The ICAC Recorder

Covid-19 - Impact on Commodity Prices, Textile and Apparel Trade, Clothing Retail Sales and Other Factors Affecting Cotton

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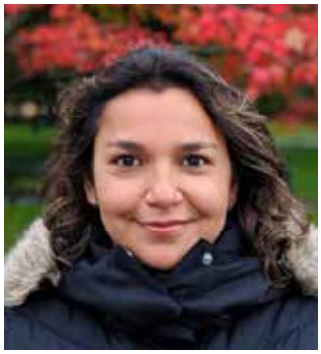

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The COVID-19 pandemic has not only impacted the health of millions of people worldwide, it has also generated a slew of different socioeconomic shocks. Some of these shocks include disruptions to the supply chain, declining demand, liquidity problems, capital flows, effects on trade and the global economy, and sharply declined overall consumer spending.

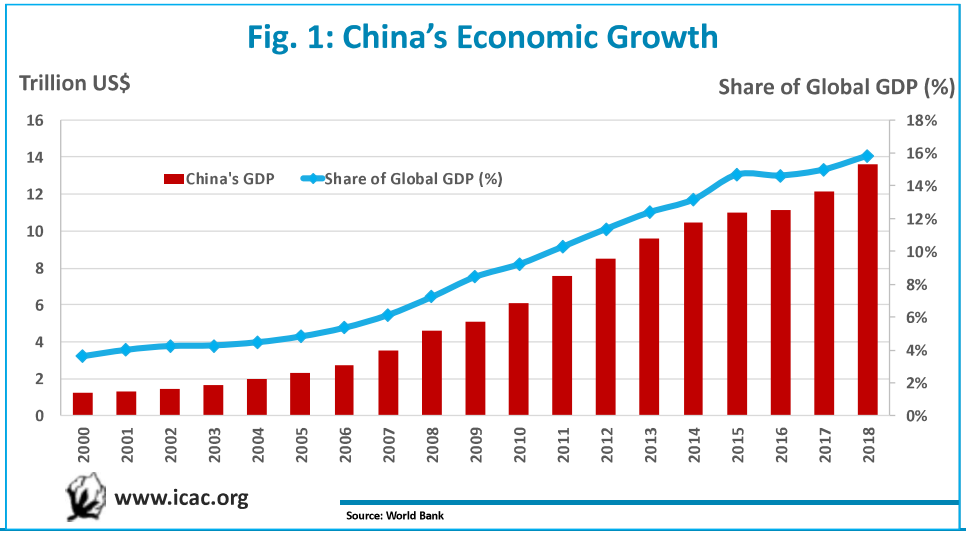
China, where the current virus originated, has faced two significant health challenges over the past two decades. According to the World Health Organization (WHO), between November 2002 and July 2003, approximately 8,100 people worldwide were affected by the Severe Acute Respiratory Syndrome (SARS). At that time, China was the sixth-largest economy and accounted for 4.3% of the global GDP (https://data.worldbank.org/) and 17.1% of world textile and apparel exports, which totalled $429.6 billion in 2003 (https://www.trademap.org/). Despite SARS, China's economy still grew by 9.15% in 2002 and 10% in 2003, with total trade expanding by 22.4% and 34.6%, respectively. SARS also had a limited effect on the global economy, which grew by 2.98% in 2002 and 4.28% in 2003.

Things have changed since then, with China's contribution to the global economy significantly larger. In 2010, the Asian giant snatched Japan's second-largest economy status and has held that position ever since. In 2018, China accounted for an estimated 16% of global output (World Bank GDP data) and 31.9% of global textile and apparel exports, which totalled $835 billion (Figures 1 and 2).

On 31 December 2019, the WHO China Office was informed that pneumonia cases of unknown origin were detected in Wuhan City, China. On 30 January 2020, the WHO declared the outbreak a Public Health Emergency of International Concern and due to rapid spreading, the coronavirus outbreak was declared a pandemic on 11 March 2020. As of 5 June, the novel coronavirus has infected more than 6.7 million people in 188 countries and killed more than 393,000 worldwide, according to Johns Hopkins University (https://coronavirus.jhu.edu/map.html).

Many countries around the world have

Fig. 1: China's Economic Growth

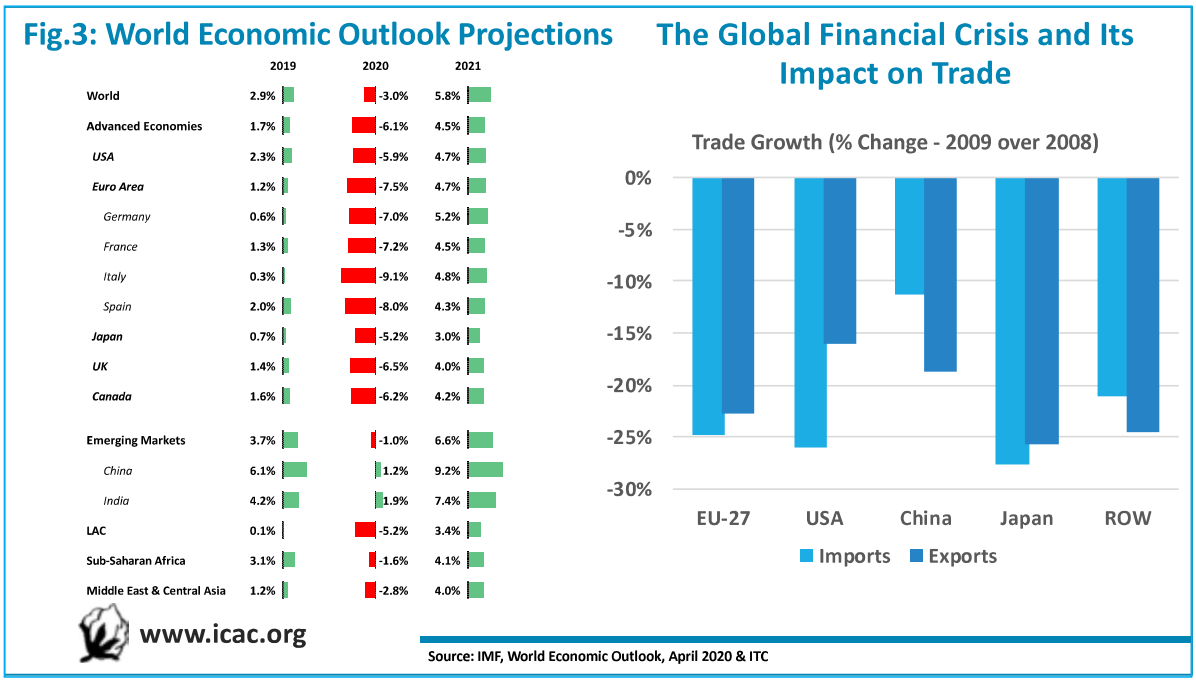


emerging markets and developing economies, where the demand for textile fibres is concentrated, the market share of developing countries in total textile fibre consumption was about 66% in 2018, are also projected to have negative growths rate of -1% in 2020 (Figure 3).

The COVID-19 pandemic will also have negative effects on global trade. According to an 8 April 2020 forecast by the World Trade Organization (WTO), 'global trade volumes are expected to fall by between 13% and 32% in 2020 as the COVID-19 pandemic disrupts normal economic activity and life around the world. The recovery for 2021 remains uncertain, with outcomes depending largely on the duration of the outbreak and the effectiveness of policy responses by countries (WTO, 2020)'. The WTO noted that the impact on global trade volumes could exceed the drop on global trade brought on by the global financial crisis of 2008/09.

The coronavirus pandemic will also have devastating consequences on the global labour market. According to the International Labour Organization (ILO), the employment impacts of COVID-19 are unprecedented. The most recent ILO estimates indicate that 'global working hours declined in the first quarter of 2020 by an estimated 4.5%, equivalent to approximately 130 million full-time jobs'. The UN agency also noted that 'global working hours in the second-quarter of 2020 are expected to be 10.5% lower,

taken decisive measures to prevent the spread of the disease. Unlike the 2008/09 financial crisis, measures to contain the virus have led to the closure of businesses and schools, deterioration in the labour market, restrictions on travel, erosion of consumer confidence and increased uncertainty about the economic outlook. According to the latest report published by the International Monetary Fund (IMF), 'the COVID-19 pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity (IMF, 2020). The IMF reported that as a result of the pandemic, global growth is forecast to contract sharply by -3% in 2020. This is without a doubt the worst downturn since the Great Depression and worse than the 2008/09 financial crisis. Growth in advanced economies — the major consumers of textiles fibres with per-capita consumption of 32.1 kilograms in 2018 — is projected to fall by 6.1%. In



equivalent to 305 million full time jobs that their pre-crisis level in the last quarter of 2019 (ILO, 2020). ILO expects the biggest drop in working hours to be in the Americas, Europe and Central Asia. On 22 April, the ILO endorsed a call for action for the garment industry to protect garment workers' income, health and employment as well as support employers to survive during the COVID-19 crisis (ILO, 2020a). The initiative includes the International Organization of Employers (IOE), the International Trade Union Confederation (ITUC), Industrial Global Union, brands, retailers and governments.

In April, the unemployment rate in the United States — the world's largest importer of textiles and apparel, accounting for around 15.8% of the world's total T&A imports in 2019 — increased to 14.7%. The industry sectors with steepest job losses were leisure and hospitality, which lost 7.7 million jobs, and retail trade, which lost 2.1 million jobs. Nevertheless, the report released by the Bureau of Labour Statistics (BLS, 2020) on Friday, 5 June shows that the US unemployment rate declined by 1.4 percentage points to 13.3% in May. Many of the jobs came from leisure and hospitality, construction, education and health services, and retail trade. By contrast, employment in government continued to decline sharply. Employment in retail trade increased by 368,000. The main job increases were observed in:

- Clothing and clothing accessories stores (+95,000),
- Automobile dealers (+85,000), and
- General merchandise stores (+84,000).

The Eurostat of the European Union estimates that 14.08 million people were unemployed in April 2020, a month after COVID-19 containment measures began to be widely introduced by member states. The EU unemployment rate reached 6.6% in April 2020, up from 6.4% in March 2020. The unemployment rate for women was 6.8%, while the unemployment rate for men was 6.4%.

Commodity Prices

Amid the uncertainty of the current health emergency, financial markets and commodity prices have significantly dropped and registered higher volatility. The mitigation measures put in place by several countries to contain the spread of the virus have driven most commodity prices down.

In the first five months of the year, the crude oil market price (Brent Oil) has suffered a sharp contraction of 51.2%, from $63.60/barrel in January to $23.34/barrel in April, before increasing to $31.02/barrel in May. The price spike was supported by higher demand as the global lockdown measures have eased off in some countries and business activity has started to return. As stated by the World Bank (World Bank, 2020), 'the outbreak of COVID-19 has had the largest impact on the crude oil market, as two-thirds of oil is used for transport'. Even though the Organization of the Petroleum Exporting Countries (OPEC) and other oil producers reached an agreement to temporarily cut production, oil prices still remain under pressure as the world could run out of space to store all the unneeded barrels of oil.

Similarly, most metals prices have also declined. The price of gold dropped in March, possibly driven by massive liquidations across all assets to cover margin calls, but has since recovered on the back of higher financial investment demand. Gold prices increased by 9.9%, from $1,560.7/oz in January to $1,715.9/oz in May. Meanwhile, silver, copper and platinum prices have dropped as a result of lower global industrial demand. The price of silver fell by 9.5%, from $17.97/oz in January to $16.26/oz in May. Likewise, the price of copper fell by 13.1% in the same period, from $6,031.21/tonne to $5,239.8/tonne. Platinum prices plunged from $987.36/oz in January to $753.86/oz in April, the lowest price since October 2003. However, platinum prices increased to $790.2/oz in May — a two-month high — supported by a higher demand from China. According to the commodity markets outlook, published by the World Bank in April, 'metals prices are projected to decline more than 13% in 2020, before recovering in 2021, due to a slowing global demand and the shutdown of key industries'

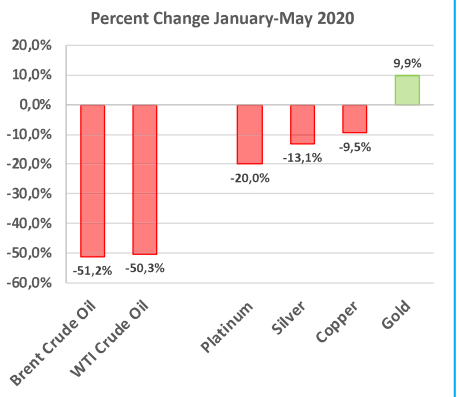
Global food supply and demand have also been negatively affected by the pandemic, with most world food commodity prices driven down for the fourth month in a row in May. Nevertheless, the World Bank forecasts that 'agricultural prices would remain broadly stable in 2020 as they are less sensitive to economic activity than industrial commodities, while production levels and stocks for most staple foods are at all-time highs'

Nevertheless, in the USA, concerns regarding the disruption of the food supply chain have increased as major processing and packing plants have been forced to shut down because massive numbers of employees got sick or are afraid of getting the disease. There is also a rapid change in consumption patterns, with more people rushing to the stores to stock up on different products, similar to the issues we saw at the beginning of the lockdown with toilet paper (Figure 4).

Trade restrictions could also impact food prices. During the global food crisis of 2007/08, the international prices of all major food commodities increased dramatically to record highs. Many countries adopted trade restrictions that limited supplies in the international food trade, contributing to increases in prices. A similar price pattern was observed in 2010/11 — adverse weather conditions coupled with trade policies such as export restrictions and relaxed imports controls in a number of countries — contributed to the surge in prices in 2010/11. Although the situation is quite different now, we must not forget that policies and actions taken by individual countries could destabilise global food markets. In developing countries, food production is labour-intensive.

Fig. 4: COVID-19 and Its Effect on Essential and Discretionary Commodities

Commodity	Unit	Average Price Jan-20	Average Price May-20	% Change
Brent Crude Oil	US$/bbl	63.60	31.02	-51.2%
WTI Crude Oil	US$/bbl	57.52	28.56	-50.3%
Platinum	US$/oz	987.4	790.2	-20.0%
Copper	US$/tonne	6,031.2	5,239.8	-13.1%
Silver	US$/oz	18.0	16.3	-9.5%
Gold	US$/oz	1,560.7	1,715.9	9.9%



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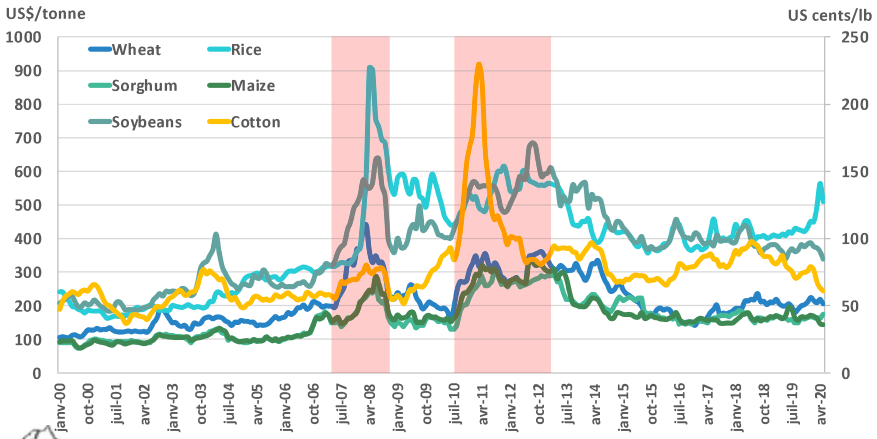
Source: World Bank, Commodity Price data (monthly prices in nominal US dollars)

Fig. 5 Agriculture Commodity Prices



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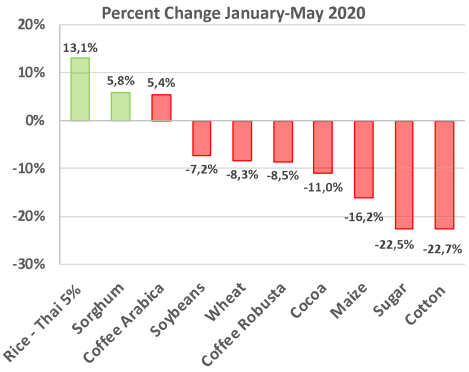
Source: World Bank, Commodity Price data (monthly prices in nominal US dollars)

Fig. 6: COVID-19 and Its Effect on Agricultural Commodity Prices

Commodity	Unit	Average Price Jan-20	Average Price May-20	% Change
Rice - Thai 5%	US$/tonne	451.0	510.0	13.1%
Sorghum	US$/tonne	166.2	175.9	5.8%
Coffee Arabica	US$/kg	3.1	3.3	5.4%
Soybeans	US$/tonne	387.2	359.2	-7.2%
Wheat	US$/tonne	224.5	205.8	-8.3%
Coffee Robusta	US$/kg	1.6	1.4	-8.5%
Cocoa	US$/kg	2.6	2.3	-11.0%
Maize	US$/tonne	171.8	143.9	-16.2%
Sugar	US$/kg	0.3	0.2	-22.5%
Cotton	US$ cents/lb	79.1	61.1	-22.7%



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Source: World Bank, Commodity Price data (monthly prices in nominal US dollars)

Activities such as sowing, harvesting and transportation could face logistical problems and increase delivery times, thus negatively affecting countries that depend on imports. Moreover, rising unemployment rates are likely to severely reduce people's purchasing power (Figure 5).

According to the latest report from the World Bank, sugar prices declined almost 22.5% since January to the second lowest level since November 2007. The fall was mainly driven by the collapse of international crude oil prices that reduced the demand for sugarcane to produce ethanol. Maize prices also dropped sharply (-16.2%), from $171.8/tonne in January to $143.9/tonne in May — the lowest level in almost 14 years. The price drop was primarily driven by a lower demand for its use in biofuel production. Wheat and soybean prices fell by 8.3% and 7.2%, respectively. Arabica and Robusta coffee prices have followed different paths in recent months. Robusta prices declined by 8.3%, from $1.6/kg in January to $1.42/kg in May. Meanwhile, Arabica prices are 5.4% higher, supported by weather disruptions and labour restrictions associated with the pandemic in Brazil, the world's largest coffee supplier and producer of Arabica coffee. Likewise, rice prices increased by 13.1% over the same period. Nevertheless, Asia rice-Thai prices dropped by almost 10% between April and May, supported by better weather conditions and stiff competition from India and Vietnam (Figure 6).

The international cotton price (measured by the Cotlook A Index), which has traded above 70 cents per pound since March 2016, has fallen below the long-term average, marked by uncertainty in demand for textiles and

apparel and global economic growth. Between January and May 2020, the Cotlook A Index contracted by 22.7%, from 79.07 cents per pound to 61.09 cents per pound. Likewise, the price of polyester — the primary fibre that competes with cotton — fell 18.8% in the same period, from 45.02 to 36.56 cents per pound. The gap between the international cotton and polyester prices in China, where 71% of world production is concentrated, narrowed from 34.05 cents per pound in January 2020 to 24.53 cents per pound in May. However, when comparing the average price of the two fibres in the first five months of the year, the gap widens to 30.74 cents per pound, the highest level since 2017.

Cotton prices will remain under pressure due to several factors, including higher ending stocks in the current and next season, weaker textile fibre demand from brands and retailers, and lower polyester prices. If the price gap between cotton and polyester continues to widen, it could reduce cotton's competitiveness and decrease its world share of textile fibre consumption. Moreover, a possible deterioration of the US-China relationship likely would result if China fails to meet the purchase commitments set in Phase 1 of the US-China trade deal (Figures 7 and 8).

Textiles and Apparel Trade

Until 2005, a series of multilateral agreements limited Chinese textile and apparel exports: the Multifibre Agreement (MFA, until 1995), and later, the Agreement on Textiles and Clothing (ATC). Between 2001 and 2005, China increased the value of its textile and apparel exports by 116%, from $49.8 billion to $107.7 billion. Its share of total exports worldwide also rose from 13.8% to 21.1%.

Following the 2008/09 global financial crisis, the value of world textile and apparel exports fell 14.2% to $559.1 billion in 2009. However, the value quickly recovered to $643.9 billion (+15%) in 2010. China's market share grew each year, reaching a 35.5% share in 2015 — the highest level so far — before declining to 31.4% in 2019.

The European Union (EU-27), the United States, and Japan remained the top three largest importers of textile and apparel products by value, accounting for around 57% of the world's total textile and apparel imports in 2019. While China, the EU-27 and Bangladesh remained the top three largest exporters of textile and apparel products by value, accounting for 62.3% of the world total in 2019 (Figures 9 and 10).

The latest statistics from the Chinese General Administration of Customs show the negative impact of COVID-19 on the Chinese textile and apparel trade. In the first four months of 2020, the value of textile and apparel exports was $65.7 billion, a drop of 10.2% from the previous year. Imports decreased by 9.2% to $10.1 billion. The same trend is observed in China's total exports, which decreased by 9% from a year ago. Total exports reached $678.22 billion, while imports decreased by 6.0% for a total of $619.96 billion. It is worth noting that between January and April, China's import value of other made-up textile articles (HS code 63), which includes surgical masks and disposable face masks made of non-woven textiles, increased to $1.01 billion, a growth of 605.4% YoY (Figure 11).

The Bangladesh Export Promotion Bureau (http://www.epb.gov.bd/) reported that the country's apparel exports fell by 25.9% in the first four

Fig. 7: Cotton and Polyester Prices

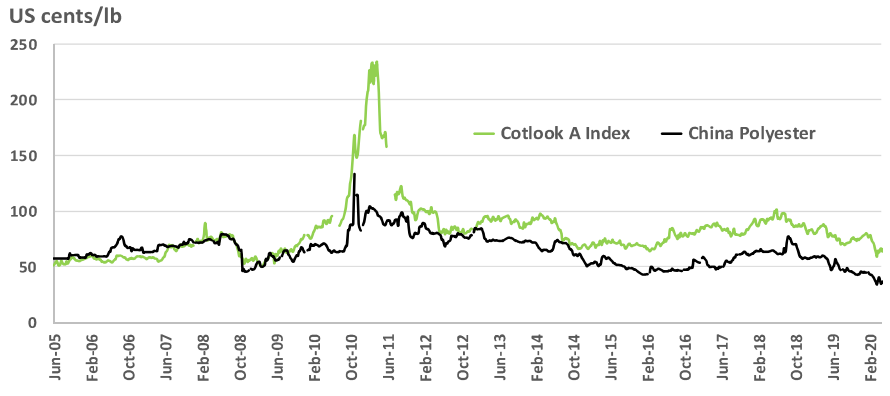


Fig. 8: Price Gap Between Cotton and Polyester

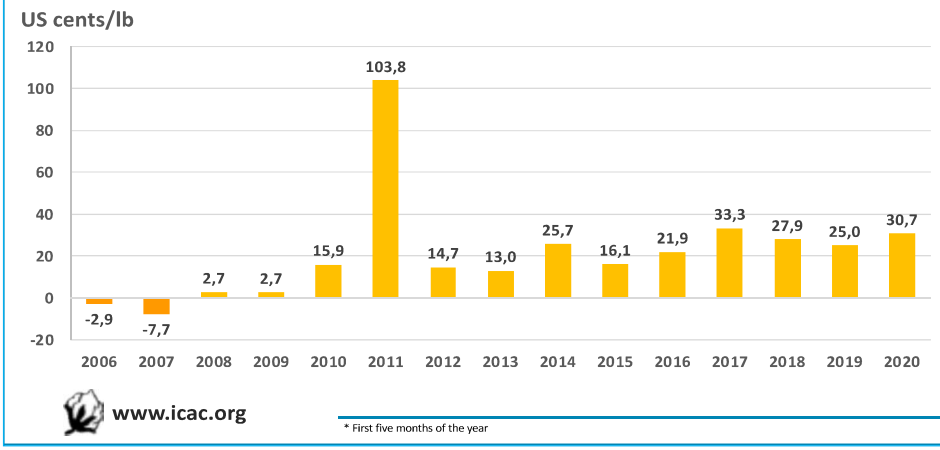
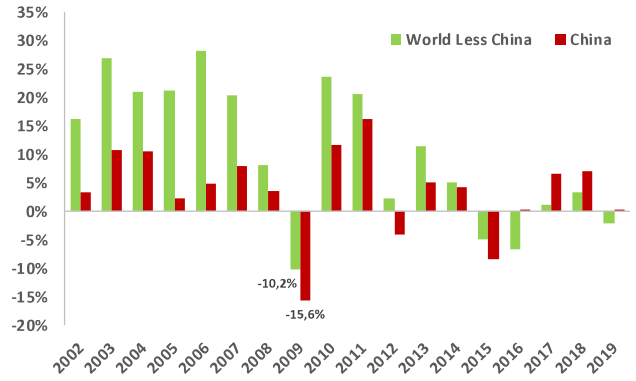


Fig. 9: Textile and Apparel Exports

Year on year percentage change



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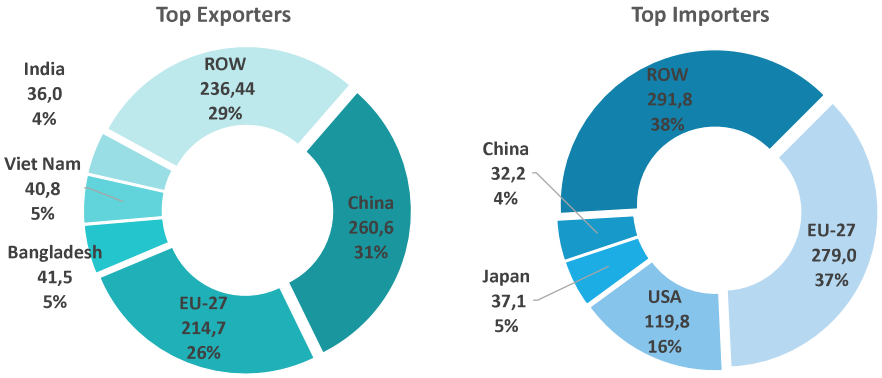
Source: ITC

Fig. 10: Textile and Apparel Trade – 2019

Billion US$



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Source: ITC

Fig. 11: China Textile and Apparel Trade: January & April - 2020

HS Section	Jan-April Exports US$ Billion	% Change Y-o-Y	Jan-April Imports US$ Billion	% Change Y-o-Y
TOTAL	**678.22**	**-9.00**	**619.96**	**-6.00**
Textiles and Textiles Articles	**65.67**	**-10.20**	**10.10**	**-9.20**
50 Silk	0.19	-19.3	0.01	-9.2
51 Wool	0.43	-31.3	0.55	-34.4
52 Cotton	2.60	-31.8	2.31	-20.1
53 Other vegetable textile fibres	0.32	-18.5	0.23	-15.0
54 Man-made filaments	4.38	-20.6	0.54	-21.4
55 Man-made staple fibres	2.50	-20.4	0.43	-21.3
56 Wadding, felt and nonwovens	1.29	-0.4	0.30	15.7
57 Carpets and other textile floor coverings	0.51	-17.7	0.02	-34.7
58 Special woven fabrics	0.86	-36.1	0.08	-28.7
59 Impregnated, coated, covered or laminated textile fabrics	1.58	-14.6	0.34	-16.2
60 Knitted or crocheted fabrics	3.20	-19.6	0.23	-27.7
61 Articles of apparel and clothing accessories,knitted or crocheted	10.86	-23.5	0.72	-18.6
62 Articles of apparel and clothing accessories, not knitted or crocheted	10.47	-22.6	1.13	2.6
63 Other made up textile articles	5.51	86.0	1.01	605.4

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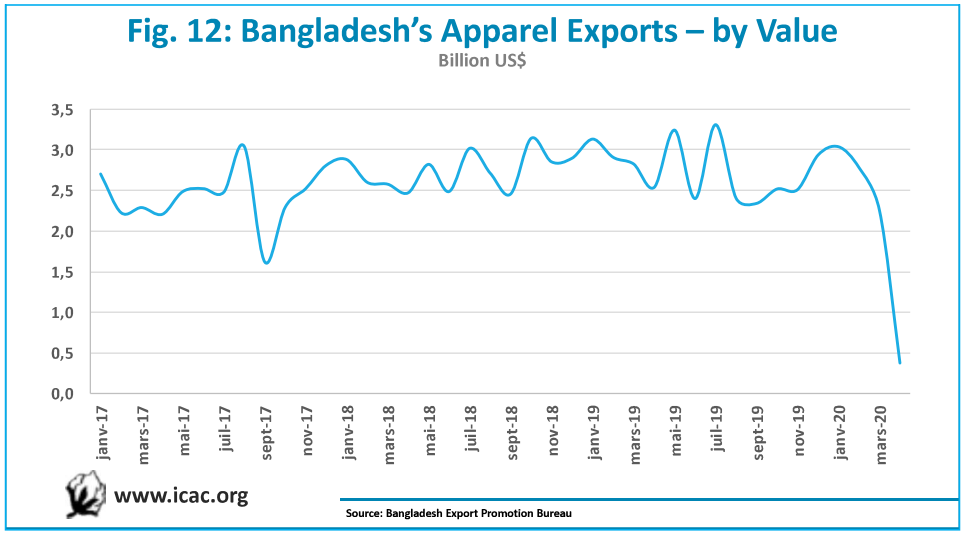
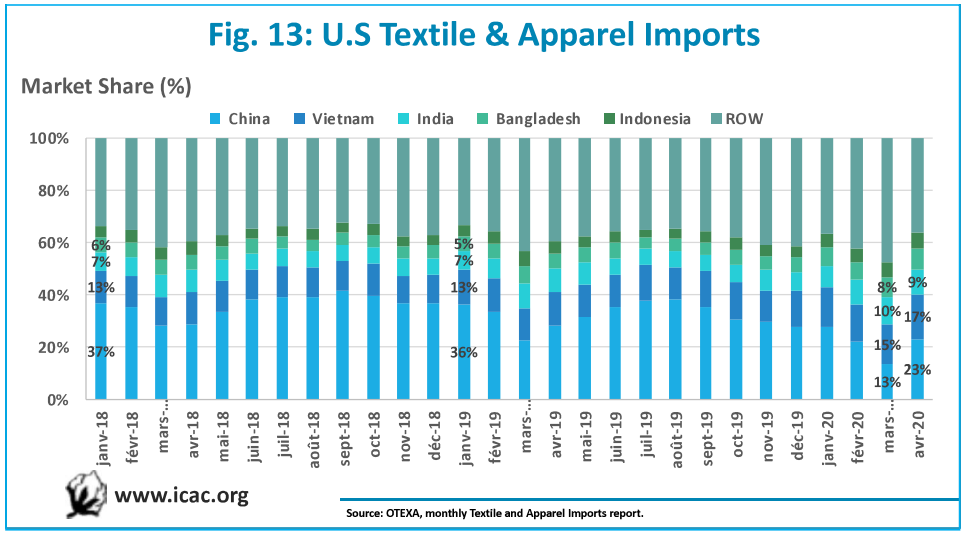
Source: China Customs

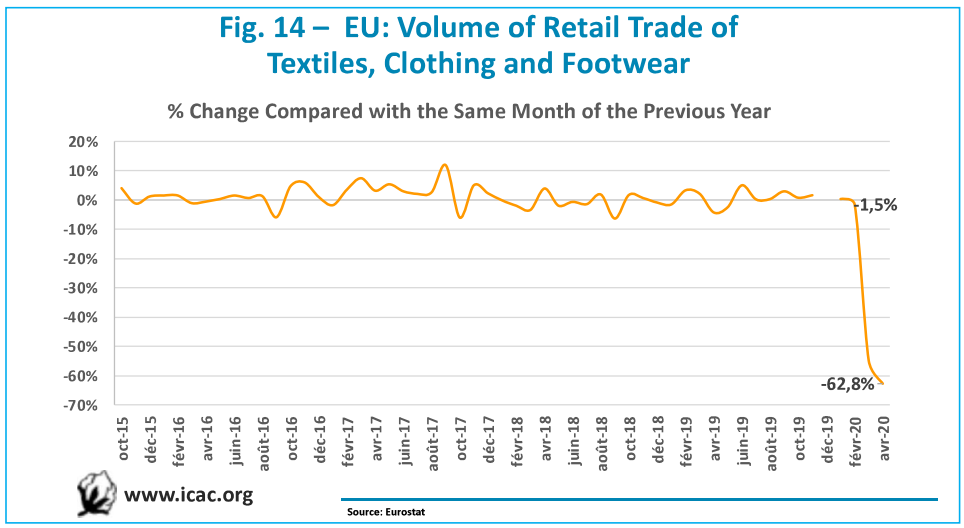
months of 2020 compared to the same period in 2019. The value of RMG exports fell from U$11.4 billion from Jan-April 2019 to $8.45 billion in 2020. Likewise, apparel exports in April 2020 fell by 83% to $375 million from $2.26 billion in March. The steep decline was due to a slow demand in major destination markets, such as the United States and Europe, and the temporary factory closures implemented in the country for nearly a month to curb the coronavirus pandemic (Figure 12).

In Vietnam, provisional data from customs show that the country's textile and garment exports totalled $8.65 billion in the first four months of 2020, down 8.8% year-on-year. The export markets with the steepest decline in value terms were the US (-$465 million), Korea (-$77 million), China (-$61.7 million) and the UK ($50.6 million).

In the United States, the value of textile and apparel imports contracted for a fourth consecutive month in 2020. T&A imports decreased by 18.1% in the first four months of 2020 compared with a year ago. This decrease is worse than the one observed during the global financial crisis when the value of US T&A imports fell by 13%. According to the Office of Textiles and Apparel (OTEXA https://otexa.trade.gov/), the value of textile and apparel imports from China dropped by 41.4% from January and April compared to the same period the previous year. As a result, China's market share also decreased from an average of 36.6% in 2018, to 32.8% in 2019, to 21.9% so far in 2020. However, it is worth noting that there was already a downward trend since September 2019, given the trade dispute between both countries.







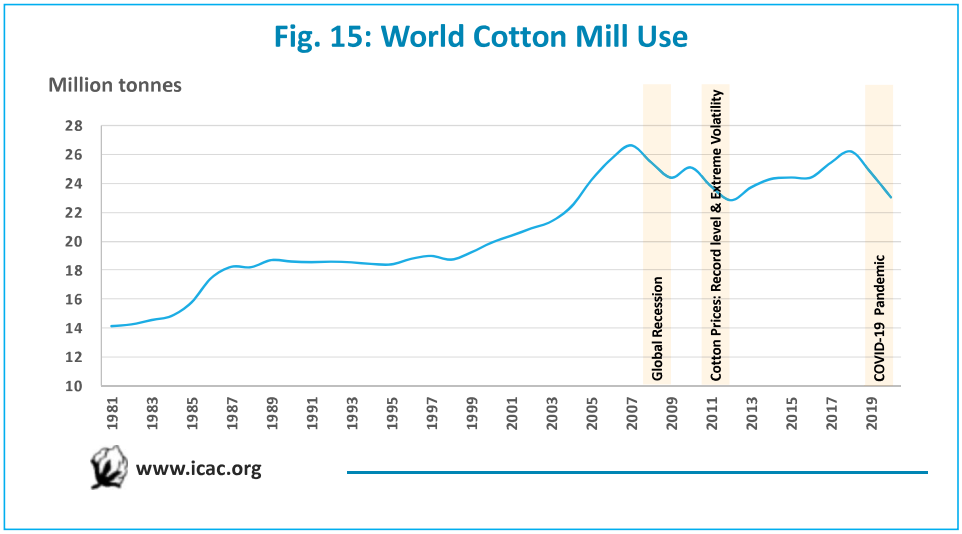
Other Asian countries took advantage of China's market loss, including Vietnam, India, Bangladesh and Indonesia. The value of their textile and apparel exports to the United States in the first four months of 2020 increased by 15% in Vietnam, 9% in India, 7% in Bangladesh and 5% in Indonesia, compared with a year ago (Figure 13).

Japan, the third-largest textile and apparel importer in the world, also reduced its T&A imports in the first quarter of 2020. The total value of textile and apparel imports dropped by 9.6% compared to the same period the previous year. Imports from China and Indonesia decreased by 17% and 8%, respectively. While imports from Vietnam, Bangladesh and Cambodia increased by 6%, 3.7% and 0.5%, respectively. China's market share decreased from an average of 55% in Q1 2019 to 50% in Q1 2020.

According to latest estimates from Eurostat, the COVID-19 containment measures widely introduced by member states had a significant impact on retail trade. The volume of retail trade for textiles, clothing and footwear in the EU-27 decreased by 54.9% in March and by 62.8% in April, compared to the same months of the previous year. The latest report shows that the EU's volume of retail trade decreased by 18% in April, compared to the same month of the previous year. Amongst member states for which data are available, the largest annual decreases in the total retail trade volume were registered in France (-31.1%), Spain (-29.8%), Malta (-24.8%) and Luxembourg (-24.7%) (Eurostat News Release 4 June 2020) (Figure 14).

A preliminary report from to the European Apparel and Textile Confederation (EURATEX) shows that short-term prospects for the textile and clothing industry are expected to be dramatic. According to the survey of European textile and clothing companies conducted in April, 60% of textile and clothing companies expect sales to drop by half, while 30%

of companies expect a reduction as high as 80%. The report also mentioned that 70% of companies have serious financial constraints and 80% of the sample has reduced workforce, using temporary unemployment schemes where available. Production companies reported problems in their supply chains, whereas retailers face the problem of a 'lost Summer season'. Despite this critical situation, EURATEX informed that 'over 500 companies reconverted part of their sites or invested in new machineries, to produce protective masks and garments to overcome the crisis'.



It goes without saying that the rapid spread of the coronavirus and the uncertainty of its impact on the world economy have brought new challenges not only for the cotton sector but for the textile and apparel industry. It has also caused brands and retailers to postpone or cancel purchase orders, thus affecting factory employment and liquidity, especially in cotton-consuming countries in Asia. Even though various countries have announced stimulus programs, reduced interest rates and offered financial assistance packages to mitigate the health crisis and limit economic damage, there is no clear consensus on how fast the global economy will bounce back. The abrupt cessation of economic activity — which involves the closure of many stores and malls, an increase of layoffs, a rising unemployment rates, and the expected lower demand for apparel consumption in major markets, such as the United States, EU and Japan — makes the current situation unprecedented. While the United States and the European companies are likely re-evaluating their global supply chains, it remains to be seen how extensive and rapid the reshoring will be. Moreover, the pandemic has fuelled a trend toward protectionism — it hasn't been mentioned by the US government alone. In Japan, the government presented an economic stimulus package of $2.2 billion to move companies away from China and relocate production back to Japan or other ASEAN countries. In France, the Finance Minister instructed French manufacturers to assess their supply chains and the over-dependence on suppliers from China and other Asian countries (Figure 15).

In the past two decades, world cotton mill use has suffered through three negative shocks:

1. The 2008/09 financial crisis
2. Record high prices and extreme volatility between 2010-2012, and
3. The coronavirus disease (COVID-19) pandemic

During the financial crisis, cotton consumption decreased by 8.4%, as world cotton demand plummeted from 26.6 million tonnes in 2007 to 24.4 million tonnes in 2009. Although cotton consumption recovered the following year to 25.1 million tonnes (+2.9%), it was again impacted by high volatility and record-high prices in 2011-2012. Cotton demand was negatively affected, and mill use plunged to 22.8 million tonnes in 2012 – the lowest level since 2004. Nevertheless, cotton consumption slowly recovered until it reached 26.3 million tonnes in 2018 – the second-highest level in almost 60 years. The total impact of the pandemic on the cotton industry will depend on how long this health crisis lasts, the containment measures taken to prevent the spread of the disease, and on consumers' behaviour and spending patterns. Certainly, the trend in cotton prices will be determined by fundamental market conditions, which in turn would depend on how rapid and intense the recovery of consumer demand will be.

Clothing Retail Sales

The apparel brands' demand for fabrics depends on the level of revenues they generate by selling their products. With the closure of retail stores as a part of the lockdown measures, apparel brands have lost their major source of making sales.

A Forbes article (Forbes, 2020) noted that the foot traffic to U.S. stores fell 58.4% in the third week of March. If the retail shutdown is prolonged, those with the bulk of their inventory trapped in stores and without a strong balance sheet may find that they are economically unable to continue operations. As per the advance estimates of April by the United States Census Bureau (USCB, 2020), retail sales of clothing and clothing accessories in the US fell by 78.8% (m-o-m) to reach $2.3 billion between March and April 2020 and a total of 89.4% fall since January 2020 (Figure 16).

The retail sales of men's clothing stores fell by 56.2% and women's clothing stores fell by 53.8% between Feb and

Fig. 16: Retail Sales of Clothing and Clothing Accessories Stores in the U.S

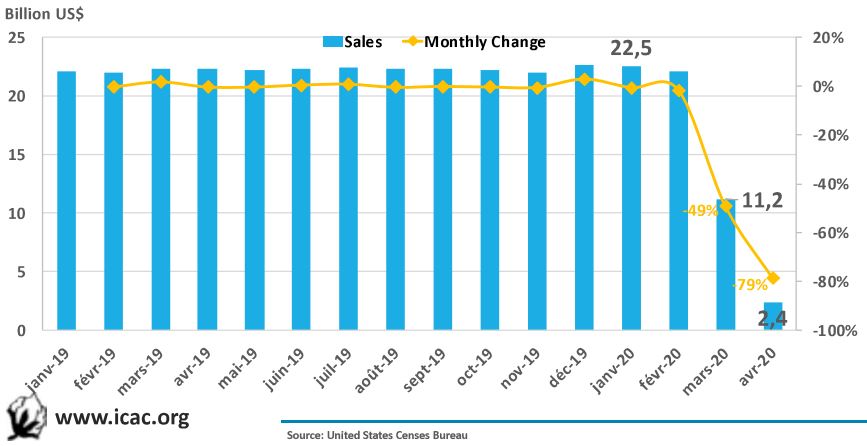
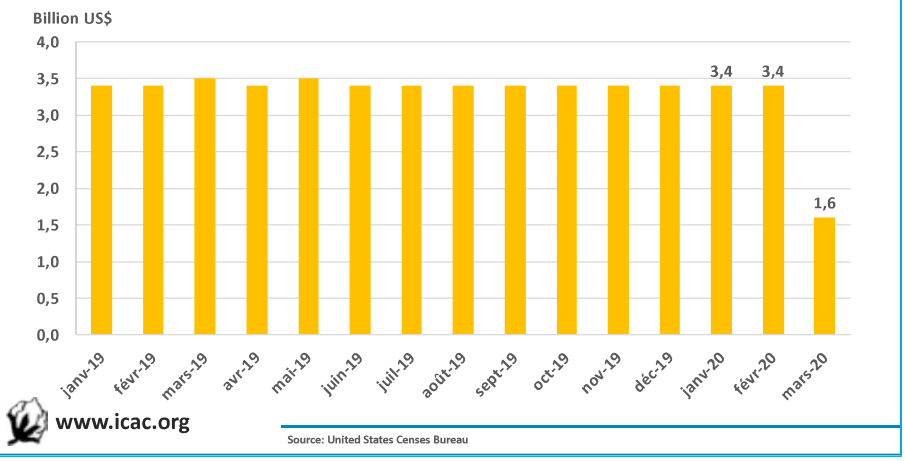


Fig. 17: Retail Sales: Men's Clothing Stores

Fig. 18: Retail Sales: Women's Clothing Stores



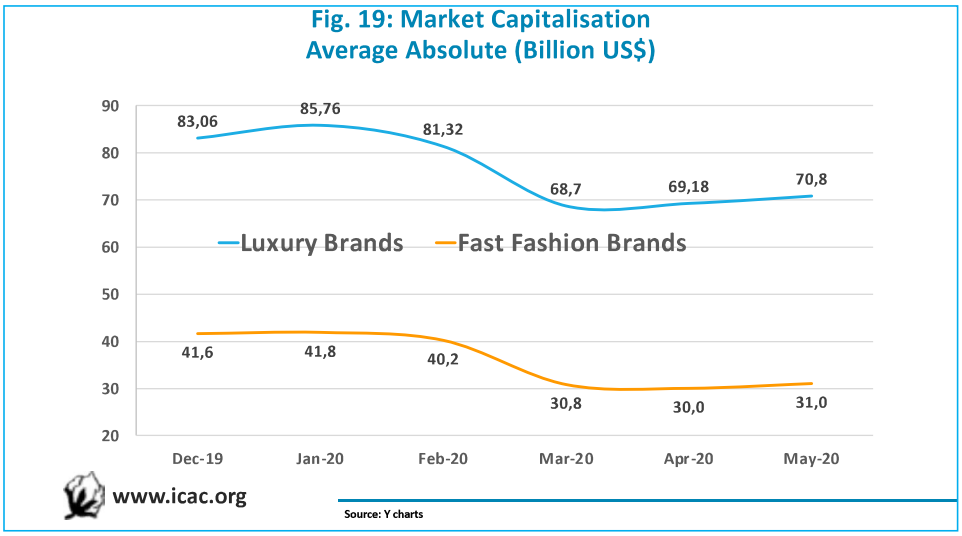
March 2020. No advance estimates were announced for clothing, and jewellery stores individually, but the available U.S. retail sales data on clothing stores showed declining trends in their sales in January and February 2020. With wider shutdowns implemented in the month of March 2020, the trends are expected to decline further (Figures 17 and 18).

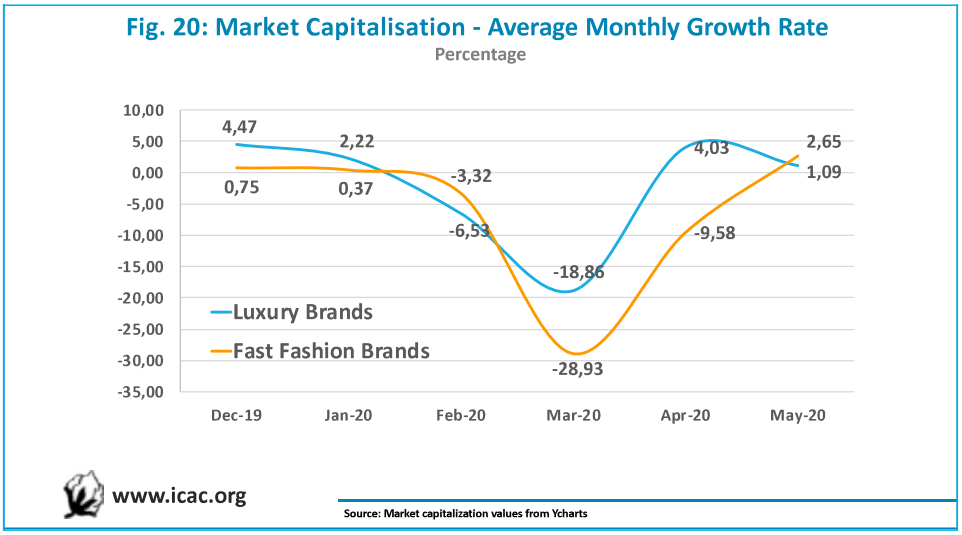
In the US, the monthly growth rate in retail sales of clothing and clothing accessories stores (month over month) showed a declining trend starting in January 2020. After the advance estimates of retail sales for the month of April by the United States Census Bureau, this monthly growth rate fell to 78.8% in April.

These show significant slowdowns in the earnings from the retail sales for the clothing and clothing accessories stores in U.S. markets. With the lockdown in place, McKinsey & Company (McKinsey, 2020) has estimated that the revenues for the global fashion industry (apparel and footwear sectors) will contract by 27 to 30% in 2020 year-on-year. While the revenue figures for apparel brands will be released in the quarterly assessments, these brands have been losing market value in the U.S. stock market since the outbreak of the COVID-19 pandemic. In order to analyse this loss in market value by clothing brands, daily figures of market capitalisation are considered to provide an average for a month, to calculate a month-to-month market capitalisation performance of the clothing brands since the outbreak of COVID-19.

Market Value of Clothing Brands

As per the Business of Fashion (McKinsey, 2020a), the average market capitalisation of apparel, fashion and luxury players dropped almost 40% between the start of January and March 24, 2020 — a much steeper decline than that of the overall stock markets (Figure 19).





In order to study the impact of the COVID-19-induced lockdown measures on apparel brand market capitalisation (Y Charts, 2020) in U.S. markets, a sample size of five fast-fashion brands and five luxury brands from U.S. stock markets were analysed to see if they have lost any market value since the outbreak of the global pandemic. All the brands chosen deal in clothing and clothing accessories sales, amongst other categories, in the U.S. markets.

All five luxury brands chosen had lost significant market capitalisations in the month of March. Prada lost its market capitalisation between Feb-Mar 2020 by 19.6%, Louis Vuitton by 15%, Christian Dior by 18.6%, Burberry by 30% and Hermes by 9.6%. Amongst the fast fashion brands; H&M lost market capitalisation between Feb-March 2020 by 31.7%, Inditex by 22.7%, Gap by 41.7%, Fast Retailing (owns UNIQLO) by 16.6% and American Eagle by 31.8%. The average decline by value in the market capitalization of the luxury brands' sample from Feb-Mar 2020 is $12.6 billion, while that of the fast fashion brands' sample is by $9.4 billion, indicating that the fall in value terms was stronger for luxury brands than for fast fashion brands. While the average of the luxury brands sample has already started regaining market value, increasing from $68.7 to $70.8 billion, the fast-fashion brands have had a slow increase from $30.8 to $31 billion between March and May 2020 (Figure 20).

Looking at the average monthly growth rate of market capitalisation (month over month) of these brands, it shows that fast-fashion brands decreased more than the luxury brands from Feb-Mar 2020. Brands like H&M, Gap and American Eagle lost more than 30% of their market value individually between Feb-March 2020, bringing down the entire average growth rate of the fast-fashion brands' sample to -23% in March 2020 — almost 8 percentage points less than the luxury brands' sample.

Future Expectations

After the lockdown, the world markets might open to an economic slowdown or a possible recession. This will reduce consumer spending and purchasing power. According to the consumer concern surveys conducted by Cotton Incorporated (Cotton Inc., 2020) in the U.S., China and Mexico, it was found that the consumers are already spending less under the current scenario. Further, the second survey showed a spike in the number of consumers who are spending less during the pandemic. Moreover, under the current scenario, consumers are prioritising their spending on necessities and essential goods rather than discretionary and non-essential goods (Figure 21).

If the market opens to an economic slowdown, clothing — being a discretionary commodity — will have positive income elasticity, meaning any fall in the income of the consumer will lead to a fall in the demand for clothing. While this is true for both luxury and fast fashion brands, the intensity may differ due to the variable income elasticity of their consumer base (Figure 22).

Because fast fashion brands cater to more income- and price-sensitive consumers, it is expected that consumers of fast fashion brands will take longer to return to stores. The state of fashion report (Business of Fashion, 2020) also

Fig. 21: Situations that will be Faced by Both Fast Fashion and Luxury Brands

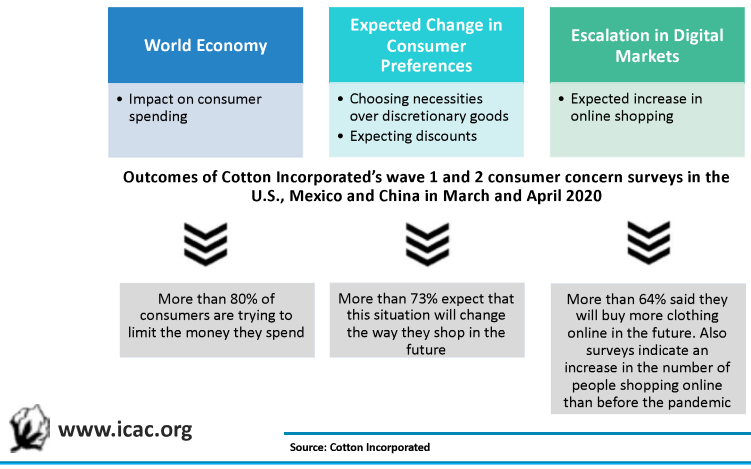
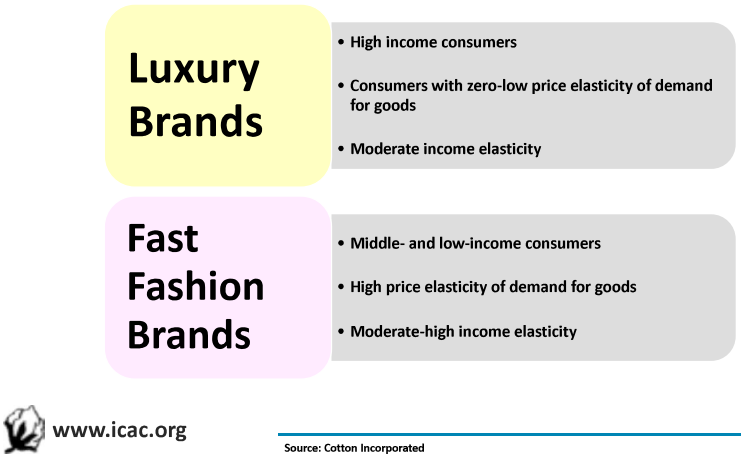


Fig. 22: Consumer Base Served by Luxury and Fast Fashion Brands



stated that, 'mid-market brands and retailers will be hit hardest, as cash-strapped shoppers likely will shift down to the value segment for essentials, and middle-class consumers likely will opt for heavily discounted, affordable luxury and premium goods. In the luxury segment, the authors expect that consumers will return more quickly to paying full price for quality, timeless goods, as was the case after the 2008/09 financial crisis.'

Generally speaking, today's unprecedented containment measures are forcing consumers to change their lifestyle preferences and purchasing behaviours. Forbes (Forbes, 2020a) has also revealed that the consumers could emerge from the pandemic with entirely new brand preferences or lower overall brand loyalty. It added that the consumers would have adopted short- term behaviours during the pandemic that in many cases will become permanent.

Exchange Rates

World trade in commodities is largely affected by prevailing exchange rates. Falling exchange rates are indicative of a loosening economic grip and poor performance of the markets. The current fall in the exchange rates define the slowing of the world economy due to the COVID-19 pandemic.

While a strong US dollar benefits some countries, it negatively impacts others. When analysing the exchange rate between two currencies, the depreciation or weakening of one currency must mean the appreciation or strengthening of the other. Although the United States is under lockdown and the number of coronavirus cases is still on the rise, the American dollar continues to be viewed as the world's safest and most stable currency. Nevertheless, a strong dollar makes US exports more expensive, which means US products are less competitive than foreign-made goods. A stronger dollar also means Americans can benefit from less expensive foreign travel and cheaper import goods, leaving more disposable income for consumers.

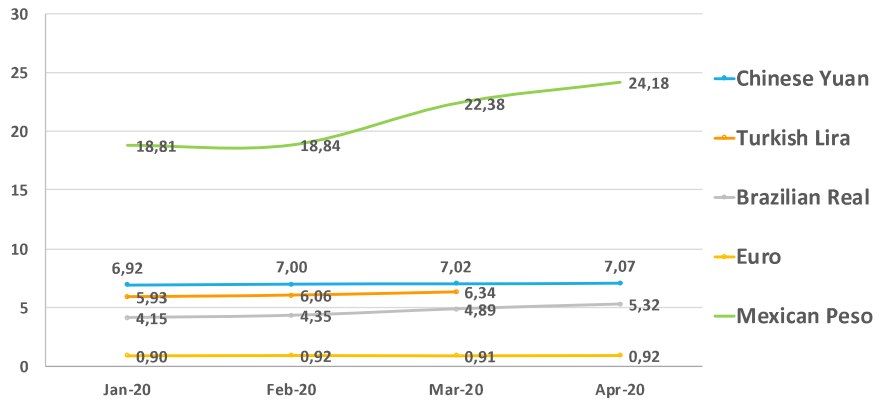
Peterson Institute for International Economics (Peterson Institute, 2020) stated that 'with the notable exception of the UK pound, which may have been influenced by the Brexit outlook, other reserve currencies have moved little against the US dollar. Countries with external debts that exceed their foreign exchange reserves have seen large declines in their currencies. The countries without large external debts that experienced sharp depreciations in 2020 are all major energy exporters, such as Canada, Australia and Russia.'

Looking at the impact of COVID-19 on the exchange rates of major cotton-consuming and -producing countries, almost all of them have lost value against the US dollar. The Chinese yuan depreciated by 2.6% from 6.9 to 7.1 yuan per U.S. dollar between Jan-May 2020. Likewise, the Turkish lira suffered a depreciation of 17%, from TL5.92 to TL6.93 per US dollar, over the same period. In India, the world's largest cotton consumer and second-largest consumer, the rupee has depreciated by 6.2%, from ₹71.3 to ₹75.7 per US dollar between Jan-May 2020. The Pakistani rupee depreciated by 3.7%, from PKR154.7 to PKR160.5 per US dollar. Amongst Latin American countries, the Brazilian

real has fallen by 36.3% against the US dollar, amid worries over a deep economic recession due to the coronavirus pandemic. Brazil's real fell from R$4.15 in January to R$5.65 per US dollar in May. The Mexican peso depreciated by 24.8 % between Jan and May 2020, from MXN18.8 to MXN23.46 per U.S. dollar. Similarly, the euro has lost around 2% of its value against the U.S. dollar over the same period. Japanese yen has traded comparatively well against the US dollar even with the outbreak of the COVID-19 pandemic, gaining 1.9% from 109.3 to 107.2 yen per U.S. dollar in the same period (Figures 23 and 24).

The monthly percentage change in the yuan, lira, and real per US dollar have been positive, indicating that they have depreciated against the US dollar in the last month. Amongst these, the Brazilian real witnessed the greatest fall in its value against the US dollar since the COVID-19 outbreak. Similar to the financial crisis of 2008/09, the dollar has emerged as the preferred currency by investors, reinforcing its great influence on the world economy (Figure 25).

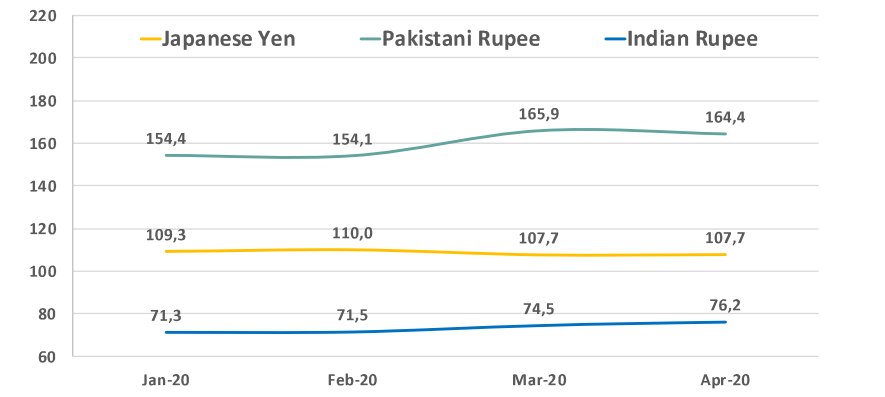
Fig. 23: National Currency / U.S. Dollar



www.icac.org

Source: Federal Reserve Economic Data

Fig. 24: National Currency / U.S. Dollar

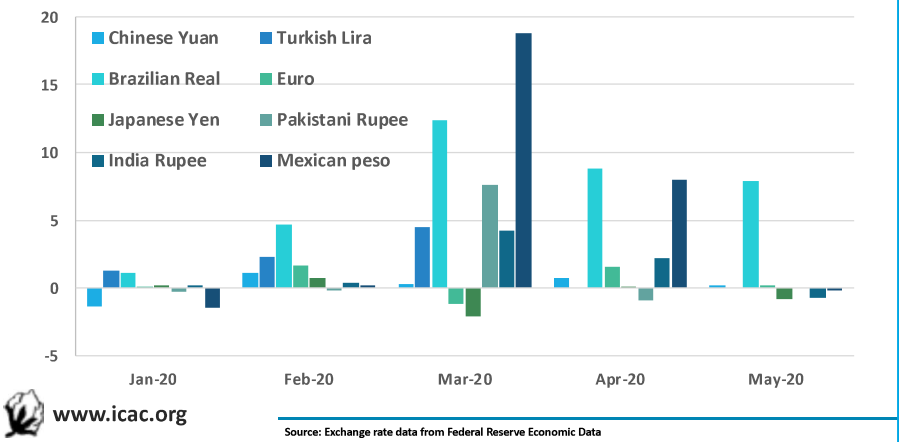


www.icac.org

Source: Federal Reserve Economic Data, for Pakistan: State Bank of Pakistan

Fig. 25: Exchange Rates

Percentage Change



www.icac.org

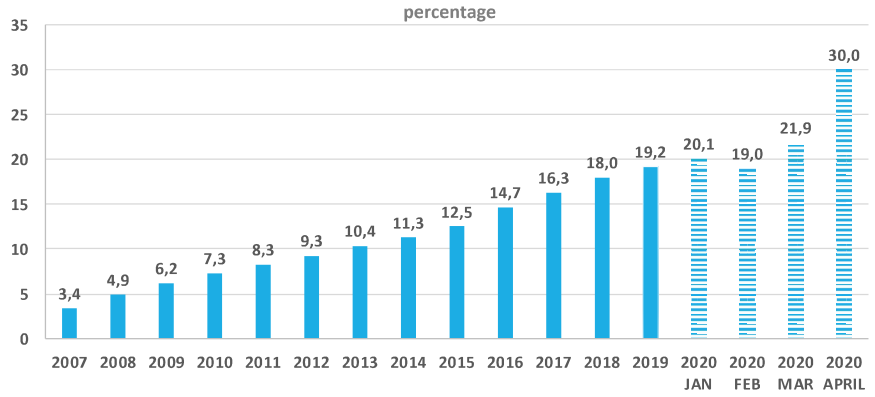
Source: Exchange rate data from Federal Reserve Economic Data

Online Sales

The great lockdown due to the spread of COVID-19 led to the closure of retail stores, restaurants, bars and all other forms of public places and non-essential business places across the globe. Even the essentials — grocery stores and pharmacies — have become vulnerable places for contamination. In this scenario, the diversion of consumers toward online shopping would be an expected outcome.

Addressing the concern of getting infected by receiving a delivery package (from online shopping), the Centers for Disease Control and Prevention (CDC, 2020) had remarked that the poor survivability of the coronavirus on surfaces makes it unlikely someone would get infected from food products or packaging that is shipped over a period of days

Fig. 26: U.K's Internet Sales as a Percentage of Total Retail Sales 2007-2020 (Jan-April)



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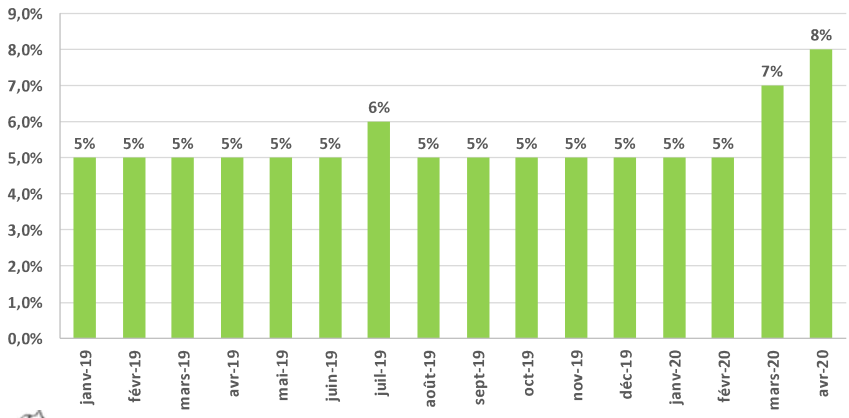
Source: Office of National Statistics

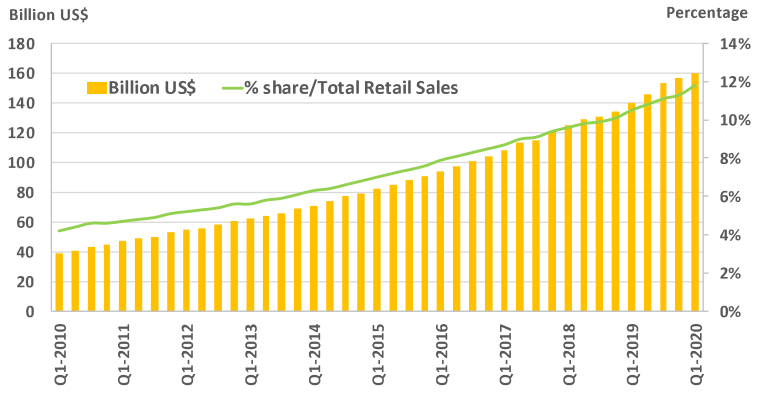
Fig. 27: Japan's Monthly % Share of Non-Store Sales to Total Retail Sales



www.icac.org

Source: Japan's Ministry of Economy, Trade and Industry

Fig. 28: U.S. Quarterly E-Commerce Sales



www.icac.org

Source: U.S. Census Bureau

or weeks in ambient, refrigerated or frozen temperatures.

The World Health Organization (WHO, 2020) had also noted that 'the likelihood of an infected person contaminating commercial goods is low and the risk of catching the virus that causes COVID-19 from a package that has been moved, travelled, and exposed to different conditions and temperature is also low'.

Considering these advisories, the immediate impact of COVID-19 on e-commerce can be seen from the sudden spike in online retail sales in various countries. While UK internet sales as a percentage of total retail sales have been increasing since 2007, it reached the level of 30% of total retail sales in April 2020 — the highest-ever reported online sales percentage. From Jan-April 2020, internet sales rose from 20.1% to 30% of total retail sales. Japan has also seen a positive trajectory in the share of non-store sales to total retail sales in the last year. A monthly analysis indicates a jump of 3% between Feb-April 2020, in which the non-store sales increased from 5% to 8% of total retail sales (Figure 26 and 27).

United States online sales figures (US Retail, 2020) for Q1-2020 indicated an increase of 15% from Q1-2019, growing from $139.7 to $160.3 billion. E-commerce sales in the first quarter of 2020 accounted for 11.8% of total sales. It is worth noting that the US has experienced an increase in e-commerce sales in the last few years, both in absolute values and share change. These figures were at their highest in the first quarter of 2020. With the outbreak of a global pandemic and implementation of country-wide lock down measures, it will be fair to expect that the Q2 of 2020 will represent higher figures (Figure 28).

Does this mean that the retail industry is witnessing a consumer shift from brick and mortar stores to online stores — or is this merely the impact of the current temporary

lockdown measures in place? In a Google consumer survey undertaken by Ripen ecommerce (2020) to analyse why consumers chose to shop offline rather than online, buyers indicated that the main reason was to see or feel the items in person and the instant gratification. However, with the closure of the retail stores and the omnipresent threat of infection due to human contact, it is unlikely that people will go back to retail stores to shop in the near future. In this scenario, it is expected that the people will turn to online purchases. The World Advertising Research Center (WARC) reported that according to a research from Ipsos, consumers in 11 of the 12 markets surveyed said they were more frequently purchasing products online than they would normally buy in-store. WARC notes that the largest increase in ecommerce spending has been seen in Vietnam (57%), India (55%), China (50%) and Italy (31%).

Figure 29. Ginning factories are working only partially

Figure 30. Cotton has been harvested in the southern hemisphere

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