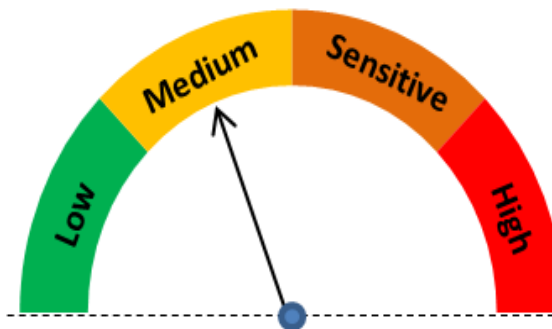


Sector Risk Rating



What to Watch?

- Choosing the right distribution channel as fast fashion and e-habits are rising exponentially
- Ability to pass on price increase to customers as commodity prices are rising once more, to contain margins' erosion
- Changes in trade barriers since the US withdrew from the Trans-Pacific Partnership talks is likely to turn the focus to regional agreements
- Value-added specialty as technical textile to prove the most resilient segment

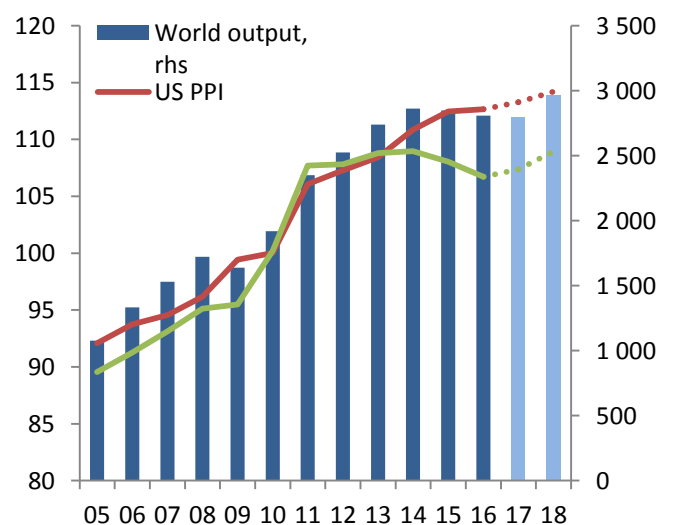
Fashion-forward: When will trade re-boost Textile and Clothing?

2016 proved more challenging than expected for the Textile and Clothing (T&C) sector as the world economy failed to break the +3% GDP growth rate. T&C output sales decreased by -1.5%. This decline is mostly attributable to the protracted lower-than-bearable demand that resulted in a deflationist spiral. At best, T&C producer prices remained stable, as in China, but they decreased in most cases. US PPI was down -1.2% on average in 2016 while India's shed -1.8%. As a result, international trade, which accounts for a third of total T&C output, lost USD40bn worth of business.

The outlook for 2017 is less grim. Price increases are resuming due to firmer demand prospects. T&C producer prices are forecasted to rise +0.5% in 2017 in the US and China, and by +1.5% in 2018 for the latter. As a result, exports should climb by +3.5% to USD925bn, if no major occurrence upends international trade.

Indeed, a rise in protectionist mood and the termination of Trans-Pacific Partnership trade deal talks could land a blow to the T&C sector. Tariffs and regulations are already high and pinpointed as impeding sector growth.

T&C world sales vs. output prices (USDbn)



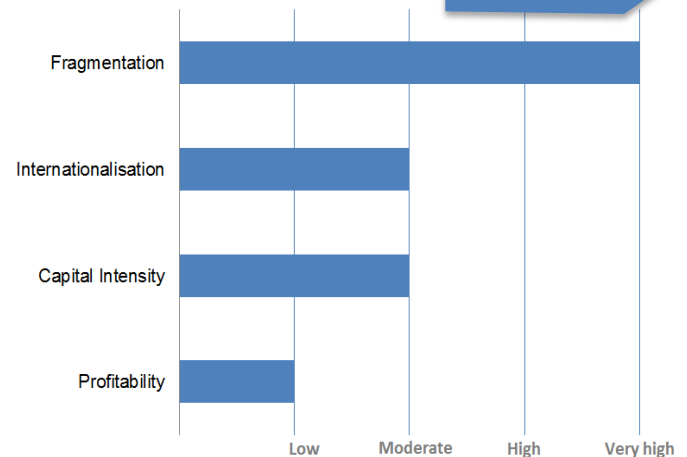
Sources: Oxford Economics, Euler Hermes

Sector Value:
439.1bn
USD

Key Players

Country	Role	Sector Risk
China	#1 producer #1 exporter	●
Italy	#3 producer #3 exporter	●
India	#2 producer #4 exporter	●

ID Card



Strengths

- Resilient long-term demand thanks to rising middle classes in emerging markets
- Steadier supply cost thanks to the higher use of manmade fibers, whose prices are less volatile than those of cotton or wool

Weaknesses

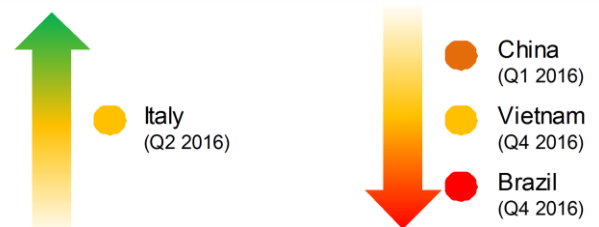
- Profitability undermined by volatile raw material prices and rising wages
- Fierce competition weighing on margins which are further stressed by e-commerce activities
- Changing consumer behavior (e.g. fast fashion) forcing T&C to become more flexible

Subsectors Insight

Textile: Cotton price rose +5.7% on average in 2016 while producer prices have at best stagnated (China) or decreased as was the case in India (-1.8%).

Clothing and Footwear: The comeback of contained inflation is expected to push turnovers and margins higher, provided that market power is sufficient to pass on price increases to customers.

Recent Sector Risk Changes



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