California Fashion Association | CIT

The Los Angeles Area
FASHION INDUSTRY PROFILE

November 2011

The Los Angeles Area Fashion Industry Profile

Sponsored by CIT

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Written by Dr. John J. Blank, Deputy Chief Economist, with assistance from Rafael De Anda.

Very special thanks go out to Ilse Metchek, President of the California Fashion Association, for key guidance and insights. Special thanks goes to CIT for its sponsorship of this report. To California Fashion Association members, my appreciation for such a vibrant industry to write about.

And with fond remembrance of Jack Kyser, whose spirit permeates this report.

Note: This report incorporates apparel manufacturing (NAICS 315) and textile mills (NAICS 313) data. Both of these segments in the value chain have a strong presence in the Southland. This report also includes apparel, piece goods, and notions merchant wholesaler data found in NAICS 4243. Be aware that a "piece goods and notions" portion of sales located within this wholesale trade category makes up around 10%. It will not cover the textile products industry, which generally includes home decoration products such as linen and carpet. Finally, this report does not cover apparel retailing in much detail.

As the premier business leadership organization, the Los Angeles Economic Development Corporation's (LAEDC) mission is to attract, retain, and grow businesses and jobs in the regions of Los Angeles County, as well as to identify trends and affect positive change for the local economy. Since 1996, the LAEDC Business Development team has helped in the creation, retention, and attraction of more than 171,000 jobs in over 1,350 businesses, with a direct economic impact of $8.4 billion.

The Kyser Center for Economic Research at the LAEDC is a key source for current and forecast data on Southern California's economy. Regular publications include: An Annual and Semi-Annual Economic Forecast & Industry Outlook, International Trade Trend & Impacts, L.A. Stats, Manufacturing in Southern California, a weekly e-Edge email series, and a variety of regional and industry level economic reports such as the one you are about to read. All reports and data are provided free to the general public via our information website at http://www.laedc.org.

In addition, the LAEDC Economic and Policy Analysis Group offers custom research with expertise in transportation, the environment, infrastructure, regional trends, and regional industry analysis.

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Executive Summary

Our Key Strengths

- Massive economic impact of apparel on the L.A. economy. Over $40B in L.A. apparel imports, over $13B in local revenues, and at least $6.0B flowing into local incomes.

- A global industry with durable reasons for being in L.A. in the future --with its powerful combo of geography and orientation to fast fashion.

- A U.S. fast-fashion industry dominated by L.A retailers like Forever 21 Inc., Wet Seal, and Papaya.

- Enduring popularity of L.A. based design inspired by the sun, light, nature, and easy living.

- A concept of "L.A. Style" constantly propagated by media obsession with Hollywood celebrities.

- L.A. brands and designer names command a price premium, and our wholesalers keep growing.

- Tech helps L.A.'s design shops stay competitive -- shortening product cycles and reducing costs.

- The competitive advantage of L.A.'s textiles industry -- in design, in the ability to diversify product lines, which involves processes with many layers of expertise, speed, and a willingness to try new things.

Whither Wages and Jobs?

- Export sales and recent global expansions can substantially add to L.A. jobs.

- Stability of wages in the industry in the L.A. area, while China is shifting to higher wage industries.

- A "second migration" to lower wage countries --from China to places like Vietnam or Bangladesh-- is under way. These country's politics, regulations, and taxes can be dysfunctional, sometimes severely so.

- The L.A. apparel industry of today has greatly improved working conditions from ten years ago.

- Though jobs losses here are disheartening, L.A. is doing much better than national trends.

- Many forms of L.A. employment fall outside the three catch-all's of apparel manufacturing, textiles, and wholesalers.

Major Stresses

- Globalization.

- Cotton prices have had a major impact on the industry.

- In light of industry financial stress numbers, a key implication: small sized firms in L.A. (below $2M in revenues) have a greater chance of operating under conditions of financial stress.

THE LOS ANGELES AREA APPAREL INDUSTRY PROFILE -- 2011

The fashion industry is perhaps the most under-appreciated industry in Los Angeles. It's reach is global.

L.A.'s apparel industry success has long been driven by the pull of design talent; favorable cost economics; the appeal of casual clothing (particularly denim); the global reach of technology and fashion; and speed to market. Over $40 billion in apparel imports comes through L.A. ports; local businesses earn at least $13 billion from just the L.A. County apparel wholesale and manufacturing businesses; and their workers earn over $6.0 billion in direct, indirect, and induced income. This vibrant industry still has lots more potential for expansion.

The mere mention of apparel manufacturing, unfortunately, can conjure up very dated images of sweatshops full of minority women operating sewing machines next to a mountain of cut fabric and under the eye of abusive bosses. That's not the true picture of the multiple faces within the apparel industry in today's Los Angeles. Instead, the image should be one of design entrepreneurs and models in a design studio located somewhere around 9th and Los Angeles; their workers sit near this well-lit design studio, imagining new clothing designs and sending them electronically to offshore factories, or to a local contractor; graphic artists electronically draw sketches for the next set of online ads; logistics experts arrange for merchandise to be shipped to distribution centers or specialized clothing stores around the world; fashion photographers take pictures against the backdrop of Pacific beaches; fashion models walk down runways; or freight forwarders electronically sign customs papers for a Chinese container full of finished merchandise. Furthermore, while local apparel and textile manufacturing jobs have been declining since 2000, the numbers in wholesaling, i.e. 'jobber' employment, have been increasing. The most interesting, most remunerative, and locally clustered jobs, ---customer-facing design work--- are increasing too.

The woes of local apparel manufacturers have not diminished the popularity of L.A. based design inspired by the sun, light, nature, and easy living. These designs are collectively known as the "L.A. Style". The design side has continued to stay local and continues to prosper only by interacting with this fertile local environment. The divergent fates of the various parts in the apparel value chain speak to a relentless drive towards getting more revenues. First, from greater use of the sophisticated skills, talents, and customer insights offered by local design entrepreneurs. And then preserving profit margins -- by utilizing low skill workers to cut and sew ever higher volumes of mass-produced apparel in far flung regions of the world.

Unfortunately, many people judge the current state of the L.A. apparel industry by using the most readily available data -- employment. To counter this data, consider this: in a sign of this industry's enduring importance to the regional economy, total wages earned by the L.A. County apparel industry have remained stable over the last decade. Fewer apparel manufacturing jobs have come with (and been caused by) a steady increase in weekly earnings for these workers.

Variations of Fashion Industry Business Models

Fashion design and the apparel production industry in Los Angeles have taken on a rich variety of corporate forms. Eleven are worth mentioning by name. An example of a company (or set of companies) that execute their business strategy using each of the eleven specific corporate forms follows.

1. Large U.S. Conglomerate with Local Subsidiary - Lucky Brand, Perry Ellis, Warnaco

2. International Corporation with U.S. Brand Entity - Billabong, Speedo

3. Licensee of International Corporation - Jerry Leigh (Licensee of Disney)

4. Manufacturing Exclusively for Retail - Bebe, Gap, Forever 21

5. Separate Divisions of 'Umbrella' Corporation - Roxy for Quicksilver/ Vince for Kellwood

6. Owner/Entrepreneur/Domestic Production -Vertical -- American Apparel, St. John
-Using Contractors -- True Religion

7. Owner/Sales Executive -Joe Jeans, Hard Tail

8. Owner/Designer -Trina Turk, Sue Wong

9. Owner/Production Executive -Hudson, Knit Works, (Private label children's wear developers)

10. Owner/Entrepreneur/Importer - Body Glove, California Dynasty

11. Brand Companies - Entities that solely own intellectual property and license the brands to various manufacturers. Such entities drove the rise of several prominent brands in recent years, including many originating from SoCal (e.g. Iconix, Inc. owns Rampage, OP, and Ed Hardy). In L.A. County, the Cherokee Group based in Van Nuys is a great example.

Many L.A. apparel "manufacturers" actually do not manufacture anything. Brand-less private label contractors, similar to the Original Equipment Manufacturers (OEMs) and parts supplier relationships in the auto and computer industries, actually do the cutting and sewing. The manufacturers are legally responsible for ultimately fulfilling their contracts with retailers, the quality of their products, and their contractors' labor practices regarding wage and overtime issues. Since contractors can bid for work orders from many manufacturers, many are highly specialized and efficient at their core competencies. By using contractors, the manufacturers are also able to adjust the apparel production rates depending on market demand, structuring cost systems that are more variable and less fixed. (In this report, data for "apparel manufacturing' refer to both manufacturers and contractors because it's hard to separate the two in official statistics. We will specify the focus of the particular discussion when appropriate.)

Looking back at jobs data, apparel manufacturing jobs in L.A. County started a decline around 1996.

The North American Free Trade Act (NAFTA) between the U.S., Canada, and Mexico was a seminal event for the Los Angeles-centered apparel industry cluster. Implementation of NAFTA on January 1, 1994, brought the immediate elimination of tariffs on more than one half of U.S. imports from Mexico and more than one third of U.S. exports to Mexico. Within 10 years, all U.S.-Mexico tariffs would be eliminated except for some U.S. agricultural exports.

For the L.A. apparel industry, the NAFTA made it easier for apparel manufacturers to make finished products with cheaper labor. At first, the early apparel outsourced to Mexico was often shipped back late, service was poor, and fabric quality was not up to par. But the door to a global outsourcing business had been opened a crack, and that door would be opened wider and wider.

Scroll into 1997, a year tied to the Asian Financial Crisis. After the sudden pullback of capital, import-export manufacturers located in Asia benefitted from the *pull of depreciating Asian currencies* against the U.S. dollar. Collapsing internal demand *flattened Asian low-skilled hourly wage profiles* across the region. Some of these Asian workers served globally-sourced apparel contractors.

A strong push came from higher U.S. hourly wages and regulations too. In 1997, as just an example, California enacted AB 633. This state law said that brand holders have joint liability with contractors for issues like age discrimination and OSHA requirements, and for worker's compensation. Taking both the push and pull factors in combination, and an already strong cost advantage found new traction. The L.A. apparel industry shifted more and more labor-intensive production offshore to Asia, specifically to China.

During this extended migration of activity, many L.A. apparel manufacturing firms could only stand and watch as cheap imports flooded our ports. Some capitulated and closed their domestic factories and moved production outside the U.S. Quicker turnaround, smaller volumes, and more frequent design output have been the only tactics industries facing intense import competition from places like China could employ to survive. Using these tactics, half the L.A. apparel manufacturing base has been able to stay local.

During the mid to late 1990s, China also implemented a second five-year central plan to further develop its market economy. This phase of plans opened China's coastal cities to greater import-export trade. More and more, China's manufacturing and assembly operations participated in globally-sourced industries -- aka operations like apparel and textile manufacturing. Soon, Chinese activities sunk more deeply into the global manufacturing fabric. And this meant they captured the bulk of the U.S. market.

On December 1, 2007, under WTO rules, quotas on apparel shipped from China to the U.S. were dropped. Apparel import volumes to the U.S. from China took another step up. But interestingly, manufacturing the basic low profit margin items in apparel lines in China began to compete with other Chinese industries for the services of expert sewing -- causing a rise in apparel manufacturing wages in China.

In 2009, the Commerce Department's Office of Textiles & Apparel (OTEXA) listed the top five suppliers to the U.S. as follows:

Apparel to U.S.	Textiles to U.S.
1. China	1. China
2. Vietnam	2. Pakistan
3. Bangladesh	3. India
4. Honduras	4. South Korea
5. Indonesia	5. Mexico

Moving forward to data available in 2011, and you see the global apparel manufacturing industry looks to generate $316 billion in export revenues. Major apparel producing countries in terms of export revenues are China, Italy, Germany, Turkey, India, and Bangladesh according to the United Nations. The major textile exporting countries include South Korea and Vietnam. Major companies include Youngor Group (China), Armani (Italy), MOL Magazalari (Turkey) and Gokaldas Exports (India).

China accounts for 34% of the global apparel market, having seen its export revenues double over the last decade. The Chinese apparel manufacturing industry includes about 18,000 companies, with a combined annual revenue of about $200 billion, according to the National Bureau of Statistics of China. However, China's wages are rising as its workforce shrinks, due to strict family-planning policies. Apparel workers are also going into other Chinese industries, who compete for their skills by offering better wages, hours, and working conditions. China now faces lower-skilled, lower-paying jobs moving offshore. This so-called "second migration" is occurring to countries such as Bangladesh, Cambodia, Indonesia, Laos, and Vietnam, according to apparel trading agent Li & Fung. Bangladesh and Cambodia have the lowest wages in the world.

Today, rising wages in China and rising energy costs worldwide have combined to force up apparel manufacturing and shipping costs tied to the mainland Chinese economy. In the last couple of years, forces in market-driven growth increased the demand for labor and increased energy use. The overall effects of prosperity have driven upwards a range of other Chinese costs too -- at a rate greater than in the U.S. In 2011 and into 2012, "all-in" comparative cost advantages are starting to not be as wide.

China is focusing its next five year development plan to 2015 on creating success in high wage industries like energy conservation & environmental protection, biotechnology, alternative energy, and new materials. High end manufacturing is also a top goal.

Industry by the Numbers

The apparel marketing business is highly competitive, based on both price and fashion.

Small integrated manufacturers rely heavily on trade shows and personal contacts to market products to merchandise buyers. Larger companies have a sales force. The profitability of a customer order depends largely on its size. Many manufacturers depend on a few large customers for the bulk of their business. Under some supply agreements with larger retailers, customers can cancel orders or return unwanted inventory. To secure these orders, manufacturers often cut prices.

Materials typically account for 65% of apparel manufacturing costs. Although some textiles must be bought from a single supplier, most textiles are available from numerous sources. Fabric imports have increased steadily for several years, which includes large increases from China.[1]

Several types of manufacturers exist.

- ✓ <u>Integrated manufacturers</u> design and market their own clothing brands, and make products both in their own manufacturing plants and in those of independent contractors. Many clothing designers market their own brands, but contract out the actual garment production.

- ✓ <u>Licensees</u> operate their own manufacturing plants and market clothing under license from the brand owner.

- ✓ <u>Contract manufacturers</u> may have long-standing relationships (but not actual contracts) with designers and marketers, or may use brokers to get new business. Contract manufacturers get business on their ability to produce goods at low cost and on time. Poor quality work is typically returned to the sewing manufacturer for reworking or is discounted. The manufacturer placing the order typically owns and supplies the materials used by contractors.

Despite attempts at greater automation, most apparel is still sewn using specialized sewing machines. Equipment is bought from makers like Yamato or Juki. Computer systems have had a limited effect on the manufacturing side of the industry, although computerized machines may be used to produce patterns and cut materials. To compete effectively for the best contracts, domestic apparel manufacturers have moved to greater automation, specialty production, and superior service.

The operations of most apparel manufacturers are similar. Designs for a piece of clothing are converted into cloth patterns along with a plan for the sewing steps needed to produce the product. Cloth is cut in various sizes (typically four or six sizes) in a cutting room (or cutting plant), and is then sewn (or "made-up") into finished items by individual workers at sewing stations, in a series of assembly-line steps that may require special sewing equipment. Finished goods are pressed, inspected, and packaged for delivery.

Many manufacturers cut fabric in the U.S. and then ship it overseas for sewing into final garments. Such operators benefitted from the NAFTA and CAFTA treaties. Exporting non-Chinese textiles into China is difficult as best. China will not accept cut fabric for sewing, unless the textiles used are sourced in China.

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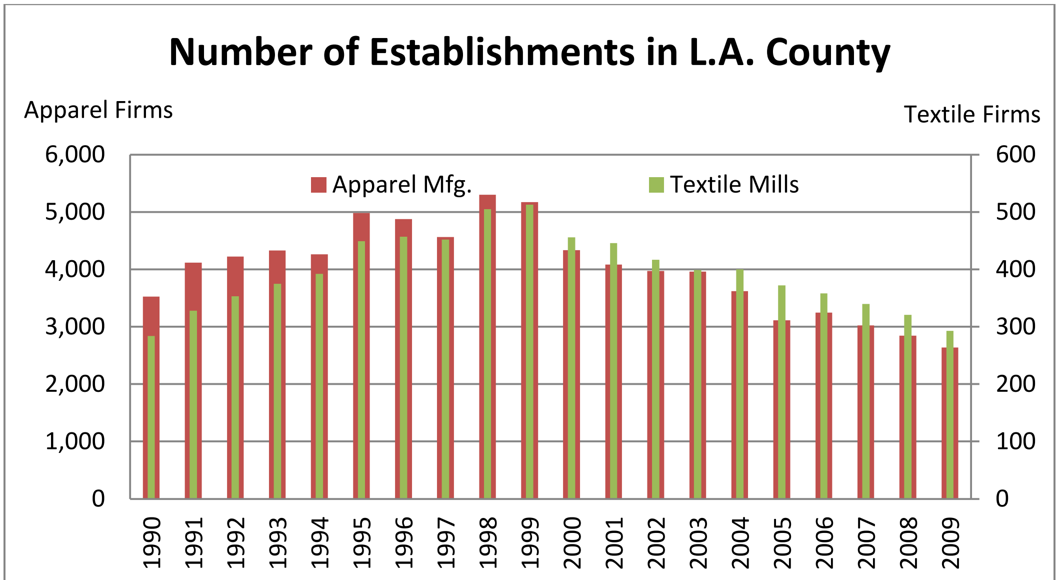
[1] Industry Profile: Apparel Manufacturing, *First Research*, Copyright 2011, Hoover's Inc., May 16, 2011.

Machinery that satisfactorily replaces worker's hands has been elusive, because of the soft nature of the materials being handled. Some standardized articles made from stiff material, mainly jeans, can now be sewn by semi-automated machinery that requires workers only to position the material. Because of the different skills and equipment needed to produce different types of clothing, manufacturers usually develop a specialty.

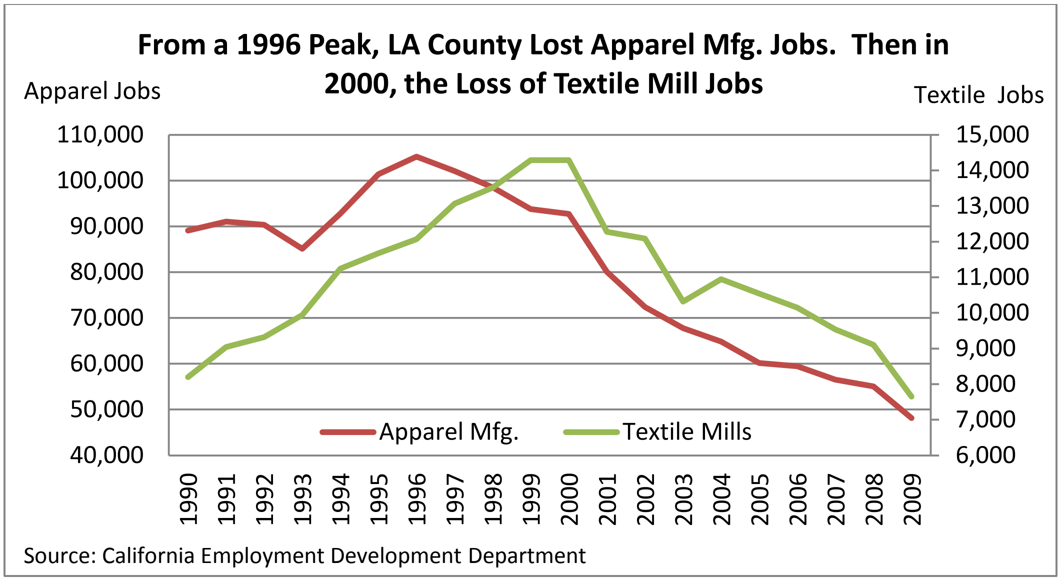
<u>Overall Employment Facts</u>

A collapse in L.A. County apparel establishments took down its manufacturing employment. Looking back to the year 2000, and you see textile mill employment in L.A. County started its decline, spurred by a steep rise in energy costs. For the past ten-plus years, the number of establishments in both apparel manufacturing and textile mills in L.A. County has declined, year-after-year. See below:



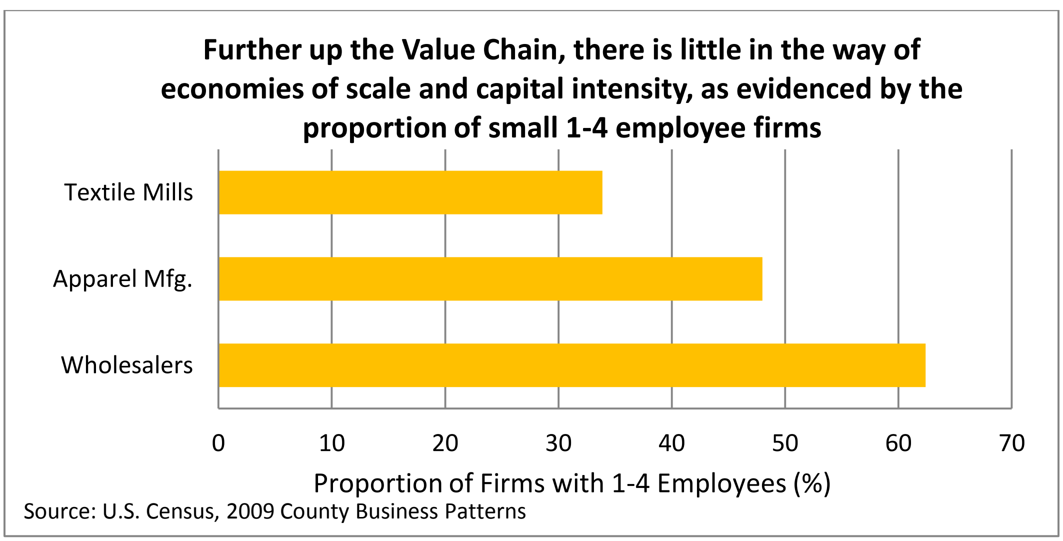
Source: California Employment Development Department

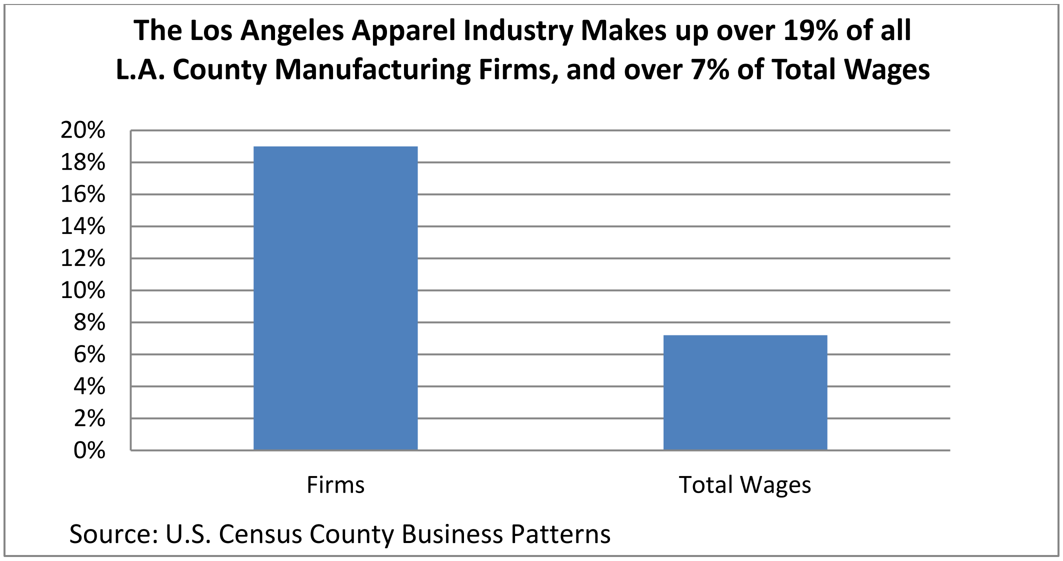
When we looked at the three apparel industry sub-segments in the *five county area* during a four year period from 2004 to 2008, (textile mills NAICs 313, apparel manufacturing 315, and apparel wholesaling 4243), we found total employment averaged <u>100,000 workers</u>. The average number for establishments in the five county area was around 6,400 firms. This implied that an "average" L.A. regional apparel firm is small; employing around 15 workers.



Profitability in individual companies depends on efficient operations and the ability to secure contracts with clothing marketers. Annual revenue generated to the average company is about $115,000 per production worker. Small companies can compete effectively with larger ones by specializing in a particular type of apparel manufacture. The same is true for wholesalers. There are economies of scale in manufacture. As a sewer gets up towards the 500th pair of jeans, the level of expertise keeps rising, and output per unit of time increases with it. Making apparel is labor-intensive, making sure profitability is closely tied to labor costs. Which is why manufacturers move operations to countries with lower wages. With respect to apparel wholesaling, fewer employees are needed, as no production is required.

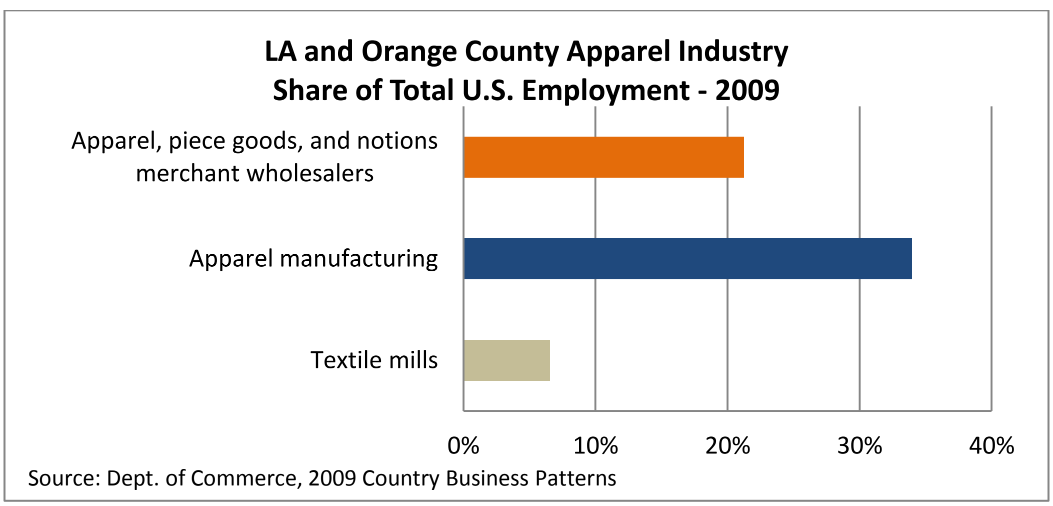
As the subsequent chart shows, most L.A. apparel employment is in very small firms -- one to four employees.





Even though jobs losses here are disheartening, L.A. is actually doing much better when compared to the national trend.

While apparel industry employment has fallen across the United States, the share of employment captured by the L.A. and Orange County apparel industry has increased. In 2002, for example, L.A. and Orange County accounted for a 24% share of U.S. apparel manufacturing jobs. In 2009, this proportion rose. Over 33% of U.S. apparel manufacturing jobs were located in L.A. or Orange County; over 20% of apparel, piece goods, and notions merchant wholesalers were found here; and almost 7% of all textile mill jobs. All of these proportions have risen, year-after-year, over the last decade. See below:



Additionally, many forms of L.A. employment in apparel fall outside the three broad catch-all categories.

For example, L.A. apparel industry experts count 1,050 independent fashion designers operating solo; another 2,771 workers are employed in their independent showrooms; and then 1,240 textile reps and another 865 home-based agents and brokers are out working on commission. Another bucket of L.A. workers can be found in a range of ancillary activities like: packaging, labeling, and other support roles

(220 positions); in custom computer programming (69 positions); in fulfillment support services to imports (1,100 positions); in consulting services (130 positions); in commercial rental (240 positions); and in specialized local freight (560 positions). There are around 750 apparel educators teaching in 14 different institutions in the five county area too.

The subsequent table summarizes.

Related Industry Segments	# of Employees	# of Establishments	
Independent Fashion Designers	1,050	1,050	(contracted consultants)
Independent Showrooms	2,771	888	(all categories)
Textile Reps	1,240	1,240	(wholesale trade agents & brokers)
Home-based Agents/Brokers	865	517	(no office address)
Outside Services	220	55	(packaging, labeling, support)
Technology	69	22	(custom computer programming)
Fulfillment	1,100	12	(support services to imports)
Labor Compliance	130	4	(consulting services)
Equipment Leasing	240	4	(commercial rental)
Educators	750	21	(teachers and administration
Distribution	560	6	(specialized local freight)
Grand Totals	8,995	3,802	

Source: *California Fashion Association*

Including these activities means adding 8,995 workers operating in 3,802 establishments. This takes the overall jobs tied to the apparel industry near to 110,000 workers. And the number of total establishments is likely to be over 10,000.

A significant number of contract workers are not captured by official surveys too.

With rising worker's compensation and health insurance costs, some may think employers might be tempted to hire contract workers instead of having them on permanent payrolls. While this may be true, the reality is far more complex. Many workers, especially those who are fast and skilled, constantly look for better opportunities among different contracting firms. Some do this so they can fill up all the work hours they care to put in. As a result, the workforce is very fluid in the cut-and-sew section of the apparel industry. Under these circumstances, benefits such as an employer-financed (wholly or partially) health insurance program are difficult to manage. Job counts are no easier to capture.

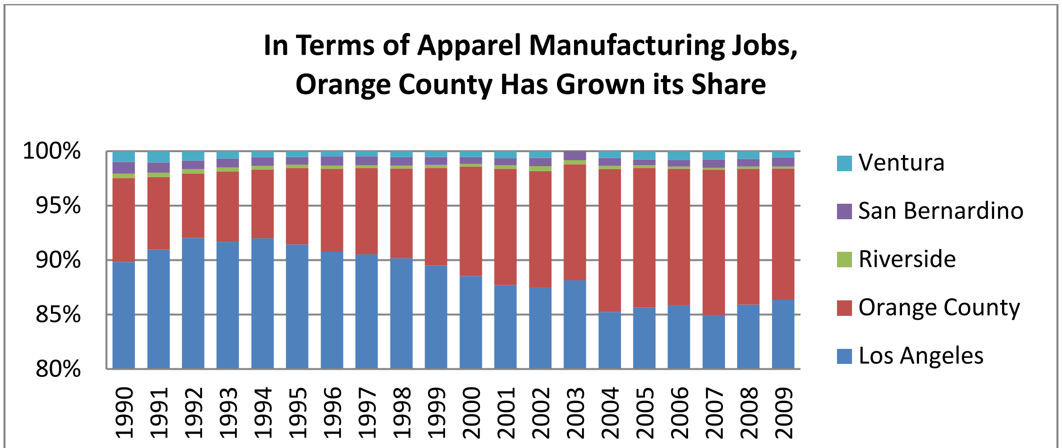
Contract workers cannot work from their homes. Home sewing is only allowed for craft items like household-used knitting and pillows. Retailers face fines under California law if they buy sewn apparel from home sewers. The practice of using home labor for commercial apparel manufacturing is illegal, because power sewing machines are dangerous to children. Contractors who give work to home labor will be punished along with the laborer. Not surprisingly, there have been no California Dept. of Labor Standards and Enforcement (DLSE) violations in seven years.

Wholesaler, Manufacturing, and Textiles Employment

The data show us a genuine industry cluster exists in Los Angeles County!

Locating near other firms offers the chance for free information to spill over more often, to easily share paid resources, and keep design trends up-to-date. In recent years, L.A. County accounts for 86% of the apparel manufacturing employment and 84% of wholesale merchant employment in the five county area. The apparel industry (excluding retailing) is one of the larger industries in the Los Angeles five-county area.

Los Angeles County has the largest job count. With a steady distant second at 12% of apparel manufacturing jobs, Orange County has a smaller base focused on surfwear and activewear. Orange County has gained share in jobs over recent years, due to the acceptance of the surfer style. L.A. has a classic manufacturing cluster surrounding the Fashion District in downtown Los Angeles. In the case of Orange County, the industry is spread out.



Source: U.S. Census, 2009 County Business Patterns

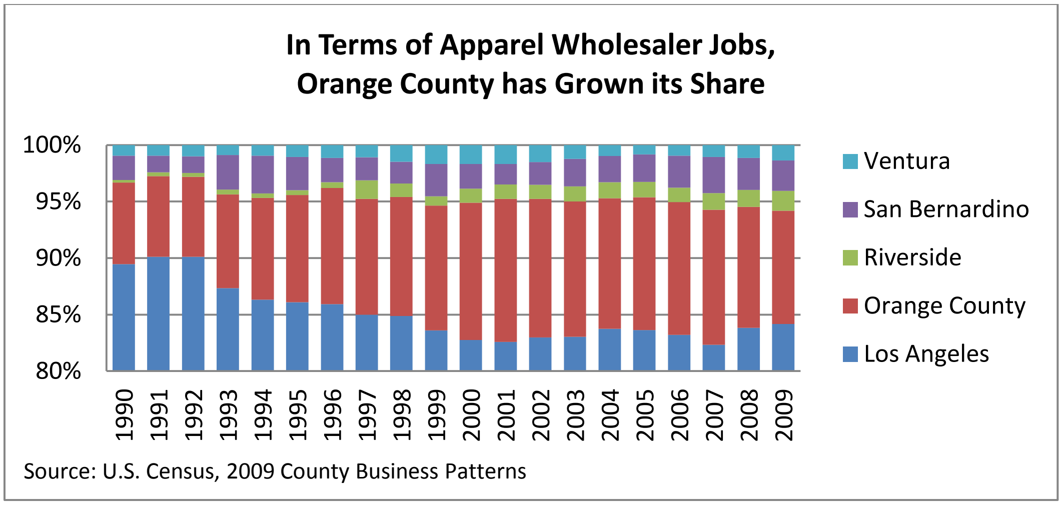
Wholesale apparel data

Defining a wholesaling job is as much about what it is <u>*not*</u>*, as what it is:*

- ✓ *No design*
- ✓ *No manufacturing*
- ✓ *No production*
- ✓ *No technical specs.*

Just activity involved in the purchase and re-sale of completed apparel.

Wholesale apparel merchant jobs are more dispersed within the five county area. Ventura, San Bernardino and Riverside Counties collected about 6% of apparel wholesale numbers. In recent years, Orange County collected 10%.



Apparel merchant wholesaling in L.A. County remains a cyclical business. Revenues grow with the overall strength in the U.S. economy; slip back when it declines; and recover along with the rest of retail sales.

Apparel wholesale jobs stayed in a very modest growth mode over the last ten years too -- adding +1,000 jobs in L.A. County from peak to peak.

Wholesaling employment benefits from both import and export activities. Small lot jobbers are in sync with the fastest growth end markets, i.e. specialized retailers selling contemporary women's clothes. Demand is mostly regional -- in California and Western states -- but a substantial national and international traffic happens. L.A.'s large local market is one reason why apparel wholesaling firms continue to prosper, even as L.A. County apparel manufacturing and textile employment declines dramatically.

Third party logistics (aka "3PL's") are another source of L.A. County jobs for this industry[2].

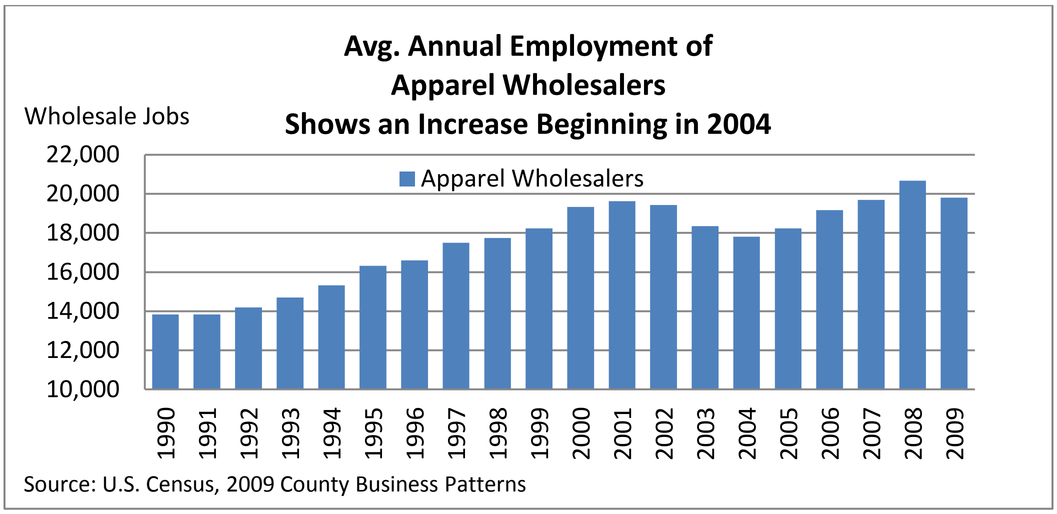
The very geography of L.A. and its proximity to Asia creates a natural driver of growth in the industry. Shipments from Asia are weeks faster to Long Beach than to the East Coast. This allows an apparel manufacturer to maintain better liquidity through faster inventory turns. Furthermore, a growing number of apparel companies from around the United States are using 3PL's based in L.A. These 3PL's receive containers, break them down, and then do the type of prep work normally done in the company's own warehouses (i.e. hang tags, garment bags, hangers, and re-boxing). Then, they ship to the wholesale customers. Very often the 3PL has access to the company's internal inventory management and electronic data interchange (EDI) systems, which makes it a seamless process. These shipments are booked as revenue for the wholesaler, wherever they may be located. But they contribute directly to the apparel industry in L.A.

A concentration of trade facilitators in the immediate L.A. area --customs brokers, freight forwarders, and trade attorneys-- make interaction with the 3PL's easier for Los Angeles based importers too.

[2] Attributed to Eric Fisch, Vice President, Commercial Banking and Sr. Apparel Analyst, HSBC in Los Angeles, CA.

In addition, the nearby Mexican maquiladoras (maquilas) apparel operations have improved in terms of quality and labor force skills in recent years.

While one's initial inclination would be that this arrangement has drained jobs in SoCal, in many cases it is the opposite. These lower wage apparel jobs would have gone to Asia, not California. What the maquila's have fostered is growth in wholesaler jobs in SoCal, where they anchor due to the proximity to the border. Because of the mechanics of the duty free program (goods need to originate in the U.S., have value added in Mexico, and then return to U.S.), apparel companies located in the rest of the country do not utilize it. This has helped to foster growth in SoCal wholesalers.



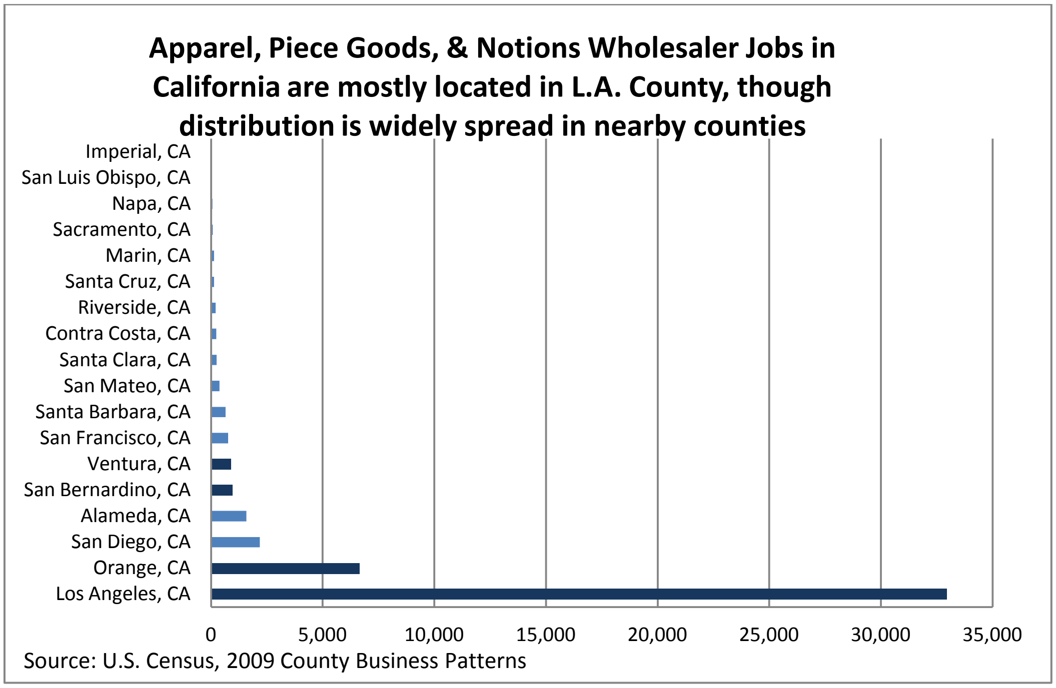
Over the last cycle, L.A. County and Orange County showed a modest consolidation in the number of wholesale firms.

- ✓ At its peak in 2001, 19,600 workers at 2,500 firms were busy in L.A. County apparel wholesaling.
- ✓ In the next wholesaling peak reached in early 2008, L.A. County recorded 20,700 people in a smaller number of just 2,360 firms.
- ✓ In 2001, Orange County had 3,000 wholesaling jobs at 300 firms.
- ✓ At the next peak in 2008, Orange County offered 2,850 jobs at just 240 firms.

Stronger apparel wholesaling firms (still quite small in most cases) have been able to grow modestly; often at the expense of firms who exited the market over the last ten years.

Wholesale apparel activity across California's counties is more dispersed than apparel manufacturing.

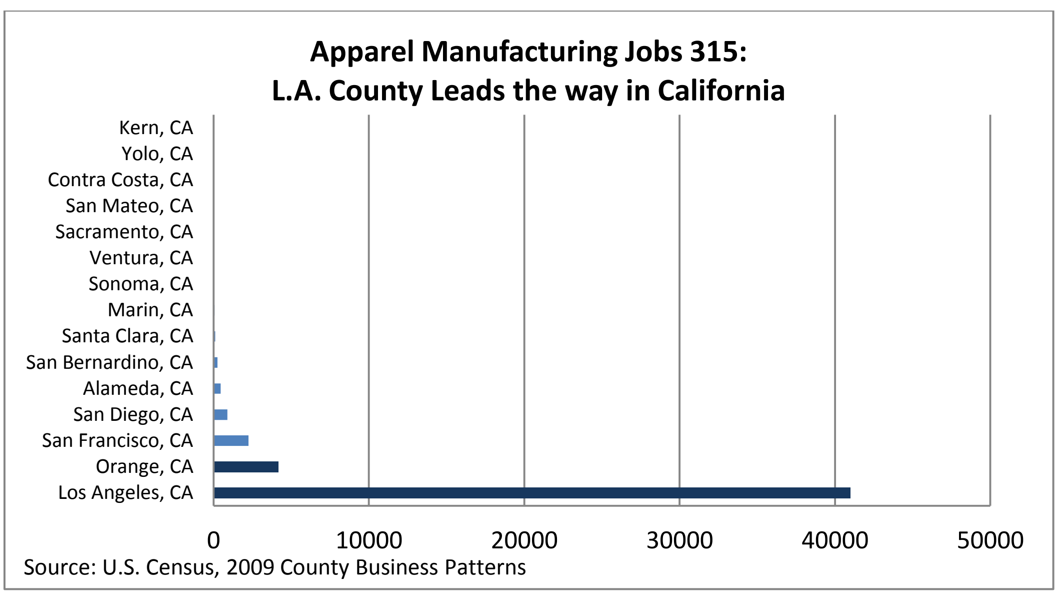
See the subsequent chart to confirm:

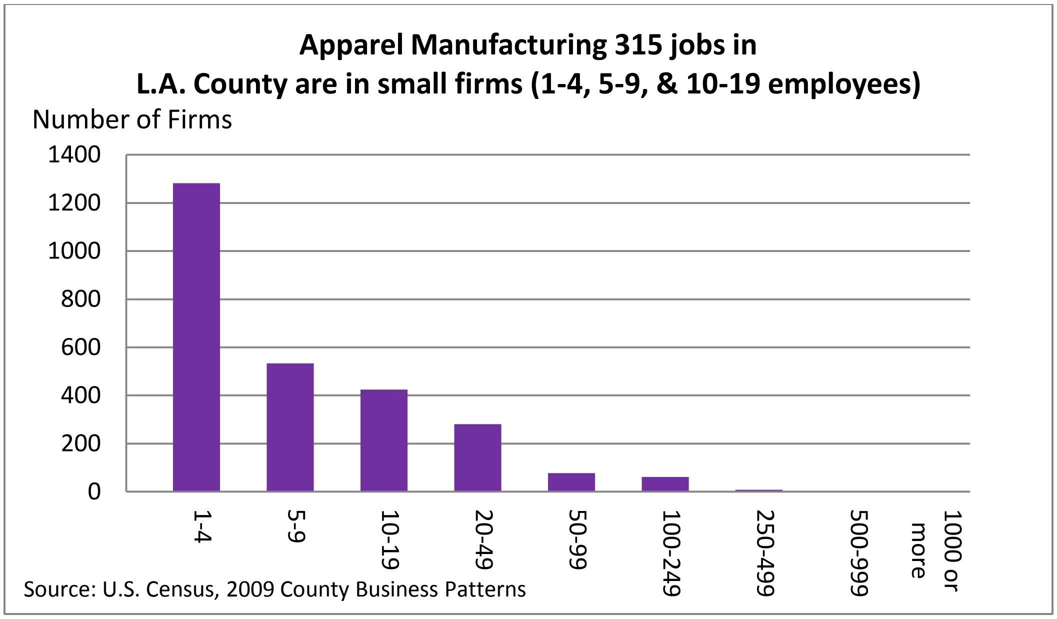


Apparel manufacturing data

Using 2009 data, L.A. County apparel manufacturing jobs came in at 48,000 workers within 2,600 firms.

Over the last decade and more, L.A. County apparel manufacturing saw both jobs and establishments cut in half. In Los Angeles County, the peak for apparel manufacturing activity came with 105,300 jobs scored in 1996. The peak for L.A. County apparel manufacturing establishments came two years later in 1998 at 5,300 firms. Since then, in every consecutive year, both the L.A. County job and establishment counts have fallen. Increasingly, consolidation and restructuring efforts have been to cut losses.





Textile mill data

Textiles mills in Los Angeles County performed under similar stress over the last decade. The 2009 data put this sub-segment at 7,600 jobs and 290 firms. Again, a cut in half. Textiles mill employment in L.A. County reached its peak in 1998 and 1999. At that time, these mills offered 14,300 jobs at 510 firms.

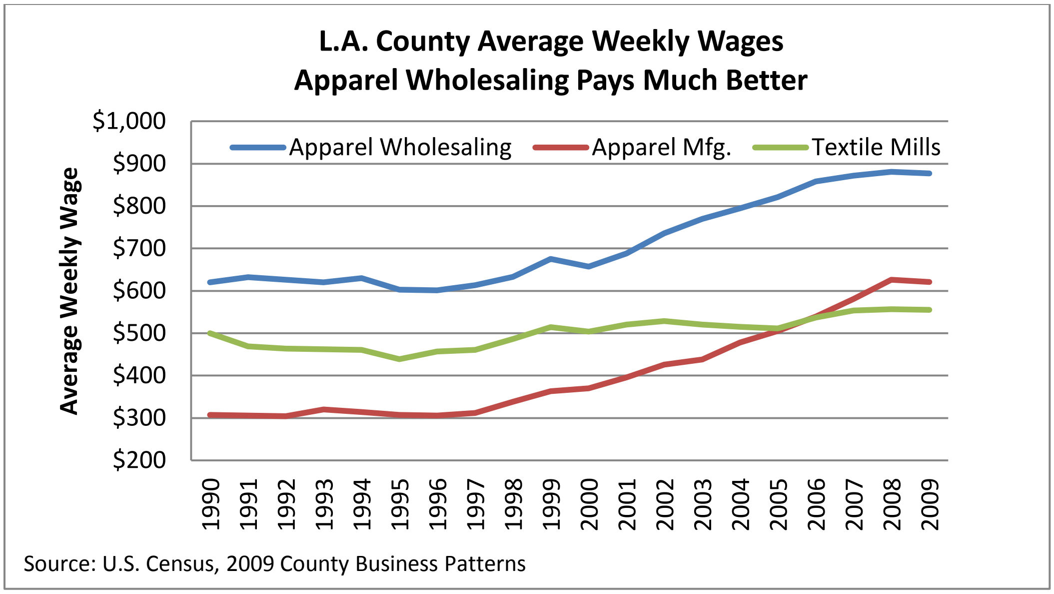
Wages & Earnings

Paradoxically, the average level of wages increased in recent years. More highly skilled specialty jobs remained in the U.S. factories, while lower-skilled, lower-paying jobs moved offshore.

Annual performances of wages & earnings in L.A. County offer a good vantage point.

Since 2000, U.S. Census data show apparel manufacturing workers have taken home rising weekly earnings in L.A. County. In 2011, an average apparel manufacturing worker is making over $600 a week. In 2000, that same worker earned $400 a week. Putting in 40 hours each week in today's L.A. County means ***L.A. County cut and sew apparel manufacturing jobs may pay $15 for an hour's worth of work***. And today's apparel wholesalers earn close to $900 a week. This is $22.50 an hour. In 2000 in comparison, apparel wholesalers operating successfully in L.A. County pulled in $650 a week offering the same services.

The subsequent chart shows this relentless upward increase...quite clearly!



A private set of wholesale and apparel manufacturing data adjust these findings somewhat: According to Dun & Bradstreet data drawn in August 2011, NAICs code 4243 for apparel wholesale jobs came in at 29,454 (42% of the cluster). NAICs for apparel manufacturing came in at 39,382 jobs (58% of the total for the cluster) for a total of 68,836 jobs (roughly the same total number of jobs as the government's data). This means several thousand higher-paying wholesale jobs in the Dun & Bradstreet database are counted within apparel manufacturing jobs in the U.S. government's database.

Could higher-paying wholesaling jobs be masquerading as apparel manufacturing jobs? The Bureau of Labor Statistics in May 2011 put the national average for apparel manufacturing jobs at $11.69 an hour, versus the $15 an hour we calculated from the government data for L.A. County. A notable differential.

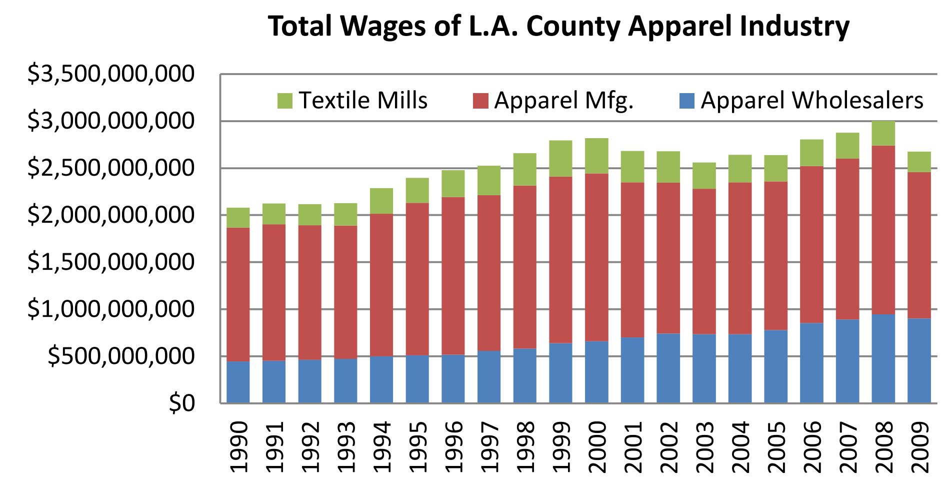
More than anything else, rising domestic (and locally-determined) hourly labor costs forced L.A. County manufacturing and contracting firms to form relationships with outside suppliers. Mostly in China, but also in a range of countries such as South Korea, Vietnam, Mexico, India, and Indonesia. Over the last ten years, the rise in L.A. County hourly apparel manufacturing wages has been relentless.

Why?

In this region, the remaining L.A. apparel manufacturing and textile mill employment opportunities have become increasingly specialized. Workers are also increasingly surrounded by larger numbers of better paying jobs in service industries. These two effects have been seen across the United States economy in all regions. Finally, increases in minimum wages have been implemented, forcing up the rest of hourly pay scales with it. California's minimum wage is $8.00 per hour (set January 1, 2008), while the federal minimum wage is $6.55 per hour (set July, 2008).

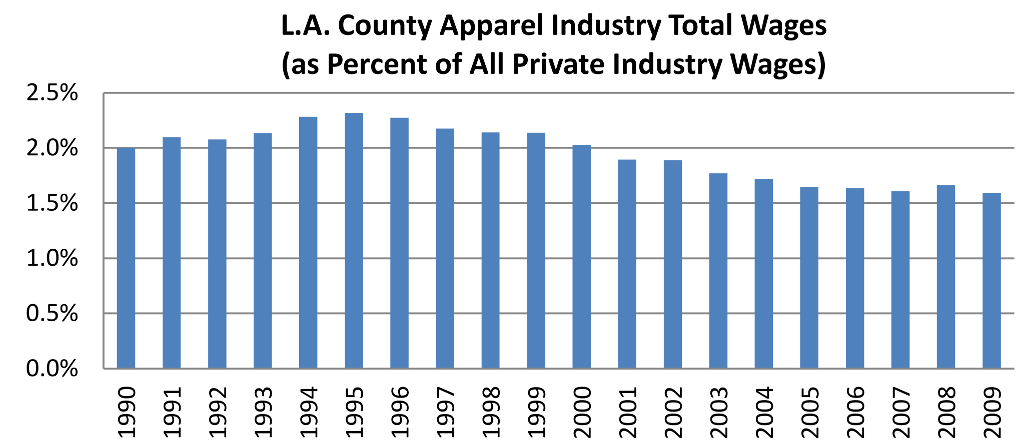
Two charts below provide additional facts on the overall strength of L.A. County apparel industry wages & earnings.

First, the total L.A. County apparel wage bill:



Source: U.S. Census, 2009 County Business Patterns

Second, L.A. County apparel wage data shown as the percent of all L.A. County private industry:



Source: U.S. Census, 2009 County Business Patterns

The BLS Quarterly Census of Employment and Wages (QCEW) offers annual salary data in the three sub-industries in SoCal:

1. Using first quarter of 2011 data, L.A. County textile mill jobs paid $28K a year. Orange County jobs paid $24K a year. Nationally, such jobs paid $30K a year.

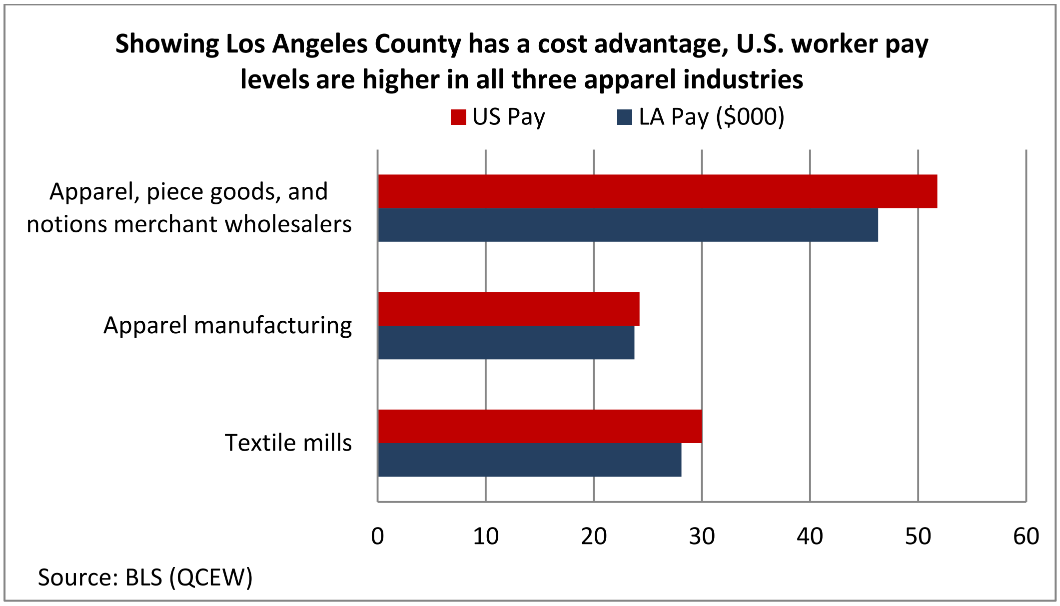
2. Apparel manufacturing jobs? L.A. County paid $24K a year and Orange County paid $27K a year. Nationally, "cut and sew" jobs paid $24K a year.

3. L.A. County wholesale apparel jobs? They paid $46K a year. Orange County jobs paid $57K a year. Nationally, wholesale apparel jobs paid $52K a year.

Los Angeles County has kept a cost advantage in all three major areas of the apparel industry.

- ✓ L.A. County is a cheaper place to hire apparel workers. Orange County is a bit cheaper to hire textile workers.

See subsequent chart for a summary comparing L.A. County and U.S. pay:



Looking for still another take on this industry?

Consider the American Apparel & Footwear Association's "2011 Salary Survey and Job Market Report". Their 2000 respondents came from across the United States, with 90% of people working in apparel and footwear firms of greater than 10 employees. 36% of respondents worked at the really big apparel and footwear firms -- i.e. those above 1000 employees.

Their 2000 jobs fell into the following categories.

34%	Design & Technical Development
14%	Sales & Marketing
13%	Production & Product Development
13%	Planning and Merchandising
13%	Retail, Ecommerce & Store Level
5%	Operations & IT
1%	Transportation & Logistics
1%	Customs, Trade, & Compliance

Source: 24/*Seven and American Apparel & Footwear Association,* 2011

79% of respondents were female. 53% were single. 77% had no children at home. 67% had some college attainment.

The median fashion and retail salary at the big U.S. companies was $70,000. At the top of the economic totem pole in these big corporate apparel and footwear firms, the survey showed a SVP of Design could make $390,000 a year; a Fashion Director up to $430,000 a year. The median compensation for a SVP of Production/Sourcing individual made $260,000 a year. Entry level Associate Designers were paid a median salary of between $40,000 and $50,000 a year. The same level of compensation was earned by entry-level Purchasing/Sourcing Assistants.

A Demographic Profile of Apparel Manufacturing Workers

Demographic data from Census 2000 provide another glimpse into the apparel manufacturing sector. (Census 2010 data are still not available.) Unfortunately, we are unable to distinguish between apparel "manufacturers" and "contractors", which do most of the actual production work. Most data being discussed here are likely from apparel manufacturing contractors.

- ✓ *Hispanics (81%) and Asians (16%) dominate the ranks of production workers.*
- ✓ *Roughly two-thirds are women.*

The results from the Census's 5-Percent Public Use Microdata Sample (5% PUMS) for the Los Angeles five-county area affirm some of the perceptions about the apparel manufacturing industry. Most workers did not complete high school and do not speak English proficiently. Over <u>three-quarters are non-citizens</u> but may have permanent residency status and thus employment authorization. They work, on average, 40 hours per week. Technical personnel, which includes engineers, computer programmers, and mechanics are still dominated by minorities, but they tend to have a higher educational attainment.

For comparison, consider the demographics of Designers & Researchers. Only 31% are Hispanic, 64% have a college degree, and just 22% are non-citizens. Top Managers? 18% are Hispanic, 52% have a college degree, and 25% are non-citizens.

Merchandise Prices

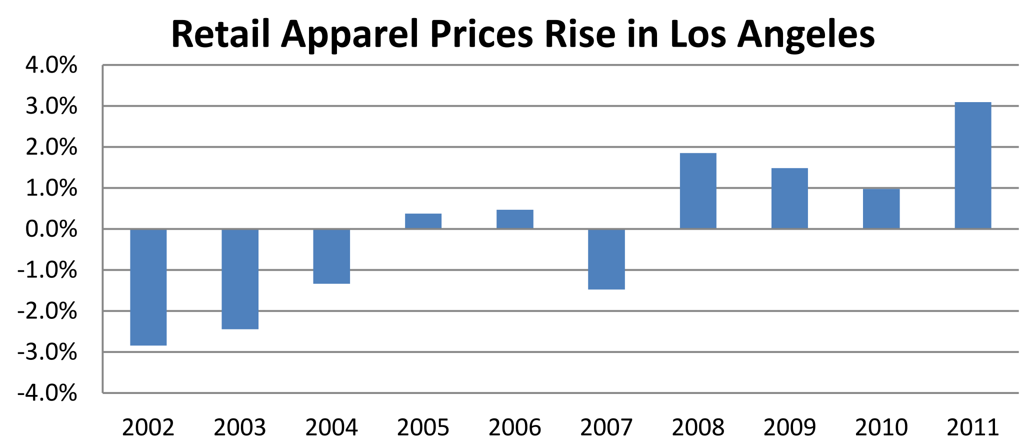
Like the computer industry, the apparel industry has had to do battle with falling prices for its products. Falling average prices in the apparel sector have been caused by the shift of production to lower-cost locales, changes in retailing, and a general acceptance of a more casual appearance for both workplace and social occasions.

More and more apparel has been sold at value retailers (e.g. Wal-Mart and Target) and "wholesale clubs" (e.g. Costco and Sam's Club) instead of department stores too. Mid-income consumers have become more value-oriented in recent years, and discount chains upgraded their offerings to attract this huge segment of the population. In some cases, chain stores licensed designer brands and have taken over manufacturing responsibilities. Now, some once-hot designer brands are available at very low prices through these stores.

Until 2008...

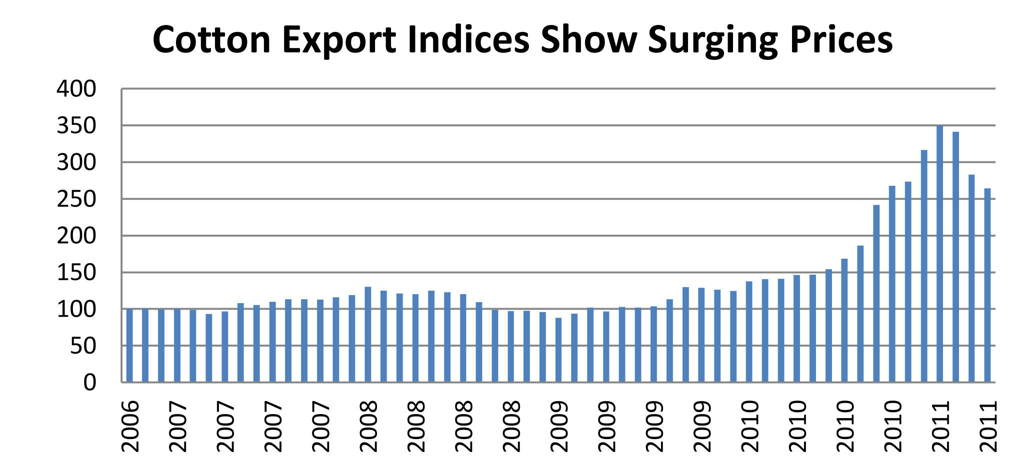
In the last three years, there has been a visible increase in apparel prices in Los Angeles.

Apparel making markets have experienced the effects of a rise in oil and of commodity prices such as cotton and linen. These costs have yet to be passed on to consumers.   Also, there is accumulating evidence coming in from Asia, over a period of many years, that rising labor costs need to be passed on too. Today, the rate of inflation in China is a key focus for domestic apparel makers.



Source: U.S. Dept. of Labor, Bureau of Labor Statistics

A subsequent chart shows just how explosive cotton prices have been in the United States. Cotton prices for export are 250% in this export index, while they used to be 100% just two years ago. It also shows a cooling cotton price trend started in the first half of 2011. The U.S. South and California are some of the world's biggest exporters of cotton.



Source: U.S. Dept. of Labor, Bureau of Labor Statistics

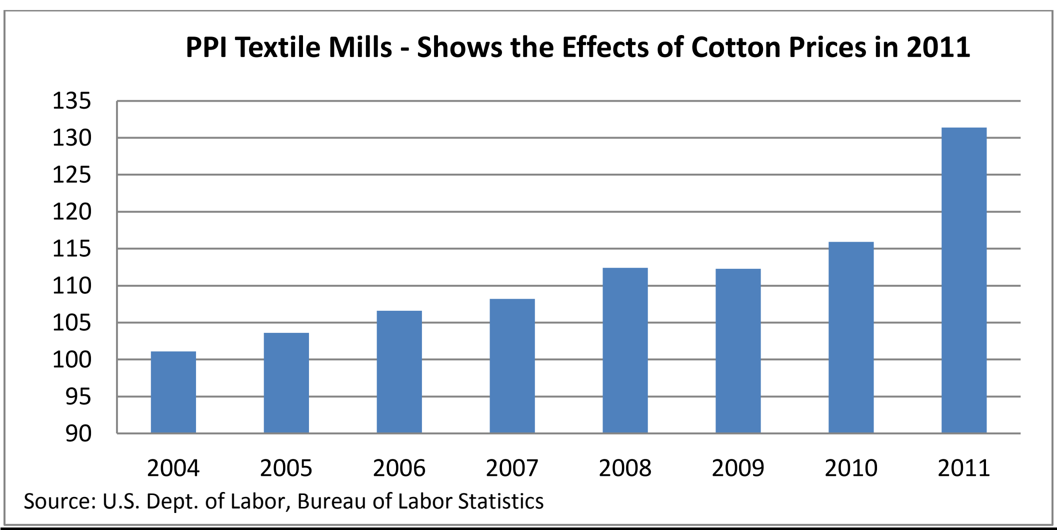
More globally, cotton prices spiked to $2.30 per pound in 2011 because of bad crops; brought on by inclement weather and increasing world demand. They recently fell to around $1.05 per pound. In addition, rising globally-set oil prices boosted prices for petroleum-based products such as nylon and polyester. Raw materials make up a small fraction of the cost in an finished garment. But when the underlying input price moves are this strong, they are felt.   These rising costs could be passed on to consumers.

Cotton prices have had a major impact on the industry.   Towards the end of 2011, many wholesalers are only beginning to realize their impact. They committed to purchase cotton months ago when cotton prices were highest. The run-up in prices made the textile mills in Asia more conservative, forcing wholesalers to pre-pay for cotton. This high-priced cotton is the raw material in goods they are now delivering to retailers. Many retailers have also been aggressive in requesting price reductions that mirror the recent reductions in cotton prices. This further pressures wholesalers. The combination of these factors has caused both profit margin and cash flow issues for them.

In the following two charts, we show the Textile Mill and Apparel Manufacturing Producer Price Indexes (PPIs). PPIs measure the average change over time in selling prices received by domestic producers for their output.

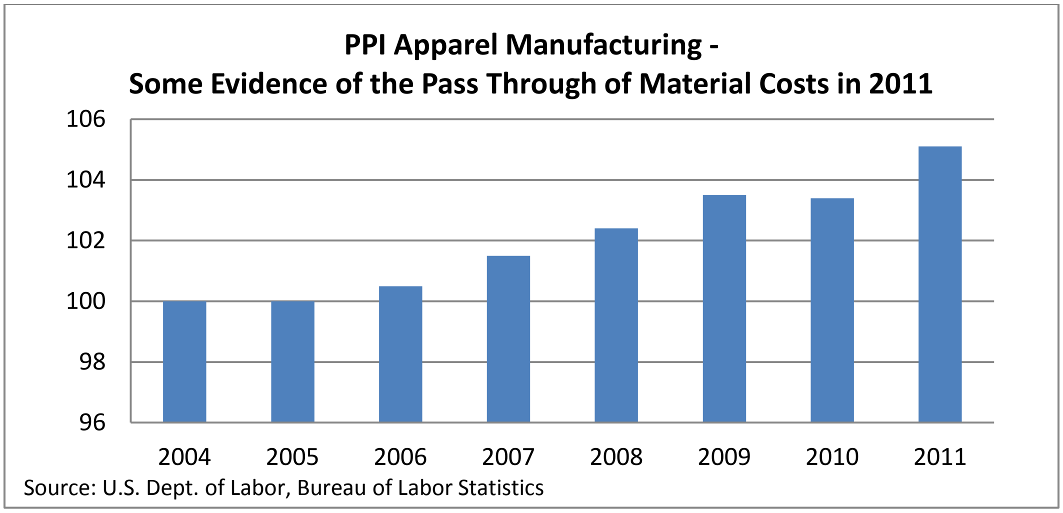
Effects from higher cotton prices can be seen at the textile producer's price level of the value chain. From 2010 to 2011, Textile Mills increased prices from 115 to over 130 in PPI index terms. A +13% increase. Previously, increases had been +2% to +3% annually.

See the subsequent chart:



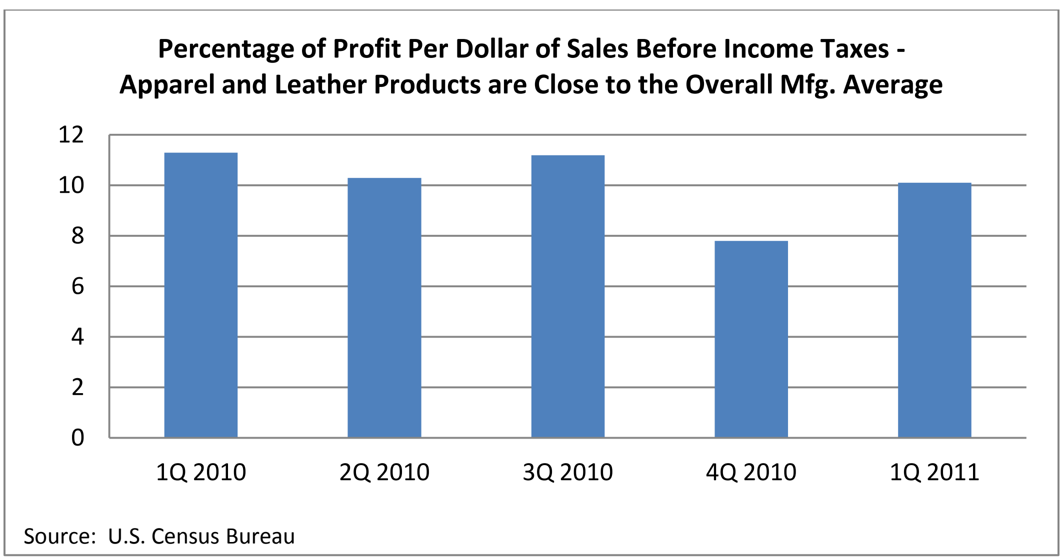
The PPI for Apparel Manufacturers captures the effect of higher labor costs.   The year-on-year increase had been close to +1%. It picked up notably in 2011, most likely from higher labor costs in China. The PPI for Apparel Manufacturers did not show any change from rising input prices like cotton.

See the subsequent chart:



These data show most textile mills are partly passing on cotton and other commodity price increases. Most apparel manufacturers are passing on a part of rising labor costs to customers too. But some apparel manufacturers are cutting costs by re-engineering fabric blends, making laces and trims in-house, and streamlining use of embellishments such as appliqués, bows, beading, and piping. A similar type of material substitution is likely at some textile mills, using less expensive textiles and trims.

As another subsequent chart shows, the U.S. profit per dollar of sales before income taxes for "Apparel and Leather Products" rested at 10% in the five quarters up to the end of March 2011. At 10%, the apparel industry pre-tax profit margin remains close to average U.S. non-durable manufacturing profit margins. Textile Mills earned a 4% pre-tax margin. In comparison, Computer and Electronic Products makers earned a 23% pre-tax margin.

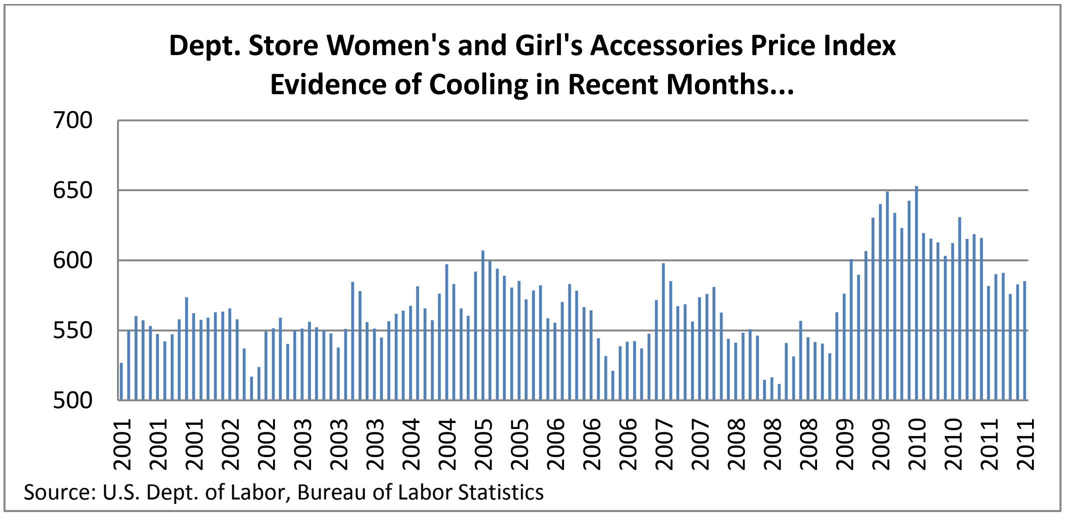


At the base of the value chain (apparel manufacturing), the flat quarterly profit profile doesn't show any effects from higher costs. The effect of rising costs has not been dealt with visibly.

Yet!

Looking towards the end of the value chain, there was very visible price discounting in women's and girl's apparel prices at department stores around the peak of the 2008 financial crisis. In 2010, price rises at department stores recouped some of the 2008 era discounts on offer to move merchandise.

See the subsequent chart to confirm:



Retailers at the end of the value chain are facing down a difficult choice: Between cutting their profit margins, or passing on price increases to their already stressed customer base. It remains to be seen if further price increases at retail due to higher cotton prices can be made successfully.

Finance

Revenue for many apparel manufacturers is seasonal, because spring and fall are the prime selling seasons. Contractors are essentially financed by manufacturers they work for, with partial payments as shipments are made. Manufacturers often have financing needs for both receivables and inventory. Payments from large buyers and payments to foreign contractors may be via letters of credit.

The lack of equipment finance is a major issue in Los Angeles. Finance availability keeps modernization for local manufacturing at bay. Equipment financing needs have decreased in recent years as more manufacturers use foreign contractors. Due to the loss of the California manufacturer's tax credit in 2003, brand owners are also no longer incentivized to finance new equipment for their contractors.

Overall, apparel in the U.S. remains a challenging business -- net income earned is about 1% of revenues. It is 0.9% for smaller firms. However, strong entry figures in difficult economic times provide ample evidence that sizeable returns are available to L.A. based apparel companies with good design ideas, strong management, and well-crafted business models. In 2009, at the depth of the last downturn, we had a +6.9% increase in the amount of apparel-making companies registered with the California DLSE.

A breakdown by California county of apparel manufacturing (NAICS 315) and textile mill (NAICS 313) companies and revenues shows L.A. County and Orange County are clear leaders.   Counting all 2011 apparel and textiles operations in California, 994 companies earned above $1 million in revenue. Of that number, L.A. County had 692 companies and Orange County had 96 (summing up to 80% of the total).

See the subsequent table:

Table 1: Companies in California with Revenues of $1 Million and Greater, 2011
Apparel Manufacturing (NAICS 315) and Textile Mills (NAICS 313)

County	Total Companies	Total Revenues ($ millions)	Total Employees	Average revenues ($ millions)	Average employees
Los Angeles County	692	$4,882	44,906	$7	65
Orange County	96	$1,256	13,355	$13	139
Riverside County	7	$28	366	$4	52
San Bernardino County	5	$20	280	$4	56
Ventura County	14	$82	1,065	$6	76
Alameda County	19	$1,319	1,465	$69	77
Contra Costa County	6	$33	392	$5	65
El Dorado County	1	$1	20	$1	20
Fresno County	5	$10	90	$2	18
Humboldt County	2	$7	111	$3	56
Imperial County	1	$2	20	$2	20
Kern County	2	$5	39	$3	20
Marin County	2	$5	39	$3	20
Merced County	1	$2	40	$2	40
Monterey County	2	$18	259	$9	130
Napa County	1	$1	4	$1	4
Nevada County	1	$1	2	$1	2
Sacramento County	2	$6	51	$3	26
San Benito County	1	$1	17	$1	17
San Diego County	40	$421	6,453	$11	161
San Francisco County	26	$4,508	17,769	$173	683
San Luis Obispo County	3	$5	58	$2	19
San Mateo County	7	$30	426	$4	61
Santa Barbara County	5	$31	112	$6	22
Santa Clara County	7	$16	125	$2	18
Santa Cruz County	3	$27	102	$9	34
Solano County	1	$3	25	$3	25
Sonoma County	4	$10	111	$3	28
Tuolumne County	1	$1	14	$1	14
Other (Unknown location)	37	$1,589	13,566	$43	367
Grand Total	**994**	**$14,320**	**101,282**	**$14**	**102**

Note: San Francisco is the home of Levi-Strauss, with revenue of $4.4 Billion.
Source: Hoover's

Dun & Bradstreet data, also captured in 2011, show the amount of *financial stress* evident among the apparel wholesalers (4243), the apparel manufacturers (315), and the textile mills (313) in L.A. County.

- In 2011, as a result of very competitive market conditions in L.A. County, fully 45% of apparel wholesalers, apparel manufacturers, and textile mills operate under significant financial stress.
- In this industry, 25% of revenues in L.A. County are earned in conditions of financial stress too.

In light of these numbers, a key implication emerges: a small sized firm in L.A. has a greater chance of operating under conditions of financial stress. Less product and process diversification, lower access to credit, and other issues appear relevant.

See the table below:

Table 2: Conditions of Financial Stress in L.A. County Apparel Industries, August 2011

	Risk Level	**1**	**2**	**3**	**4**	**5**	**Unclassified/ Bankrupt**	**Total**
4243 Apparel Wholesalers	Firms	19	844	1447	1670	143	68	4191
($ millions)	Revenues	$304	$1,436	$2,301	$1,360	$213	$22	$5,635
	Risk Level	**1**	**2**	**3**	**4**	**5**	**Unclassified/ Bankrupt**	**Total**
313 & 315 Apparel Manufacturing and Textile	Firms	27	455	885	961	138	69	2535
Mills	Revenues	$412	$3,619	$1,639	$960	$197	$556	$7,383
	Risk Level	**1**	**2**	**3**	**HIGH RISK/4**	**HIGHEST RISK/5**	**Unclassified/ Bankrupt**	
4243 Apparel Wholesalers	Firms	0%	20%	35%	**40%**	**3%**	**2%**	
	Revenues	5%	25%	41%	**24%**	**4%**	**0%**	
313 & 315 Apparel Manufacturing and Textile	Firms	1%	18%	35%	**38%**	**5%**	**3%**	
Mills	Revenues	6%	49%	22%	**13%**	**3%**	**8%**	

Source: *Dun & Bradstreet*

As the data in both tables show, the L.A. apparel industry is largely small and middle-market companies.

Many are managed by owner-operators. They have a great deal of their own capital invested in their business. This is one of the driving forces behind why such companies turn to a form of financing called *factoring*. Privately-owned businesses generally do not want to risk additional capital by extending large amounts of credit to their retail customers.

Factoring is an agreement between a factoring company and the suppliers of goods, typically to the retail industry. A small, owner-operated apparel manufacturer supplying clothes to a women's dress retailer is a classic example. The factor purchases the accounts receivable from a supplier (the small apparel manufacturer in this case) and assumes responsibility for a retailer's financial inability to pay (the women's dress retailer in this case). This financing activity combines:

- Credit protection and advice.
- Accounts receivable bookkeeping, including electronic invoice and payment processing.
- Collections, cash management, and lockbox processing.
- Accounts receivable financing.

Factoring helps companies of all sizes, from start-ups to mature companies:

- Improve cash flow.
- Eliminate credit losses.
- Reduce operating expenses.
- Expand working capital financing through advances.
- Improve management information through online reports.

Major international banks focus their marketing efforts for factoring services on the larger apparel firms, i.e. those above $ 2 million in annual sales. If a firm is smaller than $ 2 million, a smaller, locally-based factor picks up the business. These smaller, locally-based factors tend to charge much higher commission rates, due to the greater risks their clients face.

International Trade

The U.S. imports the bulk of apparel sold domestically. In 2010, the U.S. imported $71.4 billion worth of apparel, with $40.6 billion arriving through the Los Angeles Customs District.

Since most imports come from Asia, a significant portion passes through the Los Angeles Customs District (LACD), which includes the twin ports of Los Angeles and Long Beach, Port Hueneme, LAX, Ontario International, and McCarran Field (Las Vegas). Of the top source countries for apparel imports to the LACD, China was by far the largest with $24.8 billion in 2010 (our definition of "China" includes Hong Kong and Macau for reasons to be explained in the Foreign Competition section). It is followed by Vietnam ($4.4 billion), Indonesia ($2.7 billion), Bangladesh ($1.2 billion),Thailand ($760 million), Philippines ($700 million), India ($620 million), Taiwan ($280 million), and South Korea ($120 million). In 2004, when we last did this report, China accounted for 1/3 of apparel imports coming through the L.A. area's seaports and airports. In 2011, China accounted for 2/3 of apparel imports with six times the dollar value of 2004. Vietnam, Bangladesh, and India did not receive mention in 2004. Now, they stand as number two, number four, and number six.

(Note: trade data for the L.A. Customs District do not reflect actual production or consumption in the SoCal area. It is the most comprehensive data available, and we feel it does provide a good picture of the overall trend. For L.A.-Canada and L.A.-Mexico trade, however, the data are severely skewed because much trade passes through border customs districts like San Diego and Seattle. According to industry insiders, Mexico is the second largest source of L.A.'s apparel imports behind, who else, China).

For textiles (not textile products such as carpets, rugs, etc.), China was also the largest source of imports at $687 million (out of a total of $1.7 billion in textile imports to the LACD), followed by South Korea ($297 million), Taiwan ($172 million), Japan ($121 million), Indonesia ($91 million) and India ($78 million). Italy ($51 million) was the first European country to reach the top textile import list.

See the table below:

Table 3: Los Angeles Customs District, Textile and Apparel Imports in 2010

Country	Total	Textiles	Apparel
	($ Value)	($ Value)	($ Value)
World	40,595,746,183	1,656,551,261	38,939,194,922
China	25,477,525,781	686,840,071	24,790,685,710
Vietnam	4,421,128,517	27,565,293	4,393,563,224
Indonesia	2,816,255,708	91,492,316	2,724,763,392
Bangladesh	1,190,147,379	145,084	1,190,002,295
Thailand	803,662,413	44,028,732	759,633,681
India	707,044,559	78,058,578	628,985,981
Philippines	698,329,905	1,171,788	697,158,117
Taiwan	451,559,679	172,090,837	279,468,842
South Korea	417,602,893	297,102,849	120,500,044
Japan	127,369,986	121,034,086	6,335,900
Hong Kong	94,953,193	3,208,088	91,745,105
Macau	36,188,562		36,188,562
Singapore	35,590,786	66,572	35,524,214
Asia	37,277,359,361	1,522,804,294	35,754,555,067
	92%	92%	92%

Source: *USATradeonline.gov*
Textiles: 50 (Silk, Including Yarn), 51 (Wool and Animal Hair), 52 (Cotton, Including Yarn), 54 (Manmade Filament), 55 (Manmade Staple Fiber), 58 (Spec. Wov Fabric), 60 (Knitted or Crochet)

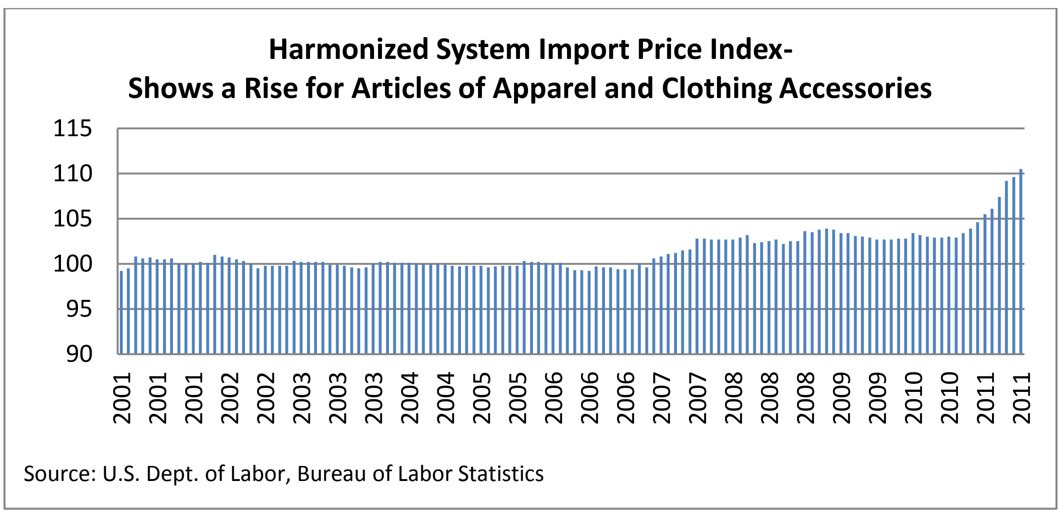
Apparel: 61 (Apparel Articles and Accessories, Knit or Crochet), 62 (Apparel Articles, Not Knit), 64 (Footwear, Gaiters)

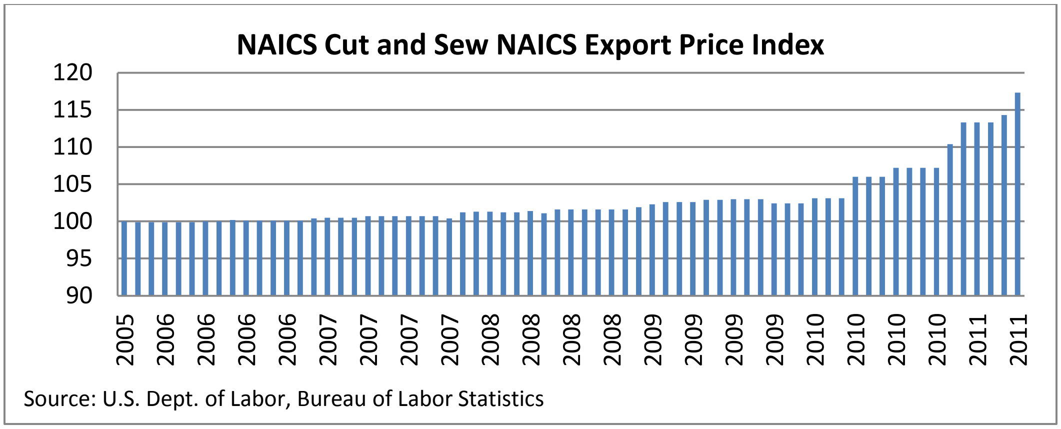
A stark difference exists between these two lists. Top apparel importers are very low wage countries. In comparison, textile making is both capital and technology intensive. So, top textile importers are higher wage, higher education, and more developed Asian economies. Driving home this point, the list of top textile importers includes the wealthy country of Italy. Italy has a strong tradition of making textiles. Comparing the two lists suggests Asia is now two regions within itself -- a poor, lesser developed one -- and a well developed one much like Italy.

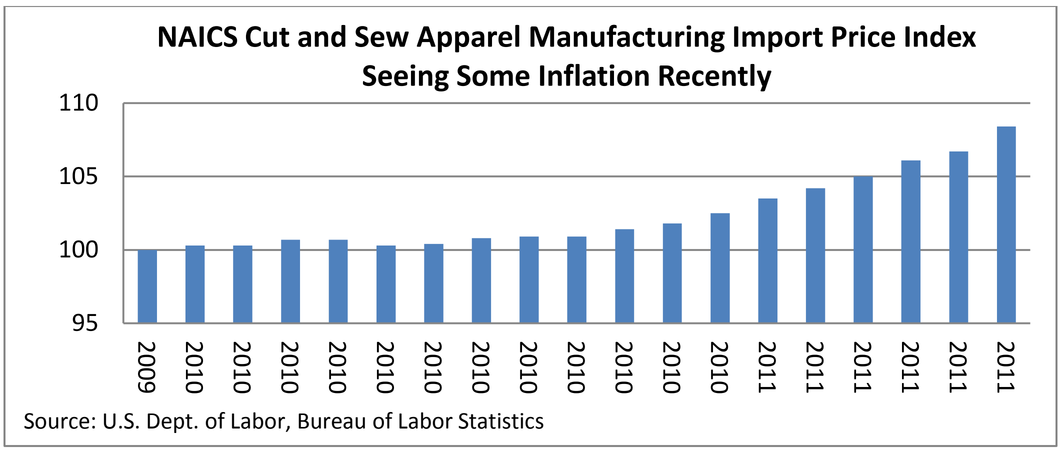
Top consumers of L.A. apparel exports (a total of $870 million in 2010) were Japan ($178 million) , China ($97 million), South Korea ($92 million), the United Kingdom ($64 million), Belgium ($55 million), and Australia ($41 million). A large portion of U.S. exports are shipped by air, a sign these are often high-value, time-sensitive merchandise. What's being exported? Anything from swimwear to designer dresses to Dodger's shirts.

U.S. exports of textiles ($3.16 billion in 2010) may return to the U.S. after a few weeks as finished products. China was the number one destination in 2010 at $1.78 billion, followed by Indonesia ($238 million), Vietnam ($191 million), South Korea ($160 million), and Taiwan ($112 million). Interestingly, the 2010 list includes the telling supra-low wage destinations of Bangladesh ($75 million), Guatemala ($63 million), and Pakistan ($58 million). Many apparel items now indicate the source of the material besides the location of sewing and packaging. For many products, the fabric source is more important than where the product is actually stitched together. Also, exports to Mexico are under-reported for the same reason mentioned above.

A final item to report: Rising export and import apparel prices in 2010 and 2011. The following charts show an articles of apparel and clothing accessories import price index, and two indexes (export and import) for cut and sew apparel manufacturing. All three apparel price indices rise strongly -- around 7 to 8 percent-- from early 2010 to mid-2011 in a direct response to higher cotton, oil, and wage prices.







Indirect Impacts

Like all industries, the real economic impact of the apparel and textile industries goes beyond the immediate jobs in these industries and the paychecks they generate. For every job created, there are multiplier effects in terms of either earnings or additional jobs.

When a worker takes home a paycheck, he spends a portion of it. Part of his or her spending becomes other people's income, and they in turn spend a portion of what they make. Different industries have different average indirect effects on earnings, which are indicated by earnings "multipliers". The differences come from the different spending patterns of workers in various industries. For instance, a highly educated computer engineer may make a lot of money but also invest a large portion of his earnings, while a factory worker may be forced to spend most of his income. Their purchases are also different, and that means their spending in effect goes to different people who spend their incomes differently, and so on. Therefore, different industries in different regions have different multipliers for earnings.

Using L.A. County's multipliers, one can see the real impact on earnings more than doubled for the industries in this report. While the direct, documented payroll in apparel & textiles in 2008 was $3.0 billion, it generated another $3.0 billion in indirect earnings and thus accounted for $6.0 billion in total earnings. This means that if all the jobs under this analysis went away, L.A. County would lose $6.0 billion in total income for its population. And this does not include the added 10% of well-paid workers in other apparel functions outside these three NAICs codes.

At the five county metro area in 2008, we estimated direct and indirect earnings totaled $7.8 billion[3].

Table 4: Direct & Indirect Apparel/Textiles Earnings in Los Angeles County, 2008

(Total change in household earnings due to change in apparel manufacturing earnings, in U.S. dollars)

Industry\Impact	Direct	Indirect	Estimated Total
Apparel Manufacturing -315	$1,791,419,070	$2,045,621,436	$3,837,040,506
Apparel, Piece Goods, and Notions Wholesalers - 4243	$947,040,928	$662,171,017	$1,609,211,945
Textile Mills - 313	$263,455,414	$251,942,412	$515,397,826
Total of these three industry codes	**$3,001,915,412**	**$2,959,734,865**	**$5,961,650,277**

Note: Earnings multipliers include the original earnings; overall wholesale multiplier used as substitute for apparel wholesaling

Sources: *Multipliers -- LAEDC 2011*
Earnings and jobs -- U.S. Dept. of Commerce, Bureau of the Census, 2008 County Business Patterns (i.e. pre-recession figures).

Looking at the issues in terms of jobs is another way of determining the total impact of the apparel and textiles industries.

The documented employee count in these three NAICs codes was 84,801 in 2008 (a pre-recession year that is the best proxy for 2011). Their earnings and spending generated another 74,184 "indirect" jobs for the region. The total L.A. County employment impact was around 158,985 jobs -- not a small number by any measure.

Table 5: Direct & Indirect Apparel/Textiles Jobs in Los Angeles County, 2008

(Total change in number of jobs due to change in jobs in apparel manufacturing)

Industry\Impact	Direct	Indirect	Estimated Total
Apparel Manufacturing -315	55,029	47,319	102,348
Apparel, Piece Goods, and Notions Wholesalers - 4243	20,669	20,353	41,022
Textile Mills - 313	9,103	6,511	15,614
Total of these three industry codes	**84,801**	**74,184**	**158,985**

Note: Job multipliers from LAEDC, 2011; overall two digit wholesaling multiplier used as substitute for apparel wholesaling.

Sources: *Ibid.*

At the five county metro area for 2008, we estimated total employment impact at 203,533 jobs.

[3] Earnings and jobs estimates for the five county Los Angeles area derived from additional LAEDC multipliers, 2011

L.A. Apparel Manufacturing -- An Industry Under Siege

Normally, the apparel industry would be considered a "sunset" industry for an advanced economy. Apparel manufacturing is a labor-intensive industry with low barriers to entry in the form of a low level of up-front capital investment. As a result, it is often one of the first manufacturing industries to be established in an underdeveloped country where low labor costs make them more price competitive. So based on simple common sense, industries like apparel manufacturing would not survive in a high-cost environment such as Los Angeles.

But this has not been the case...

The U.S. fast-fashion industry is dominated by local Los Angeles retailers such as Forever 21 Inc., Wet Seal, and Papaya. They have conditioned shoppers to see fashionable apparel on store shelves much sooner than in the past. It may take three to four months to get a new item from China. In Los Angeles, fast-fashion firms can get the fabric in a couple of weeks, have the apparel made in three weeks, and get it to the stores in five weeks.[4]

A Design-driven Industry...

In reality, the modern apparel industry is far more than just manufacturing. It is a highly sophisticated industry involving fashion & market research, brand licensing/intellectual property rights, design, materials engineering (which is often classified under "textiles" rather than "apparel"), product manufacturing, marketing, and finally, distribution. Of these steps, the value-added of manufacturing can be a large part in accessories or a small part in high-fashion *couture* products. Los Angeles, with its strength in entertainment and design, is able to maintain its competitive advantage in product design and marketing. In some cases, it is also able to sustain its manufacturing capacity for the high-value, high-fashion, quick-turn orders.

What is the primary source of the strength in L.A.'s apparel design base?

A large part of the strength is the amorphous concept of "L.A. Style", which is propagated by constant media obsession with Hollywood and entertainment celebrities. The perception of Los Angeles as one of the centers of fashion (along with New York, Paris, and Northern Italy) continues to support the demand for things designed in and reflective of Los Angeles. Even as Los Angeles loses traditional apparel manufacturing to Central America and East Asia, it's reputation as the source of fashion is growing. Every entertainment award broadcast and the nightly "Access Hollywood" news-shows reinforce the perception that "L.A. is fashion" even though there's no concerted effort to promote the "L.A." brand.

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[4] Alexa Hyland, Fit for L.A.*, Los Angeles Business Journal*, August 8, 2011, Vol. 33, Num. 32.

Do You Know These Local Brands?

○ 7 for All Mankind - jeans
○ A.B.S. by Allen Schwartz - women's wear
○ Adriano Goldschmied for Koos
○ Barbara Lesser - women's wear
○ BCBG Max Azria - women's wear
○ Bebe - women's wear
○ Becca - swimwear
○ Forever 21 - (highly diversified)
○ Frederick's of Hollywood - (highly diversified)
○ Karen Kane - (highly diversified)
○ Lucky Brand - casual men's and women's wear
○ Manhattan Beachwear - swimwear
○ Max Studio - (Leon Max)
○ Paris Blue - jeans
○ Self Esteem - casual women's wear
○ Single Dress - women's wear
○ Sue Wong - women's dresses
○ Tadashi Shoji - eveningwear
○ Trina Turk - (highly diversified)
○ True Religion - (highly diversified)
○ Vince - (highly diversified)

...Dominated by Immigrants

Interestingly, many of the contracting firms are owned by minorities, especially Asian entrepreneurs (Korean-American apparel firms even have their own association). Their workers are also mainly of minority origin: Hispanics and Asians. This is an industry where non-skilled immigrant workers can learn basic skills and move up the ladder within or outside the apparel industry.

Perceptions & Misperceptions

The local apparel industry suffers from many misperceptions that surround it. The L.A. apparel industry of today has greatly improved working conditions from the apparel industry of ten years ago. Stringent self- and government monitoring help ensure that "exploitation" occurs very rarely. Furthermore, the old-style "cut & sew" jobs have largely disappeared. In their place are shops that work closely with designers and fill low-volume, quick-turn orders that command much higher prices and hence higher profit margins. Sending such orders to offshore factories is simply not economical, especially in terms of time. A "Made in the U.S.A." label still commands a prestige factor that designers and retailers must consider when focusing on high-margin merchandise.

Design Programs at Local Colleges

Los Angeles is perceived as a leader in the field of fashion design, which helps its specialty design schools such as the Fashion Institute of Design & Merchandising (FIDM) and Otis College of Art and Design attract the top candidates to its design programs. In all, there are 14 private and public undergraduate schools with programs dedicated to apparel design and merchandising. These schools also draw many foreign students and minorities, and they add not just diversity but also international flavors to these programs. Many of their graduates stay to work in this area, which further reinforces the competitiveness of the region's apparel design industry.

- Art Center College of Design
- California Polytechnic University, Pomona
- California State University, Los Angeles
- California State University, Northridge
- El Camino College
- Fairmount College
- Fashion Institute of Design & Merchandising
- Long Beach City College
- Los Angeles Trade Technical College
- Mt. San Antonio College
- Otis College of Art & Design
- Pasadena City College
- Santa Monica College

Sometimes the apparel industry actually benefits from misperceptions. "Designed in Los Angeles" is seen as a statement of cutting-edge fashion, even though most labels indicate the location of manufacture (and sometimes that of headquarters of the brand). Only industry insiders who go to the trade shows and the "Marts" really know what's designed locally and what's not. Some designer labels play to the entertainment factor by hiring Hollywood-style models to represent their merchandise in paid advertisement. Also, what celebrities wear to award shows are often perceived as designed in Los Angeles, even though it's just the show that's in Los Angeles. In truth, some are not designed locally, but this connection helps link the idea of "celebrity fashion" with Los Angeles.

The L.A. Fashion "Marts"

To know the story of Los Angeles' apparel industry, one must understand the role of the "Marts". Behind the façade of these ordinary-looking office buildings is the heart of the Los Angeles' fashion industry. These are the physical marketplaces for designers, manufacturers, wholesalers, and retailers to meet and connect. Most of their "shows" are not open to the general public, with special public events where one can purchase sample items.

Marts in L.A. have two distinct characteristics: They are open 52 weeks a year, and potential buyers can visit any time. Other marts around the country are only open during designated "market" times. Surprisingly, New York, which also has a sizable apparel industry, does not even have a main mart.

There are four main marts in Los Angeles: California Market Center (formerly the CaliforniaMart), Cooper Design Space, The Gerry Building, and the New Mart. They're located at the four corners of Los Angeles St. and 9th St. in Downtown L.A. Now that's industry clustering!

What's inside each individual building ranges from mundane to cutting-edge. One can find the latest fashions before it even becomes fashion. Some large retailers also have "buying offices" where representatives of designers and manufacturers can go and showcase their latest offerings. At these marts, interested parties mingle and deal. Billions of dollars of contracts are awarded annually thanks to the interactions inside these marts.

It takes a trip to one of the marts, and perhaps to a trade show within, to appreciate the sophistication of the industry. There are products that outsiders would not have imagined, such as "predictive services". These experts forecast trendy colors and styles for the next two years, so designers and buyers can plan accordingly. No predictive services expert can ignore what's going on in L.A. Because L.A. leads in youth trends and grabs more attention -- thanks to the Hollywood connection.

A "Market Week" is a week of fashion shows. It's also a time to attract more distant buyers and press from all over the world. Given L.A.'s reputation as a major center of the latest fashions, Market Weeks (held five times a year) and Textile shows (twice a year) are a great time to promote L.A.'s fashion industry. Unfortunately, they do not get the local media attention they deserve. Often, L.A. residents are largely uninformed about the significance of the marts and their special activities.

A Truly Global Industry

If globalization allows all countries to benefit from their comparative advantage, then L.A.'s apparel industry can be upheld as a poster child of this trend.

In Los Angeles, long gone are the large factory floors full of sewing machines. Today, the division of labor is based on each region's cultural strength and economic realities. Now a piece of a garment can take a very long journey before it reaches the customer's closet. The design work, including the necessary market and trend analysis, can be done in Los Angeles. Marketing efforts through various channels begin immediately, if needed. The design may be modified slightly during the marketing phase. The design is then sent overseas to contract factories in Central America, Asia, or Africa. These factories may source fabric from the U.S. or elsewhere. When finished, the merchandise is most often shipped back to the name-bearing "manufacturer", which in turn ships the orders to retailers' distribution centers or wholesalers all around the world. Surplus inventories are also sold to certain discounters and close-out retailers such as Big Lots and Ross.

In concluding, apparel and textiles manufacturing is a dynamic, fully global market space. It's a value chain that touches all countries, so it interacts with governments. Their politics, regulations, and taxes can be dysfunctional, sometimes severely so, particularly in the developing countries. This can present serious governmental challenges to businesses -- wholly different than in the United States.

Inspect the World Economic Forum insights into important apparel and textile countries from 2010 ...

Ranking the Five Most Problematic Factors for Doing Business in 2010	
Turkey	**Vietnam**
Tax Rates	Inflation
Inefficient Government Bureaucracy	Access to Financing
Tax Regulations	Policy Instability
Inadequately Educated Workforce	Foreign Currency Regulations
Foreign Currency Regulations	Inadequate Supply of Infrastructure
Pakistan	**Bangladesh**
Government Instability/Coups	Inadequate Supply of Infrastructure
Corruption	Corruption
Policy instability	Inefficient Government Bureaucracy
Inadequate Supply of Infrastructure	Policy Instability
Inefficient Government Bureaucracy	Access to Financing
Indonesia	**South Korea**
Corruption	Inefficient Government Bureaucracy
Inefficient Government Bureaucracy	Policy Instability
Inadequate Supply of Infrastructure	Access to Financing
Policy Instability	Restrictive Labor Regulations
Access to Financing	Tax Regulations
China	**Sri Lanka**
Inflation	Tax Rates
Access to Financing	Tax Regulations
Inefficient Government Bureaucracy	Inflation
Policy Instability	Inefficient Government Bureaucracy
Corruption	Policy Instability

United States
Tax Rates
Inefficient Government Bureaucracy
Access to Financing
Tax Regulations
Inflation

Source: *World Economic Forum*

Niche Markets in Quick-Turn Merchandise

Product differentiation is very significant to the apparel business, perhaps more so than any other business.

Brand and designer names command a premium based on their reputation. (The joke is that the "L.V." lettering on a Louis Vuitton handbag accounts for 95% of the bag's value, but this may not be far from the truth.) Exclusivity also counts. Two women wearing identical dresses at the same party can be a true nightmare. Therefore, designs with limited production runs also command a high price tag -- as fewer customers share the design cost. It is in this kind of environment that the Los Angeles' apparel industry finds a niche -- the market for low-volume, high-fashion merchandise that has a very short concept-to-product time. These garments require high-quality materials, agile manufacturing capabilities, a close working relationship between the factory and the designer, and quick turnaround. The Los Angeles industry cluster is able to bring together such synergies.

Just how fast is the turnaround in this market? From concept to product, these production runs may be as short as just a few weeks. Once people forget what Anne Hathaway wore at the last Oscars, the perceived value of her dress drops exponentially. Therefore, the "knock-off" must get to the market quickly. Some firms may also place the initial order with local contractors at the same time they place the larger order with overseas firms. This allows them to capture the higher-priced retailers early on and use the mass-production goods that come months later to sell to the mid-priced markets.

Another potential niche market is that of re-orders. Some firms underestimate the demand for a certain style and need additional production fast. If they go through the overseas channel, the style may become a bit out-of-fashion by the time the products arrive. Also, the quantity needed may not be large enough to cover the extra overhead involved in overseas sourcing. Thus, developing the capabilities to adjust production runs quickly is crucial for local firms seeking a piece of the re-order market.

California Fashion Manufacturing (CFM) has started a website that lists contact information and the links to designers, suppliers, and other Southern California apparel-related companies.

The website will be listing brands, producers, and services who qualify for the "Made in California" distinction. Basic listing of contact info is free, with listing of a link to a company website free for members of the California Fashion Association (CFA) and available at a fee for non-members. The goal is to assist the development of opportunities for strategic alliances with Southern California apparel brand managers and local industry specialists.

L.A. & O.C. -- Two Distinct Trendsetters

Although Los Angeles and Orange Counties are economically integrated like two Siamese twins, they do have their own distinct personalities and hence niche apparel markets. Los Angeles County is strong in "contemporary" apparel, while Orange County is famous for its surfwear and activewear.

One example of the contemporary style in Los Angeles County is Forever 21. In January, 2010 Forever 21 opened a new 85,000 square feet retail clothing store in Cerritos, California in L.A. County. Being one of the largest, this store is designated as the chain's flagship store. The retail chain has expanded internationally recently. The first European Forever 21 store opened in Birmingham, U.K. in late 2010. The grand opening of the London flagship store occurred in July 2011, with punters queuing up in the early morning. The store is located near the Bond Street underground station.

Forever 21 focuses on the latest Los Angeles fashion trends and gets them to market quickly. It's management and employees attend fashion shows and other events to spot the latest trend, and they stay in close communication with their customers to find out what they want. By staying connected with the L.A. design scene, it is able to identify hot fashion trends and act on them quickly. The product cycle is so short in this part of the industry that it relies on a network of domestic suppliers rather than foreign manufacturers.

The History of Forever 21

The chain, originally known as Fashion 21, was intended for mostly middle-aged women. It was founded in Los Angeles, California in 1984 by Korean American Do Won Chang (Hangul: 장도원) and his wife, Jin Sook (Hangul: 진숙).

The first Fashion 21 store opened in 1984. It was located at 5637 N. Figueroa St. in the Highland Park district of Los Angeles. The store was only 900 square feet. It is still in operation and bears the chain's original name. Trendy designs seen in South Korea were sold and targeted to the Los Angeles Korean American community. However, people from many other ethnics and nationalities began noticing the trend-setting fashion designs, and the store became increasingly popular. By the end of the first year, sales had risen from $35,000 to $700,000.

Fashion 21 eventually expanded at the rate of a new store every six months and changed the Fashion 21 brand name to Forever 21. In 1989, Forever 21 opened its 11th store and first store located in a mall, at the Panorama Mall which is in Panorama City, California. Forever 21 increased its presence by expanding the average size to 5,000 square feet per store. Since then, Forever 21 has been running specialty stores in major mall locations nationwide.

In 1995, the chain opened its first location outside of California, which was at Mall of the Americas in Miami, Florida. Adding new stores every six months, Forever 21 had reached a total of 40 stores by 1997. Creating its own prototype store in Northridge Fashion Center, Forever 21 has employed its proprietary design concepts to all its stores since then. By this time Forever 21 also increased its average size to 9,000 square feet per store in prime spots of top tier malls.

(excerpt from wikipedia)

Wikipedia contributors, Forever 21, *Wikipedia, The Free Encyclopedia, http://en.wikipedia.org/wiki/Forever_21 (accessed September 27, 2011.) Verified with Forever21.com/Company/History*

Orange County may feel it's under the shadow of its big sibling to the north. But it has its own unique strengths in the apparel sector.

The apparel retailer Tilly's is a worthy Orange County topic. Their corporate office and distribution center are located in Irvine and their first retail store was built in Los Alamitos in 1982. It's retail stores are hot among the young and among active adults. While Tilly's customers may not all skateboard, surf, or ride motocross bikes, they like to be associated with such "California-lifestyle" activities. Wearing this trendy activewear or surfwear makes a statement about one's personality.

Tilly's sells branded merchandise such as Volcom, Quiksilver, Billabong, O'Neill, and Hurley for men, women, and children. At the end of 2011, it's 120-stores in 11 states also sold accessories; shoe brands like Vans, Nike, PF Flyers, Fox, DC Shoes; and different brands of sandals. Offering one of the largest assortments of brands and merchandise allowed Tilly's to become an expert in inventory control, and to benefit more certainly from any shift in fashion trends.

In both markets, the key is to be ahead of the fashion curve, which twists and turns quickly in both the contemporary and the activewear sectors. The Southland's strength in these two sectors is a shining testimony to its creative environment and design talents.

Technology Comes to the Rescue?

Technology is playing a major role in helping L.A.'s design shops to stay competitive -- by shortening product cycles and reducing costs.

- Computer-aided design and manufacturing (CAD/CAM) products and services help designers to quickly turn their concepts into prototypes and samples.
- Advanced computer-aided videoconferencing allows better communications between designers, manufacturers (which are often located overseas), and retailers, and this helps improve product creation and shortens the product cycle (the design-to-shelf time).
- Computerized shipping services allow manufacturers and retailers to control product flow (including customs clearance) and reduce delays, uncertainties, and inventory costs.
- Supply side management technology (PLM)

Together, these new technologies help designers, manufacturers, and retailers cut costs and maintain competitiveness.

But large capital investments can be very burdensome for smaller contractors. First of all, new machinery is often very expensive and requires some training. Secondly, some firms are nervous about investing when their own business outlook is uncertain, especially during harsh economic times. Therefore, some firms find it difficult to invest in new equipment even though long-term savings may be substantial.

Another option for small firms is to rent facilities at shared-service technology centers (see the box below on *The Fashion Project Cafe*).

An example of Technology at work in fashion design: Located at the nexus of 9th and Los Angeles, ***The Fashion Project Cafe*** solves production problems for start-up, small, and larger companies.

Powered by the latest Tukatech software and conveniently located in the lobby of the California Market Center, this two year old center offers computer-aided project solutions -- from initial pattern-making to short run production. The "X-factor"? A fashion designer can access an exclusive three dimensional animated fit model, to gauge fit and fabric behavior immediately, without the time and expense of making a sample and using a fit model. Once the optimum pattern is achieved, the fashion designer can have actual samples made.

A fashion designer can also have access to the widest variety of apparel industry information products available anywhere in the world, including the complete PANTONE swatch service and the PANTONE color matching lab.

There are no real barriers to keeping firms in developing countries from utilizing these advanced technologies to their advantage. They may not have to invest in the latest equipment. Instead, they can go for second-tier equipment whose costs have dropped, because of the introduction of newer machines. Some countries also have activist industrial policies that provide financial assistance to their producers.

Thus, in order to stay in business, firms in L.A. have to compete using their greatest strength -- creativity.

Labor Burdens: A Barrier to Job Growth

The L.A. apparel industry of today has greatly improved working conditions from the apparel industry of ten years ago.

With most of the industry's biggest profits earned via strong brands that stand for quality, there is a huge incentive to closely monitor any and all workplaces. Many U.S. companies, mostly in the apparel, footwear, and toy industries, have created codes of conduct for their suppliers. But with the apparel and footwear industries creating an ever-expanding production chain and a global web of contractors and sub-contractors, labor abuses are difficult to police.

In an attempt to prevent labor exploitation (recall the 1994 situation in El Monte), the State of California has labor regulations that specifically target the apparel manufacturing industry (the aforementioned AB 633). The concept of "joint liability" became law in 2001, making the brand-carrying manufacturers equally responsible for wage and hour issues within their contractor's shops. This is meant to force manufacturers to monitor their contractors more closely. Starting in 2003, manufacturers are also liable for the worker's compensation payments of their contractors. One positive conclusion? Retailers feel safer using California manufacturers.

On the other hand, these two laws make manufacturers more nervous about having production done in California. Some of these jobs went underground (i.e. not registered with the State). Yet this doesn't mean such factories can exploit their workers. Workers can still report any labor violations to the proper authorities. The net result? With the higher regulatory costs here, manufacturers can only produce the higher-margin lines in California. These are typically the small quantity, quick-turn garments. There may still be undocumented workers exploited by rogue contractors. However, this is not a problem just for the apparel industry. It's a general social problem that covers other labor-intensive manufacturing, service, and construction sectors.

In 2009, the Dept. of Homeland Security instituted further rules. The I.9 ruling requires the firing of experienced sewers and cutters without proper documentation. If social security numbers don't match, the authorities can fire workers. American Apparel lost 1400 employees in one day. No industrial training program is in place for companies to hire unskilled unemployed workers to replace them.

Barriers to Exporting

In today's world, and rapidly growing into the future, L.A.-based apparel suppliers have a lucrative, massive, and new source of apparel consumers to ship to in China and other wealthy urban markets throughout Asia. Penetration rates of "Made in California" clothing are low and consumer interest is high.

Export sales and recent global expansions can substantially add to Los Angeles jobs.

For example, American Apparel retail operations in Canada, Europe, and Asia remain its most profitable. Many apparel companies have also created overseas subsidiaries in low tax jurisdictions such as Ireland and Hong Kong. They use these entities as sales vehicles globally. Goods are sourced from Asia and then shipped directly to these offshore entities. The revenue never hits the books of the U.S. entity, causing an under-representation of the true economic impact of California companies selling abroad. Sales abroad lead to more design, accounting, marketing etc. jobs in L.A., as smaller companies will not typically create an administrative staff abroad until sales grow substantially.

But there are several barriers to the export of L.A. apparel, including both tariff and non-tariff barriers. Plus the local industries' own lack of experience in exporting hinders progress.

Apparel manufacturing is an industry found in many developing countries, so some developing countries have special tariffs to protect their domestic factories from foreign competition. The U.S. has not been as aggressive on barrier removal for apparel as it could, according to industry insiders. The multi-lateral negotiations available through the WTO may be the answer to this problem. However, other countries will surely put up a fight if they believe their own apparel industries are threatened. In reality, many of L.A.'s potential exports are items that do not compete directly with their local products (e.g., swimwear from Quiksilver). L.A.'s merchandise may be less of a threat to them than they realize.

Certain barriers to importing U.S. apparel products are not explicitly sanctioned by foreign governments. In many cases, they are just part of the accepted local business practices. For instance, sometimes it is hard to get shelf space at some foreign retailers, because they have long-term relationships with existing suppliers/wholesalers. If those suppliers refuse to carry the merchandise for a variety of reasons, the exporting manufacturer does not have access to retail shelves. Some larger manufacturers invade foreign countries with their own retail stores. But this is not an option for smaller manufacturers with limited financial resources. It is always safer to test the market by going through existing retail channels at first, but many manufacturers find that option to be extremely limited. Perhaps there can be a cooperative effort to establish an "L.A." branded retail channel in some countries. Thus far, this idea hasn't gained much traction. Another idea is to get U.S. big box retailers in those countries (e.g., Wal-Mart or Target) to provide shelf space. This appears defunct. To keep prices down, discount chains source locally.

Finally, many firms in L.A. simply are not very knowledgeable about exporting. The lack of export expertise in some companies may partly be the result of the U.S. being a large enough market to tackle on its own. Some firms are too busy supplying U.S. retailers to pay attention to exporting. In addition, some may be overly concerned with the documentation needs or creditworthiness of foreign buyers (Three solutions: export factoring, trade credit insurance, or work closely with a freight forwarding company). When these companies finally get an export order, some may find that they are ill-prepared for issues such as trademark protection. Some firms do not realize that their names may have already been "registered" by someone else until they try to export. Other firms also have to deal with their tarnished brand names caused by low-quality imitators using their trademarks illegally.

A disproportionate number of apparel export agents are in New York, even though the industry in L.A. is bigger. One of the reasons for this trend is historical -- New York has more headquarters of large multinational apparel firms. Given the large number of international trade assets around L.A., improving the export capabilities of L.A.'s fashion industry should not be difficult. While getting a precise count of export agents is difficult, a comparison of apparel & textiles employment in Los Angeles County and the eight-county New York PMSA show that New York has more jobs in apparel wholesaling and a much higher wholesaling-to-manufacturing ratio. Since a lot of wholesaling activity is trade-related, this is an indirect way of showing the relative strength of New York in trade-related services for apparel.

Table 6: Apparel & Textiles Employment -- Los Angeles County vs. New York PMSA, 2009

Industry\Impact	**L.A.County PMSA**	**New York PMSA**
Apparel Manufacturing -315	48,112	17,103
Apparel, Piece Goods, and Notions Wholesalers - 4243	19,794	49,996
Textile Mills - 313	7,653	3,621
Total of these three industry codes	**75,559**	**70,720**
Apparel wholesaling-to-manufacturing ratio:	**0.41**	**2.92**

Source: *U.S. Dept. of Commerce, Bureau of the Census, 2009 County Business Patterns*

In 2010, the Federal government announced The National Export Initiative (NEI). The NEI will help meet a goal of doubling exports over the next 5 years by working to remove trade barriers abroad, by helping firms

-- especially small businesses -- overcome the hurdles to entering new export markets, by assisting with financing, and in general by pursuing a Government-wide approach to export advocacy abroad, among other steps. L.A. sourced apparel hopes to benefit from this initiative.

The March Towards Free Trade Continues

- ✓ *The U.S. Office of Textiles and Apparel (OTEXA) monitors the import and export of apparel.* In addition, the U.S. Dept. of Labor regulates working conditions under the Fair Labor Standards Act (FLSA) and can make unannounced inspections.

- ✓ *The World Trade Organization (WTO) Agreement on Textiles and Clothing lowered many tariffs on apparel.* Under the WTO, import quotas on textiles and apparel products were lifted in 2005, except in the case of some specific categories of items from China. Quotas on some Chinese products (e.g. gloves, bras, and sleepwear), euphemistically called "safeguards", were not lifted until 2008. (A few other non-WTO members saw later removal dates, including Vietnam, Bangladesh, and Cambodia.)

- ✓ *President Bush signed into law the U.S./Central America - Dominican Republic Free Trade Agreement (CAFTA-DR) with five countries in Central America.* Under this program, CAFTA-DR entered into force for El Salvador on March 1, 2006, Honduras and Nicaragua on April 1, 2006, Guatemala on July 1, 2006, and the Dominican Republic on March 1, 2007. These agreements built on the 1995 implementation of the North American Free Trade Agreement (NAFTA) for Mexico and the Caribbean, and the May 2000 passage of the African Growth and Opportunity Act (AGOA).

- ✓ *President Obama concluded free trade agreements with South Korea, Columbia, and Panama.*

Some manufacturers remain justly concerned about the ongoing flood of cheap imports into the U.S. that can kill the remaining high hourly wage domestic jobs in apparel and textiles. But the current quota system was breached long ago. Manufacturers can ship fabric and textiles (if not nearly finished products) to a quota-free or quota-available country for final assembly. Some merchants go as far as setting up factories in Third World countries to literally circumvent the quota system. This practice, called "transshipments", helps to fuel the opposition to more free trade agreements with other countries.

Despite their advantage in labor costs (which are around 1/4 the costs of Mexican labor), Chinese exporters are also getting export tax rebates (currently 17% across-the-board) from their government, which helps to subsidize their exports (their rationale: to offset the value-added taxes imposed by foreign governments). During the Asian financial crisis, over a decade ago, the Chinese government initiated these export tax rebates to help exporters, in a successful attempt to avoid having to devalue its currency. With the U.S. and other developed countries demanding China continually re-set its currency peg towards purchasing power parity, and the country facing budget pressures and inflation, reducing the export tax rebates can serve two causes at the same time. However, taking away rebates will likely not offset their cost advantage and bring relief to U.S. producers. The market-determined differential is simply too large.

Eventually, importers, retailers, and consumers benefit from lifting quotas and other restrictions. Importers and retailers can consolidate suppliers to just a few countries, if they choose.

A Key Point:

Any further reduction of trade restrictions can only further reinforce the need for U.S. apparel manufacturers to continue to move into design-based and/or other high-end merchandise.

L.A.'s design-based apparel industry can fare much better than other areas that are not design-driven. This region's strength must be promoted and exploited, just as the Italians found a niche in designer-based automobiles, eyeglass frames, and shoes.

L.A. & N.Y. -- Friends or Foes?

Two areas in the U.S. can really claim to be centers of fashion year-round: New York and Los Angeles.

While L.A. (and its sibling Orange County) has a claim to be the leader in contemporary wear, activewear, and surfwear, New York is strong in women's outerwear, tailored clothing, and high fashion. L.A. has developed fast fashion, while New York has not been a player. Both areas are facing various cost pressures and trying to survive with design-based production and filling the needs of niche markets.

In October of 2011, New York also took notice of unfavorable trends in U.S. apparel manufacturing and developed a fresh strategy to support its industry. The NYC proposals bear repeating in this LA report[5]:

Pitch "Made in NYC" Labels: In the U.S., a growing number of consumers want to know where the products they buy are made. So, develop a successful "Made in NYC" campaign. Reduce or eliminate a sales tax for goods bought in New York City.

Market the District: Improve and program physical spaces within the district to help maintain the critical mass of fashion businesses needed to keep this neighborhood the city's fashion center. Enliven the neighborhood with the creativity and energy that is hidden behind building walls. Widen sidewalks in heavily populated areas, and jazz up the area's dingy sidewalks. Make getting street permits for street closings easier, and then hold fashion shows outdoors.

Consolidate Manufacturing: Today, manufacturing tenants face an uncertain future. A lack of affordable space is one critical issue. In an effort to secure affordable space, manufacturing tenants should be consolidated into several buildings. The total building capacity of the nine buildings with the most amount of occupied manufacturing space would be

[5] Municipal Art Society (MAS) of New York, "Fashioning the Future: NYC's Garment District", October 2011

sufficient to host the total amount of manufacturing space within the NYC garment center zoning district, approximately 1.34 million square feet. In addition, use vacant space for pop-up shops and provide financial incentives for entrepreneurs.

Update Zoning: Zoning needs to clearly express the economic development priorities for this area, and should only be amended in concert with a broader plan and commitment to grow the fashion industry and provide security for garment manufacturers. If a mechanism can be created to protect the amount of manufacturing space that exists today in the Garment District, then a relaxing of the zoning to introduce other uses should be carefully examined. Tax credits for relocating to the area are suggested. Tax increment financing for the re-zoned areas was another idea.

Explore Tariff Reduction: A U.S. Foreign Trade Zone is a government-designated, restricted-access site used as an import/export financial management tool. This regulatory mechanism allows foreign and domestic merchandise to be admitted for storage, assembly, processing, and manufacture, while reducing or eliminating duties on imports and exports. There are also foreign trade sub-zones for companies with manufacturing facilities outside the foreign-trade zone area. Companies seeking sub-zone status must apply to the federal government through the NYC Economic Development Corporation (NYC EDC).

Many of these ideas could be equally compelling in today's L.A. apparel industry.

The two areas should stop seeing each other as competitors, but as partners who face the same tidal wave. The future of the U.S. apparel manufacturing sector depends on the health and growth of firms in both Los Angeles and New York.

Textiles Manufacturing -- Another Sunset Industry?

Just as the apparel industry in Los Angeles is sustained by a strong design base and a niche market in contemporary and quick-turn merchandise, its sister industry, textiles manufacturing, also has found extended life in niche markets. Textiles manufacturing is highly mechanized and far more capital-intensive than apparel manufacturing, but it is not difficult to transport the factory to a cheaper location. It is energy-intensive and thus a location with high energy costs and unreliable supplies is often avoided. There are environmental concerns (i.e. from dying and washing) involved with textiles manufacturing, which make it less viable for advanced economies with stringent regulations.

The competitive advantage of Los Angeles' textiles industry is in design; in the ability to diversify product lines, which involves processes with many layers of expertise; speed; and a willingness to try new things.

Once a basic design is created, it has to be turned into a repeat pattern with the final color choices. Different repeat patterns and color choices can be made, so the basic design can yield many different complete designs. Years later, the same basic design can be given different colors and emerge as a new design again.

Our L.A. specialty is in knitting. There are approximately 2,000 knitting machines whirling away in L.A. today. Down considerably from the high, but still a large number. Earlier, a number of Korean knitting companies de-camped with their machines to Honduras, benefitting from the CAFTA.

Energy costs hit the industry hard in years past. Most of the lost jobs have not come back, even though the cost of energy, particularly natural gas, has dropped significantly from the highs. (Looking forward, things look much less bleak. Domestic natural gas supplies are now projected to rise dramatically, due to the use of hydraulic fracturing (fracking) technology, which basically pumps water into gas-rich areas to push out more natural gas.) The textiles industry is seeing contraction now, but labor costs play a small part in this trend. Energy supply and cost issues, along with some environmental regulatory concerns, are the issues on the minds of most local textile manufacturers.

Topping It Off -- Cosmetics, Jewelry, and Footwear

A few other fashion-related industries in Los Angeles also have their own industry clusters.

Cosmetics manufacturing has over 7,000 workers in the Southland. Big names include Max Factor, Merle Norman, Neutrogena and Hard Candy. Many of these are probably office jobs such as sales and marketing. They are listed under manufacturing because that's the classification of the corporation in general. Cosmetics wholesaling data is not available, but it is likely significant, due to all the trade-related activities and domestic consumption in the area. One boost to the cosmetics industry comes from the entertainment industry and its sometimes unique makeup needs.

The jewelry industry has a significant cluster around Hill St. and Broadway, just to the east of the Downtown Financial District. The Jewelry District has many retailers and wholesalers engaging in deal-making. Many smaller retailers and wholesalers rent booths from the various jewelry marts. It's quite a sight to see bazaars full of merchants selling diamonds, gold chains, and other precious stones. Bargaining is acceptable at many shops, and buyers should come knowing the current market prices for precious metals and stones.

Just upstairs in many unimposing building in and around the Jewelry District are many jewelry designers, manufacturers, and wholesalers. These are places where the real big deals are generated. While some firms choose to have their mass production done elsewhere, others have their whole production lines local in order to maintain quality control and provide speedy service. Of course, nearly all designers and manufacturers have small shops making samples or special custom orders. Low prices are not the central focus of most jewelry buyers, and thus local skilled craftsmen face less competition than their apparel counterparts. Local employees often go to trade shows in Las Vegas or elsewhere, showcasing their designs and signing up orders.

No fashion is complete without the proper footwear (sandals are likely for surfwear & swimwear), and it's also a significant business in L.A. Like cosmetics, a lot of these "manufacturing" jobs are really supporting jobs in sales and marketing. Three shoe trade shows happen in L.A. every year (called Transit). They get bigger and bigger each year.

Because L.A. is also a major center for marketing/advertising, this is also where much of the advertising materials (e.g., magazine photo shoots, TV commercials, etc.) in support of all the fashion-related industries are created.

We visited the employment data in Table 7 (below) eight years ago in December 2003. Comparing data from that report to this current one, L.A. jewelry manufacturing (3,223 to 1,180) and wholesaling jobs (5,840 to 4,935) have fallen off. In turn, *L.A. footwear wholesaling jobs have picked up dramatically* (1,913 rising to 4,058), while L.A. footwear manufacturing fell off (1,393 to 630).

Table 7: Other Fashion-related Industries

		L.A.	Orange	Riverside	San Bernardino	Ventura
Cosmetics						
32562	Cosmetics Manufacturing	6,502	207	250	10*	165
Jewelry						
339911	Jewelry Manufacturing	1,180	80*	10*	49*	5*
42394	Jewelry Wholesaling**	4,935	668	23	82	20*
	Total	6,115	748	33	131	25
Footwear						
3162	Footwear Manufacturing	630	118	n/a	n/a	n/a
42434	Footwear Wholesaling	4,058	1,012	20*	75*	69
	Total	4,688	1,130	20	75	69

**Note: includes watches, precious stones, & metals.
* estimated from number of establishments data
Source: *U.S. Dept. of Commerce, Bureau of the Census, 2009 County Business Patterns*

Outlook for L.A.'s Apparel Industry

Pluses

- ✓ The apparel industry cluster in Los Angeles is very visible and geographically identifiable. The "Fashion District" to the east of the Downtown is also supported and promoted by local authorities and has its own Business Improvement District (BID). Even the real estate owners in the district are pro-actively working together to define the Fashion District for the region.

- ✓ Perception can become reality if it's propagated relentlessly. L.A. is increasingly seen as the fashion capital of the U.S. Marketing efforts should focus on that perception and keep pushing the idea to the general public.

- ✓ The design talent coming out of L.A.'s schools is one of the greatest assets of the fashion industry. Some of these students come from faraway places and are attracted by both the real assets (i.e. the schools themselves) and by the perception about L.A. Furthermore, it is also easier for young designers to get attention in L.A. than in New York because the industry is less structured.

- ✓ There's also tremendous interest in the "L.A. Style", an amorphous concept that's open to interpretation. Los Angeles has the strength in contemporary designs, partly because L.A. helps define what's hot and what's "in". In recent years, Orange County has also established itself as a center for surfwear and activewear design.

- ✓ Fresh ideas in retailing are sprouting from Los Angeles as a reaction to retail consolidation (Forever 21, Love Culture, Papaya). Large national retail chains engage in "matrix purchasing", which favors existing, large suppliers. In response, some manufacturers (A.B.S., BCBG, Guess, True Religion) are going vertical, opening retail shops, which are major and risky investments.

- ✓ MAGIC has moved to Las Vegas, which certainly impacts convention revenue in L.A. But L.A.'s apparel businesses dominate the show. Of the approximately 4000 companies displaying their wares at the 2011 show, almost a quarter were from L.A. Any sales booked at the show become sales in L.A.

- ✓ Access to seaports and airports needed for distribution (to the lower 48 states and to Hawaii and Alaska) is also an advantage for Los Angeles. The Pacific Rim (not just East Asia but also Central America) is the center of apparel manufacturing in the world. L.A. is effectively the capital of apparel design and marketing in the middle of this "Ring of Sewing Machines".

Minuses

- With new, young designers seeking to enter this business, and more and more specialized women's clothing buyers coming in from out of state and often outside the country, the need to refresh the LAX airport terminal and the downtown Fashion business improvement district (BID) becomes more important than ever.

- The lack of major, public-accessible L.A. fashion shows means lower public awareness of the strength of this local industry. The Men's Apparel Guild in California (MAGIC), is the nation's largest apparel show. Their first shows were put on by Palm Springs, CA. One MAGIC show was held in downtown L.A.. The organizers then moved MAGIC to Las Vegas because the Los Angeles Convention Center was not big enough.

- Most media coverage focuses on the trendy runway shows, which do not really showcase the more mainstream saleable designs. The real action is found in pre-selling at the showrooms in the marts.

- Not many local high school students know about the abundant opportunities in apparel design and marketing, and thus fail to take advantage of the available educational resources here. They end up choosing college majors with limited career opportunities (e.g., history) and miss out on the vast opportunities in apparel.

- There are barriers to exporting, and some government and business cooperation is needed to overcome such barriers. One possibility is to create retail channels focusing on the "L.A." brand. Another is to get cooperation from American retailers operating overseas. Finally, our own export capabilities need to be enhanced.

Items to Watch

What are the key forces in today's apparel landscape versus 6 or 8 years ago?

First, there are now much higher oil prices driving up transportation costs, higher cotton prices driving up textile material costs, and a rising overall picture of inflation in China that includes a rising price for apparel contracts originating from this country. Some of this Chinese inflation relates to rising internal wage costs. This continues to push more manufacturing and textiles business into lower wage countries like Vietnam and Bangladesh. This "second migration" is unlikely to offer much breathing room via labor costs to California textile and apparel manufacturers. The rest of the effects on today's complicated global apparel supply chains are worth pondering.

Second, parts of China are now "developed". This means there is a large class -in the millions- of middle income consumers. Ditto for Singapore, Taiwan, and South Korea. By 2015, about 27% of China's households will be upper-middle-class or better, according to McKinsey and Co., up from 10% in 2005. Urban coastal cities offer huge new markets for quick-turn and "Made in California" apparel.

The effort to find a way through red tape to successfully display and sell product in Asia could be worthwhile to more and more SoCal designers. Consider this quote from a recent Wall Street Journal article, "Like their peers in Japan and China, Korean women love luxury items. Here’s one way to gauge just how much: there’s a secondhand market for Chanel and other brand-name paper shopping bags."

Third, Prêt-a-Porter (off-the-rack) clothing is now being made in the couture design centers of Europe. The idea of producing casual clothing to compete with SoCal brands will keep pressure on the industry coming from this direction as well.

What Could be Done to Support the Industry?

- Marketing, marketing, and more marketing of the "L.A." or "California" brand. Successful marketing generates additional demand and boosts the intrinsic value of the merchandise. A strong, proprietary local brand also means it's not something that can be easily transferred to another location. Intense marketing also brings in more buyers to local market weeks, which will generate a variety of additional spending and tax flows (e.g., meals, hotels, limo services, etc.)

- A successful apparel business requires more than just great designers. It needs top-notch management talent also. More colleges should consider offering apparel-related business management and merchandising studies, not just apparel design.

- Introduce local high school students to the opportunities in the apparel industry through "reality-based" programs such as the Regional Occupational Program (ROP) in high schools. Once they see the process of fashion design and merchandising, some might be hooked!

- The apparel community should work to upgrade the impact of "Market Week" so it get more publicity and use it to educate the residents about the importance of the local fashion industry. Fashion is a big business in L.A., so let's make market weeks a big deal around here. This will help strengthen L.A.'s reputations as the center of fashion in America.

Quotes from Vogue on "Made in CA"

"The vintage clothing available here is unlimited...from thrift stores to flea markets...always golden." - *Johnson Hartig, Libertine Designer*

"In California I have the peace and space to be and to think. Just looking at the ocean keeps everything in perspective, and the immense sky allows me to breathe." - *Tom Binns*

"I get inspired by being outdoors, and being on the West Coast makes that all very accessible year round--from hiking trails and marinas to outdoor yoga." - *Laurie Stark, Chrome Hearts Designer*

"When people think of Los Angeles, they tend to think of only the Hollywood glamour...We are just two girls who love fashion, but are down-to-earth, and so are our designs." - *Scarlett Chorvat & Alison Renner, Shimmi Designers*

"There are so many muses here from actors to models to artists to musician -- all very different from one another, but they all represent California girls." - *Mary Pierson, VP of Design, J Brand*

"I grew up on the Venice Canals, which is sort of an artist's enclave a few blocks from the beach. It's a really creative, artistic community, and I feel like my jewelry reflects this." - *Irene Neuwirth*

"The biggest misconception I have heard about California is that everyone lives near the beach and only wears flip-flops, so by default, it's assumed all I design are sandals!" - *George Esquivel*

"There is nothing better than paying local artisans well for their art. I love the idea that The Elder Statesman has created its own little local industry." - *Greg Chait, The Elder Statesman Designer*

"I've recently started working with craftsmen outside my industry, such as special-effects prop masters and car-part manufacturers, to make certain accessories for the collection. The opportunities if you think outside the box of typical 'fashion' production are endless here in Los Angeles." - *Raven Kauffman*

"The warm Southern California climate allows us to practice ecological responsibility. Both of our downtown spaces have many, many windows, so sunlight warms and brightens the space without much need for artificial heat or light sources." - *Christini Kim, Dosa Designer*

"I am inspired by old Hollywood architecture. My favorite is John Woolf. Bob Evans owns one of his homes where I play tennis." - *Margaret Maldonado, L'Agence Designer*

"There is nothing better than living and working in a charming 1940s beach bungalow that is minutes away from yoga, bike rides, surfing, and walks by the ocean." - *Suzanne Donegan, Mannin Designer*

"From the vintage fabric collector who works out of his Venice bungalow to the inspiring collection of pieces at Palace Costume, I have definitely found an endless source of inspiration in California." - *Andrea Lieberman, A.L.C. Designer*

"The warm California light does incredible things to stones, making them really glow and come alive. I always design in natural light, which in California is sublime." - *Liseanne Frankfurt, LFrank Jewelry Designer*

"Living in California makes me see in full color. Nature is a huge influence: the sun, the light, the ocean... the open sky, a sense of freedom." - *Nina Garduno, Free City Designer*

"The beach inspires me the most--the color palettes, the organic shapes of nature I find there." - *Kendall Conrad*

"In Los Angeles, experimentation with new ideas is welcome, and the ability to approach fashion from a nonconventional angle becomes a trigger for resourcefulness and innovation." - *Juan Carlos Obando*

"Most people believe that all fashion comes out of New York and Paris. While much of it does, the best denim is designed and produced right here in L.A. -- it's the denim capital of the world!" - *Serge Azria, CEO and Creative Director, Current/Elliott*

"I have a true Southern California wardrobe: Flip-flops, cute dresses, and jean jackets are my staples." - *Jennifer Meyer*

"Having grown up in France and spending a lot of time in Europe, I find that in L.A., more than anywhere else, denim is a part of the everyday wardrobe." - *Jerome Dahan, Founder and CEO, Citizens of Humanity*

"I think freeway driving in L.A. is great. I love it early mornings, on the weekends, without so much traffic, just like it was fifteen years ago." - *Gregory Parkinson*

"California is a melting pot of every walk of life. There's a constant creative energy because everyone showcases their uniqueness in an everyday runway show." - *Robert Keith, Hoorsenbuhs Designer*

"I grew up in Brooklyn, and I was a lifeguard because I loved the dream of being at the pool all day hanging out with gorgeous girls. That is the epitome of California." - *Jeff Lubell, True Religion CEO & Founder*

"It has been the most rewarding and intriguing part of our brand to be "Handmade in California!" - *Marjan & Maryam Malakpour, Newbark Designers*

"Waking up to blue skies, sunshine, and the ocean inspires me to create beautiful things." - *Monique L'Huillier*

THE END