

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



November 2019

www.cottoninc.com

Macroeconomic Overview: The IMF released an update to its World Economic Outlook last month. The first sentence of the report states that the global economy is in a synchronized slowdown. Correspondingly, the forecast for world GDP growth in 2019 was once again revised lower. At 3.0%, the current forecast calls for the lowest rate of global growth since the financial crisis and represents a quick reversal relative to the 3.8% increase enjoyed during the period of synchronized expansion in 2017 (growth estimated at 3.6% in 2018). The IMF attributes the slowdown to rising trade barriers as well as geopolitical and trade-related uncertainty. The U.S.-China trade dispute alone is projected to lower global economic growth by 0.8 percentage points in 2020.

In 2020, growth is projected to improve to 3.4%, which is near the middle of the range of growth rates since the financial crisis (and well-below the levels above four percent enjoyed throughout most of the 2000s). However, in the absence of a lasting resolution to the U.S.-China trade dispute, risks are weighted to the downside. The IMF credits central banks for offsetting most of the effects of the trade dispute and estimates that monetary easing added back 0.5 points of growth. With many of the world's central banks already holding stimulative positions, their ability to offer further support may be limited if economic conditions deteriorate.

The Federal Reserve decreased U.S. interest rates for the third time in 2019 in late October. With the labor market adding jobs and lifting wages, statements from the central bank indicate that they are attempting to support U.S. growth in a time period when global economic conditions have slowed. The S&P 500 broad index of U.S. stock prices has been setting records.

The lower end of the currently targeted range for the federal funds rate that the Federal Reserve controls is 1.5%. While this is above the level of zero maintained from 2009 to 2016, it remains far below historical values. Other central banks are also holding rates at historically low levels, and an estimated 25% of the world's bonds are carrying negative interest rates. Low or negative rates in other countries have made returns in the U.S. attractive despite low U.S. interest rates. Demand for U.S. securities pushed the trade-weighted index for the dollar to all-time highs.

In its first estimate, the Bureau of Economic Analysis estimated that the U.S. economy grew at a 1.9% annualized rate in the third quarter. In the second quarter, GDP growth was 2.0%. Consumer spending grew at a 2.9% annualized rate in the third quarter. In the second quarter, spending grew 4.6%.

The U.S. and China are in the middle of negotiations, and there have been indications that a preliminary agreement may be reached soon. Expectations were that a signing could take place at the Asian Pacific Economic Cooperation (APEC) summit in mid-November. Due to protests, the APEC meeting in Chile was canceled. It is unknown what this might mean for the timing and likelihood of progress towards a resolution in the trade dispute.

Employment: The U.S. added 128,000 jobs in October. This month's data was affected by the strike at General Motors and reduction in temporary hiring for the 2020 U.S. Census. Revisions to figures for previous months were positive. The figure for August increased 51,000 to +219,000. The figure for September increased 44,000 to +180,000. With these revisions, the average over the past twelve months is 187,000. Over the same time period last year, the average was 219,000.

The unemployment rate increased slightly month-over-month, rising from 3.5% to 3.6% as more Americans joined the labor force. In October, wage increases fell below the three percent level (to 2.9%) for the first time in a year.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence was marginally lower in October, decreasing from 126.3 to 125.9. The latest value is lower than the level one year ago (137.9) and is nearly even with the value from 2017 (126.2). Readings this time of year are often correlated with consumer spending growth during the holiday season (Nov-Dec). Last year, overall holiday spending increased 2.4% year-over-year, and apparel spending increased 2.4%. In 2017, overall spending rose 3.0% over the holidays, and apparel spending increased 4.2%.

Overall consumer spending increased 0.2% month-over-month and was 2.6% higher year-over-year. Spending on apparel increased 0.9% month-over-month and was up 3.4% year-over-year.

Consumer Prices & Import Data: The CPI for garments decreased 0.5% month-over-month and was 0.9% lower year-over-year. The average cost per square meter of imported cotton-dominant apparel was marginally lower in September (-0.2%), falling from from \$3.46 per square meter equivalent (SME) to \$3.45/SME.

In aggregate, China's share has yet to show a definitive change following the series of tariff threats made over the past year and a half. In seasonally-adjusted terms, China's share of U.S. apparel imports of all fibers has been holding near 40%. In non-seasonally adjusted terms, China's share in September (latest month with data available) was over 45% (seasonal pattern is that the U.S. imports more from China ahead of the holidays). China's share of cotton-dominant apparel has been easing from levels near 30% one year ago to those closer to 25% (seasonally-adjusted). In non-seasonally-adjusted terms, China's share was 27% in September.

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
November 2019



Macroeconomic Data Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q1 : 2019	Q2 : 2019	Q3 : 2019		
Growth in US Real GDP	2.3%	2.5%	2.0%	1.9%	3.1%	2.0%	1.9%	% Chg. Quarter/Quarter	Department of Commerce

Monthly 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		
ISM Index of Manufacturing Activity	54.4	56.2	50.8	49.4	49.1	47.8	48.3	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.8	57.2	55.0	54.2	56.4	52.6	54.7	Index	Institute for Supply Management
Consumer Confidence	114.0	125.1	130.2	132.1	134.2	126.3	125.9	Index	The Conference Board
Change in Non-Farm Payrolls	203.9	191.3	170.2	188.3	219	180	128	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.5%	4.1%	3.6%	3.6%	3.7%	3.5%	3.6%	Rate	Bureau of Labor Statistics

Monthly 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 Interest Rates									
Federal Funds	1.0%	1.6%	2.3%	2.2%	2.1%	2.0%	1.8%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.5%	2.1%	1.8%	1.6%	1.7%	1.7%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	104.2	107.6	111.9	112.0	112.2	112.0	111.9	Index	The Conference Board
Housing Starts	11.9	12.4	12.7	12.8	1.2	1.4	1.3	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.4	5.4	5.4	5.4	5.5	5.4	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

Monthly 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		
US Industrial Production	105.6	106.9	109.4	109.5	109.1	109.9	109.5	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	108.3	103.4	102.2	101.8	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Monthly 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	3.0	3.0	3.0	3.1	3.0	3.0	million 480lb bales	USDA ERS

Monthly 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		
US Textile Mill Inventory/Shipments Ratio	1.30	1.31	1.37	1.38	1.38	1.38	1.39	Ratio	Department of Commerce

Retail Data

Monthly 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		
US Real Consumer Spending									
All Goods and Services	3.0%	2.7%	2.6%	2.5%	2.5%	2.4%	2.6%	% Chg. Year/Year	Department of Commerce
Clothing	2.9%	2.5%	3.2%	2.0%	1.8%	0.8%	3.4%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.5%	2.1%	1.8%	1.8%	1.8%	1.8%	1.7%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.7%	-0.4%	-1.5%	-0.2%	-0.6%	0.9%	-0.9%	% Chg. Year/Year	Bureau of Labor Statistics

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

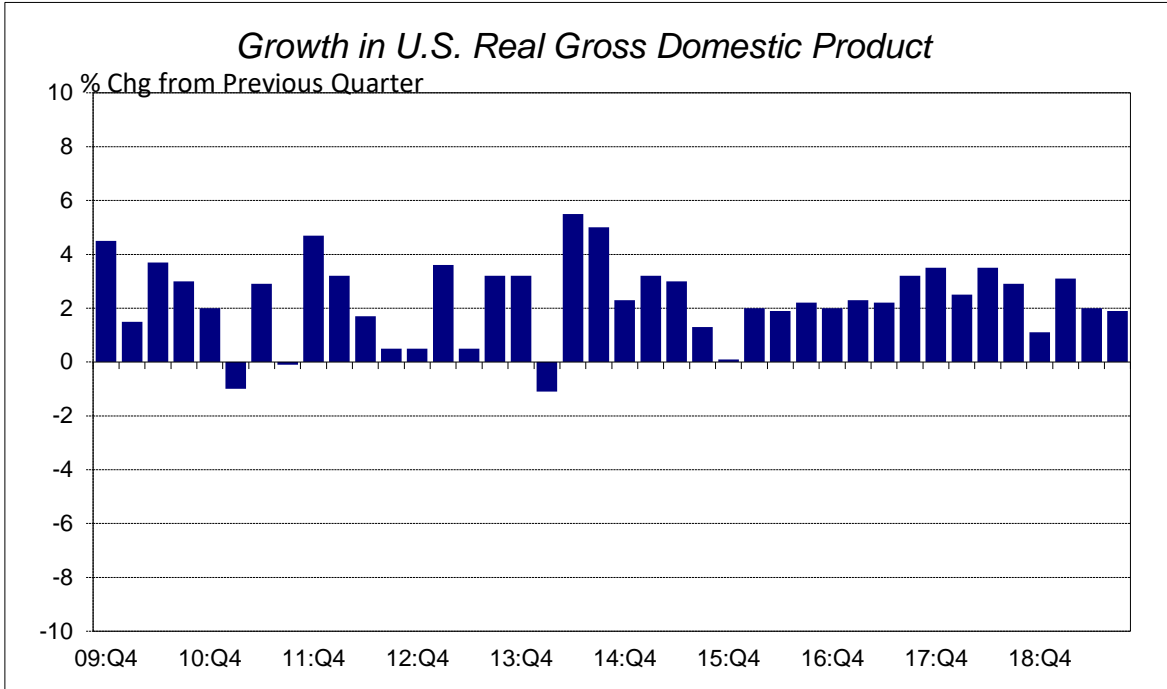
Executive Cotton Update

Daily Cotton Price and Currency Data

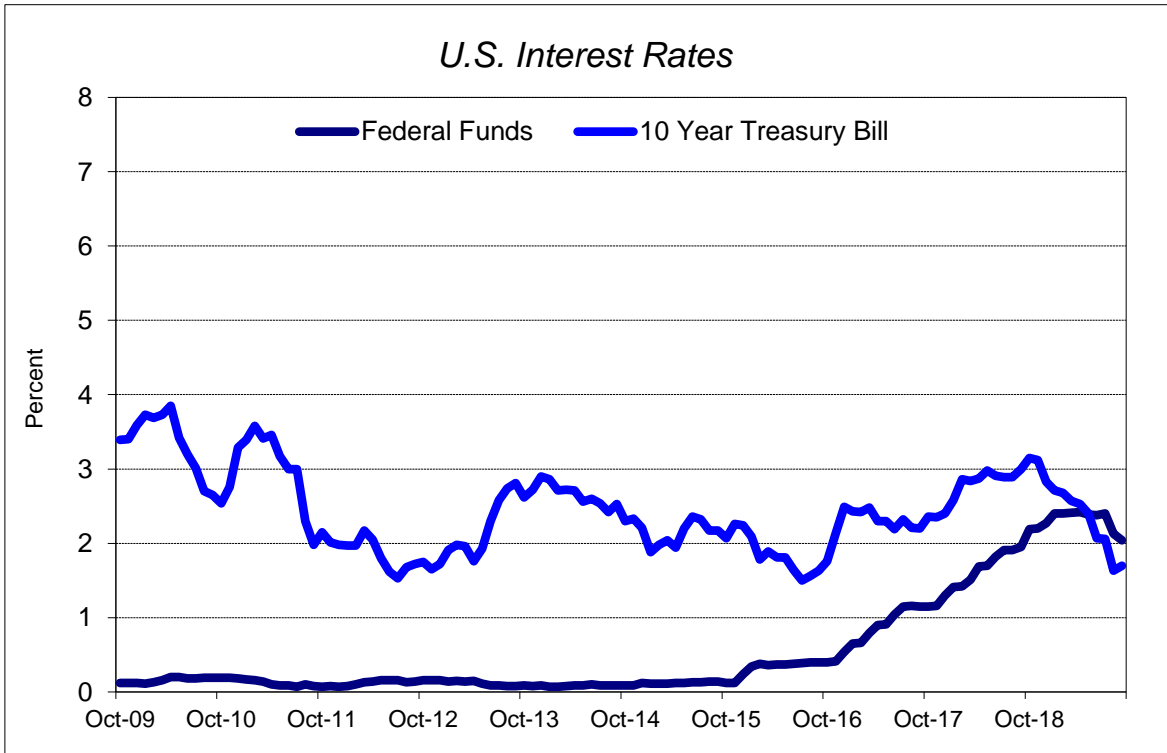
November 2019



Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	October		
NY Nearby	71.5	72.4	72.8	70.1	59.0	60.0	63.5	cents/pound	ICE
A Index	80.2	82.0	82.7	80.2	70.9	71.3	73.8	cents/pound	Cotlook
Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	August	September	October		
Dollar Trade Weighted Exchange Index	111.7	113.6	116.4	117.3	116.7	117.6	117.6	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.60	6.75	6.97	7.11	7.04	7.15	7.14	Chinese Renminbi/US dollar	Reuters
Indian Rupee	66.64	67.70	70.05	71.14	70.71	71.84	70.88	Indian Rupee/US dollar	Reuters
Japanese Yen	112.68	110.70	107.95	106.67	106.07	107.05	106.89	Japanese Yen/US dollar	Reuters
Pakistani Rupee	114.56	121.97	152.93	157.27	158.85	156.55	156.40	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.46	3.54	3.95	4.03	3.94	4.09	4.06	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.30	1.31	1.33	1.33	1.32	1.32	1.33	Canadian dollar/US dollar	Reuters
Mexican Peso	18.21	19.22	19.42	19.61	19.59	19.70	19.53	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.74	0.77	0.80	0.82	0.82	0.81	0.81	British Pound/US dollar	Reuters
Euro	0.88	0.88	0.90	0.90	0.89	0.91	0.91	Euro/US dollar	Reuters
Swiss Franc	0.98	0.99	0.99	0.99	0.97	0.99	1.00	Swiss Franc/US dollar	Reuters
Turkish Lira	3.83	4.54	5.71	5.65	5.56	5.69	5.69	Turkish Lira/US dollar	Reuters



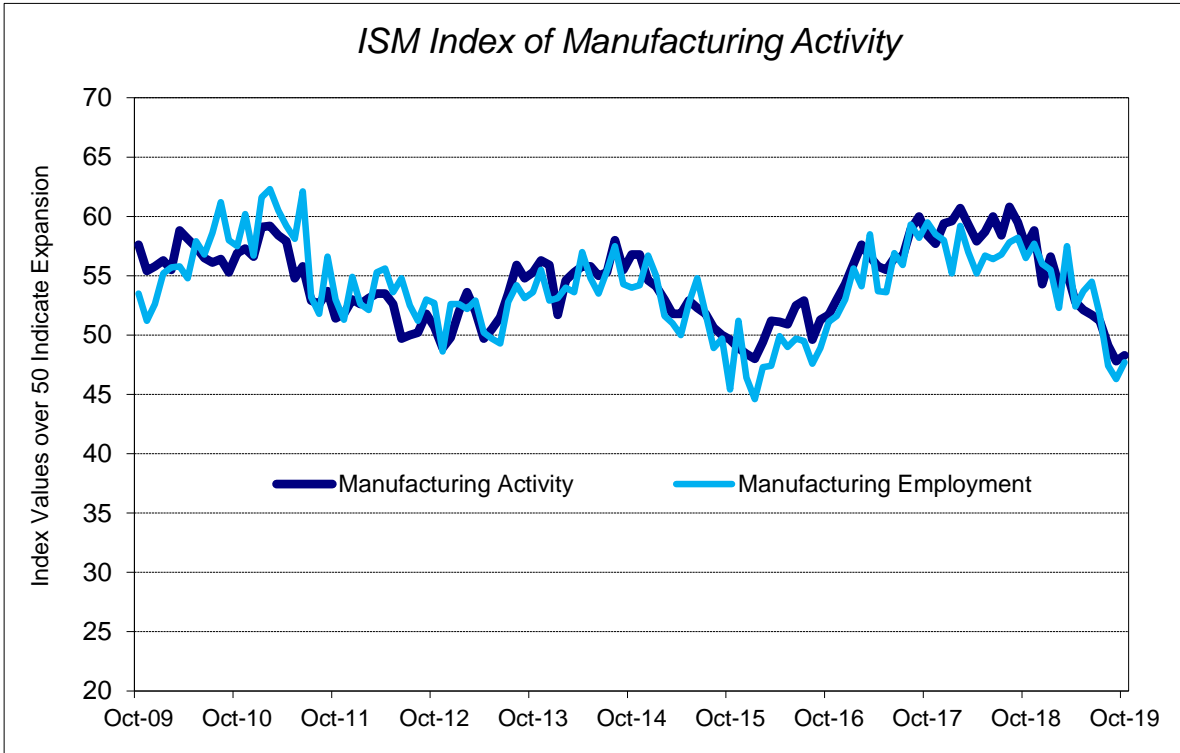
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



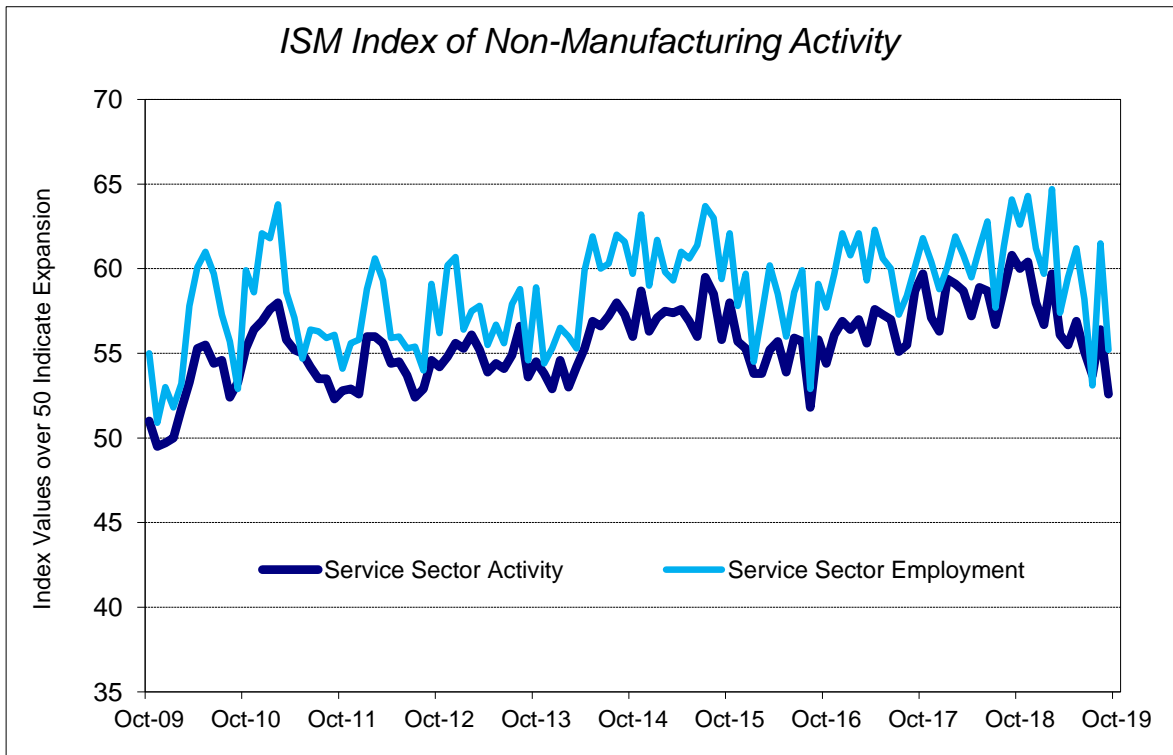
Source: Federal Reserve

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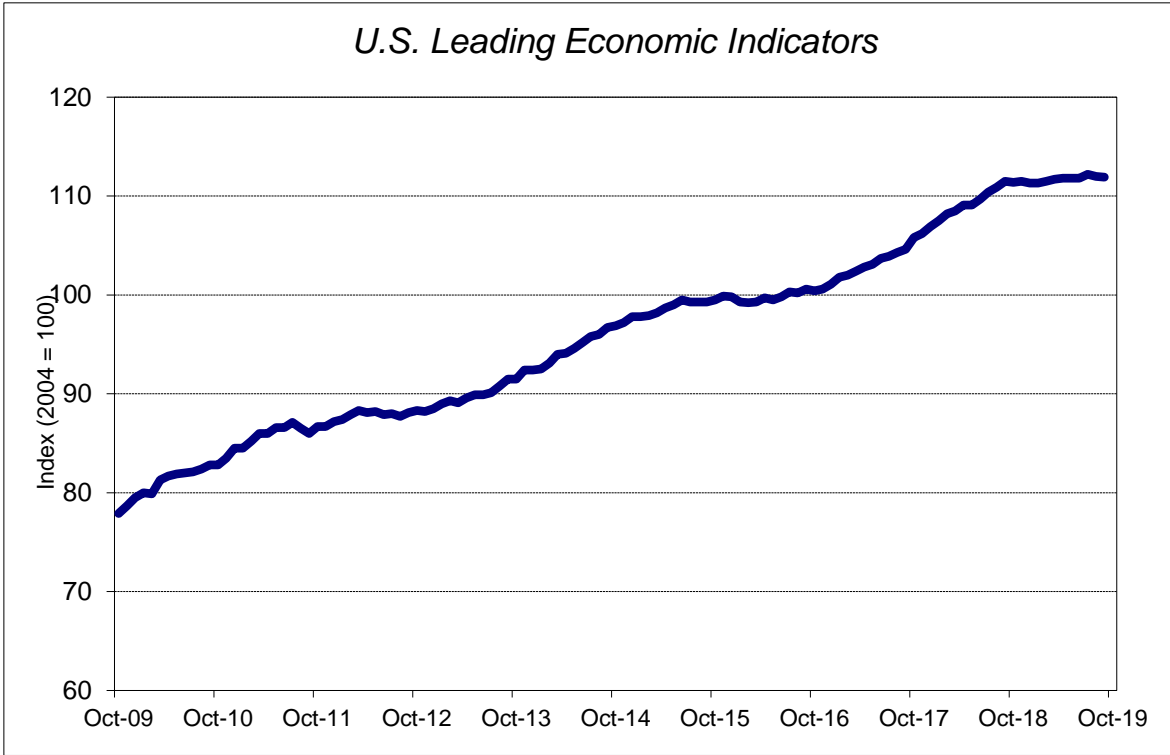
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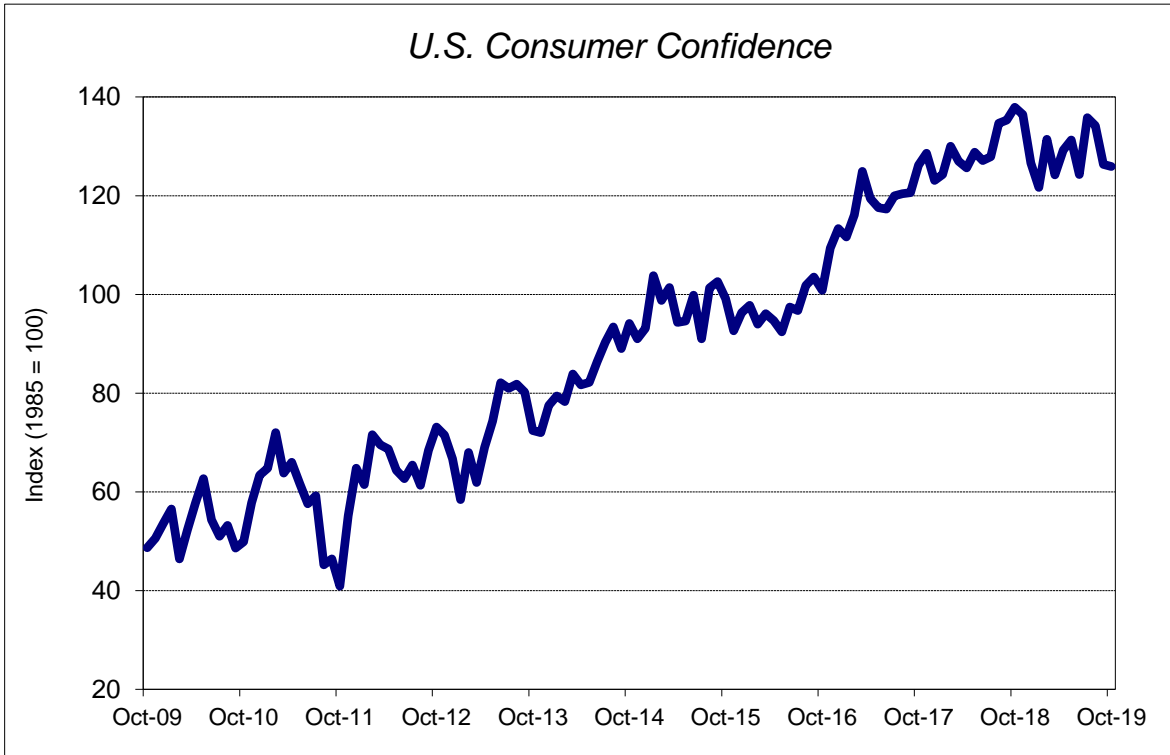
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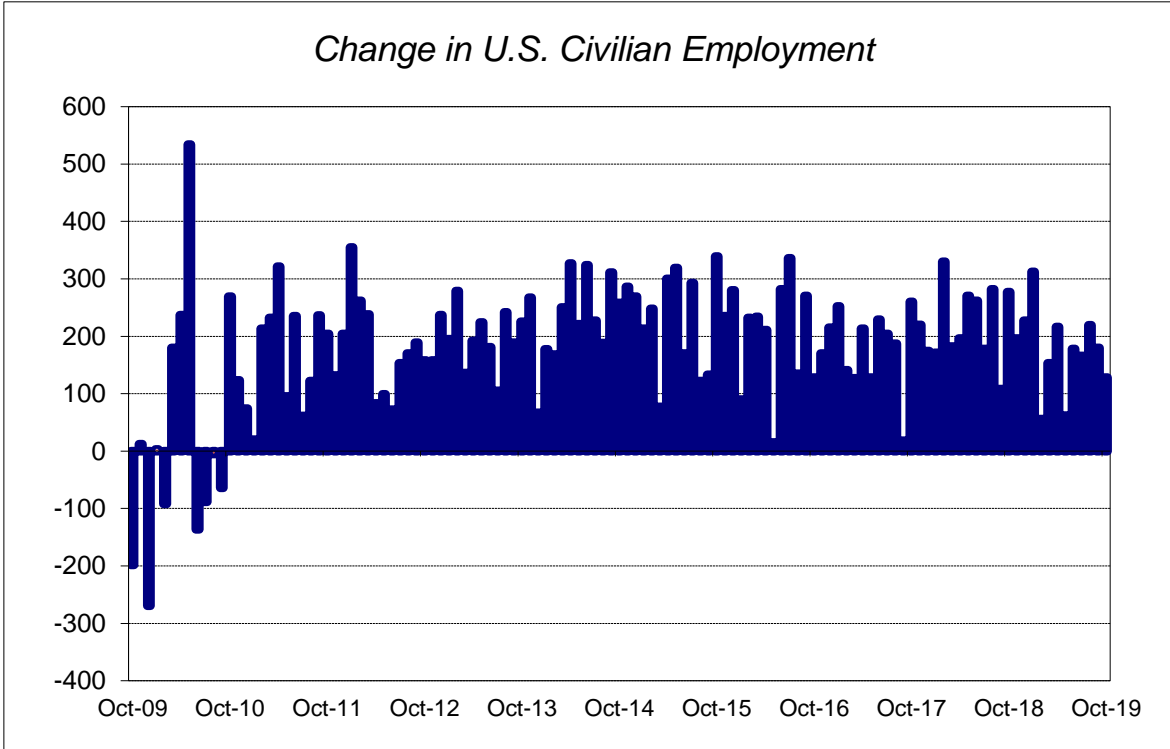
Source: The Conference Board



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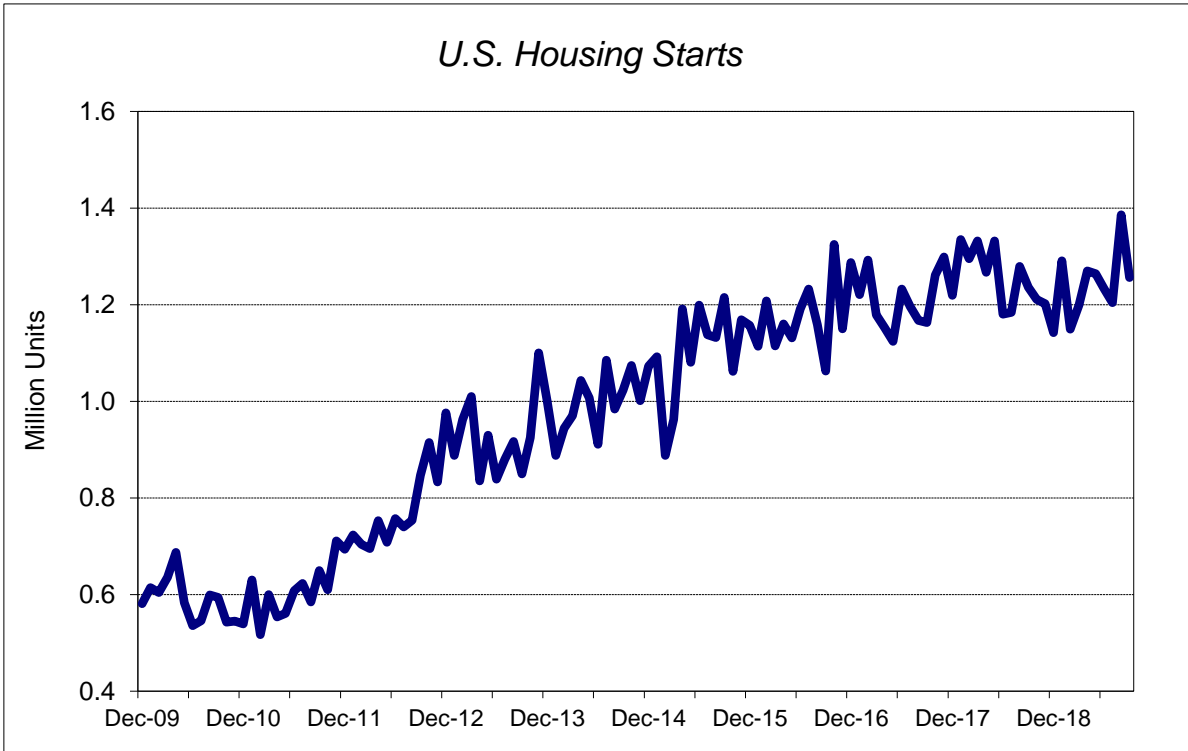
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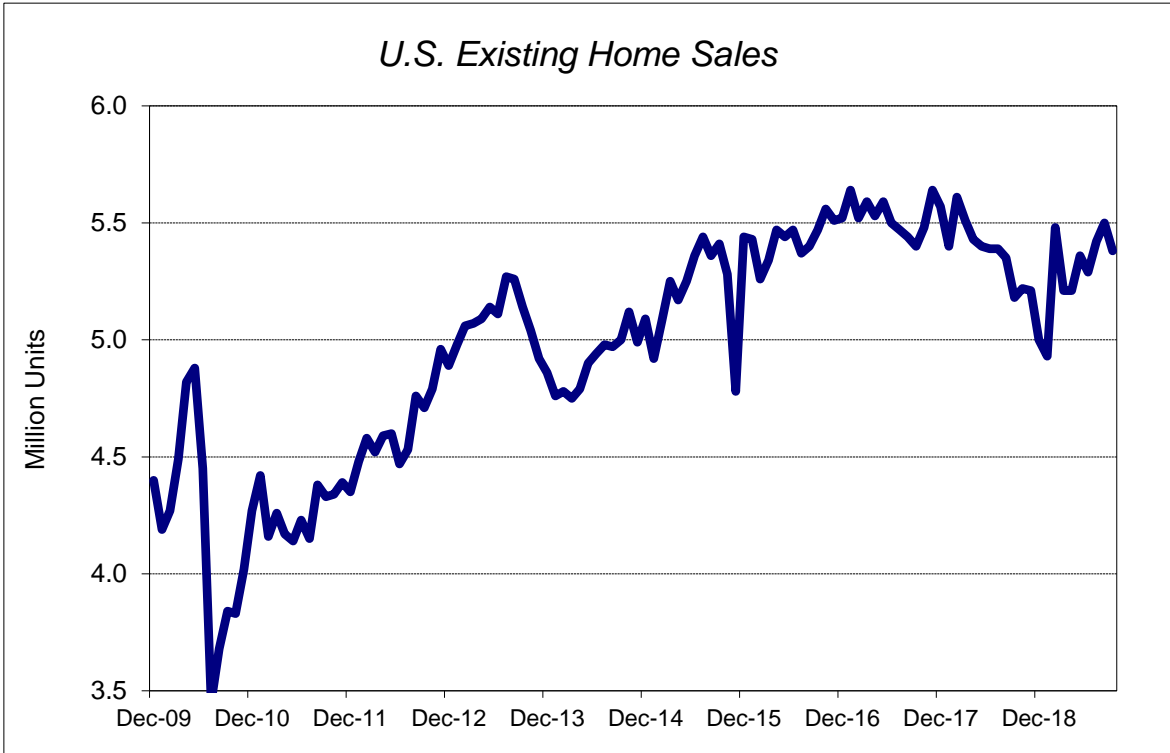
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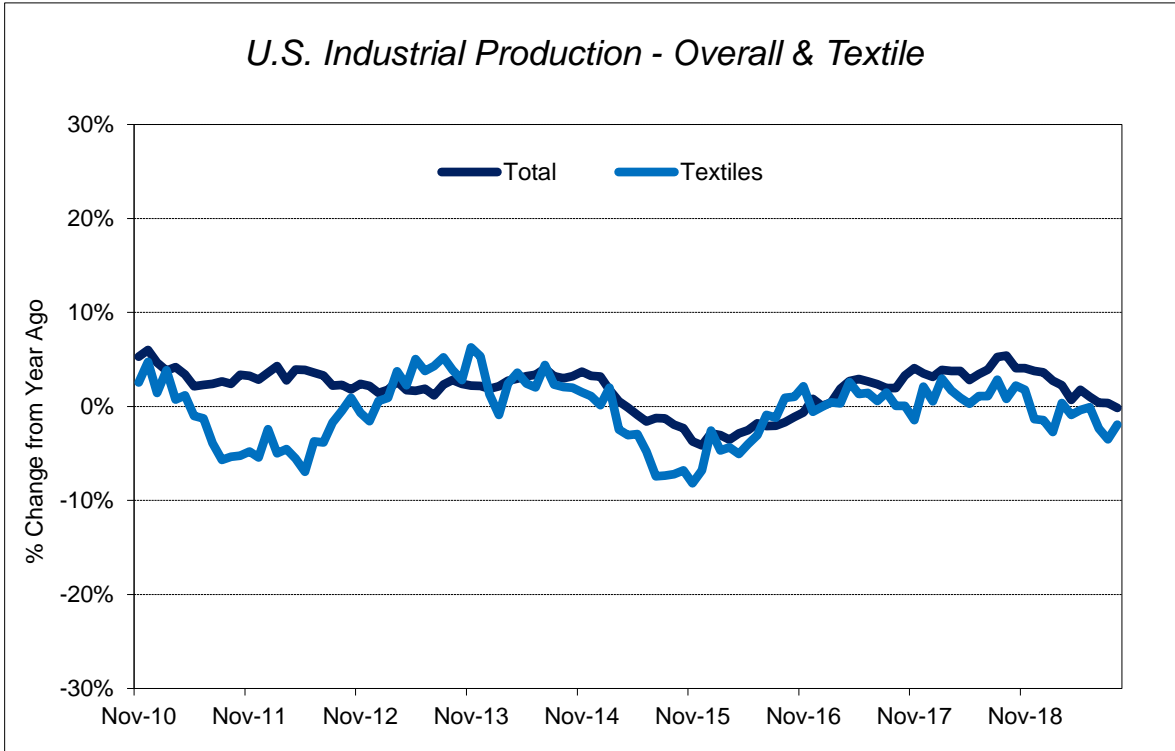
Seasonally Adjusted Annual Rate; Source: Department of Commerce



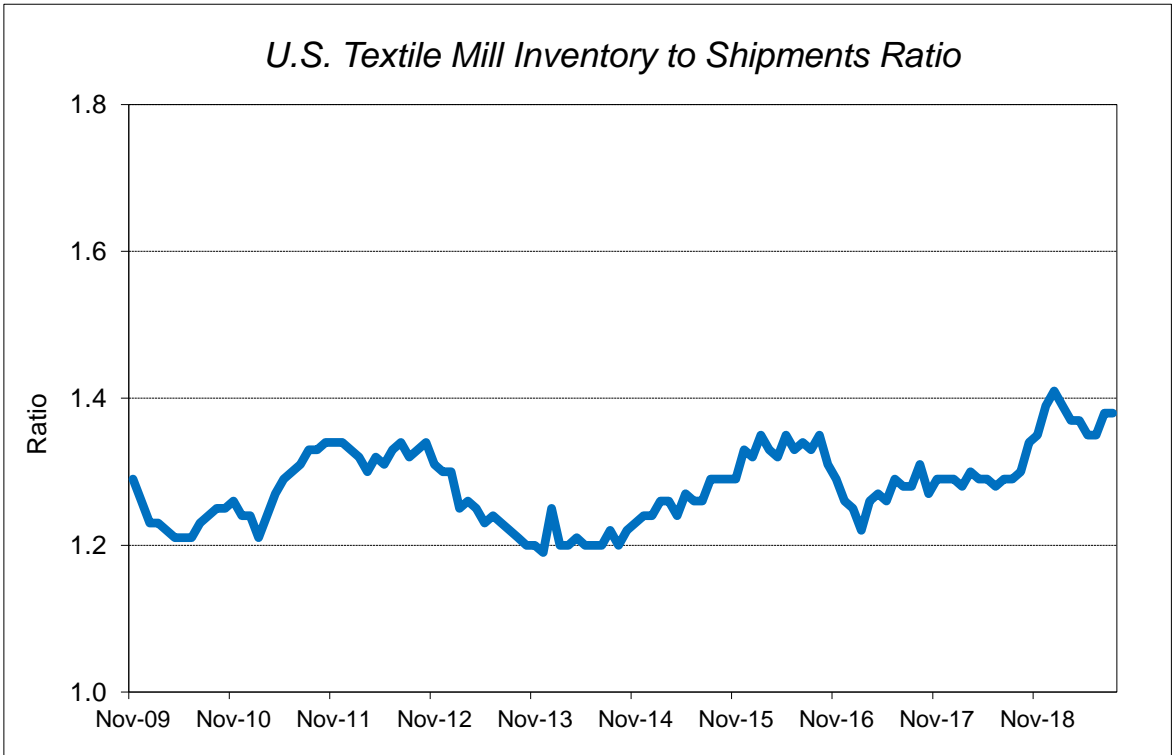
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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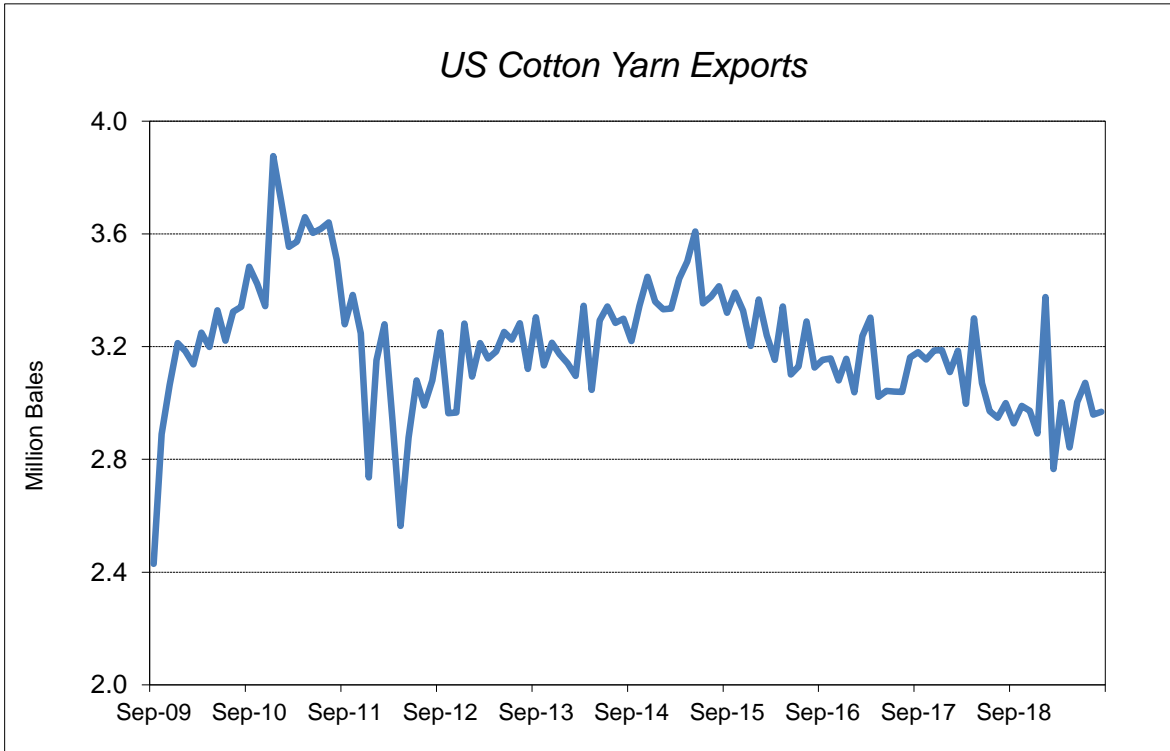
Source: Federal Reserve. Historical data revised to 1997 baseline.



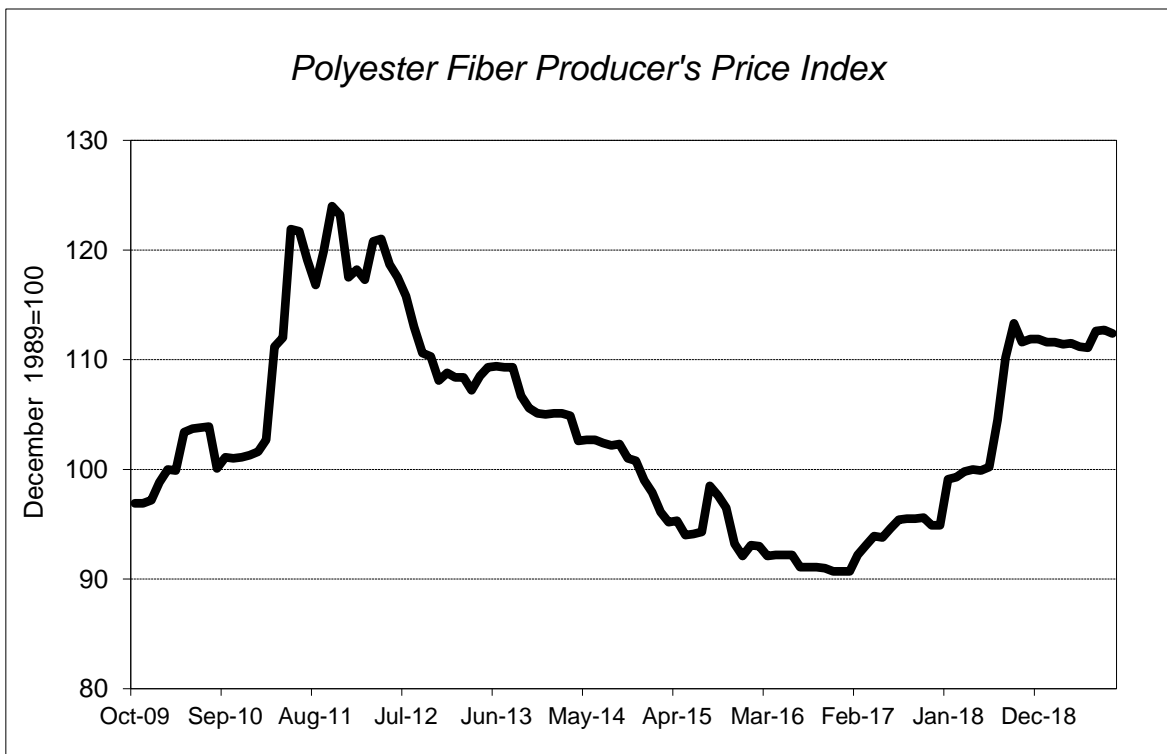
Seasonally Adjusted; Source: Department of Commerce

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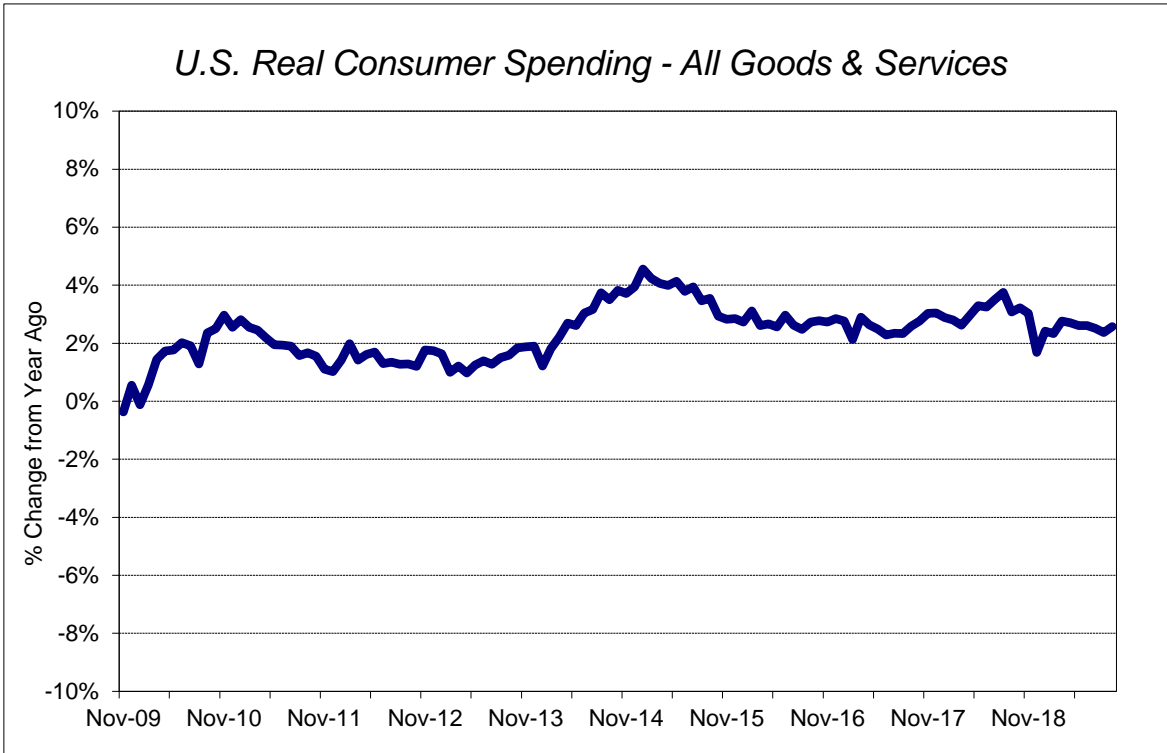
Seasonally Adjusted Annual Rate
 Source: USDA ERS



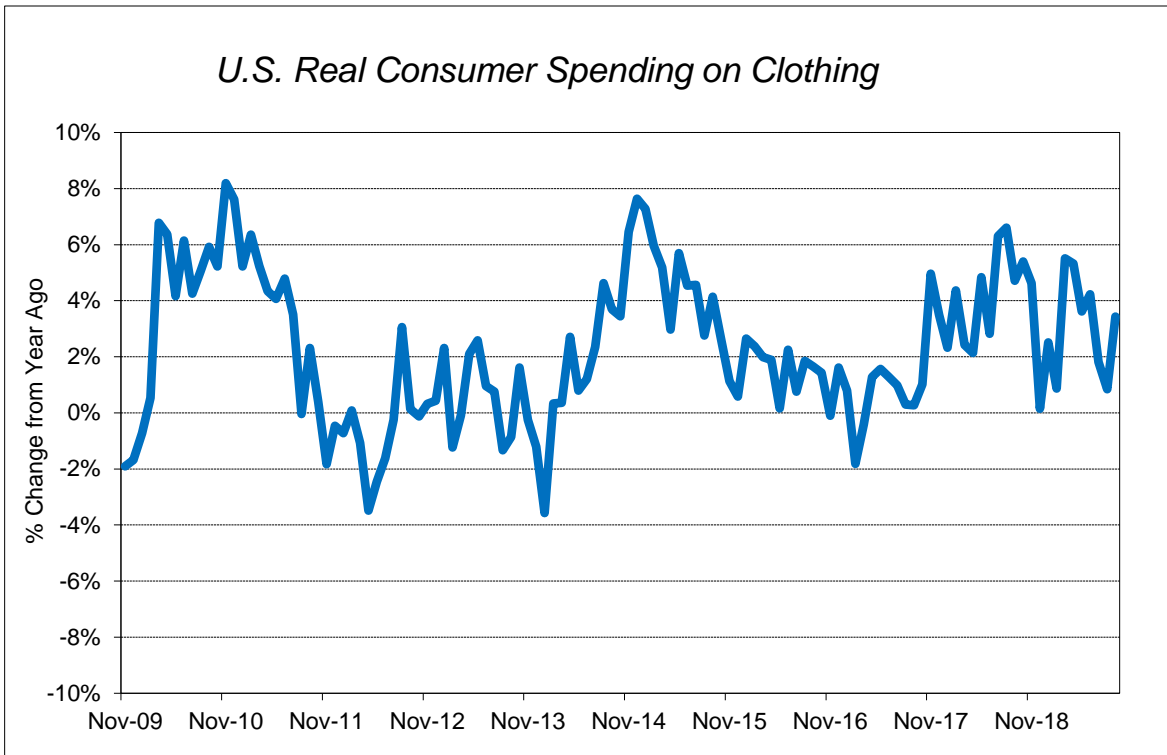
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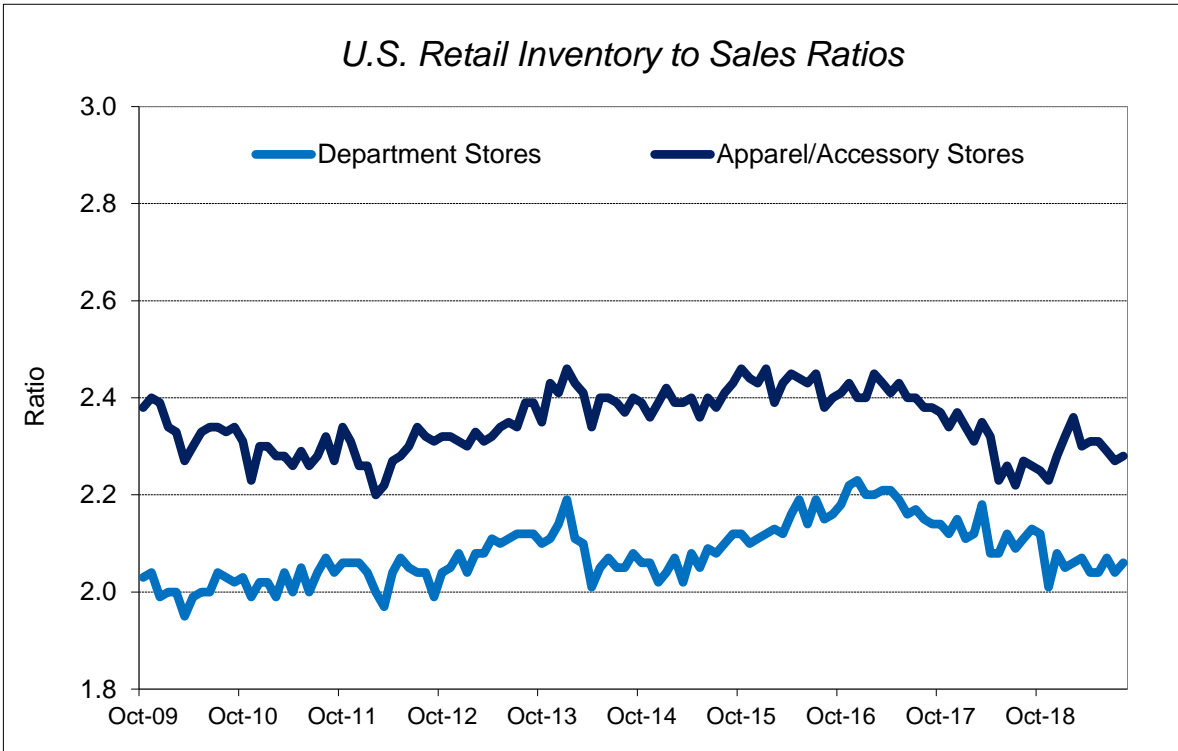
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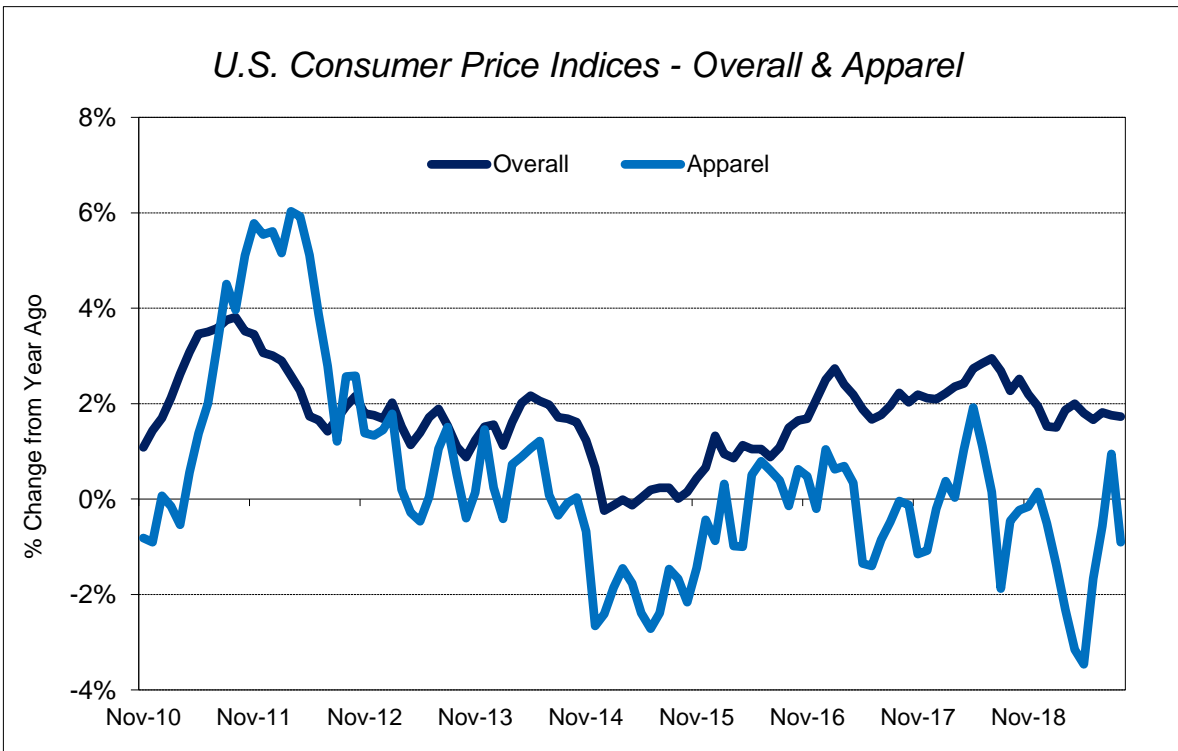
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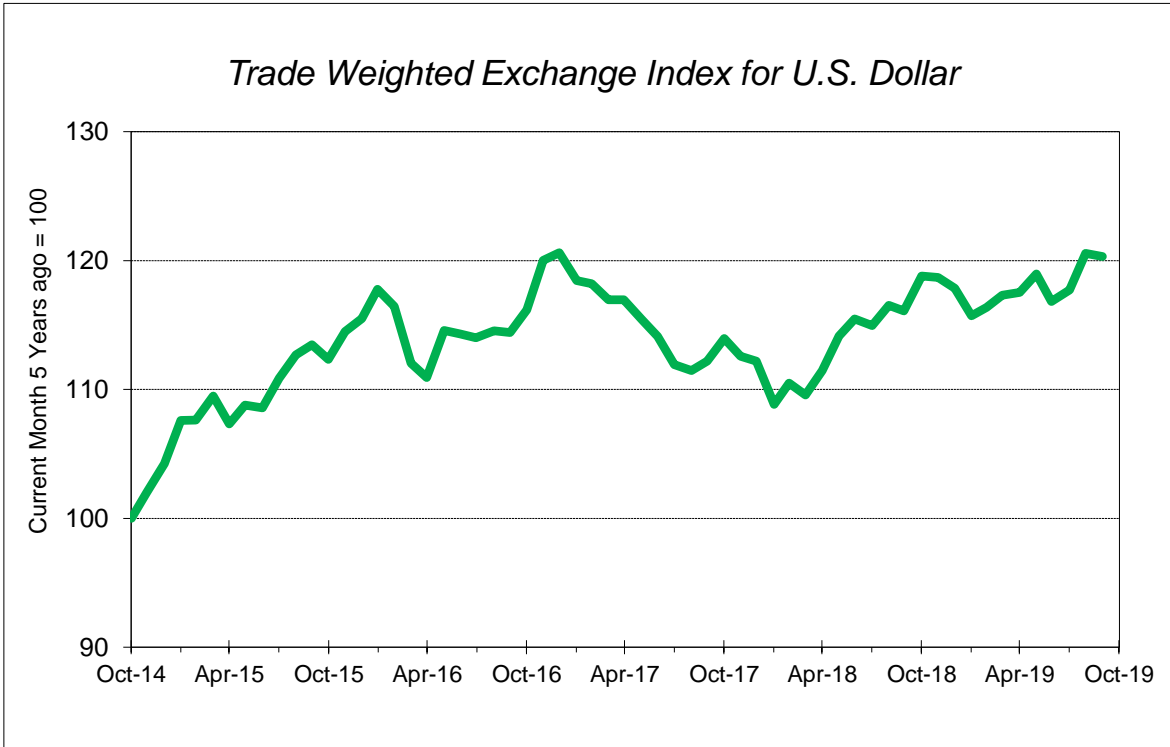
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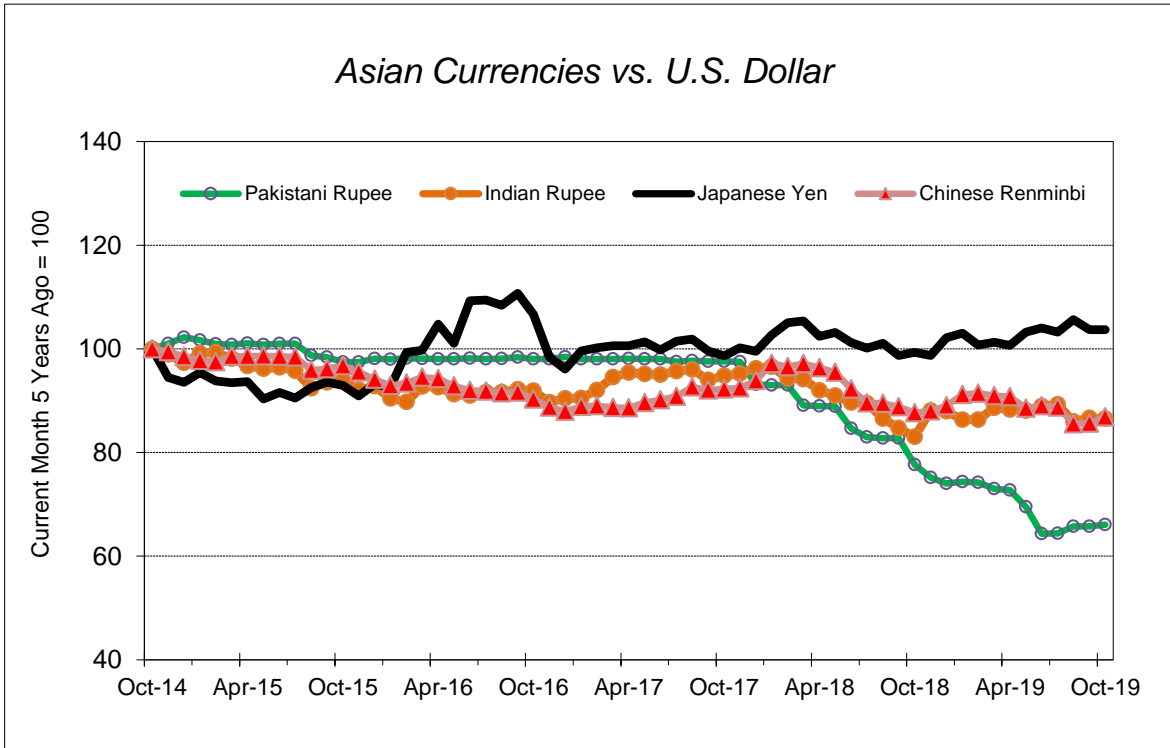
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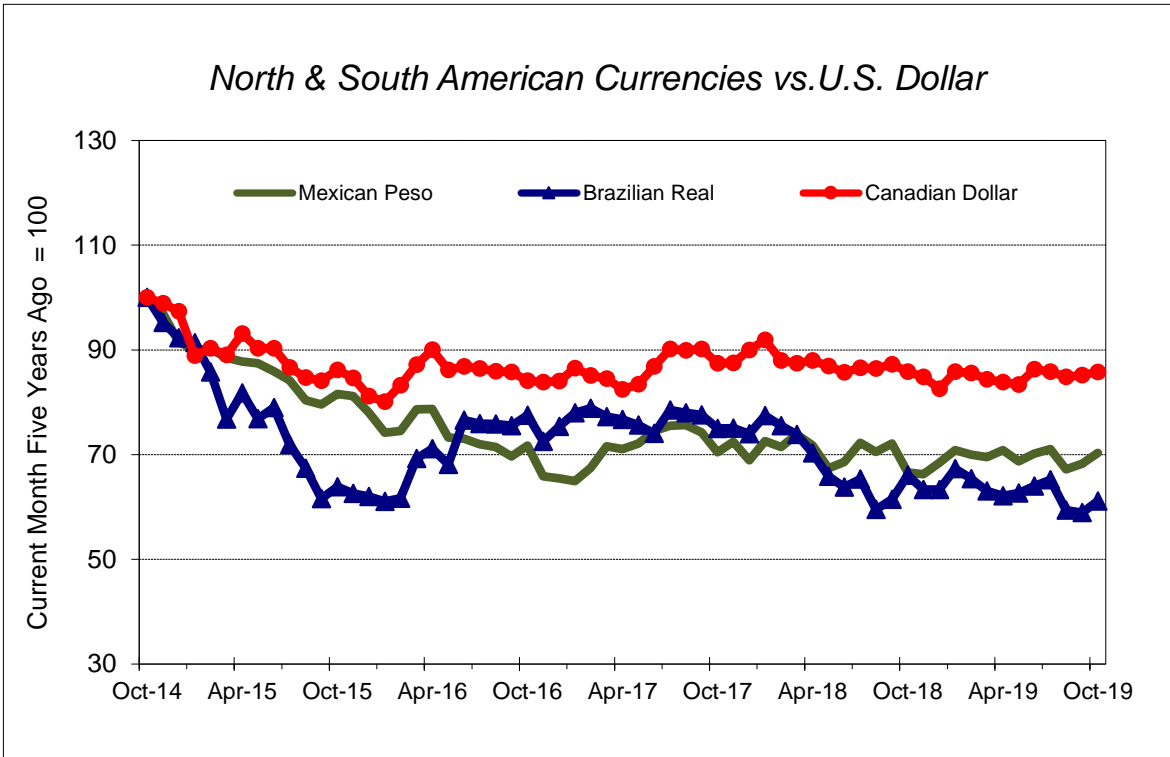
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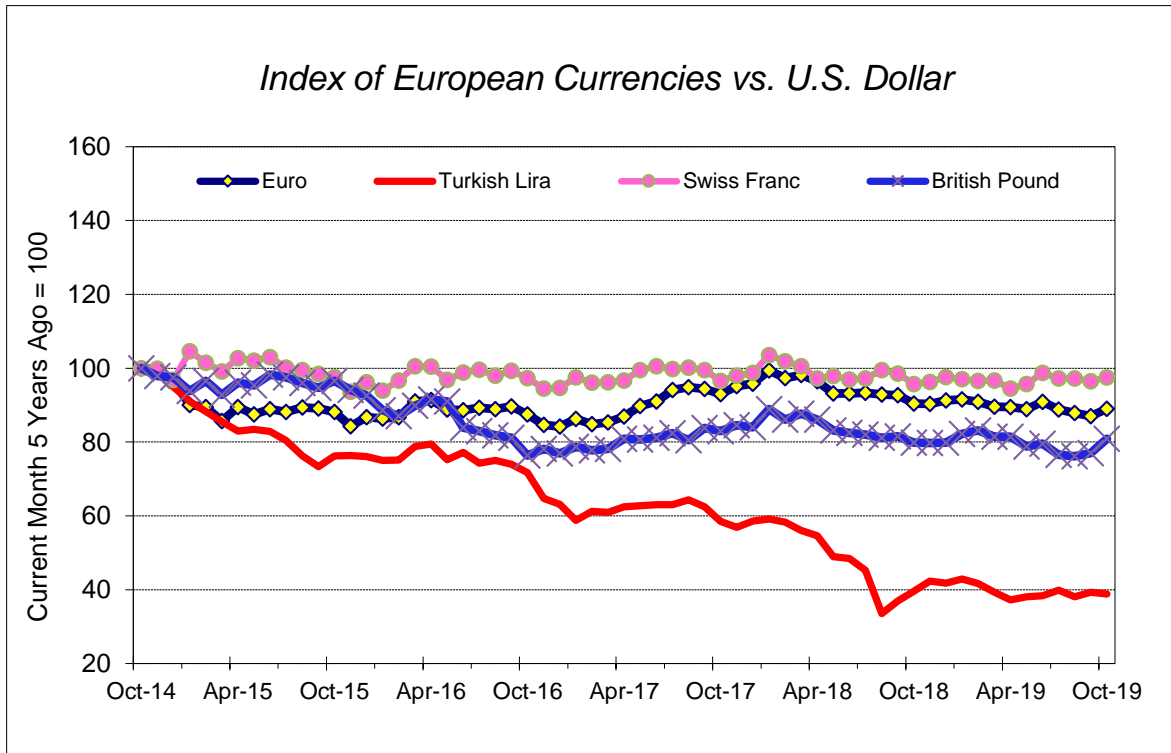
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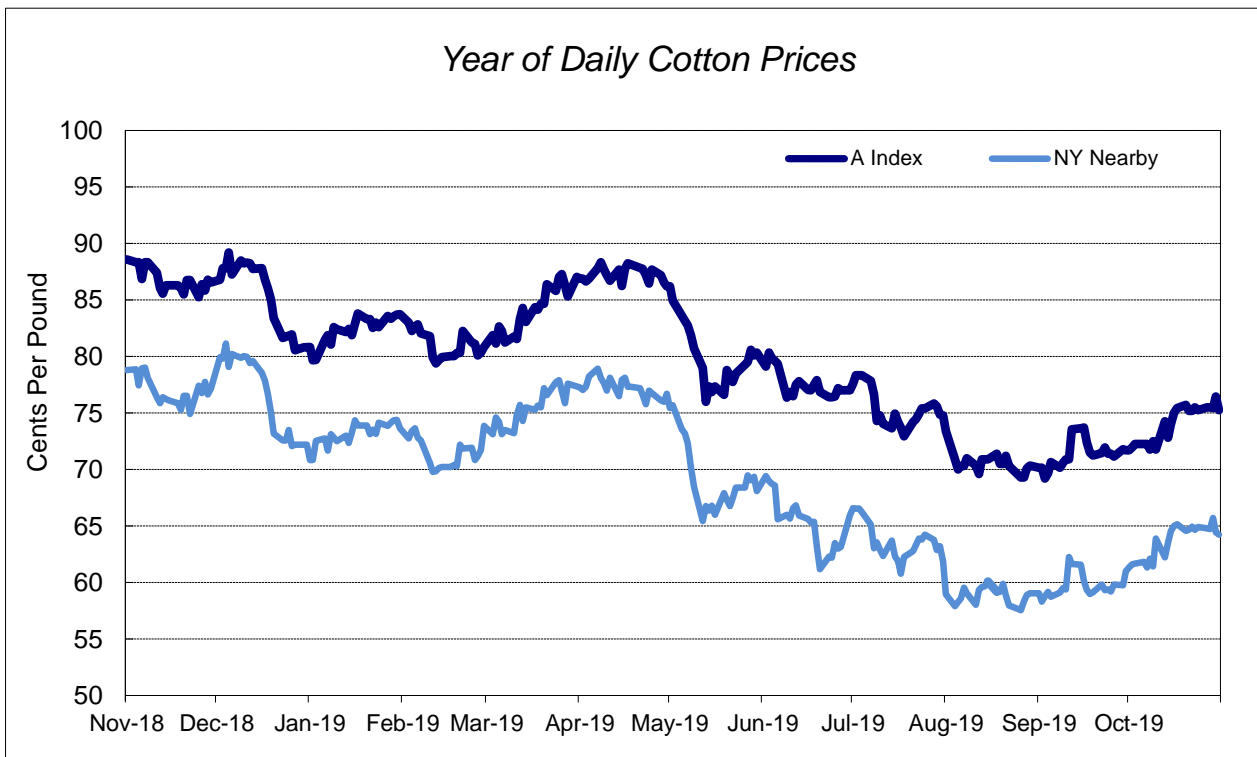
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U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20 September	2019/20 October
Beginning Stocks	3.7	3.8	2.8	4.2	4.9	4.9
Production	12.9	17.2	20.9	18.4	21.9	21.7
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.6	26.7	26.6
Mill-Use	3.5	3.3	3.2	3.0	3.0	3.0
Exports	9.2	14.9	16.3	14.8	16.5	16.5
Demand	12.6	18.2	19.5	17.7	19.5	19.5
Ending Stocks	3.8	2.8	4.2	4.9	7.2	7.0
Stocks/Use Ratio	30.2%	15.1%	21.5%	27.3%	36.9%	35.9%



Sources: ICE Futures U.S. & Cotton Outlook

[return to text](#)

