

MARKET INSIGHTS

SEPTEMBER 2022



LINEAPELLE

ITALY – In the first half of 2022, the Italian tanning industry recorded an **overall increase** of 3.7% in terms of **production volume** and 11.2% in **turnover** compared to the corresponding period last year, according to current estimates.

Despite the growing tensions in the international political and economic framework, the economic trend of the sector showed convincing increases from February to May, with such intensity as to lead, if confirmed until the end of the year, to a full recovery to the pre-Covid levels. But in **June** there was an **abrupt stop**, with monthly production falling by 7% on a seasonal basis, and this trend appears to have continued in the following weeks (the first data reported on July production show a worrying -9%). If this were to be confirmed until the end of the year, unfortunately we would not see the full return of the sector to the pre-pandemic results even in this year.

The trend of **exports of Italian leathers**, which are confirmed to have an incidence of more than 70% of the overall turnover of the sector, also shows broadly positive variations, with an increase of 11.9% in value over the first part of 2021 and still a decline compared to the 2019 data (-3.8%).



The analysis of individual **export flows by main destination country** is very interesting, revealing different situations depending on the individual market. Shipments to China and Hong Kong, being the first foreign destination of Italian leathers for over twenty-five years, recorded a significant decline both over the past year (-9%) and compared to the last pre-pandemic year (-28% over 2019). The picture is similar for the other important Asian destination, Vietnam, which has grown a lot in the last decade, but is currently down by 28% on 2021 and 12% on 2019. On many other important geographic markets, the situation is on the contrary; exports of Italian leathers have not only increased compared to last year but have also fully recovered (and surpassed!) the pre-Covid levels: this is the case of France (+36% on 2021, +10% on 2019), US (+6% and +9% respectively), Portugal (+31%, +15%), Germany (+20%, +6%), Serbia (+45%, +33%) and Tunisia (+31%, +11%). Shipments to Romania are still on partial recover (+13% on last year but still -7% on 2019) and so for Spain (+40% and -7% respectively).

From the economic analysis of the **single production segments** (by destination use and animal type) of the Italian tanning industry, just a few exceptions emerge from the overall and broadly positive panorama of the sector (net of the difficulties of the last few weeks): some slowdown (albeit not secondary) on leathers for automotive and a persistent lack of dynamism from footwear clients, while for animal typology it is worth noting the important recovery of sheep and goat leathers.

The main explanation of the recent slowdown in the Italian tanning sector aforementioned is linked to the **price trend of some raw materials**, in particular energy and chemicals, and of some essential services for the tanning industry (water treatment, subcontracting and logistics). From a recent monitoring carried out among companies in the sector, expenditure for gas and electricity has boomed and is out of control, with average increases of 360% on an annual basis, while that for chemicals by 31% (on average). Water treatment tariffs, on the other hand, have so far shown increases of 42%, but with announcements of further increases in the coming weeks; third-party operations, often particularly energy-intensive, +24% averagely and logistics +15%. The **concern** of the tanneries is **very high** and thus the risk that a **perfect storm** could strike the sector. In the absence of a change in tariffs, a support from the institutions, solidarity from all the players in the supply chain, many tanneries, which with these management costs declare to work at a loss, will necessarily have to suspend production or even evaluate to close the business.

OTHER COUNTRIES – Also the panorama of the half-year results of the other main leather producing countries, both European and non-European, is marked **growth** compared to the previous year. Few exceptions (Austria). The recovery of the sheep and goat segment appears particularly intense.

ACCESSORIES, COMPONENTS, SYNTHETICS

TEXTILES, SYNTHETICS AND LEATHER ALTERNATIVES – Widespread increases for the sector in the 2022 partial (June), placing a +5% at the European level. Significant increases for all major European manufacturers except Germany, in negative stability.

ACCESSORIES AND COMPONENTS – Seasonal comparison highlights the growth of the sector at the EU level: +19% in the first six months of this year over the same period in 2021 thanks to the excellent performance of Italians, French and Spanish. The dynamics of smaller East-European manufacturers are also encouraging.



MANUFACTURING SECTORS

FOOTWEAR – The first half of 2022 of the **Italian footwear sector** shows a vigorous recovery compared to the same period last year, with double-digit increases in the six-month period. Uncertainties related to the Ukrainian crisis, however, weigh on the sector's prospects, especially for manufacturers in the Marche region, who are particularly exposed to the Russian market. Excellent performance also at the EU level (average +19%). Widespread increases even beyond EU borders, where all major footwear manufacturers are growing.

LEATHER GOODS – The post-pandemic recovery of **Italian leather goods** continues further, up double digits in the first half of the current year supported by the domestic market and most of all by exports. The trend, however, shows a two-speed recovery: if the international luxury brands are on the run, among SMEs the upturn still seems stunted. The dynamics of other EU partners are very positive, pushing the European sector average up by 30 percent in cumulative 2022. Very positive outcomes for non-European competitors as well.

GARMENTS – Weakness among German garment manufacturers does not undermine the positive European trend, where the sector is posting double-digit increases in the first six months of this year supported by the Italians, Spanish and French. Widespread growth outside Europe as well.

UPHOLSTERY – Average growth of 10% for European **upholstered furniture** in the seasonal comparison. Especially Italy and Poland stand out, while Germany's growth appears opaque. Beyond European borders, China grows, while the U.S. collapses. Critical moment for the **automotive sector**, which is accusing problems related to the supply chain of microchips and other components. Double-digit declines affect all major European markets. U.S. new car registrations also slumped (-18%). Only Argentina, India and China show signs of growth in the cumulative 2022.

LUXURY BRANDS – The more favourable dynamics that emerged in the second half of 2020, which were confirmed in 2021, continue in the partial 2022. The breakdown by individual brands rewards the giant **LVMH**, which grows by 21% in the first half of 2022 compared to the comparable 2021. Excellent dynamics for Louis Vuitton and Dior. Solidity for Fendi. Strong growth for Celine. Very good performance for Loro Piana and Marc Jacobs. **Kering** reports revenues up by 16% in the first six months of the year despite slowdown in Gucci, (+8%). Performance was strong for Yves Saint Laurent (+34%), followed by Bottega Veneta (+13%). Raises also for Balenciaga and Alexander McQueen. Positive rebound for Brioni. Revenues up 23% (constant rates) for **Hermès**, where the demand mainly drives sales of leather goods and saddlery: +12% in the six-month comparison with 2021. **Tod's** group returns to growth: +14% revenues in the first 6 months 2022 (at constant rates). Tod's +21% bounce, followed by Hogan (+16%) and Fay (+17%). Stable Roger Vivier (+1%). Double-digit rises also for **Ferragamo** (+17%) over the first half of 2021. Good performance in all major markets except Asia (-8%) due to the continuing effects of the pandemic, particularly in China. Net revenues up 22% for **Prada** Group (at constant exchange rates). Leather goods (+18%) and footwear (+39%) divisions sparkled. Excellent performance by Prada (+28%) and Church's (+29%). Miu Miu (+14%) also performed well. Among the most dynamic customers, Americans and Middle Easterners stand out.