
SUSTAINABLE COTTON CLUSTER REPORT Q2/2018

OUTLOOK ON TEXTILES

General

According to the SA Reserve Bank the global economy continued to strengthen during the second half of 2017 and it appears that a broad-based cyclical recovery is underway. The upswing in economic growth has been wide-spread, with better-than-expected growth in Europe and Asia.

During January 2018 the IMF has revised most countries' economic growth for 2018 and 2019 upwards, but also warned against possible risks to an economic growth recovery.

Although domestic financial markets could be severely impacted by negative developments in the global economic and financial landscape, an improvement in the global macro-economic environment could, however, have positive effects on future economic growth, said the Reserve Bank. According to the Reserve Bank there are strong linkages between financial stability and economic growth.

Domestic economic growth for 2017 was 1.3 per cent, while the Reserve Bank's forecast for 2018 has been adjusted upwards from 1.4 per cent to 1.7 per cent.

Textile and clothing industry

The local textile and industry, in general, struggles due to import competition and low capacity utilization as a result of insufficient demand.

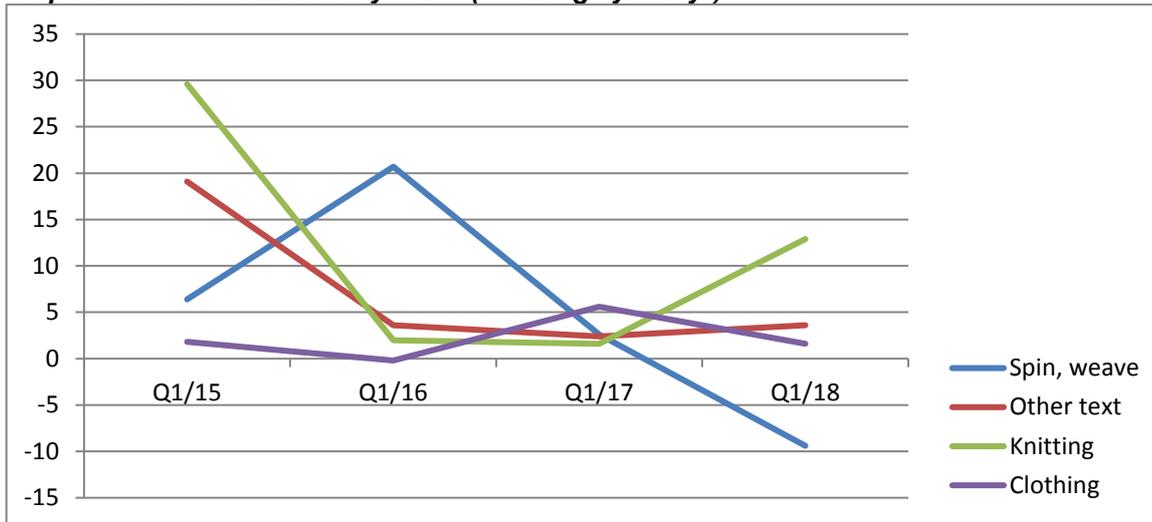
During the first quarter of 2018 production capacity utilisation for textiles was 65.1 per cent compared to 65.6 per cent in the first quarter of 2017. That of clothing was 75.8 per cent compared to 76.2 per cent in the first quarter of 2017. Total manufacturing's capacity utilisation stood at 80.5 per cent, about one per cent higher than for the first quarter in 2017.

The average Volume of Production Index (2015=100, seasonally adjusted) for total manufacturing during the first quarter of 2018 increased by 6.5 per cent compared to the first quarter of 2017. During the same quarter the index for the spinning, weaving and finishing sector increased by 5.0 per cent. In the knitting sector (both fabrics and garments) the volume of production index increased by nearly 8 per cent, while that of other clothing increased by 10.9 per cent. The average volume of production index for other textiles increased by 8.8 per cent year-on-year.

During January to March 2018 the value of sales for total manufacturing amounted to R495 164 million, which is 2.2 per cent more than the same quarter in 2017. During this three months total value of local ex-factory sales for all textiles and clothing amounted to R10 396 million, which represent only 2 per cent of total value of manufacturing sales. However, the value of sales for the spinning, weaving and finishing sector increased by 6 per cent and amounts to R2 123 million while that of other textiles increased by 5.7 per cent to R3 424 million. The knitting sector's sales increased by 8.7 per cent to R622 million while that of clothing increased by 11.3 per cent to amount to R4 227 million.

The total South African market for textiles and clothing for the first quarter of 2018 is approximately R17 447 million.

Graph 1: Value of Ex-factory Sales (% change yr-on-yr)



Total retail trade sales at current prices amounted to R209 887 million in the first quarter of 2018, 1.4 per cent more than the same quarter in 2017. However, retail trade sales at current prices for the textiles, clothing, leather and footwear shops increased by 4.9 per cent to amount to R37 257 million.

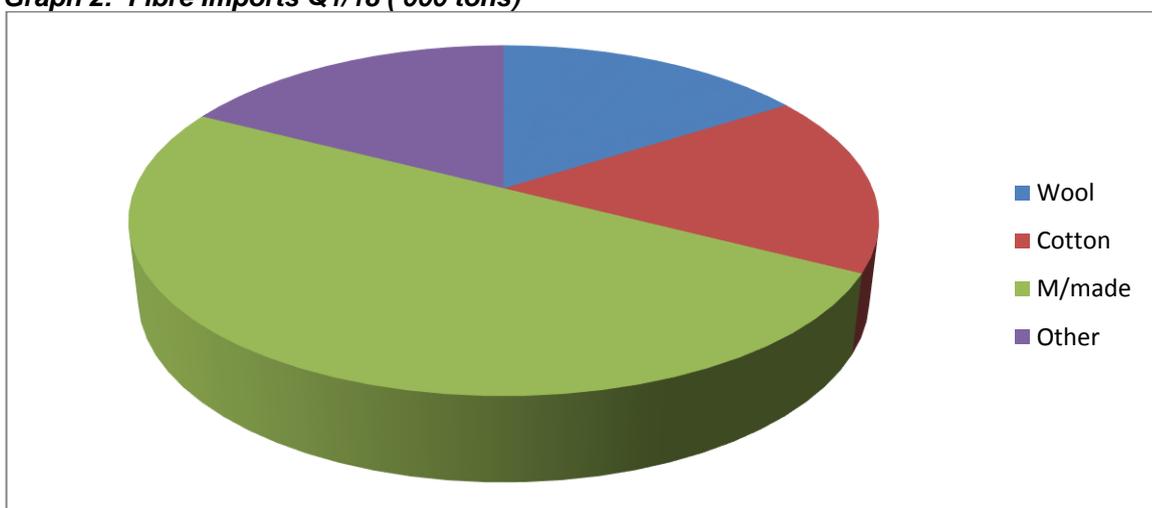
In general, prices of textiles and clothing increased during the first quarter of 2018 compared to the same quarter in 2017. The average Production Price Index (PPI 2016=100) for final manufactured textiles is 5.4 per cent higher than the first quarter of 2017, while that of clothing increased by 2.3 per cent. The Consumer Price Index (CPI 2016=100) for clothing is 2.1 per cent higher than the first quarter of 2017. The CPI for home textiles during the first quarter of 2018 showed a year-on-year decrease of 4.5 per cent.

At the time of writing employment statistics from Statistics SA was not available yet. However, employment for textiles and clothing during 2017 was 5 per cent less than 2016. Interesting to note that employment in the knitting sector showed an increase.

International textile trade

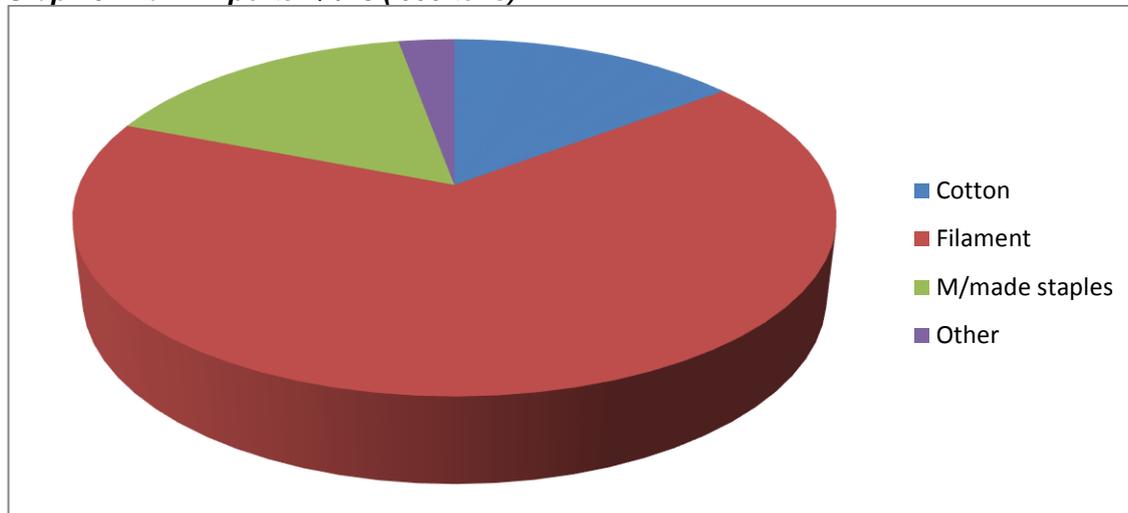
During January to March 2018 a total of approximately 2 338 tons of cotton fibres were imported, 60 per cent less than the same period in 2017, which amounted to a free-on-board value of R52 120 million. The volume of cotton fibres represented 16.8 per cent of all fibres imported during quarter one of 2018.

Graph 2: Fibre Imports Q1/18 ('000 tons)



A total of 2 082 tons of cotton yarn have been imported during the first quarter of 2018, 11 per cent less than the first quarter of 2017. The average free-on-board price was about R38.61 per kg which is 7.5 per cent less than the average price for the first quarter in 2017. Approximately 22 per cent came from Zimbabwe while 21 per cent of the volume were sourced in Mozambique. The next in line is Mauritius who represented 17 per cent of total volume of cotton yarn imports, followed by India. Cotton yarn represented 14.7 per cent of total yarn imports during the first quarter of 2018.

Graph 3: Yarn Imports Q1/18 ('000 tons)

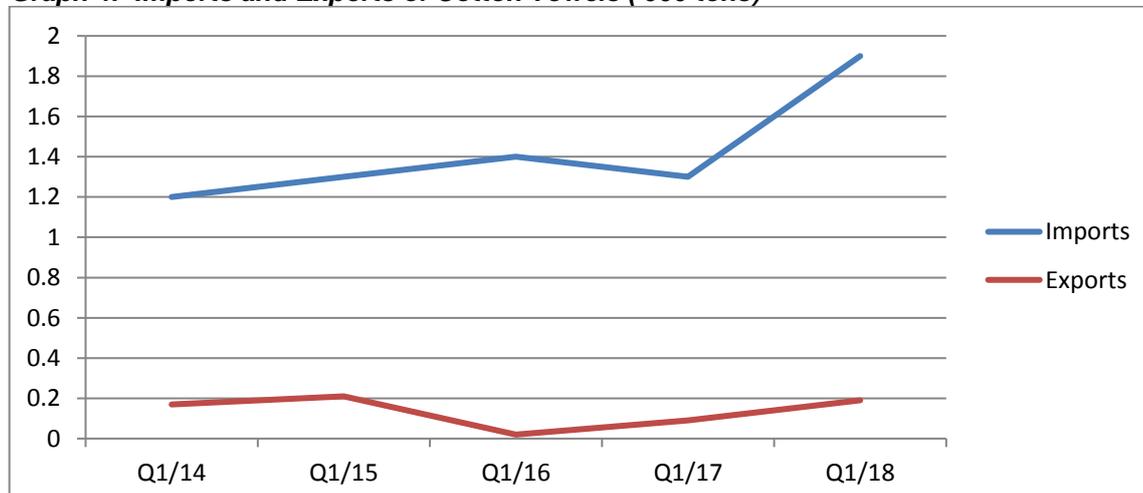


There was an increase of 19 per cent in the volume (5 009 tons) of cotton woven fabrics imported during the first quarter of 2018.

Imports of knitted cotton fabrics (2145 tons) showed an increase of 76 per cent. The majority is dyed warp knitted fabrics, probably for the coming winter season. During the first quarter of 2018 South Africa exported 164.7 tons of knitted fabrics, 31 per cent less than the same quarter in 2017.

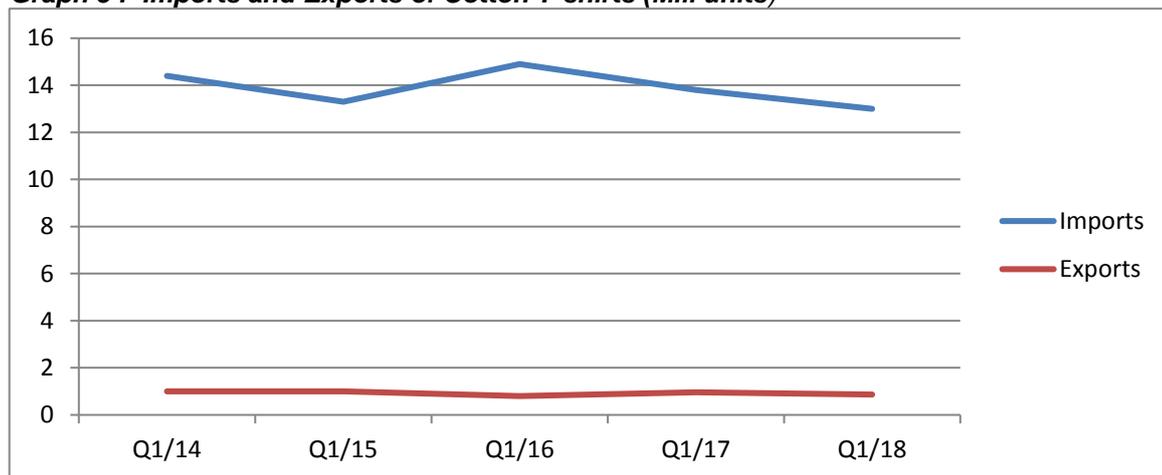
Approximately 34 per cent of the value of all imported home textiles were cotton-based and showed an increase of 26.5 per cent to amount to R196.3 million. Cotton towels are one of the cotton products that are part of the cluster initiative. During the first three months of 2018 a total of 1 889 tons of cotton towels have been imported at a value of R145.1 million, approximately 20 per cent sourced from SADC countries. It represented an increase of 41 per cent in terms of volume and 38 per cent in terms of value. There was an increase in the exports of cotton towels. During the first quarter of 2018 just more than 186 tons of towels have been exported at a value of R15.5 million, which represented an increase of 7 per cent in terms of volume and a decrease of 3 per cent in terms of value.

Graph 4: Imports and Exports of Cotton Towels ('000 tons)



The total free-on-board value of imported cotton clothing during quarter one of 2018 amounted to R2 648 million, which is 43.5 per cent of total clothing imports, and it showed an increase of 5.9 per cent compared to the first quarter of 2017. Cotton t-shirts was chosen to be part of the cluster initiative. During the first three months of 2018 a total of 13 million units of cotton t-shirts have been imported at a value of R336 million. It represented a decrease of 15 per cent in terms of volume and a decrease of 9.7 per cent in terms of value. There was a 9.2 per cent decline in the volume of exports of cotton t-shirts (only 0.86 million units), while the value increased by 1.5 per cent compared to the first quarter of 2017.

Graph 5 : Imports and Exports of Cotton T-shirts (Mill units)



The total value of textile and clothing imports during the first quarter of 2018 amounted to R10 999 million, which is 8.6 per cent more than in the first quarter of 2017. The total value of textile and clothing exports increased by less than 2 per cent to amount to R3 948 million.

CONCLUSION

Imports of cotton t-shirts, quarter one of 2018 compared to quarters one of 2016 and 2017, showed a declining trend. One can only hope that this is the result of the influence of the cotton cluster and that the difference has been made up by local sourcing. There is an increase in the imports of cotton towels, but cotton towel exports also showed an increase for the first quarters since 2016.

As mentioned earlier, the local textile and industry, in general, struggles due to import competition and low capacity utilization as a result of insufficient demand. Production and labour costs have an impact on the local production and sales of fabrics and clothing, compared to low priced imported goods.

However, there is a dramatic increase of roughly 620 per cent in the production of seed cotton and cotton lint since the 2013/14 season, and a renewed interest in cotton farming, which could only benefit the local cotton industry.

