

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



August 2019

www.cottoninc.com

Macroeconomic Overview: According to the advance (preliminary) estimate released by the Bureau of Economic Analysis, the U.S. grew at a 2.1% annualized rate in the second quarter. In the first quarter, the U.S. economy grew 3.1%. The slowdown in the second quarter was primarily a result of a sharp reversal in business inventories, which went from a 6.2% rate of growth in the first quarter to a 5.5% reduction in the second quarter. Consumer spending strengthened in the second quarter, rising from 1.1% to 4.3% quarter-over-quarter. A strong labor market that has pushed unemployment to multi-decade lows and which has started to lift wages has supported spending growth.

The International Monetary Fund (IMF) lowered its forecasts for global GDP last month (from the 3.3% projected in April to 3.2% for 2019, from the 3.5% projected in April to 3.4% for 2020). In the accompanying report, the IMF indicated that risks remain to the downside. The list of specific risks featured the impact of trade tensions. A central concern was the U.S.-China dispute, but also included Brexit.

Recent talks between the U.S. and China did not result in significant progress. In response, the U.S. initiated plans to increase tariffs on all goods not covered by previous rounds of increases (collectively valued at \$300 billion) by ten percentage points. This set of goods includes U.S. imports of Chinese apparel and home textiles, as well as many other consumer goods (previous rounds of increases were concentrated on intermediate goods used by manufacturers). China represents 40% of all U.S. apparel imports and 30% of U.S. cotton-dominant apparel imports, so these increases have the potential for increasing consumer apparel prices. A response to the increase in U.S. tariffs has been a decline in the Chinese RMB against the USD. For the first time since 2008, it takes more than seven RMB to equal the dollar. The depreciation of the RMB relative to the USD will offset some of the effects of higher tariffs on sourcing costs.

Due to concerns about future growth, the Federal Reserve lowered interest rates for the first time since 2008 at its meeting in late July. Last year, the Federal Reserve increased rates four times, so the decrease represents a significant reversal in policy. The Federal Reserve indicated that they have a favorable outlook for the U.S. economy and that the decrease is designed to support it. The decrease was motivated by concern from downside risks, including a weaker global outlook and trade-related uncertainty.

Central banks and governments in other major economies have also moved to support growth by lowering rates. The Euro Zone expanded at a 0.8% annualized rate in the second quarter (growth was 1.8% in the first quarter), and the European Central Bank is widely expected to lower interest rates in September. China has already implemented multiple rounds of stimulus this year. Despite those efforts, the annualized rate of growth in China was 6.3% in the second quarter, which is the slowest rate in 27 years.

Employment: The U.S. economy added 164,000 jobs in July. Revisions to estimates for May and June were both negative, with the figure for May falling from +72,000 to +62,000 and the figure for June falling from +224,000 to +193,000. With these changes, job gains over the past twelve months averaged 187,000.

The unemployment rate held steady at 3.7%. This level is the lowest since the late 1960s. Wages were 3.2% higher year-over-year in July. Wage growth has been sluggish since the financial crisis. It was not until August 2018 that wages were able to climb above three percent.

Consumer Confidence & Spending: Consumer confidence increased sharply in July, rising to 135.7. This is the highest value in 2019 and is the third-highest value since the financial crisis (was higher in October and November 2018).

Overall consumer spending rose at the slowest annual rate in five months in June, when it was up 0.2% month-over-month and up 2.5% year-over-year. Consumer spending on apparel decreased slightly month-over-month (-0.1%). However, this followed three months of strong increases, and clothing spending was up 4.3% year-over-year.

Consumer Prices & Import Data: The CPI for apparel, representing retail garment prices, rose 1.0% month-over-month in June. The increase followed three months of decline and ran counter to the downward trend in retail apparel prices since early 2018. Year-over-year, the CPI was down 1.7%. Relative to early 2018, retail prices were 2.2% lower.

In seasonally-adjusted terms, the average price per square meter equivalent of cotton-dominant apparel imports decreased slightly month-over-month in June (from \$3.48/SME to \$3.46/SME). Year-over-year, the average import prices for cotton-dominant apparel was 2.3% higher. China's share of cotton-dominant imports was stable at a level near 28% in June (seasonally-adjusted data). China's share of U.S. apparel imports of all fibers was also stable near 40%. The tariff increases planned in September may alter this stability, but the series of threats issued since last summer have not led to a major shift in market share out of China yet.

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	

Executive Cotton Update

U.S. Macroeconomic Indicators & Cotton Prices
August 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%	2.6%	2.6%	2.1%	1.1%	3.1%	2.1%	% Chg. Quarter/Quarter	Department of Commerce

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		
ISM Index of Manufacturing Activity	54.8	56.4	53.8	52.2	52.1	51.7	51.2	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.0	57.2	56.7	55.8	56.9	55.1	53.7	Index	Institute for Supply Management
Consumer Confidence	112.0	122.5	127.0	128.3	131.3	124.3	135.7	Index	The Conference Board
Change in Non-Farm Payrolls	206.8	196.6	165.3	157.0	62	193	164	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.6%	4.2%	3.8%	3.6%	3.6%	3.7%	3.7%	Rate	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		
US Interest Rates									
Federal Funds	0.9%	1.4%	2.4%	2.4%	2.4%	2.4%	2.4%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.5%	2.5%	2.3%	2.4%	2.1%	2.1%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	103.4	106.7	111.6	111.7	111.8	111.8	111.5	Index	The Conference Board
Housing Starts	11.8	12.3	12.4	12.6	1.3	1.3	1.3	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.2	5.3	5.2	5.4	5.3	Annual pace, millions of units	National Association of Realtors

Industrial and Textile Data

Monthly Series with Latest Data for June

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
US Industrial Production	105.4	106.3	109.6	109.5	109.2	109.6	109.6	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	108.0	104.8	103.4	102.6	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Monthly 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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	3.0	3.0	3.0	3.0	2.9	3.0	million 480lb bales	USDA ERS

Monthly Series with Latest Data for June

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
US Textile Mill Inventory/Shipments Ratio	1.29	1.31	1.37	1.35	1.37	1.35	1.34	Ratio	Department of Commerce

Retail Data

Monthly Series with Latest Data for June

	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	April	May	June		
US Real Consumer Spending									
All Goods and Services	3.0%	2.7%	2.5%	2.6%	2.7%	2.6%	2.5%	% Chg. Year/Year	Department of Commerce
Clothing	2.9%	2.5%	3.6%	4.3%	5.3%	3.4%	4.3%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.5%	2.1%	1.7%	1.8%	2.0%	1.8%	1.7%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.7%	-0.4%	-2.1%	-2.8%	-3.2%	-3.5%	-1.7%	% Chg. Year/Year	Bureau of Labor Statistics

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

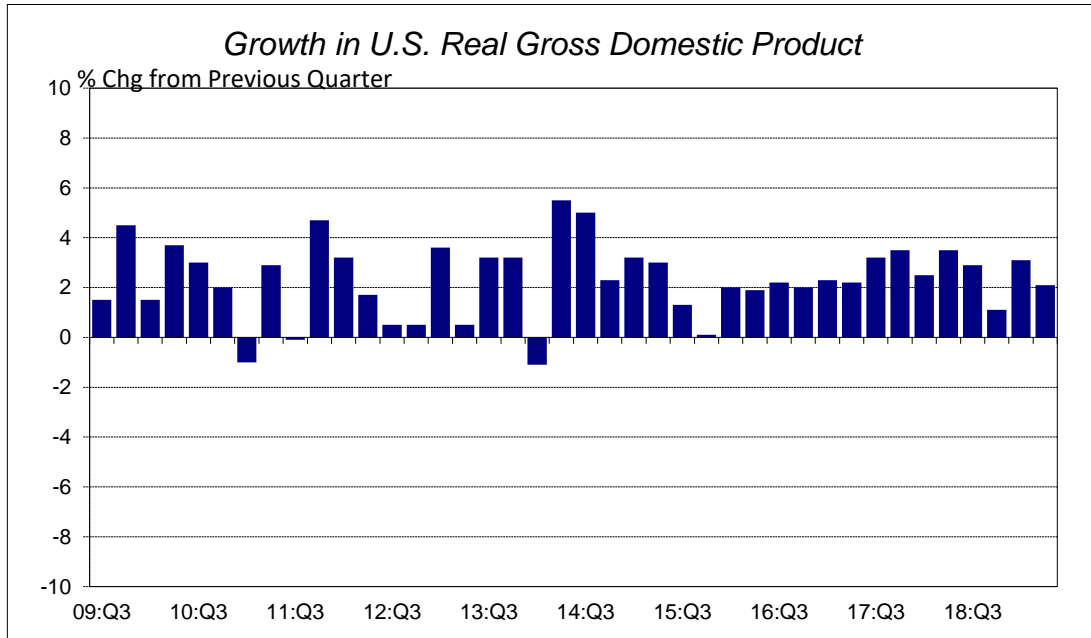
Executive Cotton Update

Daily Cotton Price and Currency Data
August 2019

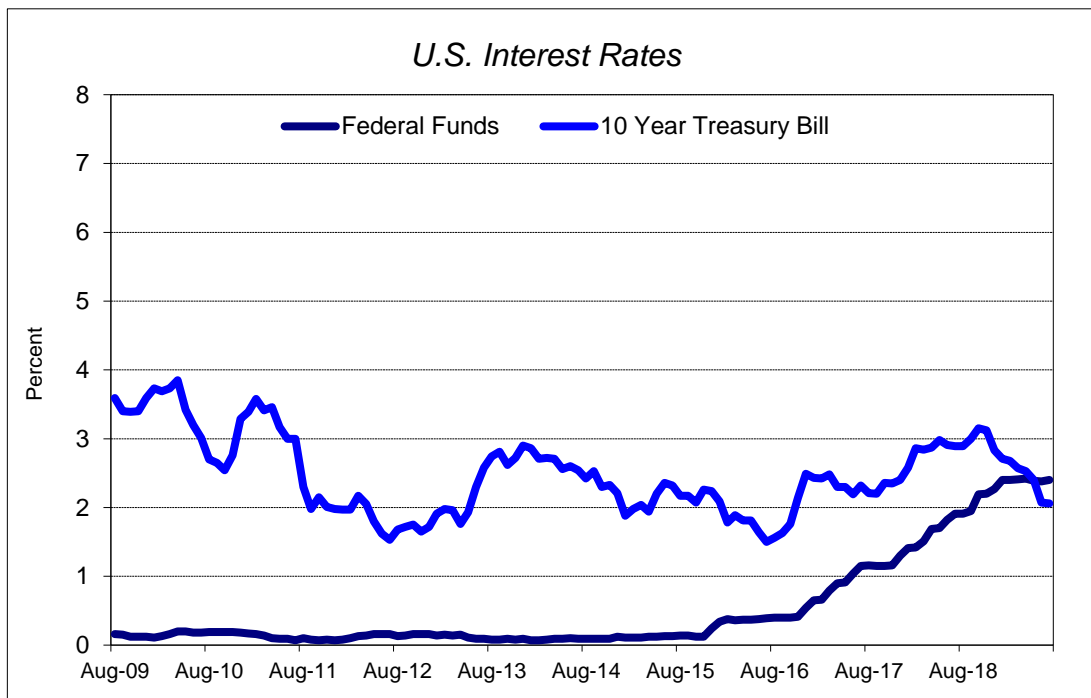


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
NY Nearby	72.0	73.2	75.5	72.9	69.5	66.3	63.8	cents/pound	ICE
A Index	80.6	82.7	85.2	82.7	80.2	77.6	75.5	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
Dollar Trade Weighted Exchange Index	110.6	113.1	115.0	115.6	115.5	116.5	114.9	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.56	6.71	6.78	6.84	6.74	6.91	6.88	Chinese Renminbi/US dollar	Reuters
Indian Rupee	66.11	67.29	69.74	69.19	69.36	69.27	68.95	Indian Rupee/US dollar	Reuters
Japanese Yen	112.63	110.32	110.10	109.35	111.54	108.38	108.12	Japanese Yen/US dollar	Reuters
Pakistani Rupee	111.69	117.43	144.05	148.85	141.20	147.85	157.50	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.38	3.48	3.84	3.91	3.97	3.90	3.85	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.29	1.31	1.33	1.33	1.35	1.35	1.31	Canadian dollar/US dollar	Reuters
Mexican Peso	17.87	19.18	19.26	19.32	19.10	19.77	19.09	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.73	0.77	0.77	0.78	0.77	0.79	0.79	British Pound/US dollar	Reuters
Euro	0.88	0.88	0.89	0.89	0.89	0.89	0.89	Euro/US dollar	Reuters
Swiss Franc	0.98	0.98	1.00	1.00	1.02	1.00	0.99	Swiss Franc/US dollar	Reuters
Turkish Lira	3.65	4.31	5.62	5.82	5.97	5.85	5.63	Turkish Lira/US dollar	Reuters



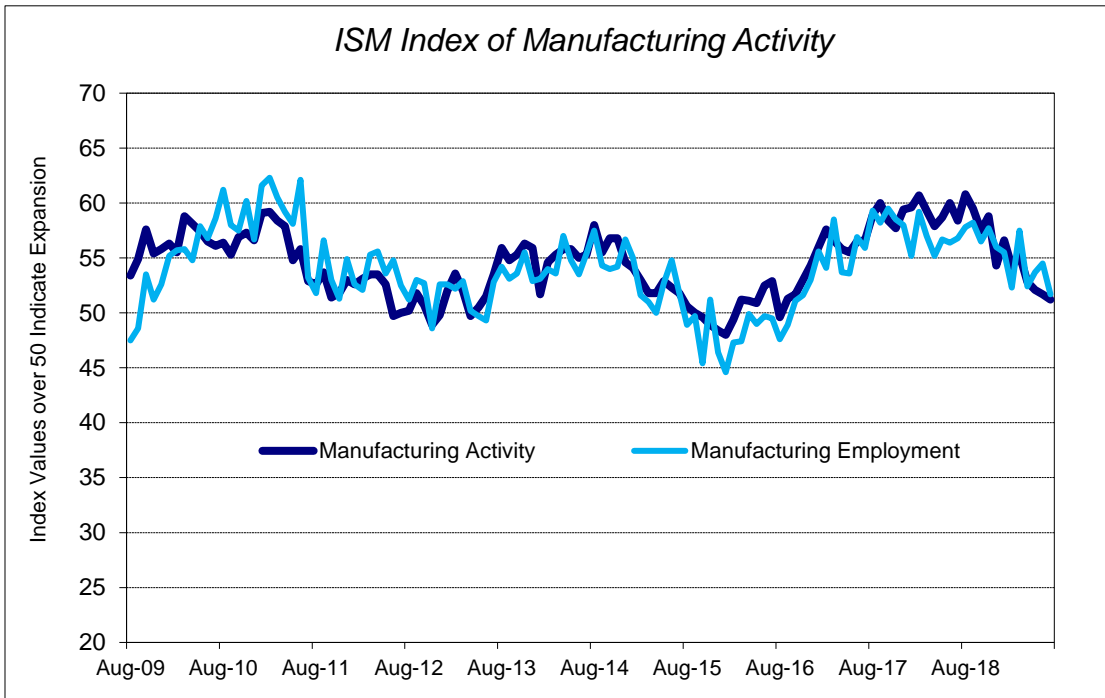
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



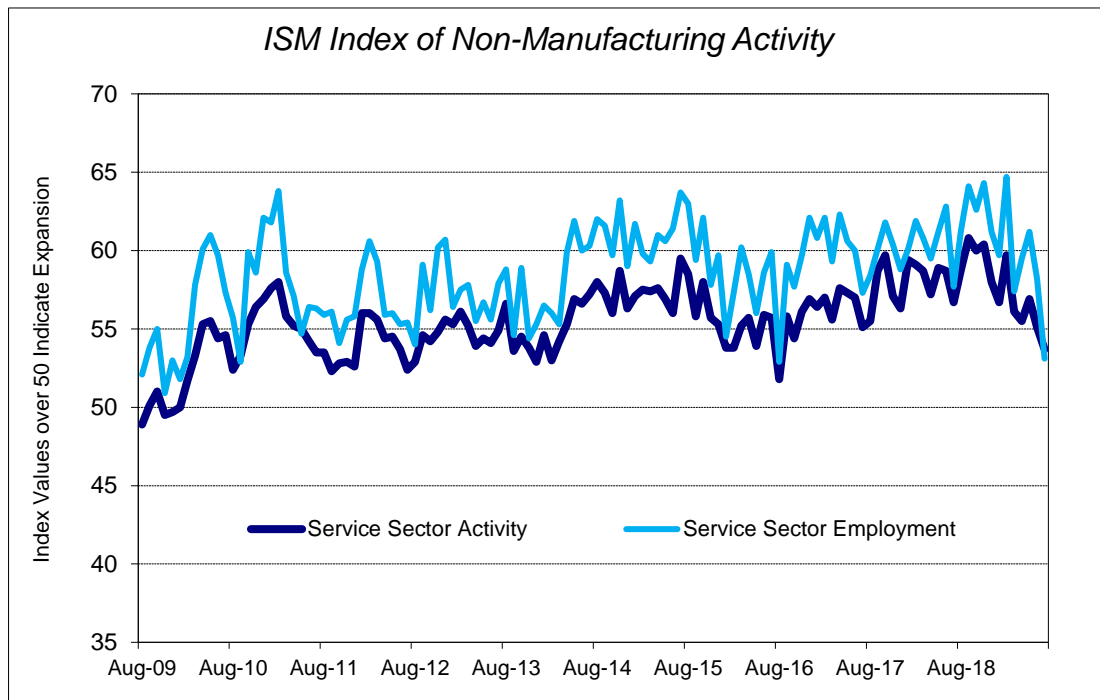
Source: Federal Reserve

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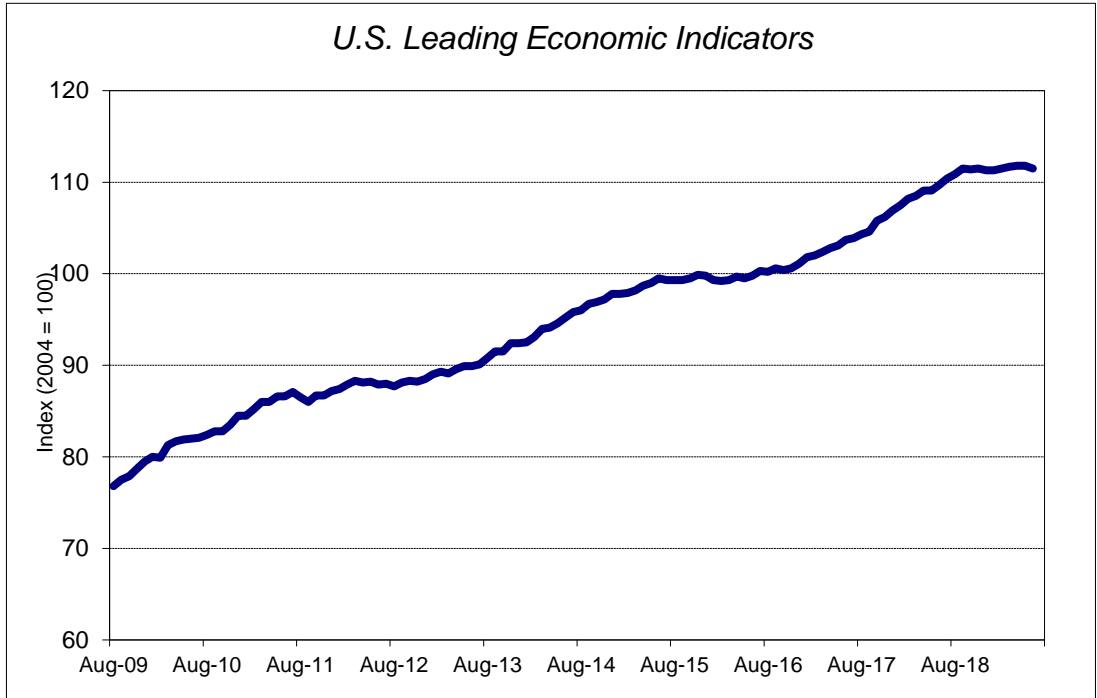
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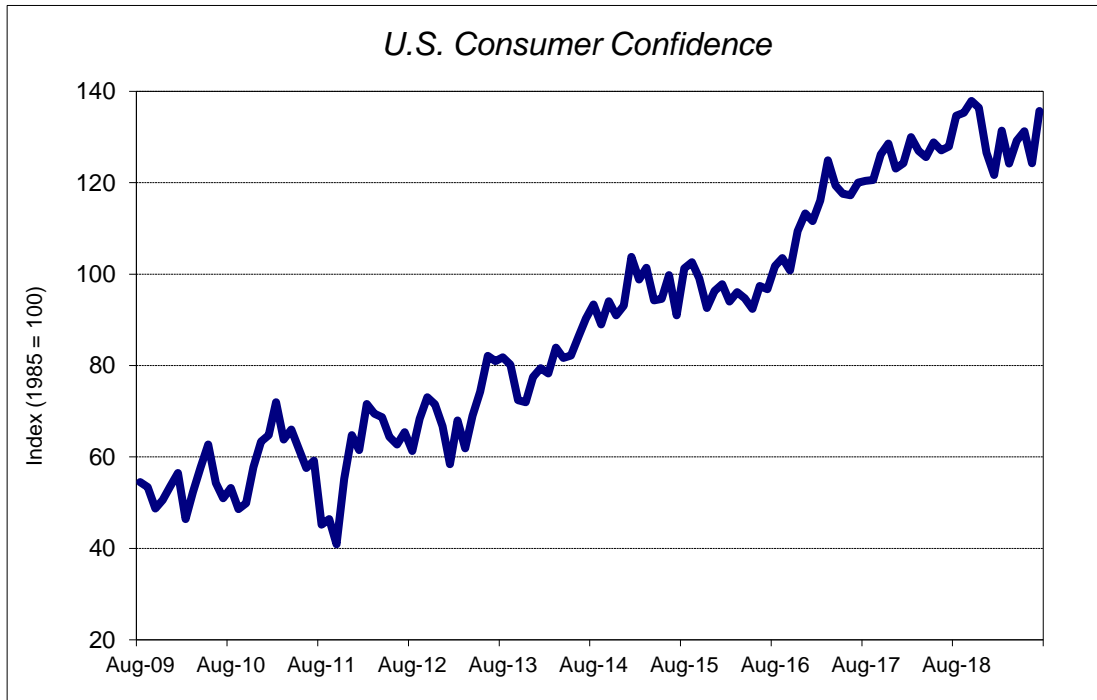
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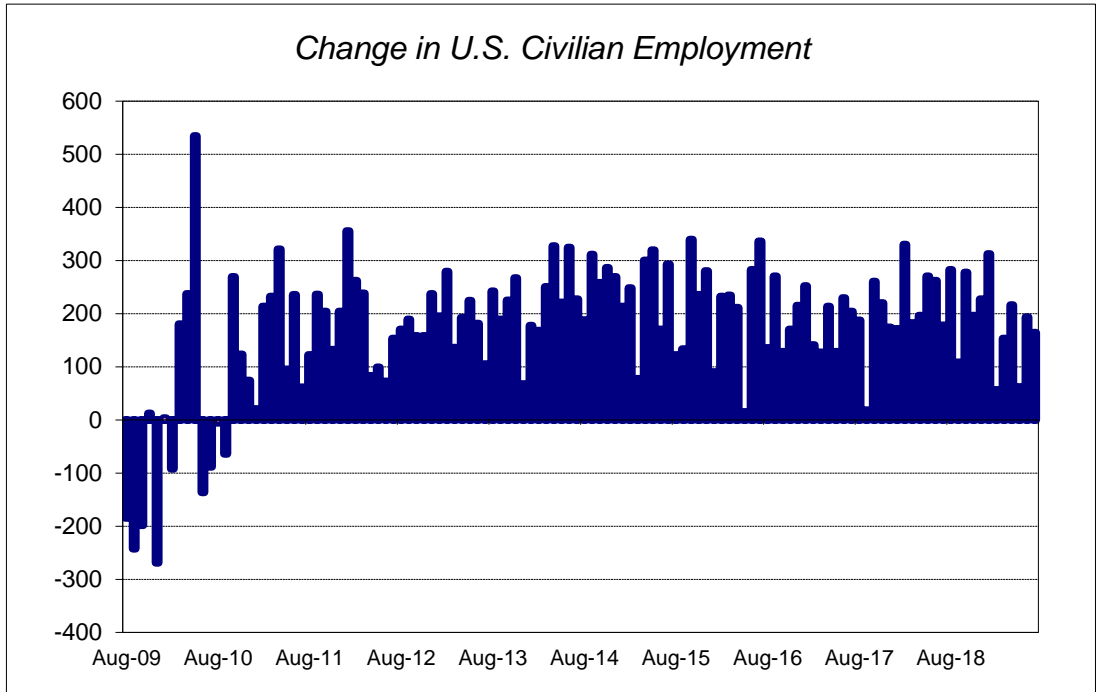
Source: The Conference Board



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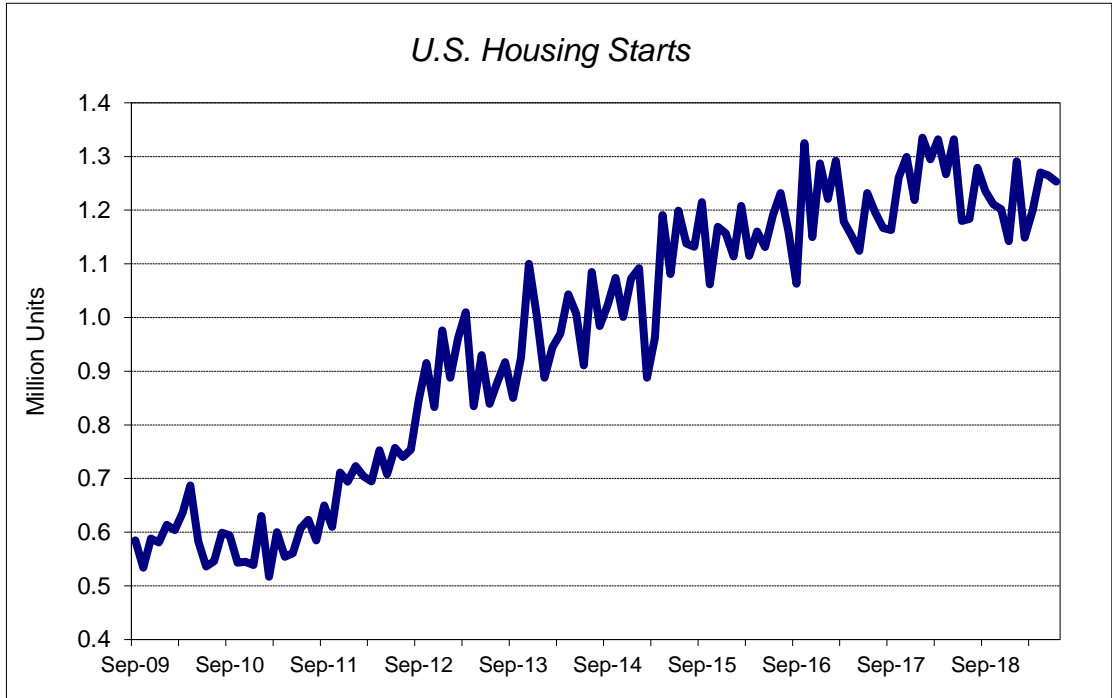
Source: Bureau of Labor Statistics



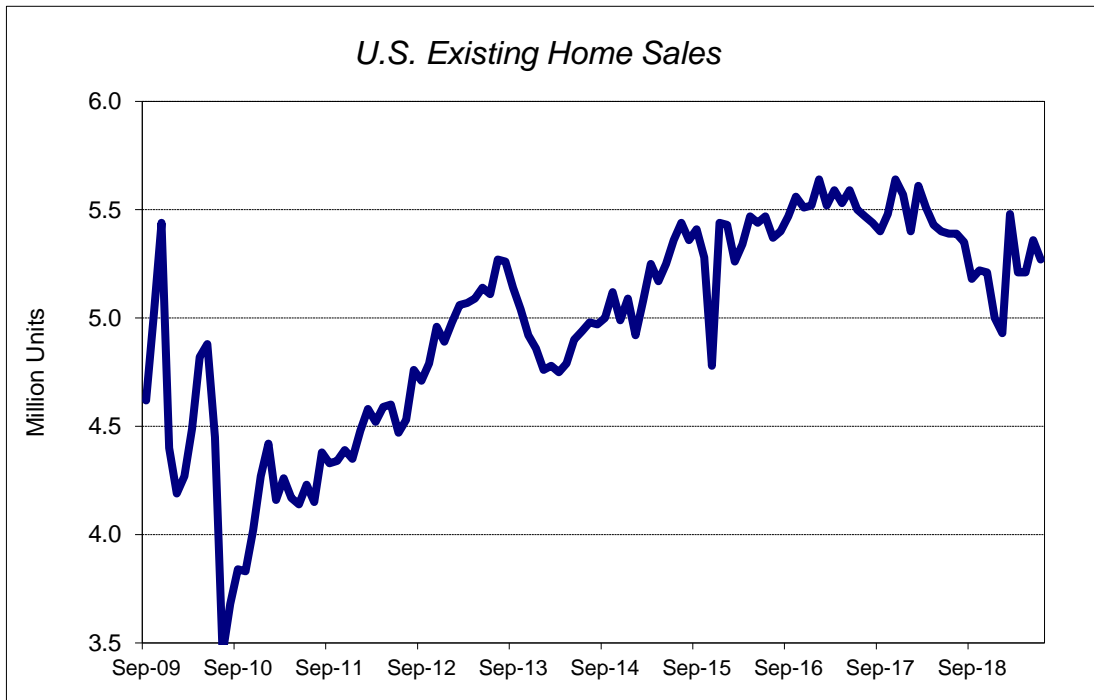
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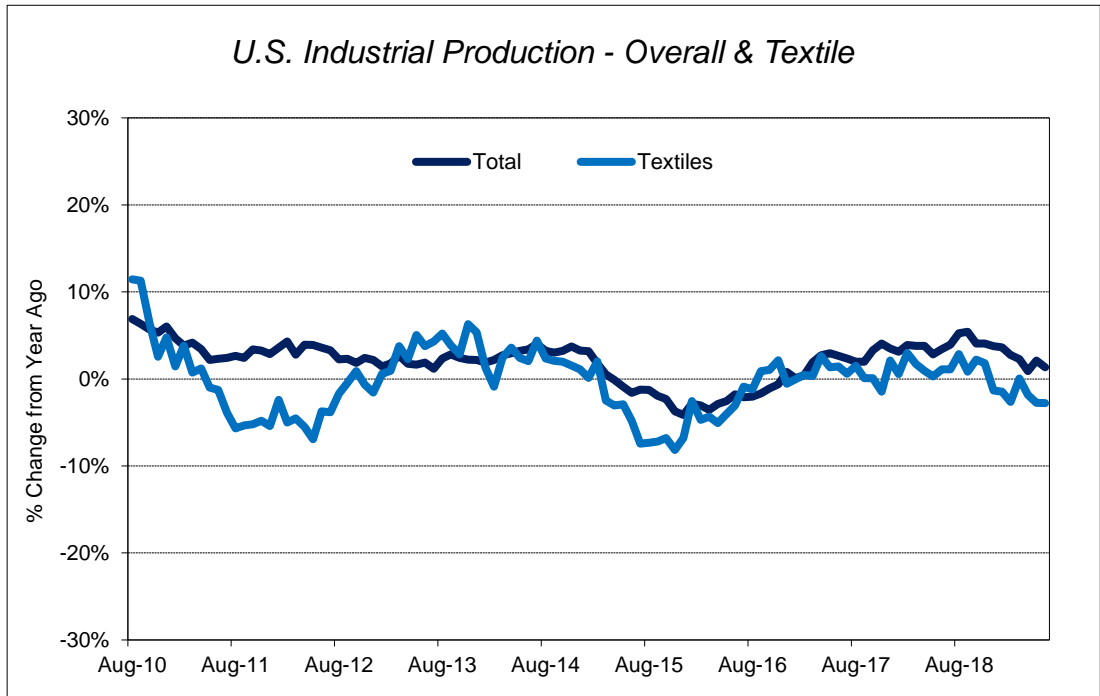
Seasonally Adjusted Annual Rate; Source: Department of Commerce



Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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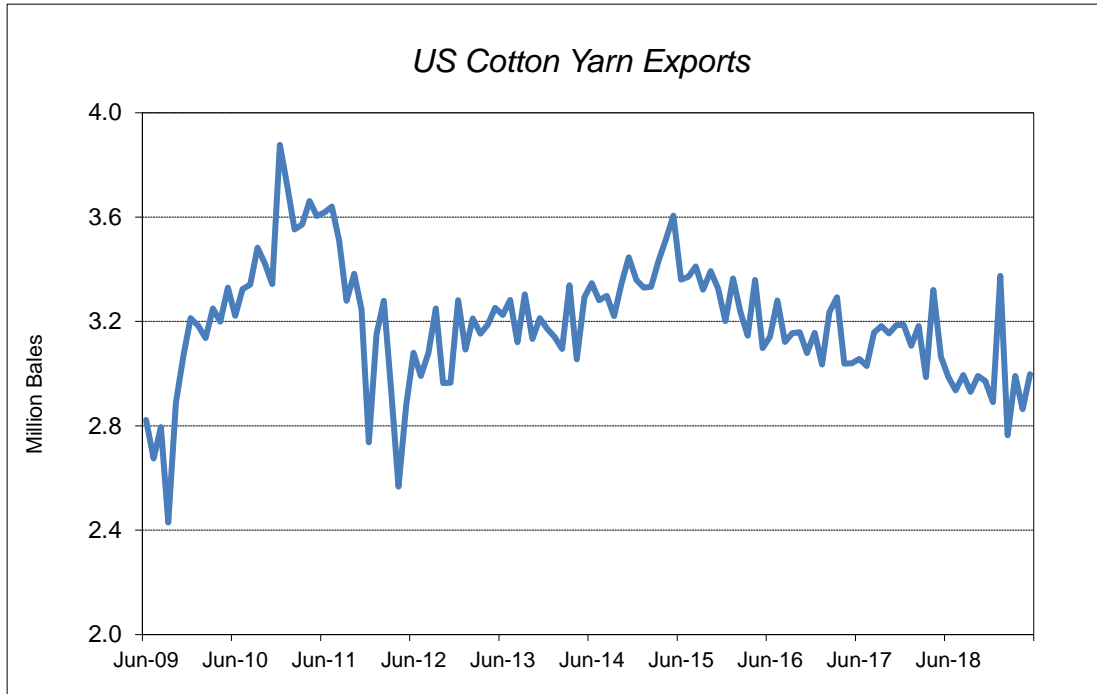
Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

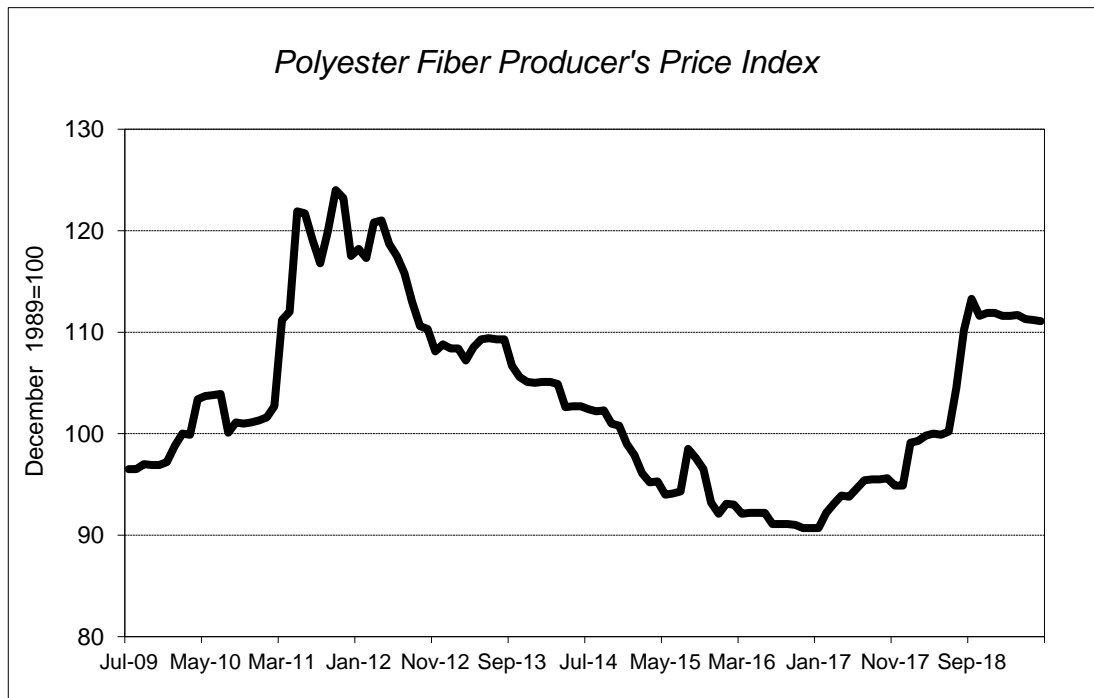
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Seasonally Adjusted Annual Rate

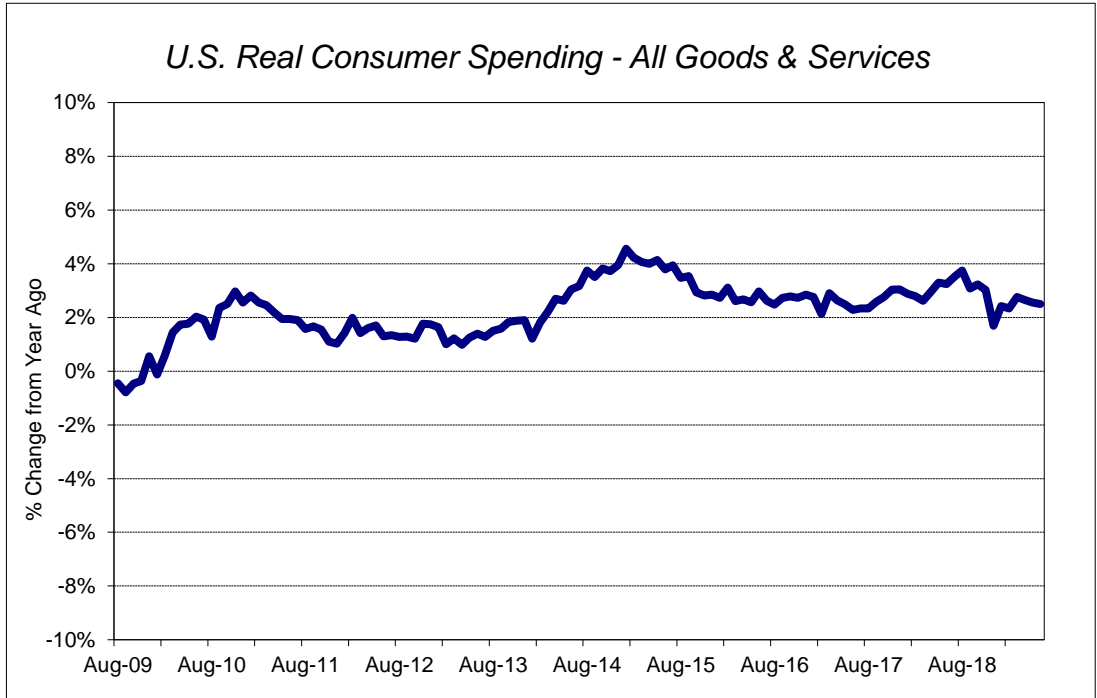
Source: USDA ERS



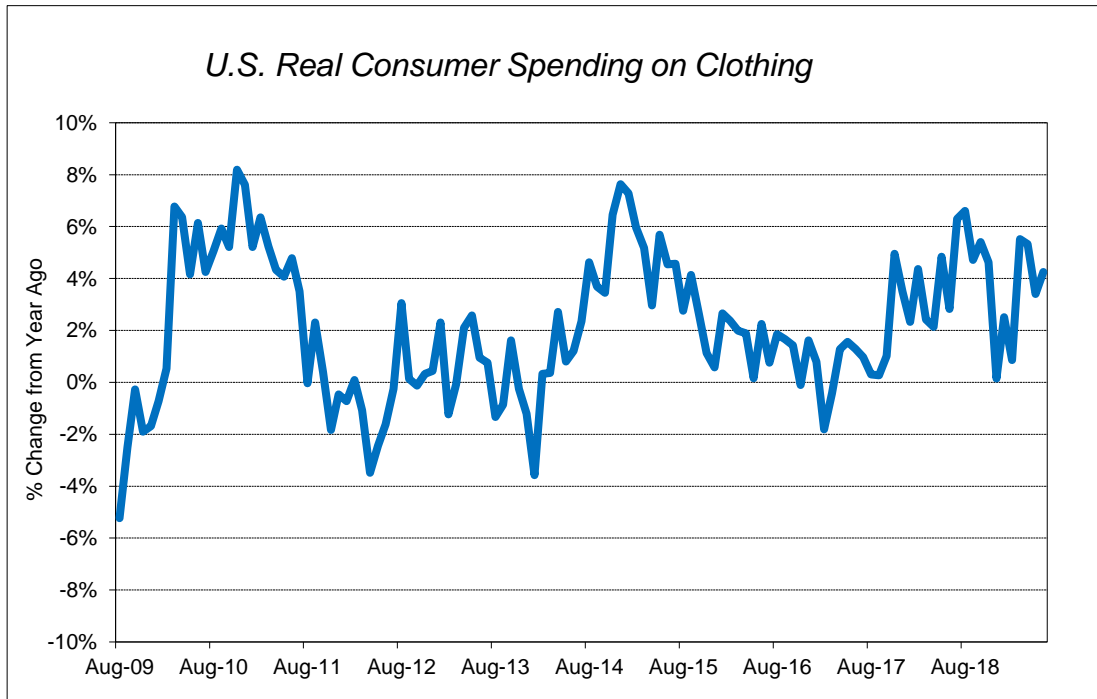
Source: Bureau of Labor Statistics

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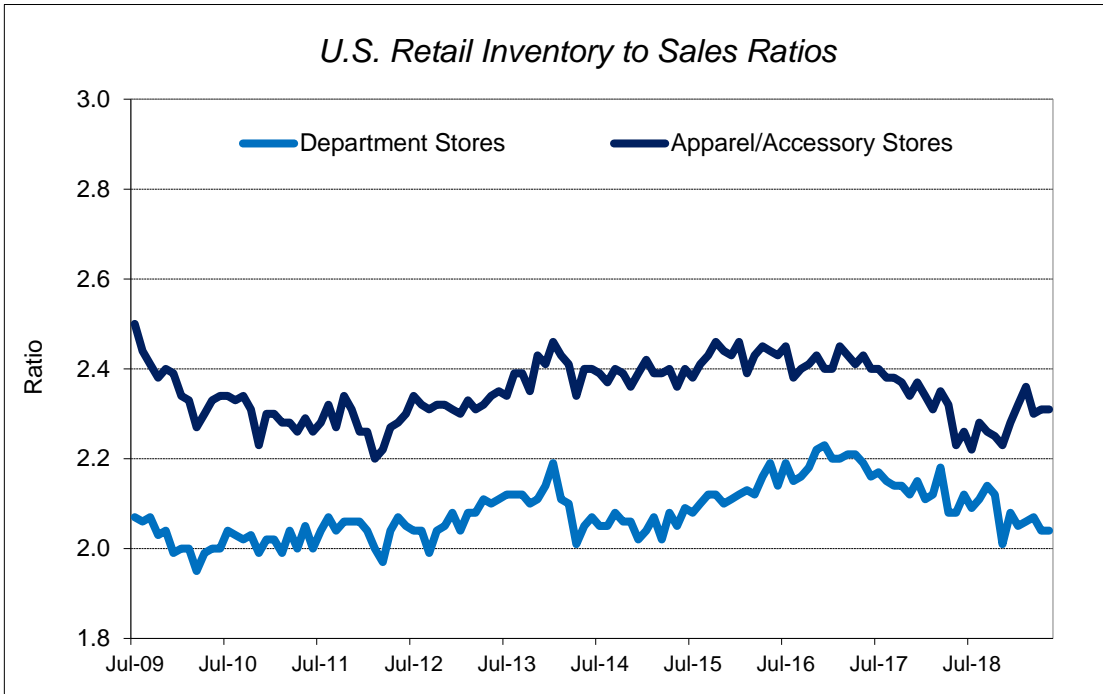
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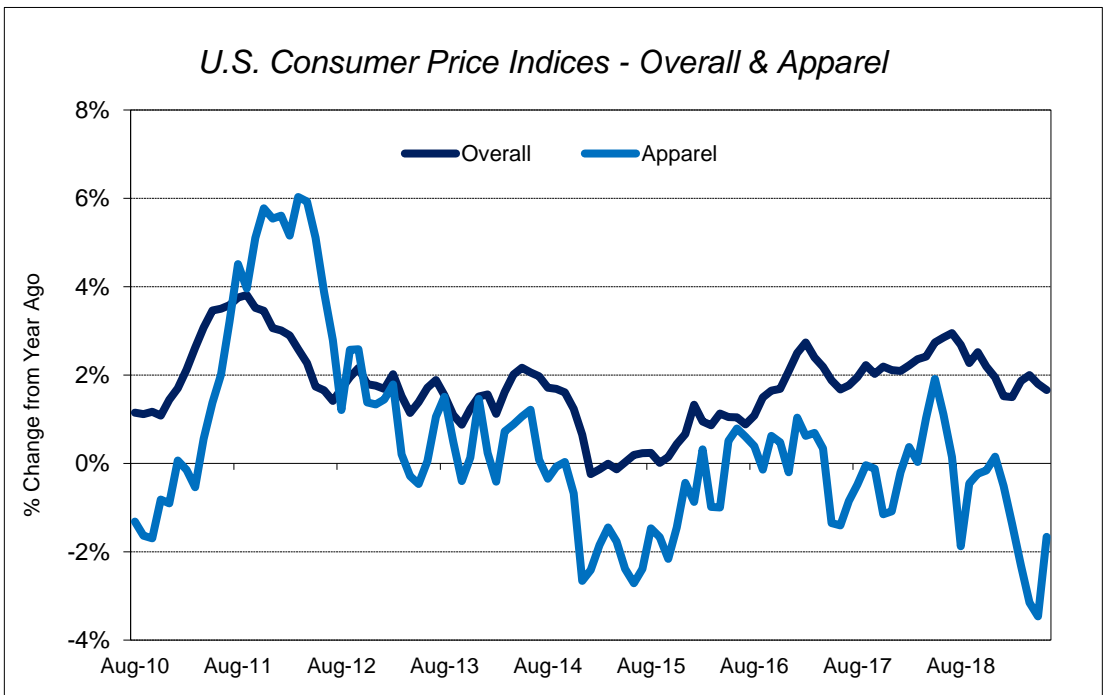
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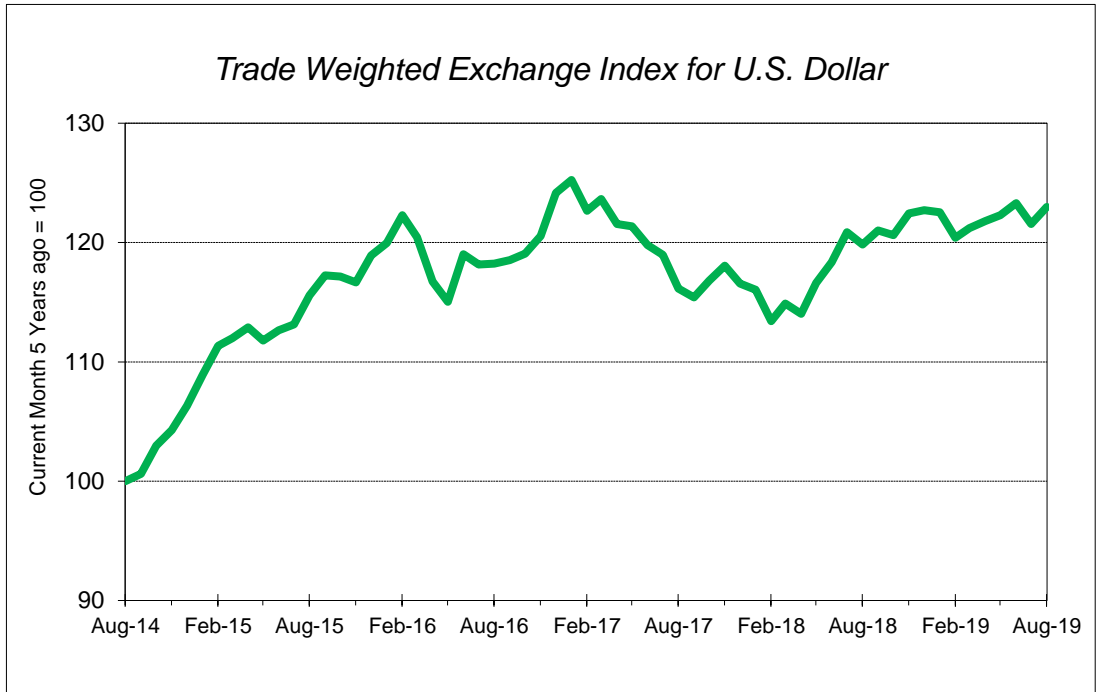
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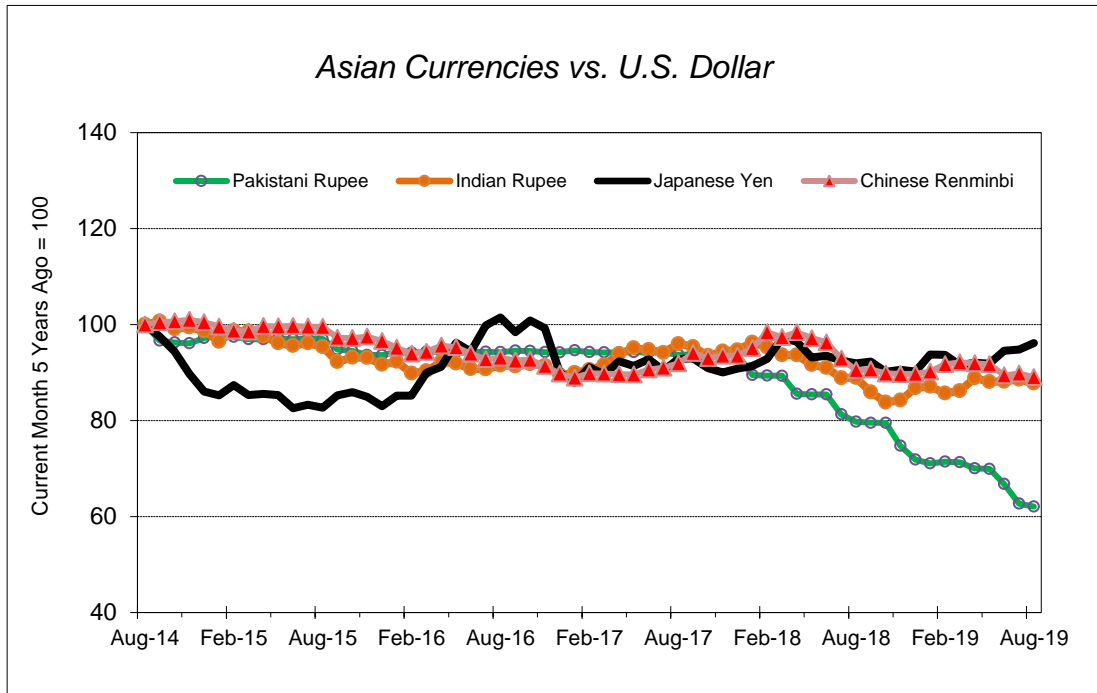
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Source: Federal Reserve

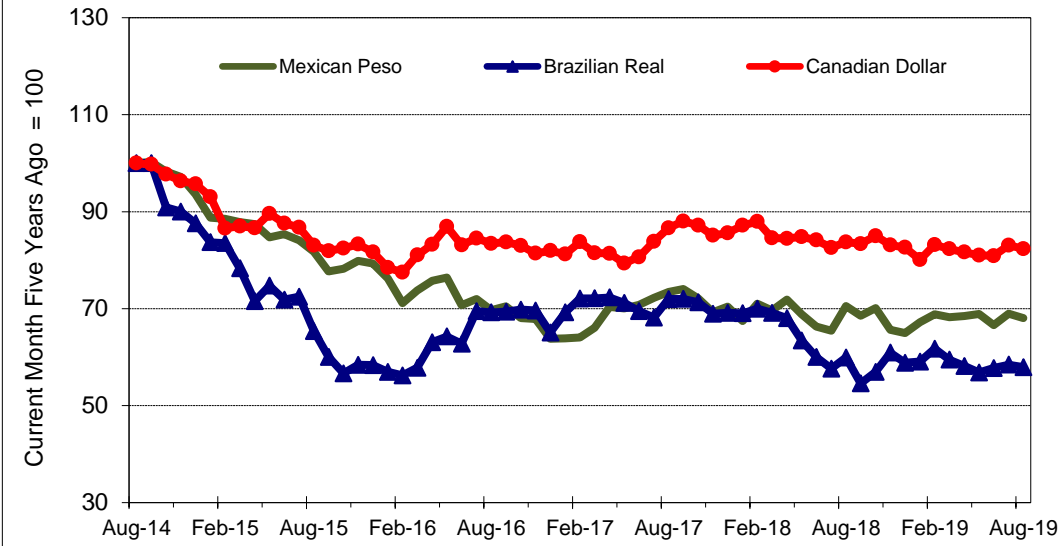


Source: Reuters

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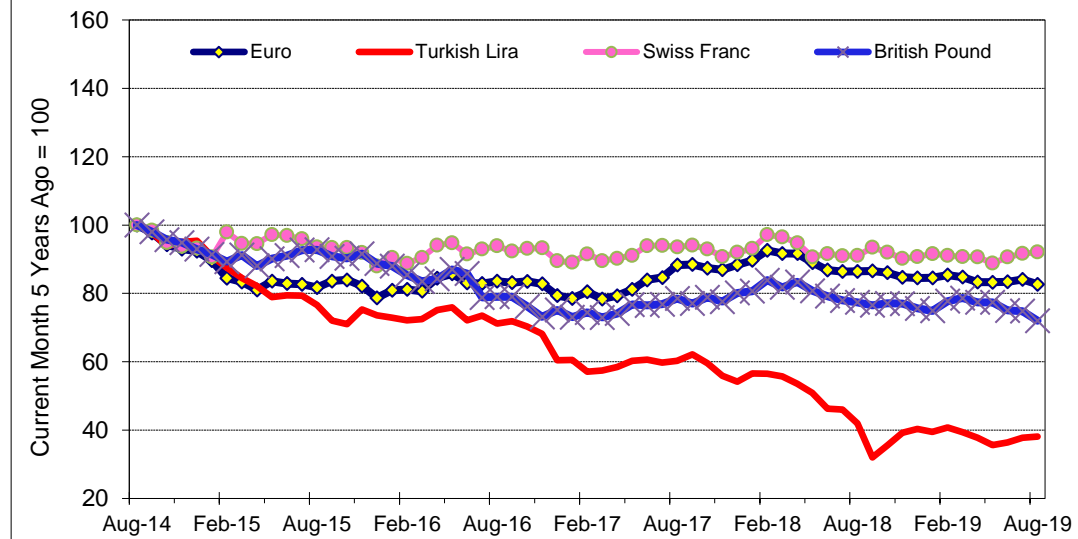


North & South American Currencies vs. U.S. Dollar



Source: Reuters

Index of European Currencies vs. U.S. Dollar



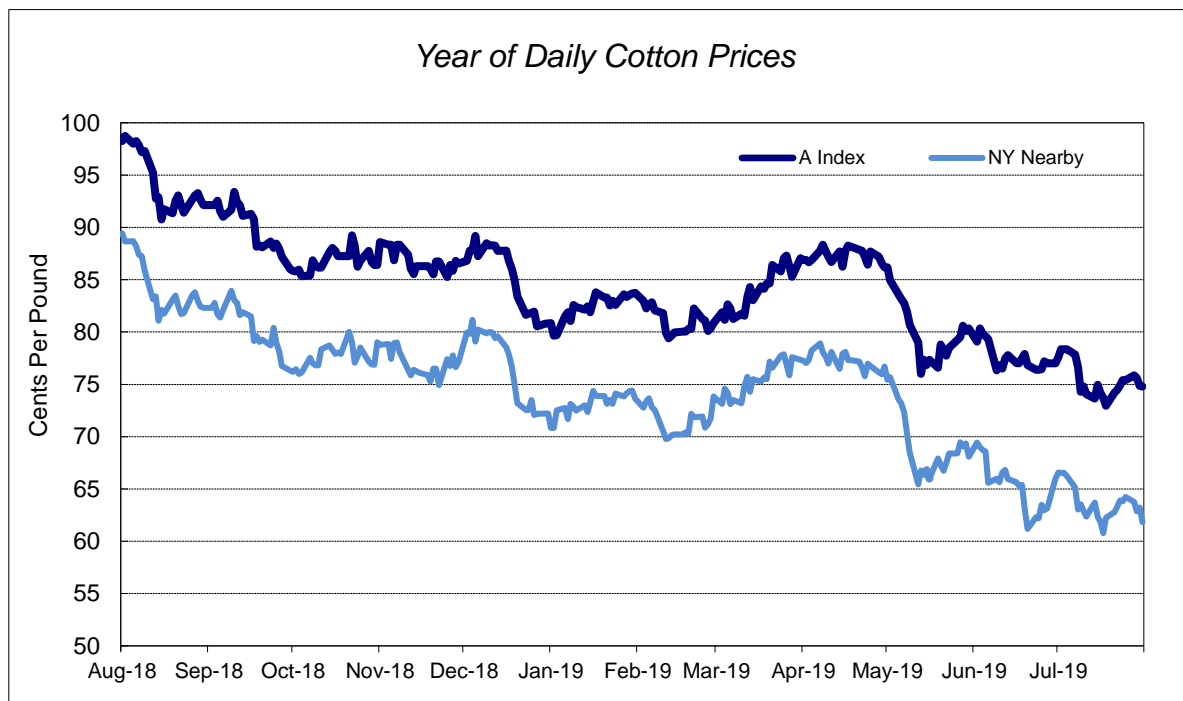
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U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20 June	2019/20 July
Beginning Stocks	3.7	3.8	2.8	4.3	4.7	5.0
Production	12.9	17.2	20.9	18.4	22.0	22.0
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.7	26.7	27.0
Mill-Use	3.5	3.3	3.2	3.0	3.1	3.1
Exports	9.2	14.9	15.8	14.5	17.0	17.0
Demand	12.6	18.2	19.1	17.5	20.1	20.1
Ending Stocks	3.8	2.8	4.3	5.0	6.4	6.7
Stocks/Use Ratio	30.2%	15.1%	22.5%	28.6%	31.8%	33.3%



Sources: ICE Futures U.S. & Cotton Outlook

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