

MARKET INSIGHTS

SEPTEMBER 2023



LINEAPELLE

ITALY – The Italian tanning industry closed the first half of the year showing significant **drops in turnover** [-9.5%] and **production volume** [-13.4%] if compared to the corresponding period last year.

The negative economic trend that had characterized the sector results throughout the second part of 2022 was therefore consolidated in the initial part of 2023, with widespread and generalized inflation, a decline in consumption and international geo-political tensions that continue to push customers and consumers to choose materials and manufacturing products with costs lower than 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 9.3% in value in the first six 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 (+17%). Growing results also in the export to footwear relocations in Tunisia (+19%), Turkey (+52%), Mexico (+9%) and Czechia (+24%). The flows towards Spain, Serbia and Slovakia are substantially stable, while those directed to the other most important foreign destinations show decreases, even considerable ones: Romania (-11%), US (-19%), Portugal (-12%), Germany (-15%), China+HK (-23%), Vietnam (-16%), Poland (-13%), Albania (-9%), UK (-8%), India (-20%) and South Korea (-29%).

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 than bovine leather, both medium-large and small size (calves), 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.

It is **extremely complicated to make predictions** on how the current year will end for the tanning sector and for the whole leather supply chain in general. Unfortunately, from this point of view, no improvements, or changes in direction, even partial, have been seen in the second quarter of the year compared to the first. At the same time, there have been no positive reports up to now regarding the performance of the summer months and the reopening in September. 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 "greenwashing", i.e. false sustainability, based solely on mere, unscrupulous and very opaque marketing purposes, is evolving in an extremely worrying manner.

OTHER COUNTRIES – The production panorama of **medium-large bovine leather** in the first half of 2023 is quite varied in the rest of Europe (with declines in Germany, Portugal and the UK and increases, albeit limited, in France, Spain and Austria) and widely negative outside (double-digit seasonal drops in Asia and Latin America). Average negative sign for **calf leather** in France and Spain, while for **sheep and goat**, stability prevails (India, Pakistan) or positive variation (France, China, Turkey), with Spain in contraction.



ACCESSORIES, COMPONENTS, SYNTHETICS

TEXTILES, SYNTHETICS AND LEATHER ALTERNATIVES – The first six months of the year rewarded the overall sector with moderate and widespread increases in all the major EU manufacturing Countries with the sole exception of Germany (stalled compared to the same period last year). Very positive dynamics for synthetics, contrasting signals instead for synthetic and regenerated fiber fabrics.

ACCESSORIES AND COMPONENTS – Half-year situation of lights and shadows, where the EU average appears stable on the 2022 equivalent. Positive confirmations for Romania and France, while Italy and Germany are struggling. Good sales of small metal parts. Some difficulties however for the other segments of the sector.



MANUFACTURING SECTORS

FOOTWEAR – The first half of the year in the **Italian footwear sector** resulted to be rather uncertain, with turnover equal to last year's levels, despite the decline recorded in the second quarter. Similar dynamics for rest of the European footwear manufacturers where, however, the recovery of the Germans and French pushes the European average up by 3% in the period, despite the disappointing results of the recent months. Critical issues for non-EU producers.

LEATHER GOODS – After a somewhat sluggish start of the year, the seasonal comparison has overall shown signs of recovery for European producers (+4% the EU total), despite Italy's stalemate and Germany's persistent difficulty (-6%). The decline in **Italian leather goods** was mainly observed in the second quarter of the year, balancing the positive results of the previous quarter. Gloomy scenarios for non-European producers, except for Turkey and Pakistan.

GARMENTS – The partial 2023 recorded some improvement for the European sector (+2%), although the stumble of **Italian garment manufacturers** is noted (down by 9%). Beyond the EU borders, Turkey was growing, while Asian producers are suffering.

UPHOLSTERY – The six-months comparison record for **upholstered furniture** is severe, as the difficulties of Italian producers (-7%) are added to the decline in Poland (-6%), which sinks the EU average (-8%). China is struggling and so does the US, which marks significant declines (-8%). In the **automotive sector**, EU registrations are growing: +18% in the semester. The improvement in recent months seems to indicate that the European sector is recovering from the supply disruptions caused by the pandemic. However, cumulative volumes still remain lower than 2019. Beyond European borders, registrations are rising in the US (+13%), China (+11%) and in India (+19%).

LUXURY BRANDS – In an uncertain geopolitical and economic framework, the major luxury fashion brands showed **heteroge-**

neous in the first six months of the year.

LVMH confirms its solidity, with an organic turnover growth of 17%. The dynamics of fashion and leather goods were very positive, up 20% compared to the 2022 equivalent. Excellent performance for **Louis Vuitton, Dior, Loro Piana** and **Loewe**. The other minor brands of the group also performed well.

On the other hand, however, the **Kering** group closed the first half of the current year with modest growth of 2% (constant rates). **Gucci** slowed down, achieving a timid +1%, while the trend for **Yves Saint Laurent** remained expansive (+7%) even if at a minor speed as compared to before; **Bottega Veneta** grew moderately (+2%). However, the other brands of the group performed quite poorly, down by 5%.

Brilliant performance for **Hermès**, with double-digit growth in partial 2023: +22% in revenues (constant rates). All markets experienced growth of 20% or more. Very positive moment for leather goods and saddlery products (+21%, thanks above all to the demand from mainland China).

The **Tod's** group is also smiling, as the reported results in the period were excellent (+23% in revenues at constant rates). Big jump forward for **Tod's** (+23%) and **Roger Vivier** (+30%), followed by **Fay** (+20%) and **Hogan** (+14%). The growth of leather goods and accessories was notable, up by 35% in the period, while footwear also performed well (+20%). The response was excellent on all markets, especially China.

However, there was a sharp slowdown for **Ferragamo**, which lost 7% of revenues in the first half of the year. Uncertainties weigh heavily in Asia and the Americas, despite the good dynamics in Europe, the Middle East and Africa. Overall sales down for leather goods (-13%) and footwear (-4%).

Net revenues up 20% for **Prada** (at constant exchange rates), with double-digit increases for leather goods (+12%) and footwear (+20%). Solid growth of the **Prada** brand (+18), further acceleration of **Miu Miu** (+50%), **Church's** suffers (-21%). Demand recovers in Asia Pacific, well in Japan, the Middle East and Europe. The Americas are weak.