

Hermann Oak Leather Co.



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SKIRTING
BRIDLE
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CRAFT
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HOLSTER
WAISTBELT
SPLITS

September 1, 2014

Dear Customer,

This letter is an effort to look ahead into the coming year, in order to help everyone plan.

As we know, leather prices of all types have risen dramatically over the past two years. While this has been a challenge for us all, it seems that our industry has kept up.

The primary driver has been hide price. Hides increased again early this year, and have stayed up. As such, we have had to keep our 3% surcharge in place. In past years, there has been an additional run in the hide market as we get into the fall. We won't know if that repeats this fall until it happens.

Worldwide hide production has been relatively steady, with increases in Brazil, China, and India. U.S. hide availability has been down, a result of the three-year drought in Texas and strong demand for beef (15% of which is now exported). The total U.S. harvest this fall is projected as low as 80% of usual. Twelve plants have closed in the past year and a half, mostly in the cow and bull market but some also in the beef market. This lower harvest is probably adding to the "premium" that we pay here in the US over hides from the rest of the world. The good news for our industry is that cattle are being fed longer because cheap corn is making it economical, and there are still heavy steer hides available. Buying the best jumbo native steer hides is one area where Hermann Oak has refused to compromise.

Chrome leather prices in China, the low cost leather producer that tans half the world's leather, have also been rising. Their labor costs are soaring (by design...this is what their government wants), transportation costs have increased, and "extra" costs have risen (though the government is trying to control the graft... I wish them luck). The government is also finally cracking down on pollution, closing many tanneries down until they comply. In Mexico, the tanneries in Leon (that country's tanning center) have also been relocating or closing to come into environmental compliance.

Shoe manufacturing and tanning is starting to migrate from China to Vietnam. Some is actually starting to come back to this hemisphere, be it shoe plants in Puerto Rico, a shoe plant in Tennessee opened by a Hong Kong businesswoman, or a German shoe upper chrome tannery in Mississippi.

The issue for us at Hermann Oak has been that our yearly increases intended to cover basic operating costs (such as a doubling in tannin costs) have all ended up going towards hide increases. As such, we are looking to play some catch-up this coming January with a 6% increase (over the current price, i.e. in addition to the 3% surcharge currently in effect). We had considered half this fall and half in January, but decided to place it all in January when most of you adjust your prices. While this may seem a lot, it is not much different than recent increases in beef prices.

If someone is using our black leather, that will increase more. Dye costs in general are increasing 10%, but black is up 50%. Black comes only from India and China, and it appears they are doing the same they did with brass hardware when they had finally cornered the market.

We hope that this early notice will help you plan ahead and cover this. Thank you for your business and your continued support of our company and our leather. You make us the company that we are.

Regards,



Shep Hermann