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Let's go sporty

Sport has become one of the most popular leisure activities in the world. This includes people actively engaging in all kinds of sports, whether it be of competitive or recreational nature, and those who prefer to take a passive role and rather watch sport live or on television. One indicator that sport is becoming more popular, is the rising number of people running. In the USA, according to estimates from Running USA, an online directory of races, there was an all-time high of 541,000 marathon finishers in 2013 of which 43% were women and 47% were 40 years of age and older.

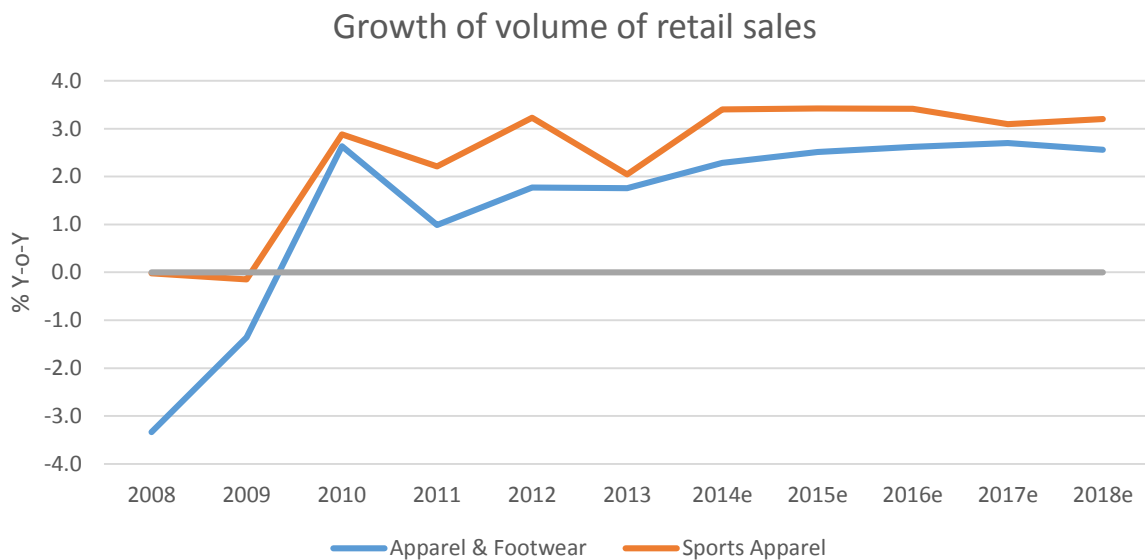
People buy sports clothing in order to help them improve their performance by taking advantage of technical innovations. Additionally, sports apparel is tailored to the specific needs of different kinds of sports. On the other hand, sports apparel is worn to represent a favourite team and players. Moreover, it has also become popular for everyday usage. Function-orientated consumers use sports-inspired clothing due to special features such as

innovative technologies and comfort. Naturally, there are also customers who wear sports-inspired clothing because it is trendy and fashionable.

Based on Euromonitor’s estimates the global volume of retail sales of sports apparel increased by 1.9% annually on average from 2008 to 2014 stronger than the same period the total volume of retail sales of apparel and footwear which rose on average by 0.7%. Thereby, sports apparel sales benefited from the pursuit of healthy lifestyles and the desire for leisure.

The outlook for retail sales of sports apparel is positive. Euromonitor forecasts that from 2015 to 2018 the annual average growth rate of the worldwide volume of retail sales of sports apparel will be around 3¼% - a faster pace than the expected average growth rate of around 2½% for total sales of apparel and footwear.

Chart 1: Strong sports sales ahead



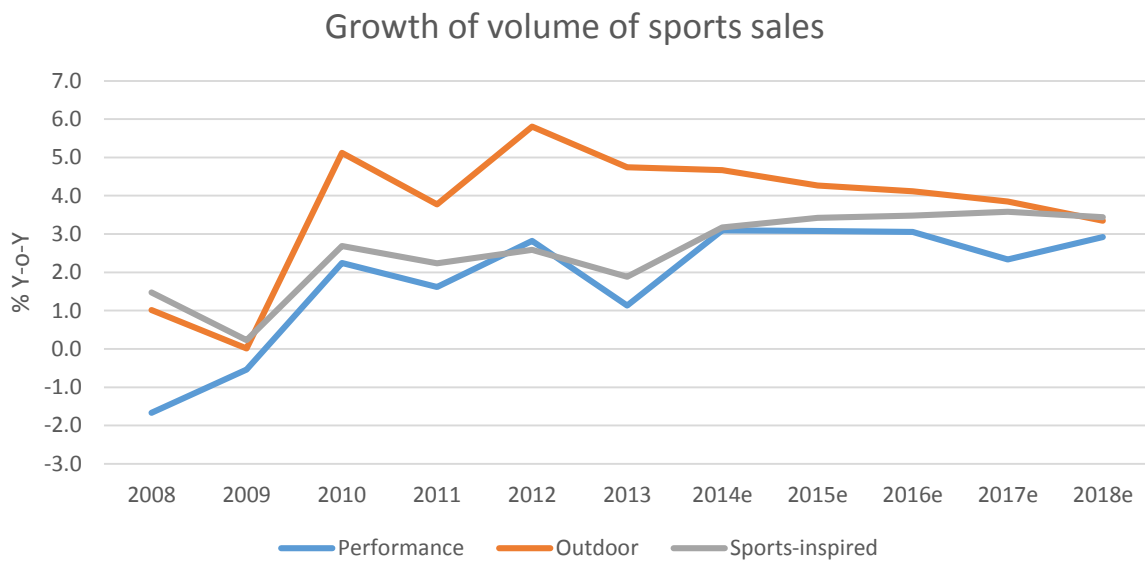
Source: Euromonitor, own calculations

A closer look at the sports apparel sector, however, reveals different growth patterns. The sector consists of performance-, outdoor- and sports-inspired apparel. Thereby, performance clothing includes all items specifically designed to facilitate practising different types of sporting activities. Moreover, it is characterised by the use of new fibres and fabrics as well as innovative process technologies. Outdoor apparel includes all items specifically designed to facilitate practising of outdoor sports such as hiking, climbing, and mountaineering as well as snow and water sports. Sports-inspired products, in contrast to performance clothing, are not designed to enhance performance while practising specific sport disciplines. Instead they are more geared towards latest fashion trends.

Of the three categories, the volume of sales of outdoor clothing grew strongest in the last couple of years. Its average annual growth rate between 2010 and 2014 was 4.8%. For performance and sports-inspired clothing growth rates on average were 2.2% and 2.5% respectively. However, the strong growth of outdoor apparel should moderate somewhat in the next few years. For the period 2015 to 2018 Euromonitor expects an average annual

growth rate of 3.9%. In contrast, growth in the sports-inspired sector is forecasted to increase to an average annual growth rate of around 3.5%. By 2018, the growth gap between sports-inspired apparel and outdoor clothing should close. The average annual growth rate for performance apparel between 2015 and 2018 should increase to close to 3%.

Chart 2: Sports-inspired clothing gains momentum



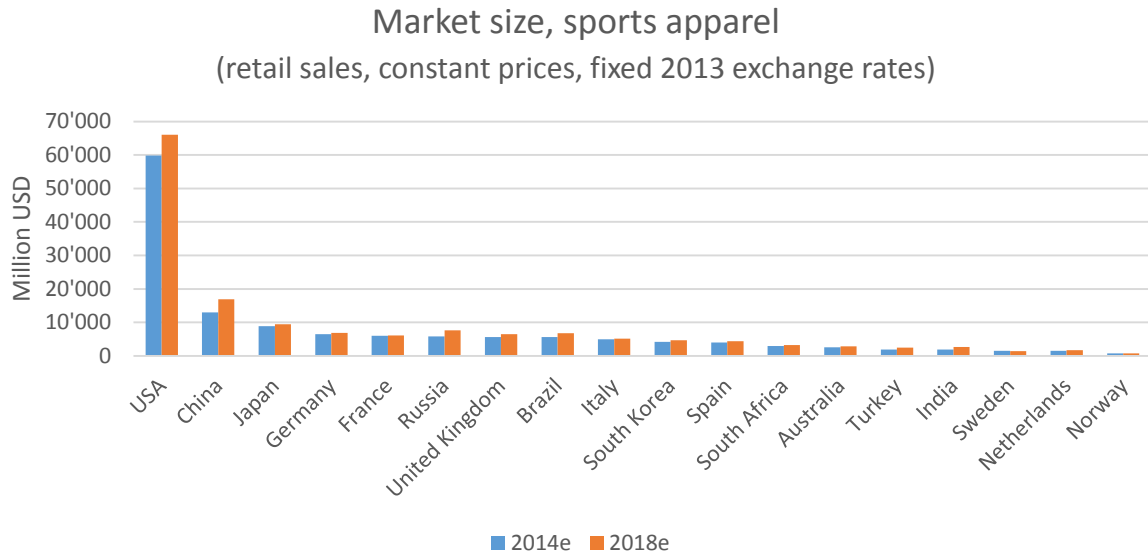
Source: Euromonitor & own calculations

Worldwide, the importance of the sports apparel sector is increasing. The share of sports apparel sales in comparison to the total volume of retail sales for apparel and footwear rose steadily in the last couple of years. From 2007 to 2014 the global volume of retail sales of sports apparel in percent of total apparel and footwear increased from 8.5% to 9.2%. This trend should continue and Euromonitor forecasts that by 2018 sports apparel sales will be 9.5% of total apparel and footwear sales.

However, the importance of sports apparel for the apparel and footwear sector varies considerably from country to country. In the USA, for instance, the share of sales of sports apparel in comparison to the total volume of retail sales of apparel and footwear rose from 13.9% in 2007 to 16.2% in 2014. For the coming years, Euromonitor’s forecasts show that this share will climb to 16.9% in 2018. In China, on the other hand, the sports apparel market in 2014 was only 4% of the total market for apparel and footwear and for the next few years it is forecasted to remain unchanged.

By far the most important market for sports clothing remains the USA. The volume of retail sales in 2014 measured an estimated USD 59,817 million. This is much higher than in any other country of the world. For instance, the equivalent figures in China and Japan, the world’s second and third largest markets for sports apparel, reached USD 12,974 million and USD 8,827 million respectively. Thereby, the exchange rates are fixed to 2013 levels.

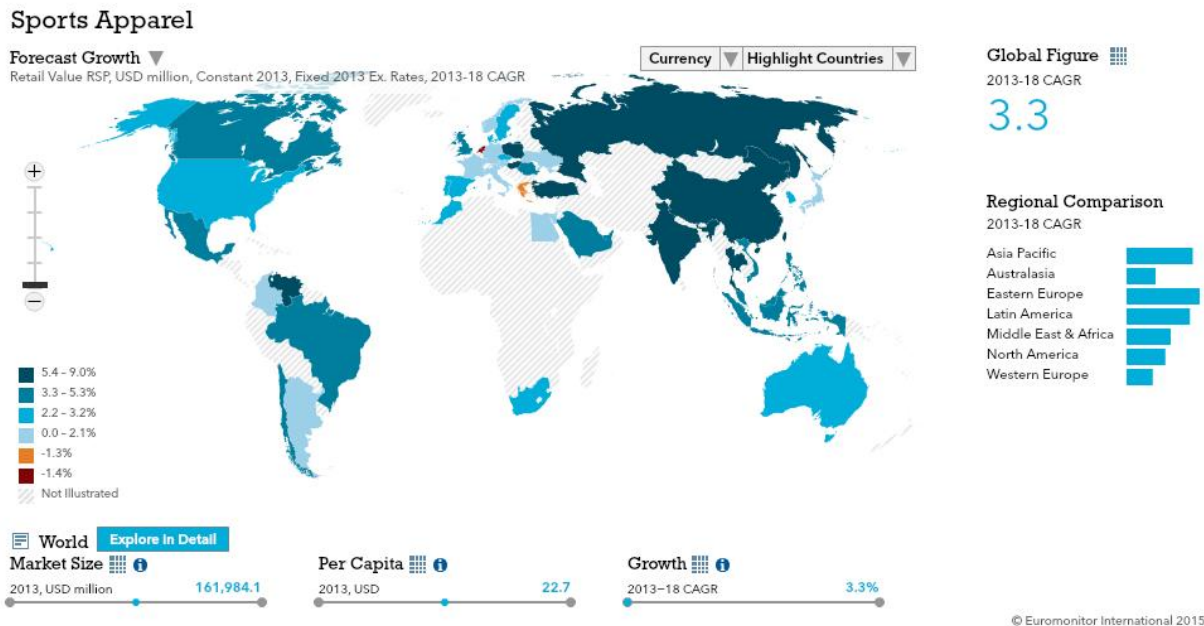
Chart 3: US is the largest market for sports apparel



Source: Euromonitor

In the coming years the USA will remain the most important market for sports apparel. Euromonitor forecasts that from 2014 to 2018 the market size will increase by around 10% to roughly USD 66 billion. China’s sports apparel market will come second with an expected USD 16.9 billion though the growth of sales will be more dynamic than in the USA. Chinese sports apparel sales are forecasted to climb by 30% from 2014 to 2018. Also, in other major emerging markets the growth of retail sales for sports clothing should be stronger than in developed economies. This can also be seen in chart 4.

Chart 4: Strongest growth in Asia



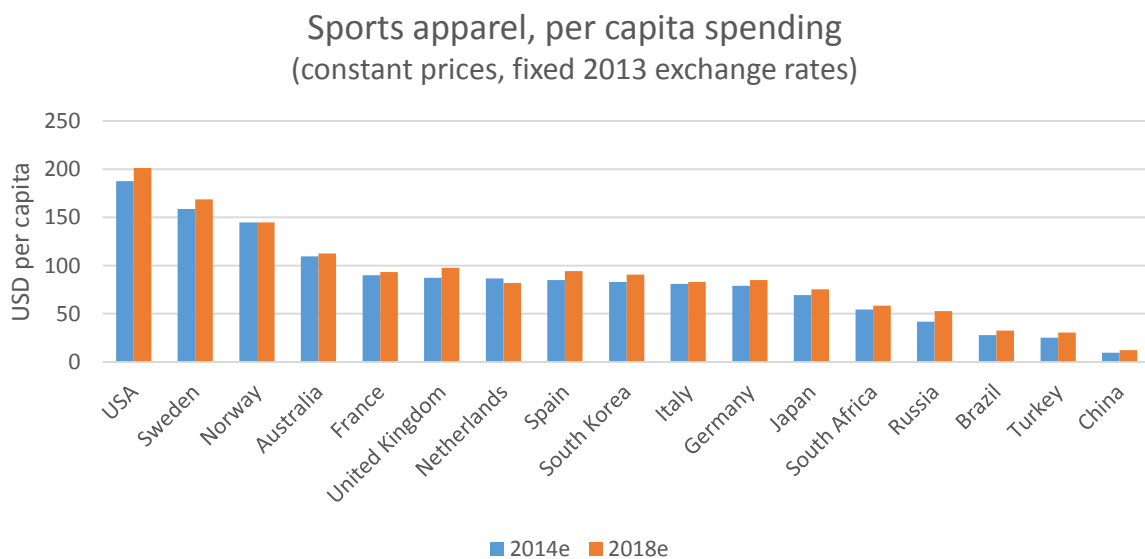
Source: Euromonitor

Chart 4 depicts the so-called compound annual growth (CAGR) for different countries. The CAGR is defined as the annual average growth, expressed in percentage terms, for a certain period – in our case it is the period 2013 to 2018. According to Euromonitor’s calculations the CAGR for the worldwide sports apparel sales will be 3.3%. Thereby, the dark coloured countries shown on the world map have strong CAGRs, while lighter colouring signals slower growth. In Western Europe, for instance, most countries are forecasted to have CAGRs for sports apparel sales in a range between 0% and 2.1%.

The US may remain the world’s largest market for sportswear. But, the strongest growth potential lies within the emerging markets especially Asia. Strong population growth, increasing disposable incomes, a heightened awareness and pursuit of healthy lifestyles make economies such as China and India attractive markets with strong growth potentials. The world map for sports apparel sales (chart 4) clearly shows that strong momentum can be expected in countries such as Russia, China and India with compound annual growth rates of 6.1%, 6.4% and 9% respectively. In Latin America CAGRs are forecasted to be a bit lower with 4% in Chile, 5.3% in Brazil and 6% in Venezuela.

Nevertheless, a different picture evolves if one analyses the per capita expenditure for sports clothing which can be seen in the following chart. Not surprisingly, with an estimated per capita spending of USD 188 customers in the USA spent most for sports apparel in 2014. However, under this measure sport enthusiasts in Sweden and Norway come second and third with per capita expenses of USD 159 and USD 145 respectively with fixed 2013 exchange rates. With USD 9.5 Chinese customers spend much less on sports clothing than customers in other countries. For the years 2015 to 2018 Euromonitor expects China’s per capita expenditure to increase by around 33%. In 2018, it should reach over USD 12. The actual value, however, will remain significantly lower than per capita spending in the USA, Sweden and Norway. Per capita spending by Americans and Swedes is forecasted to climb to USD 201 and USD 169 in 2018, while Norwegians per capita expenditure should remain unchanged at USD 145.

Chart 5: Americans, Swedes and Norwegians spend most on sports clothing



Source: Euromonitor

The distribution channels for sports apparel will change from traditional store-based to non-store retailing. In 2008, 90.3% of US-customers bought sportswear in stores and 9.7% used non-store retailing such as internet or home-shopping. Since then, the percentage of Americans using non-store forms of retailing climbed to 11.8%, while 88.2% of customers in 2013 preferred store-based shopping. The trends in other countries are similar. In China, for instance, the share of people buying sportswear via the traditional store-based retail channel dropped from 99.8% in 2008 to 89.3% in 2013. Vice versa, non-store retailing for sportswear increased from just 0.2% to 10.7%. Nevertheless, there are still some differences. In 2013, 22.8% of Americans bought sportswear in sports goods stores, while only 5.7% of Chinese customers used these stores.

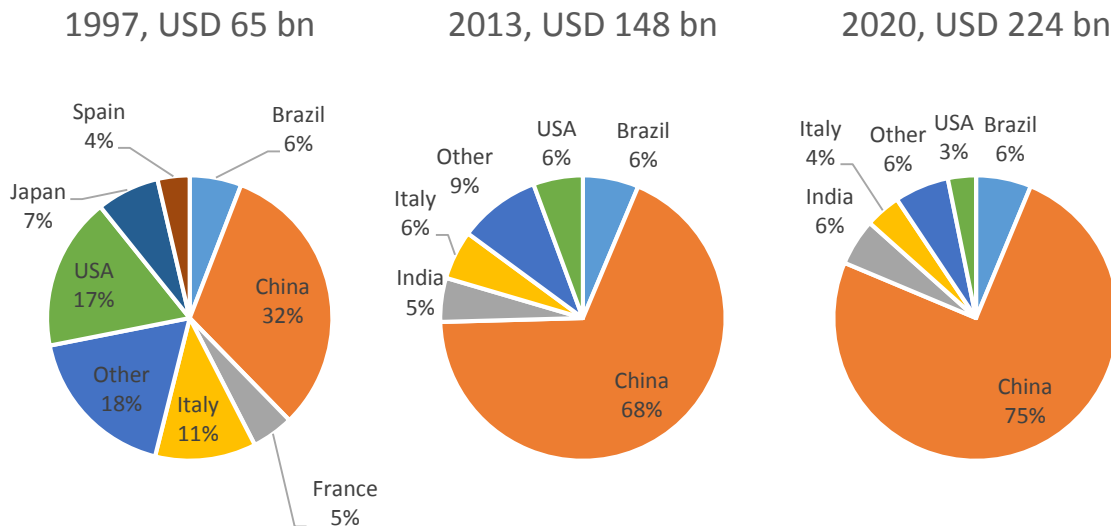
To summarise, the prospects for the sports apparel industry are seen as positive. Worldwide growth should continue to outperform that of total sales of apparel and footwear. The strongest growth potential is expected for the emerging and developing economies of Asia. Sportswear sales in this region benefit from a fast growing and young population as well as from increasing disposable incomes and a rising awareness for a healthier lifestyle. In most of the developed countries, sales of sportswear will be less dynamic than in Asia and Latin America. One of the biggest trends that will not only influence the sportswear sector in the coming years will be the demographic change. In countries such as Germany and Japan the population is shrinking and ageing. However, older people want to play an active part in society be it through volunteering, part-time jobs or sports. Under these circumstances, sportswear manufacturers have to focus more on the specific needs and requirements of an older population.

Sports clothing is mainly 'Made in China'

Euromonitor's production statistics give a rough indication about the development of global output for sports clothing over the last couple of years. The category 'other wearing apparel and accessories' includes sports apparel such as tracksuits, ski suits, swimwear, hats and caps as well as other clothing accessories like gloves, shawls and ties. Since the start of the series in 1997, the global volume of output of 'other wearing apparel and accessories' more than doubled to nearly USD 148 billion in 2013 – the most recent available data.

The world's largest manufacturer of sports apparel remains China. Euromonitor's figures show that China produced 32% of global output of sports apparel in 1997, while the second and third largest producers were the USA with 17% and Italy with 11%. Since then, the percentage of sports clothing manufactured in China has increased significantly pushing its share of global output up to 68% in 2013. Vice versa, the share of American and Italian output dropped to 6% each. Euromonitor's forecasts show that China's share of global sports clothing output will continue to increase and that by 2020 it will produce about three quarters of worldwide sports apparel.

Chart 6: Percentage of global output of ‘other wearing apparel and accessories’

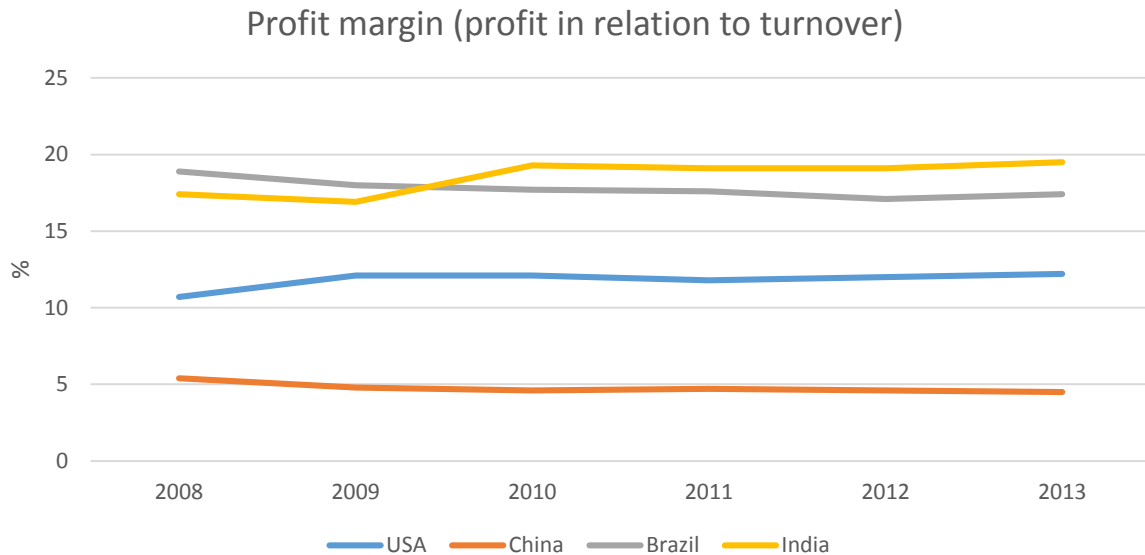


Source: Euromonitor & own calculations

Most of the sports apparel made in China are exported to the USA. The United Nations global trade statistics, UN Comtrade, show that in 2013 the share of Chinese exports of sports apparel to the USA amounted to 13% followed by 6% each to the UK and Japan. In the USA, on the other hand, 46% all imported sports clothing in 2013 were of Chinese origin equivalent to a trade value of USD 402 million. The second and third largest exporters to the USA were Indonesia with a share of 16% and Viet Nam with 12%.

Nevertheless, though China’s clothing industry is the largest in the world, according to the OECD, it is not the most profitable in the world. The chart below shows how profit margins developed in some selected countries based on Euromonitor’s calculations. The clothing industries in India and Brazil offered high profit margins in the last few years. The latest available data show that India reached a profit margin of 19.5% in 2013 and Brazil 17.4% - both well above China’s equivalent of 4.5%.

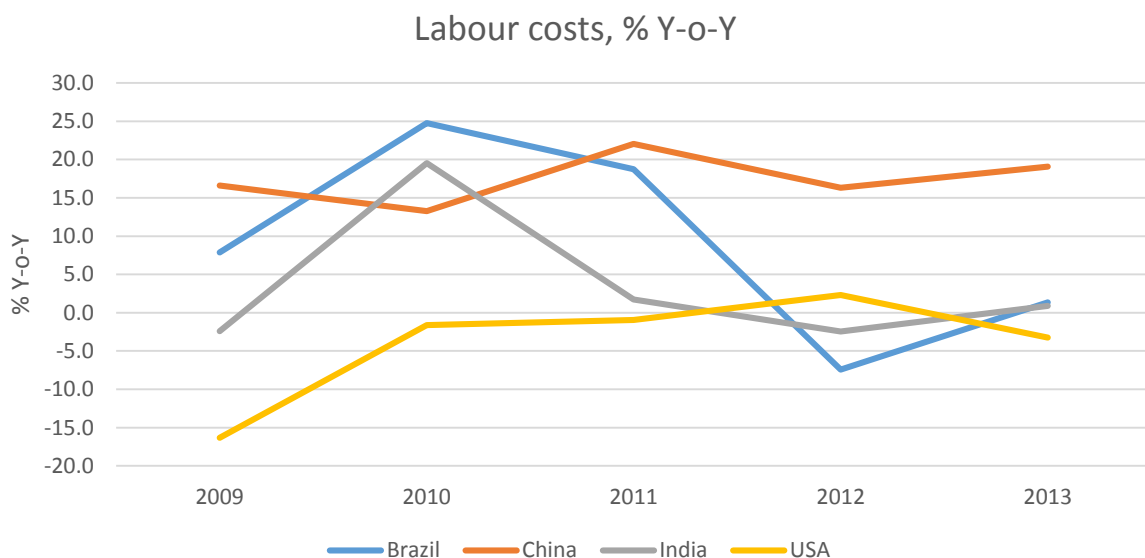
Chart 7: Profit margins in the clothing industry



Source: Euromonitor

In the last couple of years, profit margins in China’s clothing industry were dampened mainly by rising labour costs which can be seen in the following chart. In 2013, Chinese labour costs rose by 19% year-on-year and were significantly above the average increase of 17.4% observed between 2008 and 2013. In contrast, the Indian and Brazilian clothing industries managed to reduce the rise of labour costs considerably. In 2013, labour costs increased by less than 1% annually in both countries and in the USA they even declined by 3%. Another reason that prevented profit margins in China’s clothing industry to rise were rising rental costs.

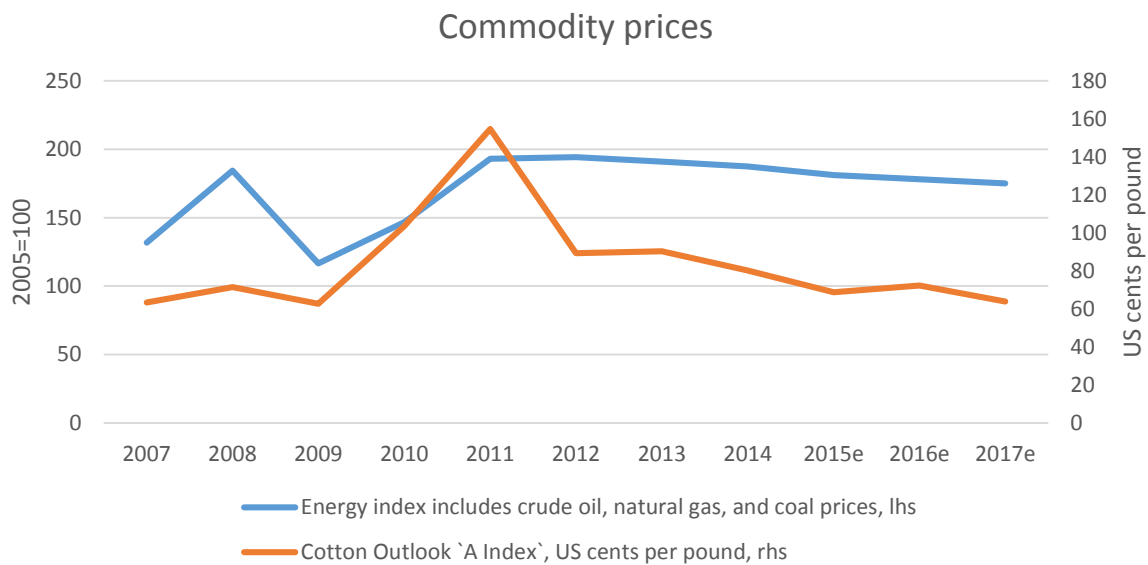
Chart 8: Strong rise in Chinese labour costs



Source: Euromonitor & own calculations

However, in relation to costs, there is some relief for the clothing industry worldwide. Energy and raw material prices are expected to decline in the coming years. The International Monetary Fund (IMF) forecasts that the Cotton Outlook 'A Index', an index that represents prices on the international raw cotton market, will decrease on average by over 6% annually between 2015 and 2018, while the expected decline for energy prices will not be as steep.

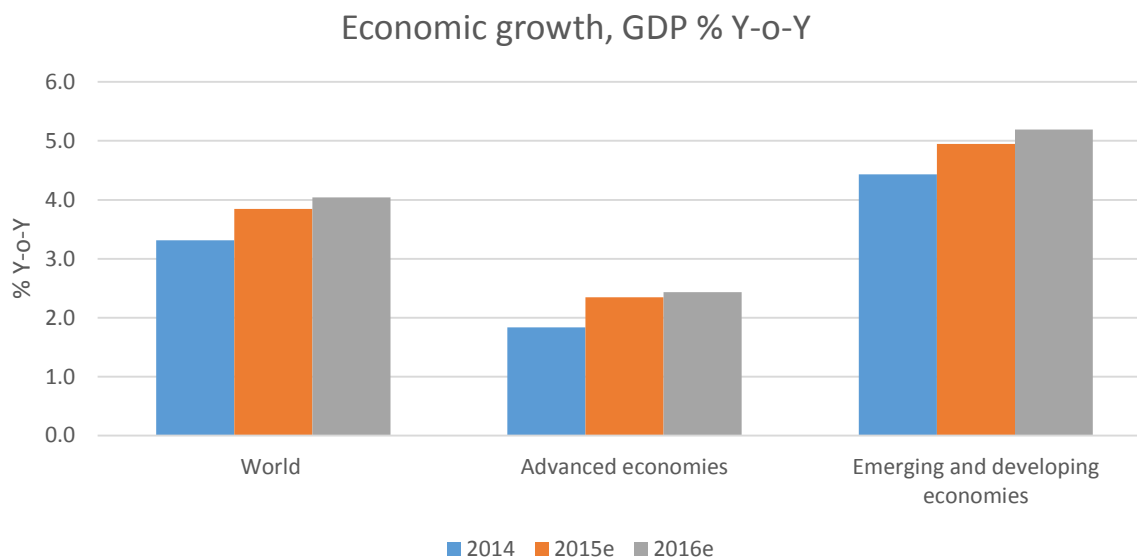
Chart 9: Lower commodity prices ahead



Source: IMF

Positive news for the clothing industry and the sports apparel sector comes also from the demand side. The world economy is gathering momentum. The IMF forecasts that worldwide economic growth will increase by 3.8% and 4% this year and next. Thereby, the strongest growth will come from the emerging and developing economies. For these countries the IMF expects growth rates of around 5% for 2015 and 2016. However, also the advanced economies should contribute positively to global growth with increases by 2.3% and by 2.4% this year and next. The USA, the world's economic engine, should grow by around 3%. Rising employment and increasing incomes will support consumers' spending power from which also the clothing industry will benefit.

Chart 10: Worldwide growth gains momentum



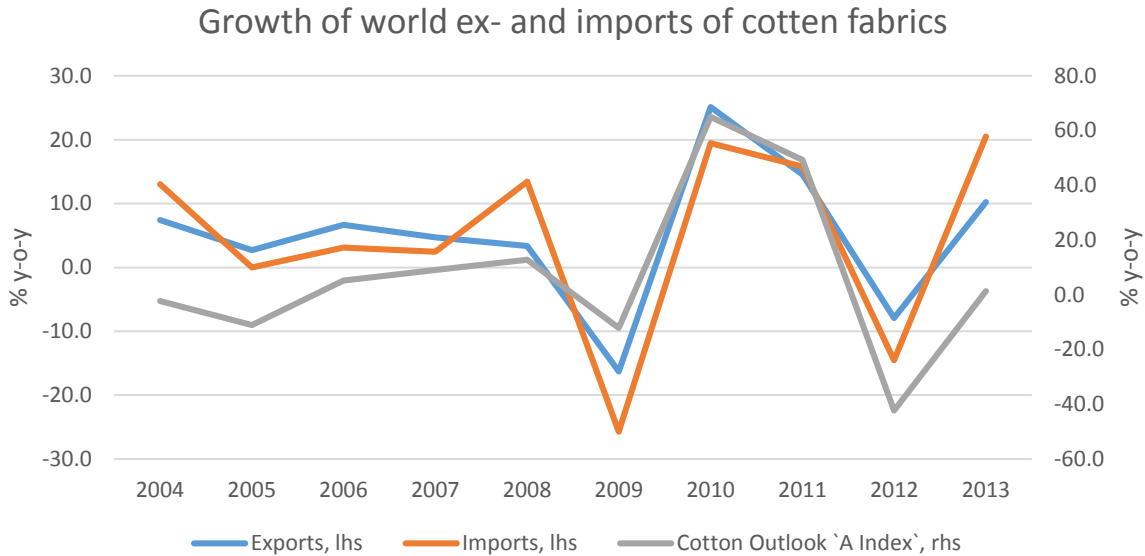
Source: IMF

Increase in trade of cotton fabrics

2013 was a good year for woven cotton fabrics – at least from an international trade perspective. The value of exports of “woven cotton fabrics, 85% or more cotton, weight less than 200 g/m²” (HS group 5208) increased by 10% year-on-year, stronger than the average growth rate of 5.8% from 2003 to 2013, to reach USD 16,428 million. Imports increased by 20.5% to reach a value of USD 12,530 million in 2013.

The chart below shows that after the slump in 2012 ex- and imports clearly regained momentum in 2013 - more recent data are not yet available. However, one has to bear in mind that the growth of the value of ex- and imports of cotton fabrics is not only influenced by changes in volume, but also by the development of prices and exchange rates. For instance, there is positive correlation between the growth of the traded value of woven cotton fabrics and cotton prices. The decline in cotton prices - represented by the Cotton Outlook ‘A Index’ - in 2009 and in 2012 each coincided with a fall in the value of ex- and imports. Vice versa, the increase in the traded value of cotton fabrics in 2010, 2011 and more recently in 2013 were accompanied by rising cotton prices.

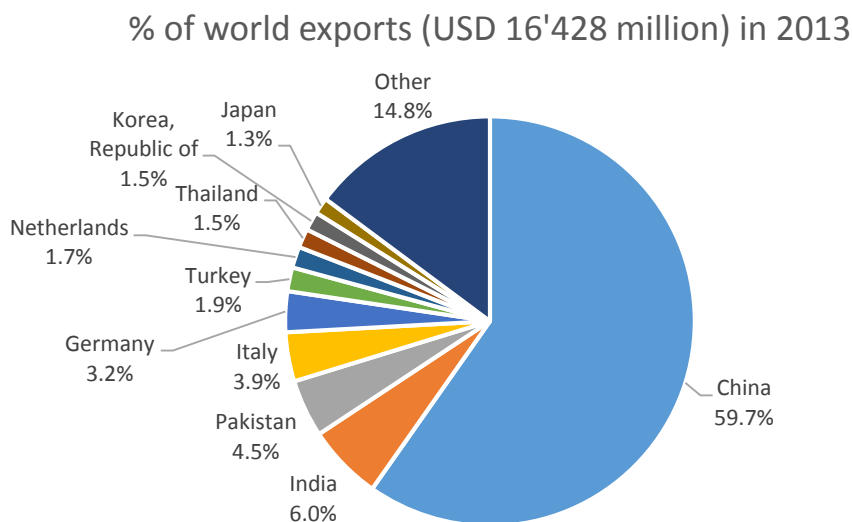
Chart 11: Trade is picking up again



Source: IMF, International Trade Centre & own calculations

In 2013, China – again - took the lead as the world’s largest exporting country of woven cotton fabrics. International trade data show that China supplied nearly 60% of global exports of cotton fabrics amounting to a value of USD 9,815 million. India and Pakistan came second and third with 6% and 4.5% of worldwide exports respectively. In some countries the export figures might be distorted upwards by re-exports, which are classified as exports of foreign goods in the same state as previously imported. This, for instance, might be the case in the Netherlands and in Germany. In both countries the volume of imports of cotton fabrics exceeded that of exports in 2013. However, in both cases the value of exports was higher than that of imports.

Chart 12: Largest exporter of cotton fabrics is China



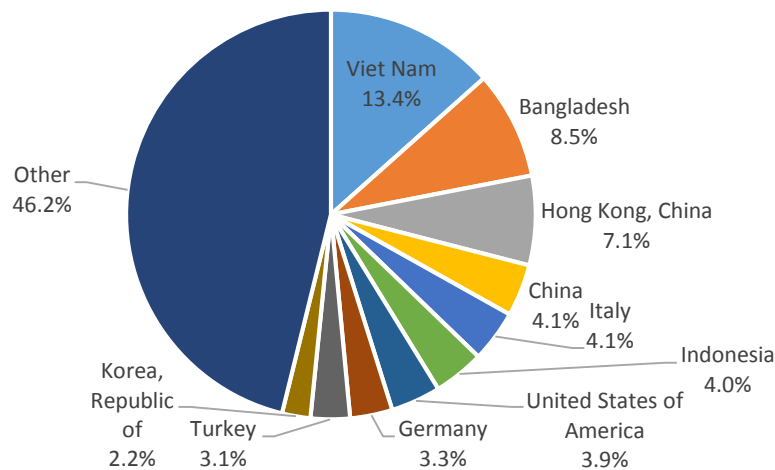
Source: International Trade Centre & own calculations

Looking at global imports of woven cotton fabrics shows that Viet Nam and Bangladesh were the world’s largest importing countries in 2013. Viet Nam imported 13.4% of worldwide cotton fabrics and Bangladesh 8.5%. Thereby, 95% and 86% of Viet Nam’s and Bangladesh’s imports originate from China.

Traditionally, Bangladesh has always been one of the main importers of cotton fabrics as the garment industry in Bangladesh is the backbone of its industrial sector. In recent years, however, Viet Nam has developed further its garment industry and has become one of the global players in the textile industry.

Chart 13: Largest importers of cotton fabrics are Viet Nam and Bangladesh

% of world imports (USD 12'530 million) in 2013



Source: International Trade Centre & own calculations

Trade data for 2014 are not yet available in most countries. However, the 2014 trade figures that are available for some countries and the decline of cotton prices by over 11% indicate that growth of worldwide ex- and imports of woven cotton fabrics could have moderated in 2014. The outlook for 2015 and 2016 is positive. As global economic growth is expected to increase this year and next this should also have positive knock-on effects on traded value of cotton fabrics.

Strong investment in China's textile industry

Article from the YarnsandFibers News Bureau from the 20th of February 2015:

"China is to invest billions of dollars in textile factories to create one million jobs by 2023. According to the report China has assured to end a costly stockpiling program that has artificially exaggerated cotton prices. The Xinjiang Production and Construction Corps (XPCC) reluctant to accept the current weak market price, has urged the government to buy part of its crop and store it in state reserves, said two trade sources with knowledge of the issue.

XPCC, also known as the army corps, or 'bingtuan', has become a sort of state within a state and gained a dominant role in industries such as cotton, where it employs about 200,000 mainly Han Chinese on some of Xinjiang's best land. According to Tom Cliff, a scholar at the Australian National University, cotton is closely associated with land usage, ownership, employment and Han in-migration.

China has agreed for subsidies to help cushion the impact of ending stockpiling, but the total amount is unclear and with the local cotton price plunging any threat to the industry could be a fresh source of competition for jobs. Beijing has also assured to invest billions of dollars in textile factories in Xinjiang, in the hope of creating one million jobs by 2023, but there are concerns that Uighurs could be overlooked for many of the jobs.

China's National Development and Reform Commission (NDRC), which is leading agriculture reform, reiterated in January it would stick to plans to end stockpiling and let the market dictate demand. China previously acquired almost all of China's cotton at high prices and then auctioned it off to textile firms. But it incurred huge costs and left masses of fibre unsold in reserves. Its new policy has already caused prices to plunge and some experts say that a subsidy - a replacement for stockpiling - will not be enough to encourage farmers to keep growing.

XPCC, which produces almost 30 percent of China's cotton, has been keeping its prices at least at 500 yuan (\$80) per ton higher than other ginners, limiting sales. According to one of the China-based trade sources, normally XPCC have sold everything by March. But now they're out of the market and not competing. This means the group may have to slash its price later in the season if the state doesn't intervene, putting pressure on benchmark local prices that have already lost a third of their value since September. This could also weigh on international prices, with the market counting on demand from China to support prices that last month traded near 5-1/2 year lows.

Liang Dongya, general manager of XPCC's cotton and jute division, told a conference last month the group had sold less than 400,000 tonnes of a 1.76 million ton crop at end December. He said that the poor sales should not be blamed on high prices, but were due to a "very serious" reduction in demand. The U.S. Department of Agriculture expects China's cotton consumption to be 7.7 million tonnes in 2014/15 but some believe it could be as low as 6.5 million tonnes. Production, on the other hand, is seen between 6.2 to 6.5 million tonnes and, with about 1.5 million tonnes of fibre likely to be imported, bulging stocks may grow further."

Is the Mass Market Ready for Green Home Textiles?

An article by Damian Shore, Home and Garden Contributing Analyst from Euromonitor International

Consumers are increasingly conscious of the importance of protecting the environment, but in general their purchasing decisions do not yet reflect this. However, improving economic conditions in the US and Western Europe may help to kick-start demand for green home textiles.

Consumers get the message, but are slow to act

Consumers are certainly becoming more aware of the importance of environmental conservation, with a steady drumbeat of media coverage regarding the potentially harmful impact of climate change and specific events like Typhoon Haiyan in the Philippines during 2013 and ongoing droughts in the southwest of the USA and the southeast of Brazil reinforcing this.

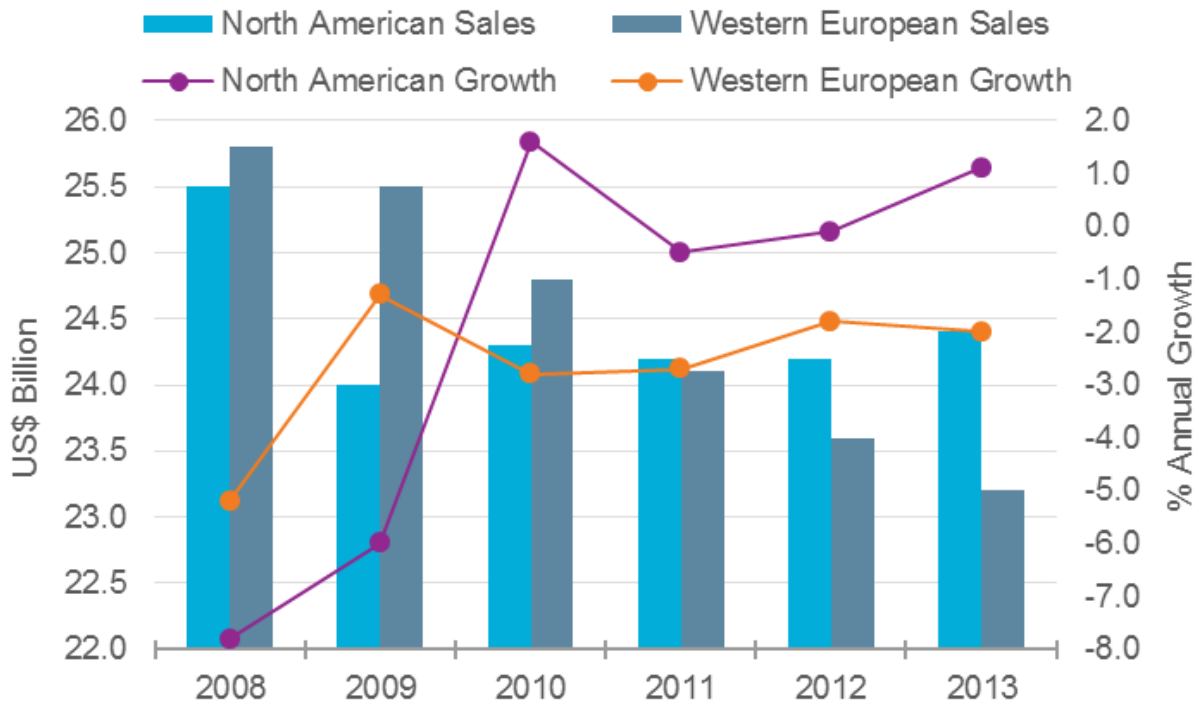
However, the 2014 National Geographic/GlobeScan Consumer Greendex, which aims to measure sustainable consumption patterns across 18 countries, found that while environmental concerns had increased significantly since 2012 and that climate change was increasingly recognised as a threat, the growth of sustainable consumption remained slow. In particular, American consumers were found to be “among the most likely to feel the extra cost of environmentally friendly products is not worth it to them.”

A Eurobarometer survey conducted in the EU by the European Commission during 2014 found that 85% of respondents agreed with the contention that individuals could play a role in protecting the environment. In some countries, such as the Netherlands, Sweden and Ireland, this figure was 95% or higher. However, just 21% said they had purchased ‘environmentally friendly products marked with an environmental label’ during the month prior to survey. This figure ranged from 60% in Sweden to just 9% in Portugal.

Ready to loosen their purse strings

Global value sales of home textiles have been weak over recent years, particularly in Western Europe and North America (the two biggest regional markets). Given that demand for home textiles tends to be fairly income elastic (many consumers will choose to postpone purchases of replacement products if their personal economic circumstances deteriorate in a way that they cannot or will not with some other types of goods, particularly food), this is unsurprising.

Chart 14: Real Value Sales of Home Textiles in North America and Western Europe: 2008-2013
US\$ Billion (Constant 2013 Prices)



Source: Euromonitor International from trade sources/national statistics

Boosted by cheaper oil prices, rising home values and a sense of economic normalisation after years of austerity, consumers in the USA and Western Europe are now increasingly willing to spend, which will likely presage a recovery in sales of home textiles. Consumer confidence indices hit multi-year highs in Germany, France, the UK and the USA during late 2014 and early 2015.

Education needed to convert goodwill into sales

This combination of an increased awareness of environmental issues and economic recovery represents a good opportunity for manufacturers of products made from such environmentally friendly materials as poly cotton and lyocell to grow their market share in home textiles. While the mass market may not yet be ready for these products, there are opportunities for manufacturers to gain a foothold, particularly in affluent and environmentally conscious regions like Northern Europe and the coastal states of the USA. However, many remain unaware of the green characteristics of these products, and carefully targeted marketed will be required to turn their green good intentions into sales.