

# Supply-Side Shadow

It would be stretching things to say that business was bright in 1988 for the textile industry, although other industries generally are enjoying good business, riding the wave of economic expansion. The textile industry, too, is enjoying the surge in personal consumption expenditure and other benefits of the expansion of domestic demand. Because of the stagnation of textile exports and an increase in imports mainly of secondary products, however, production of domestic fiber and yarn is at a standstill.

As for domestic demand, apparel sales have been brisk. Sales of interior goods such as carpets are firm, reflecting vigorous housing investment. Fiber demand for industrial use, particularly for the automobile industry, is also strong. The decline of textile exports has not yet been braked, however. Exports of synthetic fabrics, mainstay of textile exports, in the January-July period of 1988 decreased 26% in volume and 11% in dollar value from the corresponding period of the preceding year.

On the supply side, a sharp increase in textile and apparel imports from Southeast Asia continued to cast a dark shadow extensively over Japan's textile industry. Imports of almost all textile products increased, including fiber, yarn, woven

fabrics and apparel, and the year-to-year rate of increase in the January-July period of 1988 was a high 49% on a dollar basis. Japan's textile trade saw an excess of imports in 1987, as in the case of other advanced countries. That imbalance is increasing, making Japan a big market for the textile products of its neighboring countries. The dramatic increase in imports from neighboring countries—knitwear from South Korea, for example—poses a serious problem to the Japanese textile and apparel industry, which has accused South Korea of dumping.

Domestic demand is firm in tone, but the deterioration of the export-import balance has resulted in the stagnation of Japan's textile production, with inventory increasing. Domestic production of synthetic yarn and fiber in the first half of 1988 increased 1.2% over the same period the year before, but the supply-demand situation of acrylic staple has deteriorated, so that production for the whole of 1988 is expected to remain flat. Similarly, yarn production in the first half of 1988 decreased 0.2% from the same period a year before and, because the inventory level is high, production will have to be cut back further in the future.

As for earnings, there are cost-push



Despite the benefits of a surge in consumer spending, Japan's textile industry is under a shadow due to rising imports.

factors, such as the skyrocketing of the price of synthetic fiber raw material and the use of the stock of raw material cotton purchased when the price was high. Profits are expected to increase for textile makers as a whole, however, because of the sales strategy of curtailing unprofitable exports and marketing high value-added products and carrying out rationalization, such as reducing personnel. These efforts are bearing fruit and the earnings base of the textile division of material makers in general has become solid. Moreover, their nontextile divisions continue to do well.

Earnings of apparel makers, too, will remain good in the current business term. Their aggressive efforts to increase sales by introducing new brands to take advantage of vigorous consumer spending have proved to be successful.

Textile exports are expected to continue sluggish in 1989. As Japanese apparel makers, *sogo shosha* (general trading firms) and superstores make strenuous moves to secure overseas sewing bases, textile imports will remain at a high level. The enthusiasm of Asian countries to export textiles and apparel to Japan is considered to be much stronger than ever because their exports to the U.S. have stopped growing.

The supply-demand situation of textile products will continue to be difficult in 1989. Material makers can expect the cost of synthetic fiber raw materials and raw cotton to decrease, but they will have to make greater efforts to cultivate domestic demand and step up rationalization in order to sustain the underlying tone of earnings recovery even in a state of diminishing equilibrium.

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## Textile and Apparel Trade

(\$ billion)

