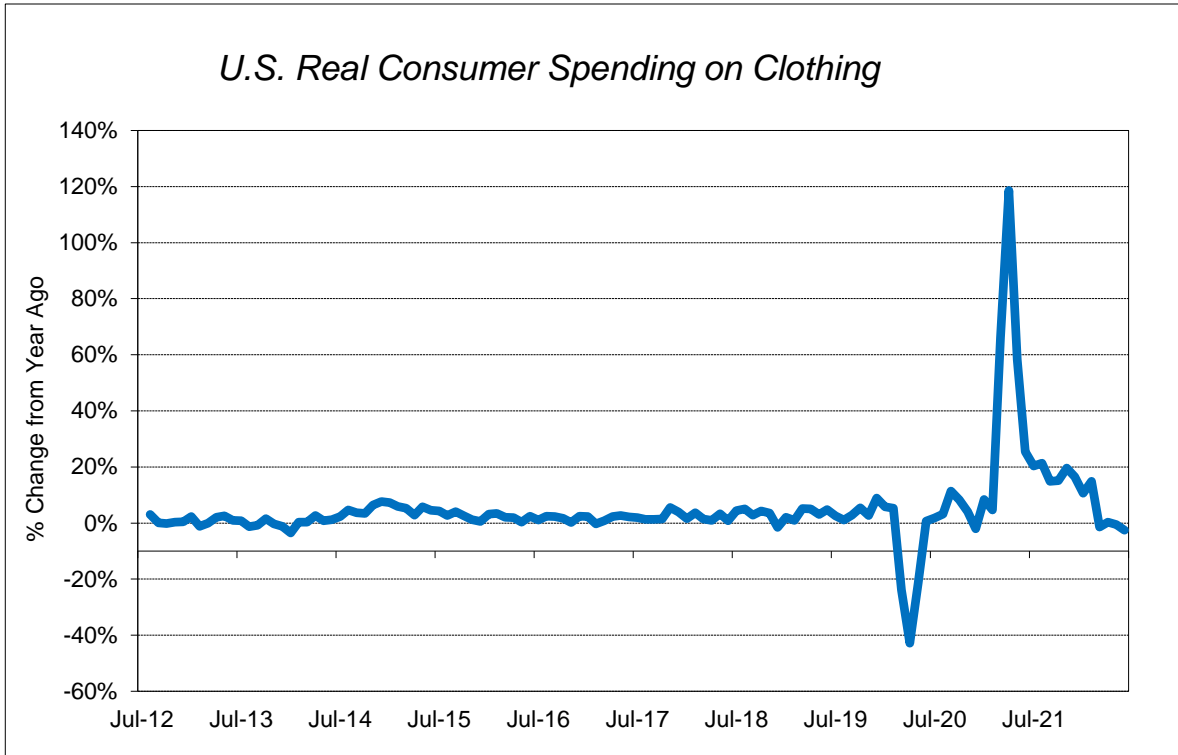
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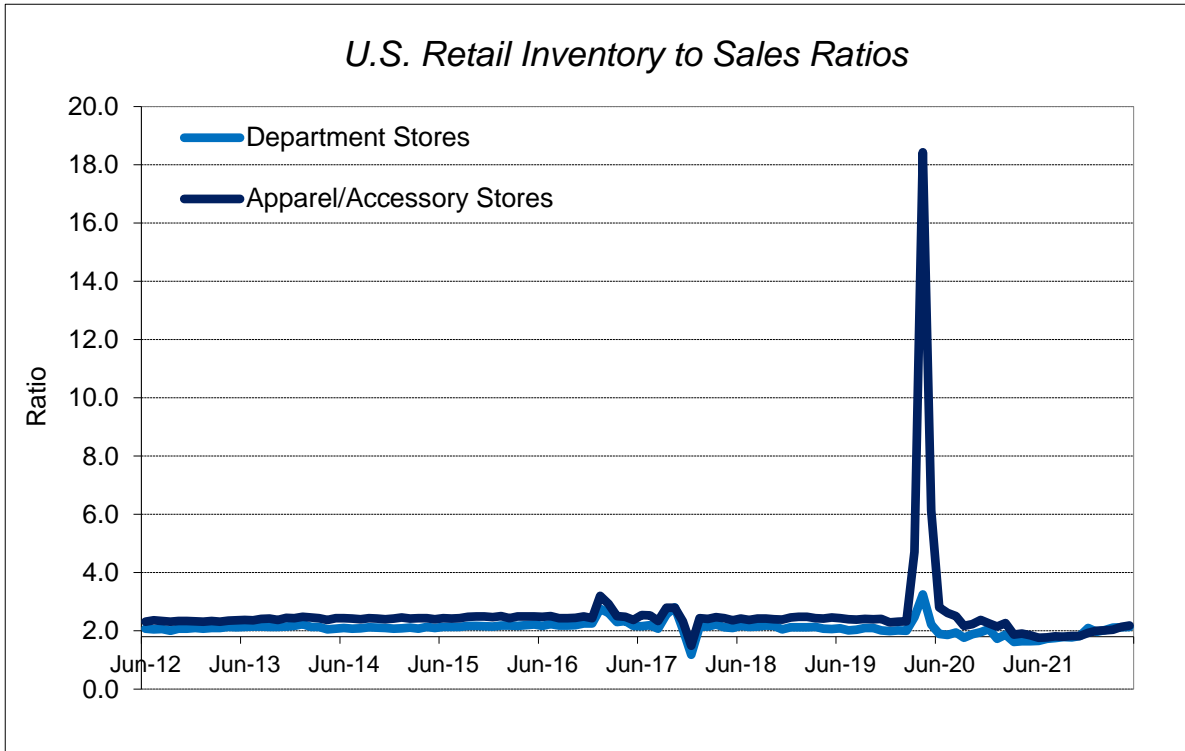
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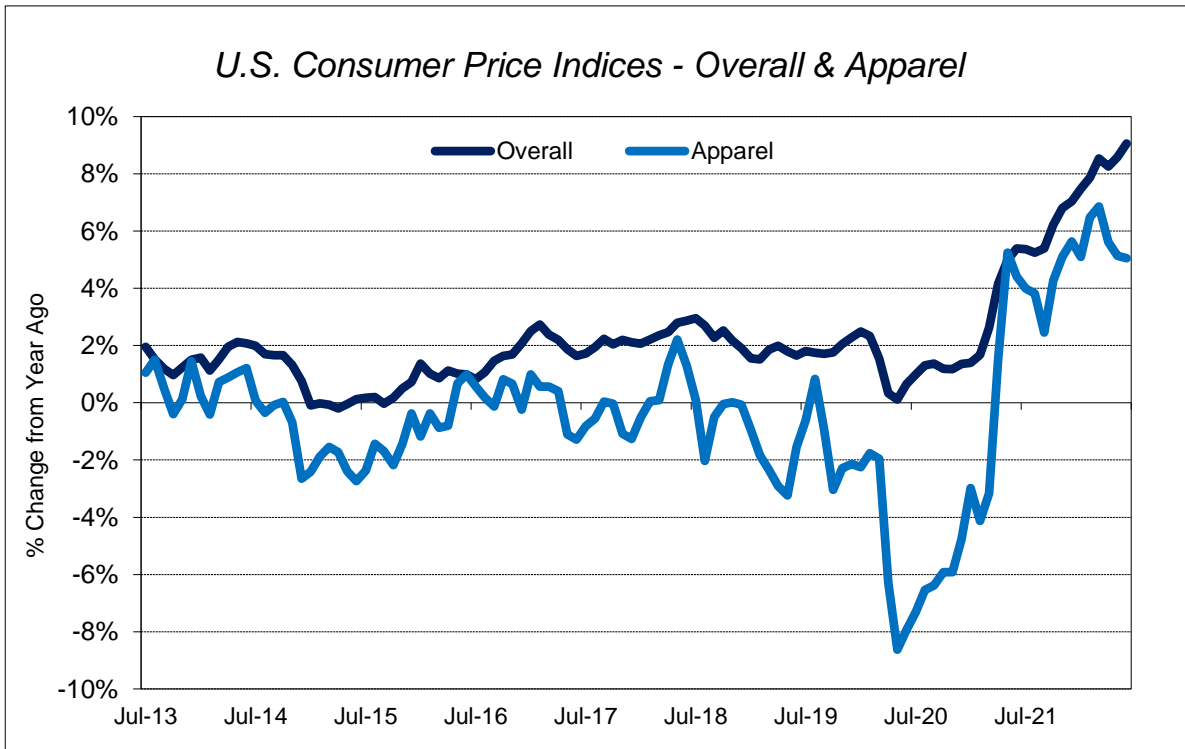
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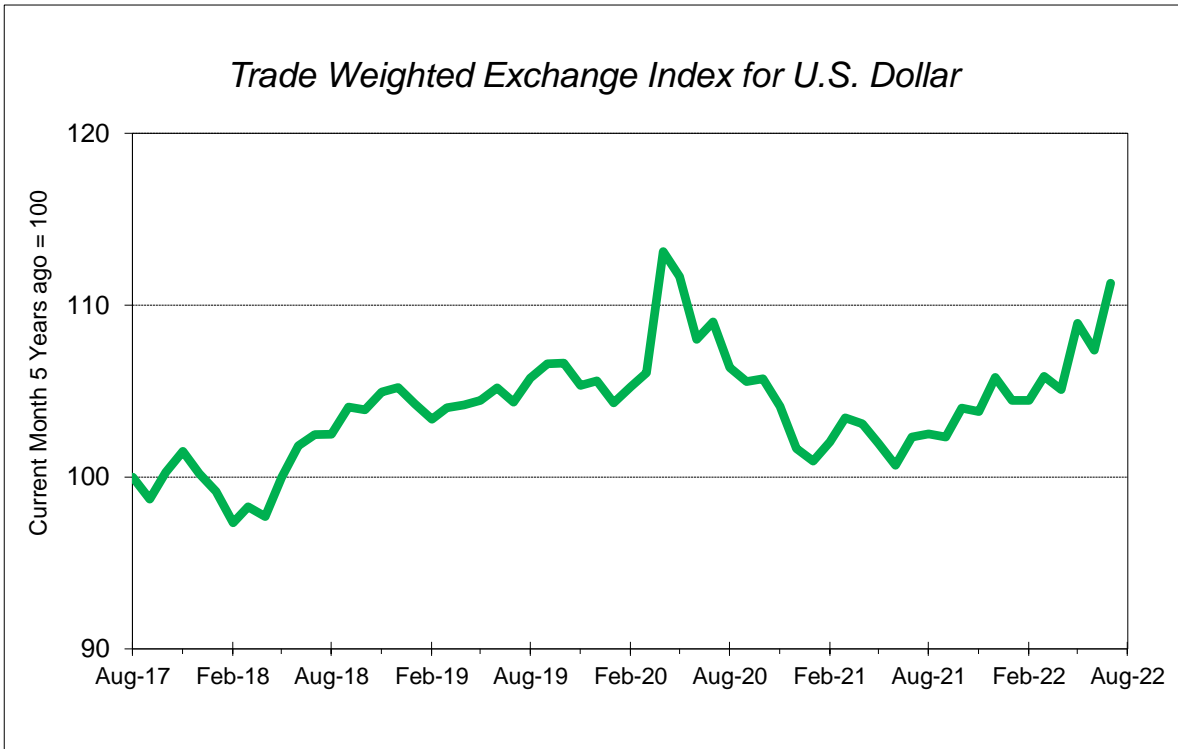
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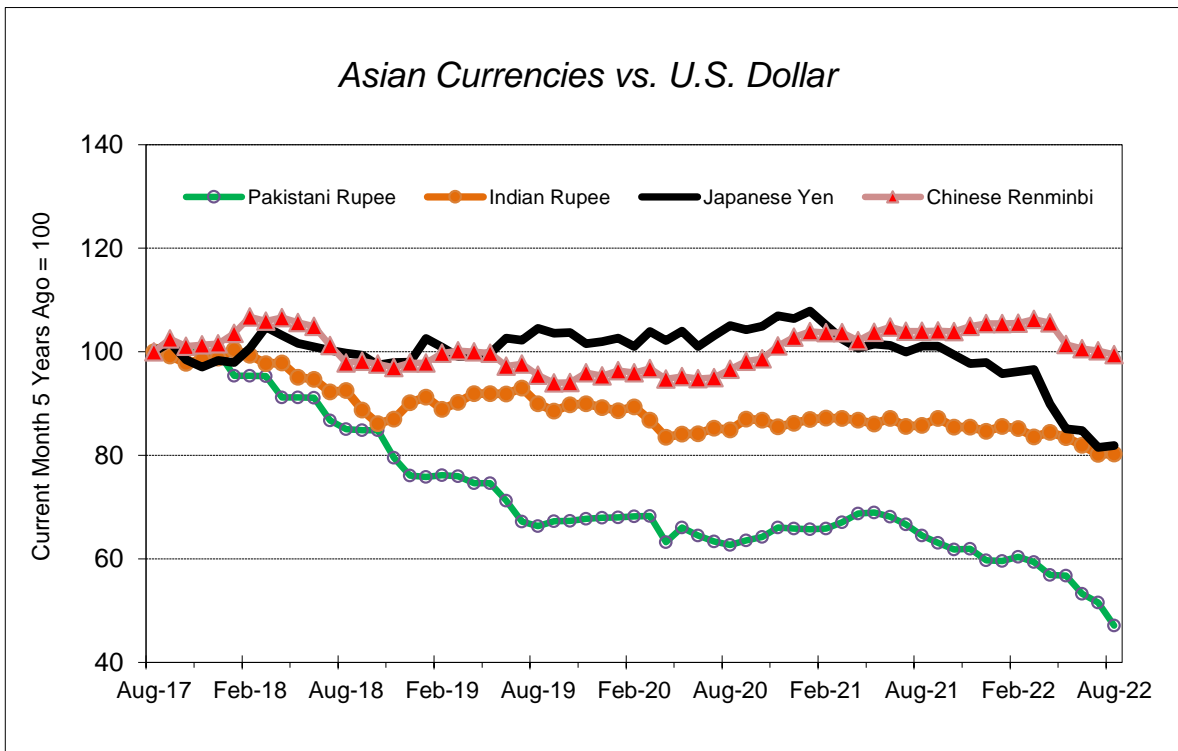
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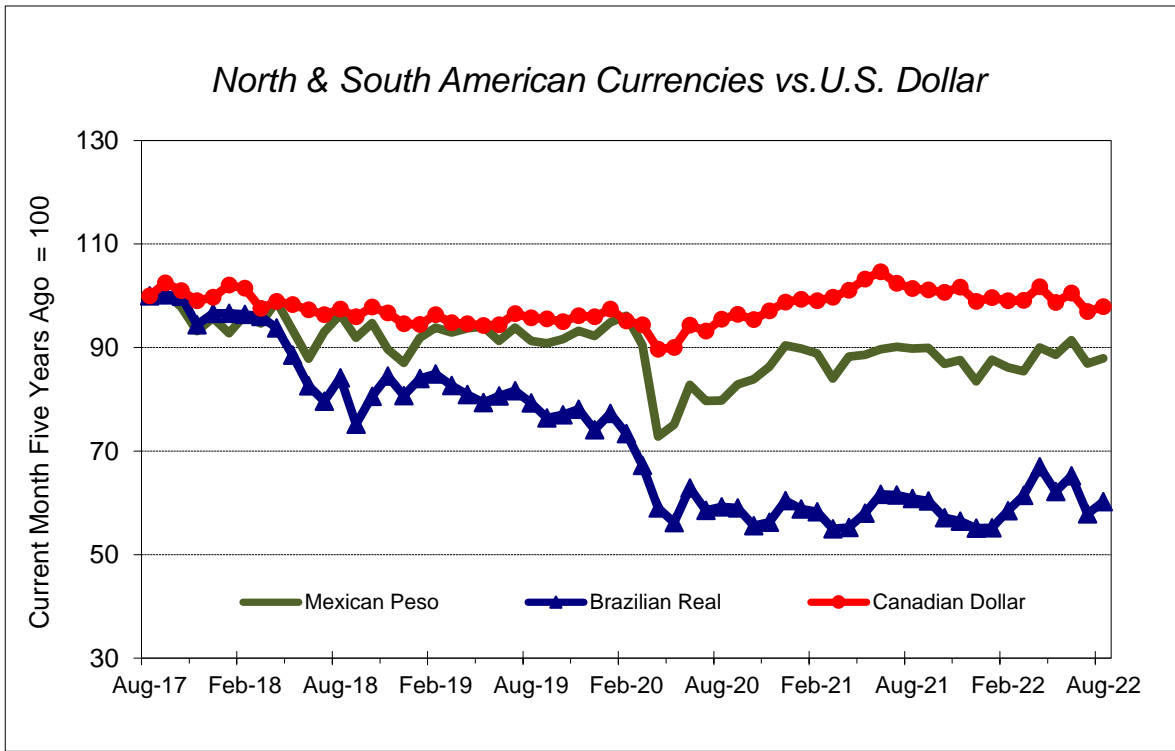
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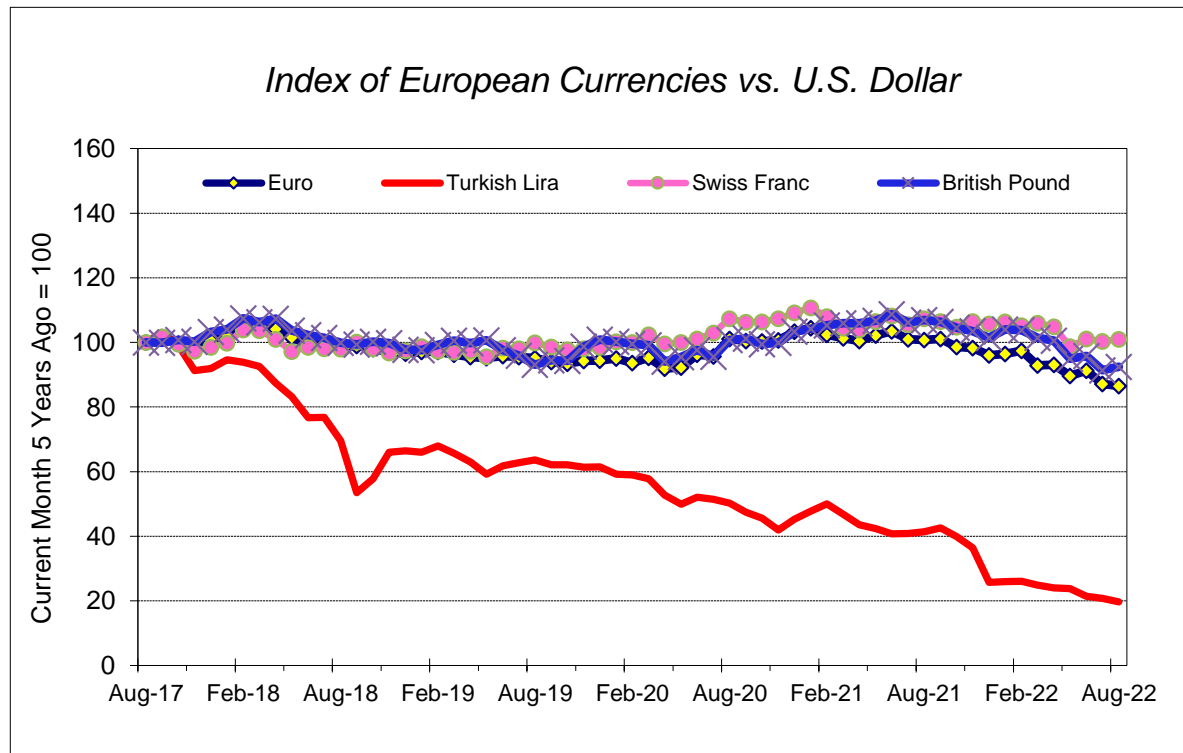
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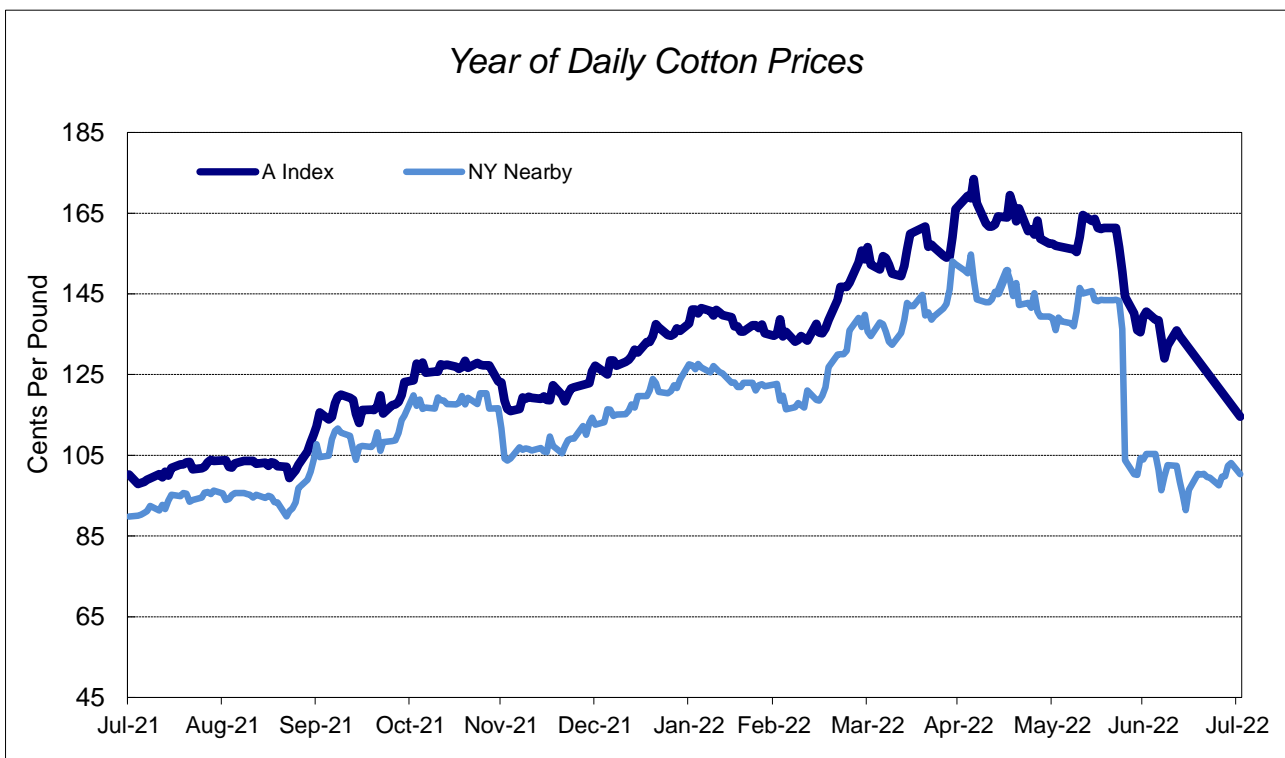
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U.S. Balance Sheet

million 480 lb. bales	2018/19	2019/20	2020/21	2021/22	2022/23	2022/23
					June	July
Beginning Stocks	4.2	4.9	7.3	3.2	3.4	3.4
Production	18.4	19.9	14.6	17.5	16.5	15.5
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	22.6	24.8	21.9	20.7	19.9	18.9
Mill-Use	3.0	2.2	2.4	2.6	2.5	2.5
Exports	14.8	15.5	16.4	14.8	14.5	14.0
Demand	17.8	17.7	18.8	17.3	17.0	16.5
Ending Stocks	4.9	7.3	3.2	3.4	2.9	2.4
Stocks/Use Ratio	27.2%	41.0%	16.8%	19.7%	17.1%	14.5%



Sources: ICE Futures U.S. & Cotton Outlook

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