As usual it is a challenging task to present you the economic situation of our industry.

2007 has to be qualified as a stabilisation year following a somewhat more positive 2006. Last year was characterised by a dichotomic evolution with the second half being far less positive than the beginning of the year

Indeed the industry:

- Recorded a positive trend for both production and turnover for the clothing industry while textiles stabilised and man made fibres dipped rapidly
- Consumption remained positive in the EU but stalled and decreased in the major overseas EU markets while emerging markets registered positive trends, but EU exporters faced difficult local market conditions to fully benefit from those evolutions

As during the last three calendar years we should stress that EU exporters have not been in a position to fully benefit from the positive developments of world demand due to unfavourable Euro/US dollar exchange rates and the continuing strong downward pressures on world prices.

2007 final consumption in the EU27 is estimated having increased by approximately +5 % thanks mainly to the dynamism of the consumption of the new member states that more than compensate the slow down of the former EU-15 markets.

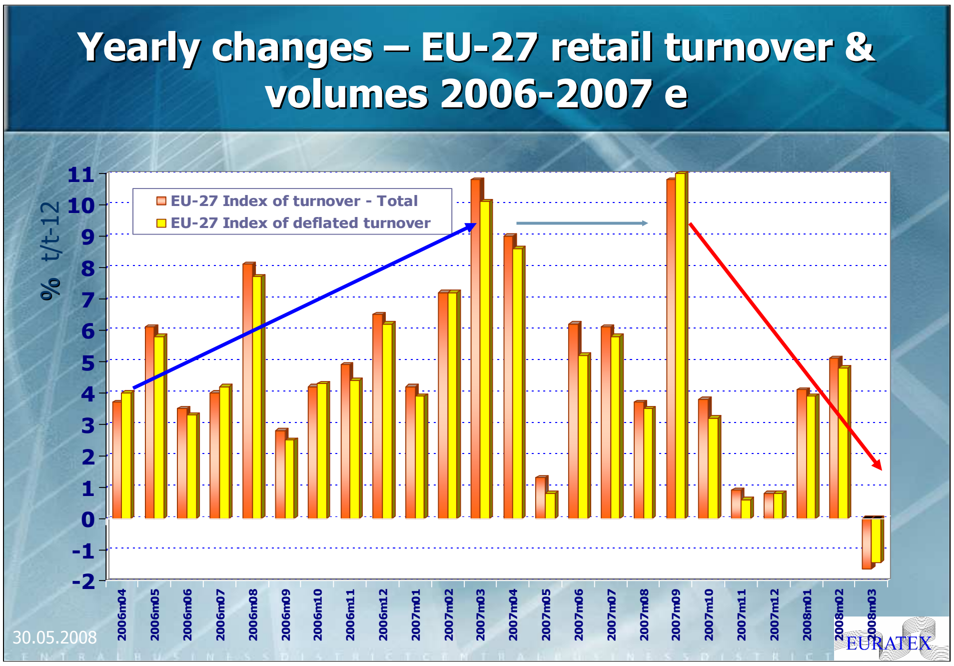
In 2007 part of the consumption increase may be attributed to a stabilisation of the **consumer prices** for clothing (+0%) – lower performance compared to 2005- 2006 years (respectively -0.9% and –0,6%).

Evidently this average figure masks divergent evolutions with a strong reduction in consumer prices in PL, LT, UK, DK, IE, CZ and CY while increasing very rapidly in BG, EE, GR, RO and SE .

To note also that in **all** member States but SE, GR & NL total consumer prices increased much more rapidly than clothing prices (AT & PT changing at the same rhythm)

Moreover during 2007 household textiles prices decreased less markedly than in 2006 (-0,1% instead of -0,8%) contrary to carpet prices who went up more strongly by +0,9% compared to +0,4% in 2006.

As a matter of consequence, retail sales in the EU 27 increased by +5,1% in value and by +4.7% in volume across 2007, the steepest increase of the last four years ….but the first indications for 2008 show that responding to a slowdown in economic activity, retail sales turned negative both in values and volumes. The dip in the growth rates are the continuation of the decrease started during the third quarter 2007.

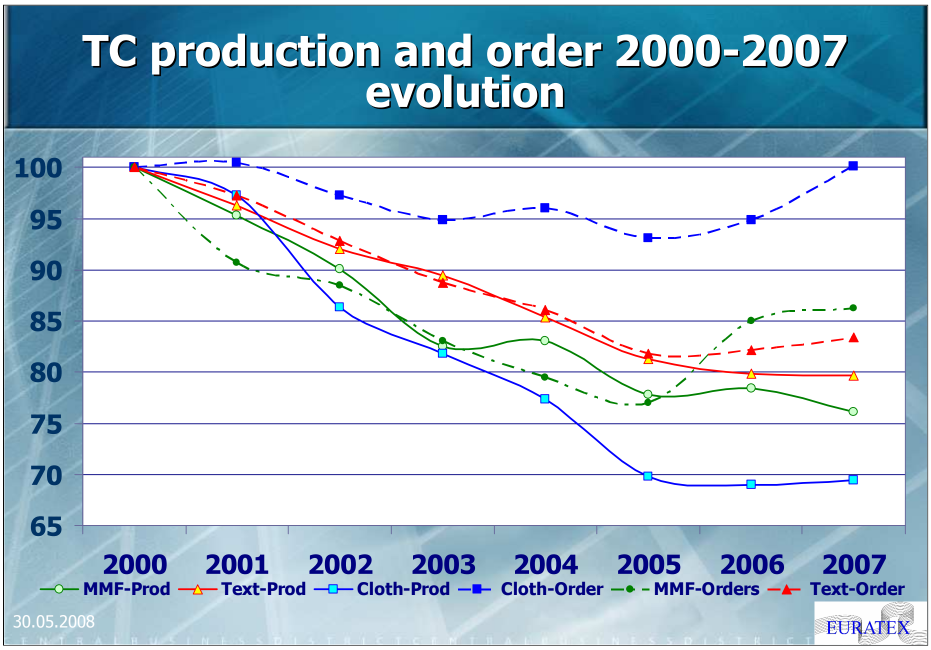


Despite this, last year several Member States witnessed a booming retail situation with two-digit growth both in value and volumes ranging from +11% to + 50% (in value). This happened quite exclusively in the new member states:

RO (+83% vol. +50% val.) – PL (+54% / +44%) - LV (+40% / +41,5%) - EE (+28% / +32,5%) - LT (+36% / +29%) – BG (+18% / +27%) – CZ (+16% / +15%) – CY (+9,5% / +10%).

The only negative note comes from Slovakia that registered a very negative evolution with a double digit decrease in local consumption (-13% to -14%)

While several “old Member states” registered a dull retail scene, sometimes for the second or third year in a row, : IT, PT, LU & DE , Belgium (+18% / +19%) registered a strong retail scene all along 2007, like Ireland (+14% / +10%), France or Spain



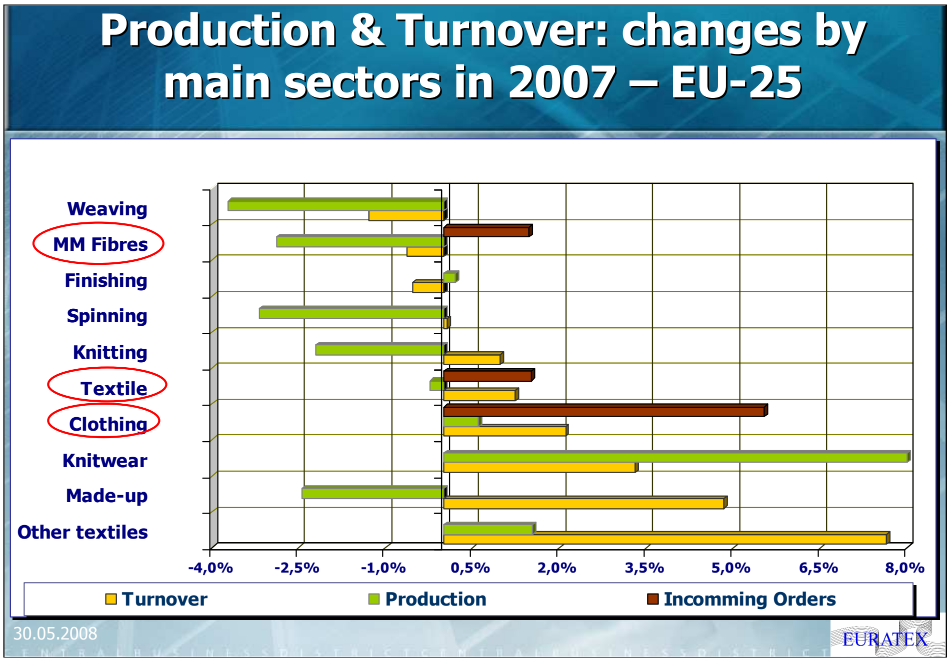
The economic (production) cycle in the textile and clothing industry was of approximately 36 months during the ’80s and the ’90s. Unfortunately since the beginning of this century this cycle was broken until recently.

Indeed, it is only after the partial re-introduction of the quotas end 2005 that the EU industry witnessed a re-instauration of the economic cycle thanks also to a strong internal EU market.

It did not come as a surprise to Euratex if mid 2007, after 18 months of improvements, the first signs of a downturn appeared. As we will see the situation worsened in particular after the end of the third quarter 2007 and should impact negatively the industry until the end of this year. There is a hope that after that the economic climate would improve.

But…in addition to the greater volatility of new orders the most important point for this industry is the “de-coupling” between production and orders. This is not a surprise for the professionals but what is the “rule” for clothing since the beginning of the century, is now also applicable to the upper part of the industry since 2005 even if Textile appear to be more timid on this move.

This “de-coupling” is a sign that EU companies are growingly delocalising their production, mostly in the neighbouring region and that the post 2005 situation helped to stabilise production at low levels.



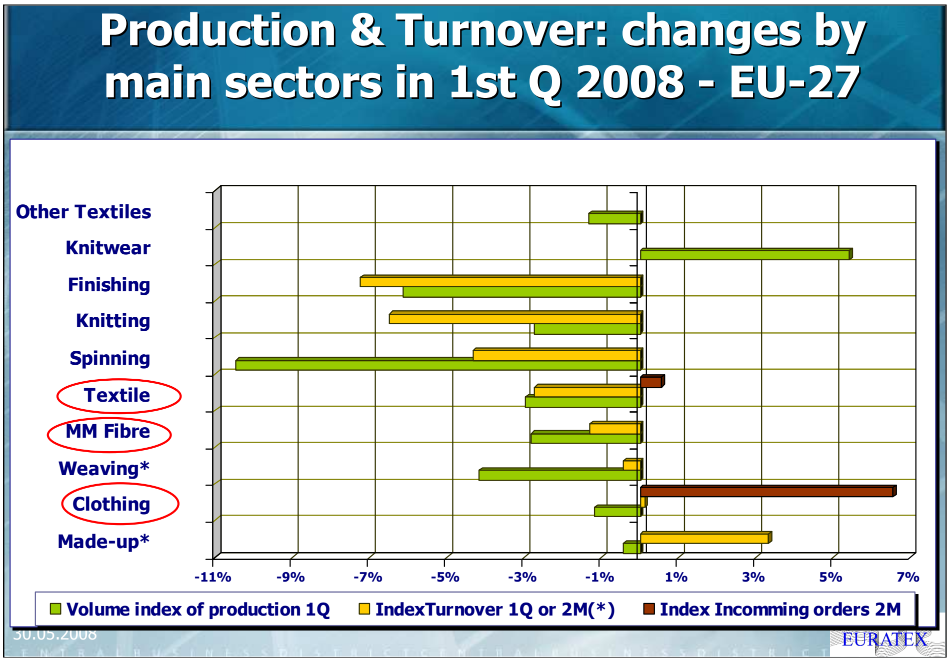
- Looking at individual **textile sectors** we notice that only knitwear, made up textiles together with special textiles and to a lesser extend knitting were able to improve their position compared to the EU-27 average.

- Production continued to drop heavily for weaving, man made fibres, spinning and knitting products. The latter being a in somewhat better position despite continuing contraction in production.

- 2007 was a slightly more positive year as far as **turnover** is concerned and while part of the industry managed to regain profitability, the average margins in the upper part of the pipeline (man-made fibres, spinning, weaving and finishing) were negative as **output prices** increased rapidly in particular man-made fibres and spinning (above +1,6%). On the other hand average margins improved from +3% to +7,5% in sectors like special textiles , knitwear and made-up textiles where output prices grew less rapidly (below +0,8%).

- For **clothing** companies the 2007 year is the second “positive” year since the beginning of the century and witnessed a stabilisation of physical production, a change in the production-mix with a moderate increase in turnover, but with outstanding incoming orders showing the resilience of this industry.

- A far as **new orders** are concerned, 2007 is the reverse year of 2006 with a positive but scattered trend for clothing and to a lesser extent for textiles. The monthly data showed improvements or less marked slow-down across the year in particular for those two industries while man-made fibres registered a stabilisation of their orders.



And what about the 1st quarter 2008 compared to the same period of 2007?

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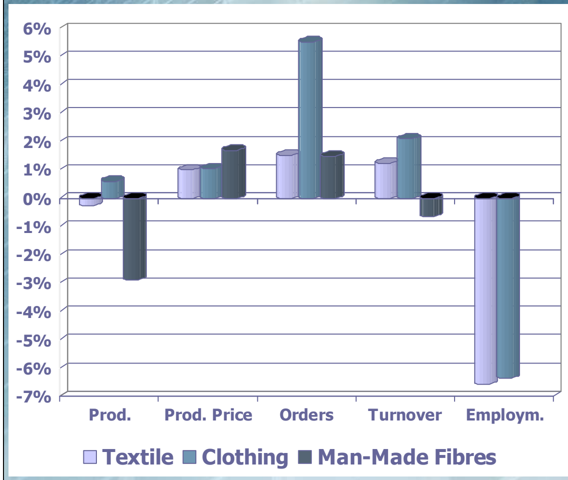
- The situation turned negative as far as **new orders** are concerned. This is particularly the case for man made fibres and textiles, while the positive developments in clothing are remarkable
- This is also valid for the **turnover** index which is decreasing across the industry except for made-up textiles and probably knitwear despite fierce price competition.
- Those positive evolutions translated in a **negative production trend for all** the subsets of the textile pipeline except for knitwear. The situation is negative in particular for the spinning, finishing and weaving production.

EU-27 Yearly evolution 2007
Textile & Clothing Industry



	Textile	Clothing	MMF
Prod.	-0,2%	+0,6%	-2,9%
Prod. Price	+1,0%	+1,0%	+1,7%
Turn.	+1,2%	+2,1%	-0,6%
Empl.	-6,6%	-6,4%	

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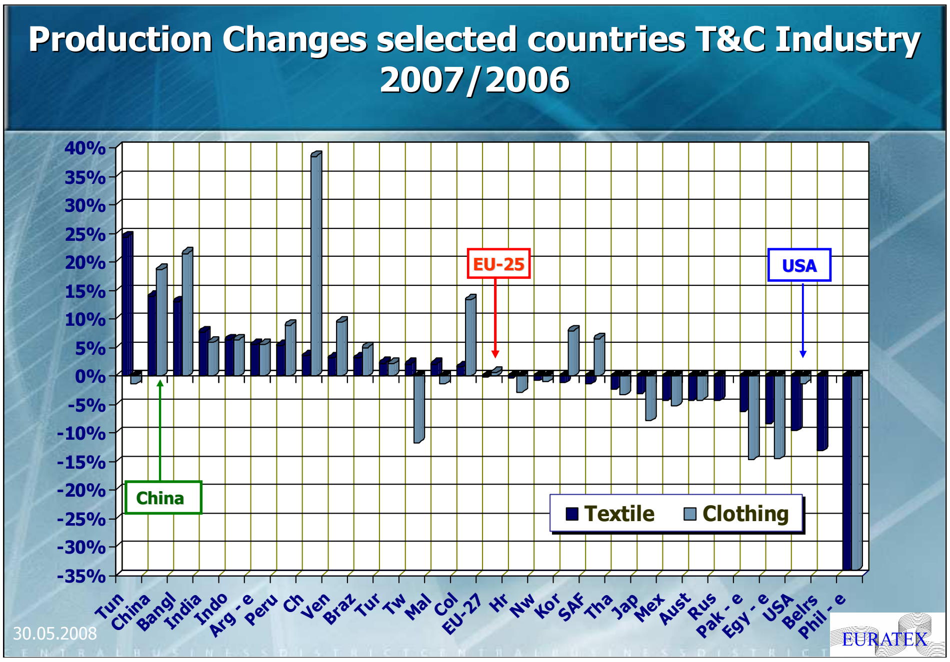
In summary:

- The TC sector witnessed in 2007 a **new growth in production prices** of a magnitude of +1% this reflects a duality in development with textiles prices growing quicker than in 2006 (+0,6%) while for clothing the situation was identical to the year before (+1, 1%). Though much lower than the overall manufacturing EU output prices this reflected a sharp increase of imported inputs used in the production process despite an advantageous €/USD exchange rate.

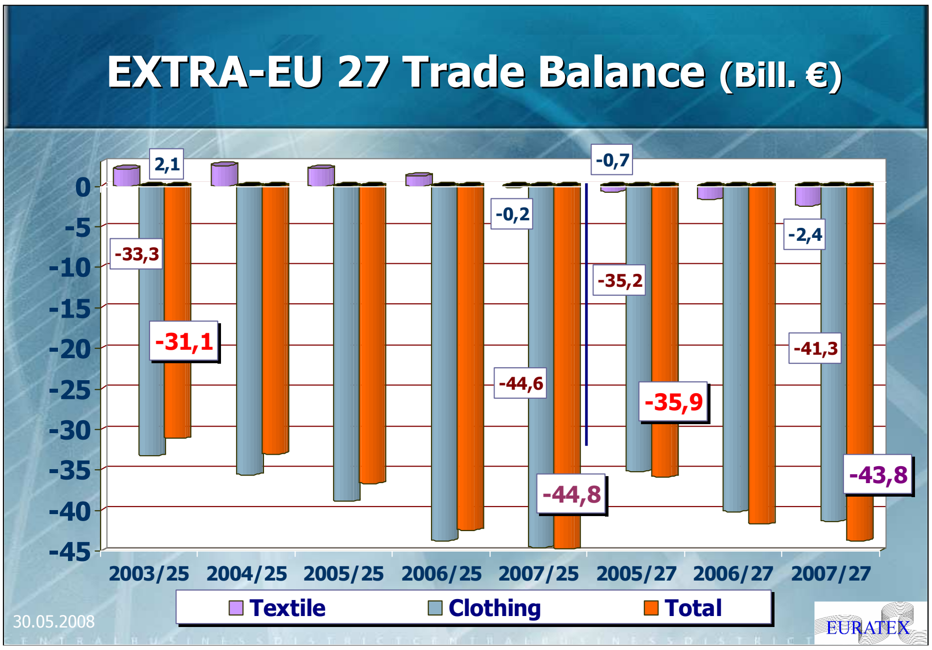
- 2007 was the second positive year in **turnover** terms even if the image is more “scattered” than before. Again EU-15 and Textiles are in a somewhat less advantageous position, reflecting a stronger drop in production (compared to clothing) with more difficult pricing conditions. Here also certain new member states benefited from better results …

- Little surprise then that **employment** dropped again by -6,4% or nearly -165.000 employees compared to 2006 for the 27 member states, one of the highest losses in the last decade.
- This year the situation worsened in the clothing industry where 2 digit decrease are not uncommon in the EU-15 even if the Textile industry situation is not desirable but slightly better than in 2006. This should be seen against the background of the need to steeply increase productivity in the twelve new Members States to allow companies to be in a better position to face international competition.



In 2007 the EU industry performance "improved slightly and stabilised" compared to most of its competitors as the graph shows. Clearly the "benchmark" remains China or Bangladesh who recorded a two digit increase across the industry.

- In **textiles**, the changes have been positive for China, Bangladesh, Tunisia, India, Indonesia, Argentina, Peru and Belarus and to a lesser extent for Switzerland, Brazil and Venezuela
- In **clothing** Switzerland, Bangladesh, China, Venezuela, Peru, Korea, South Africa, Indonesia, India, Argentina, and Brazil performed better
- Once more the **USA** production reduced much more rapidly than in the EU-27 and in particular for textiles while clothing performed " better" than in 2006 though still decreasing.
- Japan, as well as Mexico, Egypt, Russia or the Philippines faced an extremely difficult moment while the situation was not so rosy for part of the industry in Taiwan, Korea or South Africa.
- In the **Euromed area**, production continued to contract, in particular for clothing products even though Switzerland, Tunisia and Turkey registered a positive trend.

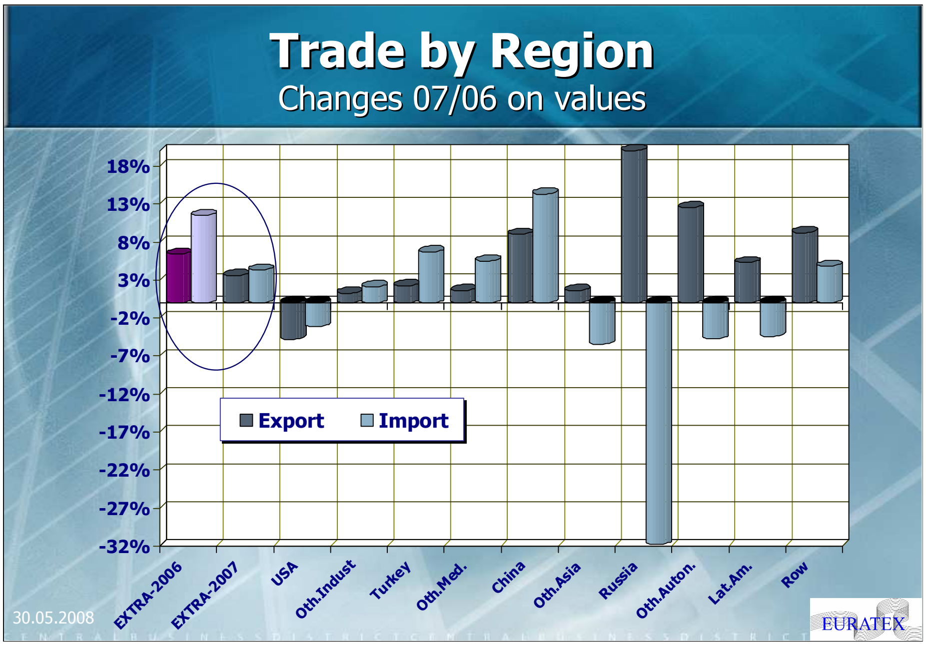


- The abolition of the quota system, the positive EU economic climate and a negative Euro/US $ exchange rate impacted heavily for the 3rd year in a row on the overall trade balance of the EU-27 that reached the unprecedented level of **-43,8 billion Euro or +4,9%.**

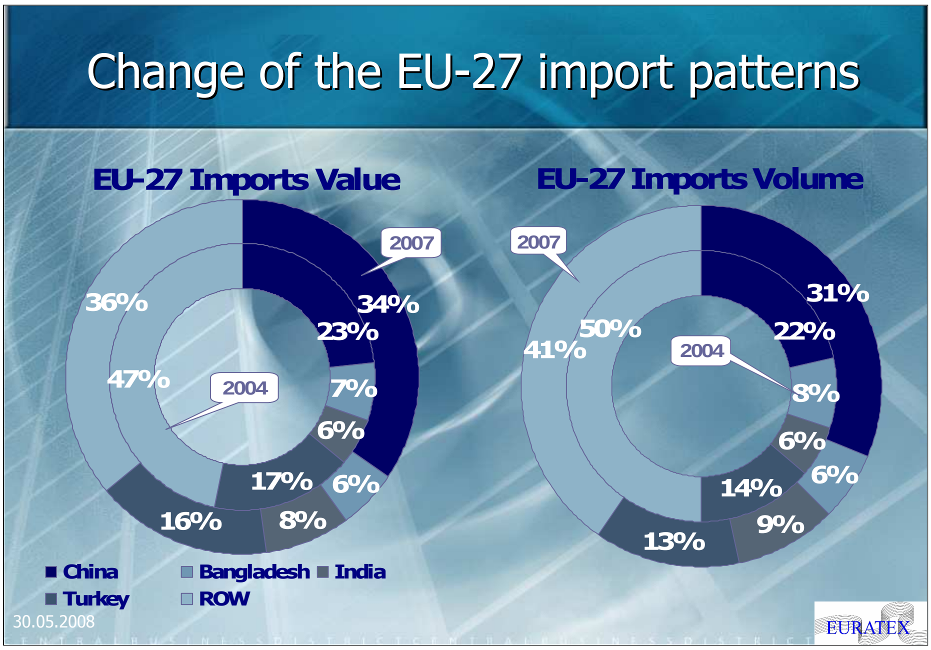
- This worsening is mostly if not only due to the performance of China with whom the EU-27 has a deficit of -26.4 billion € or 60% of the total and that increased more than three times quicker (+14.5%) in 2007 than the overall total (+4,9%).
- It is important to stress that the enlargement of the EU to part of the most important textile customers impacted heavily on the Textile trade balance that is now showing an increasing deficit.

- This happened despite the fact that the EU registered a much **stronger performance** in clothing exports (+8.2%) compared to garments imports (+4.4%) in values while textile imports expanded more rapidly (+4%) than exports that stagnated (+0%).
- As a matter of consequence the textile deficit increased by 53,3% in value (!) while clothing deficit increased by a slight +3,0%.
- **Contrary to 2006** the average **export prices** in euro experienced a positive trend with a moderate increase in textiles (+3,3%) and a strong raise for clothing (+7,8%).
- On the contrary **import prices** decreased quite rapidly in textile (-3,4%) while clothing prices in Euro stabilised (+0,1%)!

- To note also that the Euro/USD exchange rate impacted very negatively on the EU performances also in **volume terms.** Indeed
  - the EU clothing exports decreased by more than -24% compared to the 2004 levels compared to a jump of +25% for the imports
  - while textile exports stagnated (+3%) contrary to the imports (+11%) over the 2004-2007 period.



- Trade in 2007 was by far less dynamic than in 2006 both on values and volumes with **exports**, (mostly focusing on knitted & woven fabrics and garments [76%]) registering a -3% slump in volumes after an anaemic +2% in 2006...
- Among the top 10 customers, three registered a negative trend in values while on seven of those markets EU exports in volumes show a dip some times at 2 digit! The point in case here being the drop towards HK, Turkey and China!
- On the **import** side which is mostly concentrated on the garments (72% of the values) the situation is the reverse : volumes increased by more than 6% a higher performance compared to values (+4%) and with double digit growth in volumes from China India and Pakistan.
- On the other hand values and volumes decreased from HK. In addition Bangladesh and Indonesia values decreased quite strongly with a stagnation of their volumes sold into the EU, a trend similar to Switzerland.
- This being said, while the USA remain our first market it is the second year in a row that our **exports** decrease both in value and volumes. This is a similar trend to Japan even though in the latter case the evolutions are much more negative (-8% in € and -4.4% in Tons). Among the positive stories we should point once more on the very good results noted in Russia, Ukraine but also Belarus, China, Brazil, Vietnam, Serbia, Albania or Kuwait even though in certain cases volumes increased very slowly.
- The fact that EU export grew rapidly in few of the top and fast growing emerging markets like Brazil or China should not hide the fact that EU exports of garments represent only a fraction of what those suppliers are sending to the EU (China 2800 tons versus 1.9 million tons!).
- No surprise for the **imports** as the champion of the year continue to be China who registered a two digit growth in 2007 both in volume (+18%) and in value (+14%) terms once more at the expenses of nearly all EU suppliers in particular Latin America, the rest of Asia and the CIS.
- The exceptions being the smaller suppliers like FYROM, Serbia, Albania, Moldova but also Vietnam and more dynamic (in volume terms) ones like Pakistan, Korea or the United Arab Emirates Arab.



- During the last four years a dramatic shift in the import patterns was noticed even if this did not come as a surprise (excpet the speed with which it happend):

- Among the top four textile and clothing suppliers that in 2007 make up 64% of the imports in value and 59% of the volumes (in tonnage) :

    - China registered the highest growths and today this country represents 34% of the values and 31% of the volumes imported, an increase of more than 10 percentage points since 2004.
    - Turkey is second with a share of 16% of the values and 13% of the volumes bought by the EU-27, a decrease of 1 percentage point
    - Third is India with a share around 8% to 9% that improved by only two percentage points a result somewhat « disapponting » but which takes into account the unfavourable exchange rate
    - Fourth came Bangladesh with 6% of the imports by the EU a decreasing share despite the fact that this country is third in terms of growth rates after China and India.

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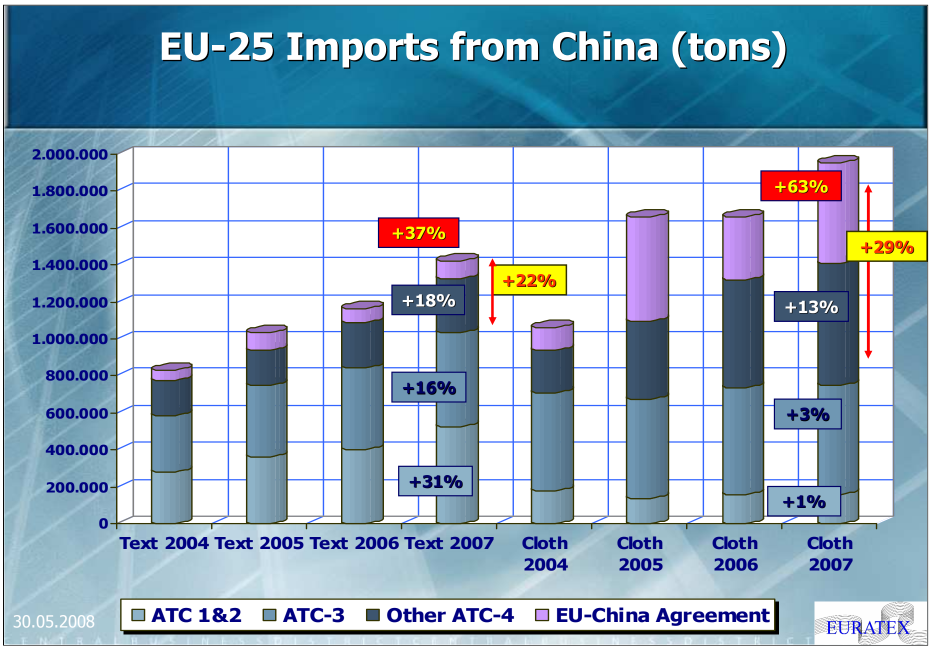
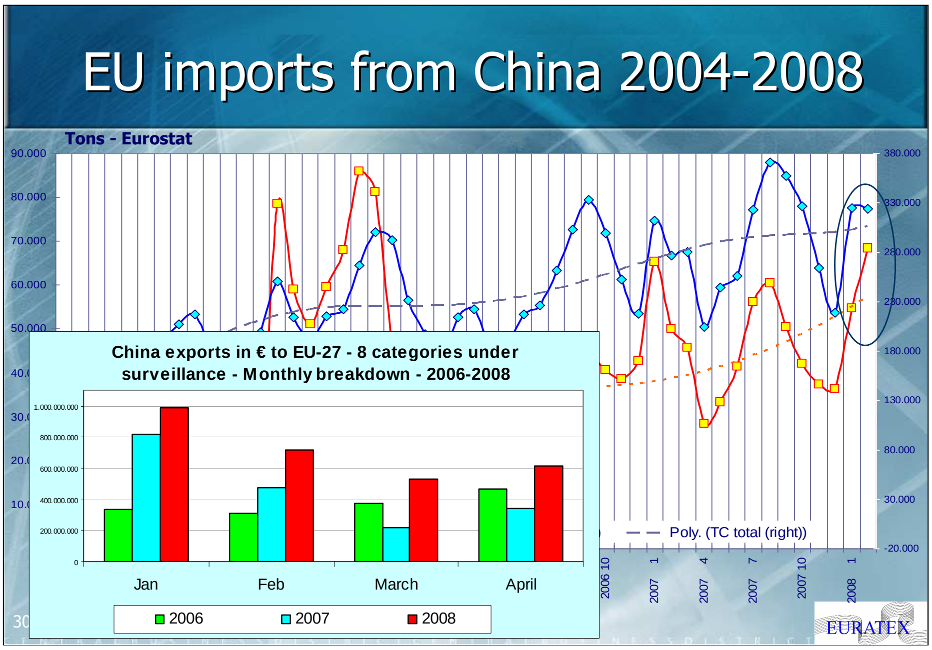


I will not comment in detail the graph appearing on the screen as it speaks by itself confirming that after a rather "controlled 2006 year", last year was a **new record year** as <u>imports from China increased by +520.000 tons</u> which represents nearly **<u>80% of the total EU additional TC volumes bought in 2007 from the world !</u>**

Out of those half million tons plus, 1/3rd was due to the 10 products categories part of the 2005 MoU that ended in December last, and the 8 categories today under double checking system were representing 91% of the increased quantities delivered in 2007 by the ten MoU categories.

More importantly the **10 products under quota** covered 16% of the volumes imported last year from China against 13% in 2006, 22% in 2005 and 9% in 2004 and boomed by a +50% more increase compared to already very high 2006 levels!

Finally, contrary to what happened during 2006 where Chinese exporters switched to more High Value Added products with much higher prices in Euros compared to previous years, the 2007 performances are far less impressive with a +0,6% in € or +9% in USD …and the 2008 figures are showing a new slowing down in prices.



Indeed, 2008 is a peculiar year as EU imports of t-shirts, pullovers, trousers, bras, dresses, shirts, home textiles and flax yarns **from China** are under double checking system to ensure a « smooth transition » in 8 of the 10 product categories part of the MoU signed in 2005. Those products are still part of the core of the EU production.

By end of February and using EU information, China controls in those 8 product categories between 12.5% to more than 54% of the volumes imported, while in February 2006 Chinese exporters were controlling between 6% to 33% of those same imports

This growth is confirmed by the Chinese export information as well as by the SIGL system where data inscribed will become reality.

By end of April, Chinese data show that total TC exports towards EU-27 grew by +24% in € while for the 8 categories the evolution was even stronger with a +54%. This means much stronger increases in volume terms. More worrying is that figures show an acceleration in the export levels on a monthly base. In parallel prices quoted in USD as beginning to show a decrease, but there would be acceleration despite local costs increases (see ellipse).

In a nutshell we believe that 2008 will be a year of strong growth in most if not all the 8 product concerned even if in total the % change would be lower than in 2005, but knowing that the initial levels are much higher compared to 2004, the magnitude of impact is similar to three years ago.

But contrary to 2005, the true “Chinese impact” is much more difficult to isolate because of the slowdown of the economic situation, of the € US$ exchange rate, of the energy costs, etc.

To sum up and based on Euratex members data and best estimates (to correct under estimation of early data), Euratex considers that at the end of 2007 the overall size of the textile and clothing industry in the EU-27represents :

- A **turnover** of nearly 211,3 billion € and have **invested** more than of 5.6 billion € (up 0,9%) To note that this does not take into account the intangible investments which could represent for certain companies up to 15% to 20% of their turnover.
- **Exports** by EU companies outside the EU continue to increase and are estimated to represent slightly less than 20% of the turnover of Euratex members and remains nevertheless very healthy and a good sign of overall EU competitiveness.
- Estimates of the **added value** indicates that the industry reached nearly 64 billion € (+1%)
- The sector lost more than 10.000 companies or more than 29 companies per day, in great majority of very small in size
- The industry **employs** still directly nearly 2.5 million employees despite the fact that the industry was obliged to lay-off -6,4% of its 2006 workforce, one of the highest losses since the beginning of the century.


Thank you
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