

ARE WE MOVING TOWARDS A PRICE INCREASE?

The current economic situation is not encouraging. While the effects of stimulus plans are dwindling just about everywhere in Europe, austerity measures aimed at reducing budget deficits will inevitably end up curbing household consumption, the main growth driver. In addition, within this difficult context, price tension can now be felt all throughout the textile industry. Will this tension lead to price hikes for the end customer?

The prices of raw materials in particular have risen sharply since the beginning of the year. As an example, in France, prices of natural textile fibre imports (i.e. wool and cotton,) went up 51 % in euros during the first quarter of 2010 in comparison to the same period last year, and price increases for polyester have also been comparable for the same period since the beginning of the year. These price hikes for raw materials have translated into price increases on yarns on international markets. At a time when the downstream market is lacklustre, French weavers have a hard time passing along the full

extent of these cost increases in their sales prices, which eats away at their profit margins. Moreover, the value of the euro falling against the dollar has automatically increased the price of imported products European manufacturers purchase in dollars.

The weakening value of the euro against the dollar has also had repercussions on retailers' and brands' sourcing. The cost of imports coming from China, whose currency is pegged to the dollar, has thus tended to climb. What is more, the Chinese authorities' recent pledge to allow the value of the yuan to fluctuate more freely against the dollar has only intensified the phenomenon, even if the Chinese currency will no doubt only appreciate very slowly and slightly. All this has just added to the problems Chinese producers have been faced with as labour costs rise, prompting them in turn to raise their prices. Several provinces have raised the minimum wage (e.g. in Guangdong, minimum wage has risen 21 %, starting in May 2010). Ultimately, Made in China is becoming

more expensive, especially as Chinese exporters have to deal with rising costs of raw materials as well.

These price tensions, if they lead retailers to rethink their sourcing strategy, may turn out to be to the advantage of more localized sourcing. Euro-Mediterranean manufacturers could be the first to benefit, insofar as the competitive edge Chinese producers have over them has lessened somewhat. European brands and stores will be trying to come to a better compromise between a limited loss on their profit margins and a controlled increase in the consumer sales price.

As for French consumption of clothing and textile articles, performance is still not back on track. A significant fall in turnover for retailers is still to be expected for the month of June. It is true that changing the beginning of the promotional sales period has taken its toll on performance in June this year, but the month of July can be expected to be more dynamic this year to make up for it. Nevertheless, sales in value should lose ground in 2010 as a whole,

for the third year in a row. In a context in which the engine of growth for consumption is merely idling, betting on added value and creativity to seduce consumers will prove to be the major solution for relaxing the stranglehold created by the rising costs of sourcing.

GILDAS MINVILLE
gminville@ifm-paris.com

