Q2
2017

Retail Sourcing Report

Facts & Insight

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FORWARD

RETAIL SOURCING REPORT

CBX Software's Retail Sourcing Report provides research and analysis aimed at informing global sourcing and buying decisions for retailers, brands and other sourcing professionals. Each issue includes a snapshot of key information impacting global sourcing, such as economic conditions in sourcing countries, container shipping prices, currency exchange rates and commodity costs. We also cover hot topics ourselves and include insight from analysts and other experts.

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Content

Purchasing Manager's Index (PMI)

To help understand industry and economic conditions in a country, the PMI Index tracks variables such as output, new orders, stock levels, employment and prices across private companies in the manufacturing, construction, retail and service sectors. Over 30 countries and regions participate in various PMI surveys.

A reading below 50 indicates contraction from the previous month, while a reading above 50 indicates growth. This update looks at a selection of emerging economies and key sourcing countries, providing indicators for recent months based on data provided by IHS Markit, NIKKEI, CAIXIN and other sources. https://www.markiteconomics.com/public/page.mvc/pressreleases

Q2 News & Analysis: Moving into Q2, manufacturing conditions improved in most low-cost sourcing destinations from Eastern Europe through to Africa, North and South Asia. The fundamentals of strong consumer demand and economic optimism prevailed, despite rising input costs/price pressures. Malaysia, South Korea and Egypt were the few countries that experienced a contraction in their manufacturing based on a decline in new orders especially from China alongside economic uncertainty and rising raw material costs. China saw a moderate increase in production, but with more caution evidenced by low inventories and reduced headcount in their workforce.

Country	Jan 2017	Feb 2017	Mar 2017	Summary of Indicators
Brazil	44.0	46.9	49.6	Late Q1 saw Brazilian manufacturing record the highest growth in 2 years, on increases in output and new exports, signaling a shift in their downturn.
China	51.0	51.7	51.2	Chinese manufacturing continued to improve modestly through Q1, with some uncertainty indicated by low inventory holding and reduced headcount.
Czech Republic	55.7	57.6	57.5	Growth in Czech manufacturing continued into Q2, with strong new orders, purchasing and employment, alongside sharp increases in input prices.
Egypt	43.3	46.7	45.9	Egypt's non-oil private sector continued to decline through Q1 with declines in new orders and output, reduced workforce numbers and rising costs.
India	49.4	50.7	52.5	While input and output costs increased through Q1, softening inflation and growing demand saw an increase in new orders and production into Q2.
Indonesia	50.4	49.3	50.5	Indonesia experienced growth in new orders through Q1 which spurred an increase in production, however manufacturers still have spare capacity.
Malaysia	48.6	49.4	49.5	A marginal contraction in the Malaysian economy continued into Q2, with falling new orders, inventory building and a climate of rising costs.
Mexico	50.8	50.6	51.5	Mexican manufacturing registered a modest improvement going into Q2 on growing production, despite economic uncertainty and input price inflation.
Myanmar	51.7	51.9	53.1	Myanmar's manufacturing improved healthily through Q1 and into Q2 on increases in output, new orders and employment, despite cost increases.
Poland	54.8	54.2	53.5	Polish manufacturing remained in good health through Q1 and into Q2, with increases in output, new orders and employment, despite price pressures.
Russia	54.7	52.5	52.4	Conditions in Russia's manufacturing sector continued to improve through March and into Q2 on growth in new orders, despite rising input costs.
South Africa	51.3	50.5	50.7	Conditions in South African manufacturing improved for the seventh continuous month, albeit slightly, partly due to growth in the private sector.
South Korea	49.0	49.2	48.4	With declining business confidence and excess inventory, South Korea manufacturing saw a decline in new orders especially from China.
Turkey	48.7	49.7	52.3	Manufacturing in Turkey improved at the strongest rate since February 2014, based on growth in new business and increases in export orders.
Vietnam	51.9	54.2	54.6	Vietnamese manufacturing continued its strong run into Q2 with growth in new orders and strong purchasing activity alongside rapid cost inflation.

Sources: **IHS Markit Economics, Nikkei, Caixin**

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Major Economic Indicators

This section looks at major economic indicators from key "low-cost" sourcing destinations, also pulling out highlights and sourcing trends in these countries.

Q2 News & Analysis: As we enter Q2 2017, global demand for goods produced in low cost sourcing destination looked positive, with growing exporters such as Bangladesh, Vietnam, India and Indonesia all seeing yoy growth in exports and foreign investment. Some shifting of exports and trade allegiance was evident due to U.S./Trump policy.

Selected Highlights:
Bangladesh – The Bangladesh economy is set to grow by 6.9% in FY 2017/2018, the ADP reported.
Cambodia – Cambodia has appealed to the U.S. to forgive +/- US$500 million in debt, straining relations.
India – India attracted US$35.8 billion foreign investment in the current fiscal year, a growth of 21.7% yoy.
Indonesia – Indonesian exports increased by 27.2% yoy in January, to US$13.38 billion, a lot of it to China.
Pakistan – Pakistani exports (including textiles) contracted in February to 8.3% yoy or US$1.64 billion.
Philippines – Manufacturing (PMI) grew at a slower rate in Q1 due to a slowdown in new orders and output.
Thailand – Thai exports grew strongly into Q1 to US$17.1 billion in Q1, a grow of 8.8% yoy.
Turkey – Turkish manufacturing, measured by PMI, stabilized in Q1 on new orders, despite inflation.
Vietnam – Vietnamese exports grew by over 15% in Q1, reaching US$27.3 billion in Jan/Feb.

CPI (% yoy growth)	Sep 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017
Bangladesh	5.5	5.6	5.4	5.0	5.2	5.3
Cambodia	2.9	3.4	3.6	-	-	-
India	4.4	4.2	3.6	3.4	3.2	3.7
Indonesia	3.1	3.3	3.6	3.0	3.5	3.8
Pakistan	3.9	4.2	3.8	3.7	3.7	4.2
Philippines	2.3	2.3	2.5	2.6	2.7	3.3
Thailand	0.4	0.3	0.6	1.1	1.6	1.4
Turkey	7.3	7.2	7.0	8.5	9.2	10.1
Vietnam	3.3	4.1	4.5	4.7	5.2	5.0
Exports (% yoy growth)	**Sep 2016**	**Oct 2016**	**Nov 2016**	**Dec 2016**	**Jan 2017**	**Feb 2017**
Bangladesh	-5.6	14.4	5.5	-3.0	4.0	-4.5
Cambodia	14.1	-11.8	9.4	-	-	-
India	4.6	9.6	2.2	5.7	4.3	17.5
Indonesia	-0.2	5.1	21.4	16.0	27.7	-
Pakistan	-10.3	2.0	6.2	-3.1	0.7	-8.3
Philippines	5.1	3.7	-7.5	4.6	-	-
Thailand	3.4	-4.2	10.2	6.2	8.8	-
Turkey	-5.8	-3.2	9.7	8.8	18.0	-1.9
Vietnam	7.0	7.0	7.8	9.0	5.7	-
Imports (% yoy growth)	**Sep 2016**	**Oct 2016**	**Nov 2016**	**Dec 2016**	**Jan 2017**	**Feb 2017**
Bangladesh	3.1	5.6	16.5	-0.5	20.8	-
Cambodia	0.4	8.7	2.2	-	-	-
India	-2.5	8.1	10.4	0.5	10.7	21.8
Indonesia	-2.3	3.6	10.0	5.8	14.5	-
Pakistan	11.5	3.1	10.2	17.6	36.7	34.7
Philippines	13.5	5.9	19.7	19.1	-	-
Thailand	5.6	6.5	3.0	10.3	5.2	-
Turkey	-0.7	0.5	6.0	2.3	15.9	1.6
Vietnam	0.9	2.2	3.5	5.2	3.9	-

Sources: **Fung Group, Various Statistical Bureaus**

Global Competitiveness Index

The Global Competitiveness Index is a ranking of countries based on their competitiveness across different measures such as government regulations, labor market efficiency, education, infrastructure and other measures important to doing business in a country. Below is a selection of emerging economies which are important sourcing locations. Most of these countries are increasing in their competitiveness on various measures every year, while China remains ahead, but with few relative gains.

Note: The below chart was updated based on data released in January 2017

Global Competitiveness Index: Selected Indicators, 2016-2017 (Ranking of 138 countries)

Rank/148	Bangladesh	Cambodia	China	India	Indonesia	Pakistan	Philippines	Thailand	Turkey	Vietnam
Overall competitiveness	106(↑3)	89(↑4)	28(-)	39(↑41)	41(↑8)	122(↑9)	57(↑9)	34(↑8)	55(↑2)	60(↑12)
Institutions	125(↑7)	104(↑7)	45(↑6)	42(↑18)	56(↓1)	111(↑8)	91(↓14)	84(↓2)	74(↑1)	82(↑3)
Intellectual property protection	129((↑6)	130(↑2)	62(↑1)	42(↑8)	50(↓2)	109(↑3)	74(↓3)	121(↓8)	95(↓13)	92(↓4)
Burden of government regulation	93(↑14)	65(↑4)	21(↑5)	23(↑4)	37(↑4)	75(↑11)	117(↓16)	61(↑20)	71(↓6)	88(↑2)
Strength of investor protection	79(↓37)	94(↓13)	108(↑2)	8(↓2)	79(↓37)	25(↓4)	120(↑1)	36(↓11)	20(↓7)	101(↓1)
Infrastructure	114(↑9)	106(↓5)	42(↓3)	68(↑13)	60(↑2)	116(↑1)	95(↓5)	49(↓5)	48(↑5)	79(↓3)
Quality of roads	113(-)	93(↑1)	39(↑3)	51(↑10)	75(↑5)	77(-)	106(↓9)	60(↓9)	28(↑8)	89(↑4)
Quality of railroad	72(↑3)	98(↑2)	14(↑2)	23(↑6)	39(↑4)	53(↑7)	89(↓5)	77(↑1)	55(↓2)	52(↓4)
Quality of port	89(↑4)	76(↑7)	43(↑7)	48(↑12)	75(↑7)	84(↓18)	113(↓10)	65(↓13)	52(↑1)	77(↓1)
Quality of air transport	115(↑6)	99(↑1)	49(↑2)	63(↑8)	62(↑4)	91(↓12)	116(↓18)	42(↓4)	29(↑4)	86(↓11)
Quality of electricity supply	110(↑10)	106(↑2)	56(↓3)	88(↑10)	89(↓3)	121(↑8)	94(↓5)	61(↓5)	84(↓4)	85(↑2)
Macroeconomic environment	65(↓16)	50(↑14)	8(-)	75(↑16)	30(↑3)	116(↑12)	20(↑4)	13(↑14)	54(↑14)	77(↓8)
Health & primary education	105(↓4)	103(↓16)	41(↑3)	85(↓1)	100(↓20)	128(↓1)	81(↑5)	86(↓19)	79(↓6)	65(↓4)
Higher education & training	118(↑4)	134(↓11)	54(↑14)	81(↑9)	63(↑2)	123(↑1)	58(↑5)	62(↓6)	50(↑5)	83(↑12)
Goods market efficiency	96(↑5)	76(↑17)	56(↑2)	60(↑31)	58(↓3)	117(↓1)	99(↓19)	37(↓7)	52(↓7)	81(↑2)
Prevalence of trade barriers	56(↓12)	86(↓3)	78(-)	47(↑35)	91(↑22)	112(↓6)	60(↓17)	75(↓2)	44(↓2)	108(↓8)
Trade tariffs, %duty	125(↑3)	96(↑1)	118(↓1)	123(↑1)	62(↑2)	134(↑3)	49(↑2)	85(↑6)	76(↓4)	91(↓5)
Burden of customs procedures	116(↑7)	127(↑1)	55(↑1)	37(↑17)	73(↓1)	113(↓2)	121(↓14)	82(↑3)	74(↑8)	103(↓13)
Labor market efficiency	120(↑1)	58(↓20)	39(↓2)	84(↑19)	108(↑7)	129(↑3)	86(↓4)	71(↓4)	126(↑1)	63(↓11)
Cooperation in labor-employer relations	91(↑11)	70(↑6)	47(↑15)	67(↑19)	45(↑4)	134(↓3)	27(↓1)	36(↓2)	119(↓7)	79(↓8)
Flexibility of wage determination	69(↑16)	104(↑3)	82(↓9)	112(↑8)	109(↓24)	120(↓6)	97(↓1)	107(↑4)	62(↓10)	84(↓17)
Pay and productivity	83(↑24)	63(↓6)	27(↓7)	33(↑14)	29(↑4)	97(↓2)	37(↓18)	52(↑1)	94(↓8)	62(↓17)
Business sophistication	107(↑10)	114(↑8)	34(↑4)	35(↑17)	39(↓3)	95(↓9)	52(↓10)	43(↓8)	65(↓7)	96(↑4)
Local supplier quantity	47(↑18)	125(↑6)	16(↓1)	36(↑18)	40(↓1)	102(↓49)	60(↑4)	59(↓25)	41(↓14)	86(↓16)
Local supplier quality	78(↑15)	125(↑3)	57(↑6)	59(↑7)	70(↑4)	111(↓13)	74(↓10)	77(↓18)	48(↑1)	109(↓4)
State of cluster development	77(↓15)	46(↑19)	21(↑3)	27(↑2)	29(↓1)	76(↓8)	66(↓21)	62(↓23)	57(↓5)	53(↑6)

Source: **World Economic Forum (WEF)**

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China Wage Trend Snapshot

Q2 News & Analysis: Based on China National Bureau of Statistics (NBS) data, the average monthly wage of migrant workers (who tend to work in China's manufacturing sector) increased by 6.6% to 3,275 yuan in 2016, compared to a growth of 7.2% in 2015. According to NBS data, the supply of these workers is slowing and their age is increasing from 35.5 in 2010 to 38.6 in 2015. Rising costs of workers in China will continue to put pressure on manufacturers through 2017.

As of Q1 2017, local governments in several municipalities, including Shanghai and Shaanxi announced official minimum wage increases. More official wage increase announcements are expected in the coming months. According to market research firm, Euromonitor, Chinese factory worker wages have increased by 64% since 2011 to an average hourly wage of $3.60, similar to rates in Portugal and South Africa.

Note: These are official wage guidelines mandated by each province or region based on information publicly available as of April 1, 2017. As such these numbers serve as an indicator. Actual wages may include benefits, food, housing and other costs. Minimum wage is typically 40-60% of average total wage.

2015/2016 Minimum Wage Updates (official) Asterisk (*) Shows Variance By District			
City/Region/Province	**Monthly Min Avg Wage (RMB)**	**Increase %**	**Effective Date**
Anhui	1,520	20.6%	Nov 1, 2015
Beijing	1,890	9.8%	Sep 1, 2016
Fujian	1,500	13.6%	Jul 1, 2015
Chongqing	1,500	n/a	Jan 1, 2015
Gansu	1,470	8.9%	Apr 1, 2015
Guangxi	1,400	16.7%	Jan 1, 2015
Guangdong	1,895	22.3%	May 1, 2015
Guizhou	1,600	28%	Oct 1, 2015
Hainan	1,430	12.6%	Feb 1, 2016
Heilongjiang	1,480	27.6%	Oct 1, 2015
Henan	1,600	14.3%	Jul 1, 2015
Hebei	1,650	12.5%	Jul 1, 2016
Hubei	1,550	19.2%	Sep 1, 2015
Hunan	1,390	9.9%	Jan 1, 2015
Inner Mongolia	1,640	9.3%	Jul 1, 2015
Jiangxi	1,530	10.1%	Oct 1, 2015
Jilin	1,480	12.1%	Dec 1, 2015
Ningxia	1,480	34.5%	Nov 1, 2015
Shaanxi	**1,530**	**11.7%**	**May 1, 2017**
Shandong	1,710	6.7%	Mar 1, 2015
Shanghai	**2,300**	**8.4%**	**Apr 1, 2017**
Shenzhen	2,030	12.3%	Mar 1, 2015
Sichuan	1,500	7.1%	Jul 1, 2015
Tianjin	1,950	5.4%	Jul 1, 2016
Tibet	1,400	16.7%	Jan 1, 2015
Xinjiang Uyghur	1,670	12.9%	Jul 1, 2015
Yunnan	1,570	10.6%	Sep 1, 2015
Zhejiang	1,860	12.7%	Nov 1, 2015

Global Low Cost Sourcing Country Wage Snapshot

Below is a snapshot of minimum wages in selected Asian sourcing locations, with the addition of Egypt and Ethiopia. Wages vary by region or province and indicate either an estimated or actual/official rate. In cases with a distinct variance, we provide an average. With greater visibility into social conditions in low cost countries, currency fluctuations, increasing unrest and union pressure, wages in traditional low cost sourcing countries are on the rise. Currency fluctuations mean that these figures are approximate at the time of finalizing this report.

Q2 News & Analysis: Many countries implemented wage increases and adjustments as of Q1 2017, including Cambodia, Indonesia, Thailand and Vietnam, mostly in the single digits. As many no longer consider China low cost, wages in other lower cost sourcing destinations will continue to increase somewhat in line with growth in GDP and inflation.

Notes: Figures are provided in USD/month based on currency exchange as of April 1, 2017. Minimum wage policies are updated as per data available by January 1, 2017 and are based primarily on unskilled wages. Consult sources such as **Fair Wage Guide** or **Wageindicator.org** to assess and calculate benchmarks for wages in particular countries and regions.

BANGLADESH	CAMBODIA	CHINA	EGYPT	ETHIOPIA
$68 (Jan 2017)	$153/month (Jan 2017)	$137-$639 (Jan 2017)	$172 (Jan 2017)	$20-$40 (Jan 2017)
Bangladesh raised the minimum wage for garment workers – up by 77%. To 5,300 Taka ($68) following a labor dispute that shut factories in the Ashulia industrial zone.	Finally yielding to union pressure and ongoing unrest, Cambodia will raise the minimum wage for textile, garment and footwear workers from US $140 to $153 as of January 2017, still lower than demanded.	Minimum wages in China are set by local governments and vary widely by region and how wages are calculated (with housing, food, overtime etc.) Wages continue to increase each year.	Egypt's official minimum wage (for public workers) was raised to 1,200 EGP/month as of Jan 2017 according to CAPMAS. Actual wages for non-public workers are mostly below this amount.	Many government institutions and public enterprises set their own minimum wages which accounts for variations. Public sector employees are on the low end ($23) while the private sector is higher (+/-$40)
INDIA	**INDONESIA**	**LAO PDR**	**MALAYSIA**	**MYANMAR**
$40-$130 (Jan 2017)	$106-$252 (Jan 2017)	$111 (Jan 2017)	$233-$253 (Jan 2017)	$67 (Jan 2017)
Indian min. wages vary by region and skill level; however, the central Indian labor ministry has proposed fixing minimum wages at 15k Rupees/month ($242) as of late 2014 - a big gap between actual rates.	Indonesia wages vary widely by their 34 provinces and regions and skill levels. The provinces suggest an increase for 2017 based on inflation of 3.07% and economic growth of 5.18%, which means a raise of 8.25% for 2017.	Talks are still underway to increase the min. wage, based on rising living costs from a 2011 min. of 626,000 Lao kip ($78) per month to a proposal by labor unions to raise wages to 900,000 Lao kip ($99**)** in key provinces.	Wages vary by region and are supposed to be review every 2 years. Malaysian officials increased the monthly min. wage from RM 900 ($202) to RM 1,000 - (+/-$225) in 2016. This excludes foreign textile workers (the majority).	Myanmar set a minimum wage of 3,600 kyat ($2.80) for an eight-hour work day, in 2015, mostly impacting garment workers. As of 2017, a committee is evaluating a new wage increase.
PHILLIPPINES	**SRI LANKA**	**THAILAND**	**VIETNAM**	
$110-220 (Jan 2017)	$67 (Jan 2017)	$190-$196 (Jan 2017)	$113-165 (Jan 2017)	
Wages in the Philippines vary by region skills level and wage classification. Wage agreements are constantly being renegotiated in the different regions. We provide an estimate of factory workers across the country.	Sri Lanka's adopted two laws on minimum wages as of early 2016, mandating a minimum wage of Rs 10,000 (+/- $67) and an increase of Rs 2,500 (+/-f$17) for workers earning less than Rs 40,000 per month (+/- $270)	Thailand implemented a new minimum wage policy as of January 2017, under which min. wages will vary across the 69 provinces. This is the first adjustment since 2013. Wages range from 300 to 310 THB ($8.50-$9) per day for unskilled workers.	Vietnam announced a 7.3% wage increase for 2017, where workers must be compensated between VND 2.58 million ($113) and VND 3,75 million ($165). This is a compromise on worker's demands for an 11% increase.	

Sources: **WageIndicator.org, SAFSA, Wikipedia, Local News Reports**

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Container Freight Rates for Major Routes

Recent shipping news that has impacted pricing and scheduling is the introduction and expansion of new shipping alliances that took effect as of April 1, 2017. This restructuring and consolidation might be good for the carriers, but has shippers complaining about higher prices, delays and a capacity crunch. The three main alliances are:

- The **Ocean Alliance** is made up of CMA CGM, China Cosco Shipping, Evergreen and Orient Overseas Container Line
- **THE Alliance** is made up of Hapag-Lloyd, Yang Ming and the combined NYK, K-Line and MOL
- **The 2M Alliance** already operating for several years, is made up of Maersk and Mediterranean Shipping Co. and might be joined by Hyundai Merchant Marine.

Note: All indices are reported in USD per Forty Foot Container (TEU). CBX reports on historical and forward looking rates for representative Asia-Europe and Asia-U.S. routes.

Asia - Europe Trade Lanes

The below chart provides indicative rates for container shipping China to North Europe.

Asia – North America Trade Lanes

The below chart provides indicative rates for container shipping from China to the West coast of North America.

The charts above are supplied by [Xeneta](), the leading global benchmarking and market intelligence platform for containerized ocean freight. Data in the platform consists of 17+MN contracted rates for 60,000 port-port pairs, provided by global shippers and freight forwarders from SMBs to large enterprises across industries.

Currency Exchange Rates

Following are exchange rates and indicators for major currencies commonly factored into global sourcing costing estimations. The USD reached a 14 year high in January, but lost some of those gains through the quarter. The US dollar is expected to continue gaining strength through the coming quarter, based on stronger economic forecasts despite some uncertainty at the start of the year. While the Euro gained somewhat on strong Eurozone data, the currency faces ongoing uncertainty due to the Brexit, elections in the Netherlands, France and Germany and shifting U.S. economic policy. The Chinese yuan, which underwent some depreciation in Q1, is expected to continue to fluctuate.

EUR to USD (April 2016 – April 2017)

U.S. Trade policy, stability in inflation and predicted economic growth is expected to lead to a strengthening in the USD against the EUR.

EUR/USD - Rate	
2 years	1.19
1 year	1.07
6 months	1.11
3 months	1.12
30 days	1.06

EUR to CNY (April 2016 – April 2017)

While the EUR made some gains through March, the currency still faces uncertainty due to the European political climate. Some analysts see China/Europe trade relations improving especially with uncertainty in US/China relations.

EUR/CNY - Rate	
2 years	7.33
1 year	7.04
6 months	7.42
3 months	7.47
30 days	7.43

USD / CNY (April 2016 – April 2017)

The USD/CNY is expected to reach 7.0 within Q2 based on tightening Chinese capital controls. The U.S. administration's easing off on its tough stance against Chinese currency manipulation should bring stability to USD/CNY exchange rates.

USD/CNY - Rate	
2 years	6.14
1 year	6.52
6 months	6.46
3 months	6.67

Sources: **Oanda.com, XE.com, News/Analyst Reports**

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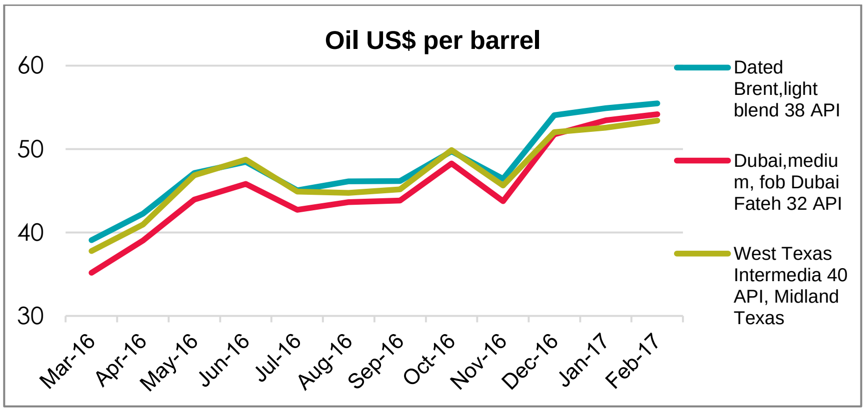
Global Commodity Rates

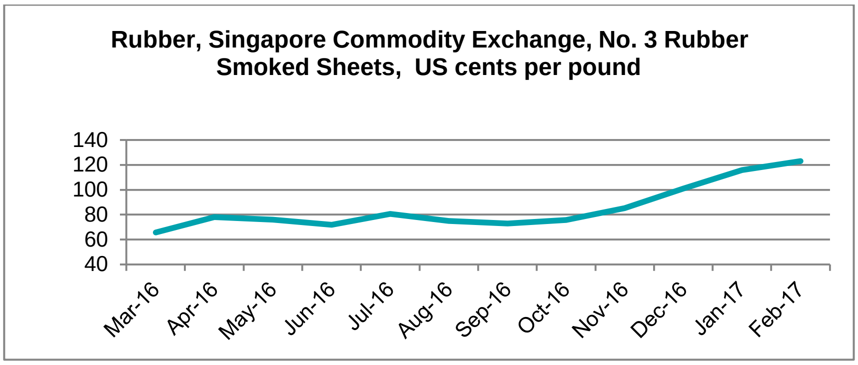
Q2 News & Analysis: After a five-year period of mediocre performance, analysts predict that commodity prices have finally bottomed out, an impact felt in stronger prices amongst most commodities. China is also affecting commodity prices with lower demand and growth in domestic commodity production. Some analysts are predicting that oil prices will increase by up to 20% by late 2017, with ongoing conflict in the Middle-East and attempts by OPEC countries to limit supply. Natural fibers such as cotton and wool have trended up, reflecting stronger consumer demand and healthier global economic conditions.

Crude Oil



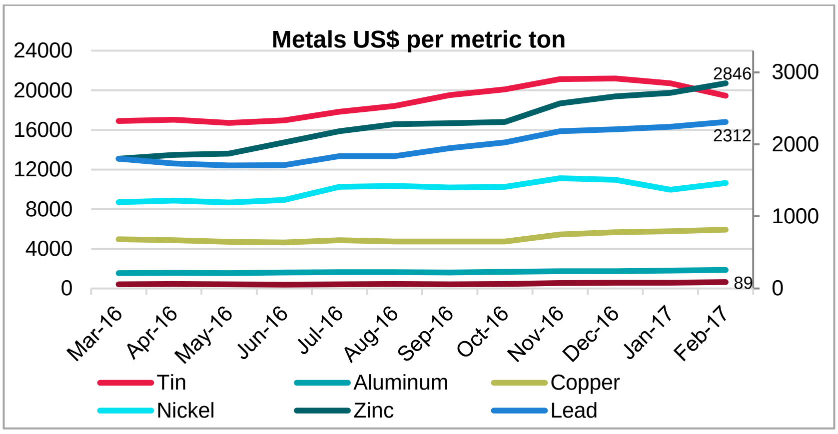
Oil prices continued to increase into Q2, edging closer to $60 a barrel despite high levels of crude oil inventories. Attempts by OPEC to curb supply have been offset by increases in demand from China and other Asian markets. The recent bombings in Syria also resulted in price increases in April.

Rubber



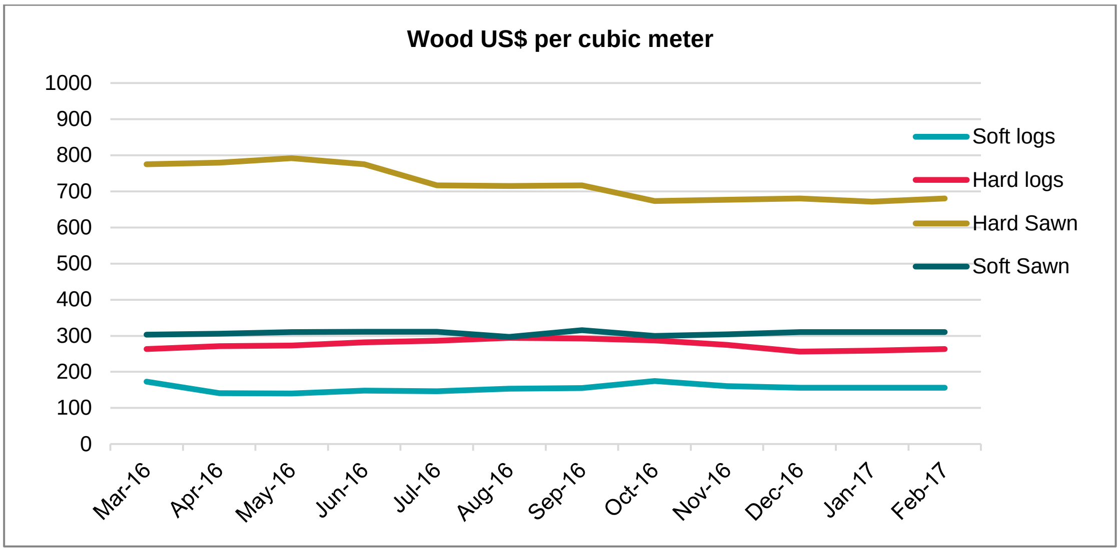
Natural rubber prices increased through Q1, steadying off into Q2 as Asian buyers slowed down on purchasing. Prices are expected to increase, through 2017 based on expectations of a global economic recovery and a reduction in supply from rubber major producers.

Metals



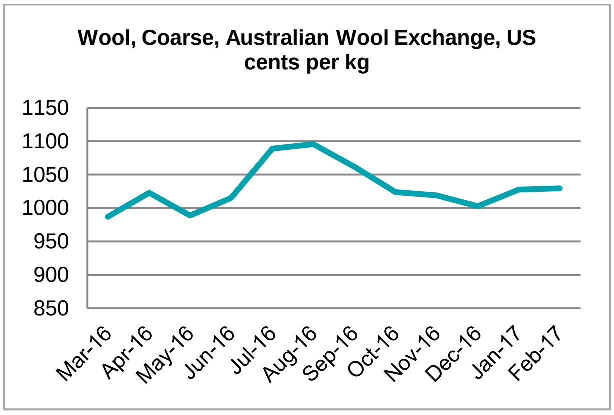
Metal prices were steady to flat through Q1 and into Q2, based on reduction in demand from China and pessimism over Trump's proposed infrastructure initiatives which would drive demand for metals. Expectations are that prices should increase through 2017 in line with an overall recovery in commodity prices.

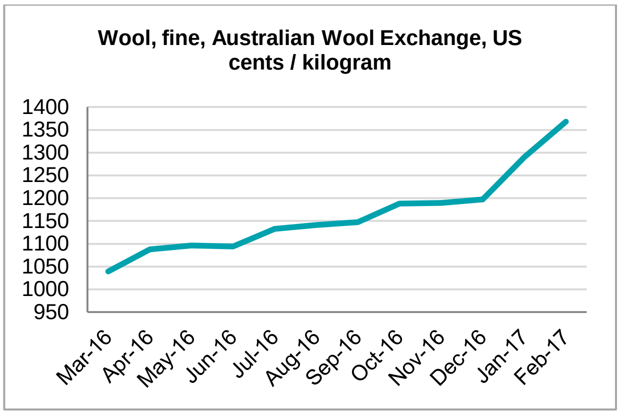
Wood

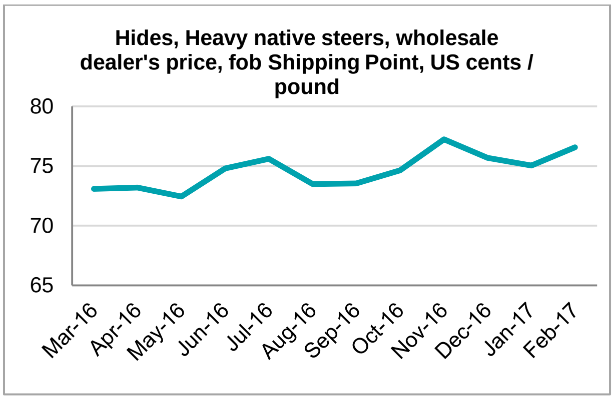


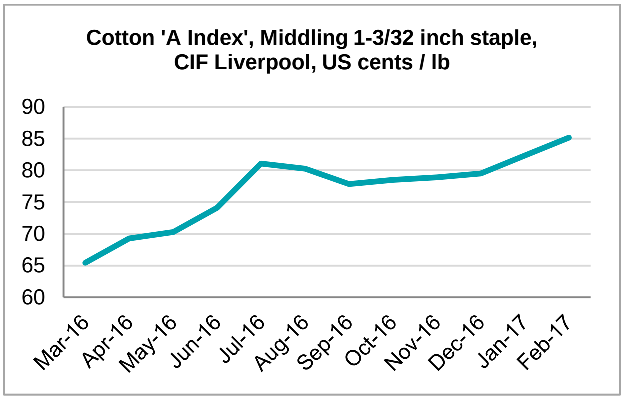
Wool, Hides, Cotton

Cotton prices were strong through Q1 and into Q2, a trend which some analysts do not expect to continue through 2017. According to the International Cotton Advisory Council (ICAC), cotton stock-piles will reduce due to solid production, growth in global consumption and demand for exports. Fine wool prices followed a similar trend to cotton, breaking a 29 year high in March, based on demand for better quality wool from Chinese mills. Unlike cotton or synthetic fibers, wool only comprises 1.5% of global fiber consumption and as a premium product, the price is really an indicator of consumer demand.









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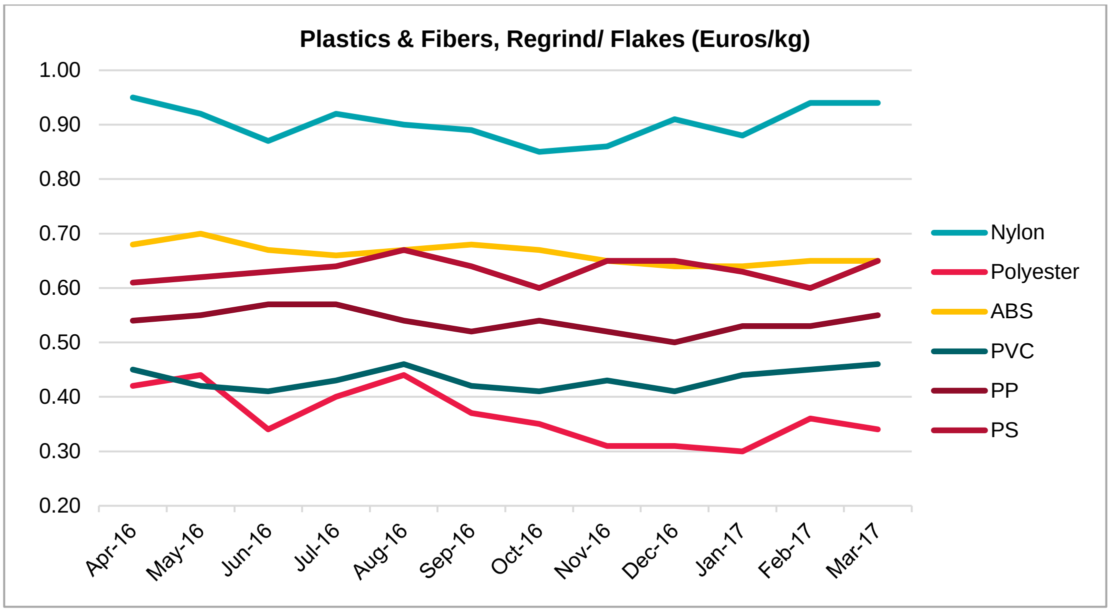
Plastics and Fibers

A selection of plastic related prices is provided below. These are calculated from offer prices in the Plasticker Material Exchange, which provide an indication of trends.

Analysis: Plastic and synthetic fiber prices, such as nylon and polyester, fluctuated through Q1 and into Q2 possibly due to stronger consumer demand and global economic growth as well as rising oil prices. The sustainable angle may be only a small factor in plastic fiber pricing, but it's worth keeping an eye on the development of more sustainable fibers amid consumer demand for more sustainable clothing.

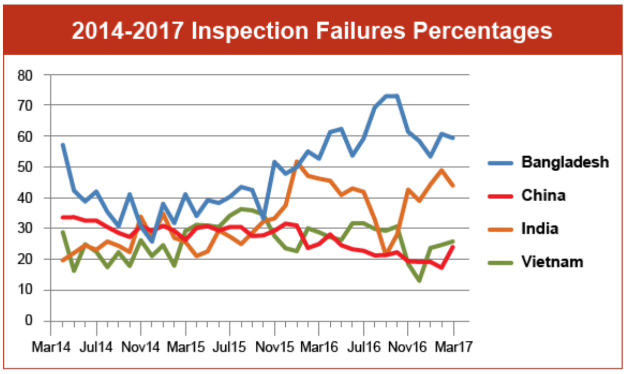


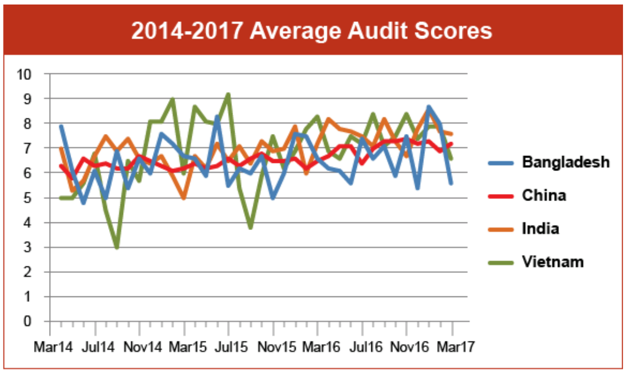
Sources of above commodity charts: **IMF data, Index Mundi, Plasticker**

Quality Focus

This report frequently covers quality control and quality assurance issues. Audit and inspection data provide an indicator of activity in various sourcing regions. According to Asia Inspection (AI) data, China's inspection volumes increase by 16% through Q1, while the rest of Asia experienced slower growth, except for Taiwan, Malaysia and Vietnam, with increases in inspections of 20%, 10% and 5% respectively. South Africa was another hot spot with a 23.5% increase in inspections due to the growth in their textile and garment sector.

Key Quality KPIs





Source: AsiaInspection data

Special Focus Topic

Sourcing in East-Africa

Given rising costs in China and other Asian countries, along with ongoing labour and ethical sourcing issues in growing sourcing destinations such as Bangladesh, Cambodia and Vietnam, it's understandable why companies and especially apparel retailers and brands are looking at Africa.

On paper, Africa has the potential to grow into a significant sourcing and manufacturing destination, especially in the apparel sector, with a strong domestic supply of cotton, a large pool of labor, low wages, various export incentives and proximity to important European and North American markets.

Africa Apparel Sourcing in Perspective

To put things into context, the current value of Africa's garment exports is small. in 2015, China exported US$175 billion in garments, Bangladesh exported US$26 billion and Africa's total exports were in the range of US$10 billion, according to World Trade Organization data (WTO). Also, most of Africa's apparel exports were from the Morocco and Tunisia, South Africa and Mauritius, which have long established apparel manufacturing, as opposed to East Africa.

East Africa started receiving more attention around 2012 when large retailers and brands such as H&M, PVH Corp, Tesco, Primark, VF Corporation, Levi Strauss and others started expanding their sourcing and supplier networks in East African countries such as Ethiopia and Kenya. One of the key factors spurring interest and investment in Africa was the 2015 renewal of the African Growth and Opportunity Act (AGOA), a United States Trade Act enacted in May 2000 and renewed until 2025. AGAO is designed to provide qualifying sub-Saharan countries with duty-free access to the U.S. market.

Today, top-10 garment-exporting countries in sub-Saharan Africa account for only 0.55% of global exports

East Africa

	Apparel exports, 2013 USD millions	Percent of world exports	Approx. number of apparel factories	Population 2014 Million people
Mauritius	761.3	0.17	174	1.2
South Africa	502.9	0.11	450	53.1
Lesotho	417.9	0.11	43	2.1
Madagascar	381.1	0.08	71	23.6
Kenya	279.3	0.06	22	45.5
Botswana	72.4	0.02	~ 10	2.0
Swaziland	52.8	0.01	~ 18	1.3
Ethiopia	36.5	0.01	66	96.5
Tanzania	17.0	0.004	22	50.8
Malawi	10.6	0.002	< 10	16.8
	Σ USD 2,531.6 m	Σ 0.55		

With USD 337 m East African countries Kenya, Ethiopia, Tanzania, and Uganda account for 0.07% of global exports

SOURCE: SWTO; UNCTAD UN DESA; EPZA Kenya; Mauritius Export Association; Lesotho Textile Exporters Association; TIDI Ethiopia; press; SAPI Swaziland Investment Promotion Agency; BIDPA Botswana Institute for Development Policy Analysis; MFDP; International Business & Trade TZ Initiative

We should also note that growth in apparel exports from Africa were somewhat impacted by the arrival of Chinese and Taiwanese manufacturers which set up shop in various African countries partly to take advantage of loopholes in the AGOA and other trade agreements. Initially these Chinese manufacturers were transshipping goods through AGOA approved countries and receiving subsidies. This foreign investment led to the growth of Chinese owned apparel factories in Lesotho, Madagascar, Kenya, Swaziland and elsewhere.

The East Africa Opportunity

McKinsey & Company did a survey in 2015 among Chief Purchasing Officers which looked at the viability of East Africa as a garment sourcing region. Generally they found that "East Africa could indeed become a more important center for apparel sourcing, but only if stakeholders – buyers, governments and manufacturers – work together to improve business conditions in the region, " (See Mckinsey Report).

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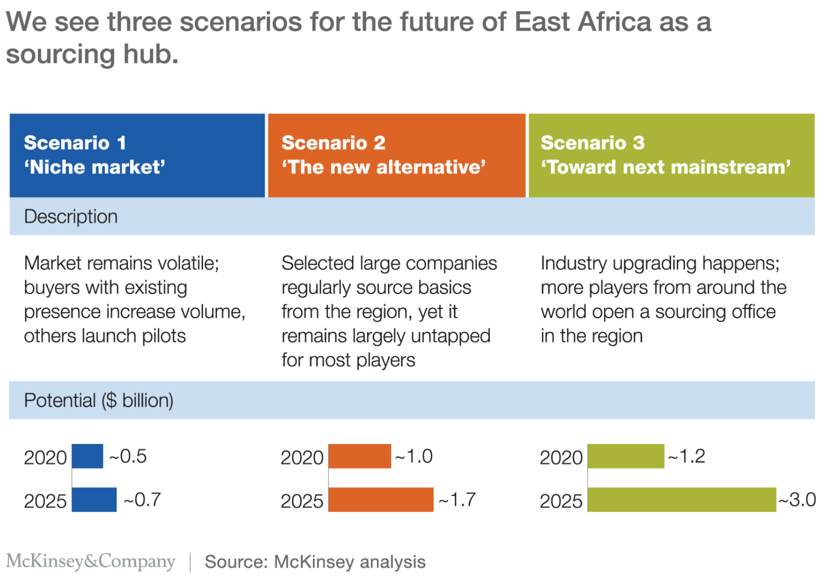
Their prediction is that apparel exports could grow to at least US$500 million by 2020 and even more if the region focuses on verticalization such as producing "basics." For example, trousers account for 58% of all clothing exported from Kenya and Ethiopia's garment industry is mainly known for T-shirts, which account for 46% of clothing exports, followed by trousers at 31%.



Even in the larger frame of African apparel manufacturing, East African apparel exports are relatively small. The combination of apparel manufacturing exports in Ethiopia, Kenya, Tanzania and Uganda are estimated at US$337 million (McKinsey & Company).

In theory, Kenya and Ethiopia have some great draws as an apparel manufacturing destination, especially the large pool of low cost labour and the available subsidies for export. Wages in Ethiopia are around $60 a month, while in Kenya they are closer to $80 a month, still among the lowest for global textile workers. Another advantage is the proximity to European and North American markets and the opportunity to produce large volumes of "basics" such as trousers and T-shirts.

The Challenges

While the data shows that the region holds large potential, some of the key issues preventing growth in both Kenya and Ethiopia include immature infrastructure in the form of roads, rail and ports, customs delays and issues with importing fabrics. Other issues include

- Lack of technology and qualified managers
- Political uncertainty and corruption
- Lack of an upstream supply chain
- Social compliance

The result of all this interest in East Africa has been for many of the larger retailers and brands to include the region as a small part of their operations, to balance out their sourcing mix. Another aspect of Africa and parts of East Africa as a sourcing hub is from a raw material point of view, for example for African cotton. Cotton imports to Bangladesh increased to 7.087 million bales in the last five years, according to Mohammad Ali Khokon of the Bangladesh cotton association.

For finished garments though, at this point it seems unlikely that without strong government and private sector investment in East Africa as a region or in individual countries such as Ethiopia and Kenya, this part of the world is unlikely to be the next Bangladesh or Myanmar anytime soon.

Resources to Explore

Africa Cotton and Textiles Industry Association

Ethiopian Textile and Garment Industry

Kenya Association of Manufacturers

About CBX Software

CBX Software has simplified the business of global sourcing; transforming traditional methodologies into fast, friction free supply chains through our real-time cloud based Total Sourcing Management Platform (TSM). We help retailers, brands and manufacturers manage and empower the supply chain from plan to pay - one intelligent collaboration solution for an enterprise to plan, spec, source, assure quality, order, make, inspect, ship and pay. Over 20,000 users in more than 30 countries rely on CBX, including: Target, Safeway, Kmart, Charming Shoppes and others.

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