



NCTO's Year-End Economic and Trade Review for the Textile Industry

3 Year China Textile Agreement Helps Stabilize US Industry

Long Term China Threat Remains Top Industry Concern

US Industry Now 3rd Largest Textile Exporter in World

In its year-end textile trade and economic review, the National Council of Textile Organizations (NCTO) cited the removal of quotas on January 1st and the conclusion of a China textile bilateral agreement on November 8th as two of the most important events affecting the United States textile industry in 2005. Other important factors were the sharp rise in oil prices and passage of the DR-CAFTA agreement.

NCTO Chairman Jim Chesnutt commented,

“In NCTO’s 2004 report, we noted that 2005 presented enormous risks for the industry because of the quota-phase-out and the danger of an enormous flood of subsidized imports from China.

I am pleased to report that while the flood from China did indeed materialize – with imports up some 1,500 percent in sensitive categories – quick action by the U.S. government, in terms of safeguards, moderated the damage and even led to small production increases in the latter half of the year.

2005 was significant for the industry in many ways, including some important political ones. For instance, by supporting the CAFTA agreement, the industry was able to work with the Administration and members of Congress to secure several changes to the agreement that are beneficial to U.S. textile producers. This improved cooperation further resulted in a tough three-year bilateral agreement with China that imposed comprehensive restrictions on imports in the industry’s most sensitive categories.

In addition, we are pleased that the Administration was able to beat back a concerted attempt in Hong Kong during Doha Round talks to give Bangladesh and other competitive textile players duty-free status in the U.S. market.

These successes would not have been possible without the strong, steady and often impassioned support of key members of Congress. The members of the Textile Caucus fought hard for the industry in 2005, sometimes making politically difficult votes in order to defend the jobs of textile workers in their districts. We thank them once again for coming through for us.

Our industry also deserves congratulations. According to WTO figures, the US textile industry is now the 3rd largest textile exporter in the world, overtaking Korea and Japan. We now ship product to more than 50 countries. And we continue to modernize and innovate. Figures show that annual

industry investment in new plants and equipment totaled nearly \$1.5 billion, an increase of six percent.

2006 – A Look Ahead

As we noted, the threat from China to textile and apparel sectors around the world became terribly apparent in 2005. Chinese exports to the United States and the EU increased by \$9 billion last year, while exports from other developed countries fell by \$5 billion. Chinese import market share in U.S. apparel categories not covered by quotas in the US-China bilateral rose from 12.5% to 41% in just nine months and is projected to hit 75% by January 1, 2007.

As we look to 2006, enormous challenges lie before us. The China safeguard expires at the end of 2008 and NCTO's number one effort in 2006 will be to work with our many partner trade groups around the world to make sure the Doha Round produces a more permanent solution to the China threat, while also allowing trade preference programs currently in place to grow and prosper. This means that we must have a textile sectoral in the Doha Round.

Regarding the US-China bilateral, NCTO will also be working closely with the Customs Service to ensure strict enforcement of the China bilateral as well as enforcement of the trade preference programs, which have often been exploited by China to transship textile and apparel products. And NCTO will continue to urge Congress to pass legislation that forces China to revalue the yuan and end its 40 percent export subsidy that has been so damaging to millions of U.S. manufacturing jobs.

NCTO will continue working with the U.S. government to finalize changes to the CAFTA agreement regarding pocketings and linings and Nicaraguan TPLs. Furthermore, NCTO will be working to help complete the Andean Round of trade talks and to make sure that the industry's priorities are included in ongoing negotiations with the Andean countries, Thailand, South Africa Customs Union, Panama and United Arab Emirates.

In addition, as Vietnam moves closer to WTO admission, NCTO will be advising the government to ensure appropriate measures are put into place to prevent Vietnam, and its state-owned and subsidized textile sector, from becoming a new "China." NCTO will also be on guard against damaging legislation, like TPLs for Haiti and duty-free/quota-free access for all LDCs.

With respect to the Berry Amendment, special thanks go to the successful efforts of Rep. Robin Hayes to have the waiver process for Berry strengthened and more accountability inserted into the system. NCTO will begin working with Rep. Hayes and other members of Congress to expand Berry to other departments, like the Transportation Security Administration, with a national security focus.

Review of 2005 Textile Industry Economic and Trade Statistics

NCTO noted that following numerous plant closings and sharp job losses early in the year, US textile production and employment began to stabilize shortly after safeguards were imposed on China in May 2005. Five of the last six months have shown small production gains in the textile sector with total textile shipments in the United States at \$75.1 billion, only two percent off of 2004 figures. Moreover, textile profits rebounded, reaching \$1.3 billion during the first three quarters of 2005, an increase of 78% over similar 2004 figures. Final year end textile job losses slowed, declining by 11,300 in 2005, compared to a loss of 25,000 jobs in 2004.

Textile and apparel exports increased for the second year in a row, up 2.7% to \$16.5 billion. According to the WTO's 2005 Statistical Report, the U.S. textile industry is now the 3rd largest exporter of textile products in

the world, overtaking Taiwan and Korea. The industry today ships to more than 50 countries. And despite Chinese currency manipulation and other subsidies, US textile exports to China (including Hong Kong) increased by 10 percent in 2005, totaling \$634 million.

However, domestic shipments from textile yarn and fabric mills, which produce mostly for the apparel trade, were off 6 percent for the year while textile plant closings increased to 31, compared to 24 in 2004. This reflected production lost to China early in the year and the intensely competitive global trade system since quotas were removed.

TEXTILE INDUSTRY BENCHMARKS 2004-2005

National Council of Textile Organizations

| | 2004 | 2005 | % CHANGE 2004-2005 |
|--|------------|------------|--------------------------|
| SHIPMENTS (Billion, YE November) | | | |
| Total Textiles | \$76.6 | \$75.1 | -2.0% |
| -Textile Mills (NAICS 313) | \$43.4 | \$40.8 | -6.0% |
| -Textile Products (NAICS 314) | \$33.2 | \$34.3 | 3.3% |
| <hr/> | | | |
| CORPORATE SALES (NAICS 313 & 314) (Billion) (Through 3rd quarter 2005) | \$37.4 | \$37.2 | -0.4% |
| PROFITS AFTER TAXES (NAICS 313 & 314) (Billion) (Through 3rd quarter 2005) | \$1.3 | \$2.1 | 65.1% |
| EARNINGS ON SALES (Percent) (Through 3rd quarter 2005) | | | |
| Textiles (NAICS 313 & 314) | 3.4% | 6.7% | ----- |
| All Manufacturing | 6.9% | 6.8% | ----- |
| <hr/> | | | |
| EMPLOYMENT (Year End) (Seasonally Adjusted) | | | |
| Textiles (NAICS 313 & 314) | 411,200 | 399,900 | -2.7% |
| Apparel (NAICS 315) | 271,900 | 252,700 | -7.1% |
| All Manufacturing | 14,334,000 | 14,329,000 | 0.0% |
| AVERAGE WORKWEEK IN HOURS (NAICS 313) (Not Seasonally Adjusted) | | | |
| | 40.1 | 40.3 | 0.5% |
| HOURLY EARNINGS (NAICS 313) (Annual Average \$) (Not Seasonally Adjusted) | | | |
| | 12.1 | 12.4 | 2.5% |
| WEEKLY EARNINGS (NAICS 313) (Annual Average \$) (Not Seasonally Adjusted) | | | |
| | \$486.69 | \$498.48 | 2.4% |

INDEX OF HOURS WORKED (2002=100)

| | | | |
|----------------------|------|------|-------|
| Textiles (NAICS 313) | 79.5 | 72.8 | -8.4% |
| All Manufacturing | 94.4 | 94.2 | -0.2% |

PRODUCER PRICE INDEX (1982=100) (YE November)

| | | | |
|----------------------|-------|-------|------|
| Textiles (NAICS 313) | 101.0 | 103.5 | 2.5% |
| All Commodities | 146.4 | 156.8 | 7.1% |

CAPITAL EXPENDITURES (2004/3)

| | | | |
|-------------------------------------|---------|---------|---------|
| Total Textiles | \$1,454 | \$1,373 | (5.9%) |
| - Textile Mills (NAICS 313) | \$943 | \$1,007 | 6.4% |
| - Textile Product Mills (NAICS 314) | \$511 | \$376 | (35.9%) |

TOTAL TEXTILE & APPAREL IMPORTS

| | | | |
|---|------|------|------|
| (YE October in billions of square meter equivalents) | 46.1 | 50.3 | 9.3% |
| Textiles Only (YE October in billions of square meter equivalents) | 26.5 | 28.5 | 7.4% |

TEXTILE & APPAREL IMPORTS FROM CHINA:

| | | | |
|---|------|------|-------|
| (YE October in billions of square meter equivalents) | 11.3 | 16.1 | 43.0% |
| Textiles Only (YE October in billions of square meter equivalents) | 8.4 | 10.5 | 25.1% |

TOTAL TEXTILE & APPAREL EXPORTS

| | | | |
|--|--------|--------|------|
| (YE October) (Billion \$) | \$16.1 | \$16.5 | 2.7% |
| Textiles Only (YE October) (Billion \$) | \$11.4 | \$12.1 | 5.6% |

TEXTILE & APPAREL TRADE BALANCE WITH WORLD

| | | | |
|---------------------------|------------|------------|------|
| (YE October) (Million \$) | (\$74,195) | (\$80,822) | 8.9% |
|---------------------------|------------|------------|------|

TEXTILE & APPAREL TRADE BALANCE WITH CHINA

| | | | |
|---------------------------|------------|------------|-------|
| (YE October) (Million \$) | (\$17,702) | (\$26,530) | 49.9% |
|---------------------------|------------|------------|-------|

| Apparel Imports from China | | | | |
|---|--------------------------|--------------------------------------|------------------------|--------------------------|
| Quotas Removed | Size of US Import Market | China Import Share While Under Quota | China Share in Sept 05 | Proj. China Share – 2007 |
| 2002 | \$8 billion | 23% (2001) | 74% | 75% |
| 2005 - no safeguard actions taken | \$16 billion | 12% (2004) | 41% | 75% |
| 2005 - safeguards in place | \$54 billion | 5.6% | 16.5% | 18% |
| Source: NCTO analysis from the US Dept. of Commerce | | | | |