March 2011 >>>

Textile Industry Buoyant
Retail Demand Recovering
Wool Production Stays Low
Wool and Cotton Prices Hit Records

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

Retail Demand and Economic Conditions
Trends, Drivers and Prospects

Economic conditions in most major wool consuming countries are improving and should continue to improve in 2011. After a dismal 2009, conditions improved in 2010, which has consolidated in recent months, particularly in the U.S. and Germany. China’s economy remains robust (these are three of the top five wool consuming countries at retail). Consumer confidence in both the U.S. and the European Union have rebounded from the depths of 2009, and retail sales of clothing is lifting, notably in the important U.S. market. This and the recent cold and long winter are bringing increased orders for wool clothing and bright prospects for 2011. The devastating tsunami in Japan will be a negative for retail sales in 2011.

Wool Textile Industry Conditions
Trends, Drivers and Prospects

Conditions in the global wool textile industry are generally optimistic, in spite of raw wool prices hitting record levels. Orders are reported to be firm, helped by a continued surge in the prices for competing fibers and improving retail conditions.

In 2010, raw wool demand increased by 5 percent (see chart). The majority of this increase came from a 34-percent jump in demand by the Western European countries, notably Italy and the Czech Republic. By comparison, raw wool demand by China and India was more subdued. In part this was because China and India had remained strong buyers of raw wool in 2009 in spite of the negative effects of the Global Financial Crisis on consumer spending, while European mills slashed their buying. China’s mills were aided by solid demand from their domestic consumers (China is the largest consumer market for wool clothing in the world). China’s purchases are still the largest, but European mills are now the driving force behind raw wool demand and prices.

This more subdued buying by China and India has had some impact on the U.S. industry, as combined these two countries account for 80 percent of U.S. raw wool exports. U.S. exports to both countries fell in 2010, but in part this was due to strong demand within the United States as a result of the economic recovery and increased clothing sales in the United States.

Wool Imports by Major Processing Countries (2010 compared with 2009)

Note: From the five major exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa
Source: Australian Bureau of Statistics, FFA, SL, Caperwol, NZ Meat and Wool
Wool Production and Supply
Trends, Drivers and Prospects

One of the important drivers of the recent record wool prices has been low supplies of raw wool. Wool production in almost all of the major wool exporting countries was lower in 2010 than a decade earlier.

Australia, the world’s largest wool producer, has seen its production fall by 44 percent in the past ten years. Production and sheep numbers in Australia are the lowest in a century. New Zealand (3rd largest) has seen its production fall by 29 percent, with falls also in Argentina (-14 percent), Uruguay (-32 percent) and the United Kingdom (-44 percent). China (the world’s second largest wool producing country) has seen its production increase by 18 percent, although its production has declined in the last two years. Wool production in the U.S. has fallen by 36 percent. Sheep producers in all countries have reduced the number of wool sheep due to lower returns than for other enterprises, including sheep for meat.

As a result, world supply of wool is at the lowest levels in 50 years or more. This has helped provide a base for higher wool prices. And, even though wool prices are now at record levels, a fast recovery in world wool production is unlikely. This is because world lamb and sheepmeat prices are also at record levels, which is encouraging sheep producers to remain with dual-purpose sheep (meat and wool).

Outlook

There are a host of positives for the next few months for wool and only a few negatives and risks. Forecasts for economic growth in the major wool consuming countries are generally optimistic and retail sales are expected to improve. The trade fairs for the 2011/2012 Fall-Winter season were as buoyant as they have been for several years and wool’s presence was strong. Added to this, the extreme cotton prices would be encouraging some fabric makers and designers to look to alternative fibers, including wool. Finally, world wool supply is very low and will not lift sharply in the near future. All of these point to the maintenance of current high prices for wool, or even further increases. The major risks are: the current upheaval in the Middle East and the impact on oil prices (which could dampen economic growth and consumer spending); and the tsunami in Japan could cause a drop in demand.

Wool and Fiber Prices
Trends, Drivers and Prospects

Wool prices are at record levels in U.S. dollars. Between July 2010 and early March 2011, Australian 21 micron wool prices (a benchmark for U.S. wool) have risen by 50 percent on the back of stronger demand and lower supplies.

Cotton prices are also at record levels and have jumped by 180 percent, caused by a serious shortage of cotton due to floods in Pakistan wiping out much of that country’s crop, lower production in China and export restrictions imposed by India. Forward prices for cotton for the 2011/2012 season are lower than current levels, but are still much higher than the price levels in July 2010.

Even though wool prices have jumped, wool is still more competitive with cotton than at any time in the past six years. This will encourage use of wool.

Prices for synthetic fibers have also risen since July, but not by as much as the natural fibers. Polyester prices are up by 36 percent, but acrylic prices are only 7 percent higher than in July.
**Wool Exports**

<table>
<thead>
<tr>
<th>Country</th>
<th>mkg</th>
<th>Month</th>
<th>% ch</th>
<th>Year to date</th>
<th>% ch</th>
<th>Major destinations</th>
<th>Trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>24.5</td>
<td>+18%</td>
<td></td>
<td>201.9</td>
<td>+8%</td>
<td>China, India, Italy</td>
<td>China down, Italy, Czech up</td>
</tr>
<tr>
<td>NZ</td>
<td>11.2</td>
<td>-12%</td>
<td></td>
<td>87.7</td>
<td>-1%</td>
<td>China, India, UK</td>
<td>China up, India down</td>
</tr>
<tr>
<td>Uruguay</td>
<td>4.4</td>
<td>-0.5%</td>
<td></td>
<td>33.3</td>
<td>+20%</td>
<td>China, Germany, Italy</td>
<td>China down, Germany up</td>
</tr>
<tr>
<td>Argentina</td>
<td>5.5</td>
<td>+29%</td>
<td></td>
<td>32.4</td>
<td>+1%</td>
<td>Germany, Italy, China</td>
<td>China down, Germany up</td>
</tr>
<tr>
<td>South Africa</td>
<td>3.3</td>
<td>-1%</td>
<td></td>
<td>18.6</td>
<td>-23%</td>
<td>Czech Rep, India, Italy</td>
<td>China down 92%, W Europe up</td>
</tr>
<tr>
<td>USA</td>
<td>0.5</td>
<td>-44%</td>
<td></td>
<td>4.9</td>
<td>-35%</td>
<td>China, India</td>
<td>China, India down, Malaysia up</td>
</tr>
</tbody>
</table>

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 January. USA is for calendar year January to December

**Wool Prices**

<table>
<thead>
<tr>
<th>USC/lb clean</th>
<th>Month average</th>
<th>Last year</th>
<th>% change</th>
<th>Year average</th>
<th>Last year</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>380</td>
<td>300</td>
<td>+27%</td>
<td>380</td>
<td>302</td>
<td>+26%</td>
</tr>
</tbody>
</table>

Sources: AWEX, NZ Wool Services International, Capewools, USDA
Notes: Prices are for February. Australia is 22 MPG, South Africa is the 22 micron indicator, NZ is the fine crossbred

**Fiber Prices and Ratios**

<table>
<thead>
<tr>
<th>UScents</th>
<th>Month average</th>
<th>Last year</th>
<th>% change</th>
<th>Season average</th>
<th>Last season</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>215</td>
<td>81</td>
<td>+165%</td>
<td>142</td>
<td>71</td>
<td>+100%</td>
</tr>
<tr>
<td>Synthetics</td>
<td>127</td>
<td>95</td>
<td>+34%</td>
<td>112</td>
<td>88</td>
<td>+27%</td>
</tr>
<tr>
<td>Wool: cotton</td>
<td>2.47</td>
<td>4.77</td>
<td>-48%</td>
<td>3.24</td>
<td>4.99</td>
<td>-35%</td>
</tr>
<tr>
<td>Wool: synthetics</td>
<td>4.17</td>
<td>4.08</td>
<td>+2%</td>
<td>3.82</td>
<td>3.98</td>
<td>-4%</td>
</tr>
</tbody>
</table>

Sources: AWEX, Poimena Analysis, Cotton Outlook, PCI Fibres
Notes: Prices are for February. Year is financial year beginning in July

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**Recovery in Economic Growth**

*Economic growth weighted by wool consumption*

Source: IMF, Consensus Forecasts (February 2011) and Poimena Analysis
Note: Economic growth in China, Japan, USA, U. Germany, Italy, France and South Korea, weighted by apparel wool consumption (from Woolmark/IWTO).

**Wool’s Price Competitiveness Improves Against Cotton, Not Synthetics**

Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Woolmark, Poimena Analysis
Data to February 2010