

Impact of COVID-19 Scenario on European and the US Apparel Market

The Big Fall: EU and the US Apparel Consumption to Reduce by US\$ 300 bn.

12th April 2020



Contents

- Key Impacting Factors
 - Lockdown
 - Economy Shrinkage
- Expected Impact on Apparel Consumption & Imports
- Current and Expected Sourcing Scenario
- Message for Indian Apparel Exporters

Lockdown Scenario

- Most European countries and the US are under lockdown since mid-March.
- Peak of new COVID-19 cases is expected between end-April to mid-May, based on which lockdown is expected to last till mid-July* :

Since mid-march, most of the major fashion brands have declared complete store closures

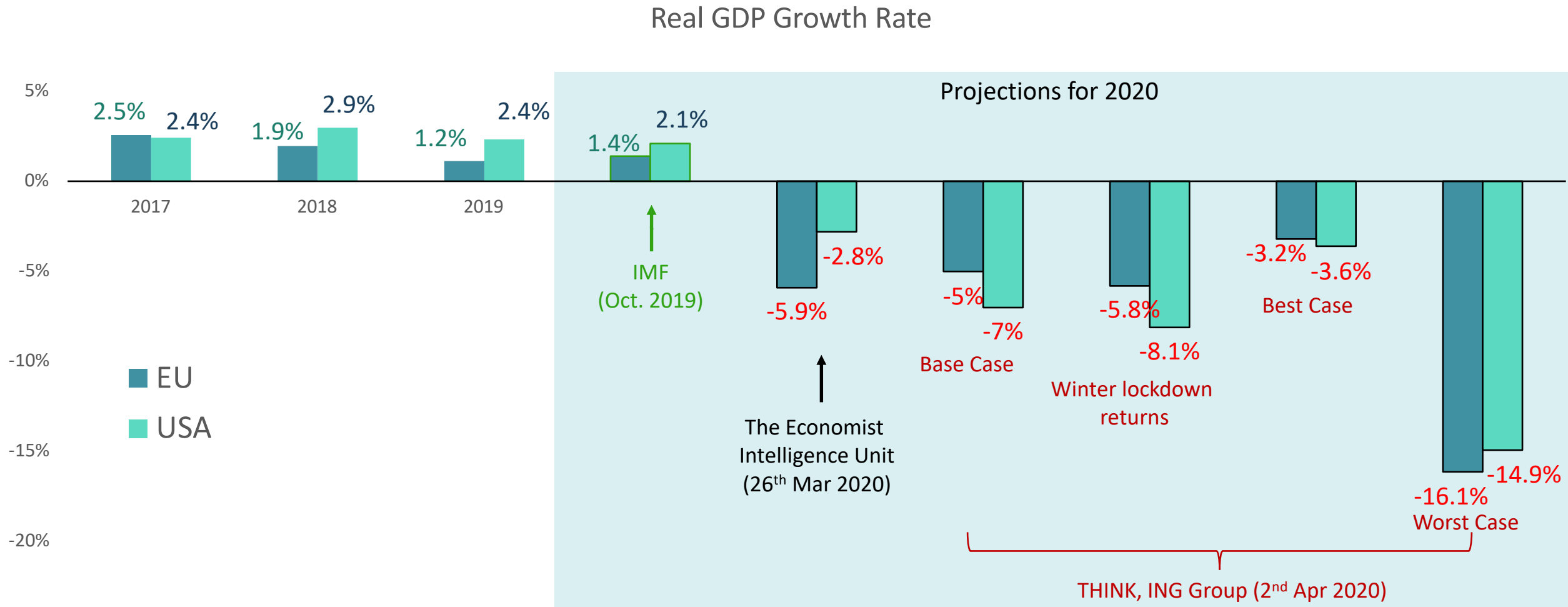
Country	Lockdown Start Date	Peak New Case Date	Short Potential Lockdown End Date	Long Potential Lockdown End Date
US	W1 April (latest states)	W1 May	W2 June (earliest states)	W3 July (earliest states)
Germany	22 nd Mar	W1 May	W2 June	W1 July
UK	24 th Mar	W3 May	W3 June	W4 July
France	17 th Mar	W3 May	W2 June	W4 July
Italy	10 th Mar	W3 April	W2 June	W1 July
Spain	14 th Mar	W4 April	W1 June	W3 July
Poland	24 th Mar	W4 April	W3 June	W1 July
Belgium	17 th Mar	W3 May	W2 June	W4 July
Sweden	11 th Mar	W4 Mar	W1 June	W3 June

* Source: Epidemic Projection by BCG, Mar 26, 2020



- This implies total 3 to 4 months closure for almost all the brick-and-mortar fashion stores across US and Europe.

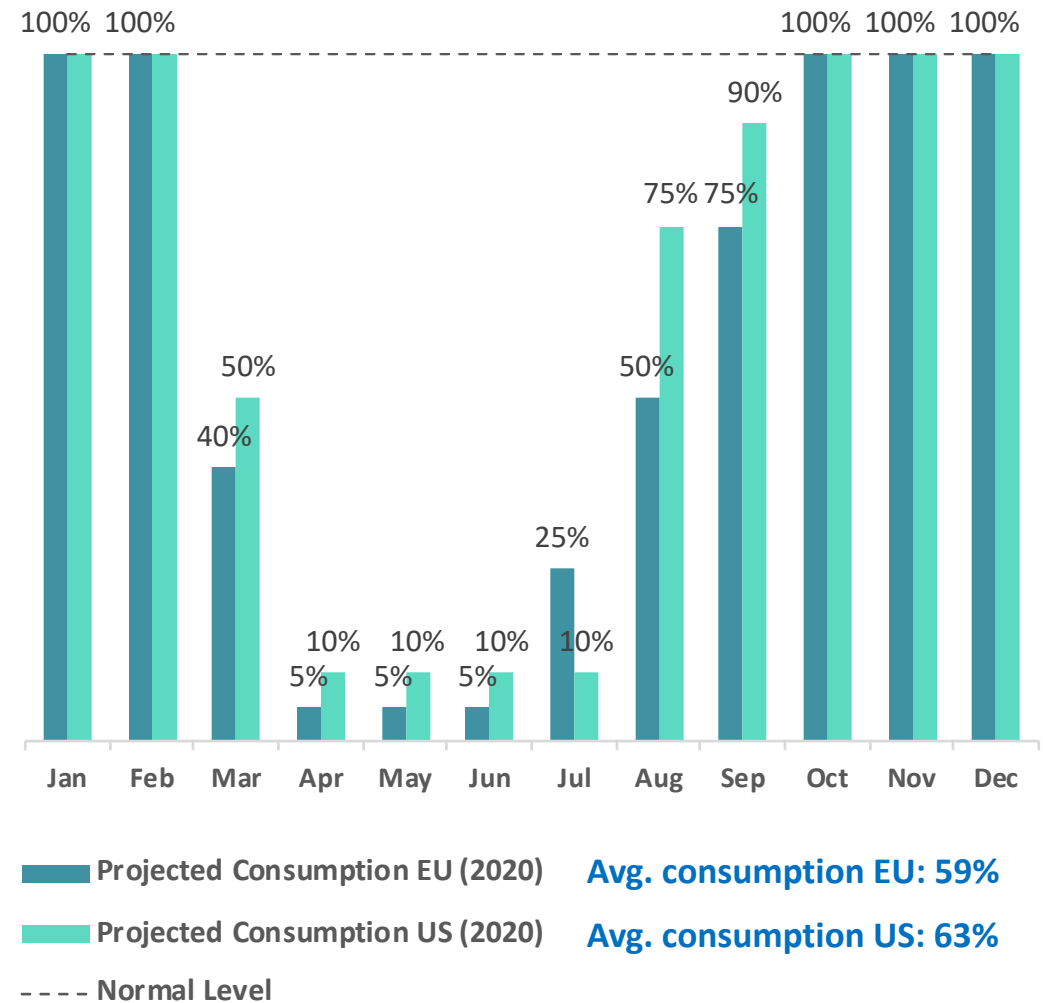
GDP Projections



US economy is expected to reduce by 3 to 4%, whereas EU's economy will reduce by 5 to 6%

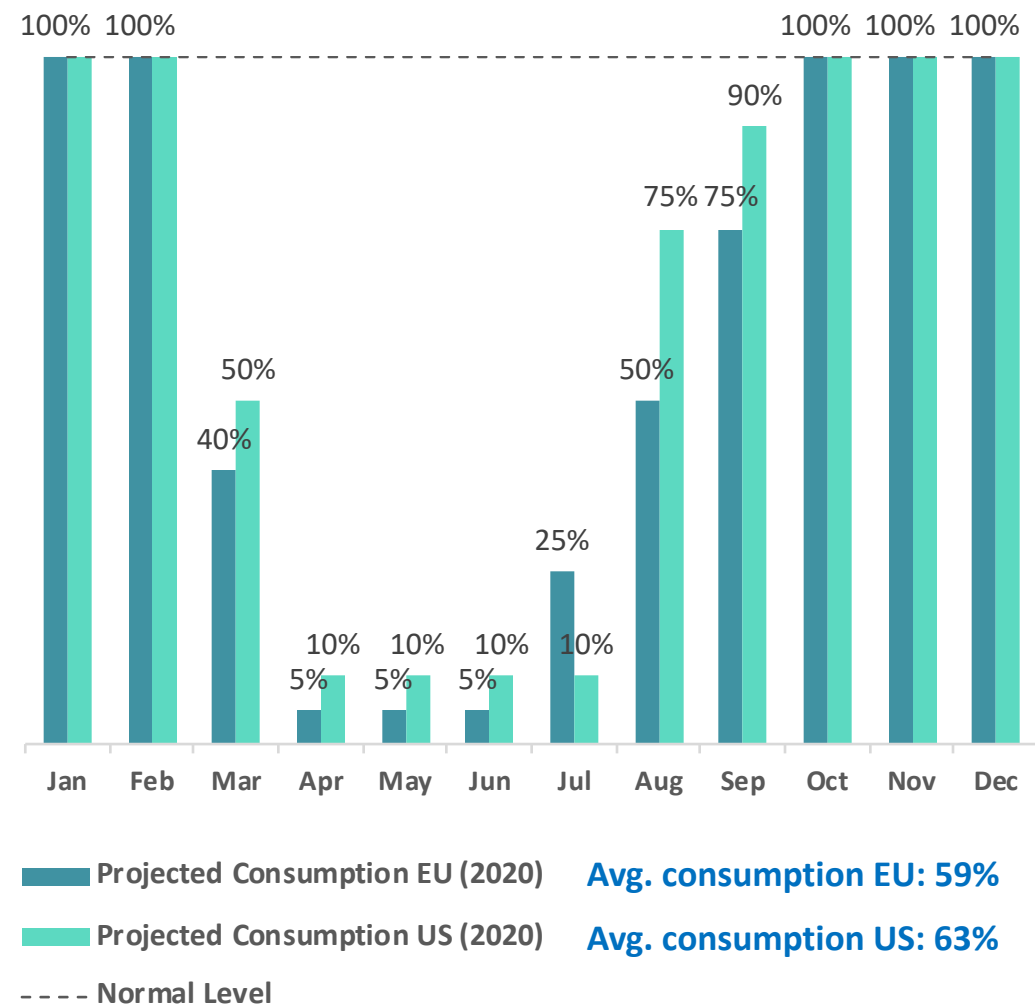
Expected Impact on Apparel Consumption

- Online stores remain the only option to buy apparel, but consumers are primarily focusing on grocery, medicines and staples purchase. Apparel purchasing will largely be delayed due to:
 - No urgency to replenish
 - Uncertain economic scenario
 - Reduction in occasions to go out (schools, offices, restaurants, gyms, etc. are all closed)
 - Limited product options and late & expensive deliveries (online stores)
- US as a society is more consumerist compared to Europe. Younger population with a habit of regular spending will cause US to maintain a tad higher consumption than EU during the lockdown period; and more importantly, faster return to normal consumption levels.
- European economy was already under stress for last couple of years and countries like Italy and Spain, having been hit worst by the epidemic will cause lower level of consumption than the US in 2020



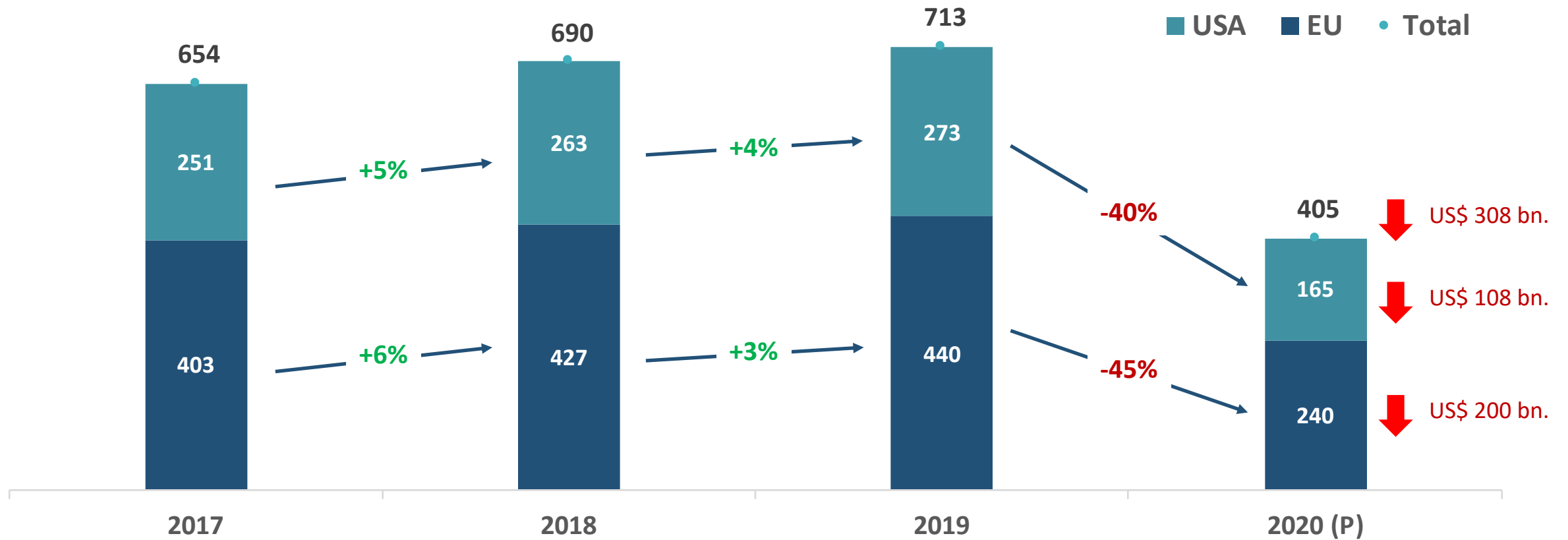
Expected Impact on Apparel Consumption

- **EU Market:**
 - 41% less consumption due to store closures
 - GDP shrinkage by 5 to 6%
 - **Net impact expected – 45% lower apparel consumption in 2020**
- **US Market:**
 - 37% less consumption due to store closures
 - GDP shrinkage by 3 to 4%
 - **Net impact expected – 40% lower apparel consumption in 2020**



Expected Impact on Apparel Consumption

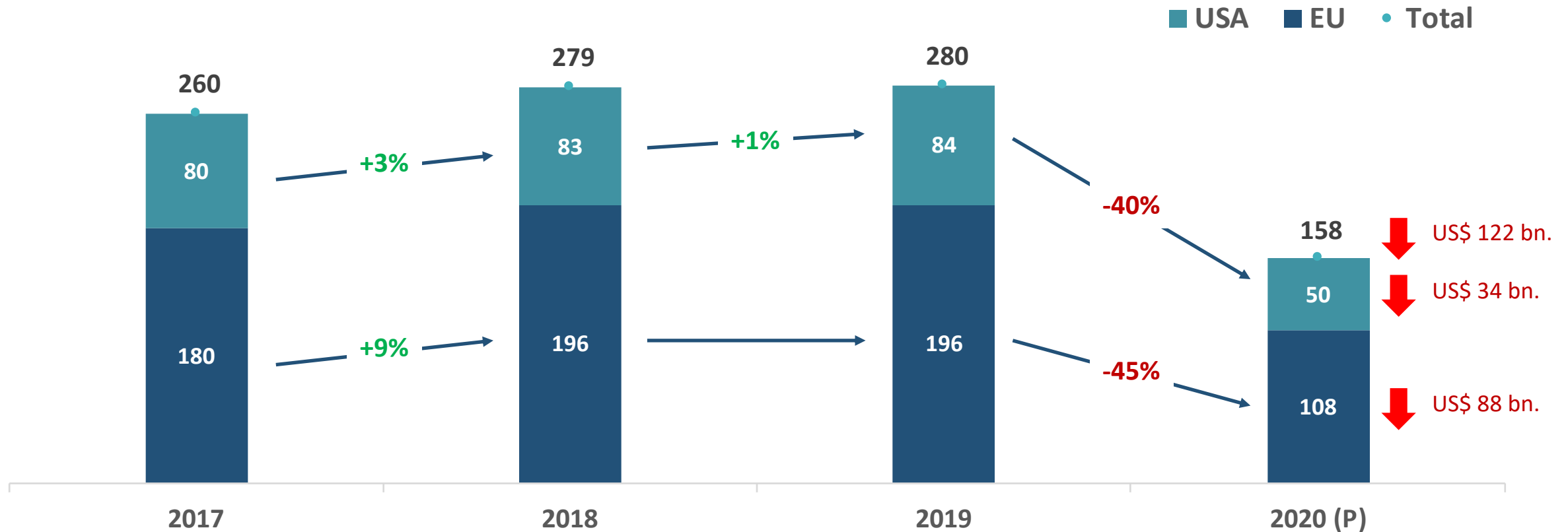
Values in US\$ bn.



In 2020, the combined apparel consumption of EU and the US is expected to reduce by approx. US\$ 308 bn.

Expected Impact on Apparel Imports

Values in US\$ bn.



There will be total reduction of US\$ 122 bn. in apparel imports of EU and the US because of lower market consumption.

What are Global Brands and Retailers Saying?

“We will of course pay for these goods and we will do it under agreed payment terms,” H&M spokesperson said in a statement. “This is in accordance with our responsible purchasing practices and not only the case in Bangladesh, but in all production countries.”

“...C&A has had to close all its 1,400 stores across Europe. This has resulted in a complete loss of store sales ...with no definite end in sight. As a traditional high-street retailer, we cannot compensate for the loss of revenue through our C&A online sales.” - C&A company spokesperson

“We will do our utmost to live up to our commitments and take delivery of garments already made and those in production. We are aware of our responsibility and we are in close dialogue with each of our suppliers on how to handle the current crisis.” - Thomas Børglum, CFO, Bestseller

“The company is also temporarily closing its online businesses tjmaxx.com, marshalls.com and sierra.com, as well as its distribution and fulfillment centers and offices, ...” - Ernie Herrman, CEO and President, The TJX Companies

Macy’s declared that the heavy toll from coronavirus is forcing it to freeze both hiring and spending, reducing receipts and extending the terms for payment of all goods and services.

“This is the first time in our history that we are unable to deliver exceptional merchandise to our customers” – statement by Ross Stores. They informed vendors it will cancel merchandise orders through mid-June and also extend payment terms on all existing merchandise payables by 90 days

PVH and Target decided to take the ready goods along with the goods in production. US retailer Target confirmed with full assurance that they would take all orders and it would take full responsibility and come up with all pending solutions.

“We are losing sales of £650m a month... We have large quantities of existing stock in our stores, our depots and in transit, that is paid for. If we had not taken this action, we would be taking delivery of stock that we simply could not sell. - Primark spokesperson

“We are not currently able to predict the timing of store reopening.” - L Brands spokesperson

“All company stores, offices and other operations, including the web site, would close at the end from March 13 until further notice” - Rose Marcario, CEO and President, Patagonia



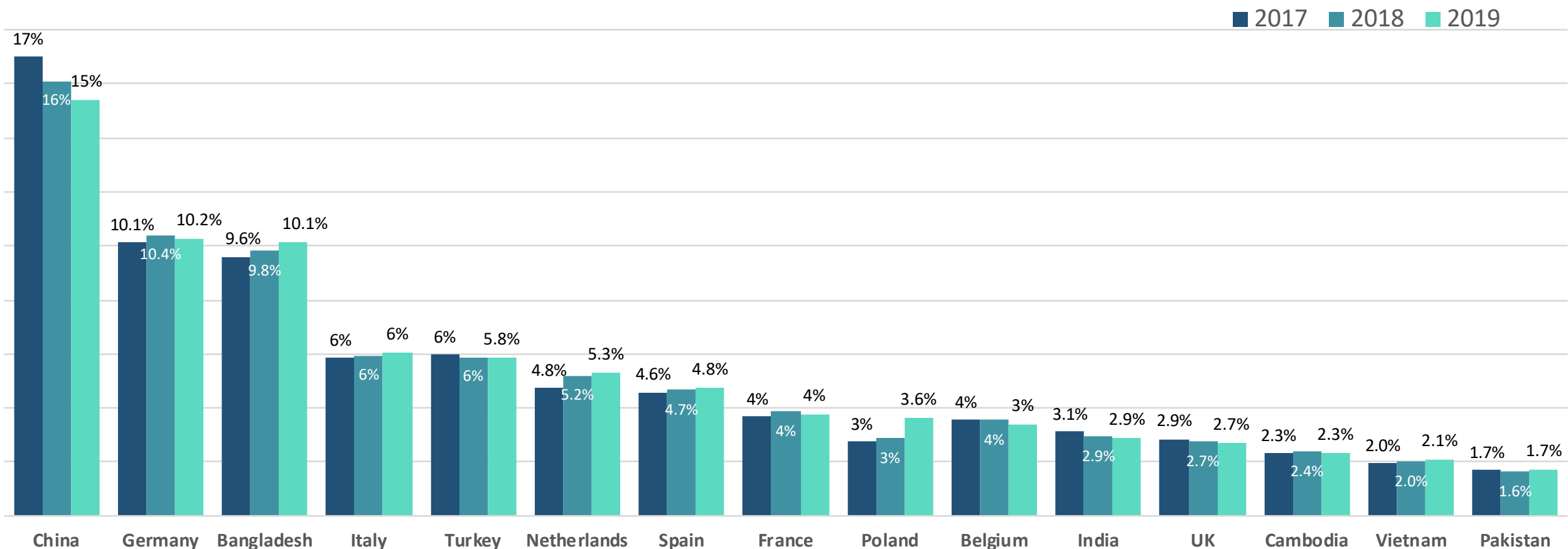
Current and Expected Sourcing Scenario



Current Imports Scenario in EU

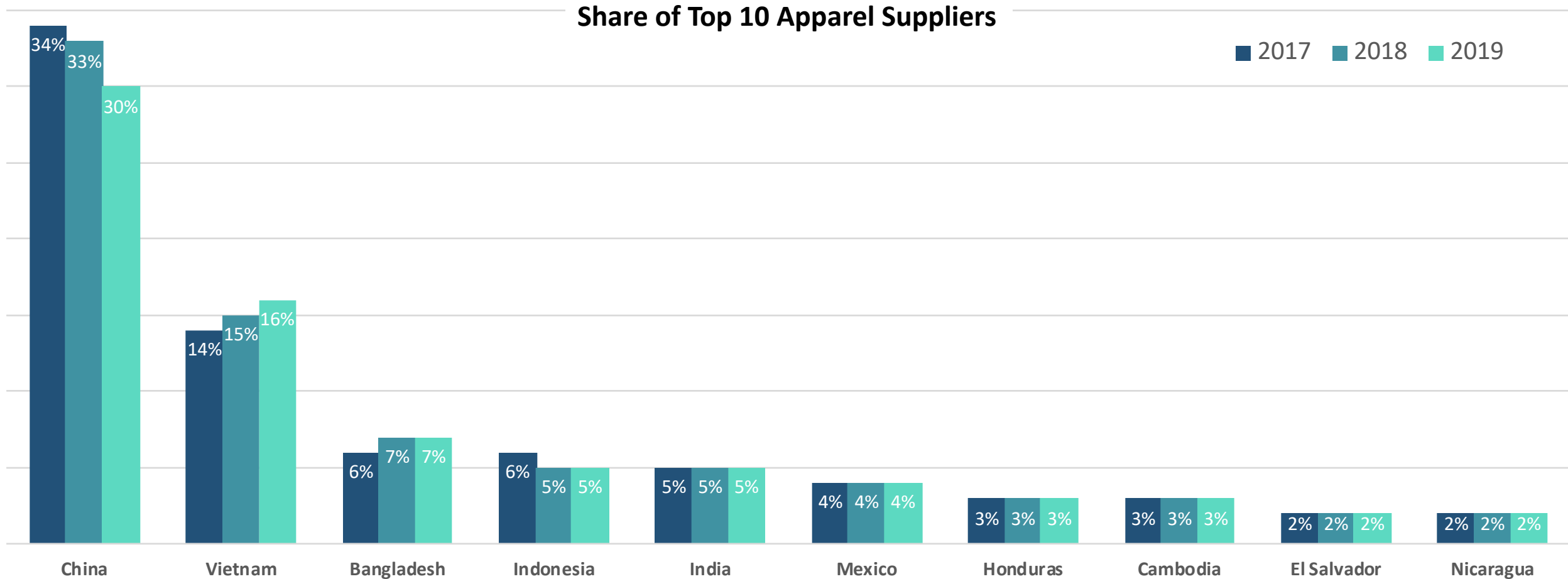
- China's share has reduced from 17% to 15% in last 3 years. The gap has mainly been filled by Bangladesh, the Netherlands and Poland.

Share of Top 15 Apparel Suppliers

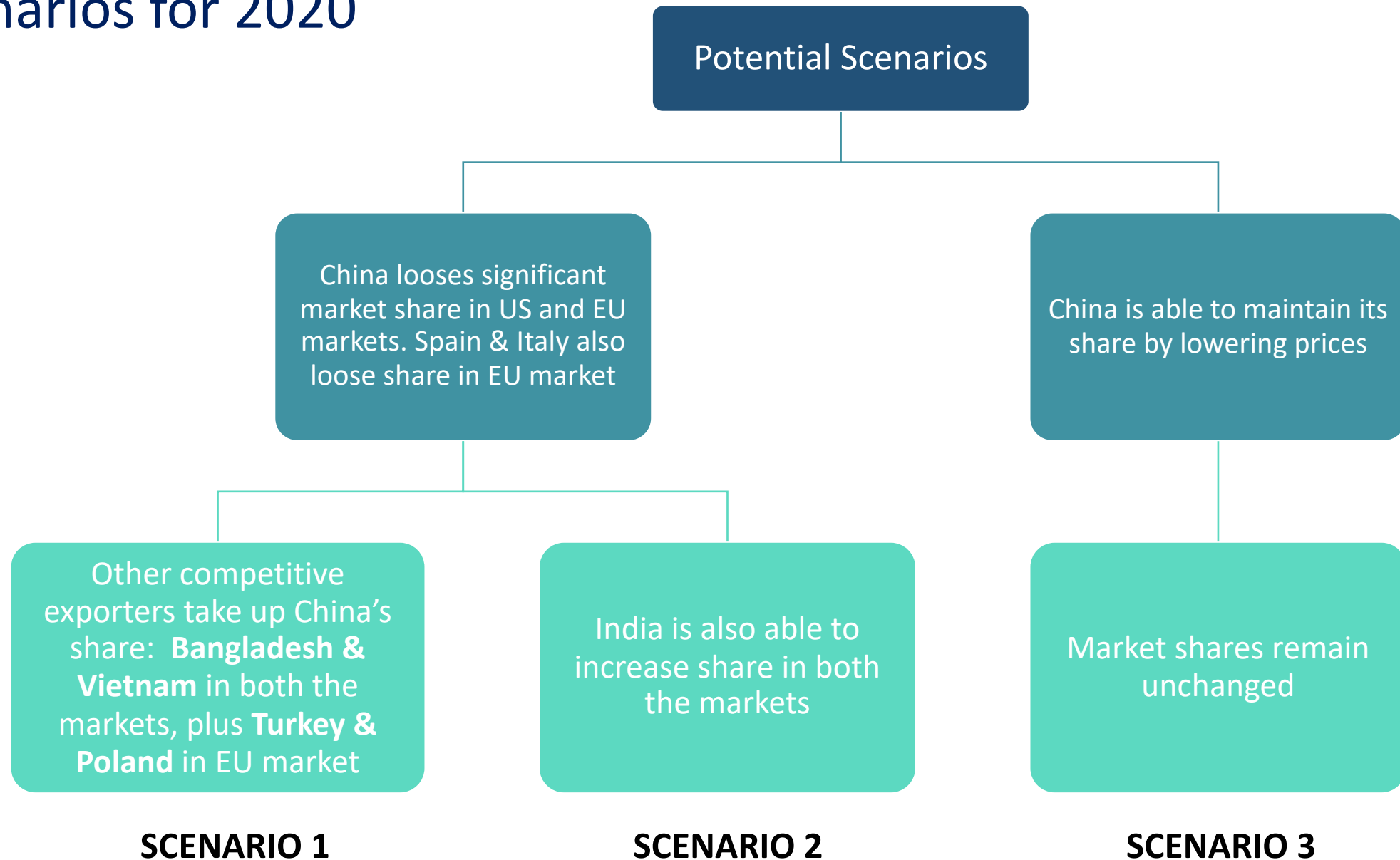


Current Imports Scenario in US

- China's share has reduced from 34% to 30% in last 3 years. The gap has mainly been filled by Vietnam and Bangladesh.



Scenarios for 2020



Note on India's Exports Under Various Scenarios

- India is competitive in cotton products and women's fashion wear but once the market revives in H2 2020, the demand in US and Europe would be for autumn-winter season products where India's expertise is missing.
- Also, by that time China will be fully geared up for production. This will re-establish Vietnam and Bangladesh's broken supply chains as well.
- Scenario 2, where India captures some of the trade share from China, can only happen when Indian exporters focus immediately on synthetics - functional, performance and outerwear apparel; and improve their competitiveness in core categories where China may lower prices to retain share.

EU Import Scenarios in 2020

Values in US\$ bn.

	2019		Scenario 1			Scenario 2			Scenario 3		
SCENARIO:			China, Italy and Spain loose share to Bangladesh, Turkey, Poland and Vietnam			China, Italy and Spain loose share to Bangladesh, Turkey, Poland, Vietnam and India			China maintain share by reducing prices		
Supplier	Import Value	Market Share	Import Value	Value Change	Market Share	Import Value	Value Change	Market Share	Import Value	Value Change	Market Share
China	30.1	15%	15	-50%	14%	15	-50%	14%	16.6	-45%	15%
Italy	11.8	6%	3.6	-70%	3%	3.6	-70%	3%	6.5	-45%	6%
Spain	9.4	5%	2.8	-70%	3%	2.8	-70%	3%	5.2	-45%	5%
Bangladesh	19.8	10%	13.8	-30%	13%	13.3	-33%	12%	10.9	-45%	10%
Turkey	11.4	6%	9.1	-20%	8%	8.6	-25%	8%	6.3	-45%	6%
Poland	7.1	4%	5.3	-25%	5%	5	-30%	5%	3.9	-45%	4%
Vietnam	4.1	2%	2.9	-30%	3%	2.7	-35%	3%	2.3	-45%	2%
India	5.6	3%	2.5	-55%	2%	4	-30%	4%	3.1	-45%	3%
Others	96.4	49%	53	-45%	49%	53	-45%	49%	53.2	-45%	49%
Total	195.8		108	-45%		108	-45%		108	-45%	

US Import Scenarios in 2020

Values in US\$ bn.

	2019		Scenario 1			Scenario 2			Scenario 3		
SCENARIO:			China loses share to Vietnam and Bangladesh			China loses share to Vietnam, Bangladesh & India			China maintains share by reducing prices		
Supplier	Import Value	Market Share	Import Value	Value Change	Market Share	Import Value	Value Change	Market Share	Import Value	Value Change	Market Share
China	24.90	30%	12.5	-50%	25%	12.5	-50%	25%	14.9	-40%	30%
Vietnam	13.56	16%	10.2	-25%	20%	9.6	-29%	19%	8.1	-40%	16%
Bangladesh	5.93	7%	4.4	-26%	9%	4	-33%	8%	3.6	-40%	7%
India	4.06	5%	2.0	-51%	4%	3.0	-26%	6%	2.4	-40%	5%
Others	34.83	42%	20.9	-40%	42%	20.9	-40%	42%	20.9	-40%	42%
Total	83.28		50	-40%		50	-40%		50	-40%	

Category Wise Gainers in EU Market

- 50% of the EU imports is concentrated in top 15 apparel categories. China is the largest supplier in 8 of them.

Product	Total Imports (US\$ bn.)	Country wise share						Chances of China loosing share	Potential Gainers in Category
		China	B'desh	Turkey	Poland	India	Vietnam		
Cotton T-shirts	14.5	3%	24%	8%	3%	6%	1%	High	Bangladesh, Turkey and India
M/B cotton trousers	12.2	5%	19%	6%	5%	2%	1%	High	Bangladesh and Poland
Knitted jerseys/pullovers MMF	10.3	23%	15%	7%	4%	0%	1%	Medium	Bangladesh and Turkey
Knitted jerseys/pullovers cotton	10.0	12%	15%	8%	3%	2%	1%	High	Bangladesh and Turkey
W/G cotton trousers	8.8	8%	17%	12%	4%	1%	1%	High	Bangladesh and Turkey
Knitted T-shirts	6.1	12%	7%	12%	3%	2%	2%	High	Bangladesh and Turkey
W/G windcheaters jackets MMF	4.6	31%	4%	1%	4%	0%	6%	Low	Vietnam
M/B windcheaters jackets MMF	4.4	30%	5%	0%	2%	0%	6%	Low	Vietnam
M/B cotton shirts	4.4	8%	17%	7%	2%	6%	4%	High	Bangladesh,, Turkey and India
W/G blouses MMF	4.4	15%	5%	9%	5%	8%	2%	Medium	Turkey, India and Poland
Knitted Brasseries	4.1	21%	7%	1%	5%	1%	4%	Low	Poland
W/G dresses (synthetic fibre)	3.9	23%	1%	4%	6%	5%	1%	Low	Poland and India
W/G knitted cotton trousers	3.5	7%	23%	4%	4%	5%	1%	High	Bangladesh and India
M/B trousers (synthetic fibre)	3.2	14%	10%	4%	4%	1%	7%	Medium	Bangladesh and Vietnam
W/G trousers (synthetic fibre)	3.0	15%	6%	7%	4%	2%	6%	Low	Turkey and Vietnam

M/B – Men's and Boys'; W/G – Women's and Girls'; MMF – Manmade fibre based

Category Wise Gainers in US Market

- 81% of the US imports is concentrated in top 20 apparel categories. China is the largest supplier in 13 of them.

Product	Total Imports (US\$ bn.)	Country wise share				Chances of China losing share	Potential Gainers in Category
		China	Vietnam	B'desh	India		
M/B KNIT SHIRTS, COTTON	7.16	12%	13%	5%	9%	High	Vietnam & India
M/B COT. TROUSERS/BREECHES/SHORTS	5.98	12%	10%	25%	3%	High	Bangladesh
W/G COTTON TROUSERS/SLACKS/SHORTS	5.84	28%	20%	14%	2%	Medium	Vietnam & Bangladesh
W/G KNIT SHIRTS/BLOUSES, COTTON	5.35	22%	21%	4%	6%	Medium	Vietnam & India
OTHER MMF APPAREL	4.83	51%	14%	4%	2%	Low	Vietnam
W/G MMF KNIT SHIRTS / BLOUSES	4.66	28%	21%	2%	1%	Medium	Vietnam
M/B MMF KNIT SHIRTS	4.39	9%	14%	1%	0%	High	Vietnam
W/G MMF SLACKS/BREECHES/SHORTS	3.38	21%	30%	2%	1%	High	Vietnam
MMF DRESSES	3.13	44%	19%	1%	8%	Low	Vietnam & India
M/B MMF TROUSERS/BREECHES/SHORTS	2.86	15%	24%	9%	1%	High	Vietnam
M/B COTTON SHIRTS, NOT KNIT	2.58	15%	13%	23%	9%	High	Vietnam, Bangladesh & India
W/G MMF COATS	2.56	46%	27%	4%	1%	Low	Vietnam
OTHER M/B MMF COATS	2.41	41%	28%	5%	1%	Low	Vietnam
COTTON UNDERWEAR	2.27	9%	15%	9%	12%	High	Vietnam & India
BABIES' GARM. / CLOTH. ACCESS.	2.25	37%	12%	9%	12%	Low	Vietnam & India
MMF BRAS / OTH BODY SUPPORT GARM	2.13	39%	15%	2%	3%	Low	Vietnam
W/G NOT-KNIT MMF SHIRTS / BLOUSES	1.74	32%	20%	2%	14%	Medium	Vietnam & India
MMF HOSIERY	1.53	73%	2%	0%	2%	Low	-
MMF UNDERWEAR	1.43	40%	17%	4%	3%	Low	Vietnam
OTHER COTTON APPAREL	1.15	38%	9%	9%	5%	Low	-

M/B – Men's and Boys'; W/G – Women's and Girls'; MMF – Manmade fibre based

Message for Indian Apparel Exporters

- 60% of India's apparel exports are destined for EU and the US markets. Retaining market share in these markets in 2020 will be critical for Indian industry to survive. India will face stiff competition from Bangladesh and Vietnam but also from China which could lower prices.
- The strategy for Indian apparel exporters, therefore, will be to **Consolidate** and **Diversify**.

CONSOLIDATE

- India has the capacity and competence to gain share in its core **cotton based categories**. In some **women's fashionwear categories** where orders are smaller and there is a need for value addition (embroidery, schiffli, etc.), India can gain share in both cotton as well as manmade categories.
- Important here will be to **focus on manufacturing excellence and improve cost competitiveness** to ward off business risk from China or others lowering prices to retain market share.

DIVERSIFY

- Product basket diversification beyond cotton is more important today than ever. In medium to long term, Indian apparel exporters need to **invest and develop expertise in MMF garments** – winter wear, outerwear, functional & performance wear, etc.

CONTACT

Prashant Agarwal

Joint Managing Director

prashant@wazir.in

+91 98711 95008

Varun Vaid

Associate Director

varun@wazir.in

+91 98999 85979

Wazir Advisors Pvt. Ltd

3rd Floor , Building #115, Sector 44, Gurgaon - 122 002 Haryana- India

Tel : +91 124 4590 300