

2011 Cost Impacts

Updated: April 12, 2011

Overview

The U.S. economy is continuing to crawl out of the recession which is good news for business; however, worldwide commodity prices are adding unprecedented cost pressures.

Cotton prices have more than doubled since a year ago and are expected to remain high. Demand for cotton is booming, particularly in China, where imports are expected to increase by 38% this year. Flooding in Australia, Pakistan, and China hurt supply for the 2010-2011 crop. Spring weather in China indicates more of the same could be in store for this year's crop. India is continuing to restrict its exports. In the US, the world's number one cotton exporter, cotton continues to compete with soy and other government subsidized products for acreage (soy is also hitting record price levels). The majority view in the market is prices aren't going down in the near future.

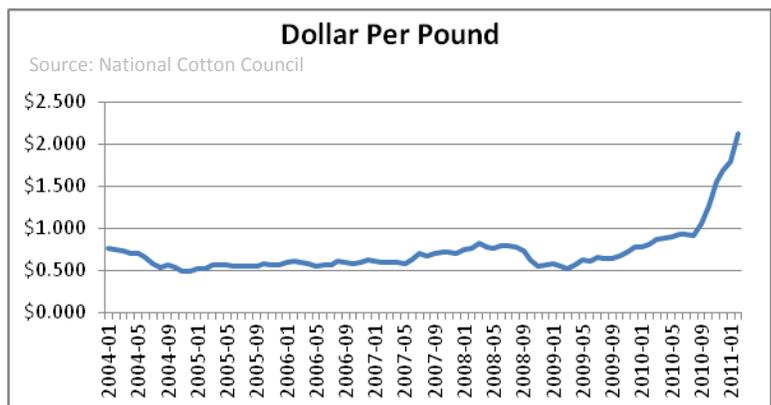
Strong cotton prices continue to push demand into the polyester / synthetic markets. This started a ripple effect in pricing in 2010, which continues so far this year. Polyester staple fiber prices in China have surged by up to 19 percent (as of mid February, per YNFX) since the beginning of the year.

The cost of oil has continued to rise over the last several months, fueled by hostilities in the Middle East. Benchmark crude for May delivery closed at \$106.2 on April 12, an increase from approximately \$80 per barrel only months ago. Some analysts are predicting a market correction – the \$106 close represented a 3.4% decline for the day – however, prices are still expected to hover around the \$100 mark. Continued unrest could obviously move prices in the other direction very quickly. High oil prices are translating into higher refined fuel costs, as we all know. Gas is quickly approaching \$4.00 per gallon, with the national average for regular at \$3.79. As of April 12, four states already have averages above \$4.00.

Clothing prices are expected to increase 20% or more through 2011, with 10 to 12% jumps at the consumer level before the U.S. crop year begins in May. (*Lauren Covello, Fox Business, March 3, 2011, see link below for full article*) Jones Group (Nine West, Anne Klein) is warning of a potential double digit increase in prices at the retail level by year end.

Cotton

Cotton prices reached a record high on February 18, closing at \$2.0893 per pound. That record has since been surpassed. The Cotton Council's A index closed January 2011 at \$1.789 per pound. By the end of February it was at \$2.131. March continued the climb, closing the month at \$2.296. The U.S. Dept of Agriculture is predicting that inventories as a proportion of demand will fall to their lowest levels in over 15 years. It has been noted that a repeat of supply disruptions like 2010's flooding, could cause price spikes in the \$3 per pound area for the upcoming crop.



For Denim Brands, Higher Cotton Prices are Hardly Fluff ~Lauren Covelloe, March 3, 2011, Fox Business.

See Full Article Here: 

Cotton Prices Hit Record Levels

~Tony D’Altorio, February 25,2011, Investment U Research

See Full Article Here: 

Polyester

Polyester pricing has continued to rise year to date. The increase in cotton pricing is contributing to the demand for polyester, which in turn is driving the price of polyester.

PriceWatch Report Highlights – 28 March 2011

See full article from Yarns and Fibers Exchange: 

Oil / Gas

Oil closed at \$106.20 per barrel for May delivery on Tuesday, April 12, 2011. As always, the predictability in future oil prices, particularly when looking a year out, is pretty low. Hostility in the Middle East continues to drive speculation on price.

