



9 July 2020

To: IWTO Heads of Delegation

From: Mr. Chris Wilcox, Chairman of the Market Intelligence Committee @ chris.wilcox@ncwsba.org
and Mr. Wolf Edmayr, IWTO President @ edmayr@iwto.org

RE: IWTO C19 Market Information

Dear Members of IWTO

The Arcadia Group this week announced that they will make 500 of their 2.500 head office employees in London redundant. The British multinational retailing company owns many well-known high street clothing retailers, such as Burton, Dorothy Perkins, Evans, Miss Selfridges, Topshop, and others. The chief executive told staff: 'We are continuing to live through an unprecedented global crisis...and...although our digital platforms provided us with some much-needed sales, it certainly did not make up for the loss of sales from our stores and franchise partners. We and our partners are unlikely to see the same level of footfall on the high street anytime soon.' Senior leadership and board members took a salary reduction of between 25-50% from March to June. This serves as a good example of what many other textile businesses are currently dealing with.

What began as a 'pneumonia' outbreak in central China this January, has developed into a global pandemic, the size and reach of which we have never seen before. Wool prices in Australia fell by 36% in US\$ terms during the past trading season. Other wool producing countries saw prices fall by as much as 47%. Wool clothing exports from China fell by 33% in the first four months of 2020. Clothing retail sales for the 2020 year to May in the major wool consuming countries dropped by as much as 38% year-on-year, while retail sales of floorcoverings have plummeted by just as much or even more. Consumer confidence in the major wool consuming countries has taken a major blow and the forecasted world economic growth in 2020 is now adjusted from an expansion of 3.3% forecast in January to a contraction of 4.9% forecast this month. No country has been spared from the crisis.

Seismic shifts have shaken our wool pipeline and are still causing disruptions from the farm gate to the retail floor. The most alarming factor being that infection rates seem to be spiking in certain parts of the world again and the end of this crisis is not in sight yet. Seasonal changes might offer some respite in Europe at the moment, but scientists agree that these are most likely temporary. IWTO members are active in every part of the wool pipeline and the loss of revenue in wool prices, together with the implication of lower trade figures in every sector, are having a severe impact on the profitability and long-term sustainability of our industry.

The Market Intelligence Committee would like to share the following input from our members:

Wool Farmers:

Wool farmers around the world have been hit hard by the crisis, with confidence-shattering declines in raw wool demand and prices. A recent survey of Australian wool farmers by WoolProducers Australia about the impact of COVID-19 reported an average financial loss of 33% mainly due to the fall in wool prices, with over half currently not offering wool for sale due to the low prices and poor demand. This is dramatically affecting

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cash-flow which is desperately needed by wool farmers in Australia following the prolonged and devastating drought. The President of WoolProducers Australia, Ed Storey, said that this has "...the ability to potentially affect the viability of wool growing businesses in the short, medium and long term." This could result in a further decline in the current 95-year low wool production levels in Australia. Australia is not alone. Wool farmers and wool production in all countries are facing similar challenges.

Wool Selling Agents and Buyers:

Wool brokering and handling companies and selling agents are directly affected by the global crisis, with the lower wool production levels, reduced flow of wool and rising stocks of held wool hammering turnover and profitability. There is also a personal cost involved, as wool broker staff work with farmer clients who have been hit hard by drought and the plunge in wool prices. Wool buyers in all countries have been under severe pressure as the COVID-19 pandemic spread across the world, creating massive uncertainty and a plunge in orders, first from China and then from the other countries in east Asia, India, Europe and elsewhere. Managing this risk and uncertainty and the financial commitment that is needed has placed enormous strain on all wool buying and exporting companies in all wool producing countries.

Wool Processors:

The order book has shrunk by 30-40%, comparing year-on-year figures. Most processors report the woven business having an even tougher time than knitting. The first half of 2020 has been the worst business period they have ever lived through and they agree that they have never experienced such a brutal stop in incoming orders. They all hope that the current point is the lowest part of the downward V and that there will be some recovery during the next 6 months, but agree that it will not reach the same figures as last year, and that 2019 was already a difficult year.

Wool Spinners and Weavers:

Activity beyond primary processing naturally reflects a similar downward trend. A sample survey of wool textile manufacturing in the EU and Turkey recently revealed an alarming anticipated decline of around 35% to 50% being budgeted for 2020, with highly pessimistic prospects for Winter 2021. Preparatory sampling should currently be in process, both in-house and at key Northern Hemisphere textile trade fairs for this sector, but have either been cancelled or postponed. It is felt the premium, finer micron supply side will be less impacted, as luxury and affordable luxury brands, with a strong market presence in China, are already seeing signs of a renewal of activity. Bulk worsted and woollen mills in Europe (including Turkey) are experiencing a greater level of decline, some in excess of 50%, as demand for formal wear, already suffering pre-COVID, continues to decline sharply during lockdown and continued furloughing of employees in all sectors of the global economy. This will automatically impact Chinese wool textile manufacturing that has become an intimate part of the European, North American, and Japanese supply chain.

Members in China report a decline of 30% in the first part of the year, with the domestic market performing better than exports. Foreign consumption seems to be 'blocked' which is severely impacting cashflow. The second half of the year would normally be the peak season for wool production and there is hope that the domestic market will improve further, on the back of Chinese Government measures to promote consumption. If the export market can show signs of recovery during the next 6 months, the predicted decline in sales could be around 25% for 2020.

Wool Retail:

A quick survey of famous retail brands shows many on the brink of bankruptcy, with tailored apparel experiencing its worse crisis in years. The suit market was suffering from the USA – China spat in 2019 and just got given a further blow by C19. Brands with multiple property stores are suffering more under the added rent burden, while single store boutique brands have a better chance of survival. On-line sales are helping, but cannot replace the sales figures produced by footfall through brick-and-mortar retail stores. Teleworking means casual dressing and customers are dealing with cut pay-cheques, making textile purchases non-essential and risky.

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Summary:

The wool supply chain is long, with tens of thousands of wool farmers around the world and thousands of other companies involved in transforming raw wool into textiles. It is said that the wool supply chain resembles a long goods train. Signals from the one end take a long time to reach the other end and it takes even more time to shift the inertia and direction of the train. With many wool farmers each making their own decision about selling their product, there is no single organisation who can stop this, particularly given competition laws in place around the world.

The goods train that is the global wool industry has hit a brick wall at the front end, but the back end is still moving forward, carried by inertia. It is vital that information about the impact of the crisis is provided quickly to all involved, particularly back to the wool farmers, so they can make fully informed decisions and slow the train.

We would appreciate you sharing this information with all participants in your country so that everybody understands the gravity of the situation and enable all parts of the chain to react. If we work together, we can meet the enormous challenge presented by the global crisis and grasp the bright opportunities for wool as these unfold during the restart, ensuring the long-term sustainability of our wonderful fibre.

We would also appreciate any input or feedback from members.

With Best Wishes

Mr. Chris Wilcox

Chairman - IWTO Market Intelligence Committee

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