

Inside

High micron premiums for fine wool
Introducing Craig

Highlights

Fibre diameter drives ewe flock profitability

FinewoolOutwest

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High micron premiums for fine wool

History indicates high premiums will continue

The price gap between fine and broad wools is continuing to widen. The 'price gap' first appeared in the wool market in the mid to late 1980's and has continued to increase particularly in the past 5 years (Figure 1).

Micron premiums are an easy way to represent the extra value of finer wool. A micron premium is the percentage improvement in the value of wool resulting from a one micron decrease in average fibre diameter.

The increasing trend has continued in the current market period from 1995 to 2001. The average micron premium for finer wool (ie less than 20 µm) wool is now over 30%.

During the current wool selling season the 21 and finer micron premiums are all above 30 per cent. In fact the micron premium for the 20 micron indicator is over 65%. This means that 19 micron wool is worth 65% more than 20 micron wool.

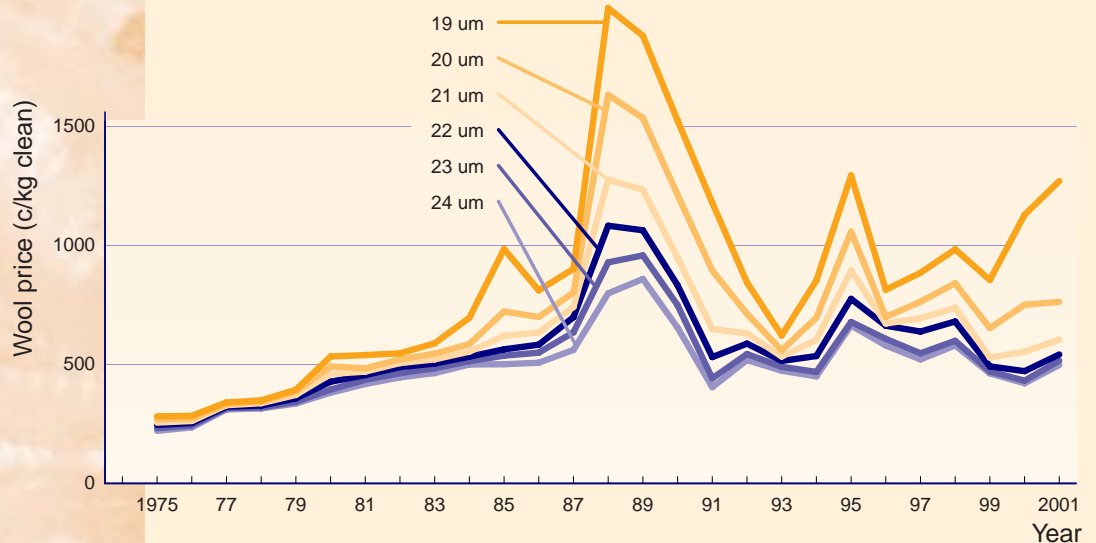


Figure 1. Long term wool prices.

In the late 1970's to early 1980's there was very little variation between the micron premiums for wool of different fineness (Figure 2). The average micron premiums were between 4 and 5%. However this situation changed dramatically in the 10 years from 1985 when the micron premiums for finer wool types began to surge ahead, increasing to over 20%.



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These current high micron premiums are being achieved at the same time as the supply of these finer types of wool is also increasing. AWTA's latest Key Test Data Summary shows a 14% increase in the amount of superfine wool tested in the current wool selling season. In fact, increases of more than 10% in the number of superfine bales sampled by AWTA have been occurring yearly since the 1994/95 wool selling season.

So despite the increase in production of fine wool, micron premiums for fine wool continue to increase. Even if a change to a

finer bloodline will decrease your fleece weight by say 15 to 20% (and a careful choice of bloodline can reduce diameter with little or not loss of fleece weight), the extra value of the finer wool will continue to generate higher returns.

What are you waiting for?

The quantity of wool tested by AWTA provides an excellent source of information on production trends in the Australian wool industry. You can access AWTA's Key Test Data Report, which is updated monthly, from their website www.awta.com.au

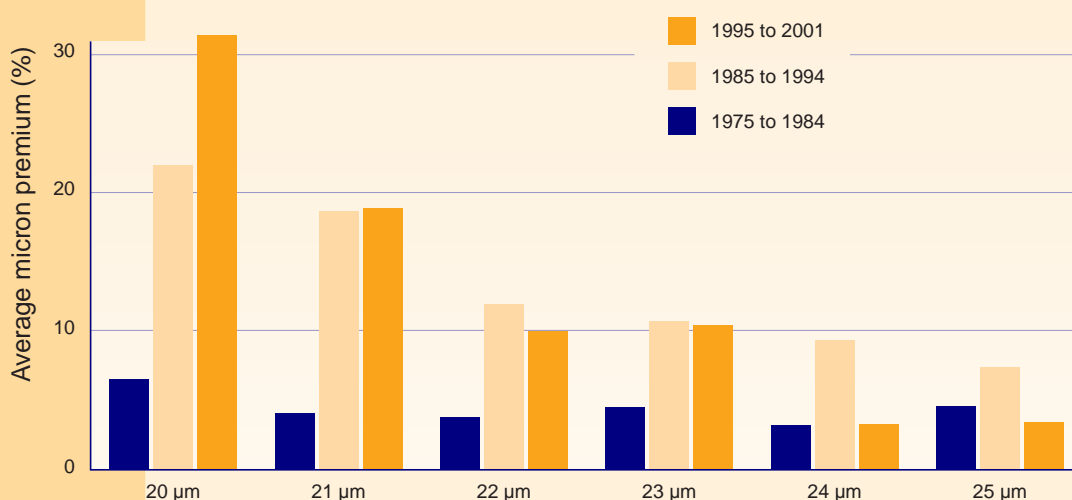


Figure 2. Long term average micron premiums.

Fibre diameter drives ewe flock profitability

Sale of progeny has only a small influence on the profitability of a ewe enterprise

Profit generated by a ewe enterprise is determined both by the value of wool grown by the flock as well as income provided by the sale of surplus progeny, be they ewe or wether lambs, hoggets or cull adults.

The relative profitability of fine wool bloodlines has already been clearly demonstrated by the Australia-wide analysis of wether trials (see *FinewoolOutwest* Vol 1 Issue 1), but wool production from wethers is only part of the big picture when it comes to the profitability of the whole enterprise. Concerns about smaller body size and lower reproductive rates of fine wool bloodlines have stopped some producers from changing to a finer bloodline and restricted the profitability of their flock.

A recent analysis of differences between bloodlines in terms of the profitability of the ewe enterprise has shown that fibre diameter

has by far the greatest impact on the profitability of a bloodline for both a ewe and a wether enterprise. Variation between bloodlines in profit from the sale of surplus animals has only a small impact on the profitability of the ewe enterprise.

The analysis used bloodline production levels for clean fleece weight, fibre diameter, style, length colour and tenderness from the most recent Merino Bloodline Comparison. Adult and hogget ewe production levels were estimated from the combined wether trial results using corrections established from other research. Wool market information from 1993 to 1997 was used in all calculations along with lamb and skin values from the same period. Income from sale of wool, cull sheep (both adults and hoggets) as well as enterprise costs were used to calculate gross margins.

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Table 1. Sub-enterprise net incomes and enterprise gross margin*.

Not surprisingly, the net income from sale of wool was always higher than that generated from the sale of surplus animals (Table 1). Net income from wool sales averaged \$13.50

compared with \$7.50 from the sale of progeny. The between bloodline variation for wool sales was \$8.40, but for progeny it was only \$1.40.

Sub-enterprise	Performance of bloodlines			
	Average	Worst	Best	Range
Total wool sales \$	13.50	9.40	17.80	8.40
Surplus ewe sales \$	2.40	2.10	2.70	0.60
Wether lamb sales \$	5.10	4.80	5.60	0.80
Total progeny sales \$	7.50	6.90	8.30	1.40
Enterprise gross margin \$	21.00	17.20	25.50	8.30

*Sub-enterprise net incomes and enterprise gross margin were calculated for each bloodline by subtracting each sub-enterprise costs from the sub-enterprise income, then dividing this by the DSE rating.

This clearly indicates that the sale of surplus progeny from a ewe enterprise has only a small impact on the variation in profitability of the ewe enterprise. Fibre diameter remained the single major influencing factor on breeding ewe gross margin as the income and bloodline variation from wool sales was substantially higher than that from progeny sales.

There was a high bloodline gross margin correlation between the ewe enterprise and the wether enterprise ($r=0.98$). This means that the ranking of the bloodlines based on a ewe enterprise was very similar to the ranking based on a wether enterprise. For the ewe enterprise the variation in bloodline gross margin varied from 20% above the mean to 20% below compared to 30% above and below the mean for the wether enterprise.

The broader diameter bloodlines did have relatively higher incomes from progeny sales as they tended to have both higher bodyweights and estimated reproductive rates. However, these advantages were largely counteracted by the increased DSE of the broader bloodlines due to their higher progeny numbers and energy requirements to sustain the higher bodyweights.

This analysis used prices for both wool and surplus progeny from between 1993 to 1997. During these years the market varied substantially (Figure 3). In general, the income from progeny sales was higher during periods of lower income from wool sales. It was only in mid 1996 (quarter 13) when the profit from wool sales was at its lowest point and profit from progeny sales at its highest that the economic advantage of finer wool bloodlines was reduced.

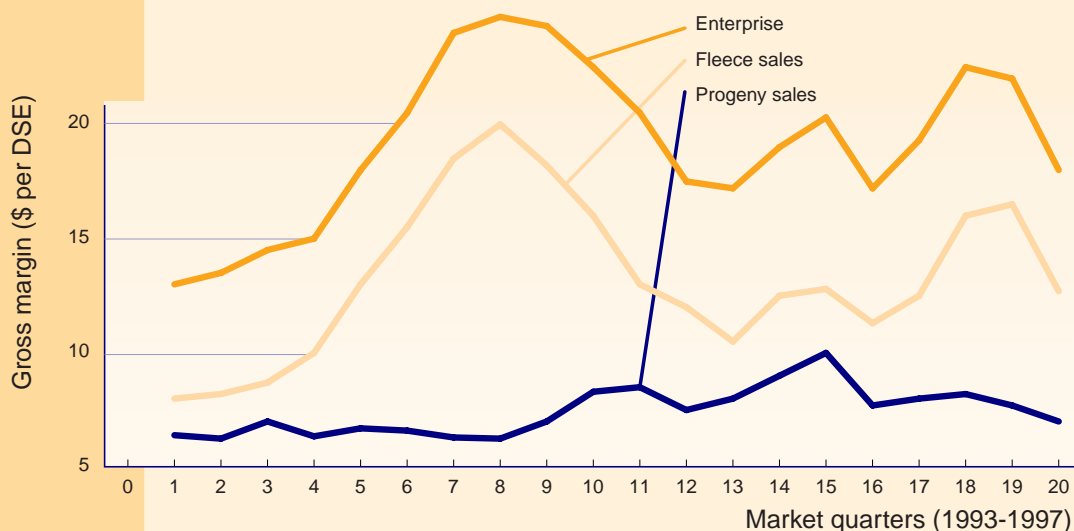


Figure 3. Enterprise gross margins for the 20 quarters between 1993 and 1997.

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Since 1995 the micron premiums for fine wool have continued to increase (Figure 2), therefore the economic advantage of the finer bloodlines for a ewe enterprise is likely to be higher, despite the current strength of the lamb market.

Interestingly, the gross margins for the ewe enterprises indicated a further advantage for the fine wool bloodlines in terms of the sale of hogget wool. The high micron premiums for fine wool will result in the value of hogget wool from the fine wool bloodlines being much greater than that from the hoggets of broad wool bloodlines.

In this analysis, the income from the sale of cull animals did not vary between bloodlines. This was only estimated in order to calculate the overall enterprise gross margin. It is likely that the sale price of cull ewes and surplus ewe hoggets would be higher for the fine wool bloodlines or the most well known bloodlines. In fact, fine wool ewes are currently attracting high prices at sheep sales across Australia.

In conclusion, fine wool bloodlines are clearly more profitable than broader bloodlines regardless of whether a ewe or

wether enterprise is being considered. Fibre diameter has by far the greatest impact on the profitability of a bloodline for both a ewe enterprise and a wether enterprise.

This analysis has also shown that commercial producers running a ewe enterprise can look at the ranking of a bloodline in the Merino Bloodline Comparison package, which is based on a wether enterprise, and know that the ranking will be very similar for a ewe enterprise.

A commercial wool producer running a self replacing ewe enterprise and looking to make a bloodline change, should select a few suitable bloodlines from the Merino Bloodline Performance package, then run an on-farm bloodline comparison to determine differences in weaner body weights and reproductive rates. However, it is important to remember that large differences in reproduction rate would be required to have a substantial effect on the relative value of such bloodlines

This analysis was conducted by Kathy Coelli and Kevin Atkins. For further information, please contact Kevin by phone 6391 3816, fax 6391 3922 or email kevin.atkins@agric.nsw.gov.au

Introducing Craig...

Craig Lyons is the newest member of the Fine Wool Project team. Craig is NSW Agriculture's new Livestock Officer (Sheep and Wool) for the greater Condobolin District. As an Extension Officer it will be Craig's role to provide information to farmers and the wider community on matters that relate to sheep and wool. Craig will be able to facilitate workshops, presentations and seminars to pass on the latest research from the Fine Wool Project as well as other wool research and extension activities undertaken by the Department.

Craig grew up on a small property near Bungendore. After leaving school, he joined the Army under the Ready Reserve scheme

as an Infantry Soldier. Craig went to the University Western Sydney Hawkesbury and completed a Combined degree in Applied Science (Systems Agriculture)/ Commerce (Marketing) in November 2000. Craig has family in the Central West at Euchareena, Molong, and Eugowra.

Craig looks forward to meeting with as many producers as possible in the near future. He is very keen to hear producers experiences (both good and bad) in fining up their clip. You can contact Craig at Condobolin Agricultural Research & Advisory Station by phone 02 6895 1025, fax 02 6895 2688 or email craig.lyons@agric.nsw.gov.au

For more information...

For more information on any of the articles in '*Finewool/Outwest*', please contact:

Sue Hatcher
NSW Agriculture
Orange Agricultural Institute
Forest Road ORANGE NSW 2800

Phone: 02 6391 3861
Fax: 02 6391 3922
email: sue.hatcher@agric.nsw.gov.au

'*Finewool/Outwest*' is compiled and edited by Sue Hatcher. The design and layout is by Belinda Gersbach