

# Australian Wool Production Forecast Report, September 2002

## Australian Wool Innovation Production Forecasting Committee

### Summary

The Australian Wool Innovation Production Forecasting Committee has forecast an 11% decline in Australia's shorn wool production to 495 mkg greasy for the 2002/03 season. This decline is based on a slightly revised estimate for the 2001/02 season of 555 mkg greasy, up 5 mkg from the Committee's forecast in April 2002. If the 2002/03 production forecast is achieved this would be the lowest production level since 1950/51.

Taking into account season ending data from the Australian Wool Testing Authority and the Australian Bureau of Statistics, the Committee's first estimate of shorn wool production for the 2001/02 season was increased slightly to 555 mkg greasy. This small increase is based in part on early shearing due to drought conditions, particularly in New South Wales where early shearing brought forward wool from 2002/03 into the 2001/02 season. This production level was based on sheep shorn numbers of 133.6 million, a fall of 4% on 2000/01. The strong domestic sheep-meat and live sheep export markets accounted for a large portion of this decline. Average fleece weights were also estimated to be down 4% for the season, with the drought conditions in Western Australia and Queensland having a significant impact on cuts per head in these states. Countering this was the improved seasonal conditions in Tasmania where average fleece weights were estimated to have increased 5%.

The Committee's forecast for 2002/03 has been cut to 495 mkg greasy from its April forecast of 520 mkg greasy due to poorer than expected seasonal conditions in large parts of Australia. In particular, the drought conditions affecting much of New South Wales, Australia's largest wool producing state, are expected to have a major impact on wool production this season with the Committee forecasting a fall of 16% in this state. Production in New South Wales may fall even further by the end of the season if drought conditions worsen.

The dry conditions combined with still very good sheep prices are expected to have a significant impact on Australia's sheep numbers during the 2002/03 season. Already this season there has been a large amount of de-stocking in the western regions of New South Wales, Queensland and the northern regions of South Australia as seasonal conditions have deteriorated. The buoyant sheep-meat and live export markets have also encouraged producers to sell off stock, taking advantage of the current high prices in these markets. The sharpest declines in sheep numbers are expected to be in New South Wales and Queensland, the worst of the drought affected states.

#### FURTHER INFORMATION

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Average cuts per head are also expected to be lower during the 2002/03 season due to the dry conditions. The Committee has forecast a 2% decline in average fleece weights with the fall due to poorer seasonal conditions expected to be partially off-set by the lower proportion of lamb shearings during 2002/03.

Finally, the Committee expects that there will be an increase in the proportion of fine wool (19.5 micron and finer) mainly due to the dry conditions affecting sheep nutrition. However the quality of some of this wool is likely to be adversely affected, notably in terms of strength.

**Table 1: Summary of wool production forecasts for Australia**

	2001/02	% change	2002/03	% change
Sheep numbers shorn (mill head)	133.6	-4%	121.6	-9%
Average cut per head (kg/head)	4.15	-4%	4.10	-2%
Shorn wool production (mkg greasy)	555	-8%	495	-11%

Note: Totals may not add due to rounding.

### Wool Production Forecasts

#### First Estimate for season 2001/02

Australian wool production is estimated to have fallen 8% to 555 mkg greasy in season 2001/02. This estimate is a slight increase on the Committee's April 2002 forecast of 550 mkg greasy and is based on season ending data from the Australian Wool Testing Authority and the Australian Bureau of Statistics (ABS). The April forecast was revised higher as early shearings in the drought affected areas brought forward wool production which otherwise would not have come onto the market until the following season.

Lower sheep numbers and poor seasonal conditions in a number of states were the major reasons for the fall in production during the 2001/02 season compared with 2000/01. Sheep shorn numbers are estimated to have fallen 4% last season to 133.6 million head, due to the run down in sheep numbers over the past couple of seasons. This sheep shorn number is based on the ABS estimate of sheep numbers at 1 July 2002 of 110.9 million head. The decline in sheep shorn numbers was expected to be even larger in the April forecast, however sheep shorn numbers were high in the last few months of the season as many sheep were shorn before being sold for the domestic sheep-meat market or for live export.

The sharpest declines in sheep numbers during 2001/02 were experienced in Queensland (-17%) and Western Australia (-11%). The strong demand and high prices for lamb, mutton and live sheep for export had a major influence on these declines. As well, a general move away from wool production to alternate enterprises such as cattle, cropping or prime-lamb production contributed to the sharp decline in sheep numbers in these states.

Fleece weights were also estimated to have fallen in 2001/02 as poor seasonal conditions from the previous season, including drought in Western Australia, flowed through to impact on production. The average fleece weight nationally was estimated at 4.15 kg/head, a decline of 4%

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on the 2000/01 season. The largest falls were again in Queensland and Western Australia, with fleece weights in both states down by 8%. These declines were partially off-set by improved seasonal conditions in Tasmania where the average cut-per head was estimated to have gained 5% on the 2000/01 season.

The production of fellmongered wool is likely to have increased in 2001/02, the result of higher sheep and lamb slaughterings in Australia (note: figures for fellmongered wool production are not included in the Committee's estimates and forecasts of shorn wool production).

**Table 2: 2001/02 Production Forecast**

	QLD	NSW	VIC	TAS	SA	WA	National
Sheep shorn (million head)	9.5	52.1	26.8	4.1	14.4	26.7	133.6
Average cut head (kg/head)	3.8	4.1	4.2	3.8	4.9	4.0	4.2
Shorn wool production (mkg greasy)	36	214	113	16	71	107	555

Note: Totals may not add due to rounding.

- **Micron profile 2001/02**

Based on data from the Australian Wool Testing Authority (AWTA) the profile of Australia's wool production continued to trend finer during the 2001/02 season. The combination of grower breeding programs, on-farm wool testing technologies and dry seasonal conditions resulted in fine wool production (19.5 micron and finer) increasing by 19% in season 2001/02. With total wool production falling by 8% the share of fine wool production as a percentage of the total increased sharply to 24% from 18% in 2000/01. The largest gains in fine wool production were experienced in South Australia, Queensland, New South Wales and Western Australia with each state up by more than 25%.

Another production trend, which became evident in 2001/02, was the increased production of broader wool as producers moved towards meat-sheep production. The proportion of this broader wool (27 micron and broader) increased to 8.9% in 2001/02, up from 8.3% in 2000/01.

The combined effect of these two trends resulted in a fall in both the total volume and share of production in the mid-micron categories (20 – 25 micron). For example, AWTA test results of wool 22 to 25 micron fell by over 30% in 2001/02. Reflecting the poor seasonal conditions in Queensland and Western Australia, production of 22 to 25 micron was down by over 50% in 2001/02.

**Table 3: AWTA Test statistics July 2001 – June 2002**  
(% share of all wool tested)

States	<19	20	21	22	23/24	25/26	27/28/29	>30
QLD	21.2%	29.6%	28.0%	13.2%	4.7%	0.6%	1.6%	1.0%
NSW	35.3%	20.7%	17.3%	9.2%	5.7%	3.5%	5.8%	2.7%
VIC	20.6%	17.8%	16.9%	12.0%	11.8%	4.7%	9.2%	7.0%
TAS	37.3%	22.2%	14.1%	7.0%	4.3%	3.7%	7.1%	4.2%
SA	4.6%	8.2%	15.2%	22.3%	36.0%	7.0%	3.9%	2.8%
WA	24.5%	26.8%	24.6%	13.9%	7.5%	1.2%	1.0%	0.5%
National	23.9%	19.9%	18.9%	12.9%	11.8%	3.7%	5.4%	3.5%

Note: Totals may not add due to rounding.

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## Forecast for season 2002/03

Australian wool production is forecast to fall by 11% to 495 mkg greasy in season 2002/03, its lowest level since 1950/51. The first forecast released by the Committee in April 2002 was 520 mkg greasy within the range 495-535 mkg greasy. This forecast assumed normal seasonal conditions, however since then conditions in a number of states have deteriorated and in some cases reached drought levels. As a result, production has been forecast down to the low end of the range.

In general the drought in Australia will influence production in the following ways.

- Fewer sheep shorn as some have been sold for slaughter or the live sheep trade, while others have died;
- Lower average wool cut per head;
- Low lamb survival rates and so fewer lambs to help flock rebuilding;
- An increase in the volume of shorter wool as growers shear early to sell their sheep before they lose condition;
- An increase in the volume of fine, inferior quality wool caused by poor nutrition;
- Lower volumes of mid-micron merino wool (20-25 micron), as the regions most significantly affected by drought are the pastoral zone through NSW, Queensland, South Australia and Western Australia as well as the wheat-sheep zone in NSW, Queensland and Victoria. These regions are major producers of mid-micron merino wool;
- An increase in the volume of tender (low strength) wool; and
- Lower clean yields due to an increase in dust.

The largest decline in production is forecast for New South Wales, Australia's largest wool producing state. The drought that is currently affecting around 85% of the state is expected to have a major impact on wool production during 2002/03 and 2003/04. Wool production in New South Wales is forecast to fall 16% to 179 mkg greasy in 2002/03. Production is also forecast to fall in all the other states except Tasmania where a marginal increase is expected.

Sheep shorn numbers are forecast to fall 9% to 121.6 million nationally in 2002/03. This decline is based on the run down in sheep numbers during the previous two seasons coupled with the drought conditions this season which has resulted in a low number of lambs surviving. Again the largest decline is expected in New South Wales with a 12% decline forecast. Sheep shorn numbers are expected to fall in all states as the buoyant live export and sheep-meat markets have impacted on total sheep numbers, as has the low lamb survival rates.

The poor seasonal conditions over the past 6 to 12 months are also expected to impact on fleece weights during the 2002/03 season. National average fleece weights are forecast to fall 2% to 4.1 kg/head, with falls expected in all states except Tasmania and Western Australia.

The dry conditions have caused a number of producers to shear earlier than normal this season allowing them to sell off their sheep due to the lack of available feed. As a result the effects of the drought have not been entirely evident at this stage as auction offerings and AWTA test statistics have been boosted by wool coming onto the market earlier than normal. In New South Wales shearing is up to two months early in some areas whilst

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shearing in Queensland, Victoria and South Australia are also up to two weeks early.

Fellmongered wool production in Australia is likely to remain at the higher level seen in 2001/02, given the continued high levels of sheep and lamb slaughterings expected.

In terms of farm enterprise mix, the shift away from wool production to other enterprises such as cropping and beef cattle is expected to slow in many states during the 2002/03 season. However the run down in the national sheep flock in 2001/02 and 2002/03 is likely to prevent production from recovering quickly in 2003/04.

**Table 4: 2002/03 Production Forecast**

	QLD	NSW	VIC	TAS	SA	WA	National
Sheep shorn (million)	8.6	45.8	24.7	4.0	13.8	24.8	121.6
Average cut head (kg/head)	3.6	3.9	4.1	3.9	4.8	4.1	4.1
Shorn wool production (mkg greasy)	31	179	102	16	67	101	495

Note: Totals may not add due to rounding.

- **Micron Profile Forecast 2002/03**

The trend to increased fine wool production is expected to continue in 2002/03, with a resultant increase in the share of 19.5 micron and finer wool to around 27%. Fine wool production is forecast to increase in most states due mainly to the poor seasonal conditions. The continued trend to fine wool breeds will also aid this increase. However a significant portion of this increase is expected to be "hunger-fine", low quality wool affected by poor sheep nutrition due to the drought.

Improved seasonal conditions in Western Australia and Tasmania are expected to reduce fine wool production in these states. In Western Australia there should be some recovery in mid-micron production during 2002/03, although the strength of any recovery will depend on seasonal conditions for the remainder of the season.

**Table 5: Micron Profile Forecast – Australian clip 2002/03**

	<19	20	21	22	23/24	25/26	27/28/29	>30
<b>National</b>	27.5%	20.3%	19.4%	12.4%	10.6%	2.7%	5.8%	1.4%

Note: Totals may not add due to rounding.

### Latest Industry Statistics

The latest industry statistics for the 2002/03 season to date (July to August) do not fully highlight the production decline which is forecast for Australia this season. Australian Wool Exchange auction offerings were actually 1% higher during July to August compared with the same period in 2001/02. Part of these offerings are believed to have represented grower stocks which were carried forward into the 2002/03 financial year for taxation purposes.

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Broker receivals and AWTA test statistics are more in-line with the latest production forecast. However these statistics may somewhat understate the magnitude of the likely decline as they have been inflated by early shearings and any receival of on-farm stocks during the first two months of the season.

**Table 6: July to August 2002**

	2001/02	2002/03	% change
AWEX auction offerings (mkg)	79.440	80.339	+1%
AWEX Broker receivals (bales)	495,303	449,706	-9%
AWTA test statistics (mkg)	90.603	84.215	-7%

Source: Australian Wool Testing Authority (AWTA) and Australian Wool Exchange (AWEX)

### Historical Australian Production Figures

Season ending data for AWEX auction offerings and AWTA test data are in line with the Committee's first estimate of an 8% decline in production. These figures tend to overstate the fall in production due to less stocks coming onto the market during the 2001/02 season compared to the season earlier levels.

**Table 7: July 2001 to June 2002**

	2000/01	2001/02	% change
AWEX auction offerings (mkg)	575.919	518.736	-10%
AWEX Broker receivals (bales)	3,139,903	2,742,111	-12.7%
AWTA test statistics (mkg)	643.218	572.001	-11.7%

Source: Australian Wool Testing Authority (AWTA) and Australian Wool Exchange (AWEX)

The following tables provide historical statistics on the Australian wool industry for background information. The estimates of sheep numbers and wool production in 2000/01 is currently being reviewed with the Australian Bureau of Statistics. Discrepancies have been found between data sources on both sheep numbers and wool production in these years.

**Table 8: Australian wool industry statistics**

	1996/97	1997/98	1998/99	1999/00	2000/01 *	2001/02
Opening sheep numbers (million)	121.2	120.2	117.9	115.5	118.6	110.9
Sheep shorn (million)	156.5	155.5	148	144.4	139.6	133.6
Average cut per head (kg/head)	4.33	4.22	4.32	4.3	4.31	4.15
Total shorn wool production (mkg greasy)	682.0	655.1	641	620	602	555

\* season estimates currently under review.

Note: Totals may not add due to rounding.

Source: ABS, ABARE.

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**Table 9: Micron profile of wool offered at auction (% share)**

Year	<19	20	21	22	23/24	25/26	27/28/29	>30
1991/92	11.91%	15.16%	21.47%	20.02%	20.47%	5.49%	3.67%	1.82%
1992/93	7.5%	12.04%	19.91%	20.56%	25.55%	7.90%	3.94%	2.53%
1993/94	8.84%	12.09%	18.76%	20.84%	25.72%	7.42%	3.71%	2.61%
1994/95	12.79%	15.22%	20.86%	19.89%	19.98%	4.70%	3.82%	2.73%
1995/96	14.52%	15.31%	20.05%	18.26%	20.55%	5.29%	3.27%	2.75%
1996/97	14.52%	15.31%	20.05%	18.26%	20.55%	5.29%	3.27%	2.75%
1997/98	15.70%	14.81%	19.42%	18.26%	20.54%	5.35%	3.49%	2.43%
1998/99	14.28%	14.57%	19.60%	18.62%	21.62%	5.13%	3.69%	2.48%
1999/00	14.60%	14.39%	19.10%	18.22%	21.24%	5.21%	4.13%	3.11%
2000/01	17.81%	15.71%	18.53%	16.39%	18.13%	5.13%	5.02%	3.28%
2001/02	23.88%	19.91%	18.90%	12.90%	11.82%	3.72%	5.38%	3.50%

Note: Totals may not add due to rounding.

Source: Australian Wool Testing Authority (AWTA)

### **Modus operandi for the Australian Wool Production Forecasting Committee**

- The Australian Wool Production Forecasting Committee draws together a range of objective data and qualitative information to produce consensus-based, authoritative forecasts of Australian wool production three times a year.
- The Committee has a two-level structure, with a National Committee considering information and advice from state sub-committees.
- The National and state sub-committees comprise wool producers, wool brokers, exporters, processors, private treaty merchants, AWEX, the Australian Wool Testing Authority, ABARE, the Australian Bureau of Statistics and The Woolmark Company.
- It is funded by Australian Wool Innovation Limited, which also provides a representative on the role of the Chairman of the National Committee.
- The Committee releases its forecasts of production in the form of a press release and a report providing the detailed forecasts, historical data and commentary on the key drivers of the forecasts.