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# U.S. Shoppers Foot Bill for Soaring Pay in China

By JUSTIN LAHART



One of the things that's showing up in Christmas stockings this year: Higher prices, courtesy of China. Justin Lahart has details on Lunch Break and how the situation is impacting holiday shopping.

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After decades as America's go-to destination for low-cost consumer goods, China is undergoing a profound shift. Rapid economic development and a smaller supply of young migrant workers are pushing up labor costs. Tack on rising raw-materials prices, driven largely by Chinese demand, and a strengthening currency, and China-made goods aren't the bargains they used to be.



Higher labor costs in China are hitting U.S. spenders in the pocket this holiday season, making gifts more expensive. The WSJ's Deborah Kan and Alex Frangos discuss.

In the past year, labor costs have risen 15% to 20% at Michaels Stores Inc.'s Chinese suppliers, says John Menzer, chief executive of the arts-and-crafts retailer. He says his company has spent much of the year seeking ways to partly offset those increases, such as by grouping goods from different suppliers into a single container to cut shipping costs.

Still, Michaels has had to raise prices this year on some items, including artificial Christmas trees. And Mr. Menzer expects its battles with rising Chinese costs to continue. "Our suppliers are very nervous about labor costs," he says. "We'll have the same pressures next year."

Last month's prices for Chinese imports were up 3.9% from a year earlier, the Labor Department said Wednesday, matching October's gain, the largest year-to-year monthly rise since 2008.

Wednesday's report showed that prices were up sharply for many kinds of goods for which China is the dominant supplier.

China accounts for about 80% of U.S. shoe imports; imported-footwear prices in November were up 6.1% from a year earlier. It accounts for about 60% of furniture imports; imported-furniture prices also were up 6.1%. About 80% of U.S. luggage imports come from China; prices in the category that includes luggage and similar goods rose 8.3% in November.



Those higher costs are one reason that U.S. consumer prices have risen this year, despite the weak economy. Economists expect Friday's inflation report from the Labor Department to show that, excluding the volatile food and energy categories, November consumer prices were up 2.1% from a year earlier, on par with October's rise.

That's relatively low, historically speaking, and unlikely to give Federal Reserve policy makers pause in their efforts to boost the economy. But it marks the biggest gain since October 2008.

Over the past two years, the cost of furniture that [Hooker Furniture Corp.](#) buys from China has risen steadily, says Paul Toms, CEO of the Martinsville, Va., company. In September, Hooker raised prices on two-thirds of its product line—everything it hadn't introduced in the past year—by 5%.

With the company's Chinese suppliers raising wages to retain employees, Mr. Toms suspects there will be more price increases to come. "We're in a labor-intensive industry, and it's probably not one of the more-desirable industries for folks to work in," he says. "We think our suppliers are seeing labor cost increases in the 20% to 30% range."

According to China's Ministry of Human Resources and Social Security, 21 provinces and municipalities had, on average, instituted annual minimum wage increases of 22% by October. Officials in Shenzhen, in China's southern manufacturing heartland, said last month that they will raise the city's minimum wage by 15% in January, hoping to attract more workers.

The months ahead may bring U.S. companies some import-price relief. Commodity prices have fallen sharply from their spring highs. A slowing economy, the product of earlier efforts to cool growth, as well as faltering demand from Europe, has checked Chinese authorities' willingness to let the country's currency gain against the dollar.

But rising affluence, growing opportunities in China's interior and a declining youth population are putting upward pressure on Chinese manufacturing wages that will prove difficult to stem.

Until a couple of months ago, most of the largely Chinese-made shoes at Eugene Running Co. cost about \$100. But as companies rolled out new models in October and November, they also pushed through higher prices for the first time since 2007

"Everybody has upped their shoes \$5 or \$10," says Laura Coll, who co-owns the Eugene, Ore, store with her husband Bob. "Mizuno [Corp.] did a \$15 increase on all of their shoes."

Rising wages in China aren't new, says Bank of America-Merrill Lynch economist Ethan Harris. Pay there has been going up for years. What's different now, he says, is that labor costs have



Bloomberg News

A customer browses flat-screen TVs in a Costco store in San Francisco.

reached a point where Chinese exporters can no longer easily absorb them, and are instead passing them on. That's particularly true for labor-intensive items like shoes.

In a note to clients early this year, Mr. Harris estimated that labor accounts for roughly half the export cost of a Chinese-made sneaker.

"I think it put them up against their profit wall, and then the pass through started to get quick," he says.

That was Big Agnes Inc.'s experience, says Bill Gamber, co-owner of the Steamboat Springs, Colo., camping-gear company.

"Our suppliers were doing well for a long time, and absorbed the

cost, and all of a sudden they're like, 'we can't do this anymore,' " he says.

The company has figured out ways to hold some costs down. It found a cheaper fabric for its tents, for example. But it still is raising prices. A popular sleeping bag that Big Agnes has priced for years at \$199 will be \$239 when the 2012 version is rolled out next month.

Mr. Gamber isn't worried his rivals will undercut him on price. Chinese suppliers dominate the industry, so everybody gets hit by the cost increases, he says. But he is concerned about how consumers will react.

Big Agnes is stocking fewer high-end items, based on the theory that more people will gravitate toward the lower end of its product line.

"People can pay \$100 more for one of our tents that weighs a pound less," he says. "People may prefer to pay less."

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