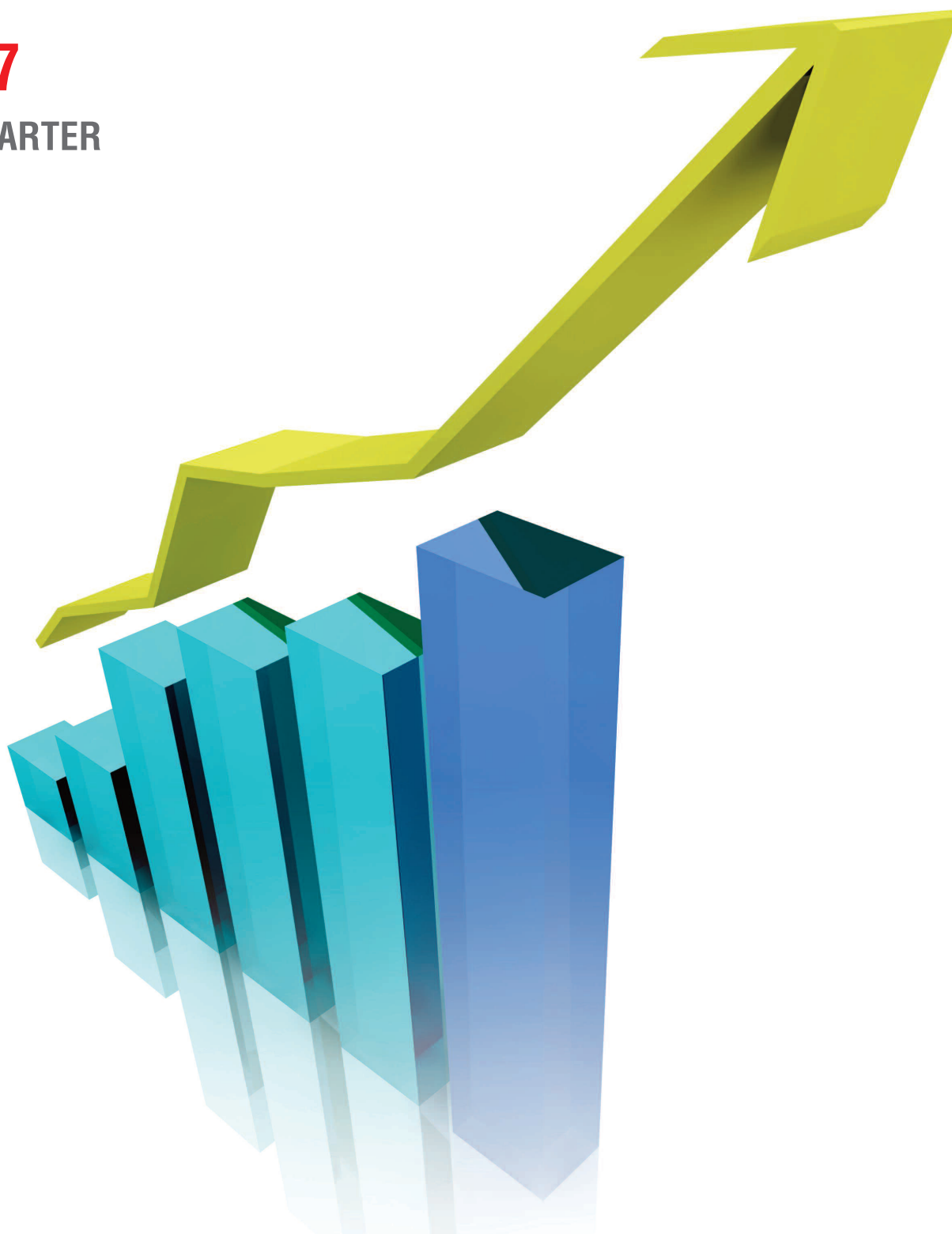


LEATHER MARKET OVERVIEW

LINEAPELLE
ECONOMIC DEPARTMENT

2017

4TH QUARTER



▶ RAW MATERIALS ◀

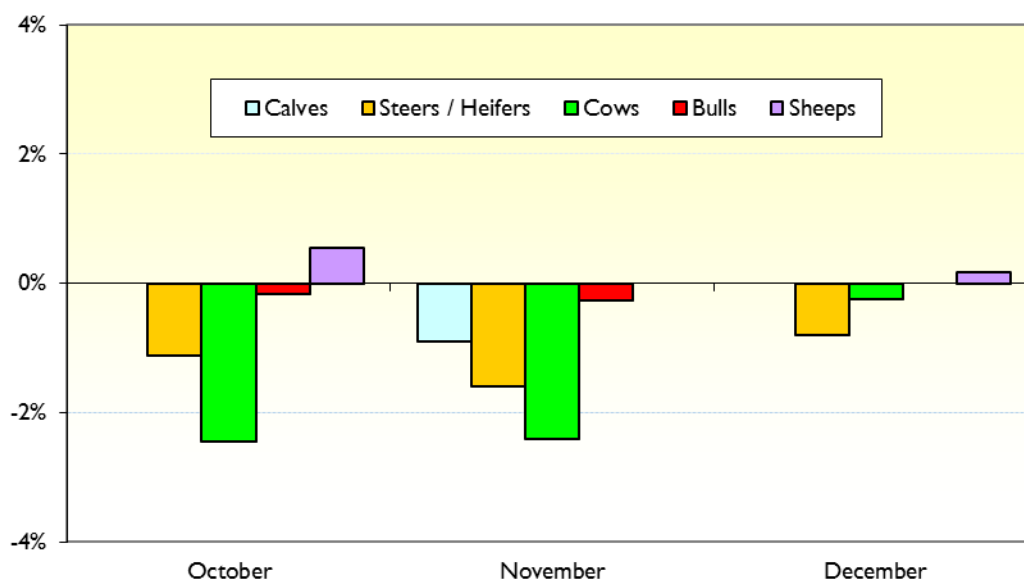
PRICES

Few significant changes were recorded in the average price indices for **raw hides/skins and semi-processed leather** in the last quarter 2017, confirming the overall sluggish performance in this supply chain. The predominant trend was negative, with very limited intensity and a few (rare) signals of countertrends.

In the **bovine raw hides** segment, the most consistent movements were recorded in October and November and mainly concerned cows and, to a lesser extent, medium sizes (steers, bullocks, heifers), with monthly falls of less than 2.5%. Practically no change was recorded in calves and bulls during the period.

Average prices for **sheepskins** did not differ much from the aforesaid prevalent stability, but in this case the overall sign was slightly positive. This trend was due to the main European and Oceanic exporters, which consolidated a (very slow but constant) trend that began last summer.

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

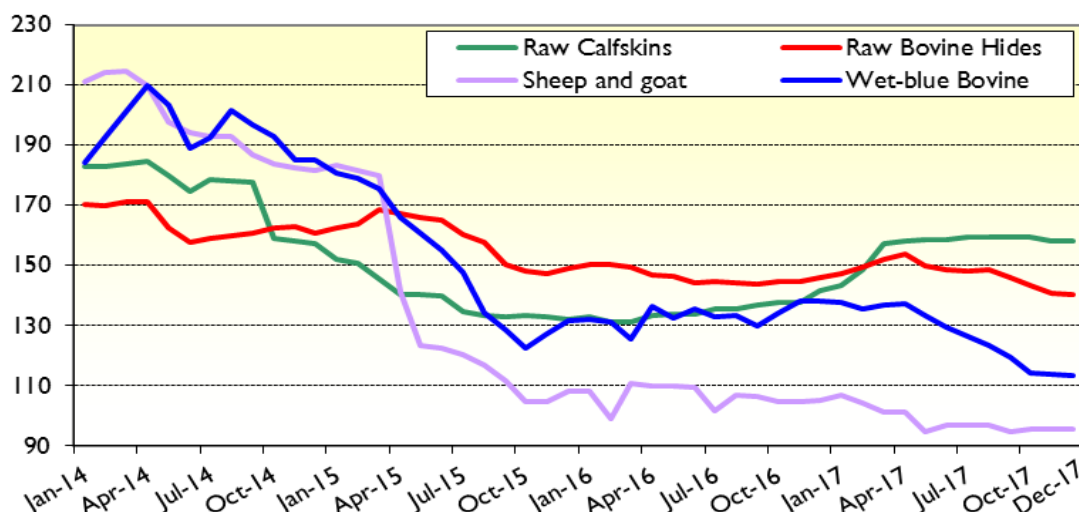


The prices of **bovine wet blue** continued to fall during the quarter, albeit at a slower pace. Once again, the highest movement in the segment was recorded in Brazil, while the other main exporters remained largely unchanged.

TAB. I - AVERAGE PRICE CHANGES FOR RAW HIDES AND SKINS BY MAIN TYPE/ORIGIN FROM BEGINNING TO END 2017

Calves (average index)	+12%	Steers, bull calves, heifers	-3%	Cows	-7%	Bulls	+5%	Sheep	-9%
Italy	+9%	Italy (bull calves)	+2%	Italy	-1%	France	+5%	Iran	-12%
France	+16%	Germany (heifers)	-7%	France	-3%	Netherlands	+4%	Spain	-7%
Netherlands	+13%	UK (mixed)	-7%	Netherlands	-11%	Germany	-3%	N. Zealand	+9%
Spain	+1%	Spain (bull calves)	-6%	Germany	-14%	N. Zealand	+6%		
Australia	-18%	United States (mixed)	-20%	Spain	-22%	Denmark	+2%		
		Australia (mixed)	+15%	United States	-21%				
		Sweden (mixed)	+3%	Sweden	+9%				
		New Zealand (steers)	+6%	New Zealand	-3%				
		Denmark	+7%	Denmark	+4%				

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



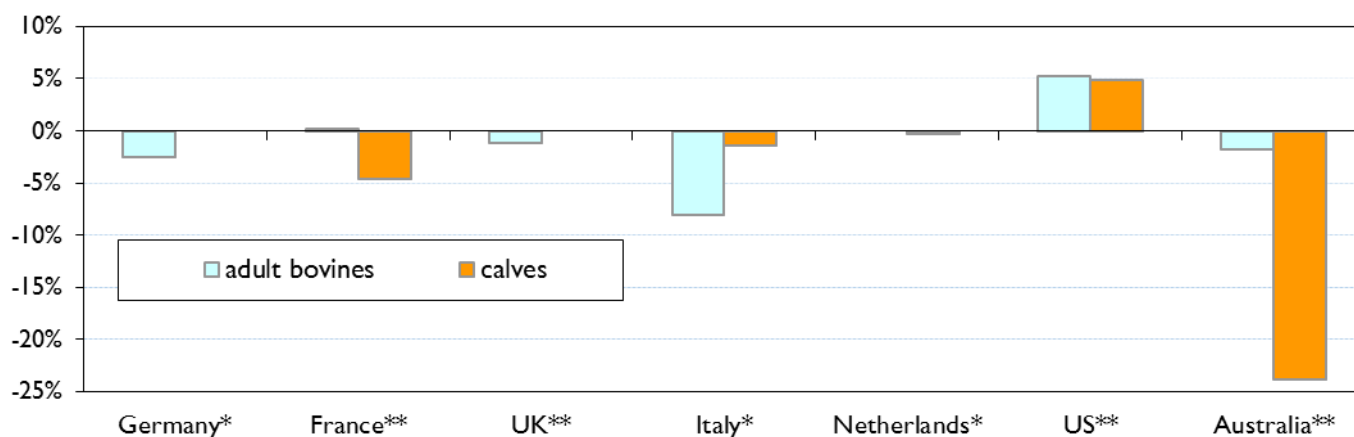
SLAUGHTERING

In 2017 the slaughtering of **adult cattle** in the main areas monitored (EU, USA, Latin America, Oceania) posted a global increase of 3% compared to the previous year.

The general trend recorded in the EU was largely stable, while the main EU countries posted very different performances in slaughtering. Growth was recorded in Spain (+5%), Ireland (+6%), Netherlands (+16%) and Poland (+10%); France was stable, while falls were recorded in Germany (-2%), United Kingdom (-1%) and Italy (-8%). Beyond the European borders, the most important American producers posted increases, (USA +5%, Brazil +2%, Argentina +7%), against slight decreases in the oceanic area (New Zealand -1%, Australia -2%).

The year closed with a negative result for **calves** instead, with slaughtering recording a 3% downturn for total regions analysed. The European situation was no different from the global result, with slaughtering standing at -2%. The fall affected France (-5%), Spain (-2%), Poland (-18%), Italy (-1%), while the Netherlands and Germany remained unchanged and Belgium posted the only increase (+3%). USA and Argentina were positive, while Australia and New Zealand recorded double-digit falls.

A slight increase was recorded in total volumes of **sheep** slaughtered in the aforesaid areas. Europe appeared essentially stable, but only thanks to Ireland (+10%) and Great Britain (+2%); as Spain, France, Italy and Greece posted negative results (falls of 3-4%). In Oceania, Australia remained unchanged, while New Zealand grew by 3%.

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 November

** quarter ended in December

▶ TANNING SECTOR ◀

ITALY

TURNOVER INDEX - Quarterly Trend (4th Quarter 2017 vs 4th Quarter 2016)

- ▶ MEDIUM-LARGE BOVINE – Quarterly results in line with the same period of 2016.
- ▶ SMALL BOVINE – The calf segment also appeared essentially stable in the seasonal comparison.
- ▶ SHEEP AND GOATS – Sheep (-7%) drove the entire segment further down (-4%); goats on the increase (+3%).

TURNOVER INDEX - Yearly Trend (full year 2017 vs full year 2016)

- ▶ MEDIUM-LARGE BOVINE – Positive year-end (+2%) according to current forecasts.
- ▶ SMALL BOVINE – Overall fall confirmed in the region of 3%.
- ▶ SHEEP AND GOATS – Same trend for this segment (-2%); breakdown: sheep -5% and goats +2%.

COMMENTS AND FORECASTS – The year ended with the same uncertainties and the same assurances with which it began. Positive trend in demand for car interiors, essentially positive performance in furnishings, fashion clients patchy (leather goods generally more dynamic than footwear, with persistent focus on price).

REST OF EUROPE

TURNOVER INDEX - Quarterly Trend (4th Quarter 2017 vs 4th Quarter 2016)

- ▶ MEDIUM-LARGE BOVINE – Growth recorded in the quarter in Germany, Spain, and even in double-digits, for Austria, Portugal, Netherlands and Poland. Downturn posted in France and above all in the United Kingdom.
- ▶ SMALL BOVINE – Once again excellent results for the French, negative for the Spanish instead (-4% average).
- ▶ SHEEP AND GOATS – Complicated time for tanneries in France (-1%) and Spain (-4%).

TURNOVER INDEX - Yearly Trend (full year 2017 vs full year 2016)

- ▶ MEDIUM-LARGE BOVINE - 2017 overview almost entirely positive in the EU. Germany, Austria, Spain and United Kingdom posted increases of up to 8%, Netherlands, Poland, and Portugal in double-digits. France was the exception (slight fall).
- ▶ SMALL BOVINE – Positive results in France (+2% on average), but negative in Spain (downturn about -9%).
- ▶ SHEEP AND GOATS – Same trend as calves, French segment up (+6%), Spanish segment down (-8%).

COMMENTS AND FORECASTS – The situation reflects the different trends in the demand targeted by the main producer countries. Germany and Austria recompensed by upholstery (mainly for cars), France did well in small skins for the luxury fashion industry; Spain fluctuated between the various reference segments.

REST OF THE WORLD

TURNOVER INDEX - Quarterly Trend (4th Quarter 2017 vs 4th Quarter 2016)

- ▶ BOVINE – Positive period for all the leading Asian players and for Mexico, while the main South American producers posted downturns (double-digit slowdown in exports for Brazil and Argentina).
- ▶ SHEEP AND GOATS – Growth confirmed in China, India stable, Pakistan and Turkey on the downturn.

TURNOVER INDEX - Yearly Trend (full year 2017 vs full year 2016)

- ▶ BOVINE – Exports from Latin America in the red (Mexico -3%, Brazil -11%, Argentina -15%), China and Turkey showing a recovery, India and Pakistan largely unchanged compared to the previous year.
- ▶ SHEEP AND GOATS – Stability confirmed in India and Turkey. China recovers while Pakistan goes down.

COMMENTS AND FORECASTS - The most important news is China's renewed growth, on a par with Brazil's negative year. Positive India's stability, despite the difficulties with raw materials and local currency.

▶ ACCESSORIES, COMPONENTS, SYNTHETICS SECTOR ◀

MAIN RAW MATERIALS

PRICES - Quarterly Trend (4th Quarter 2017 vs 4th Quarter 2016)

The prices of the main commodities of the accessories, components and synthetics sector still continued to rise in the last quarter 2017.

Crude oil prices (in USD) continued to soar with an increase of 20% in the fourth quarter of last year. Cotton and wool also rose. Double-digit increases for natural rubber and metals, with the exception of nickel, which posted a moderate rise (+8%). Iron ran counter to trend, recording a downturn (-6%).

PRICES - Yearly Trend (full year 2017 vs full year 2016)

The yearly trend was also resolutely positive. An acceleration was recorded in the prices of oil (+6%) and cotton (+12%). Other yarns posted an outstanding performance, with wools benefitting above all from use in sportswear and from the rise in demand in emerging countries, with price increases of up to +20/30%. Natural rubber instead came to a standstill. Sharp increases in all metals, except nickel (+8%).

TEXTILES, SYNTHETICS AND LEATHER ALTERNATIVES

TURNOVER INDEX - Quarterly Trend (4th Quarter 2017 vs 4th Quarter 2016)

The last quarter of the year reaped the rewards of the performance in textiles, synthetics and leather alternatives, which, after the recovery seen in the previous months, posted a 5% increase. However difficulties still remain in the United Kingdom (-9%) and Italy (-5%), while France and the Iberians posted double-digit increases and Germany slowed down, but remained positive (+1%).

Once again the best performance was posted by the synthetics segment (+9% in EU), driven by Germany (+12%), while synthetic fibre and artificial textiles recorded a poor performance (-5% at European level). The regenerated sector was in difficulty, pushed down by the falls in the United Kingdom and Germany.

TURNOVER INDEX - Yearly Trend (full year 2017 vs full year 2016)

Full year 2017 confirmed sector growth (+4%). Favourable trend for the Germans (+5%), while the French consolidated the early signs of recovery observed towards year-end (+7%). Instead the downward trend continued for the Italians (-5%) and the British (-4%).

The most positive segment performance was recorded by synthetics (+7% EU average), despite the negative stability in Italy. Gloomier scenario for European regenerated materials, textiles and synthetic fibres, all on the downturn.

ACCESSORIES AND COMPONENTS

TURNOVER INDEX - Quarterly Trend (4th Quarter 2017 vs 4th Quarter 2016)

Fourth year of increases for the accessories and components segment (+6% EU average). Increases confirmed for Italy (+7%) and France (+10%), slowdown in German growth (+1%), recovery in Romania (+3%), while United Kingdom made losses again (-3%).

The breakdown by product once again showed an outstanding performance by small metal parts (EU average +13%), where the highly positive results of the Italians and French stood out. Footwear components recorded a recovery (+4% at EU level in the quarter). The “other accessories” confirmed their trend (+6%).

TURNOVER INDEX - Yearly Trend (full year 2017 vs full year 2016)

Decidedly positive result in 2017 (EU average +8%). Positive all the leading EU manufacturers (Italy, Germany, France, Eastern-European countries). A steady downturn trend continued only for the United Kingdom (-1%). The overall scenario was encouraging, still driven by the small metal parts (double-digit increase). The results of “other accessories” and footwear components were satisfactory too.

► MANUFACTURING SECTORS ◄

FOOTWEAR

TURNOVER INDEX - Quarterly Trend (4th Quarter 2017 vs 4th Quarter 2016)

► ITALY - Considerable recovery in turnover (+7%) for the Italian footwear industry in the last quarter of last year.

► REST OF THE WORLD – Trends in Europe were also vigorous (+7%) where the growth in German footwear stood out (+12%). France slowed down, but remained positive (+4%), while the Iberian footwear industry showed signs of recovery (increases of between 4% and 7%). The Eastern European relocations caught their breath, all posting positive results, while the British also showed signs of improvement (+6%). Beyond the EU borders, China made a recovery, while Vietnam expansion continued (double-digit increase). Pakistan continued to fall and India, positive until now, slowed down. Brazilian exports were vigorous (+11%), while Mexico fell. The Turkish confirmed their upward trend (+8%).

TURNOVER INDEX - Yearly Trend (full year 2017 vs full year 2016)

► ITALY – Stilted recovery of Italian footwear in the full year 2017, essentially stable compared to the previous year (+1%).

► REST OF THE WORLD – Positive year-end result for EU footwear (+4% on average). The excellent performance of the Germans stood out (double-digit growth in results), while French growth slowed down (+1%), the Spanish fell back (-2%) and the Portuguese did well (+4%). Positive trends for the Eastern European manufacturers, especially the Polish. The United Kingdom still in the red (-4%). Persistent difficulties for the Asian manufacturers, all losing between 1% and 4%, with the usual exception of Vietnam (+10%). Further strong increases in footwear exports from Brazil (+13%), while Mexican exports experienced difficulties. Turkish footwear continued to do well.

LEATHER GOODS

TURNOVER INDEX - Quarterly Trend (4th Quarter 2017 vs 4th Quarter 2016)

► ITALY – There is no sign of an end to the outstanding trend in Italian leather goods, which again achieved double-digit increases in the last quarter of last year.

► REST OF THE WORLD – The EU performance was also very positive in the last three months of 2017. Widespread increases were posted by all the leading EU manufacturers, affected by the return to positive growth in the French and Spanish leather goods industry, while the British were the exception, posting a 6% downturn in the quarter. The scenario was overall positive for the Eastern European relocations, despite a number of critical issues. Beyond the EU borders, all the leading Asian manufacturers, with the exception of Turkey (+6%) recorded widespread downturns.

TURNOVER INDEX - Yearly Trend (full year 2017 vs full year 2016)

► ITALY - Outstanding 2017 result for the Italian leather goods industry, which also confirmed increases of more than 20% at year-end.

► REST OF THE WORLD – Satisfactory results also for the European leather goods manufacturers: +12% year-end 2017. Growth confirmed in the United Kingdom, Germany and Spain (with increases of between 7% and 8%). Negative stability for the French, bad year for the Portuguese and the intra-EU relocations, except for Poland (+16%). There continued to be uncertainty for the Asians, except for Vietnam (which posted double-digit growth) and India (showing a recovery). Increases confirmed for Turkey (+3%).

GARMENTS

TURNOVER INDEX - Quarterly Trend (4th Quarter 2017 vs 4th Quarter 2016)

- ▶ ITALY – The Italian manufacturers' turnover recovered slightly in the last quarter 2017 and the sector finally managed to post a positive performance: +1% compared to the same period of 2016.
- ▶ REST OF THE WORLD – Sales trends at European level also recovered (+6%), with the main manufacturers recording increases in the quarter. The Eastern European relocations instead lost their edge, all posting downturns. Lacklustre last quarter also for the non-EU manufacturers: China fell back and India was down too. Stability for Pakistan, increases for Vietnam and signs of recovery for the Turkish.

TURNOVER INDEX - Yearly Trend (full year 2017 vs full year 2016)

- ▶ ITALY – Despite the good results recorded in the last quarter, the negative trend taken at the beginning of the year caused 2017 to close with a 4% downturn compared to the previous year.
- ▶ REST OF THE WORLD – The European performance was also sluggish with widespread falls recorded by all the leading EU manufacturers (particularly bad year for the Iberians, with a double-digit fall). The Germans were the exception, posting a mild recovery (+1%). Outside Europe, the situation was critical, with Vietnam still the only positive exception.

UPHOLSTERY

TURNOVER INDEX - Quarterly Trend (4th Quarter 2017 vs 4th Quarter 2016)

- ▶ ITALY – The positive trend posted by the Italian upholstery industry shows no sign of abating and indeed accelerated in the fourth quarter 2017, recording a 10% increase on the same period of last year. Growth is still positive, but considerably more moderate, in the automotive sector which, despite the minus sign recorded in December, closed the quarter with +4% in vehicle registrations.
- ▶ REST OF THE WORLD – EU furniture benefitted from the renewed vigour of the leading EU manufacturers, recording a double-digit increase in the period. Rises of between 4% and 6% for France, Spain and Germany. A reversal of trend for the United Kingdom, which recorded growth. Shipments from China continued to rise. Slight increases in EU new car registrations (+2% in the quarter) thanks to the increases of October and November, which counterbalanced the 5% fall in December.

TURNOVER INDEX - Yearly Trend (full year 2017 vs full year 2016)

- ▶ ITALY – Once again Italian furniture recorded a vigorous annual trend: +6% year end 2017. Italian demand for new cars was also strong: +8% the final result in vehicle registrations for the year just ended.
- ▶ REST OF THE WORLD – Encouraging 2017 figures for EU manufacturers of upholstered furniture, confirming average rises in the region of 4%. Only the Rumanians were weak, recording negative stability. New USA orders confirmed (+5%). Satisfactory performance for the European automotive industry (+3% in vehicle registrations compared to the same period of 2016), posting a rise for the fourth consecutive year. Downturn in car sales in the US market (-2%).

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SEE YOU

19 - 21 February

2019

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