

INSIGHTS



2007 COTTON APPAREL IMPORT TRENDS

The past year presented a host of business challenges to the wholesale and retail textile and apparel industries. Issues in the housing market have impacted credit conditions, slowed home textile sales, and dried up a major source of consumer borrowing, home equity. Higher oil prices have sapped consumer purchasing power and increased synthetic fiber prices. And the erosion of the dollar has raised the cost of imports, slowing retail apparel sales.

COTTON'S SHARE

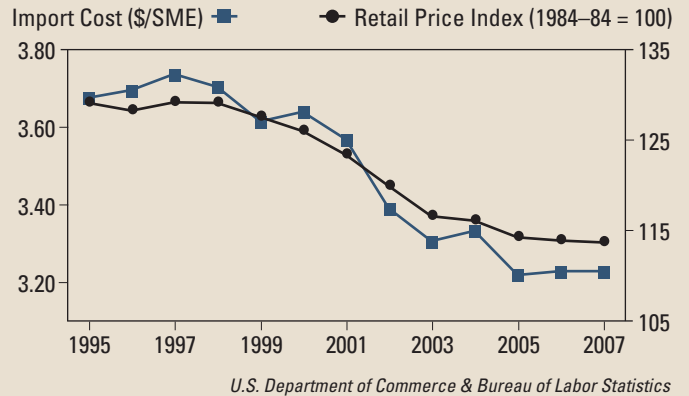
But as the textile and apparel complex wrestles with these tough conditions, cotton products are weathering the storm. As the value of total apparel imports has climbed since the 1980s, the share of cotton-dominant apparel has climbed in step. This implies that cotton apparel imports are climbing faster than total apparel imports, reflecting burgeoning consumer preference for cotton. Cotton's import share now stands at a record high of 60.9%, and the increase since 1989 (18.2 percentage points) is the equivalent of roughly 22 million bale-equivalents of additional cotton textiles and apparel imported since then.

FLATTENED COSTS

Owing to the weaker dollar and slackening consumer spending, apparel imports in 2007 rose at the second-slowest rate in the last 20 years. The weaker dollar also offset the defla-

tionary trend in apparel prices, turning cotton apparel import costs mostly flat from a year earlier. As import costs were little changed over the year, retail apparel prices saw their smallest decline in a decade. Should the dollar remain weak well into 2008, imported apparel will be less likely to resume its long-term cost slide. Retail apparel prices, in turn, could follow this trend, remaining relatively flat over 2008.

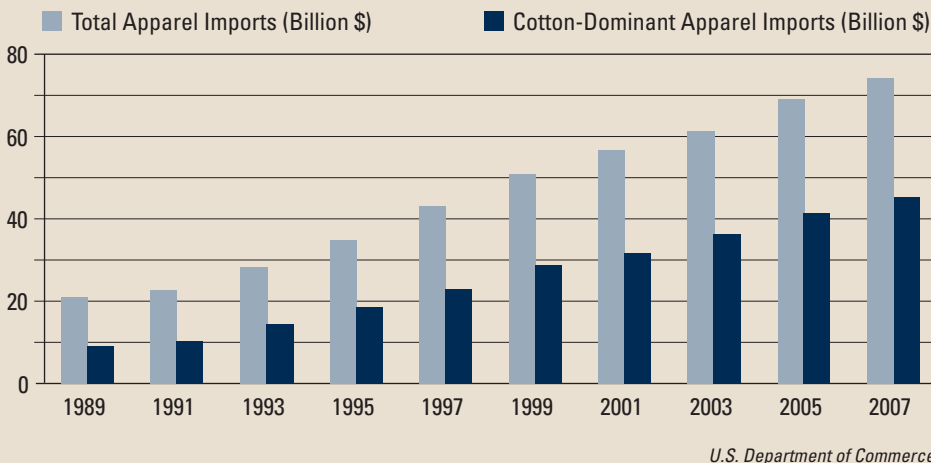
COTTON APPAREL COSTS: FLAT FOR NOW



SOURCE CONSOLIDATION

The United States imported cotton apparel from 157 countries in 2007, down from a peak of 164 before the final stage of quota phase-out took effect at the end of 2004. Moreover, in the absence of quotas for the past three years, the distribution of major suppliers has become more concentrated. This reallocation reflects a more streamlined, simplified supply chain, as importers no longer must source product from multiple origins in order to avoid quotas. In 2004, while many quotas on cotton apparel imports still were in force, the 10 largest foreign suppliers accounted for just over half of U.S. cotton apparel imports. By 2007, the top 10 had grown their share to over two thirds, squeezing marginal suppliers into a smaller share. In the

AS APPAREL IMPORTS CLIMB, COTTON GAINS SHARE



2007 COTTON APPAREL IMPORT TRENDS

CHINA CONTINUES TO GAIN SHARE

Top Ten Cotton Apparel Suppliers to the U.S. in 2007

Rank	Country	Value (billion \$)	Share (%)
1	China	10.6	23.5
2	Mexico	2.9	6.5
3	India	2.7	6.0
4	Vietnam	2.6	5.7
5	Bangladesh	2.4	5.3
6	Indonesia	2.3	5.2
7	Cambodia	1.9	4.2
8	Honduras	1.8	3.9
9	Hong Kong	1.7	3.7
10	Pakistan	1.4	3.2
	WORLD	45.0	100.0

U.S. Department of Commerce

absence of most quotas and with low average unit costs, Chinese cotton apparel imports climbed markedly in recent years, making China the largest supplier to the United States, taking share from all other major suppliers.

RECORD COTTON IMPORTS

In 2007, most of the growth in cotton apparel imports came from increased shipments of women’s clothing. Total imports of cotton-dominant apparel climbed 4.4% to a new record, spurred by 10.0% growth in females’ apparel. Cotton womenswear imports saw their strongest growth from 2006 in dresses (up 87.7%) and pants and shorts (up 9.4%). Females’ apparel accounted for over 6 in 10 clothing items imported into the United States. Overall, the largest categories of cotton apparel — knit and woven shirts, pants, and underwear — accounted for 81% of the dollar value of cotton apparel imports. However, these categories’ share has trended downward since peaking in 1999, as smaller categories of cotton apparel imports have enjoyed faster growth.

The surge in imports of cotton dresses was the fastest growth on record, reflecting an unprecedented volume of dresses shipped — over 158 million units. Growth was due mainly to increased shipments from China, which were up 141% from 2006. U.S. per capita import demand for dresses — a proxy for retail demand — was just over one new dress for every female in 2007. For all of 2007, the volume of dresses sold at retail increased 44.2%, according to NPD Fashionworld’s AccuPanel, as women traded in jeans, slacks, and skirts for dresses for both casual and work occasions. According to the NPD Group’s chief industry analyst Marshall Cohen, “Dresses had a phenomenal year and certainly have captured the women’s market in a big way. Dresses

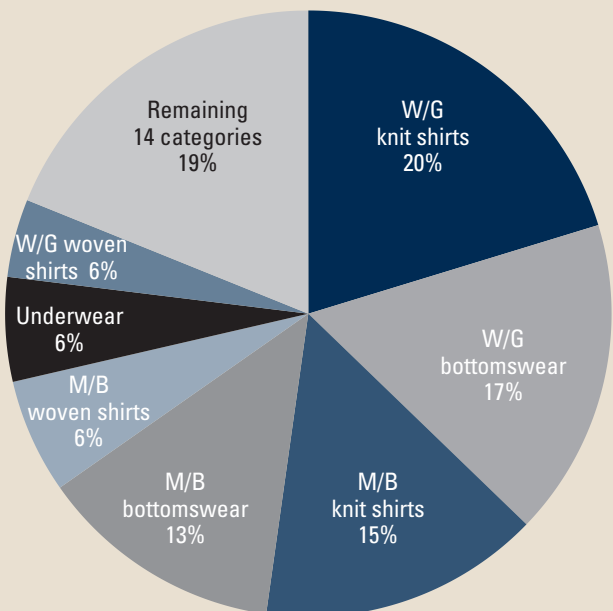
have the advantage of having a mass appeal; there are styles available that will flatter any woman, regardless of her age or figure.”

LOOKING AHEAD

Looking ahead to 2008, a weak dollar and sluggish consumer spending are likely to inhibit growth in apparel imports. On a trade-weighted basis, the value of the dollar against a basket of foreign currencies is the lowest in decades, effectively raising the price of imported foreign goods. Also, the recent spike in petroleum prices points to elevated costs for derivative products, including polyester, and consumers could balk at paying more for synthetic-fiber apparel. Cotton is poised to take advantage of both the eroding currency and higher polyester costs. First, should the dollar fall further against the currencies of several key apparel trading partners, this could hinder their competitiveness in shipping finished product to the United States. The weaker greenback could also encourage these same partners to source a larger proportion of their raw cotton needs from the United States. Second, with the price of crude oil recently breaching \$111 per barrel, the outlook for robust polyester prices could encourage manufacturers, exporters, and retailers to shift product mixes to more cotton-dominant blends, to take advantage of both faster growth in U.S. consumer demand for cotton apparel and the recent price gap between cotton and polyester.

LARGEST CATEGORIES STILL DOMINATE

Share of Cotton Apparel Imports (Dollar Basis)



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