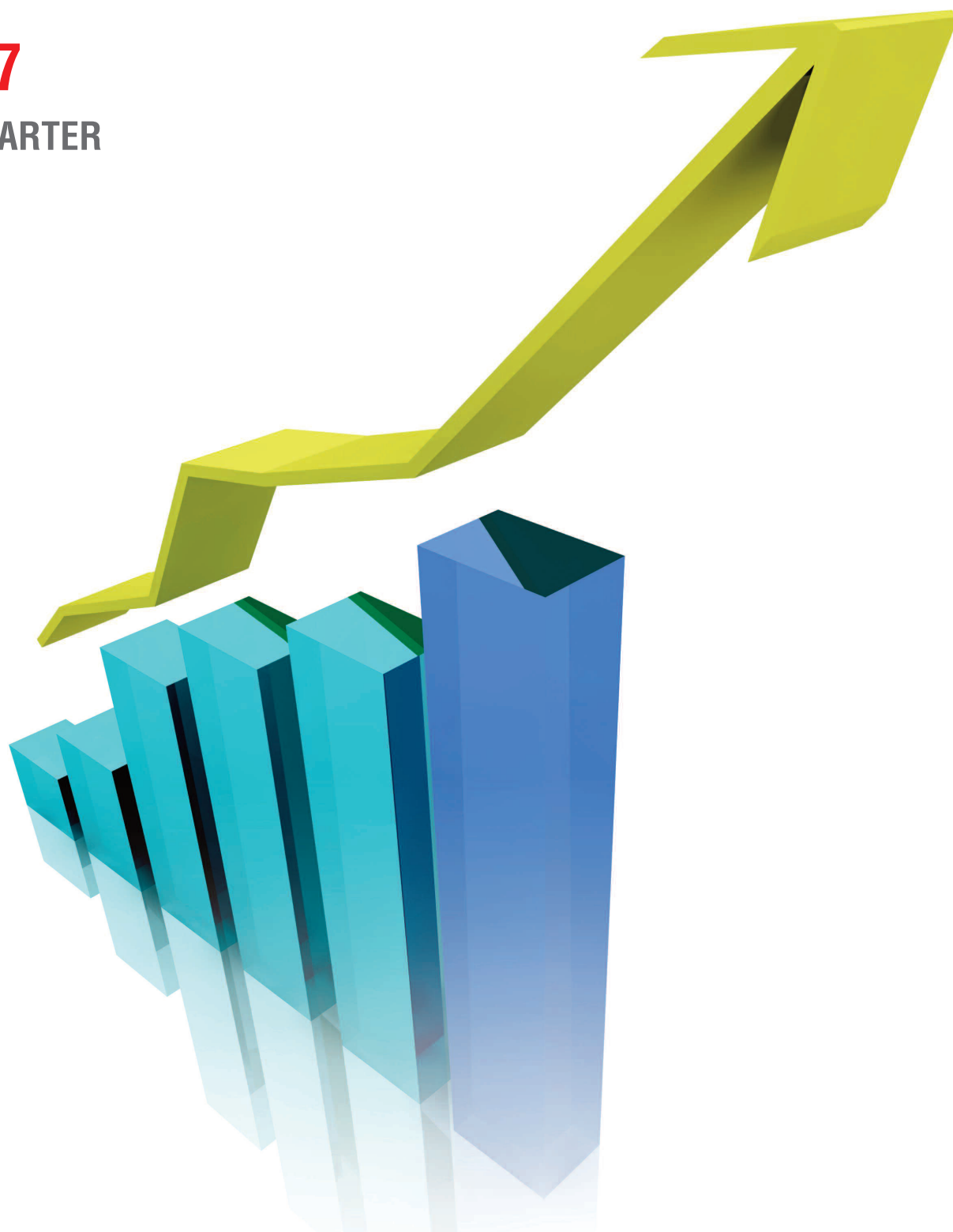


LEATHER MARKET OVERVIEW

LINEAPELLE
ECONOMIC DEPARTMENT

2017

1ST QUARTER



▶ RAW MATERIAL ◀

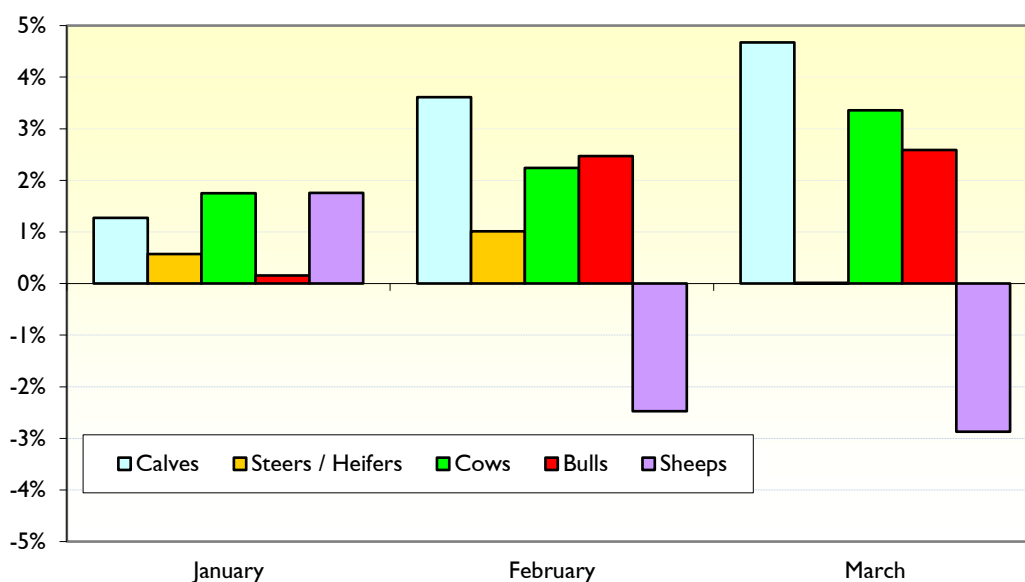
PRICES

The first months of 2017 saw a significant and widespread consolidation of the rising trend in the price indexes of **bovine raw hides and skins**, which started at the end of last year. There are some exceptions (although very few of them), even in the intensity of the increases that appear differently across markets and types.

After a year of uninterrupted growth, calves are still showing the most significant increases (+10% averagely), although it is worth noting that the lower-quality sources are experiencing a drop in demand (and prices). There is no decrease, however, among the main sources of reference for medium sizes (calves, cows) and the large sizes (bulls); just some rare, unchanged market.

The decline continues in the average price index for **sheepskins**, essentially halved compared to three years ago. At this point in time, the decrease is in double-digits for European types and more limited for Middle Eastern types. Bucking this trend, the markets in Oceania show continuous growth throughout the last semester.

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

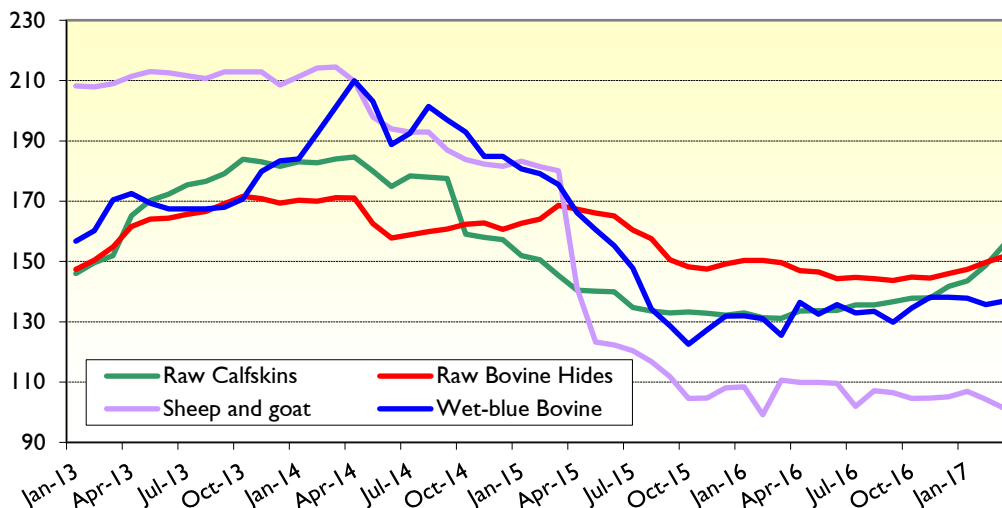


Looking at the whole quarter, the average price index for **wet-blue bovine** shows a slight drop (-1%), but the details reveal a drop in the first two months of 2017 and a sharp increase in March. Brazil is in line with the (volatile) general average, Australia has a more convincing upward trend.

TAB. I - AVERAGE PRICE CHANGES FOR RAW HIDES/SKINS BY ANIMAL TYPE/ORIGIN FROM JANUARY TO MARCH 2017

Calves	+10%	Steers, bull calves, heifers	+2%	Cows	+8%	Bulls	+5%	Sheep	-4%
Italy	==	Italy (bull calves)	==	Italy	==	France	+6%	Iran	-4%
France	+16%	Germany (heifers)	==	France	+9%	Netherlands	+6%	Spain	-14%
Netherlands	+13%	United Kingdom (mixed)	+7%	Netherlands	+8%	Germany	+1%	N. Zealand	+4%
Spain	-15%	Spain (bull calves)	-9%	Germany	+3%	New Zealand	==		
Australia	-15%	United States (mixed)	+2%	Spain	+13%	Denmark	+5%		
		Australia (mixed)	+20%	United States	+10%				
		Sweden (mixed)	+5%	Sweden	+17%				
		New Zealand (steers)	==	New Zealand	+3%				
				Denmark	+12%				

FIG. 2 - PRICE INDEXES TREND FOR RAW MATERIAL BY MAIN TYPE (BASE 2005=100)



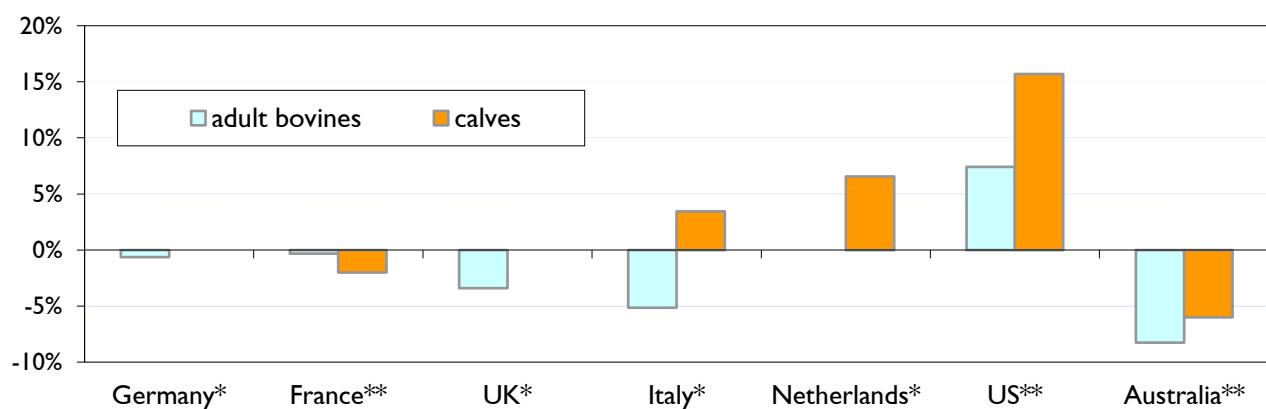
SLAUGHTERING

The dynamics of the slaughtering of **adult cattle** in the main areas monitored (EU, USA, Latin America, Oceania) in the first quarter of 2017 seem to reflect what was seen at the end of last year, showing overall growth of 4%.

The general situation in Europe remains slightly positive, but the picture is ragged. In growth are the Netherlands (in double-digits), Poland and Ireland (both at +4%), whilst France appears unchanged. In slight decline are Germany, the United Kingdom, Italy and Spain. The American area is positive (USA +7%, Argentina +9%), the exception being Brazil. Australia is on the rise, New Zealand is falling.

Continuing to struggle the overall slaughtering volume for **calves** (-2%), despite the EU outlook is still experiencing a slight rise, up +2% in total. The Netherlands (+7%), Spain (+5%) and Italy (+3%) are showing growth. France is down (-2%), Belgium and Germany remain stable. Negative data from the main extra-EU producers, with the exception of the USA.

Other decreases also for the slaughtering of **sheep** (-3% in total in the regions analysed). The EU returns to negative figures (-8%), due to a strong slowdown in the southern area (Spain -6%, France -11%, Italy -27%, Greece -2%). New Zealand is growing (+2%), but Australia is down (-7%).

FIG. 3 - BOVINE SLAUGHTERING CHANGES IN THE LAST 3 MONTHS COMPARED TO THE SAME PERIOD OF PREVIOUS YEAR⁺

⁺ excluding figures for British calves and Dutch adult cattle as these were insignificant

* quarter ended in February

** quarter ended in March

▶ TANNING SECTOR ◀

ITALY

TURNOVER INDEX - Long-Term Quarterly Trend (1st quarter 2017 vs 1st quarter 2016)

- ▶ MEDIUM-LARGE BOVINE - A positive sign returns to the segment: +5%.
- ▶ SMALL BOVINE - Third quarter of seasonal drops (-5%).
- ▶ SHEEP AND GOATS - Very slight dip (-1%) for the segment, due to a strong drop in goats (-7%); sheep stable.

TURNOVER INDEX - Short-Term Quarterly Trend (1st quarter 2017 vs 4th quarter 2016)

- ▶ MEDIUM-LARGE BOVINE - Significant downward dynamic (-9% on average) over the last quarter of 2016.
- ▶ SMALL BOVINE - Double-digits slowdown over the closing period of last year: -16%
- ▶ SHEEP AND GOATS - As for calves, the results are in deep decline (-20%) and uniform for both sheep and goat.

COMMENTS AND FORECASTS - Seasonal results more satisfactory than forecast, cautious optimism returns for the second quarter of the year. Automotive always good. Leather goods in recovery. Luxury still in fits and starts.

REST OF EUROPE

TURNOVER INDEX - Long-Term Quarterly Trend (1st quarter 2017 vs 1st quarter 2016)

- ▶ MEDIUM-LARGE BOVINE - Outlook particularly ragged for the remaining European leather producers. Spain and Portugal return to growth (both in double-digits) as does Austria (+5%), with very positive signals coming from the United Kingdom. Further drops in Germany, France and, above all, the Netherlands. Falls in Poland.
- ▶ SMALL BOVINE - Widespread decreases (France -5%, Spain -14%), no reversal of trend with respect to 2016.
- ▶ SHEEP AND GOATS - Strong growth confirmed for the French, the Spanish are stable.

TURNOVER INDEX - Short-Term Quarterly Trend (1st quarter 2017 vs 4th quarter 2016)

- ▶ MEDIUM-LARGE BOVINE - The average results for the Austrian, Portuguese and Dutch manufacturers are showing a strong accelerated trend (all between +15% and +20% on average), with improvements also in Germany (+5%). The others are slowing down (Spain -4%, France -13%, United Kingdom -5%).
- ▶ SMALL BOVINE - Positive signs from France (+10%), while falls are strong and persistent in Spain (-13%).
- ▶ SHEEP & GOATS - Severe drops, in double-digits, both for the French and the Spanish.

COMMENTS AND FORECASTS - Austrian automotive recovery after a quite disappointing 2016, whilst the German segment looks less bright. Leather for footwear still showing uneven results.

REST OF THE WORLD

TURNOVER INDEX - Long-Term Quarterly Trend (1st quarter 2017 vs 1st quarter 2016)

- ▶ BOVINE - Still a quarter of widespread falls amongst the main extra-EU manufacturers, Brazil sets at -3%.
- ▶ SHEEP AND GOATS - Strong fall in Turkey and negative results also in India and China. Pakistan in recovery.

TURNOVER INDEX - Short-Term Quarterly Trend (1st quarter 2017 vs 4th quarter 2016)

- ▶ BOVINE - Some recovery trend in China, Mexico, Pakistan and Turkey. Brazil stable. Falls in India.
- ▶ SHEEP AND GOATS - Signs of an improvement with respect to the end of 2016 from all the main Asian players.

COMMENTS AND FORECASTS - Another stagnant quarter for the Latin and Asian tanning but there are some signs of improvement. Confidence is increasing for the coming months.

▶ ACCESSORIES, COMPONENTS, SYNTHETICS ◀

RAW MATERIALS

PRICES - Long-Term Quarterly Trend (1st quarter 2017 vs 1st quarter 2016)

The first quarter of 2017 confirmed the rise of commodity prices for the sector observed in 2016.

Losses in the price of crude oil are reduced (in USD), setting at -14%; positive price quotation for cotton (+27%) and wool (increases between 8% and 34%). Raises in natural rubber and metals consolidate, all posting double-digit growth: aluminium +26%, copper +25%, nickel +21%. Iron and zinc also gaining speed.

PRICES - Short-Term Quarterly Trend (1st quarter 2017 vs 4th quarter 2016)

The short-term trend also shows a general recovery in prices of raw materials. Reversing the negative trend the crude oil price (+8%); increases confirmed for cotton (+7%) and wool (with total changes between 2% and 15%). Acceleration in natural rubber (+32%). Metals are good, all growing at double-digit rates with the only exception of nickel (-5%).

TEXTILES, SYNTHETICS AND ALTERNATIVES

TURNOVER INDEX - Long-Term Quarterly Trend (1st quarter 2017 vs 1st quarter 2016)

Textiles, synthetics and alternatives recovered in the first part of 2017, with the European average seeing an increase of 2% despite the impact of the drop in Italy (-7%). Better performance for synthetics: +4% the growth at the EU level, sustained by good trend in Germany, the United Kingdom and Portugal; slipping back France (-8%) and Italy (-5%) instead. Regenerated segment looks stable, sustained by the excellent performance in the United Kingdom (+20%), that counterbalances the difficulties in Italy and Germany (both experiencing double-digit falls). Sliding back the textiles and synthetic fibres segment (-3% at the EU level), held back by the losses of the main European manufacturers with the exception of the United Kingdom, stable.

TURNOVER INDEX - Short-Term Quarterly Trend (1st quarter 2017 vs 4th quarter 2016)

Positive performance for all the various product categories even in the short-term change (+2% the EU average). Growing trend confirmed in Germany (+4%); good performance also for the United Kingdom (+13%), France (+3%) and Spain (+6%). Italy is suffering (posting a double-digit drop).

ACCESSORIES AND COMPONENTS

TURNOVER INDEX - Long-Term Quarterly Trend (1st quarter 2017 vs 1st quarter 2016)

The beginning of the year sees an increase in accessories and components turnover (+5% the European average). Amongst the main EU manufacturers Italy, Romania and France grow; contrary to this trend are Germany (-3%) and the United Kingdom (-9%). Excellent outlook for the small metal parts, double-digit growing. Good also the other accessories (+6%); footwear components are stable.

TURNOVER INDEX - Short-Term Quarterly Trend (1st quarter 2017 vs 4th quarter 2016)

Short-term average decreases, dragged down by the significant losses in Italy and Germany (with drops between -7% and -9%). Among the other main EU manufacturers, worth of note is the good performance of Romania (+5%). Looking at the segments, footwear components are suffering (-9%) whilst small metal parts are recovering.

► MANUFACTURING SECTORS ◄

FOOTWEAR

TURNOVER INDEX - Long-Term Quarterly Trend (1st quarter 2017 vs 1st quarter 2016)

► ITALY - Italian manufacturers' turnover is stagnant, with the beginning of 2017 setting at the same levels as the first quarter of 2016.

► REST OF THE WORLD - Slight growth trend for the remaining main EU countries (+2%). Increases for Germany (+10%), Portugal (+3%) and France (+2%). Slipping slightly is Spain (-3%), whilst the British manufacturers are suffering (-8%). The dynamic outside the EU is rather weak: Asia is down, everyone is falling with the exception of Vietnam, stable. Decisive upturn for the Brazilian export (+14%), Mexico is stagnant (-1%). Increases for Turkish shipments.

TURNOVER INDEX - Short-Term Quarterly Trend (1st quarter 2017 vs 4th quarter 2016)

► ITALY - Short-term comparison decidedly better, with turnover increases around 12% for Italian footwear.

► REST OF THE WORLD - Very positive is the comparison with the final quarter of 2016 even for EU manufacturers, with double-digits rises in all the main countries: slightly limited growth only for France (+6%). In recovery is the United Kingdom (+8%). Improved trend for the Asian players in the short-term change, with the main manufacturers growing strongly. Brazilian and Mexican footwear losing ground. Bright performance for Turkey.

LEATHER GOODS

TURNOVER INDEX - Long-Term Quarterly Trend (1st quarter 2017 vs 1st quarter 2016)

► ITALY - Confirmed signs of recovery for the Italian leather-goods manufacturers, which began the 2017 with a double-digit increase over the first quarter of last year.

► REST OF THE WORLD - Upward results also for the European average (+9%), that benefits from the acceleration of Spain and the United Kingdom (both double-digit growing). Good results also for German manufacturers (+2%). Weakness for French leather-goods (-1%). Uncertainty for Eastern Europe offshoring, with the only exception of Poland (+13%). Asian exports are in decrease, with losses in China and India; Pakistan is stable. Encouraging results from Vietnam and Turkey.

TURNOVER INDEX - Short-Term Quarterly Trend (1st quarter 2017 vs 4th quarter 2016)

► ITALY - Good performance for Italian leather-goods also in the short-term period: +7%.

► REST OF THE WORLD - Stable compared to the last quarter of 2016 is the overview of the sector at the European level (+1% EU average), but with widespread drops in turnover among the major countries. Satisfying results for the Iberian manufacturers (total increases between 5% and 8%), while France, Germany and the United Kingdom disappoint. As regards the extra-EU countries, the comparison over the short-term period shows a drop for Turkey. Moderate dip in China and India; while Pakistan and Vietnam are rising.

GARMENTS

TURNOVER INDEX - Long-Term Quarterly Trend (1st quarter 2017 vs 1st quarter 2016)

► ITALY - Losses reduced, but still on the way down, in the quarterly results for the Italian leather garments manufacturers, that post a -2% drop compared to the same period of 2016.

► REST OF THE WORLD - Difficult outlook also in the rest of Europe, where decreases affect, above all, the Spanish (-27%), German (-14%) and French (-8%) manufacturers. Good results for the Eastern Europe offshoring, with Romania posting double-digit growth. Beyond the European Union, Asian manufacturers are suffering, all of them experiencing double-digit falls except for Vietnam, on the rise. Decreases for Turkish shipments.

TURNOVER INDEX - Short-Term Quarterly Trend (1st quarter 2017 vs 4th quarter 2016)

- ▶ ITALY - Italian manufacturers reverse the negative trend, recording an increase of 3% in the short-term comparison.
- ▶ REST OF THE WORLD - Positive signs also in the rest of Europe, which achieved a +4% in the comparison with the last three months of 2016. Rather varied was the performance among the main EU countries. Decided growth for the German manufacturers, stability for the British, falls for those in the Iberian Peninsula and the French. Also in contraction Poland and Portugal. Asian exports recover ground in the short-term period. Difficulties persist for Turkish manufacturers.

UPHOLSTERY

TURNOVER INDEX - Long-Term Quarterly Trend (1st quarter 2017 vs 1st quarter 2016)

- ▶ ITALY - Positive dynamism for Italian manufacturers of upholstered furniture, rising by 6% with respect to the first quarter of last year. Partial 2017 positive also for the automotive sector, with the Italian production of vehicles increased by +10% and new car sales growing by 12% in the quarter.
- ▶ REST OF THE WORLD - Overall good performance for the European upholstered furniture (+2%). Good, above all, Polish (+5%) and Spanish (+4%) operators. In slight retreat are the Germans (-4%) and the Romanians (-2%). Limited growth for USA orders (+2%). In a moderate drop are the Chinese exports. Heading upwards the European automotive market: +8% in new car sales in the first quarter of the current year.

TURNOVER INDEX - Short-Term Quarterly Trend (1st quarter 2017 vs 4th quarter 2016)

- ▶ ITALY - Trend reversal for Italian upholstered furniture in the short-term change, with a drop in turnover equal to 8%. The auto market accelerates, with new car sales recording an increase of 39% compared to the final quarter of 2016.
- ▶ REST OF THE WORLD - Less encouraging the short-term change for EU upholstered furniture manufacturers (-2%), with the only exceptions being Poland, Romania, Slovakia. France stable (+1%). The European automotive sector continues its course: +22%.

Methodology notes. Prices of the raw materials quoted are based on the reference currencies at a commercial level and, therefore, any effects deriving from changes in exchange rates are not considered. Turnover indexes are based on sample information, frequently preliminary, coming from institutional and private sources.

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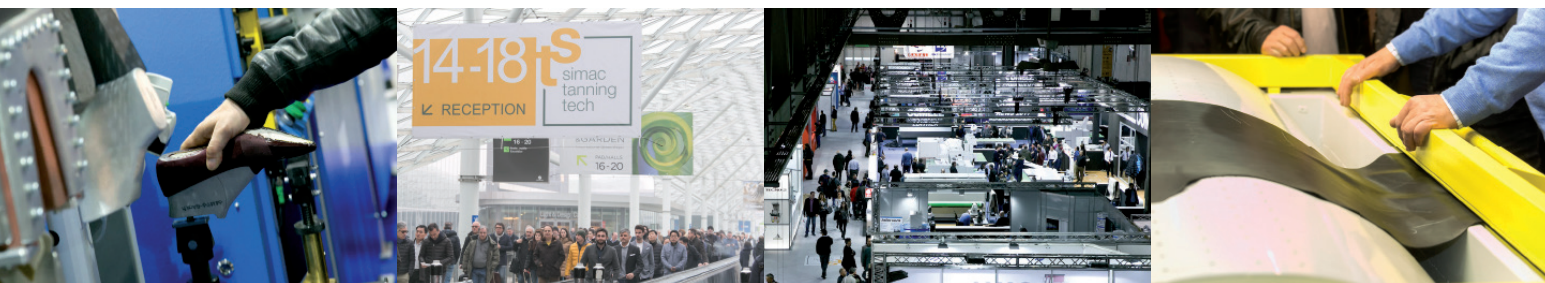
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