

Executive Cotton Update

U.S. Macroeconomic Indicators &
the Cotton Supply Chain



February 2020

www.cottoninc.com

Macroeconomic Overview: The Bureau of Economic Analysis estimates that the U.S. economy grew 2.3% in 2019. Forecasts suggest that growth could slow a little in 2020, with many projections falling between 1.9% and 2.1%. For comparison, in 2018, growth was 2.9% and in 2017 growth was 2.4%.

The International Monetary Fund (IMF) recently updated its forecasts for global GDP. Their projection for 2020 is now 3.3%. This is slightly lower than their October estimate (3.4%), but nonetheless calls for an acceleration in global economic activity this year (growth in 2019 estimated to have been 2.9%, which is the slowest since the financial crisis). In 2021, growth is expected to accelerate a little further and reach 3.4%. Projections for both 2020 and 2021 are below levels before the 2018-19 slowdown. In 2017, global growth reached its highest level since the financial crisis (3.8%). In 2018, conditions began to slow in the second half, and growth for the year was 3.6%.

A drag on global growth has been sluggish conditions in advanced economies. This has been especially true in Europe and Japan. In 2019, Eurozone GDP grew only 1.2%. Europe's largest economy, Germany, grew only 0.5%. For both the Eurozone and Germany, these were the slowest rates of growth in six years. In 2019, Japan grew 1.0%. Among advanced economies, the U.S. continues to post the strongest growth rates. In 2019, growth is estimated to have been 2.3%.

In the report that accompanied their updated forecasts, the IMF indicated that risks have become less tilted toward the downside. There are indications that global manufacturing activity and international trade may have reached a bottom in 2019. Geopolitical headwinds appear to have eased, with the U.S. and China signing the Phase One agreement, the U.S. ratifying the U.S.-Mexico-Canada-Agreement (USMCA, the update to NAFTA, Mexico and the U.S. have signed, Canada is beginning the ratification process), and the U.K. formally withdrawing from the E.U. thereby removing some uncertainty from that process.

Nonetheless, the macroeconomic landscape is rapidly evolving. The Phase One deal was signed only a few weeks ago (on January 15th). Since then, the coronavirus outbreak emerged and China announced it would lower tariffs on many U.S. goods. The reduction in Chinese tariffs is scheduled for February 14th. This is the same date that the U.S. will lower its supplemental tariffs from 15% to 7.5% on many imports of consumer goods from China (List 4a, which includes finished apparel and home textiles). The easing of tariffs and trade tensions should be a positive for the global economy, while the coronavirus is an obvious source of concern. The longer and more widespread the outbreak is, the greater the potential damage to Chinese and global economies.

Employment: The U.S. economy is estimated to have added 225,000 jobs in January. Revisions to both November (+5,000 to +256,000) and December (+2,000 to +147,000) were positive. Following these changes, the latest twelve-month average for job gains is now 171,000. Over the same period one year ago, gains averaged 205,000. The unemployment rate increased marginally, from 3.5% to 3.6%, and was a result of a small increase in the number of people wanting to work. Wages increased 3.1% year-over-year in January. Wage growth has been above three percent every month since September 2018.

Consumer Confidence & Spending: The Conference Board's Index of Consumer Confidence increased 3.4 points month-over-month in January to 131.6. The current level is near values registered since the spring of 2019 and ranks among the highest recorded.

Overall consumer spending rose 0.1% month-over-month in December (seasonally-adjusted) and was 3.3% higher than one year ago. Consumer spending on apparel was down 0.7% month-over-month in December. However, the decrease can be interpreted as a normalization after the strong 2.8% month-over-month increase in October (was -0.2% month-over-month in November). Apparel spending was up 6.0% year-over-year in December. Over the holiday shopping period (Oct-Dec), apparel spending was 4.2% higher.

Consumer Prices & Import Data: The CPI for garments increased 0.5% month-over-month in December (seasonally-adjusted) but was 2.4% lower year-over-year. Average import prices for cotton-dominant apparel were 1.7% higher month-over-month (seasonally-adjusted USD per square meter equivalent or SME) and were 2.1% higher year-over-year.

The volume (SME) of U.S. apparel imports was down 0.3% in 2019 versus 2018. Imports from China were down 5.1%. For cotton-dominant apparel, the volume from all sources was down 2.3% and imports from China were down 12.4%. These annual decreases mask sharper declines that have occurred since tariffs were raised on most categories of Chinese-made apparel in September. From September through December, total apparel imports (all fibers) were down 8.8% and shipments from China were down 17.0%. Over the same period, total cotton-dominant imports were down 10.7% and imports from China were down 28.4%. The declines in arrivals from all sourcing locations continue to indicate that alternative sourcing locations have not been able to offset losses from China and that there has been a general pullback in orders. The planned reduction in tariffs on Chinese-made apparel in February can be expected to ease the effects on retailers, but may or may not be sufficient to stimulate demand.

U.S. Macroeconomic & Cotton Supply Chain Charts

Macroeconomic Indicators	Industry & Textiles	Retail	Currencies	Cotton
GDP Growth	Leading Indicators	Consumer Spending	Weighted Index	U.S. Balance Sheet
Interest Rates	Consumer Conf.	Inventory/Sales	Asia	Fiber Prices
ISM Indices	Employment	Consumer Prices	The Americas	
	Housing	Polyester PPI	Europe	

Executive Cotton Update

U.S. Macroeconomic Indicators & Cotton Prices
February 2020



Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters			Unit	Source
	5-year	1-year	6-month	3-month	Q2 : 2019	Q3 : 2019	Q4 : 2019		
Growth in US Real GDP	2.3%	2.5%	2.1%	2.1%	2.0%	2.1%	2.1%	% 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	54.0	55.8	48.8	48.1	48.1	47.8	50.9	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	56.7	57.1	54.6	54.4	53.9	54.9	55.5	Index	Institute for Supply Management
Consumer Confidence	115.7	126.6	129.6	127.0	126.8	128.2	131.6	Index	The Conference Board
Index of Leading Economic Indicators	104.9	108.4	111.6	111.4	111.6	111.4	111.5	Index	The Conference Board
Change in Non-Farm Payrolls	193.1	181.1	200.3	197.7	261.0	147.0	225.0	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.4%	4.0%	3.6%	3.5%	3.5%	3.5%	3.6%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.1%	1.7%	1.9%	1.6%	1.6%	1.6%	1.6%	Interest rate	Federal Reserve
10-year Treasury Bill	2.3%	2.5%	1.8%	1.8%	1.8%	1.9%	1.8%	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	November	December	December		
Housing Starts	12.0	12.4	13.0	13.3	1.3	1.3	1.6	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	5.4	5.4	5.4	5.4	5.4	5.4	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	105.7	107.3	109.4	109.4	109.4	108.9	109.8	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	108.4	102.0	100.5	99.2	98.2	97.9	98.2	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile 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		
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.3	3.0	3.0	2.9	3.0	2.9	2.9	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	1.31	1.31	1.37	1.36	1.37	1.35	1.37	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	2.9%	2.7%	2.5%	2.4%	2.3%	2.4%	3.3%	% Chg. Year/Year	Department of Commerce
Clothing	2.8%	2.6%	2.6%	2.9%	4.2%	2.4%	6.0%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	1.5%	2.1%	1.8%	1.8%	1.8%	2.0%	2.3%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-0.8%	-0.6%	-1.3%	-2.2%	-3.3%	-2.4%	-1.9%	% 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	2.4	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	2.1	2.1	2.1	Ratio	Department of Commerce

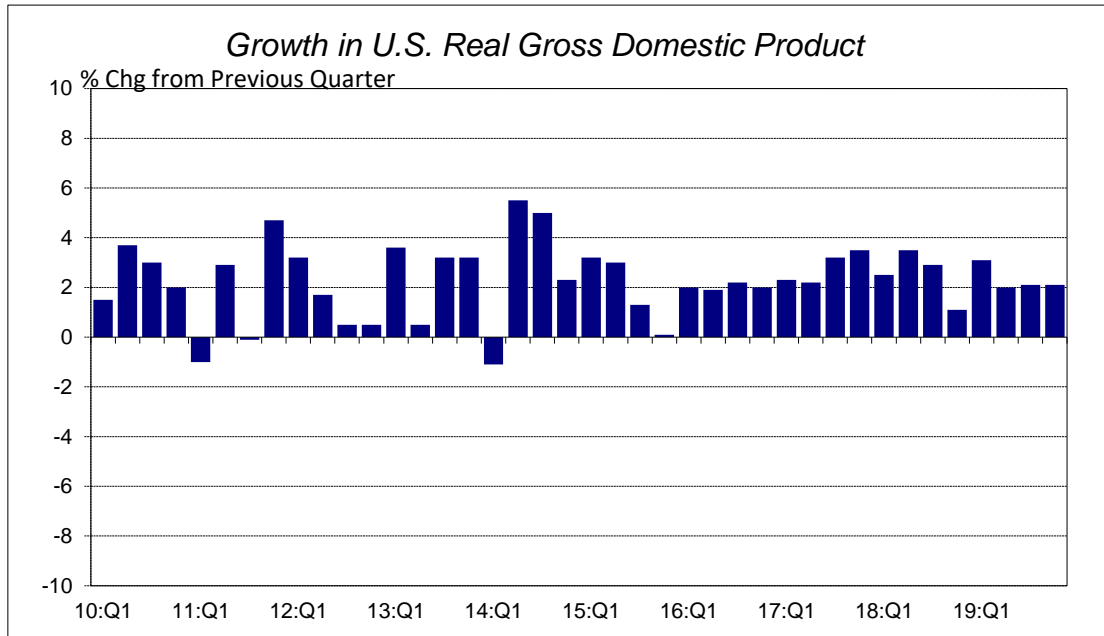
Executive Cotton Update

Daily Cotton Price and Currency Data
February 2020

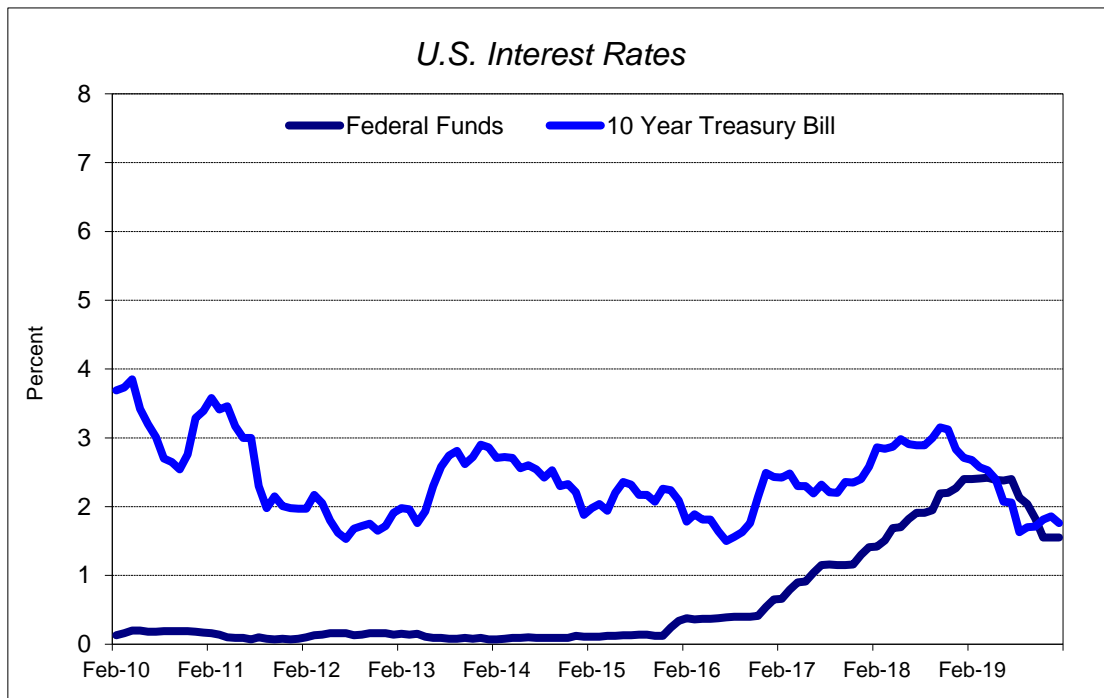


Daily Cotton Price Data	Recent Averages				Averages over Recent Months			Unit	Source
	5-year	1-year	6-month	3-month	November	December	January		
NY Nearby	70.9	72.1	71.9	69.6	64.5	67.0	70.1	cents/pound	ICE
A Index	79.7	81.7	81.8	79.5	74.8	75.9	79.1	cents/pound	Cotlook

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	112.6	113.5	116.5	115.9	116.4	116.3	115.1	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.65	6.76	7.04	6.99	6.99	7.04	6.93	Chinese Renminbi/US dollar	Reuters
Indian Rupee	67.15	68.09	71.11	71.04	71.27	70.93	70.94	Indian Rupee/US dollar	Reuters
Japanese Yen	112.11	110.42	108.05	109.14	109.15	108.71	109.56	Japanese Yen/US dollar	Reuters
Pakistani Rupee	117.36	126.44	155.98	155.08	155.40	154.95	154.89	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	3.54	3.61	4.08	4.12	4.14	4.14	4.07	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.31	1.32	1.32	1.32	1.32	1.31	Canadian dollar/US dollar	Reuters
Mexican Peso	18.48	19.10	19.26	19.03	19.09	19.23	18.78	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.74	0.77	0.79	0.77	0.78	0.76	0.77	British Pound/US dollar	Reuters
Euro	0.89	0.88	0.90	0.90	0.91	0.90	0.90	Euro/US dollar	Reuters
Swiss Franc	0.98	0.99	0.99	0.99	1.00	0.99	0.97	Swiss Franc/US dollar	Reuters
Turkish Lira	4.05	4.80	5.76	5.81	5.76	5.80	5.87	Turkish Lira/US dollar	Reuters



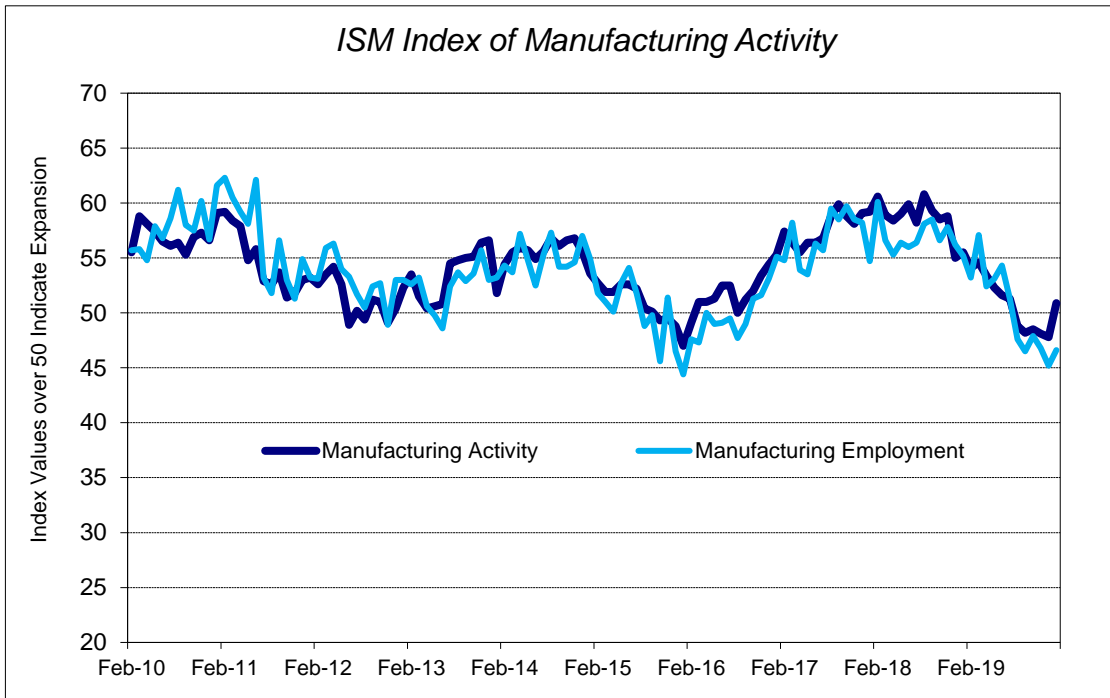
Seasonally Adjusted Annual Rate; Source: Department of Commerce
 *Based on chained 2005\$.



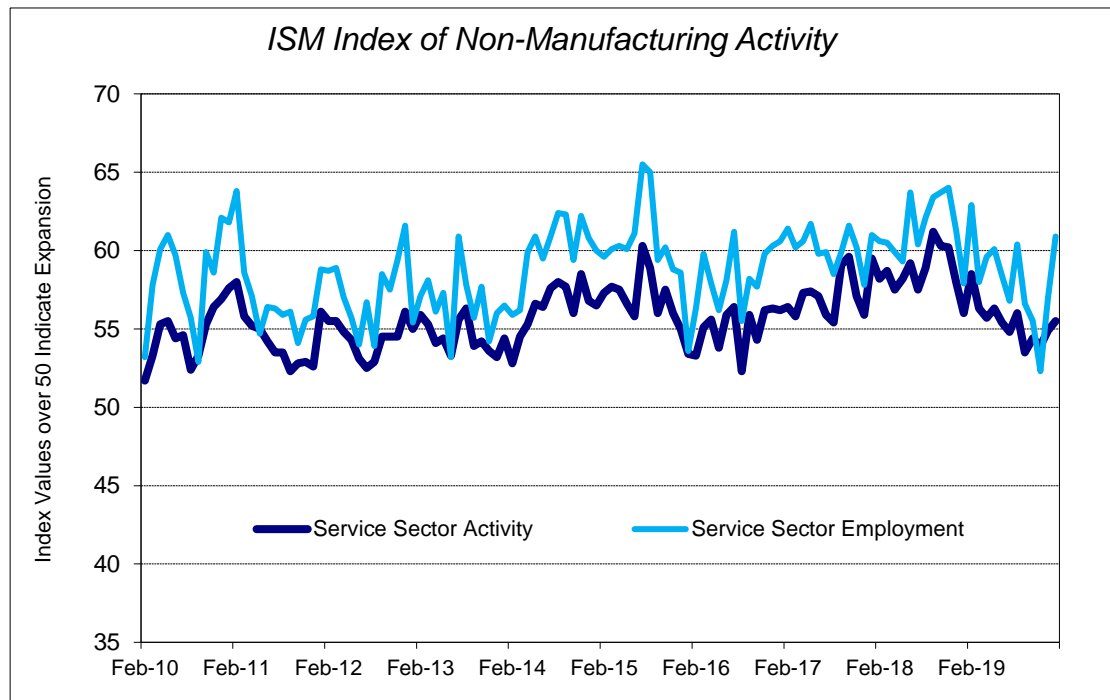
Source: Federal Reserve

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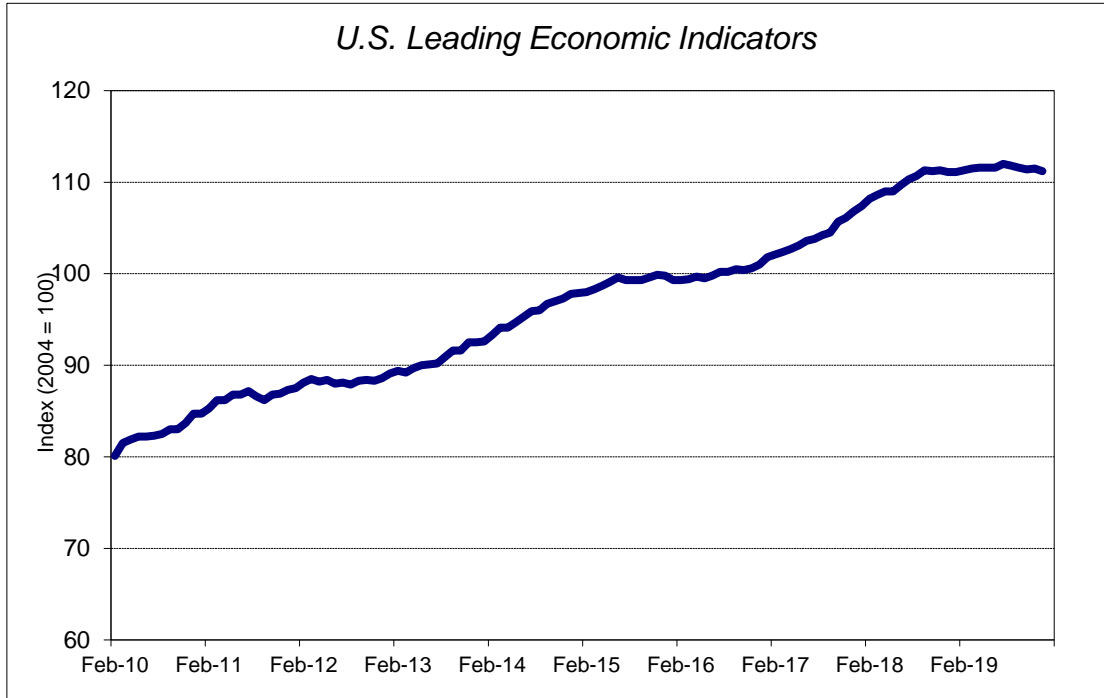
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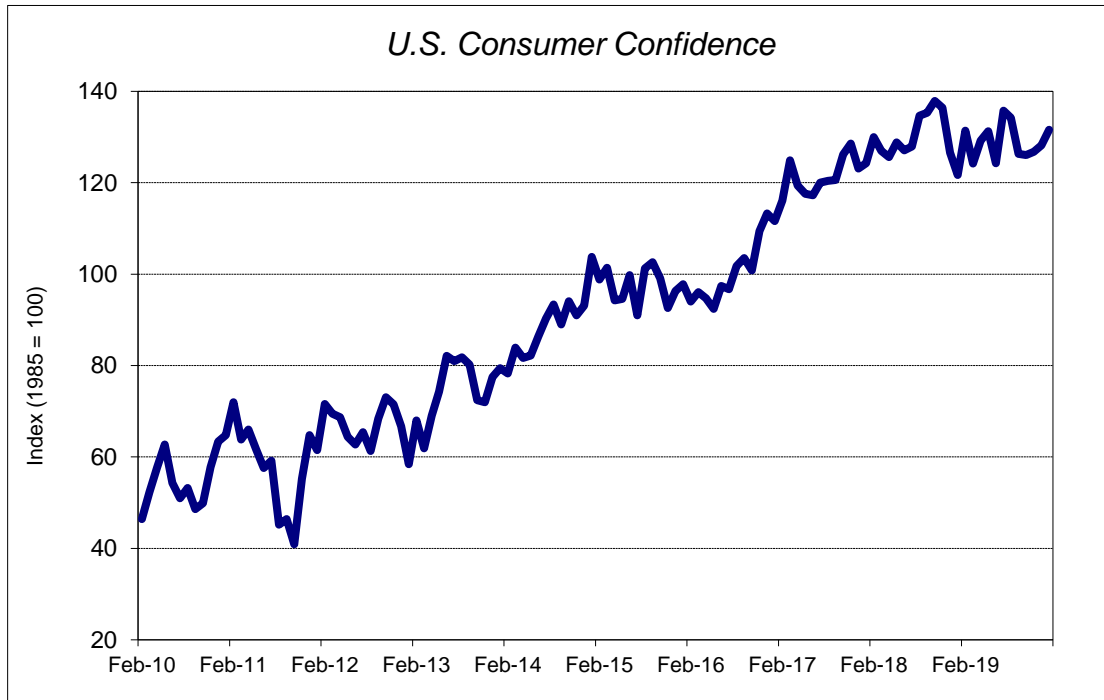
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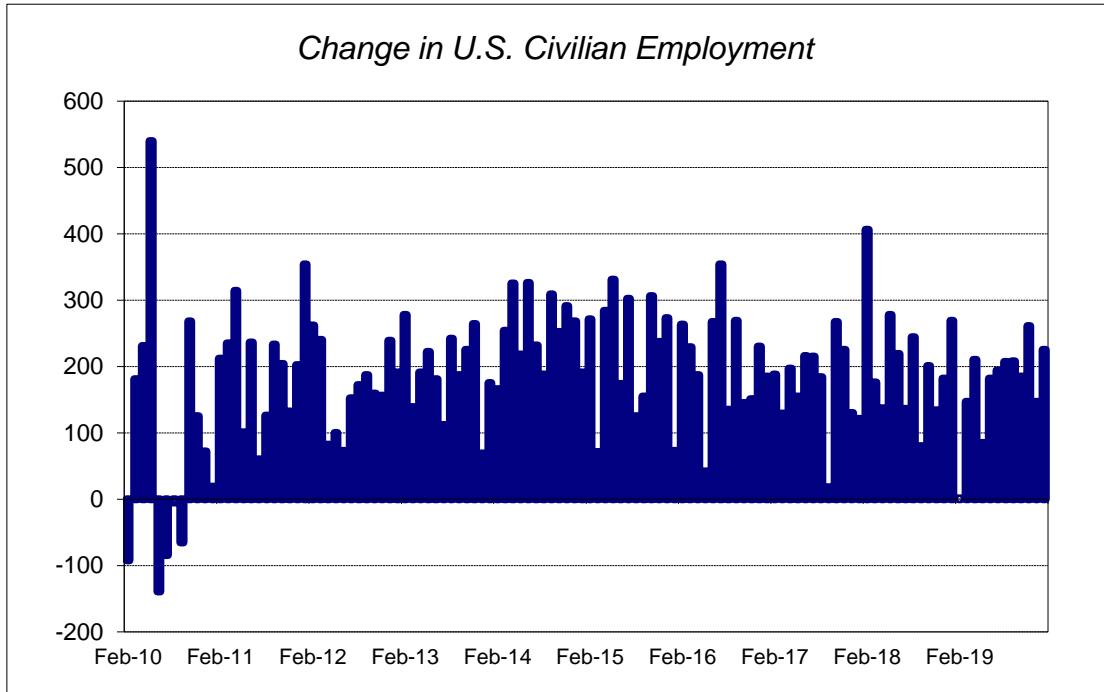
Source: The Conference Board



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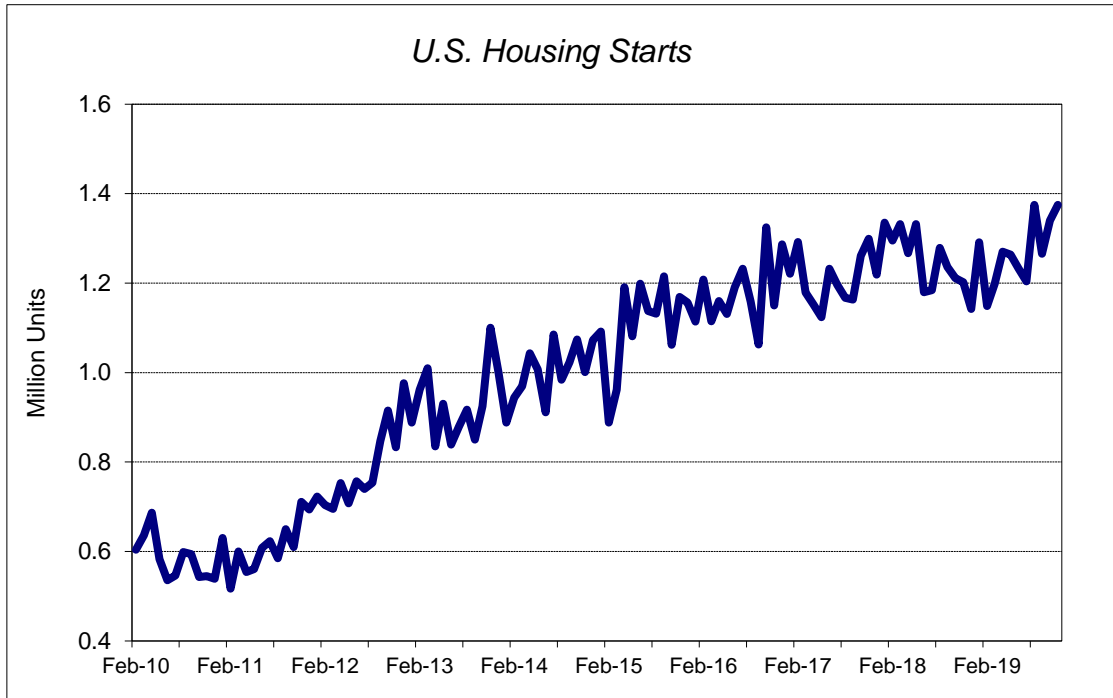
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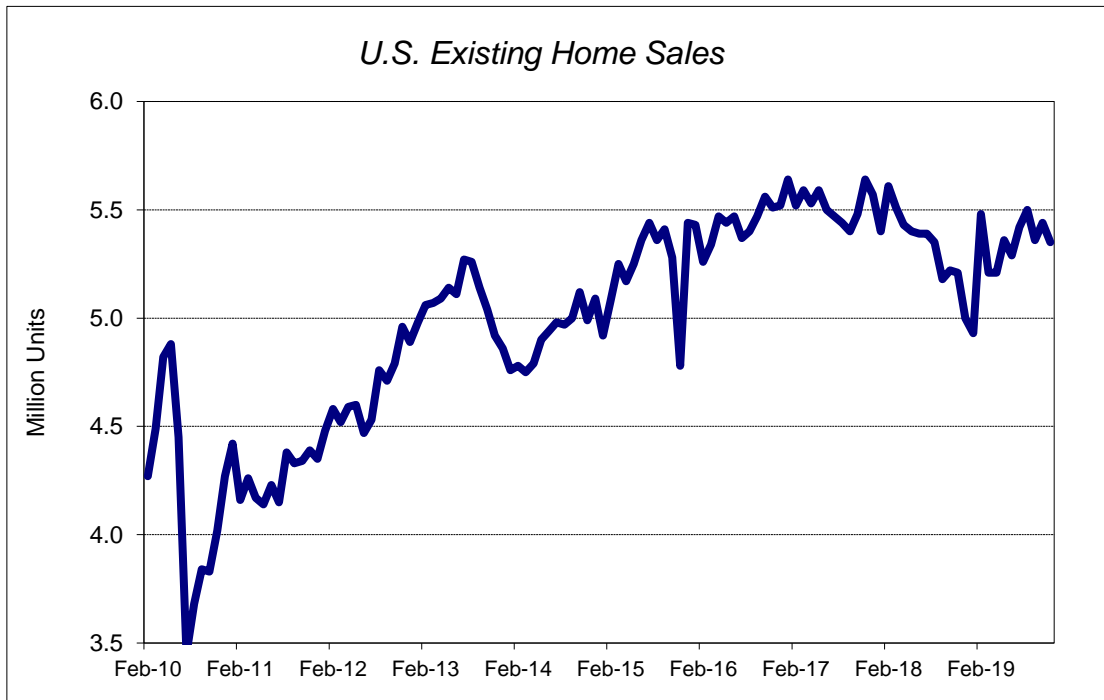
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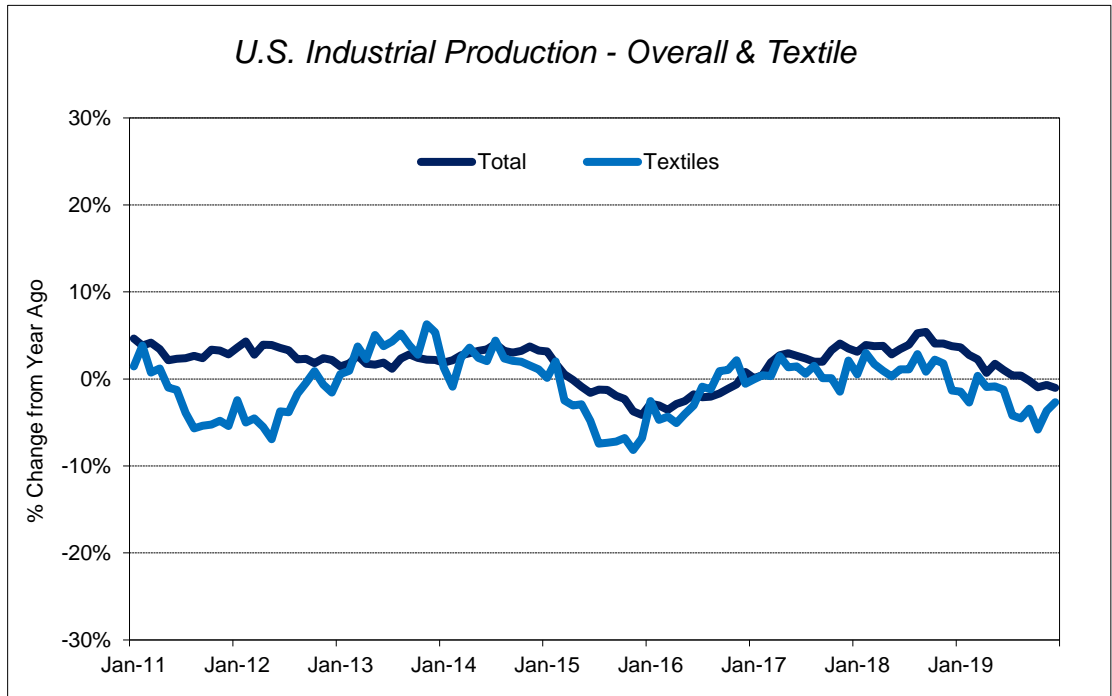
Seasonally Adjusted Annual Rate; Source: Department of Commerce



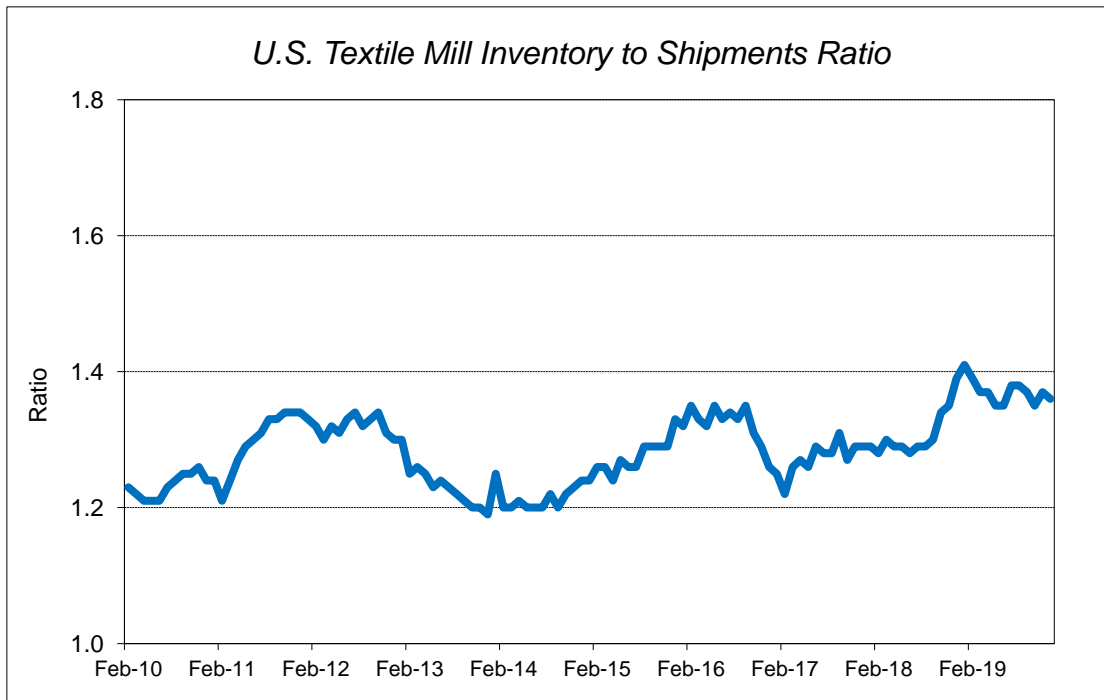
Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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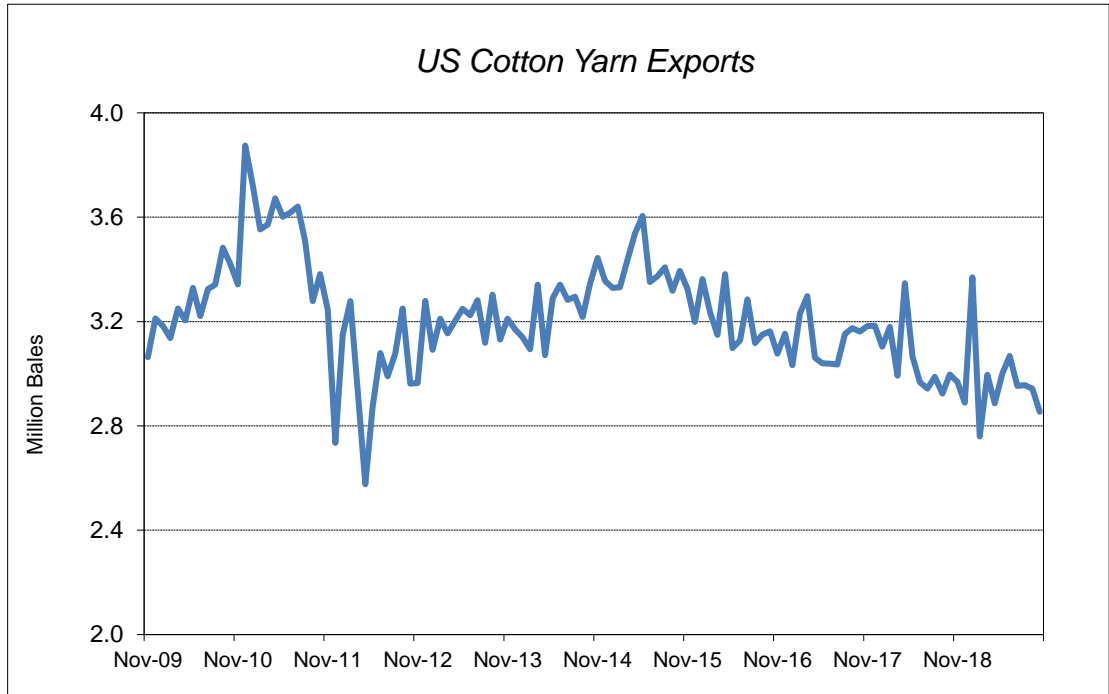
Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

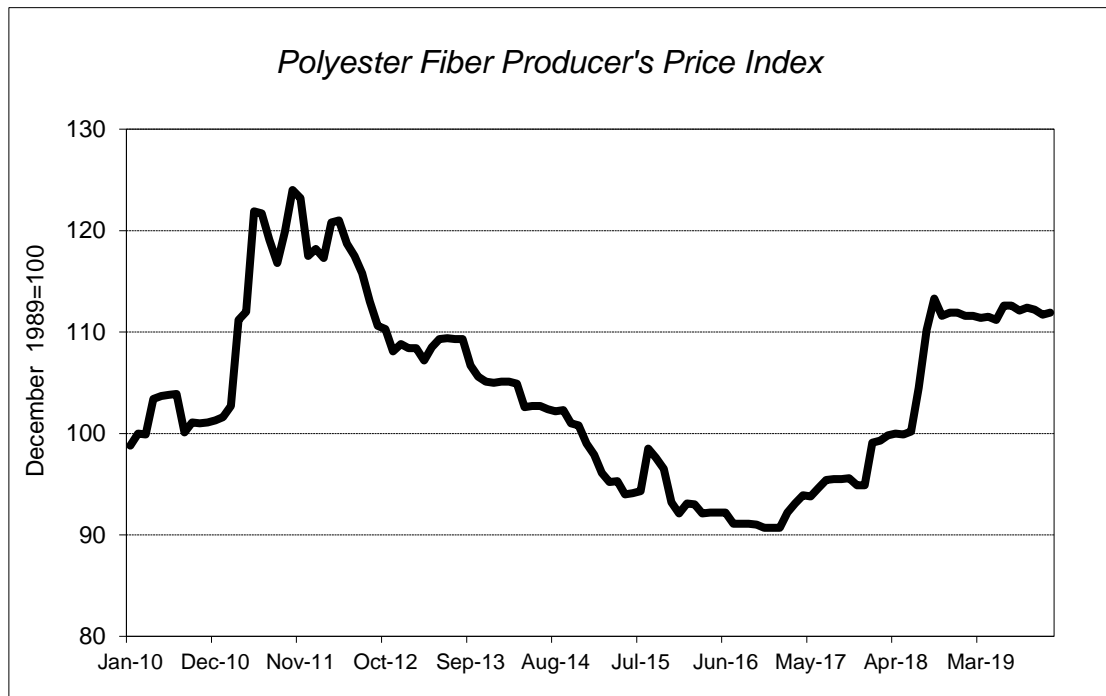
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Seasonally Adjusted Annual Rate

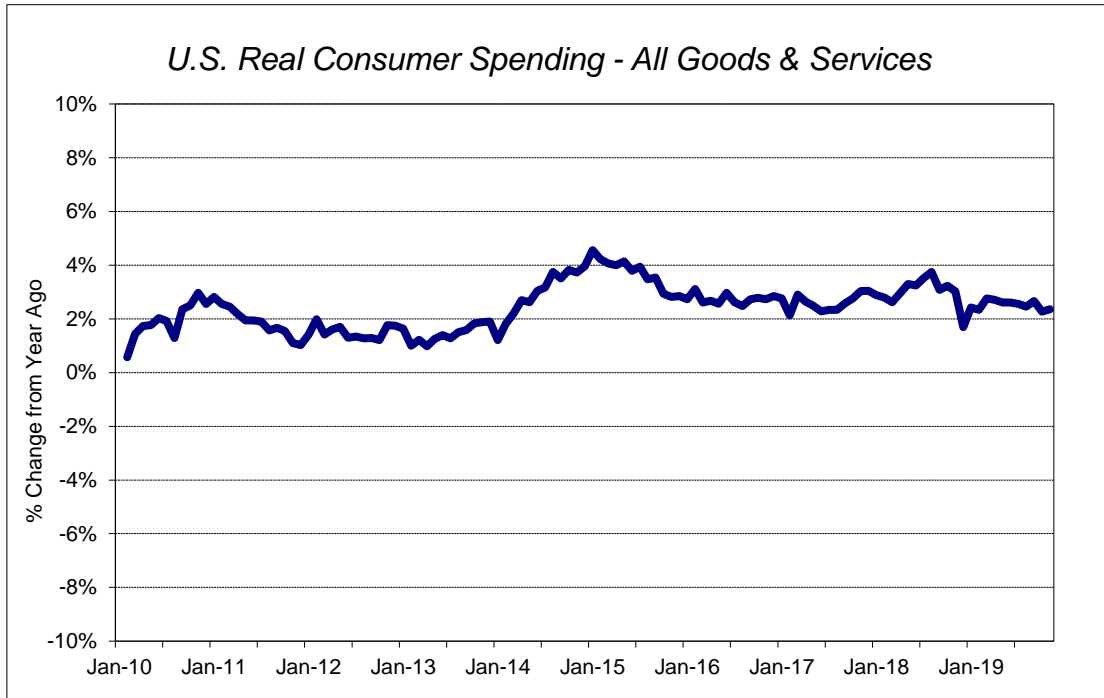
Source: USDA ERS



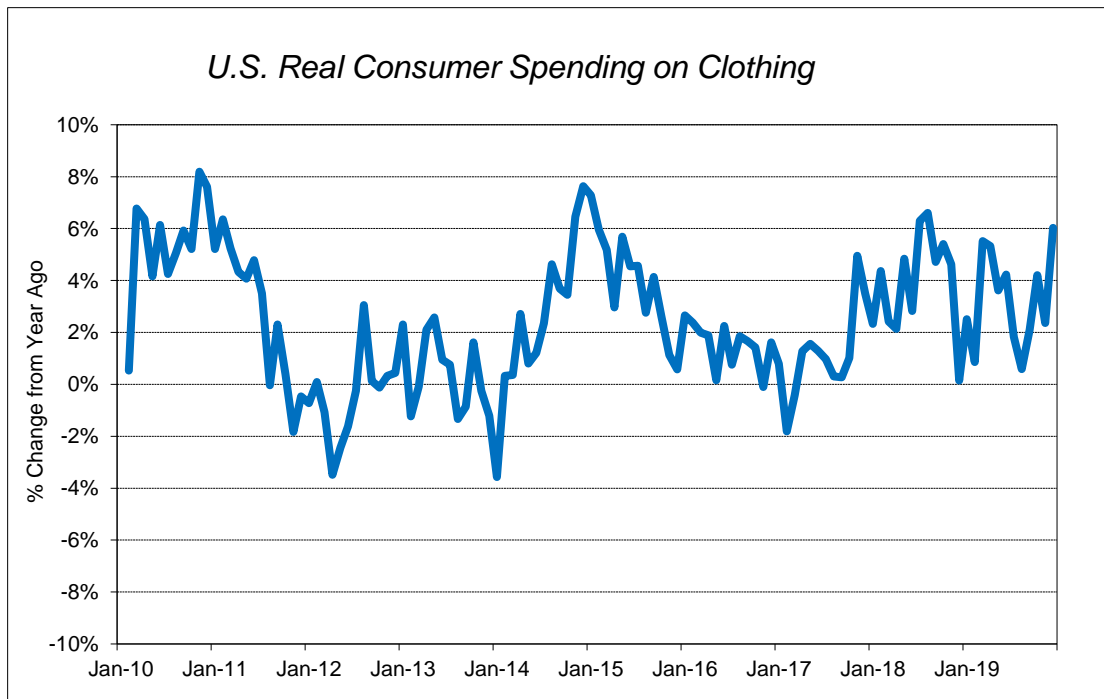
Source: Bureau of Labor Statistics

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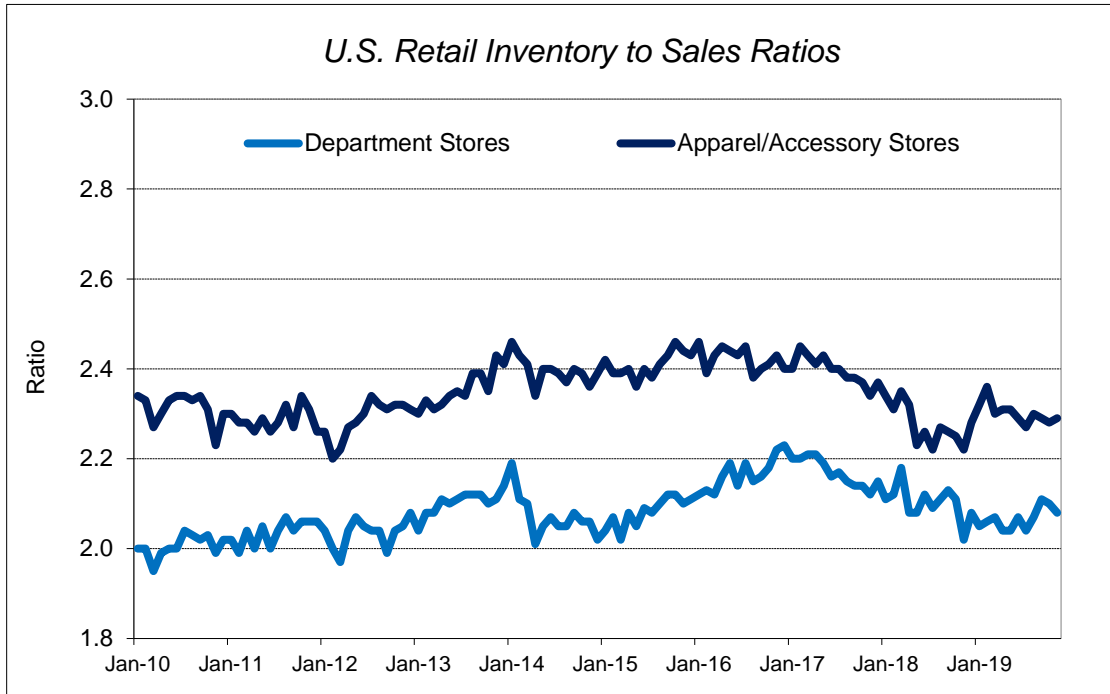
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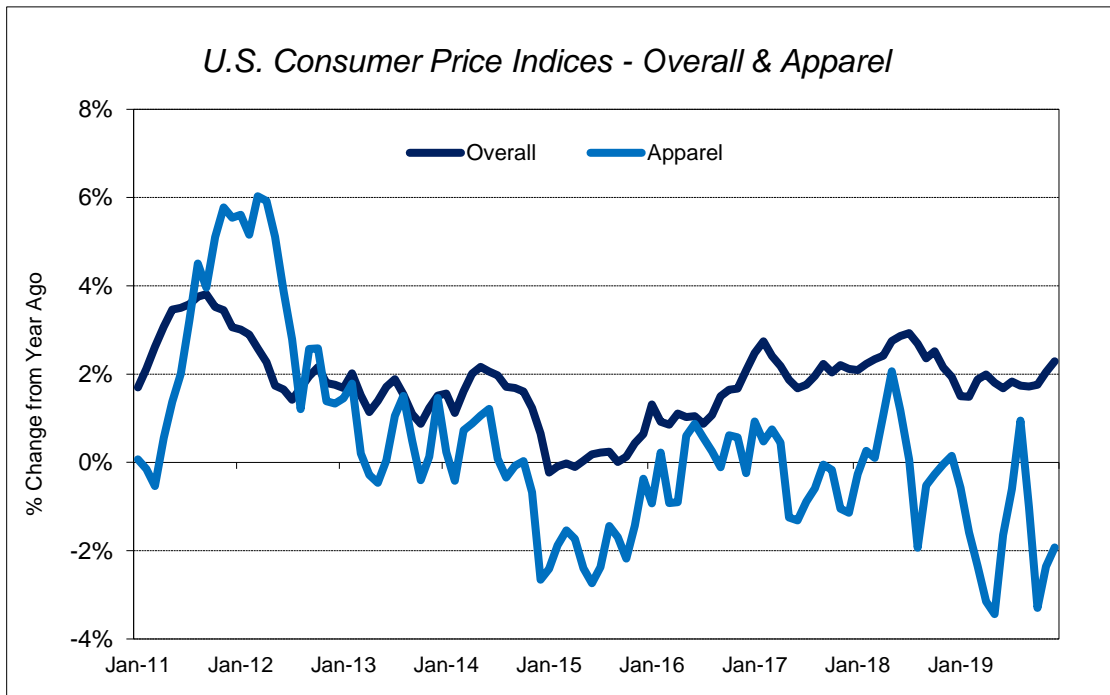
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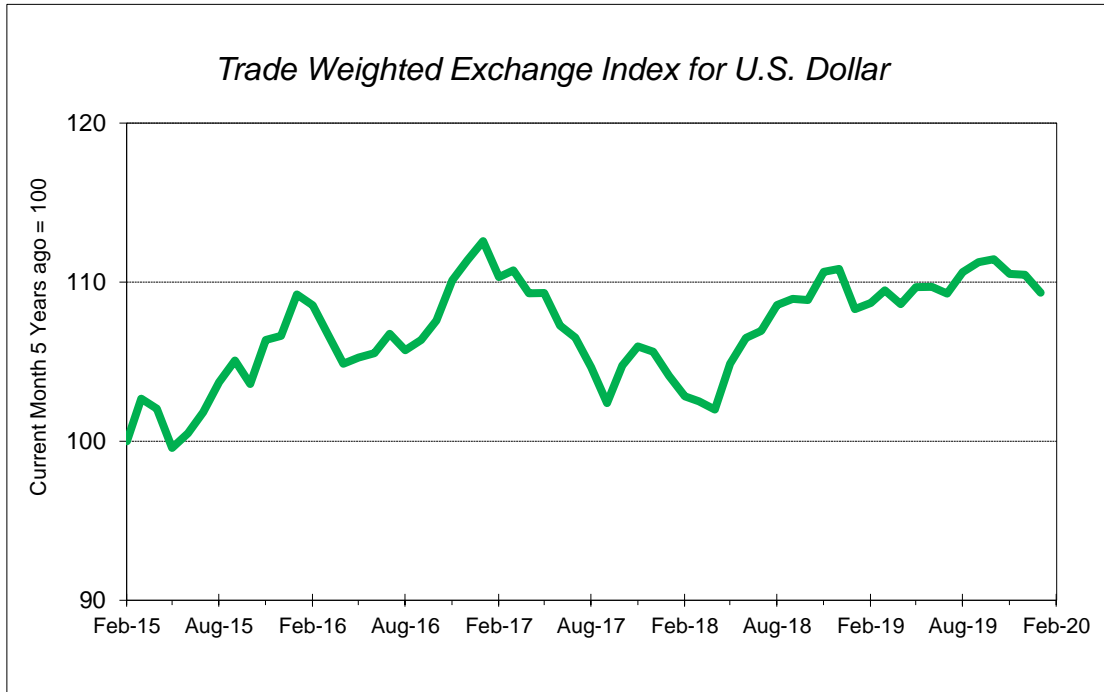
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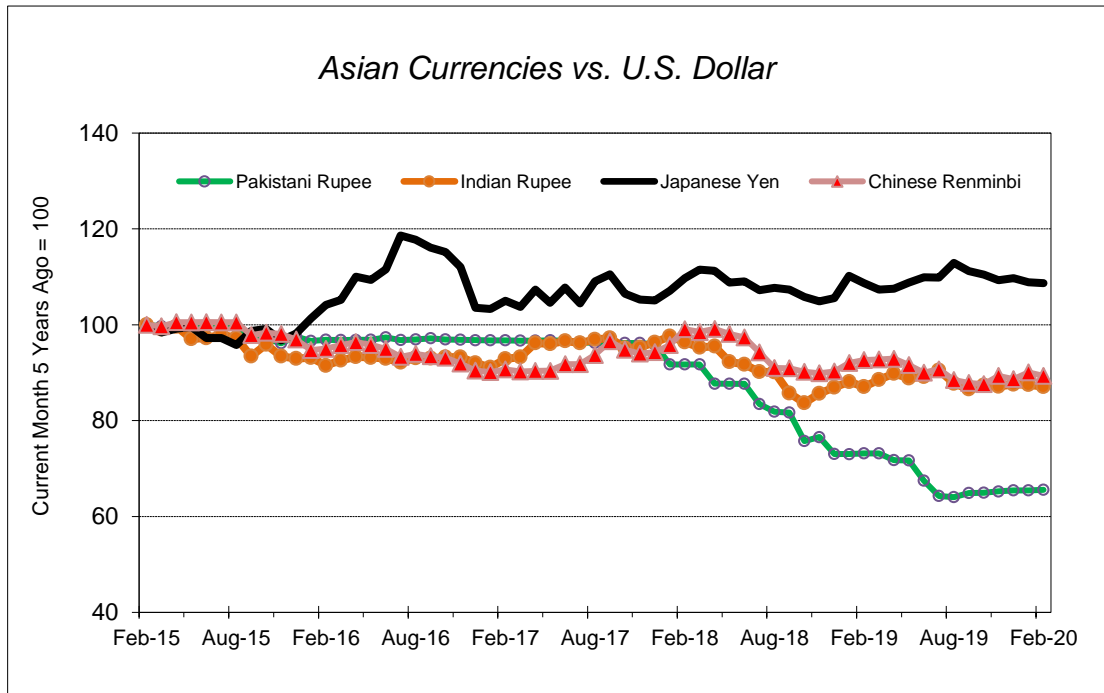
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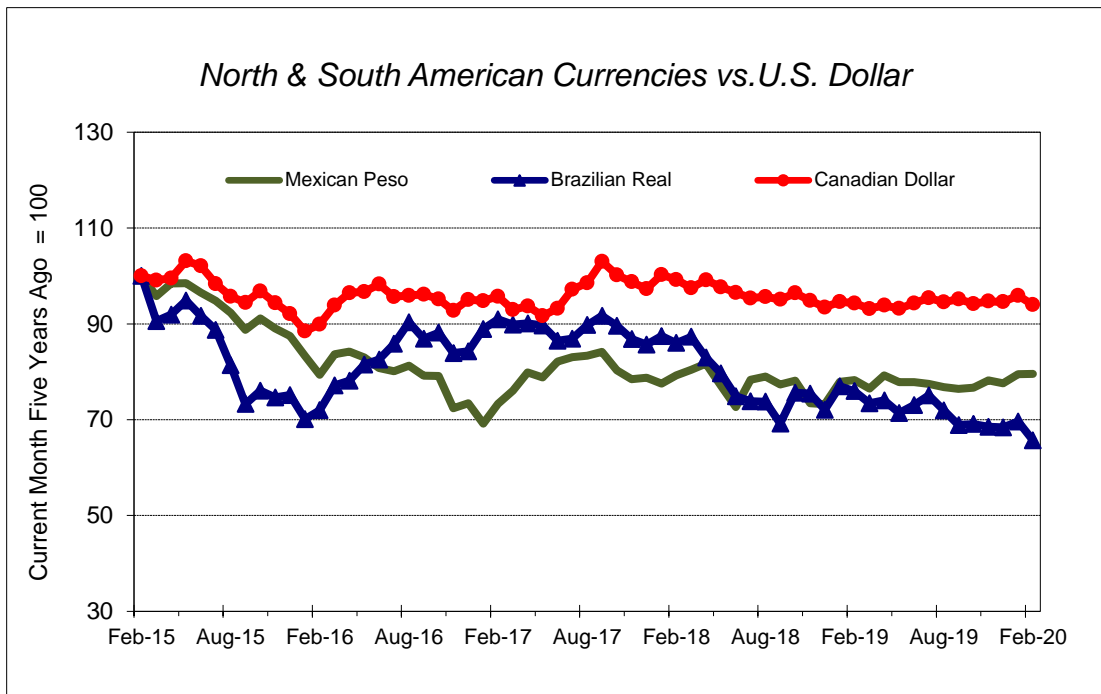
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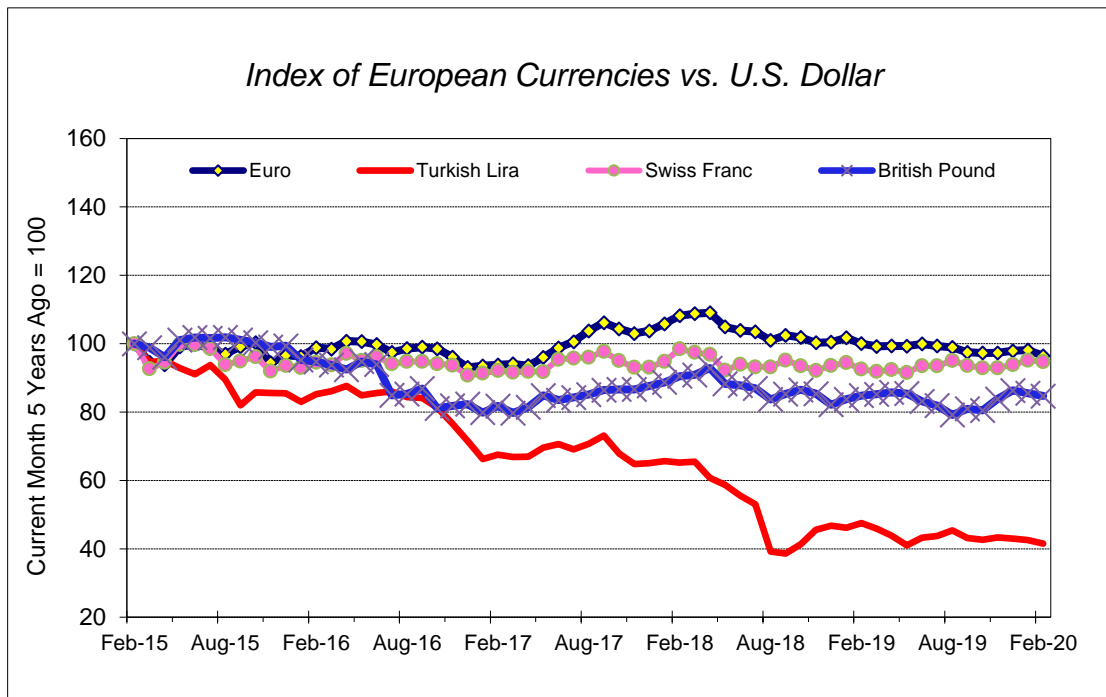
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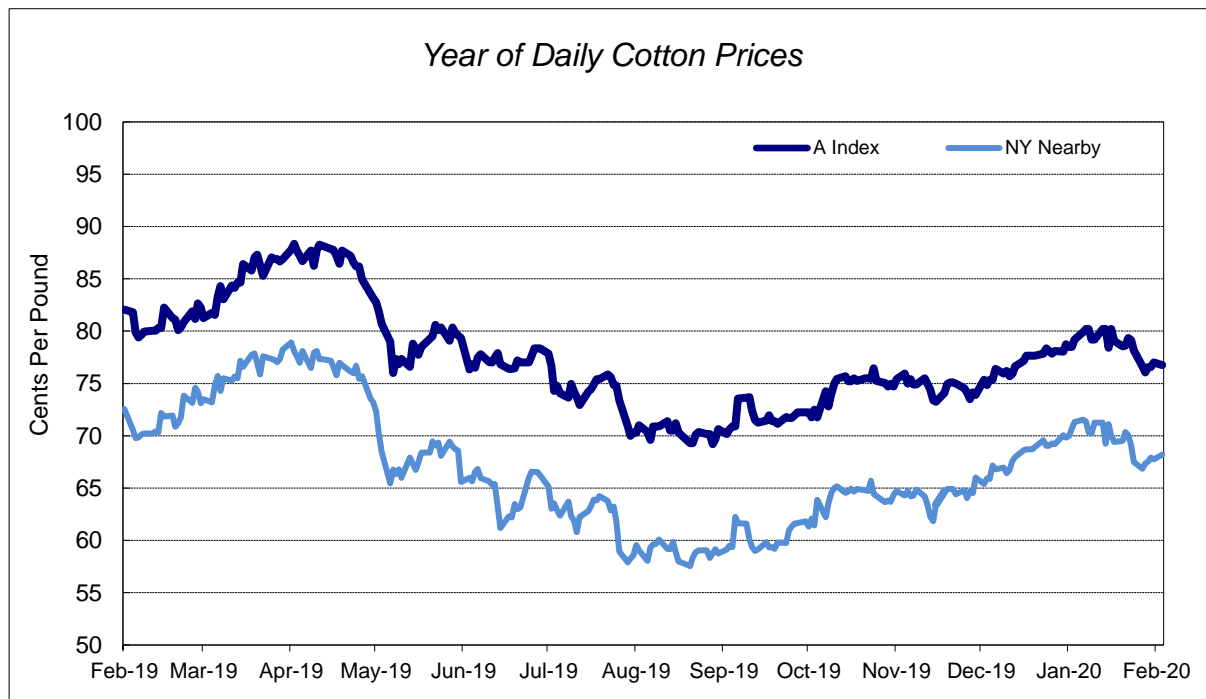
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U.S. Balance Sheet

million 480 lb. bales	2015/16	2016/17	2017/18	2018/19	2019/20	2019/20
					December	January
Beginning Stocks	3.7	3.8	2.8	4.2	4.9	4.9
Production	12.9	17.2	20.9	18.4	20.2	20.1
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	16.6	21.0	23.7	22.6	25.1	25.0
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	5.5	5.4
Stocks/Use Ratio	30.2%	15.1%	21.5%	27.3%	28.2%	27.7%



Sources: ICE Futures U.S. & Cotton Outlook

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