

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



October 2019

www.cottoninc.com

Macroeconomic Overview: Concerns about economic growth remain. The commonly tracked producer manager indices (PMIs) released by the Institute for Supply Management (ISM) were lower in September. The manufacturing PMI, which can be a leading indicator for the overall economy, signaled contraction for the second consecutive month and posted its lowest value since 2009. The ISM PMI representing the service sector, which covers a much larger portion of the U.S. economy, also decreased last month and posted its lowest value since November 2018.

Due to concerns about growth, the Federal Reserve lowered interest rates in September. This followed a rate cut in August. These two 2019 reductions represent a sharp reversal relative to 2018, when there were four increases. The primary cause cited by the Federal Reserve for the cuts in interest rates was the slowdown in economic activity outside the U.S.

With the slowdown global, the U.S. central bank is not alone in taking action to stimulate growth. The European Central Bank (ECB) dropped its deposit rate to a record low (-0.5%) last month and will restart bond purchases to increase monetary supply further. China has made a series of reductions to bank reserve requirements and lowered interest rates. India's government announced a major corporate tax cut in September.

With the deadline for Brexit approaching, Europe is facing significant policy uncertainty on top of weaker growth and may be the location facing the highest risk for a recession in the near-term. The strength of the U.S. labor market, and its ability to continually add jobs, suggests the U.S. faces less immediate risk. A risk for both the U.S. and Europe, however, is that interest rates are falling from already low levels and that central banks may be limited in its ability to provide further stimulus should conditions worsen.

Employment: The U.S. added 136,000 jobs in September. Revisions to figures for previous months lifted the estimate for July from +159,000 to +166,000 and lifted the figure for August from +130,000 to +166,000. Following the revisions, job growth has averaged +219,000 over the past twelve months. Over the same period last year, job growth averaged +179,000.

The rate of growth in average wages slowed last month. The current estimate indicates that wage growth was 2.9% in September. This was the first time in a year that wages improved by less than three percent (year-over-year increases in wages were commonly between 3.2-3.4% over the past twelve months).

The unemployment rate fell from 3.7% to 3.5% month-over-month in September. The unemployment rate is derived from a separate survey than the one used for job growth (unemployment rate from a survey of people, job growth from a survey of companies). The survey used for the unemployment rate identified a larger increase in employment in September than the survey of companies. That increase, along with a reduction in the number of unemployed, pushed the unemployment rate lower despite an increase in the number of people in the labor force.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence fell 9.1 points last month, from 134.2 to 125.1. One year ago, the value was 135.3. Despite the lower value, the current reading remains among the highest ever recorded. If maintained over the next few months, consumer optimism can be expected to support consumer spending during the important holiday sales period.

Overall consumer spending increased 0.1% month-over-month in August (seasonally-adjusted). This was the weakest monthly growth since February. However, there has been strong growth since then, including the 0.8% monthly increase in March. The annual rate of growth in August was 2.3%, which is near the long-term average.

Apparel spending decreased 0.5% month-over-month in August. This was also the lowest reading since February. As with overall spending, there has been stronger growth in the spring and summer. In March, the month-over-month increase was 3.7%. Year-over-year, apparel spending was up 1.1% in August. The weak level of annual growth can be partially explained by the challenging comparison against August 2018. In August 2018, apparel spending was up 6.6% year-over-year.

Consumer Prices & Import Data: The CPI for garments was nearly unchanged month-over-month in August (-0.04%). Year-over-year, consumer apparel prices were 1.0% higher. Average import prices per square meter (SME) of cotton-dominant apparel were marginally lower month-over-month (-0.3%, from \$3.47/SME to \$3.46/SME). Year-over-year, average sourcing costs for cotton-dominant apparel were up 3.0%.

Despite U.S. threats to increase tariffs on Chinese apparel having been made more than one year ago, there has not been a decrease in China's share of U.S. apparel imports. China's share of overall apparel imports was 1.3 percentage points higher year-over-year in August (from 40.5% to 41.8%). The first batch of tariff increases on Chinese-made apparel went into effect in September, and the remainder of Chinese-made apparel imports will face increases in December. Analysis of patterns in pricing data suggests it could take seven to twelve months for any effects of these tariff increases to show up in trade data.

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
October 2019



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q4 : 2018	Q1 : 2019	Q2 : 2019		
Growth in US Real GDP	2.5%	2.5%	2.6%	2.0%	1.1%	3.1%	2.0%	% Chg. Quarter/Quarter	Department of Commerce

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		
ISM Index of Manufacturing Activity	54.5	56.3	52.0	50.7	51.2	49.1	47.8	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.9	57.3	55.6	55.1	53.7	56.4	52.6	Index	Institute for Supply Management
Consumer Confidence	113.4	124.4	129.8	131.4	135.8	134.2	125.1	Index	The Conference Board
Change in Non-Farm Payrolls	205.2	192.4	157.2	170.7	166	168	136	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.6%	4.1%	3.7%	3.7%	3.7%	3.7%	3.5%	Rate	Bureau of Labor Statistics

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 Interest Rates									
Federal Funds	1.0%	1.5%	2.4%	2.3%	2.4%	2.1%	2.0%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.5%	2.2%	1.9%	2.1%	1.6%	1.7%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	104.0	107.3	111.9	112.0	111.7	112.1	112.1	Index	The Conference Board
Housing Starts	11.8	12.3	12.6	12.7	1.2	1.2	1.4	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.4	5.3	5.4	5.3	5.4	5.5	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

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		
US Industrial Production	105.5	106.7	109.4	109.5	109.4	109.2	109.9	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	108.2	103.8	102.5	102.3	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Monthly 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	3.0	2.9	3.0	3.0	3.1	3.0	million 480lb bales	USDA ERS

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		
US Textile Mill Inventory/Shipments Ratio	1.30	1.31	1.37	1.37	1.35	1.38	1.38	Ratio	Department of Commerce

Retail Data

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		
US Real Consumer Spending									
All Goods and Services	3.0%	2.7%	2.6%	2.5%	2.6%	2.5%	2.3%	% Chg. Year/Year	Department of Commerce
Clothing	2.9%	2.5%	3.6%	2.5%	4.2%	2.0%	1.1%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.5%	2.1%	1.8%	1.7%	1.7%	1.8%	1.8%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.7%	-0.4%	-1.7%	-0.4%	-1.7%	-0.6%	0.9%	% Chg. Year/Year	Bureau of Labor Statistics

Monthly 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	2.4	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	2.0	2.1	Ratio	Department of Commerce

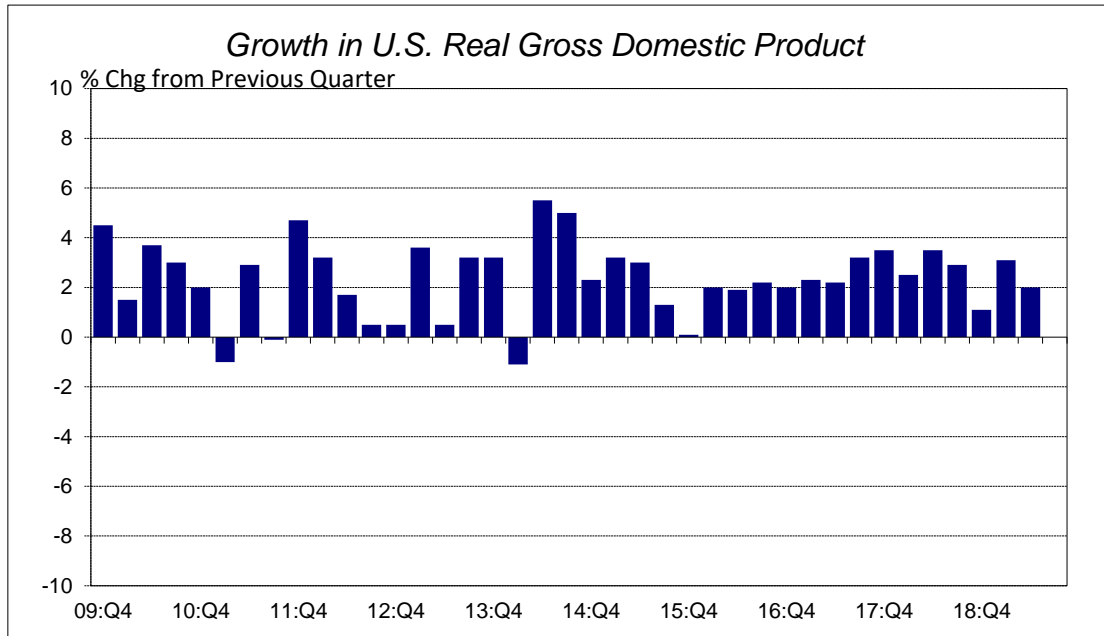
Executive Cotton Update

Daily Cotton Price and Currency Data
October 2019

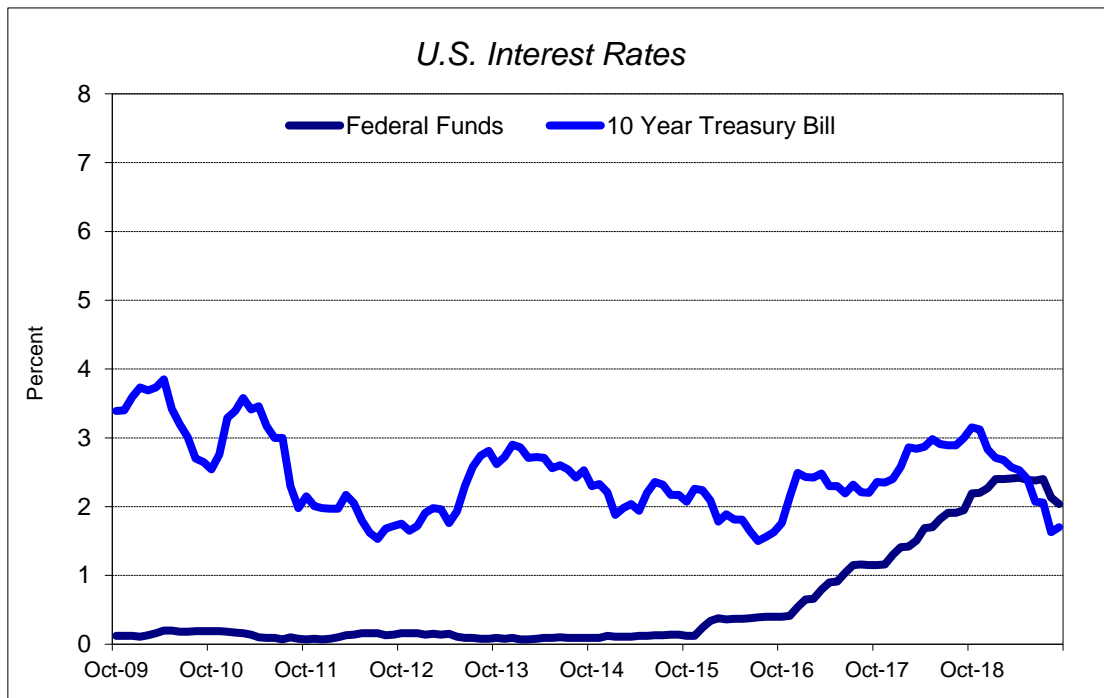


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	July	August	September		
NY Nearby	71.6	72.6	73.4	70.7	63.8	59.0	60.0	cents/pound	ICE
A Index	80.3	82.2	83.3	80.8	75.5	70.9	71.3	cents/pound	Cotlook

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	111.3	113.4	115.9	116.3	114.8	116.2	117.8	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.58	6.73	6.89	6.99	6.87	6.94	7.15	Chinese Renminbi/US dollar	Reuters
Indian Rupee	66.47	67.55	69.64	70.07	68.51	69.59	72.12	Indian Rupee/US dollar	Reuters
Japanese Yen	112.61	110.54	108.62	106.86	107.82	106.57	106.20	Japanese Yen/US dollar	Reuters
Pakistani Rupee	113.57	120.37	150.25	157.03	155.80	159.05	156.23	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.43	3.51	3.91	3.93	3.79	3.89	4.12	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.29	1.31	1.33	1.32	1.31	1.32	1.33	Canadian dollar/US dollar	Reuters
Mexican Peso	18.09	19.21	19.32	19.37	19.00	19.33	19.77	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.73	0.77	0.79	0.81	0.80	0.82	0.82	British Pound/US dollar	Reuters
Euro	0.88	0.88	0.89	0.90	0.89	0.90	0.91	Euro/US dollar	Reuters
Swiss Franc	0.98	0.99	0.99	0.98	0.99	0.98	0.98	Swiss Franc/US dollar	Reuters
Turkish Lira	3.78	4.47	5.69	5.61	5.60	5.58	5.67	Turkish Lira/US dollar	Reuters



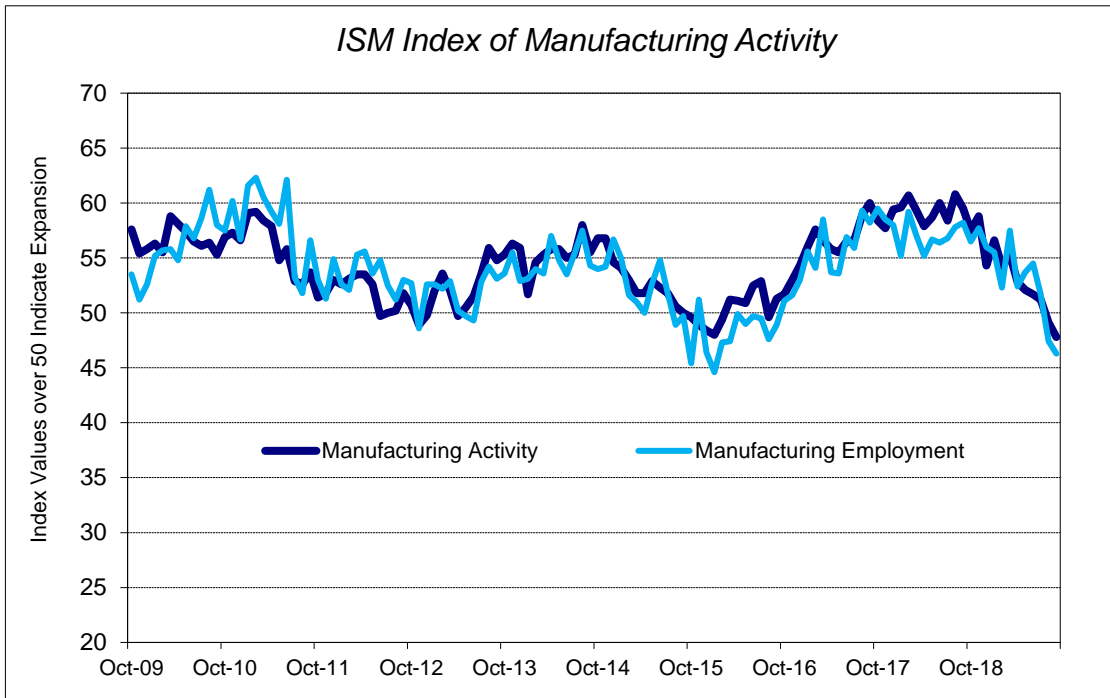
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



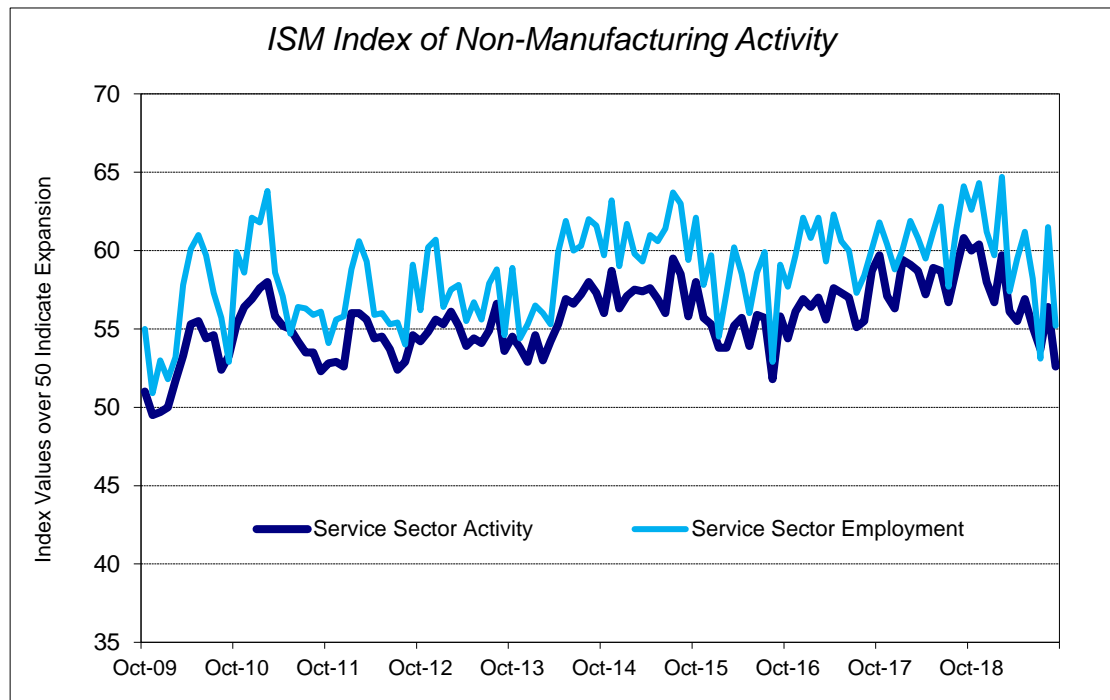
Source: Federal Reserve

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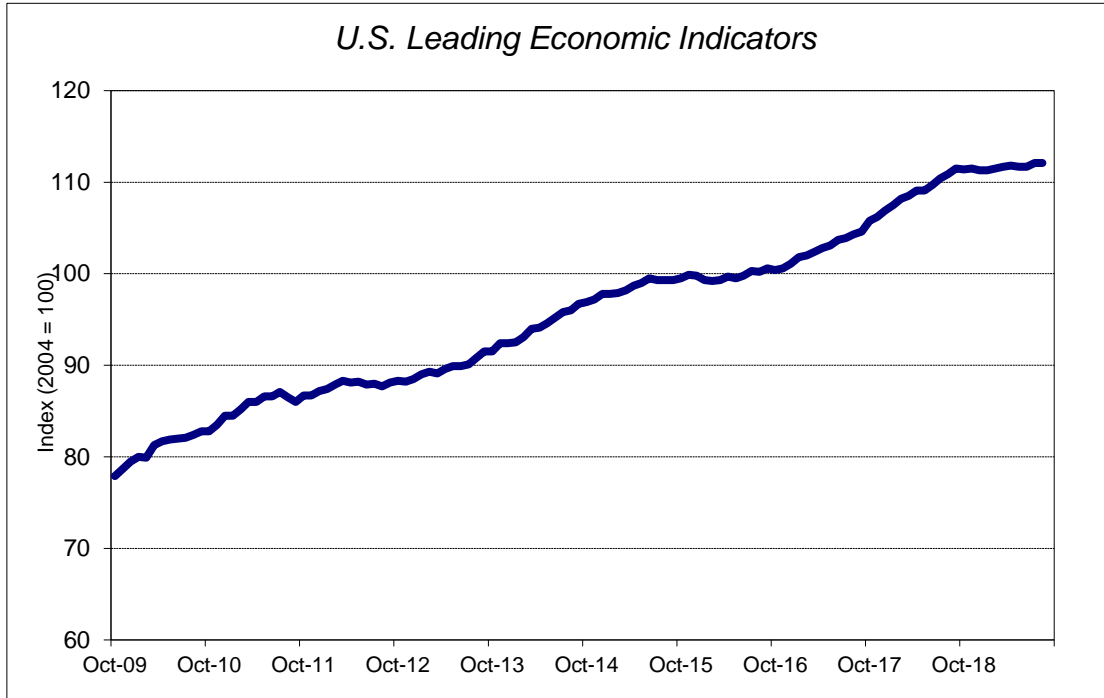
Source: Institute for Supply Chain Management



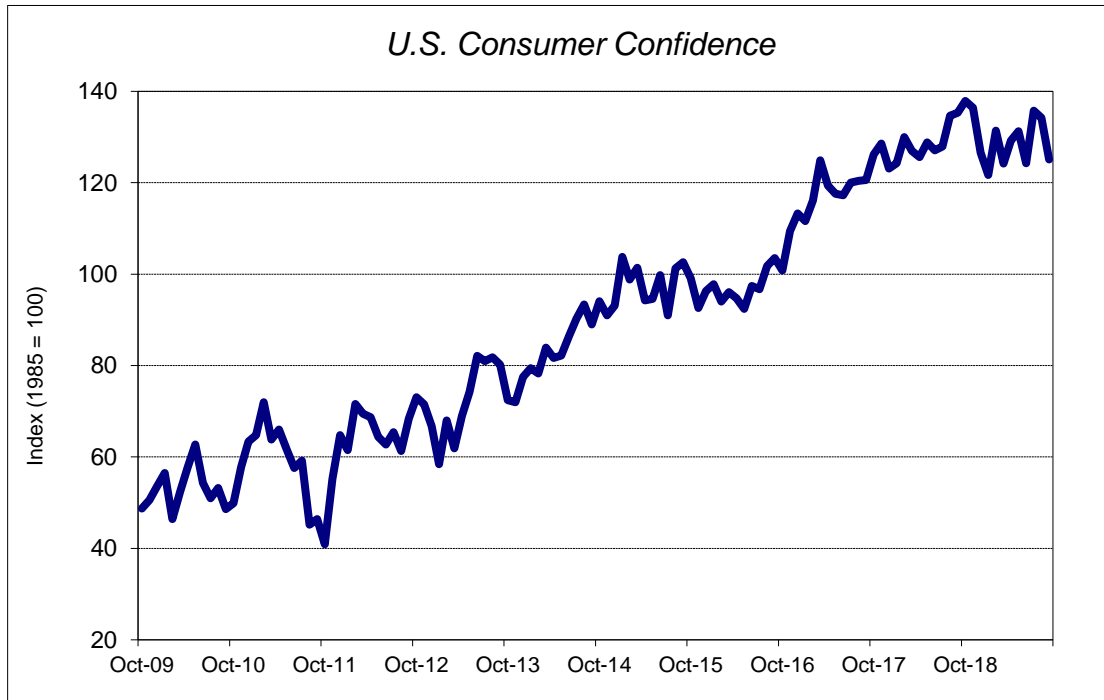
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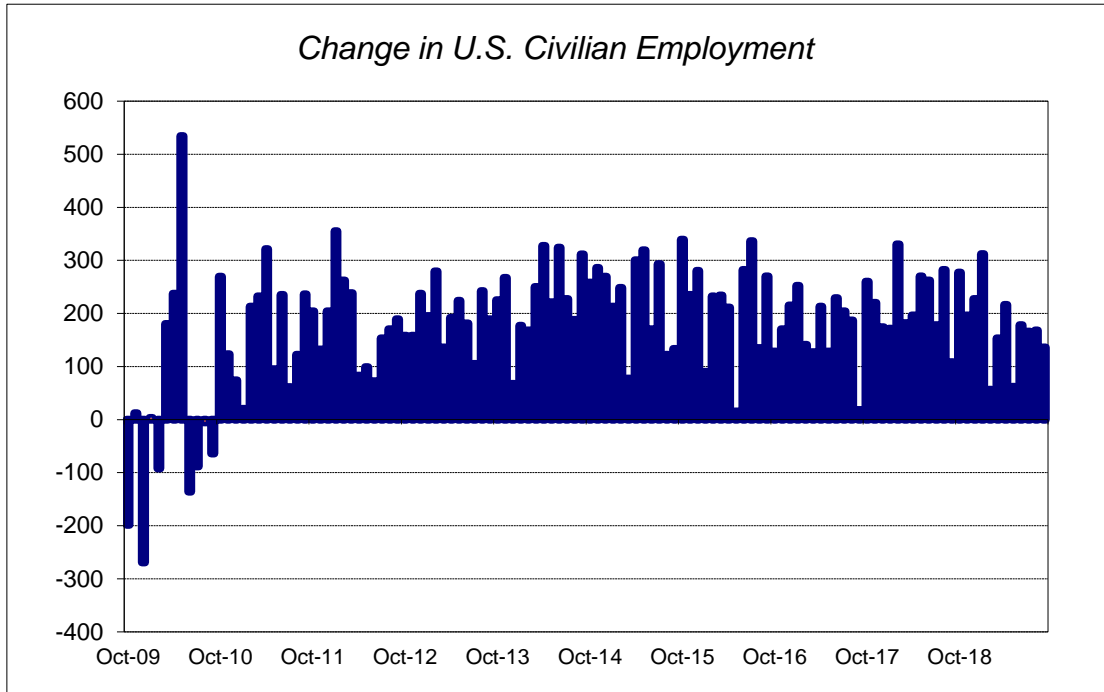
Source: The Conference Board



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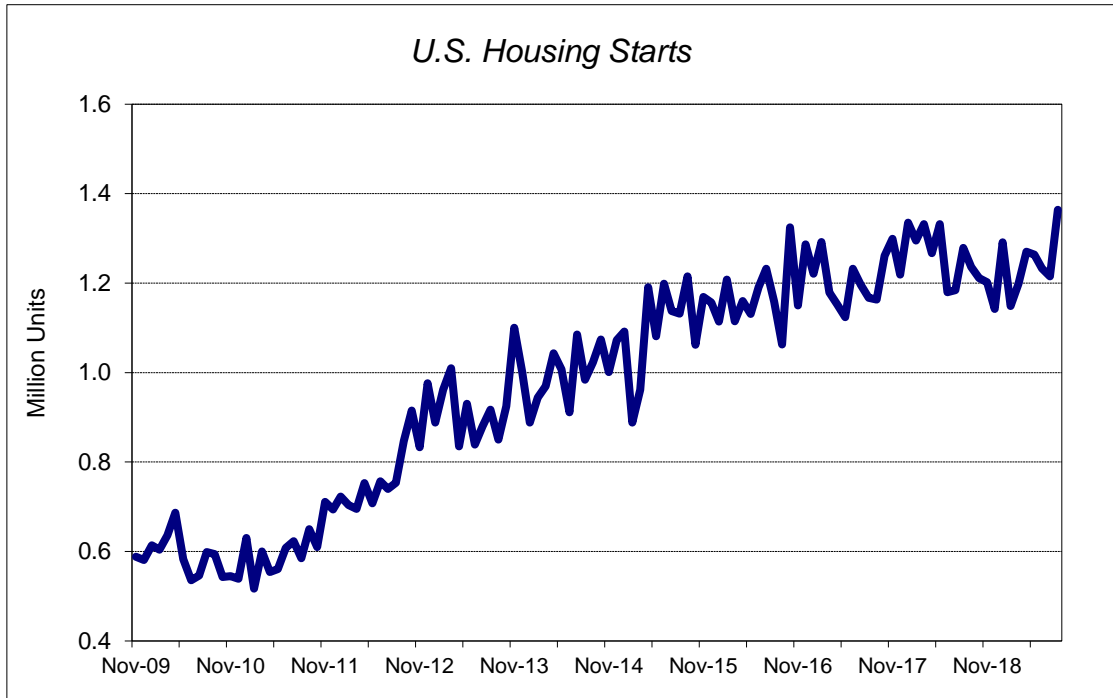
Source: Bureau of Labor Statistics



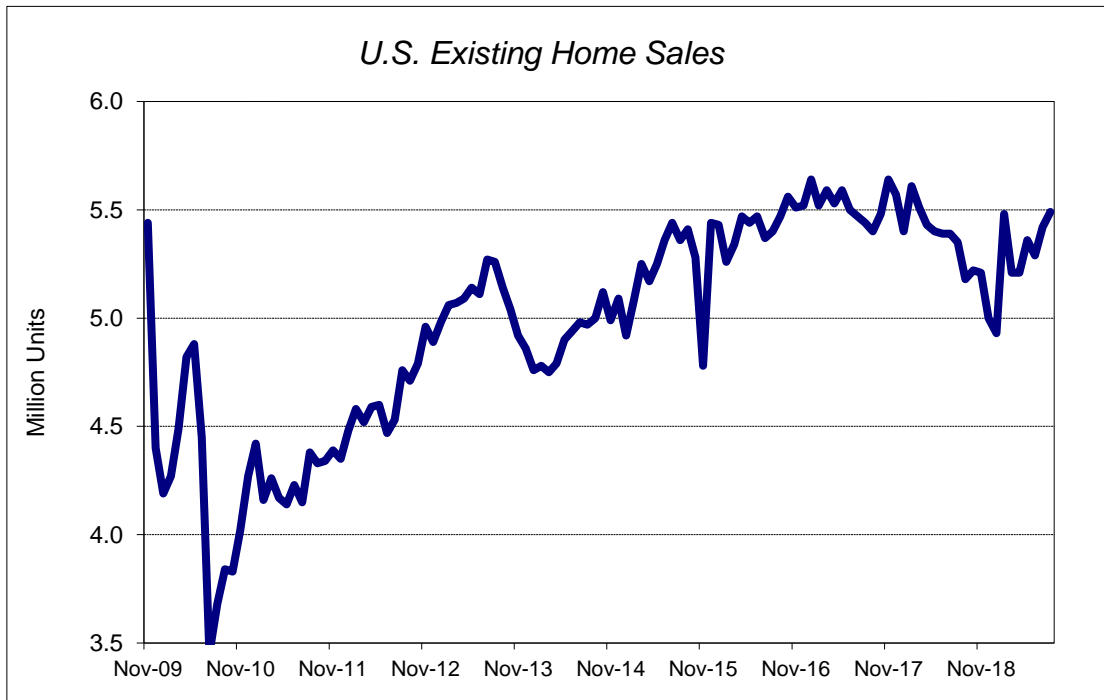
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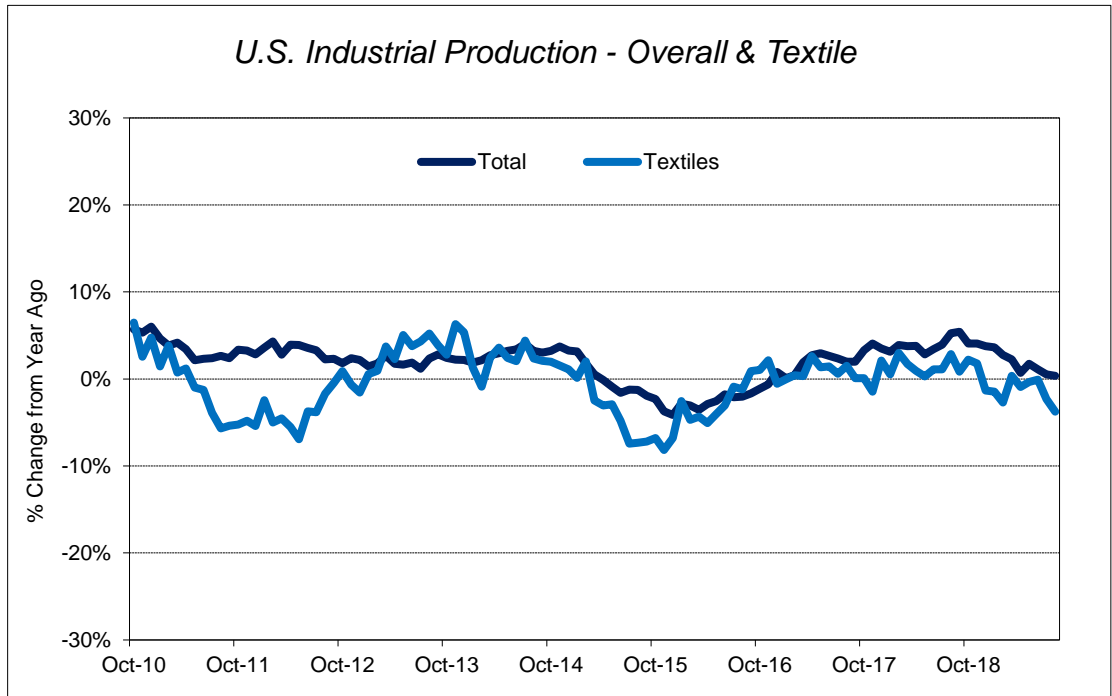
Seasonally Adjusted Annual Rate; Source: Department of Commerce



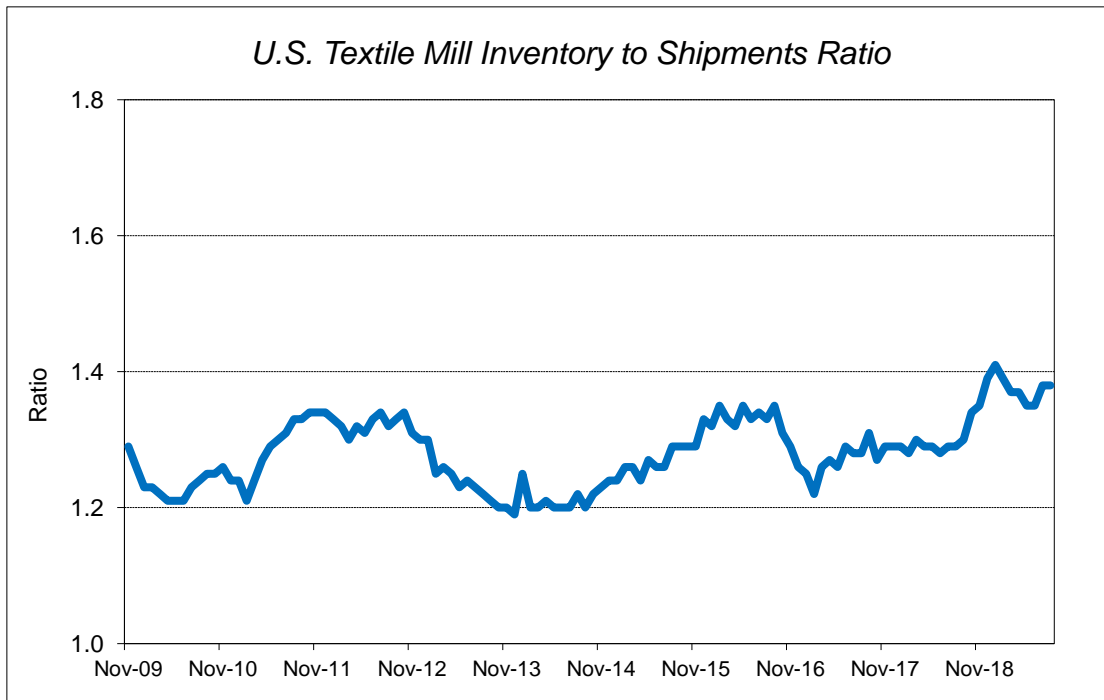
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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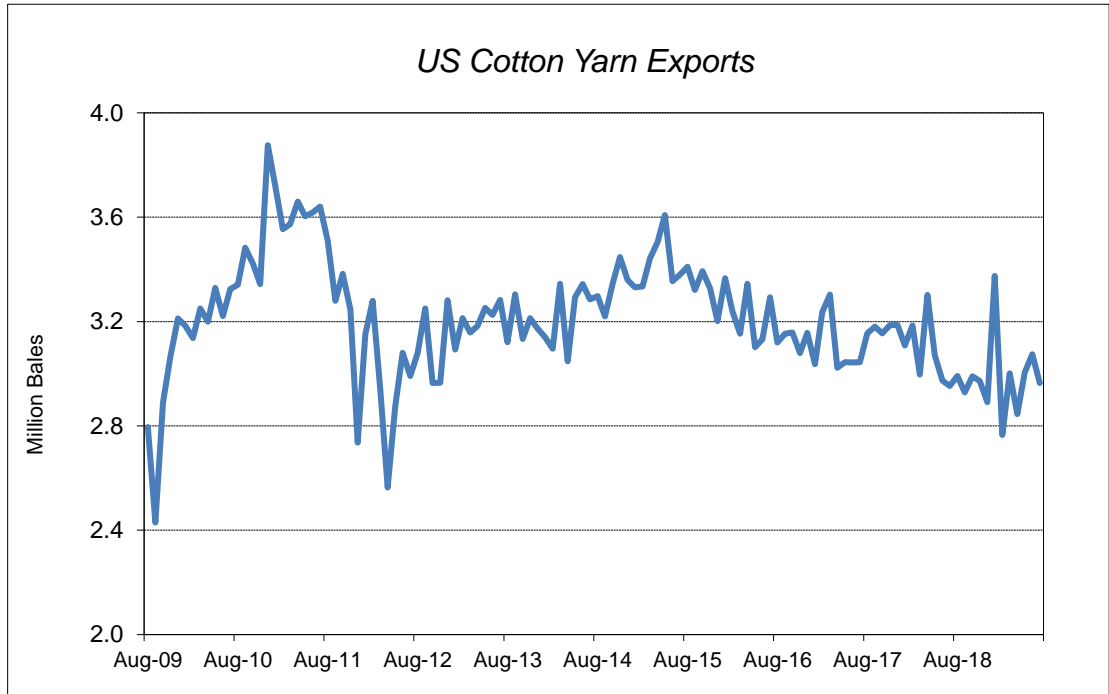
Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

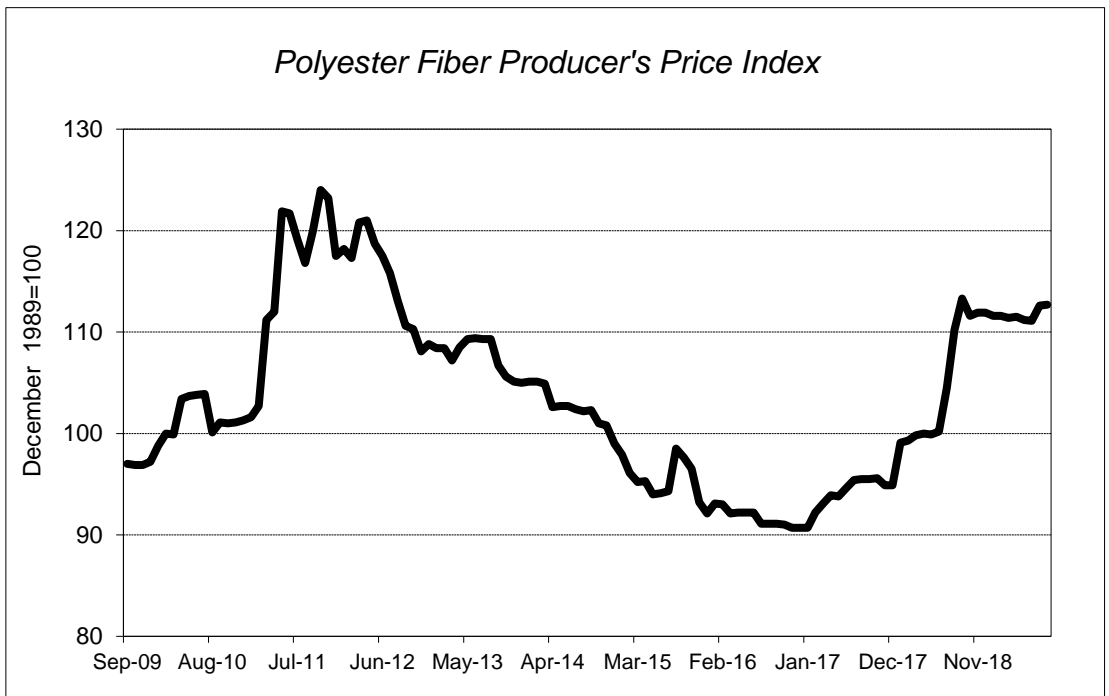
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Seasonally Adjusted Annual Rate

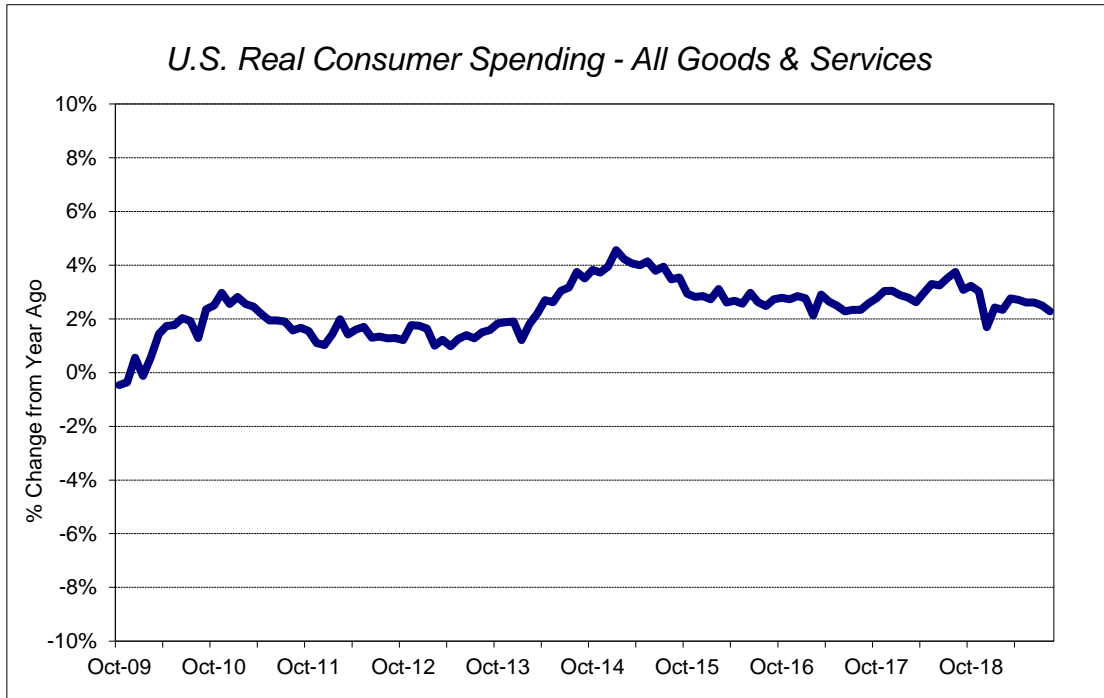
Source: USDA ERS



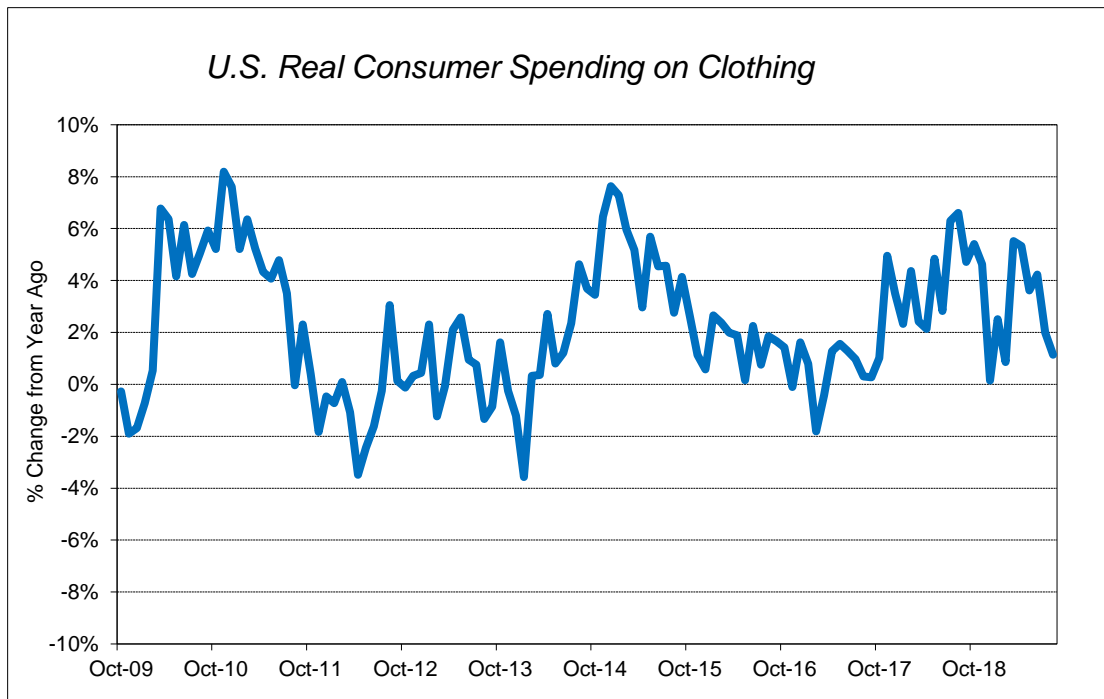
Source: Bureau of Labor Statistics

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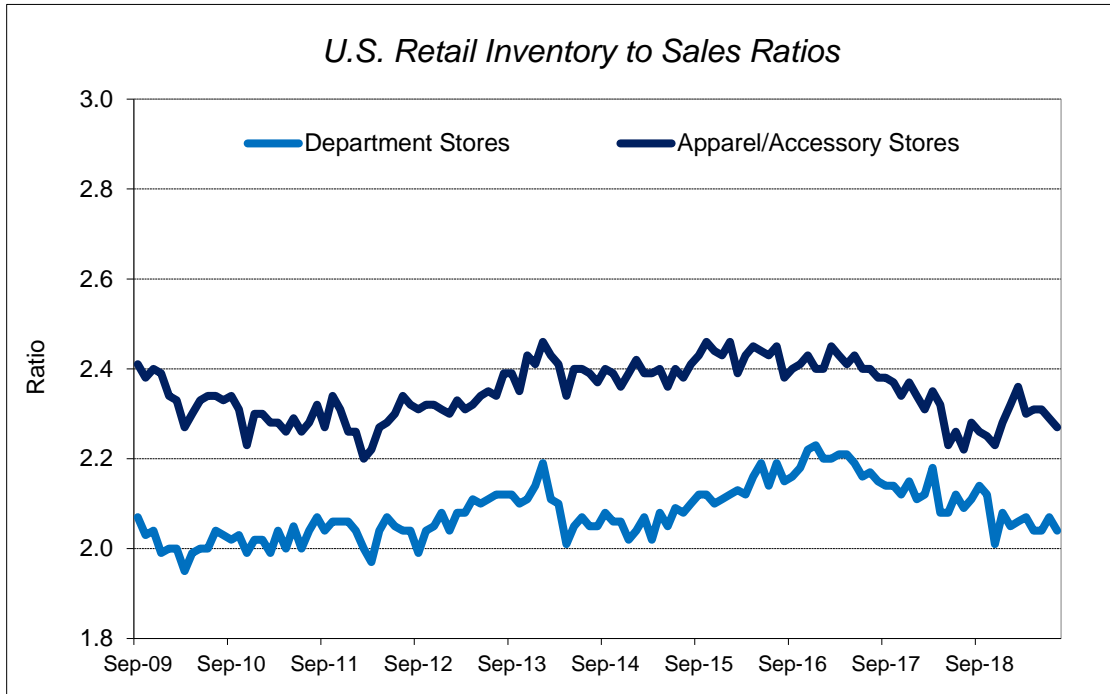
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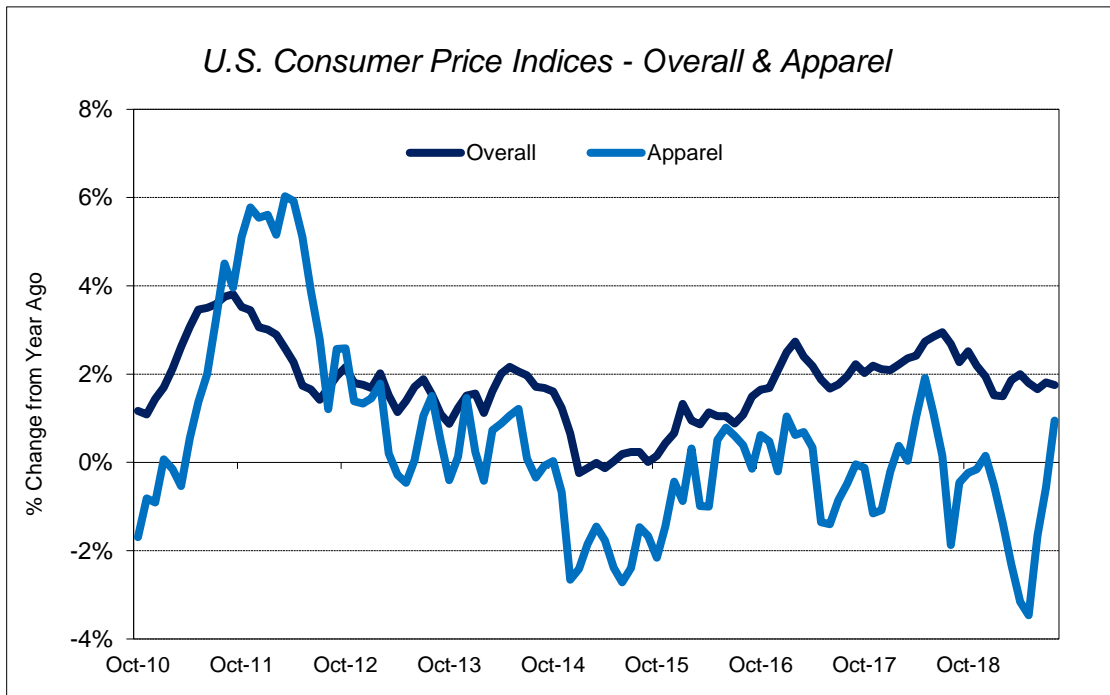
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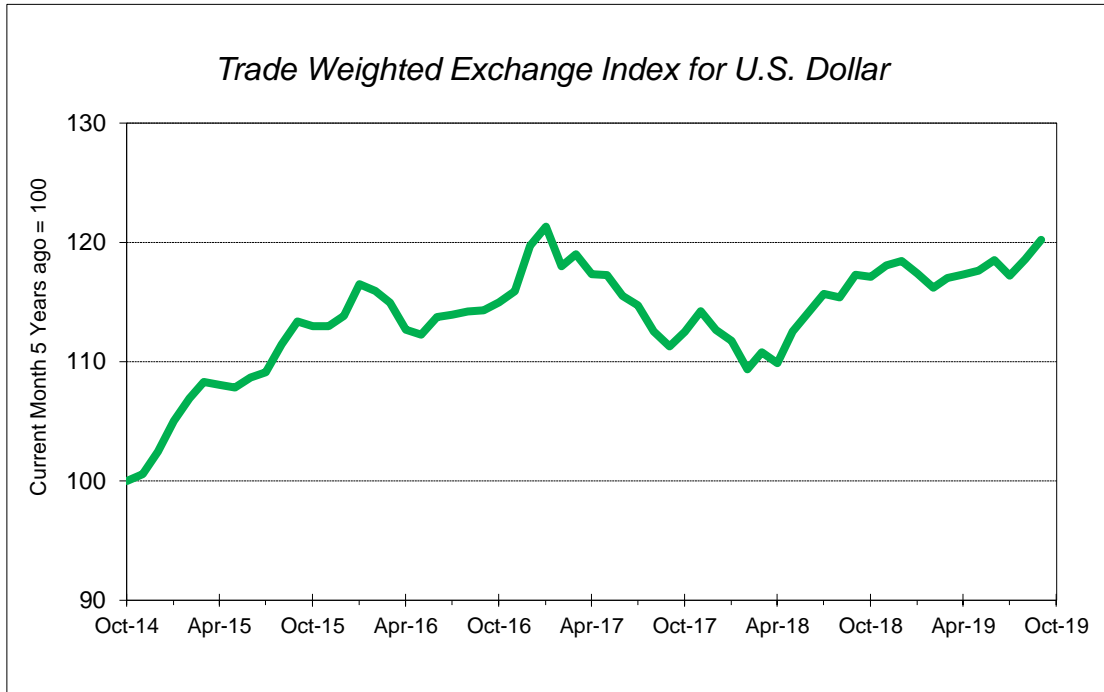
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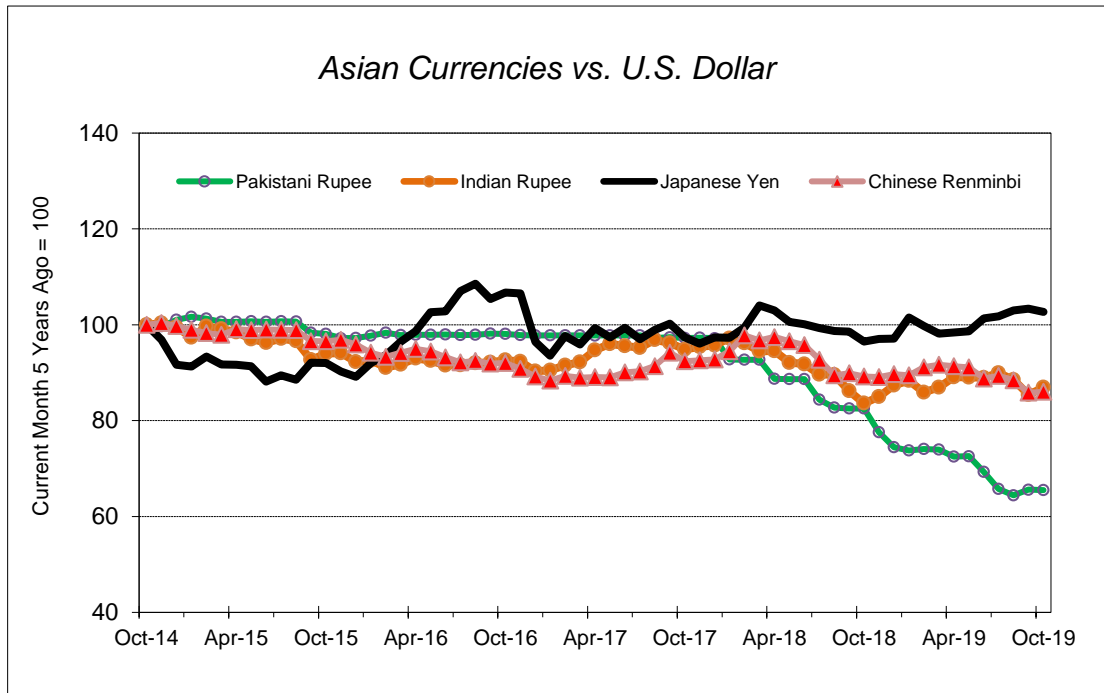
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Source: Federal Reserve

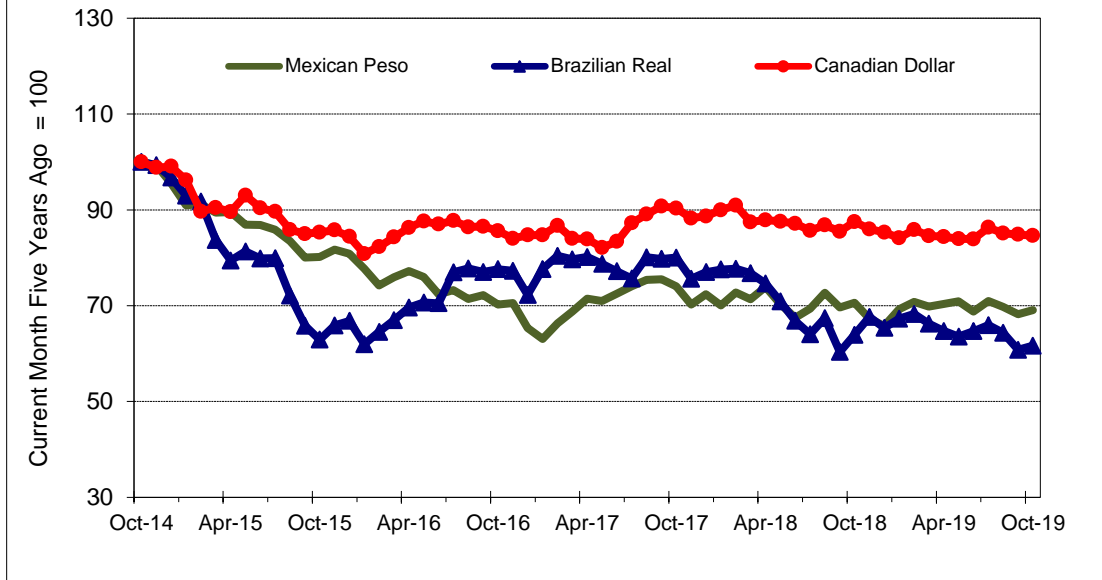


Source: Reuters

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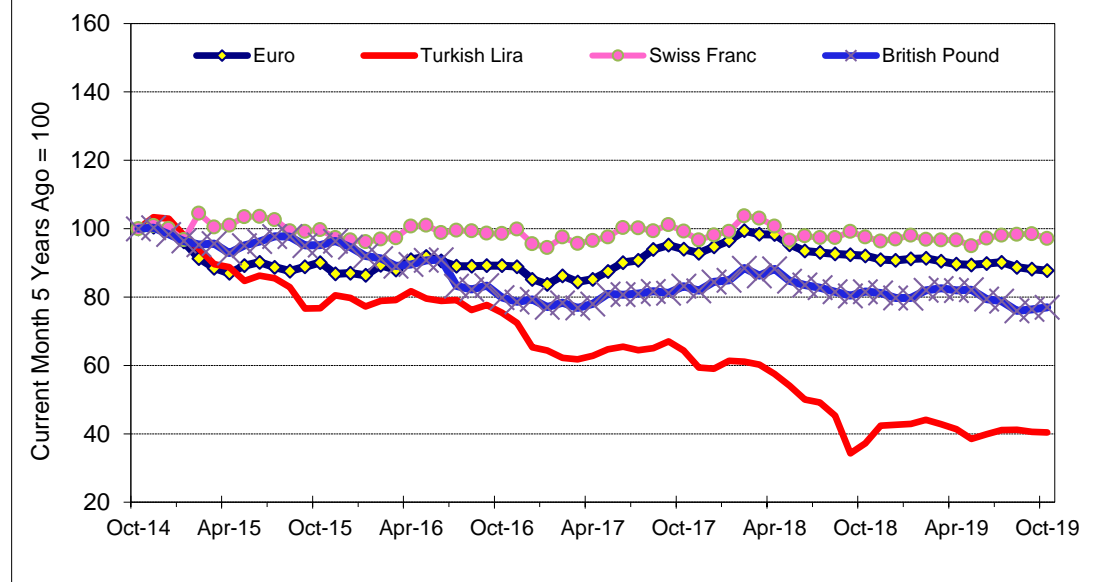


North & South American Currencies vs. U.S. Dollar



Source: Reuters

Index of European Currencies vs. U.S. Dollar



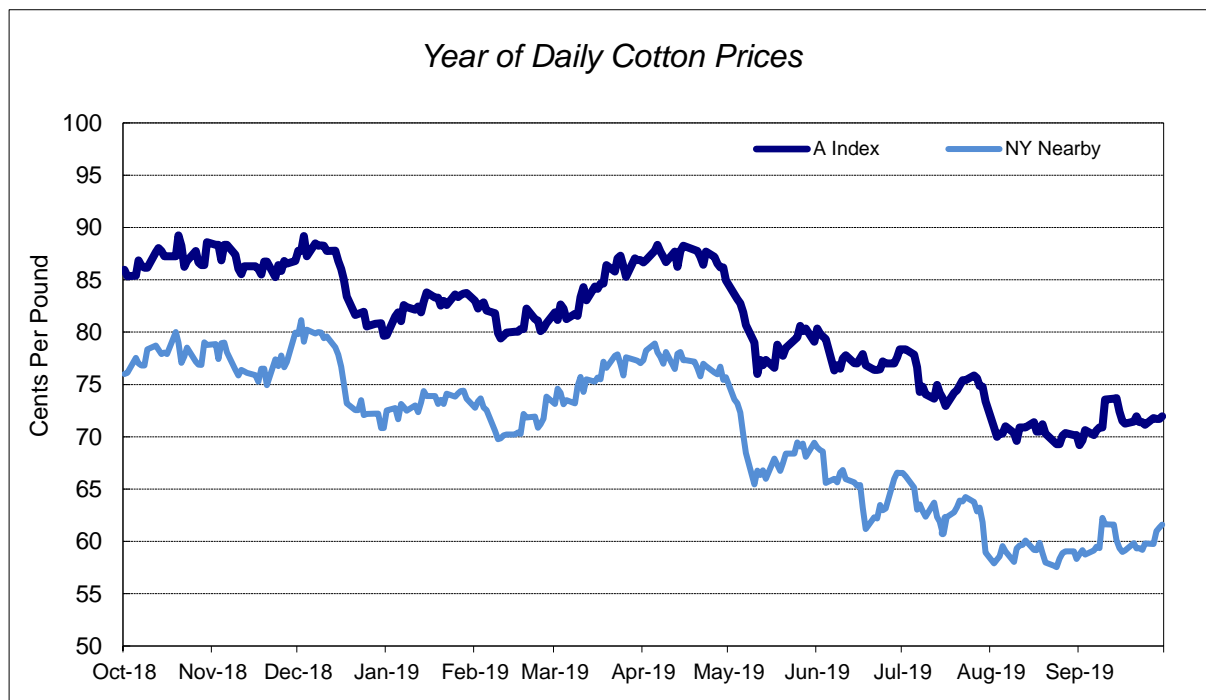
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U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20 August	2019/20 September
Beginning Stocks	3.7	3.8	2.8	4.2	5.3	4.9
Production	12.9	17.2	20.9	18.4	22.5	21.9
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.6	27.8	26.7
Mill-Use	3.5	3.3	3.2	3.0	3.1	3.0
Exports	9.2	14.9	16.3	14.8	17.2	16.5
Demand	12.6	18.2	19.5	17.7	20.3	19.5
Ending Stocks	3.8	2.8	4.2	4.9	7.2	7.2
Stocks/Use Ratio	30.2%	15.1%	21.5%	27.3%	35.5%	36.9%



Sources: ICE Futures U.S. & Cotton Outlook

[return to text](#)

