

Australian Wool Production Forecast Report, March 2004

Australian Wool Innovation Production Forecasting Committee

Summary

Australian shorn wool production is forecast to decline by only 10% to 450 mkg greasy during the 2003/04 season, according to the Australian Wool Innovation Production Forecasting Committee (AWIPFC). This fifth forecast for 2003/04 is 20 mkg higher than the previous forecast in November 2003 and is based on 102.2 million sheep shorn and an average cut per head of 4.40 kg/head.

The number of sheep shorn and average cut in 2003/04 forecast by the Committee have both been increased since the November forecast, as a result of revised information provided by the state committees, especially in New South Wales and Queensland, as well as other data sources. The higher forecast reflects the lessening impact of the recent drought in the eastern states which has seen improving wool test results (year-on-year) since late 2003. If achieved this forecast will represent the lowest national wool production for over 60 years.

The 2002/03 production estimate of 499 mkg greasy remains unchanged from the November forecast.

Table 1: Summary of wool production forecasts for Australia

	2002/03	2003/04	% change	2004/05	% change
Sheep numbers shorn (mill head)	117.5	102.3	-12.9	104.4	+2.1
Average cut per head (kg/head)	4.25	4.40	+3.5	4.47	+1.6
Shorn wool production (mkg greasy)	499	450	-9.8	470	+4.4

Note: Totals may not add due to rounding.
Source: AWIPFC

The majority of the improvement in the forecast is expected to occur in Queensland and New South Wales with only marginal increases in the other production states expected. The upward revision to 2003/04 production is based on the continuation of better seasonal conditions for the remainder of the season and at least similar wool receivals/tests over the last 4 months of 2003/04 to the same period in 2002/03.

The estimated micron profile for 2003/04 was also revised to reflect the AWTA test micron profile for the season to date. Compared with the previous forecast this has been revised to show a slightly lower proportion of fine wool (<19 micron). However the percentage of wool in this range

FURTHER INFORMATION
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during 2003/04 is still expected to be the highest recorded on record and continues to illustrate the significant impact of the drought on the clip's micron profile.

The Committee also released its first forecast for the 2004/05 season. Shorn wool production is forecast to be 470 mkg greasy, based on 105 million sheep and lambs being shorn at an average cut/head of 4.47 kg. If achieved this will represent the first upward movement in Australian wool production after 14 years of consecutive declines starting in 1990/91. Production increases are expected in all states with the northern states of Queensland and New South Wales being the most affected.

This 2004/05 forecast is based on a resumption of at least normal conditions for the autumn and spring breaks in 2004 and a slight increase in opening numbers as at June 2004. The increase partially reflects the expected improvements due to the better seasonal conditions but is tempered by the likelihood of greater emphasis on prime lamb production by wool producers in the next 12 months. This is expected to result in lower numbers shorn (as terminal lambs are slaughtered without shearing).

This "prime lamb effect" will also be evident in the expected micron profile for 2004/05. This is likely to see an increased proportion of wool in the 21-26 micron range at the expense of finer micron types. However, fine wool production (in percentage terms) will remain at historically high levels during 2004/05 (>25% of production).

Table 2: Summary of state by state wool production forecasts

Shorn Wool Production	QLD	NSW	VIC	TAS	SA	WA	National
2002/03	23	183	102	14	63	114	499
2003/04	19	155	91	15	60	110	450
% change 02/03 v 03/04	-17.9%	-15.2%	-10.0%	2.4%	-5.1%	-3.8%	-9.8%

Note: Totals may not add due to rounding.

Source: AWIPFC

Wool Production Forecasts

Estimate for season 2004/05

The Committee made its first forecast for the 2004/05 season at its meeting on 11th March. This placed shorn wool production at 470 mkg, a rise of 4% from the revised estimate for the 2003/04 season and the first increase in Australian wool production since season 1989/90 when the wool clip peaked at 1100.3 mkg. Since then there have been 14 consecutive seasons of declining wool production, with the decline each season averaging 4.2 % during this time.

This forecast was based on an estimated opening flock of 98.9 million sheep and lambs resulting in 104.4 million sheep shorn at an average cut/head of 4.47 kgs. Both of these variables are expected to rise in 2004/05 with the respective increases being 2.1% and 1.6%. All states are forecast to increase production in 2004/05 with the areas impacted most severely

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by drought in 2003/04 expecting the largest increases. Therefore all of the eastern seaboard states and Tasmania are expecting larger percentage increases than South Australia and Western Australia.

The forecast is based on state round input and ABARE February survey data on grower intentions for the new season. The basis for the Committee's forecast increase in 2004/05 shorn wool production reflects a number of factors including:

- expected higher opening numbers due to lower death rates and better lambing percentages in 2003/04. These estimates are supported by the large decline in adult slaughterings during most of the 2003/04 season and the high prices for store sheep used for restocking, particularly in the eastern states.
- the natural 'bounce back' after drought conditions as pasture responds to increased water availability and fertilizer inputs, bringing better fleece cuts/head.
- the swing towards prime lamb production in many wool production zones.

Prime lamb production is expected to temper the potential improvement in wool production in the next 2 seasons as it will lead to fewer sheep being shorn and a lower proportion of wethers (with higher fleece weights) in the national flock. The Committee considered that current wool prices still did not represent a strong enough incentive to reverse the strong swing to cropping and cattle production in the widespread mixed enterprise zones.

The 2004/05 forecast assumes at least normal seasonal conditions in most production areas to achieve this outcome. However, it was acknowledged that large parts of NSW remain drought declared despite the heavy rainfalls in northern New South Wales and Queensland in the last month. A recent spell of exceptionally hot weather has also impacted on conditions, especially on water availability for stock.

Other states reported at least average seasonal conditions currently but will still require the normal autumn break to achieve a good start to the growing season for 2004/05.

Micron Profile - 2004/05

The Committee did not release a formal micron estimation for season 2004/05 at this stage in the forecast process. However indicative trends for micron production include:

- a reduction in fine wool (<19 micron) production is expected due to the lessening impact of the drought and a swing back to prime lamb production,
- an increased proportion of wool in the 20-24 micron range returning to percentages closer to the pre-drought season of 2001/02,
- an expected increase in the 25-29 micron range in response to the addition lamb turnoff and change in breeding ewe's parentage.

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This last factor is likely to see an increase in part Merino mothers (1st and 2nd cross) over the next few seasons as the annual production of lambs gathers pace. In the medium term this is expected to have a significant impact on the production micron profile that will only begin to be noticed in the 2004/05 season.

Despite these flock demographic changes the quantity of fine wool production is expected to remain at similar levels to the 2002/03 season. In historical terms the proportion of fine wool in the clip will remain near all time highs of between 25-30% during 2004/05 which is well above the 1990's average of around 15%.

Forecast for season 2003/04

The Committee's fifth forecast for the 2003/04 season was revised to 450 mkg greasy from the low 430 mkg in November. If achieved this will still represent the lowest national clip since the 1940's and almost 60% below the peak year of production in 1989/90. The latest forecast is based on 102.2 million sheep and lambs being shorn at an average cut per head of 4.40 kg. The November estimate for 2002/03 wool production of 499 mkg remains unchanged as the basis for comparing the current season's output.

Both production variables [cut/head (+2%) and numbers shorn (+2.4%)] have risen since the previous forecast in response to changes in available industry production data. In particular, AWTA test data, AWEX auction and brand data and ABS broker and dealer receivals are all higher than previously expected.

The AWTA test results for the July – February period reflect the impact of the drought conditions quite markedly. This was most severe in the first 4 months of the 2003/04 season with year on year declines of 30% common. The magnitude of these declines lessened progressively after this, with December and February actually showing increases from the previous year. A similar pattern is emerging for the AWEX and ABS data. All of these statistics supported the increase in the 2003/04 forecast as the remainder of the season's production is effectively already locked in and should be at least similar to the previous season (2002/03) when the drought adversely affected the final six months of production for that season.

Table 3: Comparison of forecasts for 2003/04

Wool Production (mkg greasy)	QLD	NSW	VIC	TAS	SA	WA	National
March 2003 forecast							505*
June 2003 forecast	20	163	98	15	60	115	470
September 2003 forecast	16	145	98	16	59	109	440
November 2003 forecast	15	141	91	15	59	109	430
March 2004 forecast	19	155	91	15	60	110	450

Note: Totals may not add due to rounding. * National production forecast only.
Source: AWIPFC

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The latest forecast for 2003/04 brought revisions to production in a number of states. The major changes from the November forecast include:

- higher cuts/head and number shorn in both Queensland and New South Wales should result in the largest improvements since November 2003. NSW production is now expected to decline by only 15% compared with the November forecast (-23%). The equivalent change for QLD is down by 18% from - 33% six months ago.
- Victorian estimates remained unchanged since November.
- Production in Tasmania, South Australian and Western Australia are all expected to see minor improvements from the previous forecast with most of this improvement comprising higher numbers shorn in each state.

Despite these revisions all states except Tasmania are still expecting a fall in wool production during 2003/04 with the eastern states still expecting the largest falls in relative terms. These are between 10-18% compared with falls of between 4-5% in WA and SA. The forecast increase in Tasmania is only 2.4%, but this is higher than the November forecast of 1%.

The Committee also notes that the likely impact of the drought was overstated in the November forecast given that the timing for the breaking of the drought remained unsure at that time.

When comparing the national differences between season 2003/04 and 2002/03 (which was also drought affected) a number of changes are evident. These include:

- an increase in average cut/head in 2003/04 compared with 2002/03. This might seem unusual in a drought affected season but is partially explained by the lower numbers of lambs shorn (due to reduced joinings and a lower survival rate) and the higher incidence of premature shearing in 2002/03. This effect is most pronounced in Queensland, NSW and Victoria.
- Numbers shorn are expected to decline by almost 13% in 2003/04 due to lower opening numbers, higher slaughter rates and fewer lambs shorn. Again Queensland and NSW are the states most affected.

Table 4: 2003/04 Production Forecast

	QLD	NSW	VIC	TAS	SA	WA	National
Sheep shorn (million)	4.8	36.1	21.5	3.8	12.0	24.1	102.3
Average cut head (kg/head)	3.94	4.30	4.25	3.90	4.98	4.57	4.40
Shorn wool production (mkg greasy)	19	155	91	15	60	110	450

Note: Totals may not add due to rounding
Source: AWIPFC

Micron Profile - 2003/04

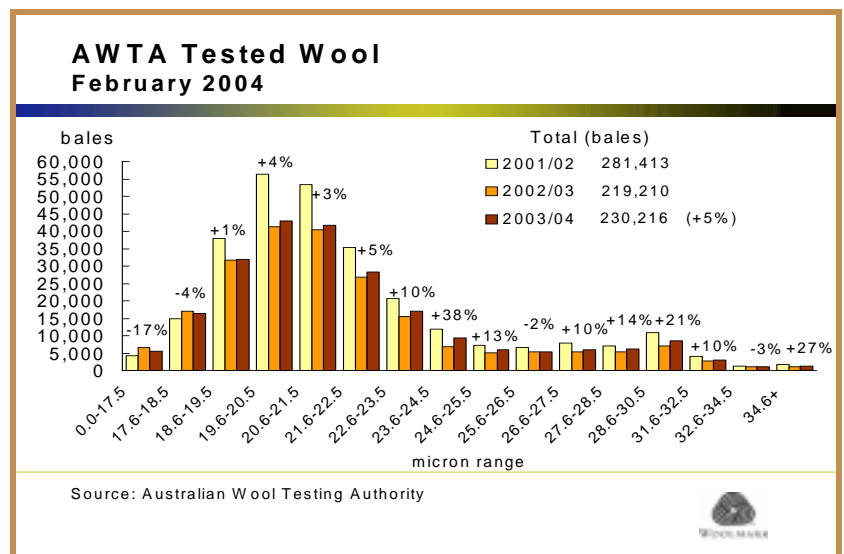
AWTA test statistics for the season to date, July to February 2004, indicate a continuing trend towards fine wool production. This trend has moderated since late 2003 but will still probably result in the highest proportion of wool in the 19 micron and finer range on record. This result has been a function of a long term trend in the flock demographics towards finer wool animals as well as the more shorter term impact of the drought in the last 2 seasons.

At the end of February 2004 the proportion of fine wool tested remained at around 35%, the same as in the November forecast. This percentage is expected to decline during the last 4 months of the current season as more pastoral wools come into the system but are still forecast to be in the range of 31-33% by the end of the season.

This compares with a total of 30.3% for the 2002/03 season which was a record high percentage for 19 micron and finer wools as a proportion of the clip. In contrast the 2001/02 season 19 micron and finer wool production totaled only 24% of the clip with the longer term average during the 1990's being in the range of 12-15%.

This micron change has been evident in most states but the eastern seaboard states and Tasmania have experienced the largest relative increases. Much of this increase in fine wool output remains at the expense of wool in the 20-24 micron range, which has declined significantly for several seasons. Interestingly in February the proportion of wool in the 23-28 micron range also increased in 2003/04 compared with last season. This move towards increased prime lamb production partially explains this effect and is expected to become more pronounced over the next 2 seasons.

The reduction in the effect of the drought effect on the national micron profile is also expected to become more evident in the latter part of the 2003/04 season and into at least the first few months of the new season.



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Table 5: AWTA test statistics micron profile - July to February 2004 (% share)

Micron Range	QLD	NSW	VIC	TAS	SA	WA	National
0.0-16.5	0.64	1.84	0.93	1.31	0.03	0.16	0.89
16.6-17.5	3.46	9.07	3.63	7.39	0.11	1.21	4.25
17.6-18.5	9.85	19.20	9.57	20.83	0.94	6.19	10.77
18.6-19.5	21.75	21.91	14.80	26.78	3.69	15.79	16.35
19.6-20.5	32.49	17.04	16.01	17.76	9.36	24.30	18.17
20.6-21.5	20.89	10.58	13.54	8.07	17.60	24.12	15.82
21.6-22.5	6.97	4.66	10.29	3.23	23.14	15.74	11.17
22.6-23.5	1.43	2.03	7.45	1.17	19.74	7.32	6.92
23.6-24.5	0.60	1.28	3.40	1.04	11.56	2.54	3.36
24.6-26.5	0.64	3.44	4.64	3.26	5.82	1.30	3.46
26.6-28.5	0.70	4.86	6.70	4.41	3.05	0.56	4.03
28.6-30.5	0.33	3.02	5.40	2.69	2.87	0.42	3.01
30.6+	0.24	1.06	3.65	2.06	2.08	0.35	1.81

Note: Totals may not add due to rounding.

Source: AWTA

Latest Industry Statistics

All available production statistics indicate that in the first eight months of the 2003/04 season there has been a significant decrease in wool production, compared with the previous year. AWTA test statistics, AWEX auction offerings and broker receivals have all declined significantly year-on-year. However, these declines are less pronounced than indicated by the November 2003 statistics and support the improving outlook for the last 6 months of the 2003/04 season. Furthermore, the comparisons for the remainder of the 2003/04 season is with the worst affected months of 2002/03 season, so the year on year declines will be moderate if not positive.

All of the declines in these data sets have followed a similar pattern with the largest impacts occurring in the first 3-4 months of 2003/04. These have moderated progressively since then, even resulting in positive comparisons during the last 3 months for some variables.

Compared with the November forecast AWTA test results are only 13% lower at the end of February 2004 (compared with 18% in November). This year-on-year decline peaked at 26% in August 2003. AWEX receivals were 20% lower at the end of February compared with a drop of 24% in November. These results are consistent with ABS broker and dealer statistics for the same period. It should be noted that the AWEX receivals and offering figures will be lagged due to the impact of growing broker and on farm stocks.

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Table 6: July 2003 to February 2004

	2002/03	2003/04	% change
AWEX auction offerings (tonnes)	340,464	272,581	-20.0%
AWEX Broker receivals (bales) *	1,869,630	1,575,778	-15.7%
AWTA test statistics (tonnes)	377,623	327,840	-13.2%

* July to February only.
Source: AWEX, AWTA

Historical Australian Production Figures

The following tables provide historical statistics on the Australian wool industry for background information.

Table 7: Full season industry statistics

	2000/01	2001/02	2002/03	% change
AWEX auction offerings (mkg)	575.919	518.736	448.499	-13.5%
AWEX Broker receivals (bales)	3,139,903	2,742,111	2,460,420	-10.3%
AWTA test statistics (mkg)	643.218	572.001	501.215	-12.4%

Source: AWEX, AWTA

Table 8: Australian wool industry statistics

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Opening sheep numbers (million)	121.2	120.2	117.9	115.5	118.6	110.9	106.2
Sheep shorn (million)	156.5	155.5	148	144.4	139.6	127.0	117.5
Average cut per head (kg/head)	4.33	4.22	4.32	4.3	4.31	4.38	4.25
Total shorn wool production (mkg greasy)	682	655	641	620	602	555	499

Note: Totals may not add due to rounding.
Source: ABS, ABARE, AWIPFC.

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Table 9: Micron profile of wool tested (% 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%	1.01%
1992/93	7.57%	12.04%	19.91%	20.56%	25.55%	7.90%	3.94%	1.58%
1993/94	8.84%	12.09%	18.76%	20.84%	25.72%	7.42%	3.71%	1.66%
1994/95	12.79%	15.22%	20.86%	19.89%	19.98%	4.70%	3.82%	1.73%
1995/96	14.52%	15.31%	20.05%	18.26%	20.55%	5.29%	3.27%	1.80%
1996/97	14.52%	15.31%	20.05%	18.26%	20.55%	5.29%	3.27%	1.80%
1997/98	15.70%	14.81%	19.42%	18.26%	20.54%	5.35%	3.49%	1.51%
1998/99	14.28%	14.57%	19.60%	18.62%	21.62%	5.13%	3.69%	1.46%
1999/00	14.60%	14.39%	19.10%	18.22%	21.24%	5.21%	4.13%	1.88%
2000/01	17.81%	15.71%	18.53%	16.39%	18.13%	5.13%	5.02%	1.86%
2001/02	23.88%	19.91%	18.90%	12.90%	11.82%	3.72%	5.38%	1.93%
2002/03	30.31%	18.93%	17.59%	12.00%	9.50%	3.36%	5.12%	1.66%

Note: Totals may not add due to rounding.
Source: AWTA

Table 10: Micron profile of wool tested – all microns (% share)

Micron Range	2001/02	2003/03	2003/04*
0.0-16.5	0.32	1.01	0.89
16.6-17.5	2.00	3.87	4.25
17.6-18.5	7.20	9.75	10.77
18.6-19.5	14.36	15.68	16.35
19.6-20.5	19.91	18.93	18.17
20.6-21.5	18.90	17.59	15.82
21.6-22.5	12.90	12.00	11.17
22.6-23.5	7.75	6.60	6.92
23.6-24.5	4.07	2.90	3.36
24.6-26.5	3.72	3.36	3.46
26.6-28.5	3.80	3.75	4.03
28.6-30.5	3.14	2.90	3.01
30.6+	1.93	1.66	1.81

* 2003/04 figures for July – February 2004 only
Source: AWTA

Modus operandi for the Australian Wool Innovation Production Forecasting Committee

- € The AWI 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, Meat and Livestock Australia and The Woolmark Company.
- € It is funded by Australian Wool Innovation Limited, which also provides a representative in 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.