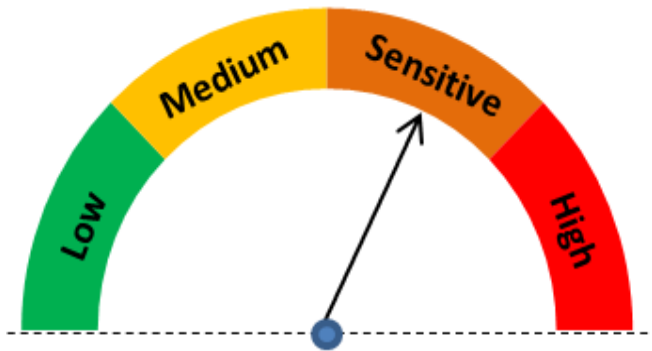


Sector Risk Rating



What to Watch?

- Lasting deflationary pressures (commodities, consumer prices) deteriorating Textile and Clothing (T&C) sales in 2016, forecasted at -1% after -4% in 2015
- China move towards a service economy to result in a changing supply chain landscape, at the benefit of South East Asian countries
- Two major topics – technical textile and sustainable production – not tackled again in 2016 with -1% Capital Expenditures (CapEx).

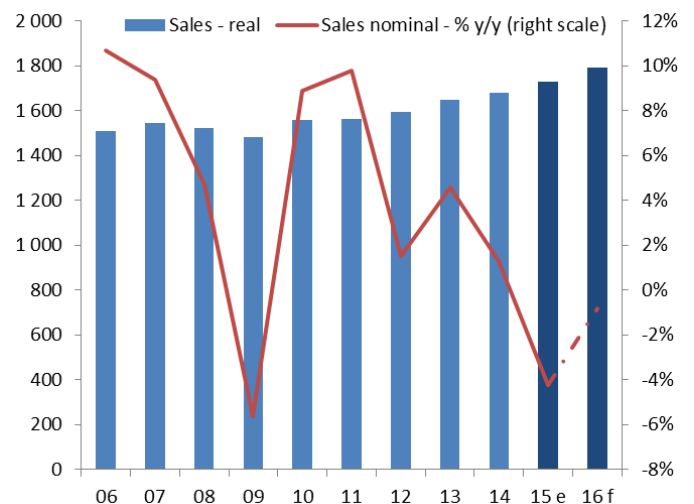
Outlook undermined by turmoil in emerging markets

Textile and Clothing nominal sales ceded -4% in 2015 and were crippled by unusually low commodity prices (cotton -15%, wool -7%, and manmade fibers 1%) and multiple currency depreciations worldwide, particularly in emerging markets. As the latter produce about 80% of global output, poor economic prospects in Brazil and Russia and China's shift towards services will continue to weigh on the sector. Gross output would hence decrease by -1% in 2016.

However, the financial shape of T&C companies has improved between 2011 and 2015: net debt now represents only 53% of equity. This 5ppts improvement over the period must be taken with a grain of salt, as it is mostly attributable to fewer investments than to strengthening equity. As CapEx is forecast to decrease by -1%, financial structures shouldn't deteriorate in 2016.

Looking forward, demand will be fueled by population growth (+500mn inhabitants by 2020) and higher incomes that will substantially increase household purchasing power. GDP per capita is expected to keep rising, increasing by +4% annually between 2015 and 2020.

T&C real and nominal sales (USDbn)



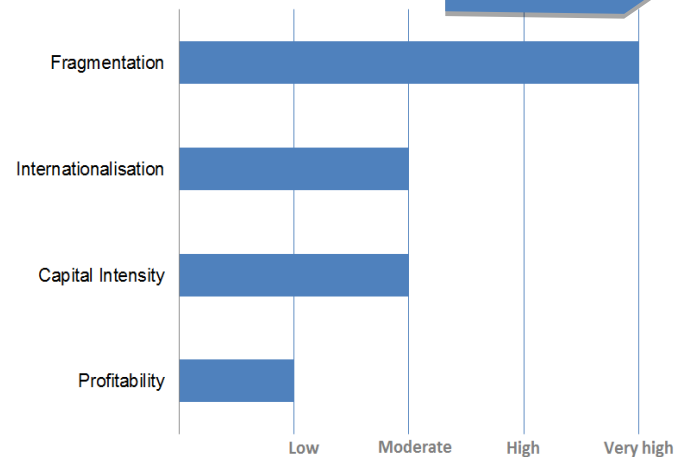
Sources: Oxford Economics, Euler Hermes

Sector Value:
467bn
USD

Key Players

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

ID Card



Strengths

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

Weaknesses

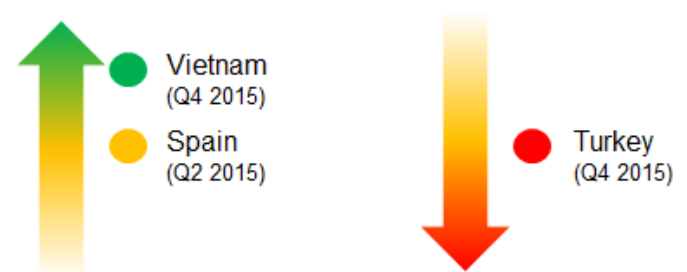
- Profitability undermined by volatile raw material prices and rising wages
- Fierce competition weighing on margins and further stressed by e-commerce activities
- Changing consumer behavior (e.g. fast fashion) forcing T&C to become more flexible

Subsectors Insights

Textile: -15% in cotton prices in 2015 has not prevented fabric producers to be swayed by manmade fibers. Synthetic output is making up cotton production

Clothing and Footwear: Manufacturers should benefit from improved profits thanks to lower raw material costs while real production is forecasted to increase by +5% per year on average by 2018

Recent Sector Risk Changes



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