



Consumer confidence hits six-year high

Recovery in wool textile business conditions expected in second half of 2014

World wool production remains at 60 year lows

Prices for wool used in interior textile and woolen wear doing best



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

wool journal

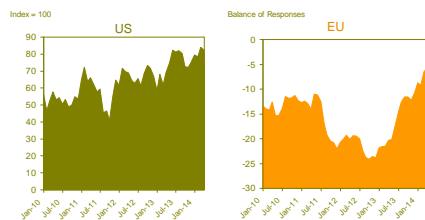
Retail Demand and Economic Conditions

Trends, Drivers and Prospects

There continue to be positive signals from the major consumer markets for wool clothing, with the exception of China. While the US economy was held back in the first quarter of 2014 due to severe cold weather, consumer confidence in the US continues to improve, in March hitting the highest level since before the Global Financial Crisis in 2008. It weakened a little in April, but still remains near six year highs (see chart). Forecasts for the US economy in 2014 point to a solid improvement, with further gains expected in 2015.

The Euro-zone economy is also experiencing a good recovery after two consecutive years of contraction. The UK, which is outside the Euro-zone, is seeing even stronger growth. In April, consumer confidence across Europe reached the highest level since late 2007. In contrast, economic growth in China remains lackluster and retail sales were flat in Q1 of 2014.

Consumer Confidence Continues to Climb US and European Union



Source: The US Conference Board and the European Commission
Data to April 2014

Wool Textile Industry Conditions

Trends, Drivers and Prospects

The results from the International Wool Textile Organization's annual wool textile business survey suggest that there will be a good recovery in conditions in the global wool textile industry in the second half of 2014. As well, stocks within the industry are expected to be reduced, clearing the way for improved raw wool demand.

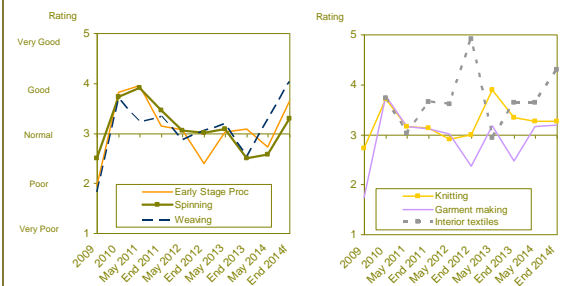
As the chart below shows, business activity was poor in many sectors of the world wool textile industry at the end of 2013. The improvement which had been expected when the Survey was taken in May 2013 did not eventuate. This hurt key sectors, notably garment making, weaving and spinning. These negative results cascaded to early stage processing in April/May 2014, when the current Survey was taken. While poor order levels were a particular concern, the Survey results pointed to excess stocks, notably of greasy wool, wool top, wool yarn and wool fabric, by April/May 2014. Given these results, it is no wonder that demand for raw wool for use in the apparel industry fell in recent months.

There are some bright spots, however, with both the knitting and interior textiles industries reporting on-going good to very good production activity levels. As well, stocks are under control in these sectors. The positive Survey results for knitwear is reflected in China's exports of knitwear (see chart on the back page).

Looking ahead, the Survey results point to a rebound in production activity levels in the second half of 2014 in all sectors. As well, Survey respondents expect the excess stocks to be cleared and the stock position to return to 'normal'.

This positive outlook augurs well for an improvement in raw wool demand in the second half of 2014 and into 2015, particularly if clothing retailer orders pick up.

Wool Textile Industry Production Activity Expected to Rebound



Source: IWTO Wool Textile Business Survey
Weighted results for China, Italy, India, Germany, Brazil, Turkey, Uruguay, Mongolia, Argentina, South Africa, New Zealand, Norway and France

Wool Production and Supply

Trends, Drivers and Prospects

The major wool producing countries reported on the current situation and prospects for wool production at the recent Congress of the International Wool Textile Organisation (IWTO), held in Cape Town, South Africa on 28-30 April. This information, combined with information and projections for countries not represented in the IWTO, shows that there has been very little movement in total world wool production (see table). However, there are some significant differences between countries.

Wool production in **Australia** is expected to fall in both 2013/14 and in 2014/15 as a result of poor seasonal conditions and a significant sell-off of sheep and lambs for slaughter. The forecast for 2014/15 is the lowest level of wool production in 90 years. Wool production in **China, Argentina** and **the US** is also expected to decline in both years, largely due to shift away from wool sheep to meat sheep breeds. In the US, a continued (although moderating) decline in sheep numbers and a shift away from wool sheep to hair sheep (to capitalize on good meat prices) have been the main reasons for the decline, exacerbated by a severe drought in California.

For other countries, wool production is more mixed, with increases expected in 2015. For example, **New Zealand** wool production is expected to record a small improvement in 2014/15 after a drought-induced decline in 2013/14. A stronger bounce-back is expected in **the UK** after severe cold weather resulted in stock losses and lower production in 2013. Overall, the continued low level of global wool production will help support wool prices.

World Wool Production Remains Low mkg clean

	2013e	2014f	% change	2015f	% change
Australia	249.9	241.4	-3.4%	234.3	-2.9%
China	169.0	168.0	-0.6%	167.6	-0.3%
New Zealand	126.3	125.0	-1.1%	126.0	+0.8%
India	37.4	36.8	-1.7%	37.3	+1.3%
Argentina	26.0	27.2	-4.8%	25.7	-5.7%
South Africa	29.8	30.4	+2.2%	30.4	0.0%
Uruguay	24.5	25.1	+2.7%	25.0	-0.6%
UK	23.4	21.0	-10.3%	22.4	+6.6%
Mongolia	10.9	13.0	+19.4%	13.7	+5.3%
USA	7.2	7.0	-3.6%	6.9	-0.8%
Brazil	8.1	7.4	-8.7%	7.4	0.0%
Others	429	425	-1.0%	418	-1.6%
Global	1,132.8	1,130.9	-0.2%	1,132.3	+0.1%

Source: IWTO national committee reports, FAO and Poimena Analysis
 Note: 2013 = 2012/13 for Australia, NZ, Uruguay, Argentina, South Africa, Brazil
 Updated: 23 April 2014

Outlook

The latest data on economic conditions, consumer confidence and business conditions in the global wool textile industry confirm the outlook for a recovery in raw wool demand and in prices for apparel wool (roughly wool of 26 microns and finer) at some stage in the second half of 2014.

The timing and strength of the recovery will depend on six-year high consumer confidence and strengthening economic conditions being translated into better retail sales of clothing. This will, hopefully, lead to an improvement in orders through the wool textile industry. The timing will also be determined by when the current excess stocks can be cleared within the industry.

If raw wool demand does improve, it will be met by tight raw wool supplies. Global wool production is set to remain at 60 year lows. With Australian wool production likely to plunge to the lowest level since 1925, apparel wool supplies will be particularly tight providing the opportunity for a strong recovery in prices.

Wool and Fiber Prices

Trends, Drivers and Prospects

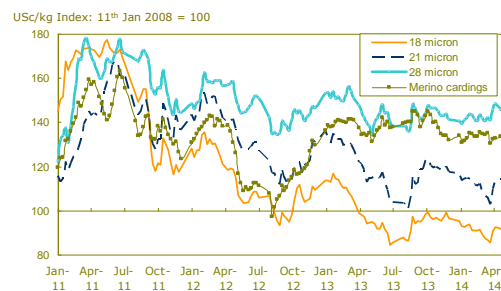
Wool prices were very mixed over the past month, with prices of wool used in apparel (that is, from Australia and South Africa), remaining flat (in US\$) or falling (in local currency) while prices of wool used in interior textiles (that is, from New Zealand and the UK) gaining strength.

It is interesting to look at the longer term trends in prices for different types of wool over the past three years. The chart shows the prices of Australian wool of different microns based on a US\$ index where January 2008 price levels equal 100. Broader micron wool (represented by 28 micron wool prices in the chart) are around 50% above the January 2008 levels. These prices have been supported by solid demand for interior textiles. Merino cardings prices are 40% above 2008 levels, as a trend towards woollen fabrics for casual wear have lifted demand for shorter wools.

Prices for 21 micron wool are around 205 higher than 2008 levels, having recovered from recent lows.

In contrast to gains in prices for these other wools, the prices for superfine (18 micron) wool are below 2008 levels. This is due to a combination of over-supply (see the April edition for details) and weaker demand for worsted wovenwear (as indicated by the results from the IWTO Survey and trends in exports of wovenwear from China).

Australian Wool Prices – By Micron Index



Source: AWEX
 Data to 9th May 2014

These statistics and charts present a snap-shot of the current situation in the global wool industry. This edition the two charts show the forecasts of economic growth in the major wool consuming countries; and the trends in the China's exports of wool products.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	31.1	-20%	246.0	-3%	China, India, Czech Rep, Italy, Korea	China down sharply, Italy, Czech Rep down; India, Korea up
NZ	15.9	-13%	114.7	-11%	China, Italy, India, UK, Germ	China sharply down; UK, Italy down; Germany and India up
Uruguay	4.3	-4%	40.2	+15%	China, Turkey, Italy, India	China, Turkey, Italy all down; India up
Argentina	3.6	+2%	30.4	+3%	China, Germany, Italy, Mexico	China and Germany up; Italy, Mexico down
South Africa	4.7	-8%	34.6	+10%	China, Czech Rep, Italy, India	China, Czech Rep, India down; Italy up
USA	0.55	-16%	3.39	-12%	China, India	India up strongly, China down sharply

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

Notes: Raw and semi-processed wool. Australia, New Zealand, Uruguay, Argentina and South Africa are for March and the financial year from July to March; and USA is for March and for the US wool season October to March.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	467	516	-10%	481	554	-13%
NZ	198	183	+8%	194	182	+6%
South Africa	485	509	-5%	490	547	-10%
UK	113	90	+26%	112	90	+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 April.

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	94	92	+2%	91	86	+6%
Synthetics	107	109	-2%	108	107	+1%
Wool: cotton	5.06	5.68	-11%	5.40	6.30	-14%
Wool: synthetics	4.43	4.80	-8%	4.55	5.06	-10%

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

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

