Review and Outlook

With a steady economic recovery underway in the major wool-consuming countries of the European Union and the United States, the 2014/15 season saw a steady improvement over 2013/14, both in demand for wool and prices for wool. The need to replenish wool stocks and a surge of interest for double-face woollen fabrics for women’s coats for Autumn/Winter 2015/16 pushed China’s demand for raw wool higher, leading to a spike in wool prices in May-June 2015. As a result, wool prices in most of the major wool producing countries increased over the 2014/15 season.

At the same time, prices for competing fibres fell, resulting in a decline in wool’s price competitiveness over the season, but the outlook for 2015 is generally for an improvement over 2014. The high stock levels that dogged the early processing sector earlier in 2014, for example, were back under control by the end of the year, with 2015 seeing an increase in raw wool purchases. Global trade in intermediate wool products was mixed, but trade in finished wool products was strong in 2014 following two difficult years.

Long term, prospects for wool are positive, though the short term will depend on the interplay between continued economic growth in the major wool consuming countries, the transitioning Chinese economy, and the effect of the strengthening US dollar against the major grower country currencies.
Review of 2014/15 season

The 2014/15 season saw a steady improvement in demand and prices for wool, for both finer and broader wool types, culminating in a spike in demand and prices in May-June 2015. The spike was driven by demand for wool to be used in double-faced woollen fabrics. At the same time, world wool production remained near 70 year lows after a small fall in production in 2014 and an expected moderate increase in 2015.

The improvement in demand and prices was helped by a steady, if unspectacular, economic recovery in the major consuming countries in the United States and, more recently, in the European Union. The Euro zone countries of the European Union experienced an extremely volatile 2014 due to the potential economic and financial collapse in Greece and the possibility of Greece exiting the euro and the impact this would have on the rest of the Euro zone countries. While the volatility continued into the first few months of 2015, it has now stabilised and some of the major economies in the EU, notably Germany, are growing solidly. This economic recovery has resulted in consumer confidence in both the EU and the US reaching seven year highs in mid-2015.

While retail sales in the major wool clothing consuming countries over the Autumn/Winter period of 2014/15 were only moderate, the steady improvement in economic growth in these countries has brought hope of improved retail sales in the coming Autumn/Winter (2015/16). This helped support demand and prices for finer wool used in apparel. The continued improvement in housing markets in some countries, such as the US, was a positive for wool used in interior textiles.

Offsetting the positive news from the US and the EU is China’s transitioning economy. Moving from invest-build-and-export to a more mature economy, with a greater emphasis and reliance on the domestic consumer, has resulted in a slower, but still solid, annual economic growth rate of around 6-7 per cent, down from the double-digit growth rates seen in the 1990s and 2000s. This change is inevitable and, in the long-run, welcome for the global wool industry as it will provide greater opportunity for increased domestic demand for wool clothing and interior textiles within China. However, in the interim, the adjustment has brought challenges, including tighter credit availability for mills and uncertainty among consumers.

In spite of this, in the first half of 2015 the Chinese wool textile industry was swept by a surge in interest for double-face woollen fabric to be used in women’s coats for the 2015/16 Autumn/Winter season. This, combined with the need to replenish wool textile industry pipeline stocks which had been run down in 2014, pushed China’s demand for raw wool higher in the first half of 2015. It resulted in the spike in wool prices in May-June 2015, affecting not just the medium micron wool demanded for this product (26-30 micron) but also finer and broader wool.

As a result of the improved demand for raw wool, wool prices in most of the major wool producing countries increased over the 2014/15 season. This was particularly true for finer wool from Australia and South Africa which is used in clothing. Prices for wool from New Zealand and the United Kingdom, which is mostly (but not only) used in interior textiles, also improved or were maintained at the high levels seen in 2013/14. As the US$ strengthened against the currencies of the main grower countries in the second half of 2014 and the first half of 2015, the increase in prices was the greatest in grower country currency terms, rather than in US$.

At the same time, prices for many of the competing fibres, including cotton, polyester staple, acrylic

DID YOU KNOW?
Wool prices spiked at the end of the 2014/15 season, due to demand for double-faced woollen coat fabric
and cashmere, fell in 2014/15. As a result, wool’s price competitiveness declined over the season. The decline in prices for competing fibres was, in part, due to the high production levels of some of these fibres (such as polyester staple fibres and acrylic fibres) or, in the case of cotton, the significant stocks held around the world. Cotton stocks at the end of the 2014/15 were estimated to be 89% of annual mill consumption. This has held back prices for cotton as well as prices for substitutes such as polyester staple.

The results from the 2015 IWTO Wool Textile Business Survey, which was conducted in April 2015, show a general improvement in business conditions and production activity in 2015 compared with the tougher conditions in 2014. Chart A shows the trends in production activity levels in the global wool textile industry.

As can be seen, the early stage processing and spinning sectors reported poor production activity levels in April 2014. For the spinning sector this had improved by the end of 2014. Activity levels were expected to improve in the early stage processing sector by the end of 2015. This improvement would have helped boost raw wool demand in 2015.

The knitting, weaving and interior textile sectors all reported good conditions throughout 2014 and into 2015. This was in spite of the garment-making sector seeing variable conditions.

One issue for the early stage processing sector was the excess stocks that Survey respondents reported being held in mid-2014 (see Chart B). Stocks were also reported to be too high in the spinning and weaving sectors. Mills responded by cutting production activity levels and raw

---

**Chart A**

Wool Textile Business - Production Activity

Rating between 1 and 5

[Graph showing trends in production activity from 2009 to 2015 for early stage processing, spinning, knitting, weaving, garment making, and interior textiles, with ratings for Very Good, Good, Normal, Poor, and Very Poor over the years 2009 to 2015.]

Source: IWTO Wool Textile Business Survey

Weighted results for China, Italy, India, Germany, Brazil, Turkey, Uruguay, Mongolia, Argentina, South Africa, New Zealand and Norway.
wool purchases. This was particularly evident in China, which reduced its raw wool buying in 2014. However, stocks were back under control by the end of 2014, which contributed to the increased raw wool purchases in the first half of 2015.

The improvement in business conditions for mills arose because of an improvement in 2014 in the global trade in finished wool products and, to a lesser extent, in trade of intermediate wool products.


Trade in finished wool products recorded a strong recovery in 2014 following a difficult 2012 and 2013. Wool clothing trade (knits and wovens) increased by over 6% in 2014 while trade in floorcoverings increased by over 7% in 2014. Trade in both product classes fell in 2012 and in 2013. Global trade in wool blankets slid by 2% in 2014. Chart D shows the trends in trade for the three product classes since 2001.

Within the wool clothing class, four of the five largest products recorded increases in 2014, with trade in women’s overcoats, men’s suits, men’s jackets and men’s overcoats all increasing.

---

**Chart B**

**Wool Textile Business - Stocks**

Rating between 1 and 5

Source: IWTO Wool Textile Business Survey; for 2014 and 2015 weighted results for China, Italy, India, Germany, Turkey, Uruguay, Mongolia, Argentina, South Africa, New Zealand, United Kingdom and Norway
in 2014 by as much as 11% over the 2013 levels. There were increases in all three product types of wool floorcoverings, with the strongest increase seen for woven wool carpets and rugs. Tufted and knotted carpets also recorded an increase in trade in 2014. While demand generally improved in 2014, global wool production slipped slightly in 2014 (the 2013/14 season for southern hemisphere wool growing countries). It is expected to have increased in 2015 (the 2014/15 season) mainly due to an increase in production in Australia. In addition to the increase in production, supplies of wool from Australia were bolstered by the release of wool from stocks held on-farm and in broker warehouses as a result of the price spike in May-June.

The reviews and analysis at the start of each chapter provide more and specific details about the results in 2014 (or 2014/15 where relevant) and the longer term trends for each statistical topic.

**Chart C**

**World Trade of Wool Yarn and Fabric**

![Chart C](image)
Chart D
World Trade of Finished Wool Products

‘000 tonnes

Source: Country statistics, Trademap.org, Poimena Analysis
Updated 13th October 2015
Based on total imports
Outlook for 2015/16 season

There are a number of factors which will fundamentally influence the global wool industry in 2015/16. How these factors interact will be critical to the prospects for the industry and how wool prices will respond for the remainder of 2015 and into the first half of 2016. Prospects are brighter in the longer term.

At first blush, the economic fundamentals are relatively optimistic for improved wool demand and, therefore, wool prices. The latest forecasts from the International Monetary Fund point to a continued steady improvement in economic growth in all of the major advanced wool consuming countries and regions (see Chart E).

Economic growth is predicted to be much better in both 2015 and 2016 in the Euro zone, the US and even Japan. At the same time, economic growth in the UK is expected to moderate slightly from the recent strong growth rates. As a result of overall improvement, economic growth in 2016 for each advanced economy is expected to be at or near the average rates seen in the nine years prior to the Global Financial Crisis (GFC).

As noted previously, this has boosted consumer confidence in the US and the EU which are near to the highest levels since before the GFC. This is certainly helping boost retail sales of clothing in these regions as of September 2015. If the increase in consumer confidence can continue into the Autumn/Winter 2015, it will set the foundation for good sales of wool clothing in these countries. In turn, this could bring better orders from retailers for Autumn/Winter 2016 and encourage an increase in global trade in wool products in 2015 and in 2016.

In addition, reports from the major fashion and trade fairs in the second half of 2015 point to a strong presence of wool at retail in 2015 and in 2016. This is encouraging.

However, there are concerns about the slowdown in economic growth in China and the adjustment that the Chinese economy is undergoing. This has certainly resulted in a strong fall in global commodity prices, notably energy and metals commodities, over the past six months. It is also causing worries about the prospects over the next six to 12 months for the Chinese manufacturing sector, including the textile industry. There is also concern about the potential impact on the rest of the world economy.

Furthermore, China’s raw wool purchases increased significantly in first six months of 2015 and yet its exports of wool products (notably woven wool clothing products) have been subdued. Stocks in China’s wool textile industry could be building as a result.

Another influencing factor will be how the US$ performs against the major grower country currencies. The appreciation of the US$ against the A$, NZ$ and Rand has meant that wool prices paid to growers in these countries have been maintained at good levels, while prices in US$ terms have slid. This is a negative for those growers who are paid in US$, such as Uruguay, Argentina and the US itself.

These conflicting factors are creating uncertainty about the likely trends in coming months. It seems likely that raw wool demand may ease over the remainder of 2015 and into 2016, in spite of the positive signs in the advanced economies.

At the same time, world wool production is likely to fall in 2015/16, mainly due to a drop in production in both Australia and New Zealand. As well, wool supplies from Australia will be lower in 2015/16 because of the sell-off of wool stocks in May-June 2015. The smaller global supply will help support prices.
Even so, wool prices could move lower in coming months, before improving at some stage in the first half of 2016.

In the long term, prospects for wool are positive. There are signs of an increased interest in wool among key sectors of the retail market, in spite of the competition from other fibres, helped by promotions as part of the Campaign for Wool. Global demand for fibre will be pushed higher by rising incomes and higher populations (see Chart F). As noted earlier, this should include increased consumption by Chinese consumers as China’s economy becomes increasingly focused on domestic consumption.

At the same time, world wool production is unlikely to increase much over the next few years, given the competition for agricultural land for food production, including sheep for meat.

Production of other fibres, notably man-made fibres, will continue to increase. The challenge for the wool industry will be to compete on the basis of value, rather than volume.

This will involve targeting the key apparel growth markets, such as active leisurewear and casual knitwear, along with areas such as upholstery in interior textiles, as well as maintaining wool’s presence in the core products of tufted and woven carpets and rugs, men’s businesswear and women’s overcoats.

Chris Wilcox
Chairman, Market Intelligence Committee
International Wool Textile Organisation
Poimena Analysis, December 2015
Chart E
Economic Growth in Major Wool Consuming Countries

% change yr-on-yr

Source: International Monetary Fund, Consensus Forecasts

Chart F
Growth in World Economy, Population and Fibre Consumption

Source: International Monetary Fund, CIRFS, WTO, USDA