

LEATHER MARKET OVERVIEW

LINEAPELLE
Economic Department

2014

2ND QUARTER



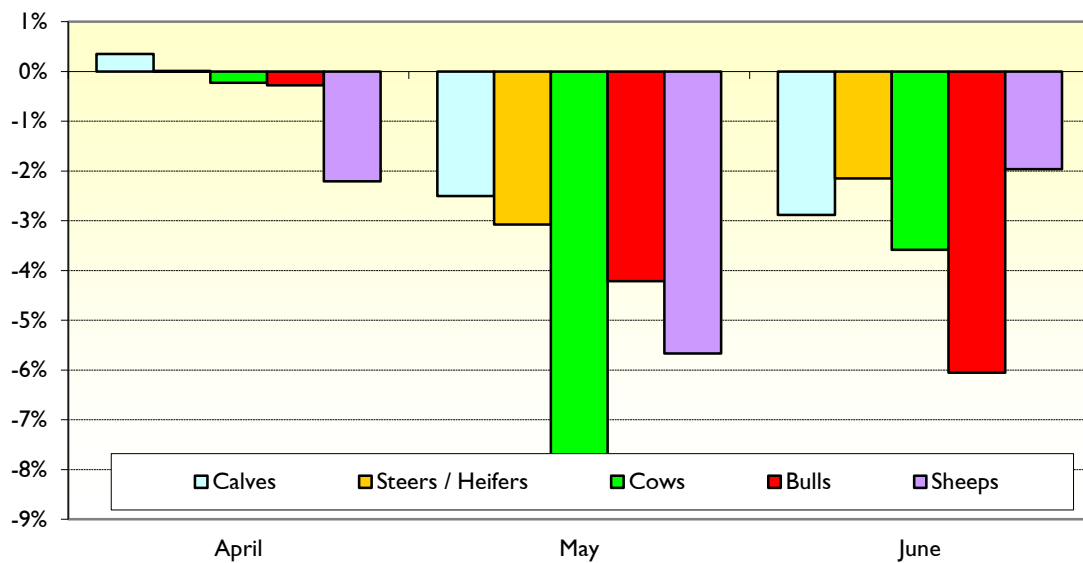
▶ RAW MATERIAL ◀

PRICES

After the highs reached in late-2013 to early 2014 followed by a few months of stagnation, the prices of hide began adjusting downward.

On the whole, **raw bovine hides** returned to the prevailing levels of a year ago, with the exception of adult cow hides, which declined more rapidly. Prices of **sheepskins**, which were already structurally weaker, have been driven down even lower by the decline in bovine prices.

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



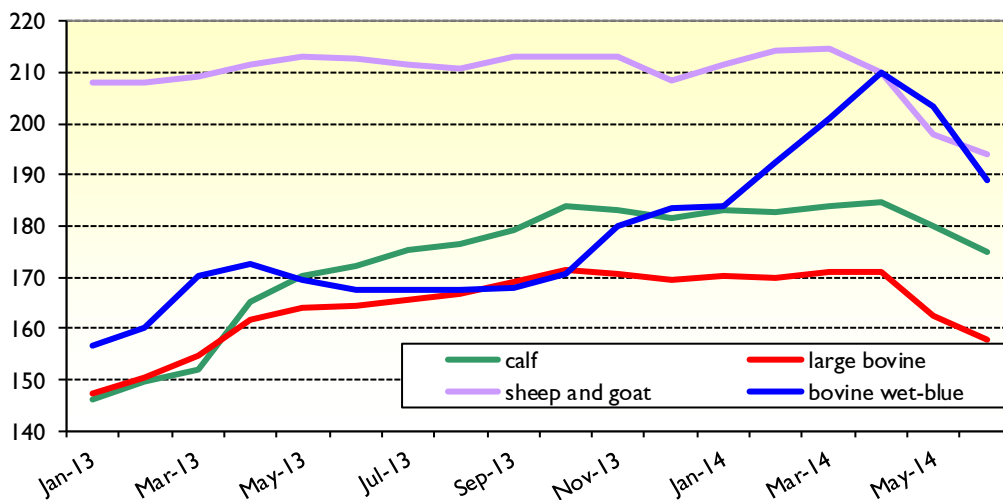
Bovine wet blue, which posted significant growth for the quarter, had previously come into line with raw hide prices, slipping by over 10% in just two months.

In terms of geographical area, generalized declines were posted throughout the world, with the Netherlands standing out for the exceptional decline in prices, while prices in Germany (and the Nordic nations) managed to hold their ground.

TABLE I - PRICE CHANGES FOR RAW HIDES AND SKINS BY ANIMAL TYPE SINCE JANUARY 1ST

Calves	-4%	Steers, bull calves, heifers	-4%	Cows	-11%	Bulls	-4%	Sheep	-7%
Italy	-3%	Italy (bull calves)	-4%	Italy	-7%	France	-4%	Iran	-5%
Australia	-5%	Germany (heifers)	==	Denmark	-5%	Germany	-1%	N. Zealand	-16%
France	==	Spain (bull calves)	-6%	France	-7%	Denmark	==	Spain	-9%
Netherlands	-11%	United States (steers)	+4%	Germany	-3%	Netherlands	-23%		
Spain	-2%	United States (heifers)	+3%	Netherlands	-24%	N. Zealand	-2%		
		New Zealand (steers)	-2%	N. Zealand	-6%				
		Australia (mixed)	-5%	Spain	-9%				
		United Kingdom (mixed)	-5%	United States	-3%				
		Sweden (mixed)	-10%	Sweden	-3%				

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

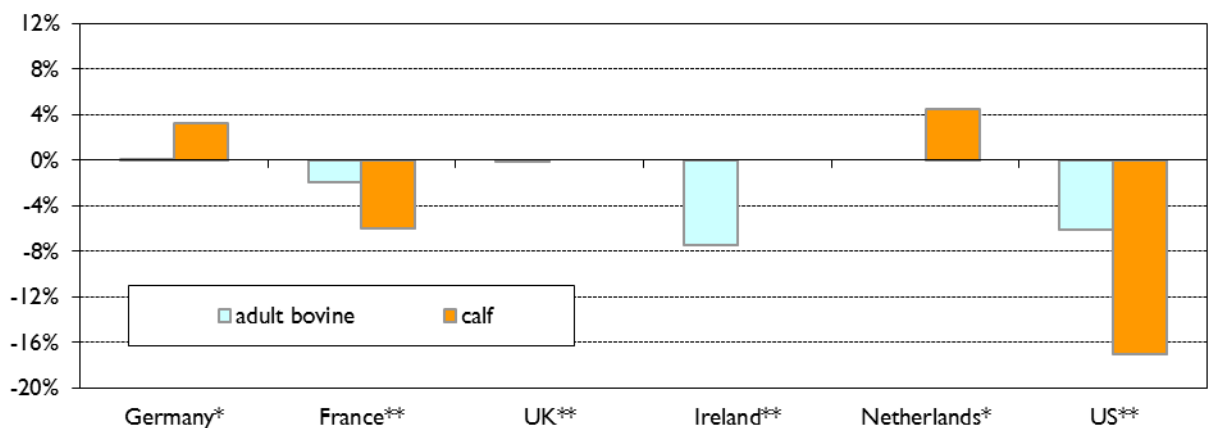


SLAUGHTERING

The slaughtering of **adult cattle** in Europe continues to decline. After several months of growth, Ireland came to a sudden halt, whereas Germany has returned to growth, although at a slower pace, as has Poland. France, Italy and Spain were weak, while the U.K. remained stable. The situation in the United States also remains negative. After a good year, New Zealand slipped, but Australia posted growth (+10%). With regard to **calves**, the situation remains negative in France and the U.S., whereas the Netherlands returned to growth and Australia continued upward.

The slaughtering of **sheep** was generally unfavorable in all markets surveyed (Europe and Oceania), which posted declines of between 2% ad 5% in the first part of 2014. Given the recent double-digit drops, in many countries this has been considered as a sign of stabilization. Conversely, the positive signs seen in Spain in the first part of the year appear to have disappeared, while the downward trend in New Zealand continues.

FIG. 3 - CHANGE IN SLAUGHTERINGS OVER THE LAST 3 MONTHS YEAR ON YEAR



+ excluding figures for British and Irish calves and Dutch adult cattle as the figures there were insignificant
 * quarter ended in April
 ** quarter ended in May

▶ TANNING SECTOR ◀

ITALY

TURNOVER INDEX - Quarterly Trend (2nd quarter 2014 vs. 2nd quarter 2013)

- ▶ MEDIUM/LARGE BOVINE - On the whole, sales are up slightly (+1%).
- ▶ SMALL BOVINE - An average decline of 3% due to a slowing in the last few weeks of the period.
- ▶ SHEEP & GOAT - Third consecutive quarter of declines (-10%) with difficulties continuing in goat particularly.

TURNOVER INDEX - Annual Trend (1st half 2014 vs. 1st half 2013)

- ▶ MEDIUM/LARGE BOVINE - Encouraging start to the year with overall growth of 4%.
- ▶ SMALL BOVINE - The standstill of May-June brought the 2014 index to 2013 levels.
- ▶ SHEEP & GOAT - The overall drop in sales compared to the first half of last year came to 5%.

OBSERVATIONS AND FORECASTS

Demand cooled gradually during the quarter (with a generally shortened winter season), with some recovery reported in June and July (on encouraging summer samples). The outlook for September is uncertain, but not particularly pessimistic.

REST OF EUROPE

TURNOVER INDEX - Quarterly Trend (2nd quarter 2014 vs. 2nd quarter 2013)

- ▶ MEDIUM/LARGE BOVINE - Germany (driven by car interiors) and Portugal (by footwear in particular) posted solid quarterly rises yet again (+6% and +8%, respectively), Spain is recovering (+9%) and Poland is stable. The other EU main producers declined (France and UK at around 4-5%, Austria and Netherlands in double digits).
- ▶ SMALL BOVINE - Similar trend to medium and large bovine (Spain +6%, France -5%, Germany +20%).
- ▶ SHEEP & GOAT - Widespread drops with French and Spanish manufacturers leading the way in double digits.

TURNOVER INDEX - Annual Trend (1st half 2014 vs. 1st half 2013)

- ▶ MEDIUM/LARGE BOVINE - Satisfactory on the whole, with Spain, Germany, Austria, Portugal and Poland growing; France is more stable, UK (to a lesser extent) and Netherlands (more markedly) posted losses.
- ▶ SMALL BOVINE - Good year for the leading manufacturer nations (Germany +11%, Spain +7%, France +1%).
- ▶ SHEEP & GOAT - Situation reversed compared to small bovine (with losses in Spain and France, as well).

OBSERVATIONS AND FORECASTS

Highly variable outlook for footwear; automotive is stronger and some slowing is expected in leathersgoods.

REST OF THE WORLD

TURNOVER INDEX - Quarterly Trend (2nd quarter 2014 vs. 2nd quarter 2013)

- ▶ BOVINE - Double-digit growth for exports in Brazil, Turkey, Mexico and India, with solid performance also being seen in Pakistan. Argentina and China are lower.
- ▶ SHEEP & GOAT - Slowing in Turkey (for nappa and double face), declines in Pakistan, stability in India.

TURNOVER INDEX - Annual Trend (1st half 2014 vs. 1st half 2013)

- ▶ BOVINE - Exports in Brazil, India and Pakistan up 20%; Argentina up 10%, and China stagnant.
- ▶ SHEEP & GOAT —As in Europe, the situation is not particularly exciting for any of the leading manufacturers.

OBSERVATIONS AND FORECASTS

Forecasts for improvement to come as soon as this summer for shoes, whereas little confidence for furniture.

▶ ACCESSORIES, COMPONENTS, SYNTHETICS ◀

RAW MATERIALS

PRICES - Quarterly Trend (2nd quarter 2014 vs. 2nd quarter 2013)

The second quarter of the year showed fairly varied trends in the prices of the related commodities. Compared with the second quarter of the previous year, the price of oil (in USD) increased significantly (+7%). Cotton remained generally unchanged, whereas wool prices continued their decline. Natural rubber again posted a double-digit drop, while metals declined on the whole, with the exception of nickel and zinc, both of which posted double-digit increases.

PRICES - Annual Trend (1st half 2014 vs. 1st half 2013)

The annual trend points to slight increases in oil and cotton, whereas the price of wool remain weak and natural rubber is lower. Finally, metals posted performance similar to that of the quarterly comparison with few exceptions to the general decline.

TEXTILES, SYNTHETICS AND ALTERNATIVES

SALES - Quarterly Trend (2nd quarter 2014 vs. 2nd quarter 2013)

Italy and France have driven the overall performance in textiles, synthetics and other alternative materials, which posted further growth in the second quarter as compared to the same period of 2013. Performance in Portugal and the United Kingdom was also strong, while Spain and Germany posted slower growth. A breakdown by product segment shows that synthetics and textiles posted similar performance, while the performance for regenerated fabrics was markedly lackluster.

SALES - Annual Trend (1st half 2014 vs. 1st half 2013)

The annual trend shows positive performance for textiles and synthetics and confirms the declines for the segment of regenerated materials. By leading manufacturer nation, Italy posted the strongest performance, followed by France and Portugal, while the remaining nations remained stable.

SOLES/BOTTOMS AND COMPONENTS

SALES - Quarterly Trend (2nd quarter 2014 vs. 2nd quarter 2013)

Apart from a few negative exceptions, the overall trend in sales for the components segment of the footwear industry continued posting gains in the second quarter, with France, Spain and Italy performing well, while Germany and Portugal posted losses. Poland remained stable, and modest gains were seen in Romania.

SALES – Annual Trend (1st half 2014 vs. 1st half 2013)

The annual trend was very similar, which Spain coming in as the top performer, followed by France (with both nations posted double-digit gains). Portuguese manufacturers managed to reduce their losses, which China posted growth.

OBSERVATIONS AND FORECASTS

Prudence continues to characterize forecasts for the leading destination sectors, while certain sectors (i.e. footwear) are expected to decline. As a result, the outlook for the current year remains uncertain for the sectors in question.

▶ MANUFACTURING SECTORS ◀

FOOTWEAR

TURNOVER INDEX - Quarterly Trend (2nd quarter 2014 vs. 2nd quarter 2013)

- ▶ ITALY - Sales for Italian manufacturers continued to rise from April to June, closing the quarter with gains of 7-8% compared to the second quarter of 2013.
- ▶ REST OF THE WORLD - On average, the other leading EU nations also posted gains with all nations higher and the strongest growth being seen in Germany, Portugal and Spain. Overall growth came to 10%. Outside the EU, Brazilian exports declined (-3%), while Asian exports (India, China and Vietnam) posted double-digit growth. Turkey slipped slightly.

TURNOVER INDEX - Annual Trend (1st half 2014 vs. 1st half 2013)

- ▶ ITALY - Performance was positive for Italian manufacturers, which posted average growth of 6-7% compared to the first quarter of last year.
- ▶ REST OF THE WORLD - Performance was similar on average for the remaining EU manufacturers. More specifically, Germany and Portugal posted double-digit growth, while more modest gains were seen in Spain, France and the UK. The strong performance of China, India and Vietnam can also be seen in the annual trends, with exports up by over 20%. Production in Turkey remained stable.

LEATHER GOODS

TURNOVER INDEX - Quarterly Trend (2nd quarter 2014 vs. 2nd quarter 2013)

- ▶ ITALY - For Italian manufacturers, the second quarter of this year closed with sales up by 8% year on year.
- ▶ REST OF THE WORLD - The European economy appears weak on average, despite posting overall gains (+4%). Performance by nation varied, with the Iberian peninsula posting 15% growth, whereas Germany and the UK slipped by a few percentage points. France remained stable with some slight signs of growth. Chinese exports posted growth, while Turkey declined marginally.

TURNOVER INDEX - Annual Trend (1st half 2014 vs. 1st half 2013)

- ▶ ITALY - The first quarter of 2014 was fairly in line with the quarterly trend for the Italian leather goods industry and confirmed the 6-7% increase in sales.
- ▶ REST OF THE WORLD - For the rest of Europe's leather goods industry, Spain and Portugal were again the best performers, while France and Germany remained stable. Outside the EU, Turkey dropped markedly, while Indian exports posted strong growth. Chinese exports were slightly lower.

GARMENTS

TURNOVER INDEX - Quarterly Trend (2nd quarter 2014 vs. 2nd quarter 2013)

- ▶ ITALY - After a strong start to the year, Italian leather garments accelerated further to close the second quarter with gains in excess of 20% compared to the same period of the previous year.
- ▶ REST OF THE WORLD - Positive trend, even if not homogeneous, in the rest of the EU: the UK, after Italy, is the producer showing the best results, good situation for France and Spain, Germany, Poland and Portugal dropped. As concerns the extra-EU, slight rises in China and Turkey.

TURNOVER INDEX - Annual Trend (1st half 2014 vs. 1st half 2013)

- ▶ ITALY - Italian manufacturers of leather garments posted a double-digit growth in the first half of the year, as compared to the first semester of 2013.
- ▶ REST OF THE WORLD - The average change in sales for the rest of Europe continues to be satisfactory, especially in the U.K. and France. Spain remained stable, while Germany and Portugal declined. Turkey also posted a slight loss, whereas Chinese and Indian exports increased.

UPHOLSTERY

TURNOVER INDEX - Quarterly Trend (2nd quarter 2014 vs. 2nd quarter 2013)

▶ ITALY - Italian **furniture** manufacturers experienced a stagnant second quarter 2014, although this was mitigated by growth in exports. In **car** upholstery, car sales slowed for the second quarter with growth of barely 2%.

▶ REST OF THE WORLD - In the rest of Europe, **upholstered furniture** performance was split into two different directions, with Poland and UK posting moderate growth, while Germany, France and Spain slipped. The U.S. performed well in this sector (with new orders up 13% compared to the same period of the previous year). The EU **automotive** market also slowed overall, but remained more vibrant than in Italy on average (with new car sales up 4%).

TURNOVER INDEX - Annual Trend (1st half 2014 vs. 1st half 2013)

▶ ITALY - The six-month trend for Italian **furniture** upholstery remains highly uncertain with the only encouraging signs coming from exports. New **car** sales posted 4% growth overall compared to the first half of 2013, thereby confirming Italy's struggles compared to the rest of Europe.

▶ REST OF THE WORLD - In the rest of Europe, the first six months continued to be characterized by difficulties in Germany, France and Spain **furniture** industry, whereas the situation is better for manufacturers in northern Europe. New orders in the U.S. are up (6%), while Europe's **automotive** market posted average growth of 6%.

CONSUMPTION

Retail sales in Italy continued to slip slightly in the sectors under review, while the situation in the rest of Europe is slightly better. The Russian market posted declines, while modest growth was seen in the U.S.

OBSERVATIONS AND FORECASTS

Prudence is still called for with regard to the outlook for the traditional EU markets. Forecasts are better for Asia, although with some slowing, and in the United States, where the furniture and car upholstery markets are expected to drive retail sales throughout the year.

LUXURY GOODS

The outlook for the luxury goods segment remains positive, particularly for leather goods and the automotive sector. Gains are to be more modest for footwear, while furniture upholstery is expected to remain stable. The U.S. and Asia are the geographic areas that are attracting the most attention.

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