The American spirit is alive in the fiber, fleece and fabric of natural American wool. This is where happy, healthy sheep are raised to thrive in vast, open ranchlands. It’s where bold shepherds and ranchers are genuine stewards of the earth—constantly seeking sustainable ways to ensure the future of this invaluable industry.

This is America, where innovation is celebrated, tradition is respected and high performance reigns.
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About IWTO

With a world-wide membership encompassing the wool pipeline from sheep to shop, the International Wool Textile Organisation (IWTO) represents the interests of the global wool trade. By facilitating research and development and maintaining textile industry standards, IWTO ensures a sustainable future for wool. To learn more about IWTO and its activities, visit www.iwto.org.
Dear Reader,

The world of wool is indeed living in interesting times. Merino prices recently achieved unprecedented highs as crossbred and broader wool prices continue to languish at new lows not seen since the global financial crisis of 2008. This has seen exports soar from all the Merino-producing countries of the Southern Hemisphere and stocks of broad wool continue to build up in New Zealand and the UK in particular.

In 2014 and 2015, the continued downward trend in sales of woven wool carpets and the effect this was having on crossbred prices was somewhat mitigated by a boom in the Asian production of mainly double-faced overcoat fabrics for womenswear in the colder climates of Korea and China.

Prices for cardings and skirtings saw some significant gains at the time, a welcome boost for producers across the globe witnessing a year on year -3% decline in wool predominant knotted, woven and tufted carpets, with polypropylene and all its inherent bleach clean ‘properties’ making unprecedented progress in the principal rug and fitted and carpet markets of the world. The desire to walk and to let children play on ‘petroleum’ remains baffling for those in the technological know and a major ecological challenge for the industry in the immediate term. Trade in wool interior textiles, mainly upholstery and curtaining, fell by -1% in 2016, but production of all wool blankets rose.

Of significant and encouraging note is the palpable increase in wool in women’s fashion, up for the third successive year in 2016 by +7%, seeing some sharp increases in trade in jackets, skirts, dresses and suits, albeit from a very low base. When Balenciaga, Max Mara, Chanel and St Laurent put flowing woollen overcoats and tailored trouser suits on the runway, the world of fashion on the lower slopes takes notice and the ripples and trickles are felt throughout the textile pipeline.

Womenswear now accounts for 27% of world trade in wool clothing, with women’s overcoats being the largest category. Tweed, tartan and coatings featured prominently on the January 2018 catwalks in Milan, London and Paris, hopefully heralding a return to the trends that so benefited woollen spinners and weavers some four years ago.

Trade in wool knitwear which accounts for around 35% of world trade in wool clothing remained relatively unchanged in 2016 and increased use of fine wool in active ‘next to skin’ sportswear and leisurewear is rising steadily, year on year, although statistically difficult to isolate from existing woven and knitted data.

Whilst trade in men’s suits declined to 16% of total consumption in 2016, it remains the largest men’s category. Of particular interest is the rise in popularity of finer quality suits, coupled with an unprecedented boom in the once thought redundant art of ‘made to measure’ or MTM. The worlds of fashion, interiors and lifestyle continue to polarise, a trend begun in the cloudy days of 2007/8 that saw the middle market squeezed and the luxury and throw-away markets prosper. IWTO seeks unashamedly to benefit from this phenomenon by accentuating the natural, sustainable and renewable properties of wool in all its end uses as a major ecological ingredient in the ever-expanding trend for environmentally accountable premium quality merchandise.

Peter Ackroyd
IWTO President
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Key to abbreviations:

n/a not available
- nil or negligible
p provisional
m million
um micron metre (fibre diameter)
nmb number
mkg million kilogram
n/q no quote

superfine wool wool of 18.5 microns and finer

ABARES Australian Bureau of Agricultural and Resource Economics and Sciences
ABS Australian Bureau of Statistics
SUL Secretariado Uruguayo de la Lana
FAO Food and Agricultural Organisation of the United Nations
AWTA Australian Wool Testing Authority
AWEX Australian Wool Exchange
ICAC International Cotton Advisory Committee
NZWTA New Zealand Wool Testing Authority
FLA Federacion Lanera Argentina
CIRFS European Man-Made Fibres Association (Comité International de la Rayonne et des Fibres Synthétiques)
USDA United States Department of Agriculture

NOTE: The trade data for 2016 reported in Chapters 5, 6 and 7 are preliminary. As such, they are subject to significant change.
Review of 2016/17 and Outlook for 2017/18

1. Review of 2016/17 season

Overview
The 2016/17 season was rather extraordinary for the global wool industry. It was marked by a strong and extended lift in prices for Merino wool, particularly for superfine Merino wool, as well as heavy falls for broader, Crossbred wool. This was matched by a strong lift in demand for raw wool from the countries producing Merino wool (notably Australia and South Africa) and an equivalent drop in demand for raw wool from countries producing broader, Crossbred wool.

At the same time, global trade in semi-processed and finished wool products in 2016 is best described as uneven, with some gains and some losses. Furthermore, even though consumer confidence rose in several important wool consuming countries (in some cases to levels not seen for more than a decade), retail sales of clothing and of soft furnishings were modest at best in 2016, with a few exceptions. Nevertheless, global economic conditions continue to improve, which is helping boost prices for all industrial commodities.

Business conditions within the wool textile was reported to be solid and good in the IWTO Business Conditions Survey conducted in April 2017 and stocks generally under control or even a little low.

On the supply side, global wool production slid a little in 2016 before seemingly lifting in 2017, although production remains at around historically low levels.

Production of superfine wool was a little lower in 2016/17 than in recent years, while production of broader wool lifted a little.

The positive results from the wool business conditions survey and the improving economic conditions help explain the strong lift in demand and prices for Merino wool, and in particular for superfine Merino wool in 2016/17, which has continued into the first half of 2017/18.

Wool and competing fibre prices
Superfine Merino wool prices lifted strongly in 2016/17 beginning in November 2016 then prices surged further in the first six months of the 2017/18 season. Medium Merino wool prices also lifted over the 2016/17 season and the benchmark Australian Eastern Market Indicator (EMI)¹ in US$ increased by 19%. The 2017/18 season started with a further jump in prices to new record levels in A$ terms and highs in US$ terms by the end of calendar 2017. Prices for Merino wool in other markets, notably in South Africa, have followed the lead set by the Australian market. This has meant positive, buoyant confidence amongst woolgrowers in these countries.

But the same buoyant mood is not being seen by woolgrowers who grow broader, Crossbred wool. This is particularly the case in New Zealand and the United Kingdom, where prices for the wool that these countries produce fell steadily throughout 2016/17 and fell further since the start of the 2017/18 season. In 2016/17, New Zealand broad Crossbred wool fell by 35% in both NZ$ and US$ terms. It fell again in July to the lowest level since 2009 and remained low until the end of 2017. The British Wool Marketing Board’s Market Indicator declined by 12% in UK pound sterling and by 20% in US$ in 2016/17. In the first six months of 2017/18 the BWMB Indicator fell again to an eight-year low.

Prices for the major fibres with which wool competes lifted in US$ terms over the 2016/17 season. The most significant increase was seen for acrylic, which benefited from increased demand, partly as a substitute for broader wools in some products. Cotton prices also rose solidly as excess stocks finally started to show signs of easing. Polyester staple and viscose fibres also lifted. In contrast, some of the luxury natural fibres which compete with superfine wool saw significant falls, including for cashmere. Chart A shows the comparative performance of wool and competing fibres over the 2016/17 season.

These price changes meant that superfine wool price relativity with the major competing fibres hit record levels in 2016/17 and continued to rise in 2017/18. The price relativity for medium Merino wool remained at high levels, while the price relativity for broader wools slumped.

¹ To allow comparison between the 2016/17 season and the 2017/18 season, the EMI included in this section is on AWEX’s new, 2017/18 basis. The data tables in this report are based on the old, 2014/15 basis.
World wool production
World wool production slid back in 2016 as production in several key countries declined, notably in Australia and New Zealand. Production appears to have recovered a little in 2017 helped by increased production in Australia. Leaving these ups and downs between years aside, global wool production has remained fairly static since 2008, with little signs of recovery (or further decline). However, the gap between broader wool typically used in interior textiles and finer wool typically used in clothing continues to widen, with more broader wool being produced relative to finer wool.

This year’s edition includes a chart and commentary on the increase in the volume of wool from Australia that is from sheep that have not been mulesed, have been mulesed using pain relief or is from properties which have ceased mulesing. This data shows that over 40% of the wool offered at auction in Australia in 2016/17 was wool from one of these three categories. This is up from just 20% in 2011/12.

IWTO Wool Textile Business Survey
IWTO conducts a Survey each year of the global wool textile business in the lead up to the Annual Congress. The 2017 Survey was conducted in March and April 2017. The results from the Survey were solid, if unspectacular. They show that business conditions and production activity improved at the end of 2016 and in the first quarter of 2017 in most sectors, with the exception of interior textiles.

Chart B: Wool Textile Business - Production
Activity Rating between 1 and 5

Chart C: Wool Textile Business - Stocks
Rating between 1 and 5

Chart B shows the trends in production activity levels in the global wool textile industry. As can be seen, the improvement in the early stage processing sector which began at the start of 2016 continued throughout 2016 and into 2017. For the spinning sector, activity levels also improved. This improvement helps explain the lift in raw wool prices and in raw wool demand in the second half of 2016 and in 2017.

The weaving sector reported a drop off in conditions at the end of 2016, although activity levels bounced back at the start of 2017. The knitting sector reported the strongest activity levels of all sectors between the end of 2016 and into 2017, while the garment sector was volatile but still above “normal”. In contrast to these positive conditions, the interior textile sector reported subdued conditions beginning at the end of 2016 and continuing into 2017.

The good news is that the Survey results suggest that stocks held within the industry were generally under control or even a little low in the first quarter of 2017. The exception was stock holding in the weaving sector, although this may have reflected excess stocks of double-faced woollen fabric built up in the second half of 2015 and first half of 2016 which carried over.

World trade
Global trade in raw wool, semi-processed wool products and finished wool products was patchy in 2016, with trade in some products lifting while trade in other products fell back.
A particularly noticeable feature of the global trade patterns in the 2016/17 season was the significant difference in the trade in raw wool from each of the major wool producing and exporting countries (Chart D).

As can be seen, the volume of exports from Australia and South Africa lifted in 2016/17, although this understates the extent of the increased demand as these volumes were, to some extent, supply-constrained. In contrast, the volume of exports from New Zealand and Uruguay fell sharply. As a result of the fall in export demand, stocks of wool built up in New Zealand as growers held back supplies. The difference in direction for exports from the fine Merino wool producing countries of New Zealand and Uruguay matches the trends in prices for the fine Merino wool compared with the prices for broader wool over the 2016/17 season.

In terms of semi-processed wool products, global trade in wool top declined in the 2016 calendar year mainly due to a decline exports by China, the world’s largest exporter of wool top, as well as a significant drop in exports from Uruguay.

Trade in wool yarn fell back in 2016 after recording a small increase in 2015, led by a decline in trade in pure wool and wool rich worsted yarn, as well as wool-poor blend yarn. Trade in woollen wool rich yarn was a little higher.

Global trade in wool fabric rose a little in 2016, the first increase in five years. This was driven by wool-poor fabric, although trade in worsted wool-rich fabric was only down marginally. In contrast, trade in wool rich woollen fabric fell the most.

Chart E shows the trends in global trade in pure wool and wool rich yarn and fabric from 2001 to 2016.

Finished wool products saw significant variations between products in global trade in 2016. Trade in womenswear rose for the third consecutive year in 2016, trade in wool knitwear was steady but wool menswear recorded a solid decline. Even so, menswear remained the largest of the clothing categories. Total wool clothing trade (knits plus wovens) was steady in 2016 following the decline in 2015. Within the wool clothing grouping, trade increased in all women’s wear with the exception of women’s wool trousers. In contrast, trade in all wool men’s products fell in 2016, including a 10% drop in the trade in men’s wool suits.

Trade in wool interior textiles contracted by 1% in 2016. Trade in wool carpets fell by 3%, with all three carpet categories (tufted, woven and knotted) falling by around 3%. Trade in wool blankets reversed the decline seen in 2015, with a 20% jump in 2016. Chart F shows the trends in trade in wool clothing, wool floor coverings and wool blankets between 2001 and 2016.

Over 40% of wool auctioned in Australia in 2016/17 came from non-mulesed sheep, mulesed using pain relief or from properties that have ceased mulesing.

Chart D: Wool Exports by Major Exporting Countries

Financial Year

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<td>Australia</td>
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<td>325</td>
<td>330</td>
<td>335</td>
<td>340</td>
<td>345</td>
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<tr>
<td>South Africa</td>
<td>2011/12</td>
<td>320</td>
<td>325</td>
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<td>Argentina</td>
<td>2011/12</td>
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<td>New Zealand</td>
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<td>Uruguay</td>
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Source: Australian Bureau of Statistics, FLA, SUL, Capewools, Beef + Lamb NZ

Chart E: World Trade of Wool Yarn and Fabric

'1000 tonnes

Source: Country statistics, Trademap.org, Poimena Analysis Updated 16th November 2017 Based on total imports

www.iwto.org
2. Outlook for 2017/18 season

With prices for Merino wool at such high levels by December 2017 and prices for broader wool at low levels, the key questions in the wool industry is whether and for how long this will be sustained.

The outlook for economic growth in the major wool consuming countries is positive for underpinning demand and prices for wool, both for Merino wool and broader wool. The latest forecasts from the International Monetary Fund are shown in Chart G. Global economic growth is expected to be higher in 2018 than in 2017, with the US and Euro-zone both expected to see solid economic growth. Furthermore, consumer confidence in the US, EU, Japan and China have all lifted to multi-year highs which should encourage increased consumer spending.

However, for Merino wool prices to be sustained at the current high levels both in absolute terms and compared with other fibres, we will need to see a continued improvement in the growth rate of retail sales of clothing in the US, Japan, the EU and China. In particular, the growth of retail sales over the Autumn/Winter 2017 season will be crucial. While clothing retail sales growth has improved in recent months, further improvement will be needed over the Autumn/Winter period to pull product through the supply chain, helping move stocks of raw Merino wool that have been purchased in the past 12 months. This may prove to be difficult.

Of particular concern is that, according to the latest available data, US imports of wool clothing has fallen over the past year or more.

Chart F: World Trade of Finished Wool Products

Source: Country statistics, Trademap.org, Poimena Analysis
Updated 16th November 2017
Based on total imports

Chart G: Economic Growth in the Major Wool Consuming Countries (% change)

Source: IMF, World Economic Outlook, October 2017
The US is one of the three largest wool consuming countries of wool clothing and relies on imports to satisfy its domestic consumer. If it is importing less wool clothing, then other countries will need to pick up the slack. There is a risk that this will not happen. In that case, stocks of finished wool clothing, including Merino wool clothing, could be building. This may bring a pause in the increased demand for raw Merino wool.

As noted previously, demand for broader Crossbred wool is soft and prices are languishing. This could be due to a hang-over of excess stocks built up in 2015/16. These excess stocks were built up when demand for raw wool was strong, including for double-faced woollen fabric, but retail sales of the finished product was insufficient to clear the stocks. After 12 months or more of lower buying of the raw Crossbred wool, these excess stocks may close to being cleared. As well, the price relativity for broad, Crossbred wool against other fibres is low and this may encourage increased use of this wool in interior textiles products as well as in outerwear. Finally, retail sales of soft furnishings are showing signs of good growth in some markets, which could help boost demand for wool carpets.

Demand for Crossbred wool is likely to improve during the 2017/18 season. There are already signs of this improvement, with an increase in exports from both New Zealand and Uruguay recently.

World wool production is predicted to be static in 2017/18. Australian wool production is predicted to remain steady in 2017/18 and an increase in production in South Africa is expected to be offset by a dip in production in Argentina. The same ebb and flow is expected across all of the major wool producing countries. Stocks of Merino wool in the main producing countries are thought to be low. The same cannot be said for stocks of Crossbred wool, which are reported to have built up in major producing countries, notably in New Zealand.

This means that for Merino wool, supply will be restrained which will help support prices. In contrast, if demand for Crossbred wool does recover, stocks held in New Zealand and elsewhere are likely to be released, dampening down the potential improvement in prices for Crossbred wool. These excess stocks will need to be cleared before there is a sustained pick up in prices.

Chris Wilcox,
Chairman, Market Intelligence Committee
International Wool Textile Organisation,
Poimena Analysis, January 2018