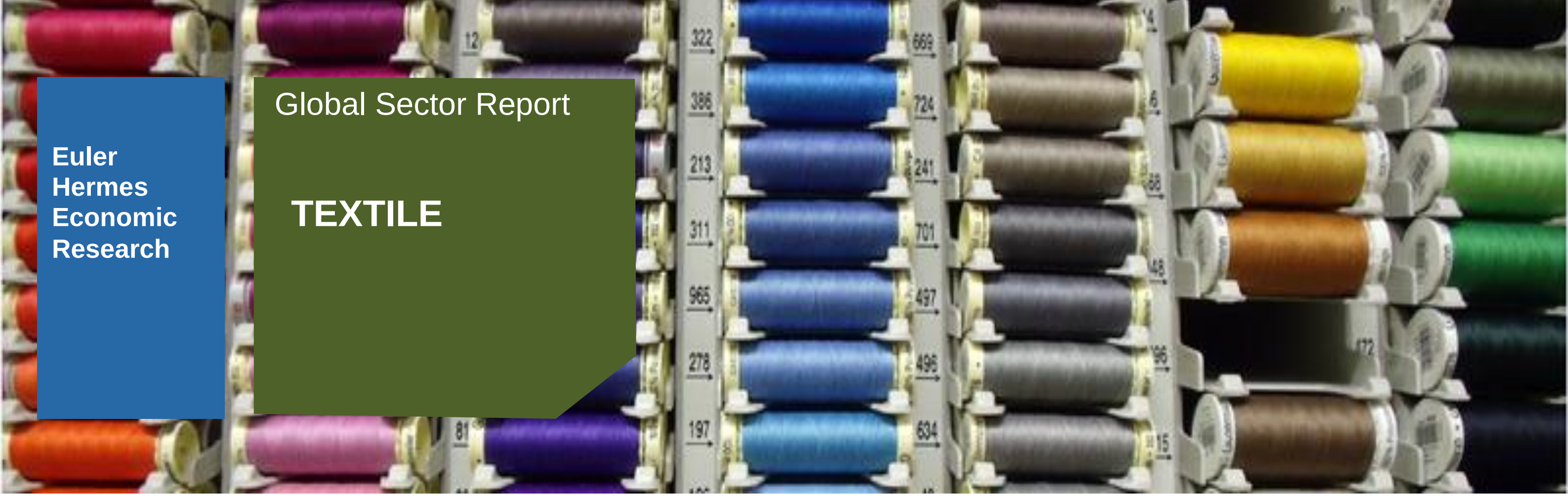
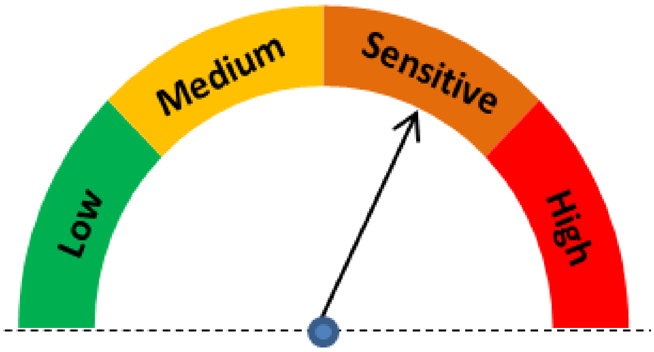


Euler Hermes Economic Research

Global Sector Report

TEXTILE

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).

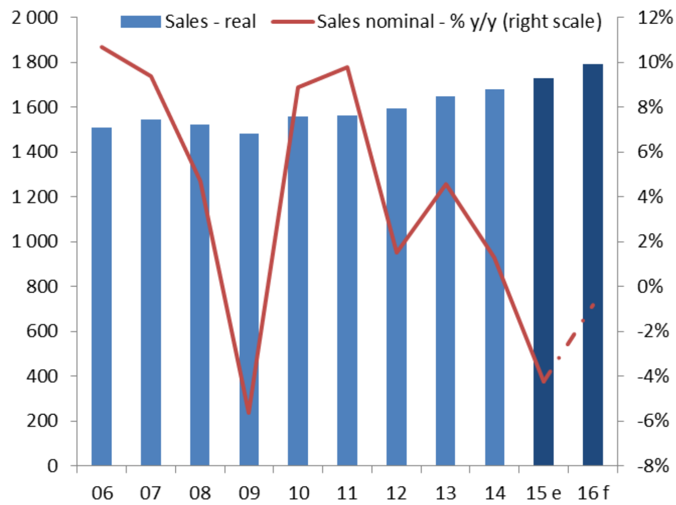
Outlook undermined by turmoil in emerging markets

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 agrain 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)



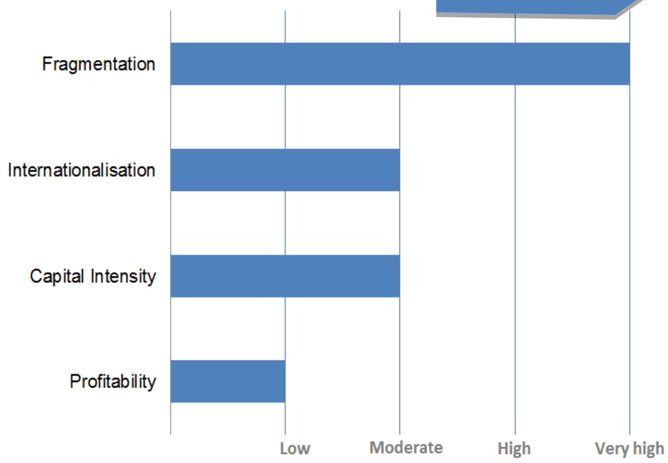
Sources: Oxford Economics, Euler Hermes

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

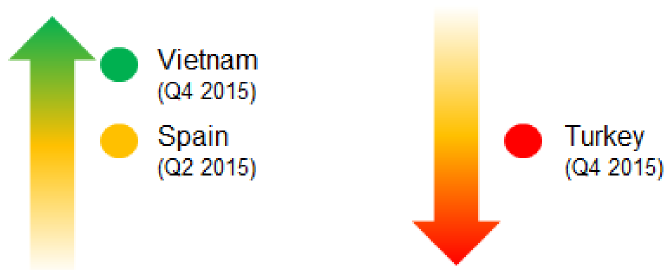
- Profitability undermined by volatile raw material prices and rising wages
- Fierce competition weighing on margins and further stressed by e-commerce activities
- Changing consumer behavior (e.g. fast fashion) forcing T&C to become more flexible

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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