THE FIBER YEAR CONSULTING

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Current Development of Fiber Markets and Outlook

It is in the nature of projections that they are full of imponderables, in particular at this unprecedented time. In a nutshell, Covid-19 will not trigger de-globalization but leads to lower demand levels for a couple of years.

Slowing fiber production and deceleration along the entire textile chain was already visible before Covid-19 outbreak, when world economic growth recorded its slowest pace in a decade following intensifying trade uncertainties and barriers, slowdown in major economies and geopolitical tensions that weighed on business sentiment and resulted in machinery investments and household consumption to decelerate. Average annual growth of fiber supply accounted for 3.8% in the century, virtually doubling world market size, thanks to strong gains of manmade fibers, primarily polyester and viscose fibers.

The World Health Organization declared coronavirus disease a pandemic on March 11, with more than 30 million reported cases by mid-September. Precautions around the globe to avoid undamped spreading caused global social and economic disruption. Asian operations that relied on Chinese fiber or fabric inputs for processing were most exposed to initial supply chain disruptions. Lockdown measures have led to the closing of many stores and shutdown of non-essential manufacturing. Hundreds of millions of jobs were lost globally and an uncertain recovery leaves the question unanswered when people will earn a living again.

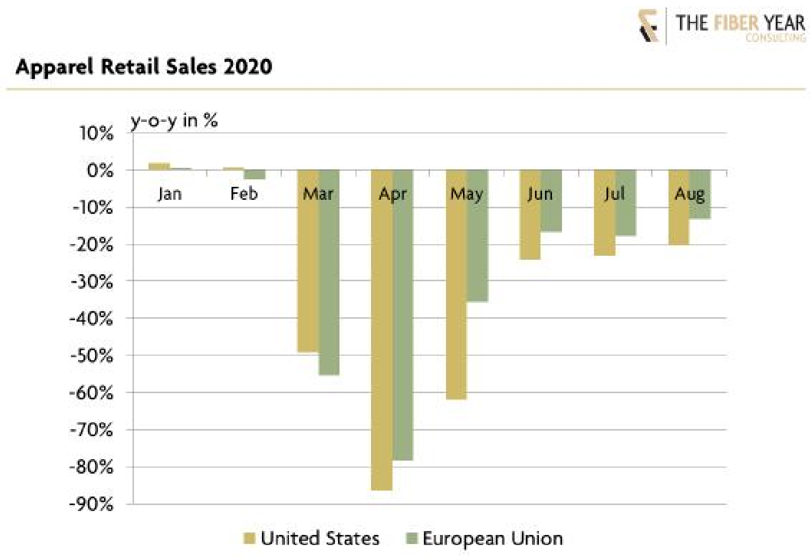

Figure 1 (updated: October 5)

Retail sales plummeted with apparel worst hit (Figure 1). U.S. sales at clothing and clothing accessory stores dropped 86% in April and 62% in May, for January to August down 33%, equal to a shortfall of $58 billion. In 27-nation European Union, that became the new epicenter of coronavirus infections in March, retail sales contracted 55% in March and 79% in April.

Consumers in industrialized nations attached greater importance to savings. In the first quarter of 2020 the euro area, for instance, reached an all-time high in the household saving rate. Growing concerns for job security and future income as well as an unpleasant feeling with face mask and social distancing regulations when shopping made essentials the focal point of interest. Consumers rather cleaned out their wardrobe during Stay-at-Home Order, which left a rich choice of clothes anyhow.

All major textile and clothing exporting industries suffered from steep double-digit contractions with the joint shortfall for the listed economies accounting for around $37 billion (Figure 2).

Figure 2

Chinese data include clothing exports only as an obvious re-classification of face masks conveniently puts the textile category into positive growth despite heavy losses in exports of textile raw materials, yarns and fabrics. Apparel shipments with above-average contraction of knitwear exports fell by about $15 billion to $51 billion in the first half 2020.

Bangladesh and Vietnam suffered from a fierce 29% contraction of textile and clothing exports. This slump poses a severe challenge to the economy in Bangladesh as the textile chain is of paramount importance to generate foreign exchange with its share in national exports being one of the highest in the world at nearly 90%. In contrast, Vietnamese export structure is more diversified with textile and apparel accounting for about 15%.

Turkey benefited from strong gains in the first two months after coronavirus outbreak in Asia as European apparel orders moved to Turkey with essentially woven garment exports soaring 9%. Total shipments fell between 23% and 61% each on monthly basis from March to May after Europe became the new epicenter of coronavirus infections. Performance in the first six months was 20% lower at $11 billion, which corresponds with a share in national exports, similar to Vietnam, of 15%.

The simultaneous crisis of supply and demand poses a life-threatening burden for the entire world and economic activity is not expected to normalize on short notice despite policy support. The further surge of daily new coronavirus cases to top levels and an increasing number of countries facing a second wave may lead to another economic growth rate adjustment, already downwardly revised by International Monetary Fund in June to -4.9% for 2020, following reimposing of lockdown measures or extension of restrictions. In addition, consumer sentiment may even further worsen when the regular flu season meets coronavirus.

The precise impact on 2020 world fiber supply, given the uncertain course of the pandemic until effective vaccine and therapy options will be globally available, is difficult to predict but it seems that global market size may contract by around 10%. This would be equal to a volume of 105 million tonnes at best on world stage. It becomes apparent that reduced output volumes will essentially be at the expense of manmade fibers, as operating rates fell with the distinct drop in demand, notably all types of filament yarns and acrylic staple fibers. Latest projections of cotton production suggest modest growth in 2019/20 season before declining about 5% in the subsequent season. However, stock levels coming close to annual demand may trigger trouble in price terms.

The fiber volume entering processing chain, key figure newly introduced in the current report “The Fiber Year 2020”, for knitted and woven fabrics, nonwovens and unspun end-uses is estimated to contract about 14% to roughly 97 million tonnes, which is equal to a six-year low. Hence, inventory accumulation is gaining weight with cotton stocks anticipated to increase by 18% and manmade fibers estimated to expand by 4 million tonnes.

What to expect after coronavirus in terms of supply and demand? No matter whether it will be late 2021 or in 2022, the world will not return to what life was like before January but rather adjust to a „new normal”, which will be on a lower level we all got used to before.

The impact on globalization remains to be seen as countries realized the importance of being able to supply themselves. Will it lead to a revival of local manufacturing? It may affect future sourcing for essentials of life like pharmaceuticals from the world's largest exporters in China and India. Apparel is neither strategic nor essential but just a fashionable item with ongoing pressure on prices. Relocation of processing chains from low-cost countries seems implausible and to safeguard against future supply-chain shocks is not a strong argument to re-shore garment capacity to higher-cost domestic markets in the age of shareholder value and quarterly earnings reporting. Large manufacturers and retailers may rather push regional diversification in Asian low-cost area, also to be inured to upcoming trade issues. It may well be that the sudden installations of several meltblown lines in Europe and U.S. to offer urgently-needed personal protective articles will later seek for alternative end-uses and regional interests make sure sufficient utilization rates to be better prepared for a next state of emergency.

Demand will remain depressed, in particular, in the apparel business that consumes more than 55% of world fibers. It has been extremely hard hit with several retailers already filing for insolvency. The general trend to boost digital presence will gradually lead to the closure of an increasing number of stores. Companies have invested in remote work tools and without having workplaces or recreational spots to go why should people buy new outfits? Wearing a white shirt during a Zoom conference and afterwards going back into the closet until the next virtual meeting will not prompt consumers to refresh their wardrobe from season to season.

The segment of carpets and home textiles has experienced positive signs as mass work-from-home policies have inspired people to refurbish their home. However, growing private residential expenditures for a certain period cannot compensate for missing nonresidential investments. Ongoing store closures in favor of online sales and continuous working from home with more office space remaining vacant will not only significantly change townscape but also result in a possible housing crisis. Less business traveling may also contribute to reduced demand from hotels and restaurants.

Technical textiles have been struggling already before Covid-19 outbreak as global vehicle production began to decline in 2018 and international travel restrictions caused aircraft deliveries to plummet in the January to August period by 43% at Airbus and 68% at Boeing. The car industry firstly needs to overcome a structural crisis that got worse this year with Covid-related falling disposable incomes and consumers' increasing wait-and-see attitude on emissions-free mobility. Continental, a major German automotive supplier, recently expanded its restructuring program as the company's expectation is that vehicle production will not return to the pre-crisis levels of 2017 before 2025.