

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



February 2024

www.cottoninc.com

Macroeconomic Overview: The U.S. economy defied expectations of a recession in 2023. Instead, growth proved not only resilient but robust, especially in the second half of the year. The latest estimates indicate real U.S. GDP expanded at a +4.8% rate in the third quarter and a +3.3% rate in the fourth quarter. In annual data, the U.S. economy is estimated to have grown +2.3% in 2023, representing an acceleration from the +1.9% rate posted in 2022.

The reason for widespread expectations of a recession was the sharp rise in interest rates that began in March 2022. From levels near zero, the Federal Reserve lifted their rates to the current effective values between 5.25% and 5.50%. Other recent recessions were preceded by smaller increases (e.g., rates increased four percentage points ahead of the financial crisis and rates increased only a point and a half ahead of the dot-com crash).

In 2024, it is expected that the Federal Reserve will lower interest rates. A halt to rate increases is a positive for growth because the headwind will stop getting stronger. However, while less pressure on the economic brakes will be helpful, rates are not expected to drop to levels that could be considered stimulative.

To explain, there is a concept referred to as the neutral interest rate. Above that level, interest rates are considered to slow growth. Below that level, rates are considered to stimulate growth. A task for officials at the Federal Reserve is to estimate where that neutral rate might be and then set rates at levels to meet policy objectives (e.g., tame inflation). Recent estimates from members of the Open Market Committee (the group within the central bank that makes interest rate decisions) suggest the neutral rate is near 2.5%. If that is a reasonable estimate, and if the central bank lowers interest rates to forecasted levels near 4.5%, rates will still be well above the neutral value. This implies that the economic brakes will still be on, just that they will not be pushed down quite as hard.

While interest rates may remain a (slightly weaker) headwind for growth, there are also tailwinds. The labor market, in particular, has proven strong. Unemployment continues to hold below four percent, which is a level only rarely experienced in modern U.S. history. The tight job market has supported wages. Since May 2023, wage growth has outpaced the rate of inflation, which implies greater spending power. Consumer confidence has been moving higher, and improved spending power paired with rising confidence can support consumer spending.

As a result, there is a swirl of economic influences in the new year. Interest rates can be expected to remain a drag, even if they shift a little lower. Meanwhile, the labor market and consumer spending can be expected to contribute to economic growth. The International Monetary Fund (IMF) released an updated set of forecasts for economies around the world at the end of January. Its estimate for U.S. growth in 2023 is 2.5%, and the projections for 2024 and 2025 are 2.1% and 1.7%. Global growth is estimated at 3.1% in 2023, and projections for the world in 2024 and 2025 are 3.1% and 3.2%.

Employment: The U.S. economy is estimated to have added +353,000 new jobs in January. Revisions to previous months were positive, with the figure for November rising +9,000 to +182,000 and the figure for December rising +117,000 to +333,000. The current twelve-month average is +225,000.

The unemployment rate was unchanged month-over-month at 3.7% and remains at a historically low level. Wages increased +4.5% year-over-year in January. Wage growth has been trending downward since the post-stimulus peak of +5.9% was recorded in March 2022. However, last month, wage growth accelerated slightly and reached the highest annual rate since September.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence increased sharply for a second consecutive month in January, rising +6.8 points to 114.8. This followed a +7.0 point gain in December. The current value is the highest since the second half of 2021. The Conference Board attributed the improvement in attitudes to slower inflation, expected decreases in interest rates, and a persistently strong labor market.

In inflation-adjusted terms, overall consumer spending increased +0.5% month-over-month in December. Year-over-year, overall spending was +3.2% higher. This was the strongest annual rate of increase since early 2022, when stimulus and recovery from COVID were driving growth. After increasing rapidly in November (+2.0%), consumer spending on apparel built further on those gains in December (+1.6). Year-over-year, spending on clothing was +2.2% in November and +3.4% in December. The increases contrasted with the year-over-year decreases registered each month between March to December 2023.

Consumer Prices & Import Data: Following a significant -1.5% month-over-month decrease in November, the CPI for garments increased +0.2% in December. Year-over-year, retail apparel prices were +1.1% higher, which represents the lowest annual rate of price increase since prices began to recover after COVID.

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
February 2024



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q2 : 2023	Q3 : 2023	Q4 : 2023		
Growth in US Real GDP	2.6%	3.2%	3.5%	4.9%	2.1%	4.9%	3.3%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic Series with Latest Data for January

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	January		
ISM Index of Manufacturing Activity	52.9	47.2	47.7	47.6	46.6	47.1	49.1	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.2	52.6	52.6	52.1	52.5	50.5	53.4	Index	Institute for Supply Management
Consumer Confidence	110.3	106.1	106.0	107.9	101.0	108.0	114.8	Index	The Conference Board
Change in Non-Farm Payrolls	127.3	243.9	248.2	289.3	182	333	353	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.9%	3.7%	3.8%	3.7%	3.7%	3.7%	3.7%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.9%	5.1%	5.3%	5.3%	5.3%	5.3%	5.3%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	4.0%	4.3%	4.2%	4.5%	4.0%	4.1%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for December

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	December		
Index of Leading Economic Indicators	111.0	105.7	103.9	103.2	103.2	103.2	103.1	Index	The Conference Board
Housing Starts	1.5	1.4	1.4	1.5	1.4	1.5	1.5	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	4.1	3.9	3.8	3.8	3.8	3.8	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile Series with Latest Data for December

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	December		
US Industrial Production	100.4	102.8	102.9	102.5	103.3	102.5	102.5	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	128.6	151.8	150.5	151.2	151.2	151.2	151.2	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile 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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	2.1	2.1	1.9	1.9	2.0	1.9	million 480lb bales	USDA ERS

Industrial & Textile Series with Latest Data for December

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	December		
US Textile Mill Inventory/Shipments Ratio	1.53	1.71	1.70	1.71	1.71	1.71	1.70	Ratio	Department of Commerce

Retail Data

Retail Series with Latest Data for December

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	October	November	December		
US Real Consumer Spending									
All Goods and Services	2.6%	2.2%	2.4%	2.6%	1.9%	2.7%	3.2%	% Chg. Year/Year	Department of Commerce
Clothing	5.9%	0.2%	0.5%	1.5%	-0.9%	2.2%	3.4%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	4.0%	4.1%	3.4%	3.2%	3.2%	3.1%	3.4%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	0.7%	3.4%	2.7%	1.8%	3.0%	1.3%	1.1%	% Chg. Year/Year	Bureau of Labor Statistics

Retail 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		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.6	2.3	2.4	2.4	2.4	2.4	2.3	Ratio	Department of Commerce
Department Stores	2.0	2.0	2.0	2.0	2.0	2.0	2.1	Ratio	Department of Commerce

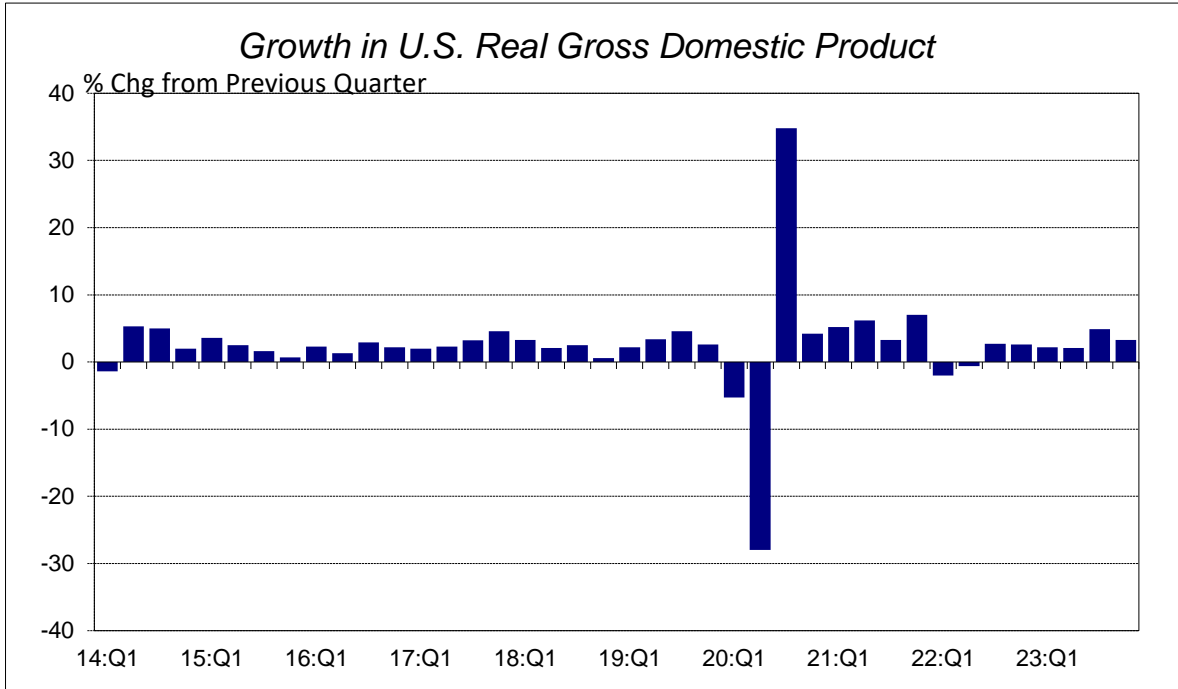
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Daily Cotton Price and Currency Data

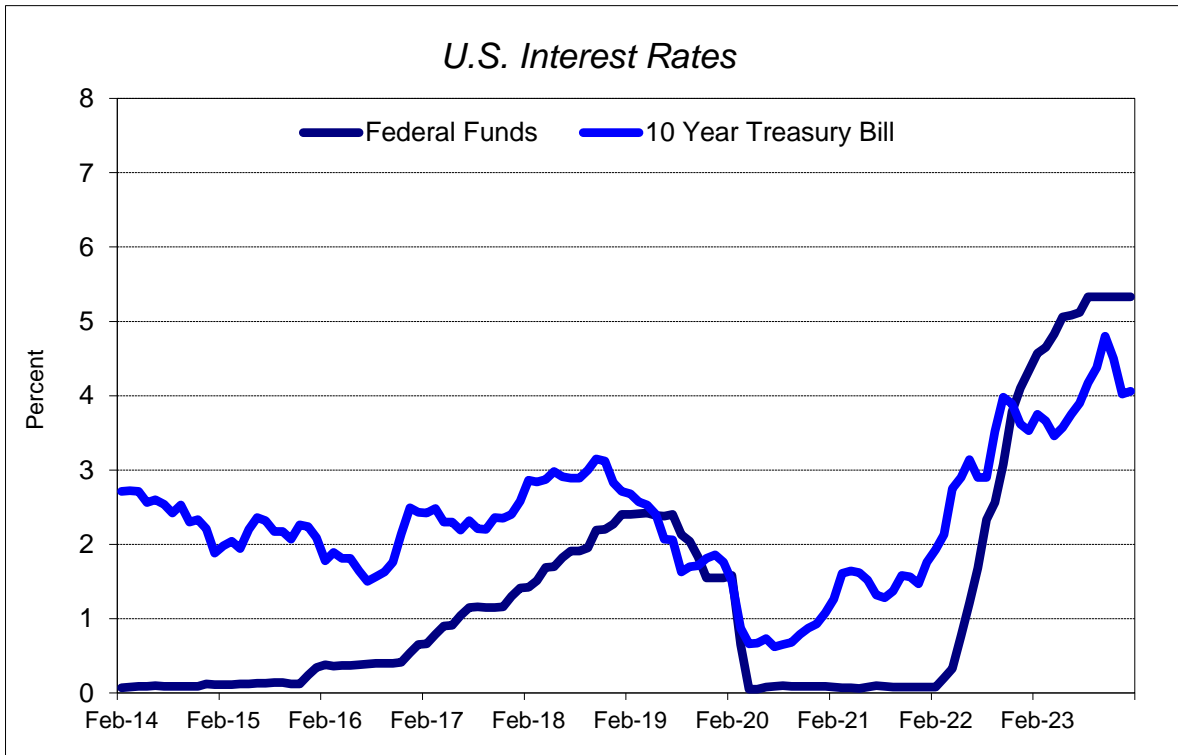
February 2024



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	January		
NY Nearby	84.3	82.9	83.3	80.8	78.4	80.3	82.4	cents/pound	ICE
A Index	94.9	94.4	93.8	91.3	90.5	90.5	92.2	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	January		
Dollar Trade Weighted Exchange Index	117.8	118.5	121.5	121.1	122.5	120.9	119.7	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.82	6.77	7.24	7.20	7.29	7.15	7.16	Chinese Renminbi/US dollar	Reuters
Indian Rupee	76.11	78.63	83.17	83.27	83.27	83.36	83.16	Indian Rupee/US dollar	Reuters
Japanese Yen	119.97	128.18	146.24	146.22	150.50	144.02	144.14	Japanese Yen/US dollar	Reuters
Pakistani Rupee	193.13	217.88	287.35	283.78	285.00	284.18	282.15	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.94	5.18	4.95	4.88	4.87	4.91	4.87	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.30	1.36	1.36	1.38	1.36	1.33	Canadian dollar/US dollar	Reuters
Mexican Peso	19.77	19.37	17.46	17.28	17.52	17.44	16.88	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.78	0.78	0.80	0.80	0.81	0.80	0.78	British Pound/US dollar	Reuters
Euro	0.90	0.91	0.93	0.92	0.94	0.93	0.91	Euro/US dollar	Reuters
Swiss Franc	0.94	0.92	0.88	0.87	0.90	0.88	0.85	Swiss Franc/US dollar	Reuters
Turkish Lira	12.71	16.89	28.12	29.09	28.50	28.92	29.84	Turkish Lira/US dollar	Reuters



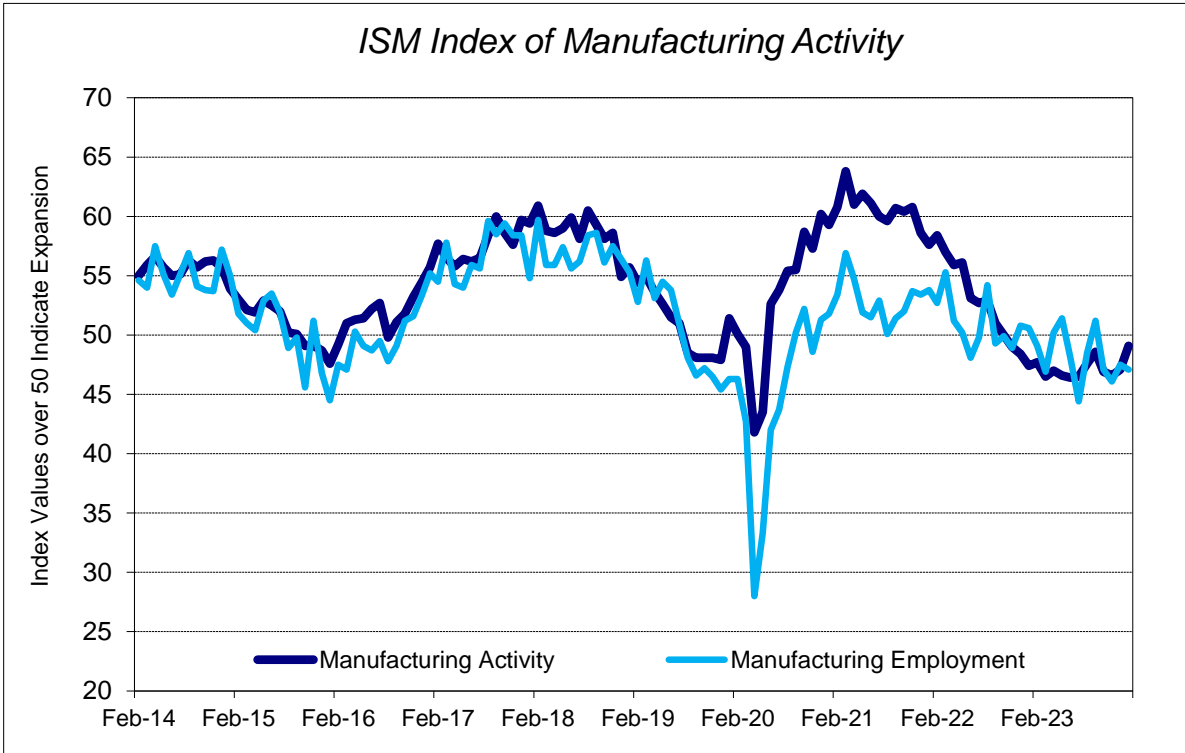
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



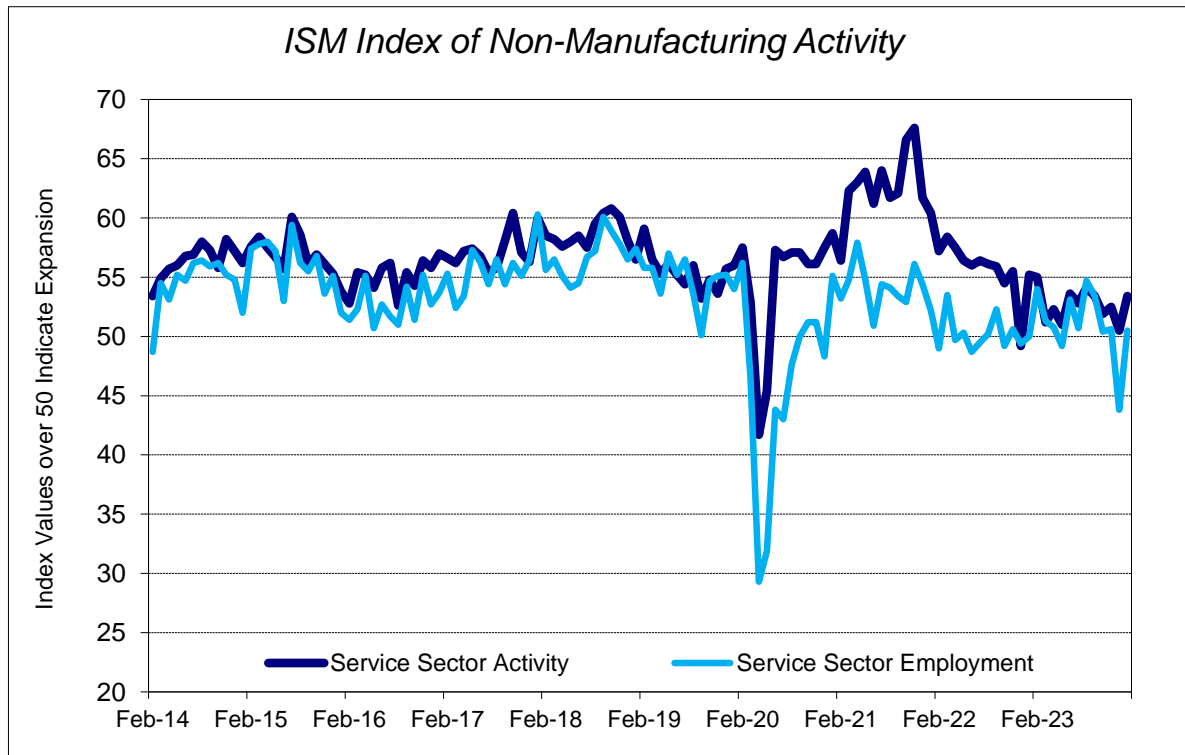
Source: Federal Reserve

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Source: Institute for Supply Chain Management



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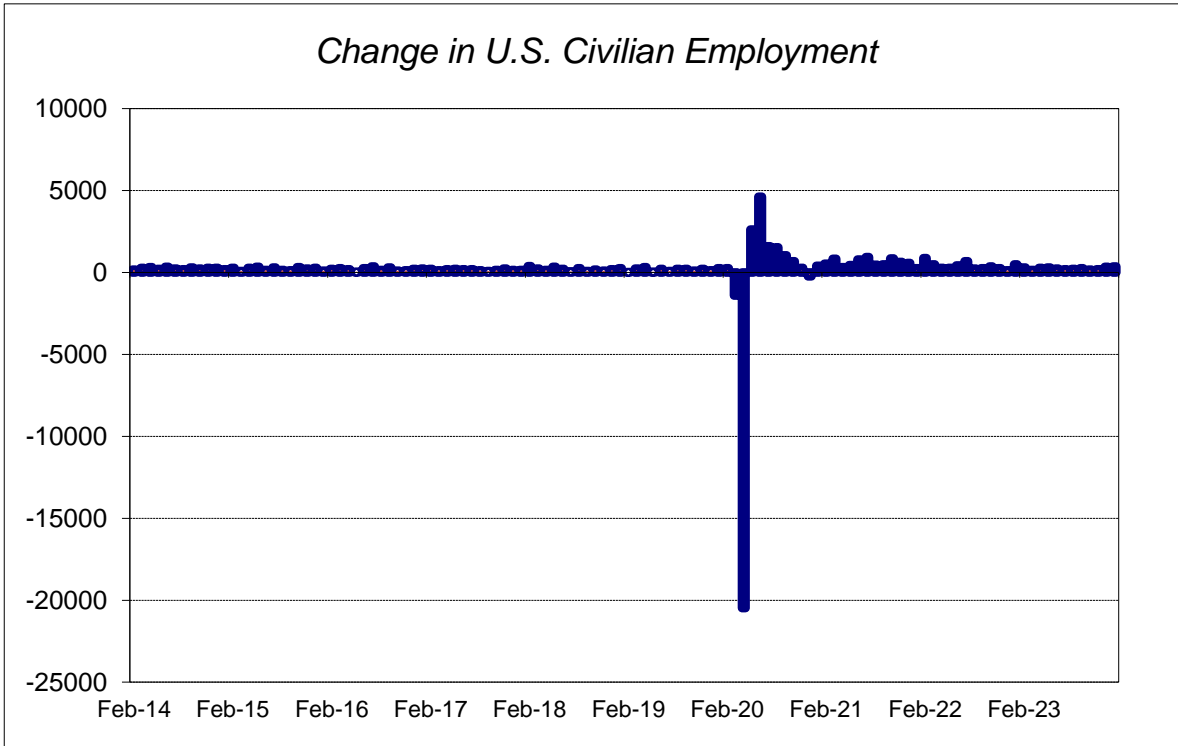
Source: The Conference Board



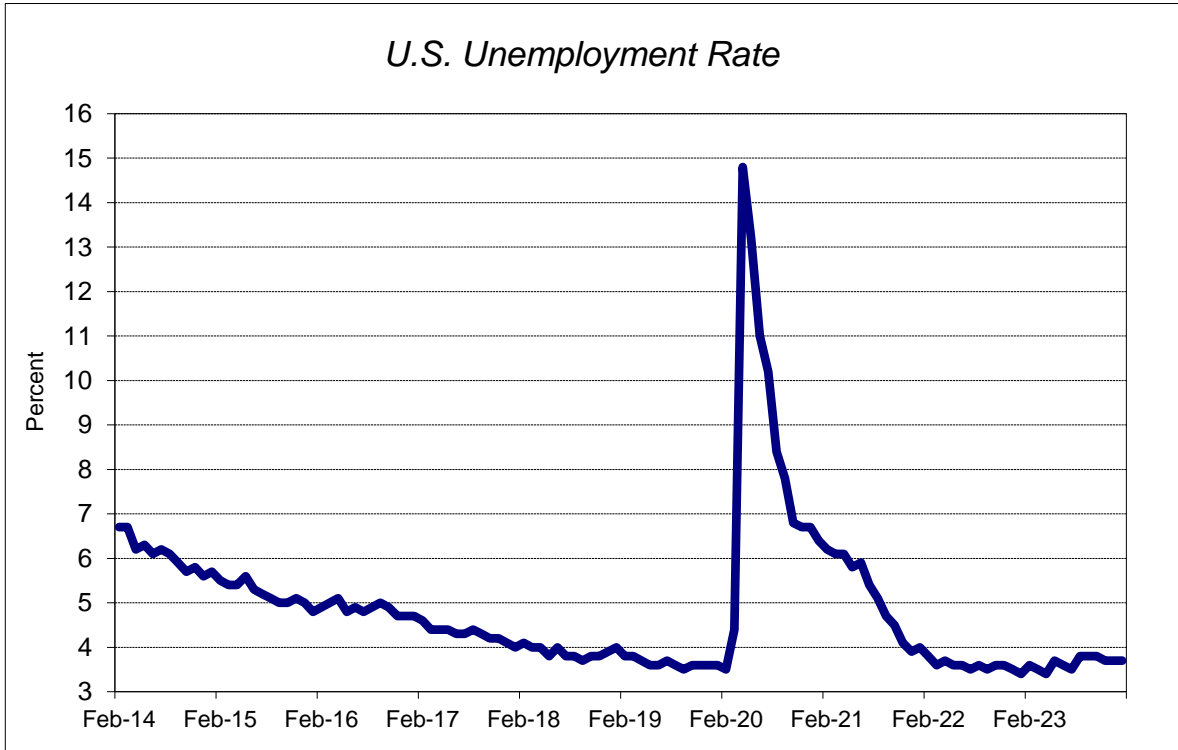
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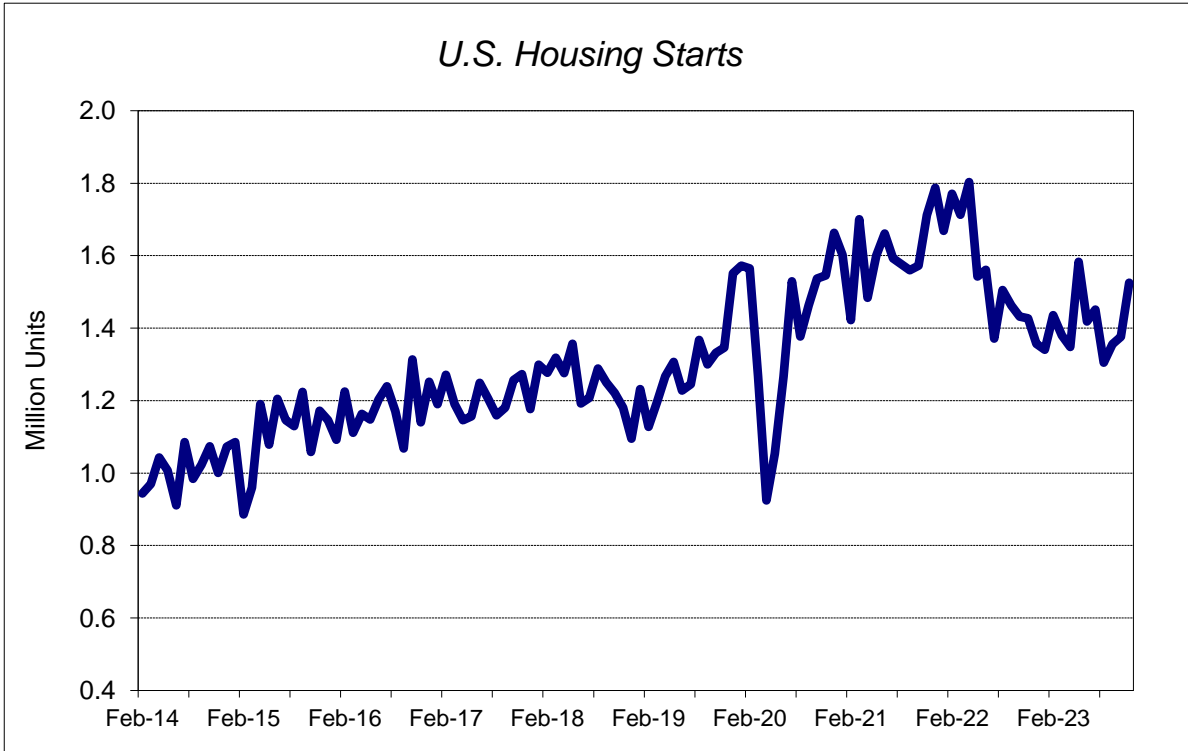
Source: Bureau of Labor Statistics



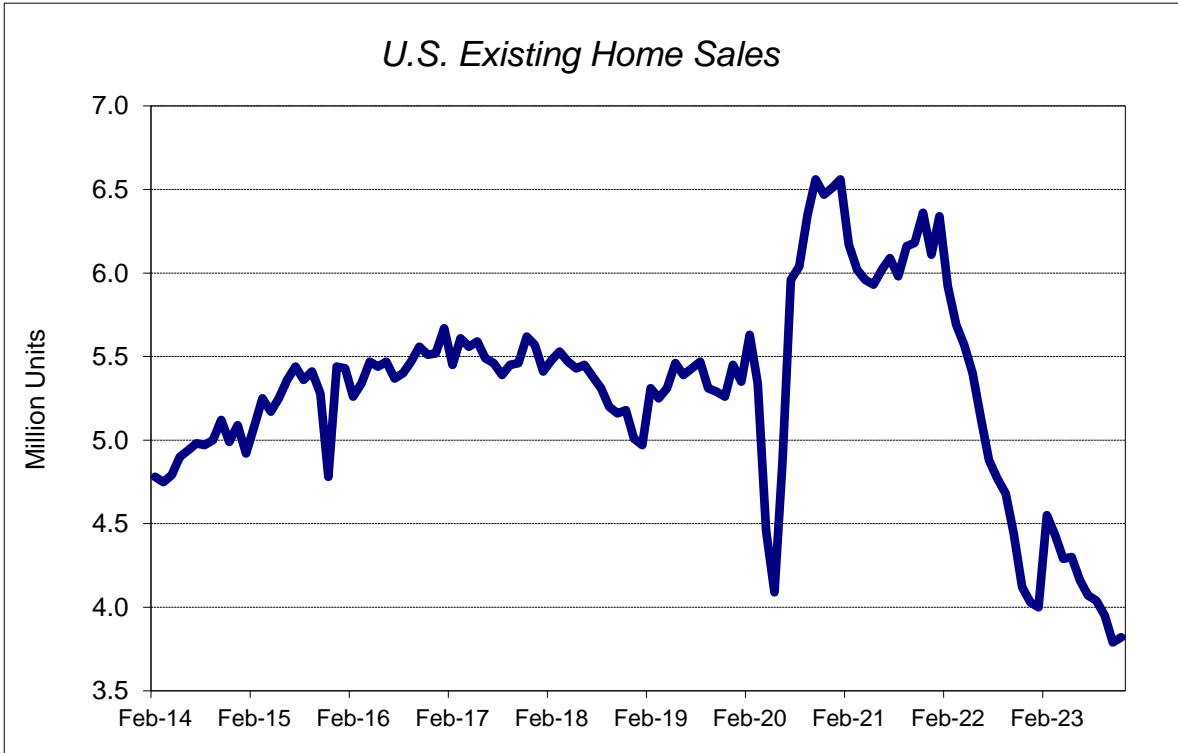
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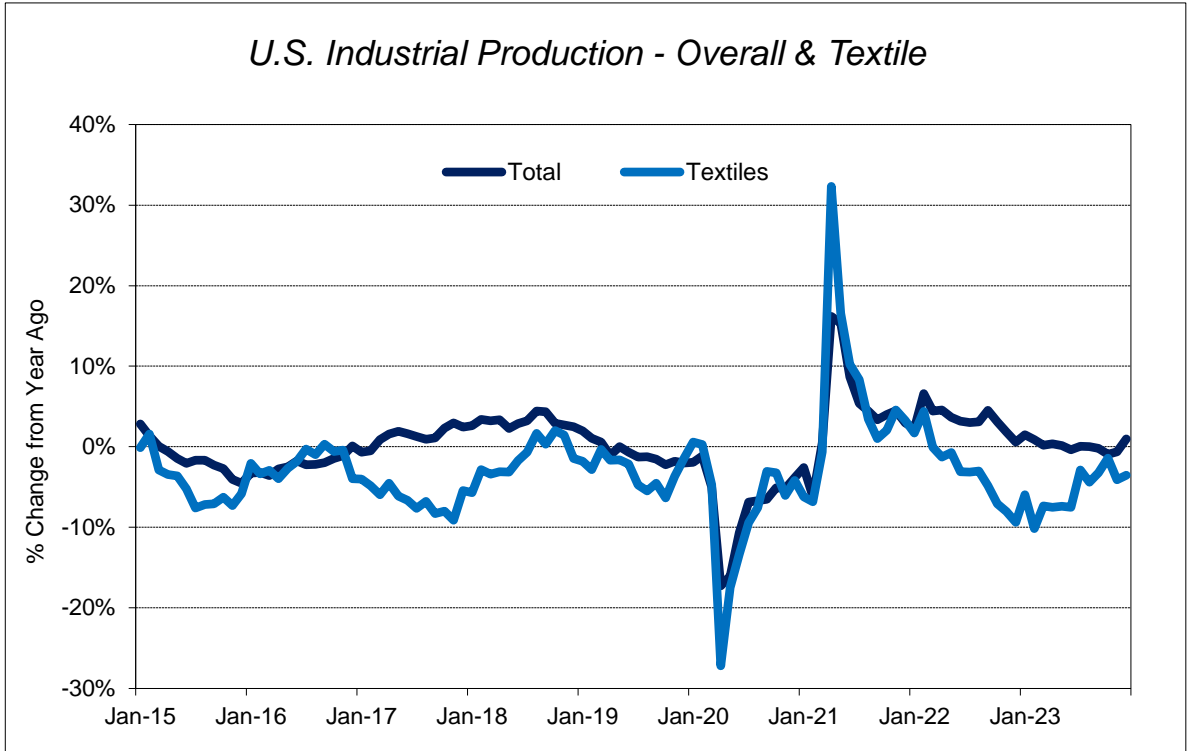
Seasonally Adjusted Annual Rate; Source: Department of Commerce



Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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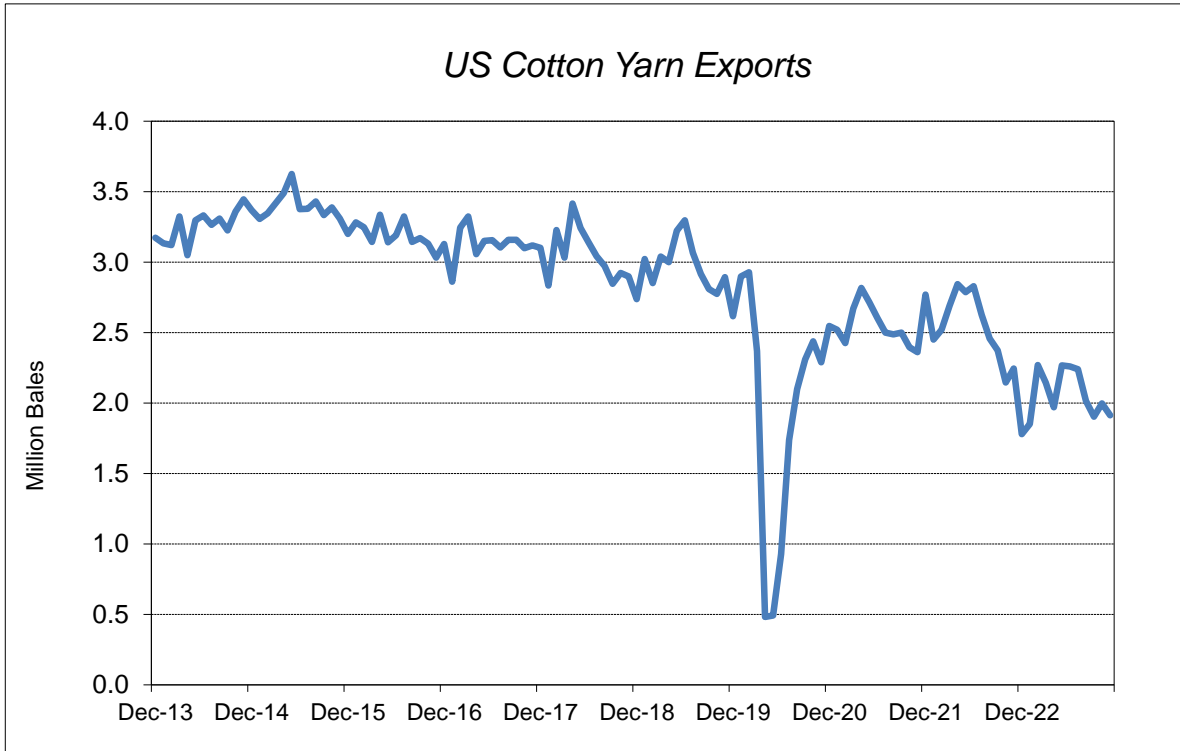
Source: Federal Reserve. Historical data revised to 1997 baseline.



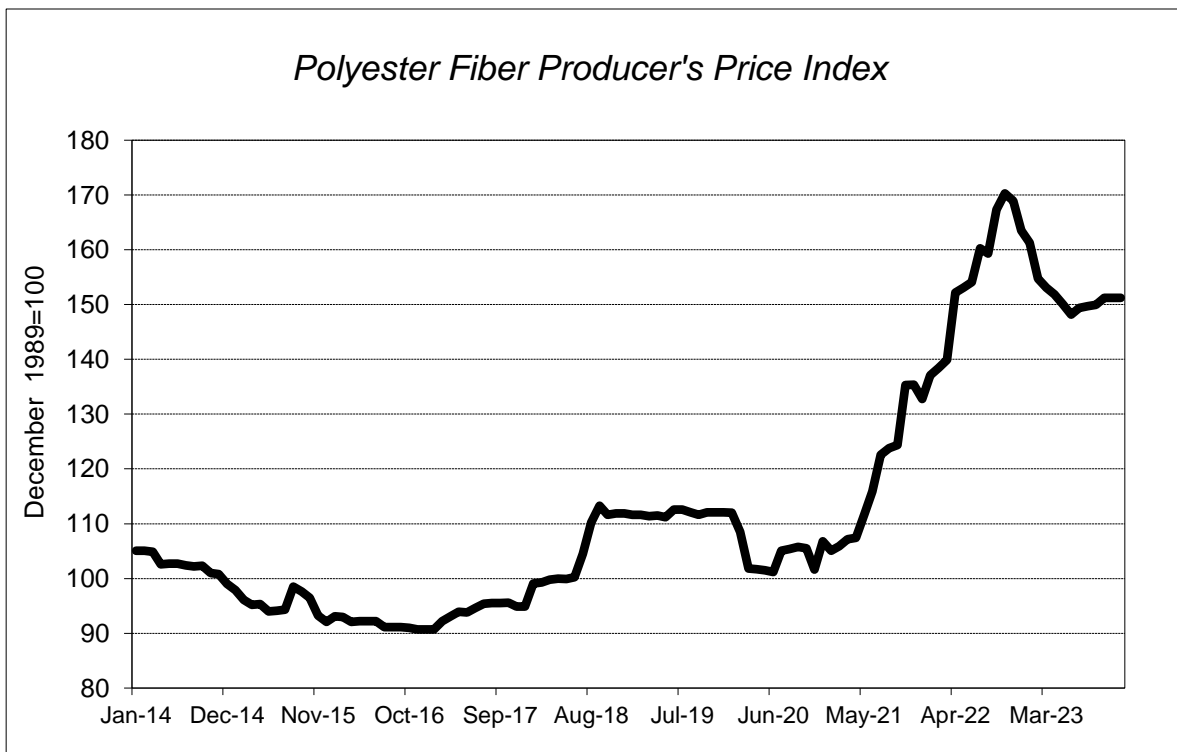
Seasonally Adjusted; Source: Department of Commerce

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Seasonally Adjusted Annual Rate
 Source: USDA ERS

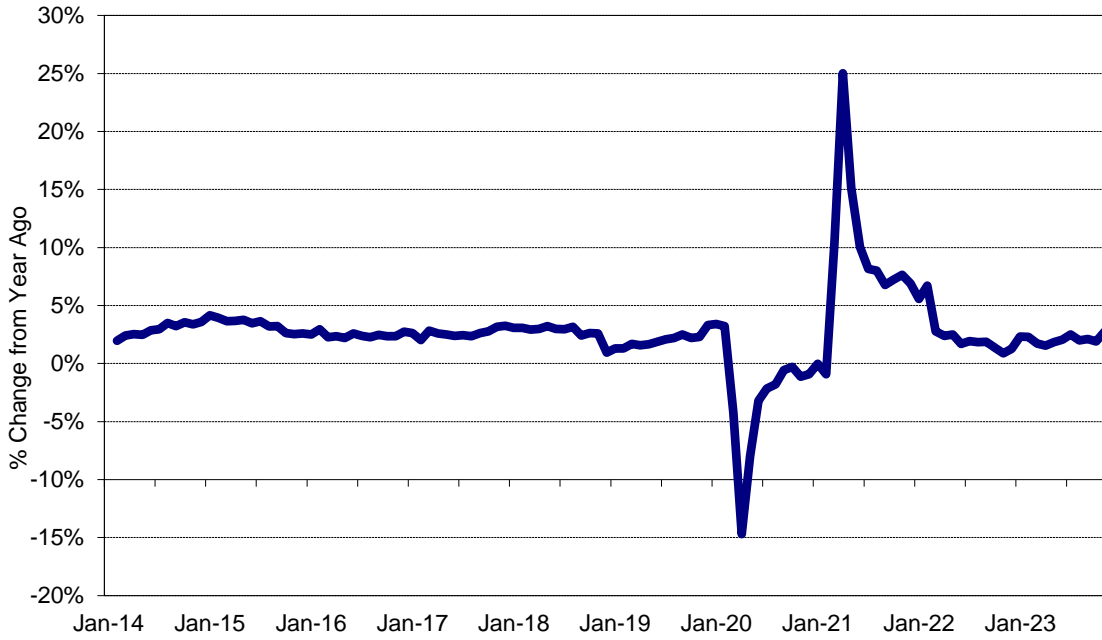


Source: Bureau of Labor Statistics

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U.S. Real Consumer Spending - All Goods & Services



*Based on chained 2005\$.

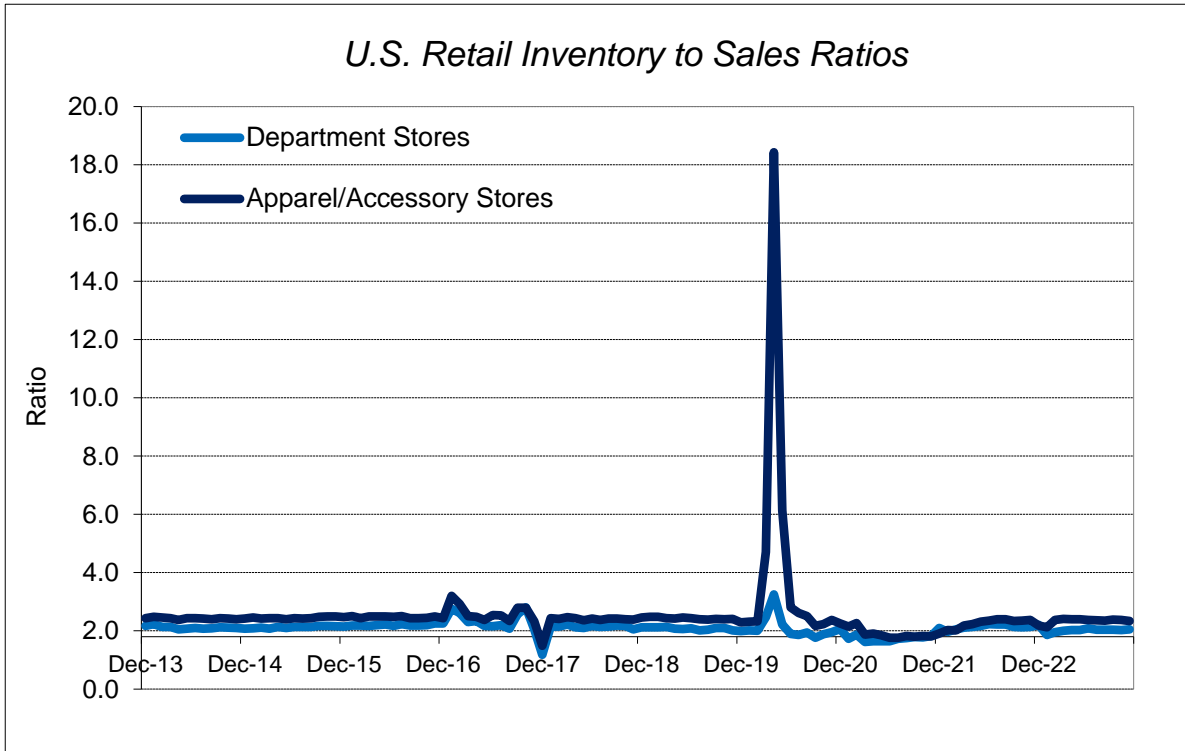
U.S. Real Consumer Spending on Clothing



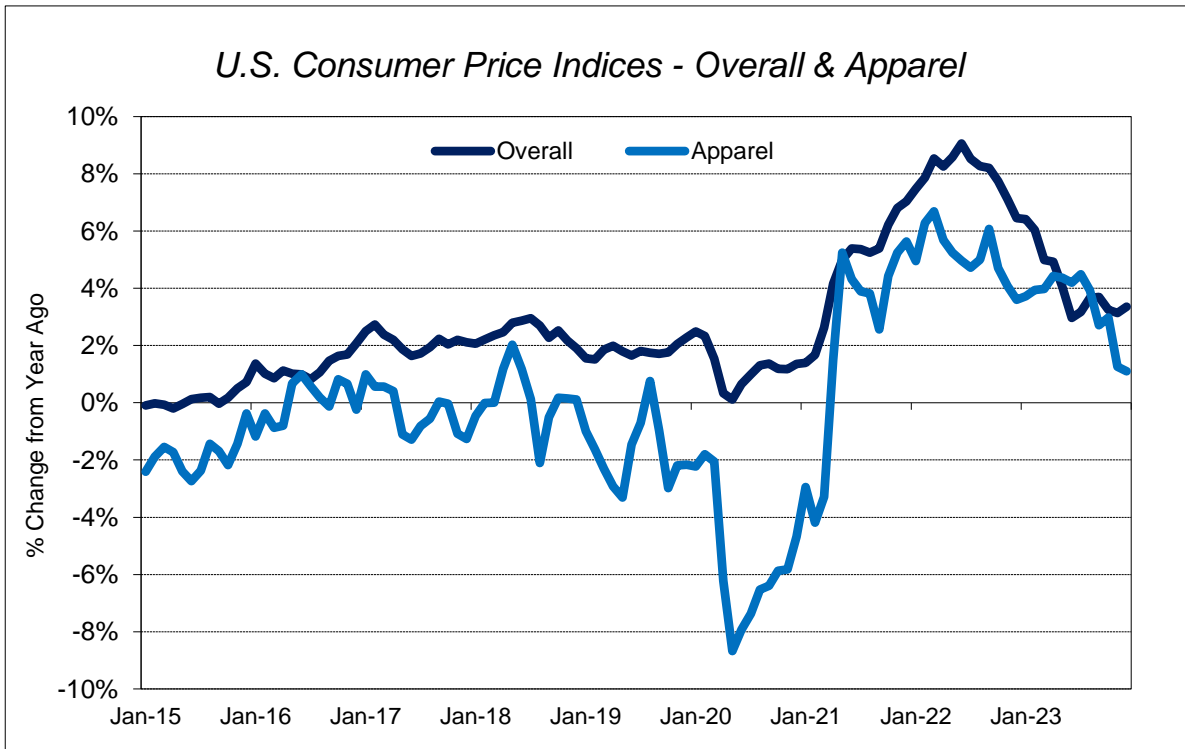
*Based on chained 2005\$.

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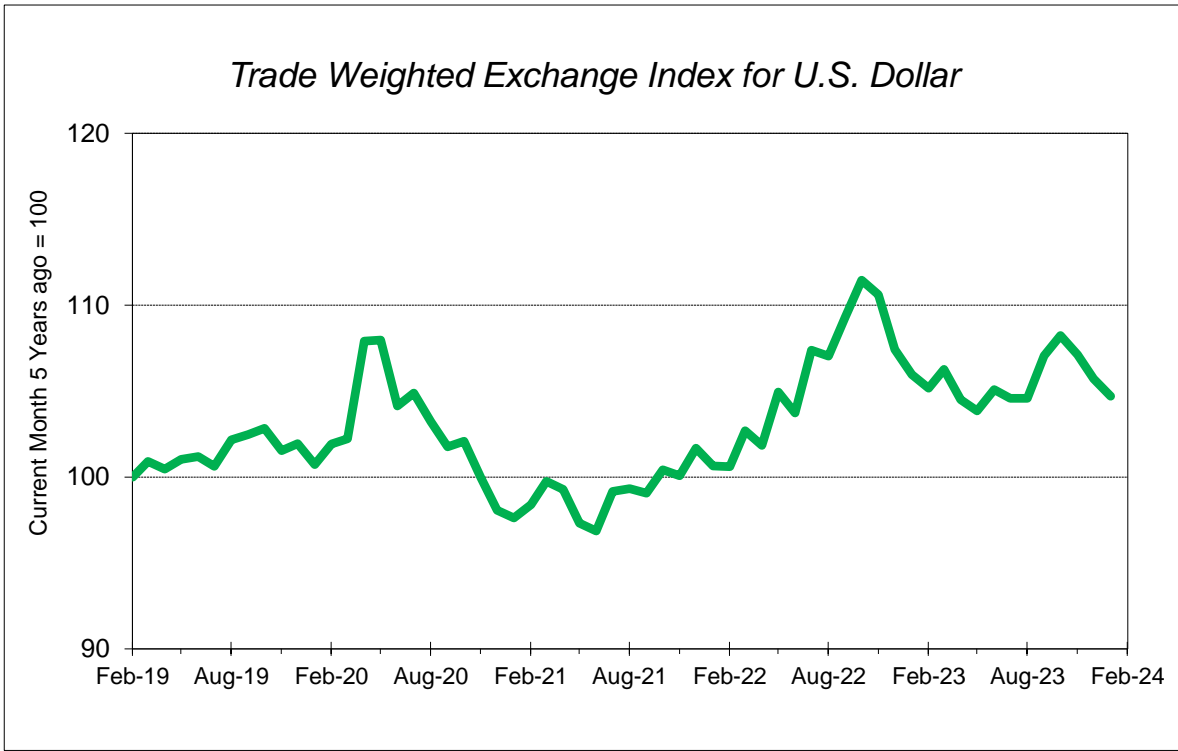
Source: Department of Commerce



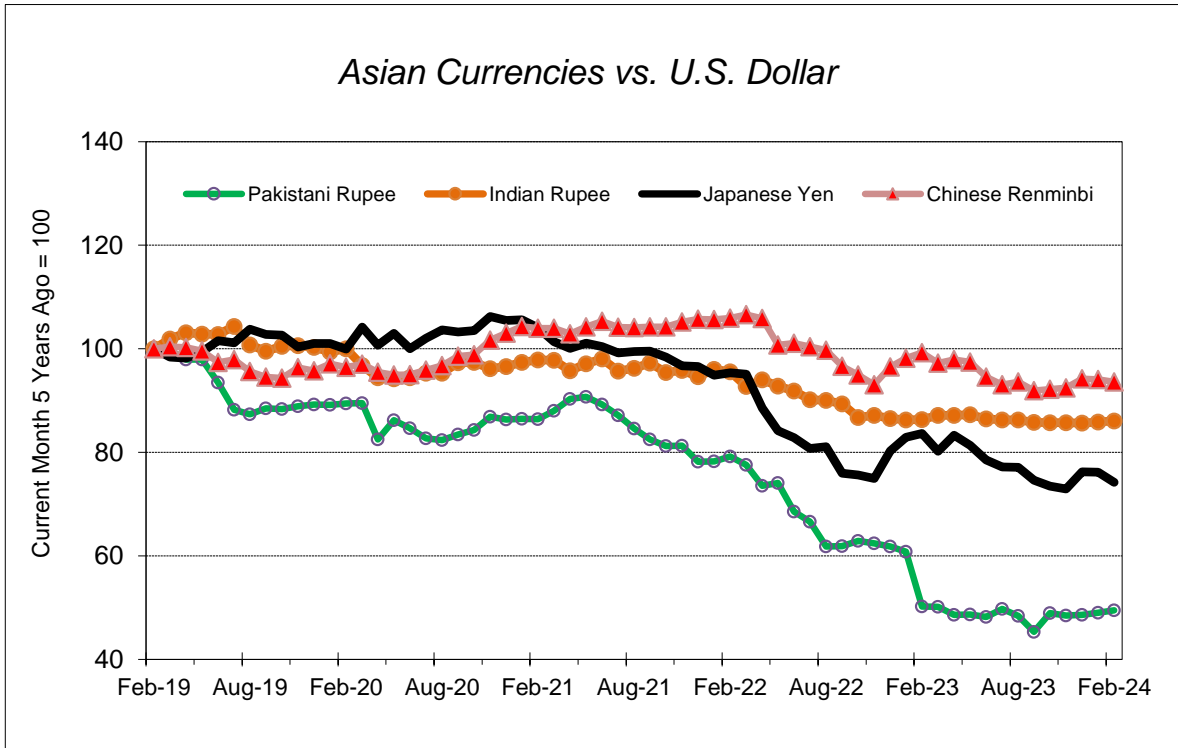
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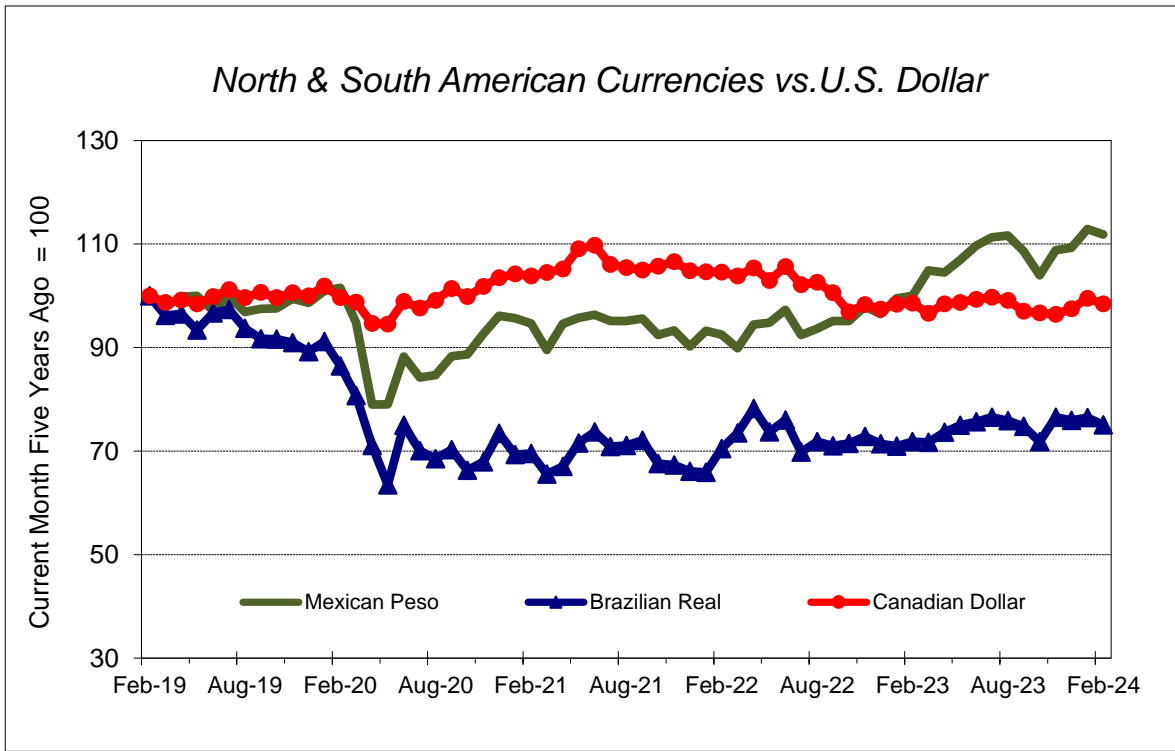
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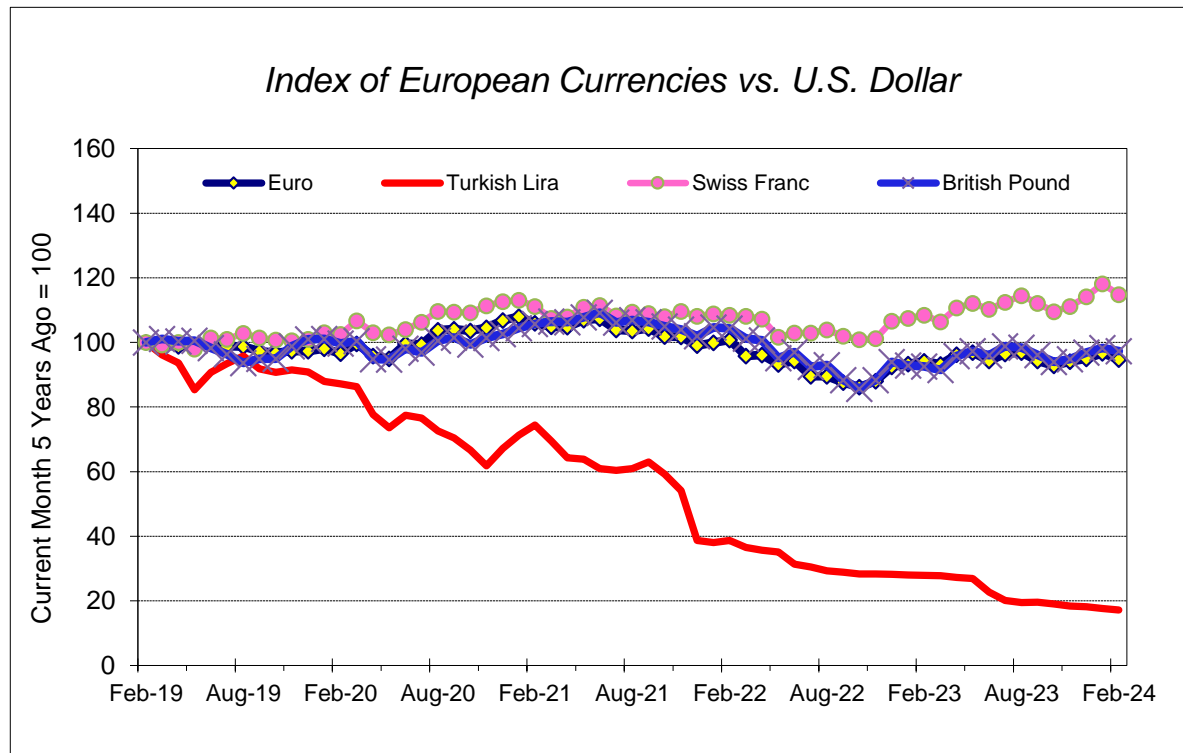
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Source: Reuters



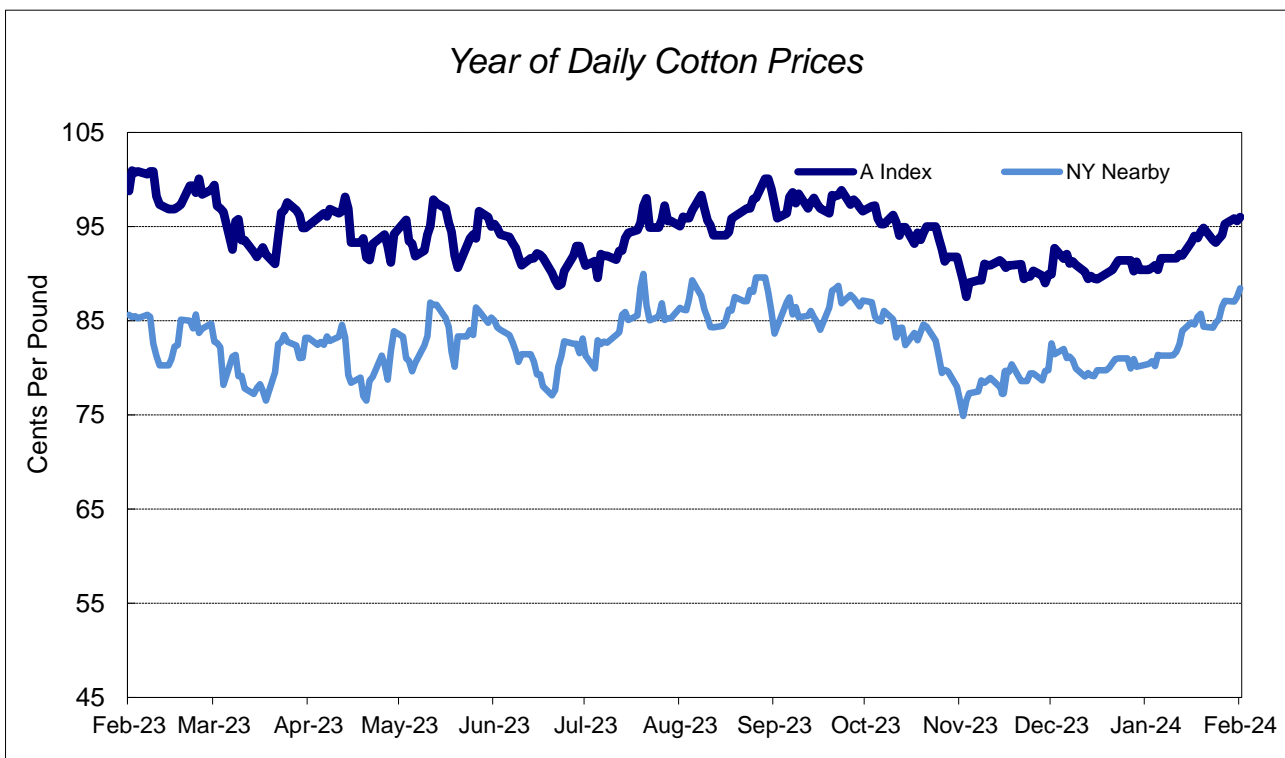
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U.S. Balance Sheet

million 480 lb. bales	2019/20	2020/21	2021/22	2022/23	2023/24 January	2023/24 February
Beginning Stocks	4.9	7.3	3.2	4.1	4.3	4.3
Production	19.9	14.6	17.5	14.5	12.4	12.4
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	24.8	21.9	20.7	18.5	16.7	16.7
Mill-Use	2.2	2.4	2.6	2.1	1.9	1.8
Exports	15.5	16.4	14.5	12.8	12.1	12.3
Demand	17.7	18.8	17.0	14.8	14.0	14.1
Ending Stocks	7.3	3.2	4.1	4.3	2.9	2.8
Stocks/Use Ratio	41.0%	16.8%	23.8%	28.7%	20.7%	19.9%



Sources: ICE Futures U.S. & Cotton Outlook

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