Wool

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Eastern Market Indicator to rise
In 2018–19 the Eastern Market Indicator (EMI) is forecast to increase year-on-year. Declines in Australian shorn wool production and sustained global demand for fine and superfine wool are expected to drive this increase. However, wool prices are likely to face downward pressure if textile industries substitute to lower-cost fibres.

Australian shorn wool production to fall
Poor seasonal conditions in major wool-producing regions, particularly New South Wales, are expected to reduce Australian shorn wool production. This downward revision reflects an expected decline in the number of sheep shorn and the average cut per head.

The national flock is expected to decline year-on-year as producers continue to turn off sheep and lambs in response to dry seasonal conditions. The Merino flock is expected to remain relatively stable. High wool and sheep meat prices will provide producers with an incentive to maintain core breeding flocks. The proportion of superfine wool in the clip is anticipated to rise at the expense of fine grades as a result of continued genetic improvements and drier seasonal conditions.

Dry conditions are forecast for spring 2018. Continued dry conditions beyond spring could cause further declines in the national flock and average fleece weights. This could place further upward pressure on wool prices and constrain future growth of Australian shorn wool production.

World wool demand
Assumed income growth in major textile-consuming markets—such as China, the United States and the European Union—continues to underpin global demand for fine and superfine wool.

The value of total Australian wool exports is forecast to fall, reflecting a decline in the volume of wool exported offsetting higher wool prices.
Opportunities and challenges

Uncertainty in global textile demand

Ongoing China–US trade tensions remain a risk factor to global economic activity and the outlook for global textile markets. A significant proportion of Australian wool processed in China is exported to the US as textiles and apparel. Currently no additional tariffs have been imposed by the US on woollen imports from China. However, there is a risk that they could be included in future escalations of the dispute. The dispute could also lead to lower consumer confidence and demand both in the US and globally.

The 2018–19 Australian EMI price forecast is underpinned by an assumed fall in the Australian dollar to US74 cents. If the dollar does not depreciate as assumed, Australian wool could become more expensive in US dollar terms and reduce demand below expected levels.

Wool becoming less price competitive

Wool has become less price competitive than alternative fibres such as cotton and polyester staple fibre. The wool content of textiles can be locked in for the duration of production contracts. This limits the ability of manufacturers to respond to price rises. However, new season contracts provide textile manufacturers with an opportunity to revise the wool content of products. High wool prices are an incentive for textile manufacturers to substitute lower-cost fibres. The magnitude of this substitution and its effect on prices is difficult to predict, but it poses a significant downside risk to the current forecast.

The price threshold for textile manufacturers to switch to lower-cost fibres is likely to have been rising gradually over the last decade. Fine wool is a niche product in the global fibre market. It is now more likely to be used in specialised applications that have fewer substitutes.

Despite rising prices, consumer demand for wool has continued to grow, reflecting rising incomes. However, high prices tend to lead to the development of new substitutes and supply sources. This poses a significant longer term risk to continuing high wool prices.

Price ratios of 21 micron wool to alternative fibres, July 2008 to July 2018

![Price ratios graph]

ABARES Agricultural Commodities: September 2018
55
### Outlook for wool

<table>
<thead>
<tr>
<th>Category</th>
<th>unit</th>
<th>2016–17</th>
<th>2017–18 s</th>
<th>2018–19 f</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheep numbers a</td>
<td>million</td>
<td>72.1</td>
<td>71.4</td>
<td>69.1</td>
<td>–3</td>
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<tr>
<td>Sheep shorn</td>
<td>million</td>
<td>74.3</td>
<td>76.8</td>
<td>72.7</td>
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<tr>
<td><strong>Wool production (greasy)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shorn</td>
<td>kt</td>
<td>340</td>
<td>341</td>
<td>320</td>
<td>–6</td>
</tr>
<tr>
<td>Other b</td>
<td>kt</td>
<td>73.4</td>
<td>80.8</td>
<td>84.0</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>kt</td>
<td>414</td>
<td>422</td>
<td>404</td>
<td>–4</td>
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<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume</td>
<td>kt (gr. eq.)</td>
<td>429</td>
<td>451</td>
<td>404</td>
<td>–10</td>
</tr>
<tr>
<td>to China</td>
<td>kt (gr. eq.)</td>
<td>336</td>
<td>354</td>
<td>317</td>
<td>–10</td>
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<tr>
<td>Value c</td>
<td>$m</td>
<td>3,617</td>
<td>4,382</td>
<td>4,275</td>
<td>–2</td>
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<tr>
<td><strong>Price</strong></td>
<td>c/kg</td>
<td>1,415</td>
<td>1,723</td>
<td>1,990</td>
<td>15</td>
</tr>
</tbody>
</table>

*a* At 30 June.  
*b* Includes wool on sheepskins, fellmongered and slipe wool.  
*c* Balance of payments basis.  
*d* Clean equivalent.  
*f* ABARES forecast.  
*s* ABARES estimate.  

**Sources:** ABARES; Australian Bureau of Statistics; Australian Wool Exchange; Meat & Livestock Australia