

LEATHER MARKET OVERVIEW

LINEAPELLE
Economic Department

2013
4TH QUARTER

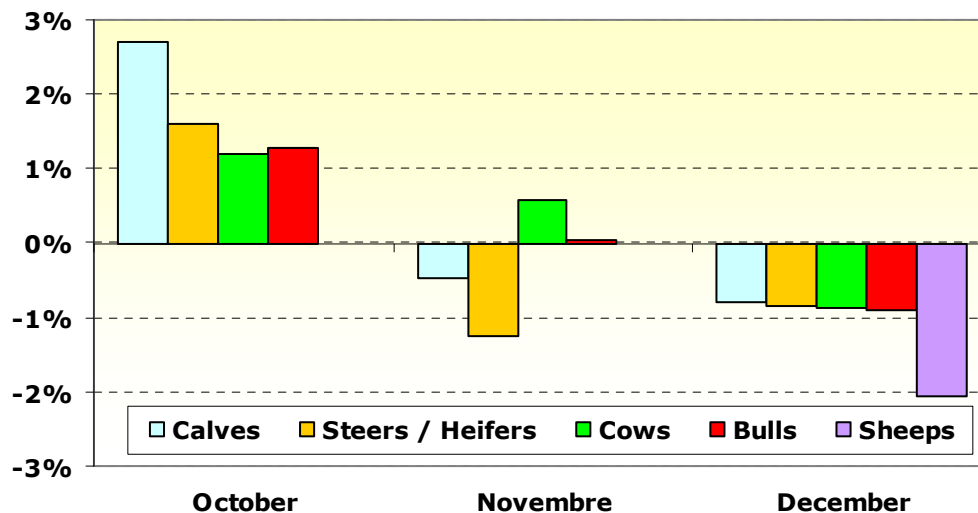


▶ RAW MATERIALS ◀

PRICES: Q4 2013

With few exceptions, there has been widespread stability in the prices of the various types of raw hides and skins. The changes were minimal, with an final increase in October (in particular for calf), some **uncertainty** in November, and a slight correction in December.

FIG. I - PRICE CHANGES FOR RAW HIDES AND SKINS BY TYPE



The overall stability hides a great deal of variation from country to country. **Bovine** hides in the "dollar zone" showed a strongly upward trend, in **Europe** the **situation** has been **variable**. **Wet-blue** showed a great deal of dynamism, up 9% over the last quarter, attributable mainly to Brazil (+15%) and New Zealand (+11%).

Sheep skins remained stable or slightly lower.

TAB. I - PRICE CHANGES FOR RAW HIDES AND SKINS BY TYPE AND ORIGIN

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

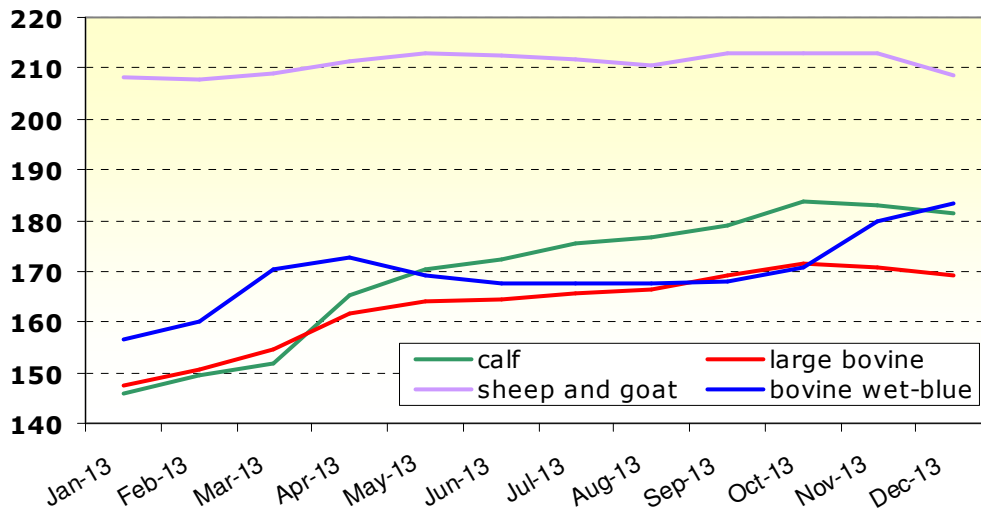
PRICES: 2013

This was the second year in a row of price increases for all **bovine hides**, differentiated by size, with calf skins increasing over 30% and adult bovine up around 22%. For the 12-month period, calf skins in France rose nearly 36%, while in the Netherlands prices rose 33% and the US and Spain posted moderate increases.

Both **Wet-blue** and raw hides and skins in the US were slightly lower in spring, but closed up 20%.

Conversely, **sheep** skins remained at the same levels as at the end of 2012.

FIG. 2 - PRICE CHANGES FOR RAW HIDES AND SKINS BY TYPE

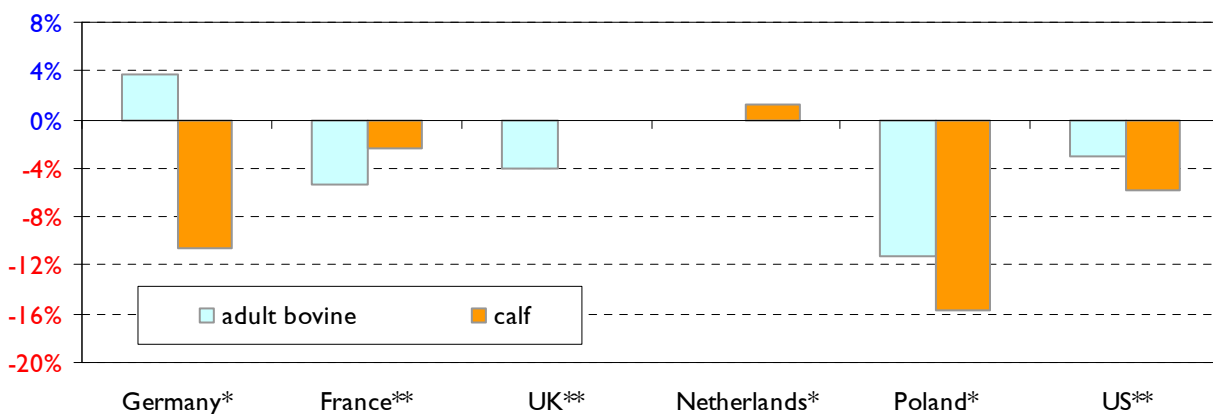


SLAUGHTERING

Barring a few exceptions, 2013 was a critical year for the number of **cattle** slaughtered, posting all-time lows in the leading markets, such as Europe and the United States. The fourth quarter compared to the same period of 2012 confirmed these negative figures. Only Australia saw marked growth in slaughtering, favored by drought there.

For **sheep** skins, Spain posted a recovery (+6%); Ireland and Great Britain remained stable, while France saw declines. Strong progress was posted in Australia (+14%), while growth in New Zealand was modest (+2%).

FIG. 3-CHANGES IN SLAUGHTERINGS FOR THE QUARTER YEAR ON YEAR⁺



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

* quarter ended in November

** quarter ended in December

▶ TANNING SECTOR ◀

ITALY

TURNOVER INDEX - Quarterly Trend (Q4 2013 vs. Q4 2012)

- ▶ MEDIUM/LARGE BOVINE - Continued solid average sales performance (+9%), attributable mainly to exports.
- ▶ SMALL BOVINE - Essentially stable (+1%), but slowing compared to previous months.
- ▶ SHEEP AND GOAT - Slight overall decline (-2%), which hides growth in sheep skins, offset by the decline of in goat leather.

TURNOVER INDEX- Annual Trend (Full year 2013 vs. 2012)

- ▶ MEDIUM/LARGE BOVINE - Available data shows annual growth of around 8%.
- ▶ SMALL BOVINE - The year-end slowdown has not affected the total estimates for 2013: +7.5% over 2012.
- ▶ SHEEP AND GOAT - Slight increase overall (+2%), but what was said for the quarterly trend applies here, too.

OBSERVATIONS AND FORECASTS

On the whole, the quarter and full year posted positive performance, including in production volumes (although less dynamically than for sales due to supply chain price dynamics). The start to 2014 appears to be marked by greater prudence.

REST OF EUROPE

TURNOVER INDEX - Quarterly Trend (Q4 2013 vs. Q4 2012)

- ▶ MEDIUM/LARGE BOVINE - Germany and Austria continue to benefit from good demand in the automotive segment and so have grown by more than 20%. Double-digit growth was also posted in Portugal, the United Kingdom and Poland, while positive results were also seen in France and the Netherlands (both up around 5%). Spain showed signs of mild distress.
- ▶ SMALL BOVINE - Generally higher (France and Spain +5%, Germany +20%)
- ▶ SHEEP AND GOAT - The period is good: Spain +4% (but with goat leather declining) and France +10% (including in goat leather)

TURNOVER INDEX - Annual Trend (Full year 2013 vs. 2012)

- ▶ MEDIUM/LARGE BOVINE - It was a very satisfactory year for Portugal, Germany, Austria and Poland, while the Netherlands, France and Spain posted declines.
- ▶ SMALL BOVINE - Germany posted double-digit growth, while mild growth was seen in France and Spain posted declines.
- ▶ SHEEP AND GOAT - Positive ends to the year were posted both in Spain and in France.

OBSERVATIONS AND FORECASTS

Demand has rewarded the most established segments in the various countries. Of particular note was the growth in fashion in Portugal. For the current year, we are expecting confirmations of trends in the automotive segment and greater variability in footwear/leather goods.

REST OF THE WORLD

TURNOVER INDEX - Quarterly Trend

- ▶ BOVINE - Double-digit growth in exports for Brazil, Argentina, Turkey and Pakistan; India and China also performed well, while a slight decline was posted in Mexico.
- ▶ SHEEP AND GOAT - Excellent results were posted in Turkey and Pakistan, while shipments in India remained essentially stable.

TURNOVER INDEX - Annual Trend (Full year 2013 vs. 2012)

▶ BOVINE - Exports closed up 20% in Brazil, up 30% in Argentina, up 18% in Pakistan, +7% in India, while declines were seen in Turkey and China.

▶ SHEEP AND GOAT - As for the quarterly numbers, Turkey and Pakistan performed very well, while declines were posted in India.

OBSERVATIONS AND FORECASTS

These positive trends are expected to continue thanks in large part to the upholstery leather segments.

▶ ACCESSORIES, COMPONENTS, SYNTHETICS ◀

RAW MATERIALS

PRICES: Quarterly Trend (Q4 2013 vs. Q4 2012)

The main commodities posted declines overall, although there were a few exceptions. In the final quarter of last year, oil prices (in US dollars) increased by 3% as compared with the same period last year, and cotton grew by 6%, while wool recorded a slight decrease. Double-digit declines were posted for natural rubber, while the leading metals saw average declines of 6%.

PRICES: Annual Trend (Full year 2013 vs. 2012)

The annual trend saw oil remain essentially stationary relative to the average prices for 2012, while cotton posted slight upward movement. Overall, wool, natural rubber and metals declined.

TEXTILES AND SYNTHETICS

TURNOVER INDEX - Quarterly Trend (Q4 2013 vs. Q4 2012)

The general trend for the segment of textiles, synthetics and alternative materials has seen heavy seasonal declines across all of the leading manufacturers. The United Kingdom, Spain and Romania were the least affected areas.

TURNOVER INDEX - Annual Trend (Full year 2013 vs. 2012)

The yearly trend shows a slight increase compared with 2012 (+2%). In detail, performance in Spain was particularly strong, followed by Romania and Italy, while slight declines were seen in France, Germany, the United Kingdom and Portugal.

FOOTWEAR COMPONENTS

TURNOVER INDEX - Quarterly Trend (Q4 2013 vs. Q4 2012)

Overall, turnover index for the footwear components segment performed slightly poorer compared with the same quarter of 2012. The average hides some variation in results. The double-digit losses posted in Germany were offset by France, Romania and the Iberian peninsula, which all saw increases. Italy lost 1-2 percentage points.

TURNOVER INDEX - Annual Trend (Full year 2013 vs. 2012)

The annual trend points to essential stagnation, with a more marked drop posted in Germany. Moderate declines were also seen in France and Spain, while the trend for Italian producers appears positive (+4%).

OBSERVATIONS AND FORECASTS

The expectations of the industry players appear strongly tied to their target market. While the domestic market for EU producers remains largely stagnant, foreign customers have been more dynamic and so leave more room for optimism.

▶ MANUFACTURING SECTORS ◀

FOOTWEAR

TURNOVER INDEX - Quarterly Trend (Q4 2013 vs. Q4 2012)

- ▶ ITALY - The fourth quarter of 2013 closed positively for Italian footwear manufacturers, which posted a year-on-year average increase in sales of roughly 9%.
- ▶ REST OF THE WORLD - Encouraging gains were seen in France, Germany, the United Kingdom and the Iberian peninsula, which posted overall increases of 5% and whose performance was fairly consistent. Outside Europe, China's exports continue slowing, as do exports in Brazil, which dropped just a few percentage points. Double-digit growth was posted in India, Turkey and Vietnam.

TURNOVER INDEX - Annual Trend (Full year 2013 vs. 2012)

- ▶ ITALY - Performance was less vibrant, but still positive compared to 2012. Sales for Italian footwear manufacturers rose roughly 4%, with the leather segment growing faster than the sector average.
- ▶ REST OF THE WORLD - The other EU manufacturers also reported average increases. In detail, the smallest changes were seen in Germany and France, but these were offset by Spain, Portugal and the United Kingdom. In Asia, Chinese production declined by 5%, while Vietnamese producers have continued to increase their exports (+18%), followed by exports in India (+17%). More modest increases were posted by Turkish producers (+8%). Brazilian footwear remained stagnant.

LEATHER GOODS

TURNOVER INDEX - Quarterly Trend (Q4 2013 vs. Q4 2012)

- ▶ ITALY - Over the last three months of last year, Italy had a slowdown, but continues to drive growth of the EU with average increases in turnover index of 10% compared to the final quarter of 2012.
- ▶ REST OF THE WORLD - The second largest EU producer, France, closed the fourth quarter with an increase of just a few percentage points; Germany and the United Kingdom posted rather stagnant performance, while the Iberian-area producers saw very vibrant results. Chinese exports fell, while India and Vietnam posted growth. Turkey was also lower.

TURNOVER INDEX - Annual Trend (Full year 2013 vs. 2012)

- ▶ ITALY - The full-year performance for Italy was also good, much like for the fourth quarter.
- ▶ REST OF THE WORLD - For European leather goods, full-year performance was moderately positive, with France and the United Kingdom marginally lower compared to 2012 (-1/-2%). Germany recorded a slight increase, while Spain and Portugal followed in Italy's footsteps. Outside the EU, Turkey posted declines also for its full-year performance, while exports for India and Vietnam performed well (+16% and +26%, respectively).

LEATHER APPAREL

TURNOVER INDEX - Quarterly Trend (Q4 2013 vs. Q4 2012)

- ▶ ITALY - Growth in the leather garments segment in Italy continued into the fourth quarter of 2013, with average increases of 15% compared to the same period of 2012.
- ▶ REST OF THE WORLD - Less consistent performance was posted by the remaining producers of the European Community. Germany posted declines (-6%); France remained essentially stable (+1%); moderate growth was posted in the United Kingdom and Portugal, and strong performance was seen in Spain (+18%). With regard to non-EU competitors, Turkish garment makers posted declines, while Indian exports rose slightly.

TURNOVER INDEX - Annual Trend (Full year 2013 vs. 2012)

- ▶ ITALY - On the whole, Italian leather-garment makers closed 2013 with sales up nearly 10% from the previous year.

▶ **REST OF THE WORLD** - In the rest of Europe, the change in turnover index from 2012 to 2013 appears satisfactory. Germany reduced its losses; France closed the year up 6%, and the remaining manufacturers confirmed a trend similar to that of the fourth quarter. Full-year performance for Turkey declined compared to 2012, while Indian exports have risen slightly. Chinese exports fell.

UPHOLSTERY

TURNOVER INDEX - Quarterly Trend (Q4 2013 vs. Q4 2012)

▶ **ITALY** - The fourth quarter of 2013 was especially negative for Italian producers of upholstered furniture, posting declines of 15% compared to the same quarter of the previous year. New car sales posted a modest decline compared to the same quarter of the previous year, with Italy slipping 3% compared to the final quarter of 2012.

▶ **REST OF THE WORLD** - The situation in the rest of Europe doesn't look much better there, where manufacturers in the north suffered average declines of 20% compared to the fourth quarter of 2012, while the countries of the Baltic region were the least affected, posting a drop of around 10%.

TURNOVER INDEX - Annual Trend (Full year 2013 vs. 2012)

▶ **ITALY** - Full-year performance compared to 2012 was less negative, with Italian sales slipping just a few percentage points and remaining in line with the EU average. For the *automotive* segment, new car registrations slipped 7% on the whole compared to 2012, while vehicle production fell by less than 5%. The luxury segment remains the exception and continues to grow at a very rapid pace.

▶ **REST OF THE WORLD** - On the whole, the rest of Europe showed declines, with the double-digit loss for Nordic producers being only partially offset by Spain and the Baltic nations. Moderate increases were seen in North America and Asia. South America appears to be the most dynamic area.

FINAL CONSUMPTION

The Italian market continues to suffer a generalized decrease in consumption and to be showing greater difficulty than the European average. A moderate increase in sales was seen in the US, which closed 2013 up 2 percentage points, driven by the economic recovery there (with performance being particularly strong in the last quarter of the year). Some slowing down was seen in Asia.

OBSERVATIONS AND FORECASTS

Forecasts for 2014 remain uncertain. In fashion, leather goods are continuing their expansion, while footwear is seeing greater volatility. The upholstered furniture segment continues to suffer the most, while some signs of encouragement are being seen in the North American market.

LUXURY GOODS

The luxury goods segment, which closed 2013 with yet another positive result, showed some signs of slowing, especially towards the end of the year. Performance was rather weak for the traditional continental European markets (eastern EU was more vibrant), while demand in the US is returning and consumption in Asia and Latin America is on the rise.

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