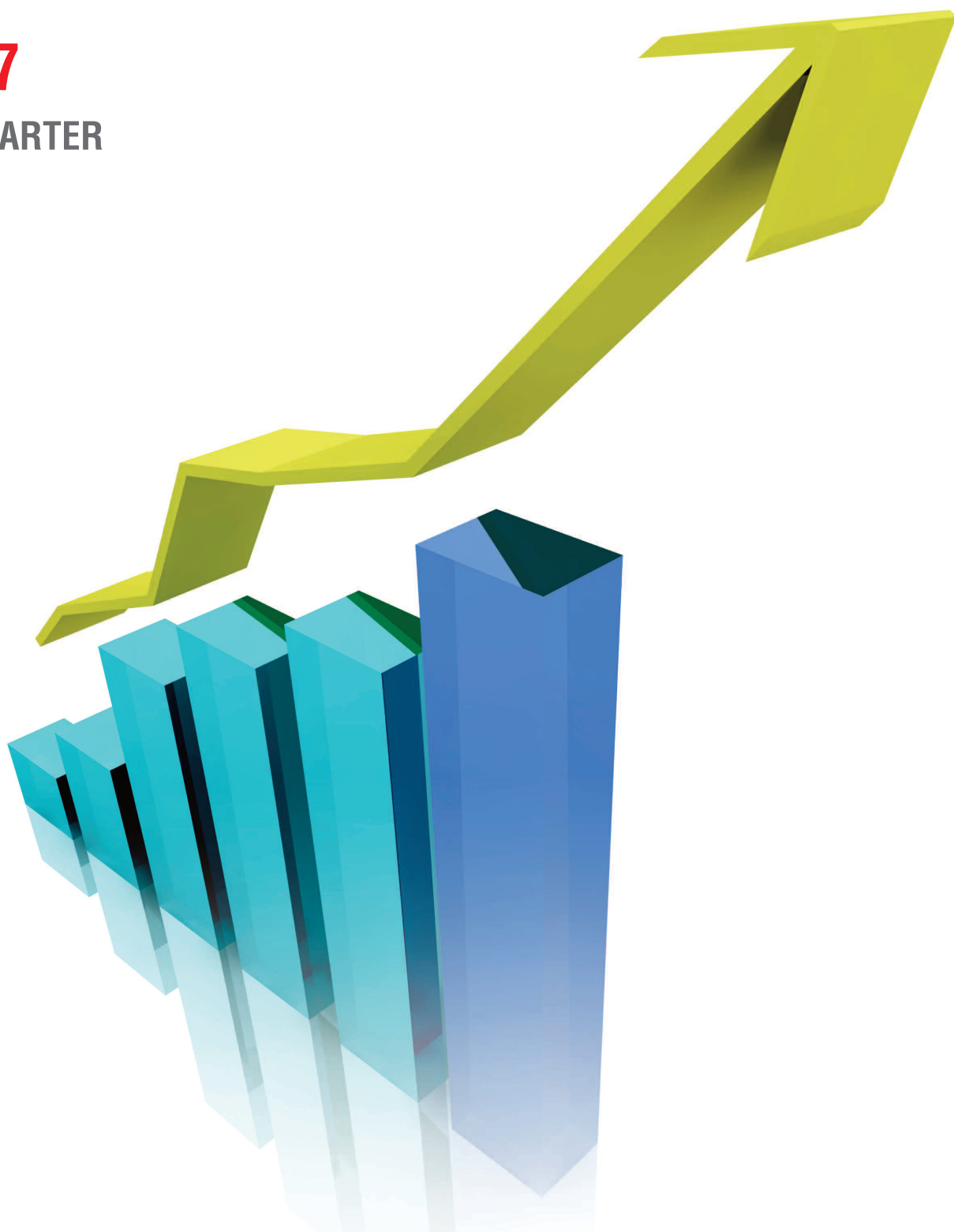


LEATHER MARKET OVERVIEW

LINEAPELLE
ECONOMIC DEPARTMENT

2017

2ND QUARTER



▶ RAW MATERIAL ◀

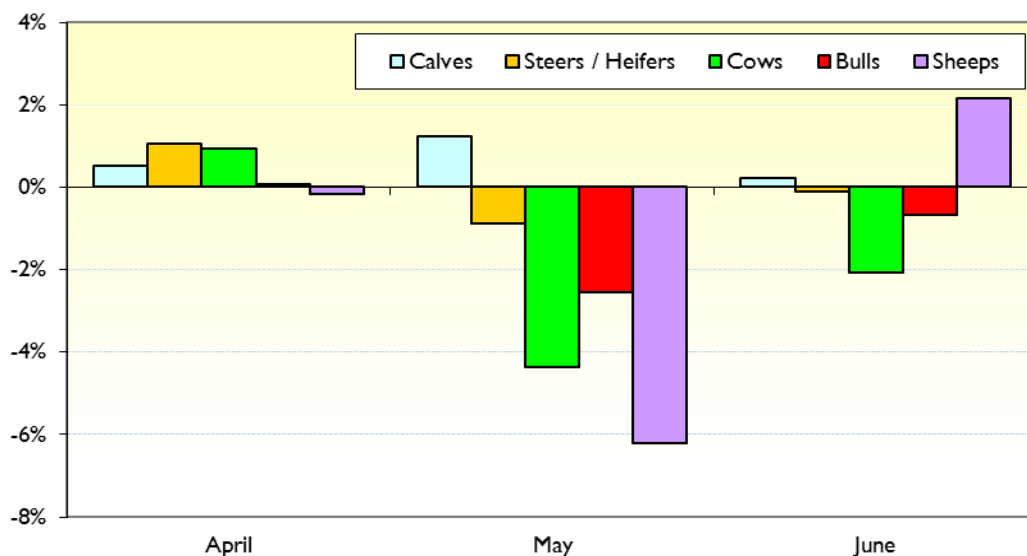
PRICES

If the first months of 2017 confirmed the widespread growing trend, which began at the end of last year, a partial downturn in the trend for prices of **raw hides and skins** was observed in the second quarter.

In the **bovine** segment, April continued to show slight signs of price rising across all the main categories but, starting from May, the large and medium sizes (steers/heifers, cows, bulls) registered declines in many markets. Cows were particularly hardest hit. Calfskins are the exception (once more), with average prices not stopping in their growth, neither in May nor in June.

The average index for **sheepskins** appears decisively volatile: stability in April, steep decline in May and a positive rebound in the last month of the quarter. This trend is mainly due to the Middle Eastern sources, whilst the European ones did stabilise after the umpteenth drop in April.

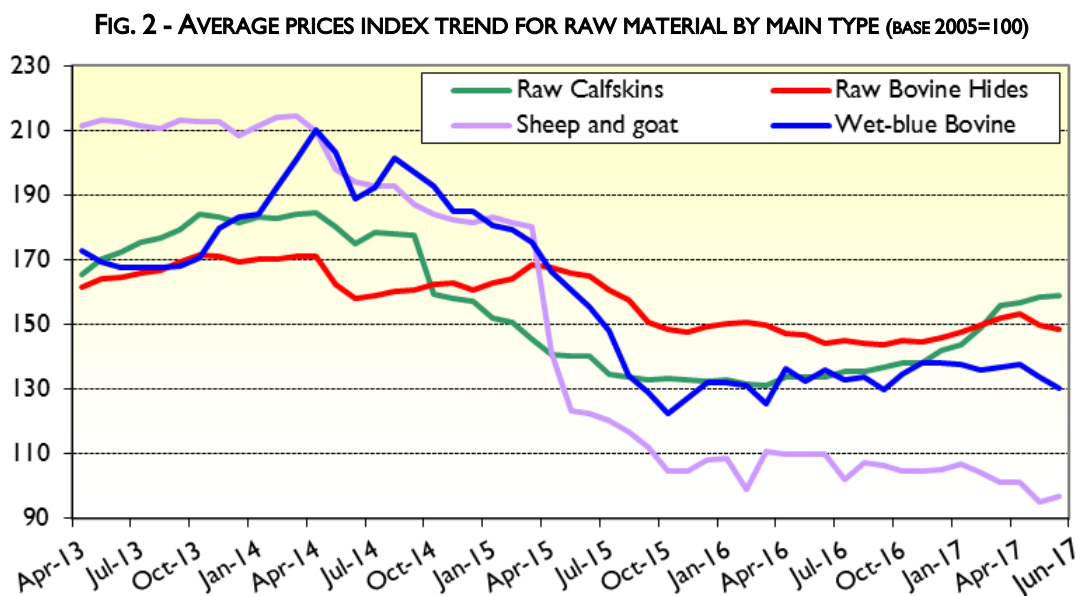
FIG. I - MONTHLY PRICE CHANGES FOR RAW HIDES AND SKINS BY ANIMAL TYPE IN THE QUARTER



Bovine wet-blue index experienced a slight increase at the beginning of the quarter, then gave it up in a marked way. This dynamic appears with no exception among the single markets of reference, with more significant drops in Brazil and Australia.

TABLE I - PRICE CHANGES FOR RAW HIDES AND SKINS BY MAIN TYPE AND ORIGIN FROM THE BEGINNING OF 2017 TO JUNE

Calves	+12%	Steers, bull calves, heifers	+2%	Cows	+2%	Bulls	+2%	Sheep	-8%
Italy	+7%	Italy (bull calves)	+2%	Italy	==	France	+2%	Iran	-9%
France	+17%	Germany (heifers)	==	France	-1%	Netherlands	+8%	Spain	-21%
Netherlands	+14%	UK (mixed)	+4%	Netherlands	+8%	Germany	-1%	N. Zealand	+7%
Spain	+1%	Spain (bull calves)	-4%	Germany	+1%	N. Zealand	+6%		
Australia	-18%	United States (mixed)	-10%	Spain	-1%	Denmark	+5%		
		Australia (mixed)	+15%	United States	+3%				
		Sweden (mixed)	+5%	Sweden	+17%				
		New Zealand (steers)	+6%	New Zealand	-3%				
		Denmark	+9%	Denmark	+12%				



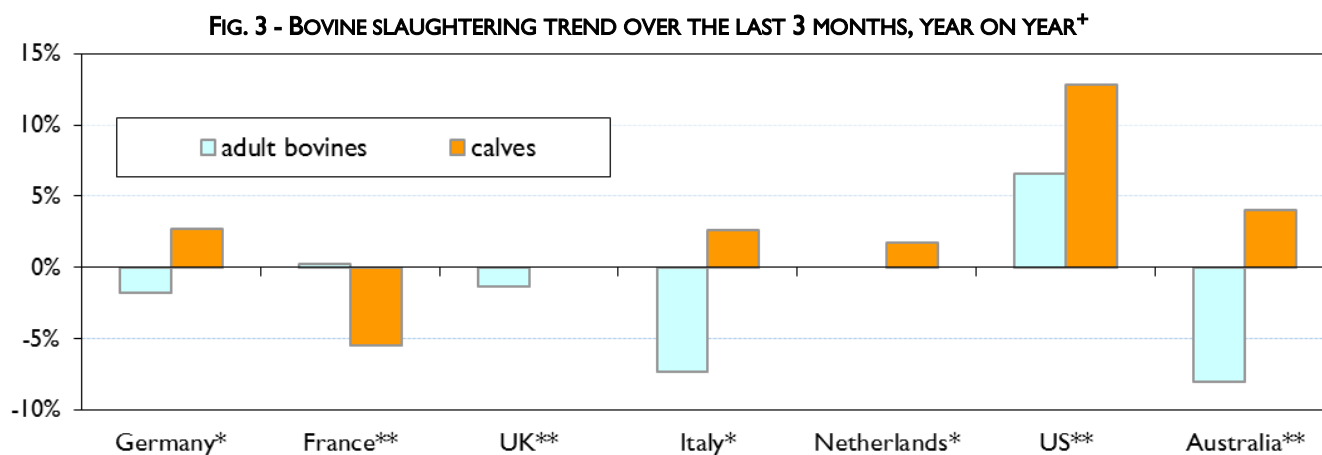
SLAUGHTERING

In spite of a slight slowdown with respect to the beginning of 2017, the general picture of the slaughtering of **adult cattle** in the main areas monitored (EU, USA, Latin America, Oceania) is still positive. In the first half of the year, the overall increase is 4%.

The total figure for the European Union is essentially unchanged with respect to last year, but individual Member States show very different trends. The Netherlands are growing (over one third more) as are Poland and Ireland; France is stable, while Germany, the UK, Italy and Spain are down. The American continent is up (US +7%, Argentina +5%, Brazil +1%), the Oceanic area is down (Australia -8%, New Zealand -5%).

In recent months, the overall trend in **calves** slaughtering levels has shown signs of recovery and, at the end of this first part of the year, figures result to be essentially the same as those of the same period in 2016. Little positive signs for the EU total (+1%), with drops, amongst the main producers, only in France and Poland (the Netherlands, Belgium, Italy and Spain all experiencing growth). Outside of Europe, Australia falls (almost -40%) as does New Zealand; the US grows.

Drops are confirmed for **sheep** slaughtering (-2% in the first six months among the areas monitored). Overall positive sign in Europe (+1%), but the details show increases only in the United Kingdom and Ireland (Spain is stable thanks to a recovery in recent months, France -1%). Falls in New Zealand (-2%) and Australia (-7%).



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

* quarter ended in May

** quarter ended in June

▶ TANNING SECTOR ◀

ITALY

TURNOVER INDEX - Quarterly Trend (2nd quarter 2017 vs. 2nd quarter 2016)

- ▶ MEDIUM-LARGE BOVINE - Slow braking in the spring months (-1%), after the positive beginning of the year.
- ▶ SMALL BOVINE - Another decreasing quarter (-3%) for calves sales.
- ▶ SHEEP AND GOATS - Stagnating trend in the period (-1%). In detail, goats are stable, while sheep are 2% down.

TURNOVER INDEX - Annual trend (1st half 2017 vs. 1st half 2016)

- ▶ MEDIUM-LARGE BOVINE - Half-year results increasing overall (+2%).
- ▶ SMALL BOVINE - Average decline by 4% in the first part of the year.
- ▶ SHEEP AND GOATS - Formally negative sign (-1%) but it appears as substantial stability over last year.

COMMENTS AND FORECASTS - The first part of 2017 closed with increasing volumes although less brilliant values. Difficulties for the top products and the high price ranges, better trend for the medium and medium-high. Always good trend in the automotive sector, fashion industry focused on the price.

REST OF EUROPE

TURNOVER INDEX - Quarterly Trend (2nd quarter 2017 vs. 2nd quarter 2016)

- ▶ MEDIUM-LARGE BOVINE - Double speed dynamic for the rest of EU producers. Austria (+4%), Portugal and United Kingdom (over +10% both) confirm positive. Poland starts growing again. Declines in Spain, Germany, France and the Netherlands (quite substantial drops for the last two).
- ▶ SMALL BOVINE - Still a broadly negative overview on calves; Spain loses the most., France a little less.
- ▶ SHEEP AND GOATS - Same situation as that outlined for small bovine, with drops both in France and Spain.

TURNOVER INDEX - Annual trend (1st half 2017 vs. 1st half 2016)

- ▶ MEDIUM-LARGE BOVINE - The first part of the year closed with increased turnover for Spain (+4%), UK (+10%), Austria (+7%), Portugal (+15%) and Poland (+6%). Losses for Germany, France and the Netherlands.
- ▶ SMALL BOVINE - France slightly backing (-2%), double-digit drops for Spain.
- ▶ SHEEP & GOATS - French sales are positive overall, the Spanish ones suffer instead.

COMMENTS AND FORECASTS - It is valid also for the rest of Europe what previously reported for Italy: car sector still grows, while fashion looks fragmented (dynamism above all for medium price range products).

REST OF THE WORLD

TURNOVER INDEX - Quarterly Trend (2nd quarter 2017 vs. 2nd quarter 2016)

- ▶ BOVINE - Seasonal increases in China, India and Turkey, while Brazilian and Argentinian exports post double-digit declines. Difficulty also in Mexico. Pakistan stable.
- ▶ SHEEP AND GOATS - Still a downward overview for the main Asian players, with the exception of Turkey.

TURNOVER INDEX - Annual trend (1st half 2017 vs. 1st half 2016)

- ▶ BOVINE - China, Turkey, Pakistan slightly recovering; negative trend for India and the main Latin Americans.
- ▶ SHEEP AND GOATS - Such as for the quarterly trend, China, India and Pakistan decrease, Turkey grows.

COMMENTS AND FORECASTS - Some more timid signals of improvement coming from Asia in the bovine segment (South America still down), while the overall overview in the sheep segment confirms largely dejecting.

▶ ACCESSORIES, COMPONENTS, SYNTHETICS ◀

RAW MATERIALS

PRICES - Quarterly Trend (2nd quarter 2017 vs. 2nd quarter 2016)

The second quarter of the year saw a strengthening in the upward trend of the commodity prices for the sector, as observed in the previous months.

Oil quotations (in USD) are recovering, rising over 10%; cotton (+22%) and wool (increases between +2% and +29%) continue their rise. Still on the way up are also natural rubber and metals, all experiencing double-digit increases (except nickel, +5%).

PRICES - Annual Trend (1st half 2017 vs. 1st half 2016)

The annual trend shows all raw materials in positive territory except oil, with a slight dip (-4%). Continued increases for cotton (+24%) and wool (between +5% and +32%). Natural rubber is seeing strong acceleration. Exceptional performance for metals, all posting double-digit growth.

TEXTILES, SYNTHETICS AND ALTERNATIVES

TURNOVER INDEX - Quarterly Trend (2nd quarter 2017 vs. 2nd quarter 2016)

Setback for textiles, synthetics and alternatives to leather, which closed the second quarter 2017 going down (-3%). The sector is mostly affected by the declines in Italy and the UK, moderate increases for France (+3%) and Germany (+5%).

Among the segments, synthetics confirmed as the best performer, with the European average growing by 3% thanks to the good performance of Germany (+6%). The regenerated leather sector is suffering (dropping by double-digit), dragged down by Germany and Italy, to which is added the UK's slowdown (-2%). Textiles and synthetic fibres are in difficulty (-13%) weighed down by the losses in Italy, the United Kingdom and Poland, despite the good performance of the Germans (+5%).

TURNOVER INDEX - Annual Trend (1st half 2017 vs. 1st half 2016)

Moderate growth in the first half of this year (+2% the average at European level). Dynamic rises are confirmed in Germany (+6%) and Spain (+5%); slight dip in the UK instead (-1%). France negatively stable; Italy suffers (-7%).

ACCESSORIES AND COMPONENTS

TURNOVER INDEX - Quarterly Trend (2nd quarter 2017 vs. 2nd quarter 2016)

Accessories and components' turnover keeps growing in the second quarter 2017 (+5% at the EU level). Good trend among the main European manufacturers, with Italy, Romania and France on the podium; Germany is recovering (+3%), Spain is stable, while the United Kingdom limps (-3%).

Small metal parts are outstanding (+12% the EU average), sustained by France, Italy and Germany in particular. Positive trend also for the other accessories (+6%). The rebound in footwear components is noticeable(+3%).

TURNOVER INDEX - Annual Trend (1st half 2017 vs. 1st half 2016)

The half-yearly results strengthen the sector's rise (+8% the European average). Italy and Germany recover (+5% and +2% respectively), France accelerates. Double-digit growth for the main European offshoring. The United Kingdom moves backwards (-4%).

Widespread increases among the various product categories: footwear components return to show positive figures (+4%), other accessories and small metal parts record a double-digits rise.

▶ MANUFACTURING SECTORS ◀

FOOTWEAR

TURNOVER INDEX - Quarterly Trend (2nd quarter 2017 vs. 2nd quarter 2016)

▶ ITALY - The second quarter of the year reflects uncertainty for the Italian footwear manufacturers, which recorded a slight drop in total turnover (-1%).

▶ REST OF THE WORLD - The European average goes up (+4%), with Germany and Poland posting double-digit growth. Increases also for France (+7%), Portugal (+3%) and Romania (+4%); slight recovery in Spain (+1%). While the English manufacturers are still in red (-8%). General recovery for the extra-EU footwear sector, with all the main Asian producers seeing increases. Turkey and Pakistan are exceptions (exports falling by -4% for both). Brazilian exports accelerate (+17%), while the Mexican shipments fall back (-11%).

TURNOVER INDEX - Annual Trend (1st half 2017 vs. 1st half 2016)

▶ ITALY - In the first half of 2017, Italian footwear returns to show a positive sign, +2% compared to the same period of the previous year.

▶ REST OF THE WORLD - The comparison with the first half of 2016 confirms the signs of recovery in the EU footwear industry (+5% on average). Germany is in evidence (with a double-figure growth) together with Eastern Europe offshoring. France (+5%), Portugal (+6%) and Spain (+2%) are also doing well. The United Kingdom turns negative (-6%). Overall positive overview for the Asian players, except China (-3%) and Pakistan (-4%). Turkey is growing too (+5%). Very good trend for the Brazilian footwear (+16%).

LEATHER GOODS

TURNOVER INDEX - Quarterly Trend (2nd quarter 2017 vs. 2nd quarter 2016)

▶ ITALY - The rise of Italian leather goods production doesn't stop, continuing in its double-digit growth even in the second quarter of the year.

▶ REST OF THE WORLD - The EU average records a rise of 11%. Besides the Italian jump, even the German producers, the Spanish and the English ones grow significantly. While the French leather goods manufacturing keeps looking weak (-2%). Quite weary the Eastern Europe offshoring, with the exception of Poland and Bulgaria (both of them double-digit growing). Asian players are recovering, but difficulties in Turkey.

TURNOVER INDEX - Annual Trend (1st half 2017 vs. 1st half 2016)

▶ ITALY - In the first half of 2017, the upward trend of the Italian leather goods manufacturers has strengthened, with an overall increase of over 20%.

▶ REST OF THE WORLD - The first semester records a marked rise at the European level (+11%). Spain and the United Kingdom shine (increases between 11% and 18%); favourable dynamic also for the Germans (+5%). France is weak (-1%), Portugal suffers (-10%). Beyond Europe, increases are seen in India and Vietnam, yet China is stable. Slight contraction in Turkey.

GARMENTS

TURNOVER INDEX - Quarterly Trend (2nd quarter 2017 vs. 2nd quarter 2016)

▶ ITALY - Italian manufacturers' turnover drop intensifies: -7% compared to the same period in 2016.

▶ REST OF THE WORLD - Uncertain results even at the EU level (-3% on average). The falls affect all the main European manufacturers and the Eastern Europe offshoring. Uprising trend for the Germans (+4%). Still difficulties for extra-EU manufacturers of leather garments. The Asian suffer, everyone going down with the exception of Vietnam. Turkish shipments decreasing too.

TURNOVER INDEX - Annual Trend (1st half 2017 vs. 1st half 2016)

- ▶ ITALY - The first half of 2017 reflects uncertainty for leather goods: -2% over the same period of last year.
- ▶ REST OF THE WORLD - Widespread decrease also amongst the main European producers. The Germans, French and English lose 4%; very bad performance for the Iberian manufacturers (posting a double-digit drop). Weak performance of the extra-EU operators, with everyone down except Vietnam.

UPHOLSTERY**TURNOVER INDEX - Quarterly Trend (2nd quarter 2017 vs. 2nd quarter 2016)**

- ▶ ITALY - The lively trend in upholstered furniture is confirmed: +7% compared to April-June 2016 period. The growing dynamic of the automotive sector doesn't change, with new car sales rising by 6%.
- ▶ REST OF THE WORLD - The second quarter of 2017 continues with positive signs also for the European upholstered furniture (+2%). Favourable outlook above all for the Spanish, French and English manufacturers (increases between 10% and 13%); setback for the Polish (-4%). The Germans are negatively stable. Chinese exports recover decidedly. Slight growth for the European automotive sector (+1%).

TURNOVER INDEX - Annual Trend (1st half 2017 vs. 1st half 2016)

- ▶ ITALY - Italian upholstered furniture grows on the partial year's comparison, with a rise of +6%. With over a million of new registered cars, the automotive confirms to be on the rise too, closing the period from January to June 2017 with +9% over the same period of 2016.
- ▶ REST OF THE WORLD - The market overview awards the EU furniture manufacturers (+3%), the only exceptions being Germany and Romania, both of them slightly down. US orders accelerate (+6%). Positive sign for the European automotive market (+5%), while the US drops off (-2%).

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.

LINEAPELLE

ECONOMIC DEPARTMENT

economic@lineapelle-fair.it
www.lineapelle-fair.it

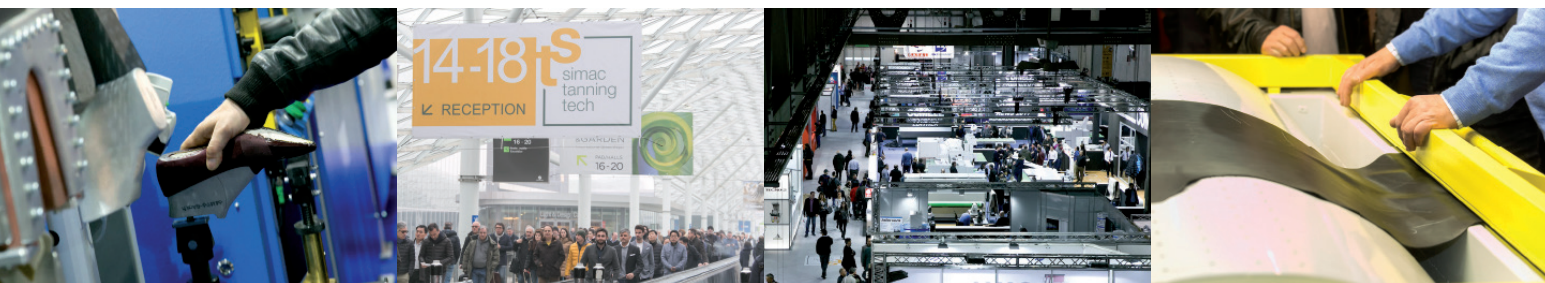
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Assomac Servizi Srl

Via Matteotti, 4/a P.O. Box 73-PTB - 27029 Vigevano - PV - ITALY

T +39 038 178 883 F +39 038 188 602 E exhibition@assomac.it