US MINK: STATE OF THE INDUSTRY - 2010

By Simon Ward, Communications Director, FCUSA

The economic and financial crisis that swept the globe in 2008 is not over. The world's largest economy, the US, continues to struggle, while debt crises in the Eurozone threaten to ignite another meltdown. But the economy of China, the biggest buyer of mink pelts and consumer of fur apparel, is robust to the point of overheating, while the other major fur retail market, Russia, though severely impacted by the recession, is on the road to recovery.

Smaller but important fur markets in the Far East, North America and Europe are also thought to be rebounding slightly, helped by another round of cold winters and a strong recovery in the luxury goods sector as a whole.

On the domestic front, US consumers are becoming ever less important to the prosperity of American mink farmers. Efforts to create a global market for their product are paying off, while consumer confidence at home remains depressed, and retail sales are expected to rise only slightly this winter after three years of decline.

Meanwhile, production of farmed mink has been inching up again in most major producing nations, including the US, in response to a sharp rebound in prices at the spring 2010 auctions. Whatever the short-term future for the global economy, demand for top-quality pelts is so strong, even resulting in supply shortages, that the outlook for pelt prices remains rosy.

Domestic Production

According to the USDA's National Agricultural Statistics Service (NASS), American mink farms produced 2.86 million pelts in 2009, up 1.2% from 2.82 million the year before. This was the second-largest crop this decade, surpassed only by the 2.87 million pelts harvested in 2006.

Between 2000 and 2009, the average US crop came to 2.69 million, while the 3 million mark was last achieved back in 1991. The biggest crop ever was in 1989, at 4.60 million, but given that today's farmed mink are considerably larger than just two decades ago, in terms of pelt area produced, US mink farmers are about as productive as they have ever been.

As for forecasting the expected size of America's 2010 crop, the crystal ball is unusually cloudy.

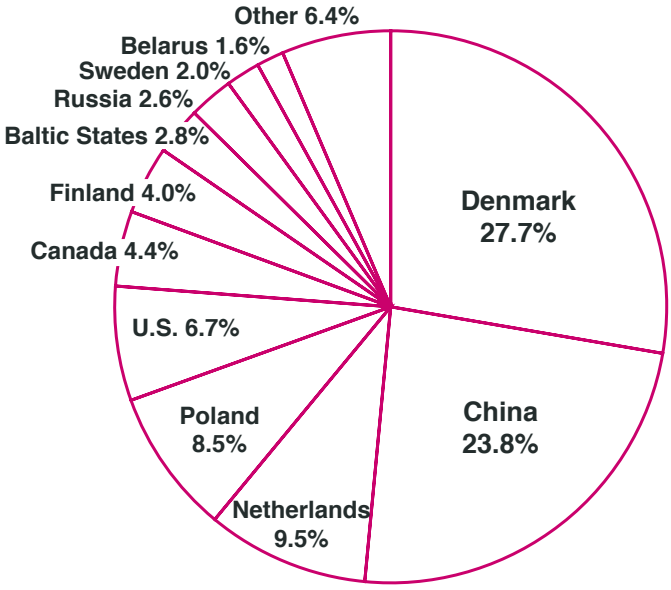
One prediction, based on NASS statistics, is that it will be down slightly from last year. Slightly fewer females were reportedly bred to produce kits this year than last, and if the number of pelts per breeding remains the same, output will dip 1% to 2.83 million pelts.

Another prediction, coming from Europe, is that the US crop will rise a dramatic 21.4%.

Until this year, the task of forecasting farmed mink and fox production around the world was undertaken by Oslo Fur Auctions, and the disparity between its predictions of US output and those based on NASS stats was never significant. Between 2005 and 2009, the greatest disparity was just 180,000.

But this year, the task has been taken over by Finnish Fur Sales (FFS), in cooperation with Kopenhagen Fur. According to FFS's forecast published in October, US production in 2010 will amount to 3.4 million pelts. Aside from the startling year-on-year growth this would represent, it would also be the largest US crop since 1989.

The next round of auctions will reveal whether FFS has a new and improved crystal ball, or whether it



World Farmed Mink Production, 2010
Source: Finnish Fur Sales and Kopenhagen Fur

Published Dec. 23, 2010 by Fur Commission USA, 826 Orange Avenue, #506, Coronado, CA 92118-2698.
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needs tuning. But in the meantime, veteran fur industry reporter Sandy Parker ran FFS's figures by interested parties.

"Executives of both North American auctions, as well as others connected with the ranching sector, expressed doubts" about FFS's forecasts for both the US and China [see below], he wrote. "Their estimates of the US crop, based on reports from the ranchers, ranged from a low of 2.8 million to a high of 3 million, roughly unchanged from last year."

Global Production

Following two years of contraction, global production of farmed mink rebounded in 2010, according to FFS. Denmark, the largest producer, is believed to have maintained output at the same level as last year, while the next four top producers increased output.

The total crop is forecast at 50.48 million pelts, up 8.5% from 2009, but short of the all-time record of 55.79 million produced in 2007.

As a share of the global supply, Denmark is expected to provide 27.7%, followed by China (23.8%), the Netherlands (9.5%), Poland (8.5%), and the US (6.7%).

In terms of the number of pelts, Denmark produced an estimated 14 million, unchanged for the last four years. China produced 12 million (up 33.3%), the Netherlands 4.8 million (up 6.6%), Poland 4.3 million (up 16.2%), the US 3.4 million (up 21.4%), Canada 2.2 million (down 4.4%), Finland 2.0 million (down 4.8%), the Baltic States 1.4 million (down 30.0%), Russia 1.3 million (unchanged), Sweden 1 million (down 16.7%), and Belarus 800,000 (up 33.3%).

As has been the case for several years, Western observers continue to keep an eye on the dramatic swings in Chinese pelt production, and any signs of improvement in the quality of pelts, but with little hard information to go on. No official figures are published by the government, and since the majority of China's pelts cannot compete with those from countries with superior expertise in mink husbandry, they are consumed domestically rather than passing through the international auction system. Estimating Chinese output is therefore a guessing game.

The rollercoaster ride began in 2000, when China produced some 3.3 million pelts. Although it already ranked as the world's number two producer, it was far behind Denmark, with 10.9 million. It then embarked on a feverish expansion, peaking in 2007 with an estimated output of 18 million pelts, or about one-third of world output. The following year, output plunged to about 12 million, with the blame being pinned on inexperience in mink husbandry, resulting in substandard pelts and low prices. In 2009, the last year in which Oslo Fur Auctions issued its report, output slumped further to just 9 million.

This year, however, FFS predicts output will recover to 12 million again.

No one really knows, but Sandy Parker is as skeptical of this prediction as he is of the prediction of US output. While the forecast of 12 million "may have come from usually reliable trade sources," indications were that farmers' inexperience had once again "taken a heavy toll," he wrote. "If the doubts concerning the US and Chinese crops prove correct, the new world crop would be about 47 million mink, only 1% bigger than last year's."

Other than China, the biggest mover and shaker for the last several years has been Poland, which continues its expansion trend dating all the way back to 1994, when it produced just 30,000 pelts. Over the last five years (2006-10), it has seen average annual growth of 19.1%, firmly establishing itself as the world's fourth-largest producer with 4.3 million pelts in 2010.

Productivity, Efficiency

Starting in the late 1980s, mink farms in the US saw their numbers contract, but productivity and efficiency rise. Economies of scale were achieved through farm mergers and the pooling of resources in feed and processing cooperatives. Advances in animal husbandry, meanwhile, resulted not only in more pelts per breeding, but also pelts that were very high quality and larger than ever before.

NASS data do not reflect farm mergers or changes in pelt size, but are still good indicators of the contraction and consolidation phase of the industry, and improvements in productivity.

Between 1989 and 2005, the number of individual farms reporting to NASS fell from 940 to 275. Since then, their numbers have fluctuated in a narrow range. In 2009, 278 farms reported, up from 274 the year before.

The trend in productivity over the same period has been quite the reverse. In 1989, the average farm produced 4,897 pelts. By 1999, that number had risen to 7,067, and in 2009, it stood at 10,272. This was virtually unchanged from 2008, suggesting a plateau may finally have been reached, but the overall trend has been unmistakable. Even over the most recent five-year period, 2005-09, as opportunities for greater efficiency diminished, average pelt production per farm rose 7.05% while the number of farms rose just 1.1%.

Another measure of productivity on mink farms is the number of pelts produced per female bred, which reflects both the number of kits born and their survival rate. Lit-

ter size, of course, is mostly governed by mink biology, while uncontrollable factors such as extreme weather impact survivability. But farmers *do* have control over the quality of care they give their animals, and this directly affects how many pelts they harvest.

Data compiled since 1970 by NASS and its predecessor, the Crop Reporting Board, reveal that each breeding in the 1970s resulted, on average, in 3.43 pelts going to market. In the 1980s, this average grew to 3.72. In the 1990s, it grew again to 3.80, and for the period 2000-09 it reached 4.16.

In 2009 alone, the average was 4.23, up from 4.03 the year before. The best result ever, 4.37, was set in 2006.

Crop Value

Prices for American farmed mink at the spring 2010 auctions (2009 crop) rebounded with gusto from the depressed prices of a year before, when all buyers took heed of the global economic turmoil, and those representing Russian clients were virtually absent due to government restrictions on the outflow of hard currency.

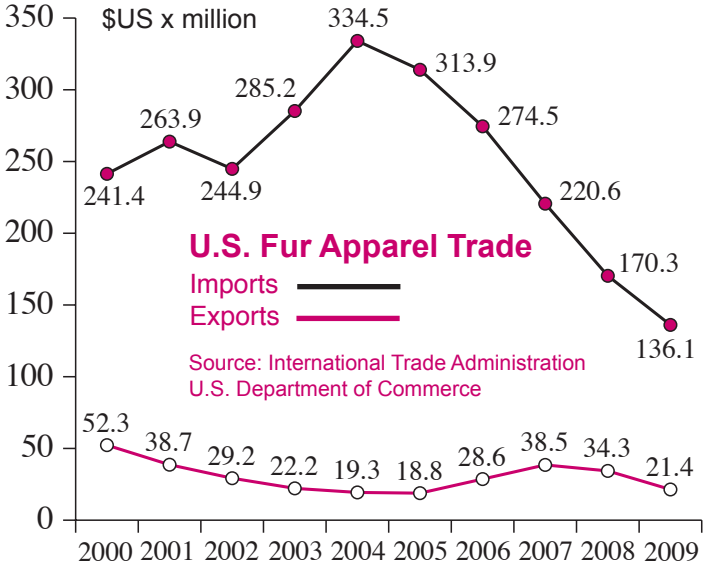
When the final hammer came down, the crop had earned a record $185.9 million, according to NASS. This was up a precipitous 58% from $117.3 million a year earlier, and effectively on a par with the previous record set in 2008 (2007 crop) of $185.8 million.

The average price for individual American pelts also rose, to $65.10 from $41.60 the year before. This was just 60 cents shy of the record of $65.70 set in 2008.

Meanwhile, the average price over the five-year period 2005-09 came to $56.28, up 52.1% from the $37.00 average over the preceding five years.

International Apparel Trade - Imports

Over the last few decades, China has emerged as the world's dominant manufacturer and exporter of fur apparel. The US, in contrast, has seen its production of fur apparel reduced to a shadow of what it was forty years ago, making it a net importer by a large margin.



According to the Commerce Department's International Trade Administration, the US deficit in 1989, when Harmonized Tariff Schedule statistics began, for "articles of apparel etc. of furskin" (HS 4303) was $286 million. The smallest deficit was in 1992 ($64.5 million), and the largest in 2004 ($314.6 million).

In 2009 the deficit stood at $114.7 million, marking the fifth straight yearly decline.

However, the narrowing trade balance does not reflect increased exports, or any known increase in domestic production for home consumption. All it really indicates is falling imports to the US.

Thus the slides of the deficit and imports both began in 2005. Within five years, imports fell from a record high of $334.1 million to $136.1 million last year.

By source, major shippers to the US in 2009 were China (43.7%), Canada (17.5%), and Italy (11.9%).

When imports first began falling, analysts attributed it to excess inventory built up by retailers following a string of profitable seasons. Then the recession hit, and the slide continued.

In 2010, the corner has been turned, in dollar terms at least. Imports for the first three quarters came to $111.4 million, up 25% from the same period a year earlier, with the most important quarter for fur imports still to be tallied.

In terms of volume, however, imports are likely little changed, given the price increases at the wholesale level in the last year. Furthermore, most of the increase in imports has been in furs other than mink, suggestive of retailers looking to keep their lower price points filled.

International Apparel Trade - Exports

American exports of fur apparel are on an altogether smaller scale. In 2009 they were worth $21.4 million, down from $34.3 million the year before. In the last two decades, a high was set in 1997 of $94 million, and a low in 2005 of $18.8 million.

As reported by the International Trade Administration, major consumers of US exports in 2009 were Canada (15.1%), the UK (12.6%), and Japan (7.4%).

Given the comparatively small figures involved in the export trade, year-to-year changes can be pronounced without being significant. For example, imports by China have fluctuated so wildly in the last few years that it is impossible to determine a trend. In 2008, it imported fur apparel manufactured in the US valued at $7.4 million, making it the leading importer by a large

margin. But in 2009, those imports were valued at just $1.6 million.

One market, the UK, deserves special mention though, since it shows all the signs of a trend.

Over the period 2004-09, the value of US fur apparel exports to the UK rose steadily from a paltry $158,000 to $2.7 million. This included a jump of 142% in 2008 alone, consolidated with a further rise of 26% in 2009, making the UK the second-largest consumer of US fur apparel.

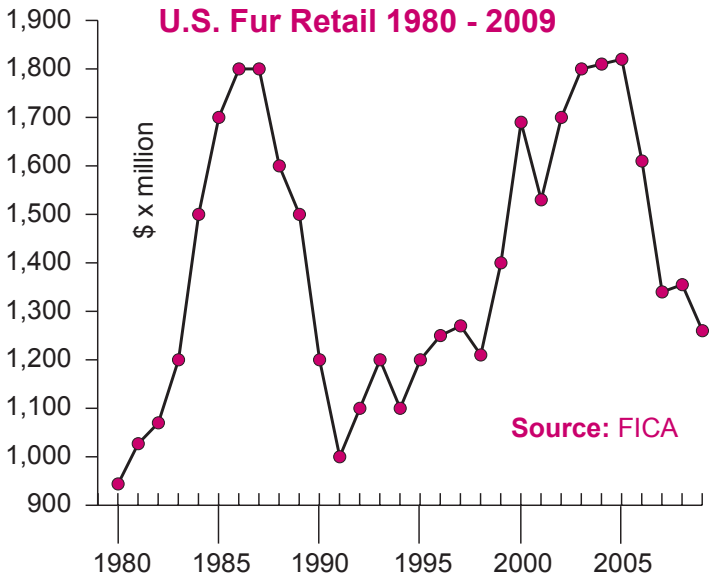
Statistics from the UK's HM Revenue & Customs confirm this, with imports of US fur apparel growing by 2,800% in the same period.

Curiously though, over the same period the UK's total imports of fur apparel from all sources have fluctuated within a fairly narrow range, so it is not a simple case of importing more fur. It's just importing more *US* fur.

Meanwhile fur consumption in the UK has taken on a new twist in the last few years that does not show up in any trade statistics: a craze for vintage furs, especially among younger consumers. The volume is unknown since sales are made mainly on-line or at street markets, but if the media are to be believed, a whole new generation is discovering the merits of nature's finest insulator at true entry-level prices.

Domestic Retail

Once dominated by traditional furriers and boutiques in high-end department stores, with racks of mink, fox, and chinchilla, the retail landscape for fur apparel in the US has changed in recent years. More affordable fur types are now commonplace in non-specialized clothing outlets, while fur-trimmed garments and accessories can be found everywhere from sporting goods to toddler wear. Meanwhile, on-line shopping goes from strength to strength.



Note: *Until 2007, FICA surveys spanned retail years April-March. Thus, 2007 denotes April 2007 - March 2008. Starting in 2008, it switched to calendar years.*

Despite this diversification, however, it is reasonable to assume that US fur retail has followed imports downwards, and the only official statistics published by the industry support this assumption. These are for sales (including services such as storage, cleaning and remodeling) through traditional furriers with membership in the Fur Information Council of America (FICA).

Since setting a new record of $1.82 billion in 2005-06 (April-March), FICA's members saw their sales drop sharply. Now compiling results on a calendar-year basis, FICA reported this November that sales in 2009 had fallen to $1.26 billion, the lowest this decade. If one considers erosion of the dollar's purchasing power, this ranks in the same league as another low, of $1 billion, in 1991-92. The economy was in another recession, winters were unseasonably warm, and animal rights was a *cause célèbre* of supermodels and celebrities.

This time around though, the weather and fur's popularity are no longer issues. Right through the first half of the decade, sales showed strong growth, and the fashion media were awash with the story "Fur is back!"

Then the current recession hit, and despite the best efforts of government, the economy is yet to turn around, with 9.8% of the US workforce still unemployed as of November.

Nonetheless, "Fur is back!" stories are hitting the news again in late 2010. With fur apparel imports picking up, another bitterly cold winter already under way for much of the country, and reports of retail sales and credit card spending picking up around Thanksgiving, the current fur season should be, at least, better than last.

Supporting this optimism is a miserly recovery in the Combined Consumer Confidence Index (present situation + expectations) of the Conference Board.

Back in February 2009, the last of the three big months in the fur retail calendar, the Index hit 25.0, down from 75.0 a year earlier and the lowest in its history (1985 = 100). It then started to recover, and has spent the last two years in the 45-63 range. As of November 2010, it stood at 54.1.

One *could* say that consumers are twice as confident as they were in early 2009. But it would probably be more truthful to say they are only half as anxious.

International Context

Despite being the world's largest economy and an important market for fur, the US currently accounts for just 9% or so of global fur retail. Thus American

mink farmers today find themselves in the same boat as farmers everywhere, with the global marketplace as the key to their prosperity, while watching for signs of a US recovery.

Prior to the meltdown, the global market was robust and growing. Fur was back in vogue from Shanghai to Milan, while strong economic growth in the biggest consumers, China and Russia, saw more disposable income than ever before being spent on fur.

In 2006-07, according to the International Fur Trade Federation (IFTF), global fur retail stood at $15.02 billion, the highest since it started keeping track in 1999.

But the following year, 2007-08, with the meltdown in full flow, sales fell by 13.25%, to $13.03 billion, before posting a small recovery to $13.33 billion in 2008-09. IFTF's next results, for 2009-10, can be expected in March of 2011.

IFTF does not publish a country-by-country breakdown of its surveys, but acknowledged that while European demand had stagnated between 2007 and 2009, "demand from the Asian markets has seen an increase. We are very pleased that during the worst of the recession our product remained in demand."

The single Asian market which did most to help the trade through these troubled times would undoubtedly be China.

Like all major economies, China felt the pain of the recession, but comparatively speaking, the pain was not great. In the first quarter of 2009, GDP growth fell to its lowest in almost 20 years, but still stood at 6.1%, a figure most governments would be happy with even in good times.

Meanwhile, as Chinese exports began to fall, the government allowed the economy to move towards greater dependency on an internal market by raising wages and lowering prices. Domestic consumption began to grow, with overall retail sales in 2009 rising 16.9%, and in 2010, GDP growth is expected to be back up around 10%.

Evidence of this speedy recovery, and its benefits for the fur trade, are clear today. As Sandy Parker reported: "October/November retail sales in China reportedly set records, with stores moving huge numbers of garments - hundreds over a single weekend - that Western retailers can only dream about. As a result, skin inventories are described as at an all-time low."

The other major fur market, Russia, was altogether harder hit by the recession. Pre-2008, soaring energy and commodity prices created enormous wealth that saw newly-affluent consumers investing in quality purchases, including furs. But when the bottom dropped out of the oil market, foreign credit dried up, capital fled the country, and the government devalued the ruble. Buyers all but disappeared from the pelt auctions, and retailers found themselves with massive debts to Greek and Chinese manufacturers, and few customers.

By 2009, Russia's GDP growth was in negative territory, shrinking by 7.9%. But signs of recovery were already there, and in 2010, GDP is expected to grow by about 3.1%. Fur retail sales are said to be up over last year, but no one is forecasting a quick return to pre-recession levels.

It would not be an overstatement, therefore, to say that American mink farmers, already earning record prices again for their pelts, would not be where they are today without China.

Is this a precarious situation for the future? Not really. As great as China's consumption already is, the market will only grow as the affluence of its 1.3 billion people grows. Meanwhile, the smaller markets of South Korea, Japan, North America, and Europe, will continue to provide important support, and in time Russia, with its lengthy winters and deep cultural attachment to fur, will re-emerge to play second-fiddle to China.

Also complementing the China factor is an important and emerging market that transcends national borders. Now the fur trade is focusing anew on the market for high-end, investment-quality goods, or "luxuries".

Following a year and a half of declining sales, 2010 will see "a full rebound in luxury goods sales to pre-recession levels," according to *Luxury Goods Worldwide Market Study*, published in October by consulting firm Bain & Co. This highly positive appraisal, predicting 10% growth in luxury sales (8% in the apparel sector), is tied unsurprisingly to continued strong growth in China, but also to an "unexpected rapid return of US shoppers to luxury stores."

Specifically, Bain expects spending on luxuries to increase fully 30% in China, and 12% in the US, but only 6% in Europe. Only one major market for luxuries, Japan, is forecast to shrink, by 1%, but the Asia-Pacific region without Japan is expected to see 22% growth.

Marketing strategies are playing a key role in this growth, says Bain. Luxury sales online will grow 20% in 2010, while strong growth is also expected through discount luxury outlet stores and a proliferation of brand-owned stores.

The strong focus by luxury brands on key markets inevitably means intense interest in China. And since China is already the world's biggest producer, consumer, and exporter of fur apparel, the synergy should prove irresistible.