

Op-Ed: The State of the U.S. Textile Industry

SJ Guest
Editorial

During his latest State of the Union address, President Obama claimed credit for an apparent turnaround in the American economy. Although not perfect by any means, the economy does seem to be improving. Indeed, unemployment is down, corporate profits are strong and many people feel better about their prospects. Various industries are doing quite well. However, the president failed to note a quiet revolution taking place in the domestic textile industry, which is a shame because it is quite a success story.

You may remember the big, bad American textile industry — the heavy-handed, anti-trade industry that tried three times to restrict imports via legislation, fought to maintain quotas via the Multifiber Arrangement and that struggled to reverse globalization of the textile and apparel business. It was a very large employer and a substantial contributor to the American economy.

But it was also an industry wedded to arcane methods of production and management. For sure, the industry had its time, but that time passed quickly as new technology, sophisticated sourcing and trade liberalization took hold in the 1980s. By the end of the '90s, the industry was decimated by nimble, cost-effective suppliers in Asia and elsewhere. For many domestic mills, these were the dark days: employment plummeted and companies seemingly went out of business every day while vast swaths of the trade moved offshore. It was grim.

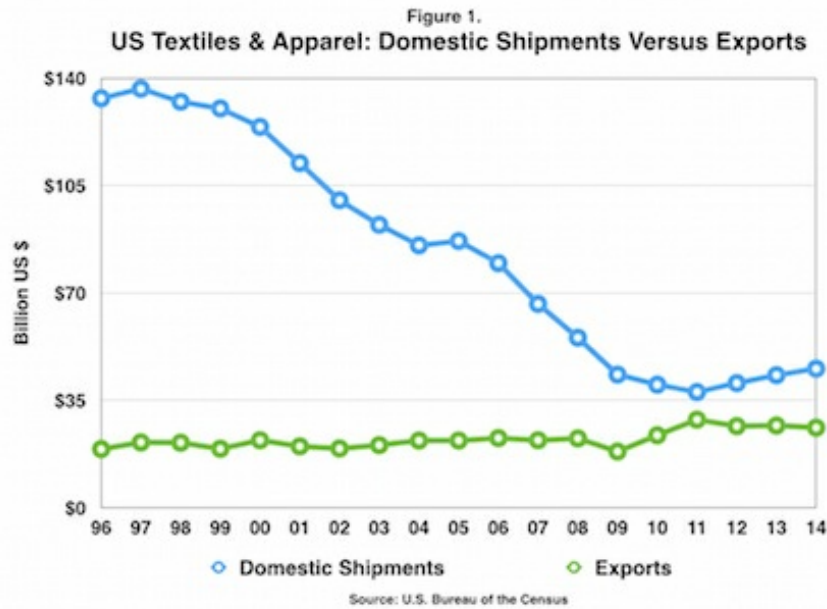
What a contrast compared to the industry of today, an industry that is anything but a basket case. Certainly the business has changed, but those portions of the industry that found ways of adapting to that change remain in business and enjoy renewed prosperity.

It is a smaller industry, but a far more nimble and productive one. Instead of pushing trade restrictive policies of the past, the new industry promotes trade within the framework of creative, government-supported initiatives like the Central American Free Trade Agreement (CAFTA). As a result, investment has increased in the domestic industry; new mills are built, while existing capacity has been modernized. Concurrently, new management has embraced trade as a positive and has positioned domestic producers to take full advantage of opportunities. Today's industry is export-oriented, with strategies in place to profit from globalized production platforms and new technologies.

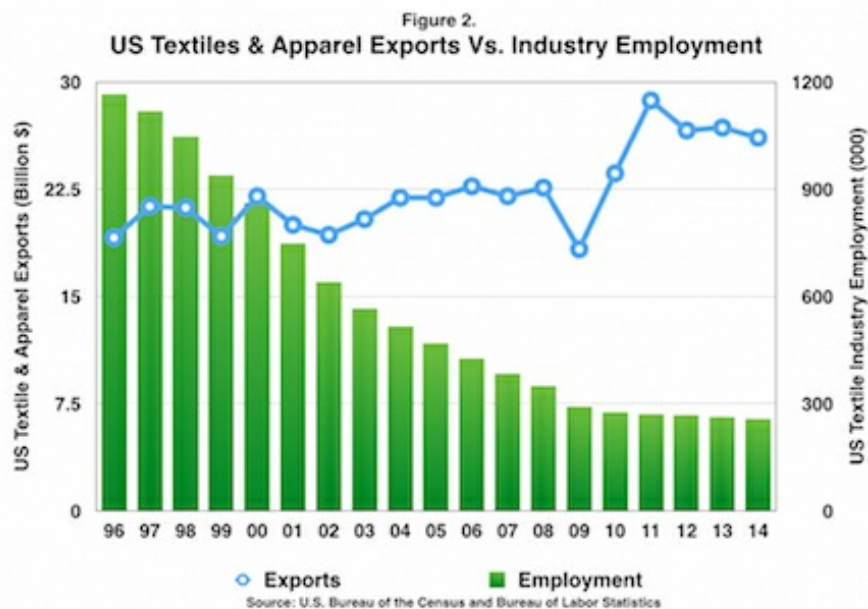
A closer look at the American industry

Domestic textile production is down sharply from its heyday in the '70s despite renewed vigor over the past few years. Even so, exports now are far more important to the industry and underscore the competitiveness of the industry in global markets. In fact, the industry's export performance has remained quite consistent over the years, with significant gains recorded since 2009, the trough of the Great Recession. The industry is certainly smaller than it once was with far fewer mills, fewer employees and lower sales. With declining output, the industry has steadily reduced its level of employment. However, with fewer workers, productivity has soared along with a stronger focus on exports.

Industry performance is striking, particularly when presented graphically. As the following graph illustrates, domestic shipments of the industry have fallen precipitously since the '90s, while exports remained quite resilient.

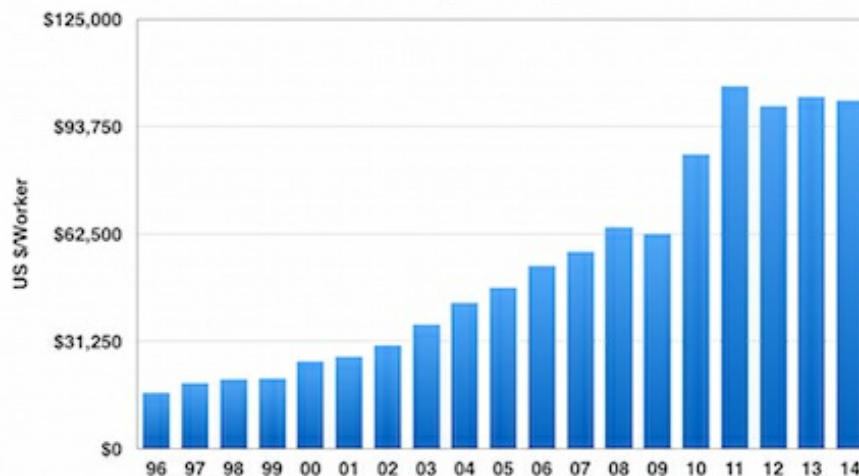


More striking, perhaps, is the growth in exports that occurred while employment curtailed in the industry. Indeed, with the end of the global quota system provided by the Multifiber Arrangement, the industry went through a difficult period of contraction. Throughout that difficult period, export shipments remained relatively consistent and has grown in recent years.



Export performance improved while the industry continued to slash jobs. As such, productivity rose sharply. Output per employee (value of exports/number of employees) is a measure of such productivity. On a per-employee basis, workers today produce the equivalent of nearly \$100,000 annually, which compares to less than one-quarter of that produced in 1996 — a dramatic story and underscores the success of American textile exporters.

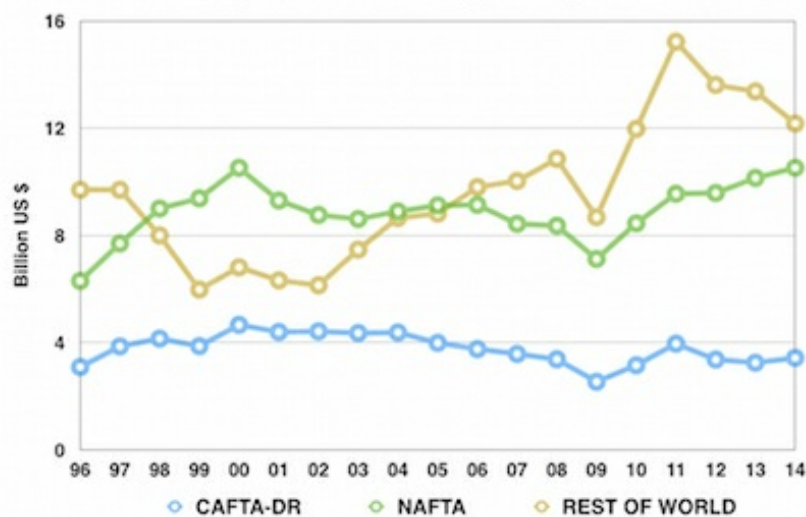
Figure 3.
U.S. Textile & Apparel Exports Per Worker



Calculation based on Export/Employment data from U.S. Bureau of the Census and Bureau of Labor Statistics

Although the industry is much smaller than it used to be, its place in the global market remains significant. Indeed, the bulk of U.S. textile and apparel exports are sent to the Western Hemisphere to supply cut-and-sew operations and fabric mills with yarns, fabrics and cut pieces of apparel for assembly under the free trade arrangements of the North American Free Trade Agreement (NAFTA) and the CAFTA. Both agreements have proven to be essential in bolstering the U.S. industry's competitiveness in the world. Without these agreements in place, it is not likely that the industry could have competed so successfully in the export markets. Additionally, however, the industry has performed well outside of the NAFTA and CAFTA regions, further evidence of the productivity and efficiency of the domestic industry.

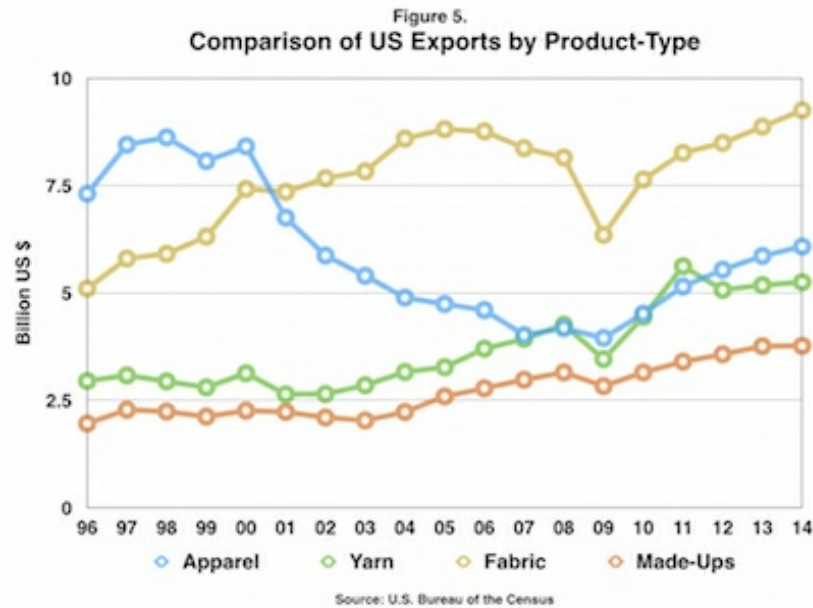
Figure 4.
U.S. Exports of Textiles & Apparel by Destination



Source: U.S. Bureau of the Census

All types of U.S. textile exports — yarns, fabrics, apparel, and made-ups — have grown significantly in the past few years. Apparel exports have struggled to keep up with textile exports, but within the textile realm, yarn, in particular, remains in demand globally — and not just in the Western Hemisphere. In recent years, U.S. spinners specifically

have opened new markets for their products in Asia. China is now a major buyer of U.S. yarns. Who would have thought that possible just 10 years ago?



Worth a look

There been a lot of talk in the trade about the American textile industry lately. People ask if the industry is for real and if it is truly able to meet the needs of its customers. Based on the data, I believe there's some truth to the talk. When it comes to many types of yarn and specialty fabrics, U.S. mills can compete. They provide a viable option for any sourcing executive.

There's still more to learn about the industry. It has taken years for the industry to adjust to a new world. The adjustment was painful and took place while many brands and retailers moved their sourcing programs outside the U.S. In all of the hype and activity surrounding the globalization of textiles, many forgot the American industry. Too many sourcing people remember the industry of old. But today it's different: the domestic industry has made a comeback and is worthy of a look.

My firm, Olah Inc., recently joined the National Council of Textile Organizations (NCTO), in order to learn more about the American industry. In fact, I look forward to attending NCTO's annual meeting in late March. Although I do not believe the American textile industry will return to dominate the business like it did in the past, I do see domestic sourcing as part of a balanced, diversified global strategy. As a key supplier of yarns and fabrics to the Western Hemisphere, it's hard to ignore the industry — particularly when rising production costs in China and elsewhere are considered. I believe American textiles are worth exploring.

By Robert P. Antoshak

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