

MARKET INSIGHTS

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LINEAPELLE
A new point of view

ITALY – In the first half of 2021, the Italian tanning industry is estimated to have recorded an overall increase of 20.7% in terms of **production** volumes and 25.3% in terms of **turnover** compared to the same period last year.

The comparison of seasonal results, however, cannot ignore the fact that during the springtime of 2020 Italian tanneries had to stop production for about a month, due to the restrictive measures resulting from the first Covid19 pandemic wave. This blockage obviously has a considerable impact on the production and commercial levels being compared. It is then crucial to also make a comparison with the pre-pandemic sector data, which shows a persistent 10.4% decline in volume and 15.5% decline in turnover compared to the first half of 2019.

The sector thus appears **to be on track to catch up to pre-Covid19 levels** in not excessive time, **but, at the moment, a strong and homogeneous positive trend is still lacking** for all production segments.



The afore mentioned considerations on seasonal sales trends compared to the previous two-year period are also reflected in the 2021 Italian leather **exports** (+28% on the corresponding 2020 and -16.4% on 2019), which account for more than 75% of total industry sales.

In the light of this, the analysis of individual **flows by main country of destination** shows different scenarios. Exports to China (including Hong Kong), the top foreign destination for Italian leather for almost thirty years, grew by 39% over the past year, but are still far from the pre-pandemic numbers (-25% on 2019). A similar situation for flows destined for the main European partners: France (+21% on 2020, -21% on 2019), Germany (respectively +19% and -16%), Spain (+17%, -35%), Portugal (+18%, -8%), Poland (+25%, -12%), Romania (+30%, -18%), Serbia (+41%, -10%), UK (+28%, -26%). However, there are positive exceptions to this trend, such as Vietnam (currently the second most important international destination for Italian leather exports), which is rising by 68% over last year but also by 16% compared to two years ago, the US (+41% over 2020 and +3% over 2019) and emerging Mexico (flows doubled compared to last year and +42% over two years ago).

The analysis of individual **production segments** (by use and animal type) also shows trends similar to those reported above, which highlight a situation that is still "patchy" for the sector.

As regards the trend of sales by customer sector of destination, there was a growth in sales of leather for upholstery, against still incomplete recoveries in leather goods and, above all, automotive. Footwear, although still up on the previous year, is currently the most problematic destination.

In the segmentation by main animal type, the recovery appears generally more consistent for bovine raw hides (on average +30% in seasonal sales), especially medium-large, and for sheep. Persistent decreases for goats.

Among the major concerns of Italian tanneries in recent months is the trend in **raw material prices**, which have risen by an average of 25% from the beginning of 2021 to June (+45% compared to a year ago!), but with peaks of over 65% for some types. The real risk is that this upward trend, if not accompanied by a widespread and determined recovery of demand and consumption, could severely inhibit the timing and intensity of recovery.

OTHER COUNTRIES – Due to the limited production levels suffered at global level by the tanning sector in 2020, the panorama of the half-year sales results of the other main Countries, both **European and non-European**, appears to be growing, often very strongly, compared to last year. There are few exceptions to this positive outlook and they are all basically related to the sheep and goat sector of some Asian players. Despite the increases mentioned above, there are many producers who, as in the case of Italy, have not fully recovered their pre-pandemic production and turnover levels.

ACCESSORIES, COMPONENTS, SYNTHETICS

TEXTILES, SYNTHETICS AND LEATHER ALTERNATIVES –

The sector's growth was uniform, involving all sectors and all the major EU players: the EU average rose by 23% over the season. Rare and minor exceptions to the upward trend.

ACCESSORIES AND COMPONENTS – The six-month comparison finds all of the leading European manufacturers rising strongly over the period. The low levels of activity imposed by the first lockdown in spring 2020, in fact, contribute to double-digit growth results in all sectors, which are consolidating in the first six months of the current year. A few critical issues are limited to Eastern European producers.



MANUFACTURING SECTORS

FOOTWEAR – The cumulative 2021 of **Italian footwear** records double-digit increases on 2020, but the gap with pre-Covid levels remains high. If foreign sales, thanks to outsourcing to luxury multinationals, limit the gap with 2019 in value, domestic demand, industrial production and turnover are still far below pre-Covid levels. Positive half-yearly dynamics for other EU manufacturers as well (+17% on average), particularly for Germans. Marked increases also in Asia, Brazil and Mexico.

LEATHER GOODS – The comparison with the lockdown months supports the results of **Italian leather goods**, which in the first half of 2021 shows significant recoveries on 2020 (+43% industrial production). Italian exports of the sector, despite +31% compared to the previous year driven by luxury brands, show a significant gap with pre-covid levels (-11% in value) and a spotty recovery. The trend of EU manufacturing industries in 2021 is generally positive (+32% the EU average), with the exception of Romania.

GARMENTS – The six-month scenario for leather garment manufacturers appears to be veiled in uncertainty. Despite the fact that the EU average is up 8% on the corresponding 2020 figure, thanks to sharp increases in Italy and Poland, France and Germany are suffering losses. The Asian panorama is generally positive, with the exception of India, which is in decline.

UPHOLSTERY – European **upholstered furniture** recovered in the first half of the year, with particularly significant increases in Italy and Poland, and more limited upturns in Germany. Chinese and US trends were also very positive. The **automotive** sector reported a very positive six-month comparison overall (+25% on the EU average and even +51% in Italy). The 2021 growth, however, is not yet sufficient to compensate for the strong losses recorded in 2020 related to the reduction of sales activities related to the lockdown. The US and Chinese markets also rose, although in Chinese market posted a slowdown in June.

LUXURY BRANDS – The half-yearly results of European brands show an improvement in turnover growth, in some cases also reporting an increase over 2019. Moderate optimism prevails for the months to come despite the uncertainty that still undermines the post-Covid-19 scenario. In detail, **LVMH** continues on the upside with a 53% increase in organic sales over the comparable 2020 (+11% in comparison with the first 6 months of 2019), thanks to the acceleration of revenues in the second quarter of 2021. Record-breaking increases recorded by the fashion and leather goods division: +81% cumulative organic turnover compared to last year's corresponding, +38 compared to 2019. Remarkable results from Louis Vuitton, Dior, Fendi, Loewe and Celine, which are gaining ever greater market share. Marc Jacobs did well. **Kering's** consolidated revenues mark a 54% rise in the first half of 2021, thanks to a rebound in the second quarter of this year. Gucci, which reports a 50% increase in sales, is on pre-pandemic growth levels. Rise also for Yves Saint Laurent (+58%), Bottega Veneta (+45%) and the other brands of the group (+65% revenues at constant rates). Outstanding results for **Hermès**: +70% revenue growth at constant rates in the half-year (+33% in 2019 comparison). Following the leather goods and saddlery division (+63% sales in the half-year). Up by 58% (constant rates) **Tod's** group revenues in the first half of 2021. In rebound Tod's (+54%), Roger Vivier (+88%) and Hogan (+37%) and Fay (+35%). Both footwear (+57%) and leather goods (+70.5%) rose. Excellent results for **Prada** with revenues up 66% in the first 6 months of 2021 (constant exchange rates) compared to the same period 2020. Outstanding performance for Prada (+64% sales compared to 2020). Good Miu Miu (+43%), uncertainty for Church's (-1%). **Ferragamo** reports 46% growth in revenues at constant rates in the first half of 2021. All product categories are expanding, with sales increases of 43% and 45% for footwear and leather goods respectively in the half-year.