

Positive business conditions and low stocks in the wool textile industry

Economic growth forecasts raised

Global wool production remains low

Merino wool prices up, Crossbred wool prices down

Optimistic long term outlook for US sheepmeat producers



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

ASI wool journal

Economic and Retail Conditions

Trends, Drivers and Prospects

Economic growth prospects are brightening in several major wool consuming countries, with positive economic indicators so far this year. This has triggered a lift in the International Monetary Fund's (IMF) economic growth forecasts for the world and for several countries since its previous forecasts (see the table; the increased forecasts are shaded pink).

The IMF notes that that the "long-awaited cyclical recovery in manufacturing and trade is underway". As the table shows, economic growth in China, the US, the UK and Japan are considerably better than previously predicted and better than growth rates in recent years. This is encouraging for providing a good base for consumer demand and for demand for wool. However, some commentators question whether this improvement is sustainable given the political and economic risks around the world.

Brighter Economic Growth Forecasts (% change)

	2015	2016	Previous forecast*		April 2017 forecast	
			2017	2018	2017	2018
World	3.4%	3.1%	3.4%	3.6%	3.5%	3.6%
China	6.9%	6.7%	6.2%	6.0%	6.6%	6.2%
USA	2.6%	1.6%	1.6%	2.5%	2.3%	2.5%
Japan	1.2%	1.0%	0.5%	0.5%	1.2%	1.6%
Germany	1.5%	1.8%	1.7%	1.5%	1.6%	1.5%
Italy	0.8%	0.9%	0.8%	0.8%	0.8%	0.8%
UK	2.2%	1.8%	1.8%	1.4%	2.0%	1.5%
France	1.3%	1.2%	1.3%	1.6%	1.4%	1.6%

Source: IMF, World Economic Outlook, April 2017
* Previous forecast in October 2016 for 2017 forecast and January 2017 for 2018 forecast

Wool Textile Industry Conditions

Trends, Drivers and Prospects

Business conditions in the world wool textile industry are generally at good levels and stocks within the industry are reported to be low. This should provide a very good base for raw wool demand over the next few months at least.

The International Wool Textile Organisation (IWTO) held its 2017 Congress in Harrogate, United Kingdom on 3rd to 5th May. As part of the Congress, the results of the IWTO's annual survey of Wool Textile Business Conditions were presented. The survey, which was conducted in April, indicates that production activity levels have lifted in all the apparel wool sectors, from early stage processing to garment making, and are rated as being above normal to good.

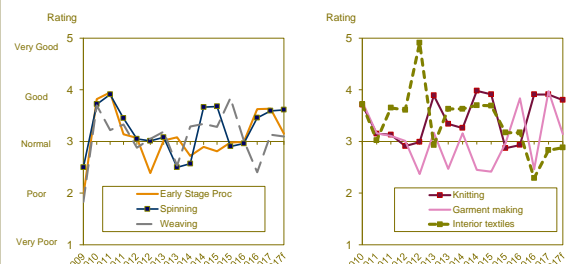
Furthermore, the outlook is for these positive conditions to be maintained. The conditions and outlook were particularly positive in the survey responses from China, India, Italy, France, Germany and Mongolia.

In contrast to these positive results, activity levels in the interior textiles session are reported to be below normal. The results are shown in the chart which traces the results of the annual survey back to 2009.

In addition to these positive trends for apparel, pipeline stocks are reported to be at normal or below normal levels in almost all sectors, except for weaving (see the chart on page 3).

The positive conditions and outlook helps explain the recent surge in demand for and prices for Merino wool. The weak conditions in interior textiles may also partly explain the drop in Crossbred wool prices.

Positive Conditions in the Wool Textile Industry: Wool Textile Industry Production Activity



Source: IWTO Wool Textile Business Survey, Updated April 2017
Weighted results for China, Italy, Germany, Uruguay, Mongolia, Argentina, South Africa, Japan, France, India, the United Kingdom, New Zealand and Turkey

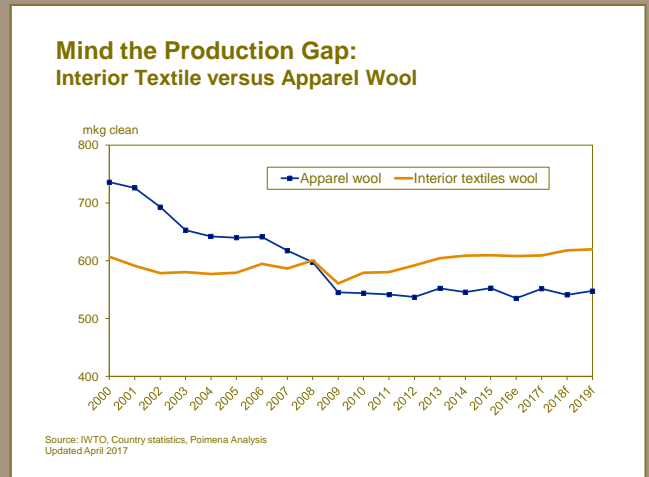
Wool Production and Supply

Trends, Drivers and Prospects

World wool production is expected to remain steady at around 70 year lows in 2017 and 2018, but the gap between production of broader, “interior textile” wool and production of “apparel” wool continues to widen. These were the key findings from the International Wool Textile Organisation’s annual survey of wool production in the major wool producers, which were presented at the IWTO 2017 Congress in the UK in early May.

World wool production is expected to reach 1161 million kilograms (mkg) in 2017, up by 2% on 2016, largely due to a strong 6% lift in Australian wool production (the largest wool producing country). This increase in global wool production comes despite an expected 5% drop in production in New Zealand (the third largest wool producing country). Global production is predicted to ease slightly in 2018. This continues the pattern seen for the past decade, with production hovering at around 70 year lows since 2008. Full details of the forecasts by country are shown in the chart on page 3. The highlighted rows in the table in the chart show production in the countries for which Merino wool accounts for 60% of more of the country’s production.

While global production has remained steady at 1100-1150 mkg since 2008, the gap between production of broader wool typically used in interior textiles and production of finer wool typically used in apparel products has continued to widen, albeit at the slower rate than in the 2000s (see the chart above). This widening gap is due to the increased use of sheep for meat and reduced use of sheep for specialist wool production in all countries around the world. Even in Australia, which has for its history been focused on wool-producing sheep, in the past decade there has been an increased focus on producing lambs for the meat market.



Wool Outlook

Economic conditions and business conditions in the wool textile industry are increasingly positive for wool (and notably wool used in apparel) for the remainder of 2017. Despite this, the key questions for wool producers are whether high fine Merino wool prices levels can be sustained and whether broader wool Crossbred prices can recover.

A Panel discussion at the recent IWTO Congress seemed to suggest that Merino wool prices could be maintained “at least for a few months”. However, it would not be surprising if the cyclical upturn ceases and turns down in the next 3 months, with prices dipping as the cycle turns.

The message from the Panel discussion was less clear for Crossbred wool. The concern for Crossbred wool was the degree of the structural decline due to loss of key product markets, with synthetic fibers replacing wool. Nevertheless, the cyclical downturn in Crossbred prices, which is due to mills trying to run excess stocks down, seems likely to finish by around August. Prices should start to recover, although the structural decline may mean that prices do not rebound to levels seen 18 months or 2 years ago.

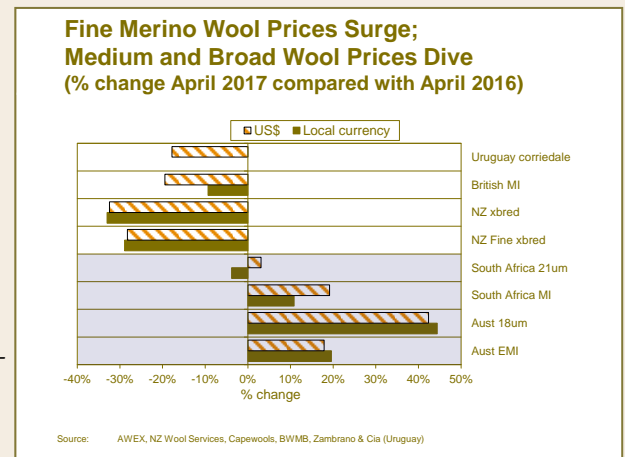
Wool and Fiber Prices

Trends, Drivers and Prospects

Trends in prices for Merino wool and for medium and broad Crossbred wool have diverged sharply in the past year, with no signs yet of a let up. This divergence appears to be mainly due to demand-side factors, rather than supply.

As the chart shows, there have been large gains in the past 12 months for Merino wool (shaded) and in particular in prices for superfine wool. In contrast, there have been large falls in prices for broader Crossbred wool from New Zealand, Uruguay and the United Kingdom. This sustained divergence in price trends for Merino wool and for Crossbred wool are highly unusual, with prices for different wools historically following similar broad up and down trends.

While production of superfine Merino wool has pulled back a little, overall supply does not seem to have had much of a role in these diverging trends. It is being driven by a lift in demand for raw Merino wool on the one hand and a sharp drop in demand for raw Crossbred wool (see the first table on page 3 to see the difference in exports from Australia, Argentina and South Africa compared with exports from NZ and Uruguay). This in turn seems to be driven by a cyclical upturn in demand for Merino wool and cyclical downturn in demand for Crossbred wool, combined with better demand for Merino wool in next-to-skin base layers and a drop off in demand for Crossbred wool in heavy outercoats and in carpets.



These statistics and charts present a snap-shot of the current situation in the global wool industry. The two charts in this edition the trends in stocks held within the wool textile industry (taken from the recent IWTO survey) and the detail on wool production by country in 2016 to 2018.

Wool Exports >>>

mkg	Month	% ch	Year to date	% ch.	Major destinations	Trends for season to date
Australia	35.8	+9%	243.9	+6%	China, India, Czech Republic, Italy, Korea	China up; India, Czech Rep, Italy, & Korea down
NZ	12.4	-18%	88.0	-19%	China, Italy, UK, India, Germany	India up; China, Italy, UK & Germany down
Uruguay	3.5	-7%	25.5	-22%	China, Germany, Turkey, Italy, Bulgaria	Germany up; China, Turkey, Italy, & Bulgaria down
Argentina	4.1	-36%	30.9	+7%	China, Germany, Italy, Czech Rep, Mexico	China, Germany, Italy & Mexico up; Czech Rep down
South Africa	5.5	+9%	34.0	-3%	China, Czech Rep, Italy, India, Germany	China, Czech Rep & Italy up; Germany & India down
USA	0.471	-15%	2.571	-0.3%	China, Mexico, Bulgaria, Italy	Bulgaria, Mexico up; China & Italy down

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 March and the Southern Hemisphere season from July to March. The month for USA is March and the year to date is the US wool season October 2016 to March 2017.

Wool Prices >>>

USc/lb clean	Month average	Last year	% change	Year average	Last year	% change
Australia	729	496	+43%	702	495	+42%
NZ	126	177	-29%	124	179	-31%
South Africa	490	463	+4%	502	457	+10%
UK	99	124	-19%	95	121	-22%

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

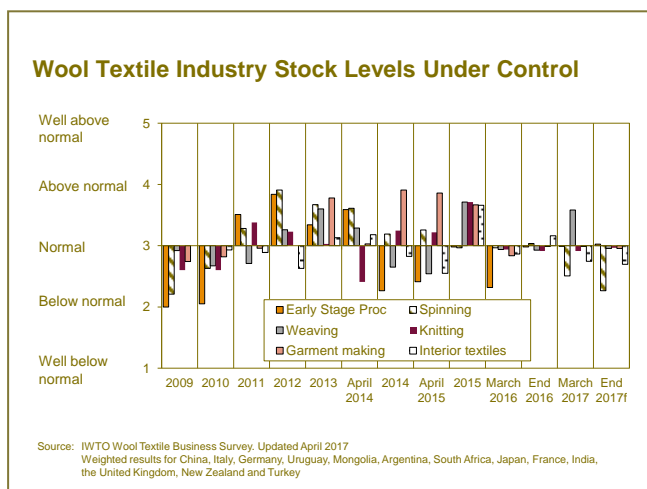
Notes: Prices are for April. Australia is the 18 MPG, South Africa is the 21 micron indicator, NZ is 25-32 micron average, UK is the British Wool Marketing Board Indicator. Year is for the calendar year January to April.

Fiber Prices and Ratios >>>

UScents/lb	Month average	Last year	% change	Year average	Last year	% change
Cotton	86.6	69.6	+24%	85.3	67.6	+26%
Synthetics	84.9	74.7	+14%	82.3	73.4	+12%
Wool: cotton	5.74	6.96	-16%	5.90	6.72	-12%
Wool: synthetics	5.86	6.34	-8%	6.23	6.19	+1%

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

Notes: Prices are for April. Year is the calendar year to April. The wool:cotton and wool:synthetic ratios are based on 21 micron wool.



World Wool Production Remains Near 70 Year Lows mkg clean

	2016	2017f	% change	2018f	% change
Australia	260.2	276.9	+6.4%	267.3	-3.4%
South Africa	30.3	30.7	+1.6%	31.4	+2.0%
Argentina	26.4	26.4	0.0%	26.1	-1.3%
USA	6.9	6.9	-0.7%	6.8	-0.9%
China	179.6	180.1	+0.3%	180.0	+0.0%
New Zealand	108.6	103.1	-5.1%	103.5	+0.4%
India	32.5	33.3	+2.4%	34.0	+2.1%
Uruguay	18.3	18.4	+0.7%	18.4	0.0%
UK	23.5	23.5	0.0%	23.8	+1.2%
Mongolia	19.0	20.6	+8.1%	22.7	+10.2%
Others	446.4	449.2	+0.6%	453.5	+1.0%
Global	1,143.2	1,170.7	+1.5%	1,159.0	-0.1%

Source: IWTO national committee reports, FAO and Poimena Analysis
Light blue shaded area shows countries where Merino wool production is 60% or more within that country
Note: 2015 = 2014/15 for Australia, NZ, Uruguay, Argentina, South Africa
Updated: April 2017

Sheepmeat Market

Trends, Drivers and Prospects

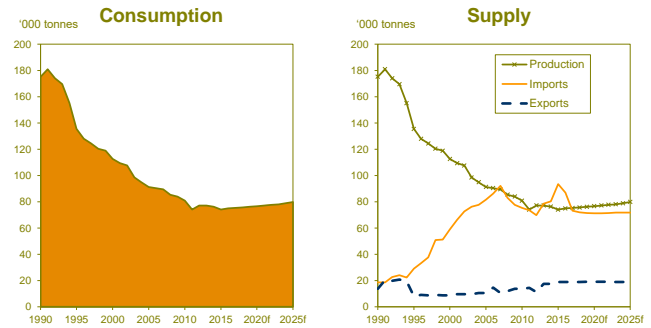
Imports of sheepmeat have taken an increased proportion of the declining US sheepmeat market in the past 25 years at the expense of domestic production. This is expected to change over the period to 2025, with an optimistic outlook for US sheep producers.

Data from the Organisation of Economic Development (OECD) and the Food and Agricultural Organization of the United Nations (FAO) shows that US sheepmeat production has declined substantially since 1990, but US imports of sheepmeat have risen sharply over the same period. Consumption of sheepmeat in the US has also declined, despite the lift in imports of sheepmeat. As the first chart shows, consumption of sheepmeat in the US has dropped by 20% between 1990 and 2016. Over the same period, US production of sheepmeat has halved (second chart). While production would have fallen given the fall in consumption, the fall has been sharper. As a result, US imports of sheepmeat have risen.

Imports have more than tripled since 1990 and now account for a larger percentage of domestic consumption than does US domestic production (net of exports). In 2016, US imports of sheepmeat accounted for 61% of domestic consumption while US production (net of imports) accounted for just 39%. In 1990, domestic production had 90% of domestic consumption.

This may change in the next decade. The OECD-FAO forecasts that domestic consumption of sheepmeat in the US will increase by around 2% between 2017 and 2025 on a slow and steady incline, largely in response to a larger population. At the same time, the OECD-FAO forecasts are for a 6% lift in production of sheepmeat in the US in response to favorable prices, both in absolute terms and relative to other agricultural enterprises. While production is expected to increase in the US over the next few years, US imports of sheepmeat is expected to slide by 2%. One contributor to this slide will be increased competition from developing and emerging countries for meat protein, including sheepmeat. This includes the Middle East, North Africa and Asia. As a result, the OECD-FAO expects that the main sheepmeat exporting countries, Australia and New Zealand, will redirect some of their exports to these markets. Given these forecasts, US sheep producers can look forward optimistically to growing demand, lower competition from imports and higher sheepmeat prices.

Sheepmeat Imports Take an Increasing Share of US Consumption



Source: OECD-FAO Agricultural Outlook database
Forecasts April 2017

Lamb Prices >>>

USc/lb	Month average	Last year	% change	Year average	Last year	% change
Australia	225	177	+27%	216	173	+25%
NZ	163	148	+10%	164	146	+12%
UK	237	270	-12%	221	268	-17%
US	341	327	+4%	339	335	+1%

Sources: Meat & Livestock Australia, Beef and Lamb NZ, USDA, UK Agriculture and Horticulture Development Board

Notes: Prices are for April. Australia is trade lamb, New Zealand is all export lamb, UK is 12-25kg SQQ lamb, US is 55-65 lb, choice and prime lamb. Year is calendar year and year average is year to April.

Lamb Meat Exports >>>

Million lbs	Month	% ch	Year to date	% ch.	Major destinations	Trends for calendar year to date
Australia	37.6	-19%	178.0	-3%	US, China, Middle East, Hong Kong, Japan	China, Middle East and Hong Kong up; the UK, US down
NZ	69.0	-10%	298.1	+2%	China, UK, Middle East, US, Germany	China, Middle East, US up; UK, Germany down

Sources: Australian Bureau of Statistics, Beef + Lamb NZ

Notes: Month data is for April and the calendar year from January to April.