

QUALITY SINCE 1881

Hermann Oak Leather Co.



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SKIRTING
BRIDLE
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LATIGO
STRAP
CRAFT
TOOLING
HOLSTER
WAISTBELT
SPLITS

February 5, 2014

Dear Customer,

As stated in our last letter, we had hoped not to have to write another too quickly. Regrettably, the hide market is not allowing for that. Hides are going up once again, and exhibiting the kind of steady increases characteristic of strong demand.

Putting on my economist's hat once again (please don't hold that against me, as I'm only trying to make sense out of our market), the worldwide hide market can be thought of as having three tiers, built up as follows:

- The base hide market, where the volume is. Brazil, Argentina, India, etc. These are the leathers that compete with other fibers, primarily cotton and nylon. As stated earlier, I believe these to be driven by the cotton market.
- The premium hide markets. The US and Europe, providing better grain quality and thicker hides. These command a premium over average world hides.
- The jumbo hide market. The very heaviest of hides, mostly in the US and Europe. These command yet additional premium, as they are the top of the top. This is what we buy.

Hide prices are doing the following:

- Pricing for base worldwide hides is stable, presumably because the cotton market is also stable.
- The premium for US hides is increasing. The decrease in our herds over the past few years due to draught is finally catching up. Our harvest rate (slaughter rate) is forecast to decline by 5% this year as heifers are pulled out to rebuild the herds, reacting to the high price for cattle and beef. Demand is also picking up for both heavy, high-end shoe leather and auto/furniture upholstery.

- The premium for jumbo hides is growing, as demand for split leather increases (as an alternative to full grain leather) and more lime splits are diverted into collagen.

The word on the street is that packers are sold ahead, and buyers in China are holding back buying until they can reprice their leather in April. Both of these can only drive prices higher.

With this in mind, we need to start planning for another surcharge of 3%. It would be implemented on orders placed after March 1, and shipments after April 1. We appreciate your understanding, and hope this heads-up gives everyone time to plan.

Regards,

A handwritten signature in cursive script that reads "Shep".

Shep Hermann