

INDUSTRIAL SURVEY

Textiles & Apparel Adjustments Loom

While Japan's apparel market remained firm in 1986, the synthetic fiber and cotton-spinning businesses generally fared poorly, reflecting sluggish exports and increased imports brought on by the yen's precipitous rise against the U.S. dollar. The year 1986 may well be characterized as a year in which adjustment began at various production stages in the industry.

From the start of the year, the monthly output of synthetic fibers was short of the year-before levels due to a slowdown in both direct and indirect exports. Hardest hit was the production of polyester filament. Due to the yen's steep appreciation, the polyester woven fabric export business became much less remunerative. Fabric exports to the Middle East, which was a major market, began declining, resulting in a heavy supply-demand imbalance. The stocks of both polyester yarn and fabrics stayed high, sending the yarn market almost 30% lower than in the previous year. As a result, synthetic fiber companies began enforcing production cutbacks in the latter half of 1986.

The cotton-spinning industry suffered from imports. The imports of cotton yarn somewhat calmed down due to a generally sluggish domestic market. However, the high-level stocks of all cotton goods and the increased imports of secondary cotton goods have left the industry with no choice but to curtail production since early 1986.

The international raw cotton market plummeted due to two consecutive years of bumper crops and the impact of the New Agriculture Act of the United States. This affected the Japanese cotton yarn market, where the average price for July 1986 was down by 40% from the same month a year before. The market began to recover later thanks to some progress in inventory adjustment brought on by production cutbacks and a rally on the international raw cotton market.

The impact of the yen's appreciation on the Japanese textile industry was particularly severe because of the industry's overcapacity, the markedly increased supply capacity of Asian countries such as South Korea, Taiwan and China, the reduced purchasing capacity of Middle East countries caused by falling crude oil prices and the adverse effect that the worldwide raw cotton bumper crop and the plunge in the international raw cotton market had on the Japanese market and imports of cotton goods.

In 1987, too, the Japanese textile industry will have to face a harsh situation as it did in the previous year. Synthetic fiber demand will remain weak, mirroring slow exports. Fiber companies will be forced to continue their production cutbacks. With the yen likely to remain strong, Japanese firms will face much keener competition from their South Korean and Taiwanese rivals on the ex-

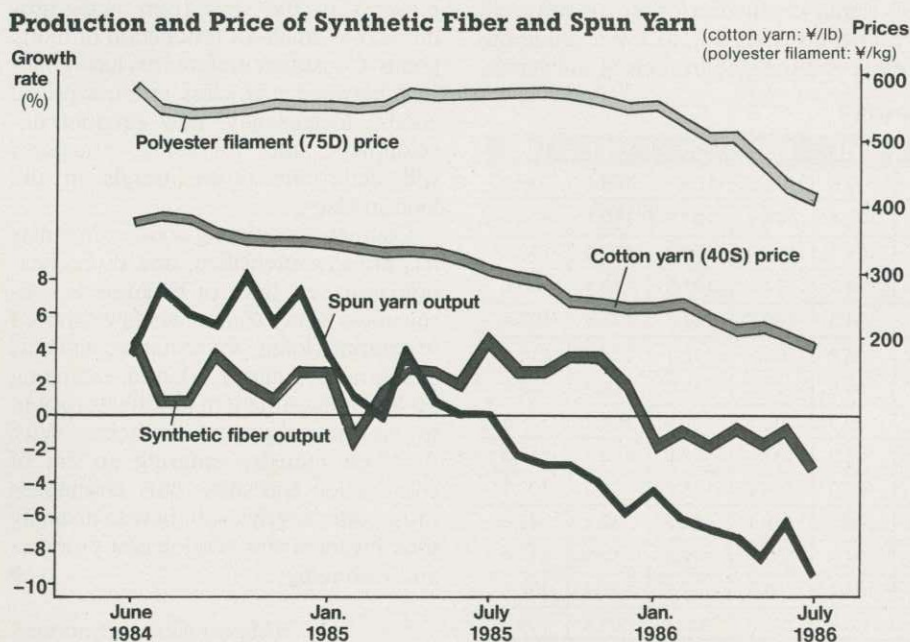
port markets. In the U.S., there are moves to tighten curbs on textile imports. Rapidly increasing imports in recent months may trigger similar moves by the European Community.

The filament market will recover in 1987 thanks to the production cutbacks since the latter half of 1986. By contrast, there will be a considerable delay in the recovery of the fabric market in view of a bleak outlook for exports. Against such a background, synthetic fiber companies will have to make further efforts to cut costs in the textile division and step up their operations in nontextile divisions.

In spinning, yarn imports are likely to increase again in 1987 in keeping with the recovery of the market. Cotton cloth and products imports will probably increase further. As a result, domestic demand for cotton yarn may turn weak again, sending the yarn market lower and forcing Japanese manufacturers to step up their production cutbacks.

In sharp contrast with the sluggish "upstream" division of the industry, apparel sales fared well in 1986, particularly at major retail stores. This may be attributed to the growing consumer relish for higher-grade apparel, which can be explained by the faster growth of apparel sales at expensive department stores than at supermarkets and by the so-called "DC" (designer and character) brand boom now under way in Japan. However, the current trend is toward a much shorter fashion cycle, so much so that it is quite difficult to tell what type of apparel will sell. Major apparel makers have also entered the "DC" brand business, intensifying competition in this new field.

No marked decline is likely in apparel sales in 1987 either. However, both apparel exports and imports will be much more affected by the strong yen and the growing competition from neighboring Asian countries. In the new year, Japanese apparel makers will have to tackle a number of problems—an expansion of overseas production and the development of a new production management system that can meet the growing trend toward the production of a wide assortment of apparel in small quantities and toward a shorter fashion cycle.



(Joji Takegami, economist)