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Fashion industry feeling optimistic, recovery imminent: USFIA

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Although fashion brands and retailers hold valid concerns resulting from the COVID-19 pandemic, many are optimistic about a recovery in the industry. Image credit: Dior

By KATIE TAMOLA

Although the fashion industry is still wading through the effects of the COVID-19 pandemic, many are hopeful that a strong recovery is imminent.

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Residual COVID-19 ramifications and supply chain costs are two obstacles that are currently permeating the fashion industry, according to the United States Fashion Industry Association's **2021 Benchmarking Study**. Many brands and retailers agree that tactics including vaccine rollouts and lowering tariffs on fashion products would be beneficial for all, as the industry hopefully looks towards a more solid future.

"Today the survey shows the resilience of the fashion industry and an optimistic outlook for the future," said Julia K. Hughes, president of the **United States Fashion Industry Association (USFIA)**, in a statement. "The majority of the respondents anticipate positive growth and profitability in 2021 and beyond.

"While this is positive, we are not yet past the COVID impact on the fashion industry," she said. "The economic recovery means there are inflationary pressures throughout the economy and the fashion industry has not escaped, and after COVID, the biggest concern today is higher costs throughout the supply chain."

The benchmarking study is based on an annual survey of executives from leading fashion brands, retailers, importer and wholesalers with headquarters or major management offices in the United States. This year, around 75 percent of respondents also have headquarters or major management offices outside the U.S., including China at 27 percent.

Optimistic, yet realistic, outlook

The U.S. has been a continued bright spot for economic recovery and increasing vaccinations compared to much of the world.

This year's respondents report feeling much more confident about the U.S. fashion industry, both in 2021 and the next five years. Most respondents expect their business to grow in 2021, and about 76 percent foresee their sourcing

value or volume to increase from 2020, including more than half that anticipate a double-digit growth.

Table 1-1: Top Business Challenges for the U.S. Fashion Industry: Rank in 2021 vs. 2020

Top Business Challenges for the U.S. Fashion Industry in 2020	Rank in 2020	Rank in 2021 vs. in 2020
#1 Economic and business impacts of the coronavirus disease (COVID-19)	1	No major change
#2 Increasing production or sourcing cost	4	More important
#3 Shipping delay and supply chain disruptions	7	New challenge
#4 Finding a new sourcing base other than China	6	More important
#5 Investing in and updating technology	8	More important
#6 Managing political instability in the sourcing destinations and other related supply chain risks	2	Less important
#7 Economic outlook in the U.S.	7	New challenge
#8 Meeting consumers' demand	9	No major change
#9 Protectionist trade policy agenda in the United States	3	Less important
#10 Compliance with trade regulations (such as rules of origin and labeling)	7	No major change
#11 Human resources (HR) issues, including talent recruitment and retention	12	No major change
#12 Market competition from E-commerce	10	No major change
#13 Currency value and impact of exchange rates on competitiveness or profitability	12	No major change
#14 Economic outlook in markets outside the U.S.	11	No major change
#15 Market competition in the United States from brick and mortar stores	18	More important
#16 Protectionist trade policy agendas in countries other than the United States	12	No major change
#17 Protecting your company's intellectual property	12	Less important
#17 Market competition in markets other than the United States	12	Less important

Note: Total score for each business issue is calculated based on weighted average as follows: 1st importance=3 points, 2nd importance=4 points, 3rd importance=3 points, 4th importance=2 points and 5th importance=1 point.

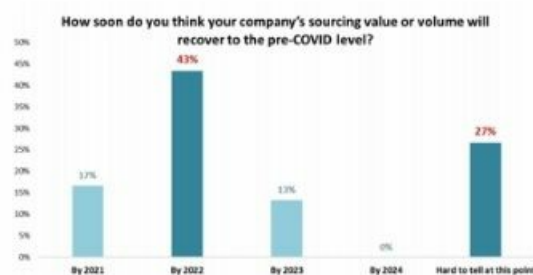
Many businesses are still concerned about the financial effects of COVID-19 as well as rising sourcing costs. Image credit: USFIA

About sixty percent of respondents expect a full recovery of their sourcing value or volume to pre-COVID levels by 2022, while 27 percent report that it is hard to tell when to expect a full recovery. About 20 percent still expect 2021 to be a very challenging year financially.

Eighty-five percent of respondents feel optimistic or somewhat optimistic about the outlook for the next five years of the fashion industry, a 21 percent increase from 2020. Additionally, only about eight percent report feeling somewhat "pessimistic" about the next five years, a considerable decrease from the 32 percent who reported feeling pessimistic in last year's study.

As many as 92 percent of respondents say they plan to increase hiring over the next five years. The demand for supply chain specialists, especially those related to sustainability, social compliance and data science, could enjoy the fastest growth.

As the COVID-19 pandemic is still happening in real-time, respondents report "economic and business impacts of the coronavirus" as their top business challenge in 2021 for the second straight year. Companies are apprehensive about the pandemic's effects on supply, including driving up production and sourcing costs, causing shipping delays and other supply chain disruptions.



Many businesses are still concerned about the financial effects of COVID-19 as well as rising sourcing costs. Image credit: USFIA

In responding to these challenges, U.S. fashion companies are aiming to continue strengthening relationships with key vendors, maintaining flexibility and leveraging technology. Few respondents reported canceling sourcing orders this year.

Ninety-seven percent of respondents note they are anticipating sourcing costs to increase this year. More than 70 percent of respondents expect the shipping and logistics cost, cost of textile raw material, cost of sourcing as a result of currency value and exchange rate changes and labor cost to increase.

U.S. fashion companies are also facing additional challenges, including the U.S. inflation rate being at its highest level in 13 years, a global container shortage expected to last until 2022 and textile raw material prices not decreasing.

Tariff trouble

The tariff-related tension between the U.S. and China continues to exacerbate sourcing costs and financial

challenges for U.S. fashion companies during the pandemic.

Nearly 90 percent of respondents say the U.S.-China tariff war directly increased their company's sourcing cost this year. Another 74 percent say the tariff war hurt their financials.

Global relations and the stock market have specific impacts on the luxury sector as well, with tariffs often threatening to increase the prices of foreign luxury goods.

In 2019, President Trump made headlines for implementing high tariffs on trade partners including China and the European Union, with imposed tariffs on imports from China so harsh they were likely to affect much of the retail industry. The USFIA believed these tariffs would later drive up prices on products for the American consumer ([see story](#)).

A study commissioned by the U.S.-China Business Council (USCBC) highlighted how Mr. Trump's trade war has cost up to 245,000 U.S. jobs. Tariffs on "Made in China" goods have cost American importers more than \$82 billion so far, according to U.S. Customs and Border Protection. ([see story](#)).

Compared to last year, however, respondents seem to have a more optimistic attitude regarding trade policies overall.

"This year, the benchmarking study shows that our respondents feel less stressed about U.S. trade policy under the new Biden administration," said Sheng Lu, associate professor at the department of fashion and apparel Studies at the [University of Delaware](#) and author of the report.

"Unlike former President Trump, President Biden's approach to trade has been less confrontational and more cooperative, particularly toward U.S. allies in the E.U., he said. "This matters for the luxury industry as many luxury apparel items sold in the U.S. market come from E.U. countries, including Italy, the U.K. and France."