

Australian Wool Production Forecast Report, June 2005

Australian Wool Innovation Production Forecasting Committee

Summary

A rebound in Australian shorn wool production for the 2005/06 season continues to be hampered by poor seasonal conditions across much of Australia. Australian shorn wool production is forecast to decline to 470 mkg greasy in 2005/06, a 1% or 5mkg greasy decline on the latest forecast for 2004/05.

This second forecast for 2005/06 is a 5 mkg decrease on the Committee's forecast in March 2005 of 475 mkg. The revised 2005/06 forecast is based on 105.85 million sheep shorn at an average of 4.44 kilograms per head (kg/head), with the number of sheep shorn adjusted downwards by 1.68 million head from the March 2005 forecast. This reduction since the March 2005 meeting reflects the early season difficulty in forecasting production before the critical April/May rainfall period.

The latest forecast for the 2005/06 season is based on declines in state shorn wool production in Queensland, New South Wales (NSW), Victoria, Tasmania and South Australia (SA), all down between 3% and 5% year-on-year. The most significant downward revisions are by NSW and Victoria considering they represent the first and third largest producers of wool by state.

Table 1: Summary of wool production forecasts for Australia

Note: Totals may not add due to rounding.

	2003/04	2004/05	change	2005/06	change
Sheep numbers shorn (mill head)	105	106	+1.2%	106	-0.5%
Average cut per head (kg/head)	4.51	4.47	-1.1%	4.44	-0.6%
Shorn wool production (mkg greasy)	475	475	0.0%	470	-1.0%

NSW shorn wool production is forecast to decline to 156.3 mkg greasy, a 4% or 6.4 mkg decline on 2004/05. This revision is nearly an 11 mkg swing from the 2005 March meeting and is based on 36.0 million head shorn and an average wool cut per head of 4.34 kg greasy for NSW. This revision reflects on-going drought conditions in many parts of this state which have been compounded by a failed Autumn break.

FURTHER INFORMATION

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For Victoria, the average fleece weight for the 2005/06 season is forecast to decline by 3% while the number of sheep shorn remains static. After several relatively good seasons for pasture growth, the poor start to the Autumn is expected to have an effect on wool growth rates for sheep shorn in the first half of 2005/06. As a result, shorn wool production in Victoria is forecast to fall to 93.1 mkg greasy, a 3% or 3 mkg greasy decline year-on-year.

In contrast to the dry start to the season in these states, Western Australian (WA) pasture growth over Autumn has been exceptional and is being described as one of the best starts to the season in the last 50 years. As a result, shorn wool production in WA is forecast to rise to 120.5 mkg greasy in 2005/06, a 7% or 7.9 mkg greasy increase year-on-year.

It is this large increase in WA shorn wool production that has negated much of the decline in the other states, resulting in a relatively similar national production level for 2005/06 to the two seasons prior.

Table 2: Summary of state by state wool production forecasts

Note: Totals may not add due to rounding.

	QLD	NSW	VIC	TAS	SA	WA	National
2002/03	23	183	102	14	63	114	499
2003/04	21	165	93	15	65	115	475
2004/05	24	163	96	15	65	113	475
2005/06	23	156	93	14	63	120	470
% change 05/06 v 04/05	-3%	-4%	-3%	-5%	-3%	+7%	-1%

The major seasonal influence on WA production is also expected to broaden the micron profile of the WA clip. This forecast decline in fine wool (19.5 & finer) production will have a significant impact on national fine wool production in season 2005/06, as in all other states micron profiles remain relatively similar to the year before.

For the 2004/05 season, Australian shorn wool production has been revised slightly lower to 475 mkg greasy, down 2 mkg on the forecast made in March 2005. This latest revision sets 2004/05 production at the same level as the 2003/04 season of 475 mkg greasy and is based on the latest trends from AWTA testing volumes and an assumption on the volume of additional wool re-tested compared with the season before.

Wool Production Forecasts

Forecast for season 2005/06

Australian shorn wool production is forecast to contract slightly in 2005/06, after two seasons of stable production. The second forecast for the 2005/06 season of 470 mkg greasy, is a 5 mkg or 1% decline on the previous season.

While this latest forecast represents relatively little change to the 2004/05 season at a national level, the aggregate masks significant changes in forecast production at a state level compared with the previous year.

The latest forecast for the 2005/06 season is based on lower production in all states except WA. Queensland, Victoria and SA are forecast to decline by

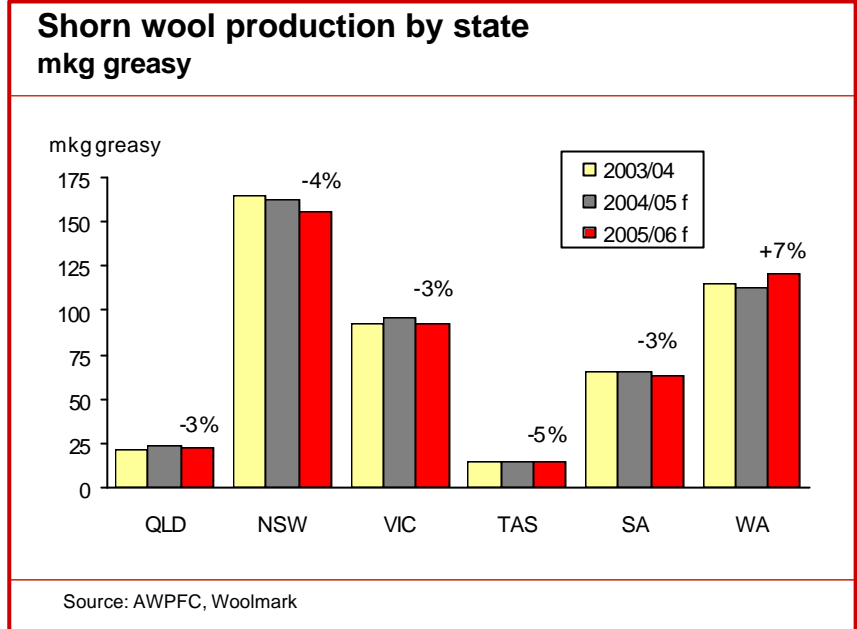
approximately 3%, or 0.7, 2.0 and 1.9 mkg greasy respectively, compared with the season before. Tasmanian wool production is forecast to decline by 4.8% or 0.7 mkg greasy to 14.3 mkg. However, the most significant decline in production is in NSW, with the trend in recent years of declining production forecast to continue into the 2005/06 season.

NSW shorn wool production is forecast to fall to 156.3 mkg greasy in season 2005/06, a 4% or 6.4 mkg decline on the 2004/05 season. The decline in wool production in NSW is a result of a forecast decline in both opening numbers and the number of sheep and lambs shorn and a 2% decline in the average fleece weight for the 2005/06 season versus 2004/05. The decline in fleece weights reflects the continued difficult seasonal conditions much of NSW has faced through autumn, with a predicted impact on wool cuts for sheep shorn this Spring. This is despite recent widespread rains in NSW, which have come too late to have much influence on Spring shearing. It may improve fleece weights for Autumn 2006 shearing.

Table 3: 2005/06 Production Forecast

Note: Totals may not add due to rounding.

	QLD	NSW	VIC	TAS	SA	WA	National
Sheep shorn (million)	5	37	23	4	13	26	106
Average cut head (kg/head)	4.70	4.34	4.12	3.93	4.79	4.70	4.44
Shorn wool production (mkg greasy)	23	156	93	14	63	120	470



Similarly, the lack of rainfall in April and May in much of Victoria, SA and Tasmania is expected to have an effect on reducing fleece weights for sheep shorn this Spring. The higher rainfall areas such as the western district in Victoria and the south-east of SA have had relatively good seasons for pasture growth in recent years, but the start to this season in these areas has been significantly below average. The dry start to the season is forecast to reduce shorn wool production in Victoria to 93.1 mkg greasy, a 3.1% or 3 mkg decline year-on-year. South Australian production is forecast to fall by 1.9 mkg greasy (-3.0%) to 63.2 mkg in the 2005/06 season.

Table 4: Comparison of forecasts 2005/06

Wool Production (mkg greasy)	QLD	NSW	VIC	TAS	SA	WA	National
March 2005 forecast	--	--	--	--	--	--	475
June 2005 forecast	23	156	93	14	63	120	470

Note: Totals may not add due to rounding.

In Tasmania, the amount of rain in May was well below average. While rain in recent weeks has been beneficial, winter temperatures have reduced pasture growth to marginal levels. Overall, this is forecast to reduce fleece weights in Tasmania by 3% in season 2005/06, while a slight decrease in the number of sheep shorn (-1.9%).

While Queensland received well below the average rainfall over the normal summer pasture growing period, recent rainfalls will help improve the seasonal outlook for 2005. However, shorn wool production is forecast to still decline in the 2005/06 season as sheep numbers fall modestly. A combination of factors such as seasonal conditions, land acquisition by beef producers that previously were sheep properties, recent rains encouraging the planting of winter crops and high sheep prices making it expensive to re-stock, are all contributing to declining sheep numbers in 2005/06.

A counterbalance to much of the decline in shorn wool production in the eastern states is a forecast strong rise in production from WA. Autumn pasture growth in WA has been exceptional, with the early start to the Autumn break in early April sustained by rain throughout April and May and a relatively warm May and first half of June. This has resulted in some pastures reported to have feed "a foot high" moving into winter in the 'Great Southern' region - where around 60% of the state's wool production occurs. It is expected that fleece weights will increase substantially for sheep shorn this Spring in WA, helping boost the state's shorn wool production by a forecast 7% for the 2005/06 season compared with the previous season.

Micron Profile Forecast 2005/06

The key driver to changes in the micron profile year-to-year are typically seasonal, while over the medium term changes in management decisions – joining decisions (genetics) and changes in flock demographics (stock selling decisions) - are important in driving underlying trends.

For the 2005/06 season, seasonal influences are forecast to increase the amount of ‘hungerfine’ wool from Spring 2005 shearings across most parts of NSW and Tasmania, and the higher rainfall areas of Victoria and SA. This is forecast to marginally reduce the micron profile for the full season in these states assuming a relatively normal Spring.

However while the seasonal influences are likely to increase fine wool production in these areas only slightly, this is forecast to be largely negated by on-going changes in merino breeding strategies to traits other than primarily micron. Fine wool prices continue to remain at low levels in Australian dollar terms, as they have for several years, with profitability remaining low - as measured by the 19 micron to 21 micron wool price ratio and also against sheep/lamb meat prices. Woolgrowers are responding to market signals with merino ram selection increasingly based mainly on characteristics such as frame size rather than micron.

Table 5: State micron profile forecasts 2005/06

Note: Totals may not add due to rounding.

States	<18.5	19	20	21	22	23	24	25/26	27/28	29/30	>30
QLD	8.5%	14.5%	23.5%	28.5%	15.5%	5.5%	1.5%	1.0%	1.0%	0.4%	0.1%
NSW	27.0%	17.5%	16.5%	13.5%	7.0%	3.5%	2.0%	4.2%	5.0%	2.8%	1.0%
VIC	16.0%	16.3%	15.6%	11.0%	8.0%	5.9%	3.9%	5.4%	7.5%	6.4%	4.0%
TAS	27.5%	23.5%	18.0%	9.5%	4.0%	1.5%	1.0%	3.0%	6.0%	3.2%	2.8%
SA	2.4%	6.1%	12.5%	20.5%	21.0%	17.0%	7.8%	4.4%	3.0%	3.2%	2.1%
WA	9.0%	13.0%	23.0%	24.0%	16.0%	8.0%	4.0%	1.6%	0.5%	0.5%	0.4%
Australia	16.0%	14.6%	17.8%	17.2%	11.7%	7.0%	3.6%	3.6%	3.9%	2.9%	1.6%

The large increase in feed available to sheep in WA is forecast to have a significant impact on the amount of fine wool (19.5 micron & finer) produced in this state and subsequently on national volumes in season 2005/06. A below average pasture growing season (calendar year 2004) for much of the wool produced in 2004/05 in WA, resulted in a rapid increase in fine wool production for 2004/05. WA fine wool production in 2004/05 increased to a forecast 34.8 mkg, a 8.5 mkg or 32% increase on the 2003/04 season. For the 2005/06 season, WA fine wool production is forecast to fall back to levels similar to that in season 2003/04, approximately 26.5 mkg.

The impact of the forecast decline in fine wool production from WA for season 2005/06 is a major factor in a forecast decline in nationally fine wool production. Nationally, the percentage of fine wool to total shorn

wool production is forecast to fall back to 30.6%, with the amount of fine wool forecast to fall to 143.8 mkg greasy in season 2005/06.

Table 6: Micron Profile (July to June)– Australian clip

Note: Totals may not add due to rounding.

National	<18.5	19	20	21	22	23	24	25/26	27/28	29/30	>30
AWTA 2003/04	14.2%	15.8%	18.3%	16.6%	11.9%	7.5%	3.7%	3.5%	3.8%	2.9%	1.8%
AWTA 2004/05	15.9%	16.5%	18.7%	16.0%	10.7%	6.2%	3.2%	3.6%	4.1%	3.1%	2.0%
AWIPFC (Jun) 2005/06	16.0%	14.6%	17.8%	17.2%	11.7%	7.0%	3.6%	3.6%	3.9%	2.9%	1.6%

Forecast for season 2004/05

The committee’s sixth forecast for the 2004/05 season was revised down by 2 mkg greasy to 475 mkg greasy from the March 2005 forecast of 477 mkg greasy. The latest forecast is based on 106.4 million sheep and lambs shorn at an average cut of 4.47 kg per head.

The latest minor revision to the 2004/05 wool production forecast reflects the committee’s heavy reliance on AWTA test data at this stage of the forecasting process. The committee considered the latest changes to AWTA test weights year-on-year, likely changes in ‘re-testing’ volumes across the industry and state committee inputs in determining the outcome of this forecast. It also took account of final sheep numbers from the ABS, which indicated that sheep numbers at the 1st July 2004 were an estimated 101.3 million head, slightly lower than the previous estimate of 102.6 million head.

The latest revision to the Australian shorn wool production forecast for the 2004/05 season, sets production at the same level as the 2003/04 final season estimate. While this points to a stabilization of Australian wool production after many years of decline, it is relatively disappointing in the context of the failure of wool production to rebound after the 2003/04 season’s wool production level which was adversely influenced by the intense drought.

Table 7: 2004/05 Production Forecast

Note: Totals may not add due to rounding.

	QLD	NSW	VIC	TAS	SA	WA	National
Sheep shorn (million)	5	37	23	4	13	25	106
Average cut head (kg/head)	4.75	4.43	4.25	4.05	4.90	4.49	4.47
Shorn wool production (mkg greasy)	24	163	96	15	65	113	475

Early season committee forecasts in June and September 2004 had Australian shorn wool production for the 2004/05 season at 500 mkg, a 5.2% rebound on 2003/04. The key drivers of the forecast at this time were for NSW state production to rise to 180 mkg greasy, a 9% or 15 mkg increase on the 2003/04 level, while Victorian and SA state production were forecast to rise by 4 mkg each, with little change to WA expected.

At a state level, the two main differences between the forecast in September 2004 and the latest forecast are in NSW and SA, with production in neither state responding as predicted earlier in the season. NSW production in the 2004/05 season was continually plagued by a failure of a return to more normal seasonal conditions, with over 90% of NSW drought declared by the second half of 2004/05. This not only continued to have an effect on wool cuts per head, but also hindered the ability of sheep numbers to increase significantly – especially when combined with the attractive returns available through livestock sales.

Table 8: Comparison of forecasts 2004/05

Note: Totals may not add due to rounding.

Wool Production (mkg greasy)	QLD	NSW	VIC	TAS	SA	WA	National
March 2004 forecast	21	165	95	15	62	111	470
June 2004 forecast	22	176	98	15	71	118	500
September 2004 forecast	23	180	97	16	69	116	500
December 2004 forecast	23	175	95	16	65	113	487
March 2005 forecast	23	167	95	15	65	113	477
June 2005 forecast	24	163	96	15	65	113	475

Micron Profile - 2004/05

The forecast micron profile for the 2004/05 season was adjusted in-line with the full season test data micron profile available from AWTA at both a state and national level for the 2004/05 season. This is not expected to change materially in future forecasting reports.

Table 9: AWTA micron profile (July to June) – Australian clip

Note: Totals may not add due to rounding.

National	<18.5	19	20	21	22	23	24	25/26	27/28	29/30	>30
AWTA 2003/04	14.2%	15.8%	18.3%	16.6%	11.9%	7.5%	3.7%	3.5%	3.8%	2.9%	1.8%
AWTA 2004/05	15.9%	16.5%	18.7%	16.0%	10.7%	6.2%	3.2%	3.6%	4.1%	3.1%	2.0%

The volume of fine wool (19.5 micron & finer) reached record levels in season 2004/05, despite total shorn wool production remaining static compared with the year before.

The volume of fine wool production increased to a forecast 154 mkg greasy in season 2004/05, an 11 mkg or 8% increase on season 2003/04. The previous season high for fine shorn wool production of 151 mkg greasy, was recorded in the 2002/03 season, when national shorn wool production (all microns) totaled 499 mkg greasy or 5% higher than the latest shorn wool production forecast for the 2004/05 season.

As a percentage of total production for 2004/05, while the micron profile moved finer from 20.5 micron and below, 21 to 24 micron shorn wool production decreased as percentage of the total clip. Broader than 24 micron, the percentage increased modestly as producers continue to modify breeding decisions to support the high profitability of sheep/lamb meat production.

Table 10: AWTA Test statistics: July 2004 – June 2005

Note: Totals may not add due to rounding.

States	<18.5	19	20	21	22	23	24	25/26	27/28	29/30	>30
QLD	8.9%	15.0%	23.8%	28.0%	15.0%	5.3%	1.5%	0.9%	1.0%	0.4%	0.2%
NSW	27.0%	18.2%	17.1%	13.2%	6.9%	3.0%	1.9%	4.0%	4.8%	2.8%	1.1%
VIC	15.4%	15.7%	15.7%	12.0%	9.1%	6.5%	3.7%	5.1%	7.1%	5.9%	4.0%
TAS	26.6%	23.3%	17.6%	9.1%	3.9%	2.0%	1.4%	3.5%	6.1%	3.4%	3.3%
SA	2.1%	5.9%	12.0%	19.0%	22.2%	17.5%	8.6%	4.9%	2.8%	3.0%	2.1%
WA	11.1%	19.9%	26.7%	21.2%	11.8%	4.9%	2.0%	1.1%	0.5%	0.5%	0.3%
Australia	15.9%	16.5%	18.7%	16.0%	10.7%	6.2%	3.2%	3.6%	4.1%	3.1%	2.0%

Latest Industry Statistics

The 2004/05 season can be characterized as a season of contrasting halves – the first half of the season recorded year-on-year increases in AWTA test statistics, AWEX auction offerings and broker receivals. In the second half of the season, year-on-year growth slowed and in some instances reversed some of these early season gains.

Table 11: Latest Statistics: July 2004 to June 2005

Note: Totals may not add due to rounding.

	2003/04	2004/05	% change
AWEX auction offerings (greasy tonnes)	447,661	458,770	+2.5%
AWEX Broker receivals (bales)*	2,138,188	2,185,368	+2.2%
AWTA test statistics (tonnes)	481,795	485,859	+0.8%

*July to May (11 months only)

For the 2004/05 season, AWTA tested weights increased to 485,859 greasy tonnes, a 0.8% increase compared with the 2003/04 season. This marginal full season increase was in-line with the committee's expectations set at the March 2005 meeting, with the second half slowdown in key industry statistics relevant to wool production expected.

Historical Australian Production Figures

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

Table 12: Full season industry statistics

Note: Totals may not add due to rounding.

	2001/02	2002/03	2003/04	% change
AWEX auction offerings (mkg)	518.736	448.499	447,661	-0.5%
AWEX Broker receivals (bales)	2,742,111	2,414,338	2,248,538	-6.9%
AWTA test statistics (mkg)	572.001	501.215	481.795	-4.0%

Table 13: Australian wool industry statistics

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

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Opening sheep numbers (million)	120.2	117.9	115.5	118.6	110.9	106.2	99.3
Sheep shorn (million)	155.5	148	144.4	139.6	127.0	117.5	105.1
Average cut per head (kg/head)	4.22	4.32	4.3	4.31	4.38	4.25	4.51
Total shorn wool production (mkg greasy)	655	641	620	602	555	499	475

Table 14: Micron profile of Australian wool (% share)

Note: Totals may not add due to rounding. Source: Australian Wool Testing Authority (AWTA)

Year	<18.5	19	20	21	22	23	24	25/26	27/28	29/30	>30
1991/92	4.0%	7.9%	15.2%	21.5%	20.0%	13.4%	7.1%	5.5%	2.9%	1.6%	1.0%
1992/93	2.2%	5.4%	12.0%	19.9%	20.6%	15.6%	10.0%	7.9%	3.0%	1.9%	1.6%
1993/94	3.0%	5.5%	12.1%	18.8%	20.8%	15.7%	10.0%	7.4%	2.8%	1.9%	1.7%
1994/95	4.2%	8.6%	15.2%	20.9%	19.9%	13.0%	7.0%	4.7%	2.8%	2.0%	1.7%
1995/96	3.9%	8.2%	15.3%	20.8%	18.5%	13.2%	8.1%	6.0%	2.7%	1.8%	1.6%
1996/97	4.8%	9.7%	15.3%	20.2%	18.3%	13.1%	7.4%	5.3%	2.3%	1.9%	1.8%
1997/98	5.9%	9.8%	14.8%	19.4%	18.3%	12.8%	7.7%	5.4%	2.6%	1.8%	1.5%
1998/99	5.4%	8.8%	14.6%	19.6%	18.6%	14.0%	7.6%	5.1%	2.7%	2.0%	1.5%
1999/00	5.3%	9.3%	14.4%	19.1%	18.2%	13.6%	7.7%	5.2%	2.9%	2.4%	1.9%
2000/01	6.7%	11.1%	15.7%	18.5%	16.4%	11.4%	6.8%	5.1%	3.6%	2.8%	1.9%
2001/02	9.5%	14.4%	19.9%	18.9%	12.9%	7.7%	4.1%	3.7%	3.8%	3.1%	1.9%
2002/03	14.6%	15.7%	18.9%	17.6%	12.0%	6.6%	2.9%	3.4%	3.7%	2.9%	1.7%
2003/04	14.2%	15.8%	18.3%	16.6%	11.9%	7.5%	3.6%	3.5%	3.8%	2.9%	1.8%
2004/05	15.9%	16.5%	18.7%	16.0%	10.7%	6.2%	3.2%	3.6%	4.1%	3.1%	2.0%

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 four times a year for Australian wool production.
- 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.