SECTION D
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BUSINESS

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YOUR MONEY

We Have Seen the Future, and It's Oddly Familiar

MARKET BEAT
TOM PETRUNO

Just to show that the more things change, the more they really do stay the same—at least in financial markets and the world economy—the following news items have been beamed back from future editions of The Times:

• **DATELINE: Gallitzin, Ohio, April 26, 2004:** Reporters today surrounded the elm-shaded home of Miss Lillian Snavely, the 93-year-old pensioner who is believed to be the last American holdout from the stock market.

A rumor swept Wall Street on Tuesday that Snavely, who had insisted that she would never put a dime of her money in stocks, had finally capitulated and ordered a mutual fund prospectus from FidelVangRowePrice Investments, the fund giant formed several years ago by a merger of some of the industry's biggest players.

Snavely refused to come to the door of her modest home to talk with the media. But in a phone call with CNBCFOXCBSCNN-TV, the broadcaster formed several years ago by a merger of some of the industry's biggest players, the widow admitted she was mulling whether a "small" investment in the market might be appropriate, considering that her health was good and she could afford to be a "long-term investor."

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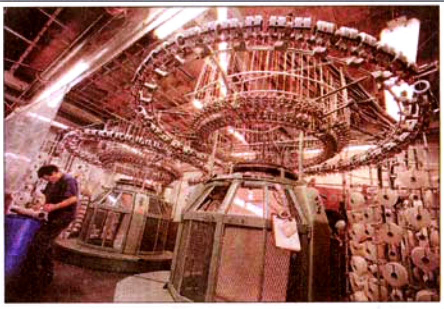
INSIDE

Fashion Forward

Southern California's niche role in the garment industry has helped local manufacturers thrive despite job losses elsewhere and a production shift to Mexico.

Photos by PAUL MORSE / Los Angeles Times

Los Angeles is "getting stronger and stronger as a center," says Bill Tenenblatt of Antex Knitting Mills, which produces cotton fabrics. Below, textiles are processed at Match Master, one of the local industry's many service firms.



By DON LEE
TIMES STAFF WRITER

The number of Southern California garment makers shifting production to Mexico has risen dramatically in the last couple of years, as even the region's most entrenched firms have reacted to the state's sharply increased minimum wage and other competitive pressures.

But so far the movement of sewing work to Latin America has not dealt a crushing blow to the region's apparel industry, as some people predicted it would and as it has in other garment strongholds on the East Coast and in Texas. On the contrary, apparel production employment in the Southland has grown relentlessly, boosted by a record number of start-ups, strong gains by some

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Dyes await fabrics at Match Master in L.A. garment district.

Bursting at the Seams

Fueled by a surge in start-ups, garment production employment in Los Angeles County has continued its unparalleled growth, despite significant losses elsewhere in the nation.

JOBS

Apparel manufacturing employment:

	Los Angeles County	New York state	United States
1992	98,300	101,900	992,000
1993	92,500	99,000	959,000
1994	98,300	94,400	960,000
1995	106,500	90,800	872,000
1996	110,900	88,300	840,000
1997	114,900	87,800	795,000

COMPANIES

Number of firms in apparel manufacturing:

	L.A. County	Orange County	Riverside/ San Bernardino
1990	3,669	339	94
1993	4,425	333	125
1996	5,070	655	166

Sources: California Employment Development Department, New York Department of Labor, U.S. Bureau of Labor Statistics

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established companies and new work from the East, government statistics and interviews show.

State officials last month counted 122,500 workers in Los Angeles County's apparel-manufacturing sector, which is the nation's largest and has grown every year since 1993, when the county recorded 92,500 such workers. Nationwide, however, industry payrolls have plummeted 17%, or more than 160,000 jobs, from 1993 to 1997, with New York, the Carolinas and Texas all taking big hits.

"We are the last holdouts because of the niche market we're in," said Joe Rodriguez, executive director of the Garment Contractors Assn. of Southern California. Apparel makers in the region specialize in cutting-edge contemporary clothing and sportswear for the women's and junior markets, produced quickly and sold at moderate retail prices. "We do work nobody else wants to do—low-volume fashion stuff, small, unmanageable lots with an ungodly mix of styles."

Still, industry executives and academic researchers say that had there not been an accelerated movement to Mexico in the last two years, Southern California might have created tens of thousands of additional entry-level jobs in garment production.

Now there is widespread concern that the local industry could soon begin shrinking as more and more firms are enticed by the benefits of the North American Free Trade Agreement. By 1999, NAFTA will remove all tariffs on garment and textile work moving between the United States and Mexico.

"It's amazing how we've bucked the trend," said Lonnie Kane, president of **Karen Kane** Inc., a major manufacturer of women's sportswear in Los Angeles. "But the reality is that with all the pressures, there are going to be fewer manufacturing jobs. This year we'll see a bit of a shakeout."

Kane should know. Last January, after years of resisting the siren call of Mexico, he began moving some production to the Tijuana area. Those goods represent a speck of his $70-million business—just 2,000 units of knitwear a month. Even so, Kane figures that resulted in the loss of work for two of his 30-plus contractors. And that's only the beginning. Satisfied with the returns from Mexico, he said, "we're doing a couple of styles there now. We intend to increase that to 10 styles in the next two months."

Kane and his wife, Karen, started out in their Studio City garage more than 18 years ago. His office in their new two-story building near downtown Los Angeles is decorated with Dodger memorabilia, and he is president of the California Fashion Assn., a group committed to strengthening the local trade.

"I don't care to leave my roots," Kane said, his voice rising in emotion, "but I absolutely have to run my business. If I'm getting pushed on the bottom end by increased labor costs and on the other end by demands from retailers, I have to find some way of making up that margin."

Many other clothing manufacturers in Southern California moved work earlier, but the list has grown virtually each week since big names such as **Guess** and **Chorus Line** first drew attention by shifting production more than 15 months ago. The trend has coincided with California's minimum-wage increases, from $4.25 an hour two years ago to $5.75 currently—higher than the U.S. minimum of $5.15.

"I've never seen the industry under such pressure and transition," said Jeff Rudin, president of **Quail Leasing** in Burbank, one of the nation's largest lessors of apparel-making equipment. He says his regional sewing machine rentals are down 25% from two years ago, although leasing of embroidery, knitting and other machines locally and in Mexico has grown. "We have tremendous demand for Mexico," he said.

Of the major garment makers in Southern California with sales of $10 million or more, nearly two-thirds of them are now doing some production in Latin America, principally Mexico. That's according to new research by Judi Kessler, a UC Santa Barbara sociology professor who has conducted extensive interviews with 80 of these firms. The last industry survey in 1992, two years before NAFTA was enacted, found that just 12% of major Southland apparel firms sourced in Mexico, Kessler said.

Experts estimate there are 2,000 apparel makers in Southern California, but only about 200 of them do $10 million or more in sales, accounting for 75% of the local industry's shipments. There are nearly three sewing contractors for every manufacturer, whose primary work is designing and marketing its labels. Despite a reputation as a marginal industry, garment and textile manufacturing and wholesaling now account for about 10% of Los Angeles County's $282-billion economy, according to the Los Angeles Economic Development Corp.

For California garment makers, nearby Latin America has long held promise as a production locale, especially as labor costs have risen in the Far East. But in the past, many resisted leaving because of two concerns: quality and turnaround time.

However, Kessler said most manufacturers in Southern California now report being "moderately to highly satisfied" with the work in Mexico. "Some thought that the quality was better than they were getting in Southern California," she said.

Companies' reactions to turnaround times have been more mixed. In interviews with The Times, manufacturers said they have been moving production deep into the interior of Mexico—to towns such as Tehuacan, just south of Puebla—as well as to Central America. They said they are encountering costly delays because of the longer distances and more frequent hijackings.

Yet they remain committed to shifting more work south, saying the payoff potential is too attractive. They can cut labor costs by more than half and ultimately save at least 35% in total production costs, even with the additional charges for freight and handling, said Bruce Berton, a consultant specializing in the garment industry at the Santa Monica accounting firm Stonefield Josephson.

"For manufacturers, the gross margins just get smaller and smaller," said Berton, who just opened an office in Mexico City and has helped 40 Southern California apparel companies relocate to Mexico since 1996. About a quarter of these, he said, moved their entire production.

"Everybody buys the fabric at the same price, but when it comes to labor, they have to go somewhere else," he said.

The flight to Mexico has clearly hurt some sewing contractors in the region, but NAFTA also has opened up new markets for local apparel manufacturers and more

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APPAREL

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places to obtain raw materials free of quotas. All that has created more support jobs locally and pushed Southern California's garment industry to focus on its unrivaled strength: designing new styles and looks.

Bugle Boy Industries, a $550-million clothing company based in Simi Valley, now sends out about 15 million units a year to be sewn in Mexico—five times more than three years ago. But Chairman William Mow said the increase represents mainly new business and that his Southern California employment has surged 75% during the last three years, to about 400.

Some of those new jobs have come in cutting and shipping-receiving, which Bugle Boy does in Simi Valley and Carson, among other places. But for the most part, Mow said, his new hires have been in sales, management and all phases of design, from fabric development to graphic arts to inspectors. "Over here, we do what we do the best—the creative portion of it," he said.

The growth of companies like Bugle Boy has also fueled demand at the region's textile factories and the multitude of accessories and distribution companies that support the garment industry. Employment in Los Angeles County's textile-manufacturing industry has boomed 44% since 1993, to 15,600 in March. And dozens of new knitting houses, dye shops and apparel printing operations have sprouted throughout the Southland in recent years.

"We're getting stronger and stronger as a center," said Bill Tenenblatt, president of **Antex Knitting Mills** in Los Angeles and head of the local textile trade association.

Perhaps the biggest factor in the region's garment and textile industry growth has been an unprecedented entry of start-up firms.

The latest figures from the state Employment Development Department show that the number of garment manufacturers and contractors in Los Angeles County increased 15% between 1993 and 1996, from 4,425 to 5,070. And in Orange County, which has come to dominate surf and beach wear manufacturing, the number has nearly doubled, from 333 to 655.

"We're getting 35 to 60 new applications each month," said Jose Millan, the state's labor commissioner. At the end of 1997, his office counted 6,416 apparel manufacturers and contractors in California—the largest ever and about 1,800 more than in 1994.

Millan thinks some of the increase reflects previously unrecorded underground shops that have gone legitimate because of government pressure. But he and others say most are new ventures started by immigrants and others who see an opportunity to tap into the world's growing appetite for California styles.

Take Diane Levin, a former attorney in South Africa, and her younger sister, Janice Levin-Krok, a professional designer. The sisters, who are in their 30s, started **Poleci** out of their Westside apartment on a shoestring budget after immigrating to Los Angeles a few years ago.

"When we did our first order, we went to the dry cleaners for hangers and then to U-Haul to ship the goods," said Levin, whose company's sensuous slip dresses and body-hugging tank tops are seen on Heather Locklear and Courtney Cox. Today the company does more than $10 million in sales and has 34 employees, most in design and administration.

"The apparel industry continues to be a means by which young people in particular can enter an entrepreneurial business with low capital and a strong upside potential," said Richard Reinis, head of Compliance Alliance, an apparel manufacturers group in L.A.

As had many others, Reinis had predicted that Los Angeles' garment industry would be measurably hurt by NAFTA. But the "giant sucking sound" that critics of the accord warned of has largely been heard elsewhere. Among the first to be hit was the garment industry in North and South Carolina, which specializes in commodity goods such as underwear and sweat clothes. Those items are produced in huge volumes and with long lead times—just the kind of work that's easily transferable to Mexico.

Similarly, the once-strong jeans industry in El Paso could not compete as companies such as **International Garment Processors**, a major supplier to **Levi Strauss**, invest in Latin America's apparel infrastructure, which now does everything from dyeing to stone-washing.

New York, the fashion-marketing capital of the country, and Miami, with its strength in warehousing and cutting, have fared better because of their infrastructure. But government data show that New York state's apparel-manufacturing employment has fallen by 11% since 1993, to 87,800 last year. The core garment industry in New York City has done better: Employment rose slightly in 1997, for the first rise in years. But the garment district there is grappling with intensified government scrutiny and comparatively higher wages, and it has watched as East Coast makers such as **Jones Apparel Group** have shifted some production to Los Angeles, contractors say.

Miami's garment industry, which traditionally did brisk business in reworking clothes that had been poorly sewn in the Caribbean, has also seen a slowdown. Employment in all of Florida's garment sector fell 10% in the last year, to 22,500 last month, as apparel production in the Caribbean has been hurt by competition from Mexico.

Gary Gereffi, a prominent garment industry expert at Duke University, thinks Los Angeles has enjoyed multiple advantages: a large immigrant work force; a strong infrastructure with textile, distribution and accessory companies all in one place; a big local market; and numerous companies that are nimble and innovative.

"I think there is going to be a continual migration of production jobs out of Southern California to Mexico," Gereffi said. "By the same token, I think Los Angeles will still remain the center of the garment industry, with higher-end design and marketing." But he added that the total number of garment jobs here is almost certain to shrink.

By how much will depend on companies like **Knit Works**. Late last year, the Los Angeles company dipped its toe into Latin America. Owner Vera Campbell made contact with an old friend in Honduras, who hooked her up with a sewing shop.

At the outset, Campbell encountered a host of problems. She lost a full container of 120,000 completed pieces of knitwear to hijackers who intercepted the goods in Guatemala. The shipment was insured, but she had to scramble to fill the order, reproducing the goods in Los Angeles in just two weeks.

But that didn't deter her, and today Campbell looks to Honduras for 15% of her sewing production.

"I don't want to do work there," said Campbell, who has long been a booster of Los Angeles' garment industry. But she said that when she told her Southland sewing shops what it cost to sew a garment in Honduras—35 cents as opposed to $1.20 in Los Angeles—even her contractors acknowledged that she had a compelling reason to go.

"I don't see much more than 20% of my business there," Campbell said. But, noting that she has been very much satisfied with the quality, she added, "Six months from now, I might have a different view."

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Antex Knitting Mills