## **Executive Cotton Update**

U.S. Macroeconomic Indicators & the Cotton Supply Chain



November 2021 www.cottoninc.com

**Macroeconomic Overview:** The Bureau of Economic Analysis estimates the U.S. economy grew at a 2.0% seasonally-adjusted annual rate in the third quarter (Q3 2021). This is lower than the 6.7% growth in Q2 2021 and the 6.3% growth registered in Q1 2021. One reason for the slower overall growth was a slowdown in consumer spending. Consumer spending growth was 1.6% annualized rate in Q3 2021. In Q2 2021, it was 12.0%. In Q1 2021, it was 11.4%.

The slowdown in spending was concentrated on physical goods (as opposed to services). Service spending, which includes outlays for travel and restaurants, was disproportionately affected by COVID. While service spending was lower, consumer spending on goods surged. Slower spending on goods in the third quarter (-9.2%) and higher spending on services (+7.9%) suggests a rebalancing is underway. Despite slower spending on goods overall, spending on clothing remains strong. Year-over-year, growth in spending on apparel was 19.0% higher in the third quarter. Relative to the same period in 2019, consumers spent 25.4% more this year.

A challenge facing retailers is keeping up with consumer demand. Shipping constraints may lead to missed sales during the important holiday sales period. Forecasts from the National Retail Federation suggest that consumers could spend 8.5% to 10.5% more this holiday than last year. Average increases are near 3%. If realized, this year's growth would represent a record increase.

U.S. apparel imports have been strong in 2021. In terms of weight volume, apparel imports are on pace to reach their highest level since 2010. Imports of home textiles are on pace to set a new record. Nonetheless, the clock is ticking for this year's holiday, and logistics may prevent retailers from having all the goods they would like to offer to consumers.

When supply lags demand, prices can increase. Despite shipping constraints and increases in fiber prices, both import prices and retail apparel prices are below their levels before COVID. Further increases in import costs can be expected. However, fiber prices represent just a fraction of retail prices, and the influence of other factors can easily outweigh fiber at retail.

**Employment:** In October, the U.S. economy was estimated to have added +531,000 jobs. Revisions to figures for previous months were positive. The estimate for August rose +117,000 to +483,000. The estimate for September rose +118,000 to +312,000. The 12-month average for job gains is +474,000. Since COVID, there has been a net loss of -4.2 million positions.

The unemployment rate dropped 0.2 percentage points to 4.6%. This is a new post-pandemic low. Before the pandemic, unemployment was 3.5%, which was the lowest level in fifty years. Since the 1970s, unemployment rates below five percent have been rare. After the financial crisis, it took six years for the unemployment rate to fall below that level.

Average wages increased 4.9% in October. Stimulus measures boosted incomes soon after COVID hit the U.S., but apart from other post-COVID months, recent values are the strongest on record (data only go back to 2007). Wages are relevant to discussions surrounding inflation. For inflation to persist, wages need to rise alongside prices. If inflation outpaces wage growth, consumers' spending power diminishes. In recent months, the overall inflation rate has been as high as 4.4% year-over-year.

**Consumer Confidence & Spending:** After three months of decline, the Conference Board's Index of Consumer Confidence increased in October (+4.0 points, to 113.8). The current value is well above the long-term average of 93. The current value is also below the value posted in June (128.9) and below the levels near 130 that were common before the pandemic.

Overall consumer spending increased 0.3% month-over-month in September. Year-over-year, spending was up 6.2%. Apparel spending was up 2.4% month-over-month and up 15.5% year-over-year. COVID distorts comparison against figures from 2020. Relative to September 2019, overall spending was up 4.2%, while spending on apparel was 28.6% higher. The long-term average annual growth rate in spending on clothing is near 2.0%, so recent apparel spending has been extraordinarily strong.

Consumer Prices & Import Data: After five consecutive monthly increases, the CPI for apparel decreased in September. Despite recent increases, average retail prices are still lower than before the pandemic (-3.2% in September 2021 versus February 2020, seasonally-adjusted data). COVID caused retail clothing prices to drop as much as 8.7% year-over-year (May 2020). In September, prices were 3.0% higher year-over-year.

After setting a new record low (\$2.95/SME in seasonally-adjusted data) in March 2021, average import prices for cotton-dominant apparel have increased six straight months (seasonally-adjusted data). The current average cost per square meter (SME) is \$3.24/SME. This figure is -3.4% lower than before COVID (\$3.35/SME in February 2020). The most significant correlation between fiber prices and imports occurs with a nine-month lag, so import prices can be expected to continue to climb.

U.S. Macroeconomic & Cotton Supply Chain Charts										
Macroeconor	mic Indicators	Industry & Textiles	Retail	Currencies	Cotton					
GDP Growth	Leading Indicators	Industrial Production	Consumer Spending	Weighted Index	U.S. Balance Shee					
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 2021



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Quarterly Data		Recent	Averages		Valu	es in Recent Q	uarters		
	5-year	1-year	6-month	3-month	Q1 : 2021	Q2 : 2021	Q3:2021	Unit	Source
Growth in US Real GDP	2.5%	2.3%	6.5%	6.7%	6.3%	6.7%	2.0%	% Chg. Quarter/Quarter	Department of Commerce
Macroeconomic Series with Latest Data for October	Recent Averages				Val	ues in Recent M	lonths		
	5-year	1-year	6-month	3-month	August	September	October		
ISM Index of Manufacuring Activity	55.9	60.5	60.5	60.6	59.9	61.1	60.8	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.3	61.1	63.1	63.4	61.7	61.9	66.7	Index	Institute for Supply Management
Consumer Confidence	118.5	109.0	118.8	112.9	115.2	109.8	113.8	Index	The Conference Board
Change in Non-Farm Payrolls	54.1	481.2	665.5	442.0	483	312	531	Thousands of jobs	<b>Bureau of Labor Statistics</b>
Unemployment Rate	5.1%	5.8%	5.3%	4.9%	5.2%	4.8%	4.6%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	Interest rate	Federal Reserve
10-year Treasury Bill	2.0%	1.3%	1.4%	1.4%	1.3%	1.4%	1.6%	Interest rate	Federal Reserve
Macroeconomic Series with Latest Data for September		Recent	Averages		Values in Recent Months				
	5-year	1-year	6-month	3-month	July	August	September	Unit	Source
Index of Leading Economic Indicators	108.6	113.5	116.4	117.4	117.3	117.3	117.5	Index	The Conference Board
Housing Starts	13.3	15.8	15.8	1.6	1.6	1.6	1.6	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.6	6.2	5.9	6.1	6.0	5.9	6.3	Annual pace, millions of units	National Association of Realtors
Industrial & Textile Data									
Industrial & Textile Series with Latest Data for September		Recent	Averages			ues in Recent M			
	5-year	1-year	6-month	3-month	July	August	September	Unit	Source
US Industrial Production	100.0	99.1	100.4	100.9	100.4	101.4	100.0	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	104.7	111.2	117.1	123.3	122.6	123.0	124.4	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile Series with Latest Data for August	Recent Averages					lues in Recent I	Months		
	5-year	1-year	6-month	3-month	June	July	August	Unit	Source
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	2.5	2.7	2.6	2.7	2.6	2.5	million 480lb bales	USDA ERS

Industrial & Textile Series with Latest Data for September	Recent Averages			Valu	ues in Recent N	<b>Nonths</b>				
	5-year	1-year	6-month	3-month	July	August	September		Unit	Source
US Textile Mill Inventory/Shipments Ratio	1.39	1.36	1.37	1.39	1.39	1.38	1.40	Ratio		Department of Commerce

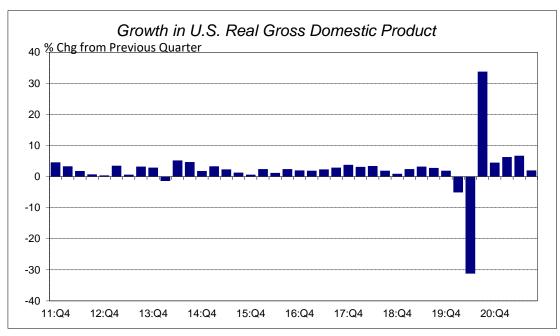
## Retail Data

Retail Data									
Retail Series with Latest Data for September			Val	ues in Recent N	Months				
	5-year	1-year	6-month	3-month	July	August	September	Unit	Source
US Real Consumer Spending									
All Goods and Services	2.2%	5.9%	11.8%	7.0%	7.4%	7.4%	6.2%	% Chg. Year/Year	Department of Commerce
Clothing	6.6%	29.1%	43.3%	19.1%	20.4%	21.3%	15.5%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	2.2%	3.3%	5.0%	5.3%	5.3%	5.2%	5.4%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	-1.3%	-0.4%	3.5%	3.5%	4.1%	3.9%	2.5%	% Chg. Year/Year	Bureau of Labor Statistics
Retail Series with Latest Data for August		Recent Averages			Val	ues in Recent N	Months		
	5-year	1-year	6-month	3-month	June	July	August	Unit	Source
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.7	2.1	1.9	1.8	1.8	1.9	1.9	Ratio	Department of Commerce
Department Stores	2.1	1.9	1.7	1.7	1.7	1.7	1.7	Ratio	Department of Commerce

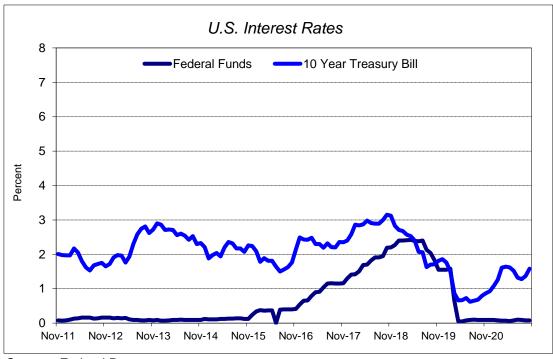
## Executive Cotton Update Daily Cotton Price and Currency Data November 2021



Daily Cotton Price Data		Recent	Averages		Ave	ages over Recent	Months		
	5-year	1-year	6-month	3-month	August	September	October	Unit	Source
NY Nearby	74.6	86.5	92.9	99.4	93.6	95.7	108.7	cents/pound	ICE
A Index	83.7	93.9	100.9	107.5	101.3	103.7	117.4	cents/pound	Cotlook
Daily Currency Data		Recent	Averages		Ave	ages over Recent	Months		
	5-year	1-year	6-month	3-month	August	September	October	Unit	Source
Dollar Trade Weighted Exchange Index	114.4	115.7	112.8	113.5	113.2	112.8	114.6	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.75	6.79	6.46	6.46	6.46	6.46	6.46	Chinese Renminbi/US dollar	Reuters
Indian Rupee	70.03	72.49	73.86	73.84	74.19	73.02	74.32	Indian Rupee/US dollar	Reuters
Japanese Yen	109.51	108.38	110.02	110.03	109.56	109.67	110.86	Japanese Yen/US dollar	Reuters
Pakistani Rupee	137.16	155.21	161.09	167.02	163.50	166.95	170.60	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.17	4.69	5.23	5.28	5.22	5.17	5.44	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.31	1.24	1.25	1.25	1.25	1.26	Canadian dollar/US dollar	Reuters
Mexican Peso	19.83	20.32	20.08	20.14	19.94	19.90	20.59	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.77	0.77	0.72	0.72	0.72	0.72	0.74	British Pound/US dollar	Reuters
Euro	0.87	0.87	0.84	0.85	0.84	0.84	0.86	Euro/US dollar	Reuters
Swiss Franc	0.97	0.95	0.91	0.91	0.91	0.91	0.92	Swiss Franc/US dollar	Reuters
Turkish Lira	5.67	6.76	8.55	8.55	8.47	8.30	8.87	Turkish Lira/US dollar	Reuters

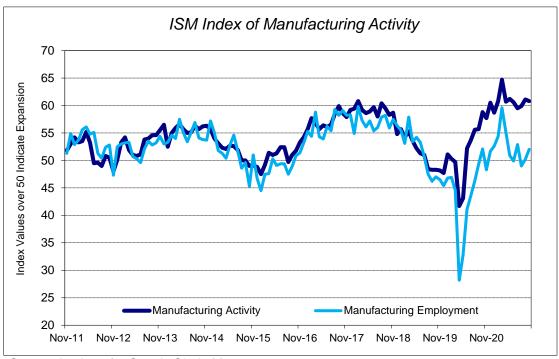


Seasonally Adjusted Annual Rate; Source: Department of Commerce \*Based on chained 2005\$.

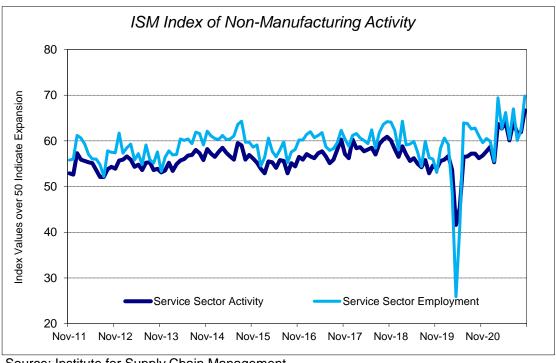


Source: Federal Reserve





Source: Institute for Supply Chain Management



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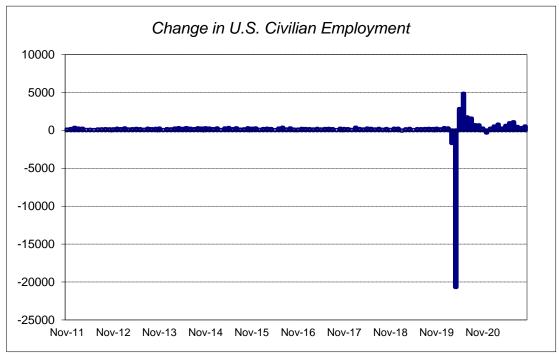


Source: The Conference Board

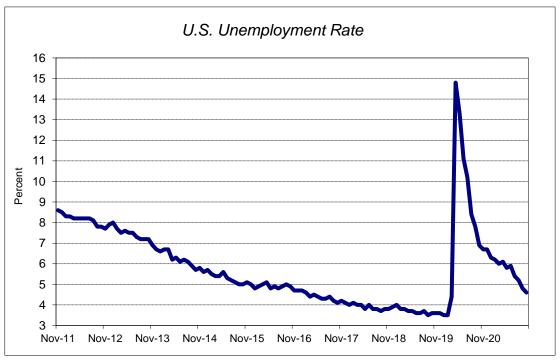


Source: The Conference Board





Source: Bureau of Labor Statistics



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Seasonally Adjusted Annual Rate; Source: Department of Commerce

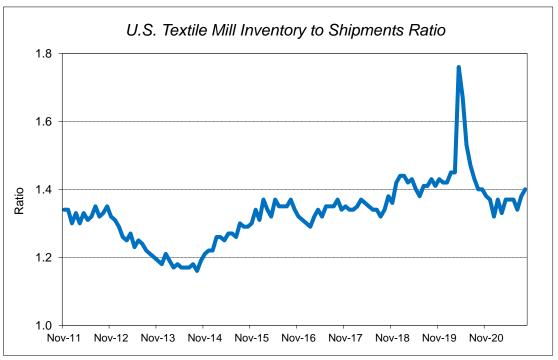


Seasonally Adjusted Annual Rate; Source: National Association of Realtors



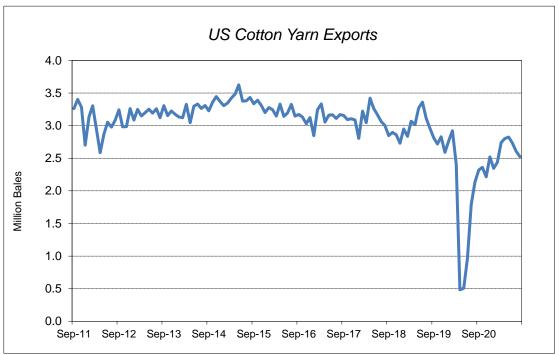


Source: Federal Reserve. Historical data revised to 1997 baseline.



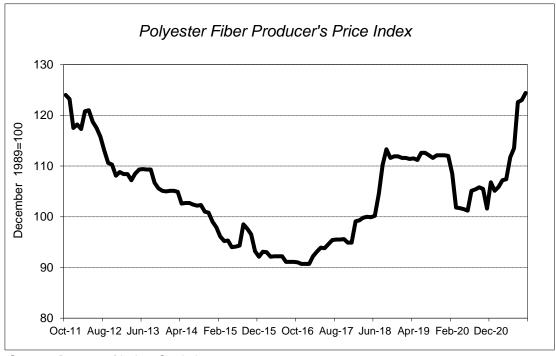
Seasonally Adjusted; Source: Department of Commerce





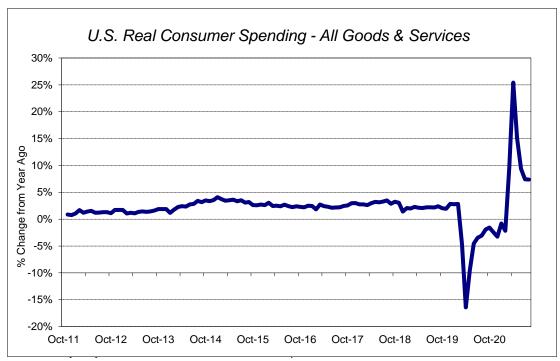
Seasonally Adjusted Annual Rate

Source: USDA ERS

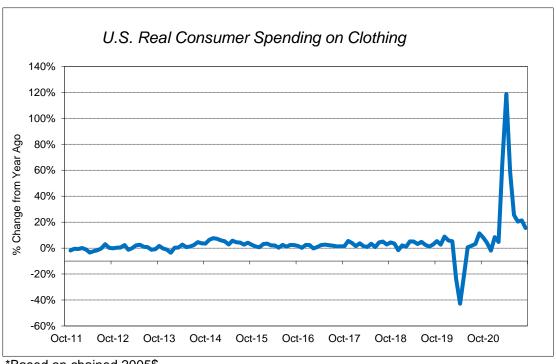


Source: Bureau of Labor Statistics





<sup>\*</sup>Based on chained 2005\$.

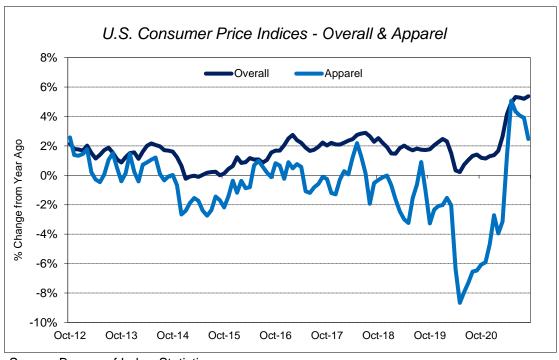


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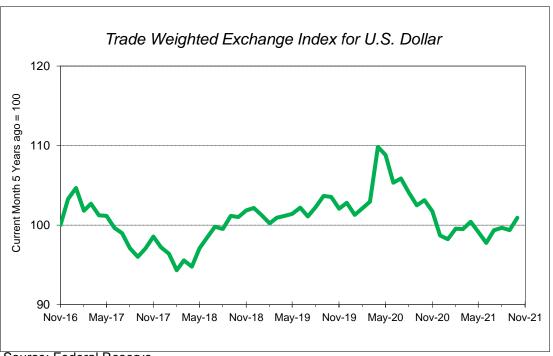


Source: Department of Commerce

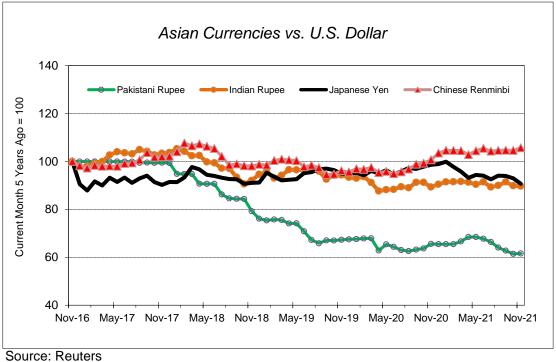


Source: Bureau of Labor Statistics

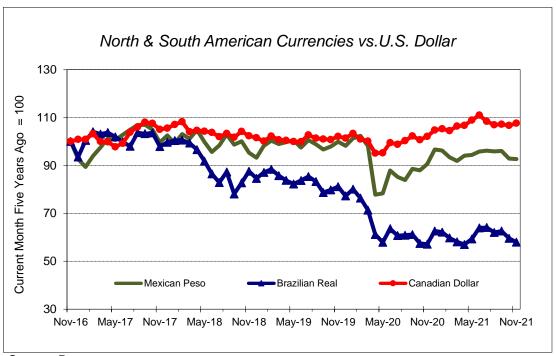




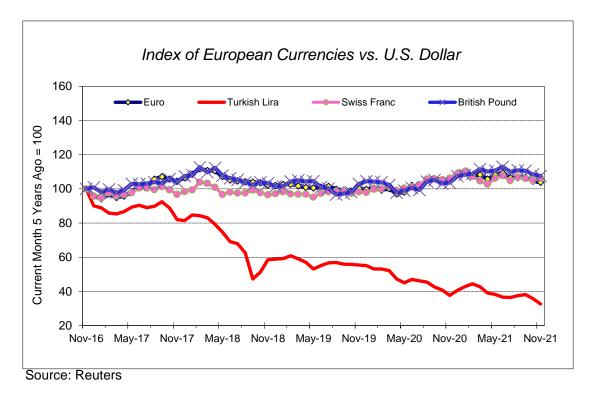
Source: Federal Reserve





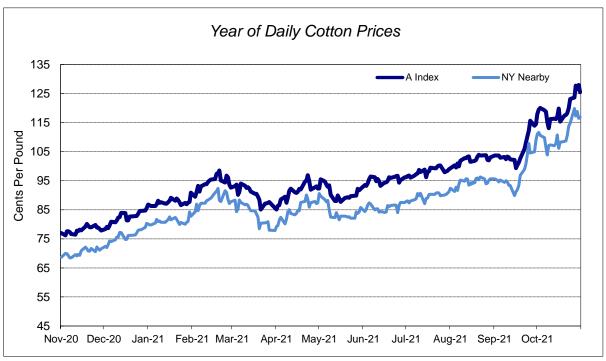


Source: Reuters





U.S. Balance Sheet						
million 480 lb. bales	2017/18	2018/19	2019/20	2020/21	2021/22	2021/22
					September	October
Beginning Stocks	2.8	4.2	4.9	7.3	3.2	3.2
Production	20.9	18.4	19.9	14.6	18.5	18.0
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	23.7	22.6	24.8	21.9	21.7	21.2
Mill-Use	3.2	3.0	2.2	2.4	2.5	2.5
Exports	16.3	14.8	15.5	16.4	15.5	15.5
Demand	19.5	17.8	17.7	18.8	18.0	18.0
Ending Stocks	4.2	4.9	7.3	3.2	3.7	3.2
Stocks/Use Ratio	21.5%	27.2%	41.0%	16.8%	20.6%	17.8%



Sources: ICE Futures U.S. & Cotton Outlook

