

Lower and delayed orders hurting wool textile business conditions

Weaker retail sales for clothing

Low stocks and production support prices

Wool prices down but not out



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

wool journal

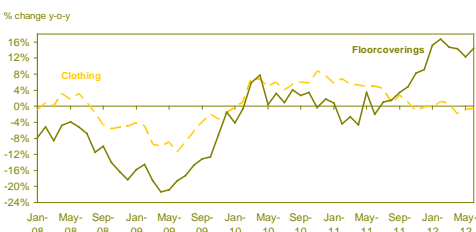
Retail Demand and Economic Conditions

Trends, Drivers and Prospects

Retail sales of clothing have declined in recent months in some of the major wool consuming countries. According to the latest available statistics, the value of retail sales of clothing fell in May and June in Japan, the United States and the United Kingdom compared with a year earlier. In China, the largest single consuming country of wool clothing, retail sales of clothing grew in June, although the rate of increase has fallen. Retail sales of interior textiles have performed better, notably in the US (see the chart below).

While summer is a low month for sales of wool clothing, economic conditions in Europe and in the US are still weak and uncertain. This could hurt sales in the crucial fall/winter period.

US Clothing and Floorcovering Retail Sales Monthly year-on-year change



Source: US Government statistical bureau, in 2005 dollars. Data to June 2012

Wool Textile Industry Conditions Trends, Drivers and Prospects

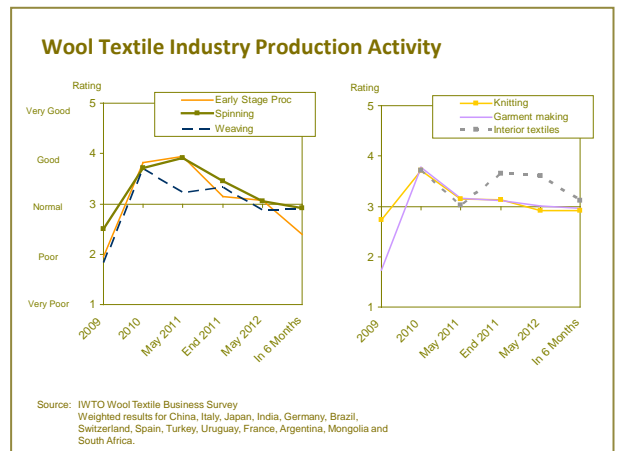
Business conditions in the global wool textile industry have weakened considerably compared with 2011, according to the results of the third annual survey of the global wool textile industry by the International Wool Textile Organisation (IWTO). The results were reported in May at the IWTO Congress in New York.

Mills from all of the major wool processing countries, including China, India and Italy, reported that orders and activity levels have fallen back from the strong business conditions seen in the first half of 2011. However, conditions are reported to be still well above the dismal levels seen in 2009. The chart below shows the activity levels at each stage of the global wool textile industry. After seeing a strong recovery in 2010 and the first half of 2011, activity levels are reported to have fallen back, particularly in early stage processing.

China and India both report weaker business conditions as exports orders for fabric and finished wool garments from their major export destinations in Europe and the US have weakened and have been delayed.

This soft business environment is reflected in US raw wool exports, which have fallen so far in 2012, in part as a result of the difficult conditions in China and India.

The IWTO survey results point to a continuing slow, difficult patch for business conditions in the wool textile industry in coming months. This will inhibit raw wool demand for the remainder of 2012.



Source: IWTO Wool Textile Business Survey
Weighted results for China, Italy, Japan, India, Germany, Brazil, Switzerland, Spain, Turkey, Uruguay, France, Argentina, Mongolia and South Africa.

Wool Production and Supply

Trends, Drivers and Prospects

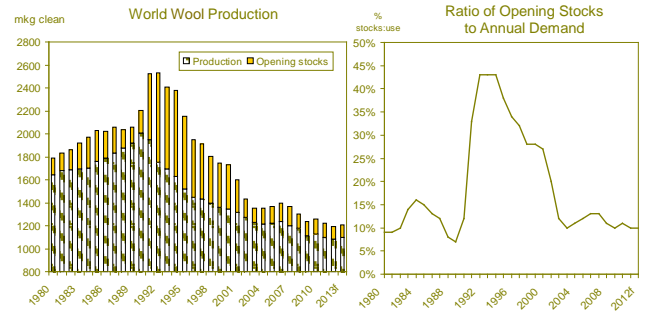
Forecasts for wool production in the major wool producing countries point to very little recovery in world wool production in 2012 and in 2013 and continued low supplies. These forecasts were presented at the International Wool Textile Organisation's Congress in New York in May.

For Australia, the largest producing country, production is expected to lift by only 1% in the 2012/13 season, while New Zealand (the third largest country) predicts an increase of only 1% and China (second largest) forecasts that production will be static. Some countries are expecting to see more substantial increases, with India predicting a 7% lift, South Africa expecting a 4% increase and Uruguay forecasting a 3% lift.

The United States of America reported that wool production would decline by 4% in 2012 partly as a result of the intense drought seen in Texas and New Mexico in 2011 and continued dry conditions more recently in other states. A further 3% fall is expected in 2013.

In total, world wool production is expected to fall by 2% in 2012 and then increase by just 1% in 2013. A recovery in wool production is being hampered by recent high prices for lambs and sheep for meat, with producers focusing more on sheep for meat rather than for wool. The chart shows that world wool production and supply is at very low levels, with the ratio of stocks to use at around 10%. This will help support prices in spite of weak demand.

World Wool Supply and Stocks



Source: Poimena Analysis and International Wool Textile Organisation
 Note: The year refers to the season ending e.g. 2000 = 1999/2000
 Data to 2013 is a forecast

Outlook

With demand conditions in the wool textile industry expected to be weak over the next few months, wool prices could soften a little more in coming months. The added volumes from the Southern Hemisphere producing countries during the Southern Hemisphere spring (September-November) could put some seasonal pressure on prices.

In spite of this subdued outlook in the short-term, the leading indicators of economic conditions from the Organisation of Economic Development and Co-operation (OECD) point to a turning-point in the downward trend in wool prices seen over the past nine months. This is shown in the second chart on the back page.

Critical to the outlook will be developments in retail sales in the US, Europe and Japan in the Northern Hemisphere fall/winter.

Wool and Fiber Prices

Trends, Drivers and Prospects

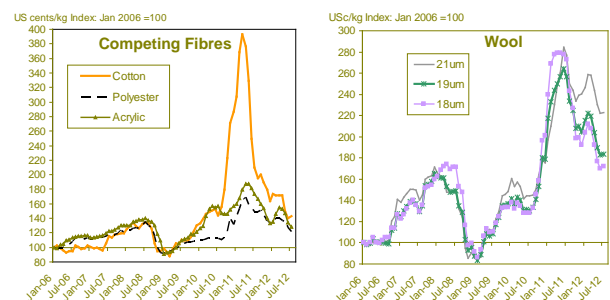
Wool prices have fallen in recent months as weak demand conditions have weighed down on the market in spite of low supply. The start to the new 2012/13 season in Australia and New Zealand has been disappointing, with a 2% decline in the Australian Eastern Market Indicator in the first week of sales (although it was a 5% drop in A\$ terms). Compared with a year earlier, wool prices in Australia, New Zealand, South Africa and the United Kingdom are between 17% and 25% lower, although prices in July 2011 were at or near record highs.

In spite of the recent pull-back in prices, current wool price levels are well above the average prices seen in the past 20 years. For example, the Australian 22 micron indicator is at the 98th percentile in US\$ (that is prices have been lower than current levels 98% of the past 20 years).

Wool has also outperformed competing fibers. As the chart on the right shows, cotton, polyester and acrylic prices are currently around 30% higher than levels seen in January 2006. In contrast, wool prices are between 80% and 120% better than in January 2006.

While this is positive, it does mean that wool is considerably more expensive than other fibers, which could be a negative in coming months.

Trends in Textile Fibre Prices



Source: AWEX, Cotton Outlook, PCI Fibres and Raw Materials, Poimena Analysis. Monthly average to July 2012

These statistics and charts present a snap-shot of the current situation in the global wool industry. This quarter the charts show the trends in consumer confidence in the US and the European Union, as well as trends in the leading indicator of economic conditions and fine wool prices.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	23.5	-10%	336.0	-9%	China, India, Italy, Czech Rep	All major destinations down, China down least
NZ	11.5	+33%	147.6	-7%	China, UK, Italy, India	China up, UK, Italy & India down
Uruguay	3.0	-35%	41.9	-26%	China, Italy, Germany, Turkey	All destinations down by greater than 20%
Argentina	2.9	-43%	40.3	-30%	Italy, Germany, China, Turkey	All destinations down sharply
South Africa	2.1	-17%	37.8	+3%	China, Czech Rep, India, Italy	China up +175%, India up, Italy & Czech down
USA	0.47	-24%	1.76	-38%	India, China	India down 57%, China down 6%

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

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

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	563	682	-17%	596	596	0%
NZ	320	386	-17%	334	338	-1%
South Africa	545	665	-18%	595	565	+5%
UK	99	131	-25%	113	126	-10%

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

Notes: Prices are for July. Australia is 22 MPG, South Africa is the 22 micron indicator, NZ is the fine crossbred indicator, UK is the British Wool Marketing Board Indicator. Year is calendar year

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	84	123	-32%	84	123	-32%
Synthetics	101	283	-22%	101	283	-22%
Wool: cotton	6.76	5.71	+18%	6.76	5.71	+18%
Wool: synthetics	5.59	5.45	+3%	5.59	5.45	+3%

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

Notes: Prices are for July. Season is financial year beginning in July

