



Economic growth improves and consumer confidence up, but clothing sales weak

Raw wool purchases by China stay low

Australian wool production at 90 year low

Wool becomes less price competitive with cotton



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

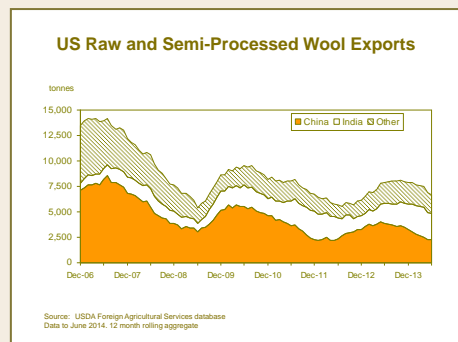
wool journal

Wool Textile Industry Conditions

Trends, Drivers and Prospects

Raw wool purchases by China, the world's largest wool processing country, remain low according to the latest data. In the first six months of 2014, China's raw wool imports from were down by 14% year on year. Imports from Australia, the largest supplier, were 17% lower and imports from New Zealand were 22% down year-on-year. US exports of raw wool to China were 50% lower in the first six months of 2014 (see chart). China's imports from Uruguay and South Africa were higher in the first half of 2014, which offset some of the declines in imports from the major supplying countries.

The decline in raw wool buying by China is due to a combination of weaker domestic retail demand, as well as tighter credit availability which is hurting the smaller mills. Export demand for wool clothing has recently improved which could feed through to better raw wool demand in coming months.



Retail Demand and Economic Conditions Trends, Drivers and Prospects

Economic growth in the major advanced economies, such as the United States, Japan, the United Kingdom and even countries in the Euro-zone, is returning to levels seen prior to the Global Financial Crisis six years ago. The chart on the back page shows the trends in economic growth in the advanced economies, in China and the global aggregate.

As a result of the improvement in economic growth, consumer confidence in many of these advanced countries has surged in the past year. In the US and in the European Union, consumer confidence levels are at or near the highest level in at least seven years. Similarly, consumers in Japan have been much more confident in the past year than they have been since 2007, although confidence slipped in the first few months of 2014 before picking up again recently.

In spite of the positive consumer sentiment, growth in retail sales of clothing in the US, Japan and continental Europe remains disappointingly low or even negative (see table below). Clothing sales in the US have not recovered from the drop at the start of the year when prolonged cold weather kept consumers indoors. In Italy, the economy is better than it was but still very weak, with retail sales down by 1%. Even so, this is an improvement on levels of 2012 and 2013. Clothing retail sales in Japan were flat. There were better signs in Germany, and the UK was the star performer, with an amazing 7.1% jump in clothing retail sales this year.

In contrast, consumers in China are more cautious and nervous, and, while confidence has improved from the mid-2013 low, it is well below the levels seen in 2008. It is not surprising that growth in clothing retail sales has slowed sharply in China over the past 18 months or more.

Consumers need to loosen their purse strings and spend more on clothing to boost wool textile industry orders.

Clothing Retail Sales in Major Wool Consuming Countries

% change y-o-y	2009	2010	2011	2012	2013	2014 y-t-d
China	18.8%	24.8%	20.6%	12.3%	11.6%	10.3%
USA	-6.3%	6.0%	3.4%	0.9%	1.3%	-0.9%
Japan	-13.5%	-6.3%	3.2%	-0.4%	-0.7%	-0.4%
Germany	-2.2%	1.2%	0.9%	-0.3%	0.1%	1.2%
UK	1.0%	5.4%	3.3%	1.4%	2.7%	7.1%
Italy	-1.5%	0.8%	-1.1%	-2.3%	-2.1%	-1.0%

Source: Government statistical bureaus.
Notes: All countries is value. Japan is value of retail sales of clothing in major department stores. Germany and Italy is total retail sales.
2014 is year to July for all countries except for Italy which is to June

Wool Production and Supply

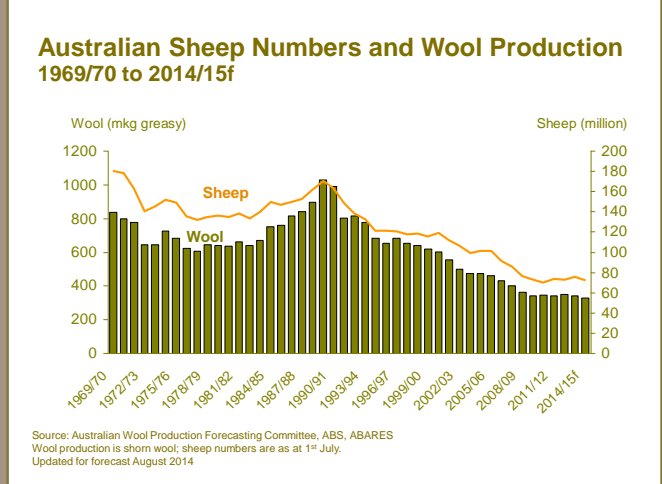
Trends, Drivers and Prospects

Wool production in Australia for the 2014/15 season will be at the lowest level in 90 years, according to the latest forecast which was released at the end of August. There could be less superfine wool (18.5 micron and finer) and more medium merino wool (21 to 24 micron).

The Australian Wool Production Forecasting Committee predicts that shorn wool production will be just 328 mkg greasy (around 1.86 million bales) in 2014/15. This is a decline of 3.8% compared with the 2013/14 season. It is the lowest level of production since the 1924/25 season. The chart shows the trends in sheep numbers and production since 1969/70.

The lower wool production is due entirely to a 5% drop in the number of sheep in Australia. In 2013/14 there was a significant lift in the number of adult sheep slaughtered due to a combination of very good prices and dry and drought conditions in several sheep producing regions. As well, in the past five years or more there has been a significant shift in Australia's sheep industry towards producing more lambs for slaughter, away from retaining lambs for wool.

There is no official forecast of production by micron category. However, some analysts predict that production of superfine wool will decline while production of medium merino wool will increase in 2014/15, reversing the trends seen in recent years (see the chart on the back page). This change is due to a combination of better seasonal conditions and the result of the low price levels for superfine wool recently.



Outlook

The short-term outlook for wool hinges on two key and interrelated factors – a pick-up in clothing retail sales in the major advanced economy countries and better raw wool demand from China.

A sound economic foundation is being established in the major economies and consumer confidence has increased, but retailer orders to the wool textile industry will not improve until consumers start to spending. That means orders to China's large wool textile industry will remain subdued. While there has been an improvement in China's wool textile exports in the most recent months, China's raw wool purchases will continue hand-to-mouth until export orders lift further and conditions in China's domestic retail market improves. Raw wool demand may also remain soft until credit availability and associated liquidity issues for smaller mills relaxes.

A recovery in raw wool demand is still likely in the second half of 2014. And, with wool production low, improved demand could bring solid price rises.

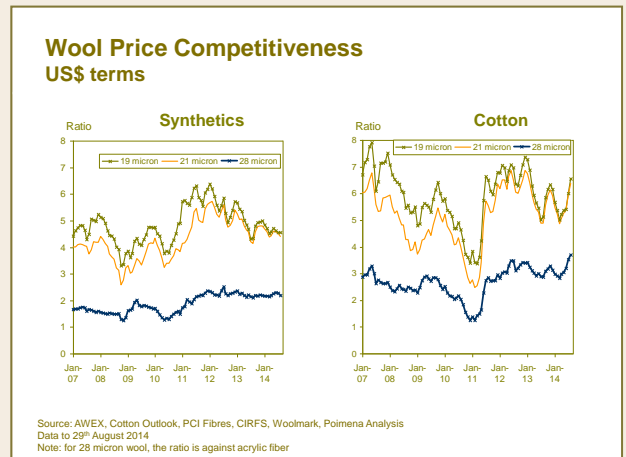
Wool and Fiber Prices

Trends, Drivers and Prospects

Apparel wool prices in Australia and South Africa have slipped further over the past three months since the last edition of the **Wool Journal**. The Australian Eastern Market indicator in US\$ fell by 2% between June and August and the South African CapeWools Indicator was down by 1%. The Australian and South African 22 micron wool indicators fell by 3% and 4%. Prices for broader wool used in interior textiles were rather mixed. The New Zealand Fine Cross-Bred Indicator lifted by 3%, while the British Wool Marketing Board Indicator fell by 1%.

These generally weaker prices reflect continued soft demand conditions, not only for wool but for textile fibers in general. Since June, cotton prices have fallen by sharply, with the CotLook A Index down by 17%. Global cotton production is expected to exceed world cotton consumption for the fifth consecutive year in 2014/15, even though production is expected to fall a little and consumption to grow. Global cotton stocks are around 90% of annual consumption, putting downward pressure on prices. Synthetic fiber prices have increased slightly since June.

As a result of these changes, wool's price competitiveness with cotton has deteriorated, for all wool microns. In contrast, wool's price competitiveness with synthetic fibers has improved (see chart).



These statistics and charts present a snap-shot of the current situation in the global wool industry. This edition the two charts show annual economic growth rates for China and the advanced economies; and the trends in wool production in Australia by micron range.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	25.1	-8%	322.8	-5%	China, India, Czech Rep, Italy, Korea	China down 10% in 13/14, Czech Rep, Italy, India, Korea up
NZ	14.1	+12%	161.8	-11%	China, UK, Italy, India, Germ	China, UK, Italy, Germany down; India up
Uruguay	3.8	+6%	53.3	+13%	China, Germ, Italy, Turkey	China, Germ up; Italy, Turkey down
Argentina	2.1	-22%	40.1	+6%	China, Germany, Italy, Mexico	China, Mexico up; Germany, Italy down
South Africa	3.8	-10%	45.1	0%	China, Czech Rep, Italy, India	China, Italy up, Czech Rep flat, India down
USA	0.48	-26%	4.68	-22%	India, China	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 June and the financial year from July to June; and USA is for June and for the US wool season October to June.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	469	463	+1%	480	516	-7%
NZ	218	180	+21%	204	182	+12%
South Africa	467	457	+2%	491	519	-7%
UK	119	95	+25%	116	90	+28%

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

Notes: Prices are for August. 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 August.

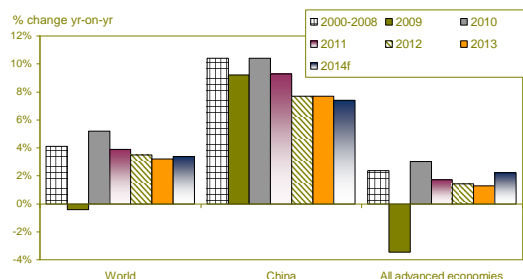
Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	74	92	-19%	91	87	+5%
Synthetics	107	109	-2%	108	107	+0.3%
Wool: cotton	6.32	4.89	+29%	5.38	6.104	-12%
Wool: synthetics	4.40	4.32	+2%	4.46	4.27	+5%

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

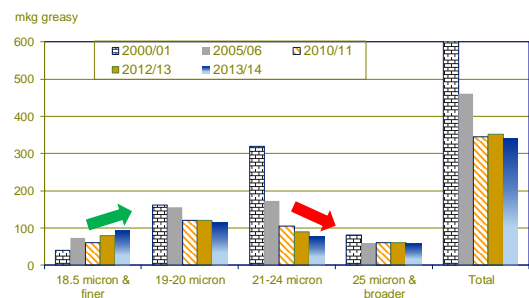
Notes: Prices are for August. Season is the most recent full financial year July to June

Trends in Economic Growth (% change)



Source: IMF, World Economic Outlook, July 2014 and Consensus Forecasts, August 2014

Australian Wool Production by Micron



Source: AWTA, Australian Wool Production Forecasting Committee