

Price of clothing to rise 12% over next five years

LONDON, UK: A number of factors will combine to create the most inflationary environment since the mid-1980s, according to Verdict, the retail consultancy. Consumers can expect prices to rise by over 4% this year with more modest rises in every year out to at least 2014.

By Published by Verdict, of the Datamonitor group 23 Jul 2010

This is a marked change from the past 10 years when clothing prices fell every year driven, in large part, by the growth of value players like Primark and the expansion of the grocery multiples' clothing offers. According to Verdict's numbers, clothing prices fell by 32% over the 1998 to 2008 period.

Inflation returned to the market in 2009, but prices, held down by reluctance on the part of retailers to pass on increases during the midst of a recession, only rose by a very modest 0.3%. A combination of higher supply chain costs, increases in VAT and raw material price increases have finally put pay to the days of low inflation and many retailers, in an effort to rebuild and protect margins, are starting to pass across much full increases.

Year	Inflation/deflation (%)	Year	Inflation/deflation (%)
1998	-0.5	2007	-1.6
1999	-2.4	2008	-1.4
2000	-3.9	2009	0.3
2001	-4.1	2010	4.4
2002	-3.5	2011	3.6
2003	-2.5	2012	1.9
2004	-3.5	2013	0.9
2005	-3.3	2014	0.5
2006	-2.1		

This table shows the long term rate of inflation/deflation for the clothing market from 1998 to 2014. Red figures are forecasts. *Source: Verdict Consulting © 2010, all rights reserved.*

"The consumer has had it good for the past ten years" says Neil Saunders, consulting director, "but the good times have now come to an end. Prices can't defy gravity forever and many retailers now have very little choice but to ease up prices."

According to Verdict, increasing prices at a time when consumers are still uncertain and constrained will have a negative impact on the amount of clothing people buy and over the next two years there will be virtually no volume growth in clothing retail.

"The consumer response to increased prices will simply be to buy less but to think more about each piece they are buying" says Saunders. "That's a game changer in clothing retail which has been dominated by the low price, high volume model for years. The new model is much more about adding value and providing clothing that is aspirational or different".

The sector view

At a sector level, womenswear will bear the brunt of the inflation, with average prices increasing by 15.1% over the next five years. However, all sectors, including kidswear and menswear will be inflationary.

2010-14			
All clothing	Women's clothing	Men's clothing	Children's clothing
+11.8%	+15.1%	+12.4%	+4.1%

This table shows total inflation or deflation (price increases or decreases) in various clothing sectors across a five year time period. *Source: Verdict Consulting © 2010, all rights reserved.*

"Children's clothing is marginally less affected by inflation as most of the product is not VATable" says Saunders. "Nevertheless, it is still subject to many of the same cost pressures as all other categories so we expect prices to rise over the next five years".

Cost drivers

Verdict has identified a number of cost pressures which are leading to an increase in prices:

The reversion of VAT to 17.5% at the start of this year increased prices on at many retailers. A further increase to 20% is scheduled for January 2011, but Verdict believes retailers will start to pass this increase across before the New Year. "Many retailers have already anticipated the VAT increase and have built it into their autumn and winter prices" says Saunders. "That will help them make some good margin gains before January and will also give them less adjustment work to do when VAT goes up in the midst of their busiest trading period."

Having already secured many of the financial benefits of international sourcing, it will be very difficult for retailers to extract significant extra savings from moving production to ever cheaper locations. Indeed, over the medium term wage inflation in China will push up clothing production costs.

The third factor is the cost of raw materials, especially cotton, which in the near term have risen sharply and continue to show signs of price stickiness. Retailers are no longer able to absorb these costs and are building them into their current and future pricing.