

Key Factors Impacting Wool Consumption & Valuation

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American wool production was approximately 22.2 million lbs. greasy weight – 11.54 million lbs. clean weight – in 2022. Just for general information, the estimated micron profile breakdown for the American wool clip as of December 2020 was: 23.5 micron and finer – 55 percent; 23.6 to 28.9 micron – 29 percent; 29 micron and coarser – 16 percent.

Since the exodus to offshore markets sourcing a significant portion of the U.S. textile industry – including the wool textile industry – in the 1980s and 90s, the sale or disposal of American wool since 2001 has basically been split between:

1. U.S. military wool consumption.
2. U.S. domestic industry wool consumption.
3. Wool exports.
4. Wool going into domestic storage, either in wool warehouses or on-farm.

The combination of one and two above has generally accounted for around 25 to 30 percent of the domestic wool clip annually. During that same period, exports have typically averaged between 55 and 60 percent of the annual clip. Estimated carryover stock levels for the period 2001 to 2014 varied between 2 and 4 million lbs. greasy weight.

During 2015 to 2019, export sales were very active and carryover stocks in the U.S. virtually disappeared. This all peaked in 2018 when the equivalent of 84.4 percent of the annual clip was exported – more than 70 percent of which was in greasy wool form – and China took 59 percent of all U.S. exports, which amounted to virtually half of America's annual wool production. Other export destinations included Mexico, Western Europe, Eastern Europe, India, Canada and Egypt.

Then came a series of events that changed the wool sales situation – particularly exports – significantly. Firstly, came the deterioration of trade relations between the United States and China that led to an exchange of penalty tariffs on a range of imports by both countries – including American wool to China. Secondly, came COVID and the Chinese “Zero Covid” policy which basically shut down whole sections of China and their productive capacity – including textile production areas. Needless to say, stocks of unsold wool in warehouses and on farms increased significantly. Carryover stocks from 2020 to 2021 were estimated at 10 to 12 million lbs. greasy weight. While there certainly has been a significant improvement in export levels since the lows of 2019 and 2020, the American wool industry still has a way to go to return to the high levels

of 2017 and 2018. As export levels rebuild, the mix of our export destinations will change. While China will likely remain our largest client, they will not be as dominant as they have been in the past.

I have just returned from a trip to Australia and to India. Australia remains cautiously optimistic about a rebound in exports. They are also concerned about the historical dominance of China in their exports and are looking to countries such as India to assist in the rebalancing of their export mix. We must remember that our client base must be countries that have early-stage processing capacity (scouring, combing, carbonizing), not just spinning, weaving, knitting, etc. This limits our range of export market choices significantly and certainly India needs to be high on our priority list.

Interestingly, while I was there, it was clear that India's early-stage processing capacity is already just about fully utilized, and I was asked by at least two clients whether I knew anyone in the United States who would be interested in investing in a new wool combing facility in India. India has already benefited from the desire of many nations and regions (United States, Australia, Europe, South America among them) to reduce their reliance on China as their major import/export client.

To quote the AWEX Market Report from March 9, 2023, “Currency continues to play a large role in determining market movements.” We must remember that our clients are largely pricing their products in U.S. dollars, so it is important to them to base their raw material costs accordingly. The market movement in the U.S. dollar is a better indication of real market movements and demand than is the movement in Australian dollars.

Looking at the Australian AWEX movements since the very heady high market levels of 2019, at 406 USc per lb. in early March, the market is still significantly below the 629 USc per lb. AWEX Eastern Market Indicator of April 2019 – down some 223 USc per lb. or 35 percent. However, we are at a much-improved market level compared to April 2020 when the AWEX EMI was at 362 USc per lb. The general consensus of the industry personnel I encountered on my recent trip was that of cautious optimism, especially for the better wool styles with less than 2 percent vegetable matter and good additional measurement results – strength particularly – that result in good early-stage processing performance. This was heavily reinforced by clients in India who basically were not interested at all in purchasing lower performing wools no matter what the discount.

Unfortunately, there is not much optimism for coarser wools used for carpets and rugs. There continues to be a low level of demand for these wools and little likelihood of any significant improvement in price levels for the short to medium term. 🐾