Executive Cotton Update

U.S. Macroeconomic Indicators & the Cotton Supply Chain

May 2023 www.cottoninc.com

Macroeconomic Overview: After a meeting in early May, Federal Reserve officials decided to make its tenth increase in interest rates since March of last year. Those increases brought the Federal Funds rate the central bank controls to the highest levels (a range of 5.00-5.25%) since 2007. Current rates are five full percentage points higher than they were a little more than one year ago.

The speed and magnitude of the change in interest rates presented a series of challenges to business practices. Financing costs have risen sharply across all industries, and a focus on cost-cutting has already led to layoffs at several large corporations. Banks, which rely on some consistency in relationships between short and long-term interest rates for profits, have experienced strain, and a few have already made headlines by collapsing under the pressure. Fear of contagion in the financial sector has heightened concern about the possibility of a recession.

History has shown that economic downturns tend to follow interest rate increases. Rate increases between 1999-00 reined in speculation in the tech sector (Fed Fund rate rose from 5.00 to 6.50%) but likely contributed to the recession in the early 2000s that came with the popping of the dot-com bubble. Rate increases between 2004-06 reined in speculation in sub-prime lending and the housing market (Fed Funds rate rose from 1.25 to 5.25%), precipitating a crash in housing prices and the financial crisis of 2008-09. After a prolonged period of extremely low rates after the financial crisis (Fed Funds rate held between 0.00 to 0.25% from 2009-15), the Federal Reserve lifted rates to normalize levels (Fed Funds rate from 0.25% to 2.50%). Even though these increases were less than half the size of increases in the latest round of tightening, the central bank soon had to reverse course, and the Fed lowered rates due to concerns about slower growth amid escalation of the trade dispute.

With COVID, the Federal Reserve dropped interest rates back to zero and further eased monetary conditions through quantitative easing. This contributed to the "everything rally" that lifted prices for many assets. Rate increases over the past year were followed by decreases in several asset classes (e.g., cryptocurrency, housing, and commodities like cotton).

It remains to be seen if a recession may eventually surface. After the latest 0.25-point increase (May 3rd), Federal Reserve chairman Jerome Powell said, "It's possible this time really is different." He then stated, "The reason is there's just so much excess demand, really, in the labor market," continuing, "The case of avoiding a recession is, in my view, more likely than that of having a recession." Uncertainty dominates, but recent labor market statistics appear to support his position. Despite interest rates rising five percentage points over the past 14 months, the unemployment rate dropped to 3.4% in April, matching the lowest level since 1968.

Employment: The U.S. economy is estimated to have added +253,000 jobs in April. Revisions to figures for previous months were strongly negative. The value for February fell -78,000 to +326,000. The value for March fell -71,000 to +165,000. The current twelve-month average is +333,000 jobs per month.

The unemployment rate decreased from 3.5% to 3.4% between March and April. Average hourly wage growth was 4.5% year-over-year last month. Earnings growth has been weakening since interest rates began to increase (March 2022, when they reached a post-COVID peak of 5.9%).

Consumer Confidence & Spending: With a 2.7-point drop in April, the Conference Board's Index of Consumer Confidence fell to 101.3. This is its lowest value since July 2022 (95.3). The index continues to hold to levels above the long-term average (near 93) but is also well below the post-COVID peak of 128.9 (June 2021).

Overall consumer spending was flat month-over-month in March (-0.03%) but was up 1.9% year-over-year. Spending on garments has been negative month-over-month for five of the last six months (growth in February, otherwise, apparel spending was negative month-over-month from October-March). Year-over-year, apparel spending was flat in March (-0.05%). Nonetheless, spending on garments in March 2022 was 21% higher than during the same month in 2019.

Consumer Prices & Import Data: Retail prices for apparel have increased month-over-month in each of the last five months of data (+0.5% in March). Relative to the average in 2019, before the pandemic, retail apparel prices were 4.9% higher in March. The average import cost per square-meter equivalent (SME) of cotton-dominant apparel was $3.92 in seasonally-adjusted terms. This is down 9% from the recent peak of $4.33/SME (November) but remains higher than levels before the pandemic (averaged $3.36/SME in 2018 and $3.45/SM in 2019) and significantly higher than the post-COVID lows near $3.00/SME from November 2020 through March 2021.

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U.S. Macroeconomic Indicators & Cotton Prices
May 2023

Cotton Incorporated

Macroeconomic Data

Quarterly Data

	Recent Averages				Values in Recent Quarters				
	5-year	1-year	6-month	3-month	Q3 : 2022	Q4 : 2022	Q1 : 2023	Unit	Source
Growth in US Real GDP	2.5%	2.6%	2.9%	2.6%	3.2%	2.6%	1.1%	% Chg. Quarter/Quarter	Department of Commerce

Macroeconomic Series with Latest Data for April

	Recent Averages				Values in Recent Months				
	5-year	1-year	6-month	3-month	February	March	April		
ISM Index of Manufacuring Activity	54.5	50.1	47.7	47.0	47.7	46.3	47.1	Index	Institute for Supply Management
ISM Index of Non-Manufacturing Activity	57.1	54.5	53.0	52.7	55.1	51.2	51.9	Index	Institute for Supply Management
Consumer Confidence	113.8	103.0	104.2	102.9	103.4	104.0	101.3	Index	The Conference Board
Change in Non-Farm Payrolls	120.8	332.9	277.8	222.0	248	165	253	Thousands of jobs	Bureau of Labor Statistics
Unemployment Rate	4.9%	3.6%	3.5%	3.5%	3.6%	3.5%	3.4%	Rate	Bureau of Labor Statistics
US Interest Rates									
Federal Funds	1.4%	3.2%	4.4%	4.7%	4.6%	4.7%	4.8%	Interest rate	Federal Reserve
10-year Treasury Bill	2.1%	3.4%	3.7%	3.6%	3.8%	3.7%	3.5%	Interest rate	Federal Reserve

Macroeconomic Series with Latest Data for March

	Recent Averages				Values in Recent Months				
	5-year	1-year	6-month	3-month	January	February	March	Unit	Source
Index of Leading Economic Indicators	111.6	112.1	110.0	109.3	109.7	109.7	108.4	Index	The Conference Board
Housing Starts	1.4	1.5	1.4	1.4	1.3	1.4	1.4	Annual pace, millions of units	Department of Commerce
Existing Home Sales	5.4	4.7	4.3	4.3	4.0	4.6	4.4	Annual pace, millions of units	National Association of Realtors

Industrial & Textile Data

Industrial & Textile Series with Latest Data for March

	Recent Averages				Values in Recent Months				
	5-year	1-year	6-month	3-month	January	February	March	Unit	Source
US Industrial Production	100.5	102.9	102.7	102.7	101.5	102.4	103.0	Index, 2002=100	Federal Reserve
Polyester Fiber PPI	122.3	161.0	164.4	161.2	161.3	161.9	160.3	Index, December 2003=100	Bureau of Labor Statistics

Industrial & Textile Series with Latest Data for February

	Recent Averages				Values in Recent Months				
	5-year	1-year	6-month	3-month	December	January	February	Unit	Source
Bale Equivalence of US Cotton Yarn & Fabric Exports	3.2	2.4	2.1	1.9	1.7	1.8	2.2	million 480lb bales	USDA ERS

Industrial & Textile Series with Latest Data for March

	Recent Averages				Values in Recent Months				
	5-year	1-year	6-month	3-month	January	February	March	Unit	Source
US Textile Mill Inventory/Shipments Ratio	1.45	1.59	1.62	1.63	1.63	1.61	1.64	Ratio	Department of Commerce

Retail Data

Retail Series with Latest Data for March

	Recent Averages				Values in Recent Months				
	5-year	1-year	6-month	3-month	January	February	March	Unit	Source
US Real Consumer Spending									
All Goods and Services	2.6%	2.1%	2.0%	2.3%	2.6%	2.2%	1.9%	% Chg. Year/Year	Department of Commerce
Clothing	6.9%	0.7%	1.3%	1.4%	2.4%	1.8%	-0.1%	% Chg. Year/Year	Department of Commerce
Consumer Price Indices									
Overall	3.8%	7.5%	6.5%	5.8%	6.4%	6.0%	5.0%	% Chg Year/Year	Bureau of Labor Statistics
Clothing	0.3%	4.6%	4.0%	3.9%	3.7%	3.9%	4.0%	% Chg. Year/Year	Bureau of Labor Statistics

Retail Series with Latest Data for February

	Recent Averages				Values in Recent Months				
	5-year	1-year	6-month	3-month	December	January	February	Unit	Source
Retail Inventory/Sales Ratio									
Clothing and Clothing Accessory Stores	2.6	2.2	2.2	2.2	2.2	2.1	2.2	Ratio	Department of Commerce
Department Stores	2.0	2.1	2.0	2.0	2.2	1.9	1.9	Ratio	Department of Commerce

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Executive Cotton Update

Daily Cotton Price and Currency Data

May 2023

Daily Cotton Price Data	Recent Averages				Averages over Recent Months				
	5-year	1-year	6-month	3-month	February	March	April	Unit	Source
NY Nearby	84.0	97.6	83.0	81.9	83.9	80.9	81.2	cents/pound	ICE
A Index	94.4	114.4	98.6	96.5	99.4	95.4	95.2	cents/pound	Cotlook

Daily Currency Data	Recent Averages				Averages over Recent Months				
	5-year	1-year	6-month	3-month	February	March	April	Unit	Source
Dollar Trade Weighted Exchange Index	116.7	117.5	121.8	120.4	120.1	121.5	119.5	Index, January 1997=100	Federal Reserve
Asian Currencies									
Chinese Renminbi	6.75	6.68	6.95	6.88	6.78	6.97	6.88	Chinese Renminbi/US dollar	Reuters
Indian Rupee	74.24	76.50	82.25	82.15	82.49	82.05	81.90	Indian Rupee/US dollar	Reuters
Japanese Yen	115.02	118.67	135.76	133.38	131.46	136.91	131.79	Japanese Yen/US dollar	Reuters
Pakistani Rupee	169.15	187.13	251.00	277.88	272.50	276.88	284.25	Pakistani Rupee/US dollar	Reuters
North & South American Currencies									
Brazilian Real	4.77	5.28	5.17	5.14	5.23	5.12	5.06	Brazilian Real/US dollar	Reuters
Canadian Dollar	1.31	1.30	1.35	1.36	1.34	1.38	1.35	Canadian dollar/US dollar	Reuters
Mexican Peso	20.06	20.39	18.90	18.38	18.94	17.95	18.24	Mexican Peso/US dollar	Reuters
European Currencies									
British Pound	0.78	0.78	0.83	0.83	0.83	0.84	0.80	British Pound/US dollar	Reuters
Euro	0.89	0.89	0.95	0.93	0.93	0.95	0.92	Euro/US dollar	Reuters
Swiss Franc	0.95	0.93	0.94	0.92	0.92	0.94	0.90	Swiss Franc/US dollar	Reuters
Turkish Lira	9.57	12.19	18.84	19.01	18.83	18.94	19.26	Turkish Lira/US dollar	Reuters

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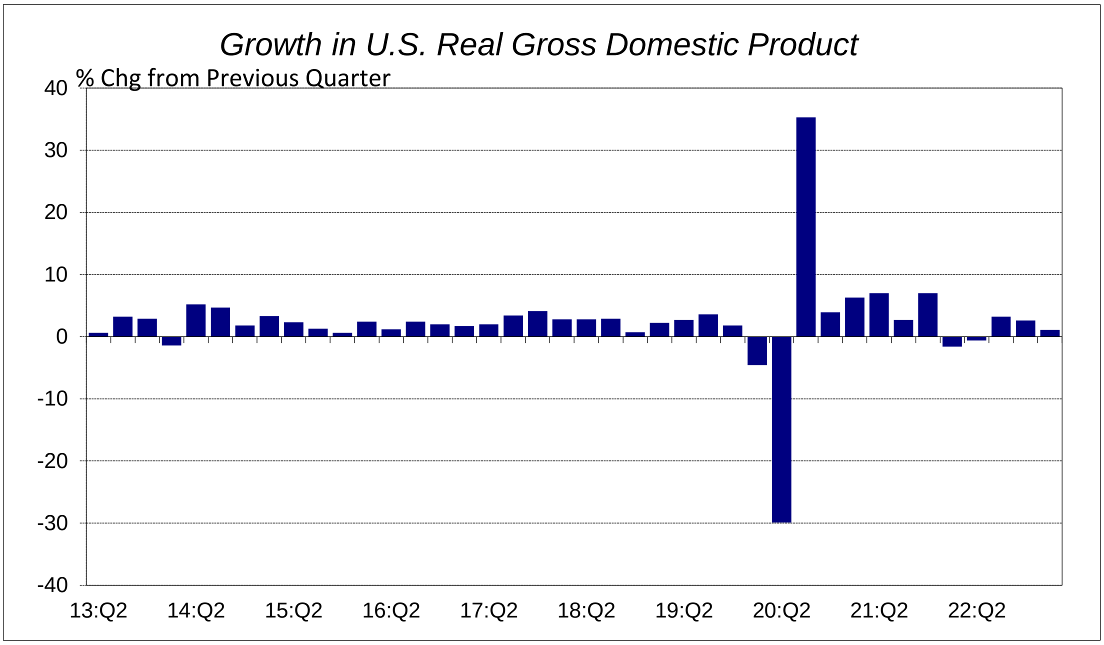
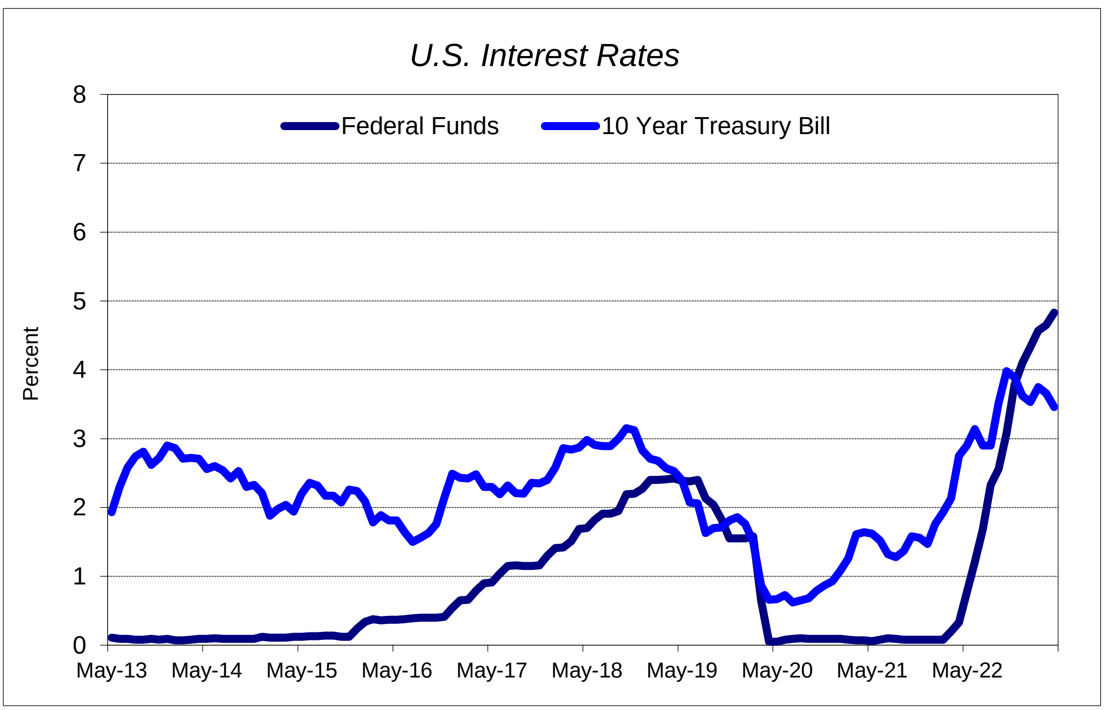


Seasonally Adjusted Annual Rate; Source: Department of Commerce
*Based on chained 2005$.



Source: Federal Reserve

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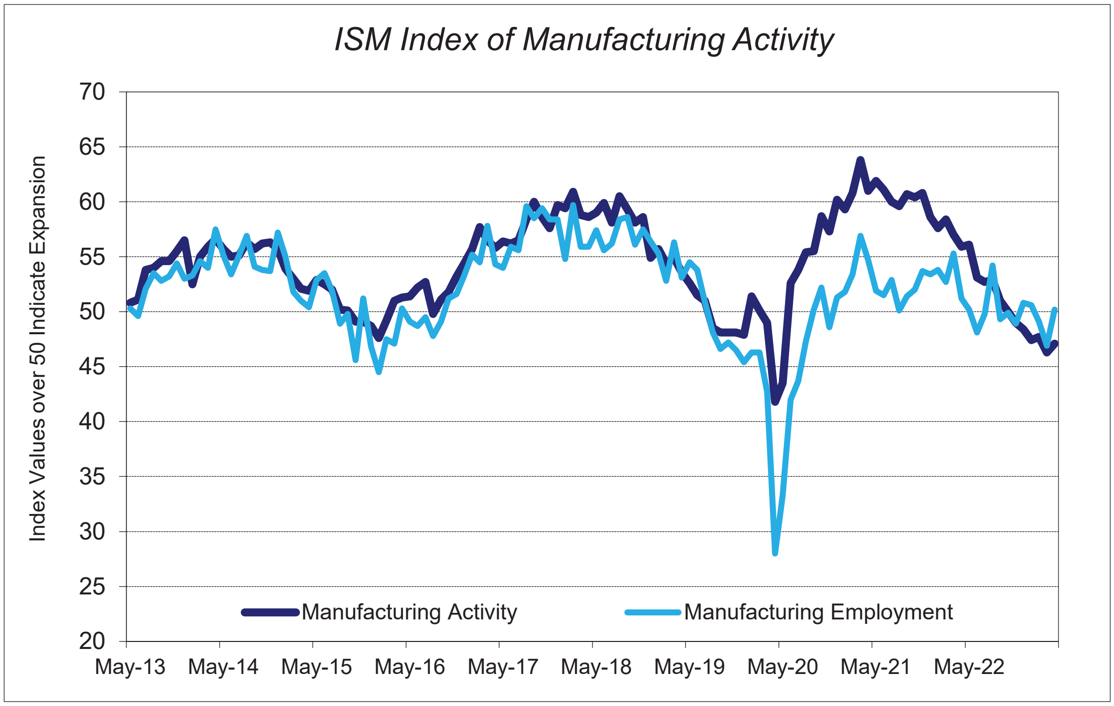
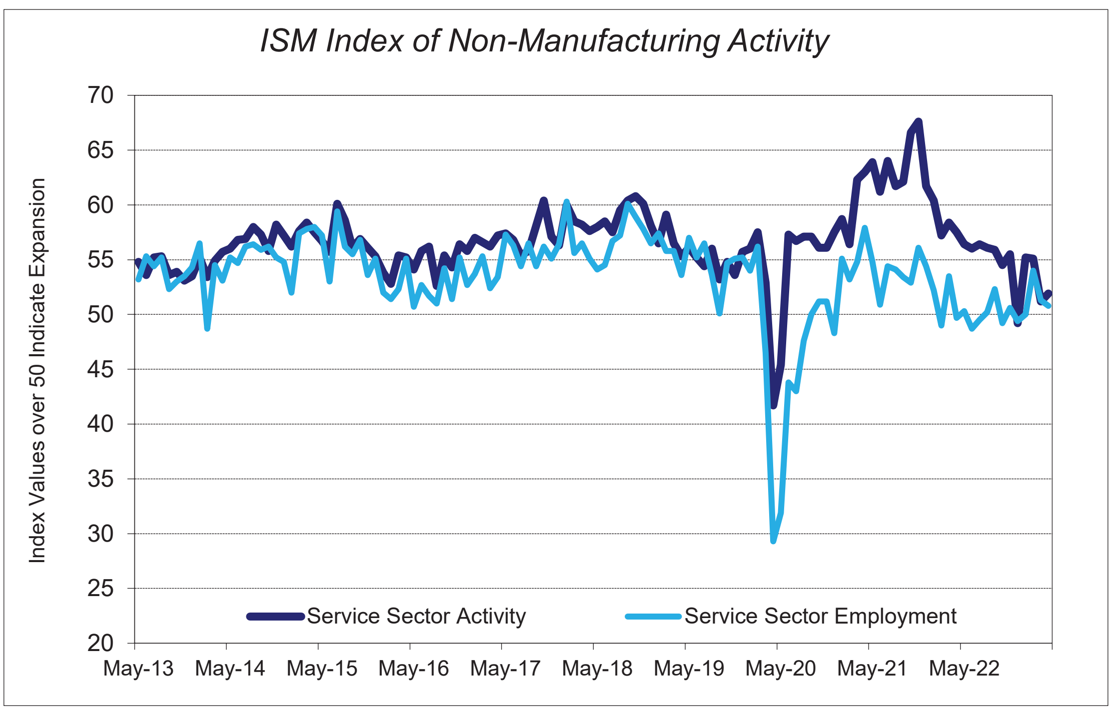


Source: Institute for Supply Chain Management



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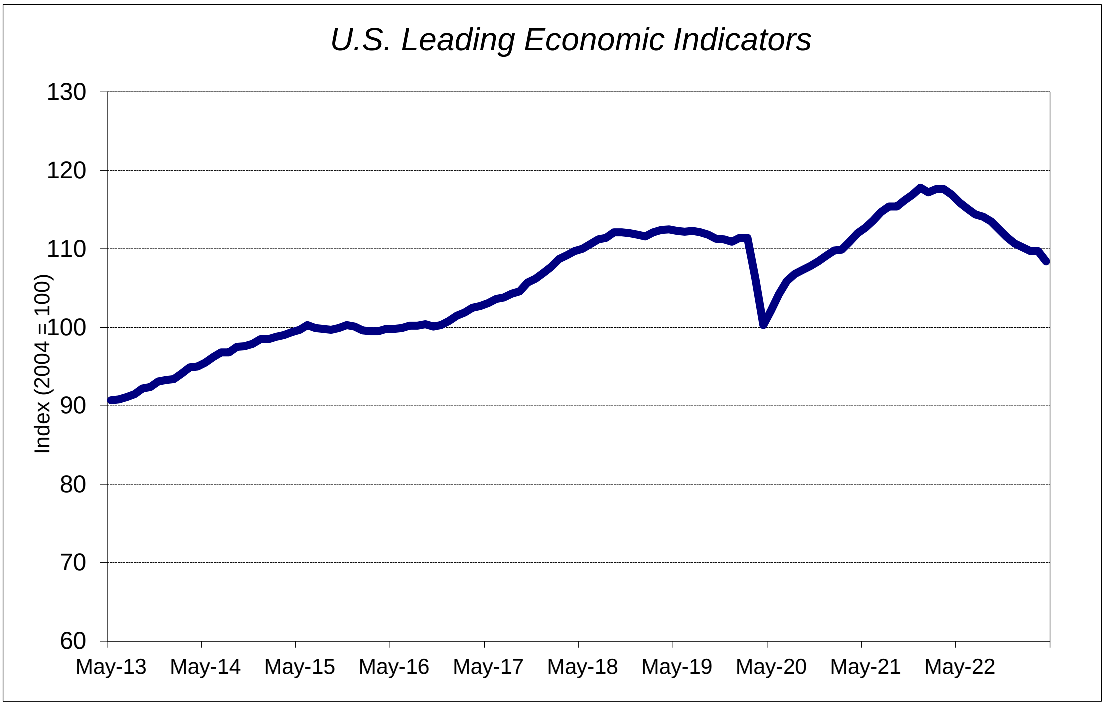
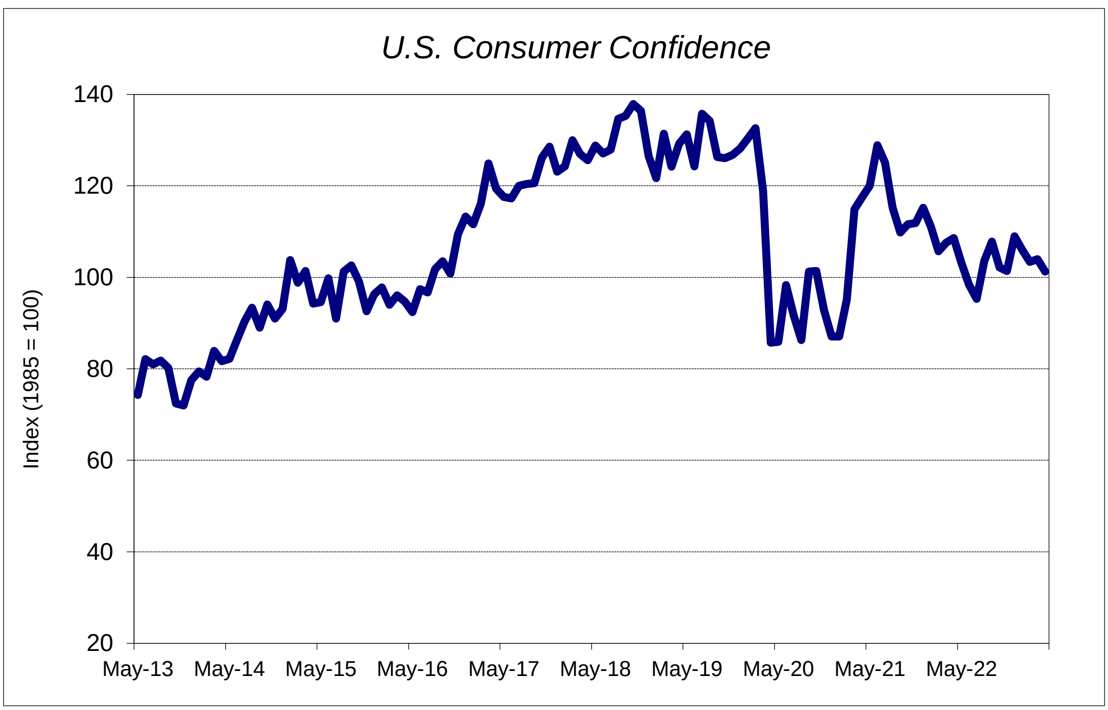


Source: The Conference Board



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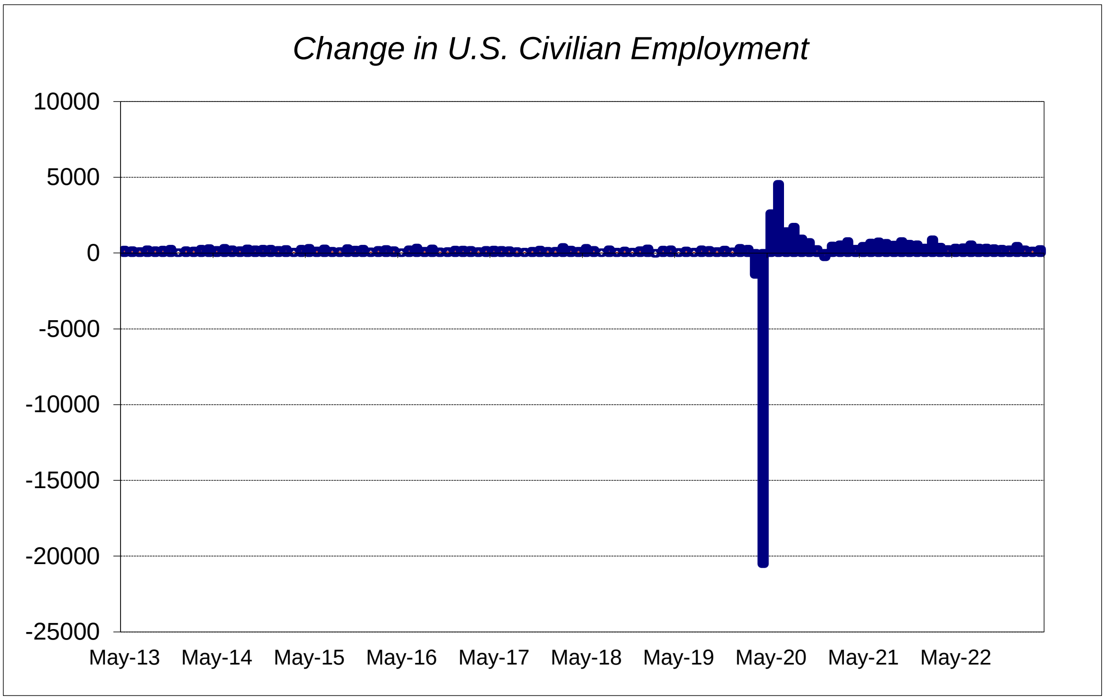

Source: Bureau of Labor Statistics

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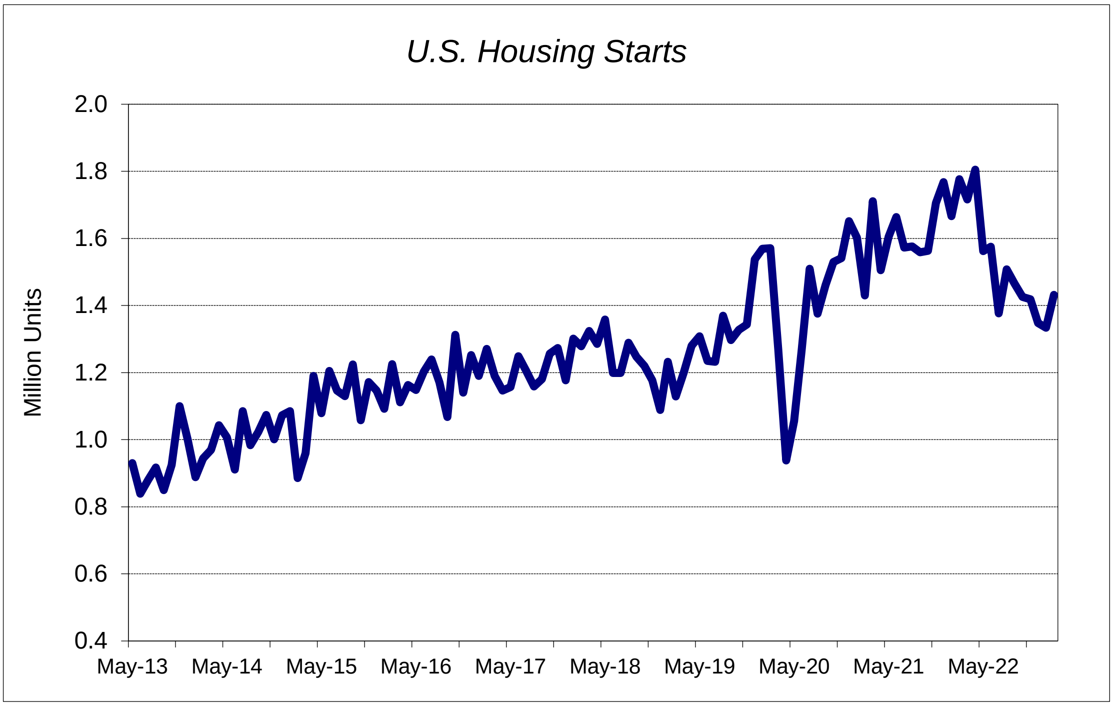

Seasonally Adjusted Annual Rate; Source: Department of Commerce

Seasonally Adjusted Annual Rate; Source: National Association of Realtors

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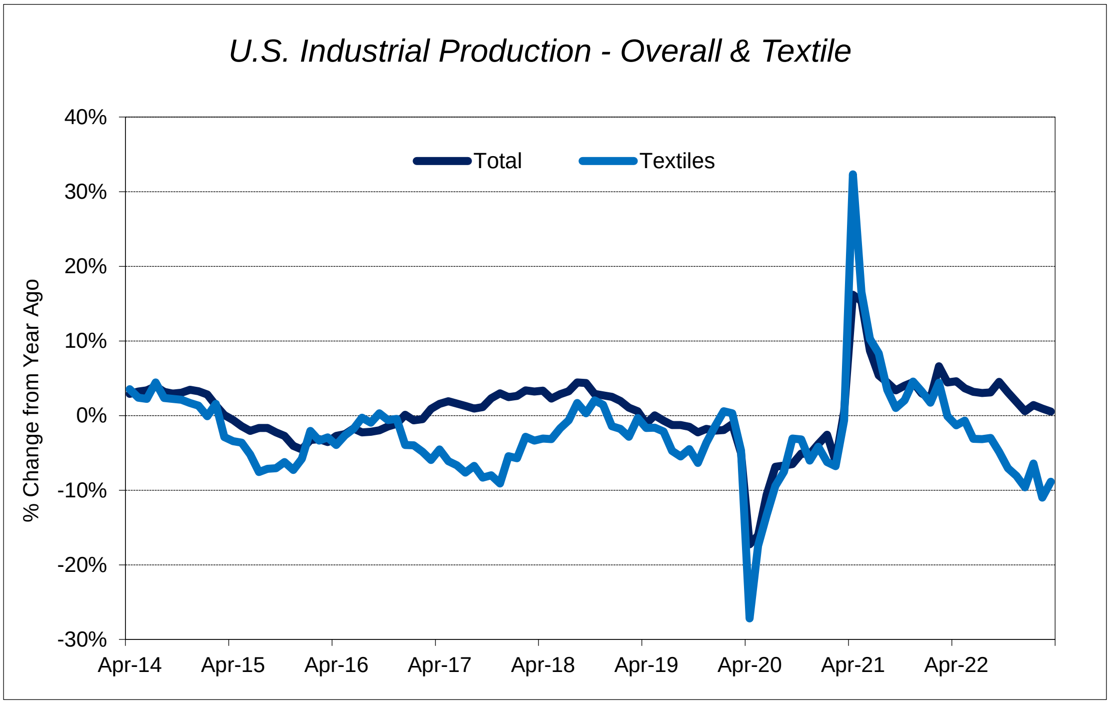
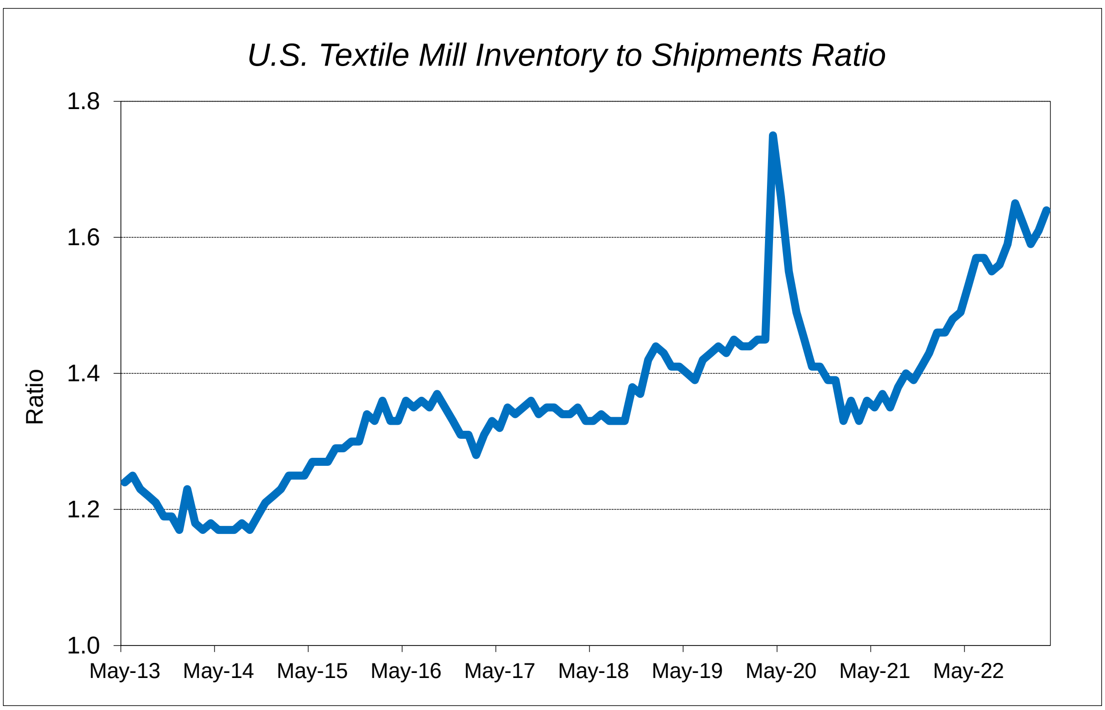


Source: Federal Reserve. Historical data revised to 1997 baseline.



Seasonally Adjusted; Source: Department of Commerce

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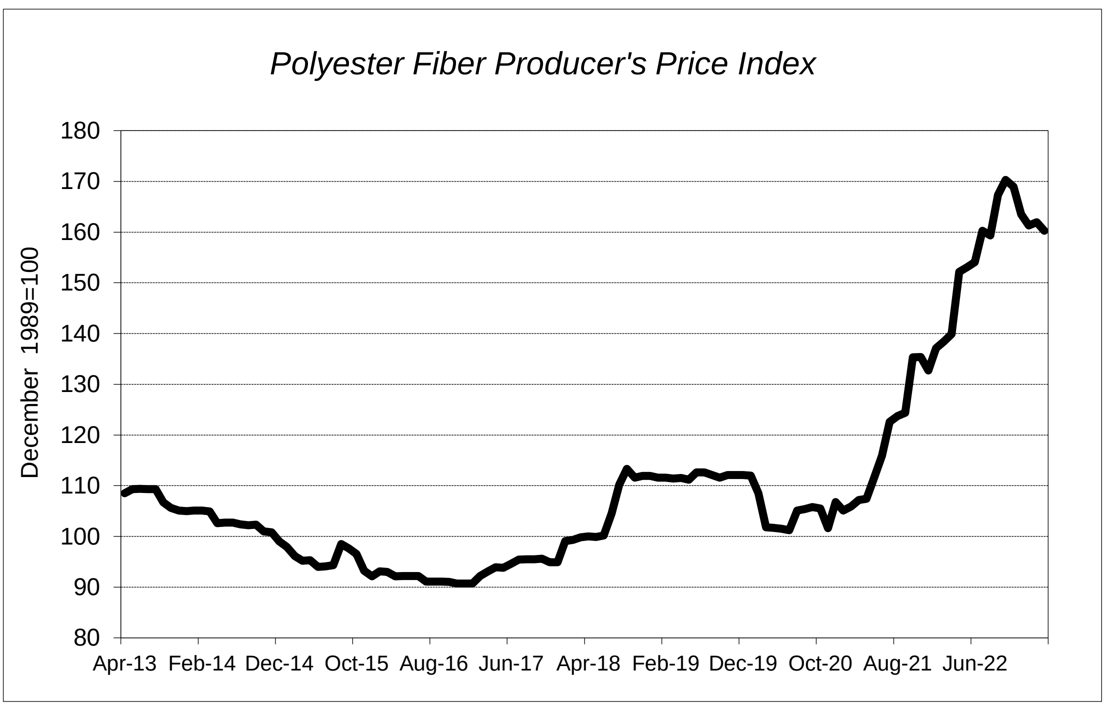
Seasonally Adjusted Annual Rate
Source: USDA ERS



Source: Bureau of Labor Statistics

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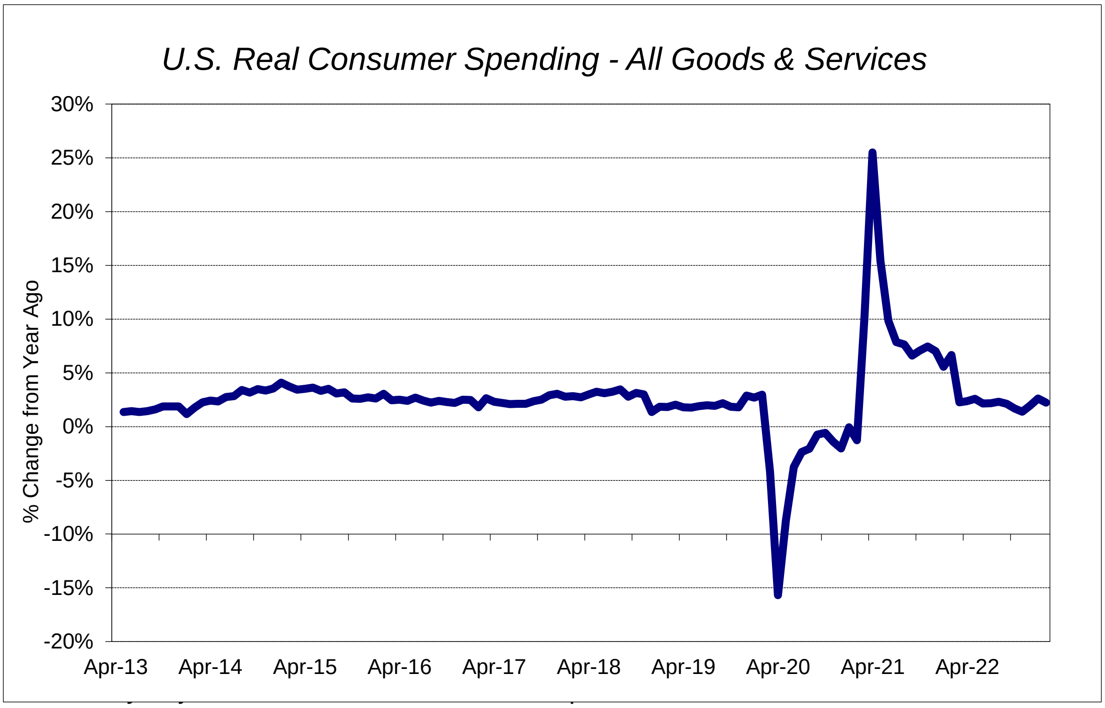

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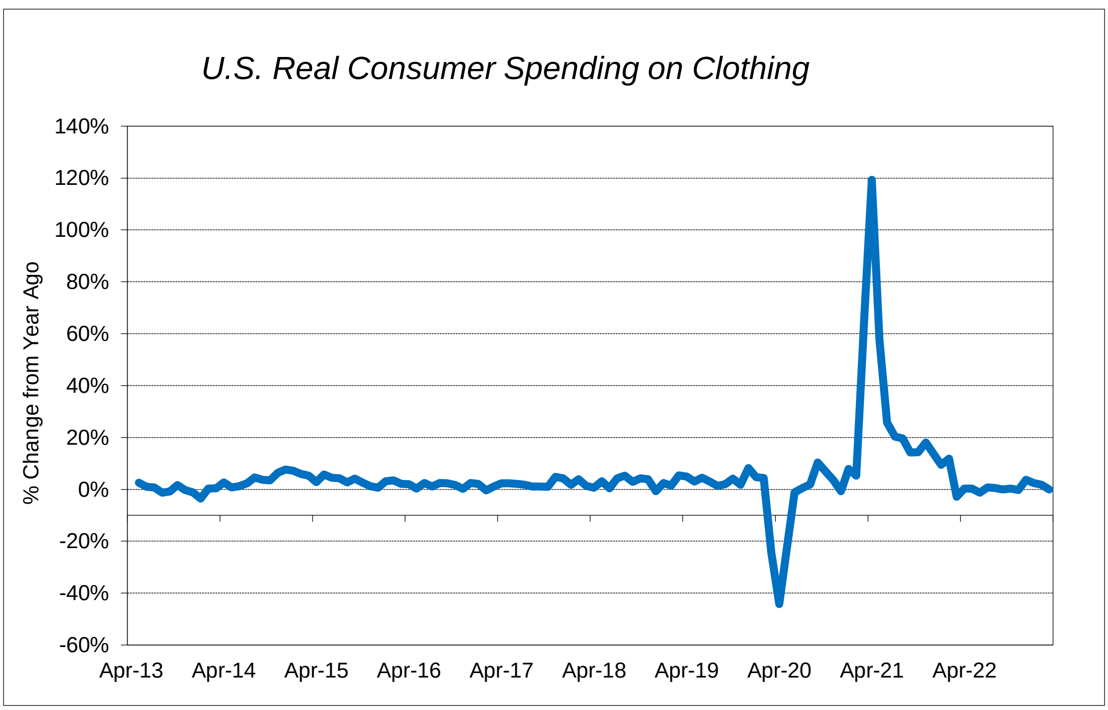

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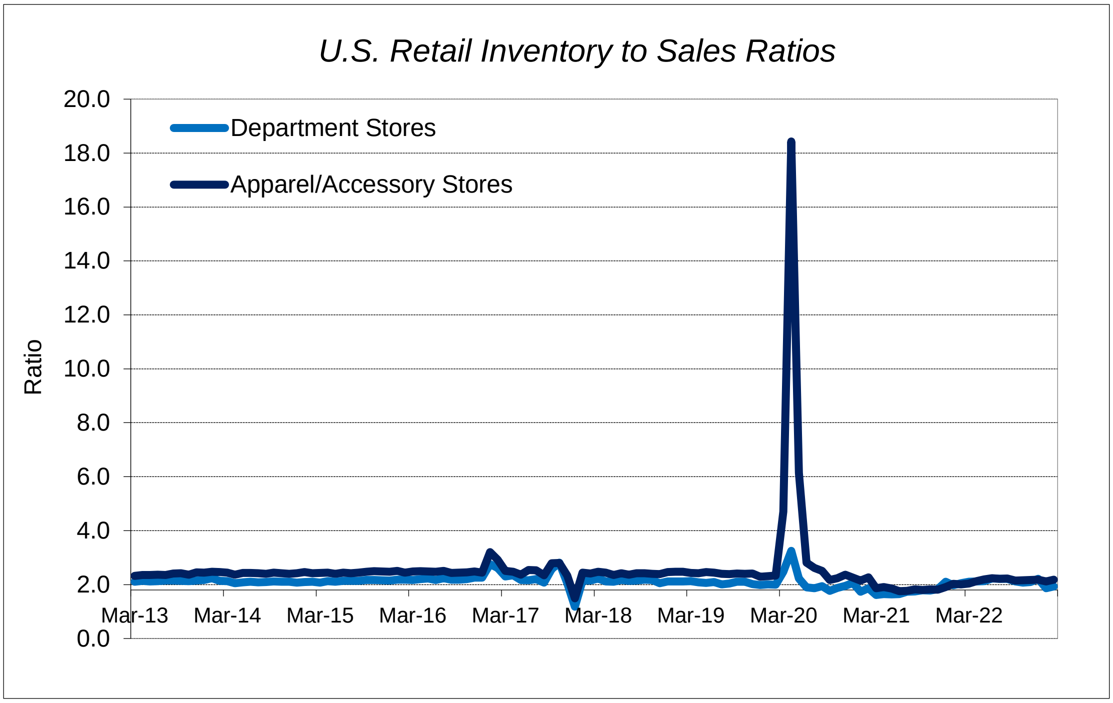

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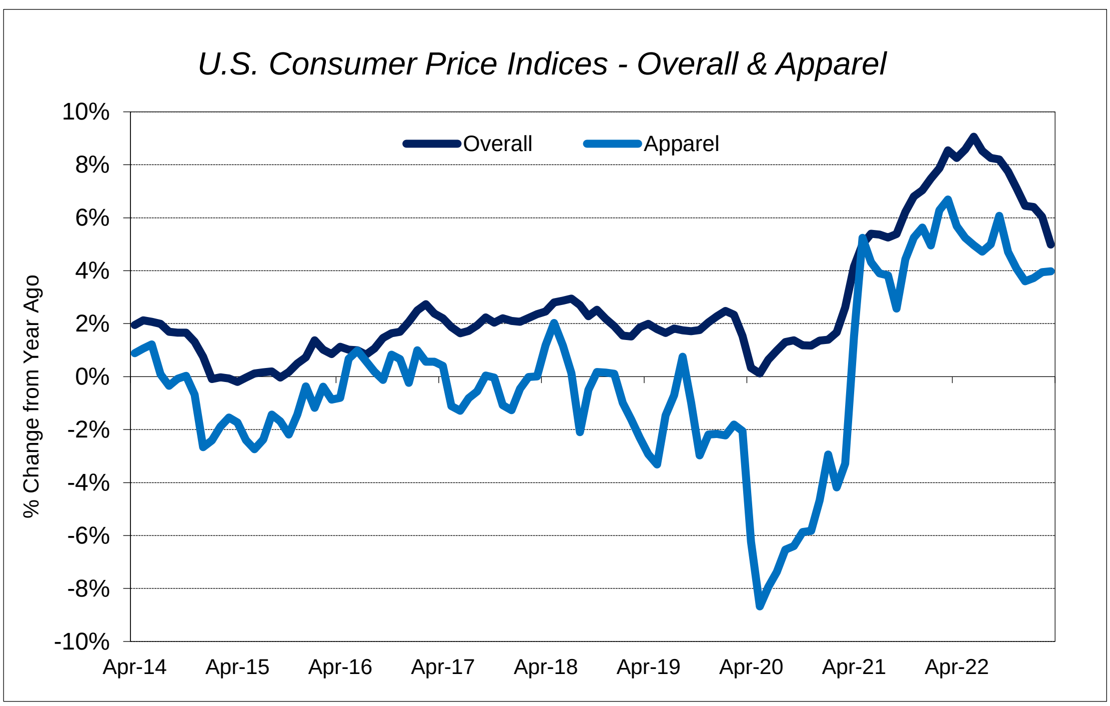

Source: Bureau of Labor Statistics

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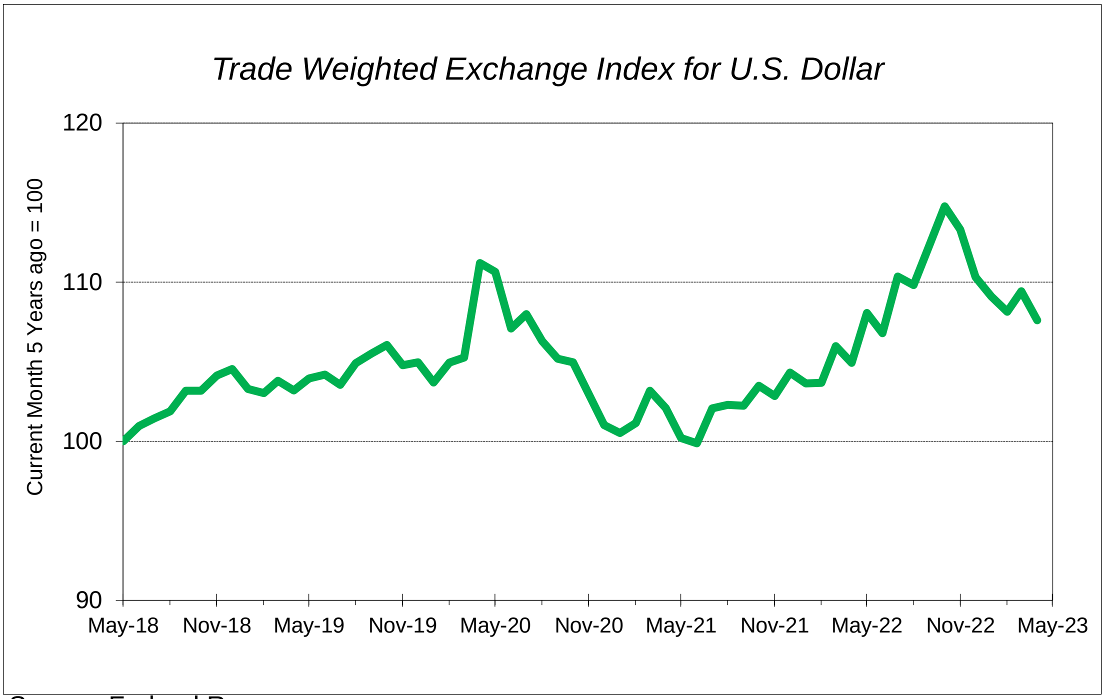

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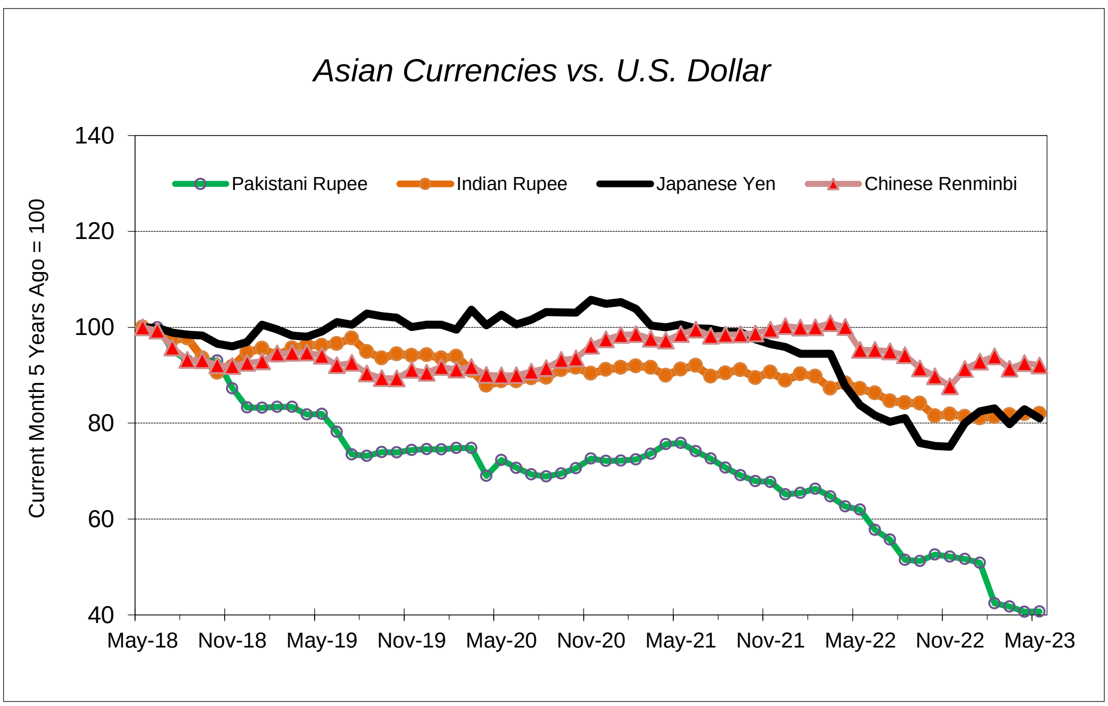

Source: Reuters

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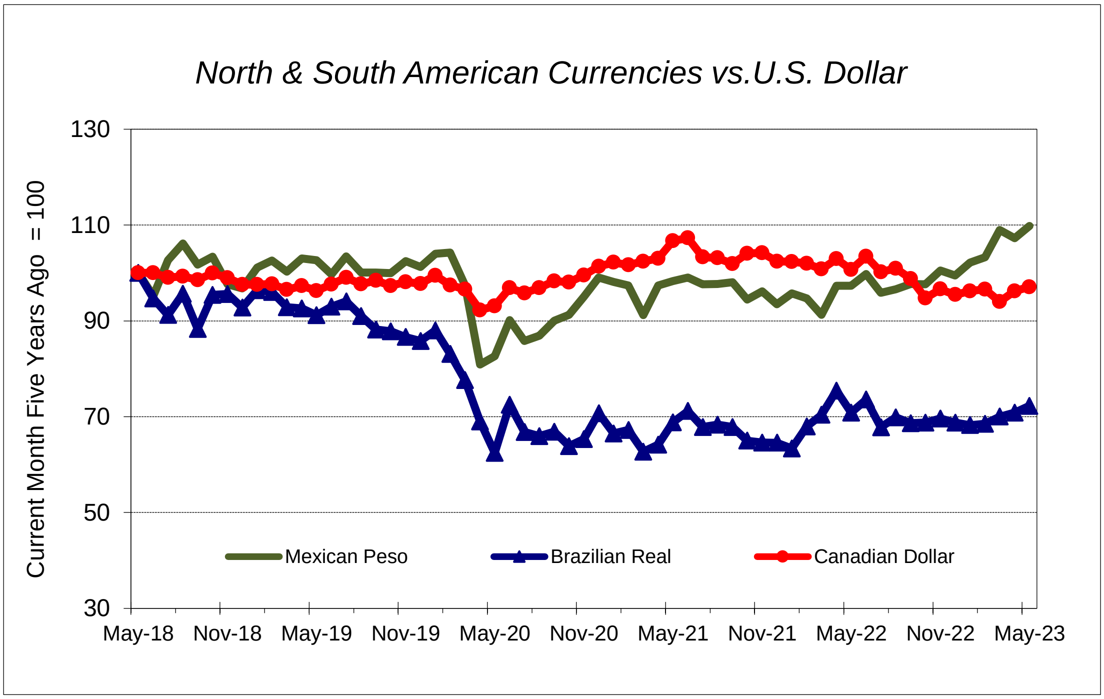

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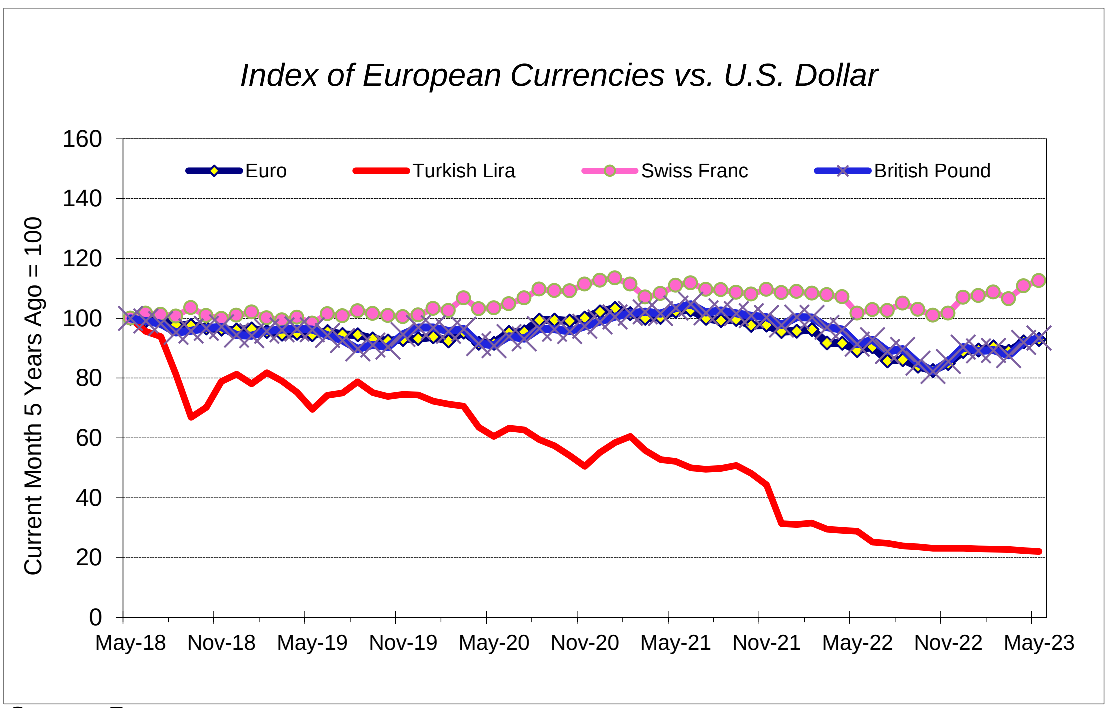

Source: Reuters

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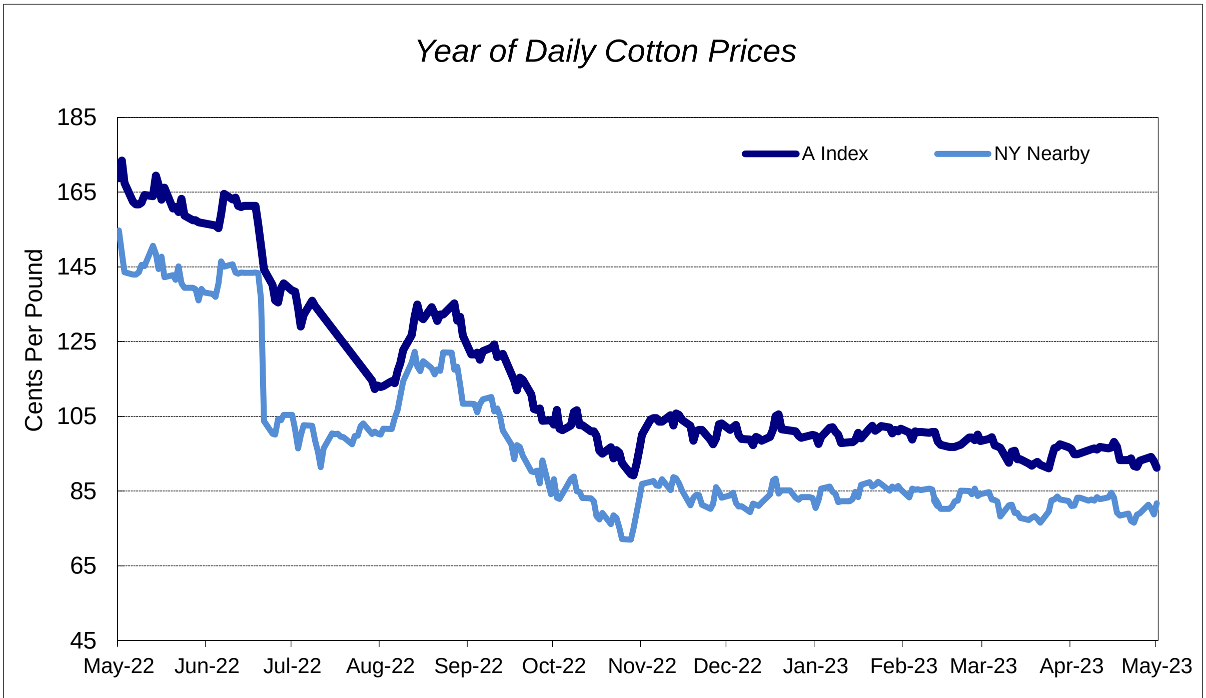
U.S. Balance Sheet

million 480 lb. bales	2018/19	2019/20	2020/21	2021/22	2022/23 March	2022/23 April
Beginning Stocks	4.2	4.9	7.3	3.2	3.8	3.8
Production	18.4	19.9	14.6	17.5	14.7	14.7
Imports	0.0	0.0	0.0	0.0	0.0	0.0
Supply	22.6	24.8	21.9	20.7	18.4	18.4
Mill-Use	3.0	2.2	2.4	2.6	2.1	2.1
Exports	14.8	15.5	16.4	14.6	12.0	12.2
Demand	17.8	17.7	18.8	17.2	14.1	14.3
Ending Stocks	4.9	7.3	3.2	3.8	4.3	4.1
Stocks/Use Ratio	27.2%	41.0%	16.8%	21.8%	30.5%	28.7%



Sources: ICE Futures U.S. & Cotton Outlook

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