



**No. 48 – April 2020**

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IAF and ITMF are launching a project to convey filtered information to our members with specific relevance to our industries.

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## 2ND ITMF CORONA-SURVEY ABOUT THE IMPACT OF THE CORONA-PANDEMIC ON THE GLOBAL TEXTILE INDUSTRY

by Dr Christian Schindler, secretary general, ITMF

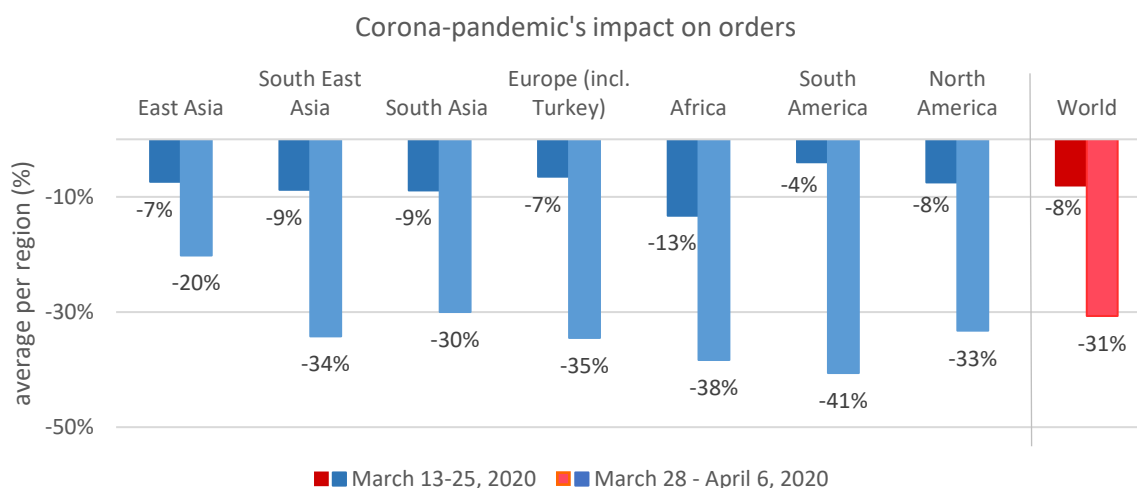
Period: March 28-April 06, 2020

Participants: approx. 700 companies

Regions: Africa, Americas, Asia, Europe (incl. Turkey)

This second ITMF Corona-Survey took place during a period in which countries around the world have introduced some sorts of restrictions (e.g. lockdowns) that are restricting both private and public life. Most relevant for the textile industry around the world is the fact that all sorts of 'offline' stores are closed and sales of textile products in most parts of the world came to an abrupt stop or are reduced significantly. Online sales also experienced lower sales since the start of the crisis. Especially in Europe and the USA, which have become the two hotspots of the Corona-pandemic, but also in other regions of the world the restrictions are much tougher than three weeks ago when the first ITMF Corona-Survey started on March 13<sup>th</sup>. What is the impact on orders and expected turnover for 2020? What are the main challenges companies are currently faced with? Are there also any opportunities in these dramatic times?

**Q 1: Do you experience that orders are cancelled, or do you receive additional orders as a direct consequence of the Corona-pandemic?**



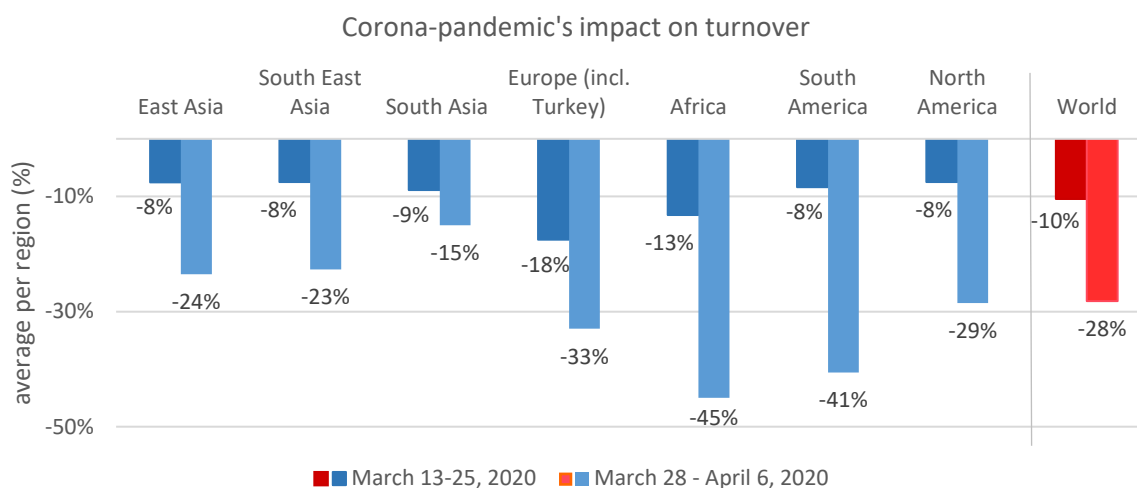
Source: ITMF

The results of the second ITMF Corona-Survey show that since the first survey dramatically more orders were cancelled or postponed. Orders plummeted on average by -32% globally compared to 'only' -8% in the first survey.

In this second survey, only very few companies reported about additional orders since the start of the crisis. Those who received additional orders are companies (mostly apparel companies) that were capable to switch quickly from producing conventional textile products to medical textiles.

It is interesting to note that orders in East Asia dropped visibly less (-20%) than in all the other regions (-30% to -41%). It can be assumed that this region which was hit first by the Corona-crisis also recovers first from it. Especially China and Korea were able to contain the epidemic successfully. In the last 2-3 weeks, most Chinese textile companies have ramped up production. Likewise, 'offline' retail stores have reopened, and consumption is picking up again.

**Q 2: What are your expectations for the company's turnover for the year 2020 compared to 2019?**



Source: ITMF

Companies across the globe are expecting that turnover will be -29% lower on average in 2020 compared to 2019. This is significantly lower than the -11% in the first survey.

The very few companies that were able to increase orders during the Corona-crisis so far are also expecting turnover to be higher in 2020 compared to last year.

**Q3: What are the biggest challenges/opportunities in the current situation?**

Challenges

Of course, the biggest headaches of all companies are the massive cancellations and/or postponements of existing orders and the lack of new incoming orders and the uncertainty about the future. Many companies have either halted production completely or they have reduced it significantly, because of lack of orders and/or because of government regulations.

Those companies that still have enough orders and are allowed to produce have put measures in place that protect their workforce and allows them to continue production.

International value chains are disrupted making efficient production impossible and more costly.

The longer the crisis lasts the more companies point out that liquidity is the central challenge. Therefore, many companies highlight that it is critical to have enough and quick access to additional capital that allows them to keep the company alive.

### Opportunities

Only very few companies were in the situation to switch to the production of medical textiles (especially Personal Protective Equipment (PPE) like for example masks or protective suits).

In China, the domestic market will provide some relief to suppliers of this market.

Textiles with healthcare and protection functions will play a more important role in the future. Producers of fibres, fabrics and end-products catering to this market will benefit from this new trend. Some companies expressed their hope that they will emerge stronger from this crisis after having streamlined all their internal processes.

## THE IMPACT OF THE CORONA VIRUS ON THE TEXTILE AND APPAREL INDUSTRY

by Matthijs Crietee, secretary general, IAF and Dr Olivier Zieschank, economist, ITMF

published on March 31st, 2020, IAF Newsletter

The Corona crisis is on everyone's mind. The virus will have a long-lasting effect on our lives. How long? How strong? These are questions no one can answer for the moment. Together, IAF and ITMF are launching a project to convey filtered information to our members with specific relevance to our industries. This article is the first step in starting this initiative.

We would like to provide our worldwide membership with information of interest on a regular basis. We call for your participation in sharing with us any country specific / segment specific information that you believe should be communicated with the rest of the industry. Your experiences and your knowledge are valuable to others. Please react to this article by sending us relevant information / sources to enable us to deepen research in these directions and provide you with quality articles, during the current crisis and beyond.

The below article provides an overview of the current situation based on the limited information we have at the moment. It is structured as follows: Part 1 reviews general information about the economic impact of the virus, Part 2 focuses on the apparel industry, Part 3 on the textile industry.

### Part 1: The problem and global actors' reaction

#### *The Problem: Simultaneous Supply and Demand Shock*

*"For each month of containment, there will be a loss of 2 percentage points in annual GDP growth"*

OECD, March 26, 2020, Tackling the coronavirus (COVID-19)

OECD Secretary General Angel Gurría unveiled the latest OECD estimates on March 26th. According to his forecast, industries around the world will be hit at a different rate but overall, GDP will decrease in every region reached by the Corona virus. Why? Because our actions to prevent the spread of the

virus (i.e. confinement or social distancing) are simultaneously necessary to the society and detrimental to the economy. Why is the impact so strong? Because confinement in all parts of the world leads to reduced consumption and lower production everywhere; triggering contraction in supply and demand at the same time on the whole planet.

The contraction rate of the economy is nevertheless different across industries and regions. It mainly depends on the composition of a country's productive activity. The tourism sector alone faces an output decrease as high as 70% according to the OECD. Countries which national output strongly depends on tourism will be hit stronger than countries depending on relatively sizeable agricultural and mining sectors (including oil production) for example.

#### The Reaction: Maintain the Output Level

"The only places that have so far succeeded in containing outbreaks once the virus has spread, China and Korea, have done so at the cost of severe economic dislocation".<sup>1</sup> The economic impact of the crisis in other industries won't necessarily mirror that of China and Korea but the OECD expects many businesses to close in the next few months, resulting in a reduction of 15% or more in the level of output throughout the advanced economies and major emerging-market economies.

*"The World Bank and IFC's Boards of Directors approved today an increased \$14 billion package of fast-track financing to assist companies and countries in their efforts to prevent, detect and respond to the rapid spread of COVID-19."*

World Bank, March 17, 2020, Press Release

The general response of government around the world mostly corresponds to OECD's economic recommendation (i.e. recapitalizing health and epidemiological systems, mobilising all macro-economic levers (i.e. monetary, fiscal, and structural policies), and supporting employment and businesses. Inter-governmental bodies, such as the World Bank Group, also stand out to help finance the economy during the crisis. The goal is to maintain the global output at certain level to help all countries going back to their pre-crisis path of GDP as fast as possible. Experts at Capital Economics expect this to happen within "a couple of years, albeit with some permanent lost output in the meantime."<sup>2</sup>

## Part 2: Impact on the Apparel Industry

### Drop in Offline Revenues

The apparel industry faces an enormous and unprecedented demand shock created by the Covid19 crisis. Demand drops a 100% when stores close, as is happening by order of many national and provincial governments. But also, where clothing stores are technically allowed to be open, government calls for social distancing are keeping people away from fashion stores. McKinsey reported a 30% -40% decline in revenue reported across European offline apparel, up to 80% in regions with high infection rates. Lost offline revenue is not nearly being compensated for by additional online sales. Online revenues remain largely stable, though McKinsey reports some online players seeing decreases of 5-20%.

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<sup>1</sup> Mark Williams, capital economics, "Can the virus be contained with little economic pain?"

<sup>2</sup> Capital Economics, 23.03.2020, Neil Shearing, Group Chief Economist

### *Margins Expected to Contract, Especially for Small-scale Players*

The sales drop in Fashion caused by the Covid19 crisis is relatively worse than in many other product categories, perhaps because it started from a weak base. Spending had already dropped at the onset of the crisis, regardless of the actual rate Covid19 infection in a local market. The crisis is starkly laying bare that consumer spending in fashion is highly discretionary. Apparently, Europeans and Americans, all stocking up on food and “Do it Yourself” goods, feel they have sufficient clothing in their wardrobes and stop buying new products. Ironically, the response to consumers’ slow spending will quite likely further communicate a feeling of abundance. Large online retailers are already trying to boost sales by offering large discounts. This will interfere with the moment Spring is expected to create demand for a refreshing of wardrobes alongside warmer weather in Europe and the US, making it more difficult - particularly for smaller players - to make money. In these extraordinary conditions, we can already see industry associations considering asking governments to reintroduce restrictions on the periods in which discounts may be offered. Liberal European parliamentarians for Renew Europe Guy Verhofstadt and Hilde Vautmans have formally suggested such measures to the European Commissioner for the Internal Market, Thierry Breton.

### *A Need for Solidarity in the Supply Chain*

In response to the sudden precipitous drop in sales, many brands and retailers cancelled orders with their manufacturers. In Bangladesh alone, up until March 29<sup>th</sup>, 5 pm, 1025 factories reported 864.17 million pcs worth \$2.81 billion of exports getting cancelled or held up affecting approximately 2.06 million workers. The effect of no sales or very little sales clearly cascades through the supply chain quickly. Important differences in the ethical buying behavior are becoming very apparent in the way brands and retailers are either simply dropping their suppliers or trying to confront this crisis in a more collaborative manner. The IAF has openly called out unethical buying behavior in the face of the Covid19 crisis and has called for supply chain solidarity. In practice, this means that buying brands and retailers and their manufacturers as well as the manufacturers and their suppliers need to figure out creative solutions to reduce or to spread the economic pain across time or across players in the supply chain.

### *Unforeseeable Pressure on Prices*

The unprecedented situation of offline retail having stopped entirely in many places means that any prediction for the immediate prospects of apparel sales is totally dependent on the duration of the lockdowns. Restarting retail sales depends on our ability to control the virus spread, but also on our ability to avoid later recurring spreads. We can do this through testing that shows which people have already become immune to the virus. At some point, when shops are reopening, fashion brands will be facing a harsh environment with at the same time accumulated stocks and an expected depressed market because of an economic recession. Too much reliance on the price instrument to entice consumers to buy and to reduce stocks can depress prices for a long period and collectively make it more difficult for the fashion market to restructure and prosper again.

### *Digitalization May Well Reduce the Burden of the Crisis*

The positive flip side of the Covid19 crisis hitting the apparel industry particularly hard because of systemic weaknesses is the fact that the best actions to take post crisis have often already been identified. Even before the current epidemic the industry was already acutely aware of the need to change. The IAF’s theme for its 36<sup>th</sup> World Fashion Convention to be held in Antwerp in November of this year is ‘Transition in the Fashion System’. The IAF came up with this theme long before the virus struck, but there is no need to change it; it is all the more relevant now. An obvious example of

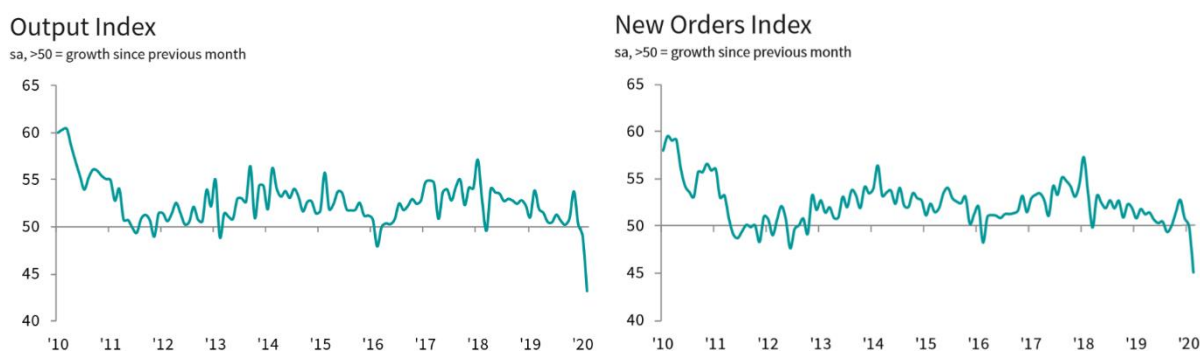
necessary transformation is the digitization of the industry. Having a digital product development process reduces costs and creates more responsiveness to the market. And as an extra bonus, it reduces the need for travel between headquarters and production centers. The Covid19 crisis reconfirms digitization as a major and urgent challenge for the entire apparel-textile supply chain, requiring focused attention and also collaboration between the apparel and textile industries.

### Part 3: Impact on the Textile Industry

#### *Output and Orders are Plunging*

There is little information about the specific impact of the crisis on the global textile industry to this date. Some broader indicators of the general sentiment in the industry provide insights into the tendencies in the markets. For example, IHS Markit's global sector PMI™ (Purchasing Manager's Index™), published on March 6<sup>th</sup> with headlines "Coronavirus disruption impacts almost all sectors in February" likely represents the situation in the textile industry as well. In this report, the performance of the textile sector is encompassed within the category "Household & Personal Use Products", which Output and New Orders Indexes plunged in the last few months (see Figure 1).

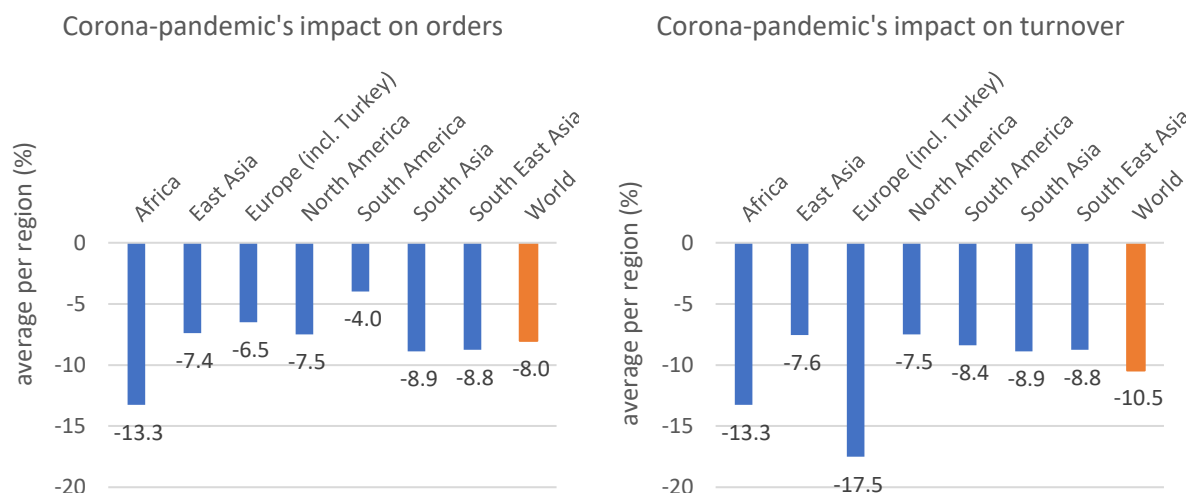
Figure 1: PMI™ – Household and Personal Use Products



Source: IHS Markit's global sector PMI™, Embargoed until 1100 EST (1600 UTC) 6 March 2020

#### *The Sudden Drop Will Turn into a Medium-term Trend*

The only source of specific information about the impact of the virus on the global textile industry is the ITMF's 46<sup>th</sup> newsletter published on March 26<sup>th</sup> presenting the results of the first ITMF-Survey about the impact of the Corona-pandemic on the global textile industry. An article provides anecdotal evidence collected amongst ITMF's members, which teaches us that, by March 25<sup>th</sup>, a quarter of respondents had received additional orders, about half were experiencing postponements and/or cancellations up to -10% and a third faced a drop of more than -10%. Furthermore, one fifth of the participants expected an increase in turnover compared to 2019, about 40% anticipate a decrease in turnover up to -10%, and 40% foresaw a drop greater than 10%; some of them a plunge in a range of -20 to -60%. The list of challenges includes safety and health of the workers and staff; disrupted supply chains, especially in connection with supplies from China; lack or delay in supply in the apparel industry; lack of demand or the fear that demand will drop significantly; lack of liquidity. Nevertheless, some companies mentioned that streamlining their internal processes during the crisis will make them emerge stronger and companies producing fibres, yarns, fabrics and end-products with health care and protection function will see new opportunities.



Source: first ITMF-Survey about the impact of the Corona-pandemic on the global textile industry

## INTERVIEW OF CHRISTIAN SCHINDLER, ITMF, BY WTIN

by Jessica Owen, Deputy Digital Editor, WTIN and Christian Schindler, secretary general, ITMF

**QUESTION:** How worrying are the results from the survey?

**REPLY:** The replies are very worrying. Obviously, the uncertainty under which the companies replied are enormous because no one has ever experienced anything similar. And the recovery depends on so many variables like the intensity and duration of the crisis, reactions of governments, companies and consumers, etc. around the world. Nevertheless, the results are certainly a very good indicator for the time being and show that the industry is struggling.

**QUESTION:** What are you expecting from your second survey to be published on April 7th?

**REPLY:** We want to see how the textile industry is judging the crisis after a few weeks into the crisis. Do they see a light at the end of the tunnel, or will the situation have worsened? It will be very interesting to see how they judge the situation and what their outlook is for the future. We plan to do a third survey in about two weeks' time.

**QUESTION:** What would the ITMF's advice be to the textile industry in order to cope at a time like this?

**REPLY:** I think that in the short-term partners in the textile value chain have to assist each other in addition to the support they might receive from their respective governments. At the end of the day, they will need each other once demand will pick up again. Then you want to work with reliable partners that will help you to get the right quality and number of products at the right time onto the shelves. The crisis will reveal how good and strong the partnerships really are.

The time should be used to question all internal processes. The supply chain has to be assessed in terms of sourcing practises and also market access. Also, new markets should be looked at in the medical and protective textile segments. Product requirements might change as a consequence. It is certainly a good time to look holistically at one's business model.

Learn more on WTIN's [website](#).



## BILLBOARD

### Honb'le Minister of Textiles, India, calls for "Commerce with Compassion"

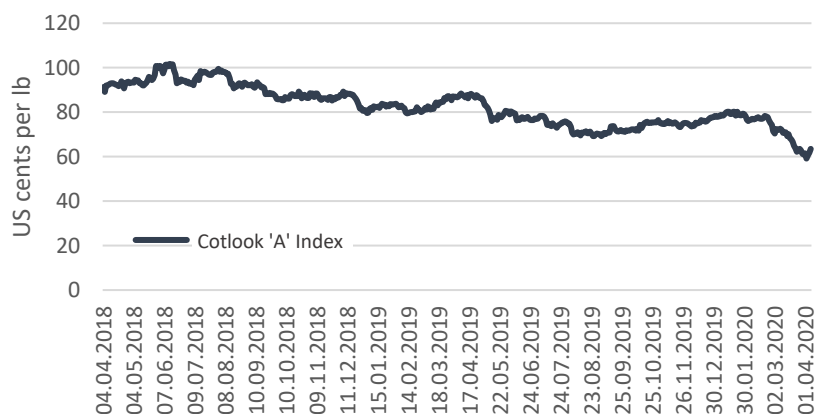
Mrs. SMRITI ZUBIN IRANI, Honb'le MINISTER of TEXTILES, Government of India calls for "Commerce with Compassion" and appeals to overseas importers & buyers of Cotton YARN, FABRICS & Home TEXTILES to accept goods already contracted & not to cancel them due to Covid19.

<https://www.youtube.com/watch?v=hbhPFgFqGnQ&feature=youtu.be>

## MONTHLY CHART UPDATE

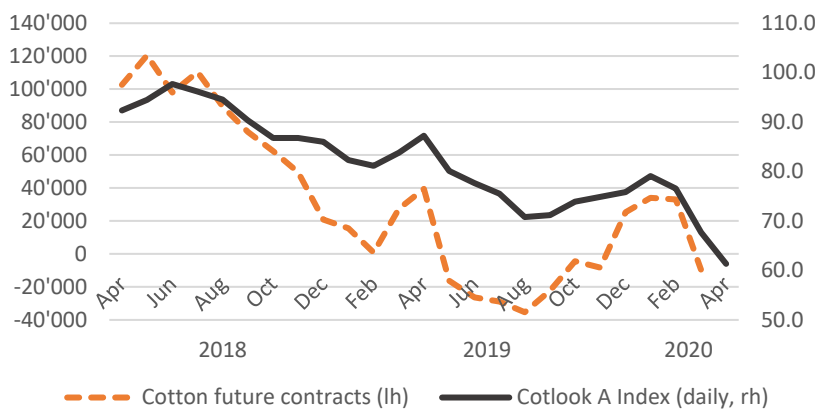
<b>Chart 1: Cotlook 'A' Index</b>	<b>page 9</b>
<b>Chart 2: Cotton price and future contracts</b>	<b>page 10</b>
<b>Chart 3: Cotlook Yarn Index</b>	<b>page 10</b>
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<b>Chart 5: Oil price and PCI fibres price index</b>	<b>page 11</b>

**Chart 1: Cotlook 'A' Index**



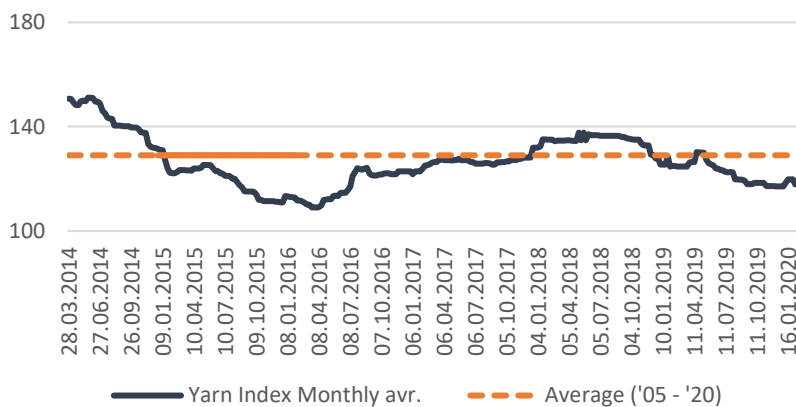
The Cotlook 'A' Index marks a downwards trend since December 2020.

Source: Cotton Outlook

**Chart 2: Cotton price and future contracts**

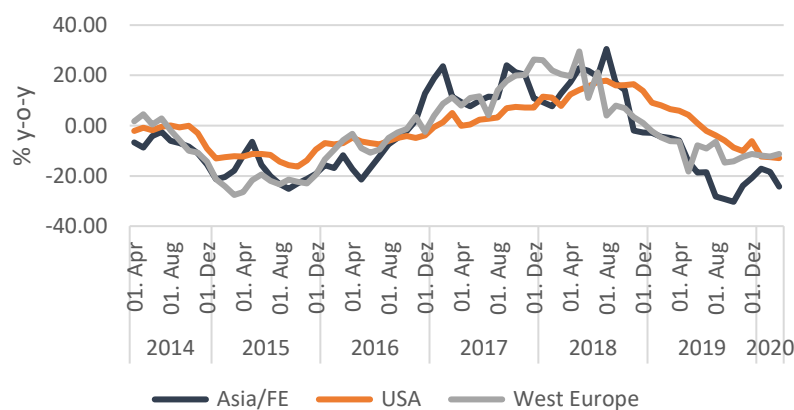
Sources: Cotton Outlook, Commodity Futures Trading Commission, and own calculations

The net-long positions of non-commercial traders and the Cotlook 'A' index shows a downward trend since January 2020.

**Chart 3: Cotlook Yarn Index**

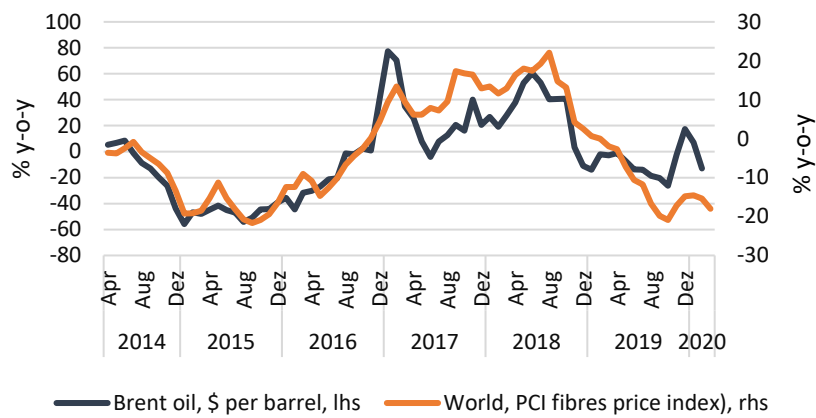
Source: Cotton Outlook

Cotlook Yarn Index has been oscillating around the long-term average of 129 since mid-2019 and follows a downward trend since.

**Chart 4: PCI synthetic fibres indices**

Sources: PCI Fibres & own calculations

The fibres indices track the relative movement of prices for major synthetic fibres. Polyester prices have been decreasing since mid-2018 in all examined regions.

**Chart 5: Oil price and PCI fibres price index**

In October, oil prices decreased by -13% year-on-year to a level of 55.66 USD per barrel.