



Mixed economic conditions in the major consuming countries

US wool clothing imports see modest lift

World apparel wool production down

Wool and competing fiber prices down



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

wool journal

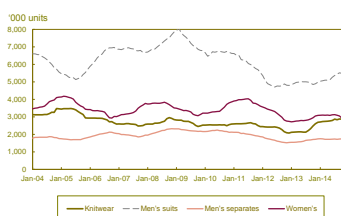
Wool Textile Industry Conditions

Trends, Drivers and Prospects

Global trade in wool garments has fallen since the start of the 2000s. This decline has been in line with the lower production of wool suitable for clothing over the period. However, there are some concerns about a considerable and sustained decline in global trade in wool clothing for women. There have also been declines in men's suits (which accounts for 14% of world trade in wool clothing) and wool knitwear (39% share). Men's separates (jackets and trousers) and women's overcoats have been more stable.

For the United States, there has been a recovery in the imports of several wool products in the past six months or more (see the chart below). Men's suits and wool knitwear have picked up, although imports of women's woven wear clothing made of wool has dipped again. The more positive trends will be important for encouraging increased raw wool demand by China and other processing countries.

Varied Trends for US Wool Garment Imports (12 month moving aggregate)



Source: OTEXA
Data to October 2014

Retail Demand and Economic Conditions Trends, Drivers and Prospects

The Fall/Winter period in the Northern Hemisphere each year is the most important for the sales of wool clothing around the world, accounting for well over 60% of annual sales at retail. Sound economic conditions and good consumer confidence are key to providing impetus to retail sales of all products during this period, in particular for clothing. A cold start to winter is also a help.

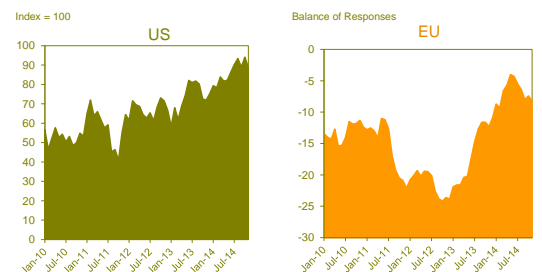
Unfortunately, economic conditions in the major wool consuming countries have been rather variable, with clear and consistent improvement in the US and the UK, a more volatile and probably inadequate pattern in Germany and France, disappointing economic growth in Japan and poor conditions still in Italy.

As the main chart shows, consumer confidence in the US has stayed at around the highest level in seven years, but has paused at that level. In Europe, the rising trend in consumer confidence has slid back in recent months.

In China (which is the largest wool consuming country) economic growth is running at an annual rate of around 7%, which is much lower than the 10% plus growth rates recorded throughout the 2000s and early 2010s. However, the Chinese economy is undergoing a significant transition from the old 'invest-build-manufacture-export' model to a new, more mature 'develop quality brands-domestic consumption-service industry' model. This will ultimately help sales of wool clothing in China, but the transition will see some difficulties. This includes tight credit availability, which is affecting wool textile mills.

One uncertainty is the recent fall in oil prices. This is generally good for economic growth but there will be negative impacts, particularly for those countries which are energy producers and/or exporters.

Consumer Confidence Pauses US and European Union



Source: The US Conference Board and the European Commission
Data to November 2014

Wool Production and Supply

Trends, Drivers and Prospects

The International Wool Textile Organisation reports that for **world** wool production will fall slightly in 2014/15, mainly due to falls in production in Australia and New Zealand, two of the world's three largest wool producing countries (the other being China). World wool production is forecast to be 1,146 mkg clean in 2014/15, a slight fall on the 2013/14 production level of 1,150 mkg clean.

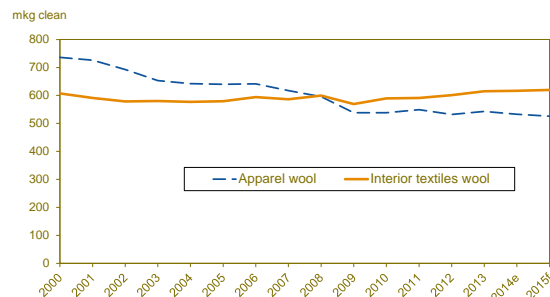
The most recent forecast for **Australia** suggests that wool production will decline by 2.3% in 2014/15, largely due to a drop in the number of sheep. In spite of this forecast, the volume of wool tested in Australia in the first five months of the 2014/15 season is down only marginally. As well, auction offerings have been high in recent weeks. In the last week of auctions in Australia before the Christmas recess, there are expected to be over 60,000 bales offered, the highest weekly offering since 2008. It may be that volumes decline in the second half of the season, which would help support prices.

Wool production in **New Zealand** is expected to fall by 5% in 2014/15, due to a sell-off of sheep in 2013/14. Other countries should see modest changes, either up or down.

Wool production in the **United States** is projected to fall by around 1% in 2014/15.

One feature of trends in production in the past decade or more has been a decline in apparel wool (used in clothing) and a lift in production of wool that can be used in interior textiles (see chart). The decline in apparel wool production should help support wool prices in the longer term.

World Production: Apparel Wool Production Falls while Interior Textile Wool Rises



Source: International Wool Textile Organisation Market Information Report 2014, country statistics, Poimena Analysis

Outlook

The key question for the outlook and notably for wool finer than 24 microns, is whether raw wool demand, which has fallen in 2014 (see chart on the back page) can recover in 2015.

A positive answer depends crucially on whether clothing retail sales improve over the Fall/Winter. If retail sales are good (and preferably better than retailers expect), then this will encourage increased orders back to the wool textile industry for sale at retail in the second half of 2015. Clothing retail sales have been positive in the US at the start of this crucial period, but have been lackluster in Europe.

The other key factor will be China. Prospects there depend on whether stocks in the industry have been cut-back and whether the recent better exports of semi-processed and finished wool products from China can be maintained. It will also depend most crucially on whether mills can adequately adjust to the twin challenges of tighter credit availability and new, tougher environmental regulations that come into force on 1st January 2015.

Wool and Fiber Prices

Trends, Drivers and Prospects

The prices for wool, cotton and synthetic fibers have all fallen sharply since the previous edition of the **Wool Journal**. The chart below shows the trends in fiber prices. Since the end of August, Australian wool prices have drooped by 8% and New Zealand wool prices have fallen by 10%.

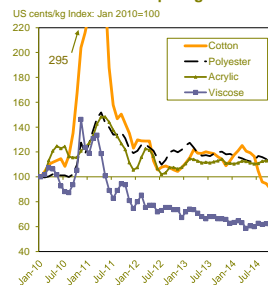
Of the competing fibers, viscose prices have performed best, registering no change in the 3 months, while acrylic fiber prices have declined by 2%. In contrast, polyester staple fiber prices are down by 9%. It should be noted that polyester staple, which is used in blends with wool in suiting fabrics (often in conjunction with viscose), is also used in blends with cotton for shirting fabric.

The most significant feature of trends in prices over the past six months has been in the cotton market. Since August, the CotLook A Index (the world indicator for cotton prices) has fallen by 10%, bringing the total decline since June to 27%. The Cotlook A Index has recently been around the lowest level in five years. The low prices are due to high and excess cotton stocks around the world, mainly held in China. The US Department of Agriculture estimates that stocks are currently around 93% of the annual mill use of cotton.

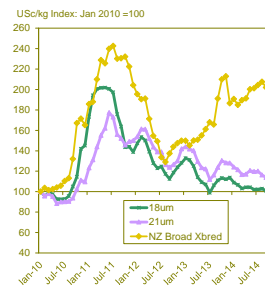
The low cotton prices will probably hold back prices for other fibers, including wool.

Fiber Prices Turn Down

Competing Fibers



Wool



Source: AWEX, Cotton Outlook, PCI Fibres and Raw Materials, Poimena Analysis. Monthly average to November 2014

These statistics and charts present a snap-shot of the current situation in the global wool industry. This edition the two charts show trends in the leading economic indicators for China and the major economies compared with wool prices; and the trends in wool imports by the major wool processing countries.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	30.4	-7%	100.2	-4%	China, India, Italy, Czech Rep, Malaysia	China Czech Rep, Italy and Malaysia down; India up
NZ	14.0	-3%	54.1	-5%	China, UK, Italy, India, Germ	China and Italy up; Germany, UK & India down
Uruguay	3.6	-18%	15.9	+5%	China, Germ, Italy, India	India up; China, Germany and Italy down
Argentina	3.5	-7%	13.2	+17%	China, Germany, Italy, Peru	China and Peru up; Germany and Italy down
South Africa	3.8	-15%	8.9	-13%	China, Czech Rep, Italy, India	China up; Czech Rep, Italy and India down
USA	0.55	-21%	6.47	-19%	India, China	In 2013/14, India up 20%, China down 35%

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 October and the financial year from July to October. The month for USA is for October and for the season is the US wool season October to September.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	446	515	-13%	461	490	-6%
NZ	196	215	-9%	209	198	+6%
South Africa	461	511	-10%	465	498	-7%
UK	112	111	+1%	116	106	+9%

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 November.

Fiber Prices and Ratios >>>

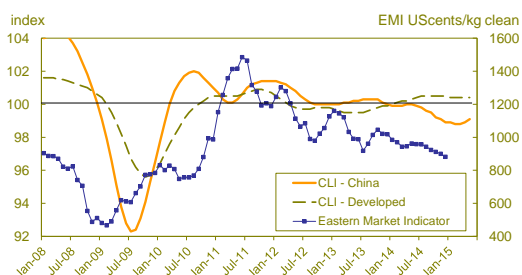
UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	67	85	-21%	74	90	-16%
Synthetics	103	108	-5%	106	109	-3%
Wool: cotton	6.74	6.14	+10%	6.36	6.14	+3.6%
Wool: synthetics	4.41	4.81	-8.6%	4.38	4.54	-3.5%

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

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

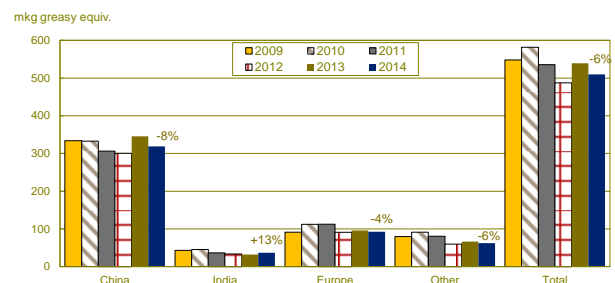
Mixed Messages from Economic Leading Indicators

Trends in Key Economic Indicators versus the Australian Eastern Market Indicator in US\$



Sources: OECD, AWEX
* Amplitude adjusted form of the Composite Leading Indicator for OECD countries and for China.
CLI to September 2014 pushed out 8 months. Wool prices till w/e 28th November 2014

Wool Imports by Major Processing Countries Decline (Calendar Year to October)



Note: From the five major exporting countries (Australia, New Zealand, Argentina, Uruguay and South Africa)
Source: Australian Bureau of Statistics, FLA, SUL, Capewools, NZ Meat and Wool