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Denim Jeans Imports

U.S. Imports of Denim Jeans Strong; China Benefits

In 2005, denim jeans imports expanded 15.8% to a record \$4.6 billion, with double-digit gains in men's, women's, and boys' jeans. While several countries expanded shipments to U.S. shores in 2005, no country benefited like China. In the absence of quotas, Chinese jeans led the growth in denim shipments and decline in costs per unit, resulting in increased market share and unit costs well below the average world cost. As in many other Chinese cotton apparel categories, U.S. shipments of men's, women's, girls', and boys' jeans all experienced triple- or quadruple-digit growth. Although China's 2005 share of U.S. jeans imports was only 5.8%, the dramatic increase in shipments and rapid decline in cost per square meter equivalent (SME) displaced shipments from traditional sources. Mexico, the largest foreign supplier, suffered most from Chinese competition, as its market share slid 5.7 percentage points, to 42.3%.

Temporary safeguards implemented in June 2005 against a host of Chinese apparel categories, including jeans,

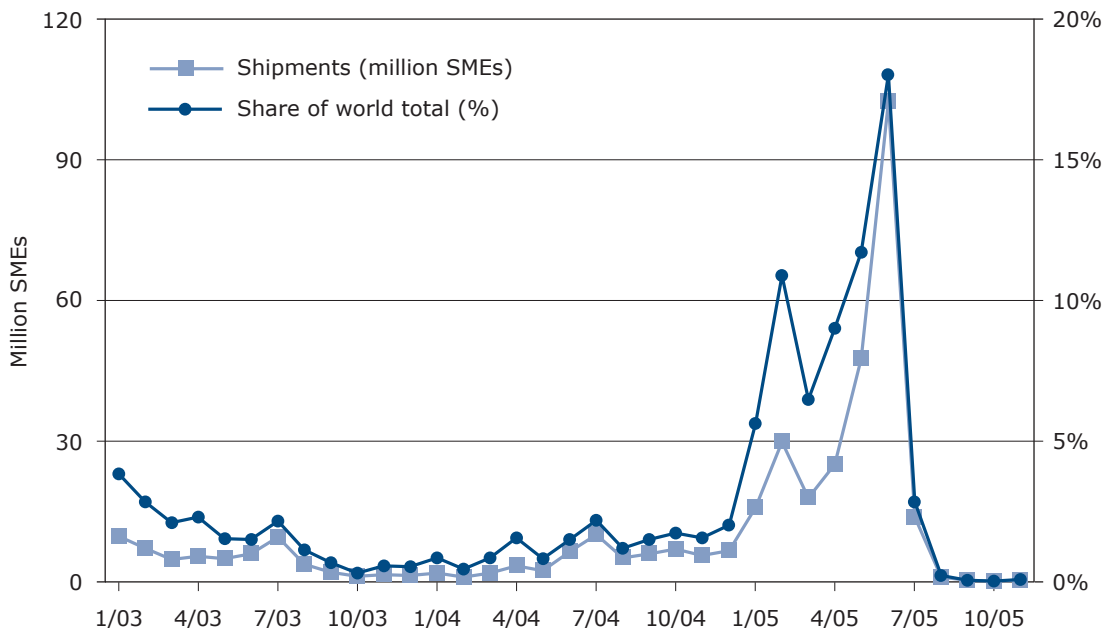
Top denim jeans suppliers (Jan.-Nov. 05): China gained share at Mexico's expense

Country	Million \$	Million SME	\$/SME	Share (%)
World	4,577	719	6.36	100.0
Mexico	1,935	277	7.00	42.3
Hong Kong	349	41	8.46	7.6
China	266	48	5.56	5.8
Guatemala	238	28	8.61	5.2
Cambodia	151	26	5.85	3.3
Colombia	132	20	6.55	2.9
Bangladesh	104	22	4.69	2.3
Lesotho	98	20	4.93	2.1
Costa Rica	88	24	3.70	1.9
Philippines	86	14	6.09	1.9
Nicaragua	79	17	4.65	1.7

Source: U.S. Department of Commerce.

effectively capped the volume of shipments from China. Nevertheless, even with the safeguards, Chinese shipments to the United States climbed 415.3% from 2004 to 2005. The graph on this page shows China's dramatic growth in jeans shipments in early 2005 and the subsequent effect of the safeguards. As Chinese jeans shipments surged, China's share of total U.S. jeans imports climbed rapidly, from near 1% in 2004 to 18% by June 2005, only to plummet to near zero by the end of the year, under safeguards.

Without quotas, Chinese jeans shipments and share surged



Source: U.S. Department of Commerce.

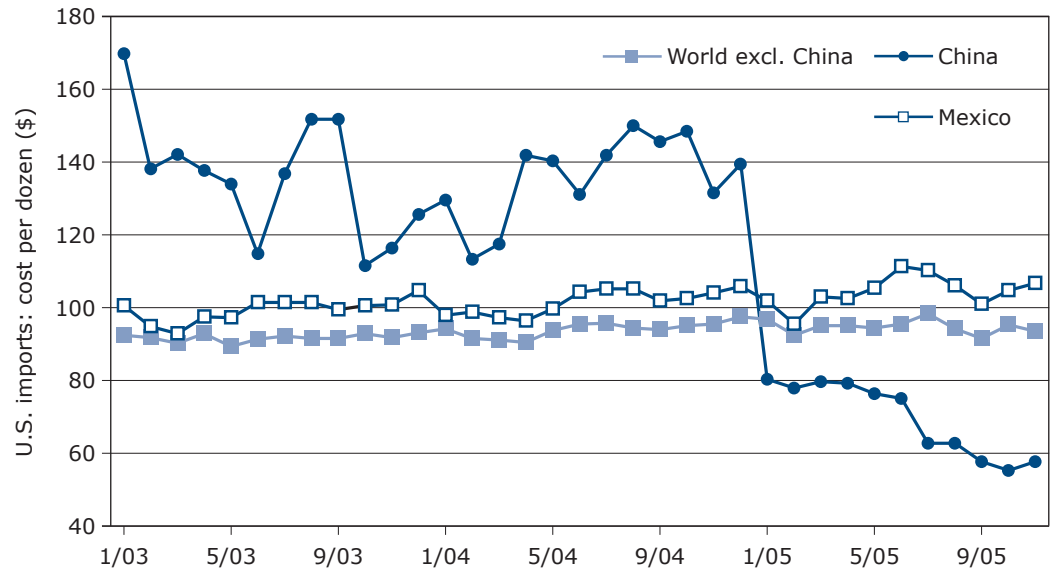
A key driver behind the surge in Chinese shipments was a rapid decline in unit cost. The cost per dozen jeans from China plummeted with the introduction of quota-free trading, from \$131.44 to \$57.58 over the last year, while the average cost from other primary origins was mostly flat, and the average world cost outside China declined only moderately, from \$95.33 to \$93.49. In fact, during 2005 (the first year without quotas), unit costs from other key origins were

unresponsive to the marked drop in China's cost. Mexico and the Caribbean region, the two largest suppliers of denim jeans to U.S. shores, bore the brunt of share loss. Mexico saw unit cost increase 2.6% over the period, while the cost of Caribbean Basin imports declined 0.6%, and costs from Hong Kong and Guatemala rose 7.2% and 1.9%. As other suppliers failed to match China's price declines, many lost market share to China in 2005.

Jeans Prices Rise at Retail

Retail prices for denim jeans climbed in 2005, reflecting increased demand and the growth of the premium denim market. According to data from the NPD Group, sales of denim jeans increased 5.6% in units and 14.6% in dollars for the first eleven months of 2005, with the fastest growth in premium denim jeans (costing more than \$60 a pair). Dollar sales growth in the premium denim market (which accounted for 12.2% of dollar sales) was in triple digits (up

After quotas, China dropped jeans costs, but no one followed



Source: U.S. Department of Commerce.

227%), compared with growth of 4.7% for all other price categories. This is the second year of strong sales gains for premium-priced denim jeans, but it is uncertain how long this segment can sustain its phenomenal growth. Currently, rising prices for jeans are pervasive across gender and most retail channels.

The United States and China recently reached an agreement to replace the safeguard scheme with a three-year

phase-out of quotas on the affected products. In the absence of new caps, this agreement's expiration at the end of 2008 could allow Chinese shipments to increase thereafter. With China's share of denim jeans imports likely to rise in coming years, past experience suggests that low Chinese prices could drag world imported jeans prices down. This divergence between higher retail prices and lower

import prices creates an opportunity for lowering retail prices, raising import costs, or both.

Retail prices of jeans rose in 2005, while import prices declined

Retail price (\$)	11/04	11/05	% Change
Dept. stores	32.90	42.79	30.0
National chains	23.13	24.49	5.9
Specialty stores	29.81	33.51	12.4
Mass merchants	16.92	15.72	-7.1
Males' jeans	24.31	27.02	11.2
Females' jeans	23.67	25.50	7.7
Import price (\$/dozen)			
World	95.74	93.44	-2.4
China	131.44	57.58	-56.2

Source: NPD Group and U.S. Department of Commerce.