

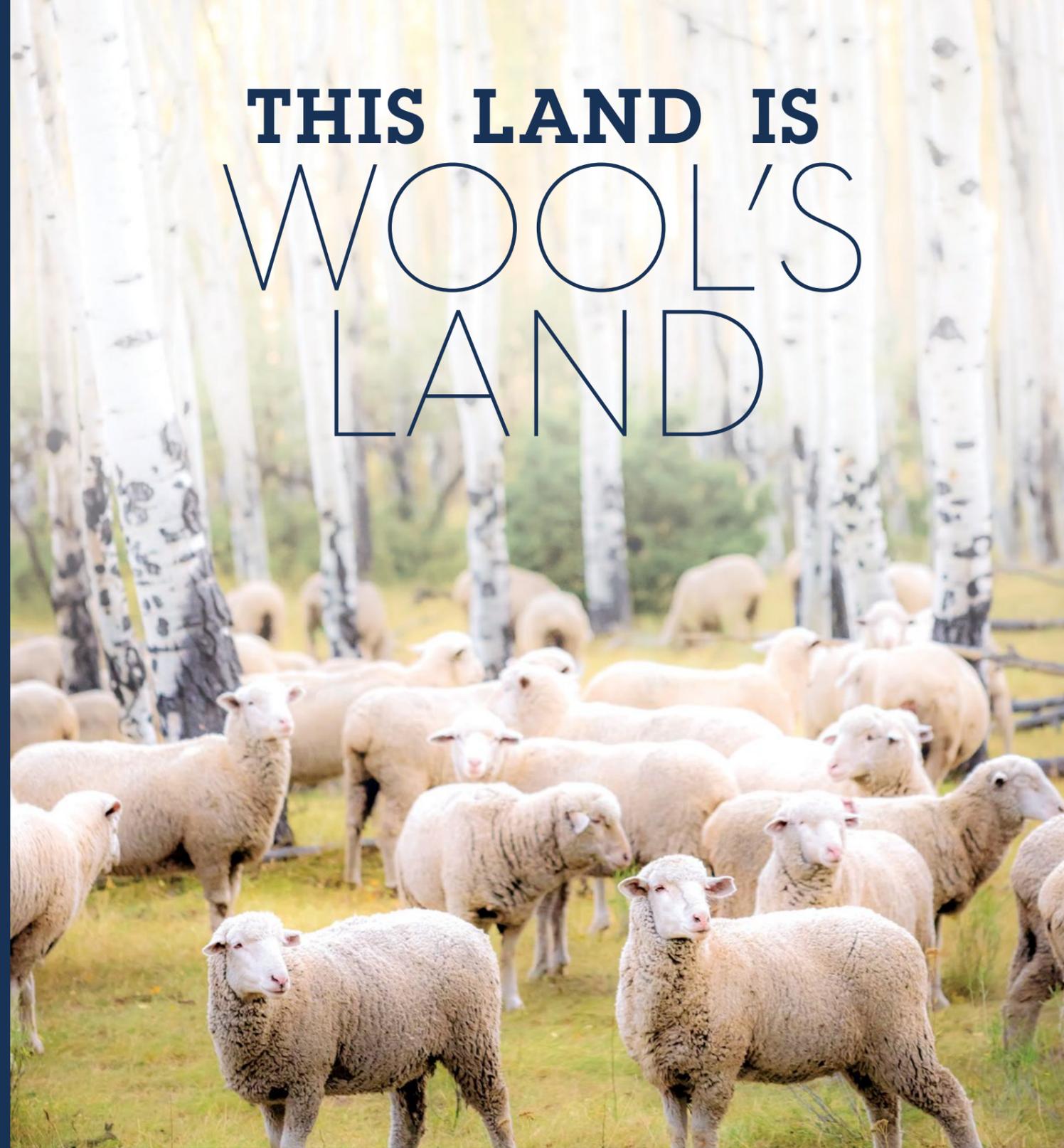
IWTO

Market Information

Edition 16



THIS LAND IS WOOL'S LAND



AMERICAN WOOL

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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Review of 2020 & Outlook for 2021

1. Review of 2020

Overview

The global Covid-19 pandemic presented the world wool textile industry with the toughest challenge it has faced at least since 1990, and probably in many decades before that. Rarely has there been a time when global consumer confidence and retail demand evaporated, across all major wool consuming countries, as it did in the April-June quarter of 2020 as countries facing the rapidly spreading disease suffered high numbers of infections and deaths and went into lockdown. Global economic and social activity levels fell by 15% to 35% in one quarter (see Chart A), and economic growth plummeted. This enormous dislocation had an inevitable cascading effect through the wool textile industry, resulting in a sharp slow down in demand throughout the industry back to raw wool demand.

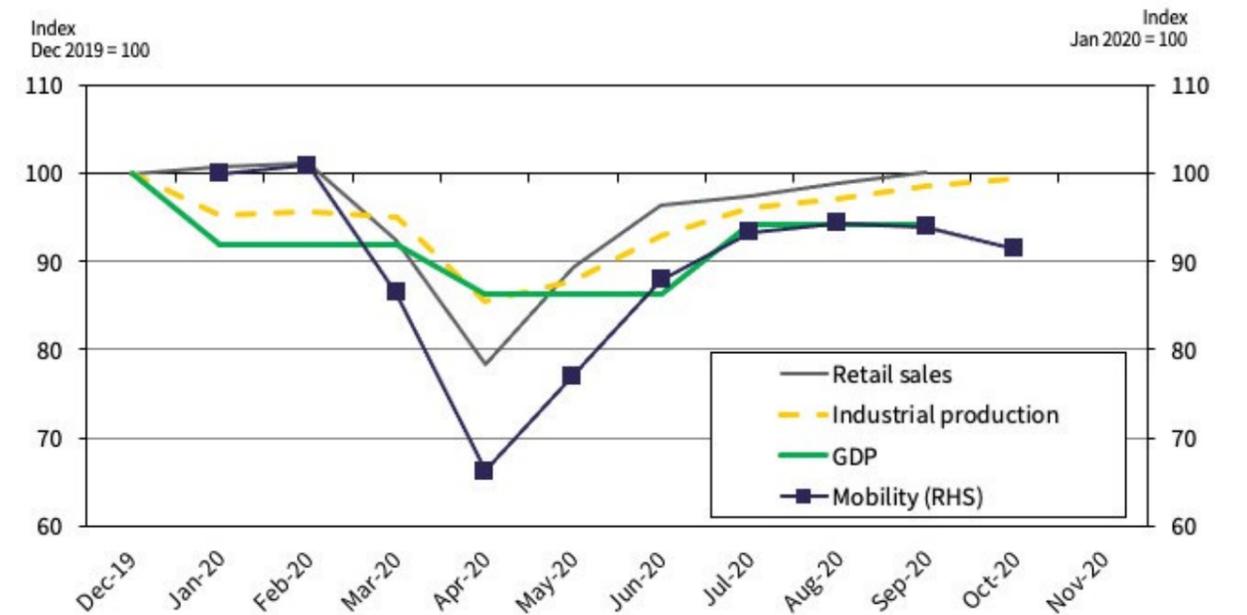
This happened soon after the shock of the US-China trade tensions, which caused imports by the US of wool clothing from China to fall sharply, and the devastating bushfires in Australia, in addition to the prolonged drought in many parts of Australia. This combination presented all in the wool textile industry, from garment makers to weavers and knitters to spinners to early-stage processors to buyers and brokers and to growers, with enormous challenges and worries.

This impact from the Covid-19 pandemic, while foreshadowed in last year's edition of the IWTO Market Information report, was far greater than imagined, and prices for all fibres fell sharply, with wool being hit proportionately harder than many other fibres. Prices for Merino wool fell sharply, with US\$ prices falling to lows not seen in a decade. They have since recovered but at the time of writing remain below the levels of January 2020. Medium micron wool prices continued to slide to very low levels, while broad (strong) wool prices, which had been falling and low for 3-4 years, fell again to a long term low in mid-2020 and have seen only marginal improvements since then.

Global trade in semi-processed and finished wool products were very negative in 2019 (the latest available annual data). Trade fell almost across the board, from raw wool through to wool yarn and wool fabric to trade in finished wool apparel products and in wool interior textiles. The only category that recorded an increase was women's wool trousers, while trade in men's overcoats was steady.

Business conditions in the wool textile industry worsened sharply in the first months of 2020 as the impact of

Chart A: Trends in Global Activity Levels



Source: World Bank, Google COVID-19 Community Mobility Report (database), Haver Analytics.



Covid-19 hit home and stocks through the wool textile supply chain built up suddenly. Indications from the available trade data for some countries in 2020 suggest that trade in finished wool products and in semi-processed wool products fell significantly in 2020. Raw wool demand fell in 2020 as the negative impact of the Covid-19 pandemic and lockdowns caused a severe drop-off in orders and demand through the wool textile industry.

World wool production fell in 2020 to the lowest for fifty years. Production of wool used in apparel saw the largest decline, down by 4% after the 6% fall in 2019, while production of broader wool used in interior textiles was steady.

There have been some improvements in economic and social conditions since the low point in the first half of 2020 (as Chart A shows) even though the second and third waves of Covid-19 in the past few months are just as devastating from a health perspective, if not more

devastating, in some of the major wool consuming countries such as the UK and the US. As well, the drought in eastern Australia finally began to break around August-September 2020, which is likely to help stabilise global wool production in 2021 and beyond, albeit at the lower levels.

Wool and competing fibre prices

Global wool prices felt the full brunt of the Covid-19 pandemic and the associated lockdowns, falling sharply between January and May 2020, regardless of the micron of the wool. This was particularly dispiriting as there had been signs in early January that wool prices were starting to improve on the back of tentative improvements in raw wool demand. These positive signs were strongest for finer Merino wool but were discernible for all micron types. The pandemic put paid to that more positive sentiment and prices fell to the lowest in a decade or longer.

1 The EMI is on AWEX's 2017/18 basis.



- World fibre production increased by 3.3% in 2020 to a new record level.
- World man-made fibre production increased by 3.5% in 2020 to a new record level.
- Overall natural fibre production rose by 2.6%, headed by a 3% rise in cotton production.
- Synthetic filament fibre production and cellulosic fibre production lifted by 3.9% and 4.9% each.
- Synthetic staple fibre production rose by 2.2%.
- Natural fibres fell to 26.4% share of world fibre production in 2020 from 26.6% in 2019. Wool's share was 0.95%. Man-made fibres accounted for 73.5%.
- World fibre consumption decreased by 1% in 2019.
- This consisted of a 3.5% increase in consumption of synthetics offset by a significant decrease in cotton consumption by 15%. Consumption of wool fell by 1%.
- Production of other animal fibres declined by 5% in 2020, led by a large 24% drop in angora production and 6% and 7% drops in cashmere and mohair.
- The angora production drop of 24% comes on top of 18% and 29% falls in 2019 and 2018 respectively

- World production of superfine wool accounted for 72% of world production of luxury animal fibres.

In 2020, world fibre production rose in 2020. While production of oil-based synthetic filaments and cellulosics continued to lift to records, the production of cotton and silk also rose with production of other natural fibres falling marginally.

Total **world production of fibres** increased, by 3.3% in 2020 to 109,098 mkg. This is the fourth successive increase since the decline of 2% in 2016; with the rate of increase higher than the 1.7% lift in 2019. Chart 2.1 shows the production levels for the different fibre types between 2015 and 2020³.

As can be seen in Chart 2.1 and Table 2.1, the increase in synthetic fibres has been steady since 2008, contributing about a 3% growth to total fibre production annually which was maintained in 2020 with a rise of 3.6%. Natural fibres rose 2.6% in 2020 to 28,896 mkg on the back of a 3% lift in the production of cotton, reclaiming most of the reduction in the previous year, Other natural fibres recorded marginal decreases, the exception of silk which rose 1% to 179Mkg.

Overall, production of **natural fibres** (cotton, wool, silk, flax and other animal fibres) rose 2.6% to 28,896 mkg. Most of this rise was due to the rise in cotton production; silk also lifted slightly while flax and wool fell by 1.6%

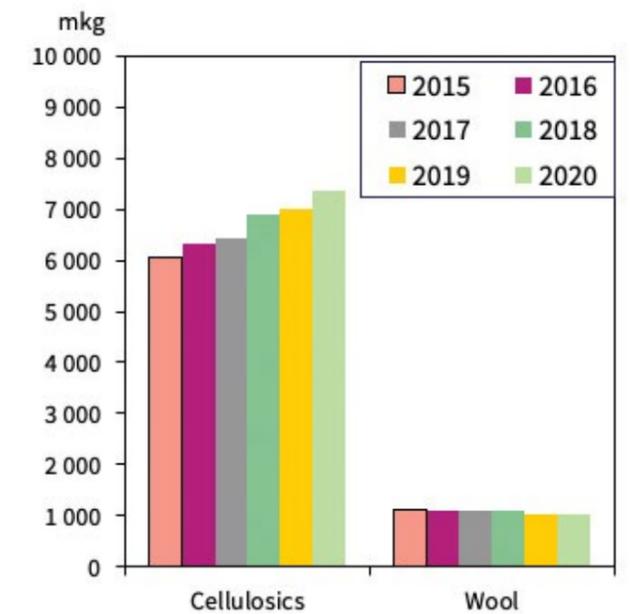
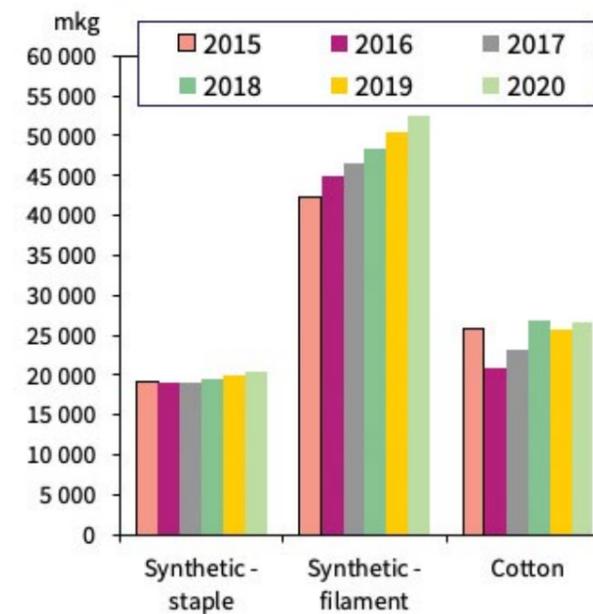
and 1.5% to 1068 mkg and 1,031 mkg respectively. Production of other animal fibres also fell, down by 5% to 46 mkg.

There was an overall increase in **man-made fibres**, with **synthetic filament fibre** increasing 3.9% to 52,481 mkg and **cellulosics** increasing 4.9% to 7,364 mkg. Production of **synthetic staple fibre** rose 2.2% to 20,356 mkg. In terms of the total share of production, natural fibres fell marginally from 26.7% in 2019 to 26.5% share of world fibre production in 2020, remaining slightly above the 2017 level of 26.1%. Man-made fibres accounted

for 73.5% of world fibre production. Wool's share fell to 0.95% in 2020.

Wool is not used in all of the end-use markets that man-made fibres have found their way into, including industrial and agricultural uses. It simply cannot compete in man-made fibres in many other end-uses (such as industrial, agricultural and most medical uses) due to functional requirements and price point. A more relevant comparison is to look at the production of fibres with which wool competes directly, notably cellulosics, cotton and synthetic staple fibres. On this comparison, wool

Chart 2.1: World Production by Fibre Type



Source: CIRFS, USDA, Poimena Analysis
Updated: 31 January 2021



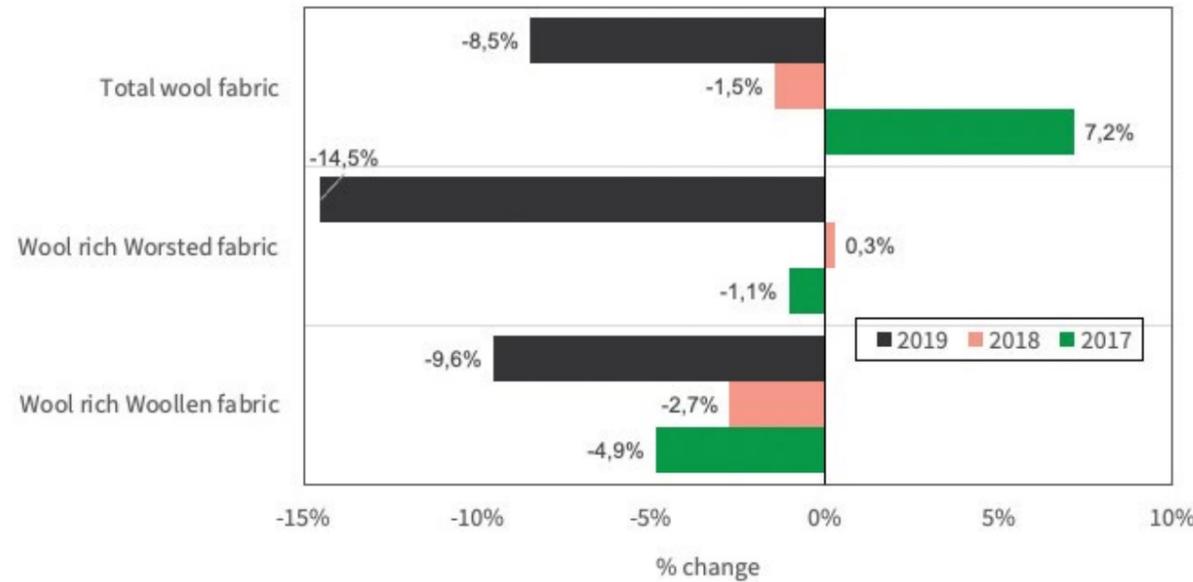
has seen a slight fall in market share, from 2.2% in 2019 to 1.9% in 2020 due to the increase in production of all three competitors. The market share for wool is no surprise given the constraints on wool production around the world, with less available land due to competition from crops. High sheepmeat prices are also contributing to this constraint.

Table 2.1 provides the data on world production of fibres by fibre type, and the shares for each fibre in 2020 are shown in Chart 2.1

Turning to **consumption**; world fibre consumption decreased by 1% in 2020. Although synthetic consumption increased significantly, by about 3.6%, cotton consumption suffered a significant decline of 15% while wool decreased 1%.

³ For natural fibres, production is by season, not by calendar year. For example, 2020 is the 2019/20 season.

Chart 6.3: World Trade in Wool Fabric* (% change)



Source: Foreign Trade Statistics, International Trade Centre, Poimena Analysis & Delta Consultants
 * Based on total world imports
 Updated January 2021

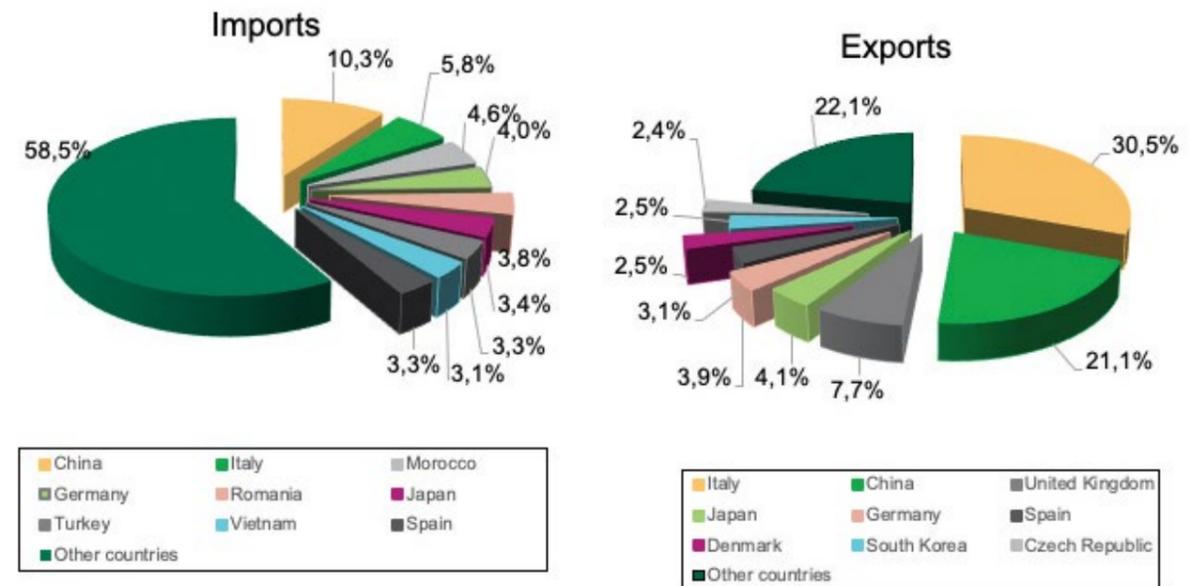


Exports from China, the second largest exporting country of wool fabric, slid by 13% in 2019 following a slight rise in 2018 of 6.2%, while exports from Italy (the largest exporter of wool fabric) fell by 11% on top of a 2018 fall of 1.7% and a decline of 3.2% in 2017. The United Kingdom (third largest exporter) continued its steady increase by adding 3.6% to exports on top of 12% growth in 2018 and a 10% increase in 2017. Following increases of 40% in 2017 and 27% in 2018, Romania rise was curbed by a fall of 24% in 2019. Denmark and the United States of America led other countries with modest rises, with gains of 9% and 14 respectively with Spain and South Korea making more modest increases.

Of the major importing countries, Morocco was the highlight with an increase in imports by 22% to now make it the second largest importer of wool fabric, notably of woollen fabric. This continues the steady string of rises in imports by Morocco since 2014. Imports by China Italy Germany and Romania had significant falls of 19%, 17%, 16% and 21% respectively. Japan, Indonesia and Vietnam had small rises of 1%, 6% and 6% and Spain lifted by 10%.

Chart 6.4 shows the major importing and exporting countries of wool fabric in 2019 and the relative shares for each.

Chart 6.4: World Trade of Wool Fabric in 2019 (% share)



Source: Country statistics, Trademap.org, Poimena Analysis
 Updated January 2021



World imports of **pure wool and wool-rich worsted woven fabric** fell in 2019. A number of the top 10 importing countries experienced falls in imports of between 10% and 20%, although Morocco continued to increase imports strongly with gains of 30% which following on strong gains of 88% and 37% in 2017 and 2018. Denmark also had a large rise of over 170% in 2019, however this was on the back of a 55% drop in 2018.

The top two exporters in 2019, Italy and China, saw lower exports by 15% and 17% respectively, while the United Kingdom increased its exports by 31% to lift from fifth place in 2018 to third place in 2019, displacing Germany and the Czech Republic whose exports fell 16% and 19%. Significant rises were recorded for Ireland, Belgium and Chile. The Netherlands' strong positive trend in exports since 2015 came to an end with a dramatic fall off of 61% in exports.

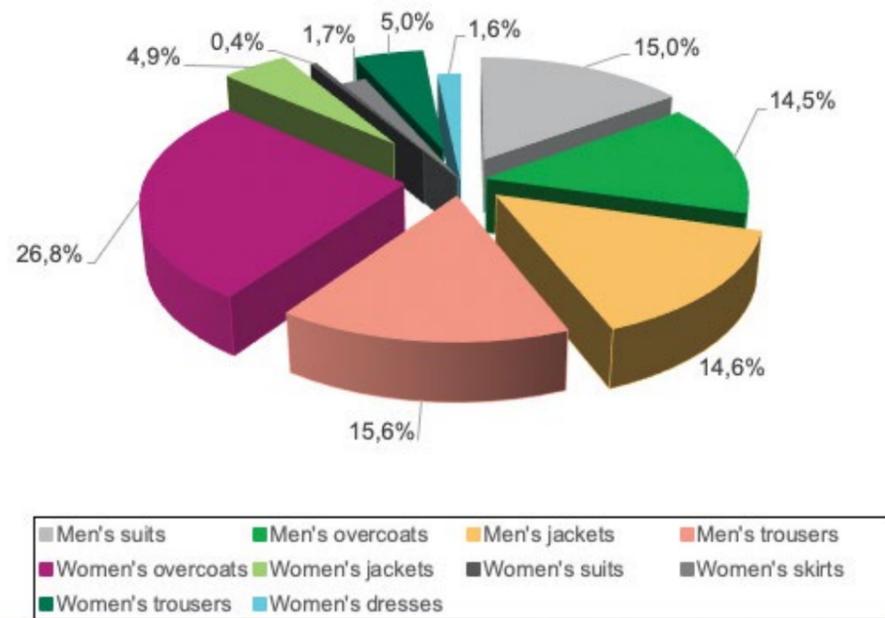
Global trade in **wool-rich woollen fabric** showed an overall reduction of 10% in 2019. Despite a fall in imports by the two biggest importers, China (down 21%) and the United Kingdom (down 8%), there were strong increases in imports by the next four largest importers: USA, Vietnam, France and Denmark rose by 8%, 34%, 9% and 28% respectively. Most others importing countries fell with the exceptions of Germany and Italy.

On the export side, export volumes fell 20% and the top four exporters, Italy the United Kingdom China and Japan all recorded lower exports. Of the top 10 exporting countries, only Denmark (+35%), the USA (+40%) and France (+59%) rose.

Tables 6.7 to 6.9 provide details of the global trade in wool fabric by country and by fabric type since 2001.

Chart 7.2: World Trade in Woven Wool Clothing in 2019

(% share)



Source: Foreign Trade Statistics, International Trade Centre, Poimena Analysis & Delta Consultants Updated January 2021

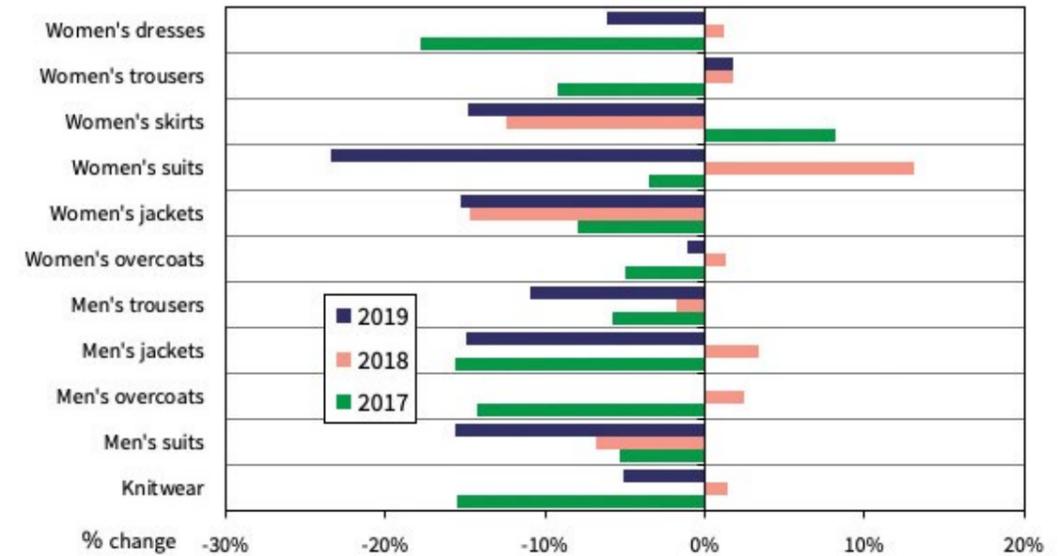
There were significant falls in the volume of woven menswear. The volume of men's suits, jackets and trousers fell by 15.7%, 14.9% and 10.9% respectively. Men's overcoats however, remained stable at 2018 levels. Although overall trade in women's clothing was down with suits (-23.4%), jackets (-15.2%), and skirts (-14.8%) hardest hit, overcoats saw only a marginal fall of 1% while women's trousers saw a small increase of 1.8%. Chart 7.3 shows the details.

Chart 7.4 shows the trends in the global trade of wool clothing by the major product categories



Chart 7.3: World Trade in Wool Clothing by Product (% change)

(% change)

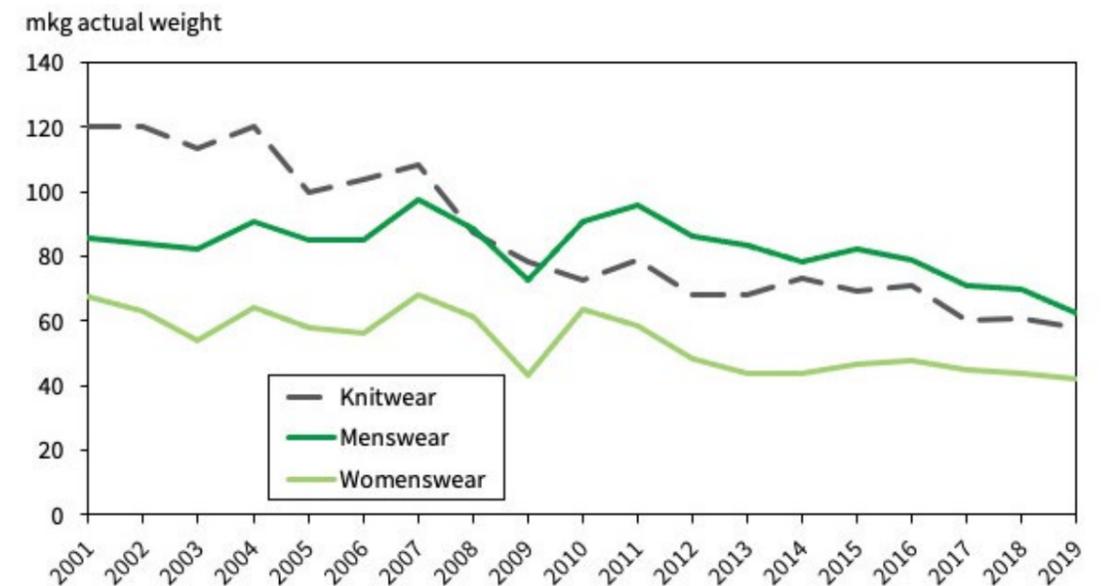


Source: Foreign Trade Statistics, International Trade Centre, Poimena Analysis & Delta Consultants Updated January 2021

(knitwear, menswear and womenswear) since 2001. Chart 7.5 shows the trends in trade of the various woven wool products.

As can be seen from Chart 7.4, after a steady decline between 2010 and 2013, the trade in women's wool woven garments lifted, remained steady, then declined slightly in the past few years. At the same time, there has been a decline in the trade in wool knitwear, although the magnitude of the decline has moderated since 2008. Trade in woven wool menswear has eased consistently in the past eight years with a fall of 11% in 2019.

Chart 7.4: World Trade of Wool Clothing



Source: Country statistics, Trademap.org, Poimena Analysis Updated January 2021