



INTERNATIONAL TEXTILE MANUFACTURERS FEDERATION
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Title: The Impact of the Coronavirus on the Textile and Apparel Industry
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Introduction

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, ITMF and IAF are launching a project to convey filtered information to our members with specific relevance to our industries. This article is the first step in launching 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 Coronavirus. 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".¹ 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."².

Part 2: Impact on the Apparel Industry

Drop in Offline Revenues

The apparel industry faces an enormous and unprecedented demand shock created by the COVID-19 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%.

¹ Mark Williams, Capital Economics, "Can the virus be contained with little economic pain?"

² 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 COVID-19 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 COVID-19 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 DIY 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 Euro-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 29th, 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 COVID-19 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

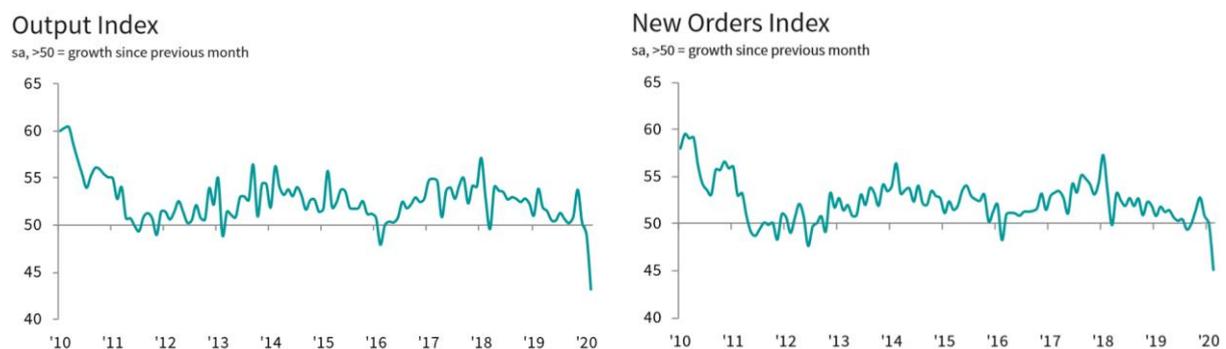
The positive flip side of the COVID-19 crisis hitting the apparel industry particularly hard because of systemic weaknesses is the fact that the best actions to take post crisis have often already been identified. Even before the current epidemic the industry was already acutely aware of the need to change. The IAF's theme for its 36th World Fashion Convention to be held in Antwerp in November of this year is 'Transition of the Global 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 COVID-19 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 PMITM (Purchasing Manager's IndexTM), published on March 6th 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: PMITM – Household and Personal Use Products

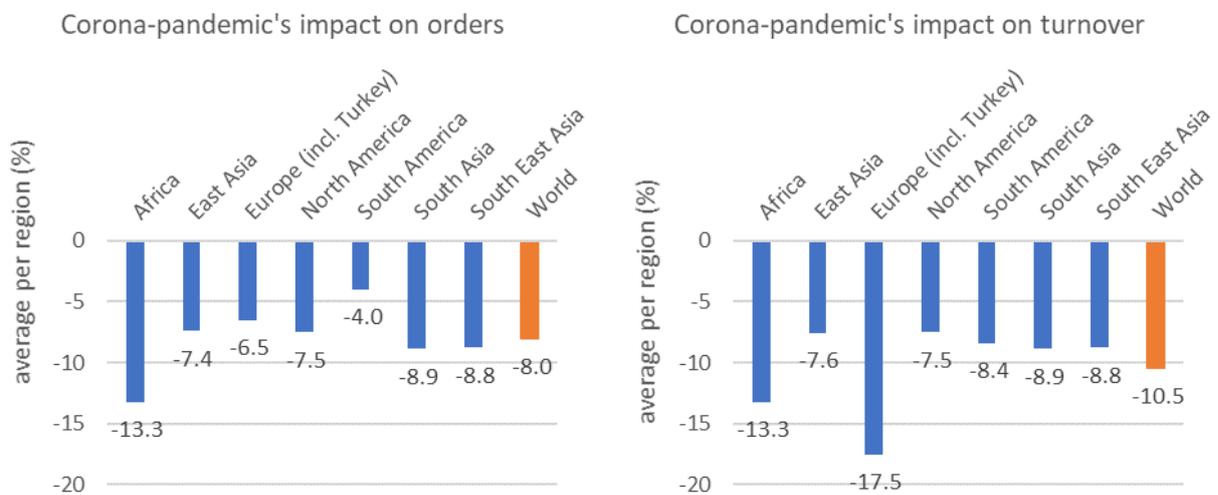


Source: IHS Markit's global sector PMITM, Embargoed until 1100 EST (1600 UTC) 6 March 2020

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 46th newsletter published on March 26th 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 25th, 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