

Unable to Stretch Further, Apparel Makers Raise Prices

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Shoppers will have to pay more for clothing next year as skyrocketing cotton prices force companies to take their chances with price increases even as consumer demand remains sluggish.



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Cotton demand in countries like China has driven up prices. Above, pickers load cotton onto a tractor in China.

Hanesbrands Inc, Jones Group Inc. and VF Corp. said they will raise prices for clothing set to hit stores early next year by as much as 10%. When cotton prices began their climb a year ago, retailers and manufacturers were unclear how much—if any—of the cost would be passed along to consumers. But with **benchmark cotton now up about 80% since the beginning of the year, apparel companies say they no longer have a choice.**

"The world has radically changed," Richard A. Noll, chief executive of Hanesbrands, said in an interview. "There is a clear understanding that prices need to go up in this kind of environment."

Apparel is just one of a number of industries caught between sluggish demand and rising costs for raw materials. Rising prices for rubber bit into third-quarter earnings at [Goodyear Tire & Rubber Inc.](#), which has implemented three price increases since December. Cyclones and flooding in Southeast Asia, where much rubber is produced, have raised fears of tight supplies, pushing Goodyear's rubber costs up by \$412 million from last year.

Label and office product maker [Avery Dennison Corp.](#) is facing higher raw material costs driven by capacity constraints for adhesive components and paper liners. The company is responding with new mid to high single-digit percentage price increases on top of ones implemented last quarter, Chief Financial Officer Mitchell R. Butier said on a conference call.

Cotton prices have been driven higher by demand from developing countries, notably China and India, where rising wealth is boosting consumption patterns. Mother Nature is also to blame, with the deadly floods in Pakistan and heavy rains in China damaging many crops and limiting cotton supply.



The price increases mark a sharp reversal in apparel price trends, which have been deflationary for at least a decade, says Emanuel Weintraub, a retail consultant. The moves are setting up a "high-stakes poker game" with retailers, he says, who are reluctant to accept price increases while their customers remain in a thrifty mood.

Larger, well-capitalized vendors are more likely to have the bargaining power to convince retail partners to pass through the increases. "Some of the smaller firms could be forced out of business," says Mr. Weintraub.

One measure of apparel spending indicates that consumers might be able to handle some price increases. MasterCard SpendingPulse, which tracks all forms of payment, said spending on women's apparel rose a healthy 5.3% in October, the first positive result since March, reflecting "healthy" price increases.

Hanesbrands, whose labels include **Hanes, Champion, and Playtex**, said its retail partners, including [Wal-Mart Stores Inc.](#), have been responsive to the need for price increases. Hanesbrands said last week its cotton costs for year will be about 69 cents per pound, up from 55 cents last year. For the fourth quarter, it will be about 79 cents, producing \$26 million in extra expense.

Mr. Noll expects cotton price pressure to keep rising. As a result, the company has locked in pricing on cotton through the third quarter of next year, three months further in advance than usual. Hanesbrands, which gets the bulk of its cotton from U.S. crops, will pay 83 cents per pound for the first and second quarters. That jumps to an average of 88 cents by the third quarter, with September 2011 prices reaching \$1.

Companies can't blend their way out of the problem. **Polyester prices are also rising**, climbing between 20% and 25% this year driven by oil prices and higher demand from manufacturers switching away from cotton. "It's a chain reaction," said Alper Ensari, account executive at Toray International, a major producer of polyester fibers.

Hanesbrands said it will raise prices on its spring deliveries by an average of 3% to 4%. Many of the increases will be higher but focused on lower-priced cotton basics, Mr. Noll said.

Children's clothing manufacturer and retailer **Carter's Inc.** said in October that costs for its spring 2011 product rose 11% and that it expects costs to rise even further for fall merchandise. The company, which includes the **OshKosh B'Gosh** brand, negotiated price increases for spring with its wholesale clients.

Jones, which produces under the **Jones New York, Anne Klein and Nine West** labels, will raise prices on both fashion and commodity-type products starting next year to cope with mounting inflationary pressures, according to CEO Wes Card.

Previously, Mr. Card had cautioned that consumers will see price increases only on fashion items, whose customers are less sensitive to cost. But with cotton hitting historic highs and labor costs in China climbing, "this is just part of where we are headed as an industry," Mr. Card said. Consumers can expect to see 5% to 10% increases on selected products, with commodity items rising at the lower end of that range and fashion at the higher end.

In a nod to consumer sentiment, Jones is holding the line on prices through critical fourth-quarter holiday spending period to avoid turning off cash-strapped buyers.

In a meeting with J.P. Morgan analyst Charles Grom, **J.C. Penney Co.** Chief Executive **Myron E. Ullman III** said apparel sourcing will be a "major headwind" in the second half of 2011, noting that certain categories will probably see price increases. A Penney spokeswoman said the specific details regarding which products will see price increases haven't been determined yet.

—Paul Vigna contributed to this article.