Short and Long Term Trends and Prospects for Wool

Chris Wilcox
Chairman, Market Intelligence Committee
International Wool Textile Organisation

ASI Wool Roundtable
29th January 2016
EXPECTING THE UNEXPECTED
Events Affecting the Wool Industry in 2015

Expected
- Economic recovery in advanced economies
- China economy in transition
- Better raw wool demand
- Low world wool production
- Pull-back in superfine wool production
- Higher wool prices

Unexpected
- Greek euro crisis in first half of 2015
- Large decline in commodity prices
- Global sharemarket upheaval
- Surge in demand for double-faced woollen fabric
- Record prices for merino cardings and cross-bred wool
- Surge in prices in May-June
- Surge in Australian wool supplies in April-June 2015
Australian Wool Prices
Records For Cross-Bred Wool and Merino Cardings in 2015

Source: AWEX
Prices to 22nd January 2016
US$ Wool Prices – No Help from Exchange Rate
EMI in US$ vs USD/AUD Rate

Source: WI, AWEX, Reserve Bank of Australia
Data to 22nd January 2016. EMI is on the 2014/15 basis
World Wool Production Remains Low

• World wool production remains low
  – Around the lowest wool production level in 70 years
  – Shift in interest to meat-sheep and dual-purpose sheep
  – Competition from other agricultural enterprises

• Apparel wool production declines, interior textiles wool production increases

• Lower production of medium and broader Merino wool

• Superfine (18.5 micron and finer) wool production slides back from record levels

• Lower production and lower supplies from Australia in 2015/16
World Sheep Numbers up, Wool Production and Stocks Down

Source: Poimena Analysis and International Wool Textile Organisation
Note: The year refers to the season ending eg 2000 = 1999/2000
Data in 2015 is an estimate and in 2016 is a forecast
Updated January 2016
Current Demand Drivers

1. Economic conditions
   – Improving in key advanced economies, although subdued
   – China in transition

2. Consumers and retail
   – Confidence lifts in major markets
   – Steady improvement in retail sales

3. Fashion trend towards double-faced woolen fabric for women’s overcoats

4. Rising raw wool purchases by China but purchases by other countries falter

5. BUT… disappointing wool product exports from China and wool product imports by the US
Recovery in Advanced Economies
China in Transition

% change yr-on-yr

-2% 0% 2% 4% 6% 8% 10% 12%

Average 2000-2008
2013
2014
2015e
2016f
2017f

World China Euro-zone USA Japan United Kingdom

Source: International Monetary Fund (January 2016)
## More Positive for Clothing Retail Sales in 2015

<table>
<thead>
<tr>
<th>% change y-o-y</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015 Year to date*</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>+25.8%</td>
<td>+25.1%</td>
<td>+17.7%</td>
<td>+11.5%</td>
<td>+10.8%</td>
<td>+9.6%</td>
</tr>
<tr>
<td>USA</td>
<td>+6.0%</td>
<td>+3.4%</td>
<td>+0.9%</td>
<td>+1.3%</td>
<td>+1.1%</td>
<td>+4.3%</td>
</tr>
<tr>
<td>Japan</td>
<td>-6.3%</td>
<td>+3.2%</td>
<td>-0.4%</td>
<td>-0.7%</td>
<td>-0.5%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>+1.2%</td>
<td>+0.9%</td>
<td>-0.3%</td>
<td>+0.1%</td>
<td>+1.3%</td>
<td>+2.7%</td>
</tr>
<tr>
<td>UK</td>
<td>+5.4%</td>
<td>+3.3%</td>
<td>+1.5%</td>
<td>+3.1%</td>
<td>+5.2%</td>
<td>+2.3%</td>
</tr>
<tr>
<td>Italy</td>
<td>+0.8%</td>
<td>-1.1%</td>
<td>-2.3%</td>
<td>-2.1%</td>
<td>-1.3%</td>
<td>+0.9%</td>
</tr>
<tr>
<td>France</td>
<td>+2.8%</td>
<td>+1.7%</td>
<td>+0.6%</td>
<td>+1.1%</td>
<td>+1.2%</td>
<td>+3.0%</td>
</tr>
<tr>
<td>South Korea</td>
<td>+9.8%</td>
<td>+8.6%</td>
<td>+3.2%</td>
<td>+2.7%</td>
<td>+1.6%</td>
<td>+3.4%</td>
</tr>
</tbody>
</table>

Source: Government statistical bureaus.

Notes:
Value of retail sales. China is for retail sales of garments, hats, footwear and knitwear. Japan is for major department stores. Germany, Italy, France and South Korea is total retail sales.

* Year to date is to November; except for Italy which is to October.
US Imports of Wool Clothing by Country
(Calendar Year to November)

Source: OTEXA
US Imports of Wool Clothing by Category
(Value - Calendar Year to November)

Source: OTEXA
The Craze for Double-Faced Woolen Fabric in China

- Woolen fabric uses shorter wools (cardings etc.) as well as crossbred wool
- Double-faced fabric is two pieces of fabric knitted together during production, each of a different color or shade
- Garment doesn’t need a lining
- Fabric used mainly for women’s coats for China market for sale in Fall/Winter 2015
Wool Imports by China Up – Lower for Other Major Processing Countries
(Calendar Year to November)

mkg greasy equiv.

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
Key Drivers of Demand and Prospects for 2016

- Uneven economic growth in 2016
  - Solid in US and UK, improving in Europe and Japan
  - China slowing and in transition – the key for wool
- Prospects for strong sales of women’s wool coatings and knits for Fall/Winter 2015/16
- Consumer confidence more positive
- BUT… Disappointing results for US’ imports of wool products
- High price ratio for wool against cotton prices and synthetic fibres
- The strong US$ relative to the A$

Positive conditions but risks remain
What about the longer term?

• Long-term prospects for wool depend on global economic conditions and income growth, not relative production with other fibres

• On demand side, focus should be on consumer requirements

• Demand for business-wear for men will continue to be a mainstay for wool

• Knitwear a growth area, particularly with increased demand for active leisurewear and casual garments

• Coats the best performers in womenswear for wool

• Trade in other women’s wool clothing continues to fall
World Production of Wool and of Competing Fibers: Wool Cannot Compete on Volume

Note: For wool and cotton the years are seasonal years i.e. 2011 = 2010/11 season
Wool Price Ratios With Other Fibres Rises to New Level

Price Ratio

Wool:cotton

Wool:synthetic fibres

Source: AWEX, Cotton Outlook, PCI Fibres, CIRFS, Poimena Analysis
Compared with 21 micron wool. Data to December 2015
Apparel Wool Consumption Rises as Incomes Lift

![Graph showing the relationship between income and wool consumption.](image)

**Source:** International Monetary Fund and Woolmark

Apparel wool consumption is apparel NDA at retail average 2011-2013 as estimated by Poimena Analysis. Income is US$ GDP per head in 2013 on a purchasing power parity basis.
World Trade in Wool Clothing in 2014 (% share)

Product Segment Prospects

Growth

Mainstay

Decline

Poimenal Analysis
Thank You!