

Wool clothing imports into the US decline

Mixed economic news obscures a potential recovery which could aid wool

Medium merino wool production down, superfine wool production up

Medium wool prices remain in top historical decline in spite of recent falls



A Regular Insight into the U.S. and Global Wool Market

wool journal

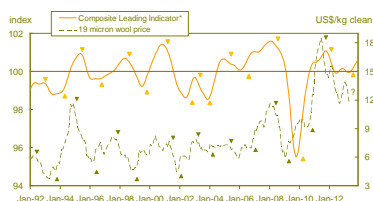
Retail Demand and Economic Conditions

Trends, Drivers and Prospects

The economic news in the past month has been very mixed. There has been some good news coming out of the US reinforcing the forecast of a gradual economic recovery, driven in part by a recovery in the US housing sector. As well, Japan's economic growth hit an annualized 3.5% in the first quarter of the year, the strongest result for some time. On the downside, the Euro-zone region recorded its 6th consecutive quarter of negative growth. This is a longer run of negative growth than during the Global Financial Crisis in 2008-2009, although the fall in economic growth is not as severe as during the GFC.

Even so, the latest results from the OECD for its leading economic indicators suggest that the world's economies will turn up in the nine months. This brings hopes for an improvement in wool prices, as the chart below shows. This will require a continued improvement in consumer confidence, however.

Economic Leading Indicators Point to Upturn



Source: OECD, AWEX
* Amplitude adjusted form of the Composite Leading Indicator (CLI) for the whole OECD region. CLI to March 2013 pushed out 8 months. Wool prices until end May 2013

Wool Textile Industry Conditions

Trends, Drivers and Prospects

Imports of wool clothing by the United States of America has fallen in the past 12 months compared with the previous year, continuing a decline which began in the last quarter of 2011. This downturn has negatively affected wool textile conditions in the major wool processing countries and dampened raw wool demand.

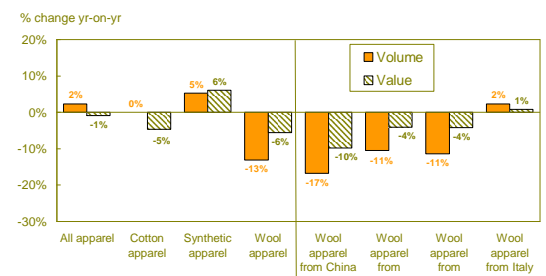
The US is one of the world's three largest consuming countries of wool clothing at retail, as well as being one of the largest consumers of clothing of all fibers in the world. The vast majority of the wool clothing consumed each year by the US is satisfied by imports. The major source countries for the US are China, Vietnam, Mexico and Italy.

The latest statistics available from the US Department of Commerce's Office of Textiles and Apparel shows that in the 12 months to April, US imports of wool clothing fell by 17% in volume and by 10% in value. This year-on-year fall in wool clothing imports by the US began in October 2011. In contrast to the fall in imports of wool clothing, US imports of clothing made from synthetic fibers increased in both volume and value. US imports of cotton clothing was up in volume terms but down slightly in value terms. The chart shows the latest data in detail.

As the chart shows, three of the four largest supplying countries of wool clothing have recorded declines in the imports by the US, with the biggest fall being recorded by China. China is the largest supplier of wool clothing to the US with a share of 50%.

These different trends between wool and competing fibers suggests that wool has lost market share in the US in the past year or so. This will need to be reversed to aid a recovery in raw wool demand.

US Imports of Wool Apparel Down (12 months to April 2013) - Volume and Value



Source: OTEXA

Wool Production and Supply

Trends, Drivers and Prospects

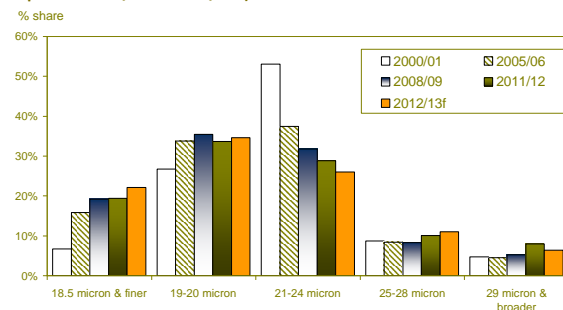
Australian wool production is forecast to increase in the 2012/13 season, with production of superfine, fine and cross-bred wool being the driver of the increase. At the same time, production of medium merino wool has fallen, both in total and as a share of total production.

In spite of low prices for superfine wool (18.5 micron and finer) in the past two seasons, Australian production of superfine wool has increased by 18% this season and its share of total production has increased to 22%, the highest ever recorded. This has been something of a surprise, particularly as seasonal conditions during the growing season had been reasonably good which encourages broader wool. Fine wool (19 to 20 micron) production has also lifted by a smaller amount than superfine wool (+7%).

Production of cross-bred wool (25 to 28 micron) was up again (by 7%), continuing the steady increase seen since the mid-2000s. The trend to cross-bred wool has come as a result of increased use of meat breed rams with merino ewes to produce lambs for the meat market. The chart shows the trends by each micron category.

At the same time, production of medium merino wool (21 to 24 micron) has fallen this season, continuing the long term decline in production of this wool. A shift to fine and superfine wool and cross-bred wool has been the cause. The increased production of superfine wool and, to a lesser extent fine wool, has weighed down on the prices for these wools this season. In contrast, the decline in production of medium merino wool has helped support the prices for this wool. The low premium for superfine and fine wool over medium merino wool could ultimately see lower superfine production.

Medium Merino Wool Production In Australia Falls
Shares of Wool Tested by Micron Category
(Snapshots: 2000/01 to 2012/13*)



Source: AWTA
* Forecast based on data to April for 2012/13 season

Outlook

Little has changed in the past month to change the outlook for the wool market in the next few months. Supply to the market will remain low until the Southern Hemisphere spring, with the usual flush of new season's shorn wool coming on to the market. The signs of recovery in economic conditions and Japan are both very welcome, they simply confirm the forecast of a slow improvement in economic conditions, although the Euro-zone countries are set to remain under pressure for the remainder of 2013.

It seems highly likely that economic conditions will improve sufficiently in time for the Fall/Winter season to bring better retail sales, but that retailers will have not increased their orders of wool clothing to meet the improved retail sales. As a result, wool's share of imports and retail sales will be under pressure. In turn, better-than-expected retail sales could boost retailer orders and raw wool demand at the end of 2013 and into the first half of 2014.

Wool and Fiber Prices

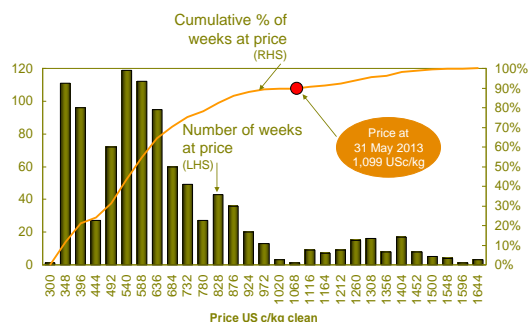
Trends, Drivers and Prospects

Wool prices in Australia and South Africa fell in May, the fourth consecutive declines in prices in US\$ terms. After an initially sharp fall in the first half of the month, wool prices stabilized and recovered a little, although month-average prices were down by around 4%. The falls come as concerns about retail orders for the coming Fall/Winter season among the major wool processors in China, India and Europe have weighed down on the market. In local currency terms, Australian and South African wool prices in the local currencies actually increased a little because the US\$ increased in value against both currencies.

While wool prices declined, prices for cotton, polyester and acrylic fibers all moved only slightly, continuing the trend seen for the past six months or more. The chart on the back page shows the trends in prices for each competing fibers as well as prices for superfine, fine and medium merino wool.

Wool prices are still well above the level at the start of 2009, in spite of the recent falls. They have also performed better than prices for other fibers. Medium merino wool (21 micron) prices have done best, and remain in the top 90% of historical prices (see chart). This situation could be maintained given the low production levels.

21 Micron Wool Price At Top End of Percentiles



Source: AWEX, FT, Poimena Analysis
Based on weekly prices 1991 to end May 2013

These statistics and charts present a snap-shot of the current situation in the global wool industry. This quarter the two charts show the trends in consumer confidence in the US and the European Union and the trends in wool and competing fiber prices since the start of 2009.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	30.0	-6%	284.3	+3%	China, India, Italy, Czech Rep	China, Czech Rep, Italy and India all down in April
NZ	14.6	-6%	62.9	+11%	China, UK, Italy, Germany	China down in April, UK, and Italy Germany up
Uruguay	4.2	+29%	39.3	+9%	China, Germany, Turkey, Italy	China, Turkey up sharply, Germany down in April, Italy up in April
Argentina	4.0	+14%	33.6	-2%	China, Germany, Italy, Uruguay	China and Italy up strongly in April; Germany & Uruguay up.
South Africa	4.4	+30%	17.4	+13%	China, Czech Rep, Italy, India	China, Czech Rep and Italy up strongly, India down sharply
USA	0.44	+140%	2.4	+76%	China, India	China up 63% in 2013 to date, India up 192%

Sources: ABS, Beef + Lamb NZ, SUL, FLA, Capewools, USDA

Notes: Raw and semi-processed wool. Australia, NZ, Uruguay, Argentina and South Africa are for March and the financial year from July to March, USA is for March and for calendar year January to April

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	498	570	-13%	543	611	-11%
NZ	304	320	-5%	324	343	-6%
South Africa	496	561	-11%	537	605	-11%
UK	85	108	-22%	89	119	-25%

Sources: AWEX, NZ Wool Services International, Capewools, BWMB

Notes: Prices are for April. Australia is 22 MPG, South Africa is the 22 micron indicator, NZ is 25-32 micron average, UK is the British Wool Marketing Board Indicator. Year is calendar year and year average is year to May

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	92	88	+5%	86	105	-18%
Synthetics	106	114	-7%	106	117	-10%
Wool: cotton	5.42	6.44	-18%	6.22	6.00	+4%
Wool: synthetics	4.73	5.12	-8%	5.08	5.33	-5%

Sources: AWEX, Poimena Analysis, Cotton Outlook, PCI Fibres

Notes: Prices are for May. Season is financial year July to May

