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SUSTAINABLE COTTON CLUSTER
REPORT 2/2017

The South African economy moved into a recession with a reported decrease in gross domestic product (GDP) during the first quarter of 2017, following a decrease in the fourth quarter of 2016. However, the Reserve Bank reported that the economy "spluttered back to life" in the second quarter of 2017. There were positive contributions to higher economic activity across most industries, particularly in agriculture, finance and mining, which lifted the GDP.

It was mentioned that the agricultural sector continued to show strong recovery from South Africa's recent droughts, increasing production by 33.6 per cent. As far as the local outlook for cotton is concerned, it is estimated that the volume of seed cotton production could increase by more than 40 per cent.

The manufacturing sector found itself hamstrung by lower production levels in 7 of its 10 divisions. According to the Reserve Bank it was the third consecutive quarter of decline in total manufacturing. During the first half of 2017 the volume of production index (2015=100, seasonally adjusted) showed a decline of 3.7 per cent year-on-year.

The spinning, weaving and finishing sector showed the smallest decline of all the sectors in the textile and clothing industries, namely 2.6 per cent. The knitting sector showed a decline of 9.5 per cent, other textiles declined by 6 per cent, while that of clothing declined by 12.5 per cent.

However, the value of ex-factory sales at current prices showed a different picture. Ex-factory sales for the spinning, weaving and finishing sector increased by 5.4 per cent to amount to R4.16 billion, while that of clothing increased by 8.2 per cent to amount to R7.9 billion. Ex-factory sales for the knitting sector declined by 3.9 per cent to amount to R1.2 billion, while that of other textiles declined by 4 per cent to amount to R6.7 billion.

The current capacity utilization in the textile industry is about 68 per cent while that in the clothing industry is around 77 per cent.

Retail is under pressure. Some stores have closed. Local retailers are facing greater competition from overseas retailers as they expand into South African territory. During the first half of 2017 the value of total retail trade sales increased by 5 per cent compared to the first half of 2016. However, retail trade sales in the textile, clothing, leather and footwear sector declined by 6.8 per cent and amounted to R77.6 billion. The textile, clothing, leather and footwear sector represents approximately 17 per cent of total retail trade sales.

Employment in the total manufacturing sector showed a slight increase of 0.2 per cent during the first half of 2017 compared to the same period in 2016. The textile sector showed a decline of 1.6 per cent, the knitting sector 0.7 per cent and the clothing sector 10.6 per cent. A total of 72 320 persons are currently employed in the textile and clothing industries, which represent 6 per cent of total manufacturing employment.

The impact of cheap imports over the last couple of years on the local textile and clothing industries effected local production and subsequently employment.

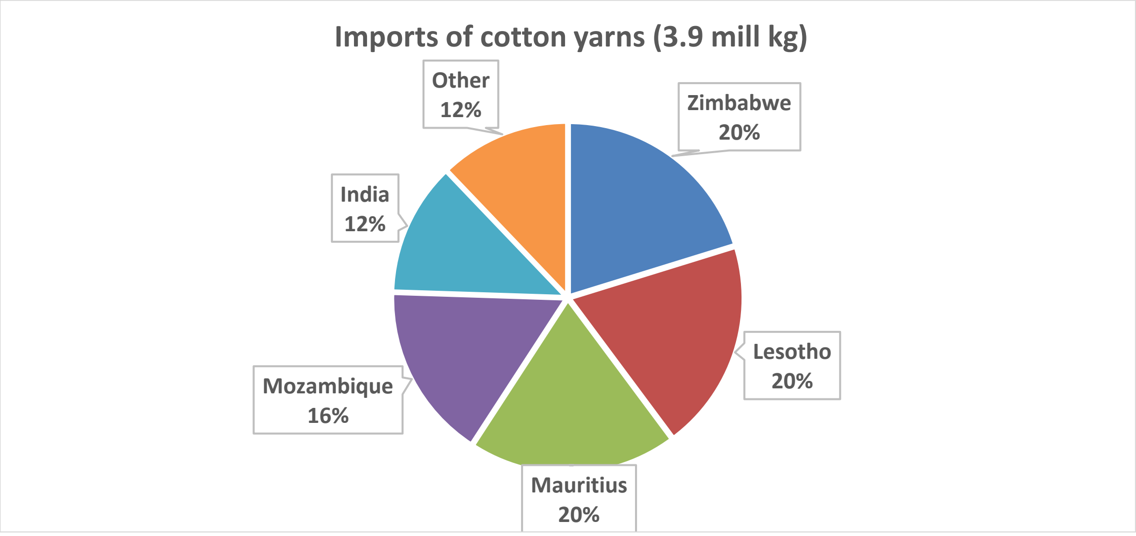
All information regarding **clothing** imports is for those from outside the SACU area. During the first half of 2017 clothing to the value of R8.8 billion was imported, of which 40 per cent was cotton clothing. The value of total clothing imports decreased by 17 per cent from January to June 2016 to the same period in 2017.

In general volumes showed an increase while values showed a decrease. For example, the volume of ladies knitted blouses and shirts showed an increase of 87 per cent while the value showed a decrease of 12 per cent. Tracksuits and swimwear of woven fabrics showed an increase of 13 per cent in volume and a decrease of 8 per cent in value.

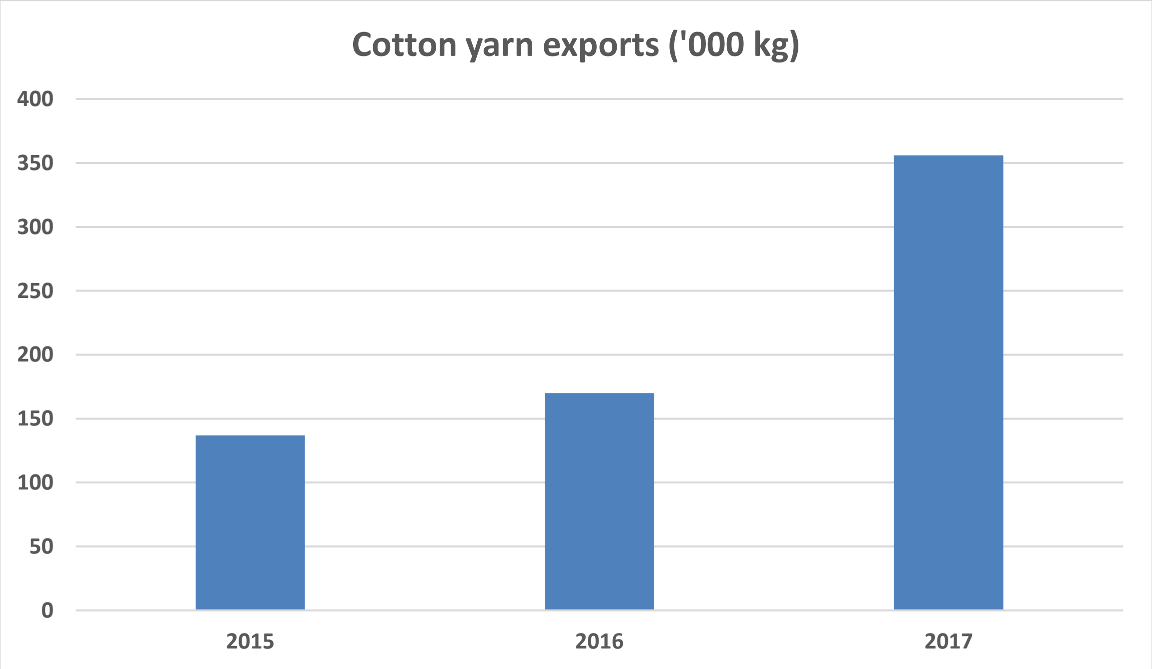
During January to June 2017 a total of 2 million units of **cotton t-shirts** (and vests) have been exported. Around 83 per cent was destined for the BLNS countries, while 17 per cent went to countries outside the SACU area. Imports of cotton t-shirts, however, showed a decline of 22 per cent in volume from countries outside the SACU area and 10 per cent in total from all countries. During January to June 2017 a total of 42.8 million units of t-shirts have been imported of which 64 per cent is cotton.

During the first half of 2017 South Africa has imported a total of 29.3 million kg **yarns** (13 per cent more than the same period in 2016) of which 3.9 million kg is cotton yarn. Cotton yarn imports increased by 41 per cent in 2017 compared to the same period in 2016. There was an 18 per cent increase in the volume of cotton yarns from China.

Graph 1: Imports of cotton yarn – January to June 2017

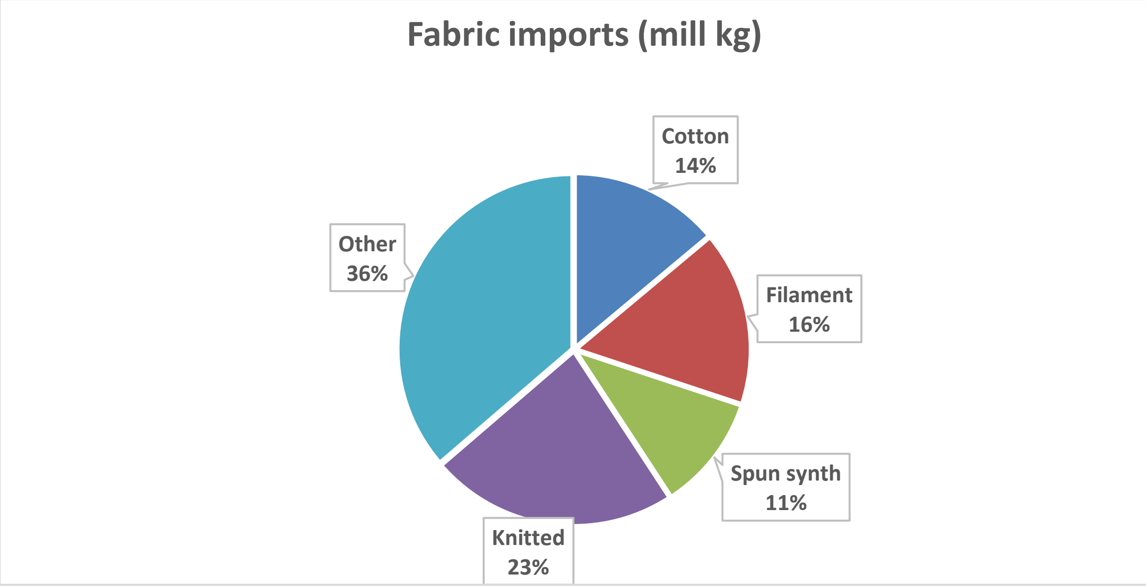


Graph 2: Exports of cotton yarn to all countries – January to June



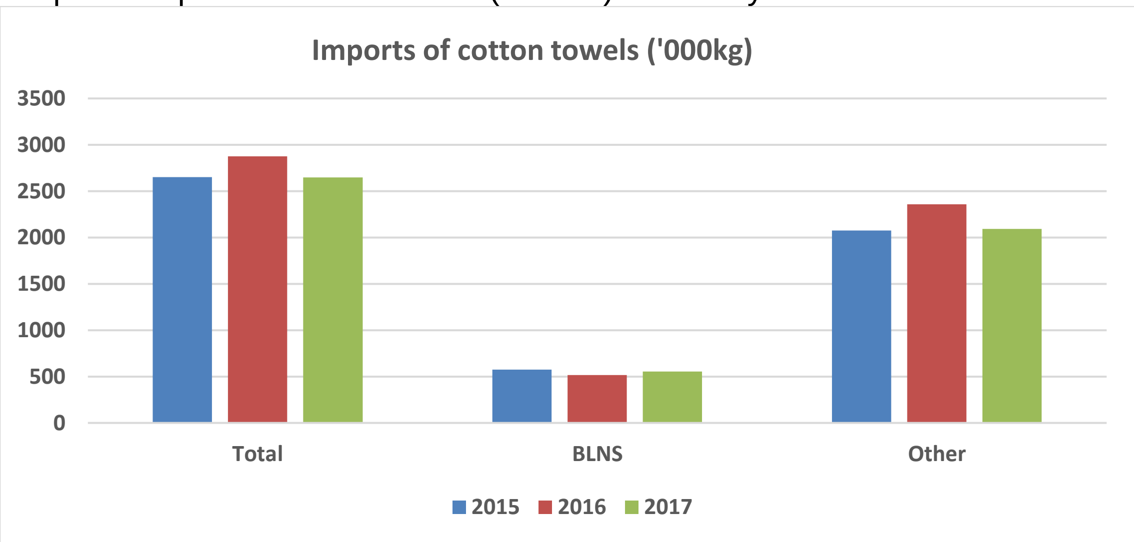
We have also imported a total of 73.4 million kg **woven fabrics** (23 per cent more than the same period in 2016) of which 8.8 million kg was woven cotton fabrics (a 24 per cent increase compared to the previous year). There was an approximate 48 per cent increase in the volume of cotton fabrics imported from China.

Graph 3: Imports of fabrics – January to June 2017

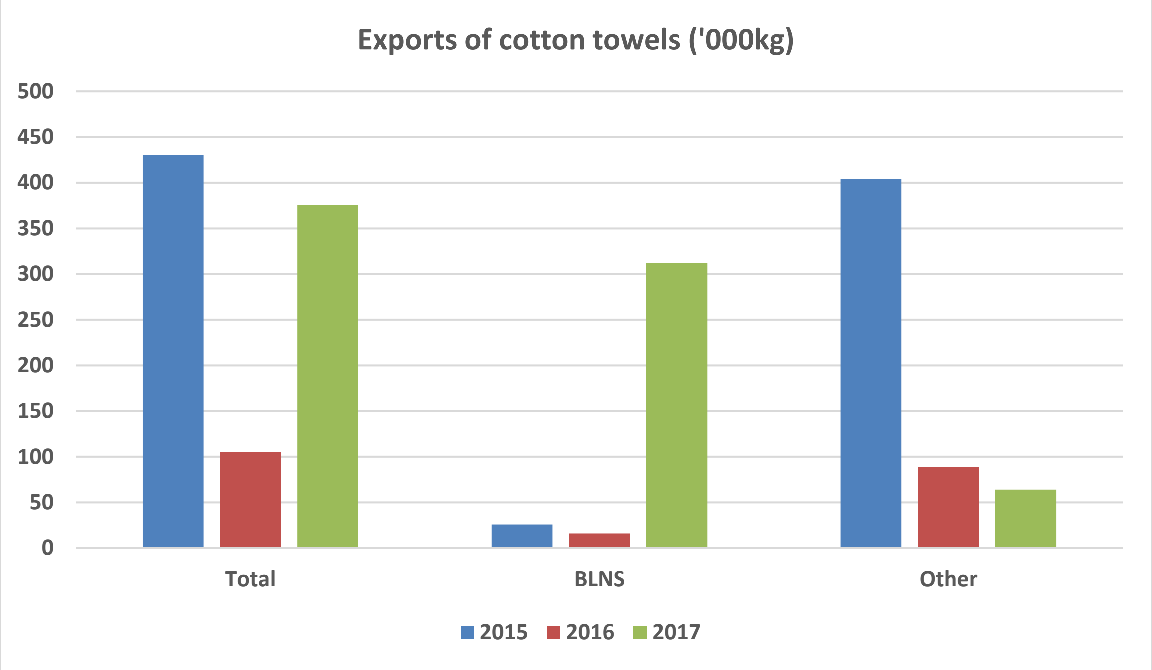


The major part of **cotton towels** exported during January to June 2017 went to the BLNS countries with only 17 per cent of the volume to countries outside the SACU area. With regard to imports, the picture is the opposite.

Graph 4: Imports of cotton towels (volume) – January to June



Graph 5: Exports of cotton towels (volume) – January to June



Conclusion:

The impact of cheap imports, especially from China, on the local textile and clothing industries has created a significant decline in the number of people employed, with the resultant increase in unemployment.

Labour and business in the clothing and textile industries are deeply concerned about the impact of the downgrades of South Africa's debt on the industry and broader economy. The downgrades by various rating agencies will raise the cost of borrowing for workers, business and consumers. This will have a negative impact on spending (both by government on support measures and by consumers). This could lead to factory closures and further retrenchments, placing an even greater strain on South Africa and its poor. The stagnant economy has already caused strain in recent years, mainly as a result of fewer orders from retailers and less procurement from Government.

The biggest challenge for the South African fashion and home textile industries is the economic situation, which is curbing consumer spending. Due to the recessionary climate in the country there is not much economic growth.

Cotton SA
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