The Impact of Soaring Cotton Prices on Consumer Apparel Prices

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International Price Program
19 Jan 2012
Cotton Prices

- 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

- Millions of people worldwide depend on cotton related activities
- ≈ 90 countries grow cotton
- ≈ 55 countries export cotton
- ≈ 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

<table>
<thead>
<tr>
<th>China Cotton</th>
<th>Relative to World Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>30.91%</td>
</tr>
<tr>
<td>Consumption</td>
<td>41.26%</td>
</tr>
<tr>
<td>Imports</td>
<td>29.26%</td>
</tr>
</tbody>
</table>

Source: USDA
India

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Consumption</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>20.05%</td>
<td>15.05%</td>
<td>19.18%</td>
</tr>
<tr>
<td>2008/09</td>
<td>21.06%</td>
<td>16.14%</td>
<td>7.95%</td>
</tr>
<tr>
<td>2009/10</td>
<td>22.64%</td>
<td>16.64%</td>
<td>18.54%</td>
</tr>
<tr>
<td>2010/11</td>
<td>22.03%</td>
<td>18.13%</td>
<td>14.33%</td>
</tr>
</tbody>
</table>

Source: USDA
United States

- World’s largest exporter
- World’s third largest producer

<table>
<thead>
<tr>
<th>US Cotton</th>
<th>Relative to World Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>16.04%</td>
</tr>
<tr>
<td>Exports</td>
<td>34.78%</td>
</tr>
</tbody>
</table>

Source: USDA

Exports

- USA
- India
- World
Production and Consumption:

**Production**
- USA
- China
- India
- World

**Consumption**
- China
- India
- World
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
- \( \rightarrow \) Prices increase 153.8%
Export Prices

- The market reacted: volumes and prices trended downward.

[Graph showing US Cotton Exports with IPP Index Values]
Import Prices

- Post-recession consumption
- Transportation costs linked to oil prices
- Dollar vs. Yuan
  - Higher apparel import prices

What will the effect be on domestic apparel prices?
Pass-through?

- 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

![US Cotton Exports graph](image)
However, textile import prices have continued their upward trend and seasonally adjusted U.S. apparel prices have followed.
Contact Information

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