

QUALITY SINCE 1881

# Hermann Oak Leather Co.



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HOLSTER  
WAISTBELT  
SPLITS

December 16, 2013

Dear Customer,

The hide market has continued as we had forecast this past September.

The word on the street sheds some additional light on the detailed workings of the hide market. (Note that everything said in a commodity market is an opinion, of which there are many.) Basically, while the overall worldwide hide market is steady, the individual hide selections are changing their relationships.

The worldwide hide market is staying up at this higher level, we believe because of higher cotton prices laid forth in our September letter. This is in spite of increased worldwide hide production (down 2% in the US, up 11% in Brazil, and up 8% in China), Chinese shoe consumption being off 10-15%, and an increase in demand for food collagen (sausage casings made from lime splits), which lends support to the cotton analysis.

The "spreads" between the various types of hides are changing. The low end hides (Brazilian, US Cows, splits) have gotten stronger, while the middle end hides (US branded selections) have gotten weaker. Shoe manufacturers have been switching over to more corrected-grain and pigmented leather, including finished splits, in order to keep their costs in line. They are saying that most customers in the mass markets are not knowledgeable enough to know the difference nowadays (an opinion that may be self-serving and short-sighted, as we are seeing some bag makers coming back to high-end aniline leather). When the price of sugar goes up, the candy bars get smaller.

The upper end hides (US native steers) that go into more aniline (naked) leathers are selling at a greater premium to brands. This is driven by strong demand for European auto upholstery. In addition, the premium for the heaviest "Jumbo" hides (like we buy) has climbed even higher, since tanners can get more money for heavy splits, as shoe makers switch and drive split prices up.

Regards,

Shep Hermann