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Apparel Price Climate Stabilizing, But Volatility Still in the Air

By Arthur Friedman

In the midst of trade uncertainties and retail and technology disruptions, there could be some good news in the supply chain, as raw material prices have shown recent stability.

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While cotton prices continue to feel some pressure over concerns about global economic growth, they should remain steady thanks to solid fundamentals, according to a new report from the International Cotton Advisory Committee (ICAC).

The Cotlook A Index average of global prices is projected to have a mean of 87 cents per pound in 2018-2019 season compared to 88 cents per pound in 2017-2018, the ICAC noted.

Spot prices for U.S. cotton averaged 68.68 cents per pound for the week ended Feb. 7, according to the U.S. Department of Agriculture. This was down from 69.81 per pound the prior week and from 74.02 cents per pound a year earlier.

From fiber firms to apparel manufacturers, executives have noted an easing off of raw material price inflation that cut into their bottom lines. They remain wary, however, of ongoing volatilities, such as tariffs and increases in related commodities.

Unifi Inc. chairman and CEO Kevin Hall, commenting on a recent conference call with analysts, said, "The spike in polyester raw material costs in September and October of 2018 and the resulting demand disruption created an even more challenging environment for our regional business and our performance missed expectations. External pressures in the regional business included elevated raw material costs and suppressed demand for certain textured and covered yarns."

This creates internal pressures to implement selling price increases that, according to Hall, "left us less competitive, elevated inventory levels" and resulted in "weaker leverage of our cost structure." By November, he noted, "we had begun to see a pullback in those costs, but we had already experienced a meaningful short term impact on our gross margin performance."

Chis Smosna, interim CFO at Unifi, said, "for the first time in a long time we're not chasing increasing costs," although he added, "we're not out of an elevated cost environment," but the costs have come back to a more manageable level.

HanesBrands CEO Gerald W. Evans Jr. told analysts that last year the company incurred $40 million of input costs inflation, causing a "conservative view on elasticity." The company has now been able to integrate those increases into its price structure and will be able to recoup the costs and improve margins.

"We've seen that many consumer goods or companies are also implementing price increases and so we all know that we're dealing with input costs," Evans said. "We have seen some of our competitors in some of our other businesses, like printwear, take price increases and they too are incurring input costs increases, and I'm sure that they will have to deal with those as we go forward, but that's yet to be seen."

Deb Merrill, CFO at Delta Apparel, said margins have been negatively impacted by higher cost raw materials and "other inflationary costs" over the last year and a half. "Now, we are offsetting a lot of that with different price increases, but those don't always match up on a quarter-to-quarter basis," Merrill said.

Lifted by higher prices on women's and children's wear, retail apparel prices rose a seasonally adjusted 1.1 percent in January amid clearance sales, the U.S. Bureau of Labor Statistics (BLS) reported in its most recent Consumer Price Index. The January increase for apparel was the largest since February 2018, according to BLS.

There are other cost factors for manufacturers to consider in their margins and pricing, including investment in infrastructure to meet speed-to-market and logistics demands from e-commerce.

Harmit J. Singh, CFO and executive vice president at Levi Strauss & Co., said as the company has grown its direct-to-consumer business, it continues to invest in new stores and e-commerce technology. In addition, higher distribution costs, primarily in the Americas, were incurred to support the high growth.

"We had a bang up quarter and so that required us to staff up, for example, our [distribution centers] to make sure we were able to service the demand," Singh said. "We don't expect these headwinds to continue, as we step into 2019."

Looking further at logistics costs, Ralph Lauren Corp. CEO and president Patrice Louvet said, "We are also utilizing significantly less airfreight this year in order to reduce shipment costs."

Louvet added that, "Over the past several months, we have seen increased volatility in the market from macroeconomic and geopolitical events, and we continue to monitor the trade environment closely. While we're not immune to pressure in the broader environment, our teams are prepared for multiple scenarios."

Importers and exporters can expect to pay higher ocean freight rates this year, as carriers pass along increased fuel costs, experts at maritime and shipping industry research and consulting firm Drewry forecast.

Simon Heaney, senior manager for container research at Drewry, said, "Expect volatile and most likely 30 percent higher bunker charges" by the end of the year, especially as the sector gets ready for 2020 mandated low-sulfur fuel to enter the price equation.

Carriers have already started and will continue to impose higher fuel surcharges to pass along the increased costs to shippers, according to Heaney. However, with contract rates set only marginally higher and "better carrier discipline" in fleet management, Heaney sees global freight rates rising by roughly 6 percent this year after having risen an average of 2.5 percent in 2018.

The World Container Index assessed by Drewry, a composite of container freight rates on eight major routes to and from the U.S., Europe and Asia was up 1.1 percent to $1,682.67 per 40-foot container for the week ended Feb. 14, and was up 11.6 percent compared with same period in 2018.

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