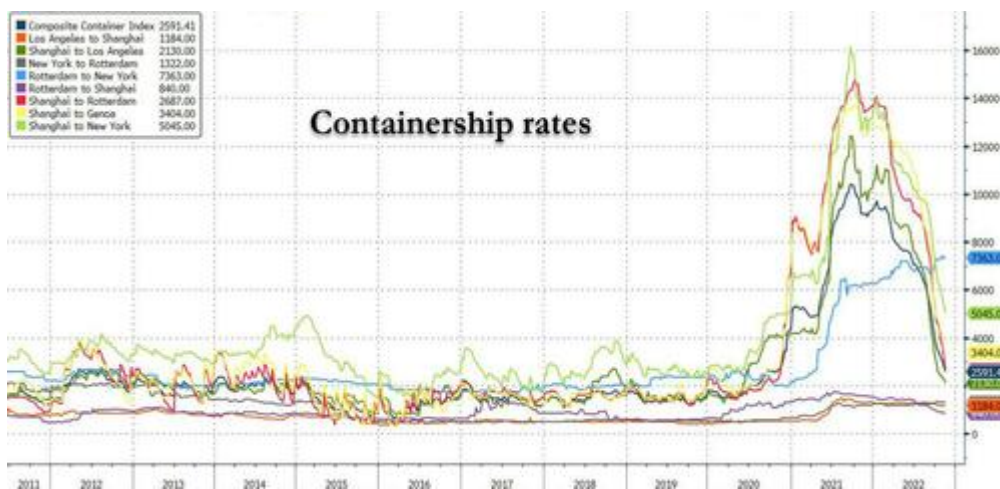




Clothes Pile Up At Bangladesh Warehouses As Western Imports Collapse

Description

Exactly half a year ago, on May 23, we warned that as the “bullwhip effect” was set to end with a bang, and as inventories were set to go from zero to massively overstocked, prices were “about to fall off a cliff.” Well, with purchase orders having fallen off a cliff, and with containership rates crashing at the fastest pace on record as demand for Chinese imports has evaporated in the US...



... this is precisely what we are now seeing, and as the FT reports, with US inventories in freefall amid a collapse in domestic demand, **clothing is instead piling up at warehouses in Bangladesh as consumers tighten belts in the US, Europe and other big markets.**

Citing manufacturers, the Financial Times notes that orders in the world’s largest garment exporter after China had been slowing since July because of the war in Ukraine and sanctions on Russia, and their impact on inflation, interest rates and mortgages across the world.

“Everything has gone up, so the clothing budget has squeezed,” Faruque Hassan, president of the Bangladesh Garment Manufacturers and Exporters Association, told the Financial Times. “That’s why some of the brands, some of the importers have slowed down their orders.” Hassan said that **some retailers had asked Bangladeshi suppliers to stop making garments or to delay shipments for up to three months.**

“That is having a huge impact because all our factories . . . have bought fabric to produce the garments and now they are having a serious crisis.”



Making clothes for international brands is one of Bangladesh’s biggest industries.

In other words, we are seeing not just the reverse bullwhip effect kick in, but smaller, secondary bullwhip effects being unleashed as the butterfly of the coming global recession flaps its wings.

And it’s about to have profound political consequences too: the downturn in global clothing demand comes as Sheikh Hasina Wazed’s Bangladeshi government, which faces an election next year, contends with higher prices for imported gas, leading to power cuts that have hit some garment producers. The opposition Bangladesh Nationalist party has staged large rallies in recent weeks in a bid to capitalize on discontent with a weakening economy ahead of the poll.

In response, this month Bangladesh turned to the IMF for help, and secured a \$2.3 billion credit facility and another \$1.3 billion from its Resilience and Sustainability Facility, meant to help poorer countries address climate change and other long-term challenges.

That good news is that for now, Bangladesh has not faced a full-blown liquidity crisis unlike its neighbours Sri Lanka and Pakistan. But its foreign exchange reserves have fallen this year against the backdrop of a strengthening dollar and pressures on prices and consumer demand.

And it’s about to get worse: **clothing and textile production is by far the biggest industry in Bangladesh,**

which profited from surging sales when Covid-19 lockdowns eased and consumers indulged in “revenge buying”. The result was a burst in income and the south Asian country exported garments worth \$42.6bn and textiles worth \$2.6bn in the 12 months to the end of June, accounting for about 85% of total exports, according to the BGMEA exporters association.



Bangladesh exported garments worth \$42.6bn in the past year

Making clothes for Walmart, Primark, H&M, Target and other global chains is a cornerstone industry that has helped lift many of its more than 160 million people, primarily women, out of poverty.

According to Ranjan Mahtani, chief executive of Epic Group, which has a factory in Bangladesh and a large business in the US, clothing sales “really spiked post-Covid because there were so many stimulus cheques”, but were now falling again, **leading to “huge” inventories at retailers; and unlike the US where so far collapsing inventories haven’t led to mass layoffs, in Bangladesh the lack of US stimmys means millions are about to be fired, leading to social instability.**

In the first months of the pandemic, Bangladesh’s garment makers were hit hard when many retailers cancelled orders. Some responded by pivoting to making masks and personal protective equipment as demand for those products climbed rapidly.

“In a country that looks chaotic from the outside, everybody was really focused,” says Vidiya Amrit Khan, director of the family controlled Desh Garments, which supplies brands including Calvin Klein and Tommy Hilfiger in the US, and Crew Clothing in the UK. “This was because we had to survive.”

Hassan, the BGMEA president, said that in the latest slowdown, retailers were not cancelling orders outright. Instead they were asking for discounts or factoring warehouse

charges into what they paid manufacturers whose clothing they could not sell immediately. He added that the industry had asked the Bangladesh Bank, the country's central bank, to press lenders to defer suppliers' loan payments so that factories could give priority to paying wages and utility bills.

Additionally, the FT notes that power cuts have caused further problems at manufacturers. **"Energy is a problem and because of that, a very large section of the industry is going through terrible months,"** said Syed Naved Husain, chief executive of Beximco, one of Bangladesh's largest companies, whose customers include Target and Zara owner Inditex. Husain said that he thought the industry should "buy energy at the cost it's available", even if it meant the cost of a garment shot up.

The bottom line is that in a fiercely competitive industry with thin margins, clothing producers in Bangladesh are especially vulnerable to changes in global consumer tastes and demand. As clothing chains respond to pressure from shoppers and shareholders to improve their sustainability practices, garment-makers have invested in machinery and equipment aimed at reducing the use of water, power and other resources.

"What's happening now is that fashion is under attack," said Husain, whose company has installed solar panels, new denim washing machines and other equipment.

Tipu Munshi, Bangladesh's commerce minister, confirmed the slowdown in clothing exports, but noted that people would "still have to wear garments", even during leaner economic times.

"Maybe you buy two out of four [garments], but you still have to buy it," he said. "And no one can beat our price."

While we admire Munshi's optimism, he has *no idea* just how low the price will have to fall to find buyers one the US recession collapses import demand across the world. And while Bangladesh and its clothing industry will be the first domino to fall as the reverse bullwhip effect hammers global supply chains, it's only the first of countless other dominos that are about to topple over.

by Tyler Durden

Category

1. Economy-Business-Fin/Invest
2. Main
3. Survival-Prepping-Security

Date Created

11/27/2022