

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



October 2022

www.cottoninc.com

Macroeconomic Overview: The International Monetary Fund (IMF) will release an updated set of estimates for global economic growth in the first half of October (after this publication's release). Current IMF figures (released July 2022) already suggest that countries accounting for one-third of the world economy will contract in consecutive quarters either in 2022 or 2023. Inflation is a global issue. The rise in European energy prices, a slowdown in the Chinese property market, and climbing interest rates in the U.S. were cited as additional sources of concern in preliminary remarks by the IMF's director ahead of October's release. While reiterating the risk of downside revision, the IMF official expects a loss in global output around \$4 trillion between now and 2026 (for context, \$4 trillion is about the size of Germany's economy, the world's fourth largest market).

Another major development in the global economy has been a steep increase in the value of the U.S. dollar. As U.S. interest rates increased relative to those in other markets over the past several months, it made investment in dollar-denominated assets more attractive and the resulting influx of money caused the dollar to strengthen. For emerging markets, this can have several adverse effects. Emerging market debt is often expressed in dollar terms. When the dollar becomes stronger relative to the currency of a country with debt, payments become more expensive in domestic terms. This exchange rate issue is compounded by the rise in interest rates, which can directly impact debt payments. Emerging markets have been an engine of global economic growth in recent decades, but mounting financial pressures may push some countries toward default.

Employment: The U.S. economy was estimated to have added +263,000 jobs in September. The existing figure for July increased +11,000 positions to +537,000. The existing figure for August was unchanged at +315,000. The twelve-month average for job gains is +474,000.

The unemployment rate decreased from 3.7% to 3.5%. Since the end of 2021, the unemployment rate has been below four percent. In the history of U.S. unemployment data (since 1948), there have only been three other periods (1950-53, 1965-69, 2018-19, and the present) where the unemployment rate persisted below four percent.

Wage growth has likely been pulling more workers back into the economy. Compared to early months of the pandemic, the labor force participation rate has increased by one percentage point (from 61.4% in the summer of 2020 to 62.4% most recently). Despite the improvement, the ratio of people wanting to work relative to the entire population is about half a point lower than the level before COVID (average near 63.0% from 2014 through 2019).

Since June 2020, the rate of wage growth has generally been between 5.0% and 5.5%. The latest value (September) was 5.0%. This is near the lower end of the range established since COVID. There was a sharp (10% month-over-month) downturn in job openings in August (latest figure available). If openings continue to decline, it could create slack in the labor market and inhibit wage growth. Wage growth often correlates with inflation. Slower wage growth could diminish general price pressures throughout the economy but could come at the expense of slower consumer spending.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence increased for a second consecutive month in September (+8.3 points in August, +4.4 points in September). The current value (108.0) is the highest since April. Since COVID, the index ranged between 87.1 (February 2021) and 128.9 (June 2021). The long-term average is 93.8 (since 1970).

In August, overall consumer spending increased marginally (+0.1%) month-over-month. Year-over-year, overall spending was +1.8% higher. Consumer spending on garments was -0.4% lower both month-over-month and year-over-year in August. Every month between June 2020 and February 2022, the growth rate in consumer spending on apparel exceeded the growth rate in overall spending. In every month since March 2022, the overall rate has been higher than the rate of spending on apparel.

Consumer Prices & Import Data: Retail prices for garments have been increasing more slowly than the overall inflation rate. Relative to averages in 2019 (pre-COVID), the CPI for apparel was +2.2% higher in August, while the overall CPI was 15.8% higher.

Import costs have been rising. The latest seasonally-adjusted value per square meter equivalent (SME) of cotton-dominant apparel was \$4.04/SME. This is the highest cost on record (data since 1989). The posting of a record high represents a sharp reversal relative to import costs during the pandemic that nearly set record lows. Seasonally-adjusted import costs for cotton-dominant apparel were below \$3.00/SME in late 2020 and early 2021. Imports during these months likely included deliveries resulting from contracts signed during the most challenging months of the pandemic 8-10 months earlier.

U.S. Macroeconomic & Cotton Supply Chain Charts

Macroeconomic Indicators	Industry & Textiles	Retail	Currencies	Cotton
GDP Growth	Industrial Production	Consumer Spending	Weighted Index	U.S. Balance Sheet
Interest Rates	Inventory/Shipments	Inventory/Sales	Asia	Fiber Prices
ISM Indices	U.S. Yarn Exports	Consumer Prices	The Americas	
	Polyester PPI		Europe	

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U.S. Macroeconomic Indicators & Cotton Prices
October 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	2.8%	2.9%	2.7%	-1.6%	7.0%	-1.6%	-0.6%	% 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	56.2	53.5	52.2	52.8	52.8	50.9	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.7	59.2	56.4	56.8	56.7	56.9	56.7	Index	Institute for Supply Management
Consumer Confidence	116.4	106.7	102.9	102.3	95.3	103.6	108.0	Index	The Conference Board
Change in Non-Farm Payrolls	100.1	474.2	360.3	371.7	537	315	263	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.0%	3.8%	3.6%	3.6%	3.5%	3.7%	3.5%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.1%	0.8%	1.5%	2.2%	1.7%	2.3%	2.6%	Interest rate	Federal Reserve
10-year Treasury Bill	2.0%	2.4%	3.0%	3.1%	2.9%	2.9%	3.5%	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	112.4	118.0	117.2	116.4	116.5	116.5	116.2	Index	The Conference Board
Housing Starts	14.1	16.4	16.1	1.5	1.6	1.4	1.6	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.6	5.7	5.2	4.9	5.1	4.8	4.8	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	100.8	103.0	104.2	104.5	104.2	104.2	104.5	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	114.4	143.5	153.1	157.8	154.1	160.3	159.1	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	2.6	2.9	3.0	3.0	3.1	2.9	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	1.42	1.49	1.54	1.56	1.56	1.57	1.55	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	2.7%	4.5%	2.2%	2.0%	2.1%	2.1%	1.8%	% Chg. Year/Year	Department of Commerce
Clothing	7.1%	6.5%	-0.6%	-0.4%	-1.3%	0.5%	-0.4%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	3.3%	7.7%	8.5%	8.6%	9.1%	8.5%	8.3%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.3%	5.1%	5.4%	4.9%	5.0%	4.7%	5.1%	% 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	2.6	2.0	2.1	2.2	2.2	2.2	2.2	Ratio	Department of Commerce
Department Stores	2.0	2.0	2.1	2.2	2.1	2.2	2.2	Ratio	Department of Commerce

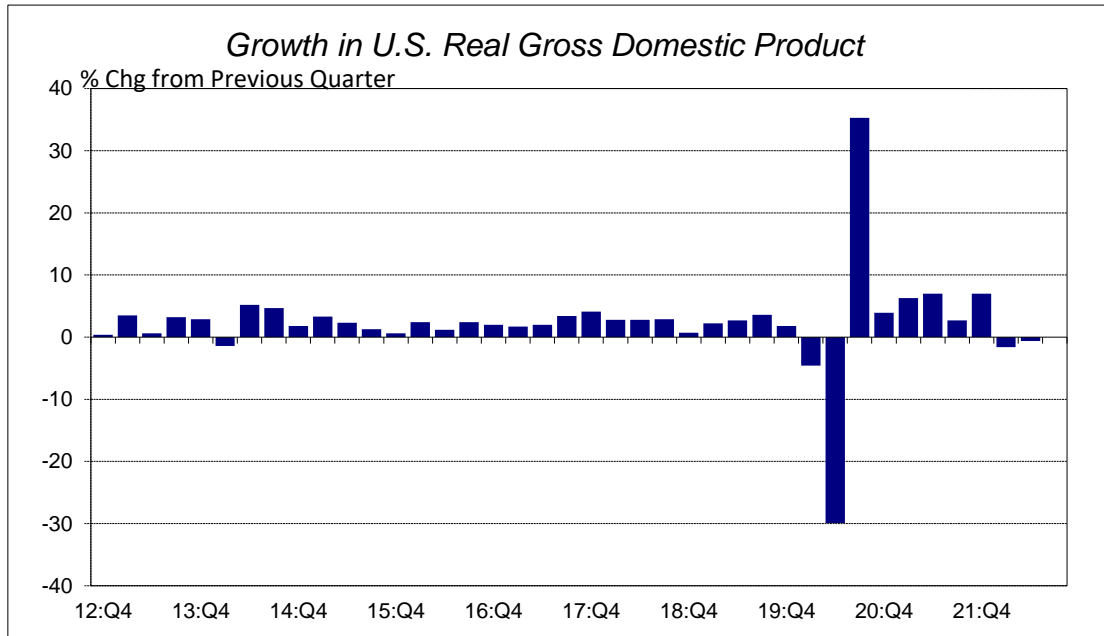
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Daily Cotton Price and Currency Data
October 2022

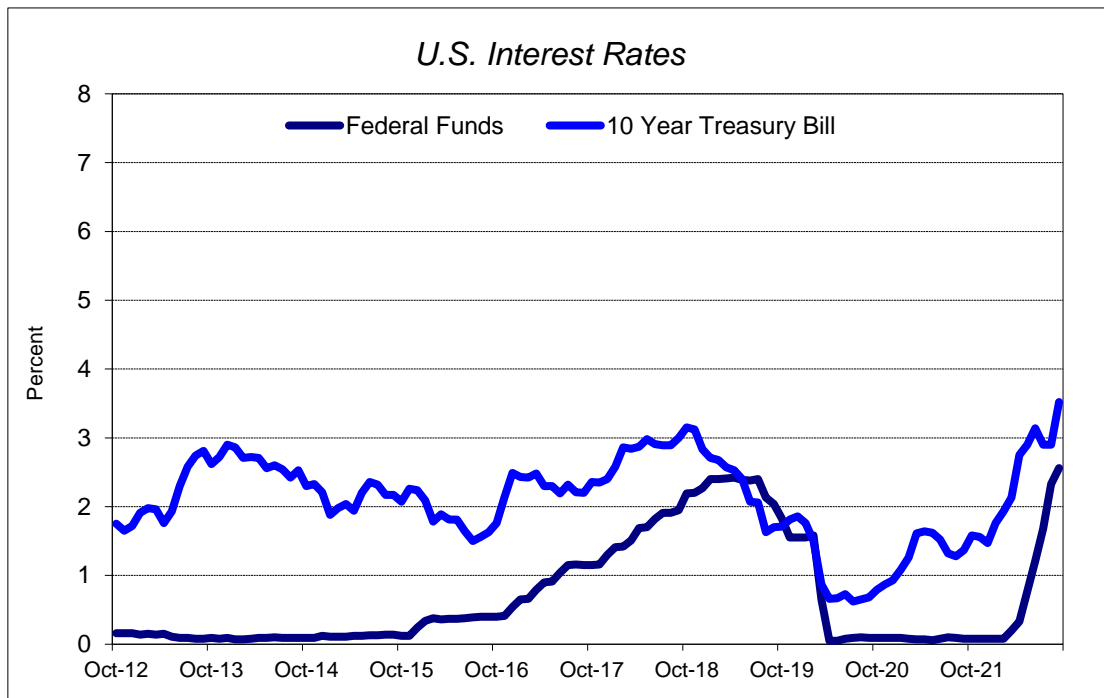


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
NY Nearby	81.6	116.7	131.2	139.4	140.5	145.0	132.7	cents/pound	ICE
A Index	91.4	129.3	147.5	157.7	155.3	163.8	154.2	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
Dollar Trade Weighted Exchange Index	115.2	116.5	120.9	123.4	122.8	122.4	125.0	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.69	6.69	6.69	6.81	6.71	6.75	6.97	Chinese Renminbi/US dollar	Reuters
Indian Rupee	72.13	74.55	78.16	79.45	79.18	79.28	79.90	Indian Rupee/US dollar	Reuters
Japanese Yen	111.98	113.08	133.77	138.60	135.95	135.35	144.50	Japanese Yen/US dollar	Reuters
Pakistani Rupee	153.10	169.71	205.09	218.11	207.45	223.63	223.25	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.55	5.13	5.08	5.26	5.34	5.19	5.25	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.30	1.29	1.29	1.30	1.30	1.29	1.32	Canadian dollar/US dollar	Reuters
Mexican Peso	20.03	20.57	20.15	20.34	20.62	20.36	20.04	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.76	0.77	0.82	0.84	0.83	0.83	0.87	British Pound/US dollar	Reuters
Euro	0.88	0.88	0.96	0.99	0.98	0.98	1.01	Euro/US dollar	Reuters
Swiss Franc	0.96	0.94	0.97	0.97	0.97	0.96	0.98	Swiss Franc/US dollar	Reuters
Turkish Lira	7.79	9.68	16.64	17.81	17.24	17.95	18.23	Turkish Lira/US dollar	Reuters



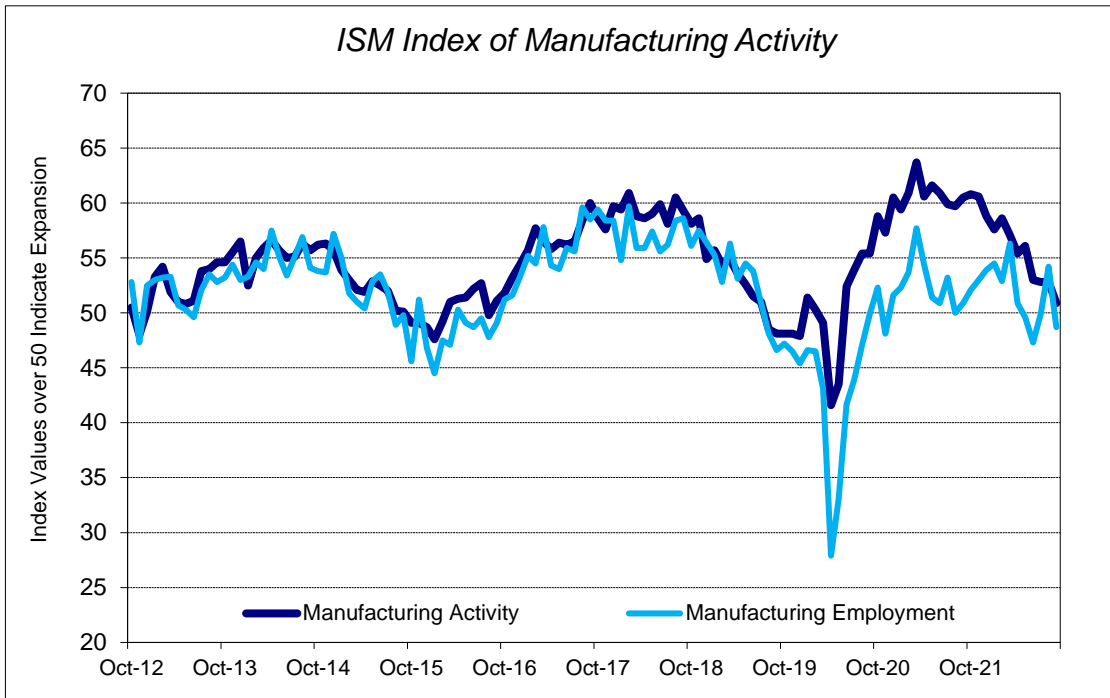
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



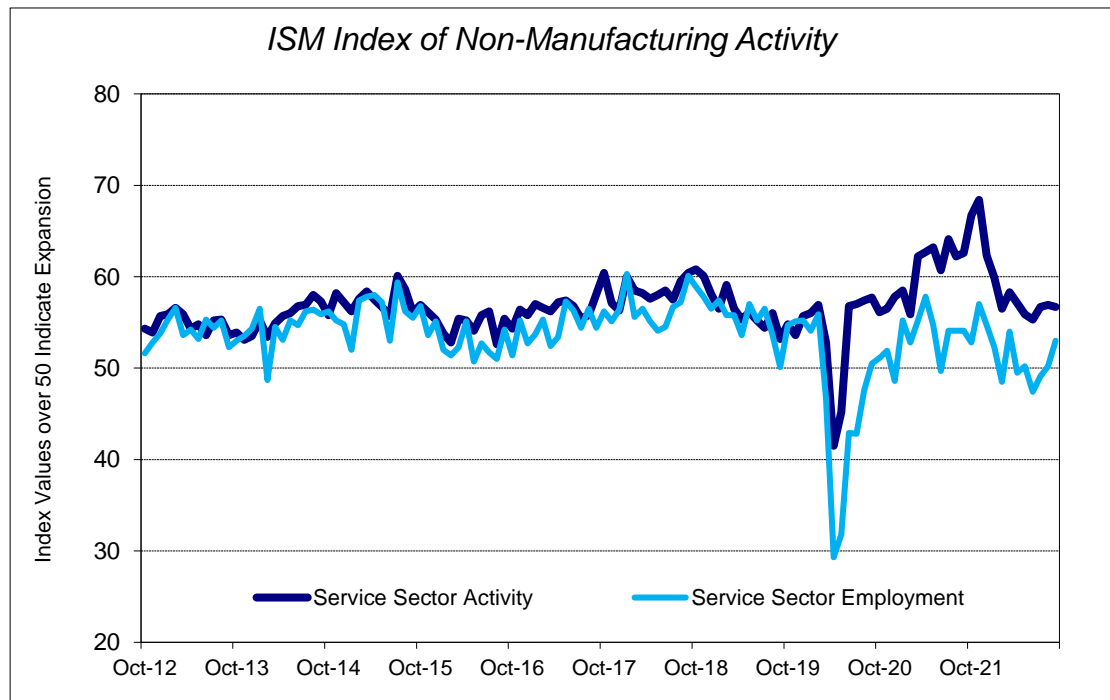
Source: Federal Reserve

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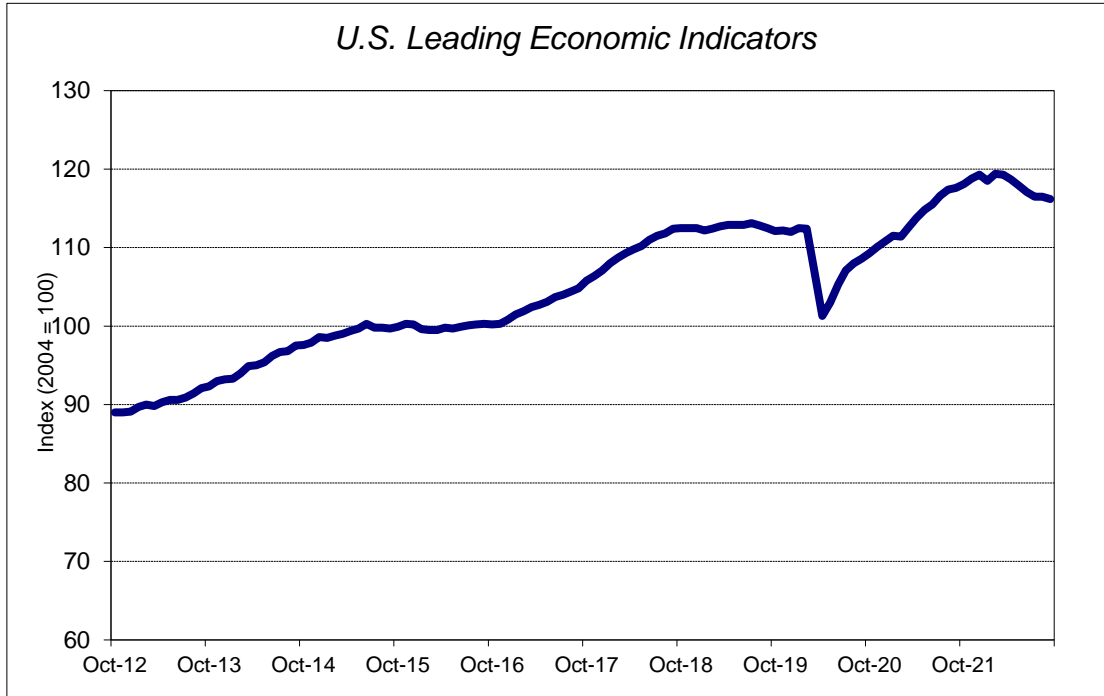
Source: Institute for Supply Chain Management



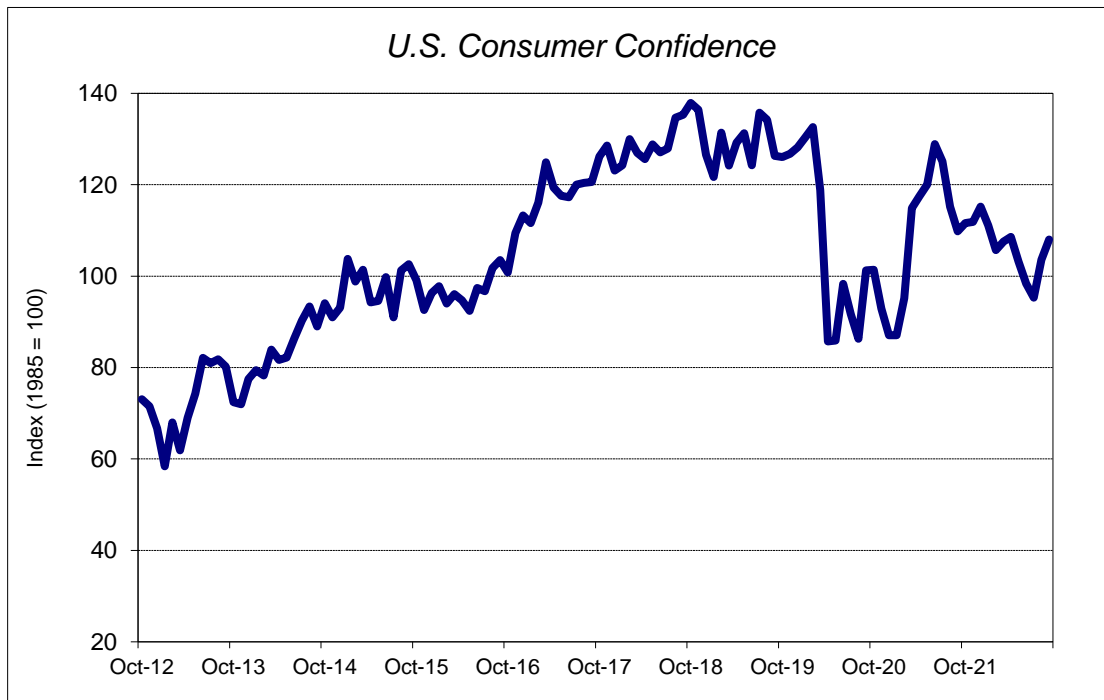
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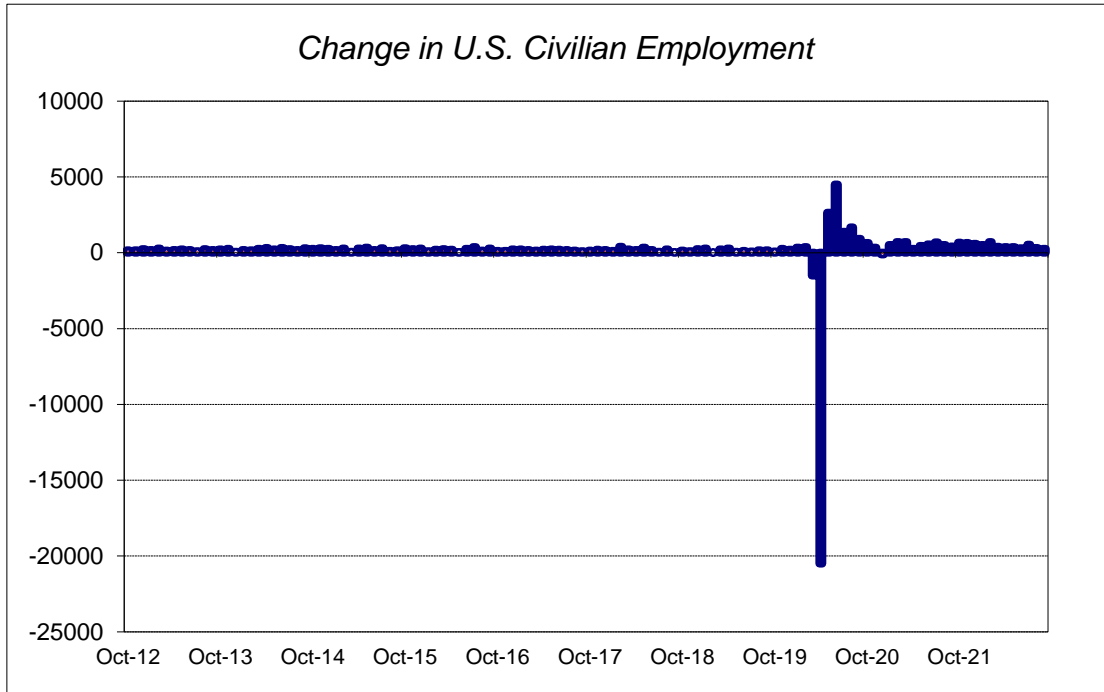
Source: The Conference Board



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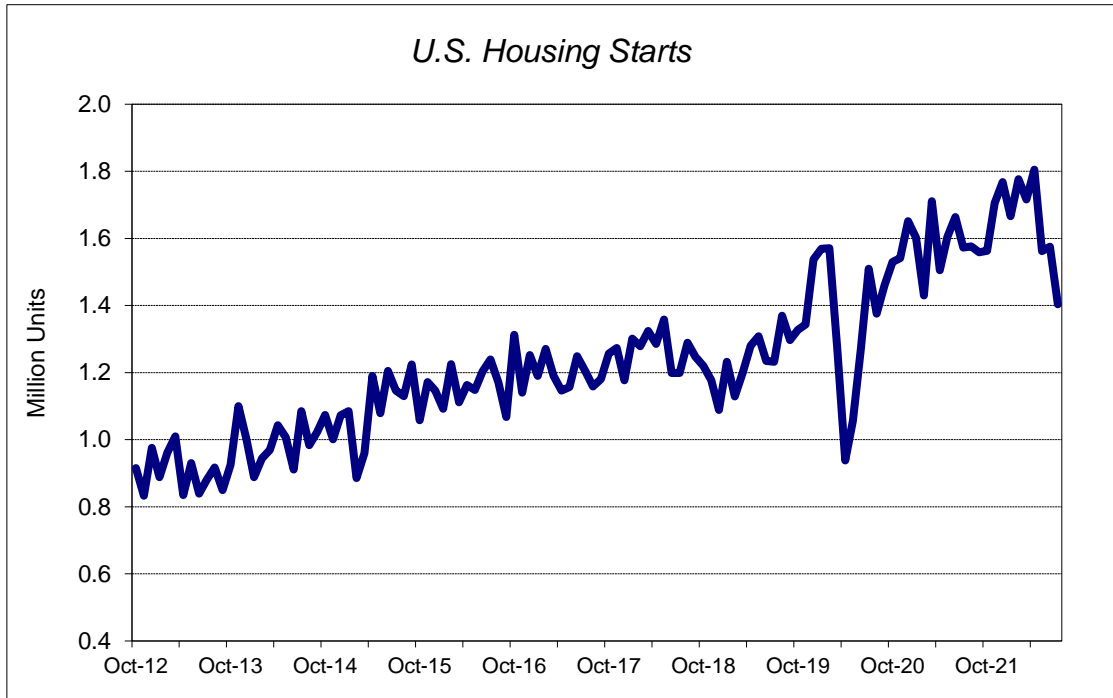
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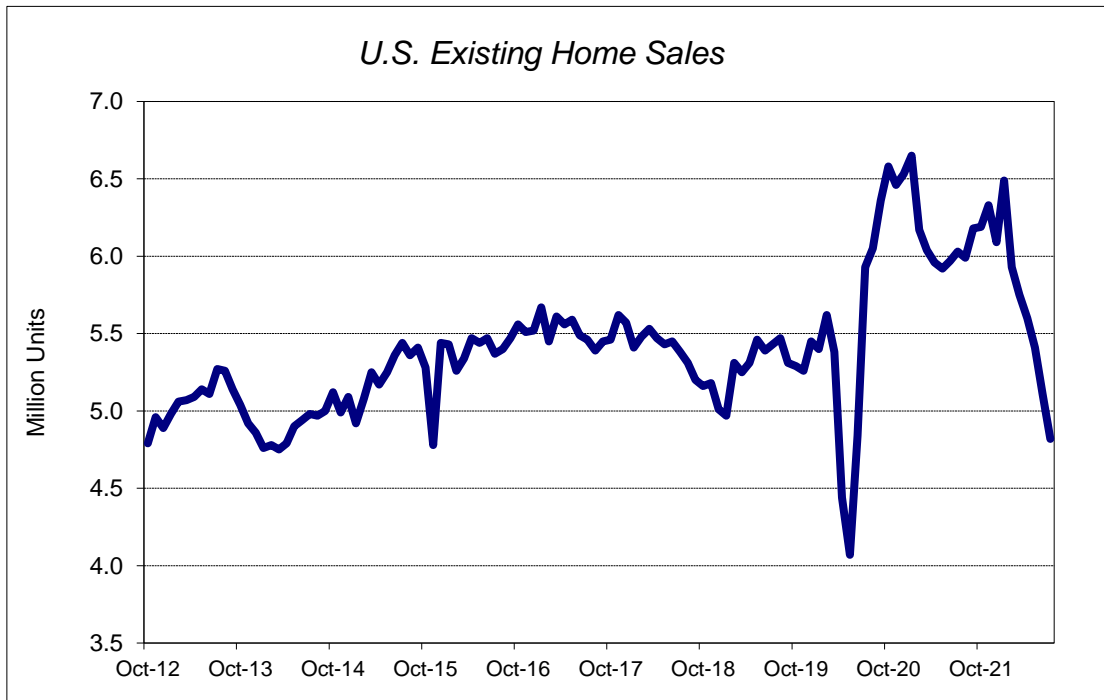
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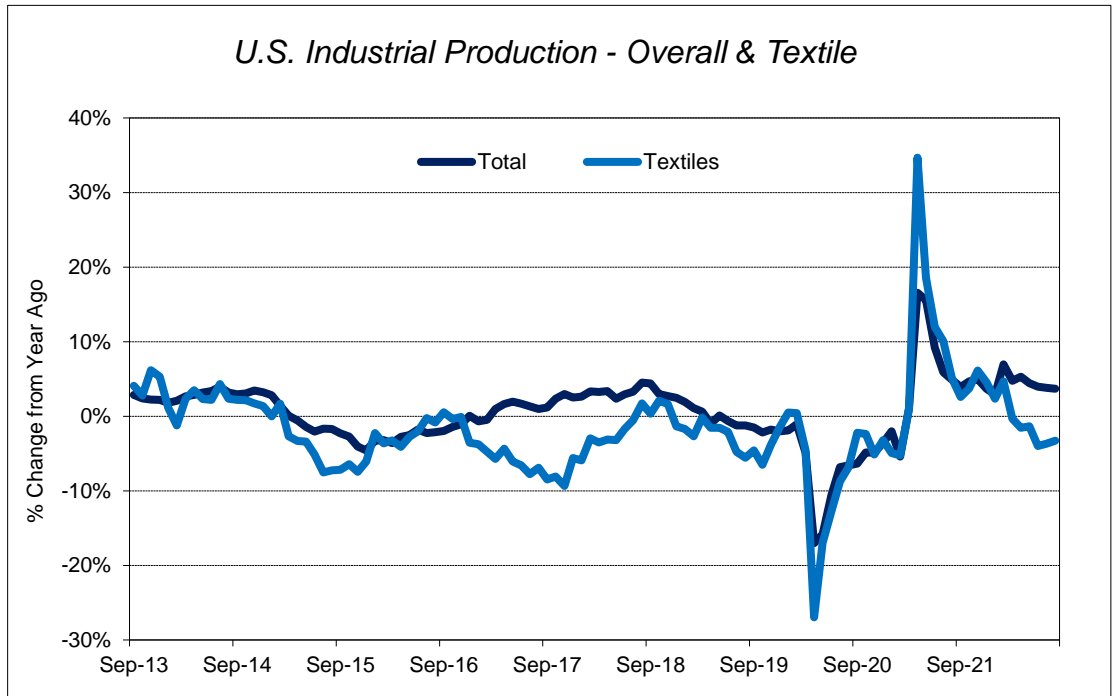
Seasonally Adjusted Annual Rate; Source: Department of Commerce



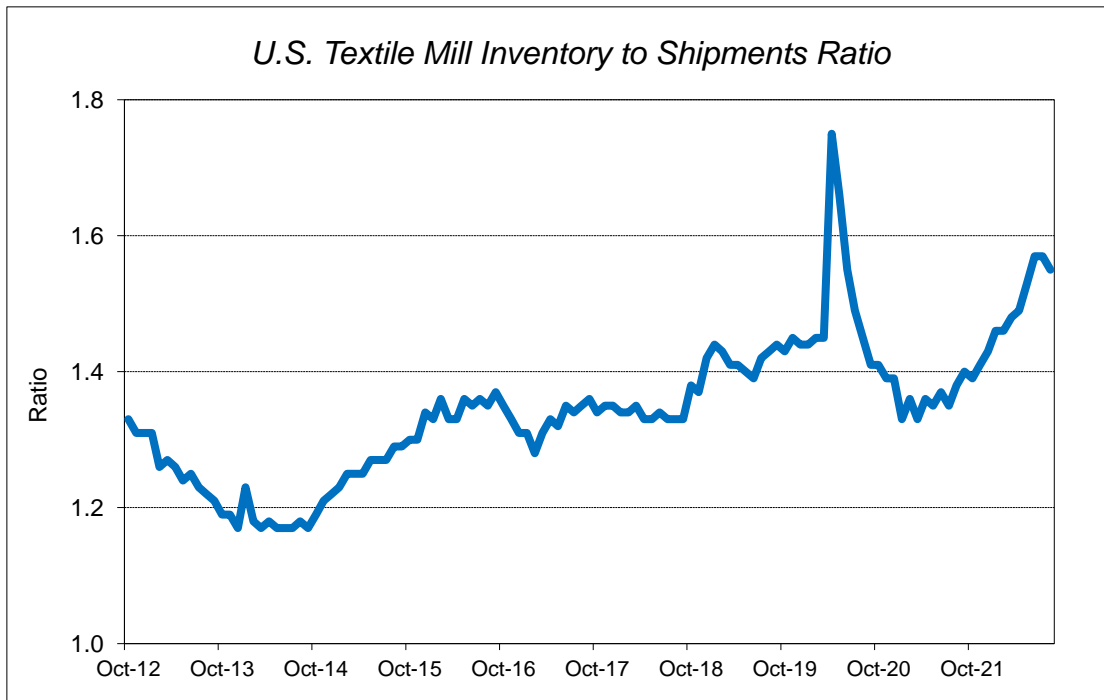
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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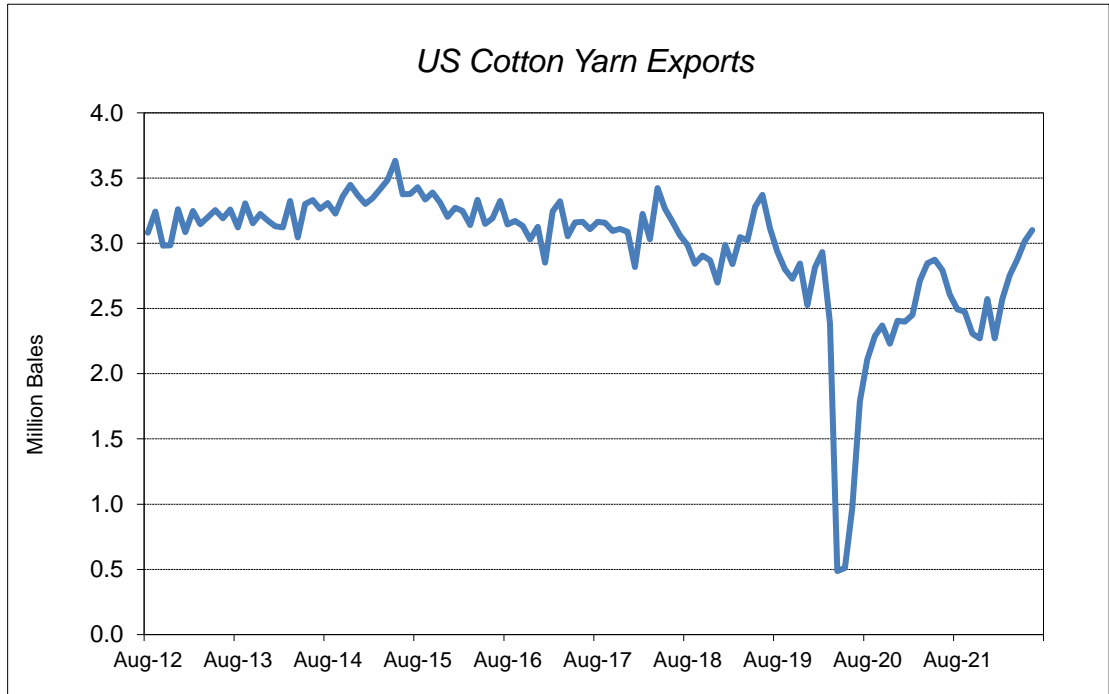
Source: Federal Reserve. Historical data revised to 1997 baseline.



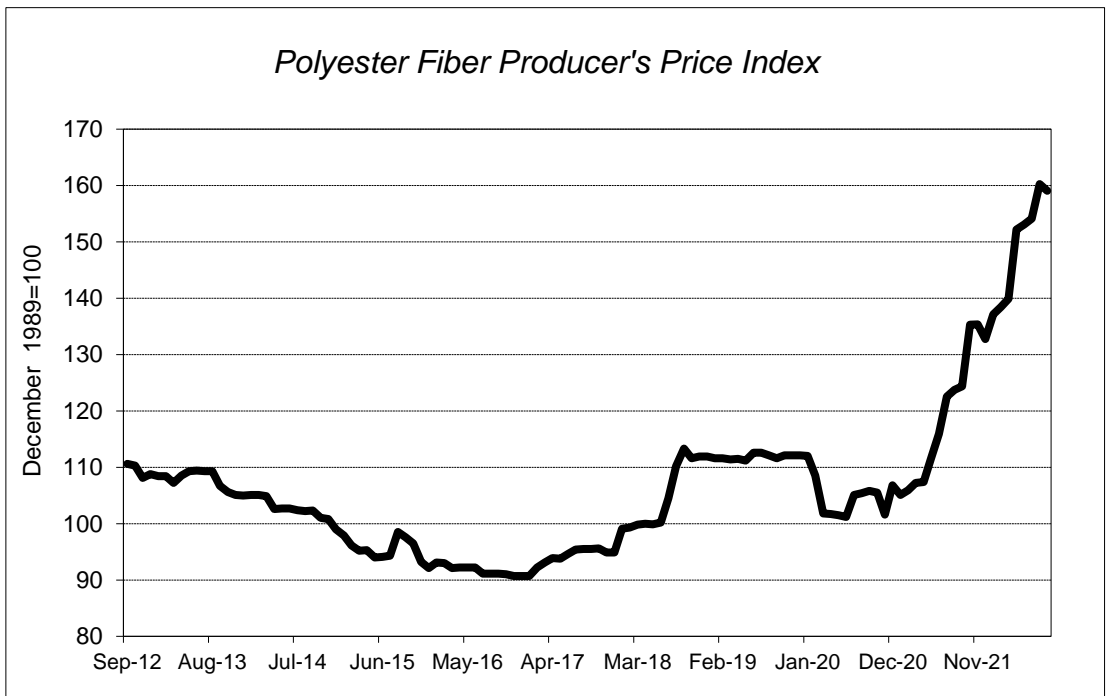
Seasonally Adjusted; Source: Department of Commerce

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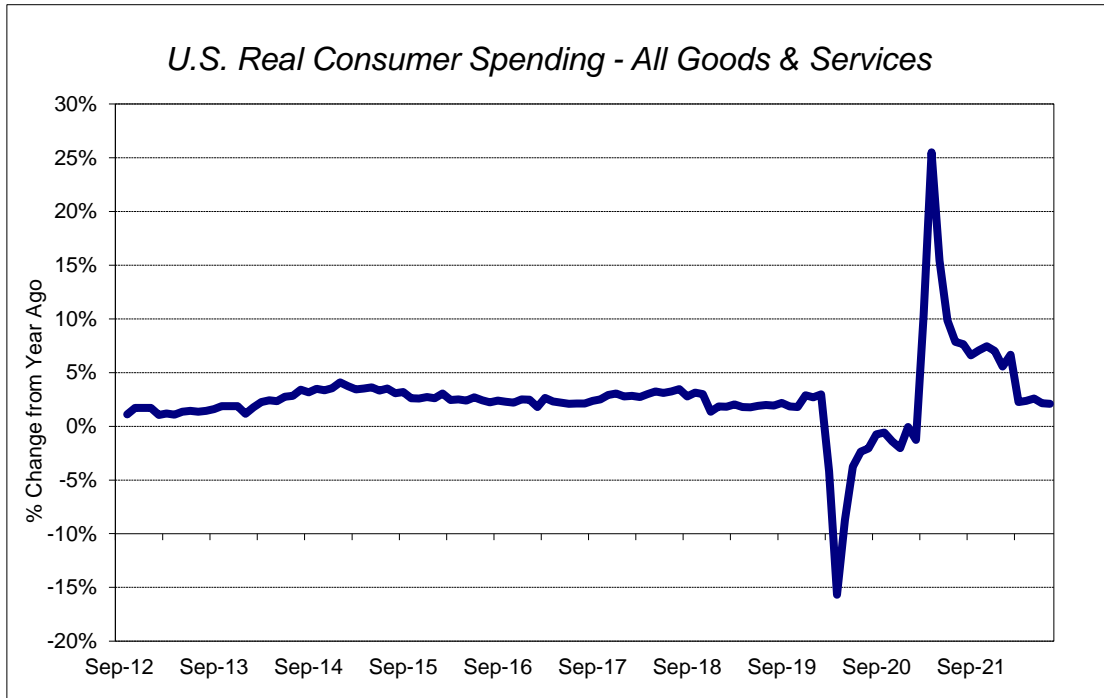
Seasonally Adjusted Annual Rate
Source: USDA ERS



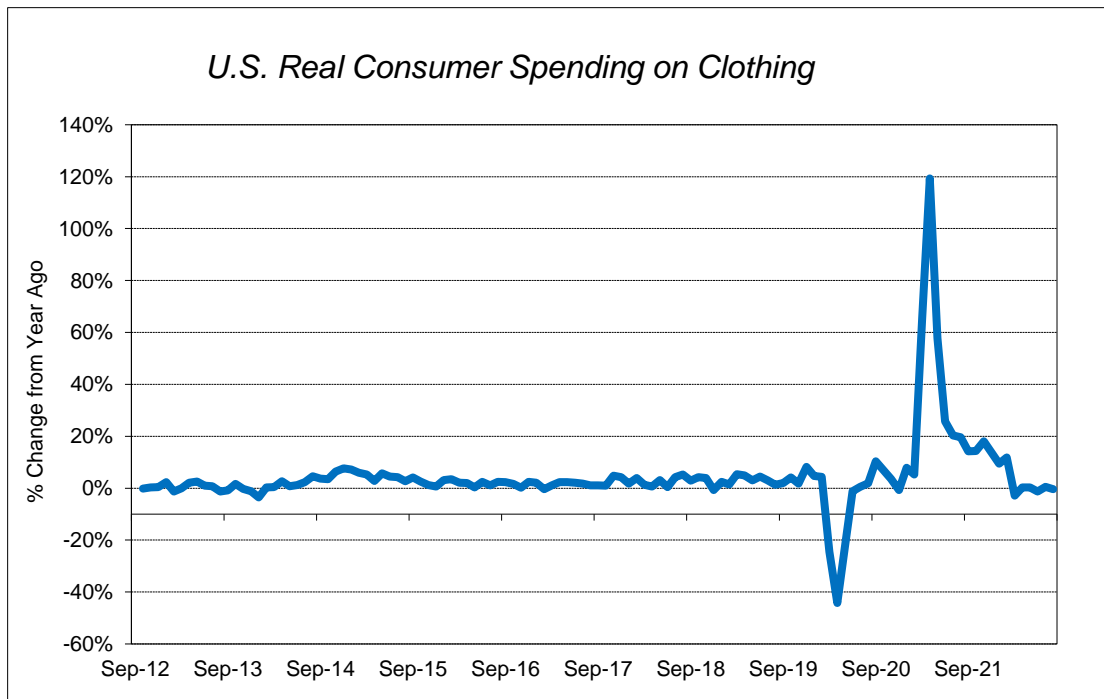
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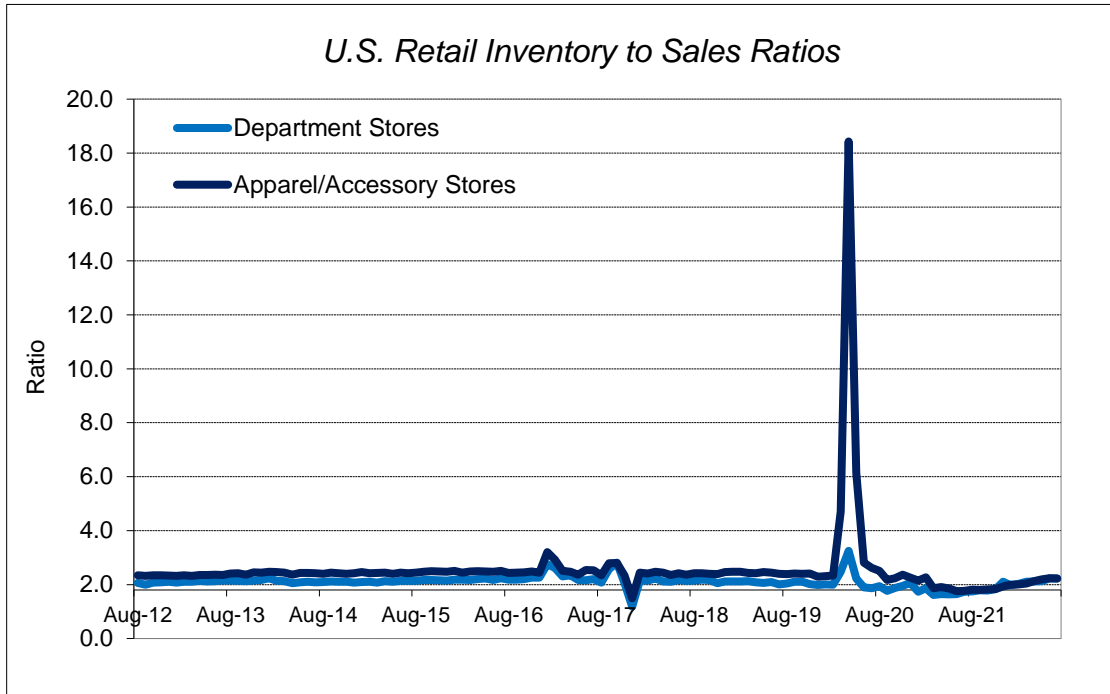
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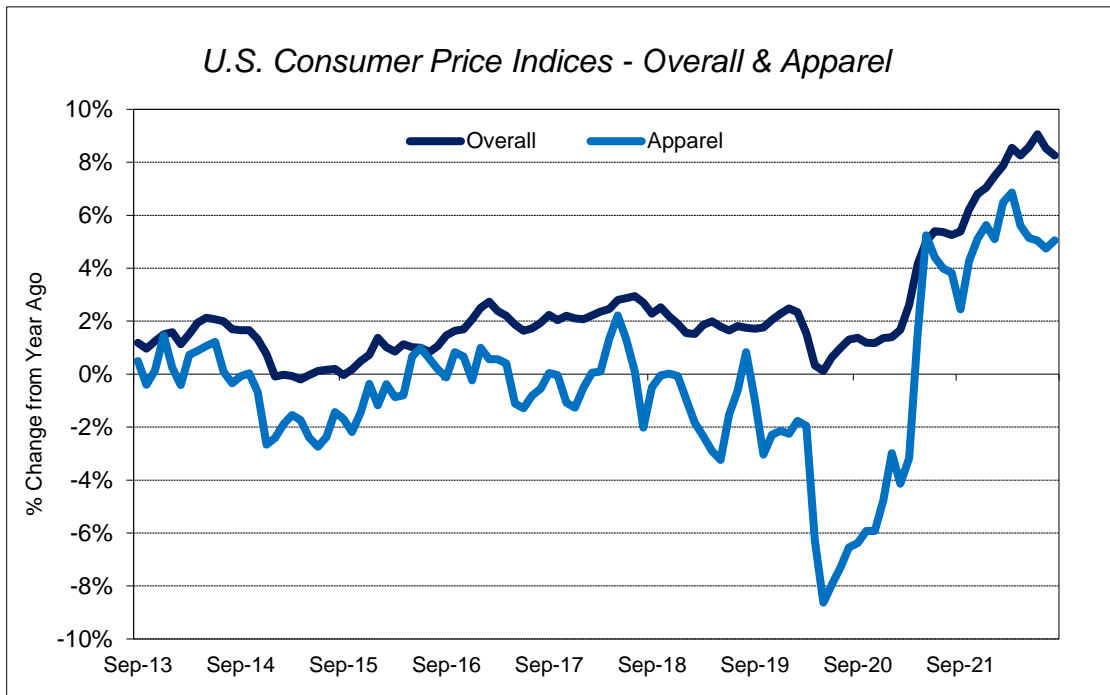
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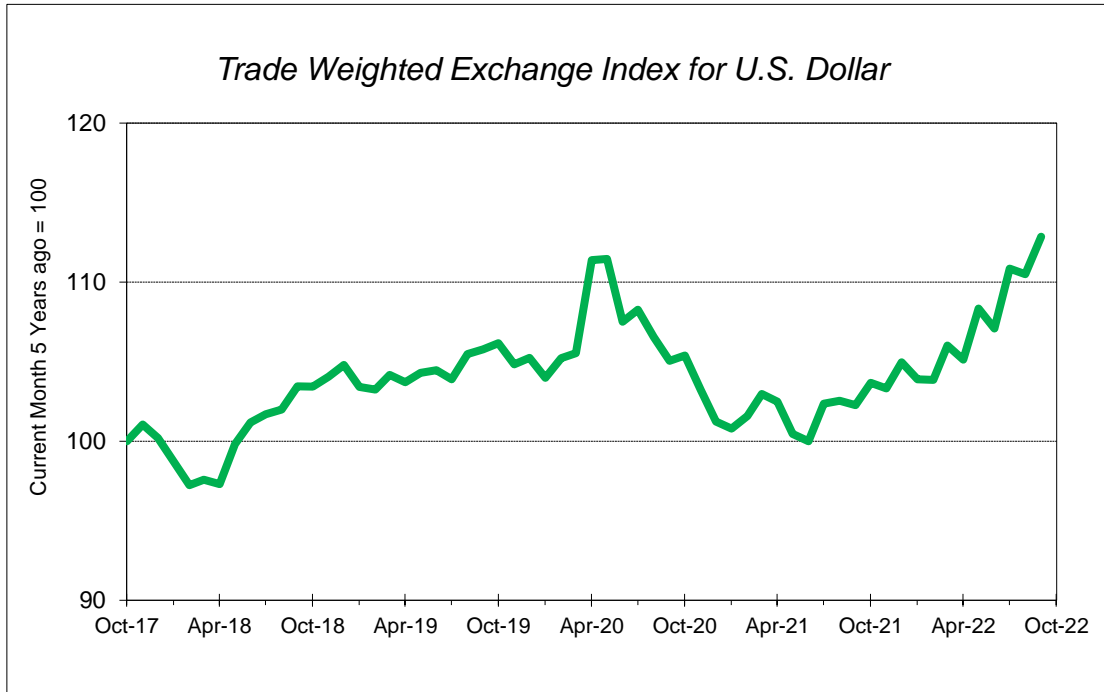
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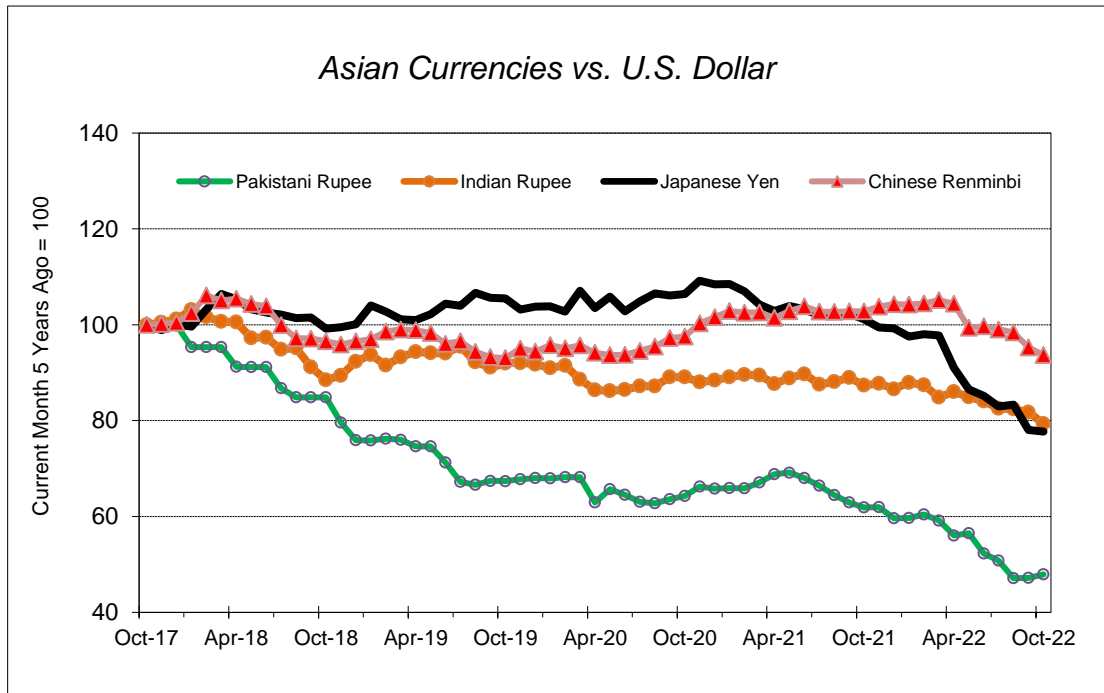
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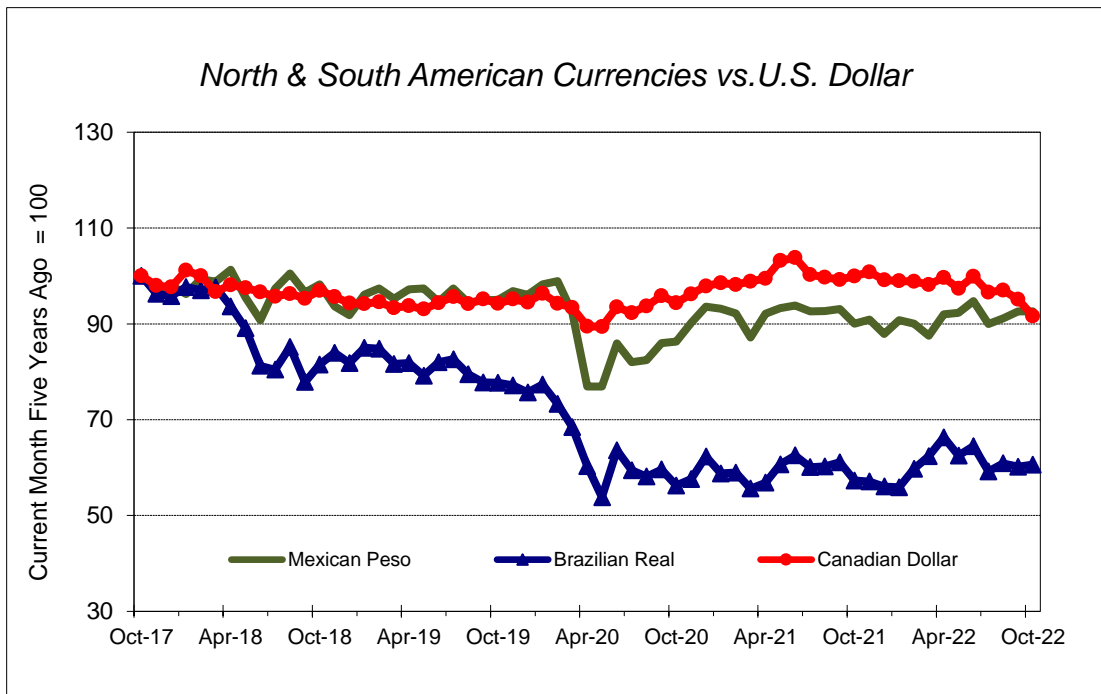
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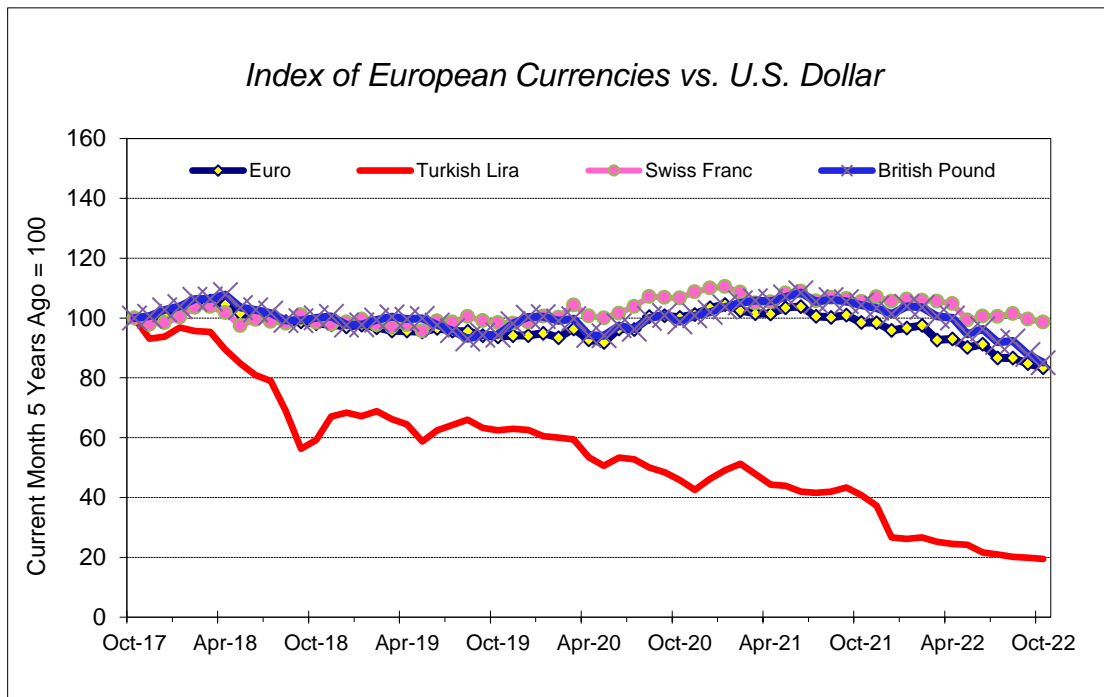
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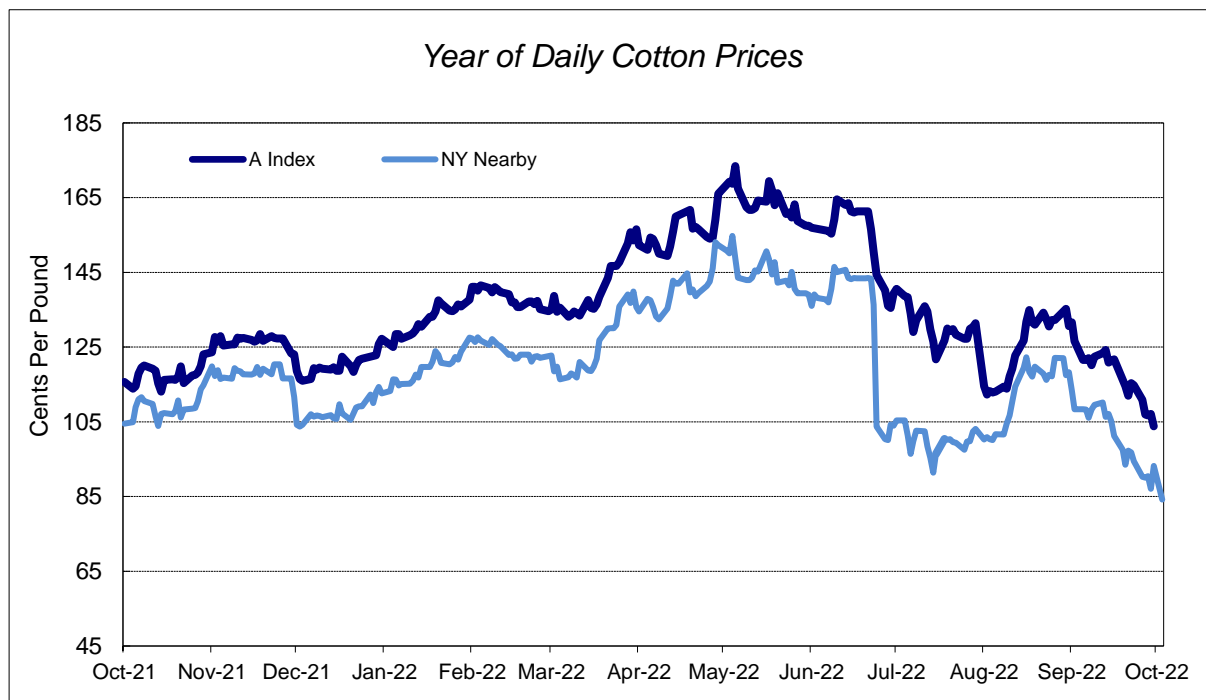
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U.S. Balance Sheet

million 480 lb. bales	2018/19	2019/20	2020/21	2021/22	2022/23 August	2022/23 September
Beginning Stocks	4.2	4.9	7.3	3.2	3.5	3.8
Production	18.4	19.9	14.6	17.5	12.6	13.8
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	22.6	24.8	21.9	20.7	16.1	17.6
Mill-Use	3.0	2.2	2.4	2.6	2.3	2.3
Exports	14.8	15.5	16.4	14.6	12.0	12.6
Demand	17.8	17.7	18.8	17.2	14.3	14.9
Ending Stocks	4.9	7.3	3.2	3.8	1.8	2.7
Stocks/Use Ratio	27.2%	41.0%	16.8%	21.8%	12.6%	18.1%



Sources: ICE Futures U.S. & Cotton Outlook

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