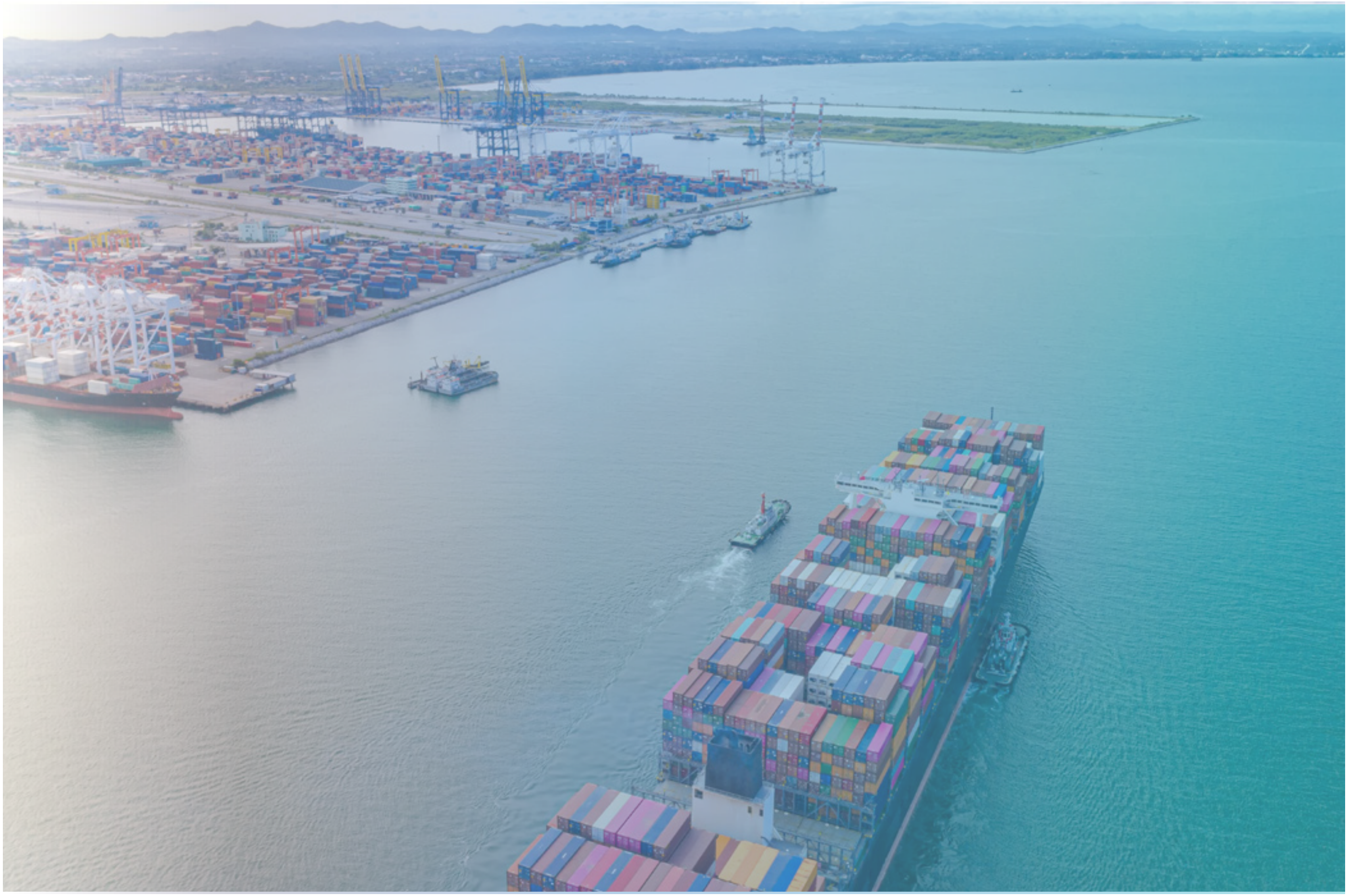
Q4
2020



Retail Sourcing Report

Facts & Insights

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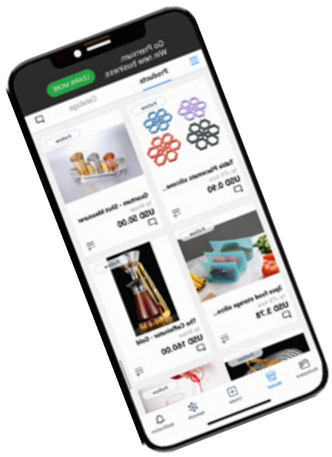
FORWARD

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 and supply chain professionals. Each issue includes a snapshot of key information and trends impacting global sourcing, such as economic conditions in sourcing countries, container shipping trends, currency exchange and commodity rates. 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.

Q4 2020 News and Analysis:

As businesses reopened and consumer demand picked-up following lockdowns and closures due to the pandemic, global manufacturing rebounded through Q3 and into Q4 as output, exports and new orders expanded to one of the highest levels since 2018. The upcoming Christmas season also pushed trade flow and stretched global supply chains still recovering from the impact of Covid-19. While input costs have reached record levels, businesses felt more confident about the coming year. Overall the global trend was recovery and growth, with some exceptions such as Mexico, Indonesia, Malaysia and Myanmar, whose economies continued to contract under the impact of the pandemic. The economic picture for 2021 is still unclear, given the potential of new outbreaks across Europe and North America.

Country	Jul 2020	Aug 2020	Sep 2020	Summary of Indicators
Brazil	58.2	64.7	64.9	Brazilian manufacturing continued to recover at pace, supported by a weaker local currency; new orders, production and exports saw record growth, despite higher costs.
China	52.8	53.1	53.0	Chinese manufacturers maintained their robust growth momentum through Q3, with new business growing at the fastest rate since 2011.
Columbia	54.2	51.2	50.4	Columbia's manufacturing economy continued to improve in Q3, despite easing off in September as quarantines eased, resulting in output growth and optimism for 2021.
Czech Republic	47.0	49.1	50.7	Manufacturing in Czechoslovakia continued to improve through Q3 as domestic and export orders and production increased, while competition pushed input costs lower.
India	46.0	52.0	56.8	India's economy rebounded strongly through Q3, as factories ramped up production and increased headcount to fill new orders, following 6 months of contraction.
Indonesia	46.9	50.8	47.2	Indonesia's manufacturing had a setback in September following new outbreaks of Covid-19, with new lockdowns limiting production, employment and purchasing.
Malaysia	50.0	49.3	49.0	Malaysia saw some pullback in manufacturing activity in late Q3 following an initial rebound from the pandemic effect, with businesses confident for a stronger 2021.
Mexico	40.4	41.3	42.1	Mexico's manufacturing continued to feel the impact of Covid-19 through Q3 and into Q4 as many businesses remained closed, yet businesses confidence remains high.
Myanmar	51.7	53.2	35.9	Manufacturing came to a standstill in September after new lockdowns measures were enforced, reducing output and headcount, making for an uncertain end to the year.
Poland	52.8	50.6	50.8	Despite easing off in Aug/Sept, Polish manufacturing improved marginally though Q3 reflecting growth in employment, despite weakness in output and new orders.
Russia	48.4	51.1	48.9	In line with other economies that saw a rebound in Q3, then a drop-off in September, Russia's production sector lost momentum into Q4 with uncertainty for the new year.
South Africa	44.9	45.3	49.4	Easing of South Africa's lockdowns in Q3 resulted in growth in output, new orders, employment and purchasing, as companies attempted to recoup pandemic losses.
South Korea	46.9	48.5	49.8	Manufacturing in South Korea stabilized through Q3 as businesses reopened and output grew; ongoing recovery will depend on both domestic and foreign demand.
Turkey	56.9	54.3	52.8	Turkey's manufacturing sector saw a sustained recovery through Q3, with further gains in output and new orders, along with job creation and optimism for 2021.
Vietnam	47.6	45.7	52.2	Vietnam's manufacturing economy picked up in September from the effects of lockdowns in Q3, with output growth and stronger business confidence for 2021.

Low Cost Country Sourcing (LCCS) Highlights

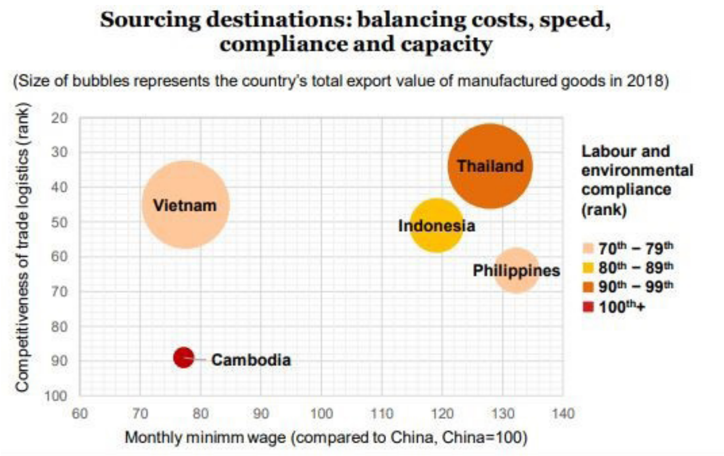
This section looks at selected issues impacting sourcing from key LCCS destinations based on data available at the time of printing the report, alongside official import/export numbers highlighting global sourcing trends.

Summary: Asian economies continue to be heavily impacted by pandemic lockdowns, given they rely on trade with each other as much as they do on consumer product exports to Western countries. Garment producing countries such as Bangladesh and Cambodia continue to be hard hit by cancelled orders and factory shutdowns which have resulted in mass unemployment and social unrest. The only Asian countries who are seeing growth, now and into 2020, are China and Vietnam.

South-East Asia

Cambodia – Cambodia's garment workers turned to the streets to protest the sudden loss of income due to Covid-19 factory related closures. Over 200 factories have closed, thousands of workers receiving dismissal notices and no severance pay – in violation of labor laws. The garment sector in Cambodia employs over 800,000 people, mostly women at an average wage of US$ 190/month ($1.30 an hour).

Indonesia – Indonesia is another country hit hard by the pandemic, with over 400,000 cases, leading to shutdowns and mass unemployment. The Indonesian government passed a new law in October opening the door to labor intensive manufacturing and foreign investment, aimed at creating jobs. Labor-intensive industry makes up less than 2% of Indonesia's GDP, much lower than other Asian countries.



Philippines – The Philippines continues to experience a severe fallout from the pandemic with the International Monetary Fund (IMF) predicting a GDP contraction of 8.3% in 2020. To put it in context, Asian economies together are projected to contract by 2.2%. This is the sharpest projected contraction among South-East Asian countries. As of mid-October, the Philippines had almost 350,000 COVID-19 cases.

Thailand – In mid-October, Thailand's new central bank governor predicted that the country's economic recovery is expected to take at least 2 years to reach pre-pandemic levels. He warned that Thailand, South-East Asia's second largest economy, could contract by a record 7.8% in 2020, partly due to the heavy impact of tourism. Anti-government protests are also reportedly limiting consumption and business confidence

Vietnam – Aside from China, Vietnam is one of the only Asian economies to report economic growth in Q3 and into the busy Christmas and 2021 pre-Chinese New Year season. Vietnam's GDP rose by 2.62% in Q3, with exports increasing 11%, partly due effective management of the pandemic through strict lockdowns allowing for rapid business reopening. Vietnam also continues to benefit as manufacturers shift from China.

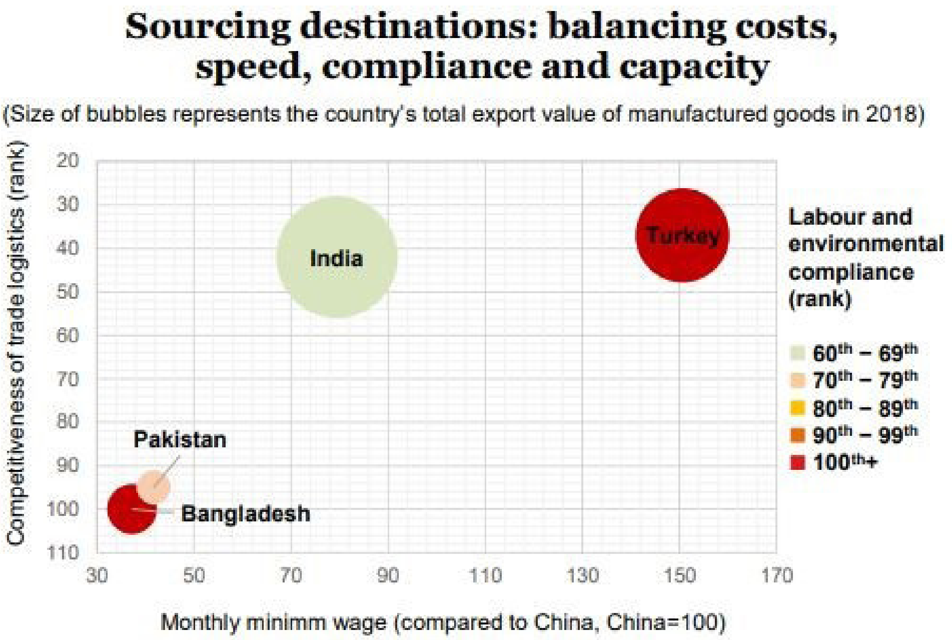
South and West Asia

Bangladesh – Manufacturing in Bangladesh continues to bear the impact of the pandemic, with order cancellations and factory closures resulting in layoffs and tough times for garment workers living on already sub-standard wages. According to the Bangladesh Garment Manufacturer's and Exporters Association (BGMEA), 1,150 factories have been impacted, with $3.18 billion in pandemic related order cancellations.

India – India continues to be hit hard by the pandemic with around 8 million cases and over 100,000 deaths by mid-October. While average daily numbers are on the decline, India is still the worst affected country after the US. Given the substantial number of potential cases in a population of 1.3 billion, the government has enforced lockdowns to some extent, but is also trying to balance the economic fallout of halting the economy.

Pakistan – Despite a relatively low-number of Covid-19 related deaths, Pakistan's economy is still set to contract through 2020. To stimulate their economy and create jobs, the Pakistani government is pushing hard for the $6.8 billion, 2.655 ML-1 railway project, part of the China-Pakistan Economic Corridor that will connect Karachi in the South to Peshawar in the North. This project will be 90% funded by Chinese loans.

Turkey – Turkey's COVID-19 death toll reached 10,000 in mid-October with almost 370,000 cases, with new lockdowns in place as the country fights off a second wave. While Turkish President Erdogan focused on pushing a political agenda across the Muslim world, the Turkish economy went into a free-fall, with the lira falling to record lows against the USD, inflation at 11.7% in Q3 and economic growth reached a 10-year low.



Sources: News Reports, Statistical Bureaus, Li & Fung Group (charts)

China Minimum Wage Trends

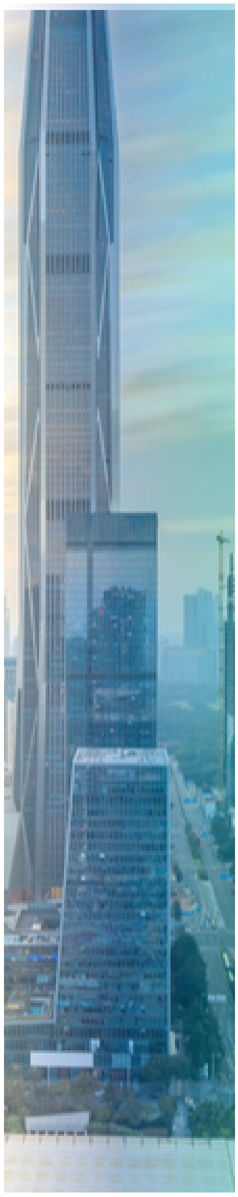
Q4 2020 News & Analysis:

It is almost redundant to still look at individual Chinese provinces and regions for the purpose of finding an edge in labor cost. For more than a decade the Chinese central government has pushed their economy away from labor intensive industry towards higher value production and focused on growing domestic consumption versus exports. Despite this policy exports grew strongly in Q3 and should continue to grow through Q2, 2022 assuming the pandemic recovery trend continues.

Since 2005, the Chinese economy has grown from $2.3 trillion in GDP to $14.4 trillion in 2019, with average annual income increasing by at a similar ratio from $1750 to over $10,000. As China's leaders sit down for their next five-year plan, we can be sure that similar policies of managing growth will mean steadily increasing minimum wages across China's provinces and regions.

Note: These are official wage guidelines mandated by each province or region based on information publicly available as of Oct 1, 2020. As such these numbers serve as an indicator. Actual wages may include benefits, food, housing etc. Minimum wage is typically 40-60% of average total wage.

2020 Minimum Wage Updates (official)			
City/Region/Province	**Monthly Min Avg Wage (RMB)**	**Increase %**	**Official Update**
Anhui	1,550	20.6%	Nov 1, 2019
Beijing	2,200	3.8%	Jul 1, 2019
Fujian	1,800	7.4%	Jan 1, 2020
Chongqing	1,800	20.0%	Jan 1, 2019
Gansu	1,620	10.2%	Jun 1, 2019
Guangxi	1,680	16.7%	Jan 1, 2020
Guangdong	2,200	12.3%	Jul 1, 2019
Guizhou	1,790	6.6%	Dec 1, 2019
Hainan	1,670	12.6%	Feb 1, 2019
Heilongjiang	1,680	15.4%	Oct 1, 2019
Henan	1,900	8.2%	Oct 1, 2018
Hebei	1,900	14.8%	Nov 1, 2019
Hubei	1,750	13.1%	Nov 1, 2019
Hunan	1,700	13.6%	Oct 1, 2019
Inner Mongolia	1,760	8.0%	Aug 1, 2019
Jiangsu	2,020	8.1%	Aug 1, 2018
Jiangxi	1,680	15.1%	Jan 1, 2019
Jilin	1,780	22.5%	Oct 1, 2019
Liaoning	1,810	7.6%	Nov 1, 2019
Ningxia	1,660	12.4%	Jan 1, 2019
Qinghai	1,700	15.2%	Jan 1, 2020
Shaanxi	1,800	7.0%	May 1, 2019
Shandong	1,910	6.7%	Jun 1, 2018
Shanghai	2,480	2.5%	Apr 1, 2019
Shenzhen	2,200	4.9%	Jul 1, 2018
Sichuan	1,780	7.1%	Jul 1, 2019
Tianjin	2,050	5.1%	Jul 1, 2019
Tibet	1,650	17.8%	Jan 1, 2019
Xinjiang Uyghur	1,820	12.9%	Jan 1, 2019
Yunnan	1,670	10.6%	May 1, 2019
Zhejiang	2,010	8.4%	Jan 1, 2019



Low-Cost Country Sourcing Wage Trends

Below is a snapshot of minimum wages in selected Asian sourcing locations, with the addition of Egypt, Ethiopia, and Turkey to give a comparative view. 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. Currency fluctuations mean that these figures are approximate at the time of finalizing this report.

Q4 2020 News & Analysis:

With no clear horizon for the end of COVID-19, there is little cause for optimism on the labor front in low cost sourcing countries, in some cases the gains in compliance and the movement towards a living wage might be going backwards. While Bangladesh approved a wage increase for leather goods and footwear workers, the first for them since 2013, Indonesia is pushing ahead with a controversial Omnibus Bill aimed at relaxing business, labor, and environmental laws to encourage foreign investment and create more labor-intensive jobs with minimum wages set by regional governors. Similarly, workers in low-cost countries such as Cambodia and Myanmar face an uncertain future until the pandemic ends.

Note: Figures are provided in USD/month based on currency exchange as of Oct 1, 2020. Minimum wage policies are updated as per data available at the time of finalizing this report 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 not covered here.

BANGLADESH	CAMBODIA	CHINA	EGYPT	ETHIOPIA
$95 (Sep 2020)	$190 (Jan 1, 2020)	$163-$359 (Jan 2020)	$116 (April 2019)	$26 (Jan 2015)
As of September 2020, the Bangladesh Ministry of Labor and Employment approved a 94% minimum wage increase for leather goods and footwear workers from 3,652 taka (2013) to 7,100 taka (US $85).	Cambodia announced an increase to their minimum wage from US$182, to $190 a 4.4% increase, to take effect from January 1, 2020. Political and labor tension continues as opposition push for more rights and pay.	Minimum wages in China are set by local governments and have varying wage formulas (with housing, food, overtime etc.) Actual 2020 wages for manufacturing jobs in China are much higher at US$870/month	Egypt raised their minimum age to 2000 Egyptian pounds ($116) from 1200 pounds, applying to all workers, with higher increases going to the private sector. This increase came ahead of a June 30, 3029 target date.	Ethiopia is still working on a system to determine a minimum wage for the private sector. Entry level wages in the textile sector range from $35 to $40. The base minimum wage is officially $18/month.
INDIA	**INDONESIA**	**LAO PDR**	**MALAYSIA**	**MYANMAR**
$94-$236 (Oct 2020)	$120-$298 (Oct 2020)	$124 (May 2018)	$270-$295 (Jan 2019)	$80 (Mar 2018)
The Indian Parliament is in the process of reforming labor policies. By September of 2020 3 of 4 labor bills passed through and await final approval from the Indian President.	As of Q4 2020, Indonesia is working to finalize a controversial Omnibus Bill focused on creating jobs in labor heavy industries, to create jobs and incentivize foreign investors.	The Lao Government approved an increase in minimum wage from Kip 900,000 (US$107) to Kip 1,100,000 (US$142)) in key provinces which took effect in May 2018.	Malaysia implemented a nationwide minimum wage of RM 1,100 as of January 2019. Wages vary by region and are supposed to be reviewed every 2 years. The new directive is being enforced widely.	Myanmar revised its minimum wage from K600 ($2.70) per day to K4,800 (3.60) or K600/ hour for an eight-hour workday in 2018. This is increase of 33%, mostly affects garment workers.
PHILLIPPINES	**SRI LANKA**	**THAILAND**	**TURKEY**	**VIETNAM**
$132-$190 (Jan 18)	$67 (Mar 2016)	$248-$265 (Apr 1/18)	$482 (Jan 2020)	$132-190 (Jan 1/19)
Wages in the Philippines vary by region, skill level and wage classification. Negotiations are still underway, but Manila for example saw a 21 Peso ($0.42) increase in their daily wage to 491 Pesos ($9.82) in Q4 2017.	Sri Lanka 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 is in the process of updating their minimum wage from a current minimum of 308 – 330 Baht per day to a proposed 400 Baht per day. Most businesses are opposed to this higher wage as being too high.	To combat inflation of close to 12%, Turkey announced a minimum wage increase of 15%, effective Jan 1, 2020 to 2,324 liras/month (US$381) net. This brings the gross minimum wage (before deductions) to 2,943 liras/month (US$482).	Vietnam announced they will increase their minimum wage by 5.3% in 2019. This increase was relatively lower than the 2018 increase of 6.5%. Wages range from $125-$180 / month across 4 key regions in Vietnam.

Sources: WageIndicator.org, SAFSA, Local News Reports

Container Freight Rates & Trends

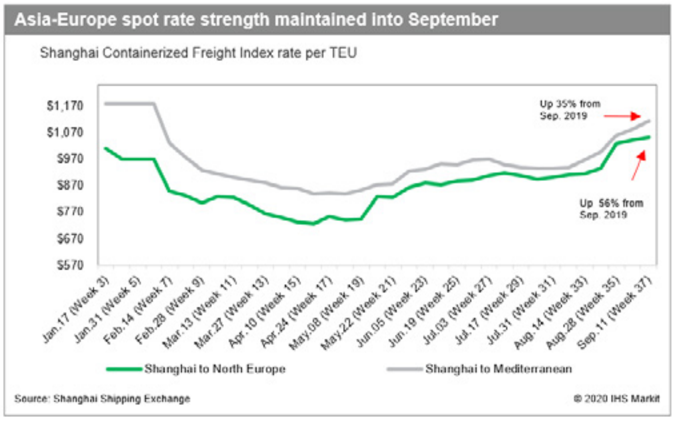
Q4 2020 News and Analysis:

While spot rates on major East-West shipping routes have climbed higher through Q2 and Q3, carrier service levels and on-time arrivals of container ships has plummeted. Through late Q3, carrier reliability was below 50% on shipments from Asia to US East and West Coasts and down 69% for Asia-North Europe. Container ships were on average five days late in September, according to Sea-Intelligence Maritime Analysis. Carriers have continued to reduce capacity through the pandemic, which has kept prices high but left importers frustrated. Importers are also dealing with port congestion and unpredictability in inventory forecasting and replenishment. With concern over a second wave of Covid-19 and economic and political uncertainty in the US and Europe, container shipping rates and service are unlikely to improve until well into 2021, if at all.

Asia - North Europe Trade Lanes

Asia-North Europe container shipping rates have continued to increase through 2020, based on limited capacity and strong demand, especially following pandemic shut-downs and approaching the busy Christmas and pre-Chinese New Year season.

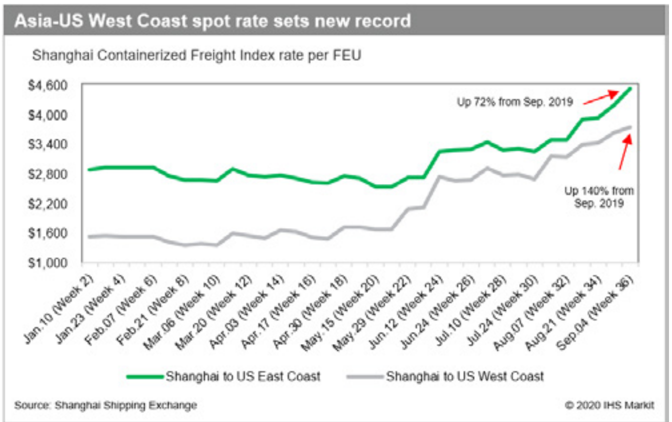
Container shipping rates are expected to remain high given that carriers are carefully managing capacity below the level of demand to protect their interests. According to Sea-Intelligence, shipping volumes on Asia – North Europe routes were up 2% year-on-year in July to 1.5 million TEU.



Asia – North America Trade Lanes

Both East and West coast US spot container shipping rates reached annual highs in Q3 and continue to climb into Q4. Similar to Asia-North Europe lanes, carriers cut capacity by blanking sailings from Asia to North America during the first half of 2020 (the pandemic), but as demand increased, they have not reintroduced sufficient capacity.

Heading into the peak Christmas season and subsequent peak pre-Chinese New Year period, the current trend in shipping rates/capacity is most likely to continue. Reports show that consumer goods spending is up dramatically, driven by e-commerce growth and by consumer's shifting spend from services to goods such as furniture, home office, exercise and other products which should continue to drive demand for shipping.



Sources: IHS Markit, Joc.com, Alphaliner, SeaIntel

Trading Currency Rates & Trends

Following are exchange rates and indicators for major currencies commonly factored into global sourcing costing estimations. The fallout from Covid-19 has extended to foreign exchange with many investors selling currencies in countries that are hard hit with the virus and placing their assets in safe-haven currencies – especially the US dollar. The dollar is likely to hold strong since there are few alternatives, given the Euro's limited role as a reserve currency and the fact that the Chinese Renminbi is still tightly controlled. Currency volatility continues to impact purchasing, resulted in higher costs and threatening margins. Other factors driving volatility are the upcoming US election, uncertainty over future stimulus packages, the Brexit negotiation, ongoing uncertainty with US/China trade and the potential resurgence of Covid-19 this Winter.

EUR / USD (Oct 2019 – Oct 2020)

EUR/USD	Low	High
2 year	1.06	1.94
1 year	1.06	1.19
1 month	1.16	1.87

EUR / CNY (July 2019 – July 2020)

The Chinese Yuan made gains against the Euro through Q3, weakening into Q4. Chinese government officials have warned of risks of CNY fluctuation in both directions through 2021. Most predictions are that the Chinese currency will continue to appreciate against both the Euro and the USD.

EUR/CNY	Low	High
2 year	7.49	8.31
1 year	7.55	8.31
1 month	7.83	8.01

USD / CNY (July 2019 – July 2020)

The Chinese Yuan appreciated against the USD through Q3 to 2018 levels, after plunging to 2008 lows in Q1 early this year. Drivers for Yuan appreciation are a fast recovery in the domestic economy and ongoing strength in exports. Volatility is expected to continue through Q4 and into 2020 based on the US election outcome and COVID-19 containment.

USD/CNY	Low	High
2 year	6.64	7.17
1 year	6.64	7.16
1 month	6.64	6.82

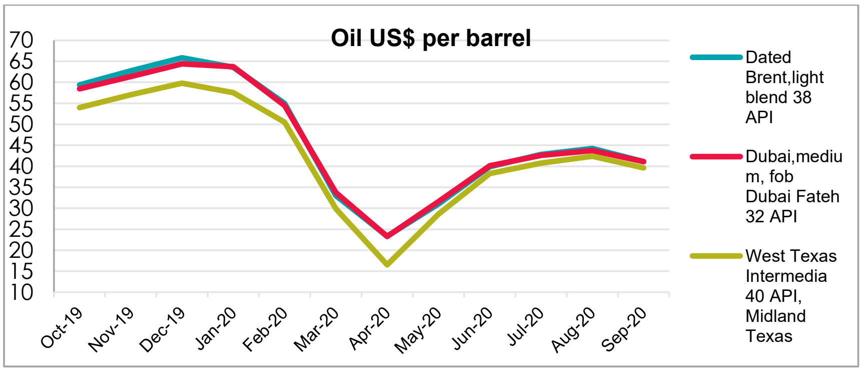
Sources: XE.com, News/Analyst Reports

Global Commodity Rates & Trends

Q4 2020 News and Analysis:

Almost all commodity prices recovered in the third quarter of 2020 following steep declines earlier in the year due to the COVID-19 pandemic. Following a strong summer rebound, as lockdowns lifted, momentum in commodity prices has stalled in recent weeks as second waves of the pandemic and economic uncertainty continued. A levelling off in demand is coinciding with limited supply suggesting that commodity prices face an uphill battle. Oil prices, which tend to lead most commodity prices in either direction, are likely to have a slow recovery into 2021. The forecast for commodities depends on geopolitical factors such as the outcome of the US election, the ongoing Brexit scenario and how long it takes for a COVID-19 vaccine to roll-out.

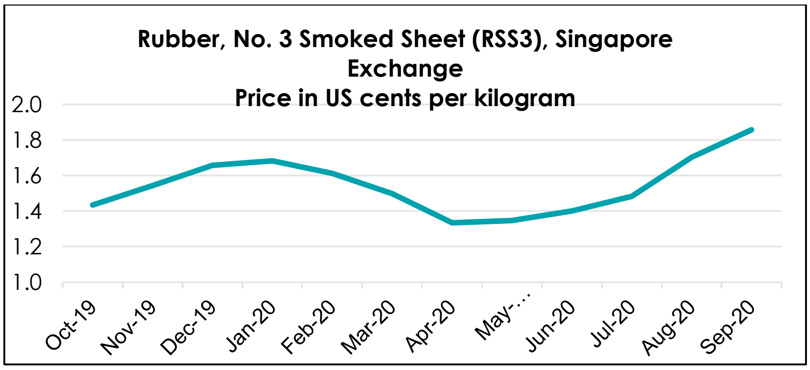
Crude Oil



Crude oil prices have doubled since their April low, supported by sharp supply cuts by OPEC. However, prices remain a third lower than pre-pandemic levels. Oil prices are expected to increase gradually in 2021 as demand is matched by an easing of supply.

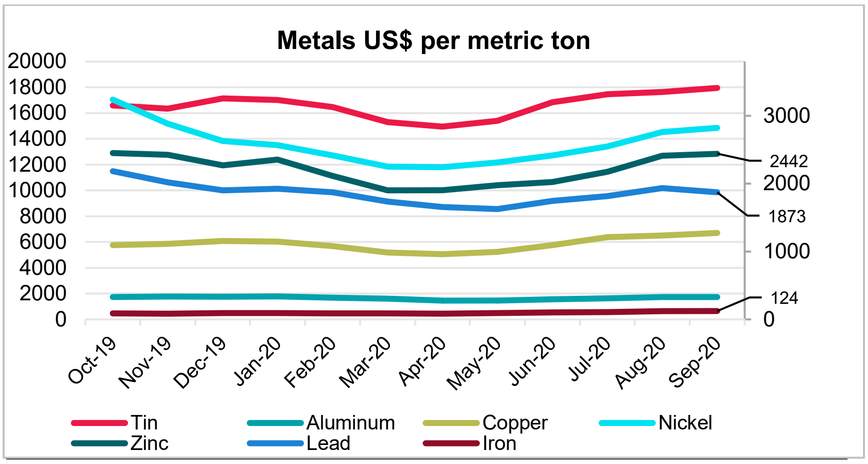
The pandemic could have lasting effects on oil demand though as changes in consumer behavior influence demand.

Rubber



Natural rubber prices have soared through the pandemic partly on strong demand for PPE such as protective gloves. On the supply side, pandemic related labor shortages and weather issues in Thailand and Vietnam (key producers) have resulted in reductions in rubber production. Key factors in rubber price volatility into 2021 include COVID-19 recovery, US China trade tension and the American election outcome.

Metal



Despite the steepest global economic contraction in recent history, base metal prices have surged well above their pre-pandemic levels. Key drivers are Chinese stimulus measures and the pandemic recovery which has fueled an industrial and manufacturing rebound. Going forward, waning stimulus measures and the potential of over-supply might impact pricing. Metals are expected to see a modest gain in prices in the range of 2% for 2021.

Cotton

Latest reports indicate a decrease in global cotton production (-934,000 bales to 116.3 million) along with an increase in global mill-use (+1.5 million bales to 114.2 million) through Q3/Q4. This has led to 2.7 million bale reduction for 2020/2021 forecasts, which still leaves stockpiles at the one of the highest on record. Both China and India reported higher than predicted mill-use and China imported more than forecast. Prices have increase steadily since pandemic induced lows in early April and have held steady partly due to Hurricane Delta which impacted the US cotton belt. While indicators are that cotton prices should continue to rise into 2021, volatility could come from the outcome of the US election, ongoing US/China (and US/Vietnam) trade tension and how long recovery from COVID-19 takes.

Recent Price Data

cents/lb	Latest Value (Oct 9)	Latest Month (Sep)	Last 12 Months (Oct19-Sep20)
NY Nearby	67.6	64.2	62.6
A Index	73.0	70.8	71.2
CC Index	87.3	85.4	81.5
Indian Spot	66.2	63.7	65.8
Pakistani Spot	69.9	64.2	66.6

World Cotton Production

million 480 lb. bales		2020/21	
	2019/20	Sep	Oct
India	29.5	30.0	30.0
China	27.3	27.3	27.3
United States	19.9	17.1	17.0
Brazil	13.5	12.0	12.0
Pakistan	6.2	6.2	5.8
Rest of World	25.5	24.7	24.2
World	121.8	117.2	116.3

World Cotton Exports

million 480 lb. bales		2020/21	
	2019/20	Sep	Oct
United States	15.5	14.6	14.6
Brazil	8.9	9.2	9.7
India	3.2	5.0	5.0
Benin	1.2	1.3	1.4
Australia	1.4	1.3	1.3
Rest of World	10.7	10.3	10.3
World	40.9	41.7	42.2

World Cotton Imports

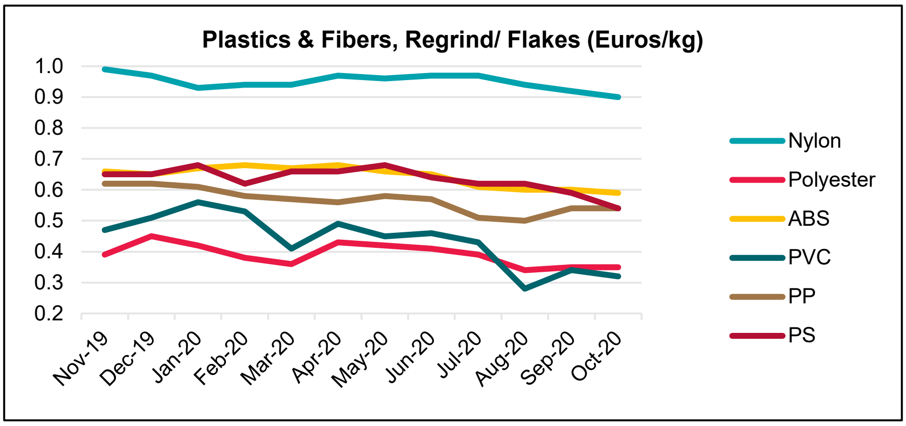
million 480 lb. bales		2020/21	
	2019/20	Sep	Oct
China	7.1	9.0	9.5
Bangladesh	7.0	7.3	7.3
Vietnam	6.5	6.8	6.8
Turkey	4.6	4.3	4.3
Pakistan	4.0	3.8	3.8
Rest of World	10.9	10.6	10.5
World	40.1	41.8	42.2

Sources: Cotton Inc, News Reports

Plastics and Synthetic Fibers

Q4 2020 Snapshot:

Synthetic fiber prices, especially for nylon and polyester fell dramatically through Q3 on lower oil prices, currency devaluations and lower demand for finished goods from Asia, Europe, and the US. Stability on the supply is also an issue going forward. Synthetic fiber prices in Asia fell by more than 20% year-on-year, mostly due to price drops in polyester, the most widely used fiber.



Quality Control Indicator

This report frequently covers quality control and quality assurance issues. Audit and inspection data which tend to mirror sourcing activity, provide an indicator of activity and trends in various sourcing regions.

According to data from Quality Inspection provider QIMA, while sourcing and global trade picked up dramatically through Q3 to meet demand, inspection and audit trends suggest that the recovery scramble has meant a sacrifice on sustainability and social compliance. Many businesses went into survival mode, cutting costs where they can, adding pressure on suppliers, in turn putting worker safety and product quality at risk.

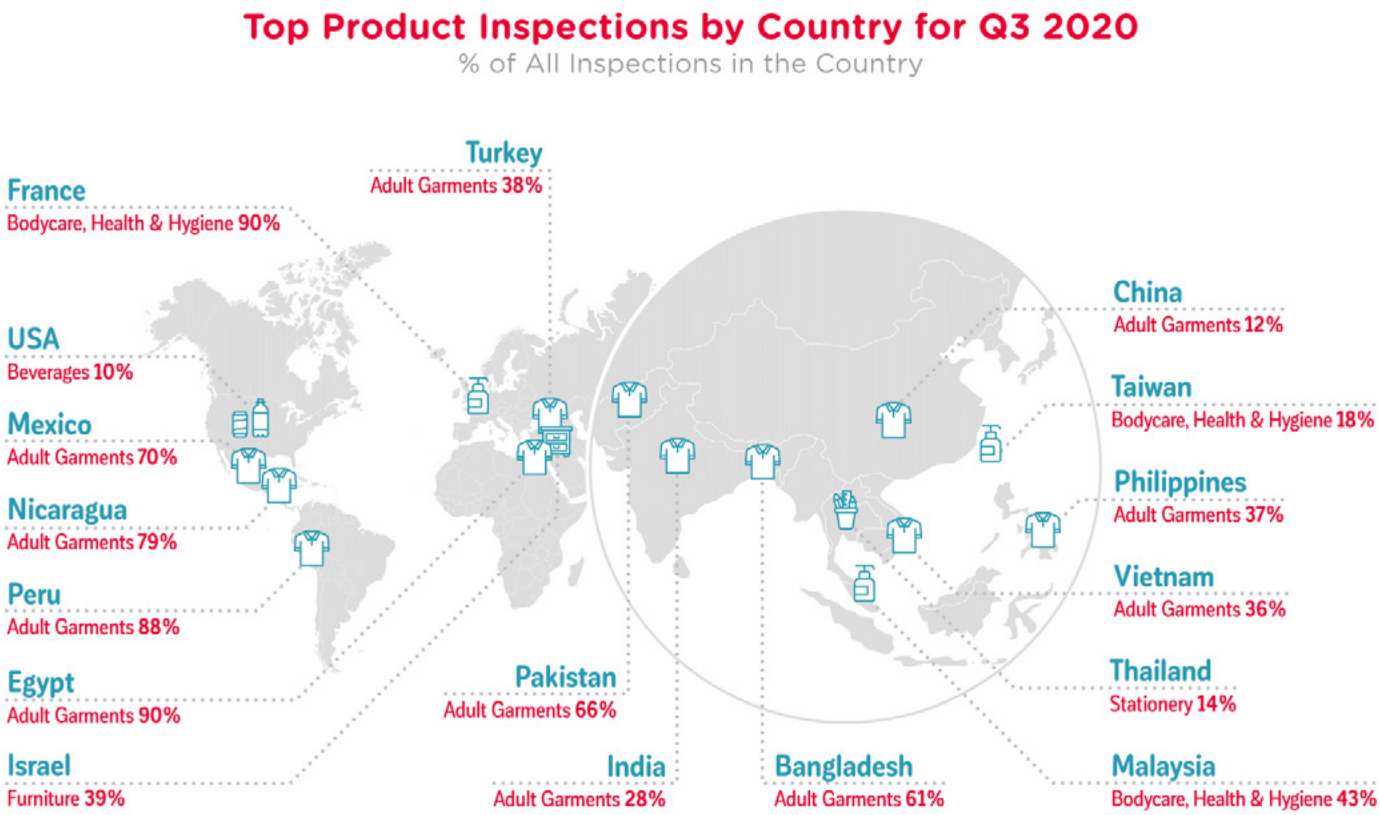
Most of the issues around quality we have seen are related to inconsistencies with suppliers and the ability to adapt to the added demands of the pandemic, both at the buyer and supplier level.

Demand for inspections in China grew at the rate of 11% (year-on-year) overall in Q3, especially from US and European buyers in the electrical and electronics sectors. Lower demand for inspections (down 15% in Q3) in the Chinese textile and apparel sector reflected the ongoing shift in apparel production to lower cost countries such as Bangladesh, Vietnam, and others.

Overall, South-East Asia saw a pick-up in demand for inspections of 10% year-on-year, with growth in Myanmar, Indonesia, the Philippines, and Vietnam – who all took business from China. South-Asia also saw growing demand for inspections and audits, led by Bangladesh where inspections grew 86% in September.

Sources: QIMA Data, News Reports
The trend of nearshoring, which was picking up in recent years appears different for US and European buyers. The QIMA data suggests that US brands were more likely to buy from factories reopening in South Asia than from Latin or South America, whereas European brands continued to increase their sourcing (and inspections) from countries such as Morocco, Egypt and Tunisia, which all saw double digit growth.

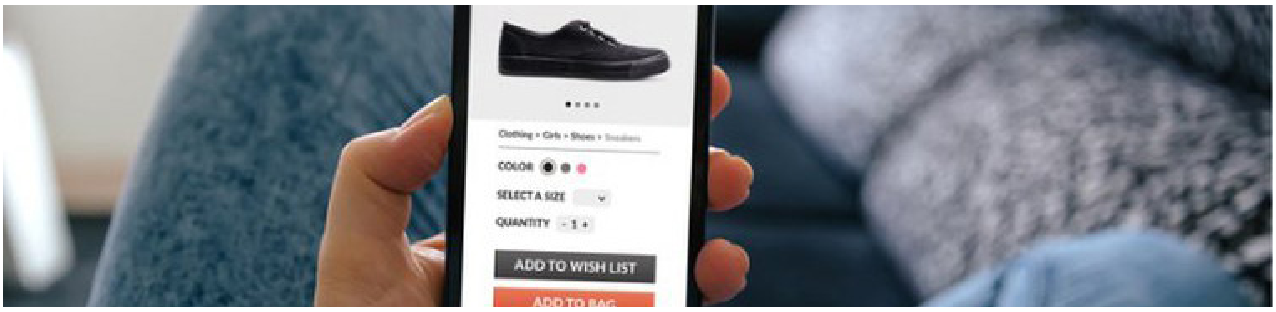
Sources: QIMA Data, News Reports



Focus Topic: COVID-19, E-Commerce Accelerator

One of the bright spots that emerged through the COVID-19 pandemic is online retail. Already a growing force prior to 2020, world-wide implementation of physical-distancing and stay-at-home orders has accelerated the progression of e-commerce. To put it in perspective, according to Statista (chart below) in 2015 e-commerce represented 7.4% of total global retail sales, by late 2020 e-commerce's share of total retail will be above 16.1%. By 2023, online retail should comprise 22% of total retail.

This pandemic driven fundamental shift in consumer behavior will bring lasting effects as consumers shop more online and retailers improve service levels. The cliché of "adapt or die" applies to retail more than ever. Online shopping trends we see now provide a sense of where e-commerce is headed.



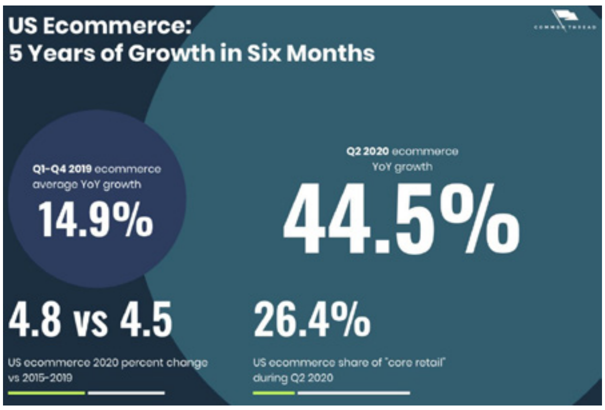
Lining the Nest

Nearly half of consumers shifted their spending across online verticals such as apparel and electronics, but categories such as health, fitness, groceries, and DIY did especially well as people spent more time at home. Online orders in most of these categories grew by two- or three-times times year-on-year, with some retailers seeing increases of more than 20 times. (e-Marketer).

Retailers that capitalized on consumer trends such as food preparation, online fitness and home offices were rewarded. Those able to perfect online models such as home delivery (Amazon) thrived through the pandemic and will continue to do so after.

Platform vs Retailer/Brand

Another evolving trend that grew through the pandemic is the customer focus on product availability in a competitive marketplace. Amazon grew exponentially not because it is cheaper, but because they provide a platform for competing products, often direct from the source which are vetted (reviewed) by other consumers. Other marketplace such as Wayfair and eBay have also carved out niches, but traditional retailers such as Best Buy and Walmart are also betting heavily on their own marketplaces to drive growth.



Re-evaluating Cost-Cutting

The biggest takeaway from the shift in consumer retail behavior, accelerated by the pandemic, is that conventional forms of cost-cutting are less relevant. For example, historically retailers and brands placed a heavy focus on the input cost factors we cover in this report – labor costs, material costs, currency exchange, logistics efficiency and speed to market. Going forward, the biggest area where retailers and brands need to look at cost-cutting is not through the supply chain, but at the end of it - whether in store or online or a combination. As an example, companies such as Bed-Bath and Beyond have done well with their Buy-Online-Pick-up-in-Store (BOPIS) model which has allowed them to cut bricks and mortar locations.

No doubt the elements that go into getting products to market quickly and at a reasonable price are still important. But the biggest long-term factor of success for retailers and brands is the ability to innovate and provide consumers with the holy grail of what consumers want. This is an ever-moving target but includes the right products (on-trend), meeting product quality and social standards, pricing/value that makes sense and Amazon level service (question-free returns). Most importantly though, the pandemic has reinforced some marketing basics – retailers need to ensure customers can buy WHAT they want, WHEN they want it and WHERE they can get it – which increasingly means online.

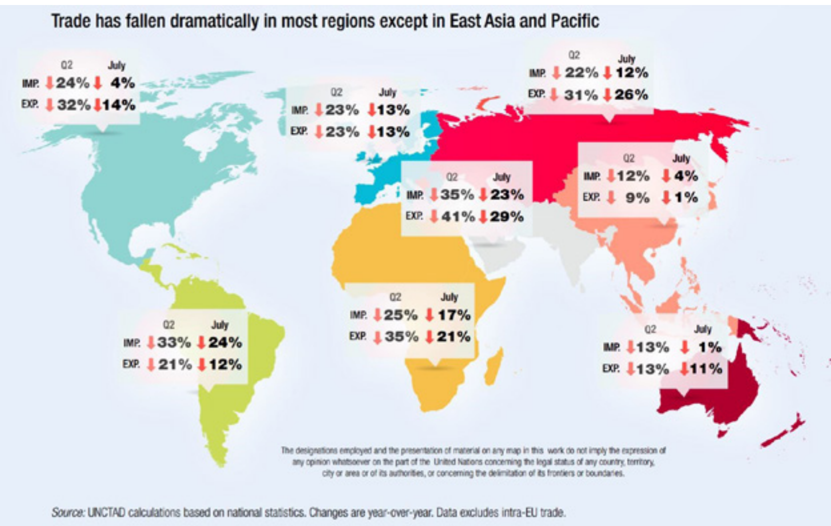
The Outlook for Global Trade in Q4 and Beyond

No doubt the pandemic threw us for a loop, but the big question is what things will look like in the next quarter and next year. Recent reports from the International Monetary Fund (IMF) and the United Nations Conference on Trade and Development (UNCTAD) suggest that we are on the road to recovery through Q4 and into 2021, but it could be a rocky road.

Despite what looks like a pandemic recovery, UNCTAD data showed a 5% drop in world trade in Q3 compared to the same quarter in 2019. This is certainly an improvement over Q2, which saw a 19% drop year-on-year, but overall global trade is still expected to contract by around 7-9% relative to 2019. While not great news, these numbers reflect a better than expected outcome, with manufacturing in Asia recovering quicker than expected and demand for products continuing strong in North America and Europe, possibly as people spent more on goods versus services.

Asia is expected to fare better than the rest of the world, with the IMF forecasting a 2.2% contraction for 2020, based mostly on the greater impact from COVID-19 through Q3 on India, Malaysia, and the Philippines. China is one exception, with the IMF predicting growth of 1.9% for 2020 relative to 2019. Chinese exports plummeted in Q1 but picked up strongly through Q2 and Q3 and should reach year-on-year growth of around 10% (UNCTAD). Chinese imports also grew strongly through Q3, reaching 13% growth in September. The most dramatic decline in trade was in South and West Asia, where imports dropped by 23% and exports declined by 29%.

Certain sectors such as energy and automotive were particularly hard hit, while other sectors such a communication equipment, office machinery, textiles and apparel had robust growth. Exports in medical supplies from China, the European Union, and the United States grew from an average of US $25 billion to $45 billion per month from January to May 2020 and 50% per month in subsequent months. The concern revealed by the UNCTAD data is that wealthy countries have more access to medical supplies, especially non-PPE products – for example, a vaccine. The report stresses that once a COVID-19 vaccine is created, it is important for developing countries to have equal access to ensure a faster global recovery.



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