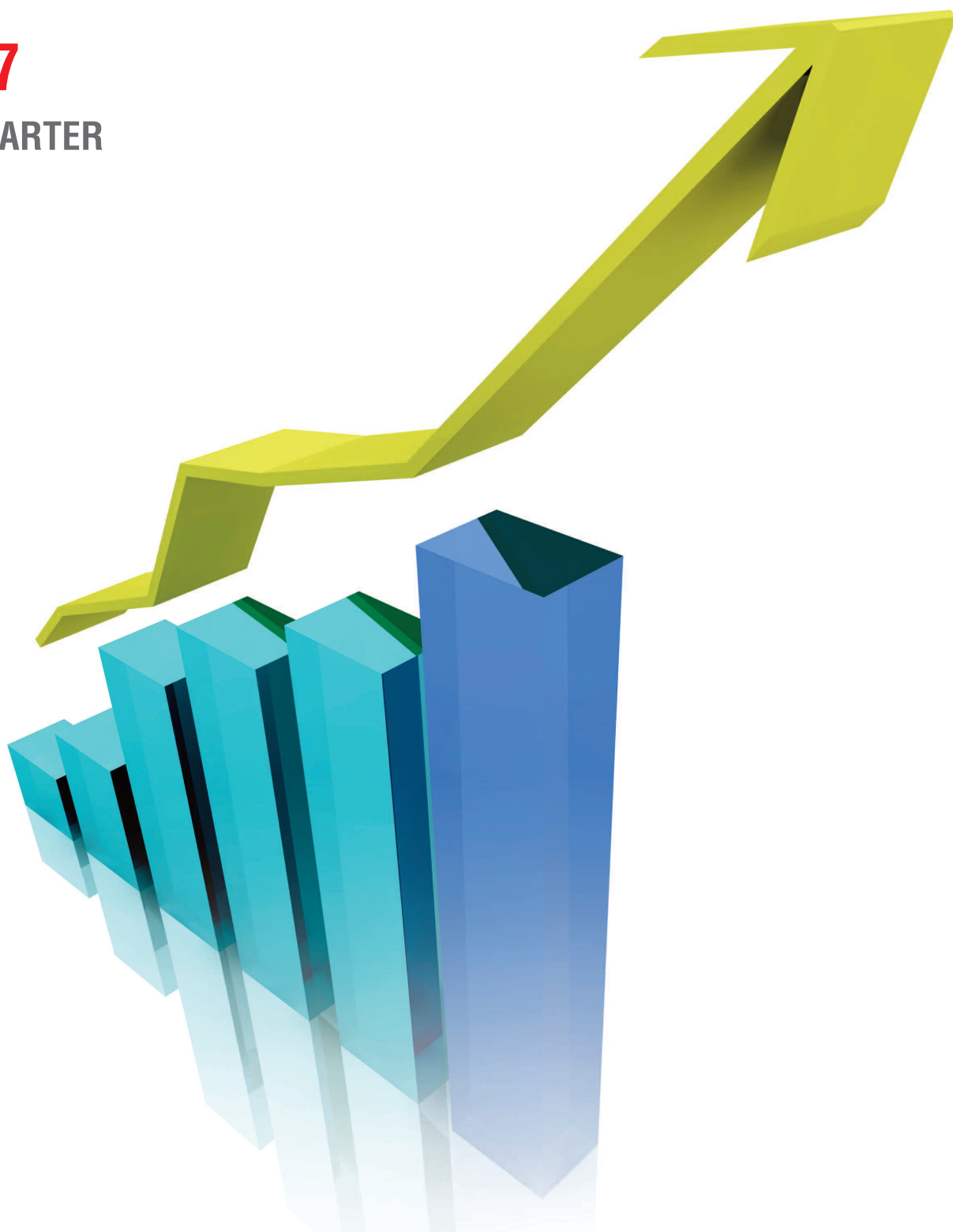


# LEATHER MARKET OVERVIEW

LINEAPELLE  
ECONOMIC DEPARTMENT

2017

3<sup>RD</sup> QUARTER



## ▶ RAW MATERIAL ◀

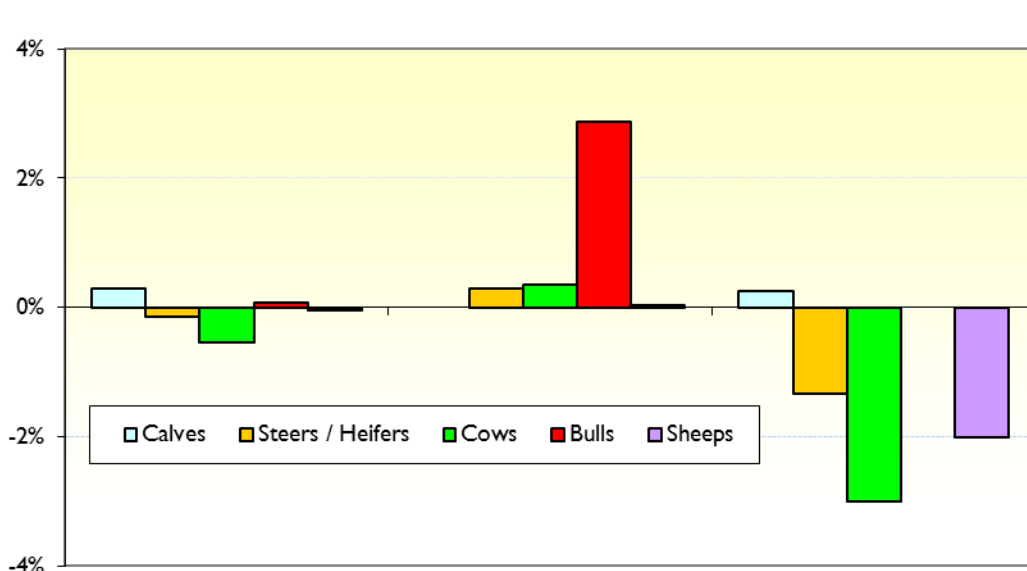
### PRICES

In the third quarter of the year, the prices of **raw hides/skins** and **semi-processed leather** showed an essentially weak trend in July/August and a downward trend in September, but with some important exceptions that confirmed the time of uncertainty and volatility throughout the entire value chain.

As regards **bovine raw hides**, worth mentioning is the slow but persistent rising tendency of the average price index of calves (especially as a result of the Dutch market) and bulls (with France and the Netherlands being the most dynamic markets). Minimum rebounds for medium sizes (steers, bull calves, heifers) in the summer months, which were followed by a widespread decline in September that was particularly pronounced for cows.

Also the general index for **sheepskins** was stable in the July/August and then dropped with medium intensity in September. This decline appears to be attributable to the main Middle-Eastern origins, while New Zealand grew and the European markets went back into positive territory after the losses of the previous months.

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

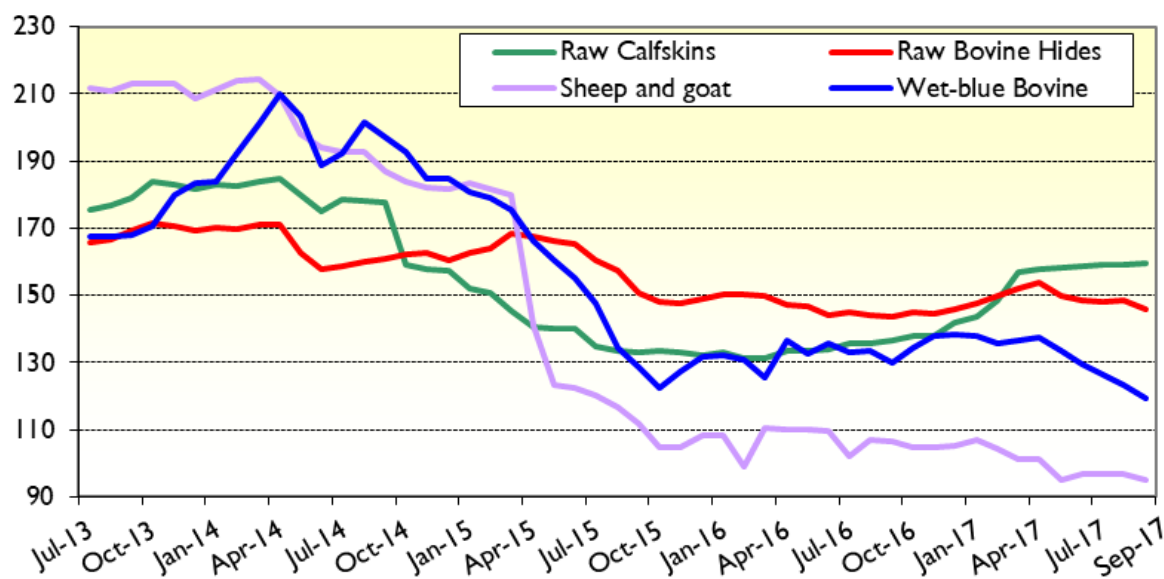


Another declining quarter for the prices of **bovine wet blue**, whose overall index has dropped 14% in the first nine months of the year. Also in this case, the general trend was related especially to the performance of the most relevant global source of procurement (Brazil). Minor changes on the other main markets.

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

Calves	+13%	Steers, bull calves, heifers	==	Cows	-2%	Bulls	+5%	Sheep	-10%
Italy	+9%	Italy (bull calves)	+2%	Italy	==	France	+5%	Iran	-16%
France	+16%	Germany (heifers)	-2%	France	-3%	Netherlands	+11%	Spain	-12%
Netherlands	+18%	UK (mixed)	+2%	Netherlands	+2%	Germany	-1%	N. Zealand	+8%
Spain	+1%	Spain (bull calves)	-6%	Germany	-4%	N. Zealand	+6%		
Australia	-18%	United States (mixed)	-21%	Spain	-10%	Denmark	+5%		
		Australia (mixed)	+15%	United States	-16%				
		Sweden (mixed)	+3%	Sweden	+16%				
		New Zealand (steers)	+6%	New Zealand	-3%				
		Denmark	+8%	Denmark	+11%				

FIG. 2 - AVERAGE PRICE TREND FOR LEATHER RAW MATERIALS BY MAIN TYPE (BASE 2005=100)



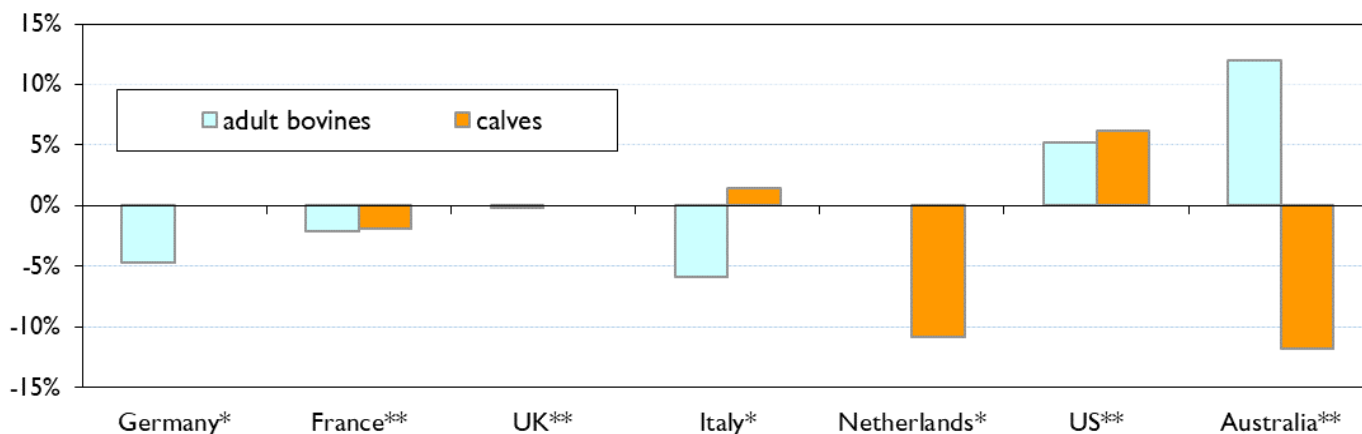
## SLAUGHTERING

The aggregate of the countries (EU, USA, Brazil, Argentina, Australia, New Zealand) which compose the sample chosen to monitor the global slaughtering of **adult cattle**, has posted growth just above 2% in the first nine months of 2017 year on year.

While the EU appears unchanged overall, the single members showed diverse trends. The leading producers in the area remained stable (France) or posted losses (Germany -3%, United Kingdom -2%, Italy -7%), while those in the “second range” posted growth (Poland +8%, Ireland +6%, Spain +3%, the Netherlands +23%). Growth in the US and Argentina (both +6%), against drops in Brazil (-1%), Australia (-2% though recovering compared to the beginning of 2017) and New Zealand (-8%).

The recovery seen in the spring quarter was interrupted and the total slaughtering of **calves** in January-September dropped 3% year on year. Specifically, the European Union lost 2% due to France (-4%), the Netherlands (-3%) and Spain (-2%), whereas Italy, Belgium and Germany posted growth. Double-digit losses in Australia (-26%) and New Zealand (-13%); positive performance in Argentina and the US.

The slaughtering trend for **sheep** in the Countries monitored worsened slightly: -1% between January and September. The variation in the EU aggregate data is in line with the aforesaid overall decline (specifically, losses were posted in France, Italy and Spain, against growth in the United Kingdom and Ireland). Slight losses also in Australia and New Zealand.

FIG. 3 - BOVINE SLAUGHTERING CHANGE IN THE LAST 3 MONTHS COMPARED TO THE SAME PERIOD OF THE PREVIOUS YEAR<sup>+</sup>

<sup>+</sup> 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 2017 vs 3rd quarter 2016)**

- MEDIUM-LARGE BOVINE - Quarterly results still slightly lower (-1%) than the same period in 2016.
- SMALL BOVINE - Trend reversal and period ending with a seasonal increase (+3%).
- SHEEP AND GOATS - Overall declining quarter (-4%) due to the sheep segment (-6%); goats +3%.

#### **TURNOVER INDEX - Annual Trend (nine months 2017 vs nine months 2016)**

- MEDIUM-LARGE BOVINE - Partial 2017 aggregate value still positive (+2%) year on year.
- SMALL BOVINE - In spite of the good quarter, the current annual result is still in negative territory (-3%).
- SHEEP AND GOATS - Slight slowdown compared to 2016 (-2%), with sheep at -3% and goats at +1%.

**OBSERVATIONS AND FORECASTS** - Summer quarter in line with the generally stable trend of the first half of the year. Partial recovery of calves. Some further recovery expected for the last months of 2017.

### REST OF EUROPE

#### **TURNOVER INDEX - Quarterly Trend (3rd quarter 2017 vs 3rd quarter 2016)**

- MEDIUM-LARGE BOVINE - Positive sign for the main EU players (Austria +2%, Germany +8%, Spain, UK, Portugal and the Netherlands even posting double-digit growth), with the only exception of France (down).
- SMALL BOVINE - Opposite situation to medium-large sizes: France posting growth (+3%), Spain losses.
- SHEEP AND GOATS - As for Italy, negative outlook also for France (slight loss) and Spain (more pronounced).

#### **TURNOVER INDEX - Annual Trend (nine months 2017 vs nine months 2016)**

- MEDIUM-LARGE BOVINE - Identical picture as per the quarterly trend. All main countries growing (Austria and Spain +4%, Germany +7%, UK and Poland +15%, Holland and Portugal +20%), apart from France (-3%).
- SMALL BOVINE - Following the summer recovery, France at +1% while Spain down by about 10%.
- SHEEP AND GOATS - French sales posting growth (+6%), against losses in Spain (-6% overall).

**OBSERVATIONS AND FORECASTS** - Recovery (albeit partial) for Germany, Spain and the Netherlands, even if the recent static trend of the first months 2017 is still present. Optimism prevails for the end of the year.

### REST OF THE WORLD

#### **TURNOVER INDEX - Quarterly Trend (3rd quarter 2017 vs 3rd quarter 2016)**

- BOVINE - Seasonal recoveries continued in China, India and Turkey; also Argentinian exports increased while Brazilian exports continued to post losses (-14%). Falls in Mexico and Pakistan.
- SHEEP AND GOATS - Asian producers (China, India, Pakistan, Turkey) growing again, albeit slightly.

#### **TURNOVER INDEX - Annual Trend (nine months 2017 vs nine months 2016)**

- BOVINE - Positive results for China and Turkey, negative for South-America; India and Pakistan stable.
- SHEEP AND GOATS - India and Turkey essentially unchanged, Pakistan posting losses, China posting growth.

**OBSERVATIONS AND FORECASTS** - The slight Chinese recovery continues after the losses of recent years, while the difficulties of the sector in Brazil show no sign of slowing down.

## ► ACCESSORIES, COMPONENTS, SYNTHETICS ◀

### RAW MATERIALS

#### PRICES - Quarterly Trend (3rd quarter 2017 vs 3rd quarter 2016)

Overall upward trend of the commodity prices for the sector also in the third quarter of 2017.

Crude oil continued to rise (in USD): +12%. Cotton trend is positive (+2%) but growth rate slowed down. Wool prices increased, driven by strong demand (especially Chinese and European). Natural rubber and metals did well, all posting strong growth except for nickel (a more moderate +3%).

#### PRICES - Annual trend (nine months 2017 vs nine months 2016)

Generally positive annual trend. Essentially stable quotations of crude oil (+1%). Double-digit increases for cotton (+16%), with growth for wools too. Good trend for natural rubber; very positive dynamics also for metals, all posting double-digit growth except for nickel, posting moderate rise (+9%).

### TEXTILES, SYNTHETICS AND ALTERNATIVES

#### TURNOVER INDEX - Quarterly Trend (3rd quarter 2017 vs 3rd quarter 2016)

Despite the declines of UK (-6%) and Italy (-7%), the third quarter of 2017 saw textiles, synthetics and other materials alternatives to leather recover after the slowdown of recent months (European average: +0.4%). The recovery was led by France (+11%), Germany (+6%) and the Iberian Peninsula producers (growth between +11% and +12%). Specifically, synthetics increased by 3% in the EU, driven by Germany (+6%). Bonded leather segment slowed down (-10%), suffering for the losses in the United Kingdom, Germany and Italy. The German growth and the English recovery were not sufficient to make up for the double-digit loss of Italy in textiles and synthetic fibres (total EU: -5%).

#### TURNOVER INDEX - Annual Trend (nine months 2017 vs nine months 2016)

Moderate yet constant growth for the sector in the first nine months of this year (European average: +2%). Rises for Germany and Spain (both +6%), France recovering (+2%). Persistent critical situations in Italy (-6%) and the United Kingdom (-2%). In details, widely positive scenario for synthetics (European average: +6%) with the sole exception of Italy (substantially stable). Diverse but mostly negative results for both the bonded leather and the textiles and synthetic fibres at European level.

### ACCESSORIES AND COMPONENTS

#### TURNOVER INDEX - Quarterly Trend (3rd quarter 2017 vs 3rd quarter 2016)

Positive results for accessories and components in the third quarter (European average: +3%). The upward trend rewarded especially Italian (+3%), German (+4%) and the French producers (+11%). United Kingdom decidedly recovering (+6%); setback for Romania (-1%). Small metal parts continued to rise (European average: +12%) thanks to the good performance of Italy and to the double-digit growth in France and Germany. Rises also for the “other accessories” segment (+6%). Uncertainty for footwear parts (-1%).

#### TURNOVER INDEX - Annual Trend (nine months 2017 vs nine months 2016)

The cumulative figure of 2017 confirms the strong performance of the sector (European growth: +7%). Good trend in Italy (+5%) and Germany (+3%); France rising, posting double-digit growth along with the Eastern-European offshoring. The United Kingdom still in the red but with more limited losses (-1%). Very positive scenario across all markets, driven by small metal parts. Considerable growth also for “other accessories” and footwear components.

## ▶ MANUFACTURING SECTORS ◀

### FOOTWEAR

#### TURNOVER INDEX - Quarterly Trend (3rd quarter 2017 vs 3rd quarter 2016)

- ▶ ITALY - Difficult recovery of Italian footwear in the third quarter 2017, with negatively stable sales (-0.3%).
- ▶ REST OF THE WORLD - Rising trend in total Europe (+3%) where Germany and Poland once again posted double-digit sales growth. Constant growth for France (+7%). Portugal and Spain passed into the negative (both -3%); Romania slowed down slightly (-1%). Significant decline for English footwear (-12%). Ups and downs for extra-EU manufacturers. Persistent critical situation in China and Pakistan; good performance in India. Unstoppable growth in Vietnam (+10%). Brazilian shipments confirmed very positive (+14%). Mexico recovering. Sharp trend reversal for Turkish exports, posting double-digit growth.

#### TURNOVER INDEX - Annual Trend (nine months 2017 vs nine months 2016)

- ▶ ITALY - Moderately encouraging results for Italian footwear in the cumulative figure of 2017: +2%.
- ▶ REST OF THE WORLD - The first nine months of this year strengthened the rising trend of European footwear (EU average: +6%). German sales continued to rise (posting double-digit growth). France (+6%) and Poland did well; Spain stable. Overall positive results for footwear manufacturers in Eastern Europe. Critical issues for the United Kingdom (-7%). Unconvincing trend of Asian footwear, posting decline between -3% and -6% in China and Pakistan; India stable. Rise in Vietnam (+6%). Brazilian and Turkish footwear still very dynamic (respectively +15% and +11%).

### LEATHER GOODS

#### TURNOVER INDEX - Quarterly Trend (3rd quarter 2017 vs 3rd quarter 2016)

- ▶ ITALY - Italian leather goods continued to rise, posting double-digit growth in the third quarter of 2017.
- ▶ REST OF THE WORLD - Also the EU average continued to rise significantly (+9%). Good performance by the Germans (+5%), while Spanish (-1%) and English production slowed down (-4%). Weak results for the French (-3%). The Eastern-European offshoring struggled, except for Poland (posting double-digit growth) and Romania (+3%). Beyond the European Union, all Asian players increased except for India (-6%). Turkey recovering (+9%).

#### TURNOVER INDEX - Annual Trend (nine months 2017 vs nine months 2016)

- ▶ ITALY - Rising sales of Italian leather goods in the January-September aggregate, posting a 20% growth as compared to the same period of last year.
- ▶ REST OF THE WORLD - Even the total EU leather goods industry show a very dynamic trend in the partial cumulative figure of 2017 (+11%). Very positive results for the United Kingdom and Poland (+12% and +16%, respectively); good performance in Germany (+5%). France weak (-1%), Portugal struggling (-6%). Overall poor performance in Asia, except for Vietnam (posting double-digit growth). Turkey posted growth (+2%).

### GARMENTS

#### TURNOVER INDEX - Quarterly Trend (3rd quarter 2017 vs 3rd quarter 2016)

- ▶ ITALY - Further losses for Italian manufacturers in the third quarter of this year, posting double-digit decline compared to the same period of 2016.

► REST OF THE WORLD - Weak trend also in Europe as a whole (-5% in the period). All the leading European manufacturers posted losses, with just some slight recovery for the Eastern-European offshoring. Critical quarter for the extra-EU players, all posting losses except for China (unvaried). Losses continued in Turkey.

### **TURNOVER INDEX - Annual Trend (nine months 2017 vs nine months 2016)**

► ITALY - Losses in the first three quarters of 2017 for Italian manufacturers of leather garments: -4% over the first nine months of last year.

► REST OF THE WORLD - Identical situation in the total EU with general losses posted by the major players. Germany and France went down 4%, poor performance also for the UK (-3%). The Spanish and the Portuguese sectors taking a nosedive. Generally uncertain situation beyond the European Union, except for Vietnam, still growing.

## **UPHOLSTERY**

### **TURNOVER INDEX - Quarterly Trend (3rd quarter 2017 vs 3rd quarter 2016)**

► ITALY - The growth of Italian upholstery continued, up 4% in the third quarter of the year. Rising trend also in the automotive sector: new car sales went up +9% in the period.

► REST OF THE WORLD - Strong performance of European furniture: +3%. Considerable increases for France (+12%) and Spain (+9%). The English production slowed down (+1%), while the Polish and the German recovered. Strong performance of Chinese shipments. New car registrations slightly growing in the EU market: +1% in the quarter year-on-year basis.

### **TURNOVER INDEX - Annual Trend (nine months 2017 vs nine months 2016)**

► ITALY - The partial cumulative figure of 2017 confirms the rising trend of Italian furniture: +6%. Also Italian demand for new cars on the rise: +9% in the first nine months of this year.

► REST OF THE WORLD - Optimism for EU manufacturers of upholstered furniture, closing the partial cumulative figure of the present year at +4%. Negative performance only in Germany (-1%) and Romania (-3%). US orders significantly on the rise (+6%). Despite the setback in September and the uncertain demand in the United Kingdom, the growing trend also in the European automotive market was confirmed (+4%). New car sales down in the US (-2% over the same period in 2016) despite the increase observed in September.

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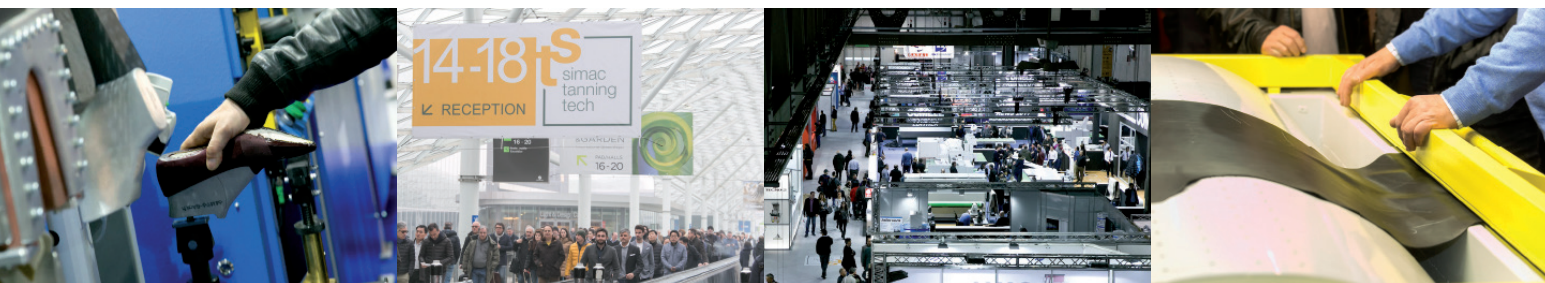
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