

COVID & COTTON SUPPLY CHAINS

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Abstract

The speed and depth of the COVID pandemic presented an unprecedented shock to the global economy and to cotton supply chains. For fiber markets, the largest source of downstream demand is apparel. In the shutdown period, devoted brick-and-mortar clothing stores were unable to secure essential labels and were shuttered. With these businesses closed and with consumers encouraged to stay home, the rates of decline for apparel spending were record-setting.

The decreases in apparel spending resulted in record inventory accumulation. Inventory costs money to store, and there is no guarantee that goods made for 2020 will still be in style in 2021. In an effort to move inventory, prices were lowered. The U.S. CPI for apparel dropped to the lowest levels since the late 1980s. Lower prices imply lower margins. With both spending volume and margins down, many apparel retailers entered into bankruptcy.

A major cost for retailers is sourcing, and another way that retailers managed the challenging financial conditions was to cut back on orders. Between April and June, the weight volume of U.S. apparel imports was down 50% year-over-year. The collapse in demand had implications upstream, and one effect was the largest-ever cuts to USDA mill-use.

In more recent months, progress against the virus has been inconsistent, but economies around the world have trended towards reopening. This has meant economic growth has rebounded strongly. U.S. consumer spending on apparel was positive year-over-year for the three months ending in November. The weight volume of apparel imports was positive year-over-year in October and November (the latest two months with data available).

COVID does not exist in a vacuum, and one reason why import volumes have been positive year-over-year is that they were depressed late in 2019, making comparisons easier. The reason that they were depressed last year is that supplemental tariffs were imposed on Chinese goods. Those tariffs remain in place and represent a separate headwind to downstream demand. Nonetheless, consumers have found ways to spend on clothing during the pandemic, and elevated savings rates may support further growth in consumer demand as the world moves past the health crisis and onto more solid economic footing.