

CONGRESSIONAL RECORD

greatly strengthened the textile industry's financial position and enhanced the investment attractiveness of the group. Selected textile issues, we believe, now offer attractive buying opportunities.

COMING OF AGE

Once highly cyclical, the textile industry has now achieved some measure of stability, and the appeal of many stocks in the group, consequently, has been greatly enhanced. Before World War II, the industry consisted largely of small family-owned units, each performing a single phase of the manufacturing process. Mill owners made the production decisions and used independent merchandising agencies to sell their output for whatever the market was willing to offer.

Through expansion and merger, small mill units are giving way to highly efficient vertically integrated mills, which are operating with improved control of quality and inventories and are producing a broad range of products. Marketing is becoming an integral part of the business, with emphasis placed on meeting consumer demand. Rather than concentrating on a particular operation, as was the earlier practice, managements are emphasizing over-all profitability. The emergence of large diversified companies is attracting professional management and financial resources for stepped-up research, advertising, and capital expenditures.

The trend toward consolidation is expected to continue as mills diversify to counteract the effect of softening demand in any one segment of the market and to meet the requirements of larger customers. The industry, nevertheless, remains highly competitive, with the largest company accounting for less than 8% of total sales.

CYCLICAL FACTORS REDUCED

Although much less cyclical than formerly, the textile industry is still closely geared to general business conditions. Its inherent cyclicity stems from the long inventory pipelines which are characteristic of the textile business. In the past, during periods of rising demand, mill customers made commitments far in advance of their needs, and this resulted in heavy inventory accumulation. When demand slackened, orders dried up abruptly, and inventories were liquidated at price concessions all the way back to the mill level. Aggregating the industry's woes during such periods were the large capacity built up when demand was high and the emphasis on maintaining production at the expense of profits.

But the industry has changed. As a result of vertical integration, improved market analysis, and closer inventory controls, it is not quite as sensitive as it was formerly to variations in the demand for its products. When demand eases, progressive managements now attempt to keep trade inventories down by cutting back production quickly and refusing to dump goods on the market without regard for price. One-price cotton (established by Federal legislation in April 1964 to eliminate the disparity between

domestic and export cotton prices) now enables the mills to buy cotton at the lower prices that only foreigners had previously enjoyed. The development of synthetic fibers is enlarging the market for textile products with new and better wearing fabrics. Broadened consumer lines and increased advertising combined with favorable demographic and income factors are resulting in more stable levels of production and higher margins.

The industry showed substantial earnings growth in the 1962-66 period (Table I), reflecting a strong economy and Government procurement for the war in Vietnam. The military purchases of textiles and apparel in 1966 and 1967 made the industry appear more cyclical than it actually is. After reaching a peak \$1.1 billion in fiscal 1966, these purchases declined to about \$1.0 billion last year, as supply channels were filled. Military purchases are expected to remain near their current rate, and procurement in 1968 is not expected to reach the peak 1966 level. An end to the Vietnam conflict should not result in any significant disruption of industry activity.

MARKET AREAS

Apparel.—The apparel industry consumes about 42% of all textiles produced. A study by the National Industrial Conference Board reveals that expenditures for consumer apparel (including shoes) increased 40% from 1963 to 1967, vs. a 31% rise in total consumption expenditures; apparel outlays took 8.7% of consumer dollar expenditures in 1967, the highest ratio since 1956. With better merchandising programs, growth in discretionary

income, and the continuing shift in the population mix toward the younger age group, this rate should hold or even improve.

Reflecting greater general affluence and the force of fashion, the rapid changes in styling of apparel are expanding the textile market's share of the consumer dollar. Also, the emergence of larger apparel firms and retailing outlets is leading to the further integration of large textile manufacturers, which can meet exacting requirements for quality, fashion, and service. Hence, the close relationship between larger mill customers and larger fabric suppliers should make possible greater effectiveness in market forecasting and in inventory control. Since the textile industry has become alert to new fashion developments, many mills have gone in for the manufacture of knits, hosiery, and nonwoven fabrics.

Major producers of apparel fabrics include Burlington Industries, J. P. Stevens, M. Lowenstein & Sons, Dan River Mills, and West Point-Pepperell. Involved in some of the more specialized areas of the apparel market are Collins & Aikman (tricot); Reeves Brothers (rainwear fabrics); Grantville and Cone Mills (utility and sportswear fabrics); and Indian Head (specialty textiles). Additionally, Burlington, Stevens, and Indian Head have positions in the rapidly growing hosiery business.

Home Furnishings.—The home furnishings market, which uses about 28% of all fabrics produced, continues to show pronounced growth. Products showing above-average gains include bedspreads, sheets, pillow cases, towels, carpets, draperies, slip covers, and upholstery.

TABLE I.—TEXTILE INDUSTRY DATA

(Dollar amounts in millions)

Year	Net sales	Net earnings	Profit margin (percent)	Return on stockholders' equity (percent)	Textile mill operating rate (percent)	Mill inventories	Ratio—Inventories to monthly sales
1963 (estimated).....	\$20,100	\$615	3.1	8.5	95.0	\$3,600	1.9
1967 (estimated).....	18,800	535	2.8	7.5	94.0	3,400	2.0
1966.....	19,513	702	3.6	10.1	94.5	3,330	2.0
1965.....	18,028	694	3.8	10.8	98.5	3,130	1.8
1964.....	16,749	507	3.1	8.5	98.0	2,837	1.8
1963.....	15,092	354	2.3	6.1	95.0	2,886	2.0
1962.....	14,449	354	2.4	6.2	92.0	2,608	2.0
1961.....	13,398	280	2.1	5.0	91.0	2,433	2.0
1960.....	13,234	329	2.5	5.9	82.0	2,300	2.1
1959.....	13,762	416	3.0	7.6	92.0	2,227	1.9

Sources: Federal Trade Commission, Securities and Exchange Commission; McGraw-Hill Department of Economics; U.S. Department of Commerce.

One of the most promising of the home furnishings products is carpeting. In 1967, broadloom shipments were 356 million square yards, representing a wholesale value of about \$1.25 billion. The American Carpet Institute projects a growth rate of around 9% a year, which would double industry sales by 1975. The industry is giving high priority to the further development of contract carpeting for commercial or institutional applications. There appears to be a tremendous growth potential in the use of carpeting in schools, hospitals, supermarkets, and other nonresidential establishments. Textile companies engaged in carpet produc-

tion include Burlington (Lees), Stevens (Gullstan), Fieldcrest (Karastan and Laurelcrest), Dan River (Wunda Weve), West Point-Pepperell (Cabin Craft), and Collins & Aikman (Painter).

The outlook is favorable for continued growth in domestics (sheets, pillow cases, towels, etc.), based on fancy styling, upgraded quality, and permanent press blends. Important in this field are Stevens (Utica), Burlington (Erwin), Fieldcrest (Fieldcrest and St. Marys), Springs (Springmaid, Pequot, and Grace), Lowenstein (Wamsutta and Pacific), West Point-Pepperell (Carlin, Martex, and Pepperell) and Cannon.