

Market Watch- April 2023

Deforestation due diligence statements will be required in the EU

The European Parliament and the Council of the European Union have reached a preliminary agreement to ban the import and sale in member states of products that come from deforested areas anywhere in the world. When the law comes into effect, **companies will be required to issue a due diligence statement.** Such declarations must ensure that items coming into the EU have not contributed to deforestation or forest degradation. **Products covered by the measure include cattle, cocoa, coffee, palm oil, soybeans and wood.** **Other articles that derive from these basic inputs, including leather products,** chocolate and furniture are also included. Companies will be required to collect precise geographical information on the farmland where the commodities that they source have been grown, so that these commodities can be checked for compliance. Once the new regulation is in force, operators and traders will have 18 months to implement the new rules. Micro and small enterprises will have a longer adaptation period.

China's Economic Growth Accelerates with Consumption Boost

According to China's National Bureau of Statistics, **China's economy grew 4.5 percent in the first quarter.** The accelerated growth marked the fastest pace in a year and relieved Nike, Adidas, VF Corp., and several industry-leading vendors with heavy exposure in the world's second-largest economy. GDP topped \$4.15 trillion in the January-to-March period and was 2.2 percent higher than in the fourth quarter of 2022, with heavy industry, agriculture and manufacturing making the most significant contributions after services, according to the agency's preliminary estimates. China's growth was spotlighted following the country's reopening after ending strict COVID restrictions in place for nearly three years. **In the first quarter, consumption posted the strongest rebound. Retail sales jumped 10.6 percent in March from a year earlier, the highest level of growth since June 2021.** In the January to March months, retail sales grew 5.8 percent, mainly lifted by a surge in revenue from the catering service industry. Still, authorities cautioned that **China would likely face import and export pressures in the coming months** amid an uncertain international economic environment and also warned of inadequate domestic market demand.

U.S. Parents Spend More on Kids Footwear, Less On Themselves

Parents with kids living in the U.S. spend less on footwear for themselves and more on the category for their children. **Shoes for kids were the fastest-growing segment of the footwear market.** In addition, consumers spent more on kids' footwear due to average price increases. Spending per buyer grew 9 percent yearly, according to Circana's checkout data, which tracks product sales based on consumer sales receipts. "Families are obviously feeling the pressure from inflation," said Beth Goldstein, footwear and accessories analyst at Circana. At a generational level, according to Circana, its apparent families are reallocating their footwear spending as Millennial households with kids represented about one-quarter of total footwear market declines, and Gen Z households with kids generated half of the slide in spending. **Sales of adult footwear drove the declines among these segments while spending on their kids' footwear grew.**

Nike Footwear Supplier Invests \$280 Million in India

Key Nike and Adidas footwear supplier Pou Chen signed an agreement with Tamil Nadu government recently, cementing the Southern Indian state as a rising force in the shoe manufacturing industry. **Pou Chen subsidiary High Glory Footwear, which committed to**

investing 23 billion rupees, or about \$281 million, to establish production in Tamil Nadu, which exports as much as half of India's footwear products. Pou Chen's production was up almost 14 percent in 2022 and shipped 272 million pairs of shoes. While rival sourcing countries such as Vietnam battle rising costs and a labor shortage, India is becoming an increasingly attractive destination for diversification. The shift toward non-leather footwear will drive more than 200 percent growth in the footwear sector in Tamil Nadu in the coming years. Pou Chen's investment suggests the "China plus one" sourcing strategy is beefing up.

Koio's Biodegradable Sneaker

Venture-backed luxury sneaker brand Koio has drafted a shoe designed to biodegrade. Recently, the brand introduced its Mello sneaker, which claims to be 99 percent biodegradable in a compost environment despite a strobil board, backer and thread, which will take longer to break down. Johannes Quodt, Koio cofounder, spoke to WWD on the delicate nuances in the shoe. "We use water-soluble non-toxic glue. We're still working on finding a natural alternative that holds up to the demands of a decade of wear."

How footwear industry is producing positive planetary impact

Contrary to what would be expected, meat consumption is increasing and breaking records. Worldwide, consumption grew by 5.2% from 2016 to 2020. In 2021, it must have increased by 1%, achieving a new-all-time high. The spotlight is on China, which registered an accumulated growth of 41% since 2016. Then, the footwear industry promotes from its inception a circular economy. As a matter of fact, the leather used in this industry is, for the most part, of bovine origin. In essence, **the footwear industry reuses a noble raw material wasted by the food industry.**

China imports down in 2022

Recent figures from the China Leather Industry Association revealed that 2022 imports of raw hides and skins, semi-finished leather and fur totaled 1.723 million tonnes, with a value of \$2.74 billion. The figures represent a **decrease of 7.6% and 22.5% respectively from the previous year, also down 5.8% and 14.3% respectively on 2019 figures.**

Ranked by import value, the United States, Australia, the European Union, Canada, New Zealand and Argentina, with a combined share of 90.1%, represent the top six import countries/regions. Semi-finished leather imports totalled 501,000 tonnes (down 15.8%) with a total value of \$1.02 billion (down 18.3%). Brazil, ASEAN, the European Union, the United States, Argentina and Bangladesh, with a combined share of 78.9 percent, ranked as the top six import countries/regions.

Market intelligence report: German Perspective – 18.04.23

Many fundamental problems are either being ignored or deliberately pushed aside at the moment. This week was further proof that there are two ways to deal with the situation. Either you enjoy the sales you have or the customers who continue to accompany you on a regular basis, or you deal more with what is currently not sellable along the supply chains in the leather industry and will, sooner or later, burden the entire chain and industry.

Demand is concentrated on fewer and fewer regular customers, specific leathers and, moreover, the possibilities of selling are becoming more and more limited. There is simply a lack of demand from the leather industry and this should not be obscured by individual deals and sales. These are always sporadic deals, often smaller, speculative purchases that are not based on

real demand. If this is enough for you, you may be satisfied, but for us this cannot be the basis of development in the leather industry for the near future.

Rumours of large stocks keep coming up and these are now heard from almost all regions of the world. The continuously weakening US dollar is also a further burden on the revenues of hides from Europe. The US dollar has now lost almost 15% from its highs in 2022 without a corresponding correction in prices in Europe taking place. It will be difficult to sell all the resulting raw material from Europe, especially over the summer months and the holidays, which are now fast approaching.

Every week and this week, too, business is not zero. Individual sales are possible in Europe, while the prices offered from Asia, especially for cowhides, are not really acceptable at the moment. Tanners, at least in China, have no need at all to adjust their asking prices at the moment. Even less so when there are other markets in Europe that have already made the price adjustments.

The kill: The kill was significantly reduced this week owing to the public holidays for Easter. Live cattle prices continue to fall, but it is simply not the time to assume that this could boost demand for beef. Temperatures are still relatively low and cattle are not yet going back to pasture. Once the grass really starts growing again and the ground dries out, there may be more interest from farmers to put cattle out, but we are now entering a phase of lower production and lower weights. What we expect: We believe that we are approaching a crucial crossover into our market here. Except for selected hides, our hides are becoming less and less competitive. And this in a market that does not need all the production at the moment for leather orders. What sells is what is needed to cover current orders. As long as there is no major need to adjust prices, the price trend will continue to be very tough. Finding a reasonable balance of prices between the hides for which there is still a market and those that don't really have a market is becoming more difficult from week to week.

Type	Weight range	Avg. green weight	Salted weight	Avg. weight salted	Price per kg green weight	Trend
Ox Heifers	15/24,5 kg	22,0/23,5 kg	13/22 kg	20/21 kg	€ 1,15	Stable
	25/29,5 kg	27,5/28,5 kg	22/27 kg	25/26 kg	€ 0,70	Weakish
Dairy cows	15/24,5 kg	22,5/23,5 kg	13/22 kg	20/21 kg	€ 0,65	Weak
	25/29,5 kg	27,5/28,5 kg	22/27 kg	25/26 kg	€ 0,60	Weak
	30/+ kg	33,5/35,5 kg	27/+ kg	29/31 kg	€ 0,55	Weak
Bulls	25/29,5 kg	27,5/28,5 kg	22/27 kg	25/26 kg	€ 0,95	Weakish
	30/39,5 kg	36,0/37,0 kg	24/34 kg	31/33 kg	€ 1,20	Weakish
	40/+ kg	45,0/48,0 kg	34/+ kg	38/40 kg	€ 1,10	Weakish
Thirds	15/+ kg	25,0/27,5 kg	13/+ kg	24/26 kg	€ 0,45	Weakish
Thirds bulls	30/+ kg	38,0/40,0 kg	24/+ kg	33/36 kg	€ 0,55	Stable

Source: Leatherbiz.com