

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



June 2023

www.cottoninc.com

Macroeconomic Overview: The outlook for the U.S. economy remains clouded by uncertainty. Arguments suggesting a slowdown find support from persistent inflation and the steepest increases in interest rates in a generation. Arguments suggesting continued growth find support from a strong labor market and a resilient consumer.

A recent positive for the economy is that the political standoff regarding the debt ceiling found a resolution. This removed a source of uncertainty weighing on financial markets. Other challenges experienced over the past several months included the spate of bank failures throughout the spring and an uptick in companies declaring bankruptcy. Meanwhile, in May, the number of new jobs was the highest since February. May's job growth matched the average over the past twelve months, which indicates that recent job growth has been stable rather than trending lower.

Alongside other decision-makers attempting to navigate these economic cross currents, the Federal Reserve is attempting to fulfill its dual mandates of maintaining price stability while facilitating the maximum level of sustainable employment. The labor market remains tight, with the unemployment rate holding below four percent for more than a year. Although layoffs have been rising, the strength of the labor market suggests the employment-related mandate may be in a good enough position to allow the central bank to continue pushing higher interest rates to control inflation.

The latest inflation readings (April) indicate aggregate prices were more than four percent higher than one year ago. This is more than double the two percent target rate maintained by the central bank. It is generally expected that the Federal Reserve will pause rate increases at its meeting in June. However, with inflation well above the target rate, it is generally believed that it is too early for the Federal Reserve to stop increasing rates and that rate hikes will resume later this year.

Employment: The U.S. economy is estimated to have added +339,000 jobs in May. Revisions to figures for previous months were positive. The value for March rose +52,000 to +217,000. The value for April rose +41,000 to +294,000. The current twelve-month average is +339,000 jobs per month, the same level as the increase in May.

The unemployment rate increased from 3.4% to 3.7% between April and May. The increase in May was driven by a +440,000 month-over-month increase in unemployed people. The labor force also expanded slightly (up +130,000 month-over-month, up +2.5 million year-over-year). Since March 2022, the unemployment rate has been between 3.4% and 3.7%. Unemployment below four percent is rare, with only three other prolonged periods since 1950 (early 1950, the late 1960s, and the period before COVID).

Average hourly wage growth was +4.3% year-over-year in May. Earnings growth has been trending lower since March 2022 (when wage growth set a post-COVID high of +5.9%), when the Federal Reserve began increasing interest rates.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence decreased slightly month-over-month in May (from 103.7 to 102.3). Values have been essentially unchanged since February (ranging between 102 and 104). Current levels are higher than last summer (below 100 in June and July 2022) but remain well below the post-COVID highs set in the summer of 2021 (128.9 in June 2021). The long-term average is 94.0 (since 1970).

In inflation-adjusted terms, overall consumer spending was slightly higher month-over-month in April (+0.5%) and was up +2.3% year-over-year. Spending on garments decreased month-over-month for six of the last seven months (growth in January, but otherwise negative month-over-month from October-April). Year-over-year, apparel spending was lower in April (-0.7%). Some of the recent slowdown in apparel spending may be related to a calming in consumer demand following outsized growth with stimulus after the pandemic. Even with the recent deceleration, spending on garments in April was 21% higher than the average in 2019. The average annual rate of growth in the five years before COVID was +2.6%.

Consumer Prices & Import Data: Retail prices for apparel increased month-over-month in each of the last six months of data (+0.2% in April, increases between +0.2% and +1.0% since November 2022). Relative to the average in 2019, before the pandemic, retail apparel prices in April were +5.2% higher.

The average import cost per square-meter equivalent (SME) of cotton-dominant apparel was \$3.94 in seasonally-adjusted terms. This is down 8% from the recent peak of \$4.30/SME (November 2022) but remains higher than levels before the pandemic (averaged \$3.36/SME in 2018 and \$3.45/SM in 2019) and significantly higher than the post-COVID lows near \$3.00/SME from November 2020 through March 2021.

U.S. Macroeconomic & Cotton Supply Chain Charts

Macroeconomic Indicators	Industry & Textiles	Retail	Currencies	Cotton
GDP Growth	Leading Indicators	Consumer Spending	Weighted Index	U.S. Balance Sheet
Interest Rates	Consumer Conf.	Inventory/Sales	Asia	Fiber Prices
ISM Indices	Employment	Consumer Prices	The Americas	
	Housing	Polyester PPI	Europe	

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U.S. Macroeconomic Indicators & Cotton Prices
June 2023



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q3 : 2022	Q4 : 2022	Q1 : 2023		
Growth in US Real GDP	2.5%	2.6%	2.9%	2.6%	3.2%	2.6%	1.3%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic 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		
ISM Index of Manufacturing Activity	54.3	49.4	47.3	46.8	46.3	47.1	46.9	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.0	53.9	52.2	51.1	51.2	51.9	50.3	Index	Institute for Supply Management
Consumer Confidence	113.4	103.1	104.7	103.3	104.0	103.7	102.3	Index	The Conference Board
Change in Non-Farm Payrolls	122.5	338.6	301.5	283.3	217	294	339	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.9%	3.6%	3.5%	3.5%	3.5%	3.4%	3.7%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.5%	3.5%	4.6%	4.8%	4.7%	4.8%	5.1%	Interest rate	Federal Reserve
10-year Treasury Bill	2.1%	3.5%	3.6%	3.6%	3.7%	3.5%	3.6%	Interest rate	Federal Reserve

Macroeconomic 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		
Index of Leading Economic Indicators	111.5	111.3	109.1	108.0	108.2	108.2	107.5	Index	The Conference Board
Housing Starts	1.4	1.4	1.4	1.4	1.4	1.4	1.4	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	4.6	4.2	4.4	4.6	4.4	4.3	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

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		
US Industrial Production	100.5	102.8	102.5	102.7	102.5	102.5	103.0	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	123.4	162.1	163.5	162.5	161.9	162.8	162.8	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile Series with Latest Data for March

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	2.4	2.0	2.1	1.8	2.3	2.1	million 480lb bales	USDA ERS

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		
US Textile Mill Inventory/Shipments Ratio	1.48	1.67	1.69	1.71	1.71	1.71	1.71	Ratio	Department of Commerce

Retail Data

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		
US Real Consumer Spending									
All Goods and Services	2.6%	2.1%	2.1%	2.2%	2.3%	2.0%	2.3%	% Chg. Year/Year	Department of Commerce
Clothing	6.9%	0.7%	1.2%	0.5%	2.0%	0.3%	-0.7%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	3.9%	7.2%	6.0%	5.3%	6.0%	5.0%	4.9%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	0.3%	4.5%	4.0%	4.1%	3.9%	4.0%	4.4%	% Chg. Year/Year	Bureau of Labor Statistics

Retail Series with Latest Data for March

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	January	February	March		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.6	2.2	2.2	2.3	2.1	2.4	2.4	Ratio	Department of Commerce
Department Stores	2.0	2.1	2.0	1.9	1.9	2.0	2.0	Ratio	Department of Commerce

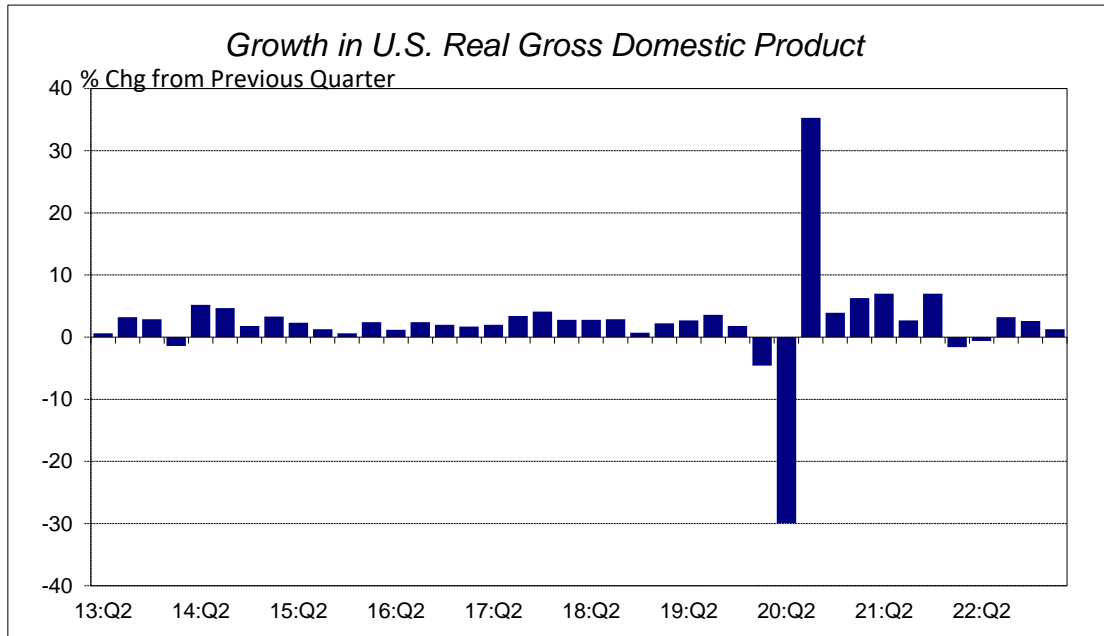
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Daily Cotton Price and Currency Data
June 2023

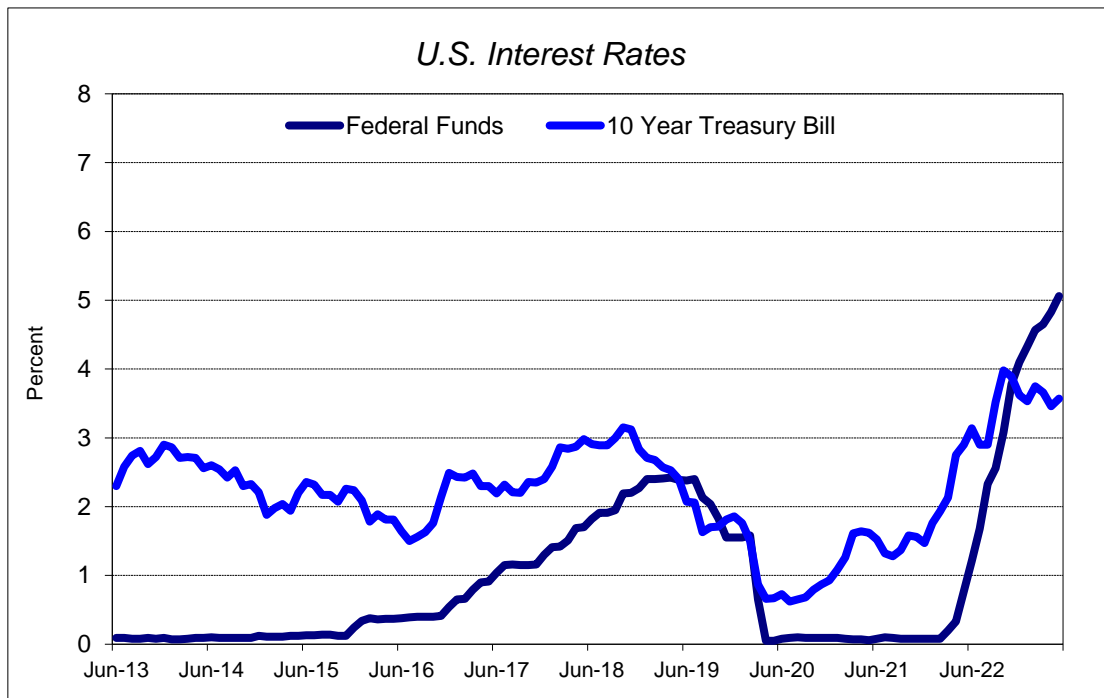


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
NY Nearby	83.9	92.5	82.8	81.8	80.9	81.2	82.7	cents/pound	ICE
A Index	94.4	108.3	97.5	94.9	95.4	95.2	94.1	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	March	April	May		
Dollar Trade Weighted Exchange Index	116.8	117.4	120.6	119.9	121.5	119.5	118.8	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.76	6.67	6.90	6.92	6.97	6.88	6.92	Chinese Renminbi/US dollar	Reuters
Indian Rupee	74.48	76.67	82.23	81.92	82.05	81.90	81.80	Indian Rupee/US dollar	Reuters
Japanese Yen	115.45	119.46	133.99	134.52	136.91	131.79	134.88	Japanese Yen/US dollar	Reuters
Pakistani Rupee	171.96	190.58	261.39	281.66	276.88	284.25	283.85	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.79	5.26	5.14	5.05	5.12	5.06	4.96	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.30	1.35	1.35	1.38	1.35	1.34	Canadian dollar/US dollar	Reuters
Mexican Peso	20.03	20.22	18.63	18.00	17.95	18.24	17.82	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.78	0.78	0.82	0.81	0.84	0.80	0.79	British Pound/US dollar	Reuters
Euro	0.89	0.89	0.93	0.92	0.95	0.92	0.91	Euro/US dollar	Reuters
Swiss Franc	0.95	0.93	0.92	0.91	0.94	0.90	0.89	Swiss Franc/US dollar	Reuters
Turkish Lira	9.82	12.54	18.99	19.23	18.94	19.26	19.51	Turkish Lira/US dollar	Reuters



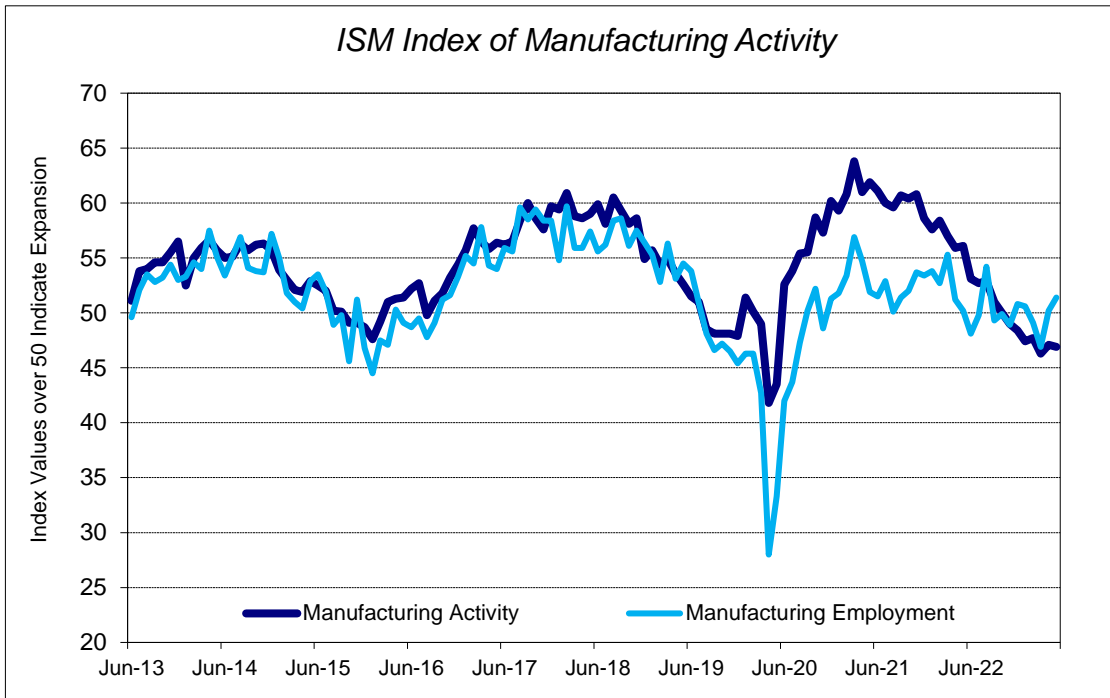
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



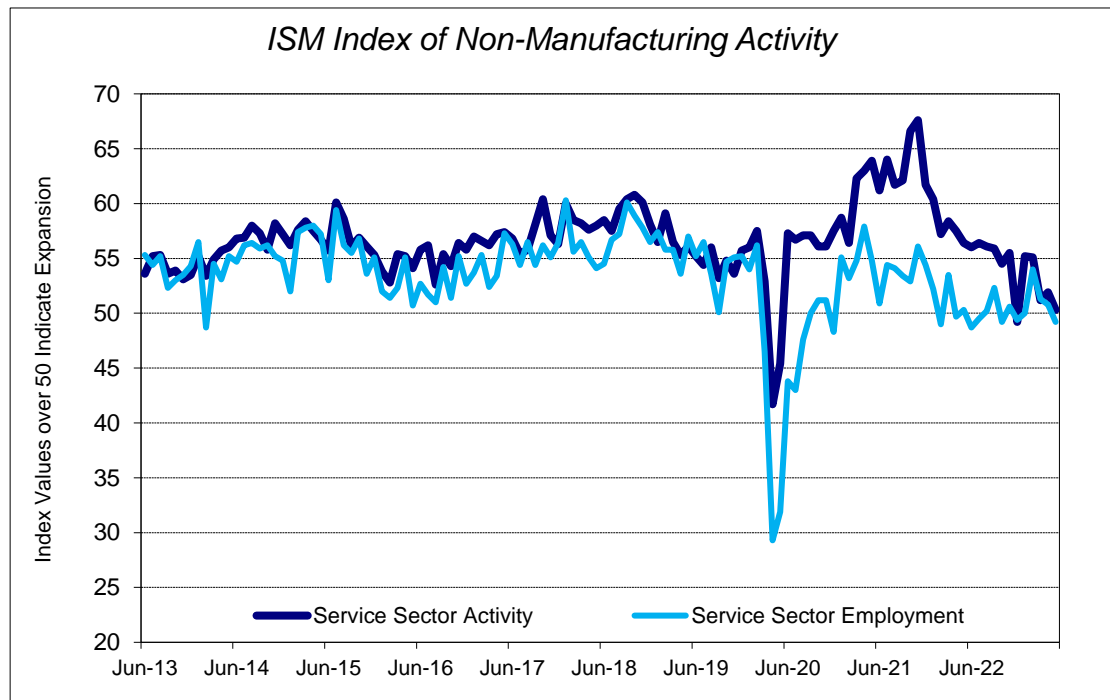
Source: Federal Reserve

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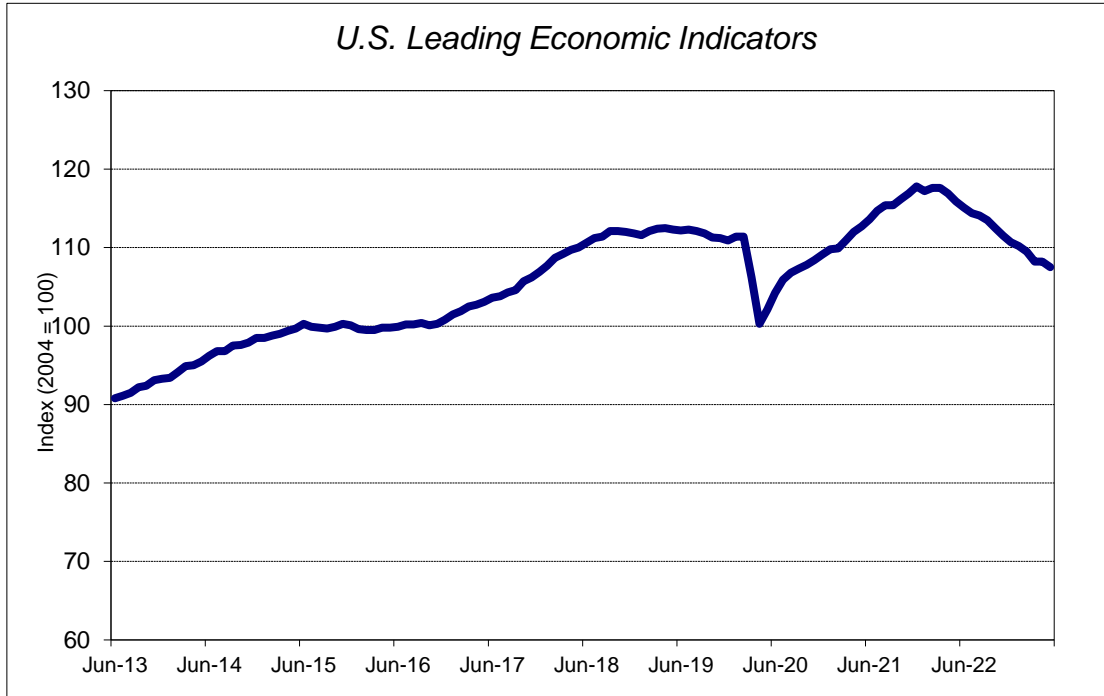
Source: Institute for Supply Chain Management



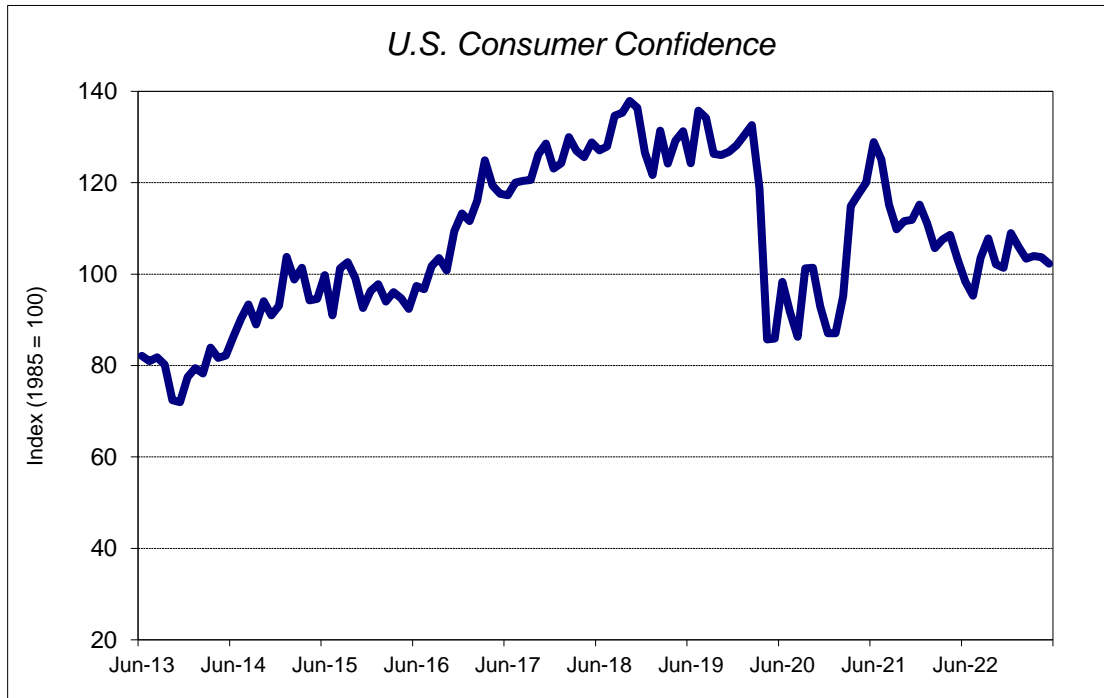
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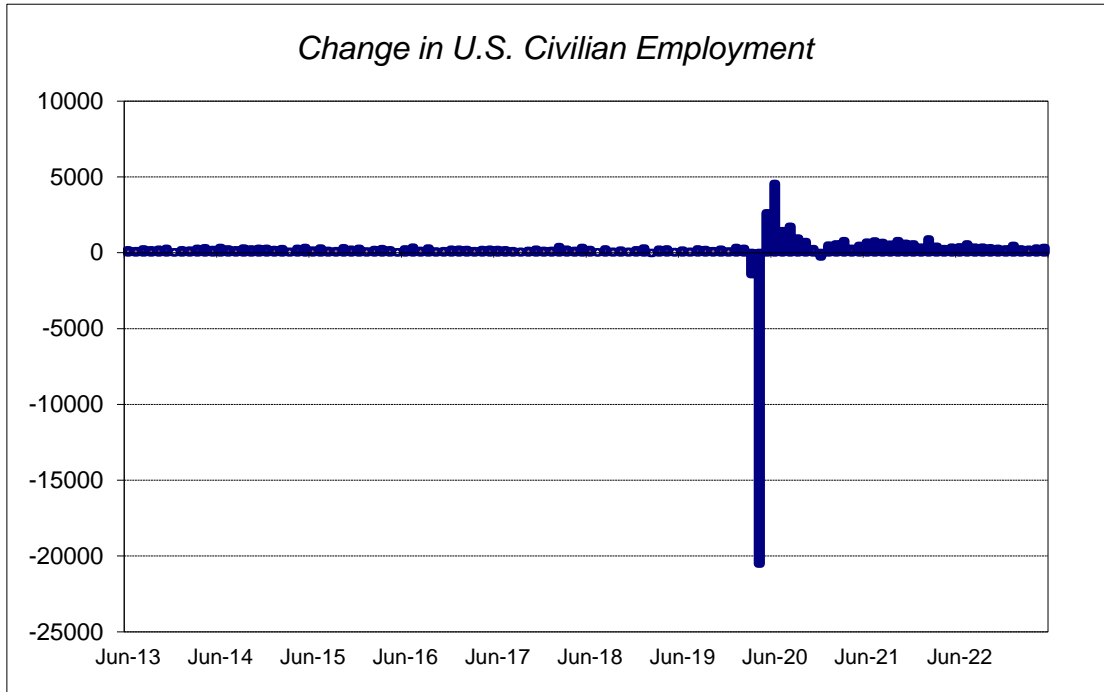
Source: The Conference Board



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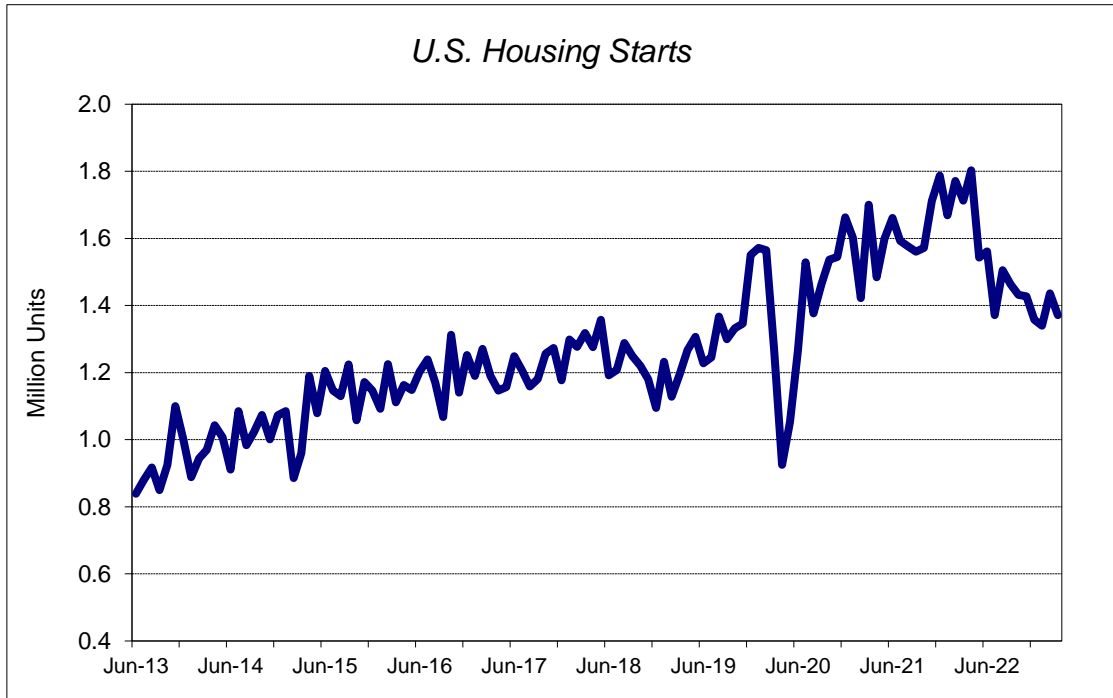
Source: Bureau of Labor Statistics



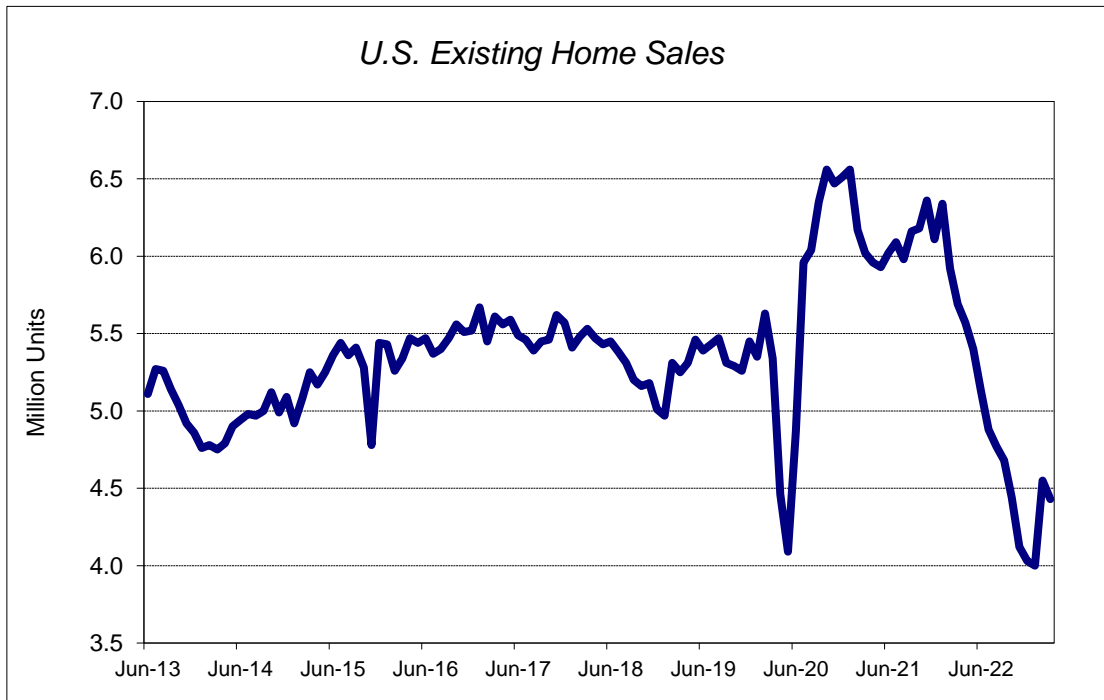
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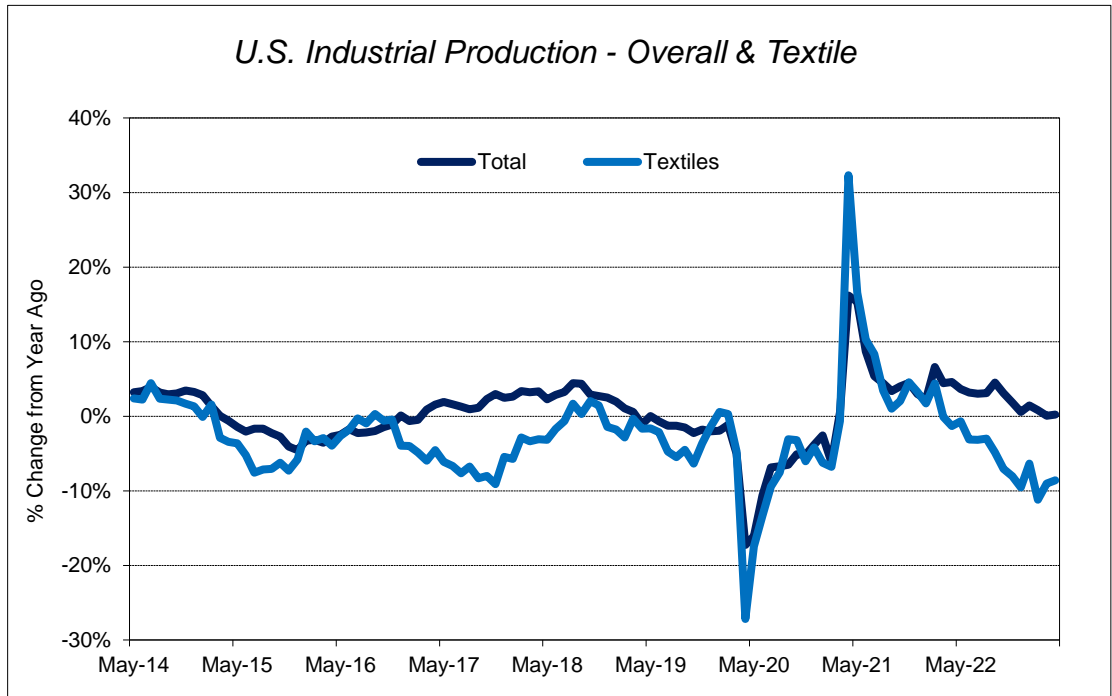
Seasonally Adjusted Annual Rate; Source: Department of Commerce



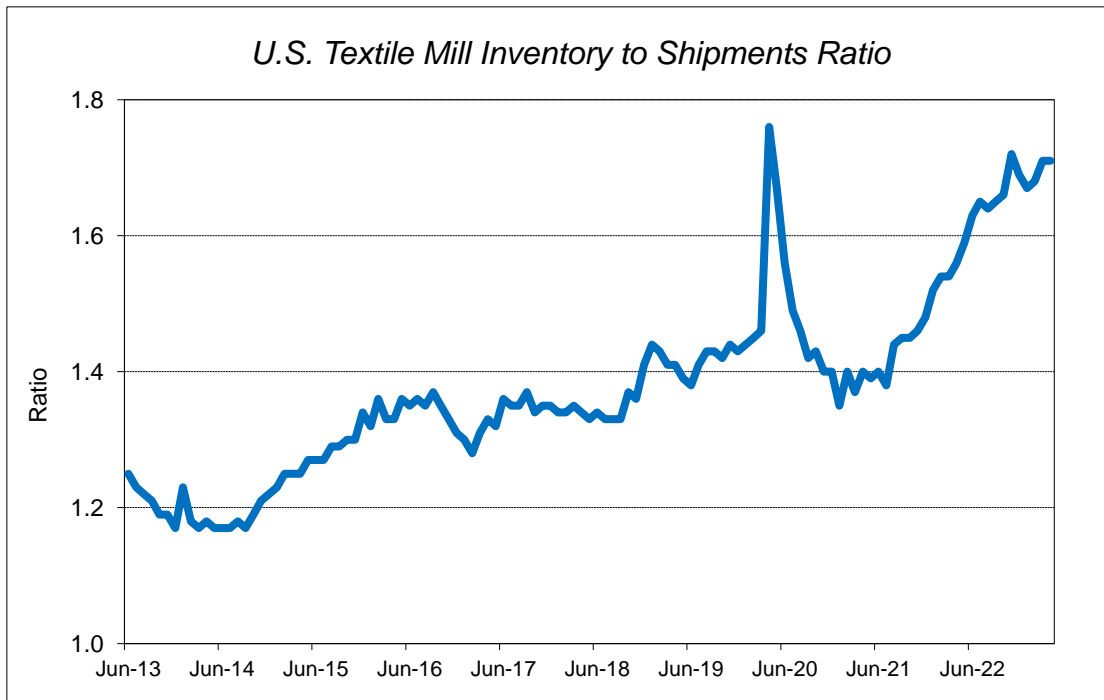
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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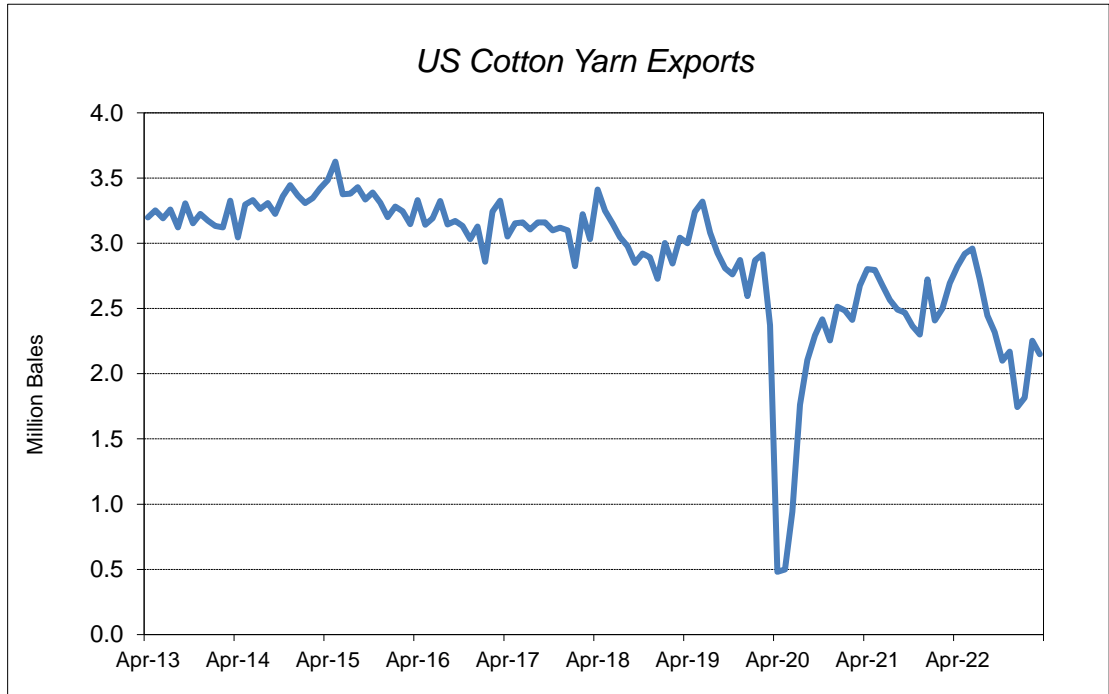
Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

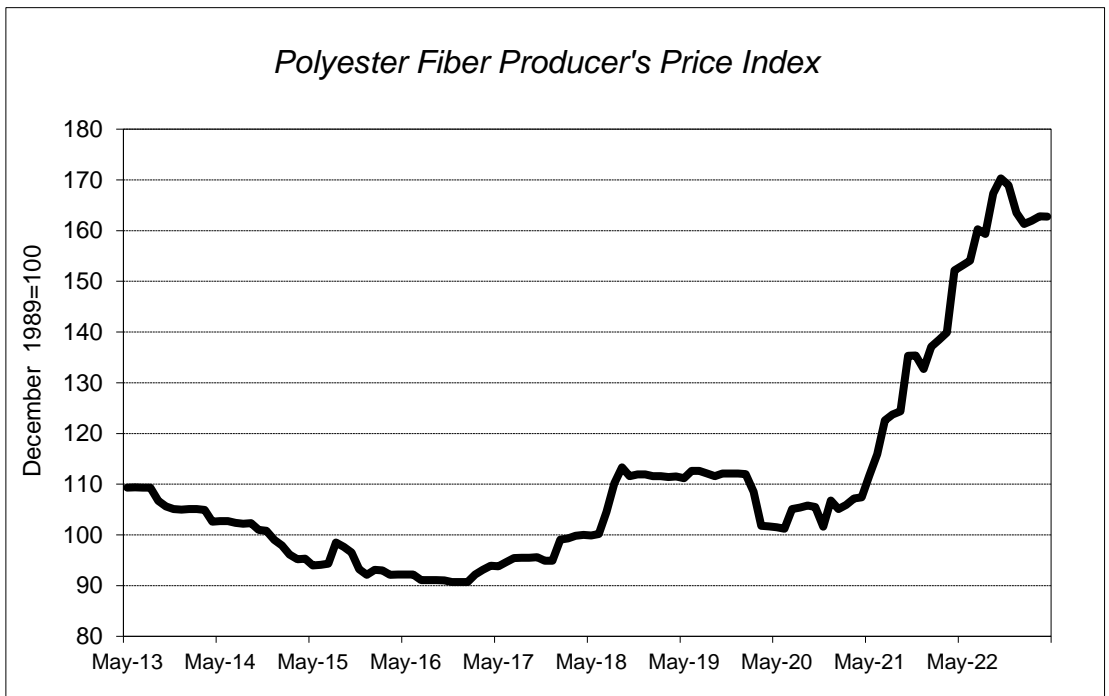
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Seasonally Adjusted Annual Rate

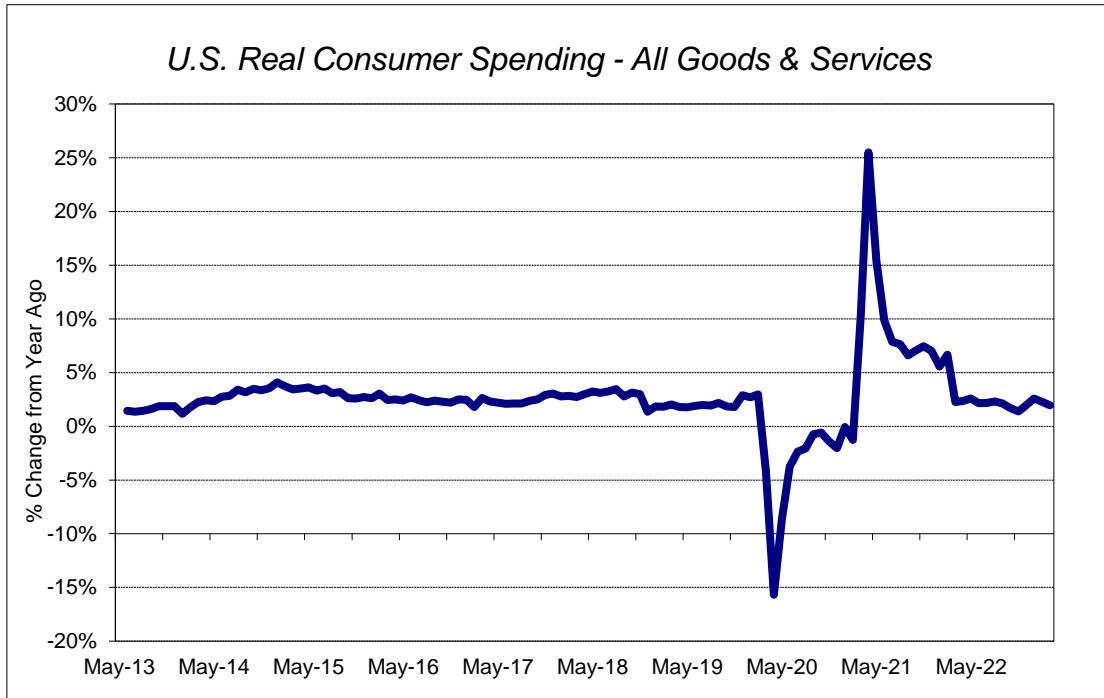
Source: USDA ERS



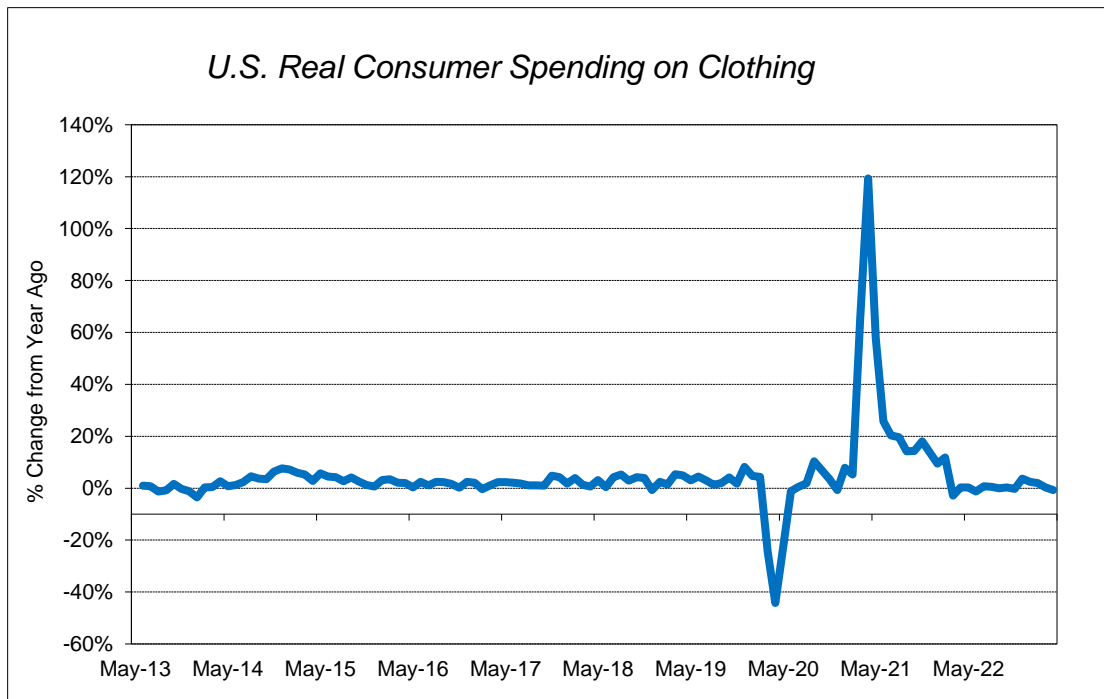
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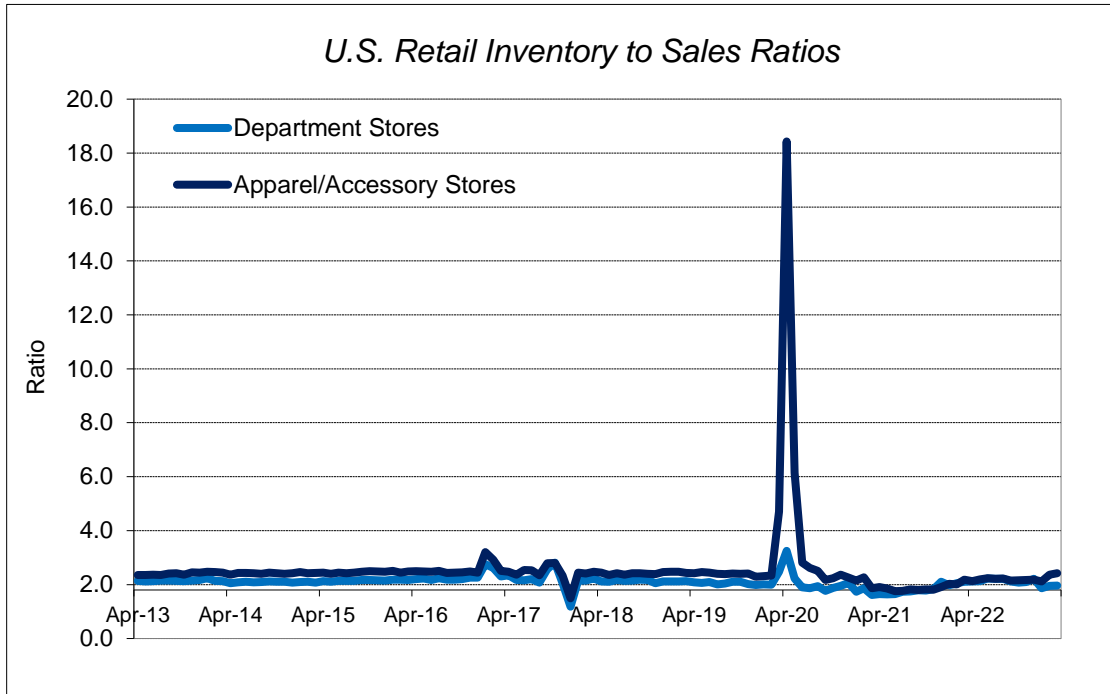
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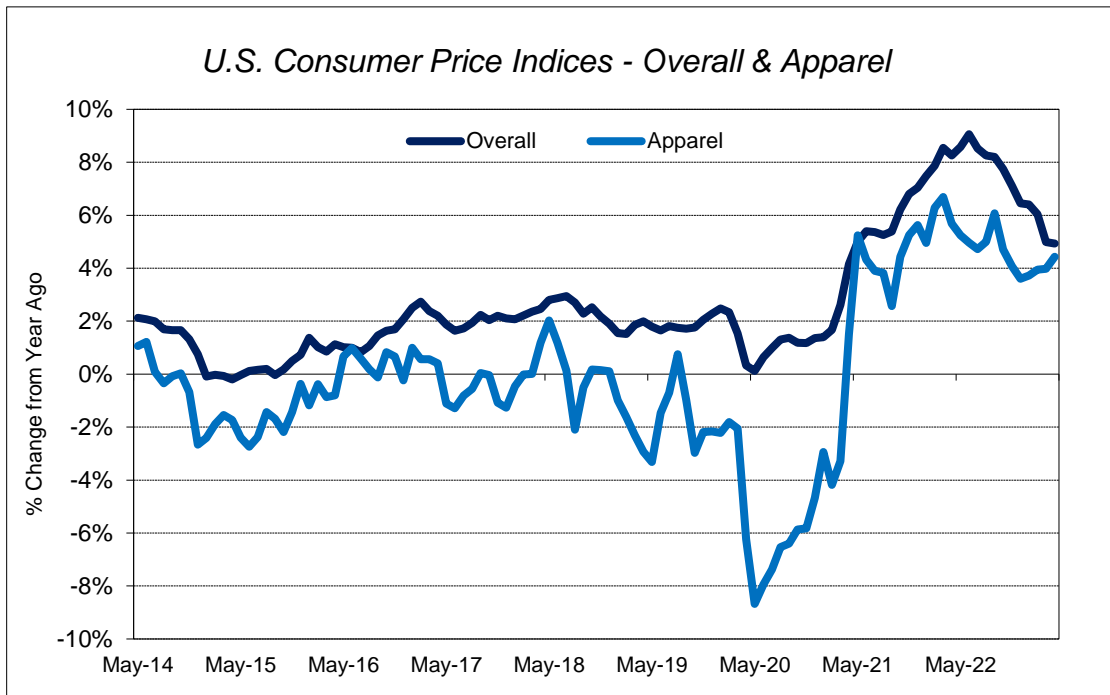
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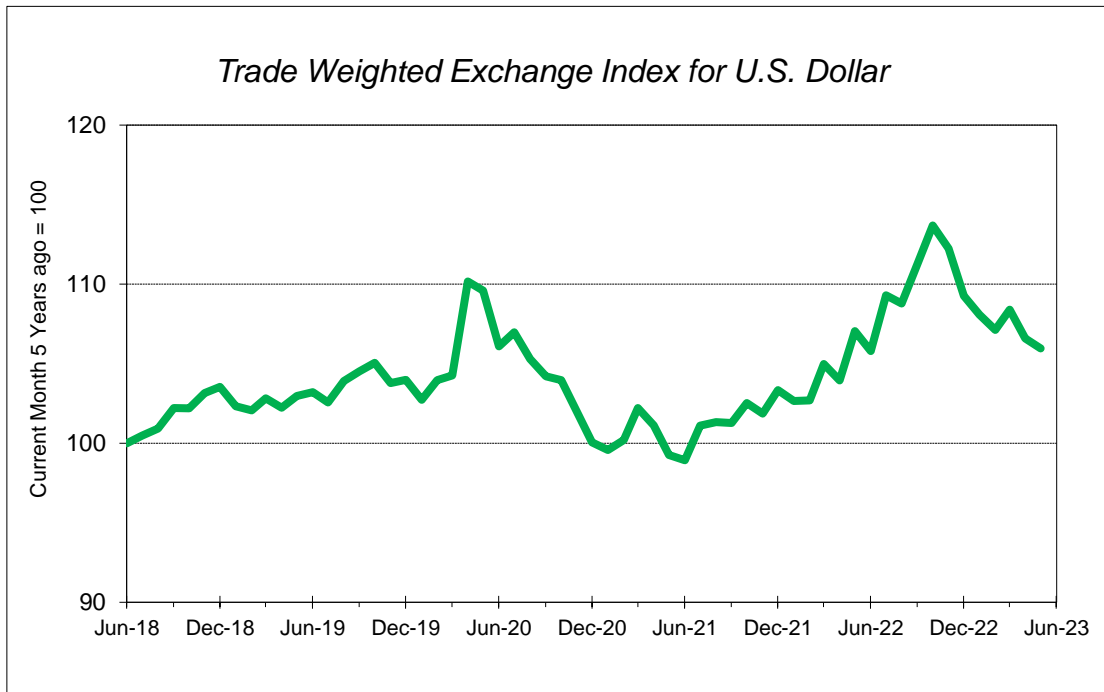
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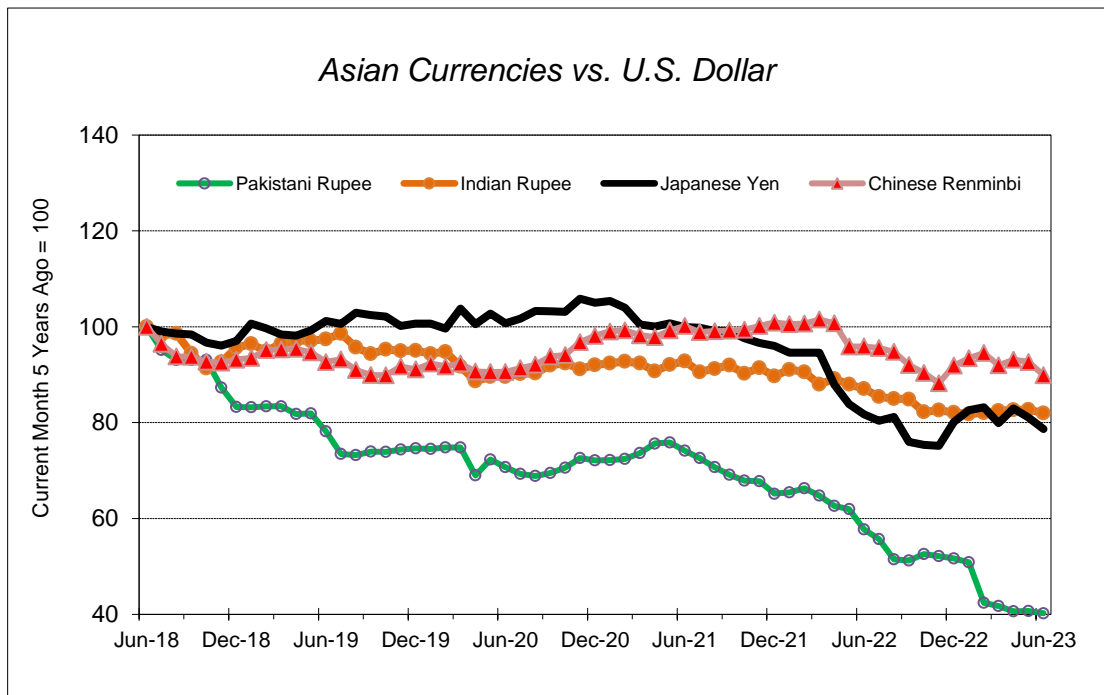
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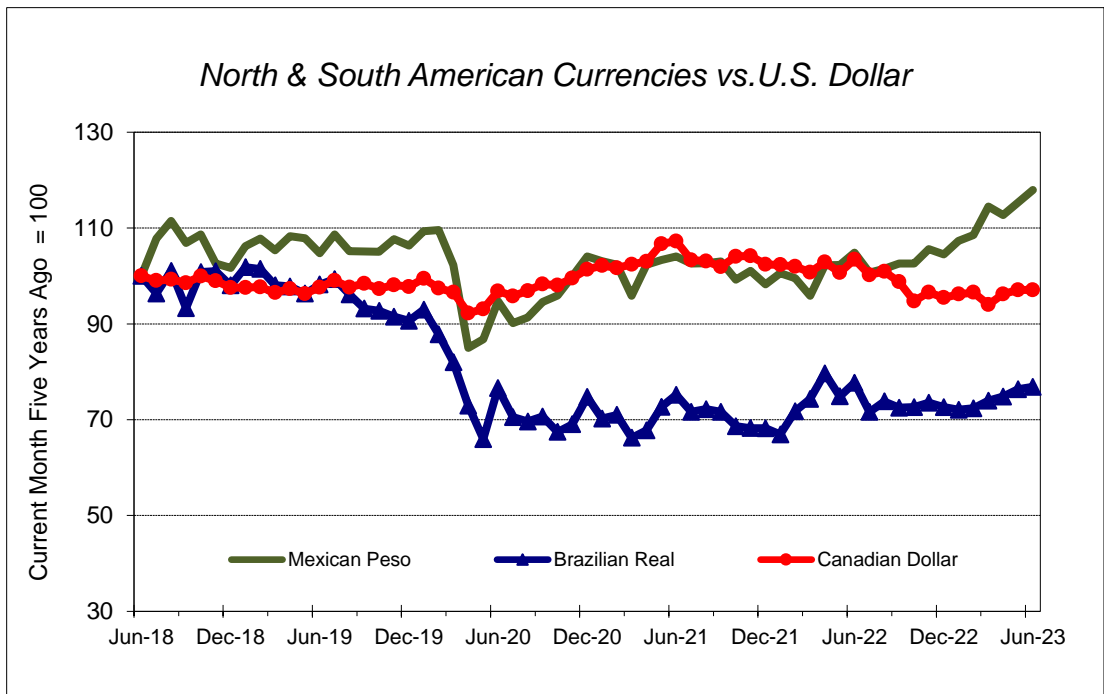
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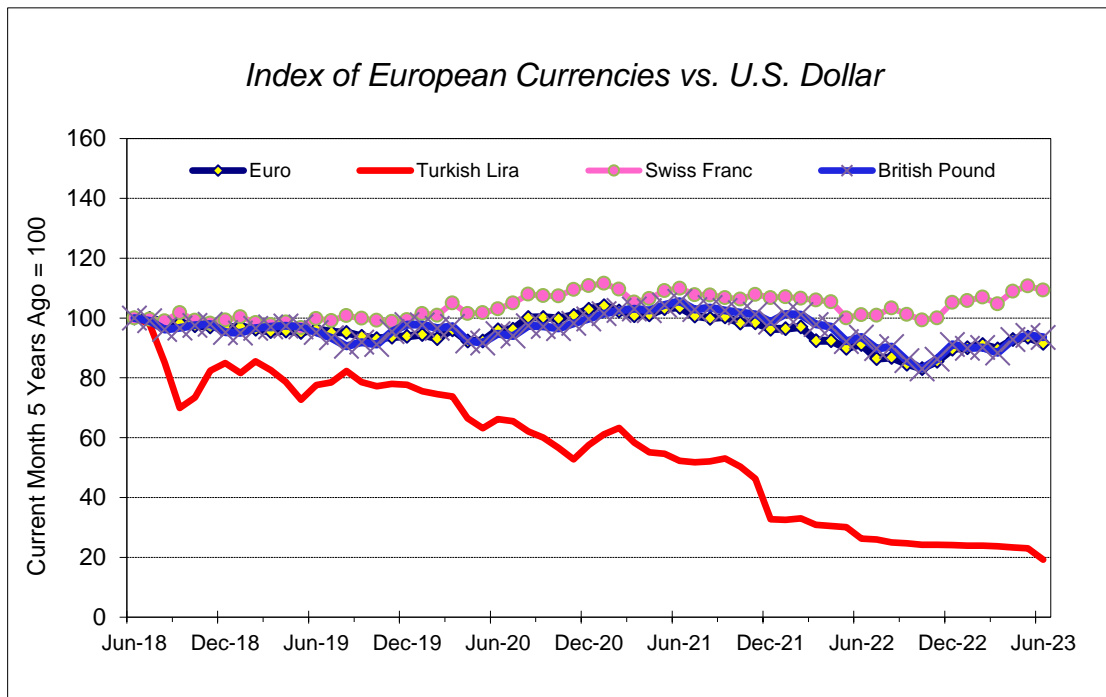
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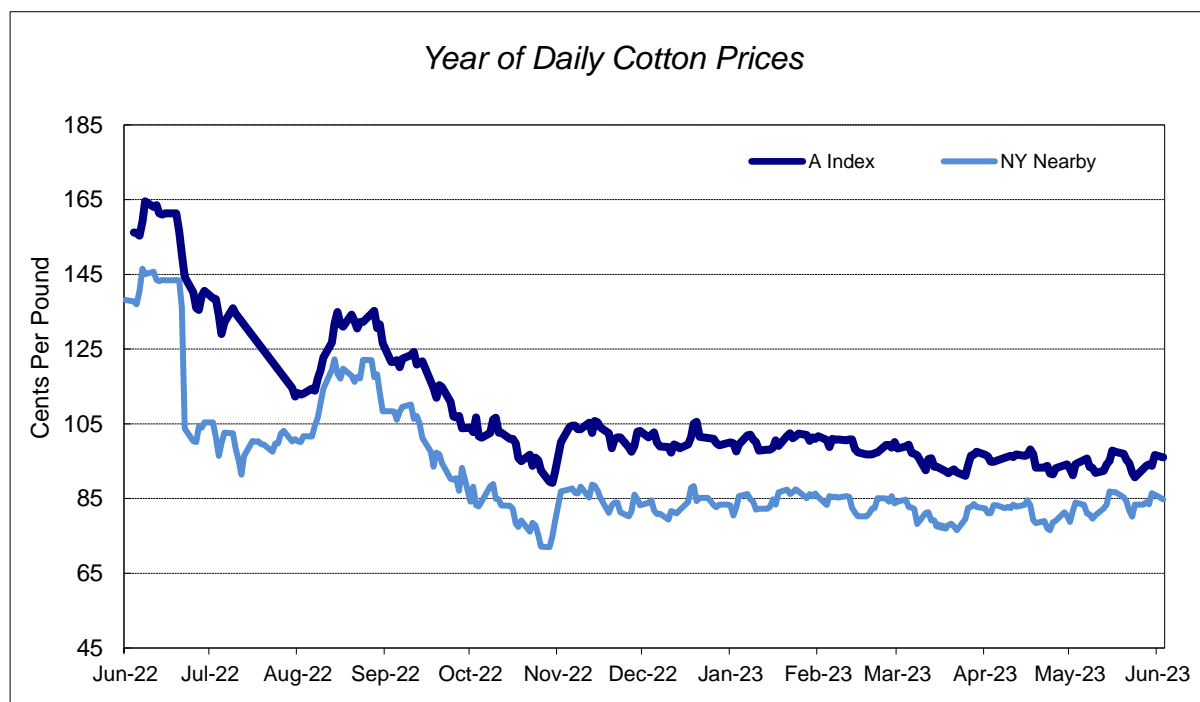
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U.S. Balance Sheet

million 480 lb. bales	2019/20	2020/21	2021/22	2022/23	2023/24 May	2023/24 June
Beginning Stocks	4.9	7.3	3.2	3.8	3.5	3.2
Production	19.9	14.6	17.5	14.5	15.5	16.5
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	24.8	21.9	20.7	18.2	19.0	19.7
Mill-Use	2.2	2.4	2.6	2.0	2.2	2.2
Exports	15.5	16.4	14.6	13.0	13.5	14.0
Demand	17.7	18.8	17.2	15.0	15.7	16.2
Ending Stocks	7.3	3.2	3.8	3.2	3.3	3.5
Stocks/Use Ratio	41.0%	16.8%	21.8%	21.3%	21.0%	21.6%



Sources: ICE Futures U.S. & Cotton Outlook

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