

2019 ANNUAL CONFERENCE





OUR INDUSTRY: KNOWING TODAY TO PREDICT TOMORROW

A Macroeconomic look at the textile industry







1

KNOWING TODAY

 RAW MATERIALS <ul style="list-style-type: none">• Cotton yarn• Polyester yarn	 CLIMATE CHANGE <ul style="list-style-type: none">• Government Regulations
 LABOR <ul style="list-style-type: none">• Minimum Wages• Emerging Middle Classes	 POLITICS <ul style="list-style-type: none">• China – USA Trade War• Tariffs

2

PREDICTING TOMORROW

 RAW MATERIALS <ul style="list-style-type: none">• Innovative, sustainable yarns	 CLIMATE CHANGE <ul style="list-style-type: none">• Push towards sustainability• Water, Land and Air responsibility
 LABOR <ul style="list-style-type: none">• Automation at every level of supply chain	 POLITICS <ul style="list-style-type: none">• Where is textile manufacturing going?

3



SECTION 1
RAW MATERIALS

4

COST INPUTS OF INTEREST



COTTON YARN

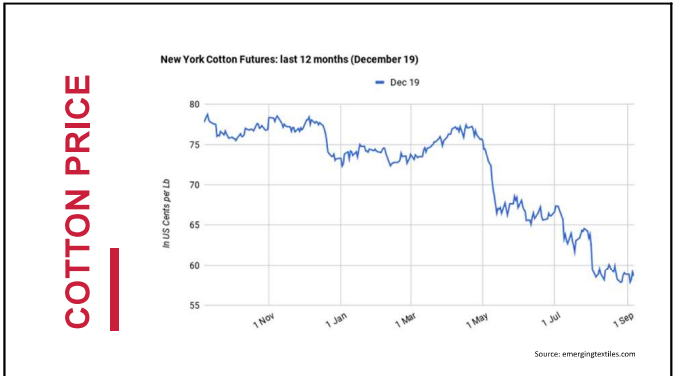


POLYESTER YARN



LABOR

5



6



WHY IS COTTON SO CHEAP?

PRICES ARE DOWN DESPITE A LOW OUTPUT.

EXPERTS WERE PREDICTING THAT COTTON PRICES WOULD REMAIN HIGH AS LATE AS FEB 2019.

7

COTTON MARKET

China accounts for 1/3 of global cotton consumption.

LARGEST PRODUCERS OF COTTON ARE:

- USA
- India
- China

USA ranks 3rd among the top three producers of cotton and is the top exporter.



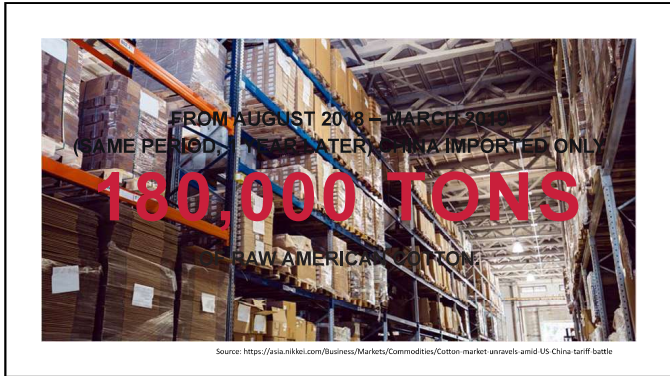
8



9



10



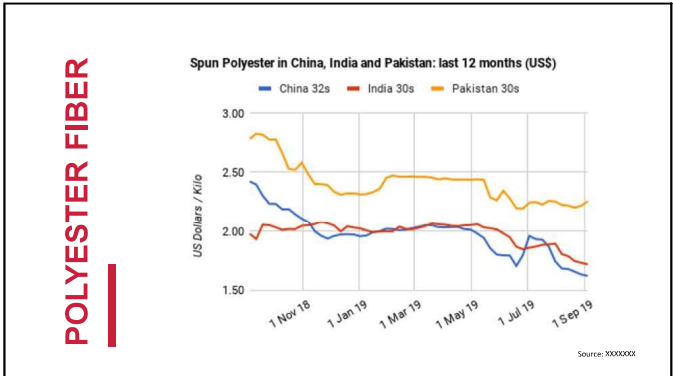
11



12



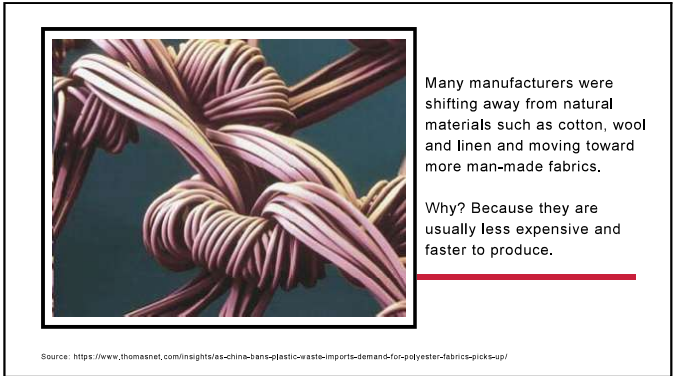
13



14



15



16


Today, annual global production exceeds **22 billion tons** and predictions are that by 2024, the global polyester yarn market will be more than a **165-billion-dollar market**.




Source: <https://www.thomasnet.com/insights/as-china-bans-plastic-waste-imports-demand-for-polyester-fabrics-picks-up/>

17

YARN



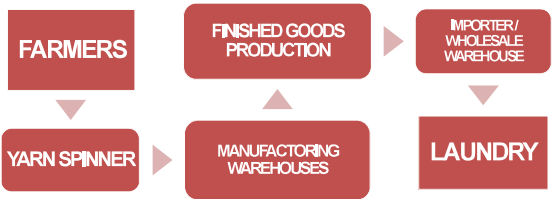
FIBER



18

COTTON PRICE IN FINISHED GOODS

There could be a 6-8 month gap between reductions in publicly traded cotton futures and real decreases in prices of finished cotton-based products



19

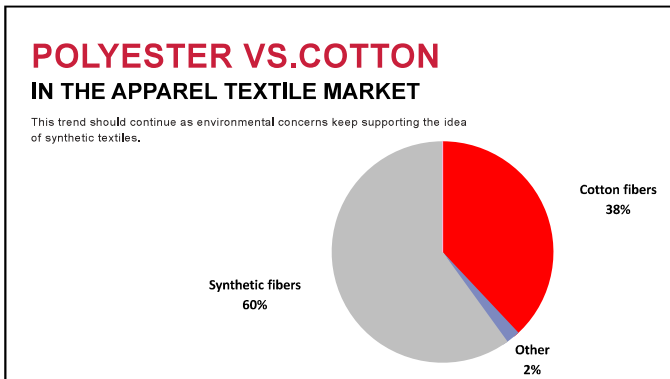
PREDICTING TOMORROW COTTON

CHINA TRADE WAR

- China is one of the world's largest users of cotton.
- If China continues to source cotton from countries other than the USA, farmers will stop producing cotton.
- If less farmers produce cotton in the USA, price will RISE.



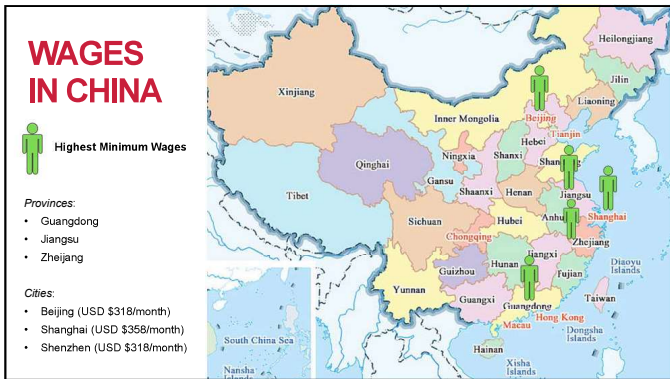
20



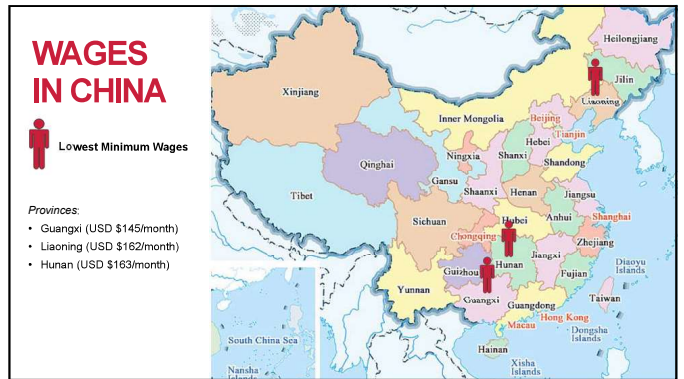
21



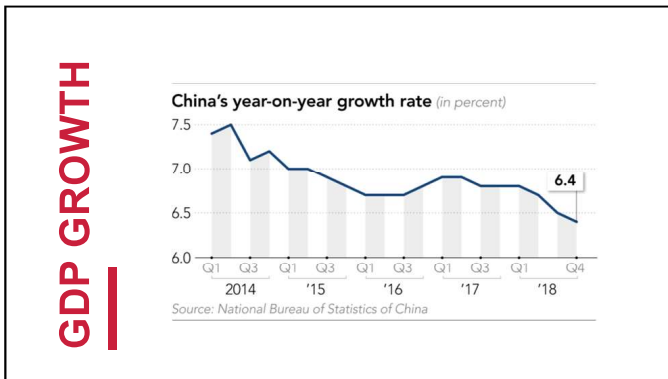
22



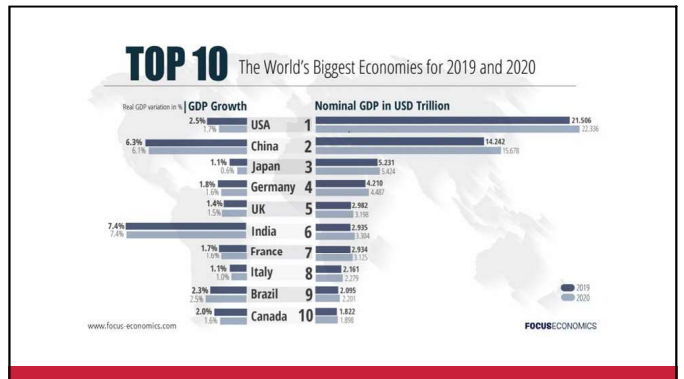
23



24



25



26

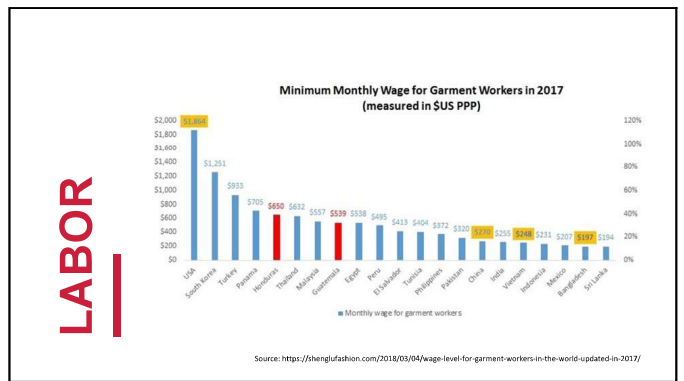
MINIMUM WAGE VS AVERAGE WAGE

- Minimum wage in China only tells part of the story.
- As nominal GDP keeps growing in China, signifying a healthy economy, the country is moving up the value chain.
- Shift from manufacturing jobs to more innovation and services.

• Example:

- Shanghai Minimum Wage = USD \$358 per month
- Shanghai Average Wage USD \$1405 per month

27



28



HOW DO CHINESE WAGES COMPARE WITH OTHER COUNTRIES?

In the manufacturing sector:



Avg hourly wage in China
USD \$3.60
which is the same as countries like Portugal and South Africa and **FIVE times the existing wage rate in India.**



Over the same period, manufacturing wages fell to **USD \$2.70/hour in Brazil, USD \$2.10/hour in Mexico**

29

PREDICTING TOMORROW FOLLOW THE MONEY...

GINI COEFFICIENT

A statistical measure of the degree of variation or inequality represented in a set of values, used especially in analyzing income inequality.

ACROSS THE ASEAN

THE BIGGER THE NUMBER, THE LARGER THE GAP

Country	GINI Coefficient
THAILAND	90.2
INDONESIA	84.0
THE PHILIPPINES	82.6
MALAYSIA	82.0
LAOS	79.7
BRUNEI	78.6
SINGAPORE	76.8
VIETNAM	70.8
CAMBODIA	70.4
MYANMAR	58.2


#4 WORLD RANKING

30

IS THE SHIFT FROM CHINA SUSTAINABLE?

COUNTRIES	GDP	GDP '19Y	GDP QoQ	Interest rate	Inflation rate	Unemployment rate	Gov Budget	Current Account	Population
China	75	12.5%	2.5%	5.5%	16.2%	-9.5%	39.5%	-16.0%	1.41
India	46	10.0%	2.5%	7.5%	17.5%	3.9%	16.5%	1.0%	1.37
Europe	84	5.2%	7.0%	12.2%	10.5%	-2.5%	16.5%	6.6%	109.22
Russia	16	6.4%	2.0%	5.0%	2.8%	10.5%	-4.8%	41.2%	14.10
Japan	2	8.3%	12.5%	1.7%	4.5%	8.5%	55.5%	-11.5%	1.10
Brazil	274	7.6%	7.0%	10.0%	8.0%	4.5%	-2.8%	27.0%	2.08
Mexico	5	7.4%	7.0%	1.0%	6.5%	-6.5%	24.5%	20.5%	1.41
Canada	25	7.5%	1.4%	2.0%	9.5%	-5.5%	29.4%	-10.5%	16.25
Taiwan	8	7.5%	12.5%	6.0%	2.3%	-4.3%	47.0%	-4.0%	8.90
Asia	43	7.6%	1.0%	1.0%	2.0%	-3.0%	24.0%	-4.0%	23.88
Europe	12	7.3%	8.5%	11.0%	7.4%	10.5%	-3.4%	66.5%	1.04%
Africa	19	7.2%	10.0%	4.0%	6.0%	-6.4%	7.0%	20.5%	31.69
India	29	7.1%	9.0%	6.0%	3.0%	6.5%	36.4%	-2.5%	28.59
Asia	60	7.0%	1.0%	6.0%	2.0%	-4.0%	22.0%	-10.5%	11.58
Europe	71	6.9%	10.0%	5.5%	1.0%	-2.5%	48.4%	-2.0%	52.71
Latin	245	6.7%	8.0%	6.0%	-2.3%	2.5%	-3.7%	57.5%	1.0%
China	60	6.7%	1.0%	10.5%	5.4%	2.4%	-3.8%	79.5%	-4.4%
Europe	67	6.6%	1.0%	7.0%	3.0%	3.2%	-2.5%	37.4%	-1.0%
Latin	16	6.5%	4.0%	3.0%	6.0%	-4.0%	53.3%	-7.5%	
America	2	6.5%	5.0%	6.0%	30.5%	-1.5%	48.4%	-6.0%	
Europe	2	6.5%	12.5%	7.3%	9.0%	-3.0%	66.5%	-16.5%	
India	283	6.3%	3.4%	6.0%	9.0%	5.0%	64.0%	1.5%	
China	1368	6.2%	1.6%	4.5%	2.8%	3.4%	-4.2%	61.5%	0.4%

31



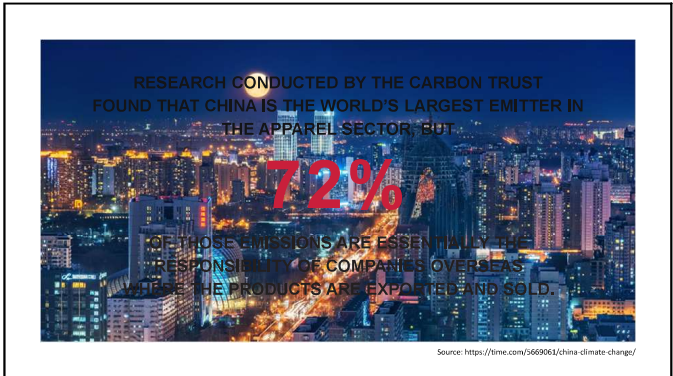
SECTION 3

CLIMATE CHANGE

32





33



34

CLIMATE CHANGE



According to the Institute of Public and Environmental Affairs (IPE), **Apple** and **Nike** tied for first place in terms of how green their supply chain practices are in China – two premium products with premium prices..

Is the Healthcare Laundry industry ready to pay for a green supply chain?


Source: <https://time.com/5669061/china-climate-change/>

35

CLIMATE CHANGE

Example:

- Environmental legislation in China forced the closure of intermediate factories and severely restricted the supply of key ingredient chemicals
- Jiangsu province was the hardest hit – an area known for having an abundance of dye houses.



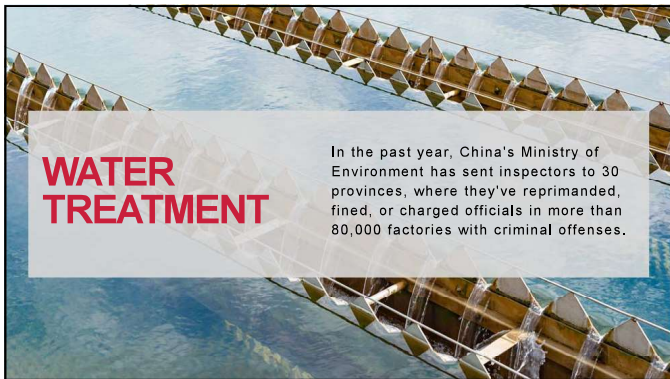
36



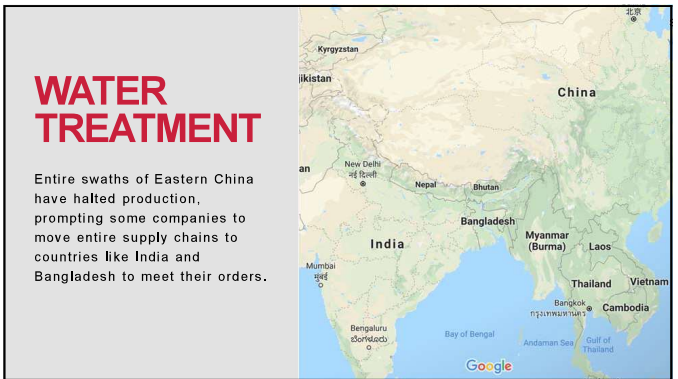
37



38




39



40


WATER TREATMENT

After Clean Water Act in USA in 1970s, many American textile factories shut down because they could not comply with the regulations – similar to what is happening now in China.




41

PREDICTING TOMORROW




CARBON TAX

- May increase cost of manufacturing




ENVIRONMENTAL REGULATIONS

- On the increase around the world



POLYESTER YARNS

- More frequently used to decrease drying times and increase longevity of a textile



RESULTS?

- Increased lead times, and higher prices

42



SECTION 4

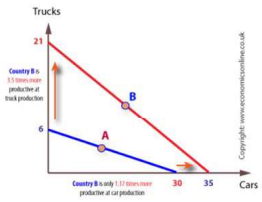
POLITICS

43

WHY DO WE HAVE TRADE?

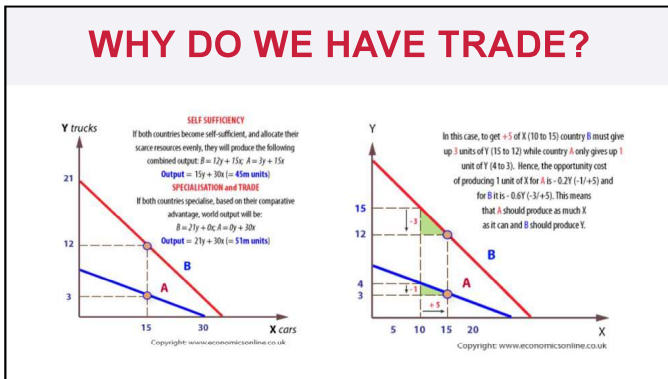
Absolute Advantage vs Comparative Advantage

Maximum outputs	Country A	Country B
CARS	30 m	35 m
TRUCKS	6 m	21 m



Copyright: www.economicsonline.co.uk

44



45

WHY DO WE HAVE TRADE?

1

Entire theory of specialization is based on the assumption that markets are **perfectly competitive**.

2

Factors such as transport, environment, and political motivations (tariffs) might create a scenario in which the expected level of benefits are not realized.

Example:

- Structural Unemployment – workers not being able to transfer skills
- Exchange Rates
- National Security concerns

46

CHINA – USA TRADE WAR

"THE GARMENT INDUSTRY MAY ACCELERATE ITS RELOCATION FROM CHINA TO VIETNAM AND CAMBODIA, WHERE LABOR COSTS ARE LOWER"

47

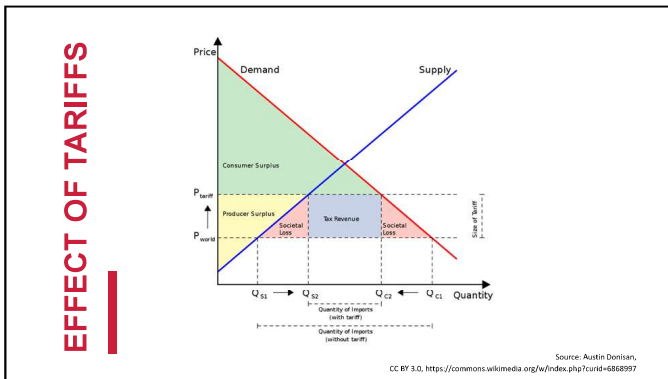
WHAT'S THE DIFFERENCE?

Duty

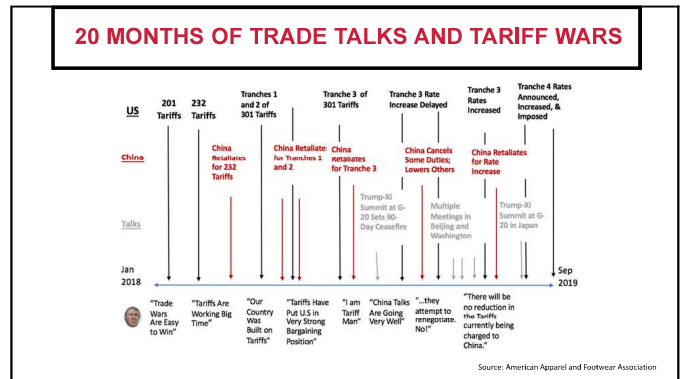
VS

Tariff

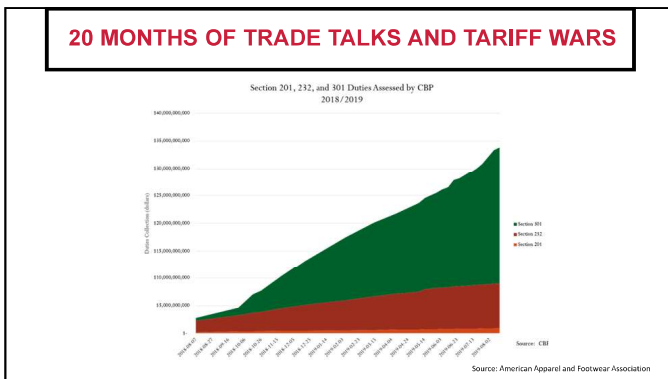
48



49



50



51



CHINA – USA TRADE WAR EFFECT ON CANADA

Even though there have been no new Canadian Tariffs on Chinese made products, the Trade War is still having a profound effect on the Canadian textile industry.

If a factory is producing for just American and Canadian importers, the Canadian importer is most likely 1/10th of that factory's capacity (based on different population sizes).

52

CHINA – USA TRADE WAR EFFECT ON CANADA

If USA companies source from different countries, the factory cannot survive – forcing the Canadian company to also source elsewhere.

Just the threat of this happening is enough for Canadian importers to shift their supply chain!



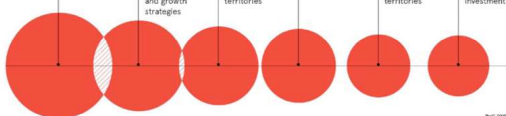
53

SHIFTING SUPPLY CHAIN

TRADE CONFLICTS ARE AFFECTING OPERATING MODELS AND GROWTH STRATEGIES

Survey of organisations "extremely concerned" about trade conflicts

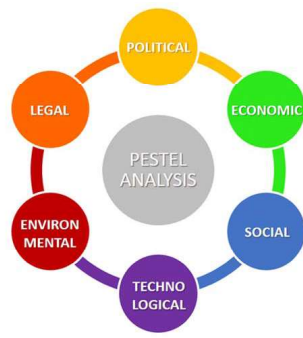
40%	33%	25%	22%	16%	15%
are adjusting supply chain and sourcing strategy	are making no changes to operating models and growth strategies	are shifting growth strategies to alternative territories	are delaying capital expenditure	are shifting production to alternative territories	are delaying foreign direct investment



Source: PricewaterhouseCoopers via <https://www.freightwaves.com/news/the-return-of-geopolitical-risk>

54

SHIFTING SUPPLY CHAIN



55

PESTEL ANALYSIS

P	E	S	T	E	L
<ul style="list-style-type: none"> Government policy Political stability Corruption Foreign trade policy Tax policy Labour law Trade restrictions 	<ul style="list-style-type: none"> Economic growth Exchange rates Interest rates Inflation rates Disposable income Unemployment rates 	<ul style="list-style-type: none"> Population growth rate Age distribution Career attitudes Safety emphasis Health consciousness Lifestyle attitudes Cultural barriers 	<ul style="list-style-type: none"> Technology incentives Level of innovation Automation R&D activity Technological change Technological awareness 	<ul style="list-style-type: none"> Weather Climate Environmental policies Climate change Pressures from NGO's 	<ul style="list-style-type: none"> Discrimination laws Antitrust laws Employment laws Consumer protection laws Copyright and patent laws Health and safety laws

Source: <https://www.business-to-you.com/scanning-the-environment-pestel-analysis/>

56

THANK YOU!
QUESTIONS?

 georgecourey.com

 1 (450) 661 6620

 jcourey@georgecourey.com



JEFFREY COUREY