



The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

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From the desk of Chris Wilcox, Executive Director

- Fine Merino wool prices drive the market higher
- IMF predicts faster world economic growth
- Consumer confidence at highs and clothing retail sales encouraging
- Upcoming events



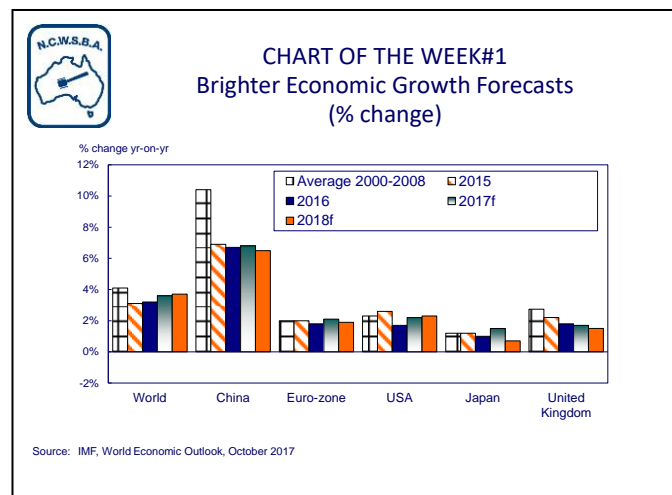
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Buyers competed intensely for Merino wool of 19.5 microns and finer this week in the **Australian wool market**, driving prices for these wools higher. Prices for broader Merino wool rose by less or, in the case of 22 micron wool in Fremantle, eased. Crossbred wool again struggled to attract much buyer interest and prices fell. The **Eastern Market Indicator (EMI)** rose by 16 cents to 1566 c/kg. The Northern Market Indicator rose by 27 cents to 1656 c/kg, the Southern Market Indicator lifted by 11 cents to 1510 c/kg and the Western Market Indicator was 13 cents higher at 1621 c/kg. There is still no sign of a consistent lift in auction offering volumes in the next few weeks, which may be causing some concern to international buyers keen on securing supplies. The A\$ eased a little this week against currencies of all the major buyers. As a result, the EMI rose by only 11 UScents to 1224 USc/kg, and fell against both the Euro and the Chinese Renminbi, albeit only slightly: down by 1 €cent to 1031 €cents/kg and down by 9 RMB to 8067 RMB/kg.

As I have said in the *Weekly Newsletters* in previous years, the **Autumn/Winter period in the Northern Hemisphere** is crucial for the sale of wool garments. I estimate that the period between October and January accounts for around 60% of the annual consumption of wool clothing in the major consuming countries in Europe, China, Japan, the US and South Korea. How well the sales during this period perform determines the level of orders placed by retailers for the subsequent Autumn/Winter period. So, it is appropriate to look at the current economic conditions, consumer confidence and retail sales picture to see what we might expect over the next four months.

The upward swing in **global economic growth** has gathered pace, according to the International Monetary Fund (IMF). The IMF on Tuesday released its latest forecasts for economic growth around the world. After weak growth of just 3.2% in 2016 (the weakest since the GFC), world economic growth is expected to rise to 3.6% in 2017 and 3.7% in 2018. These new forecasts are stronger than the IMF's previous forecasts released in April. The IMF predicts stronger economic growth in China, Japan, Germany, Italy and France. While this is good news, there are some less positive aspects of the IMF's forecast as it now expects economic growth in the US and the UK to be a little weaker than in its April forecasts.

The first **Chart of the Week** shows the latest forecasts from the IMF for the major wool consuming countries compared with recent years and the pre-GFC period. As can be seen, world economic growth has been rising steadily in recent years, but remains below the pre-GFC levels. In significant part this is due to the slower economic



growth being seen in China, which is due to the transformation of the Chinese economy away from being based on import-make-export to one more based on domestic consumption. Elsewhere, while economic growth is improving it remains below pre-GFC levels in all key countries.

Are **consumers feeling more confident** as a result of these better economic growth conditions? As the second **Chart of the Week** shows, the answer is mostly a resounding “yes”. Consumer confidence in the US is very close to the recent high, which in turn was the highest since 2001. Consumer confidence in the EU is at its pre-GFC levels after many years of bumbling along at lows. Consumer confidence in Asia is rising (mostly), although it has been bumpy for consumers in South Korea.

Given these high consumer confidence levels, we could hope that consumers are spending more on products, including on clothing. The latest data on **retail sales of clothing** in the key wool consuming countries is mixed but quite encouraging. The third **Chart of the Week** shows the growth in retail sales of clothing in the major wool consuming countries over the past six years and for 2017 to August, compared with the same period in 2016 (the green shaded cells show where retail sales growth in 2017 is ahead of the same period in 2016, while the red shaded cells show where growth is lower than a year earlier).

There are a few things to note from this table of growth rates:

- Clothing retail sales in the full 2016 year were generally lower than in 2015 and lower than in previous years for a number of countries.
- Clothing retail sales in China, Germany, France and the UK so far in 2017 are above the growth rates seen in 2016 as we head towards the Autumn/Winter season. The growth rate in the UK is particularly strong, but this is a rebound from the dismal decline seen in 2016.
- While the situation in Japan is better than in 2016, retail sales of clothing in department stores is still declining.
- Retail sales growth in the US, South Korea and Italy are all below the rate achieved in 2016 to August.

These results are an improvement on the rates seen to June that I reported in my presentation at the Nanjing Wool Market Conference and are a cause for some optimism for Autumn/Winter 2017. This data doesn't show sales by fibre type (e.g. for wool). I will report on US import data in next week's edition of the *Weekly Newsletter*, which could help guide us on the trends for wool clothing.

INDUSTRY EVENTS

The **AWTA Annual General Meeting** will be held in Melbourne on Friday, 20th October 2017.

The **AWI Annual General Meeting** will be held in Sydney on Friday, 17th November 2017.

IWTO Roundtable in Cape Town, South Africa, 6th to 9th December 2017.

Information in the Weekly Newsletter is intended to provide general information only and is not intended to constitute advice for a specific purpose.

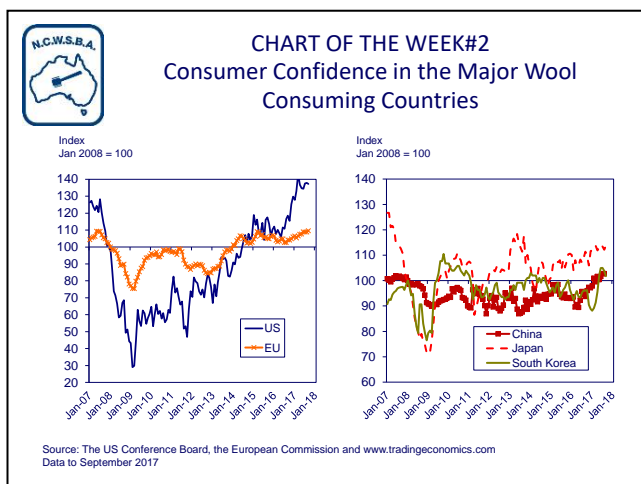


CHART OF THE WEEK#3
Clothing Retail Sales in the Major Wool Consuming Countries

% change y-o-y	2011	2012	2013	2014	2015	2016	Year to date*	
							2016	2017
China	+25.1%	+17.7%	+11.5%	+10.8%	+9.3%	+6.8%	+7.0%	+9.5%
USA	+3.5%	+0.5%	+1.5%	+2.1%	+5.9%	+2.0%	+2.0%	+1.8%
Japan	+3.2%	-0.4%	-0.7%	-0.5%	-2.3%	-2.3%	-5.2%	-3.8%
Germany	+0.9%	-0.3%	+0.1%	+1.3%	+2.8%	+1.6%	+2.0%	+2.8%
UK	+3.3%	+1.5%	+3.1%	+5.2%	+1.5%	-2.6%	-3.7%	+7.1%
Italy	-1.1%	-2.3%	-2.1%	-1.3%	+0.8%	+0.3%	+0.3%	+0.1%
France	+1.7%	+0.6%	+1.1%	+1.2%	+3.4%	+2.8%	+2.6%	+2.9%
South Korea	+8.6%	+3.2%	+0.8%	+1.6%	+3.5%	+3.9%	+5.4%	+1.9%

Source: Government statistical bureaus.
Notes: Value of retail sales. China is for retail sales of garments, hats, footwear and knitwear. Japan is for major department stores. Germany, Italy, France and South Korea is total retail sales.
* To August

WOOL SALES WEEK BEGINNING 16th OCT 2017 – week 16 (roster as at 12/10/2017)

<u>Sydney</u>	Wed, 18 th Oct; Thurs, 19 th Oct	12,815 bales
<u>Melbourne</u>	Wed, 18 th Oct; Thurs, 19 th Oct	24,684 bales
<u>Fremantle</u>	Wed, 18 th Oct; Thurs, 19 th Oct	9,013 bales