

US MINK: STATE OF THE INDUSTRY (May 25, 2008)

By Simon Ward, Communications Director, FCUSA

Production of US farmed mink continues to rise in response to record-breaking prices for pelts, buoyed by strong consumer demand in particular in China and Russia, and fur's now established resurgence on the fashion scene.

Domestic consumption, in contrast, was dampened by an unusually warm 2006-07 winter in many parts of the country, though when retail results from the generally cold winter just passed come in, a different story may be told. However, any recovery will need to overcome fears among US consumers of a recession, coupled with rising sticker prices, particularly in dollars.

Production share

In terms of world production share, US mink farmers currently rank fourth with 5.2%, behind China (34.7%), Denmark (24.3%), and the Netherlands (7.5%), according to Oslo Fur Auctions, which compiles these statistics annually.

According to the US Department of Agriculture's National Agricultural Statistics Service (NASS), the US has been gradually increasing its output of farmed mink since 2004. In 2006, the latest year for complete statistics, 2.86 million mink pelts were produced, up 8% from 2005, which in turn was up 2.7%. Production peaked in 1989 at 4.60 million pelts. Meanwhile, 684,640 females were bred to produce kits in 2007, up 5%.

Yet even as the US and other leading producers have been increasing their output, they have seen their shares fall in recent years. This simply reflects the dramatic expansion of mink production in China. A decade ago, China is believed to have produced about 2 million mink. By 1999, Oslo Fur Auctions believes it had overtaken the US, and in 2006 passed

Denmark to assume top slot. In 2007, it is estimated to have produced a staggering 20 million pelts, or more than a third of world output.(1)

So far, fears of Chinese production collapsing the price structure for Western produce have proven unfounded. Despite the infusion of large volumes of breeding stock from North American and European farms, the vast majority of its pelts continue to be classified as commercial grade and therefore unattractive to international buyers. Instead, they are consumed domestically, while Western pelts continue to dominate international auctions.

China's dramatic rise may also turn out to be a flash in the pan. According to veteran fur watcher Sandy Parker, sources suggest China's mink ranchers have cut production this year by 25-30%.(2)

"[I]n their haste to multiply their production, the largely inexperienced Chinese farmers were reported to have used breeding practices that resulted in mink that were inferior to their starting stock and brought disappointing prices," reports Parker.

One factor has been high feed costs, relatively speaking. "Feed costs are said to be disproportionately higher in China than in North America or Europe," says Parker. "A major reason is that the Western farmers have access to large amounts of offal, including chicken heads, viscera and other waste parts of butchered animals, that go into their feed. Food processors in China, however, have found ways to make such items fit for human consumption, thus resulting in higher costs to animal feed producers."

Another factor, Parker adds, has been pollution, with the loss of "thousands of kits" produced from American stock to the e-coli virus

carried in dirty water.

Productivity, efficiency

For many years the US mink farming sector underwent contraction both in terms of farming units and output. In recent times, however, the trend has been towards consolidation, with smaller farms merging into larger ones, and multiple family-run operations coming together under one corporate umbrella.

With this change, output has more or less stabilized since the early 1990s, despite ever fewer farms reporting to NASS, indicating improvements in efficiency and productivity seen in the farming sector as a whole.

In 1986, the 989 farms that reported to NASS produced an average of 4,141 pelts. By 1996, the number of farms had fallen to 449, while average output had risen to 6,198 pelts.

In recent years, the trend has accelerated. In 2005, just 275 farms produced an average of 9,592 per farm, while a year later, 271 farms produced an average of 10,546.

Over the five-year period 2002-06, the number of US mink farms fell by 16%, while average pelt production per farm rose 31%.

Crop value

The recent expansion of US mink herds is the direct result of pelt prices doubling in the last four years. This has been fueled by the resurgence of fur in Western fashion, and even more so now by booming demand in China and Russia, where fur sales are driven also by the desire for warmth.

NASS reports that the 2006 US mink crop sold for \$136 million, or an average of \$47.50 per pelt. Although the crop value was down 15% from 2005, when an average pelt brought \$60.90, this was generally interpreted

ed as a correction. 2005's crop value was up a sharp 33% from 2004, while the average price was double that set in 2002 (\$30.60) and totally eclipsed the old record of \$53.10 set in 1995.

The average price over the period 2002-06 was \$45.63, up 44% from \$31.71 over the preceding five years. Adding support to the "correction" interpretation were results at season-opening auctions this spring. Following the American Legend auction in February, Sandy Parker reported: "Mink prices went through the roof in Seattle last week, not only recovering all the ground that was lost last February, but shattering the records set the previous year. The sale at American Legend drew over 350 buyers, its biggest attendance ever."⁽³⁾ Averages for blacks and others were up 50% and more, while premium Blackglama males went for \$96.16, 14% more than the previous record set two years ago. The top lot of Blackglama females went for a staggering \$2,300 *per pelt*.

After some lean years, such prices mean that US farmers should now be operating well into the black. Current estimates are that the total cost for a US farmer to bring a mink to market, including auction fees, is between \$35 and \$40.⁽⁴⁾ Nonetheless, they must be viewed - as with any dollar-denominated measure of the

industry - in the context of the seriously weakened greenback.

The dollar's prolonged slide accelerated against most currencies in 2007. The Canadian dollar achieved parity against the greenback for the first time, and by February 2008 was 14.6% stronger than a year earlier. The dollar also fell by some 20% in 2007 against the Euro, the trading currency for Scandinavian mink, and in 2008 has continued to set new lows.

Sound advice for American farmers might be to make hay while the sun shines. The dollar is expected to depreciate further, all costs affected by the price of oil will only go higher, and general sentiment is that the US is either in, or heading for, a recession. All this means that a few years from now, today's high dollar prices for pelts might not seem nearly so exciting.

For farmers from other countries, meanwhile, they're not *that* exciting already. Canadian farmers sell the bulk of their pelts through the same auction houses used by Americans, earning US dollars in the process. European farmers, meanwhile, have been enjoying prices that in greenback terms would be high, but in Euros are just firm.

International apparel trade

For decades now, the US has been a net importer of fur apparel. According to statistics of the Commerce

Department's International Trade Administration (ITA), the deficit in 1989, when records begin, for "articles of apparel etc. of fur-skin" (category: HS 4303) was \$286 million.⁽⁵⁾ The smallest deficit since then was in 1992 (\$64.5 million), and the largest in 2004 (\$314.6 million). After rising for

five straight years to a record high of \$333.9 million in 2004, the value of imports fell for the third straight year in 2007, to \$220.8 million. This represented a sharp drop of 19.5% from the year before, but was still up from a low of \$150.8 million in 1999.

By source, major shippers to the US were Hong Kong/China (49.6%, \$109.5 million), Canada (15.9%), Italy (11.9%) and Turkey (5.8%). When the latest decline in imports began in 2005, analysts attributed it to excessive inventory build-up by optimistic US retailers following a string of profitable seasons. But that no longer explains the scale of the decline. And since garment prices have risen along with pelts, while all the time the dollar has been falling, it is certain the *volume* of fur imports has fallen much further than their value.

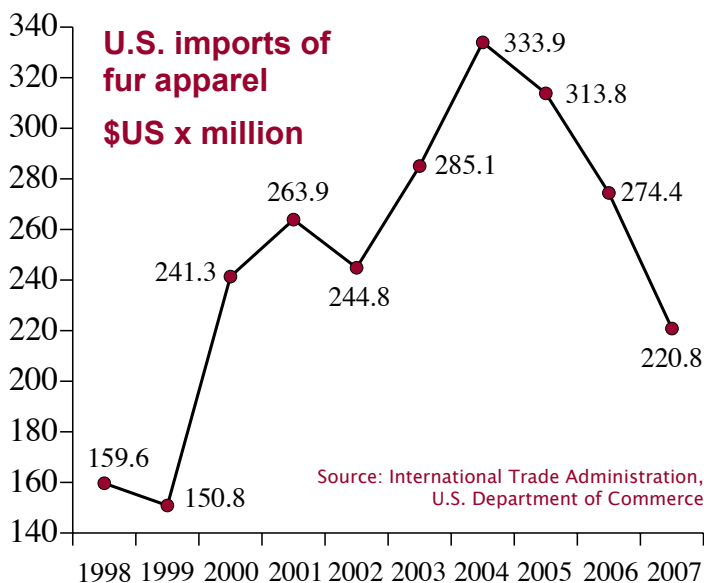
Almost certainly, the major factors behind the slowing in imports are now the fear among retailers and consumers alike of a domestic economic recession, and the sharply reduced purchasing power of the dollar overseas.

American exports of fur apparel are on an altogether smaller scale. In 2007 they were worth \$38.5 million, up from \$28.6 million the year before. In the last two decades, a high was achieved in 1997 of \$94 million, while a low was marked in 2005 of \$18.8 million.

Major consumers of American exports in 2007 were Japan (14.1%), Canada (10.9%) and Italy (9.6%).

Domestic retail

Actual retail results in the US may reflect the drop-off in imports, but they are an imperfect measure of the total market. The reason for this is that the only sector for which statistics exist are for sales through traditional furriers with membership in the Fur Information Council of America (FICA). The statistics are also dated in the sense that the latest set are for 2006 (spanning the winter of 2006-07), when what



would become the dramatic decline of the dollar and rise of oil were still gathering steam.

After four straight years of increases, including a new record in 2005, sales through FICA's members fell back 12% in 2006. According to the latest survey, sales of fur and fur-trimmed apparel and accessories, and services such as storage, cleaning and remodeling, came to \$1.61 billion, down from \$1.82 billion the year before.⁽⁶⁾ A breakdown included a decline in sales of more expensive, heavier coats and other outerwear, but "strength in fashion pieces, designer goods and ultra-luxe garments."

FICA attributed the decline in sales to the weather, and indeed, the winter of 2006-07 was unseasonably warm for much of the country. It remains to be seen whether the exceptionally cold winter of 2007-08⁽⁷⁾ offset consumers' growing fears of recession, but whatever the weather holds in store, economic barometers of consumer spending plans are giving retailers little incentive to stock up for next season.

The combined consumer confidence index (present situation + expectations) of the Conference Board has fallen precipitously this year. In March, the expectation index alone hit a 35-year low, reaching a level "not seen since the Oil Embargo and Watergate". Though it recovered fractionally in April, the present situation index plunged a further 10 points to 80.7 (1985 = 100).⁽⁸⁾ Gasoline prices have been setting new highs, passing \$4 a gallon this May in parts of the country, and reports of the fallout from the mortgage-lending crisis are never-ending. Consumers are tightening their belts.

US retailers can also anticipate more expensive product coming out of China as a result of inflation. Consumer prices there have risen

almost 10% in the past year, and the country is gradually losing its low-wage status. The yuan has also appreciated by the same amount over the same period, adding that much more to costs paid by buyers in dollars.⁽⁹⁾

Yet while traditional furriers specializing in high-end pelts (mink and fox) and full-length coats will now be planning with particular care, market sentiment is that demand for items containing *some* fur is still expanding as other types of outlets promote wraps, linings, accessories and trim using lower-end pelts such as shearling and rabbit.

Acknowledged FICA, "Distribution continues to expand as fur appears in more areas within department stores as well as at multi-line specialty goods retailers and designer boutiques."

It could also have included sales over the Internet, particularly of cheaper items not handled by FICA's members.

One such product would be sheepskin "ugg" boots. If they were popular in the US before, they now have the unofficial endorsement of Oprah Winfrey, star of the highest-rated talk show in the history of television. "In 2000 Oprah decided that she loved her boots so much that she bought 350 pairs," observed one commentator. "One for each member of her staff. In 2005 she featured them in her show 'Oprah's Favorite Things', and where Oprah goes others will follow. It would

be quicker now to name the female celebrities who didn't wear Uggs than the ones who do."⁽¹⁰⁾

International context

As uncertain as the future may be for America's traditional furriers, its mink farmers can remain optimistic since their prosperity is hinging less and less on the strength of the domestic market, and more on a robust and growing global market.

The return to favor of fur in Western fashion, now in its eighth year, played a crucial role in helping mink farmers recover from the red ink of the '90s. It created domestic demand in North America and Europe, and also rekindled interest in other countries which historically had been avid consumers of fashionable furs, particularly in the Far East.

According to the International Fur Trade Federation (IFTF), global fur retail was worth \$15.02 billion in 2007, up 11.34% on the previous year, and marking the ninth straight year of growth.⁽¹¹⁾ Thus the US market of \$1.61 billion accounted for just 10.7% of the global total.

"Fur is more relevant than ever to luxury brands," commented IFTF chairman Andreas Lenhart. "The really strong designer brands are uncom-



promising in their dedication to quality and luxury. Fur delivers on that brand promise for these design houses.”

But are these “strong designer brands”, adorning fashionistas from Milan to Shanghai, still the major force driving up the price of pelts? The IFTF’s results actually suggest not.

The IFTF does not publish details of its survey, or even a country-by-country breakdown, but it is believed to be a compilation of results from national members, such as FICA in the US, which supply figures from traditional furriers.

The 11.34% increase in retail sales reported by IFTF is in US dollars, over a period when the dollar has fallen by at least that much against other major currencies. During the same period, garment prices out of Hong Kong/China have also risen 30% or so. Combined, these trends strongly suggest the volume of fur traded has fallen.

Pelt prices, meanwhile, have been rising even faster than the dollar can fall. Where is the demand coming from to drive this increase, if not from traditional furriers?

As in the US, the obvious suspects are alternative retail outlets, or, of course, traditional furriers that simply don’t respond to IFTF surveys. And the best places to look for these would be across the vast expanses of China and Russia, and former members of the Soviet Union such as the Ukraine and Lithuania.

No one questions that these huge consumer bases are now a driving force behind the industry’s prosperity, even if the statistics on fur sales are not there to back it up.

China’s per capita income is still low by world standards, but its GDP has

averaged more than 10% growth for the last quarter of a century (2007: 11.4%). It also now ranks as the world’s third-largest consumer of luxury goods and is expected to top the US and Japan by 2015.⁽¹²⁾

Russia’s economy, meanwhile, underwent major contraction from 1991-98 as it moved from a centrally planned to a free-market economy, but today it is the fastest growing of all G8 members (2007 growth: 8.1%).

As Torben Nielsen, CEO of the world’s largest auction house, Copenhagen Fur, observed in 2006, “We’ve always had our biggest markets in countries where there’s an explosive shift up the socio-economic scale. In the 60s it was Germany, in the 70s Japan, in the 80s Italy, in the 90s Korea, and now it’s China and Russia.”⁽¹³⁾

Beyond their economies, what marks China and Russia out as growth markets for fur is their climate. In northern China, and across almost all of Russia, the utilitarian value of fur ranks far above fashion considerations. It is thus logical to assume that the amount of extra disposable income needed before a fur purchase is made will be far less than in a market such as Florida.

If that logic holds true, and one factors in what Mother Nature dealt out last winter, the reason for soaring pelt prizes becomes less puzzling.

With global average temperatures falling in 2007,⁽¹⁴⁾ China endured its most brutal winter in a century, even in the normally balmy south, with snow cover greater than at any time since the 1960s. Forty-two million Russians living in Siberia experienced the same fate, and at the best of times their climate is “sub-arctic”.

How many American mink pelts actually end up warming bodies in the far-

flung corners of northern and central Asia is a matter for speculation. But the need and desire for fur are there, and if economic growth trends for Russia and China continue, prices for top-quality mink could stay high for many years to come.

Notes:

(1) See “World mink production,” www.furcommission.com/farming/pelts.htm

(2) Sandy Parker Reports, May 12, 2008.

(3) Sandy Parker Reports, Feb. 25, 2008.

(4) Sandy Parker Reports, Apr. 7, 2008.

(5) <http://tse.export.gov>

(6) “Warm winter drove US fur retail sales down in 2006,” FCUSA press release, Nov. 21, 2007.

(7) The US National Climatic Data Center reported that many American cities suffered record cold temperatures in January and early February. Wisconsin received the most snow it has seen since records began, while parts of Canada saw more snow this March than they had seen in over 60 years. In the first two weeks of February, Toronto received 70 cm of snow, smashing the record of 66.6 cm for the entire month set in 1950. See “Forget global warming: Welcome to the new Ice Age,” *National Post* (Canada), Feb. 25, 2008.

(8) www.conference-board.org/economics/ConsumerConfidence.cfm.

(9) Sandy Parker Reports, Apr. 14, 2008.

(10) “The history of the ugg boot,” by Dulcinea Norton-Smith, for Suite101.com, Mar. 7, 2008. [http://womensfashion.suite101.com/article.cfm/the_history_of_the_ugg_boot]

(11) “Nine years of sustained momentum for global fur sales,” IFTF press release, Mar. 4, 2008.

(12) “China becomes the world’s third largest consumer of luxury goods,” *Press Interpreter*, Dec. 9, 2005.

(13) “Danish fur house sales reach records as rich Chinese buy minks,” Bloomberg News Service, Nov. 10, 2006.

(14) This was the consensus opinion of the Hadley Center for Climate Prediction, NASA’s Goddard Institute for Space Studies, University of Alabama, Huntsville, and Remote Sensing Systems. See “Temperature monitors report widescale global cooling,” *Daily Tech*, Feb. 26, 2008.