

MARKET INSIGHTS

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LINEAPELLE

ITALY – Based on currently available data (January-October 2023), over the past year the Italian tanning industry recorded **significant drops** in turnover (-7.6%) and production volume (-12.0%) if compared to the corresponding period of previous year. The negative economic trend that has characterized the performance of the sector (and of a large part of the economy in general) since around mid-2022 has therefore not been interrupted. Widespread inflation and the uncertainties brought about by growing international geo-political tensions continue to fuel the low confidence level of consumers, whose generalized decline in purchasing is combined with the consequent decision, made by manufacturing customers, to favour materials with lower costs compared to the leather.

Even the trend of Italian leather exports, which continue to have a primary weight on the overall turnover of the sector (over 60% of the total), shows generally negative variation, with a total drop of 7.2% in value in the first ten months of the current year, compared with the 2022 equivalent.

The analysis of single export flows by main country of destination



records a certain variability in performance depending on the individual market, although, considering the overall variation, a negative sign obviously prevails. Shipments to France, which since last year has become the first foreign destination for Italian leather after a Chinese "domination" that lasted over twenty-five years, recorded another significant increase (+13%). Growing results also in the export to Spain (+3%), Tunisian footwear relocations (+20%), Serbia (+2%), Turkey (+18%), Mexico (+12%) and Czechia (+24%). The flows towards Vietnam and Slovakia remain substantially stable, while those directed to the other most important foreign destinations show decreases, even considerable ones: Romania (-9%), US (-13%), Portugal (-13%), Germany (-11%), China+HK (-18%), Poland (-14%), Albania (-11%), UK (-14%), India (-19%) and South Korea (-23%).

There are very few exceptions to the overall and widespread negative panorama of the sector if we analyse the performance of the individual segments and production districts of the Italian tanning industry. In terms of animal origin, sheep and goat leather showed, on average, less suffering in the half-year (-2% in value and -4% in volume averagely) than bovine leather, both medium-large size and calves (-9% in value and -13% in volume), while, in terms of destination sector, the difficulties are widespread, with the only (partial) exception of leather goods. Negative sign also for all the main national tanning districts.

The information informally gathered from operators on the results during the last quarter of the year tend to confirm the negative trend mentioned above and the current expectations on the final results at the end of the financial year may just count on the recovery of a few percentage points but no more. Furthermore, the present lack of elements to expect a sudden change in the economic situation in the first months of 2024 appears worrying, with the more concrete hope that this could be activated in the spring and summer period.

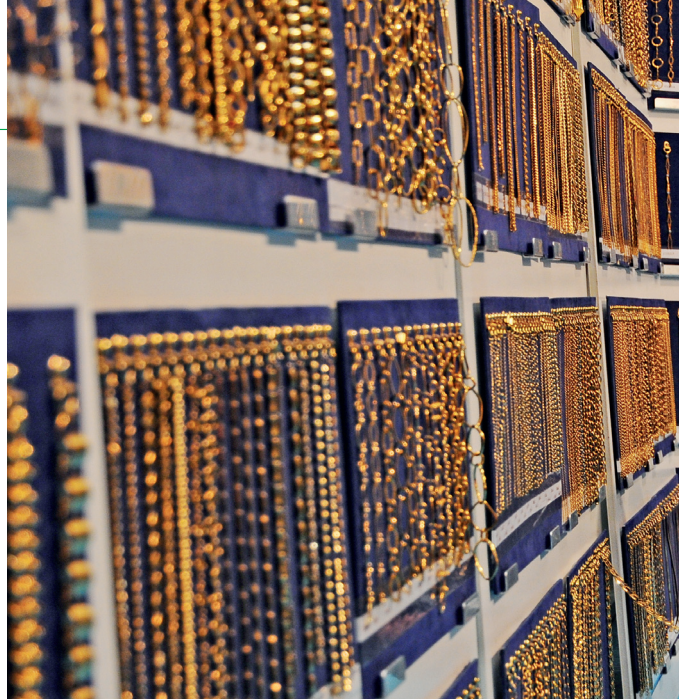
Added to the exogenous difficulties, due to the overall economic context, the sector also suffers uncertainties driven by the attacks that the material paradoxically receives on sustainability. The tendency shown by some manufacturing customers to justify the renunciation of leather (regardless of whether this is declared as partial or total, temporary or prolonged) as a choice of greater sustainability, rather than as a strategy of a mere containment of material procurement costs, is nothing other than an example of how the phenomenon of "green washing", i.e. false sustainability, based solely on mere, unscrupulous and very opaque marketing purposes, is evolving in an extremely worrying manner.

OTHER COUNTRIES – The 2023 global panorama for **large bovine leathers** shows different sales results in the rest of Europe (Spain and France increasing, Germany, Portugal and the UK decreasing, Austria essentially stable) and widespread reductions by the main players in Asia and Latin America. In small leathers, Spain and France recorded declines in both **calf leather** and **sheep and goat leather**, while for the latter, only Turkey and Pakistan showed a positive trend in Asia.

ACCESSORIES, COMPONENTS, SYNTHETICS

TEXTILES, SYNTHETICS AND LEATHER ALTERNATIVES – Despite the uncertainties in the last quarter, the sector closes 2023 on a positive note: +2% is the EU average result over the corresponding 2022. Germans still suffer, while Spanish slow down, experiencing a sharp decline in the very last quarter of the year. Overall good performance of synthetics, rather disappointing instead synthetic fabric materials and regenerated leather fibers.

ACCESSORIES AND COMPONENTS – Rather sluggish close of the year for accessories and components, where the EU average ends on the same level as last year's corresponding period. Critical issues, particularly evident in the last quarter of last year, mainly affected Italian manufacturers, which fell sharply. A look at the divisions still rewards small metal parts, however slightly slowing. Decreases for other accessories. Double-digit losses, on the other hand, for other footwear accessories.



MANUFACTURING SECTORS

FOOTWEAR – After a very positive start, 2023 closed on a downward slope for the **Italian footwear sector**, partly due to sharp increases in costs that affected companies' profitability. Having exhausted the post-Covid rebound, sales rhythms experienced a sharp slowdown that, triggered already in the spring, became even more evident in the second half of the year. Stationary on the domestic market. Contrasted is the trend in European footwear (-7% the EU average) where the difficulties of the Italians are matched by those of the Iberians. Gloomy scenario beyond EU borders: widespread declines with rare exceptions.

LEATHER GOODS – The bearish trend in leather goods shows no sign of reversing even in the last quarter of the year, leading the annual comparison to emphasize the sector's cooling, with the EU average touching -4% on last year's equivalent, despite growth in France and Spain. Predominantly negative the extra-EU scenario as well.

GARMENTS – European apparel manufacturers' 2023 remains difficult, as they end the year with widespread declines and an overall EU average down by 4 % on 2022 despite a slight slowdown in the negative trend in the last quarter of the year. Major international industry players are also suffering.

UPHOLSTERY – After a record-breaking 2021 and a cooling 2022, 2023 confirms the difficult moment for **upholstered furniture** both at the European level (-8% the EU average) and abroad with the significant exception of the U.S., which recorded a leap in the last quarter of the year and made a decisive recovery after last year's stop. **Automotive** closes 2023 with very encouraging results. In fact, EU new car registrations begin to grow again despite the restraint observed in December after 16 months of consecutive upturns. Double-digit increases are noted in most major markets with the exception of Germany, with a modest +7% year-on-year, influenced by

December's very weak performance. Beyond EU borders, car registrations are on the rise in the UK (+18%), the US (+12%), China (+7%) and India (+21%).

LUXURY BRANDS – Both lights and shadows mark the close of the year for luxury fashion, with mixed results among major European brands. The slowdown in the second half of the year, intensified during the last quarter of 2023, mostly matters. Caution prevails in the near-term outlook, where the macroeconomic and geopolitical scenario remains quite critical. Organic sales up by 13% in 2023 for French luxury giant **LVMH**, despite negative currency impact in the second half of the year. Double-digit increases in Europe, Japan and the rest of Asia. Remarkable performance of Fashion & Leather Goods division (+14%), particularly **Louis Vuitton**, **Christian Dior**, **Celine**, **Fendi**, **Loro Piana**, **Loewe** and **Marc Jacobs**, gaining market share with record levels of sales and profits. **Kering** group struggles in 2023, which ends the year with sales down by 2%. Declines for **Gucci** and **Bottega Veneta** (both -2%), while **YSL**'s rally comes to a standstill (-1%). Kering's minor brands perform badly, collapsing in the last quarter 2023 bringing the annual result to -8%. Relentless growth for **Hermès** in the year just concluded: +16% in revenues (constant rates). Widespread upturns across all markets, with homogeneous growth around 20% in all major destinations. The leather goods and saddlery area, where demand remained very strong, posted a 17% increase. Excellent performance of **Tod's Group** in FY 2023: +14% growth in consolidated sales at constant rates. Excellent performance by **Tod's** (+13%) and **Roger Vivier** (+19%). Good **Hogan** (+10%). Bullish trend driven by leather goods (+20%), excellent dynamics also for footwear (+12%). **Ferragamo** on the other hand suffers: -8% revenues (constant rates). Sales fall in all destination markets with most pronounced losses in the Americas and Asia Pacific. Leather goods declines by 11%, somewhat more contained declines for footwear, down by 7%.