

MARKET INSIGHTS

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LINEAPELLE
ECONOMIC DEPARTMENT



LEATHER SECTOR

ITALY – The Italian tanning industry is estimated to have closed 2019 with an overall drop of 7.3% in value of **production** and 11.6% in terms of volume of finished leather produced [-8.2% the change in kg for the sole leather segment].

The reasons for the downward trend are primarily to be found in the **strong uncertainties** that have characterized (and are still characterizing) the international economic scenario. In this difficult context, some customer segments, mainly within the footwear and automotive sectors, have implemented heavy cost containment policies, with significant repercussions on the volumes ordered. Results were generally more satisfactory for tanning production for leather goods, but there was little dynamism in furniture and apparel.

While the demand trend appeared to be very variable during the year, the geographical breakdown of **sales data** shows a slightly less intense drop on the domestic market [-3.9%] compared to that recorded on the foreign side (which continues to absorb over 75% of Italian leather production).

Exports in the sector, destined to about 120 countries each year, decreased by 8.2% in value and the results for the main foreign destination countries show rare exceptions to the general negative picture. The Chinese area (China plus Hong Kong) confirms to be the first international port of call for Italian leather, with a share equal to 11% of total exports, but the value of these flows during the past year was down by 23%. Romania [-16%], Spain [-12%], Germany [-12%], Poland [-18%], Slovakia [-14%] and Hungary [-21%] also registered a double-digit decrease, with smaller decreases on France [-2%], USA [-5%], Portugal [-7%], United Kingdom [-4%], Tunisia [-3%], South Korea [-2%] and Bulgaria [-7%]. The above-mentioned exceptions are Vietnam [+2%], Serbia [+11%], Czech Republic [+14%] and India [+17%], in addition to the substantial stability recorded on Albania, Slovenia and Turkey.

The economic difficulties did not spare any of the main **production segments** by animal origin, with almost uniform variations in terms of turnover. On the volume front, on the other hand, the production of bovine hides and skins (both small and medium to large) showed slightly smaller declines than the overall sector.

OTHER COUNTRIES – The 2019 overview is also negative for all the other main countries producing **bovine leather**, with double-digit declines both in Europe (Austria, Germany, Poland, Holland) and outside (Brazil, China, India, Argentina, Pakistan). The only exceptions, with a slight positive hint, are France, Turkey and, for calves only, Spain. The **sheep and goat segment** also recorded widespread declines, except for Spanish industry (stable) and Turkish industry (slight increase).

ACCESSORIES, COMPONENTS, SYNTHETICS

TEXTILES, SYNTHETICS AND LEATHER ALTERNATIVES –

2019 closed with a downward trend for the sector, which was affected by the losses, particularly accentuated in the last quarter of last year, of all the main producers (-4% the European average), especially Germans (-10%) and Italians (-3%). The main critical points concern **synthetics and fabric materials**.

In decline, although lighter, also **regenerated of leather fibers segment**.

ACCESSORIES AND COMPONENTS – Flat 2019 conclusion for the sector, with the EU average closing in stability compared to the same period 2018. The negative performance of the Italians (-4%) and the weakness of the Germans weighed. On the other hand, the performance of the French (+5%) was positive despite a slowdown in the final part of the year. The breakdown by segment once again rewards **small metal parts**, while **footwear components and other accessories** were badly affected.

MANUFACTURING SECTORS

FOOTWEAR – For **Italian footwear**, 2019 recorded a strong increase in exports in value (+7%), driven by the luxury segment, but coupled by a decrease in terms of volumes produced (-3%). In the **EU**: France, Germany and the United Kingdom closed the year with increases of between 7 and 9%, while the difficulties of the Iberians are confirmed (Spain +1%, decreases in Portugal). Differentiated dynamic in the delocalization areas: Bulgaria and the Czech Republic are growing, while Romania and Slovakia are falling. In **Asia**, China is experiencing widespread declines, while Vietnam is growing in double digits. Positive results for India and Turkey. In the **Americas**, there was a slight decrease in value for Brazilian exports and increases for Mexico.

LEATHER GOODS – The 2019 closing for **Italian leather goods** was decidedly positive, supported by exports up 26%, although a dualism within the sector remains (luxury drives value, but overall volumes remain stable). In the rest of **EU**, widespread growth is confirmed, particularly in France, Spain and the UK (between +10% and +20%). There was a marginal decline for Germany, more significant for Portugal. Some difficulties also for Eastern Europe. In **Asia**, Chinese exports decreasing, but India and Pakistan on the rise. Moderate increases for Turkey.

GARMENTS – **Italian leather garment manufacturers** closed 2019 with results that showed a general resilience in the year-on-year comparison (-0.4%). In the rest of **Europe**, the positive performances of France and Spain (both up 10%) stand out, followed by Poland and UK, which recorded more moderate increases. **Outside the EU**, double-digit declines for Chinese exports, followed by Indian and Turkish exports, which recorded more limited losses. Marginal declines for Pakistan, against a still positive dynamic for Vietnam.

UPHOLSTERY – 2019 for **Italian upholstered furniture**, recorded a surplus, even if only 1 percentage point. Only slightly better performance in the **rest of Europe**. In detail, slight increases for UK, stable Poland, in contraction Germany and Romania. **Chinese exports** were good, against a drop of orders in the **US** market.

As regards **automotive**, 2019 was a two-speed year for Italy: the second half of the year balanced the losses of the first six months leading to a stable closure compared to 2018. In **Europe**, overall better results were achieved, thanks to Germany and France (+5% and +2%), which managed to offset the falls in the UK and Spain (-2% and -5%). Decreases across the board in **North America**.

LUXURY BRANDS – Despite the uncertain geopolitical background, 2019 ended with largely positive results for the major European luxury fashion brands. There are no exceptions to this trend, albeit limited ones. Expectations for 2020, excluding a possible worsening of the economic scenario, remain cautiously optimistic. The organic growth in turnover of the fashion and leather goods division (+17% on the 2018 figure at constant rates) pushes **LVMH's** revenues (+10% in 2019). Outstanding performances by Louis Vuitton, Christian Dior and Loewe. Strong progress for Loro Piana, Rimowa and Berluti. Very good sales performance in Asia and Europe (both markets up double-digit). Japan and the United States also performed well. Consolidated revenues up 13% (organic growth 2019 compared to the previous year) for the French **Kering**. Strong increases for Gucci (+13%), Yves Saint Laurent (+14%), and the group's Other Houses (+18%), thanks especially to the excellent performance of Balenciaga and Alexander McQueen. Bottega Veneta's rebound continues (+2%), boosted by strong growth in the last quarter of 2019. Turnover down 4% (constant rates) for Tod's group in 2019, despite a slight recovery in the fourth quarter of last year. The losses of **Tod's** (-9%), Hogan (-5%) and Fay (-8%) brands weigh heavily. Roger Vivier (+14%), on the other hand, continued its strong increase. The analysis by product category shows generalized decreases for both footwear (-3%) and leather goods and accessories (-7%). Slight growth in sales for **Ferragamo** in 2019 (+1% compared to 2018, at constant rates). Revenues by product breakdown show an increase in both footwear and leather bags and accessories: +3% (constant rates). The Group's first core market maintained a good performance: Asia Pacific (+1% at constant rates).



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of the Italian Tanning Industry

