

The clothing industry has generally maintained its profit position, operating costs and long term debt/equity position over the past ten years. The long term debt to equity ratio in clothing has remained relatively high in view of its lower fixed assets and reliance on credit. The industry's relatively small share of total manufacturing capital expenditures reflects the labour intensity of production. Annual investment levels in clothing peaked in the early 1970s, remained essentially unchanged throughout the 1970s and during the recent recession fell to historic lows. After tax profit on capital employed by the clothing industry has, however, remained higher than that of all manufacturing.

INDUSTRY STRENGTHS AND WEAKNESSES

a) Structural

The Canadian clothing industry is highly fragmented with 74 percent of all establishments employing less than 50 employees. This low degree of concentration is not unlike the industry structure in other developed countries such as the United States where 70 percent of all establishments have 50 employees or less. A major factor in fragmentation of production is the ease of entry, related to use of traditional technology and low capital costs.

Opportunities for significant economies of scale in the clothing industry are limited primarily by high labour intensity of production (24 percent versus 13 percent for all manufacturing) and exacerbated by the lack of standardization in apparel production. Nevertheless, the small scale of many firms, particularly those in women's wear, allows for flexibility in solving customer needs where style and delivery are important in a market where changes occur rapidly.

Historically, little or no change in structure has taken place in the industry as a whole. Since 1973 the number of manufacturing establishments has declined marginally (by 42 to 2,235 in 1982) and the large number of establishments with fewer than 100 employees (89 percent of all establishments) still account for a substantial volume of shipments (52 percent). Small family-owned firms continue to make up the vast majority of establishments in the industry.

The industry's regional concentration, primarily in large urban centres such as Montreal and Toronto, has traditionally allowed it ready access to pools of low and semi-skilled labour. Efficiencies in marketing domestically produced apparel are also realized from the concentration of apparel production in these urban areas where most retail buying occurs.

b) International Trade Related Factors

Canada, as with most developed countries maintains high tariffs (25 percent for clothing versus 9 percent for all manufacturing) in addition to quantitative restraints covering over 80 percent of apparel imports. Canada's bilateral restraint arrangements (currently with 21 low-cost and state-trading countries) have been negotiated within the Multi-Fibre Arrangement which provides the international framework for regulating trade in textiles and clothing.

Overall, the clothing industry enjoys more certainty than many other industries in regard to import competition in that imports have been controlled to some degree since the 1960s. However, within this system there have been two major periods of uncertainty because of unforeseen developments in the clothing market (1976 and 1982-84) primarily related to fashion swings when imports increased substantially.