

MARKET INSIGHTS

FEBRUARY 2023



LINEAPELLE

ITALY – Based on currently available data (January-October 2022), over the past year, the Italian tanning industry reported an 8.8% **increase** in **turnover** overall, against a **very slight decline** (-0.5%) in **production** volumes.

2022 was undoubtedly a year with two faces. The sector recorded **impressive upturns from the beginning of the year until May**, with intensities that, if confirmed at the end of the year, would lead to a full recovery to pre-pandemic levels. Instead, from **June** onward, there was, unfortunately, a **sharp slow-down in demand levels** and, consequently, in production, and this slackening continued in the following months, leading to the above-mentioned partially disappointing figures. The causes of this cooling appear to be exogenous to the leather supply chain and should mainly be searched in the economic consequences of the Russian-Ukrainian conflict and the Chi-



nese sanitary measures (raw material increases, inflation, decline in purchasing power, reduction in consumption...).

The **export performance of Italian leather**, which is confirmed to have an incidence of more than 70% of the sector's total turnover, also shows diffusely positive changes in value, with a growth of 9.3%, and a slight decrease in volume (-1%). The analysis of individual export flows **by main country of destination** is very interesting, revealing different conditions depending on the individual market. After almost thirty years of uninterrupted "domination," China and Hong Kong cease to be the top foreign destination for Italian leather, due to the significant drop suffered by our shipments to the Asian giant in 2022 (-10%). The picture is similar for the other major Asian destination, Vietnam, which has grown a great deal over the past decade but declined by 27% last year. On many other important geographic markets, however, the situation is the opposite, with Italian leather exports not only growing over the past year but also recovering and surpassing pre-Covid levels. This primarily involves the flow to France (+35% over 2021, +16% over 2019), which is the new top foreign destination for Italian leathers, then Spain (+30% and +3% respectively), Portugal (+25%, +12%), Germany (+4%, +0.2%), Serbia (+45%, +31%) and Tunisia (+37%, +10%). Shipments to Romania (+9% over last year but -8% over 2019) and the U.S. (+6% and -1%, respectively) still lag partially.

An economic analysis of the **individual production segments** of the Italian tannery reveals few exceptions to the above-mentioned overall panorama of the sector. If bovine leather (including calves) and ovine leather show slightly negative signs in the square meters produced and good growth in sales values, goat leather registers widespread rises, while, in terms of use, slowdowns appear more marked on footwear and automotive. From the initial data and qualitative reports received, **the close of last year and the beginning of 2023** unfortunately **do not seem to have shown significant changes** in the economic trend described. However, it should be emphasized that the sector is once again polarized between tanneries that are suffering, even heavily, from the slowdown in economic dynamics and companies that, by investing in quality, cost efficiency, customer focus, sustainability, and product innovation, manage to intercept the new directions of customer demand more effectively, especially of those at the higher end.

OTHER COUNTRIES – The 2022 global picture for **bovine leather** shows yearly growing sales results for the main Asian producing countries (China, India, Pakistan, Turkey), while the sign is negative for the most important Latin American players. In Europe, differentiated trends (up in Spain, France, Germany, UK, and Portugal, down in Austria, Poland, Netherlands). In contrast, the **sheep and goat segment** shows widespread rises in both the EU and Asia.

ACCESSORIES, COMPONENTS, SYNTHETICS

TEXTILES, SYNTHETICS AND LEATHER ALTERNATIVES – Although slowing down in the last quarter of the year, the industry's performance in the 2022 cumulative shows to be excellent: +7% the EU average when comparing with 2021. Significant double-digit increases for Italian and Spanish manufacturers in particular. At the segment level, the annual comparison shows the resilience of regenerated leather fibers, moderately up in all EU countries except for Italy. Both synthetics and synthetic fabric materials did well.

ACCESSORIES AND COMPONENTS – The last quarter of the year confirmed the sector's bullish trend observed in the previous periods as well. Large and widespread increases in fact confirm the dynamism of the sector, which is experiencing double-digit annual growth in all segments and in almost all major European players. Some discord for other footwear accessories, where Germany is retreating, with a slight decline.



MANUFACTURING SECTORS

FOOTWEAR – The **Italian footwear sector's** post-pandemic recovery continues, recording double-digit growth in exports and sales in 2022. Rising costs, however, are eroding business margins, strained by rising raw material and energy prices. Brilliant picture for the sector at the EU level, also up in double digits. Equally positive signs for major non-EU footwear manufacturers, despite a deceleration in China in the last quarter of the year.

LEATHER GOODS – Although with a slightly lower growth, the last quarter 2022 confirms the expansive trend in European leather goods, which ends the year with intense and widespread rises for all major EU manufacturers. Casting a shadow on this positive picture are the decreasing Romanian producers. Non-EU competitors are also on the rise.

GARMENTS – The annual figures confirm the predominantly positive EU picture already outlined during the last two quarters of the year just concluded. All European garment manufacturers except the Iberians are doing well. China's upward momentum strengthens. India and Pakistan also close the year on a positive note.

UPHOLSTERY – After a record year 2021, European **upholstered furniture** is experiencing a slowdown in 2022 related to a cooling of demand. The resilience of Italian and Polish manufacturers is excellent, supporting the EU average (+6%), in front of a decline for Germans. China is performing well, while the U.S. market is still suffering some criticality. The **automotive** sector closed the past year with signs of uncertainty. At the EU level, new car registrations fell by -5%, although the market showed signs of improvement in the latter part of the year. Decidedly modest uptick in the German market (+1%). Italian registrations collapsed (-10%). US registrations were also down (-9%). China bucks the trend (+10%).

LUXURY BRANDS – Generally positive 2022 close for all major European high-end fashion brands. Nevertheless, uncertainties emerge in the final part of the year, where the results of the last quarter slowed down the performance of some of the major luxury fashion players. In the short term, the scenario appears uncertain both economically and geopolitically: the 2023 outlook appears confident but demands some caution. French giant **LVMH** ended the year with organic sales up by 23% over 2021. Notable performance of the *Fashion & Leather Goods* division (+20% revenues), particularly thanks to Louis Vuitton, which for the first time exceeded 20 billion euros in revenues. Christian Dior, Celine, Fendi, Loro Piana, Loewe and Marc Jacobs did well, all of them posting record levels of revenues and profits in the year just ended. **Kering Group** revenues grow by 9% in 2022. The brakes on Gucci (+1%), which closed the year on stable values compared to 2021 after the thud recorded in the fourth quarter of the year (-14%), weighed. On the other hand, Yves Saint Laurent (+23% in the yearly comparison) remained dynamic. Bottega Veneta closed with +11% in revenues. Very good results for minor brands (+16%): excellent 2022 for Balenciaga. Good results for Alexander McQueen, Brioni is recovering. **Tod's Group** revenues exceed 1 billion euros in the financial year 2022, an increase of 11% (constant rates) over the corresponding 2021. Tod's growth was excellent (+16%), followed at a distance by Hogan (+9%) and Roger Vivier (+3%). The leather goods division soars: +32% year-on-year. Footwear also did well (+8%). Consolidated revenues up 6% (constant rates) in 2022 for **Ferragamo**. Good performance in the European market, very lively in the North American market. In year-on-year comparison the footwear division went up by 8%, some uncertainty for leather goods instead, which closed the year with revenues basically unchanged from 2021 (+0.1%).