

1983/84 WOOL SEASON REVIEW

During the 1983/84 wool selling season which ended on 30 June, the market began to benefit from the more broadly based international economic recovery. Demand was sufficient to allow the whole of the season's clip and a large part of the Wool Board's stockpile to be sold at prices which were on average 16 per cent above the previous year levels. However, in view of the strength of the international recovery the price performance was below expectations as there was no clear upward trend over the season and the closing sale price was the same as that at the opening.

The following article describes and analyses the main developments in the production and marketing of wool in New Zealand and in the world market during 1983/84.

PRODUCTION

During the season ended 30 June 1984 wool production fell by 2 per cent to 363,600 tonnes. The principle reason for the fall was a 12 per cent fall in *slipe*¹ wool production due to a decline in lamb slaughterings from the record levels achieved in 1982/83, combined with lower mutton slaughtering levels. Carryover effects of drought conditions which affected some regions in the previous season also meant that shorn wool production was down slightly. After seven successive years of increases total sheep numbers were static in 1983/84, hence there was no boost to total production over the year from increased stock numbers. Wool production per sheep fell from 5.28 kg to 5.17 kg.

The outlook for 1984/85, however, is more favourable. Good climatic conditions experienced

- 1 *Slipe* wool is wool removed from the pelts of sheep at the time of slaughtering.

during the autumn and winter of 1984 have resulted in a high lambing percentage, hence *slipe* wool production is expected to be high. The good weather should also increase the average shorn fleece weight, and wool production per sheep could increase to around 5.5 kg. Sheep numbers at the beginning of the season are also thought to have increased by around 1 per cent from a year earlier which will further increase production. Consequently total wool production is expected to be as high as 390,000 tonnes which would represent an increase over the previous record production level of 380,700 tonnes recorded in the 1980/81 season.

MODE OF SALE AND SCOURING

In 1983/84, 87 per cent of total production was shorn wool. This wool is disposed of either through sale at New Zealand auction, sale by private treaty or sale by auction at Bradford in the United Kingdom. During the early 1970s the proportion of shorn wool disposed of by private sale increased due to grower dissatisfaction with the auction system. During the 1980s the trend has been reversed and private sales as a proportion of total shorn wool disposals have declined from 25.2 per cent in the 1979/80 season to 17.7 per cent in 1982/83. Over the same period, shorn wool disposals at auction have increased from 72.3 per cent to 80.3 per cent while the proportion sold in the United Kingdom has remained steady at under 2 per cent. There was a small reversal of this trend in 1983/84 with the share sold at auction falling to 79.6 per cent and the share of private sales increasing to 18.7 per cent. In part, the increasing proportion of auction sales in the early 1980s has been attributed to changes in the auction system which have increased the frequency of sales and decreased the costs of selling.

TABLE 1
NEW ZEALAND WOOL PRODUCTION, SHEEP NUMBERS AND AUCTION PRICES

Season	Shorn Wool	<i>Slipe</i> ¹ Wool	Total ² Production (000 tonnes)	% Change Total Production	% Change Total ³ Sheep	% Change Total Sheep	Wool Produced Per Sheep (kg)	Av Auction Price for Greasy Wool (cents/kg)	Average Auction Price in 1983/84 (cents/kg)
1963/64	240.8	39.0	279.8	-0.6	50.2	+2.4	5.57	101.17	647.8
1964/65	244.1	38.6	282.7	+1.1	51.3	+2.2	5.51	77.40	475.9
1965/66	276.6	38.6	315.1	+11.5	53.8	+4.9	5.87	76.46	456.5
1966/67	276.6	45.1	321.7	+2.1	57.3	+6.5	5.61	64.77	372.2
1967/68	279.5	50.8	330.3	+2.7	60.0	+4.7	5.51	50.42	274.7
1968/69	281.8	50.1	331.9	+0.5	60.5	+0.8	5.48	61.36	321.5
1969/70	278.3	49.7	328.0	-1.2	59.9	-1.0	5.48	56.48	280.1
1970/71	283.4	50.5	333.9	+1.8	60.3	+0.7	5.54	53.42	242.1
1971/72	273.0	49.3	322.3	-3.5	58.9	2.3	5.47	66.46	276.5
1972/73	262.0	46.8	308.8	-4.2	60.9	+3.4	5.07	143.96	563.1
1973/74	243.8	41.1	284.8	-7.8	56.7	-6.9	5.02	139.19	495.5
1974/75	252.6	41.6	294.1	+3.3	55.9	-1.4	5.26	91.75	288.9
1975/76	271.7	40.1	311.8	+6.0	55.3	-1.0	5.64	157.12	424.5
1976/77	265.5	36.8	302.5	-3.0	56.4	+2.0	5.36	219.58	515.5
1977/78	269.1	41.7	310.8	+2.7	59.1	+4.8	5.26	190.43	391.6
1978/79	276.2	44.4	320.6	+3.2	62.2	+5.2	5.16	218.80	405.4
1979/80	310.8	45.7	356.5	+11.2	63.5	+2.2	5.61	265.09	419.7
1980/81	331.9	48.8	380.7	+6.8	68.8	+8.3	5.54	247.48	338.7
1981/82	316.5	46.5	363.0	-4.6	69.9	+1.6	5.19	255.72	301.7
1982/83	316.0	54.9	370.9	+2.2	70.3	+0.6	5.28	255.90	267.0
1983/84	315.0	48.6	363.6	-2.0	70.3	—	5.17	296.32	296.3

Source: New Zealand Wool Board and Department of Statistics.

(1) *Slipe* wool includes a small amount of wool sold on sheepskins.

(2) Wool production is estimated on a greasy equivalent basis.

(3) Sheep numbers are as at the beginning of the season.

The system will be further improved during the 1984/85 season with the adoption of a new auction sales roster format which will benefit growers by increasing auction frequency and providing quicker payment. This will allow the number of selling centres to be reduced from eight to four. In the North Island, selling will be centralised in Napier and Wellington and, in the South Island in Dunedin and Christchurch.

As table 2 shows there has been a long term trend towards an increasing proportion of total wool production being scoured in New Zealand. In 1983/84, 63.7 per cent of total production was scoured domestically, yielding 173,300 tonnes of scoured product. In part, this trend to further domestic processing reflects the increasing competitiveness of the New Zealand industry and this should be further enhanced by the 20 per cent devaluation of the New Zealand dollar which took place in July 1984. The trend can also be attributed to other factors, including increasing sales to markets such as Iran which have limited scouring facilities, and to increasingly stringent effluent disposal requirements in some traditional markets.

AUCTION PRICES

The average price for new season's greasy wool sold at auction during the 1983/84 season was 296.3 cents a kilogram, an increase of 16 per cent over the level recorded in the 1982/83 season. In part, the increase was due to the full season impact of the 6 per cent devaluation of the New Zealand dollar which took place in March 1983, but it mostly reflected the generally stronger demand for wool due to the recovery in the international economy.

The Wool Board publishes three basic price indicators which can be used to assess price developments. The average auction price gives the actual average price received for the wool sold at a sale or over a particular period. It is affected by the type of wool forwarded for auction and tends to be lower at the beginning and end of the season when lower quality wools are sold. The adjusted weighted average sale price (AWASP) adjusts for seasonal compositional differences by weighting the actual prices of different wool grades by their share of the overall composition of the wool clip (as measured from the previous season). However, as the AWASP includes Wool Board supplementation payments, the market indicator (which is calculated on the same basis as the AWASP but excludes the supplementation payments) is the best indicator of 'sale-to-trade' price trends.

The 1983/84 season opened with the market indicator at 301 cents/kg which was only a little above the previous season's closing sale level of 294 cents/kg. The market indicator then eased during November and December reaching a low point of 280 cents in the latter month. Thereafter, prices strengthened somewhat and the season's peak of 314 cents/kg was reached in early February, before falling away moderately over the final three months of the season. The market indicator at the final sale of the season at 301 cents/kg was identical to that at the opening of the season.

NEW ZEALAND WOOL BOARD

The New Zealand Wool Board has two main areas of activity: the promotion of wool and research and

market support. In the first role the Wool Board is charged with the efficient preparation, handling, selling and shipping of wool. It manages the wool auction systems and promotes improved techniques in shearing, wool handling and classing.

The Board's major promotional and marketing expense is its contribution to the International Wool Secretariat (the 1983/84 contribution was \$44 million) which is a joint marketing venture of Australian, New Zealand, South African, Uruguayan and, from June 1984, Brazilian producer boards. In certain markets the Board also undertakes promotional, research and technical support work of its own.

The above activities are financed by a levy on all shorn wool sold. This was set at 3 per cent for the 1983/84 season but will increase to 5 per cent from 1 July 1984 because of the low level of Board reserves available to finance promotion and research activities.

The Board's market support activities fall into two main areas: income stabilisation and market intervention.

The Wool Income Stabilisation Scheme entails the setting of a minimum and a trigger price. When the average market price falls below minimum price levels (250 cents/kg in 1983/84), grower's returns are supplemented from the Minimum Prices Funding Account, at the Reserve Bank, by a payment equivalent to the percentage by which the market indicator falls below the floor price. The Minimum Prices Funding Account is funded by a levy on wool sales which was set at 2 per cent in 1983/84 and will be 1 per cent in the 1984/85 season. Because of the lift in prices during the season, only a minimal amount of supplementation was required from the account and total payments amounted to \$0.3 million compared to \$32.1 million in 1982/83. As at the end of the season the account had a credit balance of \$68 million. The scheme also provides for 50 per cent of proceeds above the trigger price (400 cents/kg in 1983/84) to be skimmed off and placed in another Reserve Bank account. These proceeds can be returned to the producer after five years, or at an earlier date for development purposes, or if the Government decides that the financial condition of the industry would make repayment desirable. There were no skimmings under this scheme during the 1983/84 season.

The Board has also administered the Government's Supplementary Minimum Price Scheme for wool which has been in operation since the 1978/79 season. In 1983/84 the scheme assured growers of an average return of 320 cents/kg (the same level as in 1981/82 and 1982/83) and producers are paid supplements to bring their auction returns up to this level. Total payments under the scheme fell to \$78.8 million compared with \$176.9 million for the 1982/83 season. SMPs were abolished before the 1984/85 season and replaced with a lump sum payment to the Wool Board equal to the anticipated SMP payments for the season.

In its market intervention role the Wool Board stands in the market as a bidder at auctions. The level at which it will intervene is not announced by the Board and may be adjusted during the season to take account of new market developments. The objective of this intervention is to promote a relatively stable market, dampening short-term price fluctuations while accommodating long-term marketing trends. During the 1983/84 season the Board's market interventions were mainly limited to purchases of poor quality wool in the last three months of the season and totalled less than 3,000 bales. The

TABLE 2
WOOL SCOURING IN NEW ZEALAND
(thousand tonnes of scoured product)

Seasons ended June	On Account Exporters	On Account Growers	On Account Manufacturers	Total	% of Total Wool Production Scoured in N Z
1970	66.9	8.2		75.1	31.6
1971	74.9	9.8		84.7	34.7
1972	89.9	10.0		99.9	42.7
1973	86.7	8.5		95.2	42.7
1974	66.7	8.3		75.1	33.7
1975	84.0	6.0		90.0	42.6
1976	99.1	6.6		105.7	46.6
1977	93.1	7.8		100.9	45.5
1978	97.2	8.6		105.8	46.9
1979	108.7	9.0		117.7	50.2
1980	127.4	9.3		136.7	51.8
1981	137.1	7.9	13.9	158.9	56.9
1982	132.8	6.5	16.6	155.9	58.0
1983	152.9	5.3	14.9	173.2	63.3
1984	150.0	4.3	18.9	173.3	63.7

Source: New Zealand Wool Board
1 Not available prior to 1980/81

TABLE 3
MID-MONTH PRICES FOR GREASY WOOL SOLD AT AUCTION
(Cents/kilogram greasy basis)

	1982-83		1983-84	
	AWASP	Market Indicator	AWASP	Market Indicator
July	255.1	250	292.2	292
August				
September	254.9	248	302.1	302
October	255.4	252	300.6	301
November	254.7	247	289.1	289
December	255.2	237	282.2	282
January	254.2	231	283.5	283
February	256.6	240	307.6	308
March	288.4	288	300.6	301
April	302.8	303	294.4	294
May	288.1	288	295.1	295
June	283.5	284	287.6	287

Source: New Zealand Wool Board

Note: Because of variations in the composition of wool auction offerings in different months, the price movements in this table do not solely represent movements in market prices.

TABLE 4
NEW ZEALAND WOOL BOARD OPERATIONS¹

Season Ended June	Purchases (000 bales)	Sales (000 bales)	End of Season Stocks (000 bales)	Capital and Reserves 30th June (\$ million)	Minimum Floor Price (c/kg)	'Trigger' Price (c/kg)
1971	14.9	102.2	262.7	48.2	46.3	—
1972	11.1	203.3	69.7	52.4	46.0	—
1973	—	69.0	—	54.7	50.0	—
1974	24.7	4.9	19.8	55.9	70.0	—
1975	300.1	106.5	213.1	57.8	93.0	—
1976	25.2	184.8	50.0	72.0	124.0	—
1977	135.2	81.4	103.8	79.0	136.0	195.0
1978	191.3	91.4	201.9	96.9	150.0	215.0
1979	26.0	146.0	80.9	105.3	170.0	250.0
1980	157.1	116.7	118.4	127.5	200.0	300.0
1981	316.0	89.4	343.4	133.0	215.0	330.0
1982	193.4	115.5	421.1	133.6	250.0	400.0
1983	61.6	196.6	285.1	126.3	250.0	400.0
1984	13.0	203.9	92.1	122.7	250.0	400.0

Source: New Zealand Wool Board

¹ Prior to February 1978 N.Z. Wool Corporation
Prior to December 1972 N.Z. Wool Commission

strength of the market was such that the Wool Board was able to dispose of a large part of its opening stocks of 285,000 bales and by the end of June 1984 stocks had been reduced to 92,000 bales. The net disposals were equivalent to about 8 per cent of the season's production.

EXPORTS

In the year to June 1984 the volume of wool exports was 308,200 tonnes. This represented a 4.4 per cent fall on the previous year's figure. Although actual wool production was down, the availability of wool was up slightly because the rundown of the Wool Board's stockpile was about twice as great during 1983/84 as in 1982/83. The level of actual wool exports fell, however, because commercial stocks held in New Zealand rose and because sales to local mills increased sharply. On a greasy basis, domestic wool sales totalled 37,700 tonnes compared with 25,500 tonnes in 1982/83.

The value (fob) of exports was up by 9.3 per cent to \$1,113.6 million. Although wool accounted for 12 per cent of total exports in 1983/84, it has fallen considerably in relative importance, particularly compared with the early 1960s when wool typically made up a third of total exports. Even during the 1970s wool's average share was 18 per cent. The falling real price of wool and the diversification of exports into non-traditional products are the main reasons for this trend.

Table 6 gives a breakdown of wool receipts on an overseas exchange transactions basis by country. In 1983/84 Japan retained its place as the largest purchaser, while receipts from China fell quite sharply reflecting their heavy buying during the previous season and an increase in purchases from South American suppliers. Although receipts from Iran held up, actual purchases were down. The Iranians purchased little during the latter part of the season, possibly reflecting

the effect of the Gulf war on foreign exchange resources.

Receipts from the United States were up 76 per cent, reflecting the relative cheapness of wool because of the strong US dollar, and the effect of the US recovery on the demand for woollen products.

In terms of tonnes of wool purchased, New Zealand mills were the third largest market for New Zealand wool taking about 9 per cent of total sales.

INTERNATIONAL SUPPLY AND DEMAND

World wool production in 1983/84 is estimated at 2,913,000 tonnes (greasy basis) which was 0.5 per cent above the previous year's figure and continues the gently rising trend of the last decade. Of the major producer's, production was up by about 3 per cent in both Australia and Argentina, while declines were recorded by China and South Africa (both down 4 per cent) as well as New Zealand.

Although total world production has increased by about 8 per cent over levels achieved in the mid 1970s, the 1983/84 figure is only about 1 per cent higher than the average for the period 1967/68 to 1971/72. Since that period there have been shifts in the relative importance of several major producers. Production has increased most sharply in China (up 54 per cent) and New Zealand (10 per cent), while declines have taken place in Australia, Argentina, South Africa (all down about 18 per cent) and the United States (down 50 per cent).

Of total wool production in 1983/84, 41 per cent was merino wool which is generally most suited to apparel manufacture. Crossbred wools, which account for most of New Zealand's clip, and which are generally suited for carpet and furnishing fabric manufacture accounted for 28 per cent of total world production.

TABLE 5
WOOL EXPORTS

Years ended June	Greasy Wool	Scoured Wool	Slip Wool and other	Total Wool	
	\$m fob	\$m fob	\$m fob	000 tonnes	\$m fob
1964	201.8	39.7	29.9	256.2	271.4
1965	149.9	36.1	22.6	241.1	208.6
1966	170.2	37.8	24.0	278.2	231.9
1967	117.7	32.9	23.5	227.1	174.1
1968	99.7	35.6	22.9	268.4	158.2
1969	131.4	55.1	25.8	307.9	212.4
1970	119.3	63.3	21.6	303.1	204.2
1971	100.2	65.7	22.0	293.5	187.9
1972	119.1	84.1	25.5	312.4	228.6
1973	224.2	152.5	47.4	288.1	424.0
1974	189.3	131.3	40.9	213.2	361.6
1975	107.7	125.4	28.5	218.2	261.7
1976	220.1	197.7	38.6	272.4	456.4
1977	283.3	304.6	60.3	253.9	648.2
1978	228.7	297.9	53.3	242.9	580.0
1979	271.5	365.8	47.1	258.8	683.3
1980	367.6	516.0	47.0	285.0	930.8
1981	362.6	482.1	47.9	289.5	892.6
1982	362.4	503.7	52.3	281.6	918.8
1983	416.0	537.6	65.7	322.5	1,019.3
1984	449.0	596.4	68.2	308.2 (P)	1,113.6 (P)

Source: New Zealand Department of Statistics

(1) Includes scoured slip wool

(P) Provisional

TABLE 6
OVERSEAS EXCHANGE TRANSACTIONS
EXPORT RECEIPTS — WOOL
(Year Ended June)

<i>NZ\$ million</i>	1975	1980	1981	1982	1983	1984
Japan	25 6	97 0	77 0	129 3	117 2	146 7
United Kingdom	47 7	120 5	106 3	106 8	113 0	113 1
U S S R	25 2	114 7	77 2	76 3	89 3	93 9
U S A	11 4	39 1	46 2	35 2	46 7	82 0
China		43 8	98 5	80 7	121 4	79 3
Iran	17 3	56 1	78 5	31 6	66 7	68 5
West Germany Fed	26 7	66 7	64 6	52 3	52 2	62 0
France	9 8	79 2	66 1	61 2	48 1	54 4
Netherlands	28 4	52 6	61 7	50 9	52 9	47 6
Australia	8 4	29 5	35 1	41 0	36 9	46 0
Italy	10 7	47 8	44 2	43 2	37 5	44 8
Belgium	11 8	22 9	25 7	33 4	34 9	38 9
South Korea		16 3	19 9	33 8	25 9	35 5
Greece	23 9			19 5	30 3	24 3
Taiwan		17 1	10 5	16 7	23 1	22 4
Czechoslovakia	5 2	16 9	14 1	9 5	12 6	17 8
Hong Kong		15 5	14 0	14 6	16 2	13 9
Egypt		3 2	8 8	12 7	11 6	13 6
Pakistan		8 9	13 1	12 0	34 7	13 5
Poland	8 0	11 9	12 8	4 0	9 9	13 0
Other	26 0	107 9	110 2	82 8	75 2	73 6
Total	286 1	967 6	984 5	947 5	1,056 3	1,104 8

Source Reserve Bank

Exports of raw wool from the five main wool exporting countries (Australia, Argentina, New Zealand, Uruguay, South Africa) are estimated to have been 734,300 tonnes (clean equivalent) in the year to March 1984 which represented an increase of 3 per cent over the previous March year. Australia was easily the largest exporter accounting for 48 per cent of the total while New Zealand shipped a further 38 per cent. In the 1983 calendar year the largest importers were Japan (161,000 tonnes actual weight), the Soviet Union (136,000 tonnes), France and the United Kingdom (both 109,000 tonnes).

Changes in the level of stocks held in the wool exporting countries (chiefly by marketing authorities) can have a significant effect on year to year changes in the availability of wool. At the beginning of the 1983/84 season, stocks of raw wool in the major exporting countries stood at 206,000 (clean) tonnes which was over 40,000 tonnes more than the stocks held at the opening of the preceding season. In Australia most of the stockpile was held by the Australian Wool Corporation which began the season with 85,000 tonnes in store. During the first half of the season the appreciating Australian dollar forced the Corporation to purchase one-third of the clip in order to maintain prices and the stockpile peaked at 140,000 tonnes. Thereafter, improved demand resulting from a broadening of the international economic recovery allowed a rundown of the stockpile to 121,000 tonnes by March 1984.

In both South Africa and New Zealand, by contrast, the Wool Boards were able to reduce their previously accumulated stockpiles by 30,000 tonnes to 27,000 tonnes by the end of March 1984. Overall, end-of-season supplier country stock levels are expected to have increased only a little over levels at the beginning of the season but their composition is now more heavily weighted to merino wools.

On the demand side the major determinants of consumption are the level of economic activity in those countries where final consumption occurs, the competitiveness of alternative fibres, and with respect to apparel wools in particular, changing fashions.

In terms of final consumption the dominant markets are the large Western European countries, Japan and the United States. The Soviet Union and China are also important markets although demand for imported wool can reflect variations in domestic production as well as changing consumption of woollen products.

During the calendar year 1983, data on the wool manufacturing sector showed that the broadening international recovery was finally beginning to impact on activity following three years of contraction in the industry. Over 1983 as a whole, production in eleven major Western wool textile producing countries was up by 2 per cent over 1982 with the increase being largely concentrated in the fourth quarter. Despite this upturn, however, production in 1983 was still 10 per cent below the level reached in 1979 which was the peak year in the previous textile cycle.

Initially the increase in the woollen industry's production was sustained by increased usage of cheaper competing fibres and the use of wool fell in the first half of the year. Consequently, wools share of the industry's overall intake of materials (raw wool plus competing fibres) fell to 30 per cent which is the lowest share recorded since the mid-1970s. The decline has been put down to the increased competitiveness of man-made fibres due to the decline in oil prices and increased efficiency in production, as well as the appreciation of the Australian dollar which has tended to increase the price of Australian wools.

In the latter half of 1983, however, usage of wool began to pick up with increases of 4 and 7 per cent over the preceding years' levels being recorded in the third and fourth quarters. On a country basis, the upturn in usage has been strongest in the United States where the economic recovery has been both more sustained and pronounced than in other OECD economies. Textile industry wool usage was up by 23 per cent to 69,000 tonnes. In the second half of 1983 usage also improved (albeit gradually) in Belgium, Italy and the United Kingdom, reflecting the moderate upturn in the general level of economic activity in those countries. However, many European countries continued to apply relatively tight fiscal policies which has contributed to slow

TABLE 7
ESTIMATED WORLD PRODUCTION, EXPORT AND
STOCKS OF RAW WOOL
(000 tonnes)

Season (June year)	Production ¹				Exports ²		
	1980/81	1981/82	1982/83	1983/84	1980/81	1981/82	1982/83
Argentina	170	168	162	167	70	57	46
Australia	701	717	702	722	378	353	339
New Zealand	381	363	371	363	246	249	279
South Africa	104	110	113	109	37	33	27
Uruguay	81	79	82	82	33	28	29
China	176	189	202	194			
U S S R	464	482	474	476			
Other	780	783	793	800			
World Total	2,857	2,891	2,899	2,913			
Start-of-Season Stocks ^{2, 3}	100	121	165	206			

¹ Greasy basis

² Clean equivalent basis

³ Australia, New Zealand, South Africa, Uruguay and United Kingdom

Source: International Wool Study Group/International Wool Textile Organisation

consumption growth. The French Government's austerity program has contributed to a decline in French wool consumption of around 4 per cent in 1983 and German consumption was down by 10 per cent. While the Japanese economy grew by 3 per cent in 1983, this was largely export and investment based and restraints on personal consumption appears to have affected the demand for wool as usage was down compared to 1982.

During 1984, demand influences on wool consumption would have been stronger than in 1983 with growth rates of GNP in the industrial countries estimated to have nearly doubled compared with the preceding year. In most consuming countries, however, the price competitiveness of man-made fibres has continued to improve and this has tended to restrain wool consumption and lessened the prospect of further significant upward movements in prices.

CONCLUSION AND OUTLOOK

In several respects the 1983/84 wool season has been a favourable one for the New Zealand wool industry. Although the carryover effects of earlier droughts affected production during the season, excellent growing conditions over the first half of 1984 should ensure a record level of production during the 1984/85 season.

While beginning and end of season auction prices showed no improvement, the average level was up by 16 per cent compared to the previous season and the market was sufficiently strong to allow the sale of the entire season's clip as well as a large part of the Wool Board's stockpile. From the farmer's point of view, however, the profitability of wool production did not improve. Average farm gate returns were determined by the SMP of 320 cents/kg which was at the same level as in 1982/83.

Following the 20 per cent devaluation of the New Zealand dollar in July 1984 there was a significant upward movement in the price of wool. Nevertheless, it would appear that at least in the early season sales the effect of the devaluation was not fully reflected in prices as the market indicator only increased up to a range of between 343 to 372 cents/kg. By the end of September,

the market had settled at around the 370 cents/kg level which, (abstracting from the effects of the devaluation) was similar to the average figure for the 1983/84 season. Amongst market participants there is a perception that the September 1984 price may well be close to its peak. Although the economic recovery in the industrialised countries is proceeding more quickly than expected, the first signs of slowdown are beginning to occur, and while wool users' stocks are currently at low levels, high interest rates and uncertainty as to future price movements makes it unlikely that they will engage in a significant level of restocking. In addition, increased availability of wool and uncertainty as to the purchasing intentions of the buyers from the centrally planned economies and non-traditional markets such as Iran, would seem to suggest that any further price increases will only be moderate.

If the market is near to its peak for this economic upturn, then this would suggest that the effect of the recovery on wool prices has been quite limited compared to previous upturns. Table 1, which gives average wool prices in 1983/84 cents, shows that the level reached in 1983/84 is well below that reached in 1972/73, 1976/77 or 1979/80 and indeed is not very far above the real prices which have prevailed in some of the earlier downturns.

Despite this, the devaluation and increased production should mean that New Zealand producers' gross receipts will increase by perhaps 25 per cent in 1984/85, though net incomes will be affected by devaluation-induced domestic cost increases. Even so, there is unlikely to be more than a very small increase in sheep numbers and hence in wool production, following the levelling out in numbers over the past two seasons. Because returns to sheepmeat production were previously sustained at artificially high levels by SMP payments, the devaluation has meant little increase in the gross return on lamb and mutton. Beef producers by contrast have benefited by the full effect of the currency change and the strong US dollar.

As beef production is now more profitable than raising sheep, it is to be expected that farm investment will be more heavily weighted to building up beef numbers, and to other non-traditional activities such as deer farming which similarly will register the full benefit of the devaluation.