

David Peters is in optimistic mood for 2018 thanks to good demand for beef, and for furniture and automotive leather.

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'Weather', or not?

The 'bomb cyclone' was the phrase utilised to describe the spine chilling temperatures that descended on much of the US as the new year began. Good news for retailers as associated apparel and winter footwear inventories dispersed and disappeared leaving consumers shivering for rudimentary supplies. This age-old challenge of not wanting to overstock, left brands rushing to place follow-up orders, hoping that these goods would arrive in time for continued sales. This climatic rush together with non-stop auto leather business gave tanners reason to initiate buy orders.

The winter season is also a wonderful time to savour all the delicious methods of preparing beef. No matter what your specific preference and gastronomic style, the current season is a carnivore's delight. These are the facts supported by a growing and expanding appetite for red meat and all proteins. The various US government agencies are vigilant in providing supply chain protection and ensure that our food source is safe. We have discretionary taste-buds that often require satiating with alternative foods. This should be embraced and encouraged and never disparaged. There is no right protein or wrong soya bean, it is only a subjective opinion that differentiates the need for substitute nutrition. But in all cases respect and safety for the competing food groups are adhered to and acknowledged.

To hypothesise that one type of nutrition is superior to another by suggesting that crimes are being committed during the act of preparation is not only ridiculous but totally incorrect.

Fringe groups spread wild accusations that criticise a food group and their associated products. We are not slaughtering animals as sport or some warped sense of enjoyment but more correctly satisfying a human trait that requires a protein diet. The hide supply that is a derivative of mankind's basic diet is simply the residual effect of feeding people and to think otherwise is preposterous.

One of the main pillars of the food supply across the globe is beef production, which is actually growing and not diminishing. Demand for proteins, specifically beef and poultry, will remain strong in 2018. Bloomberg reported that the average consumer will eat 222.2 pounds (100.8 kilos) of red meat and poultry this year, according to the US Department of Agriculture, surpassing a record set in 2004. Meanwhile, domestic production of beef will surpass 100 billion pounds for the first time, as livestock owners expand their herds on the back of cheap feed grain.

Strictly looking at beef, per capita consumption in 2018 is currently forecast to be 59.2 pounds per person, 3.3% higher than a year ago. Beef is an essential building block that forms the foundation of our society. Not only are Americans enjoying a renaissance in meat consumption but globally the craving for red meat is continuing to expand. China, which historically has been a vegetable and rice driven population, is also shifting to greater consumption of beef and is investing in several slaughterhouses in the United States and elsewhere to support requirements.



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I am optimistic for 2018. Not that the shoe leather business will improve or auto-leather orders will remain at an all-time high or even that the furniture business will remain good. My confidence centres around the beef business and the implied effect of greater hide supply. The new year should bring record supplies as producers, mainly in the US, enjoy ample cattle inventories, a strong domestic consumer market and growing export demand. The December USDA report stated that second half 2017 cattle placements are expected to lead to higher first-half 2018 fed cattle marketings and seasonally higher beef production. All good indicators that hide production will be robust and provide tanners with plenty of options for the year.

But this is only half the story and is a wake-up call for past, present and future couch potatoes. A recent survey from *Furniture Today* indicated that leather has a 29% market share for sofas, across all price points. Leather is also the top choice for the motion sofa and recliner categories. It makes up one third of all motion units and 24% of recliner covers. In 2016 retail sales for these groups reached \$25.7 billion.

But what does this all mean to our industry? Reviewing the data, it is possible to extrapolate the numbers in terms of hide usage. Based on a proprietary set of assumptions we calculate that this translates to around 5.3 million hides per year for the US residential furniture market alone. While perhaps only 40% are of US origin, the balance is a combination of South American and EU hides.

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The one bright spot that continues to shine is the demand for automotive leathers and we are confident that 2017 will go into the history books as one of the most profitable years for virtually all producers, although naturally there is always at least one exception to the rule. There is also a spill-over effect with these results as tanning machinery companies have also enjoyed a terrific 2017 with impressive sales, including the latest technological developments in retanning and finishing equipment. There is every indication that this positive trend will continue and we expect steady growth in this leather segment throughout 2018.

According to *Automotive News*, overall luxury sales for the year declined 0.2% to 2.02 million. That compares with a 1.8% decline overall for US light-vehicle sales. Seven of the 13 luxury brands posted decreases in 2017. Like the overall vehicle

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market, the luxury segment suffered amid a precipitous drop in sedan demand. But this is a false negative indicator and we should ignore this minor adjustment, instead focusing on a shift in vehicle type. That fall-off was countered by growth in luxury crossover and SUV sales; these two segments is where the action resides, especially for leather. Not only is demand for these steel-laden, condensed motor-home type vehicles growing, but the accoutrements are multiplying and our favourite seating material is in demand.

Despite two years of decline, luxury-brand sales are still close to the record level set in 2015. Luxury automakers are poised to have another solid year in 2018, said Zohaib Rahim, research manager for Cox Automotive. "With strong stock market performance, decade-high consumer confidence, and a robust labour market," Mr Rahim said, "consumers looking to move up into luxury vehicles will have ample opportunities."

A recent report by Edmunds forecasts new car sales for 2018 at 16.8 million, down slightly from 2017. They also stated that small SUVs will account for 29% of the luxury market in 2018, up from 16.5% in 2013 and 8.5% in 2008. Today SUVs drive the luxury market and brands are phasing out slow-selling cars for hot SUVs. Standard passenger car sales will represent a record low of 34.5% of the market in 2018, down 15.5% in just six years. This is all good news for the leather industry as SUVs use more leather compared to the typical car. *Forbes* magazine reported that according to BMI Research, the world's vehicle

sales will rise by 3.6% in 2018, up from an estimated 3.3% growth in 2017. Last year was a record-breaking year for global car sales. At over 90 million units, 2017 was a record year for light vehicle sales. "Emerging markets will contribute the bulk of growth, while sales in many major developed states will slow or even contract," BMI Research said.

Europe's growth is expected to slow a bit in 2018, while the US is likely to see sales dip slightly next year. In 2016, Europe's sales hit about 17 million and the US close to 17.6 million.

So, with the exception of shoe leather, the prospects for 2018 are good and combined with ample hide supplies, tanners can expect raw material prices to remain trapped in a relatively narrow range. Currently consumer confidence is reflected by good retail sales and echoed in the performance of US stock indices.

Likewise, temperature records are being set on a more frequent basis which raises the question of global warming and cooling and the various steps to address climate change. While these issues have been adopted by virtually every country on the planet (around 200 countries) the noticeable exception is in 'Trumpland', where it would appear we have a different perception of reality. Fortunately, the people in the leather industry are more respectful of their social and environmental responsibilities, which helps set the standard for others to follow. Tanners should be proud of their achievements. 🌍

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