

Global Apparel Manufacturing Labor Cost Analysis 2008

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Introduction

- Jassin-O'Rourke Group (JOR) tracks hourly labor costs in apparel (and textile) manufacturing environments in more than 60 countries. This report addresses *apparel labor costs specifically*, among key apparel import supply countries.
 - Data collection timeline for the analysis presented herein was December 2007 – March 2008.
 - Data is collected in local currency and converted to US dollars.
 - Exchange rates often have *significant impact* on labor costs.
 - Noticeable shifts have occurred in recent years, over the last year, and in some countries, more so since the beginning of 2008, increasing the cost of imported apparel and affecting sourcing decisions in several countries.
 - This report depicts average labor costs using the prevailing rates of exchange on March 31, 2008
 - The gross hourly labor costs shown by country are representative *averages* and include:
 - Base average apparel manufacturing labor cost
 - Social benefits and fringes paid
 - Attendance bonuses and mandatory annual or semi-annual bonuses where applicable.

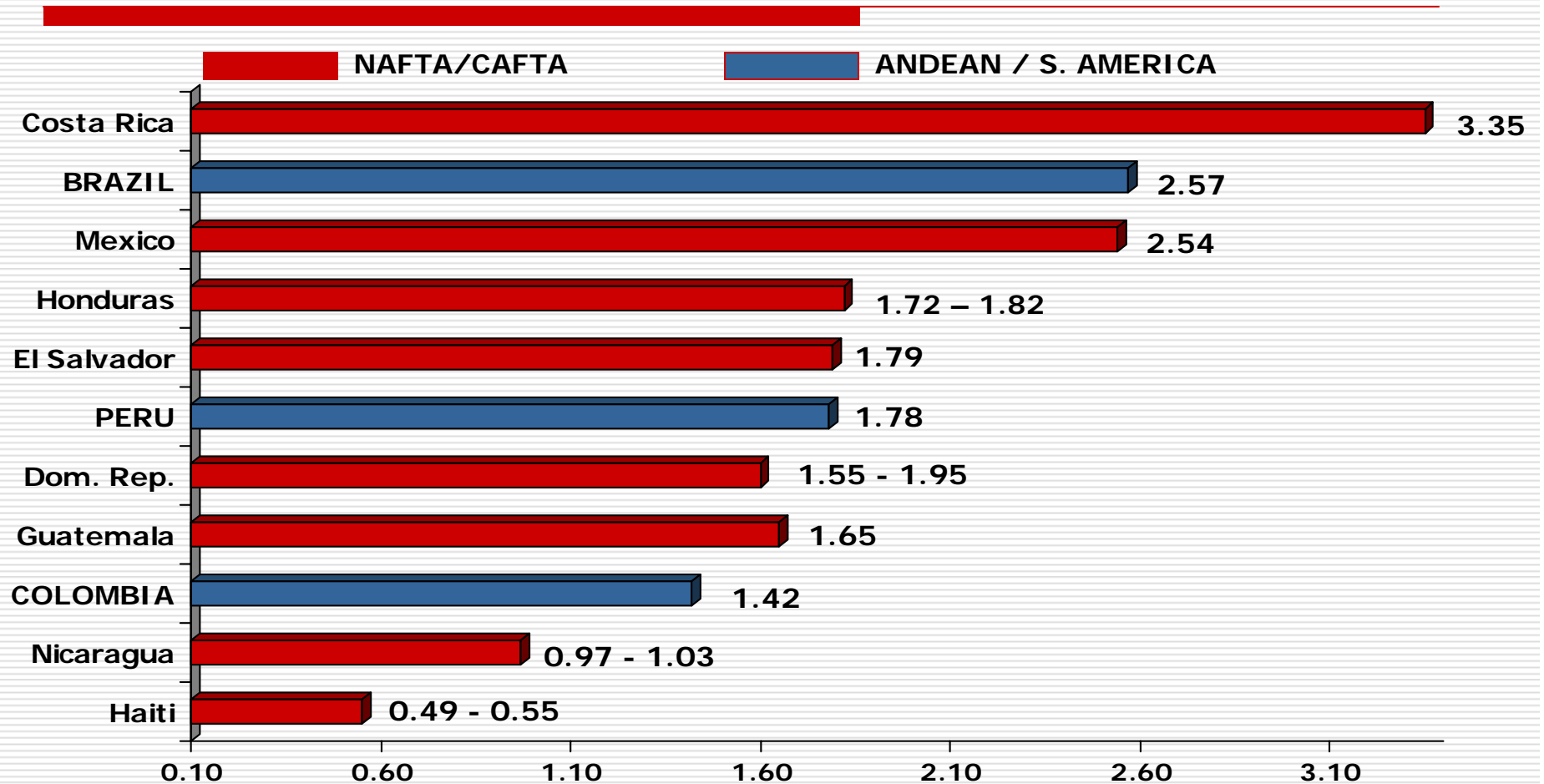
Introduction

- It should be noted that the hourly labor costs can vary substantially under various circumstances, *within a country*.
 - Generally, the differences are less in the very low wage countries,
 - And greater in absolute terms, in the more industrialized countries.
 - Even in low wage countries like China and India, the hourly labor cost paid can vary by as much as 100%, depending on ownership, for example (*privately owned versus government-owned*).
- Costs often vary according to plant *location* within a country
 - In China, for example, the labor cost is substantially higher in the coastal provinces and major cities, than in inland provinces and more remote areas.
 - Additionally, many developing countries are divided into industrial zones, with each zone having a *different government mandated minimum wage*.
- In some countries, (Tunisia, Morocco, for example), a company in operation for twenty years will have a substantially higher average labor costs than a company in operation for only two years, due to the annual *seniority premium that must be legally paid*.
- In certain countries it can be quite difficult to account for all of the fringes paid such as housing, meals, transport, etc.
- Suffice to say, for those considering investment in foreign production markets, it is critically important to understand what is the typical practice, as well as what is required.

Apparel Manufacturing Labor Costs – 2008

(US \$/Hour, including social charges)

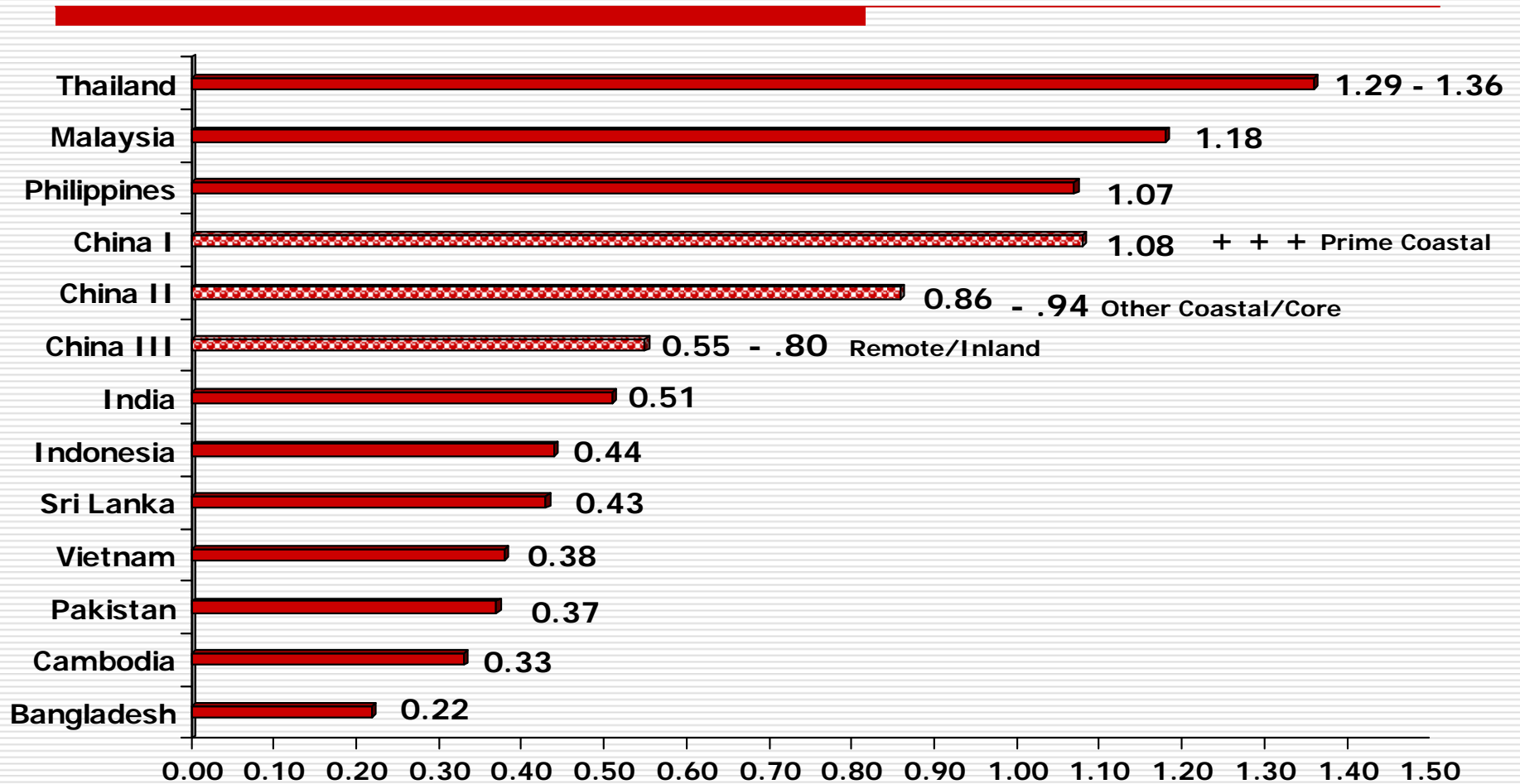
USA Regional Import Supply Base



Apparel Manufacturing Labor Costs – 2008

(US \$/Hour, including social charges)

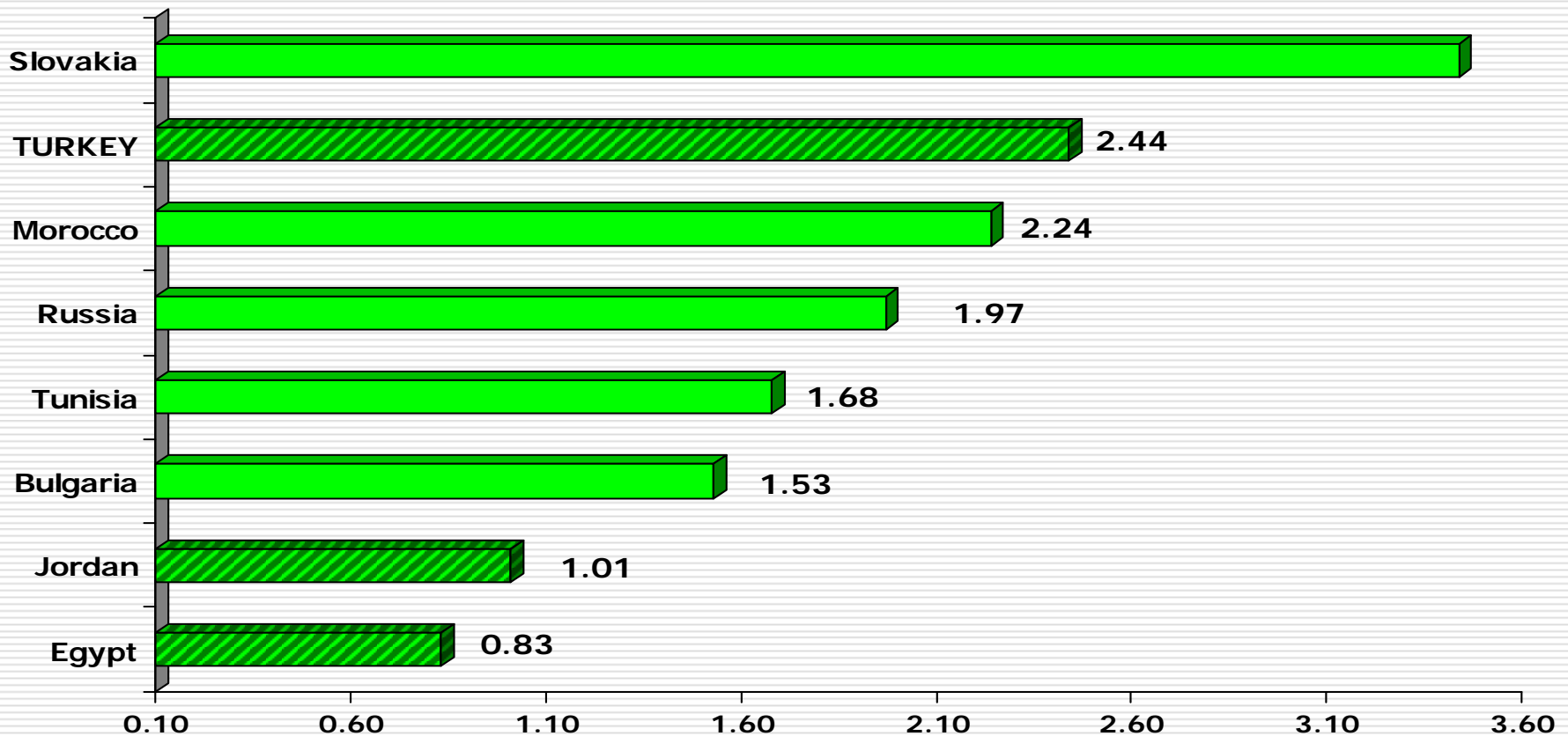
Core Asian Import Supplier Base



Apparel Manufacturing Labor Costs – 2008

(US \$/Hour, including social charges)

Euro/Mid-East Supplier Base



Other Critical Factors Impacting Apparel Manufacturing & Sourcing Costs

- While the hourly labor cost is certainly an important cost factor in the assembly of garments, apparel manufacturing investments and sourcing decision-making, it is not the only factor.
 - Labor productivity, which can range from 50% to 80% of international standards in some developing countries, has to be taken into account.
 - Quality of output; seconds
 - Availability and reliability of electricity and other utility supplies; costs are increasing within several major supply countries
 - Fabric and trim costs, availability, relative to lead time requirements
 - Fabric yield factors typical within a factory—often overlooked—and the *potential for cost reduction*, relative to cutting technologies employed/planned.
 - Level of Pre-production PLM/PDM technologies employed, adopted; compatibility with brand owners' systems

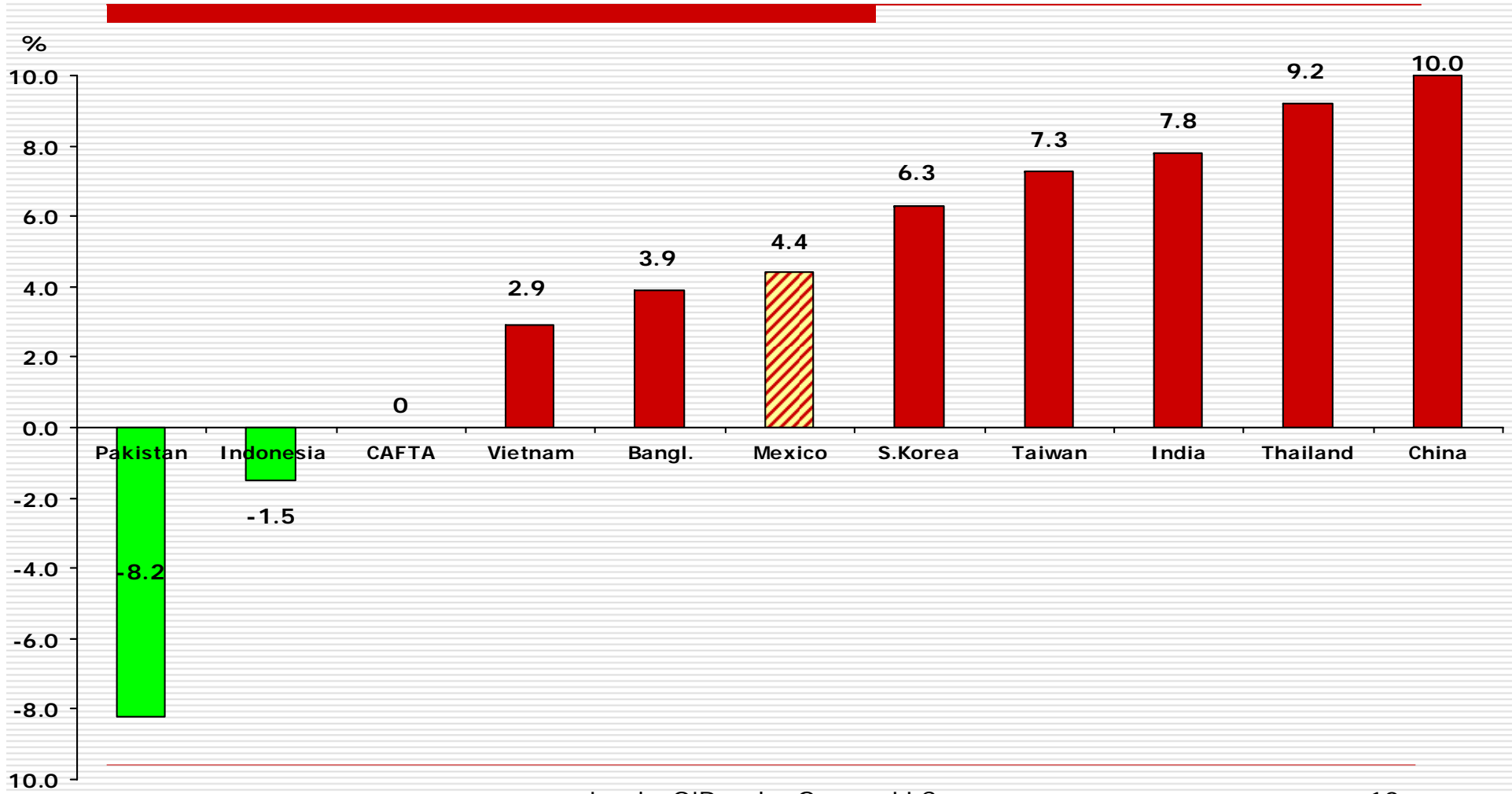
Other Critical Factors Impacting Apparel Manufacturing & Sourcing Costs

- Fast fashion versus replenishment strategies in play by brand owners; vendors' ability to service required strategy most efficiently
 - Frequency of style changes typical within factories
 - Associated lead time requirements, with its impact on:
 - delivery schedules,
 - inventory levels,
 - *Sourcing capital costs*
 - Duties; applicable reductions on the horizon
 - Rising cost of freight
 - FTA's/TPA's/TPL's currently in place and on the horizon
-
- All of these issues combine to increasingly challenge manufacturing and sourcing managements' short and long term strategies.

 - External factors such as exchange rates, continue to affect planning, particularly for apparel sourcing. The following table depicts the impact of such changes on garment sourcing costs since February 2007.

Relative Impact of Exchange Rates on Sourcing Costs – Selected Import Supply Markets

% Change February 2007/May 2008



China's Competitiveness

- Despite labor productivity gains, fabric and garment quality improvements, minor duty reductions for selected products and potential quota cost elimination going into 2009, net associated cost benefits are not enough to offset increased costs/impact in other areas. China has been impacted most recently.
 - High inflation driven by rapid economic growth, pushing producer prices upward
 - Increasing energy costs
 - Expected reduction (2008) in tax rebate rate for apparel manufacturers
 - Ongoing appreciation of the yuan
 - Up 15.6% from 2005; Up 10% since February 2007; Up 3.1% since January 2008
 - Rising domestic wages, expected to increase further as a result of a new labor law that took effect earlier this year
 - Increased labor competition from higher paying, non-apparel sector industries
 - Stricter product safety and other compliance requirements/monitoring costs
 - Increased fabric/trim/packaging input costs
 - Significant shipping cost increases
- Having said this, China will remain the single most important apparel supplier to the US. Increased labor productivity, fabric and garment quality improvements, a virtual seamless supply chain, enhanced logistics, breadth of fabric assortments and 'can do' business approach will provide ongoing growth platform (post-recession).
- Asia now produces nearly 70% of the *world's* apparel consumption requirement, with China the leading producer.

Other Important Supply Countries

- ❑ Other lower cost, volume production winners will be Bangladesh, Vietnam, Pakistan and India in the East. Indonesia as well for some synthetics.
- ❑ Upscale, style-complex sourcing still favors moderate cost Asian suppliers such as Malaysia, Philippines, Thailand.
- ❑ Egypt and Jordan remain important as low cost providers of cotton wovens.
- ❑ Selected low cost Africa supply countries, with labor costs averaging less than \$.25/hour, will become somewhat important in the future.
- ❑ Central America will remain the most important volume cotton knit supply base for the US market, as well as serving some casual fast fashion, a degree of woven bottom replenishment programs, activewear and team uniforms.
- ❑ Importers will look to Colombia and Peru for upscale, fast fashion products.
- ❑ Mexico, despite it's rising labor cost, will still serve commodity denim and workwear/imagewear, and to some degree, niche fast fashion sportswear and activewear markets, but to a lesser degree.

For Further Information . . .

- Jassin-O'Rourke Group provides global management consulting services exclusively to the fiber, textile, apparel, home fashions and retail industries, and related supply chain providers. The scope of services encompass strategy development/review, market research, marketing, brand management, licensing, manufacturing feasibility analysis, garment sourcing cost analysis and merger, acquisition, alliance partnering.
- For further information on our *2008 Global Apparel Manufacturing Labor Costs*, please contact:

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