AWI MARKET INTELLIGENCE

January 2020

As the year 2020 begins and we thankfully farewell what was a difficult year for many woolgrowers, we examine the current state of the global economy and the largest economies within it, given these countries are also the largest purchasers of wool at retail.

History suggests the price of wool is closely correlated to the health of the global economy. As a non-essential purchase for most consumers this makes sense; the buying of a woollen garment requires the consumer to have a level of disposable income and when an economy is struggling, disposable income is often harder to find.

The economic slowdown across the world is certainly not confined to the buying of woollen garments. Retailers in key markets have had one of their worst trading years in 2019, with a number of major outlets closing stores.

Economists are fascinated with measuring the health of economies, growth in Gross Domestic Product (GDP), inflation and unemployment rate as measure of an overall economy. Another measure of economic health is the “Purchasing Managers’ Index: Manufacturing”.

According to Investopedia, the Purchasing Managers' Index (PMI) is a measure of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of an index that summarises whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting. The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts and investors.

A PMI of greater than 50 indicates growth, a PMI of exactly 50 indicates no change and a PMI of less than 50 indicates a contracting market.

The table below was presented at the 2019 AWI Annual General Meeting by CEO Stuart McCullough (can be seen at www.wool.com/agm) and shows a range of ecomonic indicators from some of the world’s largest economies.

The largest purchasers of Australian wool at retail in order are: China, Japan, USA, UK, Germany and Italy and their corresponding PMI in September 2019 was 51.4, 48.9, 51.1, 48.3, 41.7, 47.8.

In other words only China and the USA recorded positive purchasing intentions into the future as measured by the PMI.

Keeping in mind this data was collected in September, during significant uncertainty surrounding the US-China trade war and uncertainty surrounding Brexit, we would hope that both these indicators have now shifted more into the positive and we will keep this in mind for future communications.

All markets other than China, have experienced a decrease in the PMI. These significant economies over the last year have largely gone from a market of growth to markets of contraction which is a sound reflection of the demand of wool in 2019.

As seen in the table, the unemployment rate is all going down which can be seen in a mixture of ways. It's positive socially, but economically it's ideal for the unemployment rate to be about 5% and some of the markets are tracking away from that target (thebalance.com).

The GDP growth rates of the highlighted markets as a general consensus, are slowing. A major impact on the GDP of nations is private consumption or consumer spending. Germany and Italy in particular are experiencing dramatically reduced growth. This for Italy, as one of the major manufacturers of finer wools, could be seen as a potential factor for wool's steadying demand.

Inflation is important to note. It is defined as a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. Those with tangible assets, like property or stocked commodities, may like to see some inflation as that raises the value of their assets (investopedia.com). In the last year, all markets apart from China have experienced major decreases in inflation, which shows why the market is not as robust as it was in 2018.

Overall, our major consumption markets have been slowing down which is being reflected in the demand and consumption of wool.

Country	**GDP** Dec 18	**GDP Growth Rate** June			**Inflation Rate Sept 19** (Annual Change) Target = 2%	**Purchasing Managers Index, Manufacturing** Sept 50 = No change			**Unemployment Rate June 19** (Annual Change)
		2017	2018	2019		2017	2018	2019	
USA	$20.49 Trillion	2.2%	3.2%	**2.3%**	1.71% (-0.57)	53	55.6	**51.1**	3.7% (-0.3)
UK	$2.83 Trillion	1.9%	1.3%	**1.3%**	1.69% (-0.52)	56.7	53.6	**48.3**	3.8% (-0.2)
China	$13.61 Trillion	6.8%	6.7%	**6.2%**	2.76% (0.36)	51	50	**51.4**	3.61% (-0.22)
Germany	$3.99 Trillion	2.3%	2.1%	**0.4%**	2.17% (-0.11)	60.6	53.8	**41.7**	3.1% (-0.4)
France	$2.77 Trillion	2.4%	1.9%	1.4%	0.91% (-1.29)	56	52.5	50.1	8.5% (-0.6)
Italy	$2.07 Trillion	1.9%	0.9%	**0.1%**	0.29% (-1.29)	56.3	50	**47.8**	9.22% (-1.22)
Spain	$1.43 Trillion	3.2%	2.3%	2.0%	0.08% (-2.18)	52.4	51.4	47.7	14.02% (-1.26)
Japan	$4.97 Trillion	1.7%	1.5%	**1.1%**	0.2% (-0.99)	52.6	52.5	**48.9**	2.3% (-0.2)
Totals	$52.17 Trillion	2.8%	2.5%	1.85%	1.22% (-0.82)	55.1	52.4	48.4	6.03% (-0.55)

The volatility we have seen in the first week of trade for 2020 was erratic to say the least. For some cases, three-digit variations for certain micron categories in one day were followed by a similar movement in the opposite direction the following day.

As the weekly market report suggested: “in reality, such fluctuations do not help stability of trade at any level of the pipeline and in fact can be at times more towards the detrimental. Variations of around 100ac/kg in returned values were recorded this week and entirely dependent on the timing of the sale, not a reflection of true market forces but more so of human issues.”

Either way, 2020 has started from a low base in terms of global demand, and sadly with drought and fire still gripping many wool growing regions, wool production is not expected to increase any time soon. The latest wool production forecast for the current year is at just 272 million kilograms but this is likely to drop further when the committee meets in April.

On the upside, trade tensions between two of our top three wool-consuming countries are easing and a clearer Brexit path has now been laid out after the UK elections. The bottom line is that we all hope 2020 is a year for better seasons for woolgrowers, and in terms of demand for wool, AWI CEO Stuart McCullough recently stated on The Yarn podcast; “I still believe Merino wool is a $20 fibre. Why? Because Cashmere is a $100 fibre and Merino wool has many of the same characteristics.”

Increasingly consumers in key markets are wanting to feel good about what they purchase and how it affects the planet. Buying a renewable, natural and biodegradable fibre such as wool, is perfect for the conscious consumer. Our job is to help promote wool’s superior characteristics both as a functional fabric but as a fibre that is kind to the planet.

With January a busy month for trade shows in key markets, we will report on news from the engine room of the wool trade and purchasing intentions from fabric makers. Although demand is tight right now, so too is the outlook for greasy supply. This should still support current market levels or higher if retail demand improves slightly over the first half of 2020, given the fine balance between supply and demand.