

# Monitor

## Textiles



VOLUME  
**302**

## THROUGH THE WEAR AND TEAR

### **POSITIVE TRADE WINDS**

Trade policies that promote domestically produced goods would aid textile demand on its upward trajectory

### **COTTON FIGHTS ON**

Despite unfavorable planting conditions, U.S. cotton production is anticipated to accelerate this year

### **ATHLEISURE PREVAILS**

Athleisure clothing continues to be a dominant force in the apparel market, keeping synthetic fiber demand high

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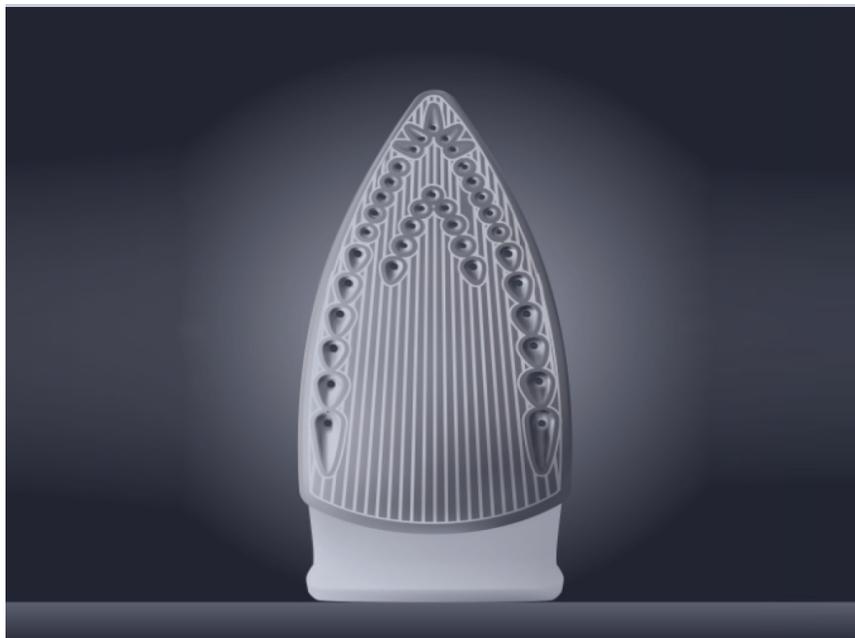


Deals are a moving target. A constantly shifting mix of people, numbers and timing. We're here to simplify this process for you. Our experts are dedicated to tracking down and flushing out the values you need even on the most complex deals, so you can leverage our hard-won knowledge to close the deal.

# Trend Tracker

	Textiles	Apparel
NOLVs	Decreasing ▼	Mixed ⬆
Sales Trend	Mixed ⬆	Increasing ▲
Gross Margin	Mixed ⬆	Decreasing ▼
Inventory	Mixed ⬆	Increasing ▲
Pricing	Increasing ▲	Mixed ⬆

	Market Prices	
	Month over Month	Year over Year
Cotton	Increasing ▲	Increasing ▲
Synthetics	Decreasing ▼	Decreasing ▼



- NOLVs:** NOLVs decreased. Many companies have been impacted by tariffs and have had to adapt to new purchasing patterns and higher acquisition prices, which have negatively impacted NOLVs. Apparel NOLVs were mixed.
- Sales Trends:** Sales for textiles were mixed, as some companies offered more in-demand products than other companies. Apparel companies witnessed increased sales trends. Apparel sales have continued to benefit from the athleisure apparel market, in addition to strong e-commerce sales, and increasing consumer confidence.
- Gross Margin:** Gross margins for textiles were mixed and were often dependent on a company's ability to pass on price increases to customers. Apparel gross margins have decreased due to increased competition, which has forced some companies to lower prices.
- Inventory:** Inventory levels for textiles were mixed. In response to the tariffs, some companies have adapted to purchasing inventory to stock for customers, while others purchase inventory solely to fulfill customer orders. Apparel inventory levels are up to keep up with sales demand.
- Pricing:** Selling price trended upward for textiles, as companies pass on tariffs and increased market prices on to customers. Apparel prices have been mixed.

# Overview

The U.S. economy experienced a boost in the first quarter of 2019 versus the prior quarter, with gross domestic product (“GDP”) increasing at an annual rate of 3.1%, despite economists predicting a slow year overall.

Economists predict total annual GDP will fall short of the U.S. administration’s goal of a 3% increase for the entire year, just as it did in 2018. At 2.2%, the fourth quarter of 2018 GDP represented a sluggish end of the year for the economy. However, according to Reuters, the economy celebrated 10 years of expansion in July 2019, the longest era of growth on record. The economy continues to gain strength from construction, particularly road investments on a municipal and state level. Additionally, although imports diminished due to the ongoing trade disputes between the U.S. and China, exports increased, bolstering domestic manufacturing. According to the National Council of Textile Organizations’ (“NCTO”) *2019 State of the U.S. Textile Industry*, U.S. exports of fiber, yarns, fabrics, man-made filaments, and apparel totaled \$30.1 billion in 2018, a 5.4% increase from the prior year.

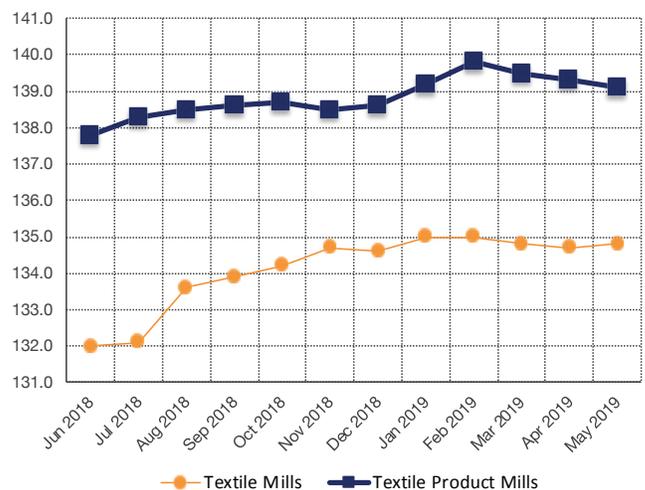
U.S. and China have not reached a trade resolution and the U.S. continues to maintain tariffs on \$250 billion in imports from China, which hold 25% tariffs. Among the tariffed imports include textiles and apparel, with the U.S. collecting over \$13 billion in textile and apparel tariffs in 2018. In addition to textiles, dyes and chemicals have been tariffed, which are utilized in the textile manufacturing process and have therefore increased domestic production costs.

However, other recently implemented U.S. policies, such as the U.S.-Mexico-Canada-Agreement signed late last year but not yet ratified, would benefit the textile industry, putting a focus on domestic manufacturing. In early June in reaction to an immigration conflict between the U.S. and Mexico, the U.S. forewarned additional tariffs on its southern neighbor.

Although the additional tariffs were never put into place, if the U.S. were to implement them, the textile industry could be hindered as Mexico is one of the U.S.’s largest markets for textile exports.

According to the NCTO, investments in fiber, yarn, fabric, and other non-apparel textile product manufacturing increased 79% from 2009 to 2018, reaching \$1.7 billion. The textile producer price index denotes the selling prices received by domestic textile mills and textile product mills for their output. Textile mills perform a variety of processes, such as yarn spinning, primary textile products manufacturing, intermediate yarn processes, fabric and thread weaving, fabric and thread braiding, production of non-woven fabrics, and textile finishing for both cotton and synthetic fibers. Textile product mills include carpet and rug mills, curtain and drapery mills, various household textile product mills, canvas mills, and cordage mills, as well as producers of other downstream textile products.

## 1 Textile Producer Price Index



# Cotton

According to data from the United States Department of Agriculture (“USDA”), the price for Upland cotton averaged \$0.71 per pound in May 2019, a marginal increase from \$0.70 per pound, which was calculated as the average price for April 2019 and May 2018.

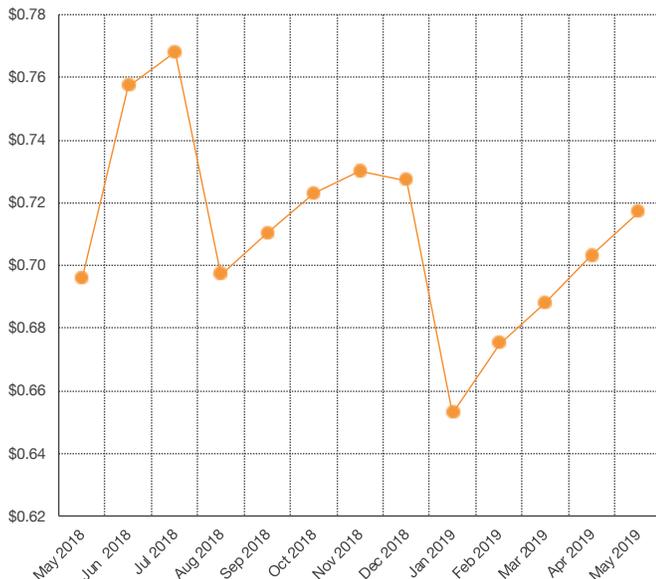
Drought conditions in West Texas and hurricanes in the Southeast hindered the cotton harvest period in the summer of 2018, resulting in a spike of pricing. Prices dropped going into 2019 among continued uncertainty surrounding the ongoing trade conflict between the U.S. and China. In May 2019, the U.S administration threatened to raise tariffs on all goods from China not previously included in the earlier duty raises. This would include Chinese apparel and home textiles.

Cotton production in the U.S. was approximately 18.4 million bales in 2018, according to the USDA, a 12% increase in production over the prior year.

As of June 2019, the USDA forecasts that domestic cotton production will total 22.0 million bales in 2019, an increase of 20.0% compared to 2018, which the USDA predicts will be the largest production increase of any country. However, cotton producers have been facing unfavorable planting conditions, such as a drought in the Southeast and excessive rainfall in the Delta. As the planting season is still ongoing, the effects the weather will have on the harvest remain tentative. The USDA projects cotton demand to be 20.1 million bales for the 2019 year. If correct, cotton demand would remain lower than production, resulting in an oversupply of goods within the industry.

Increasingly, cotton farmers and apparel manufacturers are turning toward the trend of utilizing “better cotton,” which represents a sustainable way of harvesting cotton that upholds improved working conditions and prevents environmental degradation. According to the *Better Cotton Initiative*, better cotton production nearly doubled in 2018 as compared to the prior year, with better cotton now accounting for 19% of global cotton production.

## 2 Monthly Average Upland Cotton Pricing Trend

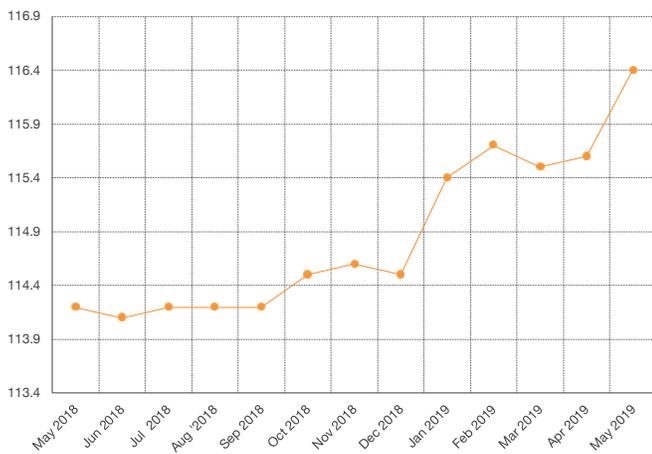


# Apparel

According to the U.S. Census Bureau, unadjusted retail sales for clothing, accessories, and shoe stores reached \$23.6 million in May 2019, which represents a decrease of 2.4% year-over-year. Contrarily, the National Retail Federation preliminary forecasts call for an increase between 3.8% to 4.4% in retail sales in 2019 compared to the prior year. Declines in apparel sales are reflected within declines in apparel pricing. The U.S. Labor Department's Consumer Price Index reports that on an unadjusted basis, apparel prices remained flat for the month of May 2019, after declining 0.8% for the month of April. For the 12 months ended May 2019, apparel prices dropped 3.1%.

The U.S. Bureau of Labor Statistics' Apparel Producer Price Index exhibits a different trend. The index was recorded at an estimated 116.4 in May 2019, an increase from 115.6 in April 2019 and 114.2 in May 2018. The figure below illustrates the apparel producer price index, which denotes the selling prices received by domestic producers for their output.

### 3 Apparel Producer Price Index



U.S. apparel shipments totaled \$11.6 billion in 2018, according to the NCTO, with apparel imports increasing 3.4% for the year as compared to 2017.

Athleisure clothing continues to remain one of the largest driving forces of apparel sales in 2019, with athletic companies such as Nike, Lululemon, and Under Armour taking the reigns of the apparel market. While many brick-and-mortar retailers have been unable to survive among fierce e-commerce competition, with over 5,800 store closures occurring last year, Lululemon opened its largest store it has ever had in July 2019. According to CNBC, Lululemon first-quarter same-store sales increased 14%, with revenue reaching \$27 million more than previously estimated. Similarly, Nike revenue increased 10% in fiscal fourth-quarter 2019 compared to the same quarter last year, with apparel sales specifically increasing 6%. Under Armour apparel sales were also up during the first quarter. As athleisure clothing continues to dominate the apparel market, synthetic fibers remain in high demand within the textile industry.



# Synthetic Fibers

As synthetic fibers are produced mainly from petroleum, they are highly sensitive to fluctuations in the world price of crude oil. According to the Energy Information Administration, crude oil prices decreased dramatically at the end of 2018 into the start of 2019, but began to rebound before dropping again in May 2019. The average spot price of Cushing, Oklahoma WTI crude oil was \$60.83 per barrel in May 2019, a decrease from \$63.86 per barrel in April 2019 and a decrease from \$69.98 per barrel in May 2018.

Global synthetic fiber prices followed suit, decreasing at the tail-end of 2018 among trade uncertainties, but rebounding after the Chinese New Year as production started back up and raw material prices increased, particularly caprolactam. However, *Emerging Textiles* notes that polyester and nylon prices began to decrease again in May and June 2019 due to falling crude oil prices.



According to the USDA, synthetic fiber products accounted for the majority of U.S. textile imports in 2018, and synthetic fibers are anticipated to remain in high demand for athleisure apparel manufacturers. Imports increased, despite trade conflicts with China, as some Chinese producers have drastically dropped prices of polyester yarn in an effort to convince U.S. spinners to continue purchasing from them, despite the additional tariffs.

## Textiles and Apparel Reference Sheet

### PRICING TREND CHANGES FOR MAY 2019 VERSUS APRIL 2019 AND MAY 2018

Commodity	% Change	
	From April 2019	From May 2018
Cotton	2.0%	3.0%
Synthetic Fiber Feedstocks		
Crude Oil	(4.7%)	(13.1%)
Natural Gas	(0.4%)	(5.7%)

# Monitor Information

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The *Textiles Monitor* relates information covering most textile and apparel products, including industry trends, market pricing, and their relation to our valuation process. GA provides our customer base with a concise document highlighting the textiles and apparel industry.

Due to the commodity nature of certain textile products, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

GA internally tracks recovery ranges for cotton fabrics and apparel, greige goods, specialty textiles, synthetic fibers such as nylon and polyester, and a wide variety of apparel in all price points, but we are mindful to adhere to your request for a simple reference document.

Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.

GA's *Textiles Monitor* provides market value and industry trend information for a variety of textile products. The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, industry publications, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable.

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# Experience

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## LIQUIDATIONS

GA has been involved in the liquidation of select industrial manufacturers and wholesalers such as Atlas Textiles, Garment Services, Seatco, and Textile Alliance, store locations for Jo-Ann Fabrics, Hancock Fabrics, and A.C. Moore, and numerous apparel Textiles stores such as Bon-Ton, Love Culture, Fashion Bug, Target Canada, Jones New York Canada, Kids Mart, Clothestime, Mervyn's, and Eddie Bauer. Other industrial machinery and equipment liquidations include Alfani Shirts, Barth & Dreyfus, Belding Hausman, Linens & Things, Rock and Republic Jeans, Teddi of California, and Textile Alliance.

## APPRAISALS

In addition, GA has worked with and appraised numerous manufacturers and distributors within the textiles and apparel industries. While our appraisal clients remain confidential, GA's extensive list of appraisal experience includes the following sampling of companies:

- One of the largest integrated producers of synthetic fibers worldwide, with annual net sales exceeding \$3.0 billion.
- One of the largest manufacturers of performance synthetic fabrics, offering over 480 styles of synthetic fabric with varying weights, textures, and other technical functions.
- A wholesale distributor of imprintable apparel, including t-shirts, fleece apparel, sports shirts, headwear, and athletic wear, with net sales exceeding \$700 million annually.
- An industry leader in textile and chemical products, which include denim, dyed fabrics, and flame retardant fabrics used in apparel and home furnishings.
- One of the U.S.'s foremost producers of Textiles fabrics, specialty fabrics, and craft products, manufacturing goods in a variety of synthetic fibers.
- A manufacturer of cotton-nylon greige fabrics used in the design of military and fire retardant apparel.
- A designer and manufacturer of various home textiles, including linens, sheets, towels, aprons, uniforms, curtains, and pillows, among many others.
- Producers of various apparel types, including headwear, sweaters, and sporting apparel.
- A manufacturer of tufted carpets from synthetic fibers serving residential and commercial applications.

GA additionally maintains appraisal experience involving more regionalized and specialized companies, allowing for the utmost depth in our valuations:

- Textile spinning mills producing fabric for the apparel, automotive, and home textile industries.
- Distributors of fabrics for furniture, apparel, and other textile applications.
- Manufacturers and distributors of apparel, rugs, and other woven fabric products.
- Manufacturers and distributors of cotton, polyester, nylon, and acrylic fibers and specialty fabrics for various industries.
- Spinners of cotton yarn.
- Manufacturers of performance synthetic fabrics.
- Textile users of textile products and apparel.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the textile and apparel industry that we utilize for insight and perspective on recovery values.



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# About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of Textiles, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the *Textiles Monitor*, GA also provides clients with industry expertise in the form of monitors for the chemicals and plastics, metals, food, and paper and packaging sectors, among many others. For more information, please visit [www.greatamerican.com](http://www.greatamerican.com).

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