



HOME TEXTILES GROWTH TRAJECTORY POST COVID-19

Home textiles segment had a fantastic run last year, or just after COVID-19 related restrictions were lifted across the globe. The economic conditions – lower inflation, higher savings, expectations of higher growth, less supply bottlenecks in China – led to both demand and supply growing at tremendous rates in this market. Current factors in the economy are extremely opposite and therefore, hint at slow movement in the market for home textiles. An overview.

by **FIBRE2FASHION**

As people were forced to be at home during the thick of the COVID-19 pandemic, spending on home furnishing goods initially fell as supply side was an issue, but eventually jumped tremendously to record highs. The most important aspect of the pandemic and the resultant economic shock was that the worst impact was only concentrated to three months (March-May 2020) in many economies, especially in the US. This is evident from the fact that retail sales in the US declined y/y only in these three months (Figure 1) and

since then US has seen unprecedented growth in consumption, primarily due to government support that helped cushion the economy on the downside. Similarly online sales have also kept up pace after the three months of impact and a large beneficiary of this trend has been the home furnishing and home textiles market.

Home furnishing retail sales in the US were more dormant than overall retail sales for the entire 2020 and picked up dramatic pace only in 2021. For full year 2021, monthly home textile retail sales in

the US grew an average of 31.5 per cent y/y. Even if we exclude the three months of March-May 2021 (outlier growth in these months due to base effect), the average y/y growth in 2021 was still 11.3 per cent, unprecedented by historic standards.

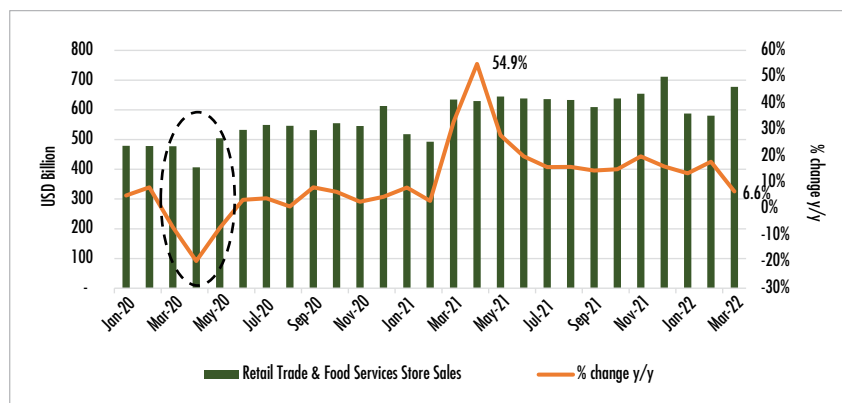
Similarly, demand for home textiles in several other countries grew tremendously in 2021. The closest proxy to demand, global imports of home textiles products, saw a sharp rise over the last six quarters. Imports in October-December 2021 quarter were up by 11.9 per cent y/y, 78.2

per cent up from the lows of pandemic in April-June 2020 quarter and 23.2 per cent up from the July-September 2019 quarter, the peak of 2019 (Figure 2). All major economies saw tremendous growth in home textiles imports post-pandemic as reflected in Figure 3. The top five importers of home textiles (excluding US) have seen more than 72.7 per cent growth in imports in December 2021 compared to the lowest levels reached in June 2020 quarter. Over pre-pandemic peaks as well, these set of countries have seen an average growth of 19.7 per cent in the December 2021 quarter.

Product category-wise as well, those goods that cater primarily to home décor have seen tremendous growth over pre-pandemic levels. Take for instance, bed & other linens (depicted in Figure 4). Imports of bed & other linens in September-December 2021 quarter reached \$5.70 billion compared to \$4.50 billion in the same quarter of 2019, which was the peak of 2019. The category also saw a 12.6 per cent y/y jump for the September-December 2021 quarter. On the other hand, the fifth largest category, blankets & travelling rugs (Figure 5) saw imports grow to \$1.50 billion from the peak of 2019 at \$1.17 billion in July-September 2019 quarter. The latter category also saw an impressive 27.0 per cent y/y growth in imports in September-December 2021. Curtains & blinds, another key category of home décor, saw imports grow much faster in 2020 than in 2021. Imports of curtains & blinds in December 2021 were at \$1.3 billion, up by 14.2 per cent from peak of 2019 but down by 1.3 per cent y/y.

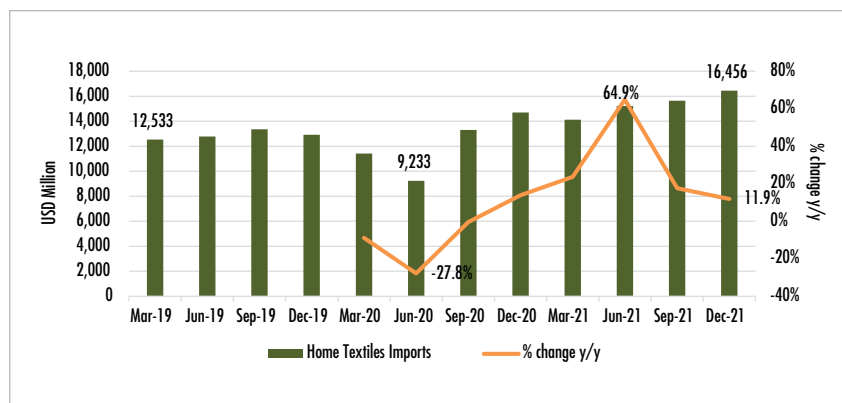
To the extent that stay-at-home restrictions remain in several countries, demand for home textiles is going to continue to be robust. However, it is reasonable to expect that the pace of demand in this segment might get slower as people get back to offices, and the urge to connect with the living space might get lesser. On the other hand, a generally increasing demand could keep demand for home textiles up as well. But, as we will discuss in detail below, there are also dampening factors to demand that show more prominence currently. Let us look at some of these factors that will impact the market for home textiles products going forward. It is evident that the robust demand trends in the US may likely slowdown in the coming months, while supply in the market continues to be challenged.

FIGURE 1 RETAIL STORE SALES IN THE US



SOURCE: US Census Bureau

FIGURE 2 GLOBAL IMPORTS OF HOME TEXTILES PRODUCTS



SOURCE: TexPro



All major economies saw tremendous growth in home textiles imports post-pandemic. The top five importers of home textiles (excluding US) have seen more than 72.7 per cent growth in imports in December 2021 compared to the lowest levels reached in June 2020 quarter.

INFLATION

As we have seen that the largest markets or atleast the largest importers for home textiles products are the US and EU, a

large part of the consumption might get hindered by the increasing inflation in these economies. US and EU have both seen historical inflation levels,

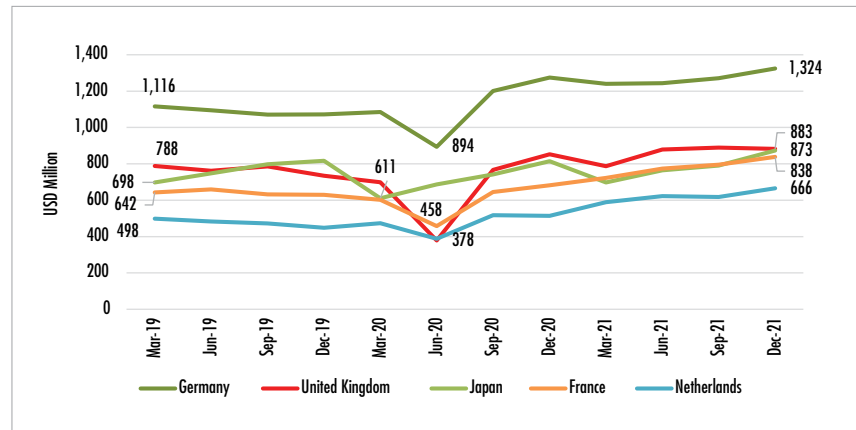
predominantly in consumer prices as manufacturers pass much of their increased costs to the consumers. Prices of all commodities – from raw materials to finished goods – have been on a dramatic rise due to supply chain bottlenecks and the Russia-Ukraine war that has put pressure on the logistics sector once again. General inflation aside, price rise in the textile and apparel industry has been historic and could dissuade demand going forward. However, until now demand has maintained its pace. Just as an illustration, inflation in the home textiles segment in the US is now at record highs. Figure 6 shows that the price rise in this segment was at 6.2 per cent y/y in March 2022 as compared to an average inflation of 1.0 per cent between 2016 and beginning of 2020. This is in striking contrast to the first half of last year when demand was booming at the back of negative inflation in this segment.

High inflation in segments of discretionary spending generally causes a decline in demand, more often than the articles of necessity. Tremendous demand for home furnishing goods came at a time when people were working from home, spending less on commute, fuel, and other large chunks and therefore saving more. To support this, the price shock in all categories was also helpful. Home furnishing was preferred, as people cared more about hygiene and spending on goods which were more readily available and which could make their living space better. Now, with the unemployment allowances in the US gone, even though less people are unemployed, the higher inflation of necessities has eaten and continues to eat into people's savings. It is not so much as the preference for home furnishing, but the macro surroundings which might prevent a continued growth in demand for home textiles going forward.

SUPPLY ISSUES IN CHINA

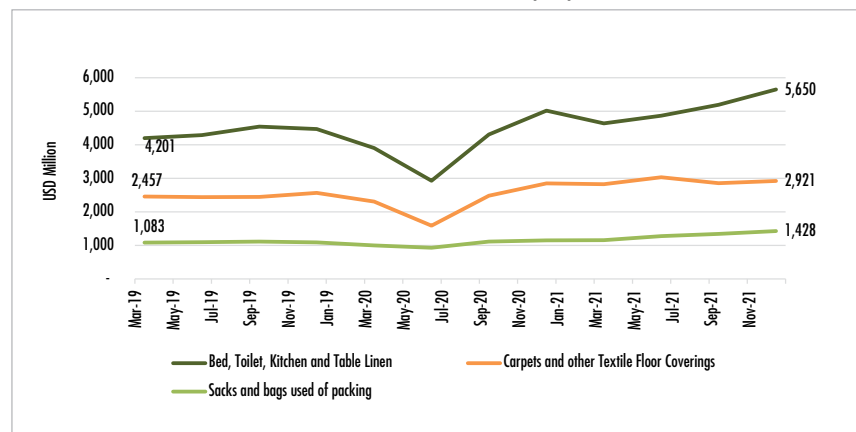
Apart from the logistical challenges arising out of the Russia-Ukraine war, supply issues in China is perhaps the biggest concern facing the world economy right now. COVID-19 infections in China have continued to erupt in different pockets of large port cities and manufacturing hubs. But more importantly, the zero-COVID policy of the

FIGURE 3 TOP 5 (EX US) IMPORTERS OF HOME TEXTILES



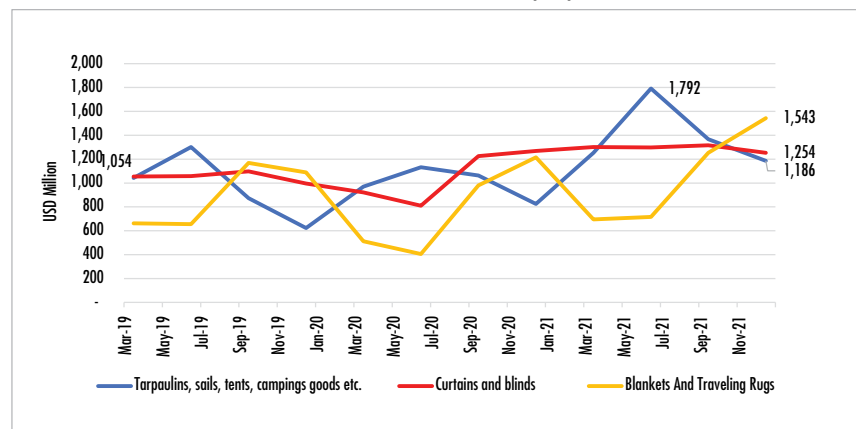
SOURCE: TexPro

FIGURE 4 PRODUCT-WISE IMPORTS OF HOME TEXTILES (1/2)



SOURCE: TexPro

FIGURE 5 PRODUCT-WISE IMPORTS OF HOME TEXTILES (2/2)



SOURCE: TexPro

administration has kept China's economic prospects uncertain when the rest of the global economy opened up tremendously well from the harsh COVID-19 restrictions last year. Due to the COVID-19 related restrictions, there have been heavy disruptions to the manufacturing activity in China. PMI for April 2022 in China

came at 47.4, lowest in several years leaving out the peak of the pandemic back in February 2020, when production was halted at several facilities. Manufacturing activity in China in April 2022 declined at the steepest rate since 2004, with the only exception in February 2020. This can also be seen in exports of home textiles

goods from the top five supplier locations globally. Figure 7 posits that exports in the most recent months have dropped from other suppliers as well in addition to China, due to reasons we shall discuss shortly.

China's exports of home textile goods in the January-March 2022 quarter dropped by 10.8 per cent y/y while for the month of March 2022, exports were lower by 34.4 per cent, compared to last year (Figure 7). Restrictions in China have impacted the textile and clothing trade most heavily as both factory activity and transportation movement was stopped. There are reports of some improvement in early May 2022 at Shanghai and other ports, however shipment volumes were still significantly lower than the numbers in March 2022, i.e., before the recent lockdown measures. There are huge delays at all port terminals in China, which if persist, could further increase the inflationary pressures in other parts of the world.

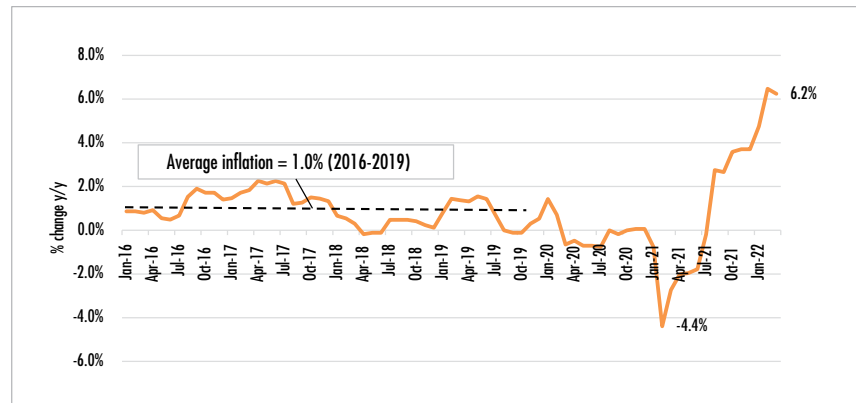
COST OF INPUTS AND SUPPLY DISRUPTIONS IN OTHER COUNTRIES

From Figure 7, it is very clear that not only China but other major suppliers of home textiles products are also facing the heat. Exports from the second largest supplier, India, were also down in the month of March 2022 by 27.8 per cent y/y, while Pakistan, Turkey and Germany also saw significant decline in exports compared to the previous year. One of the prominent factors in this has been the rising prices of cotton and other raw materials, while demand concerns have also risen for many of these countries. Export demand, as reflected in the latest PMI survey, has slowed down for many economies.

Cost of cotton and other fibres and feedstock have jumped up significantly over the last few months. Apart from this, the already existing shortage of several key industrial raw materials has also continued. Manufacturing activity in all these supplying economies slowed down significantly in April 2022, as delays in supplies of raw materials and rising costs put pressure on the companies. Input price inflation has risen sharply across the globe.

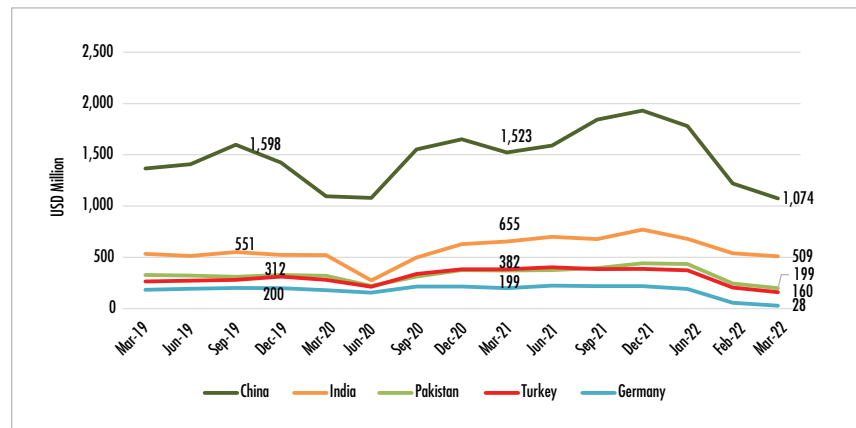
Additionally, the Russia-Ukraine war has put more pressure on the supply chains as getting hold of key raw materials is

FIGURE 6 HOME TEXTILES PRODUCTS INFLATION IN THE US



SOURCE: St. Louis Federal Reserve, US

FIGURE 7 HOME TEXTILES EXPORTS FROM TOP 5 SUPPLIERS



SOURCE: TexPro

itself becoming difficult in some cases. European countries and those nearby and (as shown in Fig 7) Germany and Turkey have seen a sharp impact to their manufacturing activity. Industrial production in Germany fell by close to 3.0 per cent both on y/y and m/m basis.¹ Expectations of future production are now down significantly while demand remains robust. Turkey also saw a slow down in manufacturing activity for five consecutive months to April 2022, and many firms in the PMI survey reported difficulties in securing new business in the most recent month.² Turkey faces domestic challenges as well. Weakening lira and historically high inflation levels have put further pressure on its economic recovery post COVID-19.

Currently, there are tremendous supply side challenges facing the world economy. Securing supply of raw materials in time, delays in production and transportation in addition to higher input costs have yet again increased the uncertainty in the global economy.

IN CONCLUSION

Both demand and supply side factors appear to be unsupportive of the kind of growth the home textiles segment saw over the last two years. Spending on home furnishing is very sensitive to income and wealth increase, and the propensity to spend on such goods is high only when the overall outlook for the economy and the future remains highly positive. Currently, the market sentiments are signalling increased uncertainty. PMI surveys indicate optimism for few of the large economies, however confidence in future business outlook and economic performance continues to weaken. On the other hand, inflation continues to rise, implying that people could cut spending on discretionary areas, and focus more on having necessities. **FF**

REFERENCES:

- <https://think.ing.com/snaps/german-industrial-production-more-bad-news-mar22>
- <https://www.dailysabah.com/business/economy/turkish-factory-activity-slows-down-further-in-april>