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Future Outlook for Wool Production in Australia

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The logo for Wesfarmers Landmark, featuring a stylized crown above the word 'Wesfarmers' and 'LANDMARK' below it.

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Outline

- A. Introduction and background analysis
- B. Issues:
 - 1. Are we at the bottom of the sheep numbers/wool production cycle?
 - 2. What factors will support profitable and sustainable wool production?
 - 3. What factors will mitigate against a sustainable industry?
- C. Conclusions

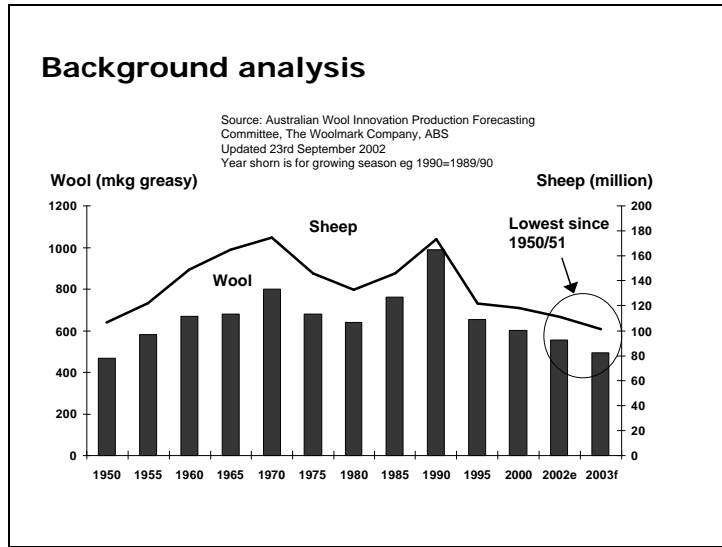
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Gross value of Australian wool & sheep industry

	1998-99 \$m	2001-02 \$m (estimate)
Wool	2 141	3 023
Sheep	227	580
Lambs	645	1 099
Sheep exported live	182	391

Source: ABARE Australian Commodities – Sept 2002

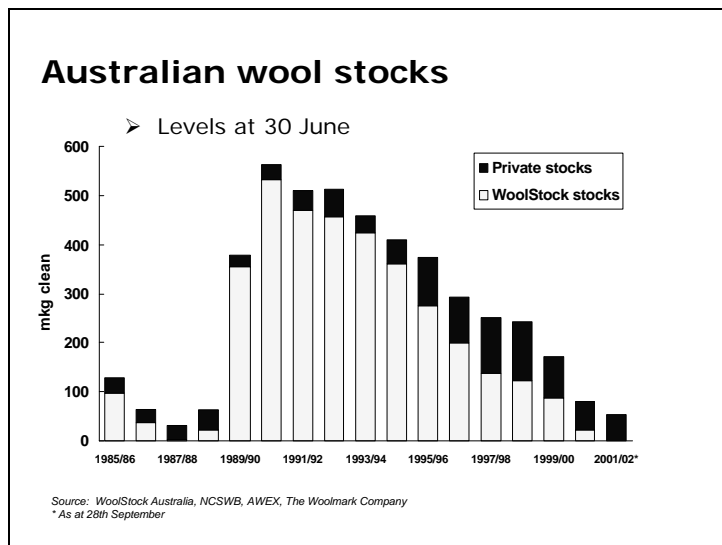
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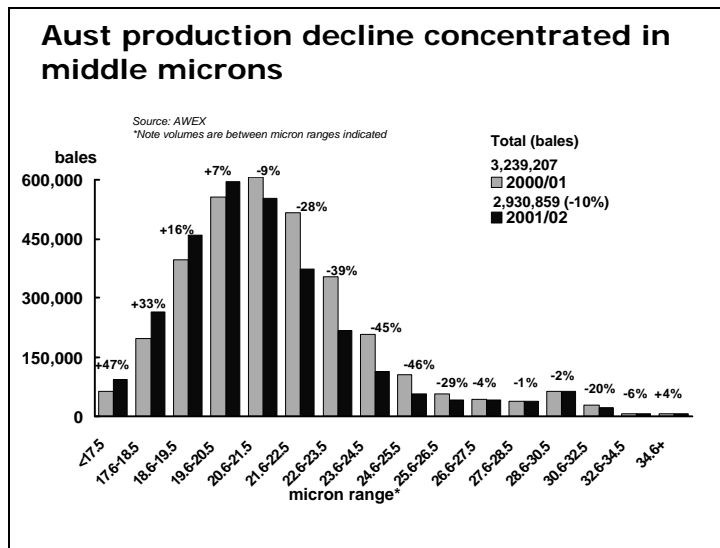
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- ### Factors behind production decline since 1990:
- End of Reserve Price Scheme
 - Collapse of international wool prices
 - Statutory stockpile hanging over market
 - Relative attractiveness of alternative enterprises (cropping, beef)
 - Drought
 - Demand for sheepmeat and livesheep

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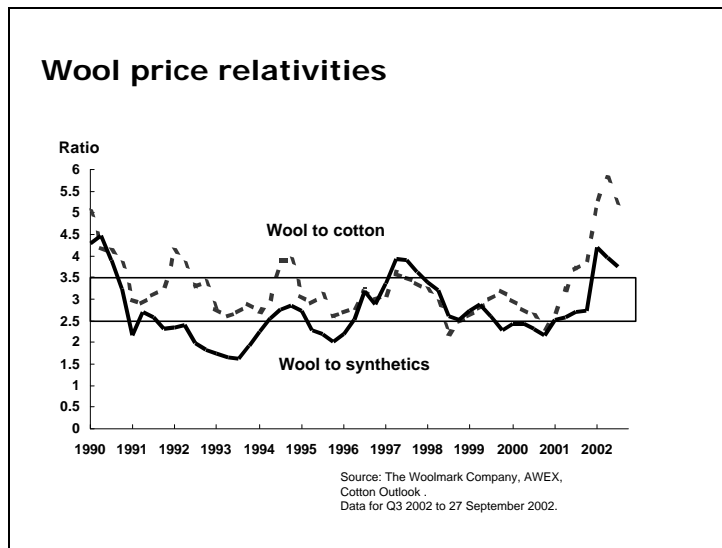
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- ### Change in profile of wool clip
- Increase in proportion of fine wool
 - ❖ Higher fine wool prices relative to middle microns
 - ❖ On-farm fibre measurement assisting genetic gains
 - Increase in proportion of 28-32 micron due to higher numbers of crossbred sheep as a result of high sheepmeat prices

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- ### Wool prices
- Current strength in prices driven by:
 - ❖ Shortage of wool
 - ❖ Pressure on early stage processors to keep plants operating
 - ❖ Relatively low \$A
- BUT:
- Wool prices again high relative to other fibres
 - Divergence between strong greasy wool prices and prices for top and yarn

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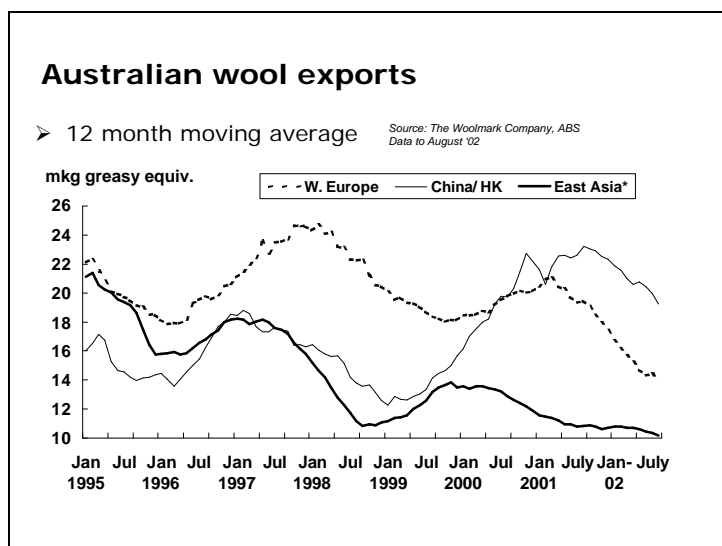


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Markets for Australian wool

- China the most important market for both processing and consumption
- Traditionally medium/broad wool buyers, but now taking all types including superfine

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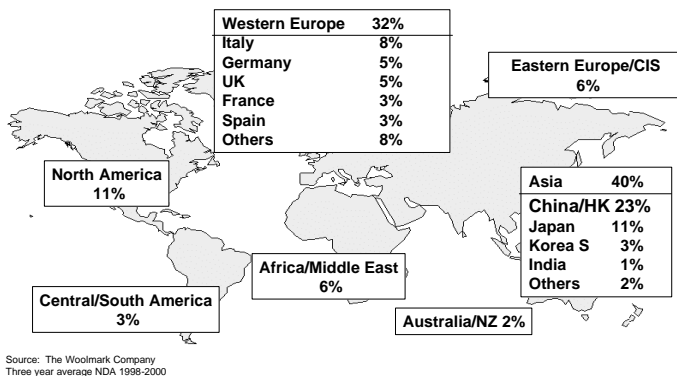
Relative importance of China's domestic market and its export market

Of the wool china imports from all sources:

- Around 70% is ultimately sold at retail within China
 - ❖ Knitwear is the most important end-use, with 30% share
 - ❖ Wovenwear (mainly for men's suits) makes up 25%
 - ❖ Hand-knitting yarn (mainly using Chinese, Uruguayan and New Zealand wool) is 25%
 - ❖ Carpets at 20%
- 30% is exported as wool textiles and apparel
 - ❖ Hong Kong, Japan and US are the major export destinations

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Key markets at retail



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Issues

- Are we at the bottom of the sheep numbers, wool production cycle?
 - ❖ lowest numbers since early fifties
 - ❖ wool clip almost halved since 1990
 - ❖ sheep and wool still second most common enterprise on broadacre farms
 - ❖ in some areas, sheep are only possible activity
 - ❖ need price incentive (wool, meat) to compete against other enterprises
 - ❖ recent price signals positive
 - ❖ critical issue: international demand for wool as a competitive textile fibre

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Factors supporting higher sheep numbers and wool production

- Negligible greasy wool stocks since stockpile sell-off
- Significantly lower production, hence upward pressure on prices
- Farm business profit (more than 3k sheep) moved from -\$3k to \$63k+ since 99/00 (ABARE)
- Rate of return 4.9% cf 1.2%
- Higher than all other enterprises other than beef (500 cattle+)
- Record sheep and lamb prices supporting returns
 - ❖ Low numbers, world demand for sheepmeat

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Factors supporting higher sheep numbers and wool production

- Opportunities for application of technology to boost productivity
 - ❖ Nutrition (pastures, supplements)
 - ❖ Genetics
 - ❖ Wool harvesting
- Wider adoption of available marketing options eg. risk management
- Improved business management practices eg. return on capital targets

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Opportunities created by environmental issues

- Management of saline lands and re-charge areas via perennial plants and edible woody species
 - ❖ "locked up" areas
 - ❖ Regeneration of saline affected land
- Management of chemical resistant grasses and weeds
- Note MLA study – 96% of producers impacted by weeds, 58% by soil erosion, 47% by dryland salinity and 67% by soil acidity

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Factors mitigating against wool industry growth

- Long-term wool demand
- Threat of loss of scale in industry, which could increase costs in the wool pipeline
- Ageing of producers, lack of incentive for young people to take on role
- Competition from other on-farm enterprises
- Climate change (drier? wetter?)
- Environmental pressures on sheep grazing

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Conclusions

- Wool production will stabilise in the medium term
 - ❖ drought is a major obstacle to flock re-building
- Wool supply and demand in reasonable balance
- Strong sheepmeat demand/prices will underwrite flock re-building
- Future focus to secure sheep and wool industry viability
 - ❖ R & D (sustainable production, harvesting, processing)
 - ❖ building international wool demand