



Retail sales weak in Fall/Winter

US wool apparel imports down in 2013

Wool production stays low, but superfine production surges

Apparel wool prices on a cyclical downturn, interior textiles wool prices better



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

# wool journal

## Wool Textile Industry Conditions

### Trends, Drivers and Prospects

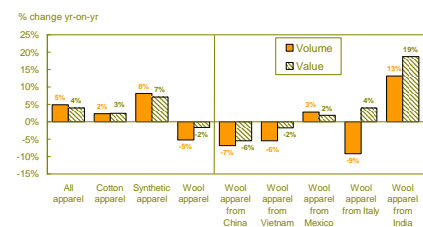
While retail sales in key consuming countries were disappointing over the Fall/Winter period, trade in wool garments in the lead in to the Fall/Winter period were equally disappointing.

This is illustrated by the data on US wool apparel imports. Over the full year of 2013, US imports of wool clothing fell by 5% in volume terms and by 2% in value terms (as shown in the chart below). For the key months for imports to supply the Fall/Winter season (July to November), there was an even sharper decline of 7% in volume terms.

The decline for wool clothing imports in 2013 contrasts with the growth in imports of cotton and synthetic apparel. This suggests that wool clothing may have lost share at retail in the US.

This intense competition to wool clothing from competing fibers will undoubtedly continue in 2014.

US Imports of Wool Apparel Down (12 months to December 2013) - Volume and Value



Source: OTEXA

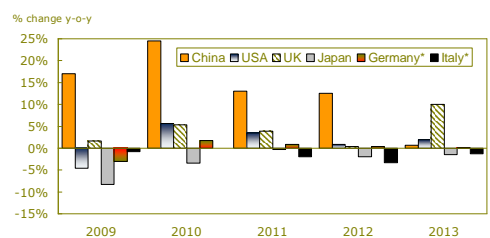
## Retail Demand and Economic Conditions Trends, Drivers and Prospects

Retail demand was disappointingly weak in almost all of the major wool consuming countries over the recent Fall/Winter period, in spite of improved consumer confidence in the United States and Europe. The chart below shows the % change in retail sales of clothing over the Fall/Winter period (October to January) in the past five years for the major wool consuming countries.

For the **US**, growth of retail sales in the just-completed Fall/Winter were better than in 2012, but below the levels seen in 2010 and 2011 which were on par with the growth seen before the Global Financial Crisis. The stand-off in Congress in October and the US Government shut-down dampened consumer confidence and spending, and, once that was resolved, the intense and extended period of cold weather in January and February held back retail sales. The drop in the retail sales growth rate in **China** (the largest retail market for wool clothing) is the most significant. The growth rate over Fall/Winter 2013 was a tiny 0.7%, massively below the levels seen in previous years. The credit crunch in China has hurt consumer confidence, causing them to rein in spending. Retail spending in **Japan** and **Italy** was below year earlier levels over Fall/Winter, while retail sales in **Germany** was on par with 2012. As can be seen, the exception to the generally disappointing for retail sales of clothing over the Fall/Winter was the **United Kingdom** where retail sales jumped by a surprising 10% year-on-year.

Economic conditions in the major markets are expected to continue improving over 2014, as indicated by the leading economic indicators from the OECD (see chart on back page). As well, consumer confidence in Europe and the US jumped in March. This brings hope for a recovery in the remainder of 2014, at least in these countries, although much will depend on consumer spending in China.

Clothing Retail Sales in Major Consuming Countries – Fall/Winter



Source: Government statistical bureaus. China is volume, other countries are value. Japan is value of retail sales of clothing in major department stores.  
Note: Fall/Winter is October to January. \* Germany and Italy is total retail sales.

# Wool Production and Supply

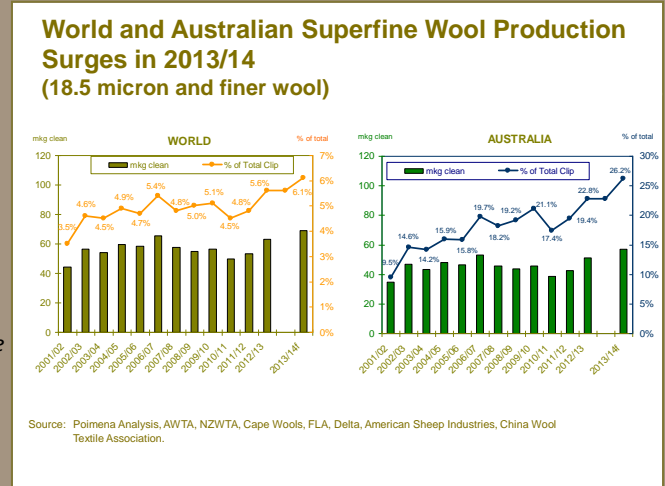
## Trends, Drivers and Prospects

One of the most significant trends in terms of production in the 2013/14 season has been the leap in Australian (and consequently world) superfine wool production even though total Australian wool production has fallen and world wool production remains flat.

The chart shows the trends in world and superfine wool production in the past decade in both volume and in share of production. In Australia, where total wool production has fallen by around 3% this season, superfine wool production has lifted by 11% and is expected to reach a record 57 mkg clean for the full 2013/14 season. This is a record 26% share of Australian wool production. At the start of the 2000s, it was a mere 9%. This increase has been driven by a shift in blood lines towards merino sheep that produce superfine wool but with higher fleece weights than the traditional superfine merino.

Australia accounts for over 80% of world production of superfine wool. As a result of the surge in production in Australia, world superfine wool production has lifted in 2013/14 by 9% and to a record share of 6%.

A significant downside has been that prices for superfine wool have dropped in response to the increase in production of superfine wool. The market has not been able to absorb the additional volumes without lower prices. As a result, the premium of superfine (18 micron) wool over medium merino wool (21 micron) has fallen dramatically from previous highs (see the chart on the back page). This situation is likely to continue unless production of superfine wool falls.



## Outlook

The hoped-for recovery in retail sales in the Fall/Winter season did not eventuate. As well, wool clothing appears to have lost share to other fibers at retail in 2013. As a result, orders back through the wool textile industry have been weak, which will inevitably have resulted in a build-up of stocks. This combination has brought weaker raw wool demand and a cyclical downturn in apparel wool prices.

This may seem odd given the steady improvement in economic conditions and good prospects for economic growth in key developed countries in 2014. However, these positive economic prospects will need to ignite retail orders for Fall/Winter 2014 before stocks can be cleared. As well, a crack-down on credit availability in China has caused a significant drop in the growth in consumer spending in China. This pressure may be relieved later in 2014.

Raw wool demand will only recover once wool textile pipeline stocks have been cleared. This may not be delayed to mid-2014. Until then, wool prices are likely to be weak and could dip further.

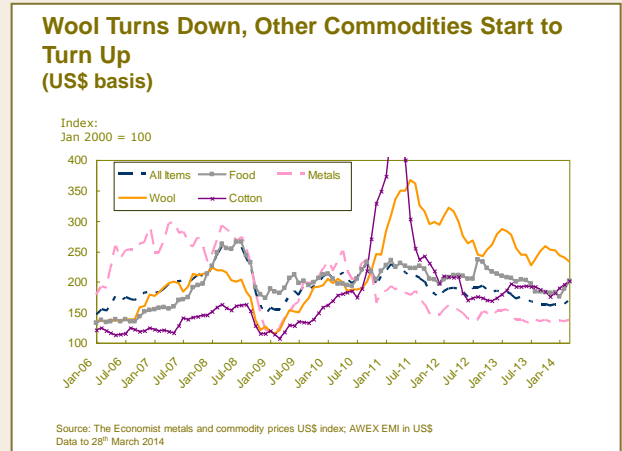
# Wool and Fiber Prices

## Trends, Drivers and Prospects

Prices for wool used in apparel continued to fall in March and, for Australian wool, the decline gathered pace. For wool used in interior textiles, prices were more mixed but in general performed better than apparel wool. Australian wool prices fell by between 3% and 5% in March in US\$ terms, while South African wool prices slipped by around 1.5% (both are used in apparel). New Zealand wool prices lifted by 1% and UK prices fell by 1% (both are used in interior textiles).

Apparel wool prices appear to be in a cyclical downturn which in no small part has arisen due to weak export and domestic demand for China's wool textile industry and a resultant build-up in stocks. This weakness is not restricted to the wool textile industry, with the textile market in China slowing down since 2011 in response to weaker consumer demand and tighter credit availability.

As the chart shows, there has been a steady erosion in apparel wool prices since the peak in 2011 (which was caused by a speculative bubble in cotton). Other commodities, including cotton, have also seen this decline in prices. However, more recently these other commodities have started to show signs of recovery in response to the better economic outlook. Wool prices will also see this recovery, although it could be delayed until mid-year.



These statistics and charts present a snap-shot of the current situation in the global wool industry. This edition the two charts show the trends in the OECD leading economic indicators and fine wool prices; and trends in the premium of 18 micron wool price over 21 micron wool.

## Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	30.3	-16%	214.9	-0.4%	China, India, Czech Rep, Italy, Malaysia	China down sharply, other top five export destinations up
NZ	11.3	-33%	98.8	-10%	China, Italy, UK, Germ, India	China, UK, Italy down; Germany and India up
Uruguay	4.5	+5%	35.5	+18%	China, Turkey, Italy, India	China, India, Italy, all up; Turkey down
Argentina	4.1	+10%	26.8	+3%	China, Germany, Italy, Mexico	China down, other majors up
South Africa	3.8	+7%	25.1	+7%	China, Czech Rep, Italy, India	China, India down; Czech Rep, Italy up
USA	0.55	-26%	2.8	-12%	China, India	India up strongly, China down sharply

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

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

## Wool Prices >>>

US\$/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	466	560	-17%	485	566	-14%
NZ	192	183	+5%	192	182	+6%
South Africa	485	552	-12%	492	559	-12%
UK	111	87	+27%	112	90	+25%

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.

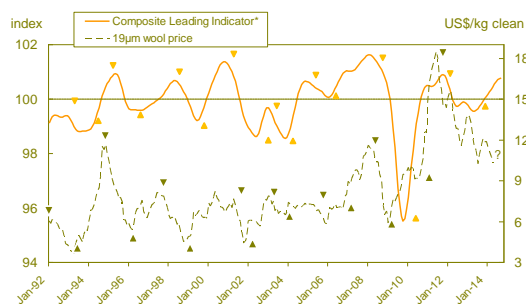
## Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	98	95	+3%	90	85	+6%
Synthetics	108	112	-4%	108	107	+1%
Wool: cotton	4.84	5.97	-19%	5.43	6.37	-15%
Wool: synthetics	4.38	5.07	-14%	4.57	5.09	-10%

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

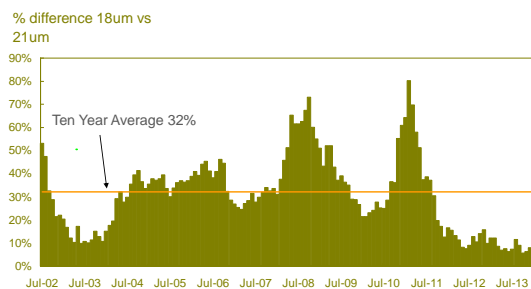
Notes: Prices are for March. Season is financial year July to March

### Economic Leading Indicators Point to Upturn But...



Source: OECD, AWEX  
\* Amplitude adjusted form of the Composite Leading Indicator (CLI) for the whole OECD region. CLI to January 2014 pushed out 8 months. Wool prices until 4<sup>th</sup> April 2014

### Price Premium for Superfine wool over Medium Merino Wool (18 micron price vs 21 micron price)



Source: WI, AWEX, Poimena Analysis  
Data to March 2014, and long run average from July 2002.