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This month we hear from AWI/Woolmark Global Strategic Adviser Peter Ackroyd who writes from London about the state of affairs for wool at processing regarding Brexit. You can also hear Peter expand on this in Episode 21 of The Yarn podcast at <http://www.wool.com/podcast>.

The UK textile and fashion industry is living through some rather interesting times as retailers face up to the inevitable price rises that a post Brexit -10% to -20% devaluation of the Great British Pound (GBP) has forced upon an industry that is around 93% (official UK Government figures) dependent on imports of clothing, mainly from US dollar dominated manufacturing countries in East Asia and the Subcontinent. At the time of Brexit in June 2016, M&S, Next, Arcadia, John Lewis, Debenhams, House of Fraser, the big guns on the disproportionately powerful UK Fashion High Street, had covered their forex needs for at least six months. Now the cover is no longer and the trade is fully exposed to a relatively weak currency. To counter this, several middle market retailers are already tipping polyester and acrylic into wool quantities to try to meet last year's price points.

The UK fashion and clothing market polarised several years ago and the recent retail price rises caused by currency movements has seen the cheaper discounters benefit accordingly. Primark, the third largest UK fashion retailer after Marks and Spencer and NEXT, saw sales rise by around +6% in the third quarter of this year. Marks and Spencer enjoyed a +4.5% increase in food sales, but a highly disappointing drop of -5.9% in takings in the fashion and home departments in the fourth quarter of 2016, highlighting the perennial M&S predicament of how to manage what retail analysts refer to as 'the dysfunctional dichotomy of premium food and dowdy clothing'. In a recent unexpected reversal of misfortunes however, M&S announced a -1.9% drop in clothing sales from January to June 2017, a far better than predicted result, to which must be added confirmation that sales of full priced clothing items rose by +11% in the same period. This is welcome news for M&S 'ingredient brand' suppliers of Merino worsted fabrics Alfred Brown in the UK and Reda, Angelico, Zegna and Vitale Barberis Canonico in Italy. John Barton, Chairman of NEXT, noted that the year to January 2017 was particularly challenging. He said that total retail sales had declined by -2.9% but was pleased to report that online sales from the NEXT Directory had increased +2.4%. NEXT was formed out of the Leeds clothier Hepworth & Sons who once employed 2000 people in the centre of Leeds. All is now cut and sewn in China, Vietnam, and Cambodia.

At the premium end of the UK fashion market, Burberry has posted some very encouraging results with comparable sales up +4% in the three months up to June 30th 2017. Improved business in China and Asia Pacific was partly responsible for a solid first quarter along with strong retail sales in the UK, buoyed by increased sales to London bound foreign tourists (mainly Chinese) taking advantage of weaker sterling. The famous Burberry Merino and cashmere blanket that falls from the loom at mill in Scotland at about GBP 90.00, retails at GBP 995.00 at the Burberry store on London's Regent Street. Similar excesses have recently hit the headlines as shareholders voiced concern at the Burberry President and Chief Creative Officer Christopher Bailey's newly doubled salary package now valued at GBP 3.9m per annum.

Despite the current uncertainty in the huge UK middle market, recent surveys published prior to London Fashion Week Men's in June of this year note that the menswear market in UK expanded by +2.8% in 2016 with a retail sales value of around GBP 14.5 billion. Whilst menswear only accounts for 27% of the UK fashion market, Mintel research suggests that the men's sector will see growth figures of +12% over the next four years to reach GBP 16.3 billion in 2021. In another research paper, 58% of men surveyed agreed that sporty styles of clothing, or athleisure looks, were acceptable and indeed practical for everyday wear. Whether this is good news for wool remains to be seen.

The formal and semi-formal men's sector has to date remained more or less impervious to the temptation of cheaper polyester fabrics and acrylic yarns that pushed wool out of womenswear purely on price many years ago. The current fear amongst Merino worsted weavers is that the move to casual athleisure will create golden opportunities for the polyester brigade that so damaged mid micron wool in the 1970s and 80s. Of some comfort is a recent survey suggesting men are increasingly concerned about ethical and environmental issues around fashion.

The past fifty years have been turbulent, but the remaining UK mills that have invested heavily in technology and textile design are cautiously optimistic about the future for a number of reasons that include:

Wool has seen a significant come back over the past ten years as cautious consumers seek a more sustainable approach to fashion and purchasing with a return on capital invested. This movement has been significantly assisted by The Prince of Wales' Campaign for Wool, started in January 2010.

Globalisation of garment manufacturing has increased demand for quality wool fabrics and stimulated growth in 'ingredient branding', a phenomenon that is currently very much in vogue throughout the world and growing exponentially in China. European weavers have re-embraced the Woolmark brand as a highly respected quality assurance brand that fits well with a mill's own 'ingredient brand'.

Much progress has been made by The Woolmark Company in bringing worsted spun yarns and fabrics into active sportswear and leisurewear and some significant time and money has been spent on promoting the natural, biodegradable, renewable, breathable and sustainable qualities of Merino in this growing sector. The sector's vulnerability to fibre substitution is, however, of considerable concern.

UK weavers have benefited greatly from Woolmark's commitment to promoting wool in luxury brands and with emerging designers through several key programmes, particularly the International Woolmark Prize and the Woolmark Gold programme in Asia.

UK weavers are directly benefiting from a very marked increase in the number of questions asked by brands and consumers about provenance of fibres and manufactured goods.

The mills of Yorkshire are no longer Australia's largest customers for raw wool as they used to be 60 years ago. However, the UK is the world's second largest per capita apparel wool consuming country after Italy and currently consumes twice that of the USA per head of population. Current estimates suggest that over 100 million metres of merino worsted are woven in Europe and that capacity is set to expand to meet further demand for local sourcing.

The niche, almost 'boutique' wool industry in Yorkshire and Scotland is now a very highly regarded, some would say 'treasured' supplier to luxury brands worldwide. The industry is currently expanding, as luxury labels are desperately keen to retain proximity sourcing of high quality fabrics and raw materials in a consumer market that increasingly asks ever more searching questions about the composition and construction of premium priced fashion.

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