

Slow, patchy growth in consumer incomes  
 Subdued conditions in global wool textile industry but upturn in wool export volumes  
 Lower production likely in Australia and New Zealand in 2013/14  
 Superfine wool prices remain low



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

# wool journal

## Wool Textile Industry Conditions

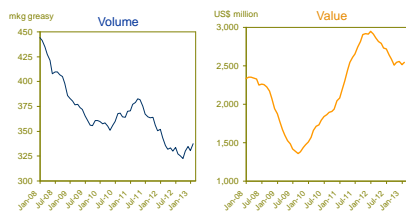
### Trends, Drivers and Prospects

Conditions in the wool textile industry remain subdued as mills continue to wait for signs of improved orders for Fall/Winter 2013. According to anecdotal reports, these orders are increasingly delayed and lower than hoped.

This comes on top of difficult export conditions seen in 2012 for the major wool textile processing and exporting countries, caused by a significant drop in demand from Europe.

As a result, raw wool demand remains patchy, although raw wool exports from Australia and the US lifted strongly in February. After a steady decline in the volume of Australian wool exports in the past 18 months, export volumes have turned in recent months, as the chart below shows. This is in part due to lower available supplies. However, the value of exports has not yet turned up.

Australian Wool Exports (12 month moving aggregate to February 2013)



## Retail Demand and Economic Conditions Trends, Drivers and Prospects

Consumer incomes and population growth are the two major factors which drive the long-term trends in the consumption of textile fibers, including the consumption of wool. In total, world population has been growing at around 1.3% per year over the past decade or more, which has supported the underlying demand for clothing and home textiles.

However, growth rates of consumer incomes have been much more volatile since 2000, which has had a major impact on demand for textile fibers. For example, in the past 12 years, the world economy (which underpins consumer incomes) grew by as much as 5.4% in 2007 but it contracted in 2009 by 0.6% (that is, a negative growth rate). As a result, consumption of textile fibers has fluctuated year-by-year, with mill consumption of textile fibers increasing by as much as 9% (in 2010) and falling by as much as 3% (in 2008).

Demand for wool is even more sensitive to fluctuations in consumer incomes than other fibers, particularly in the eight major wool consuming countries. A significant part of the reason for this increased sensitivity is that wool and wool garments are more expensive than most other fibers, making it a discretionary purchase. As the major chart on this page shows, per capita consumer income growth in each of the eight countries has mostly been lower in recent years than the growth rate between 2000 and 2008. This has meant that demand for wool has been softer.

The latest forecasts from the International Monetary Fund for 2013 and 2014 suggest that per capita consumer incomes will improve, particularly compared with the dire levels seen in 2009. However, the improvement will be only moderate. As well, growth rates in the next two years will be lower than the average between 2000 and 2008. Given this, retail demand for wool will improve only modestly.

Per Capita Income Growth in Key Apparel Wool Consuming Countries

Country	World share of wool at retail	Per Capita Income Growth					
		Av 2000-08	2009	2011	2012e	2013f	2014f
China	21%	12.4%	9.6%	11.0%	9.1%	9.2%	9.5%
USA	11%	3.8%	-3.1%	3.2%	3.1%	2.5%	3.4%
Japan	8%	3.6%	-4.7%	1.5%	4.1%	2.8%	2.8%
Italy	5%	3.1%	-5.3%	2.1%	-1.1%	0.2%	1.6%
Germany	5%	4.2%	-4.0%	5.3%	2.6%	2.4%	3.0%
UK	4%	4.8%	-3.8%	2.2%	0.6%	1.8%	3.0%
Korea	4%	7.0%	0.7%	5.1%	3.9%	4.5%	5.0%
France	3%	3.6%	-2.8%	3.3%	1.3%	1.2%	2.1%

(f) forecast. Income is US GDP per head in 2012 on a purchasing power parity basis. Source: Poimena Analysis for wool at retail, International Monetary Fund (March 2013)

# Wool Production and Supply

## Trends, Drivers and Prospects

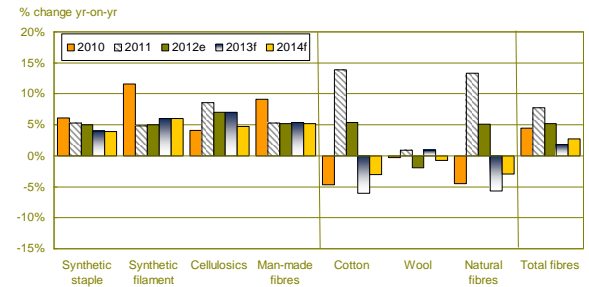
Dry and drought conditions in **Australia** and **New Zealand**, two of the top three wool producing countries in the world, are bringing concern about the level of wool production from these two countries in the coming 2013/14 season. This, in turn, could see world wool production stagnate at current very low levels, or even see it drop back.

According to the chief wool economist from Beef + Lamb NZ, drought conditions in **New Zealand** has resulted in a sell-off of sheep recently which is likely to cause a 5% fall in wool production in the 2013/14 season. The decline could be even greater if drought conditions persist. This fall in production in New Zealand would more than reverse the modest 2% increase in NZ wool production seen in the current season.

Dry conditions in much of eastern and southern **Australia** in the past six months has also caused a sharp increase in the number of adult sheep being slaughtered. While the official forecast of Australian wool production in 2013/14 has not been released yet, production could now remain at the 2012/13 level. Production had been expected to increase.

Given these trends, preliminary indications are that world wool production could slip by a little under 1% in 2013/14, back to the low seen in 2011/12. Cotton production is also falling back after the peaks seen in 2011/12 in the wake of the record high cotton prices. At the same time, production of man-made fibers continues to rise, as shown in the chart. One result of these changes is that wool prices have been pushed up relative to other fibers (see chart on back page). It seems that the ratio of wool to cotton and wool to synthetic fiber prices have moved to a new higher levels, which is unlikely to change in the near future.

**Global Fibre Production**  
(% change year on year)



Source: CIRFS, USDA, Poimena Analysis, IWTO  
Note: For wool and cotton the years are seasonal years ie 2011 = 2010/11 season

## Outlook

The short-term outlook for wool prices is clouded by continued economic uncertainty which is causing delayed and weak orders for next Fall/Winter. As a result, mills remain cautious and a little anxious, which is dampening their interest in buying raw wool. Unless there is renewed and improved orders from retailers very soon, prices could remain locked in the current pattern for some months, even though the prospects of another fall in world wool production in 2013/14 would otherwise have helped push prices higher.

In the longer term, wool prices will depend on a recovery in consumer incomes and continuing population growth, both of which is expected. As world wool production will almost certainly remain at around 70 year lows, the prospect is for wool prices lifting by more than other fibers, as long as action is taken to promote wool's benefits to consumers.

# Wool and Fiber Prices

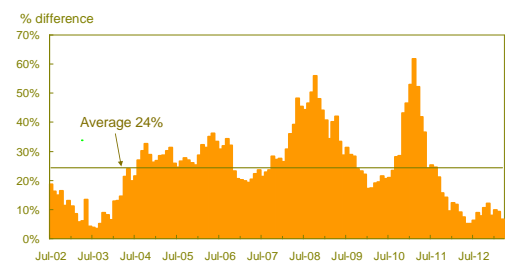
## Trends, Drivers and Prospects

Wool prices drifted lower in March on the back of a new bout of fears about the Euro-zone economies and worries about delayed and lower orders for Fall/Winter 2013. In this environment, prices are volatile and more-than-usually affected fluctuations in exchange rates and broader economic news. The market is very much in a period of 'glass half empty' sentiment. The Australian Eastern Market Indicator fell by 2% in March and at the end of March was 7% below the recent high recorded at the end of January.

Prices for synthetic fibers also eased in March, with polyester staple fiber prices falling by 3% over the month. Acrylic and viscose fiber prices were less affected by the anxieties seen in the wool and polyester staple markets, falling by around 1%. In contrast, cotton prices lifted by 6% in March due to increased demand from China.

Fine and superfine wool (19.5 micron and finer) have been most affected by the recent price weakness, falling by between 3% and 6% in March. This continues a long period of low prices for superfine wool in particular, which has seen its premium over medium merino wool fall well below the long term average (see chart). This situation will remain until consumer incomes, and demand, lift.

**Price Premium for Superfine Wool Over Medium Merino Wool**  
18.5 micron versus 21 micron prices



Source: AWEX, Poimena Analysis  
Data to 29th March 2013, and long run average from July 2002.

These statistics and charts present a snap-shot of the current situation in the global wool industry. This quarter the two charts show the relativity between consumer income and wool consumption per person for a range of countries as well as the trends in the ratio between wool and competing fibers over time and how they have changed.

## Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	36.0	+16%	216.8	+3%	China, India, Italy, Czech Rep	China, Czech Rep, Italy and India all up in February
NZ	16.7	+44%	109.9	+19%	China, UK, Italy, Germany	China, UK, Germany up; Italy down
Uruguay	4.2	+22%	30.1	+6%	China, Germany, Turkey, Italy	China, Turkey up sharply, Germany up, Italy down strongly
Argentina	3.7	+2%	26.1	-2%	China, Germany, Italy, Uruguay	China strongly; Germany & Uruguay up; Italy down sharply
South Africa	3.3	-18%	26.9	+7%	China, Czech Rep, India, Italy	China up strongly, Czech up; India, Italy both down sharply
USA	0.75	+163%	1.30	+173%	China, India	China up by 160% and India up by 150% in 2013

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

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

## Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	560	633	-12%	566	628	-10%
NZ	349	349	0%	340	344	-1%
South Africa	553	618	-11%	559	626	-11%
UK	87	122	-29%	90	123	-27%

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

Notes: Prices are for March. 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 March

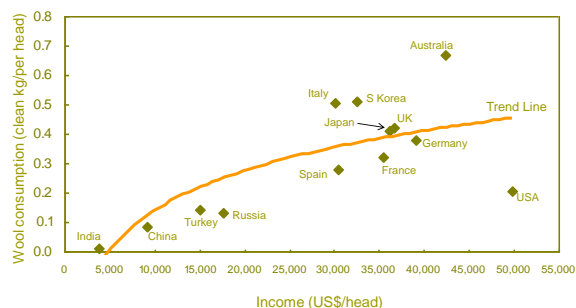
## Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	95	100	-5%	85	107	-20%
Synthetics	110	118	-7%	106	118	-10%
Wool: cotton	5.97	6.52	-8%	6.37	5.91	+8%
Wool: synthetics	5.14	5.51	-7%	5.14	5.37	-4%

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

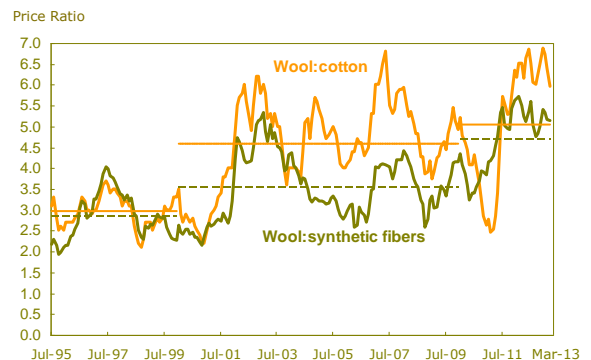
Notes: Prices are for March. Season is financial year July to March

### Per capita Apparel Wool Consumption vs Income



Source: International Monetary Fund and Poimena Analysis  
Apparel wool consumption is apparel NDA at retail is for 2009-2011 and is estimated by Poimena Analysis.  
Income is US GDP per head in 2012 on a purchasing power parity basis.

### Wool Price Ratios With Other Fibers



Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Poimena Analysis  
Compared with 21 micron wool. Data to end March 2013