

## Outlook for Wool - 1976

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### General Economic and Textile Outlook

Prospects point to an improved general economic climate although fears of renewed inflation have been rekindled because of recent price increases and a threat of higher energy prices by the year end. Government statistics indicate the U.S. economy reached the bottom of the recessional decline this past winter and spring. Real Gross National Product increased 1.6 percent during the March-June quarter of 1975 following five quarters of decline. In June consumers registered their first gain in real income since mid 1973 as wholesale prices held relatively steady while wages continued upward. This upward trend in consumer incomes is expected to continue as economic recovery strengthens. This increased income is a plus factor in the spending for textiles and other consumer goods in the coming months.

However, not all statistical series indicate, nor do all economists agree, that the U.S. economic situation is all rosey. The U.S. economy continues to suffer from inflation, high unemployment rates, decreased productivity, lowered stock market prices, and general pessimism, especially among consumers and some lines of retail goods. Housing starts continue to lag well below the two million per year rate reached in 1972 and 1973. Auto sales are expected to be greater in 1976 than 1975, but well below 1973. Savings rates increased sharply during 1974 and continue at the elevated rate during 1975, indicating continued pessimism among the consumers.

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The U.S. economy has reached the bottom of the current recession and, most economists agree on this. However, many consider some indicators necessary for optimism are lacking:

1. Buoyant spending on consumer durable goods, household appliances, cars, and housing units is needed.
2. Business must increase its investment expenditures for capital goods, new plants and equipment as well as inventory build-up. A strong pick-up in construction will indicate optimism both in the business community and among consumers.
3. Continued and increased strength in our export trade will also improve our general economic picture.
4. Increased governmental expenditures will also bolster the economy as money pumped into the system creates consumer demand.

None of the above factors present a completely positive picture, currently, in support of a rapidly rising economy.

The future course of prices is very uncertain at this time. This uncertainty reflects rising prices for food, some decontrol of domestic crude oil prices and higher prices for imported oil. Higher oil prices will contribute to higher prices for a number of commodities including man made fibers. The longer term outlook is for a slower inflation rate, even though price increases will remain relatively great by historical standards.

What does the above outlook for general economic recovery and future price trends project for textiles? Assuming a moderate upturn in economic activity and little change in the inflation rate during the balance of the year and into 1976, retail sales of textile products should improve. With textile inventories reduced to more reasonable levels fiber consumption has steadily recovered during recent months. All mills have returned to working at least five days per week with many working six days. Continued

expansion in textile activities, especially in light of increased costs of synthetic fibers, will benefit cotton and wool use. One dark spot in the textile picture, however, is if natural gas shortages develop this winter that could hinder textile operations.

#### U.S. Wool Situation - Domestic Prices

Farm prices of shorn wool in 1975 are running well below last season's 59.1 cents per pound average grease basis and substantially below the 82.7 cents average for the 1973 season. Most of the clip is sold and the average farm price for the 1975 season will fall far short of the 72 cent incentive payment price established by the National Wool Act. The payment rate on 1975 marketing of shorn wool will exceed last year's rate of 21.8 percent.

Wool prices declined throughout the 1974 season and into early 1975 as a result of the world wide decline in textile wool activity. However, as the new clip of better quality wools reached local markets in April 1975, prices began to firm and turn up (Figure 1).

The spread between the price of similar qualities of domestic and foreign wools remains wide but the spread for fine wools narrowed during the second quarter of 1975. In the first quarter of this year, the spread between domestic prices of territory fine wool and comparable foreign wools were 64.8 cents per pound below for domestic fine wools and 45 cents per pound below for domestic medium wools, clean basis. In the second quarter of 1975 the spread for fine wool was cut to 37 cents per pound while that for medium wool held at 45 cents per pound. In July the spreads narrowed to 20 cents for fine wools and 40 cents for medium wools. Increasing prices for domestic fine wool reflects tight supplies and strengthening foreign and domestic demand.

The Australian prices have declined relative to U.S. price by roughly five percent due to a weakening of the Australian dollar in world financial circles. The official devaluation, of the New Zealand dollar by 15 percent in early August was more than offset by the New Zealand Wool Commission raising the support price by 30 percent. The net effect is an increase in New Zealand wool prices. The big question remaining is whether Australia will devalue its dollar if an adverse trade balance occurs. Effective price spreads will figure prominently in determining the level of export demand for U.S. wools in the months ahead.

#### Wool Production

The 12.5 million stock sheep and lambs on U.S. farms and ranches on January 1, 1975 were nine percent fewer than a year earlier for a total decline of over 42 percent in the past decade. Primarily responsible for the declining sheep numbers are the continuing shifts to other farm enterprises because of declining demand for lamb and wool. Other factors contributing to reduced sheep numbers include the risks imposed by predators and an uncertain labor supply.

U.S. shorn wool production for 1975 is estimated at 119.2 million pounds, grease basis. This is down 10 percent from 1974's 132.9 million pounds and 18 percent below the 1973 clip. The drop in shorn wool is accounted for by the decline in sheep numbers as the average fleece weight increased from 8.24 pounds in 1974 to 8.31 pounds in 1975.

Total production of shown wool in the Territory States (11 Western states, Texas and South Dakota) decreased 10 percent in 1975 from the previous year. Largest reductions were in South Dakota, Colorado, and Wyoming. In the Native States shown wool production declined nine percent

with Ohio, Kansas and Missouri leading the decline.

The outlook for U.S. raw wool production in 1976 is for a continuation of declining sheep numbers and wool output. However, given increasing wool prices and good fall rains in the major sheep producing areas, output may increase in the future as producers evaluate alternative farm enterprises and possibly take steps to rebuild flocks. There appears to be a holding back of ewe lambs during the 1975 marketing year and the demand for replacement ewes has been strong during the fall.

#### Wool Usage and Trade

Total fiber use in domestic woolen and worsted mills fell 18 percent in 1974 (Figure 2). Through the first six months of 1975, consumption further declined by 15 percent from the same period of 1974. Mill use of raw apparel wool declined 32 percent in 1974, but has increased five percent in the January-June period of 1975 compared to the same period of last year. More importantly, the rate of use during the second quarter of 1975 was 17 percent greater than that same period in 1974. Domestic carpet wool consumption declined over 55 percent in 1974 and has declined in the first half of 1975 by 32 percent from 1974's first half. Wool's share of the woolen and worsted market fell from 24 percent in 1973 to 18 percent in 1974. However, wool's market share bounced back to 21 percent during the first half of 1975. Use of man made fibers in woolen and worsted mills increased sharply in 1973 and reached the peak of 72 percent of the market share as a result of high and volatile raw wool prices. During the first half of 1975, man made fibers share of woolen and worsted dropped to 69 percent. Whether wool can maintain its improved share will depend upon stability of wool supplies and prices and the effect of increasing

energy costs on man made fiber prices.

Raw wool exports totaled 4.3 million pounds clean basis in 1974, up over 14 percent from 1973. Exports for the first half of 1975 were 79 percent above the rate during January-June of 1974. Wool exports for the first half of 1975 exceeded that exported for all of 1974. Exports have been stimulated by the wide spreads between domestic and foreign wool prices.

Imports of raw wool were the lowest on record during 1974 totaling 27 million pounds clean content. During the first half of 1975 imports were 21 percent below year earlier levels. As in the past, most dutiable raw wool imports continue to be grades 60's and finer. The limited supply of domestic fine wools, the closing gap between foreign and domestic prices for fine wools and increasing mill consumption indicate a pick up in imports from current levels.

U.S. trade in wool textile products was down in 1974 as imports declined 18 percent and exports 22 percent from 1973 levels. The decline in wool textile exports resulted almost entirely from reduction in exports of wool tops to Japan. During the first half of 1975 the textile trade remained depressed with exports 23 percent below year-earlier levels and imports down 25 percent. If levels of world wide economic activity increased in late 1975 as expected, textile trade should strengthen and become equal to or exceed the 1974 levels.

#### World Wool Situation

After declining from early 1973 through January 1975, world raw wool prices strengthened in active trading in the second quarter of 1975. However, the prices of combing wools in New Zealand and Australia averaged U.S. \$1.38 per pound clean basis in July, down six cents from June and near the

level of late 1974 and early 1975. The demand for Australian wool in June was fairly wide-spread, but was only sufficient to absorb around 80 percent of the offerings with 10-15 percent going to the Wool Corporation which continues to support the market at Australia \$2.50 per kilogram, clean content (U.S. \$1.45 per pound). The Australian Wool Corporation's stockpiles of raw wool were estimated at approximately 1.6 million bales in June, compared to about 0.2 million in June 1974. Clearer indications about future price levels will become evident as data relating to new Australian and New Zealand seasons become available.

World raw wool production totaled 3.3 billion pounds, clean content, in 1974/75, up slightly from 1973/75. In June world stocks of raw wool were placed at 88.5 million clean pounds, up from 83.5 million in June 1974. The Australian Bureau of Statistics has reported an increase of 8.1 million head in Australian sheep and lamb numbers (5.6 percent) from March 1974 to March 1975. Thus world stocks and production of raw wool should be more than adequate to meet expected needs in the near future.

Prospects for world wool use are more favorable than last year's depressed 2.3 billion clean pounds (Figure 3). First quarter 1975 data indicates an increase over the fourth quarter of 1974 of 21 percent in Japanese raw wool consumption at the carding stage, with smaller increases in the United Kingdom and the Netherlands. Reductions in usage were noted in Belgium, France, Australia, and the U.S.A. U.S. wool use improved significantly in the second quarter of 1975 and the increase in Japanese consumption is of particular significance with respect to world use. Any sustained increase in world wool consumption depends upon continued improvement in world economic conditions.

Wool exports from the major surplus-producing countries were severely affected by the recession in economic activity. The latest data indicate that exports from New Zealand and Argentina continue to show improvement from the previous year. World exports are expected to increase from current levels if the economic recovery continues to gain momentum in late 1975 and early 1976.

#### U.S. Outlook - Supply and Price

The current up trend in domestic wool prices reflects an improved demand resulting from a general depletion of processed and semi-processed wool stocks, a brighter outlook for the general economy and limited domestic supplies of raw wool, particularly of the finer grades. Prices should remain near current levels for the remainder of the 1975 marketing season. Unsold, domestic supplies consist primarily of the medium and coarser grade wools and small lots of lower quality wool.

The outlook for the season beginning April 1, 1976 is clouded by uncertainties regarding the extent of the economic recovery and by the policies of foreign governments, especially Australia, with respect to their large stock piles of raw wool, wool support prices, and currency devaluations. The most likely situation is that foreign governments will continue to support wool prices at current levels and continue to stock pile raw wool if necessary. Furthermore, the impacts of the recent devaluation of the New Zealand and South African currencies on U.S. exports/imports of raw wool have been offset by increases in the wool support prices in those countries. It is unlikely that Australia will devalue its dollar in the near future, but the weakening of its currency with respect to the U.S. dollar and the relatively stronger U.S. demand for wool points to a



reversal of the current upward trend in our exports and downtrend in our imports of raw wool. This will exert some downward pressure on domestic wool prices. On the other hand, current indications point to an increase in U.S. apparel wool consumption of 15-20 percent above 1974 and further increases in 1976. This along with an expected drop of 5-10 percent in shorn wool production, indicates slightly higher prices for the 1976 clip. If the expected demand for wool does not materialize and/or foreign governments pursue a stock reduction policy, U.S. farm prices for wool will probably drop below 1975 levels.

Figure 1

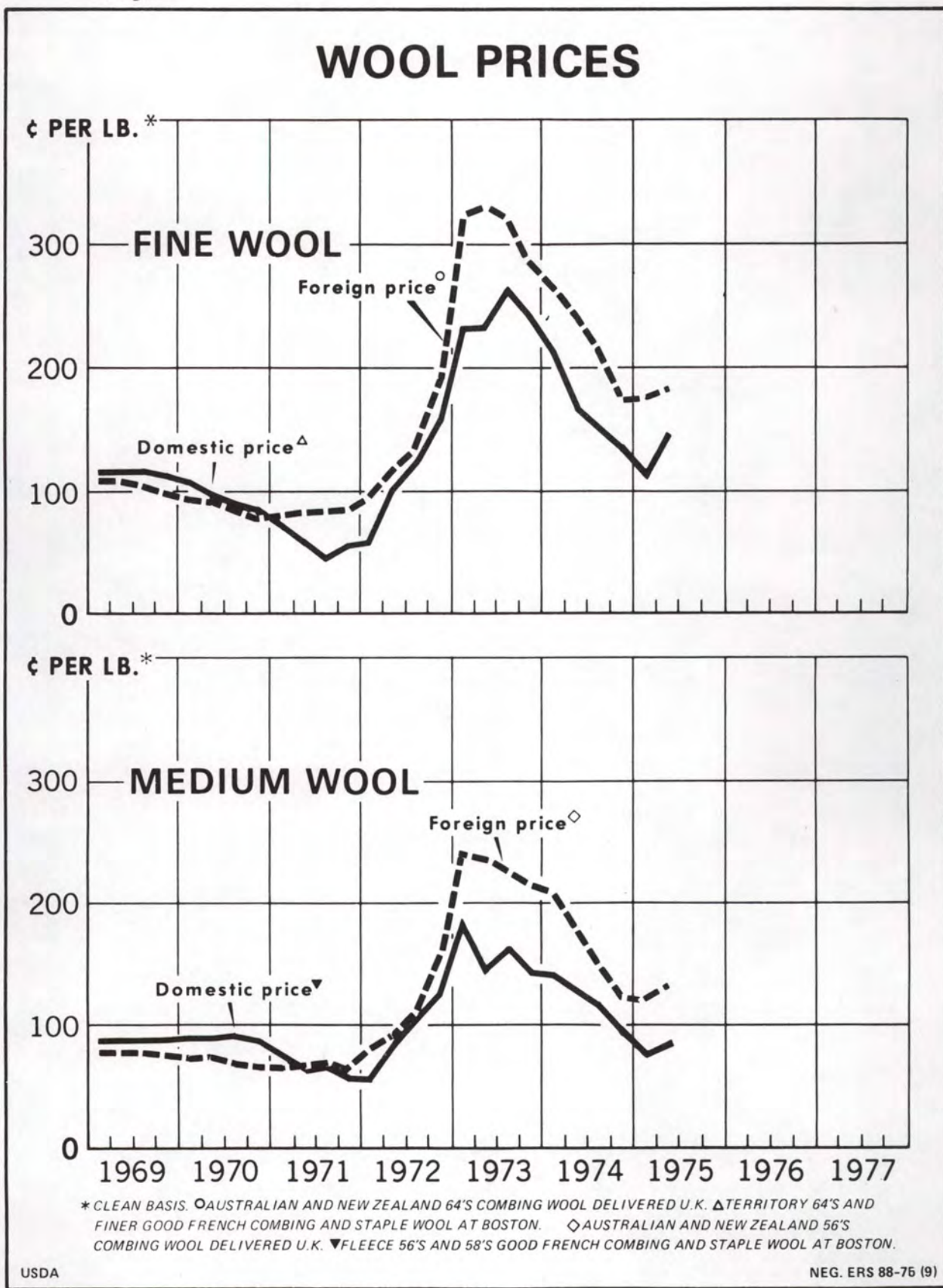


Figure 2

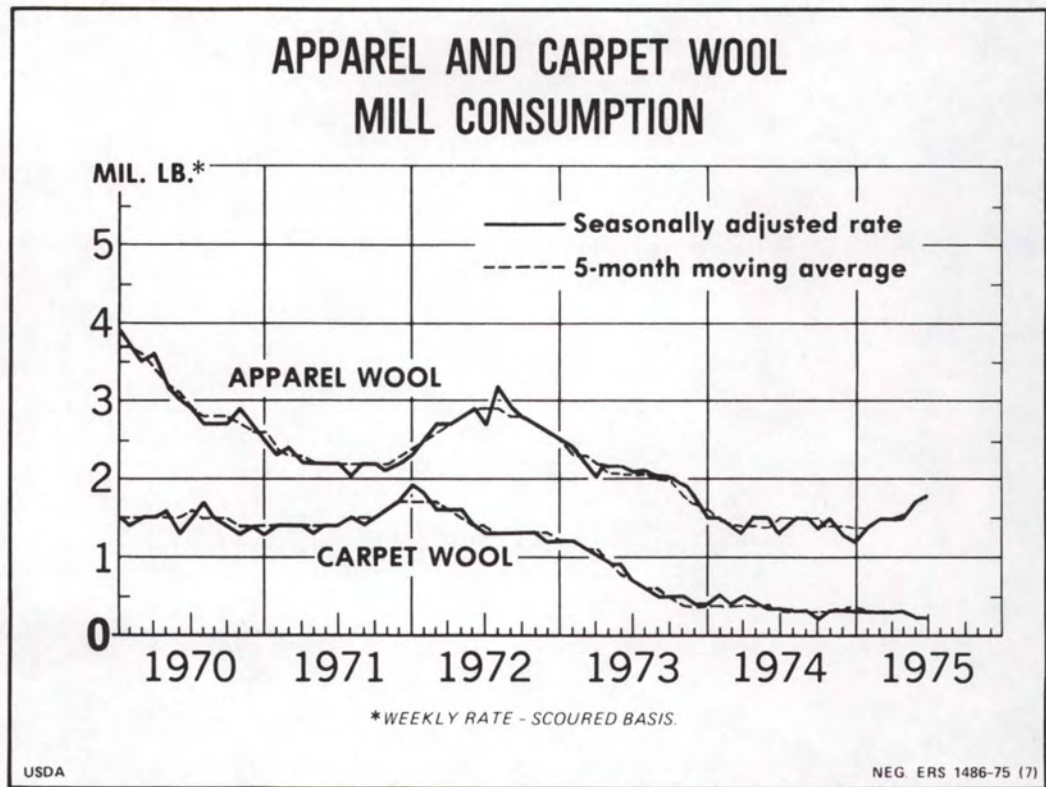


Figure 3

