

# The Impact of Soaring Cotton Prices on Consumer Apparel Prices

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19 Jan 2012



# Cotton Prices

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- Soaring cotton prices
  - ▶ 300% to 400% increases in 2 year period
- Why has this sharp increase occurred?
- How will it affect consumer prices?

# Cotton Industry

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- Millions of people worldwide depend on cotton related activities
- $\approx$  90 countries grow cotton
- $\approx$  55 countries export cotton
- $\approx$  150 countries import cotton
- Despite all of this, the industry is relatively concentrated.
- Over 65% of Total Production: China, India, U.S.A.

# China

- World's largest producer
- World's largest consumer
- World's largest importer

| China Cotton             |         |         |         |         |
|--------------------------|---------|---------|---------|---------|
| Relative to World Totals |         |         |         |         |
| Aug-July Seasons:        | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
| <b>Production</b>        | 30.91%  | 34.20%  | 31.50%  | 26.45%  |
| <b>Consumption</b>       | 41.26%  | 39.89%  | 42.02%  | 40.28%  |
| <b>Imports</b>           | 29.26%  | 22.95%  | 30.03%  | 33.61%  |

Source: USDA

# India

- World's second largest exporter
- World's second largest producer
- World's second largest consumer

| India Cotton             |         |         |         |         |
|--------------------------|---------|---------|---------|---------|
| Relative to World Totals |         |         |         |         |
| Aug-July Seasons:        | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
| <b>Production</b>        | 20.05%  | 21.06%  | 22.64%  | 22.03%  |
| <b>Consumption</b>       | 15.05%  | 16.14%  | 16.64%  | 18.13%  |
| <b>Exports</b>           | 19.18%  | 7.95%   | 18.54%  | 14.33%  |

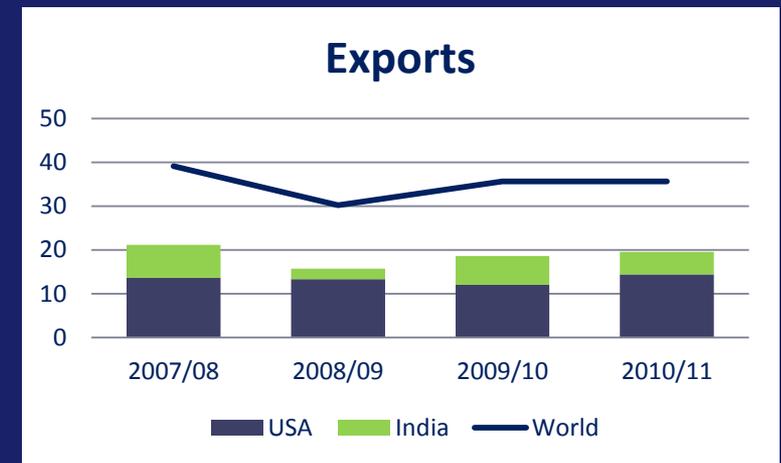
Source: USDA

# United States

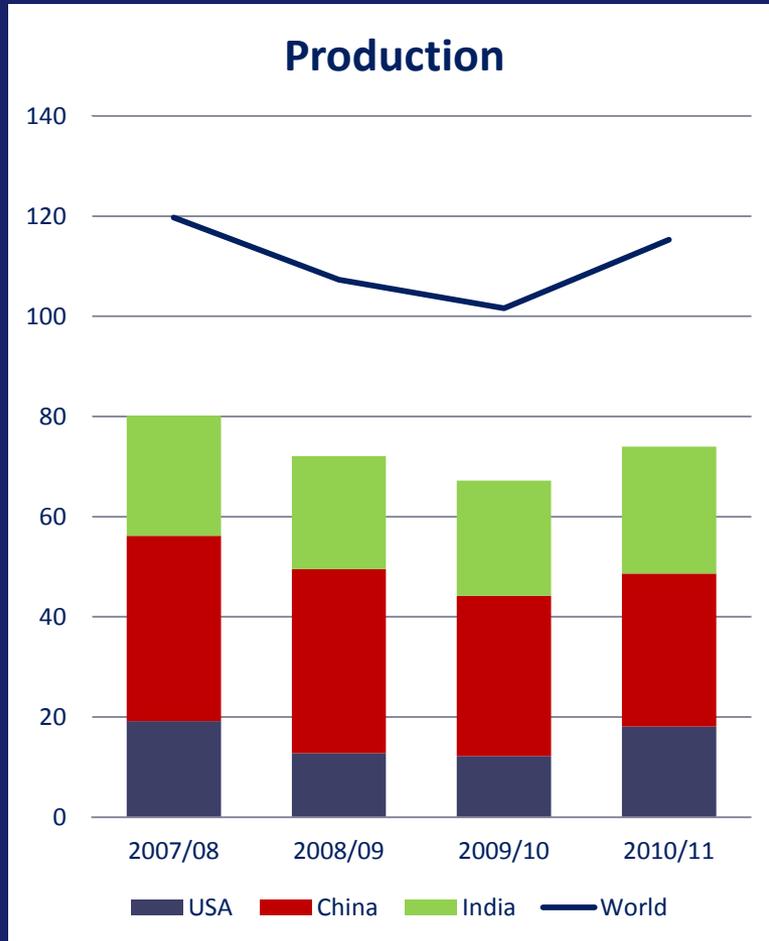
- World's largest exporter
- World's third largest producer

| US Cotton                |         |         |         |         |
|--------------------------|---------|---------|---------|---------|
| Relative to World Totals |         |         |         |         |
| Aug-July Seasons         | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
| <b>Production</b>        | 16.04%  | 11.93%  | 12.01%  | 15.70%  |
| <b>Exports</b>           | 34.78%  | 44.04%  | 33.71%  | 40.45%  |

Source: USDA



# Production and Consumption:



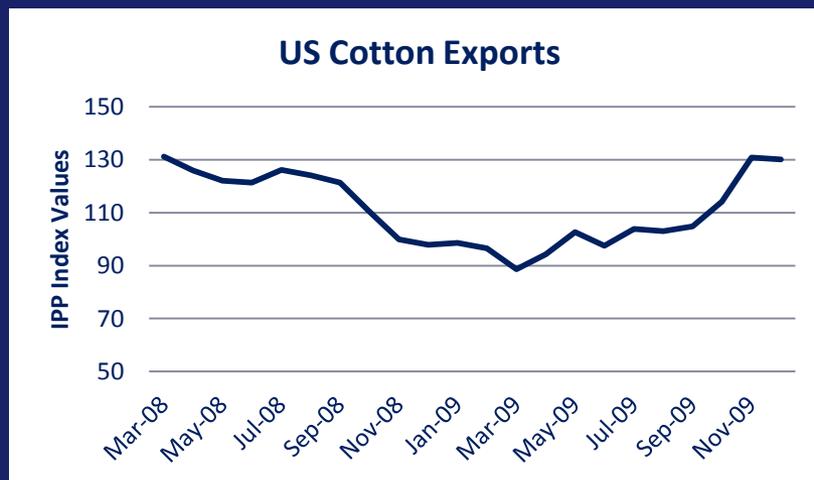
# Export Prices

## 2008

- Financial Crisis
- Five consecutive months of export price decreases, for a total decline of 21%

## 2009

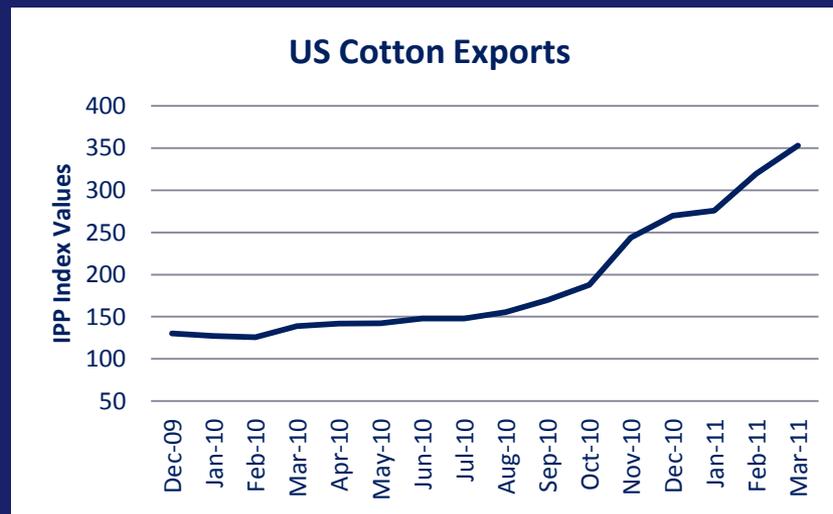
- China and India governments increase purchase of local cotton
- Demand for U.S. exports increases
- Prices begin to rise



# Export Prices

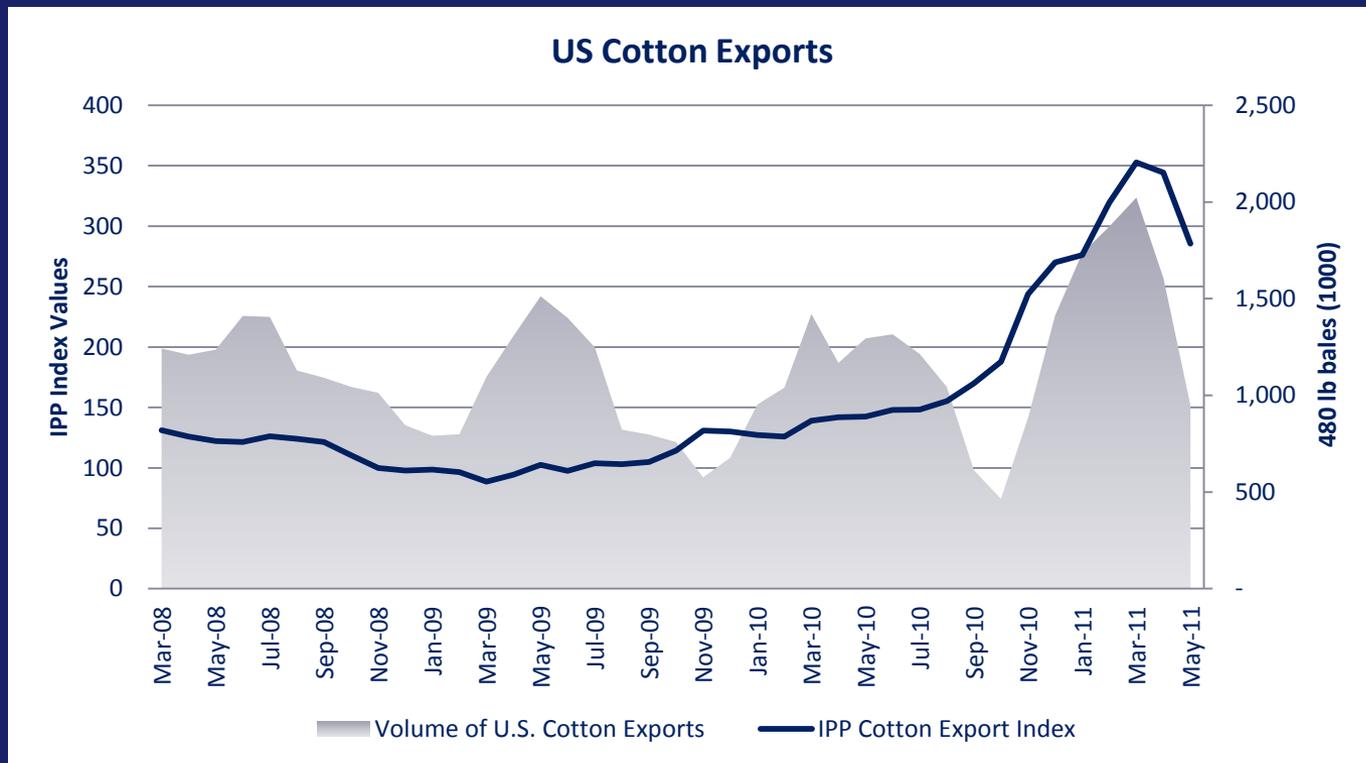
## 2010

- Unfavorable weather conditions
- India bans exports
- High commodity prices
- Post-recession consumption
- → Prices increase 153.8%



# Export Prices

- The market reacted: volumes and prices trended downward.



# Import Prices

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- Post-recession consumption
  - Transportation costs linked to oil prices
  - Dollar vs. Yuan
  - → Higher apparel import prices
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- What will the effect be on domestic apparel prices?

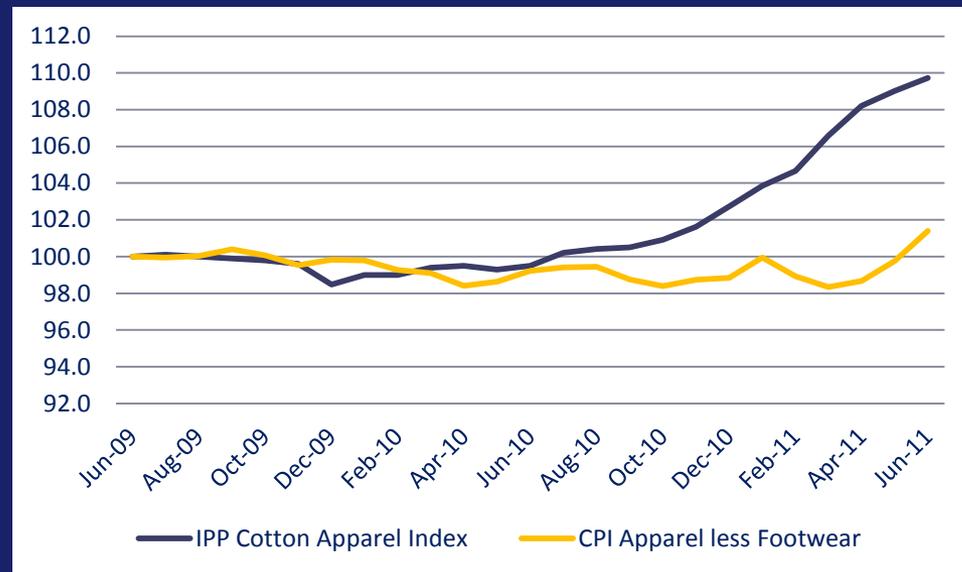
# Pass-through?

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- China:
  - ▶ 40% of U.S. Apparel Imports
  - ▶ 33% of U.S. Cotton Apparel Imports
- Labor markets in China
  - ▶ Labor accounts for 20% of textile manufacturing costs
  - ▶ Increased internal demand

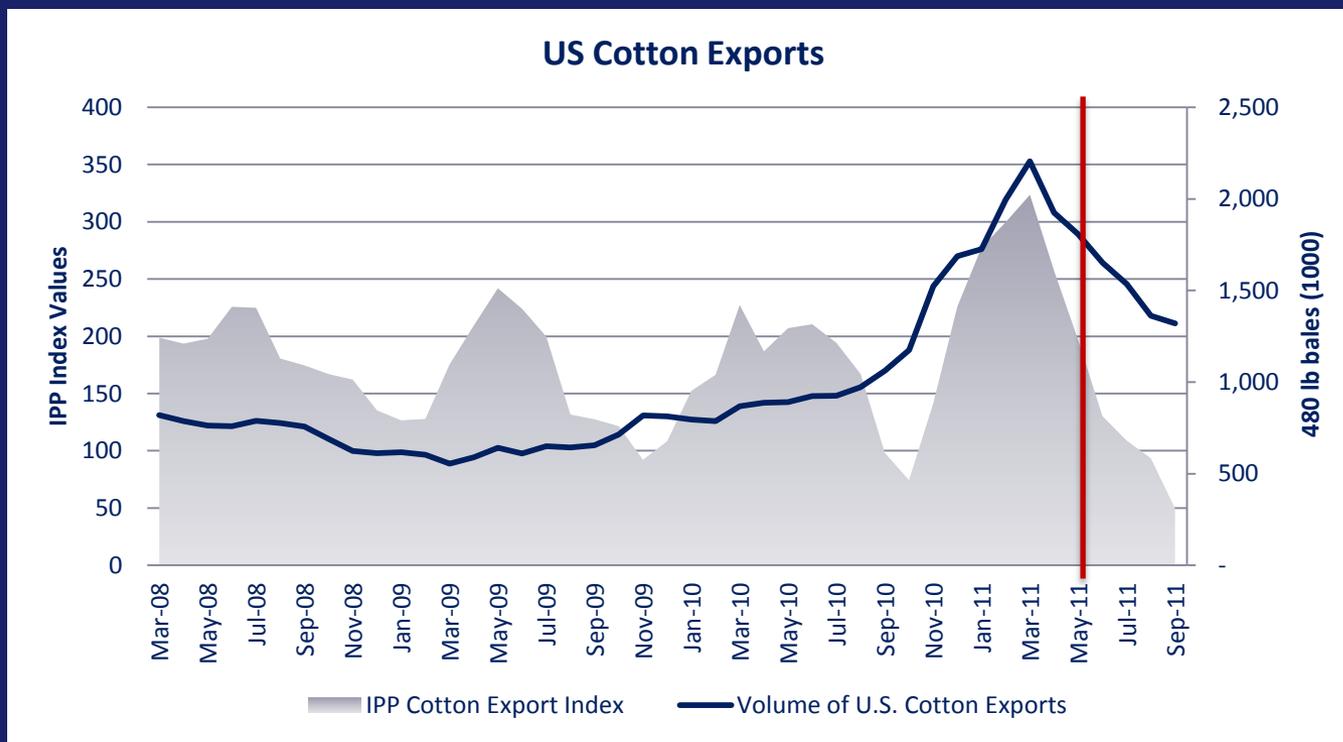
# Pass-through?

- Consumer apparel prices have been on the rise and bear watching in the near future



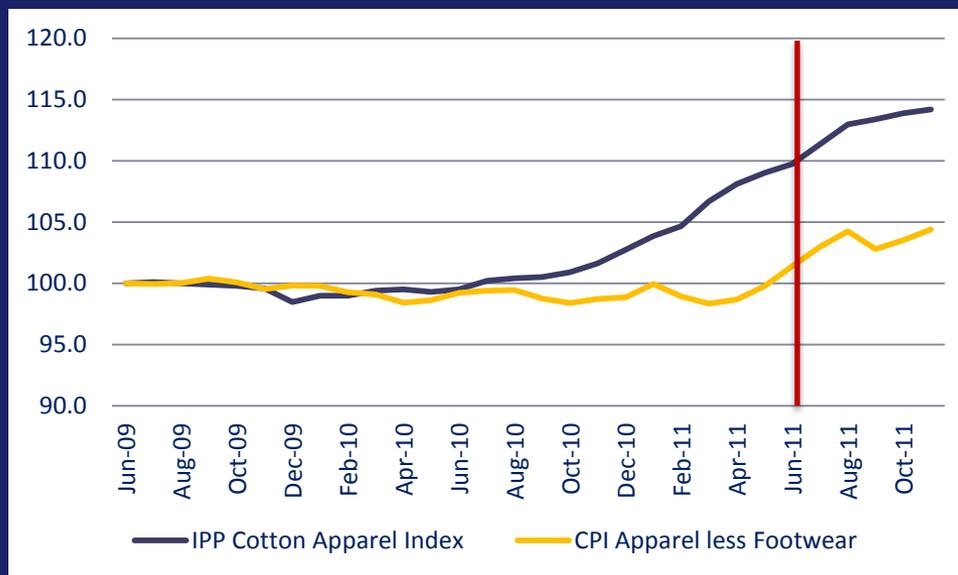
# Updates

- Prices and U.S. exports have continued to drop



# Updates

- However, textile import prices have continued their upward trend and seasonally adjusted U.S. apparel prices have followed.



# Contact Information

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