

Faint signs of raw wool demand recovery

Economic conditions the most positive in over 12 months, but still uncertain

World apparel wool availability very low, supporting prices

Forecast of solid lift in apparel wool prices in 2013/14



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

# wool journal

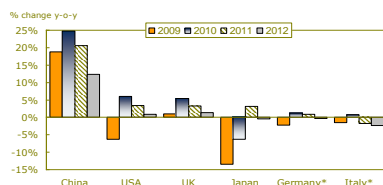
## Retail Demand and Economic Conditions

### Trends, Drivers and Prospects

Retail sales of clothing in the important Fall-Winter period in the major wool consuming countries were patchy, with moderately better sales in the US and China, but lower retail sales in Japan, the UK, Germany and Italy. Overall, clothing retail sales in 2012 were rather soft in all countries, reflecting the very difficult economic conditions (see chart).

The economic outlook for major wool consuming countries is better at the start of 2013 than at any time in 2012 and even in late 2011. This is not to say that economic growth in 2013 will be strong, particularly in Europe, but it appears that the US, China and Japan economies are on a moderate recovery path while Europe seems to be past the worst. Uncertainty remains high, however, and there are risks. Even so, retail sales could pick up in many of these countries, which should boost raw wool demand.

**Clothing Retail Sales in Major Wool Consuming Countries**



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

## Wool Textile Industry Conditions

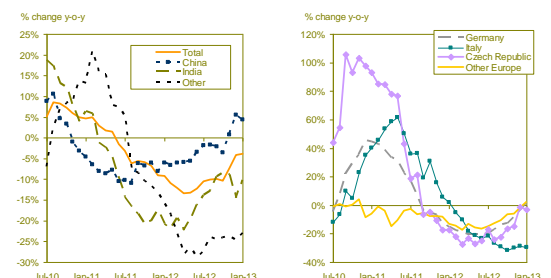
### Trends, Drivers and Prospects

Raw wool demand declined in 2012 as disappointing retail sales results and a lack of orders through the wool textile pipeline caused mills to take a cautious approach to buying wool. For much of 2012, mills in China were buying hand-to-mouth, purchasing enough wool to keep machines running and to fill the reduced orders. Mills in Italy and India cut back their purchases. Italian mills in particular felt the effects of the savage downturn in Europe, their major market for wool clothing, although they did find growth in other markets, notably into the US. According to the Italian textile industry association, Sistema Moda Italia, Italy's exports of clothing to non-European Union countries jumped by 10% in 2012, while its exports to EU country fell by 2%.

As the chart shows, raw wool demand from the five major exporting countries declined in 2012, reaching a low point mid-year at a 13% drop year-on-year. By the end of the year, there had been some recovery, and raw wool imports finished the year 4% down on 2011. This recovery was mainly due to a pick-up in raw wool demand by China, although there was also an improvement in exports to Europe (excluding Italy). Raw wool exports from the US followed similar trends, with exports down by a third in the year to June before a pickup in the second half of the year. By the end of the year, US exports were down by 9% (some of this decline was due to strong domestic demand for military programs).

Major trade fairs and fashion weeks for Fall/Winter 2013 in recent weeks have provided some positive news, notably in men's wear. There are reports that wool's presence on runways was greater than in recent years. The outlook for raw wool demand in 2013 depends on whether these positives at the trade fairs and fashion shows are translated to retailer ordering in the next few months.

**Wool Imports by Major Processing Countries\* 12 month rolling aggregate**



\* 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

# Wool Production and Supply

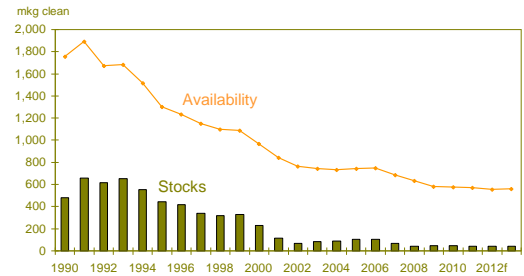
## Trends, Drivers and Prospects

World wool production shows no signs of a recovery in spite of higher sheep numbers in some of the major wool producing countries. Based on the latest available forecasts, world wool production will be virtually the same in 2013 as it was in 2012, lifting by a bare 0.2%. This follows a 1.4% fall in 2012 and a 2.3% drop in 2011. As a result, world wool production is at its lowest in around 70 years, or more. This low level of wool production has helped sustain wool prices at historically high levels in the past two or three years, particularly in US\$ (see chart on back page).

While world wool production in total has dropped by almost half over the past twenty years, the brunt of the decline has been felt in production of wool used in clothing (called apparel wool). World apparel wool production has fallen by 60% since 1990, while production of wool used in interior textiles (carpets, rugs, blankets) has fallen by around a quarter. As well, world stocks of apparel wool have fallen from extremely high levels to virtually nothing. As a result, world availability of apparel wool has fallen dramatically over the past twenty years, as shown in the chart.

The greater relative decline in production and availability of apparel wool compared with wool used in interior textiles has meant that apparel wool prices have improved by more than interior textile prices. For example, the Australian EMI in US\$ has increased by 130% in the past twenty years while the New Zealand Fine Crossbred Indicator has increased by 75%. Given that apparel wool production is likely to remain low for some years, apparel wool prices should continue to perform better than interior textiles wool prices.

**Global Availability of Apparel Wool Production plus stocks**



Source: AWC, SUL, Woolmark, Capewools, FLA, Government agencies, Polimena Analysis

## Outlook

Supply and demand is in a fine balance and, as a result, wool prices have fluctuated at around similar levels in the past four months with no real trend. Demand for raw wool is starting to show some signs of recovery, although it remains tentative.

The direction of prices in the next few months will crucially depend on retailer orders coming through to the wool textile mills between now and May. This is unclear – while there were some positives for wool at the recent major fashion shows in New York, Paris, Milan and London for next Fall/Winter, the question is whether retailers expect consumers to pay the extra required for wool clothing and lift their orders.

The supply of wool to the market remains tight, which will help support prices for wool. Overall, wool prices are expected to improve in coming months, although this is subject to unpredictable economic events.

# Wool and Fiber Prices

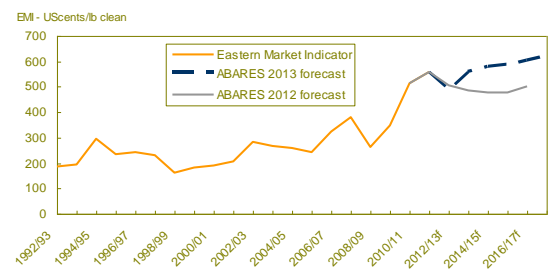
## Trends, Drivers and Prospects

Wool prices have been remarkably steady in the past four months, fluctuating in a narrow band since November 2012, as predicted in the December edition of the **Wool Journal**. For example, the Australian Eastern Market Indicator has traded in a tight range of between 513 USc/lb and 536 USc/lb. This tight range is entirely due to mills operating on a hand-to-mouth basis, keeping their machinery running and filling orders as they receive them.

In contrast, cotton prices have lifted since the start of 2013, with the CotLook A Index rising to 97 USc/lb, the highest level since May 2012. The increase has arisen due to lower world production and higher consumption of cotton, notably by China. Synthetic fiber prices have also increased since the start of 2013 by 5%, helped by better demand from China.

Even though wool prices have been marking time, the prospects are for improved prices from current relatively high levels. ABARES (the Australian Government's commodity forecaster) predicts that average annual wool prices will increase by 13% to 557 USc/lb in 2013/14 and increase steadily over the following four years. This is a much more optimistic forecast from ABARES than its forecast in 2012, as the chart shows.

**Trends and Forecasts for Australian Wool Prices Annual Average Eastern Market Indicator – UScents/lb clean**



Source: AWEX, ABARES

These statistics and charts present a snap-shot of the current situation in the global wool industry. This quarter, the charts show the historical trends in wool prices in US\$, A\$ and € and the change in consumer confidence in the US and in Europe.

## Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends
Australia	18.7	-18%	180.1	+0.2%	China, India, Italy, Czech Rep	China, Czech Rep up; Italy and India down
NZ	13.3	+6%	93.2	+16%	China, UK, Italy, Germany	China, UK, Germany up; Italy down
Uruguay	5.3	-38%	25.9	+4%	China, Germany, Turkey, Italy	China up sharply, Germany up, Italy down
Argentina	4.0	+50%	22.4	-2%	China, Germany, Italy, Uruguay	China, Germany & Uruguay up, Italy down
South Africa	4.9	+67%	23.6	+12%	China, Czech Rep, India, Italy	China up strongly, Czech up; India, Italy down
USA	0.5	+187%	6.1	-9%	China, India	China up in 2012, exports to India static

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

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

## Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	566	641	-12%	569	625	-9%
NZ	335	349	-4%	335	342	-2%
South Africa	563	645	-13%	563	630	-11%
UK	88	123	-28%	91	123	-26%

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

Notes: Prices are for February. 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 February

## Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Season average	Last season	% change
Cotton	90	100	-10%	84	108	-22%
Synthetics	111	114	-3%	106	118	-10%
Wool: cotton	6.40	6.52	-2%	6.41	5.83	+10%
Wool: synthetics	5.17	5.71	-10%	5.14	5.35	-4%

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

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

