

## **SUSTAINABLE COTTON CLUSTER REPORT 3/2017**

### **Introduction:**

In the third quarter of 2017 South Africa's growth in real domestic product (GDP) slowed to an annualized rate of 2 per cent. Employment growth in the domestic economy remained insufficient to fully absorb new entrants into the labour market. The official unemployment rate remained at 27 per cent. The economic environment in South Africa in the recent past had been characterized by very weak demand for consumer products.

### **Local textile and clothing industries:**

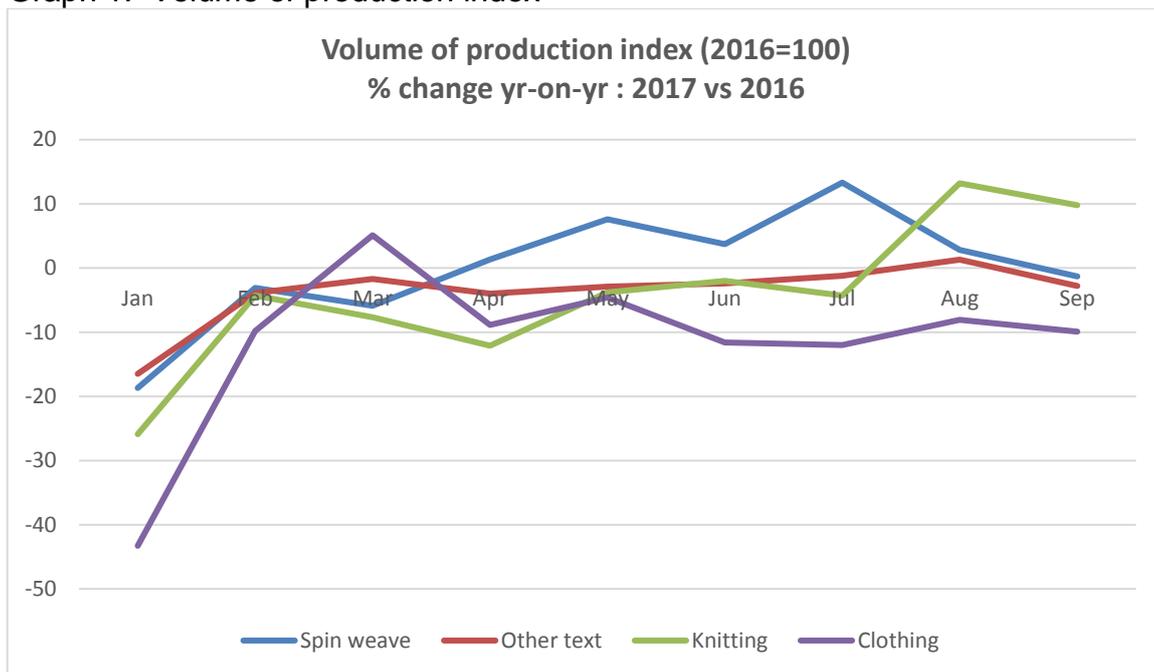
*NOTE: All figures and statistics cover the period January to September 2017 and is compared to the same nine months in 2016, unless otherwise stated.*

During the third quarter of 2017 the production capacity utilization for textiles was 65 per cent compared to 67 per cent the same period in 2016. That of clothing was 75 per cent compared to 77 per cent the previous year. Insufficient demand is quoted as the reason why capacity utilization is low.

The average volume of production index (seasonally adjusted, 2015=100) for total manufacturing during the first nine months of 2017 decreased by 2.6 per cent compared to the same period the previous year. The index for the spinning, weaving and finishing sector remained the same. In the knitting sector (both fabrics and garments) the volume of production index decreased by nearly 4 per cent, while that of other clothing decreased by 11.5 per cent. This means that there was a decline in local production of textiles and clothing, and that is the reason for the decline in capacity utilization.



Graph 1: Volume of production index



Source: Stats SA

The value of factory sales for total manufacturing amounted to R1 551 246 million, which is 4.7 per cent more than the previous year. The total value of sales for all textiles and clothing increased by 1.6 per cent to amount to R31 889 million, and it represented only 2 per cent of total manufacturing sales.

Factory sales for the spinning, weaving and finishing sector increased by 1.8 per cent to amount to R6 306 million, while that of other textiles increased by a mere 0.6 per cent to R10 620 million. The knitting sector’s sales increased by 8.7 per cent to R1 944 million, while the clothing sector’s sales increased by 1.3 per cent to R13 019 million.

Graph 2: Ex-factory sales



The total South African market for textiles and clothing for the first nine months of 2017 was approximately R51 190 million.

Total retail trade sales for South Africa at current prices amounted to R711 586 million, which is approximately 6.8 per cent more than the previous year. However, retail trade sales for the textiles, clothing, leather and footwear shops decreased by 2.8 per cent to amount to R118 158 million. This indicates a decline in consumer demand for textiles and clothing, which corresponds with the decline in the volume of production index for clothing.

In general, prices of textiles and clothing increased during the first nine months of 2017 compared to the same period in 2016. The average production price index (PPI 2016=100) for final manufactured goods increased by 3.1 per cent year on year. That of clothing increased by 6.1 per cent. The consumer price index (CPI 2016=100) for clothing is 3.7 per cent higher than the average for 2016, while the CPI for home textiles showed a decrease of about 0.7 per cent. The consumer price inflation accelerated marginally, largely due to higher fuel and housing rental prices.

During the period January to September 2017 the average manufacturing employment was 1 183 721 workers, up by only 0.1 per cent from the same period in 2016. A total number of 73504 workers were employed in the textile and clothing sectors, down by 6.2 per cent.

It is clear that the local textile and clothing industry is on the decline. Capacity utilization is low as a result of insufficient demand. The volume of production index showed a decline and retail trade sales for textiles, clothing, leather and footwear decreased. Employment is also declining.

### **International Textile Trade:**

During the first nine months of 2017 textiles and clothing to the value of R30 931.4 million have been imported, about 7 per cent less than the same period in 2016. This figure includes imports from the BLNS countries (Botswana, Lesotho, Namibia and Swaziland). The total value of cotton product imports represented approximately 35 per cent of the total import value of textiles and clothing. Total clothing imports represented 53 per cent of total imports. Imports of textiles and clothing from the BLNS countries amounted to R4 113.6 million.

Textiles and clothing (total value including exports to the BLNS countries) to the value of R11 630 million have been exported, of which cotton products represented approximately 15 per cent. Clothing exports represented 31 per cent of the total value. Exports of textiles and clothing to the BLNS countries amounted to R4 802.7 million.

A total of 19 125 tons of all cotton fibres were imported, 23 per cent more than the same period in 2016. Cotton represented 40 per cent of all fibre imports. Of the total of all cotton fibres approximately 12 286 tons were ginned but not carded or combed fibres. Of this 12 286 tons about 305 tons came from the BLNS countries.

On the other hand, a total of 3 455 tons of cotton fibres have been exported, 29 per cent less than the previous year, and of which 37 per cent went to the BLNS countries. Of the total of 3 455 tons about 1 434 tons were ginned but not carded or combed, of which 881 tons were destined for the BLNS countries.

There was a 24 per cent increase in the total volume of cotton yarn imports of 7 679 tons. During the same period a total of 655 tons of cotton yarns have been exported, 108 per cent more than the same time in 2016. The majority (about 83 per cent) of cotton yarns went to Botswana, Lesotho and Swaziland.

The majority of imported woven cotton fabrics originated from China (51 per cent) and Pakistan (26 per cent).

A total of 14 359 tons of woven cotton fabrics (about 12 per cent of total fabric imports) were imported during 2017, about 19 per cent more than the previous year. During the same period a total of 3 804 tons of cotton woven fabrics have been exported, which represented about 35 per cent of total fabric exports. This was 17 per cent less than the same period the previous year.

Knitted fabric imports represent approximately 36 per cent of total fabric imports. Of the total volume of 42 403 tons of knitted fabrics about 4 628 tons were cotton knitted fabrics of which 27 per cent came from the BLNS countries.

Exports of knitted fabrics amounted to 2 425 tons of which 31 per cent were cotton. About 729 tons of knitted cotton fabrics went to the BLNS countries.

Cotton towels form part of the sustainable cotton cluster. South Africa imported a total of 4560 tons of cotton towels of which 905 tons originated from the BLNS countries. A total of 572 tons were exported, of which about 449 tons went to the BLNS countries.

Another product that forms part of the sustainable cotton cluster is cotton t-shirts. A total of 46 million units were imported, of which 36 per cent came from the BLNS countries. Approximately 5 per cent less cotton t-shirts were imported compared to the previous year. However, the volume of exports of cotton t-shirts showed an increase of nearly 8 per cent.

Clothing imports declined by 11 per cent to amount to R16 385 million, of which half originated from China. About 48 per cent of the value of clothing imports represented knitted clothing, while about R8 080 million represented imported cotton clothing.

<b>Specific Cotton clothing Imports Jan-Sep 2017</b>	<b>R'million</b>	<b>Units ('000)</b>	<b>Vol % change yr-on-yr</b>
Mens & boys trousers knitted	142.6	2898	-6.4
Mens & boys trousers other	1735.6	25245	-2.5
Mens & boys shirts knitted	304.2	4366	-14.3
Mens & boys shirts other	574.6	7825	-12.1
Women & girls dresses knitted	59.4	1138	-23.3
Women & girls dresses other	194.5	2373	+5.2

Source: SARS

Exports of clothing have declined by 47 per cent from 2016 to 2017 to amount to R2 020 million. Exports of cotton clothing have declined by 39 per cent and amounted to R637 million.

<b>Specific Cotton clothing Exports Jan-Sep 2017</b>	<b>R'million</b>	<b>Units ('000)</b>	<b>Vol % change yr-on-yr</b>
Mens & boys trousers knitted	42.5	424	-23.6
Mens & boys trousers other	219.8	2107	-3.5
Mens & boys shirts knitted	41.7	541	-9.7
Mens & boys shirts other	55.2	495	-22.8
Women & girls dresses knitted	12.4	146	-2.6
Women & girls dresses other	13.0	134	+36

Source: SARS

South Africa has imported clothing to the value of R2 090 million from the BLNS countries while it has exported clothing to the value of R3 013 million to the BLNS countries.

The reason for the decline in clothing imports could be the uncertainties in the local economic situation. There was also a decline in the volume of production of clothing. Consumers are buying less clothing.

#### **Uncertainties:**

Domestic political developments have begun to seriously hurt the local economy. We refer to changes in the portfolio of Finance Minister since the end of 2016. There is a lack of policy direction that lead to the downgrading of South Africa's credit ratings. All this had an effect on the local textile and clothing sectors also, with no new investments in the pipeline.

#### **Conclusion:**

Economic growth is slowing down and uncertainty in the domestic economy remains high.

It is clear that the local textile and clothing industry is currently on the decline. Capacity utilization is low as a result of insufficient demand. The volume of production index showed a decline and retail trade sales for textiles, clothing, leather and footwear decreased. Employment is also declining.

It is expected that this situation will continue during 2018.

**Cotton SA**  
**January 2018**