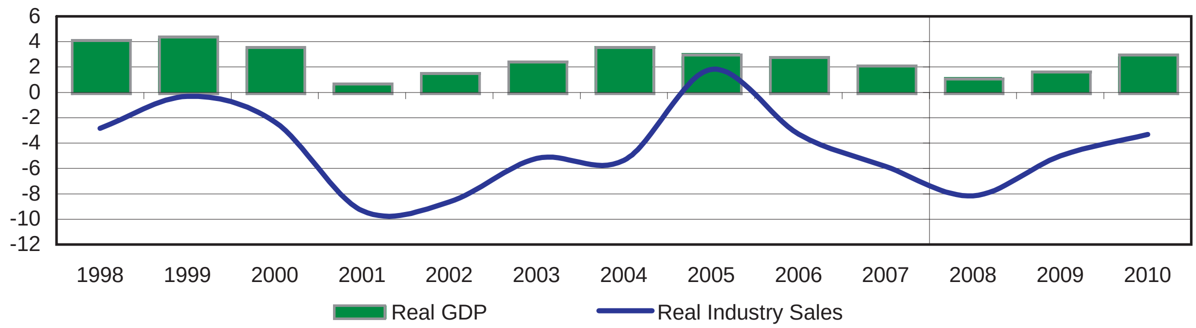
TEXTILE AND APPAREL

Sector vs. Overall Economy
(Percent change from a year earlier)



Summary

Declines in real industry sales (output) for the U.S. textile and apparel industry will accelerate during the recession. There also is little hope these declines will end once the U.S. economy recovers.

The U.S. economic recession will impact a wide spectrum of industries. While the hardest hit will be housing-related sectors, many other consumer-related industries will feel the impact of the economic downturn. Most of these industries are part of a regular business environment that experiences periods of significant growth volatility. The textile and apparel industry stands removed from this category because output declines have been pervasive for years.

Last year's production for U.S. apparel and textiles was only 70-75% of what it was in 2002. The primary reason behind this decline is the tremendous growth in imports. For the past six years, real textile imports into the United States have grown at a 6.0% average annual rate. Apparel imports have increased at a 4.0% average annual rate. A high percentage of these imports has come from regions like Asia—particularly China, India, and Pakistan—and Latin America, where the U.S. dollar is still relatively strong compared to other major currencies like the euro and yen. Therefore, a weakening U.S. dollar in 2008 will do very little to stem the import tide.

Besides imports, another factor driving the textile and apparel sector is consumer spending. With consumer sentiment at a 26-year low, gasoline prices approaching $4.00/gallon, and unemployment on the rise, most consumer purchases will be limited to necessities, like food and fuel. As a result, real consumer spending for clothing and shoes, which grew at a 5.0% average annual rate the past six years, is likely to remain unchanged this year. The combination of continuing import penetration and weak consumer spending will accelerate the production decline in U.S. apparel production to 5.0% in 2008. The textile industry should see production declines close to 10.0%.

From a ranking perspective, it should not be surprising that textiles and apparel are likely to be one of the worst-performing sectors in 2008. They should be in the bottom 25% of 100 industries. However, unlike much of the other manufacturing sectors, do not expect to see these two industries participate in the 2009 recovery. Continuing spending weakness for clothing, combined with further import penetration, is likely to push apparel and textiles into the lowly bottom 10% in 2009.

Industry Rank: Textiles
(Out of 100)

2007	2008	2009	2010
91	88	94	93