Textile Industry Squeezed by High Costs, Weak Demand

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Following the bankruptcy of Lehman Brothers in September 2008, which marked the beginning of the global financial and economic crisis, the world economy is struggling to find a sustainable growth path. While 2009 saw, for the first time since the Great Depression in the 1930s, negative growth on a global scale (-0.6%), 2010 brought big relief to all stakeholders in the global textile value chain – from fiber to retail – including all textile-related industries, such as the textile machinery or the chemical industries.

The reasons for this quick and sharp recovery were:

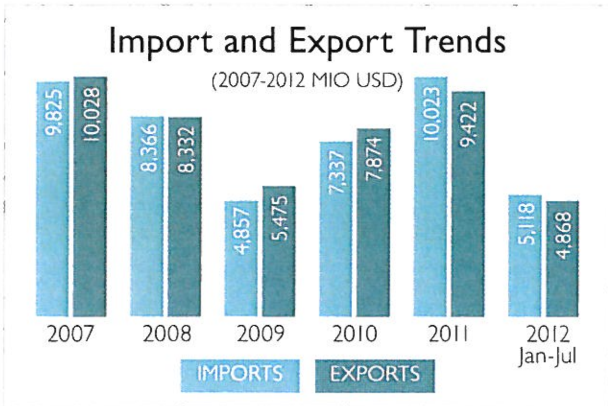
- Continued growth in emerging economies around the world, especially in China and India; and
- The policy responses around the world were expansionary. Fiscal stimuli in countries including the United States, Europe, and China, combined with the loose monetary policies of all major central banks, created sufficient liquidity to prevent a major credit crunch, and thus a global depression.

As a consequence, global production and trade increased by an impressive 5.1% and 12.6% in 2010, respectively.

While there was hope that 2011 would represent a return to a sustainable growth path, it turned out to be a year of ups and downs instead. Commodity prices continued soaring into the first quarter of 2011, only to drop sharply thereafter. The global textile industry was faced with unprecedented developments.

First and foremost, cotton prices soared to unknown highs in a relative short period of time – from about $0.80 in January 2010 up to about $2.40 in March 2011, an increase of 200%. But by December 2011, cotton prices had dropped back down to about $1.

The reasons for this volatility in cotton prices are well known. One reason for the surge in cotton prices was relative low stocks of available cotton. Due to relative low cotton prices in previous seasons (2007/08, 2008/09 and 2009/10), when the Cotlook A Index averaged only about $0.70, cotton production stagnated. More and more farmers around the world started growing other, more profitable food crops. On the other hand, global demand recovered more strongly than expected, especially in emerging economies such as China, India, Brazil, Indonesia and Turkey. The economic recovery was also stronger than expected in industrialized countries, which were much more affected by the global financial and economic crises.



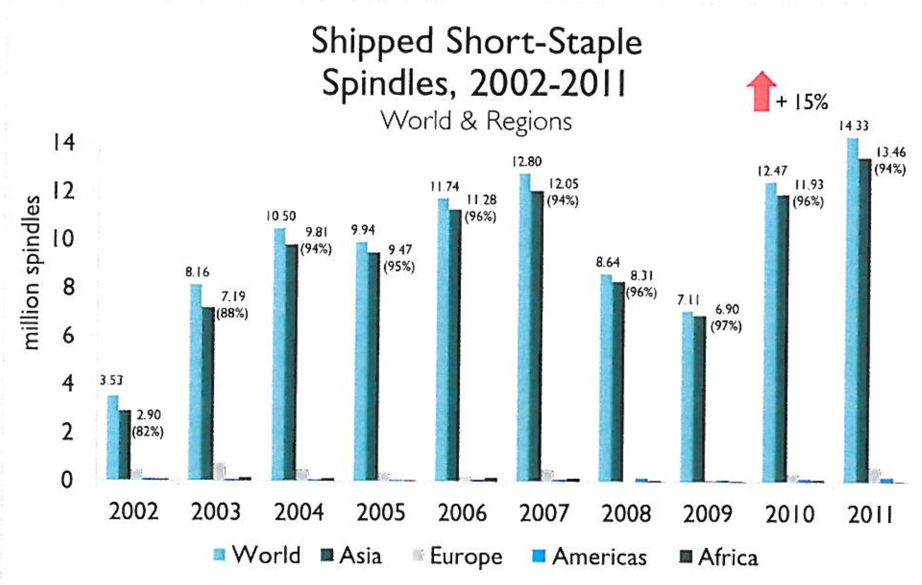
Cotton prices also jumped because of more speculative money finding its way into the cotton future markets. Expansionary monetary policy, with low interest rates, a weakening U.S. dollar, and the desire to invest in real assets were other important reasons why prices for commodities have been rising strongly across the board, cotton among them. The result for the world economy was visible. In 2011, global output and trade were up 3.8% and 5.8%, respectively.

The projections for 2012 and 2013 are not as promising. The International Monetary Fund is estimating that global economic growth and trade volume will be up 3.3% and 3.2%, respectively. With global output estimated to grow by 3.6% and global trade expected to expand by 4.5%, the outlook for 2014 is only slightly better.

The rollercoaster in cotton prices is the most visible sign of a period of volatility and uncertainty that the global economy has entered since the global financial crisis started in 2008.

The phenomenon of volatility also could be observed in other parts of the textile value chain, including the textile machinery industry.

According to ITMF's International Textile Machinery Shipment Statistics (ITMSS), shipments of new machinery plummeted in 2008 and 2009 from their record levels in 2007, but picked up again in 2010 and 2011. Shipments of short-staple spindles dropped from 12.8 million in 2007 to only 8.6 million in 2008 and 7.11 million in 2009, but in 2010 shipments jumped to 12.5 million. In 2011, a record 14.33 million short-staple spindles were shipped. Like the volatility in cotton prices, such volatility in shipments of short-staple spindles is unprecedented.



In 2012, shipments of textile machines are expected to be somewhat subdued as a consequence of weak global growth that resulted in some cancelled and/or postponed orders. It can be expected that in 2012, textile machinery shipments will be somewhat lower than in 2011.

The Consolidation Continues

The volatility and uncertainty in the global economy in general, and the global textile industry in particular, is testing the resilience, flexibility and creativity of textile machinery companies. Such challenging periods are testing the robustness of companies' business models and often require swift adoptions and/or fundamental changes in the current business strategy. The entire textile supply chain is under enormous strain, because the problem of one partner in the chain has repercussions up and down the entire textile value chain, from fiber to retail.

In a business environment of volatility and uncertainty, cotton purchasing is of immense importance, especially to spinners. According to an estimate by the International Cotton Association (ICA), the number of unfulfilled awards will reach a new record high in 2012. This development is also reflected in many cancellations or postponements of orders for new textile machines. Many textile manufacturers are faced with cancellations and/or renegotiations of existing orders from their customers at retail level.

The textile industry's main challenge around the world is that it finds itself somewhat squeezed between rising input costs on the one hand and weak demand on the other. On the supply side, rising input costs like labor and energy as well as difficult access to capital/liquidity and overcapacities are putting pressure on the already very low margins. On the demand side, a sluggish global economy resulting in relative weak global demand at retail level does not provide much scope for higher retail prices.

In such a scenario it is difficult to remain competitive and profitable. Many companies – both and small – have to adapt to this environment, if they want to survive. This means that companies are merging or that stronger ones are buying up weaker ones. Companies that struggled to be profitable in pre-crisis times might have to close down altogether. It is without question that such a prolonged period of ups and downs will lead to a process of consolidation in the textile industry where only those companies that have a competitive cost structure, are efficient and productive, are innovative, can react quickly and have access to capital/liquidity as well as markets will survive. While these are important factors the importance of a network of reliable business partners along the entire textile value chain should not be forgotten and/or underestimated. Only with partners that are reliable, understand the business and value quality one can overcome difficult periods.

ITMF – Unique Networking Platform

The International Textile Manufacturers Federation (ITMF) offers a unique platform for the international textile value chain – from fibre to retail – by bringing together stakeholders from all segments of the industry, offering an international platform for the exchange of best practices and experiences and for discussions with experts from the industry. At its Annual Conferences (2010 in Sao Paulo/Brazil, 2011 in Barcelona/Spain, 2012 in Hanoi/Vietnam and 2013 in Bregenz/Austria) ITMF members discuss the challenges and opportunities of the global textile industry. In today's globalized world it is indispensible to have an international platform for discussions to better analyse and understand the economic dynamism within and outside the international textile value chain.