

# Wearing Well

The textile market slumped in the first half of fiscal 1986 due to the steep appreciation of the yen, but entered a recovery phase toward the end of the year. Although the previous import-export imbalance continues, domestic demand is recovering steadily, helped along by the completion of inventory adjustments at home. Corporate rationalization efforts to cope with the strong yen have also begun to bear fruit. The earnings of textile manufacturers in fiscal 1987 will undoubtedly show an increase.

Apparel sales have continued to be strong in fiscal 1987, aided by an upsurge in personal consumption and an unusually hot summer. Sales of women's wear at department stores and supermarkets are up considerably, while the nonapparel textile field is also doing well. On the whole, textile demand is recovering smoothly in fiscal 1987.

Exports, on the other hand, remain sluggish because of the strong yen. Some 70% of the value of Japanese textile exports is in man-made fiber, with synthetic fabrics the main item. Synthetic fabric exports continued to decline due to U.S. and European textile import restrictions and intensified competition from South Korea and Taiwan.

On a dollar basis, imports of apparel



Apparel sales at department stores and supermarkets rose considerably, while competition from South Korea and Taiwan intensified.

are increasing at an annual pace of 70%. The increase in imports from Southeast Asia is especially conspicuous, reflecting a widening disparity in labor costs. Until now, Japan and Italy alone among the industrially advanced countries have maintained a surplus in their textile trade. In fiscal 1986, however, Japan recorded net textile imports of items including such raw materials as raw cotton; in fiscal 1987 prospects are strong that Japan will post a deficit in textile trade, even excluding raw materials.

On the production front, synthetic fiber output is still decreasing as exports fall. In spinning, on the other hand, cotton yarn production, and especially high-grade yarn, is up because of growing consumer preference for natural textiles.

Earnings of the textile divisions of synthetic fiber makers have improved in fiscal 1987. Yarn and fabric prices have

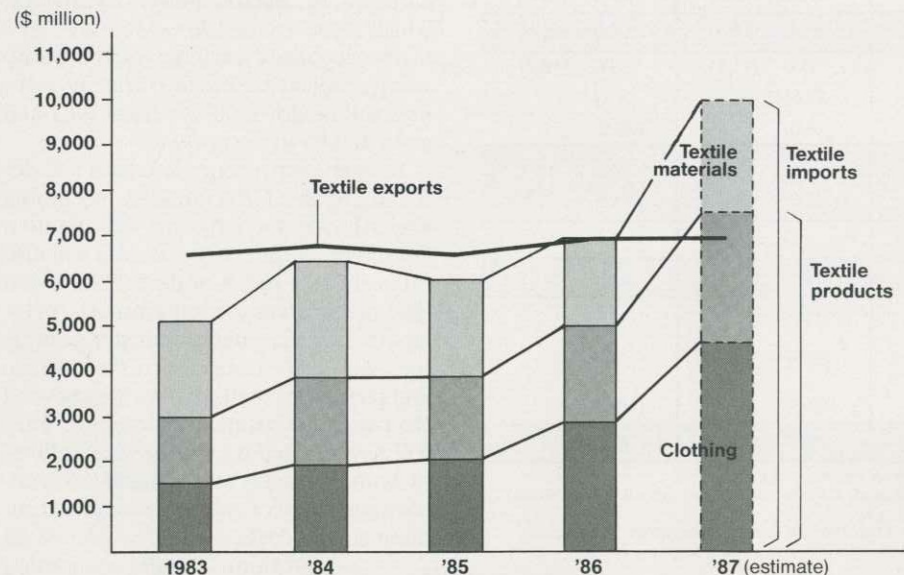
rebounded due to a tightening in the supply-demand situation effected by production curtailment. Rationalization efforts to streamline facilities and personnel have also begun to produce results. Spinners are likely to realize major increases in profit over fiscal 1986 now that cotton yarn prices have soared past their break-even points. This was due first and foremost to improved demand, but also to the rapid price recovery of raw cotton and anticipation of a future decline in imports of cotton yarn and cotton fabrics.

Downstream apparel makers also are doing well. Although competition from imports held down apparel prices, consumption is strong. Apparel makers are increasing profits by raising the proportion of high value-added products, strictly controlling inventory and reducing costs by commissioning sewing to Southeast Asian countries.

American and European trade protectionism is expected to continue in fiscal 1988, while the pressure from South Korea and Taiwan will increase. Japanese apparel makers, trading houses and retailers such as supermarkets and department stores are expected to increase their so-called "programmed imports" under which sewing work is done overseas.

In short, sluggish exports and increasing imports are a structural rather than temporary change. Thus, although domestic demand is looking up, the pace of recovery in textile demand as a whole is expected to be quite slow. Synthetic fiber makers can improve their earnings only by further contracting capacity, while spinners are expected to see profits decline as increased imports lead to a softening of the market.

## Textile Exports and Imports



(Joji Takegami, economist)