

Q2
2016



Retail Sourcing Report

Facts & Insight



FORWARD

RETAIL SOURCING REPORT

CBX Software's Retail Sourcing Report provides research and analysis aimed at informing global sourcing and buying decisions for retailers, brands and other sourcing professionals. Each issue includes a snapshot of key information impacting global sourcing, such as economic conditions in sourcing countries, container shipping prices, currency exchange rates and commodity costs. We also cover hot topics ourselves and include insight from analysts and other experts.

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Content

RETAIL SOURCING REPORT	0
FORWARD	1
PURCHASING MANAGER’S INDEX	3
MAJOR ECONOMIC INDICATORS	4
GLOBAL COMPETITIVENESS INDEX	5
CHINA WAGE TREND SNAPSHOT	6
GLOBAL LOW COST SOURCING COUNTRY WAGE SNAPSHOT	7
CONTAINER FREIGHT RATES FOR MAJOR ROUTES	8
CURRENCY EXCHANGE RATES	9
GLOBAL COMMODITY RATES	10
CRUDE OIL	10
RUBBER	10
METAL.....	10
WOOD.....	11
WOOL, HIDES, COTTON.....	11
PLASTICS AND FIBERS.....	12
QUALITY FOCUS	12
KEY QUALITY KPIS	12
QUALITY RELATED NEWS	13
SPECIAL FOCUS TOPIC	14
GLOBAL WORLD TRADE OUTLOOK.....	14
ABOUT CBX SOFTWARE	ERROR! BOOKMARK NOT DEFINED.

Purchasing Manager's Index

To help understand industry and economic conditions in a country, the PMI Index tracks variables such as output, new orders, stock levels, employment and prices across private companies in the manufacturing, construction, retail and service sectors.

A reading below 50 indicates contraction from the previous month, while a reading above 50 indicates growth. Currently 22 countries and regions conduct the PMI survey and compilation, based on an internationally standardized methodology. This update looks at a selection of emerging economies and key sourcing countries, providing indicators for recent months (based on data provided by **Markit**).

Analysis: Conditions in the global manufacturing sector remained subdued heading into Q2, with small increases in output and new orders. Manufacturing production was near stagnant in Asia with only marginal increases in China, Taiwan, Indonesia and Vietnam. Conditions in the Americas were somewhat better, with Mexico seeing expanding output. Europe also continued to see marginal expansion in output. Economic weakness in Europe and North America is expected to continue to impact global manufacturing.

Country	Jan 2016	Feb 2016	Mar 2016	Summary of Indicators
Brazil	47.4	44.5	46.0	Conditions in the Brazilian manufacturing economy further deteriorated in March, with weak domestic and export demand and a weak currency.
China	48.4	48.0	49.7	Manufacturing production and output increased for the first time in a year based on improvements, more so in domestic demand over exports.
Czech Republic	56.9	55.5	54.3	The Czech manufacturing sector continued to expand in March, but at a slightly lower rate due to slower export demand and pressure on prices.
Egypt	48.0	48.1	-	Business conditions in Egypt continued to suffer into 2016, with reductions in output, new orders and employment, along with input cost increases.
India	51.1	51.1	52.4	Indian manufacturing gathered momentum in March, reaching an 8 month high, despite higher input costs, a trend expected to continue into Q2.
Indonesia	48.9	48.7	50.0	Conditions in Indonesia's manufacturing sector improved for the first time since September 2014 on expansion of new orders and production growth.
Malaysia	48.6	47.8	48.4	Overall manufacturing conditions worsened in March, with a further reduction in input buying, inflationary pressure and contracting new orders.
Mexico	52.2	53.1	53.2	Manufacturing in Mexico improved strongly in March, with faster output and new business growth, coupled with continued employment growth.
Poland	50.9	52.8	53.8	PMI in Poland reached an eight month high on growth in output, new orders, exports and employment; this growth is set to continue into Q2.
Russia	49.8	49.3	48.3	Russia's manufacturing downturn continued in March with falling output and declines in new orders both domestically and internationally.
South Africa	43.5	47.1	50.5	The PMI index edged above 50 for the first time since July 2015, signaling a trend towards expansion in South African manufacturing for Q2.
South Korea	49.5	48.7	49.5	Production decreased at a slower pace in South Korea's manufacturing economy as orders stabilized following two months of contraction.
Turkey	50.9	50.3	49.2	Q1 ended on a disappointed note for Turkey's manufacturing sector with deteriorating business conditions and declines in output and new orders.
Vietnam	51.5	50.3	50.7	Vietnam's manufacturing sector continues to grow modestly into Q2 with new orders, growth in exports, especially by consumer goods producers.

Sources: [Markit Economics](#)

Major Economic Indicators

This section looks at major economic indicators from key “low-cost” sourcing destinations, also pulling out highlights and sourcing trends in these countries. *Heading into Q2, export figures across low cost manufacturing countries are relatively soft, with higher commodity and input costs due to the strong USD.*

Selected highlights:

Bangladesh – Exports grew 8.3% yoy to US\$19.3 bln as of Jan. 2016 – mostly from ready-made garments

Cambodia – Exported US \$6.3 billion of garments and footwear in 2015 - up by 6.7% yoy

India – India received US\$29.4 bln in FDI inflows in by Q3 of the 2015-16 financial year, up by 39.8% yoy

Indonesia – Reported a trade surplus of US\$ 50.6 mln in January - exports fell 20.7% yoy to US\$ 10.5 bln

Pakistan – Exports of textiles and garments dropped by 5.3% yoy to US\$ 1.0 bln (Statistics Bureau)

Philippines – Economy grew by 5.8% yoy in 2015, making it one of the fastest growing Asian economies.

Thailand – Thailand's economy grew by 2.8% yoy in 2015 - down from the previous year.

Turkey – Turkey's industrial production index increased by 5.6% in January, the fastest growth since Sept.

Vietnam – Industrial production index grew by 5.9% yoy, with growth in automotive, steel and animal feed.

CPI (% yoy growth)	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016
Bangladesh	6.2	6.2	6.2	6.1	6.1	6.1
Cambodia	-	-	-	-	-	-
India	3.7	4.4	5.0	5.4	5.6	5.7
Indonesia	7.2	6.8	6.3	4.9	3.4	4.1
Pakistan	1.8	1.3	1.6	2.7	3.2	3.3
Philippines	0.6	0.4	0.4	1.1	1.5	1.3
Thailand	-1.2	-1.1	-0.8	-1.0	-0.9	-0.5
Turkey	7.1	8.0	7.6	8.1	8.8	9.6
Vietnam	0.6	0.0	0.0	0.3	0.6	0.8
Exports (% yoy growth)	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016
Bangladesh	27.7	-7.0	21.2	13.7	12.7	10.4
Cambodia	-	-	-	-	-	-
India	-20.7	-24.3	-17.5	-24.4	-14.8	-13.6
Indonesia	-12.3	-18.0	-21.0	-17.6	-17.7	-20.7
Pakistan	-3.5	-20.4	-11.4	-15.1	-16.8	-13.9
Philippines	-6.3	-15.5	-10.8	-1.1	-3.0	-
Thailand	-6.7	-5.5	-8.1	-7.4	-8.7	-
Turkey	-3.1	-14.7	2.8	-10.5	-11.1	-22.0
Vietnam	9.2	9.2	8.3	7.9	7.9	-1.0
Imports (% yoy growth)	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016
Bangladesh	-11.5	-14.0	-1.2	3.2	0.8	-
Cambodia	-	-	-	-	-	-
India	-10.0	-25.4	-21.2	-30.3	-3.9	-11.0
Indonesia	-17.1	-26.0	-27.8	-18.0	-16.0	-17.2
Pakistan	-18.5	-23.3	-7.4	7.5	0.2	14.6
Philippines	5.7	8.2	16.9	10.1	-25.8	-
Thailand	-4.8	-26.2	-18.2	-9.5	-9.2	-
Turkey	-18.1	-25.2	-11.9	-25.3	-17.5	-19.7
Vietnam	16.8	15.6	13.7	12.7	12.0	-10.7

Sources: Fung Group, Various Statistical Bureaus

Global Competitiveness Index

The Global Competitiveness is a ranking of countries based on their competitiveness across different measures such as government regulation, labor market efficiency, education, infrastructure and other measures important to doing business in a country. Below is a selection of emerging economies which are important sourcing locations. As might be expected, countries which made significant gains in the index include Bangladesh, Indonesia, the Philippines and Vietnam, while China remained relatively flat.

Global Competitiveness Index: Selected Indicators, 2015-16 (Ranking of 148 countries)

Rank/148	Bangladesh	Cambodia	China	India	Indonesia	Pakistan	Philippines	Thailand	Turkey	Vietnam
Overall competitiveness	109(↑1)	93(↓5)	28(↑1)	80(↓20)	49(↓13)	131(↑2)	66(↓7)	42(↓5)	57(↓13)	72(↓2)
Institutions	132(↓1)	111(↓20)	51(↓4)	60(↑12)	55(↑12)	119(↑4)	77(↑2)	82(↓4)	75(↓19)	85(↑13)
<i>Intellectual property protection</i>	135(↓5)	132(↓33)	63(↓10)	50(↑21)	48(↑7)	112(↓3)	71(↑7)	113(↓11)	82(↓8)	88(↑28)
<i>Burden of government regulation</i>	107(↓10)	69(↑1)	26(↓12)	27(↑77)	41(↓10)	86(↓4)	101(↓3)	81(↑9)	65(↑7)	90(↑16)
<i>Strength of investor protection</i>	42(↓17)	81(↓12)	110(↓26)	6(↑35)	42(↓1)	21(↑10)	121(↓14)	25(↓12)	13(↑44)	100(↑34)
Infrastructure	123(↑9)	101(-)	39(↑9)	81(↑4)	62(↓1)	117(↑4)	90(↑6)	44(↑3)	53(↓4)	76(↑6)
<i>Quality of roads</i>	113(↑5)	94(↓14)	42(↑12)	61(↑23)	80(↓2)	77(↓5)	97(↓10)	51(↓9)	36(↑8)	93(↑9)
<i>Quality of railroad</i>	75(↑3)	100(↓9)	16(↑4)	29(↓10)	43(↑1)	60(↑15)	84(↑5)	78(↓6)	53(↓1)	48(↑10)
<i>Quality of port</i>	93(↑11)	83(↓2)	50(↑9)	60(↑10)	82(↑7)	66(↓11)	103(↑13)	52(↑4)	53(↑10)	76(↑22)
<i>Quality of air transport</i>	121(↑4)	100(↓10)	51(↑14)	71(↓10)	66(↑2)	79(↑9)	98(↑15)	38(↓4)	33(-)	75(↑17)
<i>Quality of electricity supply</i>	120(↑13)	108(↑4)	53(↑14)	98(↑13)	86(↑3)	129(↑6)	89(↑4)	56(↑2)	80(↓3)	87(↑8)
Macroeconomic environment	49(↑30)	64(↑19)	8(↑2)	91(↑19)	33(↓7)	128(↑17)	24(↑16)	27(↑4)	68(↑8)	69(↑18)
Health & primary education	101(↑3)	87(↑12)	44(↓4)	84(↑18)	80(↓8)	127(↑1)	86(↑10)	67(↑14)	73(↓14)	61(↑6)
Higher education & training	122(↑5)	123(↓7)	68(↑2)	90(↑1)	65(↓1)	124(↑5)	63(↑4)	56(↑10)	55(↑10)	95(-)
Goods market efficiency	101(↓12)	93(↓38)	58(↑3)	91(↓6)	55(↓5)	116(↓13)	80(↑2)	30(↑4)	45(↓2)	83(↓9)
<i>Prevalence of trade barriers</i>	44(↑18)	83(↓3)	78(↓2)	82(↓21)	113(↓42)	106(↓14)	43(↑17)	73(↓23)	42(↑55)	100(↑4)
<i>Trade tariffs, %duty</i>	128(↑4)	97(↑8)	117(↑6)	124(↑4)	64(↑1)	137(↑5)	51(↓5)	91(↓8)	72(↓3)	86(↑6)
<i>Burden of customs procedures</i>	123(↓10)	128(↓27)	56(↑4)	54(↑34)	72(↑2)	111(↓20)	107(↑23)	85(↓5)	82(↑5)	90(↑9)
Labor market efficiency	121(↑3)	38(↓11)	37(↓3)	103(↓4)	115(↓12)	132(↑6)	82(↑18)	67(↓5)	127(↑3)	52(↑4)
<i>Cooperation in labor-employer relations</i>	102(↓6)	76(↓8)	62(↓2)	86(↓25)	49(-)	131(↓26)	26(↑8)	34(↑3)	112(↓30)	71(↓7)
<i>Flexibility of wage determination</i>	85(↑10)	107(↓36)	73(↑21)	120(↓70)	85(↑21)	114(↓17)	96(↑13)	111(-)	52(↓20)	67(↑2)
<i>Pay and productivity</i>	107(↓6)	57(↓25)	20(↓3)	47(↑11)	33(↓4)	95(↓9)	19(↑25)	53(↓22)	86(↓25)	45(↓30)
Business sophistication	117(↓5)	122(↓36)	38(↑7)	52(↓10)	36(↑1)	86(↓1)	42(↑7)	35(↑5)	58(↓15)	100(↓2)
<i>Local supplier quantity</i>	65(↑11)	131(↓20)	15(↑16)	54(↓52)	39(↑12)	53(↑25)	64(↓10)	34(↓11)	27(↓9)	70(↓40)
<i>Local supplier quality</i>	93(↑2)	128(↓15)	63(↑6)	66(↑10)	74(↓8)	98(↓6)	64(↑4)	59(↓17)	49(↑7)	105(↓16)
<i>State of cluster development</i>	62(↑4)	65(↓21)	24(-)	29(↓13)	28(↑1)	68(↓6)	45(↑10)	39(↓6)	52(↓22)	59(↑9)

Source: World Economic Forum (WEF)

China Wage Trend Snapshot

At least 10 provinces/regions increased the minimum wage levels in their areas in the last 6 months of 2015, with percentage increases ranging from 7.1% to 40%. In this period local governing bodies in 13 provinces and regions also issued special guidelines on salary increases. This means setting an upper/lower limit and a benchmark or recommended salary increase. *Note: As of December 2015, minimum wages in Hebei, Liaoning, Jiangsu and Qinghai have not been adjusted.*

According to China's National Bureau of Statistics, the average monthly income of migrant workers in China increased 9.1% yoy to 3,052 yuan by Q3, 2015. With less supply and an aging migrant workforce, the wages for this large pool of labour is expected to continue increasing across China.

Q2, 2016 News: In the face of a slowing economy, China's labor ministry is urging "steady and cautious control" over minimum wages and has proposed a formula change that should slow increases. In February, the manufacturing hub of Guangdong announced a two year freeze on minimum wage increases.

2015 Minimum Wage Updates (official) Asterisk (*) Shows Variance By District			
City/Region/Province	Monthly Min Wage (RMB)	Increase %	Effective Date
Anhui	1,520	20.6%	Nov 1, 2015
Beijing	1,720	10.3%	Apr 1, 2015
Fujian	1,500	13.6%	Jul 1, 2015
Gansu	1,470	8.9%	Apr 1, 2015
Guangxi	1,400	16.7%	Jan 1, 2015
Guangdong	1,895	22.3%	May 1, 2015
Guizhou	1,600	28%	Oct 1, 2015
Hainan	1,270	13.4%	Jan 1, 2015
Heilongjiang	1,480	27.6%	Oct 1, 2015
Henan	1,600	14.3%	Jul 1, 2015
Hubei	1,550	19.2%	Sep 1, 2015
Hunan	1,390	9.9%	Jan 1, 2015
Inner Mongolia	1,640	9.3%	Jul 1, 2015
Jiangxi	1,530	10.1%	Oct 1, 2015
Jilin	1,480	12.1%	Dec 1, 2015
Ningxia	1,480	34.5%	Nov 1, 2015
Shaanxi	1,620	11.7%	Mar 1, 2015
Shandong	1,600	6.7%	Mar 1, 2015
Shanghai	2,020	11%	Apr 1, 2015
Shenzhen	2,030	12.3%	Mar 1, 2015
Sichuan	1,500	7.1%	Jul 1, 2015
Tianjin	1,850	10.1%	Apr 1, 2015
Tibet	1,400	16.7%	Jan 1, 2015
Xinjiang Uyghur	1,670	12.9%	Jul 1, 2015
Yunnan	1,570	10.6%	Sep 1, 2015
Zhejiang	1,860	12.7%	Nov 1, 2015

Source: Various China Statistical Bureaus

Global Low Cost Sourcing Country Wage Snapshot

Below is a snapshot of minimum wages in selected Asian sourcing locations, with the addition of Egypt and Ethiopia. Wages vary by region or province and indicate either an estimated or actual/official rate. In cases with a distinct variance, we provide an average. With greater visibility into social conditions in low cost countries, currency fluctuations, increasing unrest and union pressure, wages in traditional low cost sourcing countries are on the rise across the board. Currency fluctuations mean that these figures are approximate at the time of finalizing this report. (*Figures in USD/month as of April 1, 2016*)

Most of the emerging markets have either committed to increases or are facing heavy union pressure to increase wages in double digit percentages. In addition to basic wages, workers may receive attendance and production bonuses, transport, subsidized meals, etc.

Note: Consult **Fair Wage Guide** to calculate benchmarks for wages in particular countries on an hourly or piece rate basis and determine a fair wage in those regions.

BANGLADESH	CAMBODIA	CHINA	EGYPT	ETHIOPIA
\$68 (Dec 2014)	\$140/month (2016)	\$137-\$639 (2015 est.)	\$114 (Mar 2015 est.)	\$35-\$40 (Dec 2014)
Bangladesh raised the minimum wage for garment workers – up by 77% . To 5300 Taka (\$68) following a labor dispute that shut factories in the Ashulia industrial zone outside the capital city of Dhaka.	Cambodia officials agreed are preparing to raise the minimum wage from current US\$128 US per month (for textile workers) to US\$140, a 10% increase . Tensions were high as unions were going for \$150.	Minimum wages in China are set by local governments and vary widely by region and how wages are calculated (with housing, food, overtime etc.) Wages continue to increase +/-10% / year.	The basic min wage for the public sector rose from EGP246 to EGP870 in March 2015. Currently there is only one national minimum wage; there are no sectorial rates or occupation-based rates.	Many government institutions and public enterprises set their own minimum wages which accounts for variations. Public sector employees are on the low end (\$23) while the private sector is higher (+/-40)
INDIA	INDONESIA	LAOS	MALAYSIA	MYANMAR
\$40 - \$130 (2015 est.)	\$92 - \$230 (2016 est.)	\$111 (April 1, 2015)	US\$ 233 - \$253 (July 1, 2016)	\$67 (Sept 1, 2015)
Indian min. wages vary between regions and skill levels; however the central Indian labor ministry has proposed fixing minimum wages at 15,000 Rupees/month (\$242) as of late 2014 - a big gap between actual rates.	Indonesia min. wages vary widely depending on the region and skill level. Officials have made commitments on increases but Union officials are pushing for more. Wages in Jakarta increase to 3.1 mln Rupiah (US\$228.8) per month on Jan 1, 2016.	Talks are underway in Laos to increase the min. wage, based on rising living costs from a 2011 min. of 626,000 Lao kip (\$78) per month to a proposal by labor unions to raise wages to 900,000 Lao kip (\$99) in key provinces.	Malaysian officials proposed an increase of the min. wage from RM900 (\$210) to RM 1,000 - (\$232) to offset rising costs. This excludes foreigners who make up 70%-80% of textile workers. Wages vary across the country.	Myanmar has set a minimum wage of 3,600 kyat (\$2.80) for an eight-hour work day, mostly impacting garment workers. The decision follows two years of debate between garment factory owners and labor unions,
PHILIPPINES	SRI LANKA	THAILAND	VIETNAM	
\$110-220 (2015 est.)	\$74 (May 2015 est.)	\$254 (2016)	\$107-156 (Jan 2016)	
Wages in the Philippines vary widely by region and skill. Garment sector wages range from \$6-8 per day. In 2013 minimum wages were replaced with a two-tier system. 1 st tier: Minimum floor wage for new hires/ low skilled. 2 nd tier: productivity – based system.	Sri Lanka's new government agreed to set a minimum wage in May for the first time. Private sector works will receive an increase of 15-35% to US\$74 per month. Public sector workers will receive an increase of \$74, bringing their wage to \$223 (including benefits and allowances).	In November 2015, Thailand's National Wage Committee agreed to keep the current min wage of 300 Baht per day (about US\$8.5/day) until June 2016. This is the same rate that was implemented in January 2013.	As of Jan 2016, the monthly min. wage will be 2.4-3.5 million Vietnamese Dong (US\$107-156) depending on region. This amount is said to cover 80% of a worker's basic needs. This rate was settled in a compromise between various interests.	

Sources: **WageIndicator.org, SAFSA, Wikipedia, Local News Reports**

Container Freight Rates for Major Routes

The charts below are supplied by **Xeneta** which relies on “crowd sourced” data provided by shippers, allowing users to cross-reference prices. All indices are reported in USD per Twenty Foot Container (TEU). The green chart line (top) represents the market average; the blue chart line (bottom) represents the market low. We report on historical and forward looking rates for key Asia-Europe and Asia-U.S. routes.

Analysis: Spot rates on key **Asia-European trade lanes** and **Asia-North America trade lanes** have fallen by more than 60% over the past year. Factors driving the rate slide include softer consumer demand, a slowdown in Chinese economic growth, over capacity of shipping and also a trend towards mega container ships. While many ships are idling, this has not impacted rates as expected.

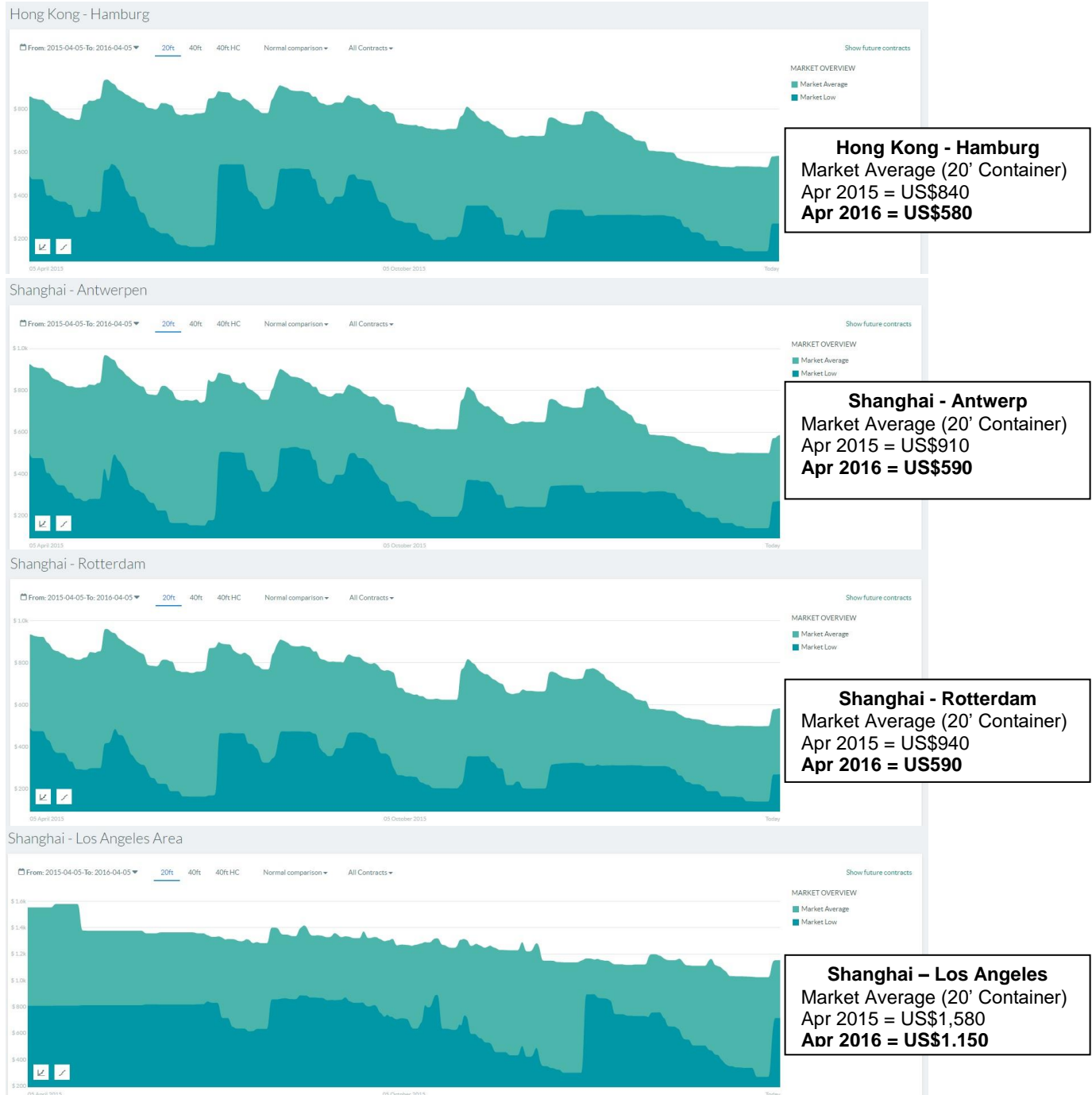
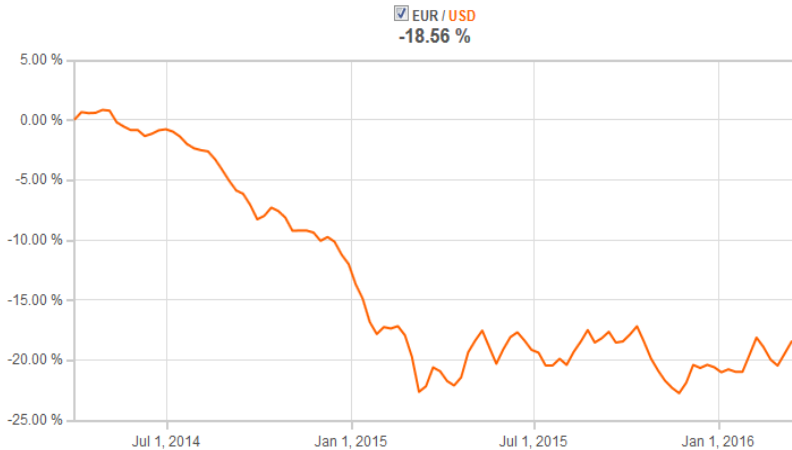


Chart Source: www.xeneta.com

Currency Exchange Rates

Following are exchange rates and indicators from 30 day to 2 year historical rates for major currencies commonly factored into global sourcing costing estimations. After a strong 2015, in Q2 the US dollar hit its lowest level in five months against a basket of currencies. At the same time, the EUR has continued to make gains against both the USD and the RMB. The RMB depreciation is part of China's policy which has included shifting the RMB from its peg against the USD to a basket of currencies.

EURO / USD:



The EUR gained almost 5% against the USD in Q1, the best performance since 2011. The EUR is expected to hold its ground against the USD through 2016.

EUR/USD - % change	
2 years	-18.56%
1 year	3.20%
6 months	-0.82%
3 months	3.14%
30 days	1.15%

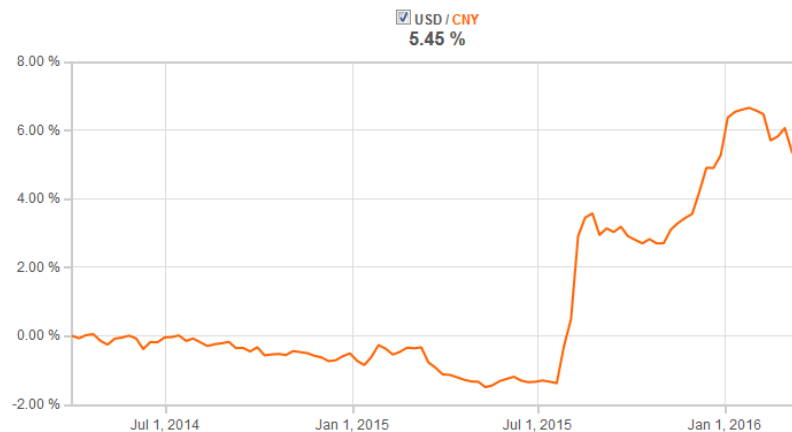
EURO / RMB:



The EUR has seen steady gains against the RMB in the past year, a trend which has continued into Q2. Forecasts are positive for the EUR strength holding for the remainder of 2016.

EUR/RMB - % change	
2 years	-14.12%
1 year	9.87%
6 months	1.74%
3 months	2.25%
30 days	1.24%

USD / RMB:



The RMB is expected to remain relatively stable in the near term with some depreciation over the course of the year. The USD is expected to lose some value in Q2 and into the rest of the year.

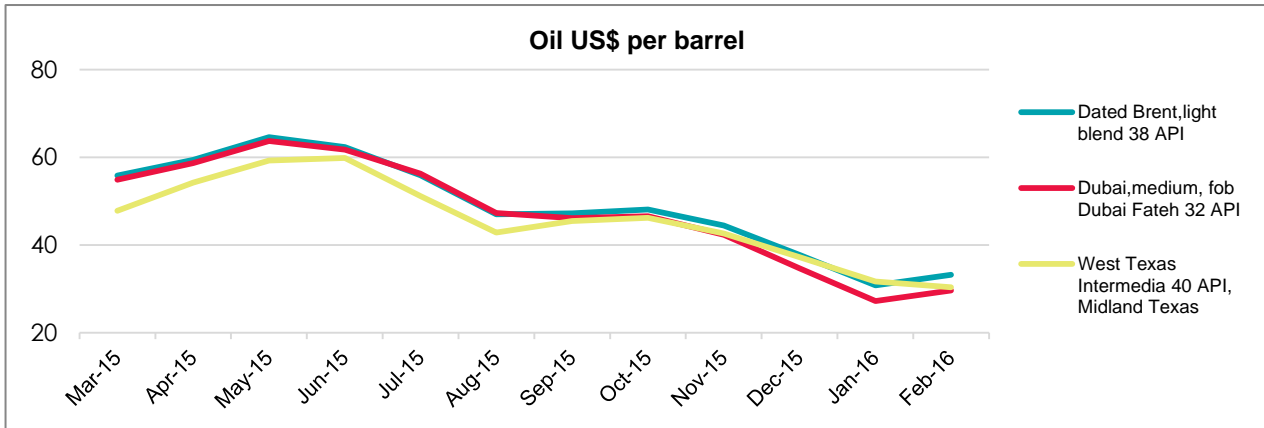
USD/RMB - % change	
2 years	5.45%
1 year	6.65%
6 months	2.58%
3 months	-0.86%
30 days	0.09%

Sources: Oanda.com, News/Analyst Reports

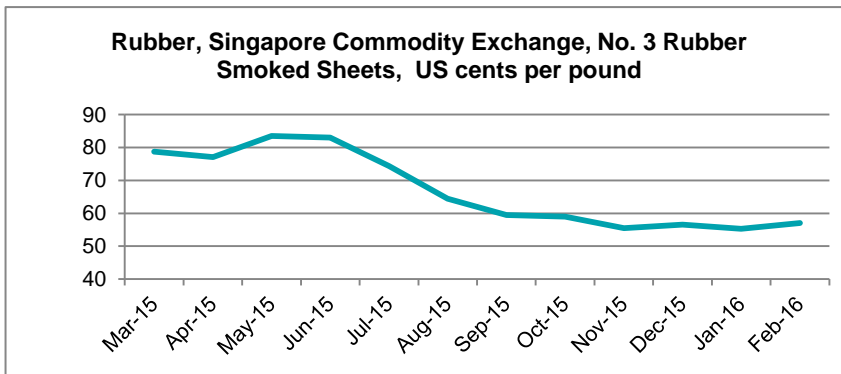
Global Commodity Rates

Key forces driving overall commodity prices have been the strong USD and low oil prices. While the USD has seen some weakening into Q2, oil prices have yet to recover and assuming ongoing over-supply from OPEC countries, many pundits see oil hovering around the \$40 mark for the remainder of 2016. Commodity prices have seen a moderate rebound towards the end of Q1 with some easing of concern over China's economy – which posted net growth in manufacturing in March.

Crude Oil

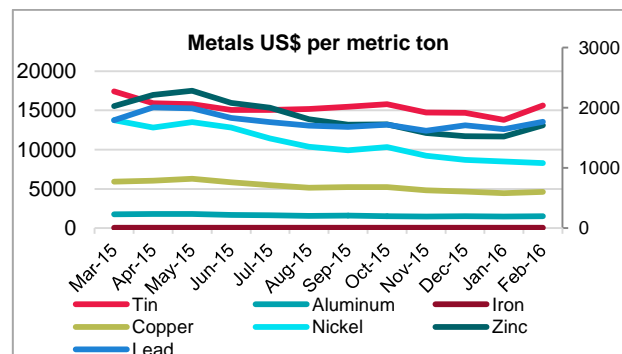
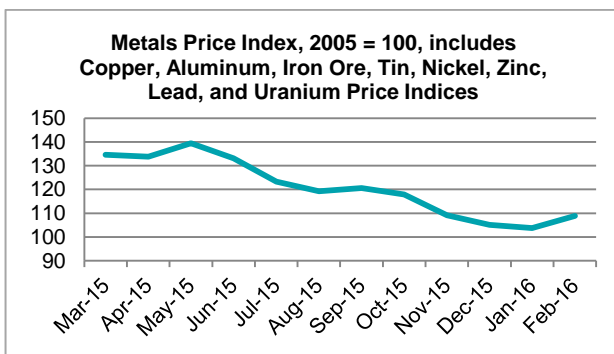


Rubber

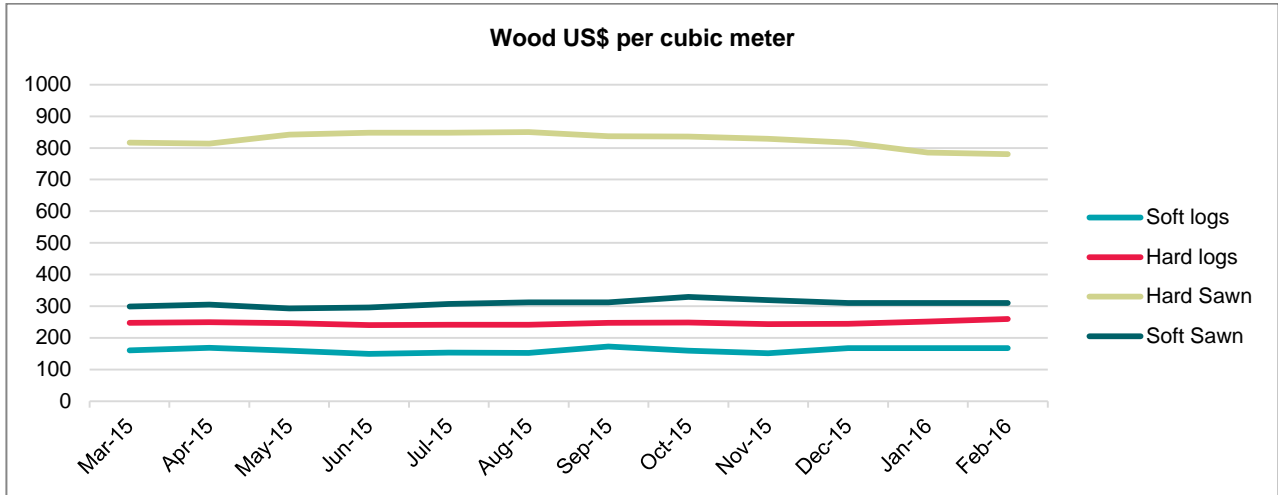


World demand for rubber is expected to slow through 2016 based on decreased demand from China, the biggest importer. Low prices have led to a reduction in inventories and also decreased production globally.

Metal

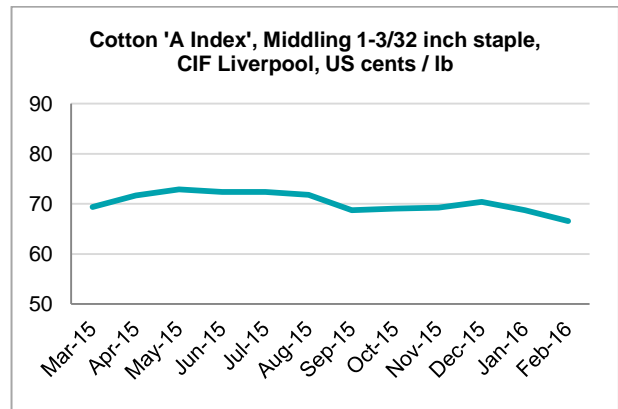
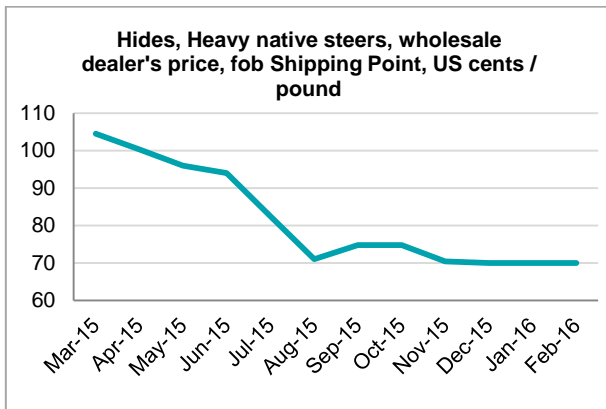
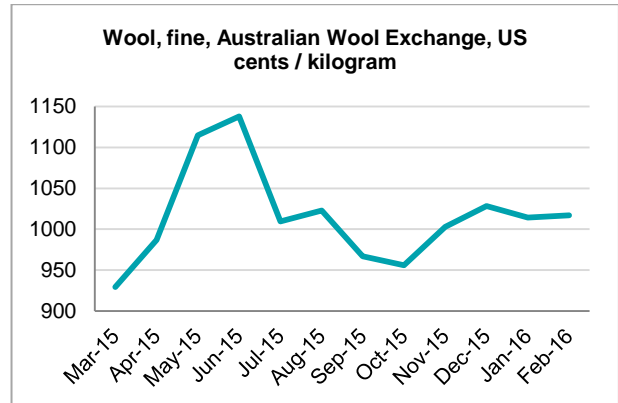
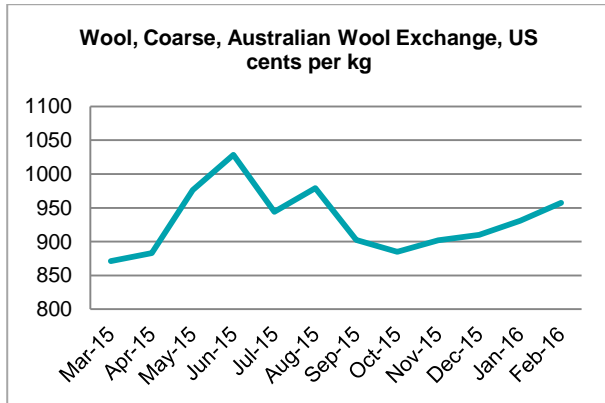


Wood



Wool, Hides, Cotton

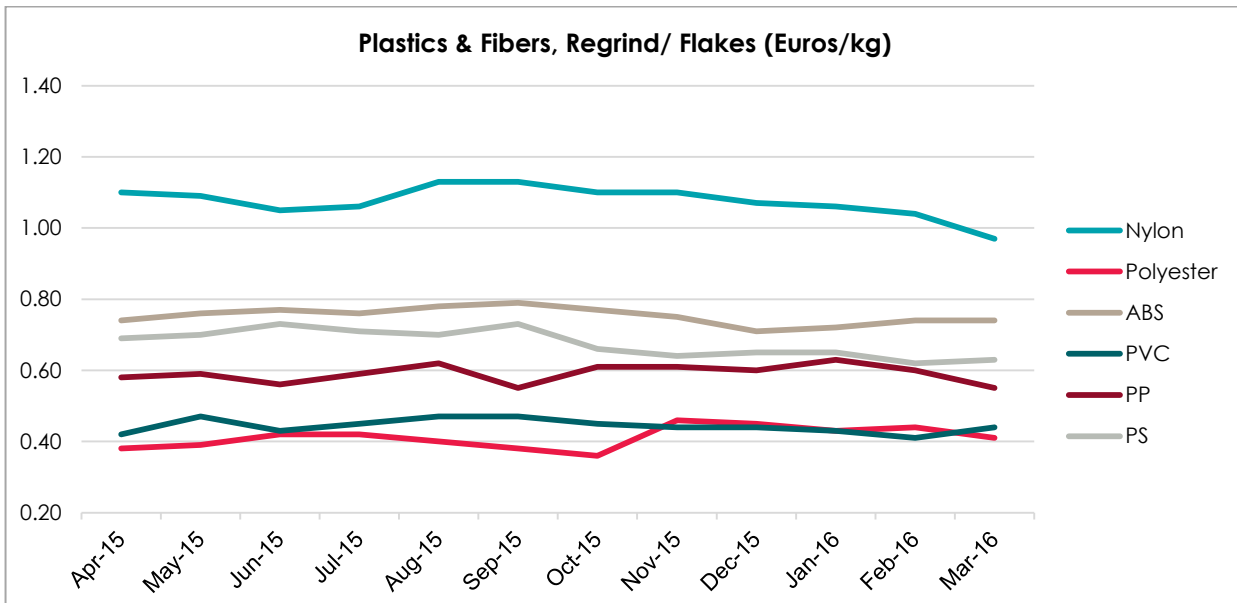
Global cotton prices continued to decline into Q2. Fears over a pending release of Chinese cotton reserves at below market prices are helping to keep prices down. Global cotton production is still declining and with slower demand, prices are expected to remain low. U.S. cotton exports to China fell by 80% compared to last year. While wool production is at a 70 year low, prices are still rising steadily into Q2 based on strong demand from China. Wool is still outperforming most other commodities. Hide prices have remained steadily flat since last summer.



Plastics and Fibers

A selection of plastic related prices is provided below. These are calculated from offer prices in the Plasticker Material Exchange, which provide an indication of trends.

Analysis: Synthetic fibre prices have continued to decline into Q2 based on soft demand for apparel and other textile products along with a strong supply of raw materials. Prices for most synthetic fibres such as acrylic, nylon, polyester and polypropylene filament yarns and staple fibres have dropped significantly since last year, a trend which looks to continue this quarter.

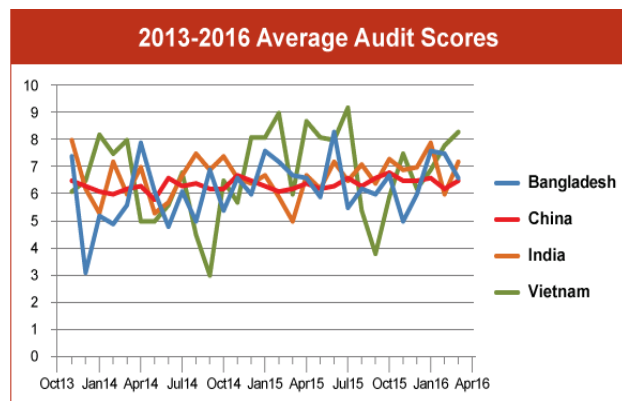
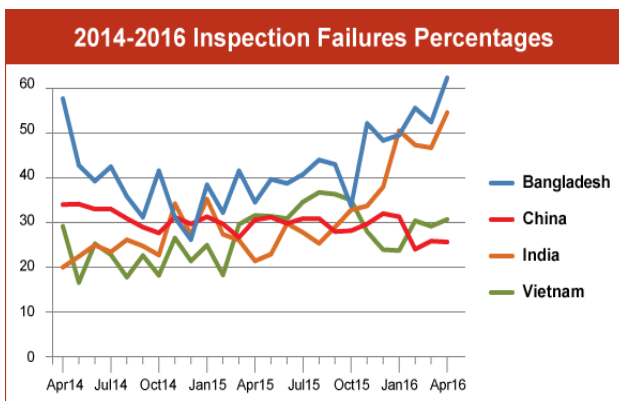


Sources of above commodity prices: IMF data, Index Mundi, Plasticker

Quality Focus

This report frequently covers quality control and quality assurance issues. We sometimes partner with industry experts who provide us with relevant data. For this issue we have relied on quality related information from [Asia Inspection](#) (AI), a quality control and compliance service provider.

Key Quality KPIs



Quality Related News

This year we have seen an increasing trend of ethical challenges in supply chains and structural risks with expansion into developing sourcing destinations such as Bangladesh and Vietnam.

Global Trade Rebalances

According to analysts, we are starting to see a rebalancing and shift in global merchandise trade flows. A good example of this is Brazil, whose imports from China dropped by 60% yoy in Q4 2015. At the same time, Brazil's containerized exports to China and the rest of Asia rose. According to Asia Inspection data, the number of inspections in Brazil tripled in Q1 2016 compared to Q1 2015, but this also came with a 13% increase in Beyond AQL rates, signaling significant quality related issues.

Vietnam, Bangladesh and Egypt Show Structural Risks

While Vietnam and Bangladesh were the fastest growing exporters among U.S. trading partners in Q1 2016, these countries also showed high structural risks – that is risks to factory buildings and facilities. AI data showed that Vietnam had the highest structural risks, with 71% of structural audits assessing facilities at risk or in need of improvement. These risks are often attributed to expansion of facilities without meeting structural codes. In Bangladesh, which has experienced several tragedies due to structural issues, demand for structural audits tripled yoy by Q1 2016. Egypt also showed high growth in structural audits, with 50% of the audits finding that facilities are at risk.

Apparel Fails Metal Detection Tests

AI is seeing increased scrutiny on apparel brands which is turning up product safety issues such as unwanted metal on garments due to production issues. Before apparel retailers and brands tended to limit metal control to safety critical categories such as baby clothing and underwear, but as of Q1 2016, there has been sharp increase in demand for such inspections. 87.5% of metal control audits in Q1 2016 showed that improvements were required. Many apparel brands such as British retailer, NEXT have failed to meet more stringent quality standards such as the UK's flammability requirements.

Forced Labour and Traceability Among Highest Supply Chain Risks of 2016

Demand for ethical audits in Turkey increased by three times in Q1 2016 versus Q2 2015. Buyers put a special focus on tracking down forced labour at Turkish factories which have seen a spike in the occurrence of forced and child labour since the start of the Syrian refugee crisis. Quality inspectors such as AI have added additional methods such random ethical audits and 30 day monitoring mission by auditors to tackle social and ethical compliance issues. Traceability is also a big issue as brands such Rip Curl, whose items were labeled as Made in China, while they were actually made in North Korea due to subcontracting.



Sources: **News Reports, Asia Inspection**

Special Focus Topic

Global World Trade Outlook

The World Trade Organization (WTO) recently released a comprehensive report covering global trade. Here, we look at some of the highlights of this report.

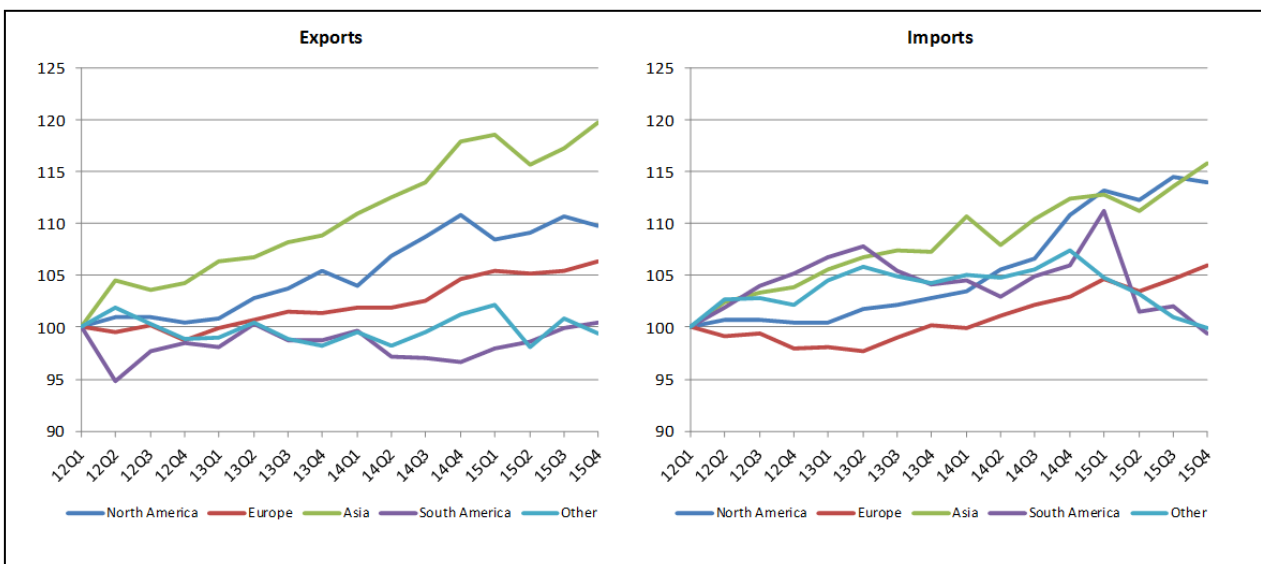
According to the WTO, growth in the volume of world trade is expected to remain sluggish in 2016 at 2.8%, on par with 2015. Global trade should grow to 3.6% in 2017, WTO economists reported. Risks to this forecast include a sharper than expected slowing of the Chinese economy, financial market volatility and exposure of countries with large foreign debt to sharp exchange rate movements. The WTO Trade Facilitation Agreement is expected to cut global trade costs and stimulate trade.

The weak but still positive growth of merchandise trade volume in 2015 contrasted with the sharp decline in the dollar value of trade, which fell 13% to \$16.5 trillion, down from \$19 trillion in 2014. (See Appendix Tables 1 to 6 for details on trade in current dollar terms by country and region). This discrepancy was mostly attributable to strong fluctuations in commodity prices and exchange rates, which were in turn driven by slowing economic growth in China, resilient fuel production in the United States, and divergent monetary policies across leading economies.

Highlights

- World Merchandise Trade volume is expected to grow by 2.8% in 2016, unchanged from 2015 and should accelerate to 3.6% in 2017.
- South America recorded the weakest import growth of any region in 2016 as a recession in Brazil depressed demand.
- Exports of developed economies (2.6% growth) lagged those of developing countries (3.3% growth) in 2015.
- Imports to developed economies surged in 2015 (4.5% growth) and stagnated in developing countries (0.2% growth)
- According to the International Monetary Fund (IMF) primary commodity prices have fallen by more than 50% since January 2014, with energy (oil) falling by 65%.

Chart: Volume of merchandise exports and imports by region, 2012Q1-2015Q4



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