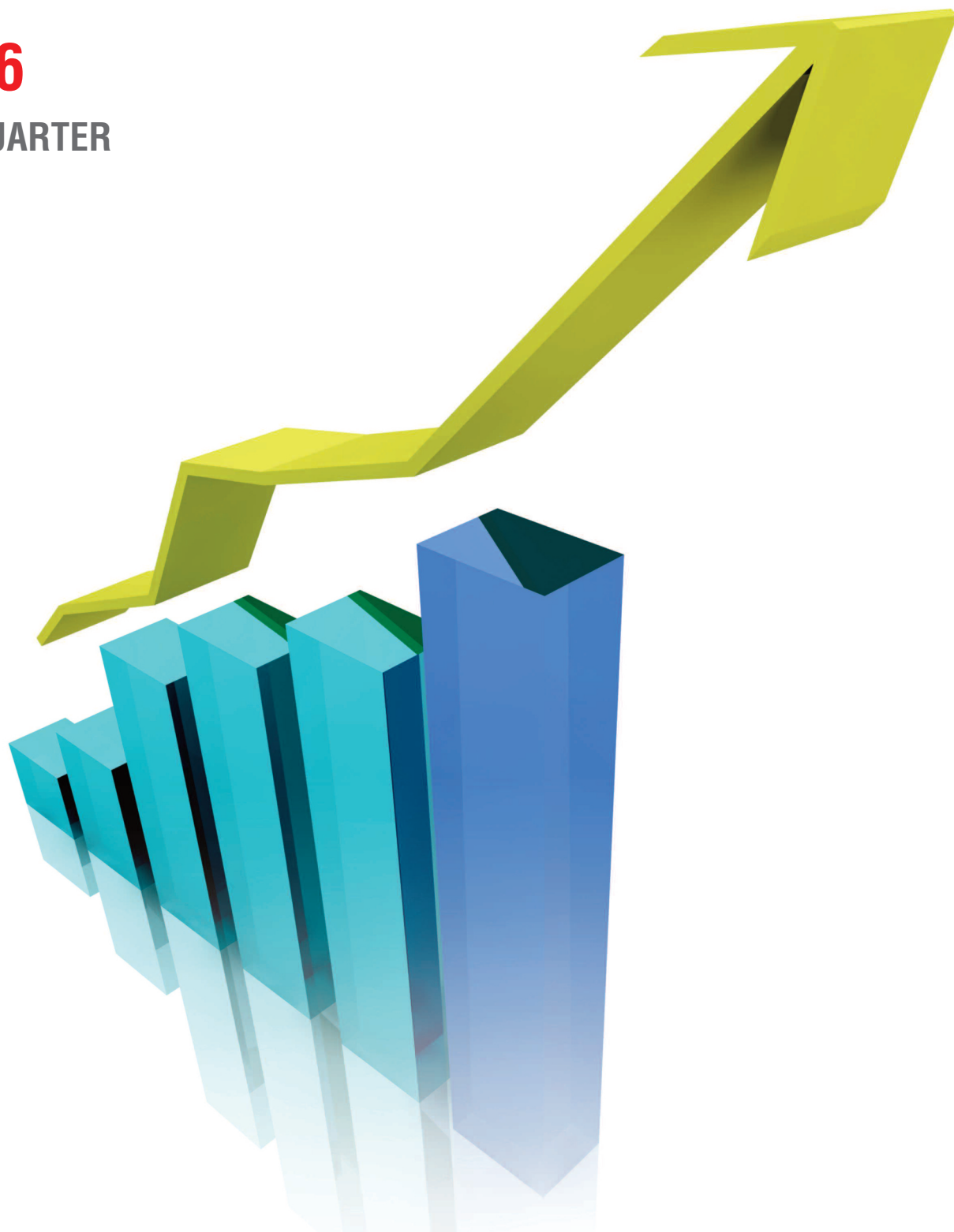


LEATHER MARKET OVERVIEW

LINEAPELLE
Economic Department

2016

3RD QUARTER



▶ RAW MATERIAL ◀

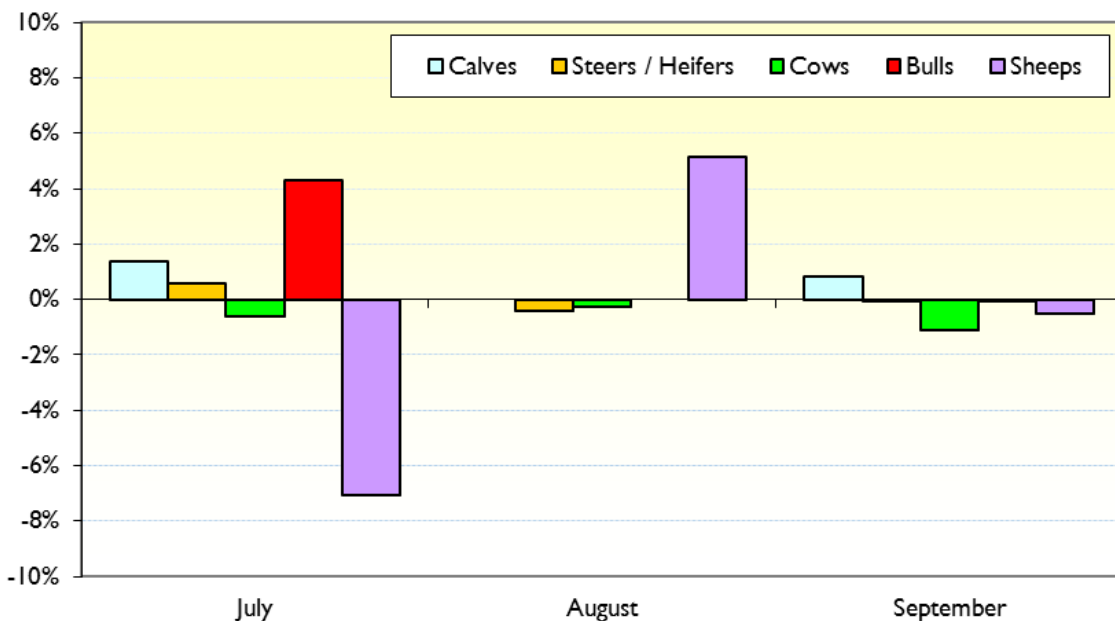
PRICES

The summer period and the reopening in September recorded generally limited changes, both positive and negative, in the price of **raw hides and skins**, with a few, though significant, exceptions in terms of intensity.

As regards **bovine** raw hides, worth mentioning is the average rise recorded for calves and bulls at the beginning of the quarter, which was followed by an underlying stabilisation in the following weeks (with calves still lively in September though). In terms of medium size, calves hardly showed any changes in the overall average, while cows continued to show a drop.

The overall price index for **sheepskins** was extremely volatile in the period. The sharp drop of July was followed by a partial recovery in August and a further decrease, though modest, in the following month. The New Zealand origins, basically unchanged, were the only significant exception to the mentioned trend.

FIG. I - MONTHLY VARIATIONS OF PRICE INDEX FOR RAW HIDES/SKINS BY ANIMAL TYPE IN THE QUARTER

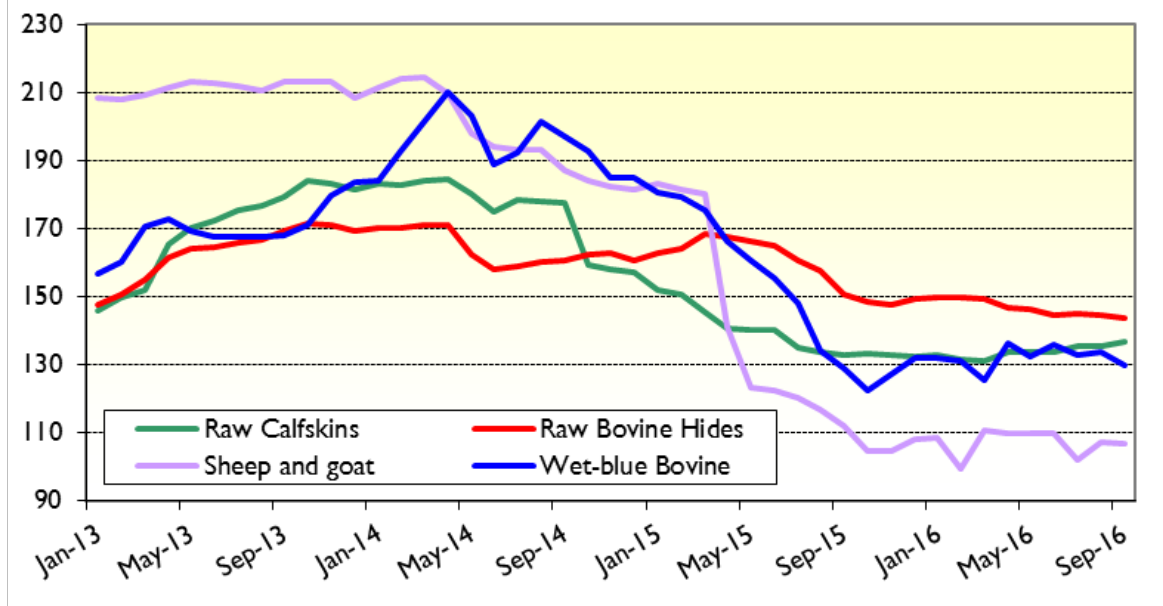


Unlike the previous quarter, mainly bullish, a downward trend prevailed for **bovine wet blue**, though with strong differences (stable in Brazil, downwards in Australia and upwards in New Zealand).

TAB. I - PRICE INDEX CHANGES FOR RAW HIDES/SKINS BY ANIMAL TYPE/ORIGIN FROM JANUARY UNTIL SEPTEMBER 2016

Calves	+3%	Steers, bull calves, heifers	+3%	Cows	-13%	Bulls	+1%	Sheep	-1%
Italy	==	Italy (bull calves)	==	Italy	-3%	France	+1%	Iran	+1%
France	+4%	Germany (heifers)	-1%	France	-13%	Netherlands	-4%	N. Zealand	-4%
Netherlands	+6%	United Kingdom (mixed)	+11%	Netherlands	-20%	Germany	-4%	Spain	-27%
Spain	+1%	Spain (bull calves)	-5%	Germany	-6%	New Zealand	-8%		
Australia	==	United States (mixed)	+2%	Spain	-24%	Denmark	==		
		Australia (mixed)	-1%	United States	-9%				
		Sweden (mixed)	-1%	Sweden	-2%				
		New Zealand (steers)	+5%	New Zealand	+6%				
				Denmark	-6%				

FIG. 2 - PRICE INDEX TREND FOR MAIN TANNING RAW MATERIALS BY ANIMAL (BASE 2005=100)



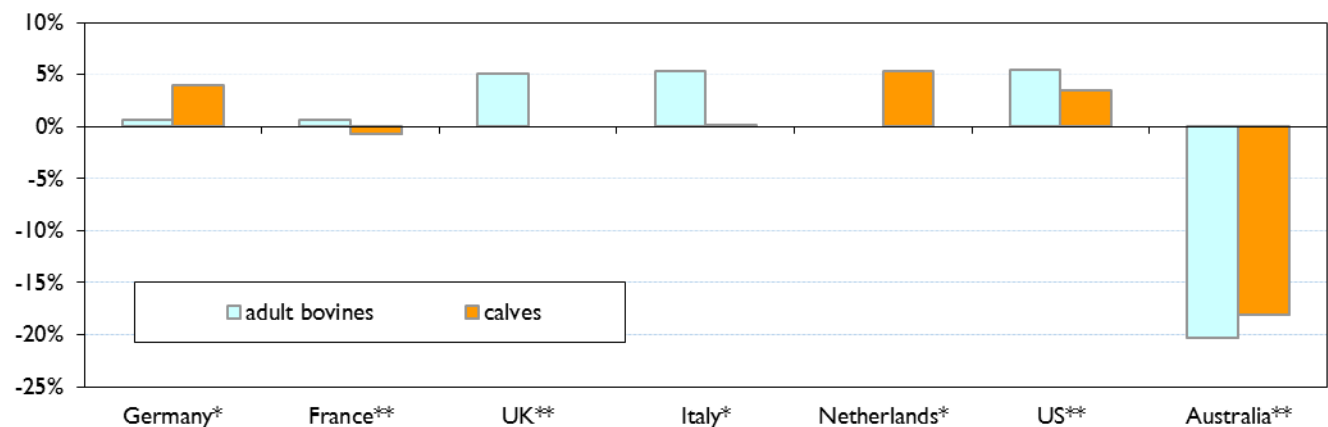
SLAUGHTERING

The slaughtering trend for **adult cattle** worsened slightly in the first three months of the year in the main countries monitored globally (-1% compared to the same period of 2015). The situation in Europe continues to be positive (+3% overall), though slowing down slightly compared to the partial figure of the first part of 2016. Slaughtering grew for all the most important countries in the area: France +1%, Germany +1%, United Kingdom +5%, Italy +5%, Ireland +3%, Poland +8%, Spain +1%. In the rest of the world, increases continue to be recorded only in the USA (+5%) while Argentina (-5%), Brazil (-3%), New Zealand (-4%) and Australia (-20%) are falling.

The scenario for **calves** confirms a downward trend, with overall slaughtering losing 5%. A widespread increase is recorded in the EU (Netherlands and Belgium +5%, Germany +4%, Spain +3%, Poland +1%), except for France (-1%) and Italy (stable). Among the main non-European countries, positive performance only for the USA (+3%), while Argentina, New Zealand and Australia recorded double-digit falls.

The global trend regarding **sheep** slaughtering is also decreasing. Given an essentially stable total for Europe (growth for Spain and France, decrease in the United Kingdom and Greece), the change is negative in Australia (-4%) and especially in New Zealand (-10%).

FIG. 3 - BOVINE SLAUGHTERING CHANGE IN THE LAST 3 MONTHS COMPARED TO THE SAME PERIOD OF THE PREVIOUS YEAR[†]



[†] excluding figures for British calves and Dutch adult cattle as these were insignificant

* quarter ended in August

** quarter ended in September

▶ TANNING SECTOR ◀

ITALY

TURNOVER INDEX - Quarterly Trend (3rd quarter 2016 vs 3rd quarter 2015)

- ▶ MEDIUM/LARGE BOVINE - The segment continues to show declining average results: -2%.
- ▶ SMALL BOVINE - After being stable in the spring, calves are back into negative territory (-9%).
- ▶ SHEEP & GOAT - Average drops of approximately 7% in the sales of sheep and goats.

TURNOVER INDEX - Annual Trend (9 months 2016 vs 9 months 2015)

- ▶ MEDIUM-LARGE BOVINE - The current loss for this year remains at 3% on average.
- ▶ SMALL BOVINE - The summer drop takes the interim figure for 2016 into slightly negative territory: -1%.
- ▶ SHEEP & GOAT - No exceptions for small skins, with sheep at -7% and goats at -4% compared to 2015.

COMMENTS AND FORECASTS - Manufacturing demand continues to struggle extensively, with cars being the only exception, with both good current levels and prospects. Luxury segment slowing down. Weak forecasts.

REST OF EUROPE

TURNOVER INDEX - Quarterly Trend (3rd quarter 2016 vs 3rd quarter 2015)

▶ MEDIUM/LARGE BOVINE - A declining trend prevails also for the other main European leather manufacturers. Germany, Austria, United Kingdom and Netherlands record double-digit falls, while the slowdown for Spain is more moderate (-2/3%). France (+2%) and Portugal (+8%) are an exception.

- ▶ SMALL BOVINE - Negative quarter for France (-4%), Spain (-9%) and Germany (-9%).
- ▶ SHEEP & GOAT - Results continue to be positive for France (+5), against an overall drop in Spain (-3%).

TURNOVER INDEX - Annual Trend (9 months 2016 vs 9 months 2015)

▶ MEDIUM/LARGE BOVINE - The sales for the current aggregate of 2016 appear to be rising in France (+6%), Spain (+2%), Portugal and Poland (these two by double-digits), while Austria, Germany, United Kingdom and Netherlands record a seasonal loss.

- ▶ SMALL BOVINE - France (+1%) is the only country not to fall; Spain dropped by 2% and Germany by 9%.
- ▶ SHEEP & GOAT - French manufacturers are satisfied (+3%) while Spanish ones are disappointed (-3%).

COMMENTS AND FORECASTS - Patchy outlook. The slowdown in Austria and Germany proves the highly competitive period experienced by the continental upholstery furniture industry. France and Portugal do a good job at intercepting the fragmented current fashion demand.

REST OF THE WORLD

TURNOVER INDEX - Quarterly Trend (3rd quarter 2016 vs 3rd quarter 2015)

- ▶ BOVINE - Sharp falls in China, India, Argentina, Mexico and Pakistan, moderate in Brazil. Turkey recovering.
- ▶ SHEEP & GOAT - Losses recorded by all the main non-EU manufacturers in the segment during the quarter.

TURNOVER INDEX - Annual Trend (9 months 2016 vs 9 months 2015)

- ▶ BOVINE - The situation is similar to the quarterly trend: generalised drops, except for Turkey.
- ▶ SHEEP & GOAT - Widespread negative outlook: India -9%. Pakistan, Turkey and China double-digit falling.

COMMENTS AND FORECASTS - The quarter saw US demand stopping, in addition to the persistent stagnation in the EU. China remains underperforming. Global macroeconomic uncertainty is everywhere.

▶ ACCESSORIES, COMPONENTS, SYNTHETICS ◀

RAW MATERIALS

PRICES - Quarterly Trend (3rd quarter 2016 vs 3rd quarter 2015)

The third quarter of 2016 shows price quotations (in USD) for the reference commodities mainly rising compared to the same period of 2015.

A decline in the price of crude oil is highlighted (-51%) while metals are recovering in general, excluding nickel (-3%) and copper (-9%), which are still in negative territory, though losses are more limited. The price of cotton (+12%) and wool (+15%) has returned to rise. Natural rubber records a positive development (+15%).

PRICES - Annual trend (9 months 2016 vs 9 months 2015)

The annual trend remains uncertain. The price of oil remains considerably down (-26%), compounded by the persistently critical situation of metals (with drops between 4% and 27%). Rising trend confirmed for cotton (+3%) and wool (with increases between 8 and 9%).

TEXTILES, SYNTHETICS AND ALTERNATIVES

TURNOVER INDEX - Quarterly Trend (3rd quarter 2016 vs 3rd quarter 2015)

Textiles, synthetics and alternatives feature a varied trend in the third quarter of 2016.

Moderate growth in Germany, Poland, Portugal and Spain; rising slightly in Italy (+1%). The performance for France, Romania and United Kingdom is decidedly weak. The segment analysis shows a mainly growing trend for textiles. Contrasting figures are recorded for the other types, with the regenerated segment suffering a double-digit drop in Spain, Italy, Portugal and Romania, despite the excellent results of France and United Kingdom. Synthetics are also shaky, with losses in Romania, United Kingdom and France (all recording double-digit falls).

TURNOVER INDEX - Annual Trend (9 months 2016 vs 9 months 2015)

The annual trend eases the difficulties encountered by the various product categories in the quarter, conveying an overall positive image of the segment (the European average is +4%).

Synthetics performed better on average, despite the decline in France, United Kingdom and Romania. Greater uncertainty concerns textiles and regenerated products, which are suffering especially in Portugal, Romania and France; also Italy is in difficulty. The position of Poland is positive in all segments.

ACCESSORIES AND COMPONENTS

TURNOVER INDEX - Quarterly Trend (3rd quarter 2016 vs 3rd quarter 2015)

Sales of footwear accessories and components performed negatively overall in the third quarter of 2016. The drop in the United Kingdom exacerbates (-25%), in addition to the losses of Germany, Italy (both -5%) and Spain (-6%). France, Portugal and Romania post double-digit growth; moderate rise in Poland (+4%).

Losses at product level are mostly limited by footwear components, despite the sharp fall in the United Kingdom (-23%) and the drop in Italy (-5%) and Spain (-6%). The trend for other accessories and small metal parts is mostly negative.

TURNOVER INDEX - Annual Trend (9 months 2016 vs 9 months 2015)

The cumulative data for 2016 shows a moderately growing sector, with slight widespread increases. Portugal (+16%) and Poland (+15%) stand out. The other European manufacturers are also growing slightly, with the exception of Italy (-1%) and the United Kingdom (-11%).

▶ MANUFACTURING SECTORS ◀

FOOTWEAR

TURNOVER INDEX - Quarterly Trend (3rd quarter 2016 vs 3rd quarter 2015)

- ▶ ITALY - Italian manufacturers end the third quarter of the year with a substantial stagnation of sales (-1%) compared to the same period of last year.
- ▶ REST OF THE WORLD - A diversified outlook is found in the rest of the world, where the positive results of France, Portugal (+5% for both of them) and Germany (+2/3%) are counterbalanced by a fall in the United Kingdom (-3%) and Spain (-11%). Among the offshoring destinations Bulgaria and Romania decline, while Czech Republic and Poland show favourable results. Outside Europe, there are widespread difficulties in the Asian area: China and India show double-digit falls in exports while Pakistan and Vietnam follow a downward trend, though to a moderate extent. Brazilian exports are generally stable, while Mexican exports are decreasingly sharply.

TURNOVER INDEX - Annual Trend (9 months 2016 vs 9 months 2015)

- ▶ ITALY - A moderate increase is recorded in the sale of Italian footwear in the cumulative first 9 months of the year (+2%), mainly as a consequence of the favourable performance of exports.
- ▶ REST OF THE WORLD - The main EU manufacturers also show a positive performance, with Bulgaria and Romania as the only negative exceptions. Specifically, growth in France and Germany (+7% and +12%, respectively), stability in the United Kingdom (+11%) and an outstanding performance in Poland and the Czech Republic (double-digit rise in exports). Increases are marginal in Portugal while the Spanish footwear segment is declining in Spain. Regarding the main Asian manufacturers, although the Chinese record a significant drop in exports (-12%), losses are offset by the positive performance of the internal market. Vietnam (+3%) is growing while India and Pakistan confirm a decrease in results (-4% and -14%, respectively). Turkey is on the rise.

LEATHER GOODS

TURNOVER INDEX - Quarterly Trend (3rd quarter 2016 vs 3rd quarter 2015)

- ▶ ITALY - The summer quarter of 2016 ended with a 6% decrease in turnover for the Italian leather-goods manufacturers based on a year-on-year comparison.
- ▶ REST OF THE WORLD - In the rest of Europe, the United Kingdom (+3%) and Germany (+5%) recorded a moderate rise, followed by French leather-goods, which closed the quarter with +9%. Stagnation in Spain, double-digit increase in Portugal. As regards the offshoring destinations, Bulgaria and the Czech Republic did well while Romania and Poland recorded a drop. Compared to the non-EU areas, the decline in exports of China and India is counterbalanced by the positive performance of Pakistan and Turkey. Satisfactory quarterly results also for Brazil and Mexico.

TURNOVER INDEX - Annual Trend (9 months 2016 vs 9 months 2015)

- ▶ ITALY - The balance of the Italian leather-goods industry decreased slightly in the first 9 months: a year-on-year comparison shows -2%.
- ▶ REST OF THE WORLD - The partial cumulative figure of 2016 for the European leather sector is essentially stable, with limited losses for Spain and Romania (-2% and -6%, respectively). While the United Kingdom is in line with the general average, interesting increases are recorded in Germany (+8%) and France (+6%). Excellent results recorded in Portugal, with double-digit rises. Outside the EU, the rising trend of Mexican and Pakistani exports is confirmed, while Chinese and Indian exports are in negative territory. Losses continue for Turkey.

GARMENTS

TURNOVER INDEX - Quarterly Trend (3rd quarter 2016 vs 3rd quarter 2015)

- ▶ ITALY - Third quarter in the red for Italian leather garments manufacturers, closing with -16% compared to the same period of last year.
- ▶ REST OF THE WORLD - Widespread economic downturn for the remaining EU manufacturers, except for Portugal and Poland. Moderate decline in France. In the rest of the world, the scenario of Asian exports is negative, with particularly marked decreases for China. Turkey is stable.

TURNOVER INDEX - Annual Trend (9 months 2016 vs 9 months 2015)

- ▶ ITALY - Less significant, through still double-digit, losses for Italian manufacturers in the first nine months of the year compared to the same period of 2015.
- ▶ REST OF THE WORLD - No particular differences emerge in the trend for the rest of Europe, where the annual economic situation continues to be characterised by an overall decline. With respect to the short-term trend, exceptions include France, rising moderately (+3%), and the Czech Republic. A moderate decrease affects Spanish manufacturers (-5%). The weakness of the non-EU context is confirmed: while China, India and Pakistan regress, Mexico and Brazil are rising.

UPHOLSTERY

TURNOVER INDEX - Quarterly Trend (3rd quarter 2016 vs 3rd quarter 2015)

- ▶ ITALY - In the summer quarter, the growing performance of Italian manufacturers of upholstered furniture suffered a setback, recording -4% on a seasonal basis. On the other hand, the automotive sector continues to climb and records a +13% increase in car registrations and a +10% rise in vehicle manufacturing.
- ▶ REST OF THE WORLD - In the rest of Europe, upholstered furniture recorded a moderate decrease, with a few positive exceptions (UK and Portugal +11%, Poland stable). Germany declines sharply (-13%). Marginal drop in US orders. The increase in car sales slows down in the EU market (though rising in any case).

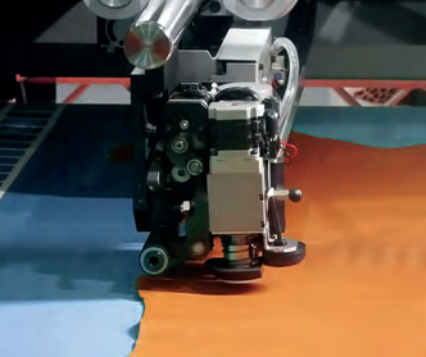
TURNOVER INDEX - Annual Trend (9 months 2016 vs 9 months 2015)

- ▶ ITALY - The interim result of the first nine months for upholstered furniture is positive (+5%). The automotive sector performance remains outstanding (18% more registrations than in the same period of last year) against a slower pace of growth for the EU market.
- ▶ REST OF THE WORLD - The period considered shows positive results for all the main European furniture manufacturers, except for Germany (-3%). The balance of US orders is stable or rising slightly. Automotive registrations on the rise in Europe (+8%).

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