

Euler Hermes: Online trade and fast fashion are the biggest risks for Germany's textile industry

HAMBURG – 6 JANUARY 2015 – Euler Hermes, the worldwide leader in trade credit insurance, finds both positives and negatives aspects in its latest study on Germany's textile industry. There are wide variations in risk, financing options and prospects in the textile retail trade and textile production segments.

For instance, in addition to being highly weather-dependent, the textile retail trade has struggled for years with very low profit margins and increasingly fierce competition from online trade. There are also two different sides to textile production. While many manufacturers have successfully changed their business model and now specialize in niche markets, others are still facing strong Asian competition and the resulting price wars. At the same time they are being forced to market up to 12 collections per year to keep up with fast-moving consumer trends.

The challenge for high-street trade: online trade expected to increase by around 50% by 2017

"Online trade is booming and we expect a 50% increase by 2017," said Ludovic Subran, chief economist at Euler Hermes. "This will present big challenges for high-street stores in particular - they will have to improve the customer shopping experience and their advisory services, or adjust their business models and expand into different sales channels. But these strategies are costly and incur substantial risk, while margins will continue to be limited. Another problem is that the sector is highly weather-dependent. The relatively mild start to this winter is putting pressure on retailers' sales and profits."

Although online trade currently accounts for only about 9% of Germany's total retail trade, growth in this segment is extremely rapid. Between 2008 and 2012, retail trade revenues increased around 26%, while growth in online trade during the same period was 55%. And this upward trend is continuing. Unlike high-street trade, the outlook for this segment is therefore relatively optimistic.

German manufacturers are export champions in "technical textiles"

Some manufacturers successfully changed their business model and now specialize in technical textiles, used in protective clothing, tents and automotive production. German textile manufacturers are innovation leaders and export world champions in this segment. Between 2009 and 2013, exports in this segment tripled and the outlook remains positive. Euler Hermes economists predict that exports will be worth EUR 7.1 billion in 2015.

While technical textile manufacturers have already reacted structurally to increasing competition from Asia, manufacturers of other textiles and clothing are struggling to compete with low-wage countries. Production in this segment declined rapidly in Germany over the last decade, while imports, especially from China, have boomed. Textile and clothing imports from China more than doubled between 2005 and 2011. Only manufacturers positioned in a high-quality segment have a chance. Price wars aside, fast-moving consumer trends is the greatest challenge facing manufacturers.

Fast fashion: 30 kg of clothing purchased per year on average, 30% of it never worn

"According to sector statistics, women buy an average of 30 kilos of clothes per year and just under one-third of them are never worn," said Thomas Krings, chief risk officer at Euler Hermes Germany. "Retailers therefore have to work even harder to adjust to the fast fashion phenomenon and offer exciting new trends more regularly. Otherwise their revenues will be hit very quickly. The pressure is equally strong on clothes manufacturers to shorten the lead time between design and sale and to market no longer just two, but six to twelve collections a year. That is four to six times the number of collections a few years ago and entails significant costs as well as complex supply chain management, which have to pay off financially."

The full study (German) is available in the appendix and at:

<http://www.eulerhermes.de/economic-research/veroeffentlichungen/Pages/branchen-report.aspx>



Media contacts:

Euler Hermes Deutschland AG, (Hamburg)

Antje Stephan - +49 (0)40 8834-1033

antje.stephan@eulerhermes.com

Euler Hermes Group Media Relations

Remi Calvet – +33(0)1 84 11 61 41

remi.calvet@eulerhermes.com

Publicis Consultants

Romain Sulpice +33 (0)1 44 82 46 21

romain.sulpice@mslfrance.com

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 6,000+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong. The company posted a consolidated turnover of €2.5 billion in 2013 and insured global business transactions for €789 billion in exposure at the end of 2013. Further information: www.eulerhermes.com, [LinkedIn](#) or Twitter [@eulerhermes](#).

The 1,500 employees of Euler Hermes Germany are based at its headquarters in Hamburg and in other offices. More information: www.eulerhermes.de

Cautionary note regarding forward-looking statements: The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Euler Hermes Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, liquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) persistency levels, (v) the extent of credit defaults, (vi) interest rate levels, (vii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (viii) changing levels of competition, (ix) changes in laws and regulations, including monetary convergence and the European Monetary Union, (x) changes in the policies of central banks and/or foreign governments, (xi) the impact of acquisitions, including related integration issues, (xii) reorganization measures, and (xiii) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The company assumes no obligation to update any forward-looking statement.