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ANALYSIS OF TRENDS IN THE UKRAINIAN FABRIC MARKET

In recent years, Ukraine has become a notable player in global, especially European, clothing market: Ukrainian export in 2019 reached almost $670 million, while import exceeded $1.1 billion [1]. The main volumes of Ukrainian export falls to EU [2], and such export is mostly performed by give and take raw material scheme [3].

Closing market is a key driver for development of the fabric market. But if a closing market in Ukraine is studied quite well, with a plenty of analytical and statistical materials presented, the fabric market is not studied that much. So the purpose of this paper is to disclose some trends on the Ukrainian fabric market basing on statistical materials.

First of all, it is necessary to say that according to the State Statistics Service of Ukraine, retail turnover of textile goods in physical terms for the year 2019 increased by 7.3% compared to the year 2018, while retail turnover of clothing increased by 20.5% [4].

In total, the value of textile goods sold through the retail network for 9 months of 2019 amounted to UAH 1.8 billion, (while 34.6% of them were produced in Ukraine, and the remaining 2/3 were imported), and the value of sold through the retail network amounted to UAH 17.8 billion (and only 7.5% was produced in Ukraine, while the remaining 92.5% was imported) [5].

In other words, sales of fabrics and clothing in Ukraine in 2019 demonstrated growth, however, the majority of these sales (2/3 for fabrics and more than 90% for clothing) is based on imports. That is, the development of the domestic clothing market has a lesser effect on the demand for fabric from the business segment. The majority of output of the garment industry in Ukraine is exported, and so export of clothing is the main driver of demand for fabrics from the closing industry.

At the same time, many companies that produce clothing for export to EU countries do it on a give and take raw material basis, thus not buying fabrics in Ukraine. In addition, duty-free delivery of clothing to EU countries in accordance with the Association Agreement is possible only if such exported clothing is made of Ukrainian or European fabrics. This limits the ability of Ukrainian closing industry to use fabrics originating in Southeast Asia, which makes the majority of Ukrainian fabric import [6].

In order to characterize the emerging trends on the Ukrainian fabric market, it is necessary to subdivide it into 2 segments: individual segment and a business segment. Individual segment is represented by individuals who by fabric in order to sew for themselves, family members, friends etc., while business segment is represented by closing industry. The difference in the dynamics of the development of these two segments is very well illustrated by the indirect indicator – dynamics of imports of sewing machines to Ukraine (fig. 1).

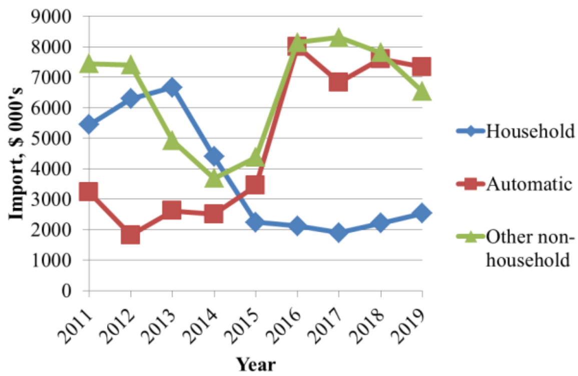

Fig. 1. Dynamics of imports of sewing machines to Ukraine [6]

As we can see, since 2014, there has been a clear trend towards a decrease in the volume of imports of household sewing machines and a simultaneous growth in imports of industrial machines. In 2019, there was a slight increase in the volume of imports of household sewing machines, however, this is more likely due to a significant straightening of Ukrainian national currency in 2019 and is therefore a situational factor.

Imports of industrial sewing machines (automated and others) demonstrated an upward trend since 2015. At the same time, the drop in imports of industrial sewing machines in 2019 and partly in 2018 can be explained by an increase in the hryvnia exchange rate, which made exports and, accordingly, production of clothing in Ukraine less profitable. That is, such a fall is also a situational factor.

Thus, recent years the individual segment has shrunk and the business segment has expanded.

Let's consider these 2 segments separately.

I. The shrinking of the individual segment is caused by the following factors:

1. Growth in imports of cheap clothing (second-hand), which showed a decline only in 2014 and 2015, but in general has doubled over the past 8 years [6].

2. An increase in the volume of purchases of ready-made clothes directly on foreign online platforms (Ali Express, E-Bay, etc.). Evidence of this trend is the sharp increase in foreign shipments processed by the

State Enterprise "Ukrposhta": for example, in 2018 the company processed 34.4 million international import and export shipments, which is almost 45% more than in 2017 [7].

These two trends make self-tailoring economically unfeasible, which turns it to rather a hobby. Thus, in the future, we should expect a reduction or stabilization of the sales of fabrics used for individual tailoring.

II. The business segment of the fabrics market is made up of enterprises that make clothes, home and industrial textiles from it for the purpose of sale. The powerful centers of the closing industry are Kyiv, Dnipro, Kharkiv, Odesa, Lviv, Chernivtsi. Other centers of the closing industry are Zhytomyr, Mykolayiv, Cherkasy, Mukachevo, Horyshni Plavni (until 2016 - Komsomolsk) and Kremenchug.

Accordingly, the demand for fabrics from these enterprises is dictated by the sales of their products (mainly clothing), and the development of this segment is dictated by the development trends of the clothing market. As we’ve mentioned before, export of clothing is the main driver of demand for fabrics from the closing industry

According to statistics [6], until 2015, the export of clothing from Ukraine we decreasing, and since 2016 it began to grow.

In addition, the business segment of the fabric market, is subject to the same trends as the individual segment, namely: growth in imports of cheap clothing (second-hand) and growth in purchases of ready-made clothes directly on foreign Internet sites.

One of the areas where the focus on the mass market for Ukrainian clothing manufacturers can be successful is the offer of seasonal replenishment of goods of low-price and middle segments. In some mass markets, buyers place orders to fill the initial stock from suppliers in Southeast Asia with low response rates and low cost. During the season, however, the buyer will need to replenish retail outlets with goods that are actually sold. This is difficult to do when the delivery of the goods takes a long time. As a result, buyers prefer to make seasonal additions from geographically close suppliers. These suppliers should be able to respond quickly and send small batches of goods, preferably with a large selection of colors and sizes. This is an opportunity to increase the production of clothing for Ukrainian manufacturers [3].

As we’ve mentioned before, fabric produced by domestic companies take only about 1/3 of retail turnover of fabric in Ukraine. As for wholesale turnover, the share of fabric alone is not represented in official statistics, but in category of fabric, clothing and footwear domestic products take only 26% as for 9 months of 2019 [8]. This situation is explained by the fact that quality of domestic fabric is poor and assortment is insufficient due to outdated technologies in Ukrainian textile industry. So import, especially from the Southeast Asia, is the main source of fabric in Ukraine.

According to statistics [6], since 2016 there has been a trend of growth in the import of fabrics to Ukraine, which has recovered in volume after falling in 2013 – 2015. At the same time, in 2019, the import of fabrics in physical terms decreased by 1%, and in value – increased by 1%.

Different types of fabric, depending on their place in the production process, have different dynamics of import volumes. During the period of 2011 – 2019, the volume of imports of raw materials decreased by 4 times, which reflects the downward trend in own production of fabrics in Ukraine. On the contrary, the volume of textile imports has doubled and continues to show an upward trend.

Yarn imports recovered after falling in 2015 and stabilized at 24,000 t. The import of threads increased significantly in 2018 (almost 20% compared to 2017), but then decreased by more than 20% in 2019.

In the long run, clothing exports from Ukraine have good prospects for growth, because the world clothing market is growing steadily. So, the fabric market in Ukraine is expected to grow too.

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