

Once again I find myself 40,000 feet in the air reflecting back on my recent tour of Asia. While the news from my previous “eye on asia” updates has focused on the harsh overseas realities faced by our industry, the response to my letters has been overwhelmingly positive. Initially I was concerned with the potential reaction some might have, but I have come to appreciate that people want to understand the issues and their impact on our business.

Based on that premise, I have decided to continue updating the two main topics covered in my previous letters, including a few new developments that have unfolded over the past six months.

Labor Update:

- All of Asia is being impacted by the current Social Development Plan being implemented by the Chinese Government to assist and promote local employment this year. In the garment sector, workers no longer need to work in apparel factories away from their local villages & families as the Government looks to take full advantage of their new workforce structure, encouraging the development of labor-intensive industries, service industries, small and micro-businesses, as well as the innovative high-tech enterprises.
- The result is a massive shortage of sewing machine operators in Asia compounded by the need for increased wages and improved working conditions to attract employees back to these factories. The Chinese Government has invested more than 42 Billion RMB into new career opportunities that did not exist a year ago, which has resulted in continued wage & cost increases directly related to the apparel sector.
- Despite strategically securing production in other countries to avoid the higher increases we had anticipated in China more than two years ago, the industry issue of global labor increases is inevitable. Cost increases in Asian countries such as Thailand, Cambodia, Vietnam and Bangladesh are a reality. By diversifying our production to these countries, we have proactively minimized some of the costs associated with China production. Without these changes, our increases would have been considerably higher than what we have today. Rest assured that I have explored the options of bringing back production to North America, but the domestic apparel environment continues to be extremely challenging with labor costs not being comparable to Asia, not to mention the ongoing closures of textile mills and sewing operations. All of these factors combined make domestic pricing even more prohibitive for you, our customer, and ultimately the end user.

Raw Materials Update:

- Cotton prices have come down from the record highs established earlier this year but will still remain comparatively high until the new crops are harvested in December of this year. There is good news with future contract prices on the commodity market showing December deliveries could be - 35% lower based on the simple fact that more cotton will be available to offset the global shortages we are faced with today.

- Polyester has conversely begun to increase dramatically, due in part to the supply and demand pressures created by cotton pricing, as well as the overall cost of crude oil. The strengthening of the Chinese RMB against the US Dollar is also having a major impact on the cost of textile pricing being quoted overseas. All of these factors combined have resulted in the highest pricing I have seen in my 35 years in this business.

Pricing Update:

- With most of the “experts” agreeing our industry has recently begun seeing positive signs of growth, it is imperative that we understand the delicate balance between inventory management and cost management as it relates to pricing. While most suppliers kept purchasing levels low last year to try and avoid distributor price increases, we made a conscious decision to purchase large amounts of inventory to support the growth trend despite the higher cost of goods. We also decided to absorb all cost increases by holding prices for an additional six months and honoring our existing pricing until July 31, 2011.
- The extended duration and continued rising costs overseas these past six months will result in price increases for Fall 2012 on styles where we can no longer absorb the additional costs. These increases will hopefully be offset by the eventual correction in the marketplace when cotton comes down in price and we will begin to see lower pricing on products delivering to the market in the later part of 2012.
- We will be keeping a close eye on the current economic relationship between the US Dollar and the RMB as the gap between sourcing costs and production increases has widened significantly over the past twelve months. As long as the Chinese economy continues to prosper, it will be a challenge to keep costs down over previous years when the US economy and dollar were stronger.

As always, I remain committed to providing you with updates on emerging market trends within our industry as well as finding innovative ways of keeping your costs down and offering you profitable apparel options for your customers. Thank you for your continued business and for being a valued Ash City customer.

With Respect,

Garry Hurvitz
President & C.E.O.
Ash City Worldwide

p.s.: If you wish to reply to this letter, please email me at **garryhurvitz@ashcity.com** as I will be reviewing all responses.