

Toys from China Will Cost More

Higher wages and commodity prices are squeezing manufacturers, as U.S. buyers at a recent trade show discovered

By [Michael Wei](#)

At the China Import & Export Fair in the southern city of Guangzhou in late April, one Western buyer protested against higher prices by wearing a T-shirt emblazoned with "Too Expensive" in Chinese. That generated little sympathy from toy seller Clara Zhang. "We all laughed so hard," says Zhang, 26, sales manager for China Nanjing Happy Toy, a maker of teddy bears and stuffed ducks. "Then we said, 'Sorry, sir, you probably need to pay even more.'"

Hundreds of toymakers at the fair, the country's largest trade show, are charging more as the world's second-largest economy fights inflation that soared to an almost three-year annualized high of 5.4 percent in March. There are about 8,000 toy companies in China, according to the government-affiliated China Toy Assn., and the country exported \$2.6 billion worth of toys in the first four months of the year, 17 percent more than a year earlier.

"If you take into account everything Chinese toymakers are dealing with—labor, material, exchange rate—a price hike is only a natural consequence," says Hua Zhongwei, a macroeconomic analyst with HuaChuang Securities in Beijing. "There is a big chance for shoppers in the U.S. to face higher prices for Christmas gifts this year."

Mattel ([MAT](#)), the El Segundo (Calif.) maker of Barbie dolls, announced a single-digit price increase for its products on Apr. 15. Hasbro ([HAS](#)), which makes toys including those for the Transformers and Spider-Man franchises, raised prices by 6 percent to 7 percent in February, according to David Hargreaves, chief operating officer of the Pawtucket (R.I.) company. "We haven't had pushback from the retailers," Hargreaves says. "They accept that the prices need to go up a bit." Toys "R" Us, the world's biggest toy retailer, anticipates "some price increases" for shoppers, says Kathleen Waugh, a spokeswoman for the company.

Part of the pressure is coming from higher commodity costs, which are cutting into manufacturers' profit margins. The price of crude oil, the source for many of the chemicals used in toymaking, has risen more than 40 percent in the last year. Cotton prices surged 90 percent in the same period. China's appreciating currency has had a smaller, but significant, effect.

The biggest cause for the price hikes has been the rapid wage inflation in China's factory-heavy coastal region, where labor is in short supply. Worker salaries have almost doubled in the past year, to 2,000 yuan (\$308) per month in factories in Guangdong province, the nation's manufacturing hub, according to toymakers attending the fair. "Wages are increasing day by day," says Jimmy Tang, general manager for Chenghai Junfa Toys in Shantou. "If you don't do it, people go somewhere else."

Li & Fung, the world's biggest supplier of toys to retailers including Wal-Mart Stores ([WMT](#)) and Target ([TGT](#)), manufactures about half its products in China, and says it will pass on any factory cost increases to its customers. "Definitely, prices are going up on everything," says Bruce P. Rockowitz, chief executive officer of the Hong Kong-based company. "Every type of product."

The bottom line: Hasbro, Mattel, and other companies are raising prices in part because wages in Chinese factories have doubled and oil is up 40 percent.

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