

CONGRESSIONAL RECORD

put their customers on allocation. With incoming orders continuing to exceed capacity, producers of these items now are able to utilize their new manufacturing capacity to the fullest extent, thereby realizing important incremental operating efficiencies. With substantial additional fiber capacity coming on stream later this year, though, the odds seem to favor lower rather than higher fiber prices here before the end of the year.

Another man-made fiber now commanding higher prices is nylon—notably the type of weaving yarn used in hosiery. More than 60 million pounds of nylon filament were consumed by hosiery manufacturers in 1967, and additional gains are in prospect for this year, stemming from the rapid rise in popularity of colored textured stockings and panty hose.

The use of woolsens and worsteds has been declining steadily during the last two decades, due to the high level of world wool prices and the substantial competitive inroads recorded by competing fibers. Wool prices today, however, are some 10% below where they were a year ago, but the prolonged liquidation of manufacturing facilities which has taken place in this area means that comparatively few companies are in a position to capitalize on this development. J. P. Stevens should be helped as much as anyone, and Burlington Industries also will be helped, to a somewhat lesser extent.

The impact of higher raw material prices on textile company earnings varies from one firm to another. Among other things, it depends on the method of inventory valuation employed: Companies utilizing the LIFO method (Last In, First Out) have been hard hit recently by higher costs, for under LIFO, sales are assigned the unit costs of the most recently acquired lots, while the cost of the inventory itself is based on earlier unit costs. In a time of rising prices such as the present, this inflates cost of goods sold and depresses earnings: This is what happened to Graniteville, for example, in the fourth quarter of 1967.

SALES

With both unit volume and dollar sales running well ahead of last year and forward order positions being built up steadily in most areas, an industry-wide sales gain of at least 12% now seems likely. This would place full year dollar volume at or near the \$21 billion mark. About 30% of this increase will come from higher prices, with the remainder from increased unit volume. It is this area which could exceed expectations: Demand in two of the industry's three principal markets (home furnishings and industrial fabrics) is exceptionally strong at present, even allowing for the depressed conditions which prevailed in these areas at this time last year, while the third market, apparel fabrics, appears to be gaining momentum after a slow start.

The unexpectedly heavy demand for carpets, permanent press sheets, pillowcases, tablecloths, drapes and thermal blankets is largely responsible for the boom in household fabrics, while the steady increase in orders for auto upholstery and carpeting and tire cord has helped sales in the industrial area. Between them, these two markets now account for almost half of the industry's sales dollar, with most of the remainder coming from apparel fabrics. The apparel area has not recovered as rapidly as anticipated, although it is in infinitely better shape than was the case a year ago. The failure of Christmas retail business to live up to expectations and the continued reluctance of consumers to spend more have been the principal reasons for this lag. Retail sales in January and February were generally excellent, though, and with retail inventories still at comparatively low levels, a significant pickup in demand is likely in the near future.

Meanwhile, many apparel fabrics already are moving at an extremely satisfactory rate.

This pickup has been particularly noticeable in lightweight blended fabrics, which are well on their way to recovering the ground they lost in 1967. There has been considerable weakness in heavyweight fabrics such as denims and corduroys, which held up so well during early 1967, but if the economy retains its present momentum, this segment of the industry's business should begin to improve very shortly: Several manufacturers believe this improvement already is underway, based on the rate of their incoming orders in recent weeks. The hosiery business, of course, appears headed for a record year, and January sales—traditionally subject to a post-Christmas slump—were 15% ahead of January 1967. These gains have stemmed from the enthusiastic response now being accorded panty hose—sales of which have tripled in the last twelve months—and the growing popularity of colored stockings.

CAPACITY UTILIZATION RATE IMPROVING AFTER HEAVY CAPITAL EXPENDITURES

The precise impact of these costs on textile industry earnings for any given period is extremely difficult to measure. However, the industry expended some \$1.2 billion (or almost 60% of its total capital budget) on the construction of new manufacturing facilities in 1965 and 1966, so a considerable amount of new capacity obviously came on stream in 1967. The steady increase in prevailing wage rates and the widespread difficulties encountered in hiring, training and keeping an unskilled work force meant this would have been a costly development under the best of conditions. The abrupt decline in forward buying by many of the industry's biggest customers which took place at this same time, however, simply made a bad situation worse. As a result, the industry's overall operating rate fell from 98.6% in mid-1966 to

around 83% by the third quarter of 1967. This index has been rising steadily since then, and currently it stands at around 94%. The sizable earnings gains now being reported by many textile companies indicate the industry finally is beginning to reap the benefits accruing from full scale utilization of its new facilities. In a field which traditionally has been characterized by low productivity and marginal efficiency, this is a particularly significant development.

SELLING PRICES

With demand for many products in a sharp upturn and no significant additions to capacity likely in the near future, the outlook is favorable for a generally strong price structure for the industry during the remainder of 1968. In addition to the recently announced price increases in hosiery, carpets and certain household fabrics, there are a number of other areas where prices appear headed higher. These include many different types of men's and women's outerwear (dresses, suits, sport jackets, sport shirts and permanent press slacks) women's intimate apparel, infants' and children's wear and various types of linings.

EARNINGS

The combination of higher sales, better prices, absence of plant startup costs, and increased operating efficiency should enable the industry as a whole to record a year-to-year gain of at least 15% in after-tax profits over the estimated \$530 million figure of 1967 despite the possibility of a tax increase. This would mean full year earnings of around \$610 million, still considerably below the industry's record \$702 million profit of 1966. Should conditions improve faster than anticipated—particularly in the all-important apparel fabric area—this figure could prove overly conservative.

SELECTED STATISTICS

	M. & B.S. ¹ price	Current price	M. & B.S. ¹ 1968 earnings estimate	Current 1968 earnings estimate	M. & B.S. ¹ P/E ratio	Current P/E ratio
Burlington ²	42	39	\$2.85	\$3.10	15.2X	12.6X
Graniteville Co.....	34	26	4.25	3.75	8.0	6.9
Revere Bros. ⁴	33	36	4.25	3.75	7.8	9.6
J. P. Stevens & Co. ³	56	52	5.00	5.50	11.2	9.4
United Merchants & Manufacturers ⁵	29	28	3.50	3.50	8.3	8.0

¹ E. F. Hutton Market & Business Survey, November 1967.

² These estimates do not allow for imposition of a 6-percent surtax.

³ Fiscal year ends Sept. 30.

⁴ Fiscal year ends June 30.

⁵ Fiscal year ends Oct. 31.

BURLINGTON INDUSTRIES

(Survey price: 42—Current price: 39)

We did not recommend purchase of Burlington in the November Survey, feeling that the anticipated improvement in the company's 1968 earnings picture already was reflected in the price of its stock. Since then, though, we have raised our estimate of Burlington's 1968 earnings to \$3.10 a share. Meantime, while the stock has held up extremely well in the face of a widespread market decline, its current price is virtually unchanged from where it was in November: As a result, Burlington now sells at only a little over 12 times our revised estimate of 1968 earnings. This is well below the average, multiple which has prevailed here in the past, and with profits in a sharp upturn, there is a good possibility of a higher multiple here in the not distant future. Burlington's first quarter results showed an earnings gain of 24% on a 16% increase in sales, and it should be borne in mind that these gains were realized without benefit of higher selling prices, most of which went into effect January 1st. Helped by these price increases, Burlington's second quarter figures should show even wider gains over 1967 than was the case in the first quarter. A number of the

company's product lines now are indicated to be largely sold out through Fall, and this augurs well for the second half of the current fiscal year.

Assuming a favorable economy, we look for full year sales of around \$1.6 billion, some 15% ahead of last year. A return to the 10.5% pretax margin of 1966 appears unlikely at this juncture for the year as a whole; however, a pretax margin of better than 9% is entirely possible. If this proves to be the case, it could produce pretax earnings of \$148 million—and after taxes of 46.6% (vs. 45.6% for 1967) would mean full year net income of \$79 million and earnings of \$3.10 a share. Imposition of a 6% surtax would reduce this figure to around \$2.95 a share.

Its remarkably rapid recovery from last year's slowdown has re-emphasized the depth and vitality of Burlington's earnings base. We believe this stock deserves inclusion in any high grade portfolio seeking long term capital gains and well protected annual income.

GRANITEVILLE

(Survey price: 34—Current price: 26)

This company, which was one of the few textile firms to report higher earnings during the first half of 1967, has been hard hit