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## Cotton Tale: Apparel Prices Set to Rise

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After a decade of deflation, the cost of producing apparel is on the rise.

Prices for cotton are up about 55% from a year earlier, and costs are rising for other raw materials as well as transportation and labor. Recession-scarred retailers, which have only recently recouped their profit margins, will try to pass at least some of the price increase along to shoppers.

"We are facing a very serious problem in terms of increased cotton prices," Abercrombie & Fitch Co. Chief Executive Michael Jeffries said Tuesday. The increases are making it harder for the high-priced teen retailer to restore margins already eroded by steep markdowns and depressed sales.

Intimate-apparel maker Maidenform Brands Inc. says it is seeing rising fuel costs that affect not only what it spends on transportation, but also the price of the petroleum-based synthetic materials that it uses for many of its products.

"The reality is that there will be some price increases," Chief Executive Maurice Reznik said in an interview. The company will likely try to tuck them into bigger-ticket items such as shapewear. The price of a \$38 shaping top might rise by \$2 to \$3, Mr. Reznik said.

The rising costs come as better inventory control has given retailers a measure of pricing power. Once ubiquitous deep discounts are harder to find, and consumers already are shelling out more for clothing. An index measuring the price consumers pay for apparel rose 1% in 2009, the first increase in more than a decade and the biggest year over year jump since 1993, according to the Bureau of Labor Statistics.

"We're not going to see this ongoing decline in costs, this ongoing margin expansion for retailers and this ongoing savings for the consumer," says Richard Jaffe, a retail analyst at Stifel Nicolaus.

Raw materials account for between a quarter and half of the cost of producing a garment, says Andrew Jassin, managing director of retail consultant Jassin-O'Rourke Group LLC.

Cotton prices increased to more than 88 cents a pound in April, up 55% from a year earlier and higher than they got during the commodities boom last decade, according to trade publisher Cotlook Ltd.'s 'A' index, a proxy for the world price of cotton. The index stood at 89.80 cents Tuesday.

The spike in cotton prices is partly attributable to a drop in production, says Mr. Jassin. As apparel demand fell in the recession, some farmers switched to crops such as soybeans.

Mother Nature is also a culprit. Severe weather in China, the world's largest producer of cotton, has damaged the quantity and quality of the country's crop, says Rob Samuels, senior retail analyst on the equity sales and trading team of Phoenix Partners Group. Some Chinese factories will now have to purchase cotton yarn from other countries, which will translate into rising costs, Mr. Samuels says.

Companies such as [Hanesbrands Inc.](#) sometimes hedge cotton, because it's a big part of their costs, but most companies don't, as they use a mix of fabrics, Mr. Jassin says.

With consumers still stressed, companies aren't going to be able to pass along all of their higher costs. [Liz Claiborne Inc.](#) earlier this month cut its 2010 gross profit margin forecast, saying it would widen only by five percentage points instead of a previously estimated six, citing cotton prices as well as higher labor and transport costs.

"We are starting to see real second-half sourcing inflation," Claiborne's Chief Financial Officer Andrew Warren said on a May 6 conference call.

Wesley Card, chief executive of [Jones Apparel Group Inc.](#), said recently that the company has been buying raw materials such as cotton and leather early with the expectation prices will rise. He also said price increases are likely in the fourth quarter.

At Jones, whose many apparel labels include Jones New York and Anne Klein, incremental price increases will likely come on higher-ticket, more fashionable items, such as embellished shoes and dresses, instead of price-driven basics, such as plain T-shirts and sweaters, Mr. Card said.

Many manufacturers and retailers, including [J.C. Penney Co.](#), are changing the blend of their materials to keep costs down. Other companies are looking to lower cost producers outside China. Maidenform this year began moving some of its sourcing to Bangladesh, but is going slow until it gets more confident about the quality of the work.

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