

CONGRESSIONAL RECORD

level; and (3) high startup and training costs. These factors further restrained mill customers from making substantial new inventory commitments. However, in adjusting production to demand, the industry reacted quickly and more decisively than in the past. Curtailed production and inventory writedowns resulted in reduced mill earnings, which reached a low point in the first half of 1967.

Late last summer, an improved buying climate resulted in increased unfilled orders for many fabrics and stabilized production rates. The firming of prices for synthetic fibers also helped to restore the confidence of buyers. Following a 6% to 6½% wage boost and a sharp rise in prices for long fiber cotton, many mills increased selling prices. Mill profits in the third quarter of 1967 were slightly above those posted in the preceding quarter but well below year-earlier levels. Further progress was made in the final period of 1967, with earnings having been better than those of the third quarter and only slightly below year-earlier levels.

OUTLOOK FAVORABLE

In view of the current strengthening of the economy, we project a 7% rise in net sales for the textile industry this year from the estimated \$18.8-billion level of 1967. Even if a tax surcharge is passed this year, we expect the industry to show an improvement in net earnings in 1968 of 10% to 15% above the depressed \$535 million (estimated) of last year. However, a return to the record high profits achieved in 1966 may take somewhat longer.

The recovery in textile operations is expected to broaden in coming months. For many companies, order backlogs are increasing, sold-ahead positions are improving, and incoming business is running above year-earlier levels. In such categories, as lightweight blends, woollens, worsteds, draperies, carpeting, and hosiery, orders for future delivery are being booked in increasing volume at higher prices. Price advances in blended fabrics have largely ended the weakness in this important market and now are resulting in more spirited customer buying. Mill operating rates are rising and are approaching the optimum operating rate of 96% of capacity.

The reduction of inventories by mill customers seems largely to have run its course. Although over-all mill inventories are at comfortable levels, imbalances in some segments still exist. At the end of October, 1967, inventories of broad woven cotton goods were equal to five weeks' production, vs. 3.9 weeks' a year earlier, while in synthetic fiber gray goods, weaving mill inventories were about 5% below year-earlier levels.

Considering the favorable outlook for the major markets served by the textile industry, demand for textile products should be strong this year. The projected gain in home building to 1.5 million units, from 1.3 million last year, should be reflected in increased use of carpeting and other textile home furnishings. An estimated 8% gain in apparel sales at re-

tall and a projected rise in domestic car production to 8.5 million units, from 7.4 million in 1967, should result in increased yardage of apparel and automobile fabrics. Moreover, the improvement in consumer liquidity and the faster rate of gain looked for in personal income could bring about a return to more normal spending patterns this year than in the past 12 to 18 months. These economic factors should also benefit textile sales.

Profitability this year will be aided by higher selling prices, lower startup costs, and the absence of heavy inventory writedowns. These factors should largely offset the higher cost of cotton and increased wages. Textile imports remain a problem, but one which hopefully may be solved by legislative action.

The textile industry has greatly expanded its investment in manufacturing and production technology. From 1958 to 1967, capital expenditures rose at an annual average rate of 15.5%, with a peak \$1,130 million having been spent in 1966. This year such expenditures are estimated at about the 1967 level of \$880 million. Two-thirds of 1968 outlays are slated for modernization of facilities and the balance for expansion. Since new facilities are usually large, efficient units, profits should benefit substantially from better absorption of fixed costs as the rate of plant utilization increases.

LONGER TERM GROWTH PROSPECTS

The longer-term outlook for the textile industry is enhanced by:

Greater Use of Synthetic Fibers.—The textile industry is concentrating much of its new production on synthetic fibers, demand for which is growing at a fast rate. It is estimated that synthetic fibers will account for about 50% of total fiber consumption this year. Synthetics provide a more stable raw material price structure than that for natural fibers, as the supply is not subject to crop or livestock cycles. The increased use of synthetics will continue to broaden the number of fabric constructions, provide greater flexibility in textile operations, and improve mill product mix.

Consumer Orientation.—The industry is directing production into the more profitable finished fabric categories and consumer product areas, thereby achieving more stable levels of production and higher margins. Increased emphasis on marketing and brand name advertising is giving the industry greater merchandising leverage.

Research.—Growing research expenditures are leading to the development of wider-margined specialty fabrics and processes. Last year, the industry spent some \$44 million on research, about three times the amount spent 10 years earlier. These programs have produced such developments as durable press, soil release, and washable woollens. This year, research and development expenditures should rise about 7%.

Demographic and Income Trends.—The 15-to-29 age group, a high-textile-consuming segment of the population, is expected to rise 32% between 1966 and 1975. Significant growth also is taking place in the number

of families with annual incomes of \$10,000 and over. According to a study by the National Industrial Conference Board, this group should include 45% of all American households by 1975, vs. approximately 29% in 1966. Furthermore, the increasing rate of marriages and housing starts expected over the next three to five years indicates favorable demand prospects for the textile industry.

Social Changes.—More leisure time, improved living standards, and greater mobility and fashion awareness should lead to growing demand for more varied wardrobes and more prestigious textile furnishing in homes and buildings.

Investing in the Future.—Continued capital spending will be reflected in expanded facilities with highly efficient equipment, thereby increasing productivity and profitability. The industry's position will be strengthened with increased automation, better methods and controls, greater utilization of computers, and further application of modern management tools.

Consolidation and Vertical Integration.—Continuation of consolidation within the industry will result in larger, better-managed companies with stronger resources for financing, marketing, and technological improvements. Further integration should lead to better control of operations and greater profits.

RECOMMENDATIONS

In 1967 most textile stocks recovered quite sharply from their 1966 lows. In recent months, the group has held up exceptionally well in the face of general market weakness, and we believe selected issues will show substantial appreciation in response to favorable earnings comparisons this year.

Our preferences for current purchase among stocks of diversified textile companies are *Burlington Industries (BUR-40)* and *J.P. Stevens (STN-54)*, both of which are on our Recommended List, Group V. Also on our Recommended List are the *Burlington 5% convertible debentures (114)*. Other attractive textile issues include *Collins & Aikman (CK-27)* and *United Merchants & Manufacturers (UMM-29)*, both of which, we believe, can be bought for longer term growth accounts.

BURLINGTON INDUSTRIES

The largest company in the textile field, Burlington produces a broad range of textile products. Sales are divided by markets approximately as follows: apparel, 70%; household, 25%; and industrial, 5%. The company's strong record of growth in sales and earnings was interrupted in mid-1966 by the slowdown in the economy and adverse cyclical factors in the textile industry. Although earnings in fiscal 1967 (Sept. 30) declined to \$2.30 a share, from \$3.06 a year earlier, profits have been in an uptrend since the March, 1967, quarter. For the first quarter of this fiscal year, earnings were 79¢ a share, vs. 64¢ a year earlier.

The outlook is for continued improvement this year. Sales in the current quarter are