

LEATHER MARKET OVERVIEW

LINEAPELLE
Economic Department

2014 1ST
QUARTER

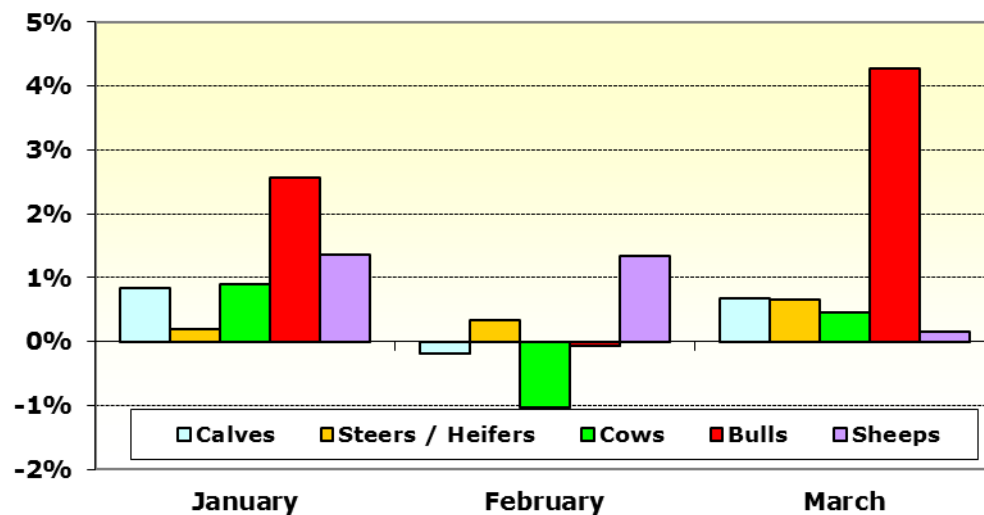


▶ RAW MATERIALS ◀

PRICES: QUARTERLY TREND

For **bovine**, the situation is substantially stable in Europe, on all-time highs, while there is an upward trend in the United States (raw hides and skins), Brazil and South Africa (wet-blue). Australia also posted moderate growth. The prices of **sheep** skins remain mostly stable, except for some local adjustments.

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

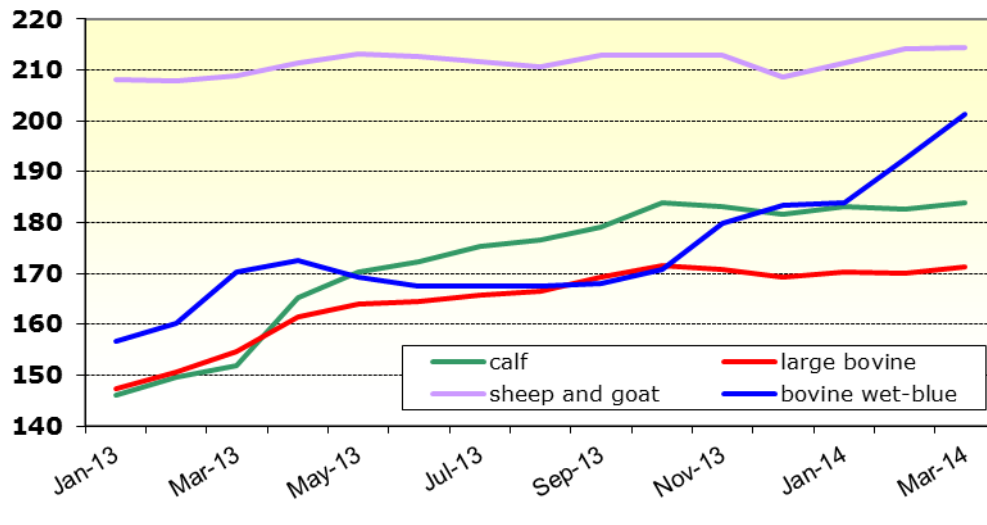


In terms of hide types, there were no significant differences, if not the sudden price increase for French bulls in March. The **wet-blue bovine** category reported the most substantial increase over the past 6 months, roughly corresponding to the levelling out of raw hide and skin prices in Europe. The main cause appears to be due to a shift in Chinese purchases from expensive European leather to other countries supplying raw materials. The price of Brazilian wet-blue increased 24% between October 2013 and March 2014.

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

Calves	+1%	Steers, bull calves, heifers	+1%	Cows	==	Bulls	+7%	Sheep	+3%
Italy	-1%	Italy (bull calves)	==	Italy	==	France	+8%	Iran	+3%
Australia	+3%	Germany (heifers)	==	Denmark	==	Germany	-1%	New Zealand	==
France	+2%	Spain (bull calves)	+6%	France	==	Denmark	+3%	Spain	+8%
Netherlands	==	United States (steers)	+7%	Germany	==	Netherlands	-1%		
Spain	+4%	United States (heifers)	+14%	Netherlands	-8%	New Zealand	==		
		New Zealand (steers)	+4%	New Zealand	+3%				
		Australia (mixed)	+3%	Spain	+3%				
		United Kingdom (mixed)	==	United States	+11%				
		Sweden (mixed)	+2%	Sweden	==				

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

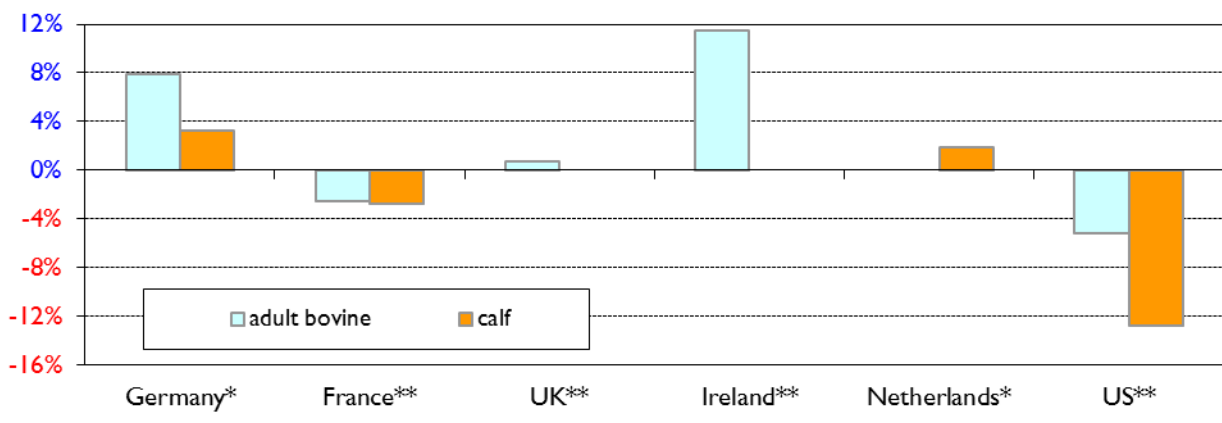


SLAUGHTERING

The situation in the main European markets varied greatly during first part of 2014. For **adult cattle**, the most critical situation was in Italy, posting a drop of around 6%. France also remains negative (-2.5%), while Germany experienced a strong upswing (up over 7%). The country showing the most significant growth is Ireland (like 2013), up over 11% compared with the same period last year. Figures in the US (-5%) and New Zealand (-4%) remained negative; Australia saw a marked growth, favoured by drought there (+15%). As regards **calves**, the situation remains negative in France (-3%), while in the Netherlands the good performance reported in December took a nosedive in February; Italy also posted negative performance (-2%).

For **sheep skins**, growth in Spain continued at the same pace as in the last quarter (+5%), while all the other European markets posted a double-digit loss, except for the United Kingdom (down only 7%). Major slaughtering continued in Australia (+10%), but declined in New Zealand (-3%).

FIG. 3 – CHANGES IN SLAUGHTERING FOR THE QUARTER YEAR ON YEAR⁺



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

* quarter ended in February

** quarter ended in March

▶ TANNING SECTOR ◀

ITALY

TURNOVER INDEX - Seasonal Comparison (Q1 2014 vs. Q1 2013)

- ▶ ADULT AND MID-SIZED BOVINE – Sales continue to grow (12% up year on year).
- ▶ SMALL BOVINE – Upward trend, even if less marked than adult and mid-sized bovine (+4%).
- ▶ SHEEP AND GOAT – Overall decline continues (-14%), with greater decline in goat leather than sheep leather.

TURNOVER INDEX – Short-term Trend (Q1 2014 vs. Q4 2013)

- ▶ ADULT AND MID-SIZED BOVINE – Available data on the first quarter shows a decline from the end of 2013 (-10%).
- ▶ SMALL BOVINE – Double-digit slowdown (-17%).
- ▶ SHEEP AND GOAT – Segment not immune to industry downturn (-23%), little difference between sheep and goat leather.

OBSERVATIONS AND FORECASTS

Early 2014 suffered due to fears of a slowdown in the demand for luxury goods, which materialised in an extremely limited manner and only compared with the last few months of the previous year. Progress was made during the quarter and the outlook for the spring-summer period is positive.

REST OF EUROPE

TURNOVER INDEX – Seasonal Comparison (Q1 2014 vs. Q1 2013)

- ▶ ADULT AND MID-SIZED BOVINE - Germany posted growth due to the demand for car interiors (+13%). The segment grew steadily in the Iberian Peninsula (Spain +9%, Portugal +30%); positive sales performance was also seen in France (+4%) and the United Kingdom (+2%). Poland and the Netherlands posted declines (about 10%).
- ▶ SMALL BOVINE – Double-digit gains were seen in France and Spain, while Germany was slightly down (-2%)
- ▶ SHEEP AND GOAT – Losses were seen for all leading EU manufacturers (Spain -30%, France -10%)

TURNOVER INDEX – Short-term Trend (Q1 2014 vs. Q4 2013)

- ▶ ADULT AND MID-SIZED BOVINE – A widespread decline was seen (France -13%, Poland -6%, the Netherlands -20%, Portugal -22%, United Kingdom -2%), with the sole exception of Germany and Spain, both slightly up (+1% and +3%).
- ▶ SMALL BOVINE – General decline (France -9%, Spain -2%, Germany -22%).
- ▶ SHEEP AND GOAT – Here too, considerable declines were seen (down by more than 20% in Spain and France)

OBSERVATIONS AND FORECASTS

The YoY trend has rewarded the medium-high end fashion and automotive productions. The short term slowdown is part of the abovementioned uncertainty at the start of the year.

REST OF THE WORLD

TURNOVER INDEX – Seasonal Comparison (Q1 2014 vs. Q1 2013)

- ▶ BOVINE – Substantial gains due to international sales in Brazil, Mexico, Turkey and Pakistan, increases also seen by India and China (down on the domestic market), Korea and Argentina posted a slight decrease.
- ▶ SHEEP AND GOAT – Continued excellent results for Turkey, Pakistani exports grew and Indian exports fell.

TURNOVER INDEX – Short-term Trend (Q1 2014 vs. Q4 2013)

- ▶ **BOVINE** – Exports down in Brazil, Mexico, Argentina, India and Korea, while gains were seen in Turkey and Pakistan.
- ▶ **SHEEP AND GOAT** – Stable for Turkish shipments, while declines were seen in the Indian subcontinent

OBSERVATIONS AND FORECASTS

The outlook for bovine is generally good (with some uncertainty in China). There are some concerns over double-face sheep leather.

▶ ACCESSORIES, COMPONENTS, SYNTHETICS ◀

RAW MATERIALS

PRICES – Seasonal Comparison (Q1 2014 vs. Q1 2013)

The main commodities for this sector began the year in general decline, apart from a few exceptions. In comparison with the first quarter of last year, oil prices (in US dollars) generally remained stagnant; cotton prices rose 5%, while wool prices have gone down about 15%. Double-digit declines are still being seen for natural rubber and metals.

PRICES – Short-term Trend (Q1 2014 vs. Q4 2013)

The QoQ trend shows stagnant oil prices, confirmation of the increases recorded for cotton (+8%), the downward trend of wool (-7/8%) and the fall in natural rubber (-11%). Finally, metals show inconsistent performance, with several types on the decline, even if slight (aluminium, copper, iron) and others posting moderate growth (nickel and zinc).

TEXTILES, SYNTHETICS AND OTHER ALTERNATIVE MATERIALS

TURNOVER INDEX – Seasonal Comparison (Q1 2014 vs. Q1 2013)

The general trend for the first quarter of the year in the textiles, synthetics and alternative materials segment showed some recovery with respect to the first quarter of 2013. Among the leading EU manufacturers, Portugal, followed by France, the United Kingdom and Italy performed well. Spain posted only slight increases and Germany showed some signs of weakness. In breakdown by type, the synthetic and regenerated leather fibres segments appear to be the most vibrant. Chinese exports declined.

TURNOVER INDEX - Short-term Trend (Q1 2014 vs. Q4 2013)

Over the short term, there are some signs of general slowing: Italy, France and the United Kingdom have declined, while Spain and Portugal remain stable. Chinese exports are still down.

SOLES/BOTTOMS AND COMPONENTS

TURNOVER INDEX – Seasonal Comparison (Q1 2014 vs. Q1 2013)

The average sales performance at the beginning of the year for footwear components showed a slight recovery, although the countries have posted varying performance: excellent performance by Spain followed by France and Romania. Italy rose slightly, while Germany and Portugal have slipped somewhat.

TURNOVER INDEX - Short-term Trend (Q1 2014 vs. Q4 2013)

Some improvement has been seen in the short term on average, even if Italy is among the few countries posting losses for this quarter.

OBSERVATIONS AND FORECASTS

Despite the fact that the overall situation seems slightly better than the end of 2013, general uncertainty remains tied to both the markets and the destination sectors. In general, despite the expected recoveries for the European demand, the best opportunities continue to be tied to third countries.

▶ MANUFACTURING SECTORS ◀

FOOTWEAR

TURNOVER INDEX – Seasonal Comparison (Q1 2014 vs. Q1 2013)

- ▶ ITALY – The start of the year appears positive for Italian producers, which closed the quarter up 4% compared with the first quarter of 2013.
- ▶ REST OF WORLD – Gains were also seen in the leading EU nations: all posted gains, with only some uncertainty in France. There was an overall increase of 5%. Outside of Europe, Chinese exports slackened (-2/3%), while Vietnam, Turkey and Brazil grew.

TURNOVER INDEX - Short-term Trend (Q1 2014 vs. Q4 2013)

- ▶ ITALY – Decidedly satisfactory performance by the Italian producers, which posted an average increase of 15% compared with the same period last year.
- ▶ REST OF WORLD – Brilliant results in comparison with the previous quarter, even if partly attributable to the generally weak fourth quarter of 2013. Double-digit increases were seen in Spain and Portugal, while Germany and the United Kingdom posted satisfactory increases. France showed some signs of weakness. In Asia, exports are on the rebound in the short term; production in Turkey remains stable. Brazil and Vietnam generated positive performance compared with the fourth quarter of last year.

LEATHER GOODS

TURNOVER INDEX – Seasonal Comparison (Q1 2014 vs. Q1 2013)

- ▶ ITALY – The Italian leather goods manufacturers closed the first quarter of this year with essentially stable turnover compared to the same period in 2013.
- ▶ REST OF WORLD – The situation in Europe is more difficult, mainly due to the rather gloomy conditions in France, which is the second largest producer. The positive situation in the Iberian Peninsula continues and Germany remains stable. Chinese exports rose, while Turkey fell.

TURNOVER INDEX - Short-term Trend (Q1 2014 vs. Q4 2013)

- ▶ ITALY – Compared with the previous quarter, Italy confirmed a fairly positive situation, reporting an increase in sales of 2-3 percentage points.
- ▶ REST OF WORLD – For European leather goods, conversely, marginal worsening was seen due solely to France posting significant losses (downward trend in exports). Things are still looking good in Spain; Germany remains stable. Outside the EU, the short term comparison for Turkey also posted declines; Chinese exports are on the rise.

LEATHER GARMENTS

TURNOVER INDEX – Seasonal Comparison (Q1 2014 vs. Q1 2013)

- ▶ ITALY – The leather garments segment in Italy started the year on a positive note: sales were up 12% on average compared with the first quarter of 2013.
- ▶ REST OF WORLD – The situation also appears to be good for the rest of Europe, especially for France, Spain, the United Kingdom and Poland, posting double-digit growth, but also not bad for Germany and Romania (up only several percentage points). With regard to non-EU competitors, Turkish garment makers posted further declines, while Chinese exports posted sharp declines.

TURNOVER INDEX - Short-term Trend (Q1 2014 vs. Q4 2013)

- ▶ ITALY – Over the short term, sales performance for Italian leather-garment makers appears to be quite similar to the 12-month period, and up over the 4th quarter of last year.
- ▶ REST OF WORLD – In the rest of Europe the average change has improved, but there is a greater variation in performance. Turkish garment makers posted gains, while Chinese exports posted fewer losses.

UPHOLSTERY

TURNOVER INDEX – Seasonal Comparison (Q1 2014 vs. Q1 2013)

▶ ITALY – Italian producers of upholstered furniture experienced difficulties also at the start of this year, although there are some encouraging signs of an upturn in European demand. Strong start in the automotive segment: the automotive segment in Italy posted a 5% increase compared with the first quarter of 2013 and 6% increase in car purchases.

▶ REST OF WORLD – The situation in the rest of Europe does not appear to be much better; however, the situation for northern European manufactures seems to be not as bad as the prevailing situation in the central European markets. The United States sector is stable. As for the automotive segment, production is up also in several leading EU nations (+11% in Germany and +3% in the United Kingdom), and car registrations grew by 8% on the whole. Production rose in NAFTA countries.

TURNOVER INDEX - Short-term Trend (Q1 2014 vs. Q4 2013)

▶ ITALY – Italy posted a marginal recovery over the short term, but also here the performance is to be seen in the light of the particularly negative results of the fourth quarter of last year. Car registrations also increased in comparison with the 4th quarter of 2013.

▶ REST OF WORLD – The situation appears to be similar in the rest of Europe, which posted slight gains, in particular in Germany (+5%). A modest increase in orders was also seen in the US.

FINAL CONSUMPTION

Retail sales on the Italian market are still suffering, while the European scenario is slightly better, although consumption levels remain stagnant. The United States and Asia have experienced moderate gains.

OBSERVATIONS AND FORECASTS

Industry players remain cautious in their outlook for 2014, even if there are encouraging signs of recovery for the footwear and upholstery segment, also in struggling markets, such as the EU. Prospects for the United States (growth is expected in the upholstery market throughout 2014) and for China are looking good.

LUXURY GOODS

Despite the concerns at the start of the year, further growth in the luxury goods segment is expected for 2014, sustained by demand. The slowdown on purchases in China will be offset by the positive trend in North America and Europe (thanks to tourism expenditure). The outlook for the footwear and automotive segment is particularly bright, followed by leather goods, steadily rising, and then upholstery.

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