Written by **Raven Clabough** on November 17, 2010

# Cotton Prices Expected to Soar

Last year, conservative pundit Glenn Beck warned his viewers to stock up on clothing for their kids, as he predicted that the price of cotton would increase dramatically. As usual, he was mocked mercilessly for his assertions. Recently, however, a report from the National Inflation Association announced that the cost of cotton has increased by 54 percent, though the huge commodity price increase hasn't made its way onto the shelves of American stores just yet.

"It's really a no-choice situation," said Wesley R. Card, president and chief executive of the Jones Group, the company behind Anne Klein, Nine West, and other brands. "Prices have to come up."

The *New York Times* reports, "The Bon-Ton chain is raising prices on its private-label fashion items by as much as a dollar this spring, and prices will go up further next fall. And it is switching from 100 percent cotton in items like sweaters to more acrylic blends. Levi's says it has already increased prices and may push them further north next year. And Hanesbrands, the maker of Champion, Hanes and Playtex, says price increases will be in place by February, and prices could go up further if cotton prices remain where they are."

Other clothing makers have admitted that they managed to keep prices from increasing this year but will be unable to do so next year. Of those manufacturers is V.F. Corporation, which produces The North Face clothing. The company asserts that its costs will likely increase next year, particularly the cotton-heavy jean lines. The price increases could be higher than single digits, it warns.

Sharon Johnson, senior cotton analyst with the First Capital Group, attributes the rising costs to supply and demand. "World cotton production is unlikely to catch up with consumption for at least two years," she says. Since cotton demand was weak during the recession, cotton inventories were low. Likewise, the flooding in Pakistan and bad weather in India and China damaged cotton crops.

In the meantime, the demand for cotton has jumped once again. The *New York Times* explains, "As the economic recovery in the United States began, apparel makers and retailers placed orders for more inventory, spurring even more demand. As prices rose, speculators entered the market, driving prices even higher."

Mike Stevens, an independent cotton analyst in Mandeville, Louisiana, explains, "So far, it has shocked even the most veteran traders. It has resulted in panic buying by mills worldwide in order to ensure that they can keep their doors open."

Some see a light at the end of the tunnel, however. Steve Hoch, a marketing professor at the Wharton School of the University of Pennsylvania, explains, "The really big guys are hedging the prices. They basically locked in prices like Southwest Air does with fuel. There will be cotton next year, and my guess is people will plant more cotton because they know there was a shortage last year."

The NIA, contends, however, that cotton is being affected by hyperinflation, as is everything else.

Gerard Adams of the NIA notes, "For every economic problem the U.S. government tries to solve, it always creates two or three much larger catastrophes in the process. Just like we predicted this past December, the U.S. dollar index bounced in early 2010 and has been in free-fall ever since. Bernanke's QE2 will likely accelerate this free-fall into a complete U.S. dollar rout."

Adams' written report attributes the rising costs to the Federal Reserve's $600 billion quantitative easing, and believes that food and clothing prices will be hit hardest in 2011.

As a result of the increased cost of cotton, clothing companies are switching production to countries with cheaper labor and milder customs charges.

The *New York Times* writes, "Lululemon Athletica, the sportswear company, is moving some manufacturing from China to Vietnam, Cambodia, and Bangladesh, where wages are lower, and Bon-Ton is benefiting from reduced-duty productions in Egypt and Nicaragua."

Likewise, apparel companies are reconsidering the configuration of some of the items to reduce the amount of cotton used. Liz Claiborne, for example, which produces Juicy Couture and Kate Spade, is shifting from Italian fabrics to "suppliers who produce their own raw materials or yarns."

Bon-Ton has switched from cotton-heavy sweaters to those blended with rayons and synthetic fibers.

Johnson of the First Capital Group contends that manufacturers' responses to the cotton price increase could have a more permanent negative impact on the cotton market. "We may be training a new generation to be far more accepting of synthetic fibers, which is likely to hurt cotton's market in the long run."

Consumers are being encouraged to buy cotton clothing sooner rather than later as cotton inventory is already low, resulting in fewer cotton products at low prices, an issue that is only expected to get worse.

Marianne Bickle of the Center for Retailing at the University of South Carolina advises, "I believe if you have a cotton product you want to buy, then buy it, especially in the holiday season. Those prices are not guaranteed. Gas prices go up and down. So do retail prices. But consumers often don't think that's fair."