



# Caught in a Price Predicament

The cotton industry is battling sticker shock. Global cotton prices have hit historic highs in recent months as demand for cotton has outstripped supply in most parts of the world. Raw cotton prices have been trending higher for most of this year, rising to \$1.02 a pound this month compared with 59.2 cents a year earlier, according to the WWD Fiber Price sheet. On Monday, cotton futures hit a new high of \$1.247 a pound on the international cotton exchange. A number of factors have impacted the price of cotton, industry experts said; most notably shortfalls in production levels driven by a combination of weather and a loss of acreage. The increasing popularity of bio-fuels and high prices for other commodity crops enticed many farmers to shift from growing cotton to planting crops such as corn, soybean and wheat. Further complicating the supply-and-demand ratio, the huge decline in demand in 2009 when the recession was at its peak also helped fuel a worldwide drop in cotton production, said Mark Lange, president and chief executive officer of the national cotton council. The rebound that followed happened more quickly than expected and caught the industry by surprise. According to data from cotton incorporated, the cotton harvest last year was 16 million bales short of worldwide demand. This year's harvest is expected to be four million bales short. The shortfalls mean that in order to meet demand, the stocks or inventory of cotton have also been depleted, which creates additional price pressures. The U.S. Department of Agriculture estimates for the 2010-11 cotton crop year, world stocks will fall to their lowest point in 14 years, around 45.4 million bales. Stocks in most cotton-supplying countries will decline, the USDA predicts, including China, the largest producer, and the U.S., the third-largest producer. The second-largest cotton producer, India, is expected to see its cotton stock rise because of government imposed restrictions on cotton exports. "From a production standpoint, the primary issue that we're concerned about is the sufficiency of world supply," said Wally Darneille, president and CEO of the Lubbock, TX-based Plains Cotton Cooperative Association.

"We had prices for several years that were below the cost of production and it leads to a severe drawdown in world stocks." The stock drawdown fueled some of the skyrocketing prices of the last few months, he said.

While it may seem like the biggest challenge for cotton producers is “how to get a wheelbarrow big enough to haul the money to the bank, it’s a bit of a double-edged sword,” said Gary Raines, vice president of economics and analysis with FC Stone Fibers & Textiles. With the endemic deflation of apparel prices at retail and higher prices at the beginning of the pipeline, someone in the middle is having their margins squeezed, he said, which can’t continue forever. If cotton prices are too far out of kilter with synthetic fiber prices, it could push textile manufacturers to shift the balance of fibers used in blended fabrics more heavily toward synthetics. Kim Glas, deputy assistant secretary for textiles and apparel at the Commerce Department and Chairman of the inter-agency Committee for the Implementation of Textile Agreements, said brands and retailers say they will look to more blended fabrics or man-made fiber fabrics for apparel, or are deciding whether to buy ahead to lock in the current price in case prices rise even further. “Textile mills are very concerned,” Glas said. “They don’t know what to do.” but rising cotton prices are a unifying issue and apparel importers are expressing concern with high cotton prices, as well, she said. Cotton is 40 cents a pound more expensive than polyester right now, which isn’t sustainable because price differences are closely watched, said Terry Townsend, executive director of the International Cotton Advisory Committee. “a few cents a pound are important, 10 cents a pound keeps people awake at night, 40 cents a pound can’t last,” Townsend said. “Prices are bound to drop.” There is concern that extremely high cotton prices could eventually drive manufacturers to other fibers. Already some sources said they’ve heard anecdotal reports of manufacturers shifting to blends or tweaking the ratio of cotton to man-made fibers in existing blends away from cotton. “Last year we heard from member companies that they were looking at more blends or shifting the blends they were already doing for more synthetics, getting the same feel but with less cotton,” said Julia Hughes, president of the U.S. Association of Importers of Textiles & Apparel. “This year the biggest issue is price, so I have to think that more companies are going to be taking a look at [whether] they can shift to some other kind of blend.” Import figures continue to show a preference for cotton in the U.S. according to the most recent data available from the Commerce Department’s Office of Textiles & Apparel, imports of cotton apparel, defined as any garment with more than 50 percent of cotton in it, to the U.S. rose 8.3 percent for the year ended in August to 13.9 billion square meter equivalents, with an estimated value of \$41.6 billion. Man-made fiber apparel shipments increased 12.7 percent to 9.2 billion SME for the 12 months ended in August, worth an estimated \$21.6 billion. The cotton crop this year is an estimated 117 million bales. Of that, China is expected to produce 33 million bales, India 26 million bales, the U.S. 18.5 million bales and Pakistan 9.3 million bales, said Kim Kitchings, Senior Director, Corporate Strategy and Program Metrics for Cotton Inc. Cotton king China is also in large part responsible for the recent heavy surge in demand, with rapidly increasing cotton imports throughout 2010. The world’s largest clothing manufacturer doubled cotton imports in the first eight months of this year, compared with the same period a year earlier, according to the national customs agency. The spike in imports came on the heels of recovery of China’s manufacturing sector, which took a heavy hit with slowed production through the global financial crisis that started in late 2008. More import increases are expected in response to floods and cold weather threatening domestic crops. Just this month, floods in China’s Yellow River region, one of the country’s key cotton growing areas, added to concerns of flooding in Pakistan of potential global shortages and price hikes in months ahead. For China, that means more pressure on its own industries, with higher raw material prices equaling higher consumer prices down the road. The China Cotton Association,

the country's main industry group, said on its web site late last month that the government may step in by easing some import restrictions and allowing more foreign cotton in. Thus far, the Chinese government has made no formal announcements about changing regulations to increase imports for manufacturers. Following devastating flooding over the summer that damaged the cotton crop, Pakistan's domestic cotton prices rose 15 percent in September, in addition to higher input costs of power, finance and taxation, leading to a corresponding 15 percent rise by yarn and garment mills in their product price this season.

There has been a quantum change in the benchmark of raw material costs, said Shafqat Ellahi Shaikh, managing director of Nagina Mills in Lahore. There was a 16 percent increase in the domestic cotton rate in September from \$74 to \$86 per maund, a unit of weight equal to about 82 pounds. "The orders we booked in September for November delivery are 15 percent higher in price than those booked in August for October delivery, though the seasonal cotton shortage falls in the July to September quarter," Ellahi Shaikh said. As global cotton prices surge, India is torn between supporting the interests of its farmers and its textile manufacturers. In the first two months of 2010, India surpassed the U.S. to become the second-largest cotton exporter. India also has a vast and fast-growing domestic apparel industry, which is estimated to employ 85 million people directly and indirectly. Cheap labor and the availability of abundant raw materials give India a leg up in the industry, and the Indian government sees the sector as an important future employer for millions of people working in agriculture. The majority of apparel manufactured in India, whether for the international or domestic market — both of which are growing fast — are made of cotton. In April, under pressure from manufacturers that were seeing profits fall as domestic prices of cotton rose, the government imposed an export ban on raw cotton. It was lifted several weeks later, but manufacturers continue to press for a total ban. Cotton farmers and exporters, meanwhile, say they should be able to sell to world markets, especially during times of global shortages when prices are high.

"I don't expect to see the pressure from garment manufacturers ease, but farmers also need access to world markets," said Dhiren Sheth, President of the Indian Cotton Association.

— Liza Casabona, Mahlia S. Lone, Kathleen McLaughlin and Mian Ridge

#### [The Fiber Price Sheet](#)

The last Tuesday of every month, WWD publishes the current, month-ago and year-ago fiber prices. Prices listed reflect the cost of one pound of fiber.

Price on Cotton 10/25/10  
\$1.02 cents

Price on Cotton 9/27/10  
88.2 cents    -=

Price on Cotton 10/26/09  
59.2 cents