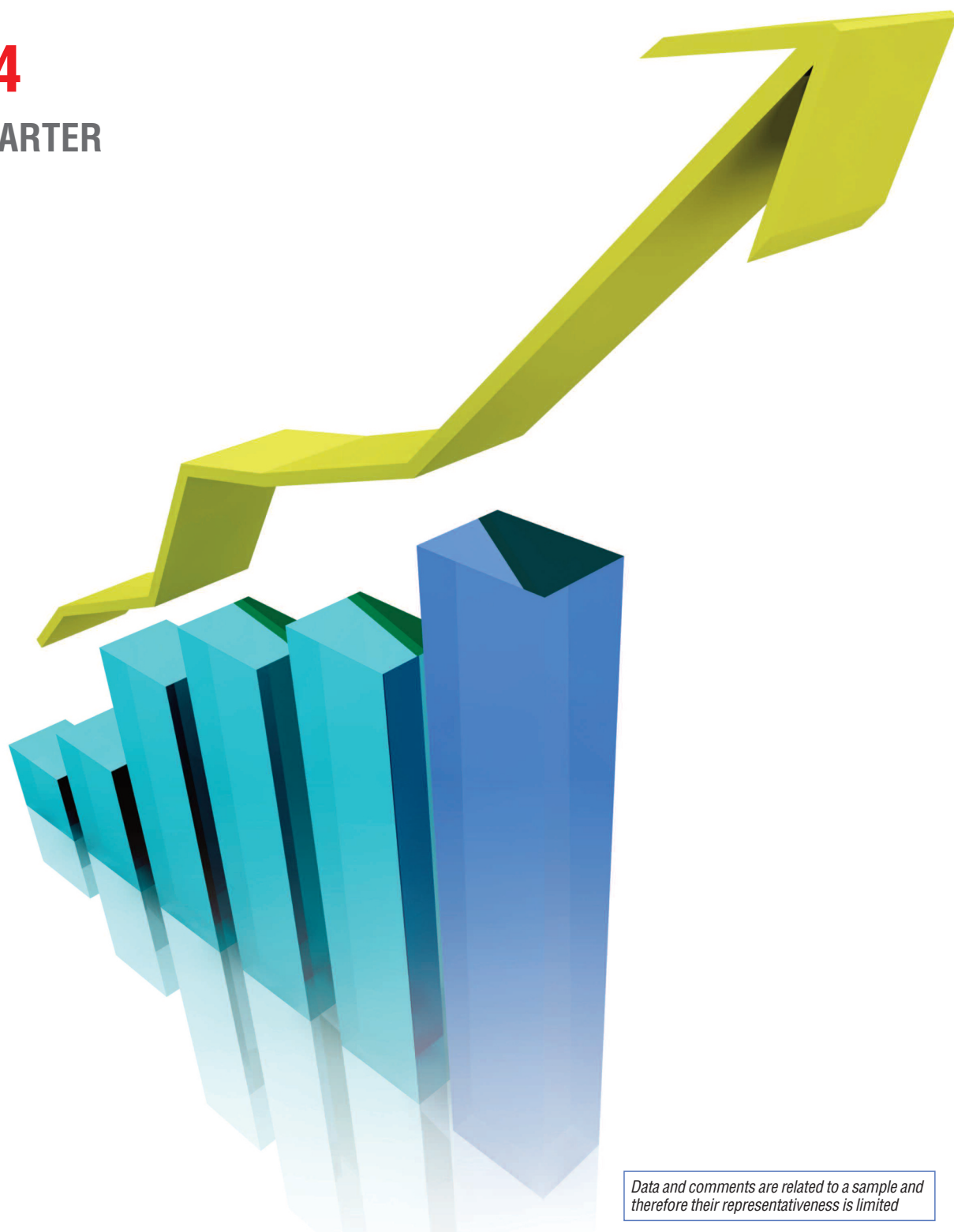


LEATHER MARKET OVERVIEW

LINEAPELLE
Economic Department

2014

4TH QUARTER



Data and comments are related to a sample and therefore their representativeness is limited



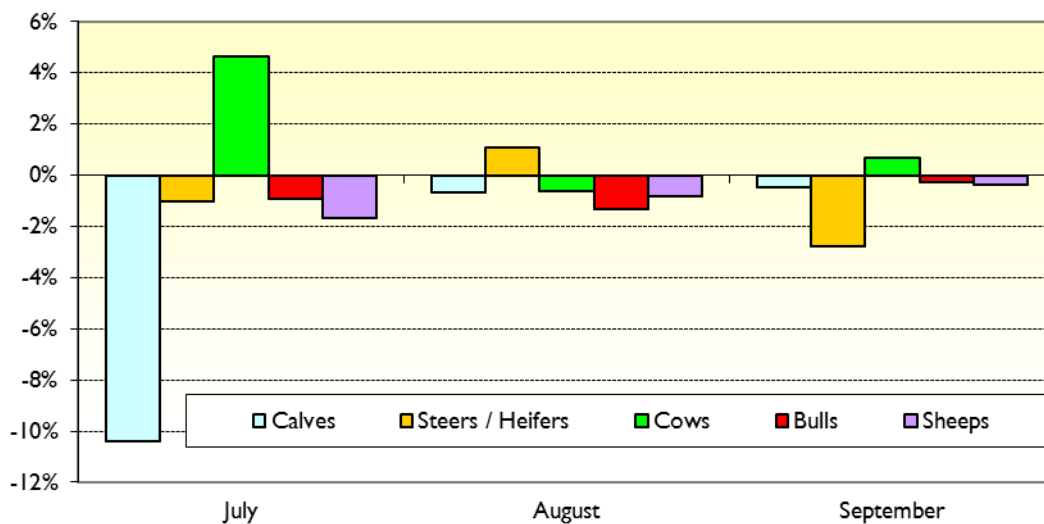
▶ RAW MATERIAL ◀

PRICES

The prices of tanning raw material did not show a uniform trend in the last quarter of the year. Smaller (calves) and larger (bulls) **raw bovines**, which had retained more sustained levels compared to the other in the first part of 2014, have confirmed the downward tendency started in the summer. Medium-large sizes, such as steers/heifers and cows, instead, have found to be more erratic, with the latter having ended the year with a rise.

The average **sheepskins** prices, down from March, have continued to decrease, confirming the moment of particular weakness of the entire segment chain. Particularly affected the New Zealand and the Spanish origins (except for smaller and higher valued sizes, suffering from a structural limited supply).

FIG. I - PRICE CHANGES, MONTH ON MONTH, FOR RAW HIDES AND SKINS BY ANIMAL TYPE IN THE QUARTER

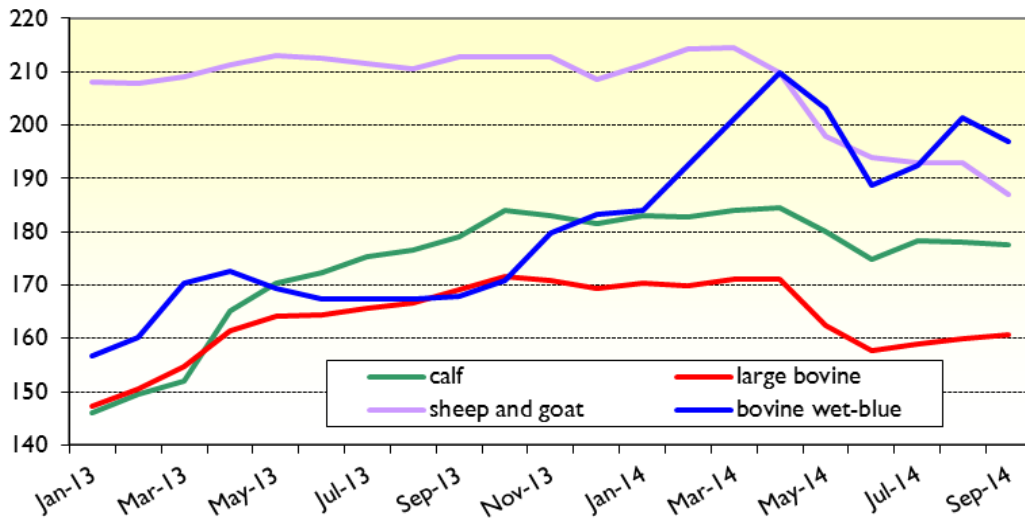


Bovine wet blue price index fell in October and November, and then stabilized at the end of the year. The Brazilian semi-processed material ends 2014 with quotations higher than those recorded at the beginning.

TABLE I - PRICE CHANGES FOR RAW HIDES AND SKINS BY ANIMAL TYPE AND ORIGIN SINCE JANUARY 1ST

Calves	-13%	Steers, bull calves, heifers	-5%	Cows	-5%	Bulls	-7%	Sheep	-13%
Italy	-11%	Italy (bull calves)	-2%	Italy	-4%	France	-7%	Iran	-5%
Australia	-7%	Germany (heifers)	+9%	Denmark	-6%	Germany	-5%	New Zealand	-45%
France	-13%	Spain (bull calves)	-7%	France	-1%	Denmark	+3%	Spain	-26%
Netherlands	-20%	Unites States (mixed)	+3%	Germany	=	Netherlands	-9%		
Spain	-3%	New Zealand (steers)	-5%	Netherlands	-17%	New Zealand	-5%		
		Australia (mixed)	-4%	New Zealand	-10%				
		United Kingdom (mixed)	-8%	Spain	+16%				
		Sweden (mixed)	-4%	United States	-16%				
				Sweden	-6%				

FIG. 2 - PRICE CHANGES FOR RAW HIDES AND SKINS BY ANIMAL TYPE



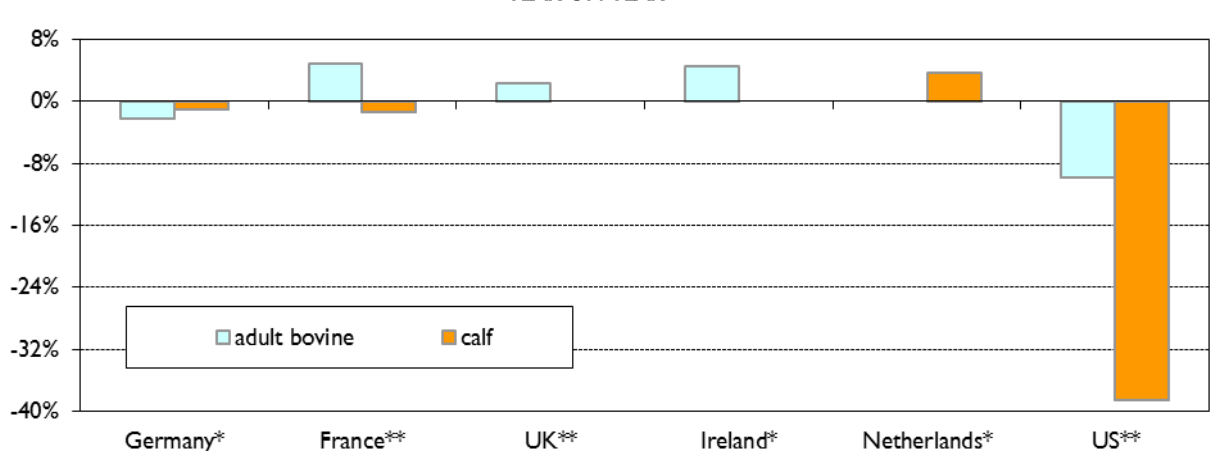
SLAUGHTERING

In 2014, the slaughtering level of adult **bovine** in **Europe** returned to record an increasing annual change, although very slight (+0,3%), after several years of continuous declines. The Countries being responsible for the positive variation are Germany, France, Netherlands, Poland and Ireland (booming of steers slaughtered between September and October), while Spain and Italy decreased. Situation still rather weak for calves, which highlighted a great deal of stability in Netherlands and slight declines in France, Germany and Spain; only Belgium going (lightly) upward.

Outside the EU borders, the **US** closed the year with a contraction both for cattle (-7%) and calves (-26%). Positive dynamics, instead, for the slaughtering in **Australia** and **New Zealand**.

Lackluster panorama for **sheep** in the principals markets surveyed. Substantially stable France and Ireland, slight growth in the UK and Australia, downward trends in Spain and New Zealand.

FIG. 3 - CHANGE IN SLAUGHTERINGS OVER THE LAST 3 MONTHS YEAR ON YEAR[†]



[†] excluding figures for British and Irish calves and Dutch adult cattle as the figures there were insignificant

* quarter ended in November

** quarter ended in December

▶ TANNING SECTOR ◀

ITALY

TURNOVER INDEX - Quarterly Trend (4th quarter 2014 vs 4th quarter 2013)

- ▶ MEDIUM-LARGE BOVINE - Total sales hit the breaks in the last quarter (-5%).
- ▶ SMALL BOVINE - Seasonal growth in quarterly revenue (+4%).
- ▶ SHEEP & GOAT - Still double-digit slowing (-13%), but, in detail, the goat sales returned positive (+4%).

TURNOVER INDEX - Annual Trend (year 2014 vs year 2013)

- ▶ MEDIUM-LARGE BOVINE - First data on the whole year register a general rise of 2%.
- ▶ SMALL BOVINE - Substantial stability, with a slight positive sign, for calves in total 2014 (+1%).
- ▶ SHEEP & GOAT - Bad year for the segment, estimated to fall by 7% (homogeneous for both animal types).

OBSERVATIONS AND FORECASTS

2014 ended with a preponderance of positive signs, although slight, but the quarterly breaking of the large bovine segment concerns. Calf appears on the recover and goats return to interest. Cautious forecasts for the 1st part 2015, due to the uncertainty of part of the luxury demand and the prolonged Chinese slowdown.

REST OF EUROPE

TURNOVER INDEX - Quarterly Trend (4th quarter 2014 vs 4th quarter 2013)

- ▶ MEDIUM-LARGE BOVINE - Austrian leather starts growing again (+7%) and Germany (+8%), the UK (+3%), Portugal and Poland (double-digits increase for the latter) confirm positive trend. Decline for France (-4%) and Spain (-7%). The Netherlands downhill (more than -20% even in this quarter).
- ▶ SMALL BOVINE - The French segment in recovery (+4%), Germany still growing (+15%), Spain breaks (-2%).
- ▶ SHEEP & GOAT - Further double-digit drops in sales for French and Spanish manufactures.

TURNOVER INDEX - Annual Trend (year 2014 vs. year 2013)

- ▶ MEDIUM-LARGE BOVINE - European tanning industry saw the “plus” sign to prevail last year: Germany +10%, Portugal +15%, Poland +6%, the UK +4%, Spain +2%. France and Austria unvaried. Netherlands down.
- ▶ SMALL BOVINE - Growing results, with Germany rising double-digit and France and Spain +2% each.
- ▶ SHEEP & GOAT - 2014 confirms a year to forget also in the rest of the EU (France -12%, Spain -16%).

OBSERVATIONS AND FORECASTS

Positive quarter for car interiors, fluctuating fashion demand. Same trend expected for the beginning of 2015.

REST OF THE WORLD

TURNOVER INDEX - Quarterly Trend (4th quarter 2014 vs 4th quarter 2013)

- ▶ BOVINE - Exports keep growing in Brazil (+8%), Argentina (+9%), and Pakistan (+15%), Turkey recovering, slight slowdown in India (-1%) and stronger in China (-4%).
- ▶ SHEEP & GOAT - Negative quarter even for the extra-UE top players (Turkey, India, China and Pakistan).

TURNOVER INDEX - Annual Trend (year 2014 vs year 2013)

- ▶ BOVINE - Exports in Brazil +18%, India +13%, Pakistan +20%, Argentina -15%, Turkey stable, China -1%.
- ▶ SHEEP & GOAT - Declines of 10% in India and 6% in China, while Pakistan and Turkey substantially stable.

OBSERVATIONS AND FORECASTS

Difficult year for China, good for Brazil and Indo-Pakistani production, ups and downs in Turkey.

▶ ACCESSORIES, COMPONENTS, SYNTHETICS ◀

RAW MATERIALS

PRICES - Quarterly Trend (4th quarter 2014)

The generally declining tendency of the USD prices of key raw materials has continued in the last quarter of the year. The price of crude oil dropped by 37%, while the decline has been less serious for natural rubber (-3%) and the most important textile fibres (cotton -7%, wools -5%). No exception for metals, with declines of 10-15% for iron and nickel (but this last one rising in December) and of 5% for aluminium, copper and zinc.

PRICES - Annual Trend (year 2014)

The comparison between the quotations (USD) at the end of 2014 and those at the beginning shows double-digit drops for all the principal *commodity* concerned, except for aluminium (+10%), nickel (+15%) and zinc (+10%).

TEXTILES, SYNTHETICS AND ALTERNATIVES

TURNOVER INDEX - Quarterly Trend (4th quarter 2014 vs 4th quarter 2013)

The overall performance of the segment recorded a slight seasonal loss in the last quarter of the year for textiles and synthetics (both of them -1%), against widespread positive results for the regenerated of leather fibres (average +10%). Among textiles producers, France and Spain represent the only positive exceptions to the general weakness, while for the synthetic it is worth noting the Portuguese growth.

TURNOVER INDEX - Annual Trend (year 2014 vs year 2013)

The annual balance looks positive (in the order of 3%) and substantially equable for all the materials considered and for all the principal manufacturing Countries.

ACCESSORIES AND COMPONENTS

TURNOVER INDEX - Quarterly Trend (4th quarter 2014 vs 4th quarter 2013)

The average turnover trend of the segment has been overall positive both for the accessories and for the components, with the only exception of small metal parts (very light decline). Iberian, Italian and German manufacturers (also including their delocalizations in Eastern Europe) showed the most dynamic trend. France and the UK stagnant.

TURNOVER INDEX - Annual Trend (year 2014 vs year 2013)

The year closes positively for footwear components and small metal accessories, against a substantial stability of the remaining accessories. The detailed analysis of the performance of each manufacturer reflects what outlined in the previous quarterly trend: good Spain, Italy and Germany; France, the UK and Portugal break. Decreases in Chinese export.

▶ MANUFACTURING SECTORS ◀

FOOTWEAR

TURNOVER INDEX - Quarterly Trend (4th quarter 2014 vs 4th quarter 2013)

- ▶ ITALY - Italian footwear sector records a slight positive seasonal variation in the last quarter of the year (about +1%).
- ▶ REST OF THE WORLD - The general situation of the remaining European Countries looks more brilliant. Spain, France and Germany posted double-digit growth, followed by Poland and the UK. Just a slightly positive nod for Portugal and a negative one for Romanian delocalizations. Sudden stop of Chinese export (-4%), even Brazilian export falls (-3%), while double-digit increase continues in India, Vietnam and Bangladesh. Difficulties in Turkey.

TURNOVER INDEX - Annual Trend (year 2014 vs year 2013)

- ▶ ITALY - The preliminary data for whole 2014 of the Italian industry register a substantial stability in value: +0.3% compared to the previous year.
- ▶ REST OF THE WORLD - Increasing trends are confirmed for the rest of the EU productions, with turnovers sharply rising for Germany (+15%), Spain (+12%), France (+9%), Portugal (+8%) and the UK (+7%). As concerns the extra-European manufacturers, the annual situation reflects substantially what has emerged in the detail of the last quarter (mentioned above), with only one difference dealing with the growth of Chinese exportations (+11%).

LEATHER GOODS

TURNOVER INDEX - Quarterly Trend (4th quarter 2014 vs 4th quarter 2013)

- ▶ ITALY - The final quarter of 2014 returns to show a significant acceleration (+10%) after the stability recorded in the previous period.
- ▶ REST OF THE WORLD - The trend is diffusely increasing even in the rest of Europe: Spanish +20%, German +10%, French +5%, English +6%. Indian (+15%) and Vietnamese (+40%) export grows strongly, the Chinese draws back (-5%), slight increase for Turkey.

TURNOVER INDEX - Annual Trend (year 2014 vs year 2013)

- ▶ ITALY - Italian leather goods sector is estimated to have closed 2014 with an umpteen leap in sales: +7%.
- ▶ REST OF THE WORLD - The UK (slightly decreasing) represents the only exception to the satisfactory trend that has marked last year in the EU (Germany +8%, Iberian Countries +20% and France +6%). Positive balance for Indian (+12%) and Vietnamese (+30%) exportations, negative for the Chinese (-2%) and for Turkish manufacture (-12%).

GARMENTS

TURNOVER INDEX - Quarterly Trend (4th quarter 2014 vs 4th quarter 2013)

- ▶ ITALY - Slow down for the sales trend of Italian leather garments industry: the drop in the fourth quarter of the year is about 5% as compared to the same period of 2013.
- ▶ REST OF THE WORLD - Uneven situation in the rest of Europe, where even the second larger manufacturer after Italy, which is Germany, goes down of 3%, while Spain and France rise slightly. Good performance for the Indian and the Pakistani export, bad for the Chinese one (more than 20% less). Turkey -12% in production volumes.

TURNOVER INDEX - Annual Trend (year 2014 vs year 2013)

- ▶ ITALY - In spite of the break at the end of the year, Italian leather garment sector closed 2014 positively, with +9% for turnover.
- ▶ REST OF THE WORLD - Positive final balance even for French and Spanish operators, negative for the German (-2%). Outside Europe, both Indian (+11%) and Pakistani (+6%) exportations increased, while Chinese ones fell down (-10%) and the Turkey manufacturing declined too (-12%).

UPHOLSTERY

TURNOVER INDEX - Quarterly Trend (4th quarter 2014 vs 4th quarter 2013)

▶ ITALY - The positive trend of Italian upholstered **furniture** continues, mainly driven by the export (+8% compared to the same period of 2013). **Car interior**: quarterly stability in the export of car seats, increase in new car registration (+6%) and, above all, in the production of luxury vehicles (+30%).

▶ REST OF THE WORLD - Good situation for upholstered **furniture** in Germany (+5%), neighbouring delocalizations (Poland +10%, Romania +20%) and Spain (+9%), stagnant for France and the UK. On the **automotive** market, the quarter highlights growth in the new car registration in Germany (but with a decrease in export of seats) and the UK; decreases in France.

TURNOVER INDEX - Annual Trend (year 2014 vs year 2013)

▶ ITALY - In 2014 the provisional balance of Italian upholstered **furniture** records a good rise in the export sales (+8%) and a slight drop in production volumes (-3%). **Car** registration index grew by 4%, in front of a +15% in the production of luxury vehicles.

▶ REST OF THE WORLD - In the rest of European **furniture** sector, Germany closed the year with a slight positive sign (+1%), Poland, Spain and Romania with a double-digit increase, France down. In the **automotive** market, widespread positive budget for new car registration in the European Union (+6% globally, with Germany +3%, the UK +9% and France stable), in the US (+6%), in China (+10%) and Japan (+3%).

Prepared by: LINEAPELLE Economic Department

Via Brisa, 3 - Milan

Tel. +39 028807711

Fax. +39 02865732

milano@lineapelle-fair.it (Fair Department) - economic@lineapelle-fair.it (Economy Department)

<http://www.lineapelle-fair.it/>