



2017 is shaping up to be a good year for the leather industry as mainstream footwear brands and manufacturers begin to examine ways in which to use more leather. Regular columnist David Peters takes a closer look.

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The old 45 is scratched

Back in the day when we rushed out to purchase the latest hit record we played the tune on our turntable until it started to jump from one beat to another. We accepted that the quality of the recording would not be sustainable, even though the message was crystal clear. The current global leather conditions echo this refrain. While the soul of the leather industry is moving in harmony, footwear is following a slightly different path and skipping traditional supply chains.

We have a multi-tiered market: a select group of big players packing their fortitude with delusions of raw leverage, a similar cadre crying the blues as sales of chrome lack intensity, a mixed ensemble parlaying alternative specifics with 'EDLP' (everyday low prices) and finally the economic value proposition (which often are deals too good to avoid). Yes the market is mixed up, confused, and feigning resilience, obviously being driven by alternative facts.

'Tis the season for leather manufacturing as tanneries begin their annual rush to purchase, tan and ship leather, all done to meet the shoe and leathergoods production schedules, planned to have product in time for the second half of the year with the back-to-school and Christmas selling sprees. As the trade gathers at the Fragrant Harbour to celebrate another key leather fair, industry titans trek the halls to magically conjure up or stimulate their indulgent constituency with suggestions of the bull resurfacing.

We are optimistic that 2017 will be the turning point in shoe leather demand as more brands are finding ways to re-invent leather in footwear. However, and this is the big factor, supply chains are changing. No longer are tanners just willing to accede to the pugnaciousness of a certain few producers of raw materials; instead they are spreading their wings in search of alternative supplies.

What is being missed here is the growing diversification amongst all leading tanners in their sourcing strategies and streams. Due to the changing design and corresponding creativity of leather producers, hide usage is shifting away from traditional origins to more cost effective and enthusiastic producers, who previously were sidelined. This growing initiative of finding alternative sources was motivated by the "take it or leave it" sales approach often employed by the developed west. The fact that the latest administration under the 'America First' approach is bound to have consequences. The hardening of global trade relationships combined with the cancelling of the Trans Pacific Partnership trade deal and the desire for NAFTA re-negotiation are glaring examples of positions not sympathetic to the global leather industry. This is

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further demonstrated by the rise in appreciation for alternative origins, which, to the surprise of several tanners, is creating improved value propositions. Just because president number 45 wants to make America great again, the rest of the world does not have to share his enthusiasm. There is a definite shift occurring in the world of hide sourcing and it will reverberate in the US as tanners start politely saying, no thanks.

Evidence suggests that increases in the current US slaughter rate will add more than 1 million hides to supply. What a pleasant surprise; it will give producers and those lucky traders the opportunity to go fishing for additional business. Does anyone have any bait?

The alternative is to switch to using something more reliable, like the promise of improved selections and so on. January's published numbers by the US Department of Agriculture would support this assumption as total beef production was 8% higher compared to the same month in 2016. The more interesting number for the hide aficionados had the cattle slaughter at 2.58 million head a whopping increase of 9% year on year. Before all the wannabe bears execute sales orders, the recorded period of time had 22 days versus 21 days for the previous year, normalising the number would still reflect at least a 5% increase in hide supply. Also noteworthy was the decline in live weight to 1,370 pounds, down by 11 pounds.

Amongst the hide intelligentsia the perception is that when US hide supply exceeds 33 million, the balance will tip and bring prices to more economic levels and encourage designers and the public to reconsider leather as a core material in shoe construction.

It may be a shortened wait as, according to *Beef Magazine*, the new year started with even more cows than expected. USDA's Cattle inventory report indicated producers currently hold 31.2 million cows – versus 30.17 million cows in 2016. Moreover, 2017's inventory is 2.2 million cows bigger than the low-water mark of 29.1 million head in 2014. Clearly, higher prices have encouraged the cow-calf sector to retain heifers and keep back more cows along the way. First, and foremost, the equilibrium slaughter rate, as a percentage of January 1 inventory, runs at

around 9.3%. That is, slaughter rate above 9.3% likely means liquidation, while slower slaughter leads to expansion.

While there is no direct connection or evidence to suggest the Russians are trying to influence the hide market, the USDA reported on January 18 that the Russian government issued a decree extending a temporary export ban from February 1, 2017, until August 1, 2017, on hides and skins.

So, on the supply side of the equation, it looks like 2017 is going to be a bumper year in the hide crop compared to the last few years. Don't look for any hibernating bears as spring is fast approaching, bulls beware.

On the demand side, as indicated above shoe leather is being re-discovered but not in the traditional sense. Sourcing strategies are shifting to take advantage of alternative options, this is also justified with the latest leather construction allowing producers to utilise cheaper hides and not be totally dependent on the US or certain EU origins. This strategy is also similar to both the auto and residential upholstery segments. With a record year for auto leather in 2016, not necessarily in terms of better margins but most certainly in terms of production volume, the auto industry did extremely well last year. Tanners are investing in their facilities in virtually all operational aspects, with emphasis on data-driven solutions.

Concurrently, several producers have continued to integrate their strategies with value-added initiatives and 2017 will reflect a greater preponderance of producers offering crust in addition

to wet blue or wet white selections. This integration will allow auto and furniture tanners to focus their energies on finishing and cutting technologies while outsourcing their material needs for re-tanning.

There are two large hide supply markets that have not embraced this shift (Australia and the US) and one wonders if either country's "buggy-whip" strategy is grounded in reality. With these two notable exceptions the world hide supply is continuing to evolve with further processing, either wet blue or crust. While there are some exceptions, directionally the trend is clear, a minor adjustment in government policy in Argentina notwithstanding. Technology is providing environmental and water replacement systems that are just around the corner thereby making it even easier for producers or new companies to occupy the space of servicing tanners whose core competency is finishing and cutting.

As the trade take their show on the road from Italy to Hong Kong, exchanging pasta for noodles, the optimistic momentum for leather business will follow. This is the first semblance of sustainable good news our industry has seen in many years, let's hope we don't overcook the enthusiasm by raising prices as this will definitely throw cold water on what looks like a terrific year.

The flip side hit, 'You Can't Always Get What You Want' (Mick Jagger and Keith Richards) appears to be the widespread reprise. 🎵

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