



COTTON CLUSTER REPORT Q1/2019

CURRENT SITUATION IN THE LOCAL TEXTILE AND CLOTHING SECTORS

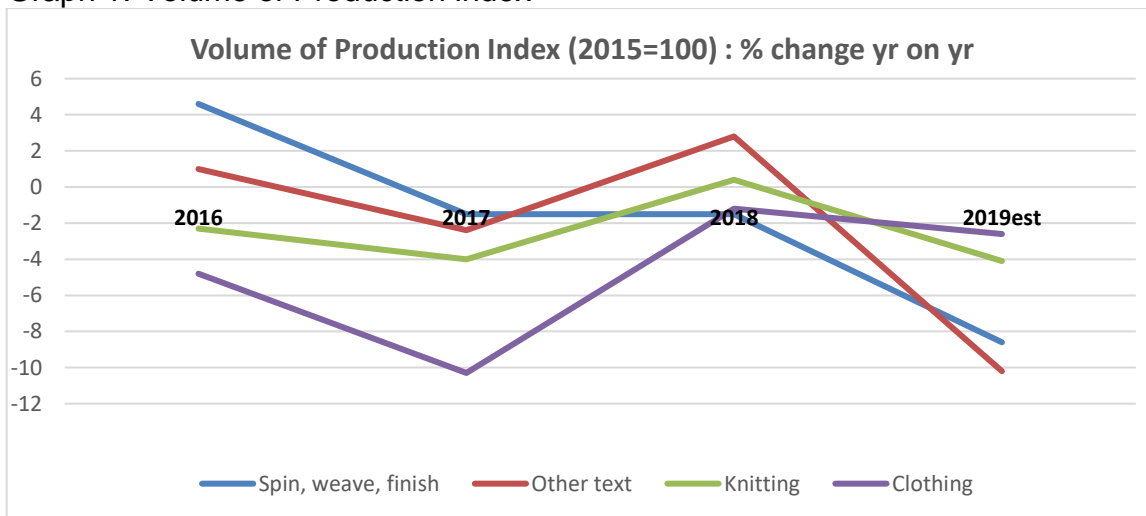
The local textile and clothing industries continue to struggle. Factories and manufacturers are finding it difficult to keep their machines going and, in the process, to retain workers. The information published by Statistics SA and SARS (Customs and Excise) confirms this statement.

VOLUME OF PRODUCTION:

The average total manufacturing volume of production index (seasonally adjusted) for 2018 as against 2017 showed an increase of 2.1%. The average in the spinning, weaving and finishing sector decreased by 1.5% while the index for other fabrics was 2.8% more. The average volume of production index for the knitting sector (both fabrics and garments) increased by 0.4%, while clothing's index showed a decrease of 10.3%.

During the first quarter of 2019 the average for total manufacturing was only 0.6% more than the same quarter of 2018. The same trend applies to the textile and clothing industries. The index for spinning, weaving and finishing decreased by 6%. In respect of other textiles, the index declined by 8.4%. The knitting sector was 5% less and clothing showed a decline of 7.8%.

Graph 1: Volume of Production index



Source: Stats SA



South Africa's manufacturing sector has, after months of decline, stabilised. However, there is no prospect of growth in this part of the economy. The same situation applied to the textiles and clothing.

Issues that affected local production (and the economy in general) are, amongst others, electricity cuts and fuel price.

VALUE OF SALES

The total value of ex-factory sales for all manufacturing for 2018 increased by 8.7% compared to 2017. The spinning, weaving and finishing sector showed a decline, the same as knitting mills and clothing. However, other textiles showed an increase.

Table 1: Value of Ex-factory Sales (R'million)

	Spin, weave, finish	Other textiles	Knitting (fabrics & garments)	Clothing
2015	6 996	13 968	2 376	15 334
2016	8 198	14 340	2 396	17 354
2017	8 385	14 313	2 622	18 295
2018	7 134	15 836	2 562	17 922
2019est	6 400	14 000	2 400	15 200

Source: Stats SA

The estimated figures, based on the information for the first quarter of 2019, indicates that there could be no growth during 2019.

RETAIL TRADE SALES

According to Stats SA information, the total retail trade sales at current values for 2018 amounted to R1 045.7 billion, 3.9% more than in 2017. The estimated figure, based on the information published by Stats SA, for 2019 amounted to about R982 billion. The situation may change from a possible decrease to an expected increase.

In respect of textiles, clothing, leather and footwear, the retail trade sales during 2018 amounted to R163.7 billion, an increase of 2%. The estimated figure for 2019 is about R156 billion. Depending on the current state of the economy, a decrease in the retail trade sales of textiles, clothing, leather and footwear could decrease or remain the same as during 2018.

CAPACITY UTILISATION

The average capacity utilisation for all manufacturing for 2018 was 81.3%, close to the same percentage as in 2017. The capacity utilisation for textiles increased by 1.2% at 66.4%. In respect of clothing, utilisation decreased by 0.6% in 2018 to be 75.3%.

It is expected that the same situation would prevail during 2019.

According to Statistics SA the reason for the low utilisation of capacity is insufficient demand. The decline in the demand for locally produced goods could be as a result of the continuous increase in imports.

IMPORTS

During 2018 the total value of imports of textiles has increased by 4.6% compared to 2017 and amounted to R20.1 billion. Clothing imports increased by 9.5% to amount to R24.4 billion. The expected amounts for 2019 are R20.5 billion and R29.3 billion for textiles and clothing respectively.

Graph 2: Value of imports of textiles and clothing

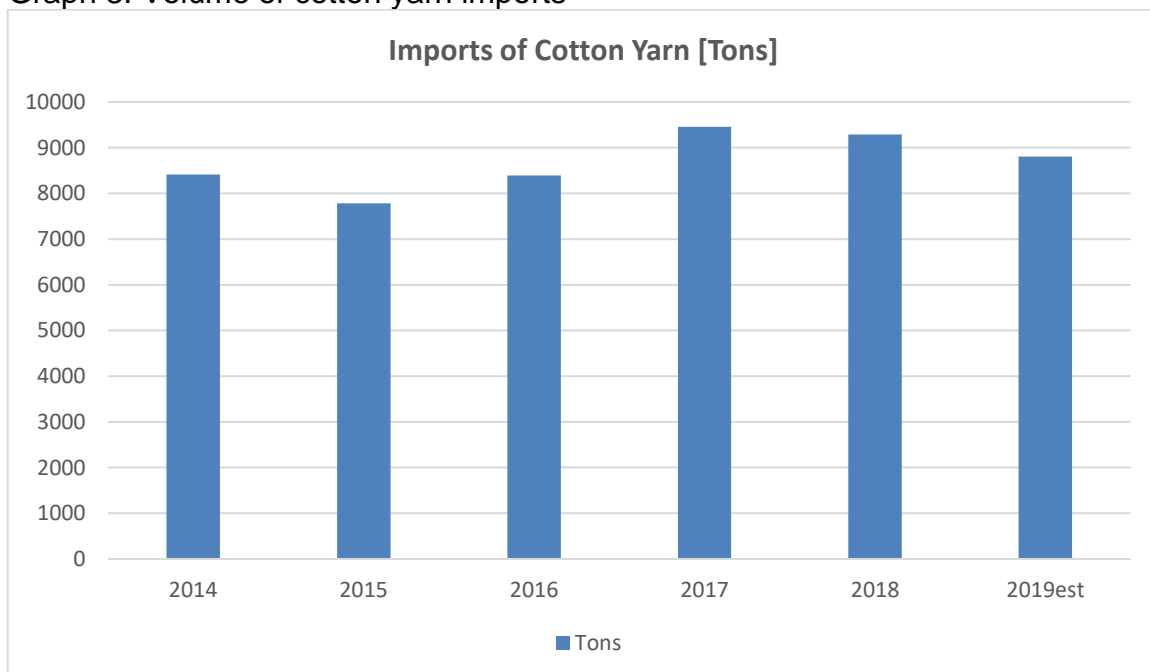


Source: SARS

The majority of textiles and clothing is imported from China (R20.6 billion in 2018).

The following graph gives an indication of the volume of imports of **cotton** yarn.

Graph 3: Volume of cotton yarn imports

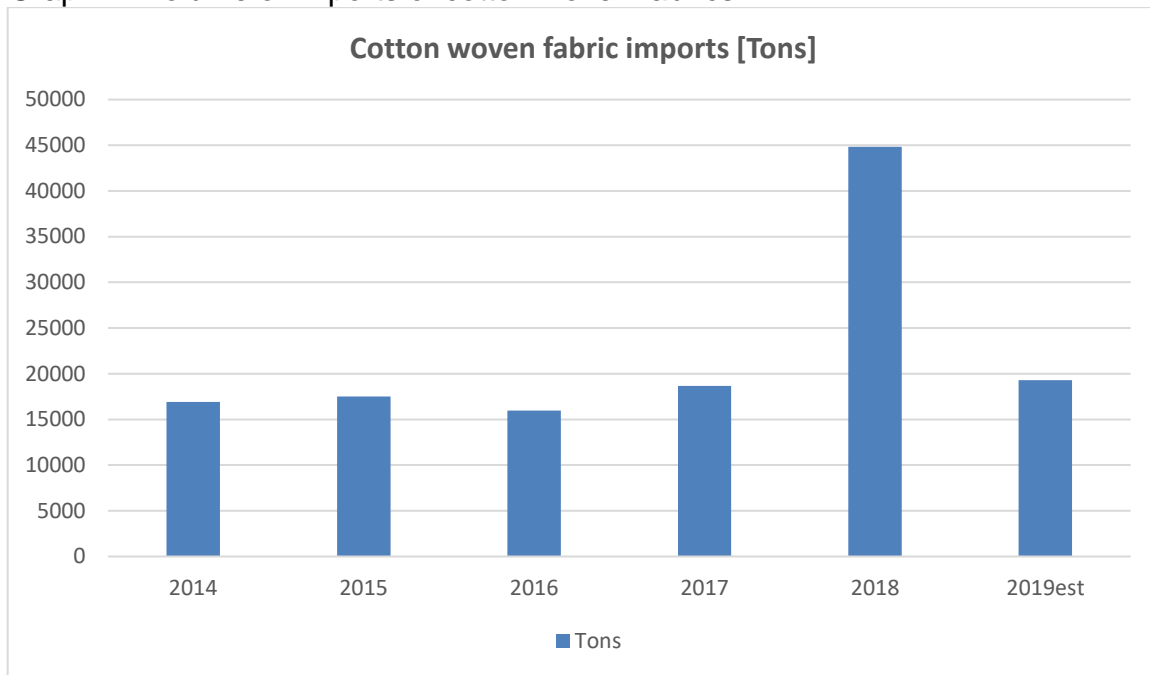


Source: SARS

The majority of yarn imports (76%) came from Mauritius, Zimbabwe, Mozambique and Lesotho.

During 2018 there was a steep increase in the volume of imports of **cotton** woven fabrics, as can be seen in the following graph.

Graph 4: Volume of imports of cotton woven fabrics



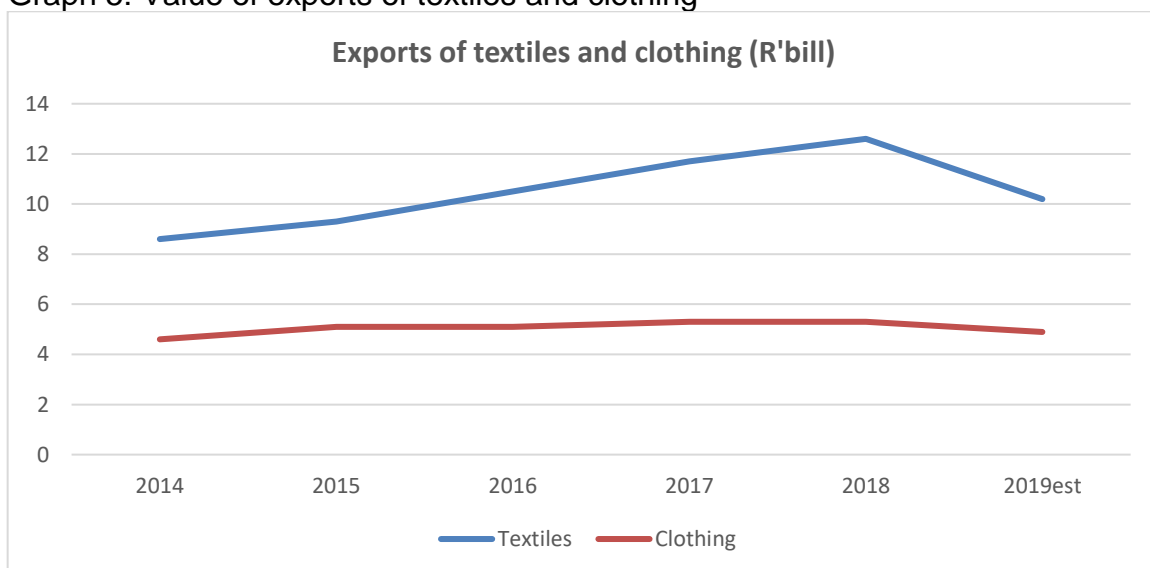
Source: SARS

During 2018 approximately 77% of cotton woven fabrics were imported from India and China, with Pakistan in the third place with 15%. During the first quarter of 2019 imports from China and Pakistan represented about 80% of total cotton woven fabrics.

EXPORTS

During 2018 the total value of exports of textiles have increased by 7% compared to the same period in 2017 and amounted to R12.6 billion. (It should be mentioned that wool fibres represented approximately 50% of the value of textile exports.) The value of clothing exports increased by 0.8% to R5.3 billion.

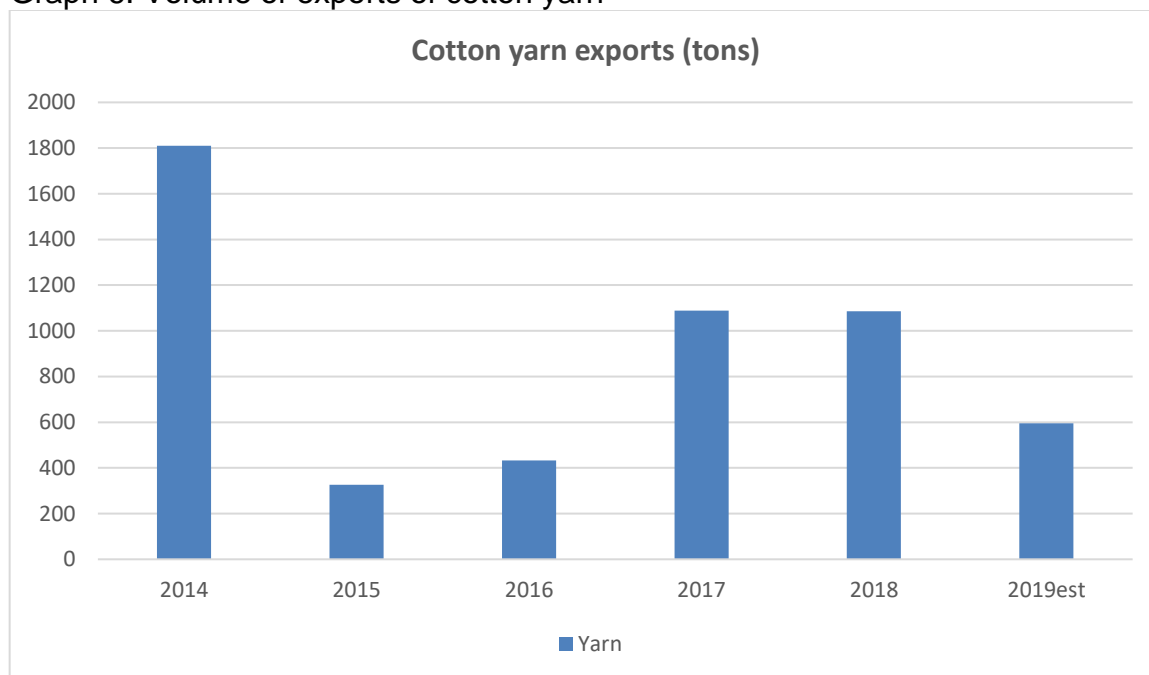
Graph 5: Value of exports of textiles and clothing



Source: SARS

The Southern African Development Community (SADC) remains the major export market for South Africa, with R8.6 billion in 2018.

Graph 6: Volume of exports of cotton yarn



Source: SARS

Exports of woven cotton fabrics showed an increase but since 2017 it decreased, as is clear from the next graph.

Graph 7: Volume of exports of woven cotton fabrics



Source: SARS

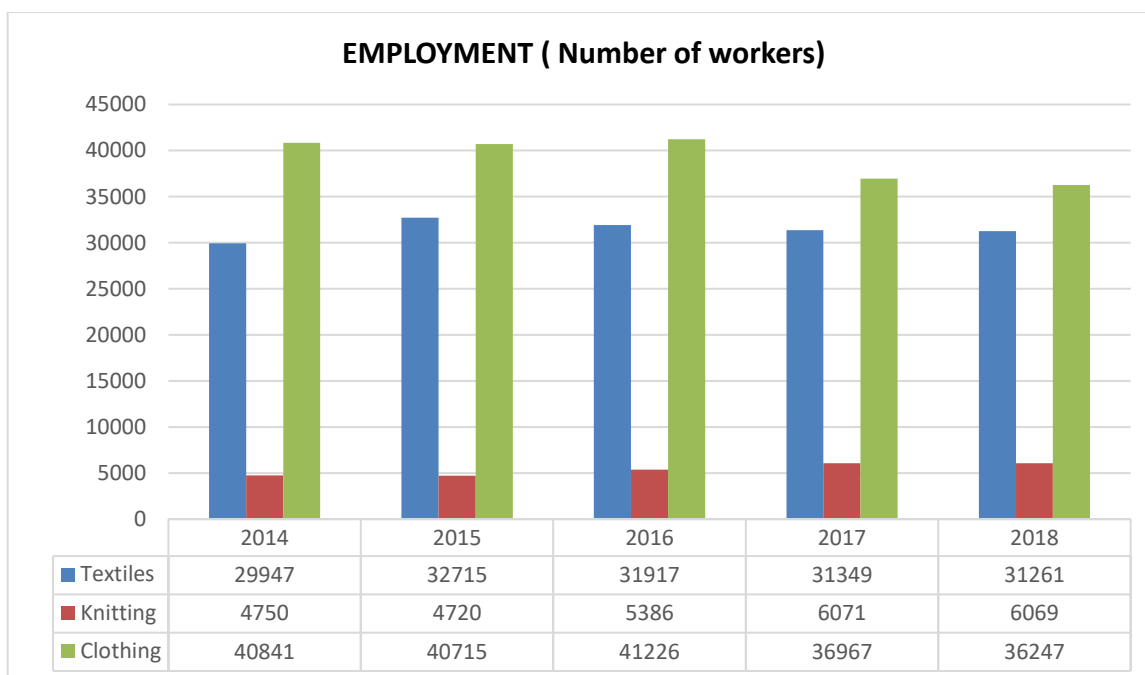
Approximately 82% of total cotton woven fabrics were exported to Lesotho and Eswatini (previously Swaziland) during 2018.

EMPLOYMENT

Employment for total manufacturing in 2018 averaged at 1 187.9 million workers, 0.6% less than 2017. Employment in the textile sector (31 346 workers) and clothing (including knitting) sector (43 060 workers) did not show any change compared to 2017.

The unemployment rate is set at around 27%, nearly a third of the working population.

Graph 8: Employment



Source: Stats SA

There is no prospect of growth in employment in both the textile and clothing sectors. The knitting sector is both capital and labour intensive while the clothing sector is labour intensive. For the past five years employment did not increase.

COTTON FIBRE PRODUCTION

The 5th estimate for the 2018/19 production year indicates a cotton crop of 244 649 lint bales (approximately 48 930 tons) for South Africa. It is an increase of 30% over the previous season. It is mainly due to the more favourable prices of cotton in relation to competitive crops, but also due to renewed interest in cotton production.

PRICE COMPARISONS

One of the major problems that the local textile and clothing industries experience, is the continued occurrence of under-invoicing of imported goods.

Currently the local price for cotton lint is on average R27/kg.

Generally, the price increases when it is spun into yarn, with value added to the price of fabrics once it is woven. During 2018 about 1 030 tons of spun cotton yarn was imported at

an average free-on-board (fob) price of less than R20/kg, which relates to 11% of total cotton spun yarn imports.

During the same year 28 191 tons of cotton woven fabrics were imported at less than R30/kg fob, which was 60% of total cotton woven fabrics imported during 2018. (This is according to SARS statistics.)

Under-invoicing is one of the major inhibitors of growth in the textile and clothing sectors.

SUMMARY

The value of ex-factory sales in 2018 is more or less the same as in 2017, and it is expected to follow the same trend in 2019. It seems as if South Africa's textile and clothing manufacturing sectors have, after months of decline, stabilised.

Based on available information it is expected that imports would continue to increase, especially clothing, while exports could decrease.

The country's high unemployment rate is also an indication of the declining trend in the applicable sectors.

CONCLUSION

Indications are that conditions in the local textile and clothing sectors would be stagnant in 2019 with no real increase in production, investments, employment and growth. The same applies to the cotton part of the industry.

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