

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



October 2018

www.cottoninc.com

Macroeconomic Overview: Following a meeting in late September, the Federal Reserve increased interest rates for the third time this year. The official statement from the central bank indicated that they have confidence that economic expansion will continue and suggested that interest rates will likely increase again in December. This official statement is updated after each meeting, and a notable revision in September was that a comment stating that monetary (interest rate) policy remained accommodative (stimulative) was removed.

A shift away from stimulative interest rates may eventually be a factor leading to slower economic growth (by making borrowing more expensive, spending can slow). Nonetheless, the process can be expected to be gradual. Despite the series of increases this year, the Federal Funds interest rate that the Federal Reserve controls remains near two percent. Apart from the extremely low rates maintained since the financial crisis and the stimulative rates put into place after the 2001 recession, the current Federal Funds rate still ranks as the lowest in the modern era (post-1965).

Rising interest rates are associated with strengthening currencies. Since April, when the Federal Reserve suggested it would be more aggressive in increasing interest rates, an index comparing the dollar against a wide range of other currencies (Federal Reserve Broad Trade Weighted Index) has risen more than seven percent. Against the Chinese RMB, the dollar gained 8.5% over the same time period. The rise in the dollar relative to the RMB will partially offset the effect of tariff increases imposed against Chinese exports.

On September 24th, the U.S. imposed another set of tariff increases on a collection of goods from China worth \$200 billion. With a few exceptions, this included HS Chapters 50-60 (HS Chapters are internationally accepted broad classifications of goods), which cover a wide range of fiber, yarn, and fabric. Goods on the list faced tariff increases of 10 percentage points (ppt). However, in January, the size of the increase could rise to 25 ppt. For example, if a product from China had a 5% tariff rate previously, it was assigned a 15% tariff rate on September 24th. In January, tariff rates is set to increase 30% (25 ppt increase from original 5%).

Absent from the \$200 billion set of goods were HS Chapters 61-63, which cover finished apparel and home textiles. However, the U.S. administration promised that if China implemented tariff increases in response to the \$200 billion list, then the U.S. would initiate another round of tariff increases on a set of goods collectively valued at \$267 billion. In combination with previous increases, this would imply that virtually all U.S. imports from China will have been subjected to tariff increases. China did respond in late September, lifting duties on imports from the U.S. valued at \$60 billion. In combination with previous increases, this means that China has already applied increases in tariffs to virtually all of its imports from the U.S.

Given that the \$267 billion set would cover most goods that have not yet faced tariff increases, this next round should include HS Chapters 61-63. This means that finished apparel and home textile imports from China would be covered whenever this next set might be implemented. Both the potential percentage point change in tariffs and the timeframe for implementation are currently unknown. Over the past twelve months, China represented 42% of the square meter equivalence (SME) of U.S. apparel imports and 54% of non-apparel textile SME. Supply chains will adapt, but with China representing such large proportions of U.S. imports, if/when these tariffs increases are applied, it should translate into higher consumer prices. In turn, higher consumer prices could result in lower consumer demand.

Employment: The U.S. economy is estimated to have added 134,000 jobs in September. Revisions to estimates for previous months resulted in additions for July (from +147,000 to +165,000) and August (from +201,000 to +270,000). The unemployment rate dropped from 3.9% to 3.7% month-over-month in September. The current value is below the lows registered in 2000 and is the lowest reading since the late 1960s. Wage growth year-over-year is estimated at 2.8%. This is slightly lower than the 2.9% increase last month, but the gentle upward trend since 2015 remains intact.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence increased 3.7 points, rising from 134.7 to 138.4 in September. With the increase, values are approaching the all-time high registered in January 2000 (144.7).

Overall consumer spending increased 0.2% month-over-month in seasonally-adjusted data for August (latest available). Year-over-year, total consumer spending was 3.0% higher. This is the strongest year-over-year growth since October 2015. Consumer spending on apparel was up a very strong 3.0% month-over-month. Year-over-year, consumer spending on apparel was up 7.3%. This is the strongest rate of annual growth since 2010, when year-over-year comparisons were against depressed recessionary levels.

Consumer Prices & Import Data: Lower consumer prices for apparel may have encouraged spending. The Bureau of Labor Statistics CPI for garments, was down both 1.9% month-over-month and year-over-year in August. Average import prices (seasonally-adjusted) for cotton-dominant apparel decreased 2.9% month-over-month in August. Year-over-year, cotton-dominant apparel import prices were 2.4% higher.

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 2018



Macroeconomic Data

Quarterly Data	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q4 : 2017	Q1 : 2018	Q2 : 2018		
Growth in US Real GDP	2.5%	2.1%	3.2%	4.2%	2.3%	2.2%	4.2%	% 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	54.7	54.9	59.2	59.9	58.1	61.3	59.8	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.4	56.5	57.9	57.8	55.7	58.5	61.6	Index	Institute for Supply Management
Consumer Confidence	103.2	112.8	128.5	129.9	127.9	134.7	138.4	Index	The Conference Board
Change in Non-Farm Payrolls	211.9	200.3	206.8	214.3	165	270	134	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	5.1%	4.5%	3.9%	3.9%	3.9%	3.9%	3.7%	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	0.6%	0.9%	1.8%	1.9%	1.9%	1.9%	2.0%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.3%	2.9%	2.9%	2.9%	2.9%	3.0%	Interest rate	Federal Reserve
Index of Leading Economic Indicators	100.2	103.4	109.9	110.7	110.0	110.8	111.2	Index	The Conference Board
Housing Starts	11.3	12.1	12.6	12.1	1.2	1.2	1.3	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.3	5.4	5.4	5.4	5.4	5.3	5.3	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	104.1	103.8	107.4	107.8	107.4	107.8	108.2	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	97.6	99.5	102.4	104.9	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	3.1	3.1	3.0	3.1	3.0	2.9	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	1.27	1.30	1.29	1.28	1.28	1.28	1.28	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	2.9%	2.7%	2.7%	2.9%	2.7%	2.9%	3.0%	% Chg. Year/Year	Department of Commerce
Clothing and Shoes	2.6%	2.7%	4.2%	5.4%	3.0%	6.0%	7.3%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.4%	1.7%	2.6%	2.8%	2.8%	2.9%	2.7%	% Chg Year/Year	Bureau of Labor Statistics
Apparel	-0.3%	-0.2%	0.4%	-0.2%	1.1%	0.2%	-1.9%	% Chg. Year/Year	Bureau of Labor Statistics

Monthly Series with Latest Data for July

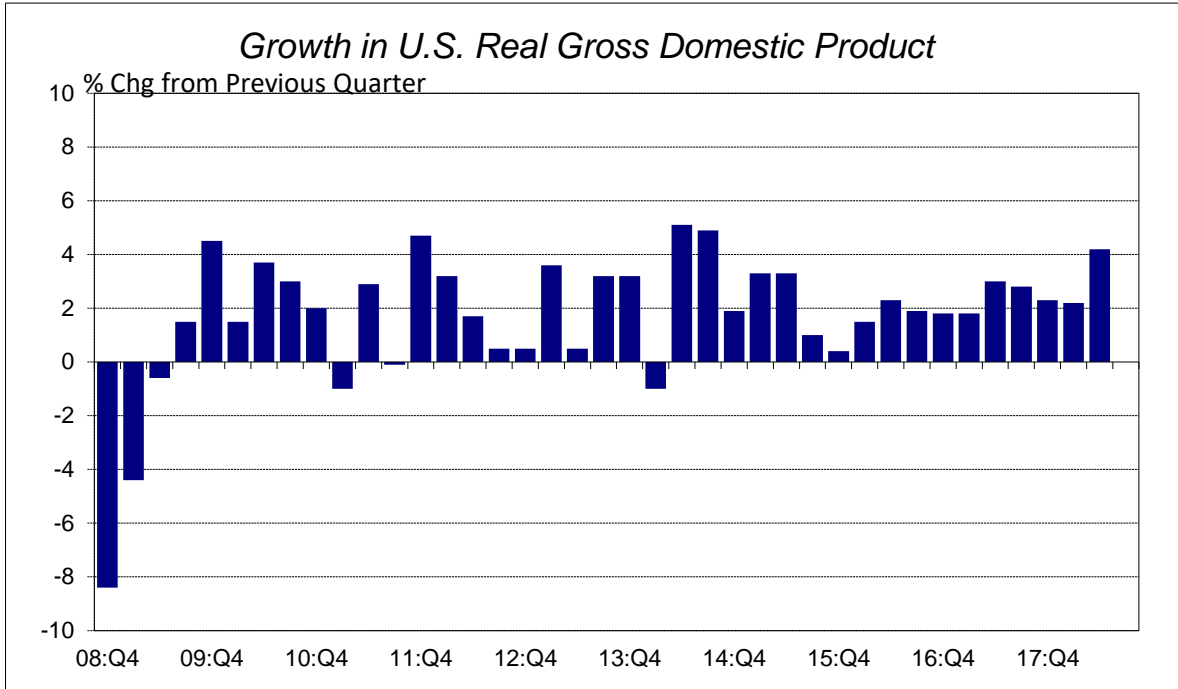
	Recent Averages				Values in Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	May	June	July		
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.4	2.4	2.3	2.2	2.3	2.2	2.2	Ratio	Department of Commerce
Department Stores	2.1	2.1	2.0	2.0	2.1	2.0	2.1	Ratio	Department of Commerce

Executive Cotton Update

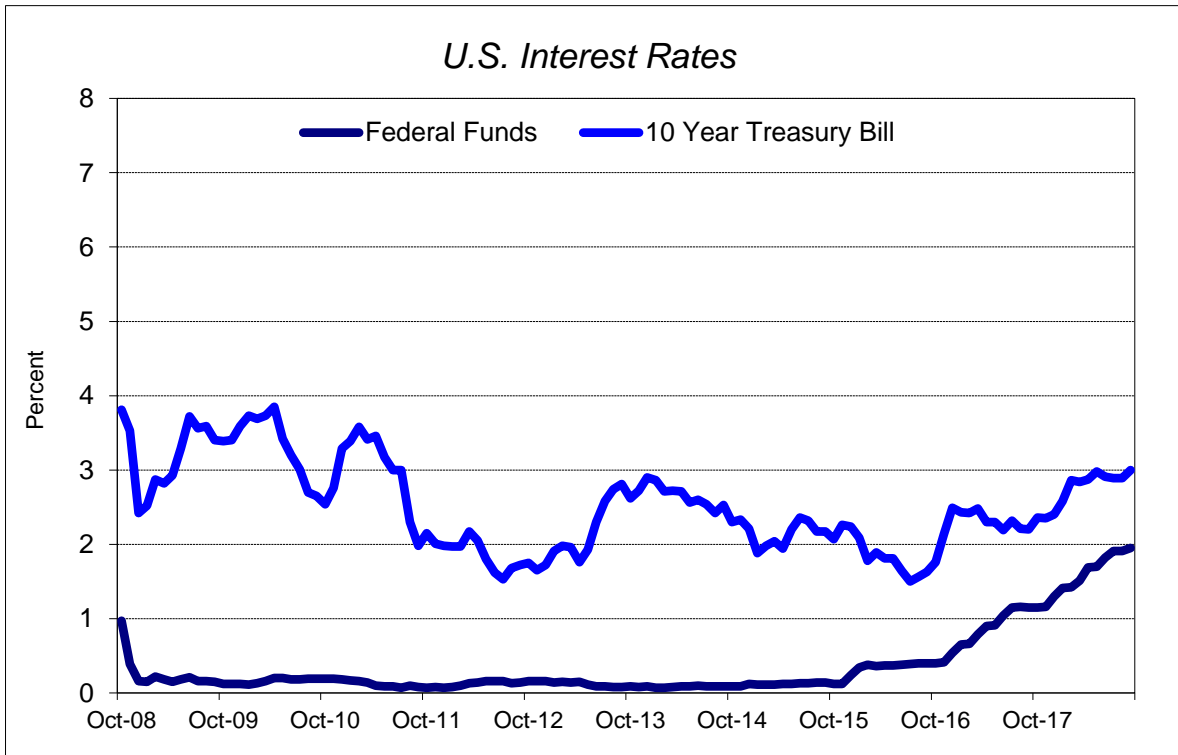
Daily Cotton Price and Currency Data
October 2018



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	72.2	72.4	85.3	84.2	87.4	84.5	80.6	cents/pound	ICE
A Index	80.6	81.6	94.2	93.7	96.2	94.4	90.4	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	116.4	121.9	122.7	125.1	124.2	124.2	126.8	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.44	6.62	6.56	6.77	6.62	6.86	6.83	Chinese Renminbi/US dollar	Reuters
Indian Rupee	64.58	66.25	68.03	69.66	68.75	68.77	71.47	Indian Rupee/US dollar	Reuters
Japanese Yen	110.99	111.24	109.73	111.02	110.54	111.17	111.34	Japanese Yen/US dollar	Reuters
Pakistani Rupee	105.58	107.75	119.35	123.15	121.45	123.85	124.15	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.12	3.44	3.73	3.92	3.91	3.71	4.15	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.24	1.31	1.30	1.31	1.32	1.30	1.32	Canadian dollar/US dollar	Reuters
Mexican Peso	16.82	18.65	19.13	19.12	19.43	18.56	19.37	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.70	0.74	0.75	0.77	0.76	0.77	0.78	British Pound/US dollar	Reuters
Euro	0.85	0.88	0.85	0.86	0.86	0.86	0.87	Euro/US dollar	Reuters
Swiss Franc	0.96	0.98	0.98	0.99	0.99	0.99	0.98	Swiss Franc/US dollar	Reuters
Turkish Lira	3.08	3.58	4.88	5.48	4.67	5.08	6.70	Turkish Lira/US dollar	Reuters



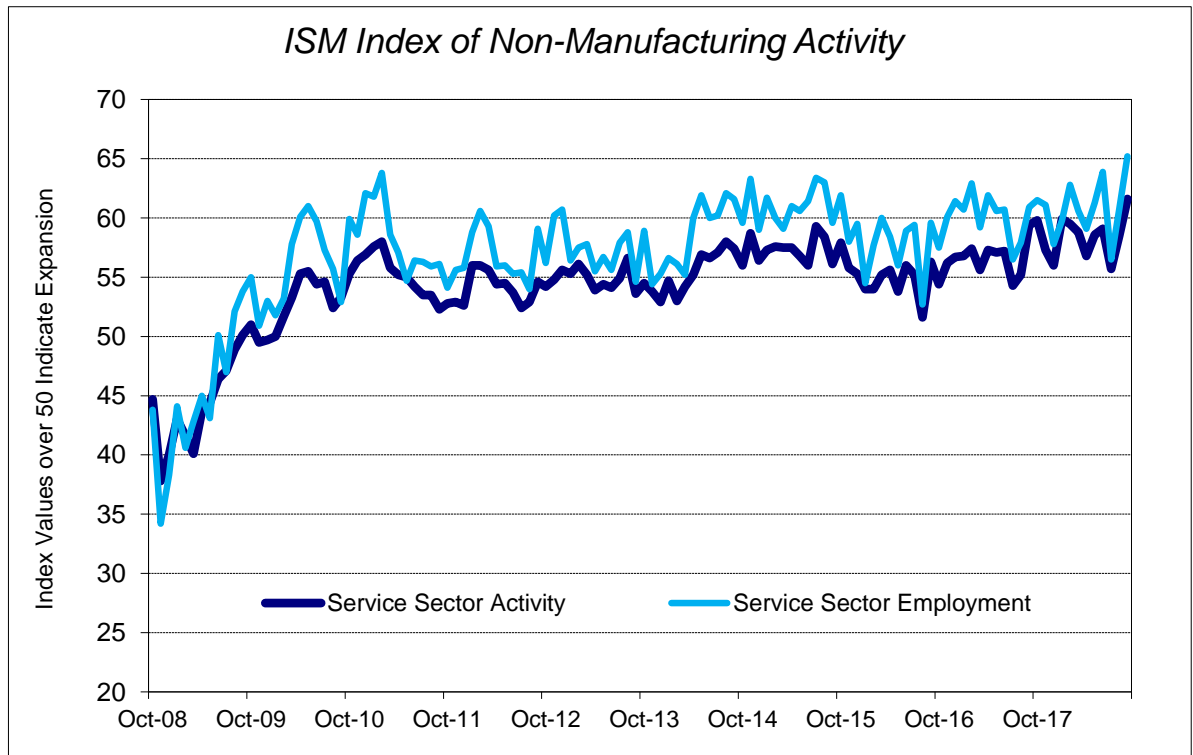
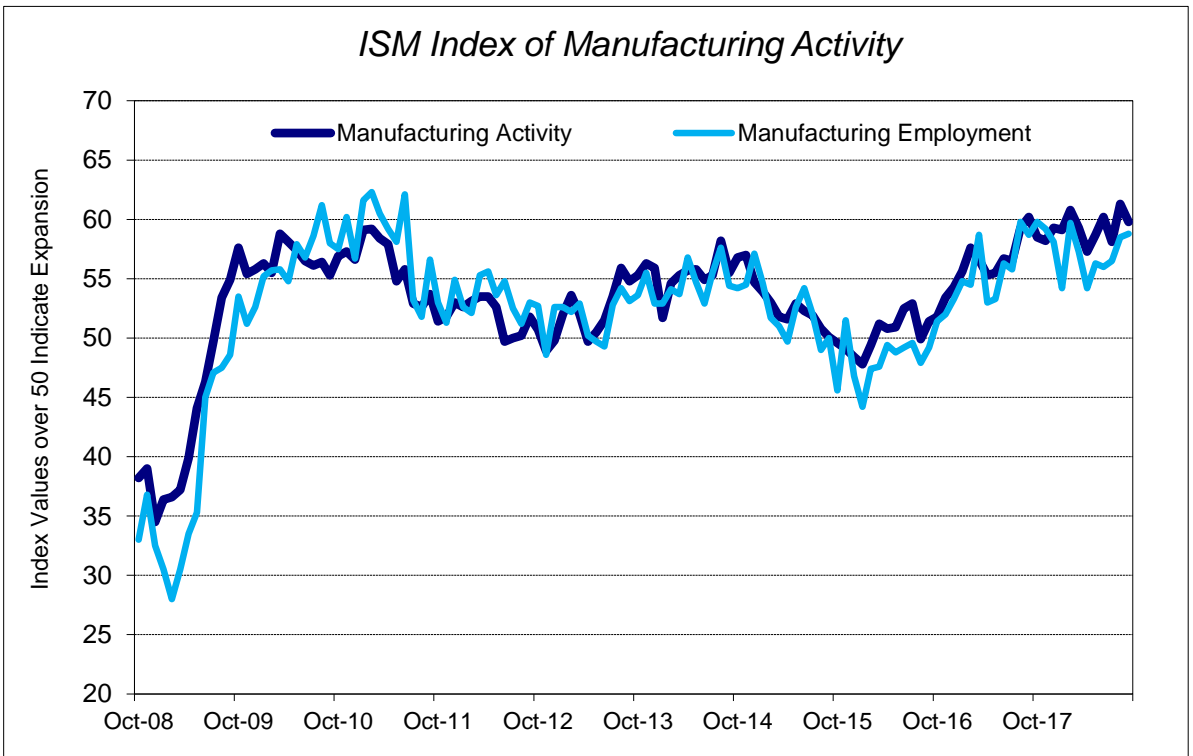
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



Source: Federal Reserve

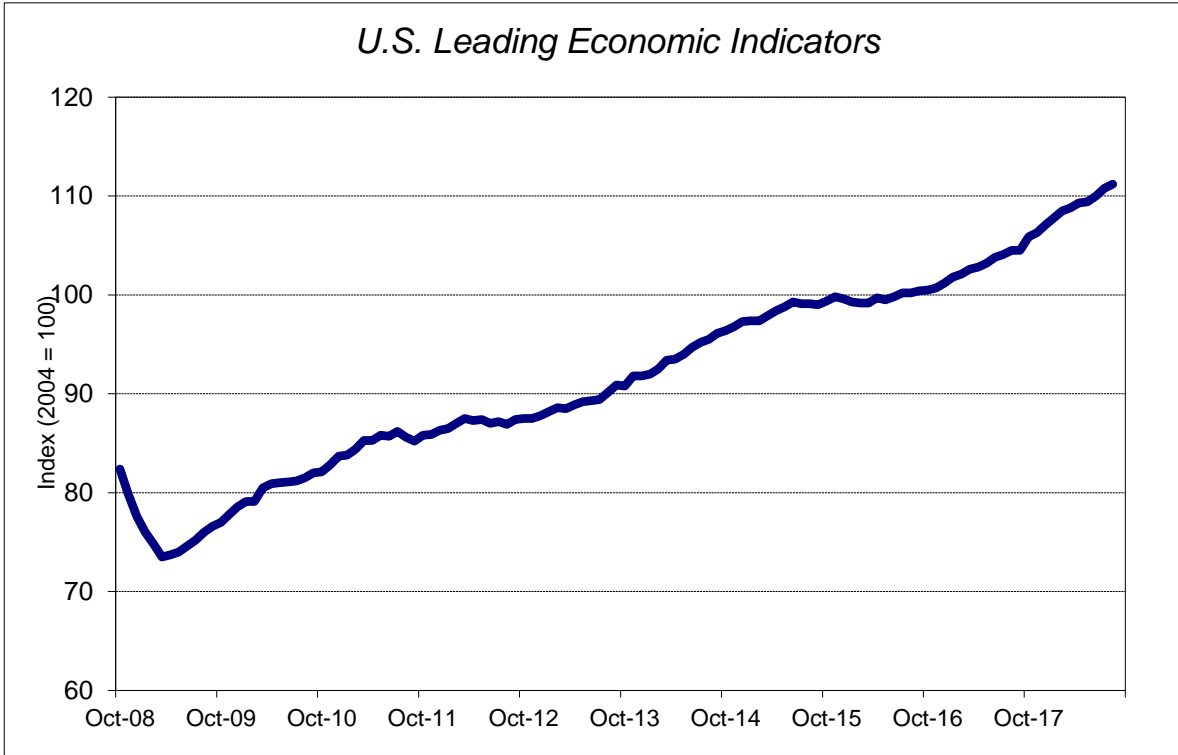
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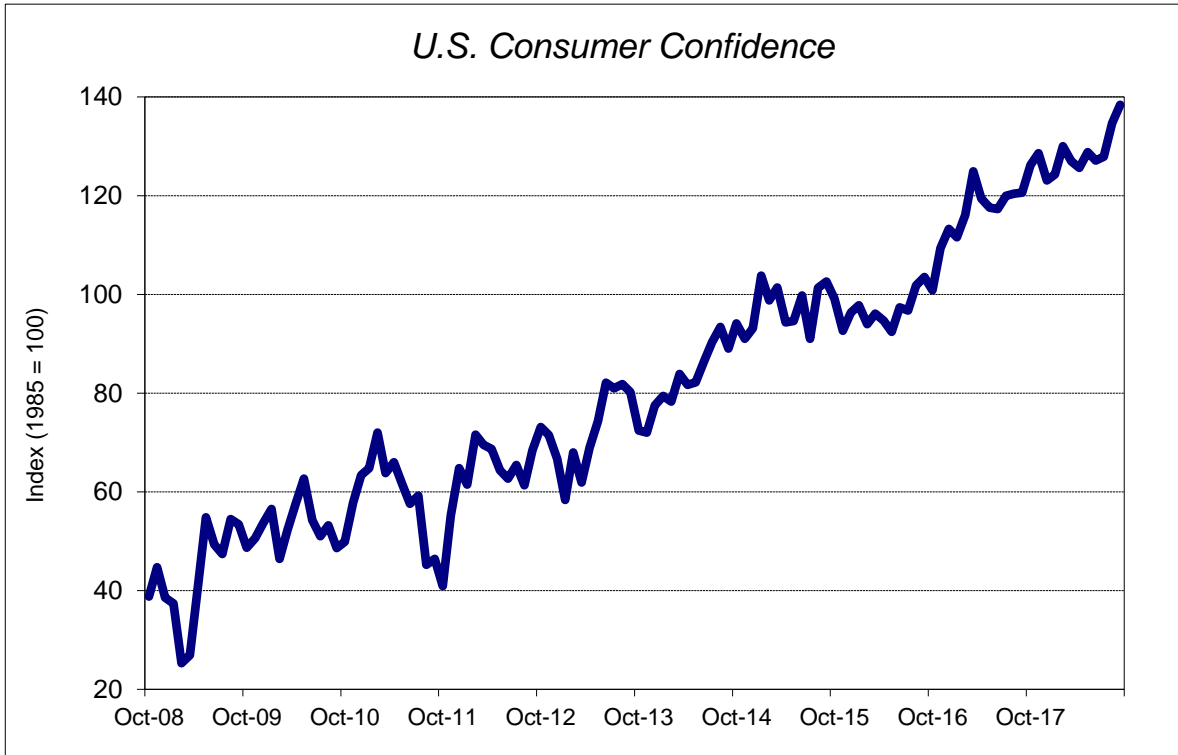


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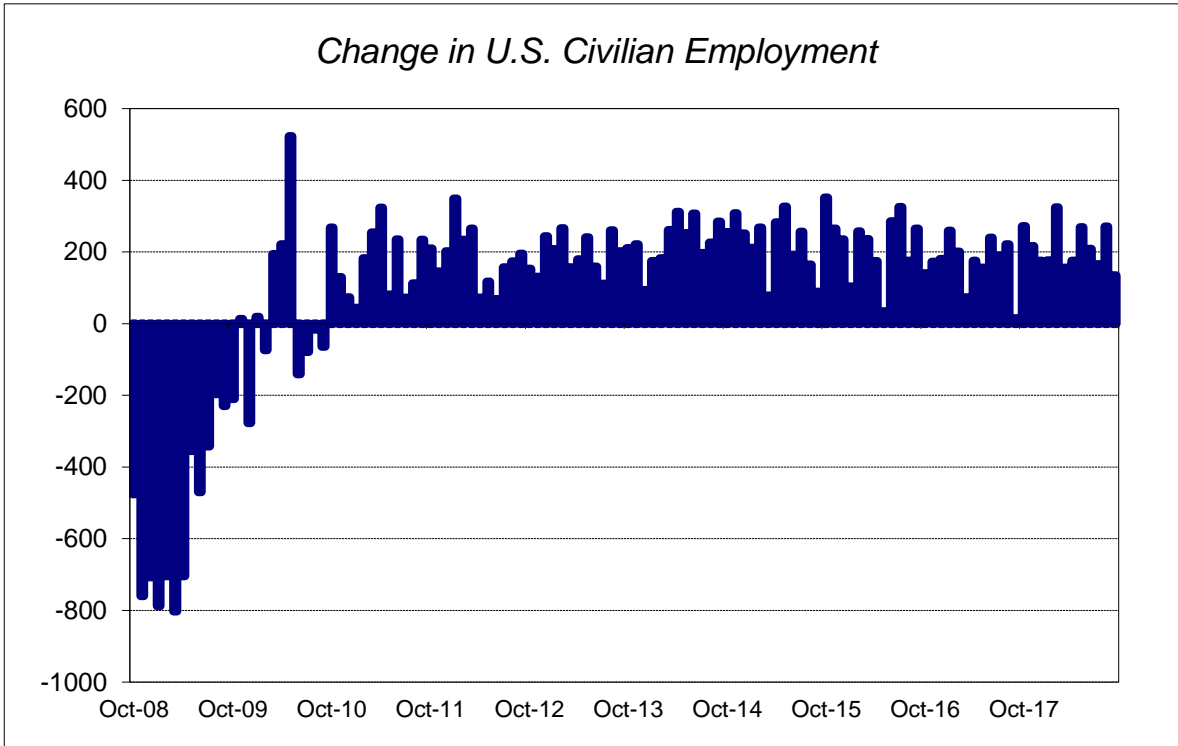
Source: The Conference Board



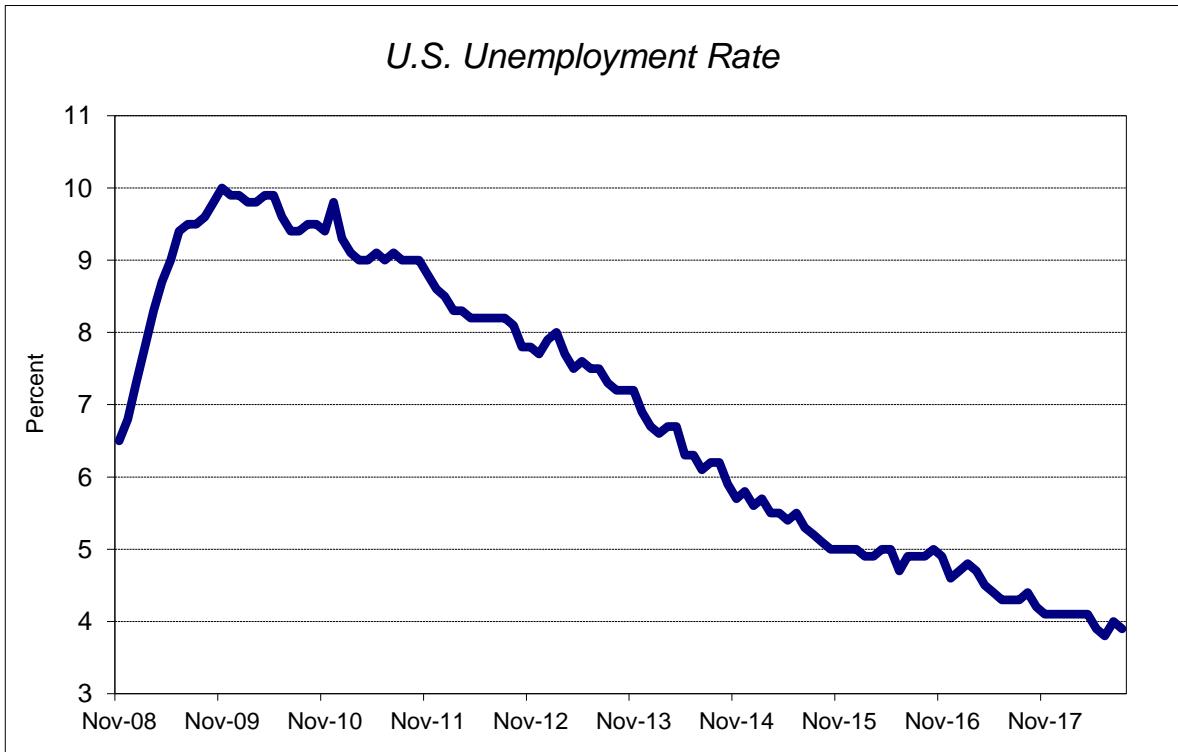
Source: The Conference Board

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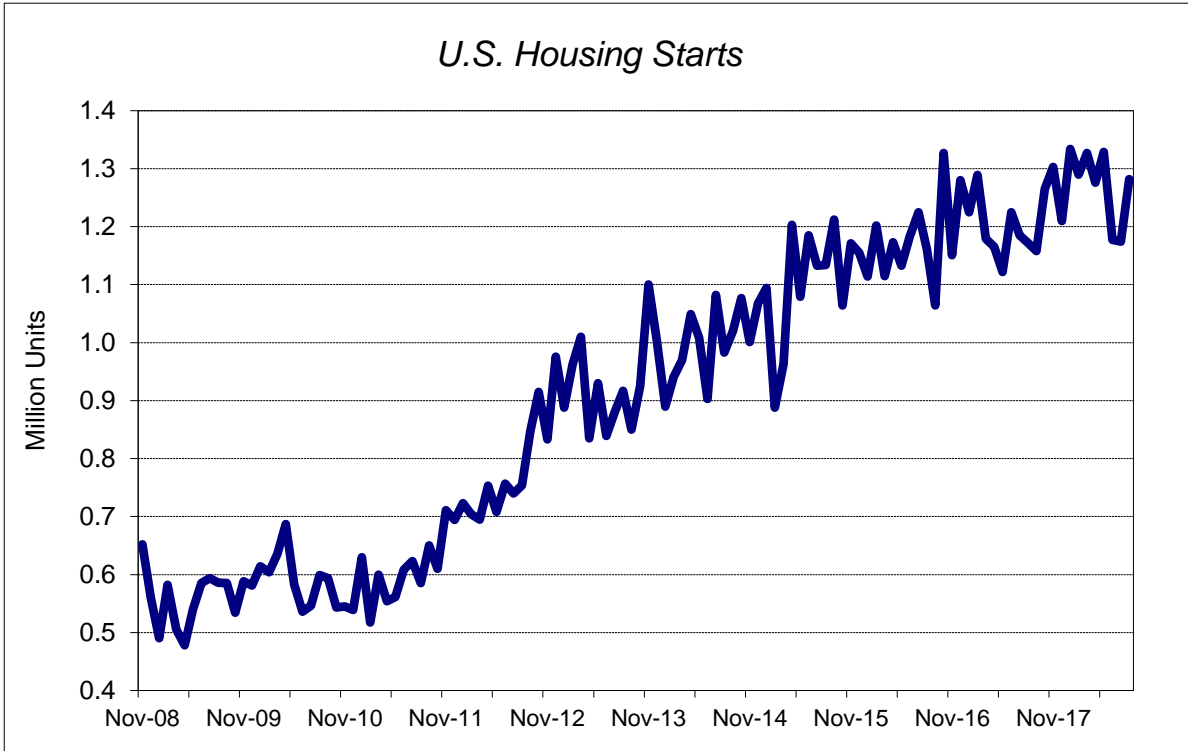
Source: Bureau of Labor Statistics



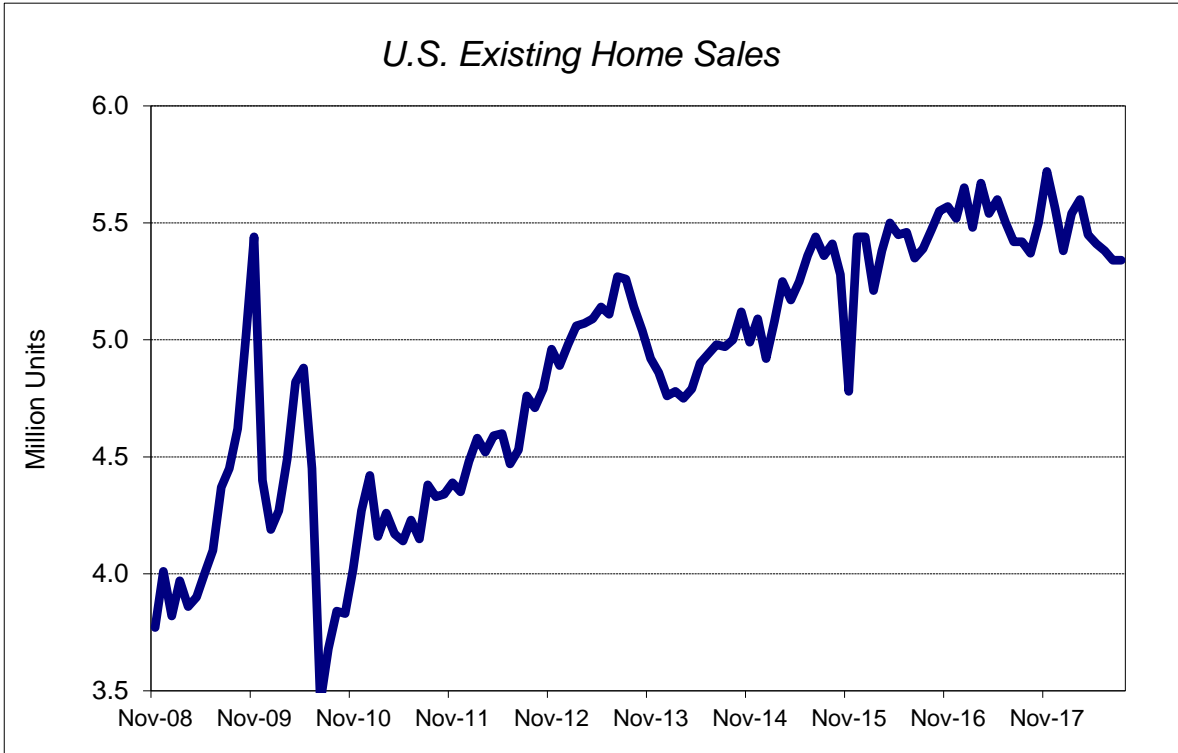
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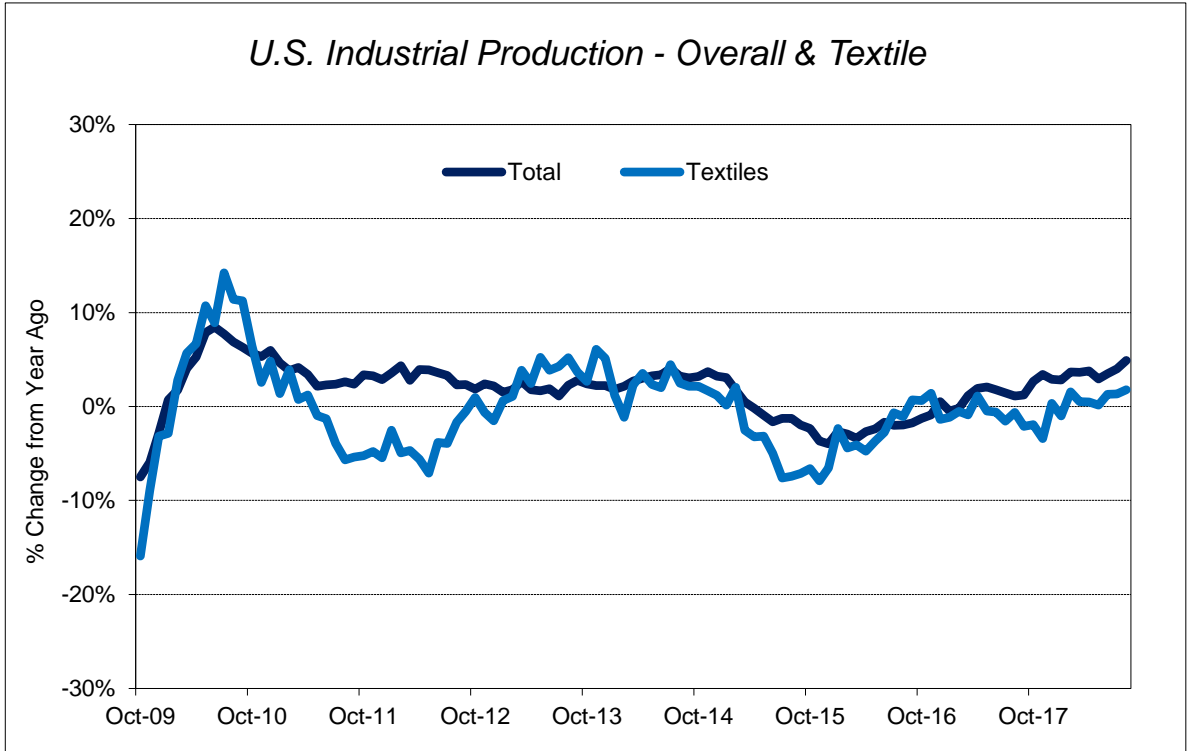
Seasonally Adjusted Annual Rate; Source: Department of Commerce



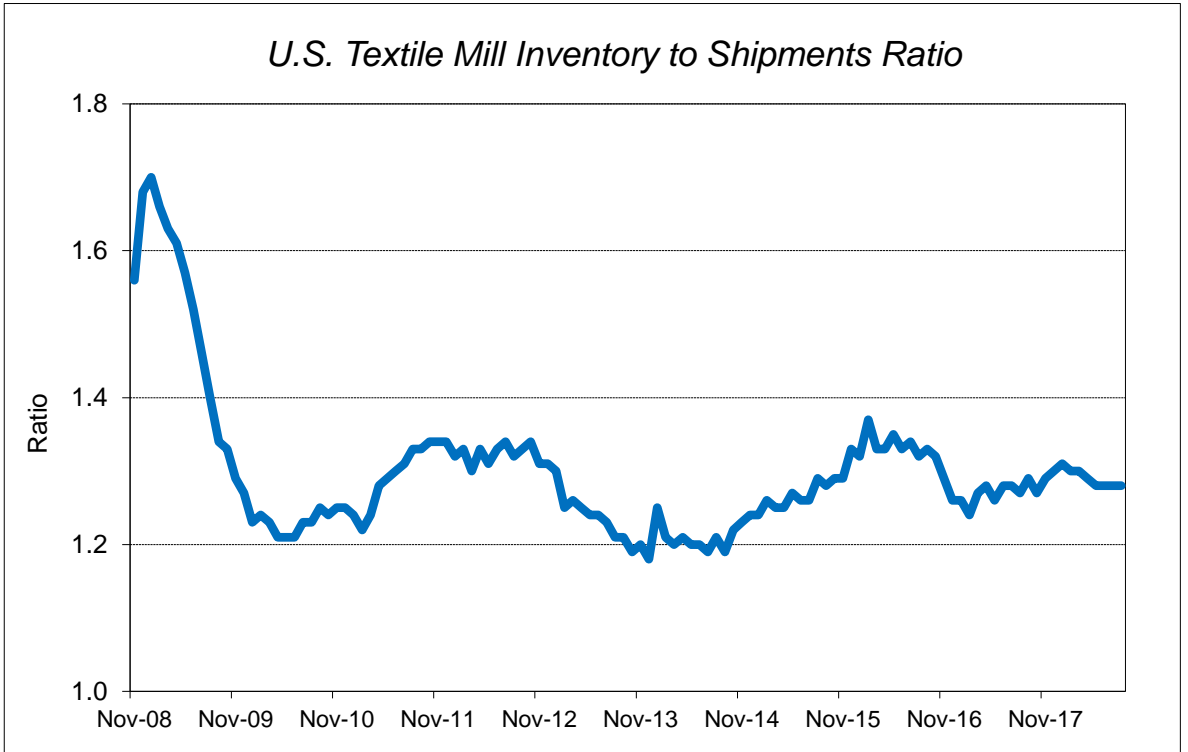
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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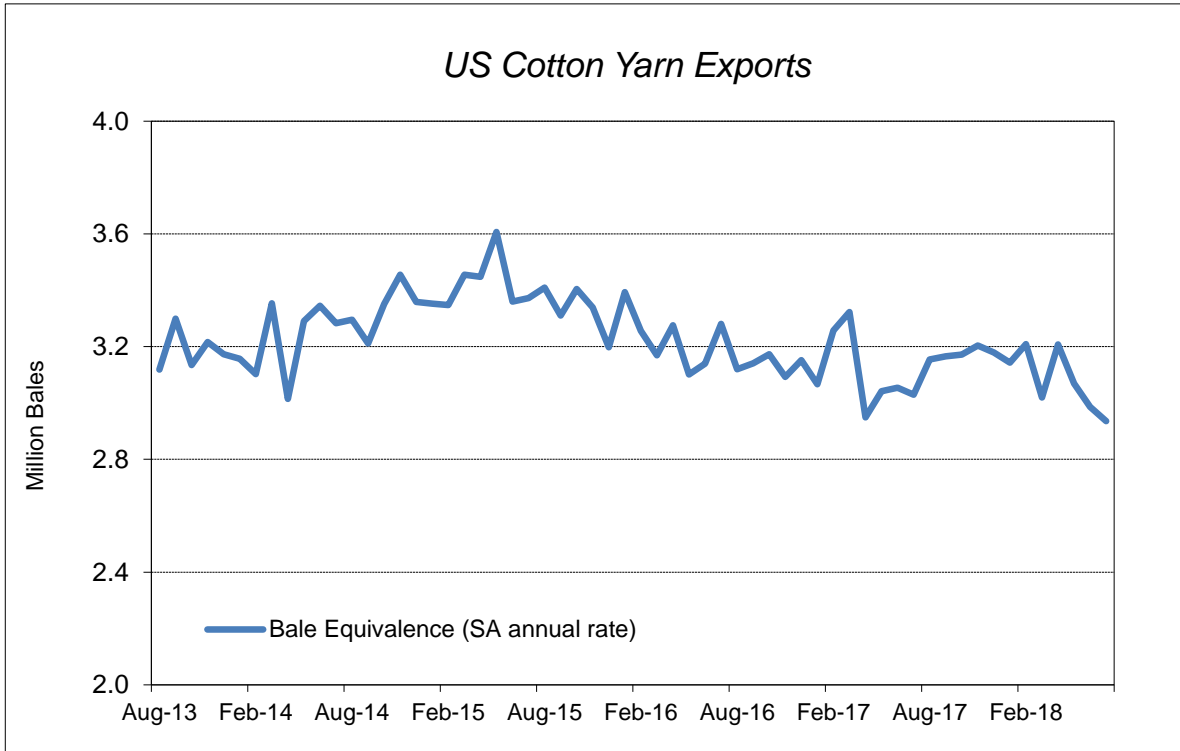
Source: Federal Reserve. Historical data revised to 1997 baseline.



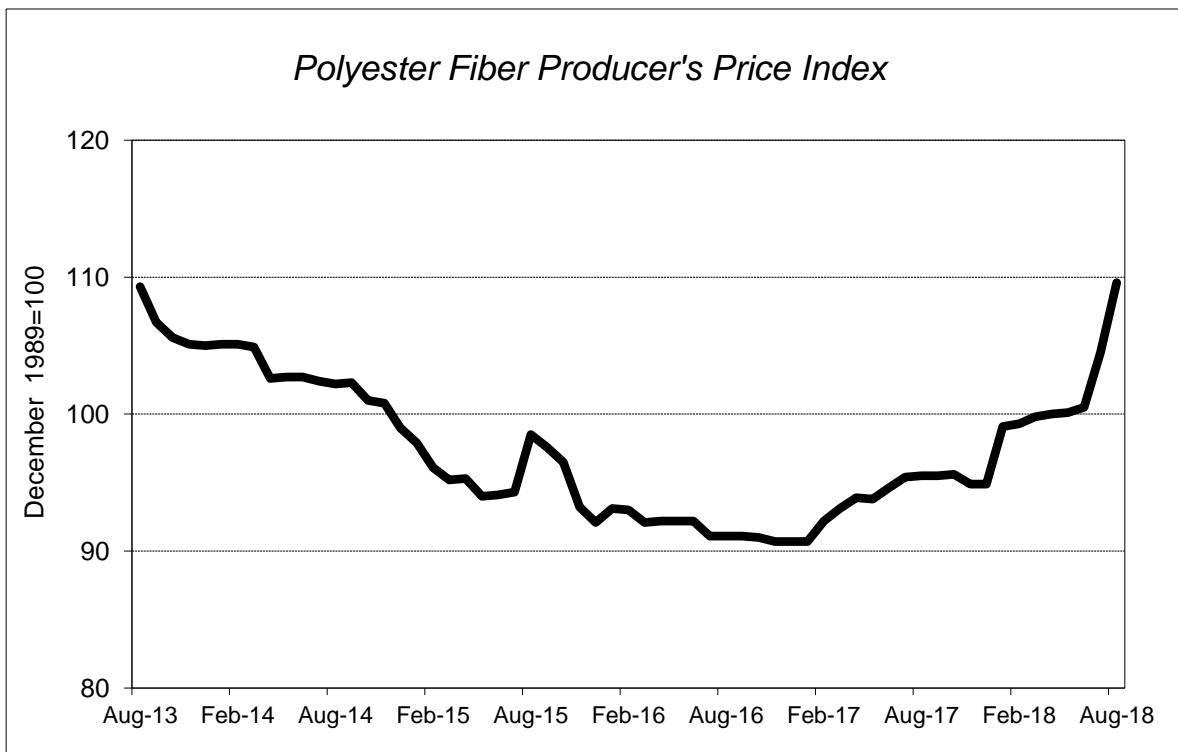
Seasonally Adjusted; Source: Department of Commerce

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Seasonally Adjusted Annual Rate
 Source: USDA ERS



Source: Bureau of Labor Statistics

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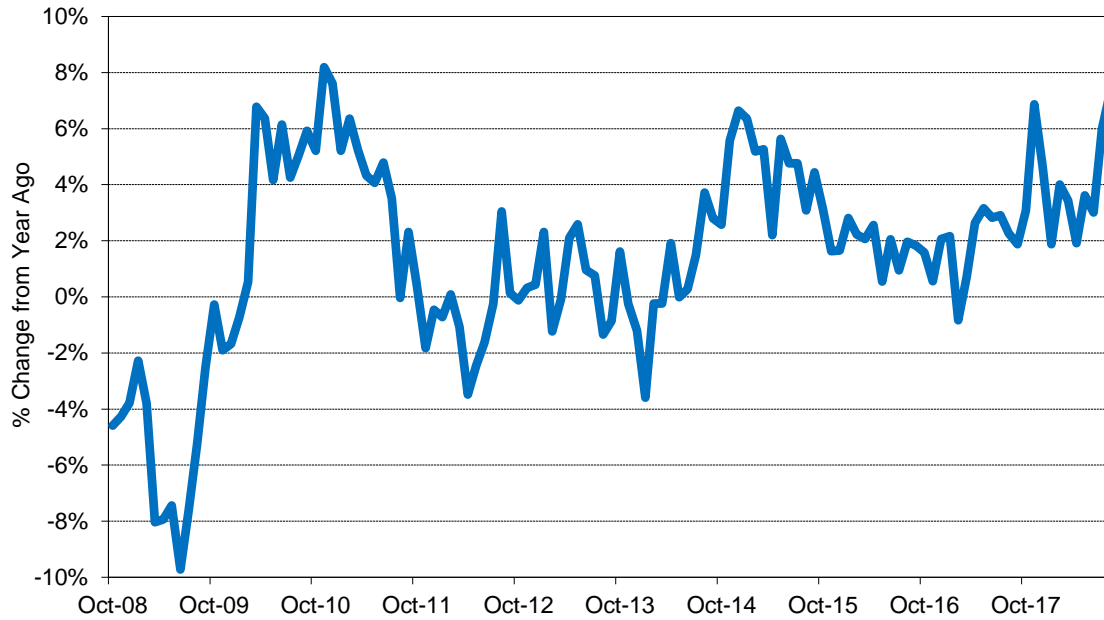


U.S. Real Consumer Spending - All Goods & Services



*Based on chained 2005\$.

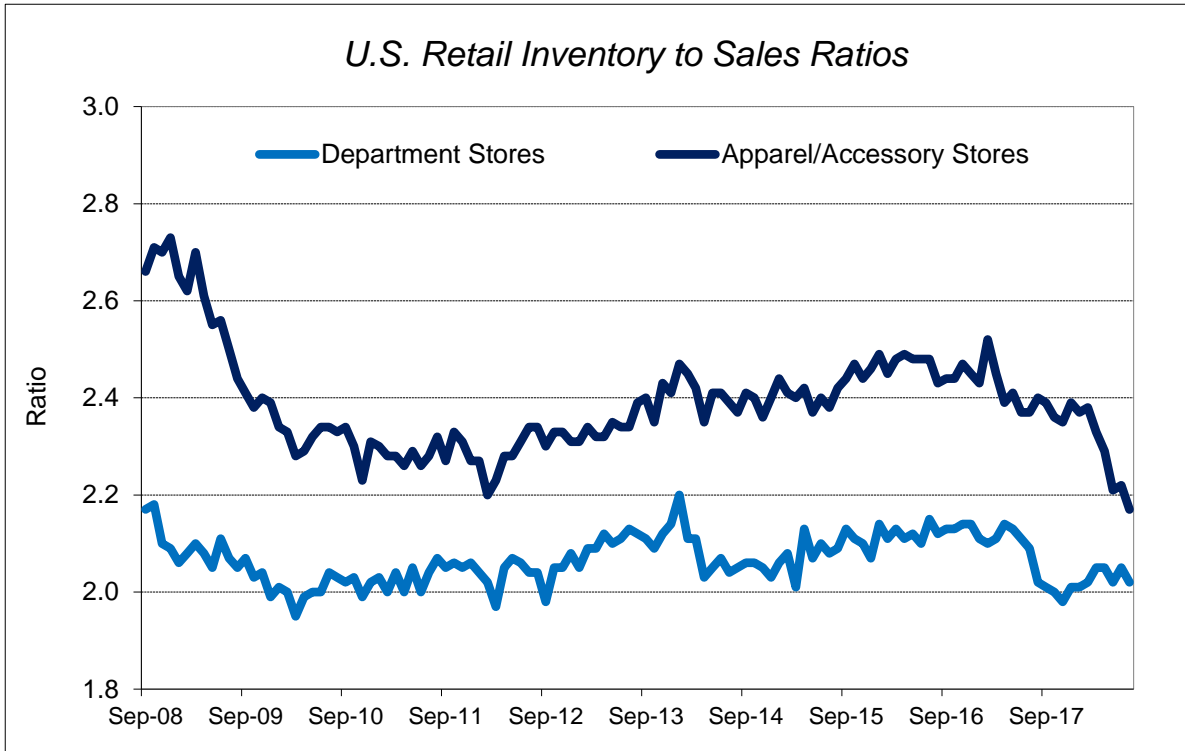
U.S. Real Consumer Spending on Clothing



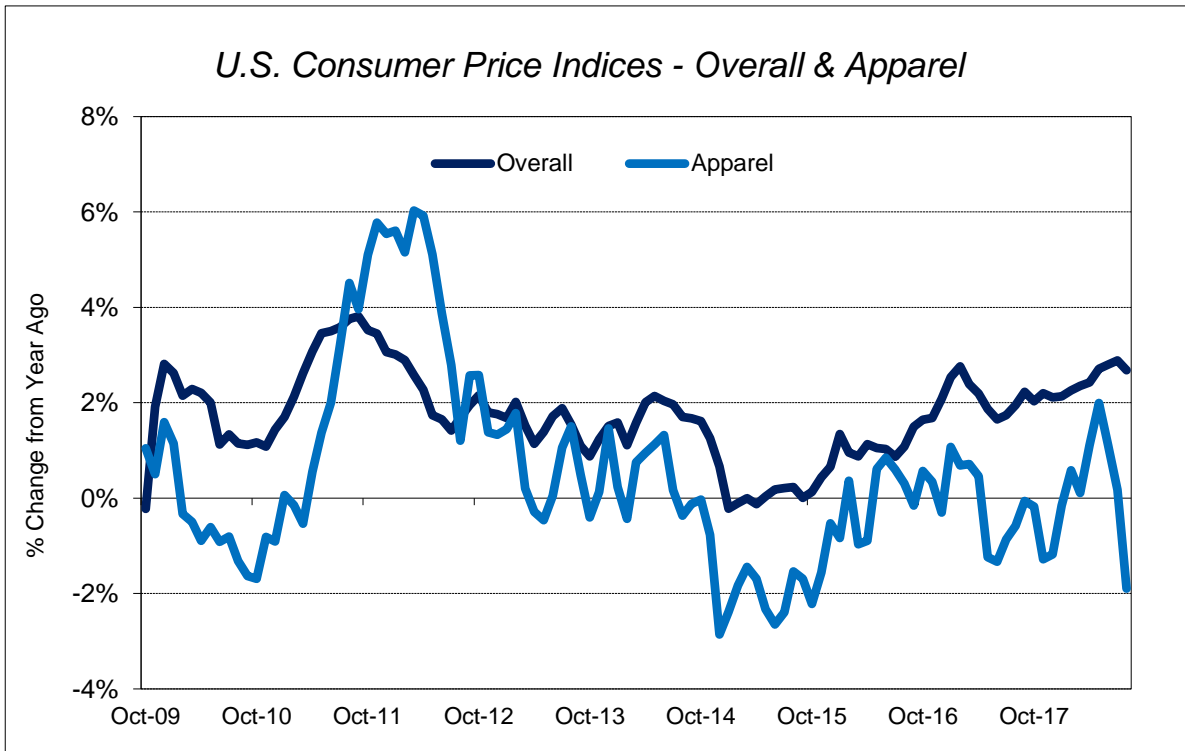
*Based on chained 2005\$.

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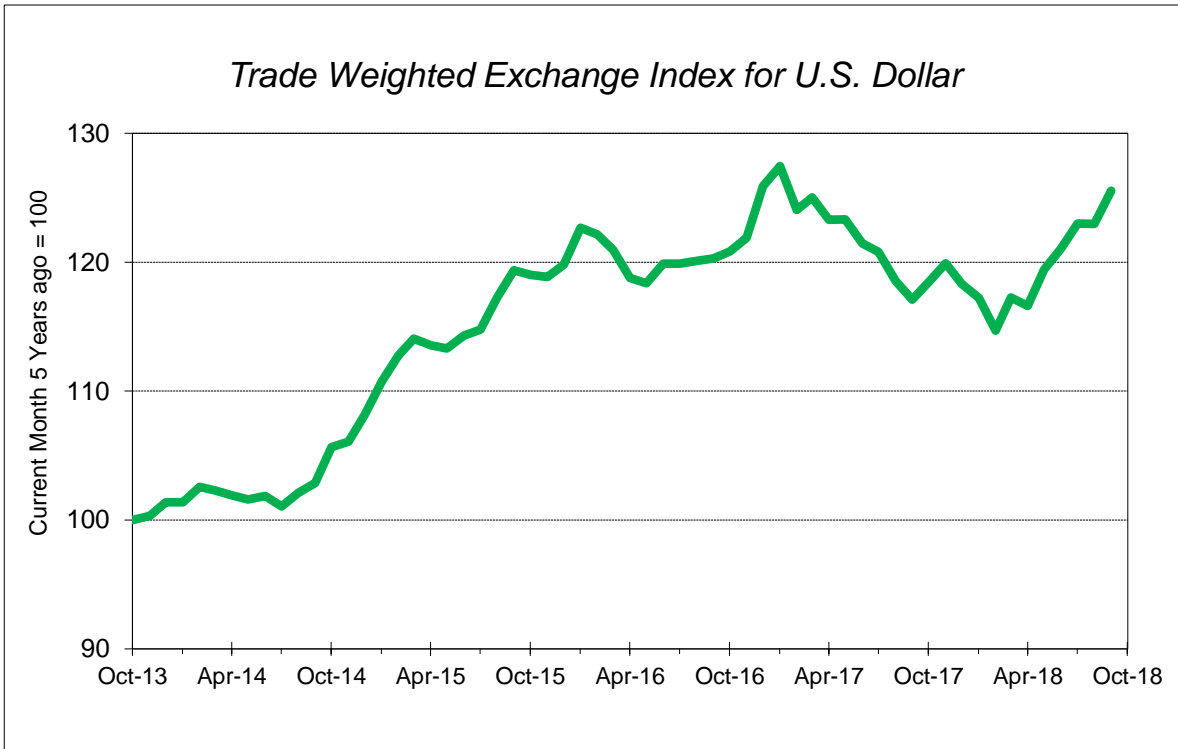
Source: Department of Commerce



Source: Bureau of Labor Statistics

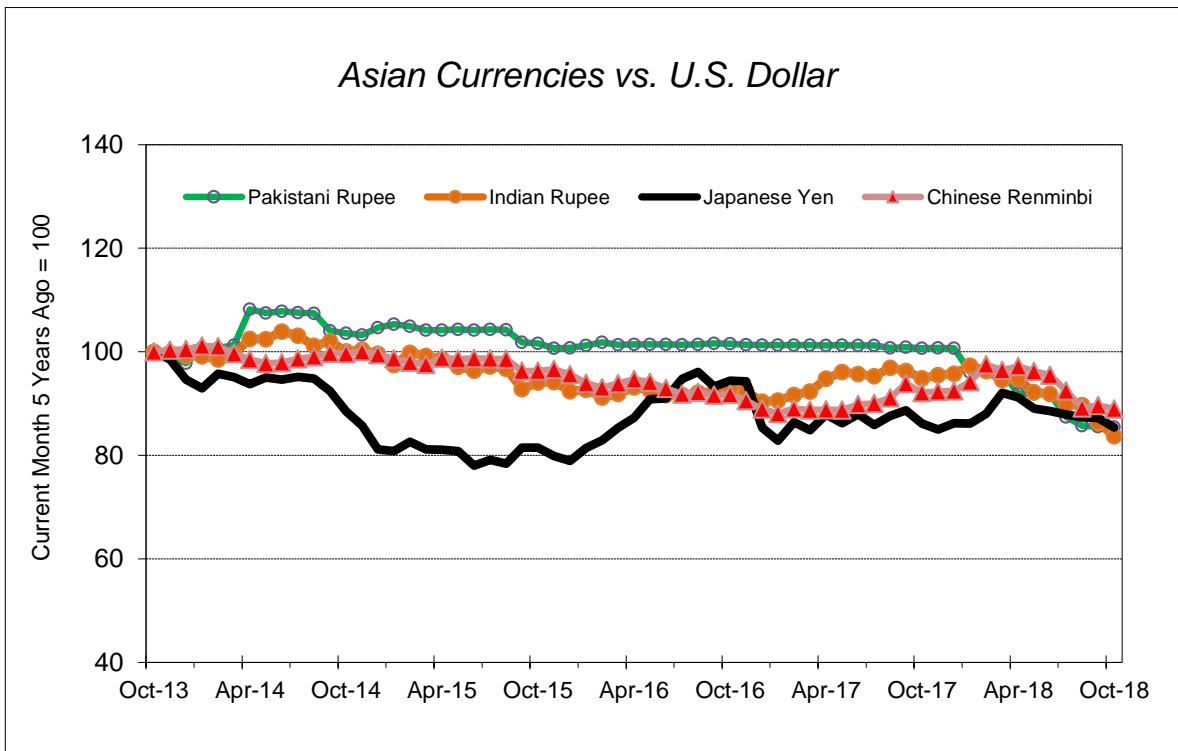
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Source: Federal Reserve

Source: Federal Reserve



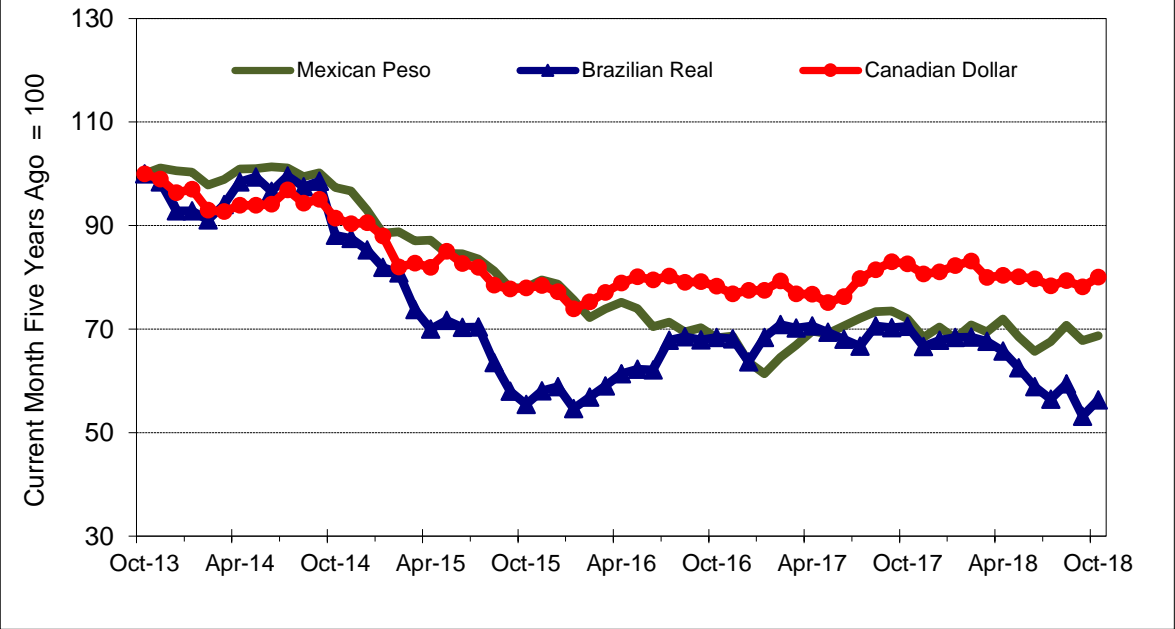
Source: oanda.com

Source: Reuters

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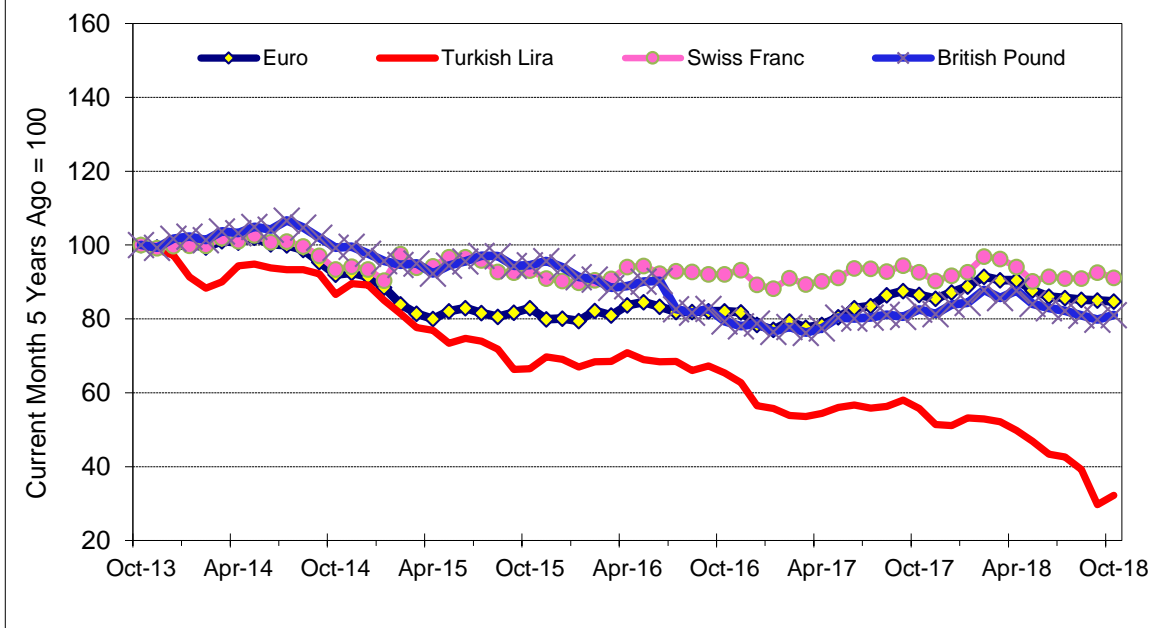
North & South American Currencies vs. U.S. Dollar



Source: oanda.com

Source: Reuters

Index of European Currencies vs. U.S. Dollar



Source: oanda.com

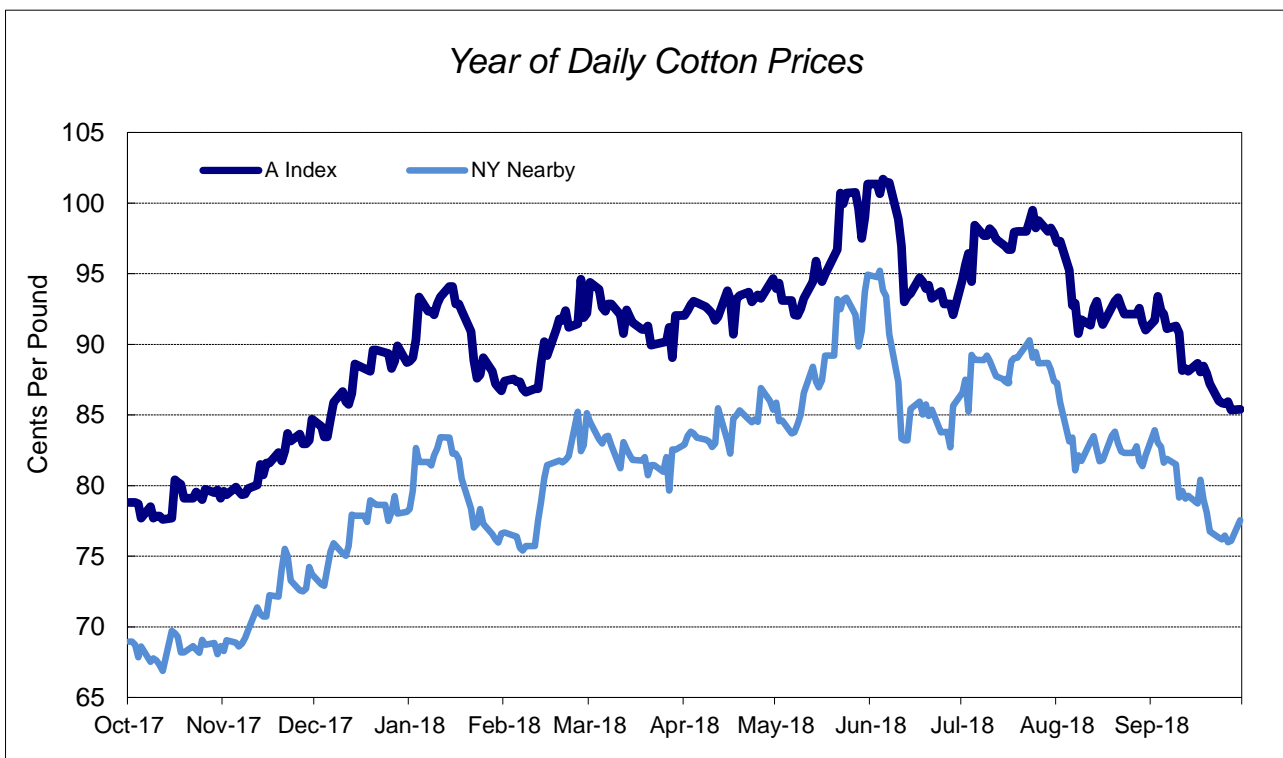
Source: Reuters

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U.S. Balance Sheet

million 480 lb. bales	2014/15	2015/16	2016/17	2017/18	2018/19 August	2018/19 September
Beginning Stocks	2.4	3.7	3.8	2.8	4.4	4.3
Production	16.3	12.9	17.2	20.9	19.2	19.7
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	18.7	16.6	21.0	23.7	23.6	24.0
Mill-Use	3.6	3.5	3.3	3.2	3.4	3.4
Exports	11.2	9.2	14.9	15.8	15.5	15.7
Demand	14.8	12.6	18.2	19.1	18.9	19.1
Ending Stocks	3.7	3.8	2.8	4.3	4.6	4.7
Stocks/Use Ratio	24.6%	30.2%	15.1%	22.5%	24.3%	24.6%



Sources: ICE Futures U.S. & Cotton Outlook

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