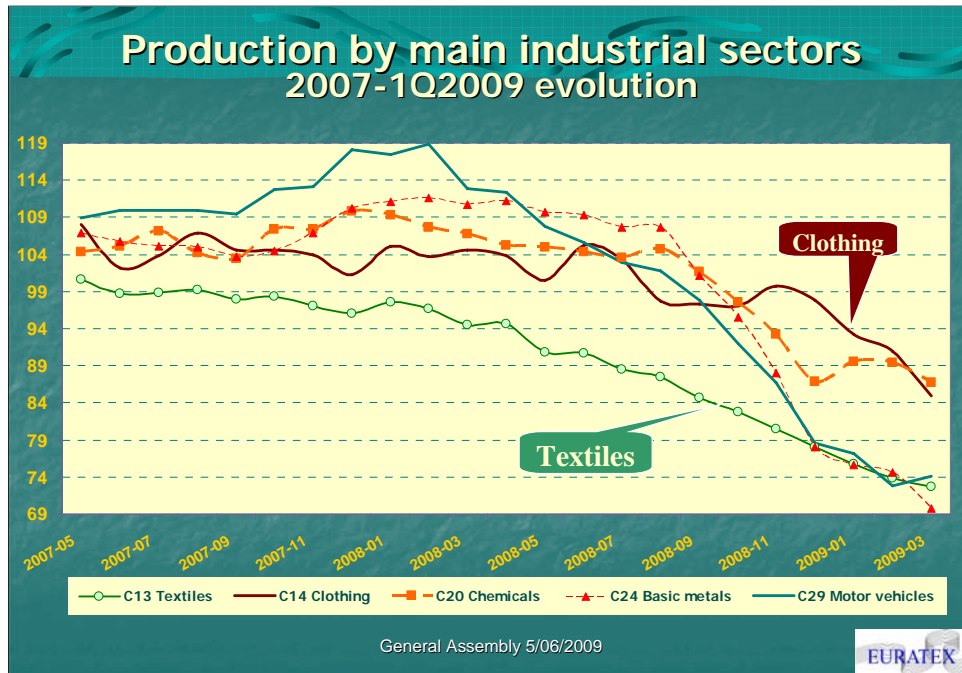


The EU-27 Textile & Clothing Industry in the year 2008

Roberta Adinolfi
General Assembly 5th June 2009





After encouraging performances through the year 2007, the analysis of economic trends of the T&C industry in 2008 shows a **notorious setback** which deepened since the autumn following the financial and economic crises.

Globally, the textile sector was more affected by the decline in the domestic & external demand. The sluggish World demand, the difficulties faced by some “textile end-users” sectors (i.e. construction, automotive, housing) in combination with the increasing production costs was detrimental to the textile industry. The performances of the clothing sector seem to be less disastrous which proves the greater flexibility of this industry.

Eurostat figures for the **1st Q2009** indicates that **production** dropped by -23% in the textile industry and by -14% in the clothing sector, as compared with the same period of the previous year.

However, these evolutions are similar to the ones registered in other sectors such as the manufacturing of wood, machinery, chemicals, rubber and plastics,... While, other sectors recorded even deeper slump such as the manufacture of basic metals (-34%) or the manufacture of motor vehicles (who registered a drop of -36% during the first quarter of the year.)

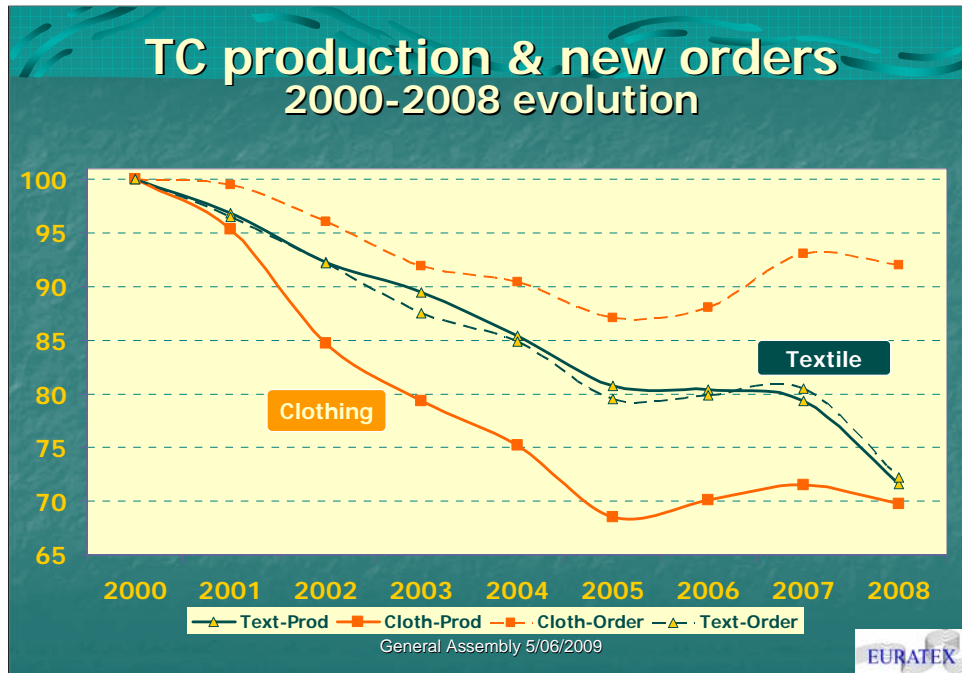


The global household consumption slowed down or even reduced in 2008 as a response to the lower consumer confidence. Indeed, the final consumption is estimated having decreased by -1% in the clothing sector, despite a reduction in consumer prices. Consumption of household textiles remained stable while it slowed down for carpets following an increase in consumer prices.

As a consequence, Retail sales in the Textile and clothing industry deteriorated for the first time since the nineties (in annual terms). Indeed, the EU27 retail turnover slightly decreased both in value and volume (-0.4% and -0.1%)

The first indications for **2009** show that, despite a recovery in January, retail sales' evolution turned negative again with a -2.6% drop in February (and -0.7% in volume) as compared to the same month of the previous year.

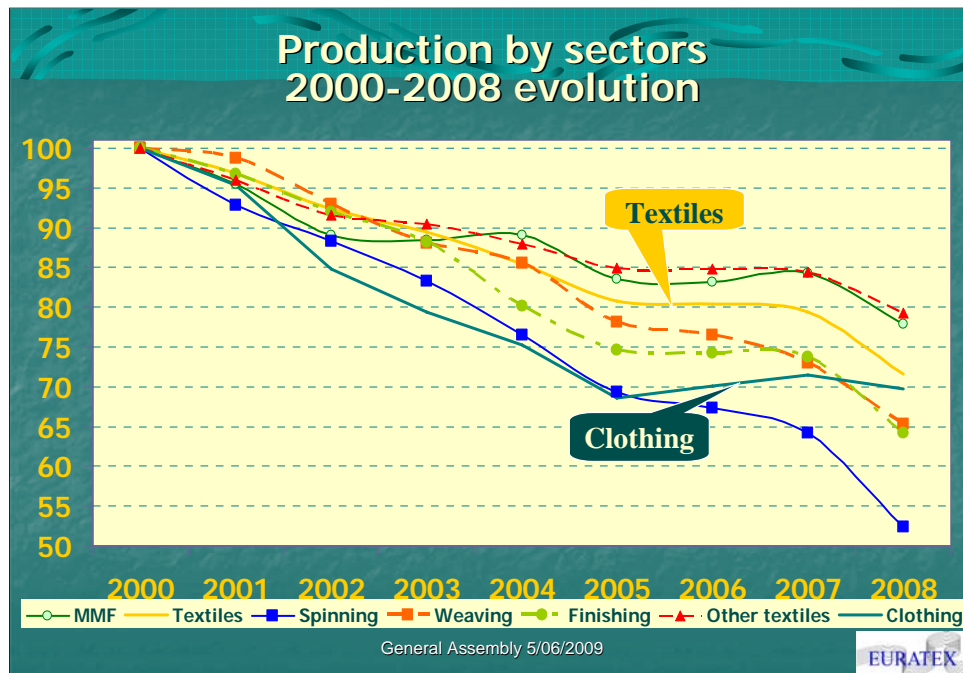
Globally, the **new Member States** are the ones which recorded the strongest evolutions while in the "old" **EU-15 Member States**, only Belgium, Finland, France and Germany performed positively with growth rates between 0.4% and 4%.



Similarly, the evolution of new **orders** turned negative both for TC products. Indeed, last year the industry had to face a relatively strong contraction of incoming orders in the **textile sector (-10.6%)** and a moderate reduction of total new orders in the **clothing sector (-1.6%)** during **2008**.

As a consequence, the TC **production** recorded a significant setback in 2008. With no surprise, the second semester registered the most dramatic drop following break-down in demand. This trend resulted in a sharp decrease for the **textile industry (-9.5%**, as compared with 2007) and in a gradual deterioration for the **clothing sector (-2.8%)**.

The constant “**de-coupling**” between production and orders in the clothing industry proves once more the ongoing delocalisation process of this industry, while – on the textile side- the slight de-coupling noticed 2 years ago become less obvious in 2008.

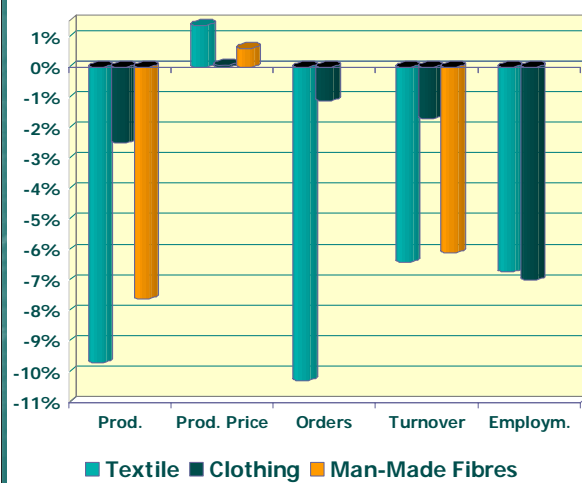


Production:

Among the **textile sub-sectors**, the spinning market registered the worst performances, with a production drop of -18% over 2007. The weaving and finishing sectors as well as the manufacture of knitted and crocheted fabrics were also greatly affected during 2008. The situation looks somewhat better in the other textile markets such as the manufacture of made-up articles, technical and industrial textiles (-6% on average).

On the **clothing** side, the underwear industry faced serious difficulties during the period under review (-11%). However, the relatively good performances registered in the manufacture of knitted and crocheted apparel and wearing accessories allowed to limit the contraction of production in the clothing industry.

EU-27 Yearly evolution 2008 Textile & Clothing Industry



General Assembly 5/06/2009

EURATEX

EU-27 Yearly evolution 2008

Production prices

The **textile** sector faced a growth in production prices (+1.3%) reflecting the increase of energy cost and raw material products. As far as **clothing** products are concerned, industrial prices increased at a slower pace in 2008 (+0.9%) as they continued to be subject to constant pressure due to strong competition increasing as a result of the fall in demand and to the expanding influence of the distribution sector.

Turnover

After 2 years of positive growth rates, turnover went down significantly in particular in the textile industry. Indeed, textiles are in a more difficult position than clothing, reflecting a stronger drop in **production** and new **orders** as well as more burdensome **pricing** conditions.

Employment

Consequently, the decline of the EU textile and clothing employment has again markedly amplified with a further drop of the workforce in 2008. This represented a setback in employment of nearly 171 thousand jobs, out of which 59% of the losses were recorded in the clothing industry. The worst performances were once more achieved by the new Member States which are pursuing their restructuring efforts.

First months of 2009 & prospects

- ✘ **Losses intensified during the first months of 2009**
- ✘ **New sharp decreases in activity and employment will accelerate the strategic change process developed by companies;**
- ✘ **Companies will focus on less sensitive market niches and on intangible assets;**
- ✘ **The introduction of the various national plans developed end of 2008 should gradually improve the economic climate and bring positive changes by end of the year**

General Assembly 5/06/2009



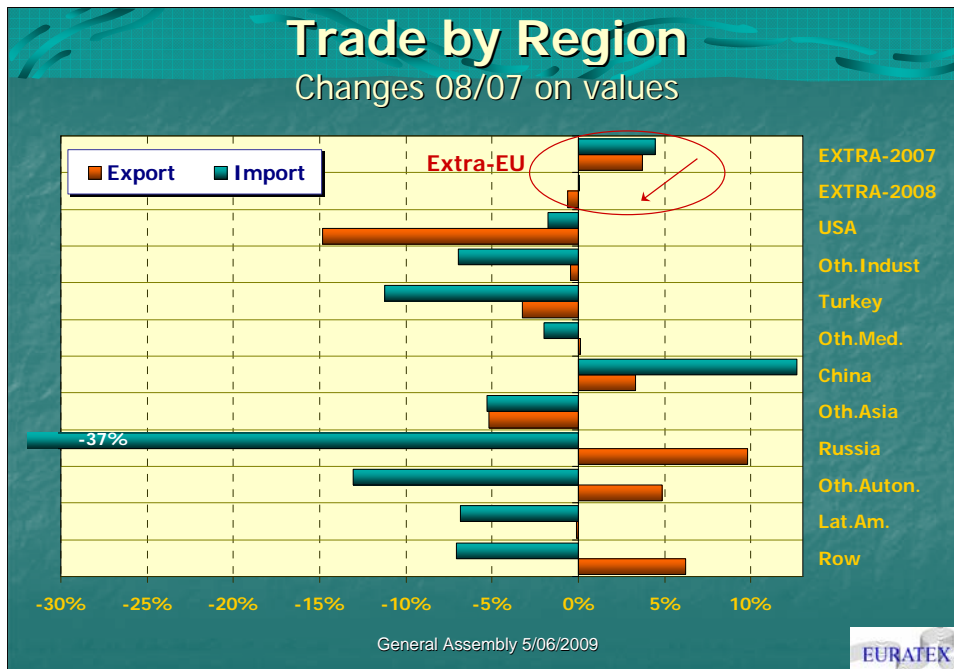
First months of 2009 and Prospects

Beginning of 2009 T&C companies had to face even lower **orders**. **Exports, turnover as well as production** registered a further decline which even intensified as compared to the already bad results of the last quarter of 2008.

This overall panorama could imply new severe decreases in **activity and employment** in the sector, which will accelerate the strategic change process being developed by companies.

Companies focusing on less sensitive market niches ("new applications" textile products, high quality garments) and on intangible assets (service, flexibility, fast deliveries) will have better preconditions to manage the hard situation in 2009.

Furthermore, the introduction of the various national plans developed end of 2008 should gradually improve the economic climate and bring positive changes at least for part of the textile sector by end of the year.



Trade by region

The sluggish world demand, the limitation of credit for trade, as well as the very strong Euro/US\$ resulted in a **stagnation** of the T&C EU trade in value and a **decline of trade flows** in volume terms.

Indeed, trade in 2008 was less dynamic than in 2007 with **imports** registering a -3% slump in volumes, and a stagnation in value terms... China continued to register the highest growth both in volume (+9%) and in value (+13%) terms once more at the expenses of nearly all EU suppliers in particular the Latin American, the Mediterranean, the Autonomous countries, and the rest of Asia, with the exception of Bangladesh and Sri Lanka.

The performances on the **export** side were not dynamic either, with a decrease both in value (-0.6%) and in volume (-2.5%). This evolution was mainly due to a significant drop of EU exports to 3 of its main customers, the USA, Turkey and Hong Kong.

Globally, the Asian and industrialised markets recorded the worse performances for our exports while the autonomous countries registered the highest growth thanks to Russia that confirmed its position as the most attractive market for EU exports. As a result, Russia became our first customer despite the various difficulties for EU exporters to enter that market.

EXTRA-EU 27 Trade Balance (Bill. €)



TRADE BALANCE

As a consequence of these evolutions, the **EU trade deficit** slightly increased exceeding now

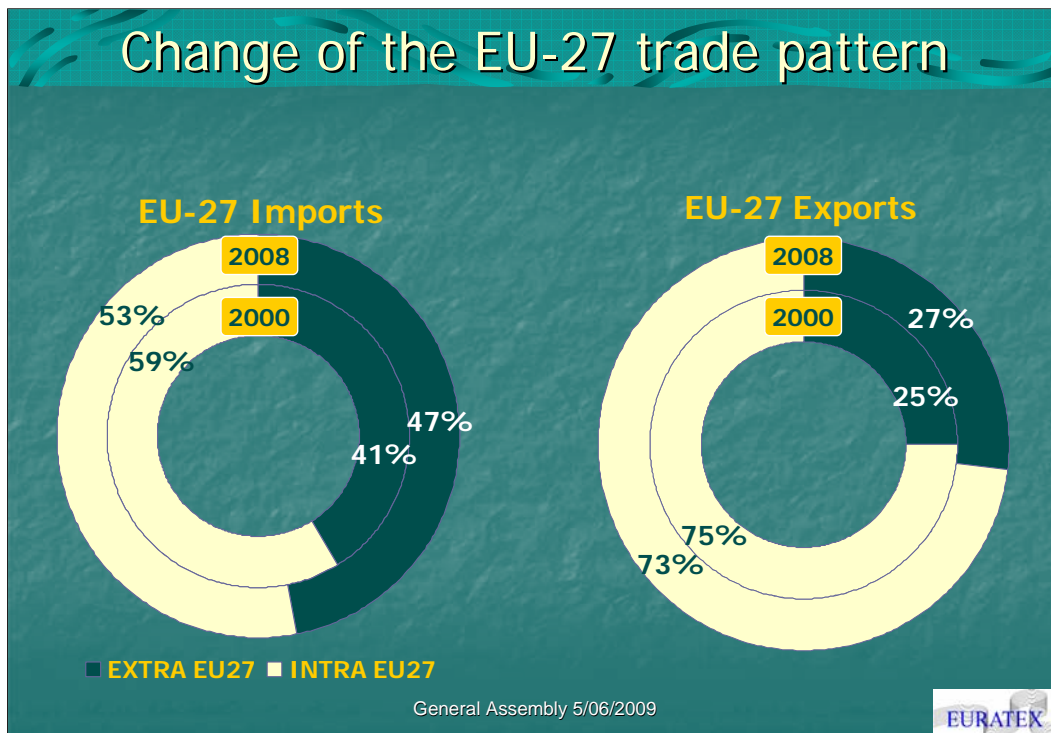
-44 bn Euro.

This massive deficit is mostly due to the performance of **China** with whom the EU-27 has a deficit of almost -30 billion € (which represent 68% of the total). Indeed, this negative trade balance further increased by +13% in 2008, contrary to the EU world T&C trade balance that remained almost stable.

When we look to **T&C** separately, the evolution of the EU trade balance is somewhat different. As far as textiles are concerned, the EU trade deficit registered a contraction (-13% as compared with 2007). On the contrary, the clothing deep deficit deteriorated further (+1.3%), despite the fact that the EU registered a much stronger performance in clothing exports (+4.5%), compared to imports (+2.2%).

Contrary to 2007, the average **export prices** in euro experienced a negative trend with a moderate decline both in textiles (-1.7%) and clothing (-1%). As regarding the **import prices**, they went up by +1% in textiles but slightly decreased for clothing products (-0.3%).

Change of the EU-27 trade pattern



Evolution of the EU trade patterns (INTRA/EXTRA)

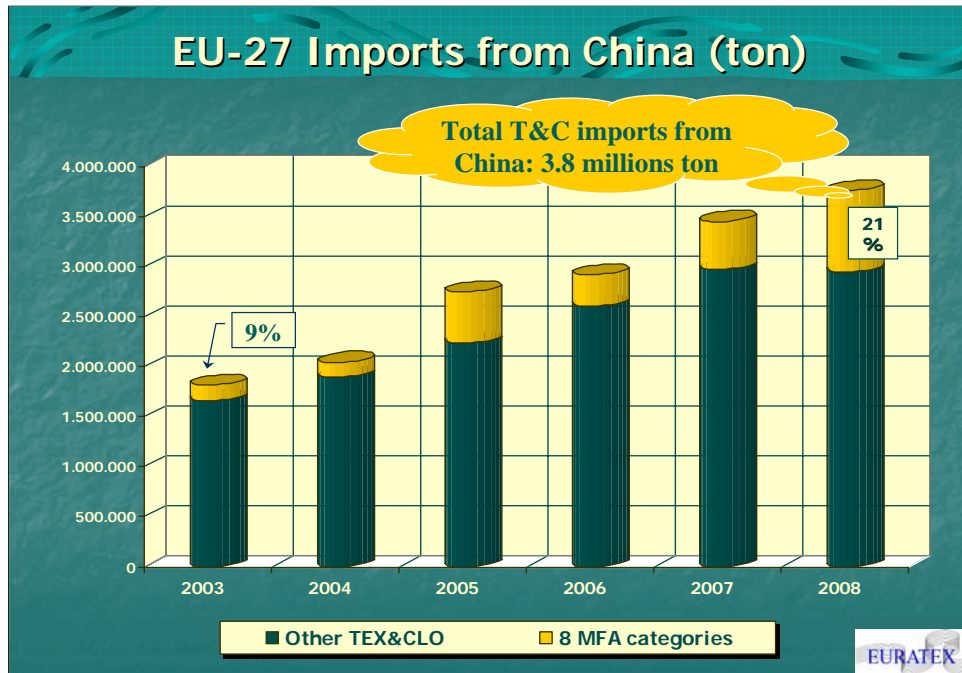
Since the last few years, we can notice a change in the EU trade patterns as regarding the **distribution between the Intra and extra-EU trade**.

Indeed, the EU Member States are more and more looking for partners outside the EU (and even outside the Euromed area) and, in particular in the cheap Asian countries. This reflects the globalisation of the economy and the **delocalisation process** outside Europe.

However, the effects of the current **crisis** could slow-down the relocation process outside the EU (due to the lack of capitals) and foster a redirection of trade to nearby countries to take profit from different assets such as service, flexibility and fast deliveries.

As of today, extra-EU imports of T&C represent already **47% of the total EU imports** in value. More than half of the imported garments came from non EU countries (54%), while more than 1/3 of textile products are imported from outside the EU-27 (35%).

Similarly, the share of Extra-EU exports increased since 2000 and accounted for 27% of TC EU exports to the World.



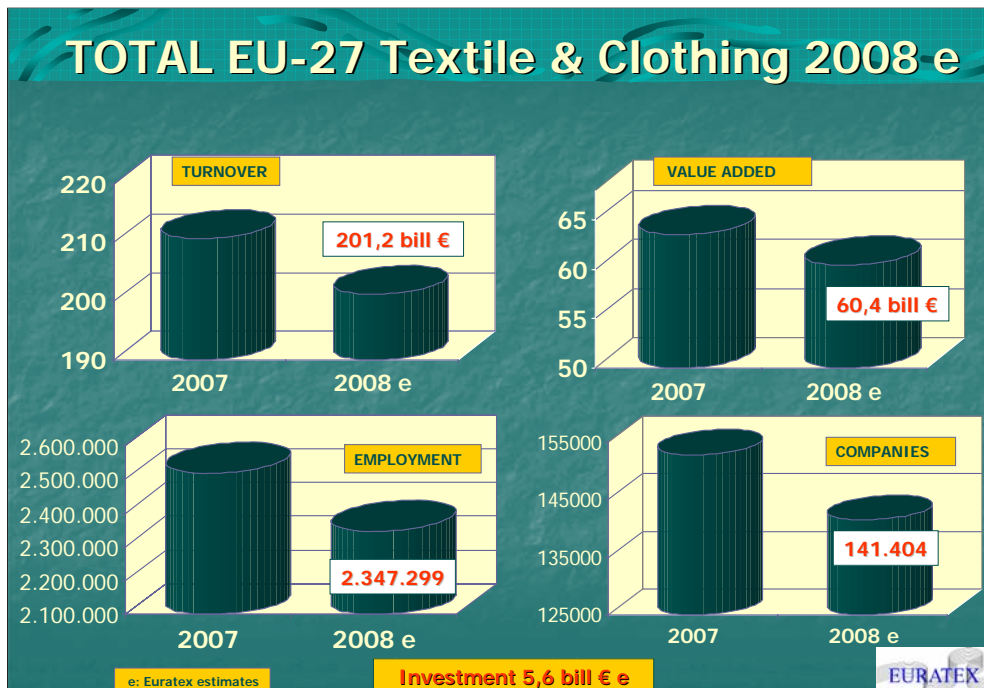
EU imports from China (volumes)

China continues to be the main supplier of T&C products to the EU (i.e. more than 1/3 of T&C products are imported from China and almost half of apparel products are imported from this country), with growth particularly focused on products deregulated in 2008.

Indeed, imports of the **8 products** formally under the double checking system picked up by +68% while imports regarding the remaining T&C products went down by -1%. Consequently, the 8 products covered 21% of the volumes imported last year from China against only 9% in 2003.

The preliminary data for the first **2 months of 2009** indicate that the EU imports in these 8 categories further increased (+64%), which translated into a higher share of China in those categories. By end of February, China controls in those 8 product categories more than 1/3rd of the volumes imported.

Finally, Chinese exporters switched to higher Value Added products with higher **prices** in Euros compared to the previous year (+3% in € or +10% in USD) ...and the 2009 figures are showing a new increase in prices.



EU-27 T&C - Key Figures (2008)

To sum up and based on Euratex members data and estimates, Euratex considers that at the end of 2008 the overall size of the TC industry in the EU-27 represents :

A **turnover** of nearly 201 billion € and investments of more than 5.6 billion €. As well the external, as the internal deliveries were responsible for this decline in turnover. The investments went down by -14% due to the fall in business expectations and also problems in accessing credit.

Exports by EU companies outside the EU were less dynamic than the previous year and are estimated to represent 18% of the turnover of Euratex members.

Estimates of the **added value** indicate that the industry reached 60 billion € (-5%)

The sector lost more than 11.000 **companies** which represent a decrease of -7.4% as compared with the previous year.

The industry still **employs** more than 2.3 million employees despite the fact that the industry was obliged to lay-off 7% of its 2007 workforce, one of the highest losses since the beginning of the century.

Thank you



General Assembly 5/06/2009

