

2024 NEW YEAR'S GREETINGS



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2024 – a year of transition

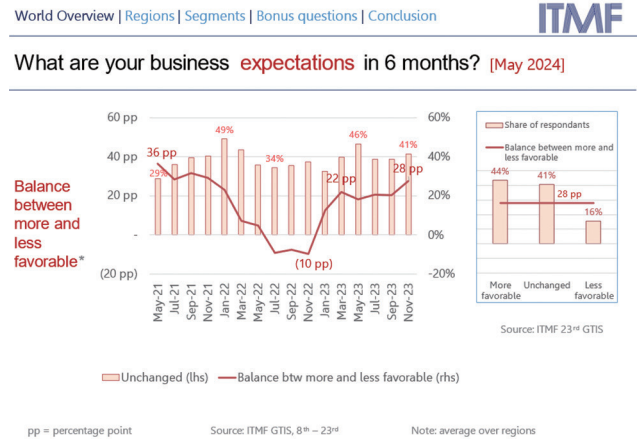
The year 2023 is history and the year 2024 is only a few days old. Unfortunately, the year started with bad news from Japan where an earthquake hit the country with a magnitude of 7.5. We mourn the deaths, pray for the survivors, and thank everyone involved in the rescue efforts. On this occasion, we should also think of the victims of the earthquake that hit Türkiye in 2023. Until today many of the survivors are still living under very difficult conditions, despite the enormous efforts to alleviate their situation.

Nevertheless, let me take this opportunity to wish everyone a peaceful, healthy, prosperous, and happy New Year 2024.

Last year was certainly a very challenging year for the global textile value chain. The results of ITMF's Global Textile Industry Survey (GTIS) – a bimonthly survey covering the entire textile value chain – in January 2023 showed that on average companies were again optimistic about the future of the industry. From December 2022 to January 2023 business expectations jumped from -10 percentage points (pp) to +13 pp (see Graph 1). The main reason for this upswing was the end of the Zero-Covid-Policy in China at the end of December 2022 and the reopening of the Chinese economy in 2022.

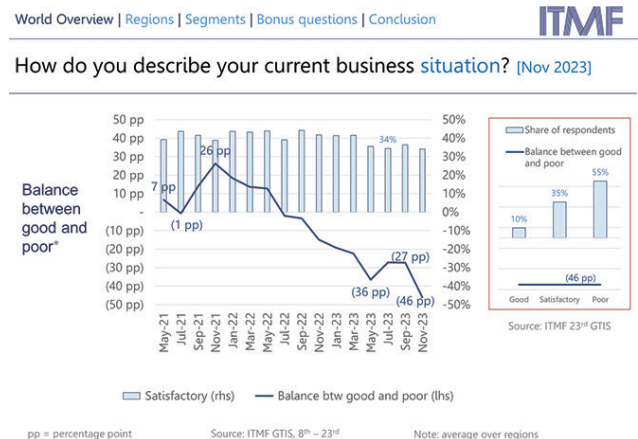
It must be noted that the business situation in the industry had reached a peak of +26pp in November 2021 (see Graph 2). Since then, the business situation worsened continuously and reached negative territory for the first

Graph 1: Business Expectations (May 2021 – November 2023)



Source: ITMF, Global Textile Industry Survey (GTIS), November 2023

Graph 2: Business Situation (May 2021 – November 2023)



Source: ITMF, Global Textile Industry Survey (GTIS), November 2023

time in July 2022. This downward trend continued and reached an absolute low in November 2023 when the indicator reached -46 pp.

There are several reasons why both the business situation as well as the business expectations in the textile value chain started to deteriorate on average from a relative high level since the beginning of 2022.

First, the disruption of the global textile supply chain caused by lockdowns in 2020 and 2021, especially in China, the largest exporter of textiles and garments, had led to an imbalance of supply and demand. While demand had picked up in 2021 – there was an enormous pent-up demand after the pandemic – the supply was interrupted. Brands and retailers were struggling to fill

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their shelves with merchandise and hence started to order larger-than-usual quantities to meet this demand hoping that their orders would be prioritized. This demand was extraordinarily strong because of an expansive fiscal and monetary policy pursued in the USA and many European states. Consumers' disposable income was higher than before the pandemic and hence spending increased strongly. Since brands and retailers had ordered above average in anticipation of high demand, their inventories reached record highs.

Second, this imbalance between demand and supply resulted in higher costs for raw materials and logistics. Producers of textiles and garments as well as buyers tried to absorb these costs in the supply chain. But with the invasion of Ukraine by Russia in February 2022, energy prices (especially gas prices in Europe) started to soar (see Graph 3). The disruption of the supply chain and the war in Ukraine led to higher production costs across the board which eventually led to accelerated inflation rates at the consumer level. Of course, high inflation rates are biting into consumers disposable income. And home textiles and garments are among those products consumer can save on quickly and easily.

Third, in the second quarter of 2022 the Fed (US central bank) started rising interest rates from close to zero to around 5% by the end of 2023. This increase certainly did not strengthen consumer demand (see Graph 3).

The combination of large inventories at brand and retail level and rising raw material and energy as well as labour and capital costs fuelling inflation rates at consumer level had led to weakening demand (see Graph 3). Since brands and retailers were sitting on a very large amount of merchandise and consumers' demand returned to more normal levels, these inventories were not reduced as fast as anticipated. Hence, brands and retailers did not place order as they had done in 2021 and the first half of 2022. For the textile value chain from fibre producers to the home textile and garment producers this was and currently still is a "perfect storm" they have to weather.

The good news that emerged in the second half of 2023 is that inflation rates have dropped significantly to more acceptable levels of around 3% in the US and Europe. Therefore, financial markets are expecting that interest rates have not only peaked but are likely to fall in 2024. This is one explanation why the stock markets across the board have rallied since November 2023. Furthermore, it can be expected that inventories at brand and retail level will come down and reach long-term averages in 2024. This will make placing higher orders inevitable in the course of 2024. Whether this will be in the first, second, or third quarter, remains to be seen.

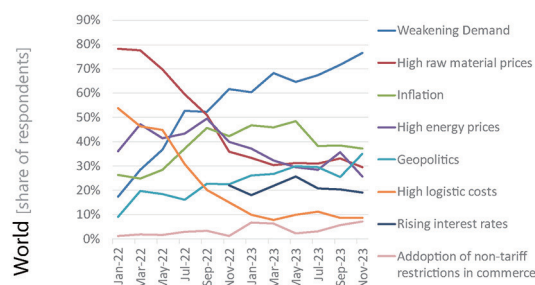
The ITMF Annual Conference 2023 which was held in

Graph 3: Major Concerns in the next six Months

World Overview | Regions | Segments | Bonus questions | Conclusion



Which are your major concerns in the next six months?



Source: 8th- 23rd ITMF GTIS

Source: ITMF, Global Textile Industry Survey (GTIS), November 2023

Keqiao, China highlighted that our industry is not only facing a difficult business situation. It pointed out that in the medium and longer term those companies will thrive that have adapted to emerging trends like sustainability and circularity. In many countries around the world, especially in Europe, regulation about sustainable and circular production of textiles will set in. Companies must adapt to this new reality. This means to adopt new technologies and digital tools that enable companies to comply with the new regulatory environment. At the next ITMF Annual Conference 2024 which will be held together with the IAF World Fashion Convention and will be co-hosted by the Uzbek Textile and Garment Industry Association (Uztextileprom) in Samarkand, Uzbekistan from September 8-10, 2024, industry experts will talk about the dominant trends shaping the future of the textile value chain and will share solutions to turn challenges into opportunities.

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