

# **The Italian leather goods sector**

## **First half of 2020**

Economic note drawn up by the “Confindustria Moda Research Centre”

CONFINDUSTRIA  MODA  
for



## Sector performance in the first 6 months of 2020

**Leather goods: first semester black. The restrictions imposed by the health emergency and the setback in demand, both domestic and foreign, caused turnover to fall (-43.2%). Exports (-31% in value) returned below the levels of three years ago, breaking the recent growth trend. The trade balance surplus fell by 35%.**

**Restart with the brake pulled after the lockdown: in the two-month period May/June exports -35% in value, retail sales -24%, and production rhythms still strongly slowed down (-44%). Orders cancelled and high percentage of outstanding orders; liquidity crisis risk.**

**9 out of 10 companies forced to resort to social shock absorbers and to revise their investment plan due to the pandemic.**

The leather goods sector tried to restart after a markedly negative first half of the year, which saw the Fashion Textile sector, one of the Italian accessories sectors among the most exposed to the effects of the crisis induced by Covid-19.

The data processed by the Confindustria Moda Research Centre for Assopellettieri show strongly penalising trends for all the main variables, which are putting a strain on a sector that in recent years has distinguished itself for double-digit growth rates in exports (+58% in value over the three-year period 2016-2019) and assets in the trade balance.

The entrepreneurs surveyed indicated a drastic reduction in **turnover** in the second quarter (-49.2%, with decreases of more than 50% for 6 out of 10 companies in the sample), which followed -37.1% in the first part of the year.

Overall, therefore, it is estimated, with reference to the first 6 months, a contraction of -43.2%, with a loss of sector turnover of around 1.9 billion euros in January-June 2019.

**Orders** also fell sharply, falling by -54.2% on April-June last year: a dynamic that casts many shadows on the production rhythms of the following months.

ISTAT's survey of **industrial production** confirms the sample figures relating to turnover: after the understandable collapse in the two-month period March-April due to the interruption, or at least the severe limitation, of work activities, in May, with the reopening of factories, the index for travel and leather goods recorded a further sharp decline (-50.7%), followed by -37.3% in June. The decline was close to -45% if the entire half-year is considered.

The health emergency has profoundly affected the levels of demand, both international and domestic. On the foreign front, restrictive measures and different ways/times of spreading the coronavirus in the main reference markets make the current scenario very complex and varied, impacting on world trade; on the domestic side, purchases, even after the reopening of shops, are held back by uncertainty and loss of purchasing power of many families.

**Exports** in the first six months of the year fell sharply, both in value (-30.6% on the same period in 2019) and in KG (-24.8%), abruptly ending the expansionary trend of recent years: leather goods were exported for 3.6 billion euros (5.1 billion in the first half of 2019), corresponding to 23.7 million KG. The average price at KG fell by 7.6%, an unequivocal sign that the setback

affected not only the mid-range but also luxury sales, which are generally more resilient to economic fluctuations.

In terms of value, exports returned below the levels of the first 6 months of 2017, abruptly "burning" the considerable growth of the last three years. In KG, the current result is only higher than the heavily penalizing quantities of the first half of 2009.

After a not particularly rewarding start to the year but nevertheless on positive ground (up 1.6% in value in the first two months of the year), in the March-April two-months lockdown period there was a decline in foreign sales of -57.6% in value and -45.4% in quantities (expressed in KG) compared to the same period in 2019.

But the unfavourable trend also continued with the reopening of the factories, both in May (-49.7% in value) and June (-20%), making hopes of a rapid return to normality fade thanks to an immediate "rebound". Overall, in the two-month period following the forced closure, outflows were significantly reduced: -35%, both in value and in KG.

The emergency situation still in progress in all the main outlet markets (in some cases worsening with new outbreaks) certainly does not facilitate the restart of international trade.

All the main product types show significant decreases. Handbags (by far the most exported item, accounting for 65% of foreign sales) show decreases of -26% in value; suitcases around -30%; even more unsatisfactory trends in belts (-42%) and small leather goods (-40%), i.e. wallets, purses, key rings and pocket or handbag items. Equally unfavourable trends (double-digit declines) were also recorded in terms of quantity.

Looking at the items by material, on the whole, leather products - typical of Made in Italy production, which represent almost 3/4 of the total in value - show heavier contractions (in the order of -33%, both in KG and value) compared to those in substitutes, whose exports fell by about -20%.

The analysis by destination also shows decreases in quantity and value for almost all markets. There are very few exceptions: in the ranking by value, only South Korea (+1.1%) and Poland (+6.8%) among the top 25 outlet countries show an increase compared to January-June 2019 (accompanied, however, by significant decreases in KG). Thanks to this result, South Korea (which grew by 77% in value over the last three years) rose to third place in the ranking, surpassing the USA (which, on the other hand, recorded decreases of -38% in value and -36% in volume in the first 6 months of 2020).

A marked reduction (about -40%) in direct flows to Switzerland, the first export destination and longstanding logistics-distribution platform for major international luxury brands.

The European Union (now considered to be 27 countries, post Brexit) shows an overall decrease of -18% in value and -20.5% in KG: France lost 9% in value, another traditional destination for third-party production for brands; reductions of around -13% for Belgium and Holland (the latter stable in volume) and -23% for Germany, which is still the leading market in terms of quantity for Italian operators (with 3.5 million KG, down 14.8%); losses were even more marked in Spain (-38% in value) and Austria (-43.3%).

Among the non-EU countries - which overall show heavier contractions than the EU markets, -34% in value and -30% in KG - there was a significant decline in the Far East (-27.4% in value and -31% in KG as a whole), with significant falls in all major clients, excluding South Korea: China (-30% in value), Hong Kong (-47%), Japan (-30%), Taiwan (-20%), Thailand (-41%), Macao (-36%) and Singapore (exports almost halved, -48%).

Russia and the United Arab Emirates (-30.5% and -39% respectively in terms of value), as well as Canada (-29%). The United Kingdom, finally, contains a decrease in value of -13.4% (but with -25.4% in KG).

**Imports** of leather goods, which amounted to 1.3 billion euros in the first 6 months of 2020, declined by 20% both in value and KG (average prices -0.2%). China, the leading supplier in terms of volumes with a share of just under 55% of the total, showed a fall of -29.3% in value (-31.2% in KGs). Less signs in value for all top 10 suppliers; France, Germany and the UK are growing in KGs.

Although the trade **balance** remained largely in surplus (for 2.3 billion euros), it decreased by -35.5% compared to the first half of 2019. In the first half of the year, chapter "42" of leather goods was in sixth place for the positive balance among the 99 product chapters of which the customs nomenclature is composed; it therefore lost a position compared to 2019, overtaken by the item relating to pharmaceutical products, which jumped to third place, the balance of which increased by 51%.

The health emergency has had, and still has, profound repercussions on the confidence and spending decisions of families, first and foremost curbing those for the purchase of luxury goods (and in particular luxury goods). It has also changed habits/modality, favouring in the months of lockdown an obvious and often obligatory recourse to e-commerce, which has thus conquered new users.

Domestic demand is very weak. In Italy, **retail sales** of "Leather goods and footwear" - after a setback in the two-months period March-April due to the closure of shops imposed by the restrictive measures contained in the Prime Minister's Decree - showed that physical sales were still very unsatisfactory when physical sales resumed: -35.1% in May and -12.8% in June, according to the index published by Istat. The cumulative figure for the first 6 months showed a decline of -32.7%.

The impact on the sales trend in Italy, especially for high-end products, is compounded by the collapse in tourism, given the not insignificant percentage of foreigners who also visit our country for shopping.

There is a strong concern for the tightness of the production fabric: that network of companies, mostly small in size (70% of them have no more than 5 employees) that constitutes the backbone of Made in Italy leather goods.

The extensive use of **wage integration tools**, combined with the block on redundancies, has so far mitigated the impact of the crisis on the workforce.

The survey carried out by Confindustria Moda highlighted how, in July, 15% of the companies surveyed still had staff in smart working and how more than 88% of leather goods manufacturers have made use of the CIG, or similar instruments, since the beginning of the pandemic (with an average percentage of employees involved, among those who benefited from it, around 72%).

The data released by INPS relating to the hours of temporary lay-off fund authorised in the first 6 months (referring to the entire leather sector) confirm an unprecedented increase, starting in April (+2871% on the same month in 2019). May and June showed equally exceptional increases (+1633 and +651% respectively).

In the first 6 months of 2020, 39 million hours were authorised (4 million in the first half of last year), equal to +878%: almost 5 times the hours (8.3 million) granted in 2019.

Never had such a number of hours been authorised, not even in 2009 (23.1 million) or 2010 (29.7 million) at the height of the global economic crisis.

All the main district areas of the leather supply chain show considerable increases: Tuscany is the first region for authorised hours (about 10 million, +3080% on the first half of 2019, of which 5.1 million for the province of Florence, +3607%), followed by Veneto (8 million, +1085%) and Marche (6.1 million, +413%).

The figures for business **birth-mortality** in the first half of the year still obviously do not reflect the consequences of the fall in activity levels: Infocamere Movimprese's figures at the end of June recorded a balance of -69 units in the number of active leather goods companies compared to the end of December, between industry and crafts (-1.5%).

Breakdown by region, Tuscany lost 25 companies in the first 6 months; 18 in Veneto; 17 in Lombardy; 14 in Abruzzo. The negative balances of Marche (-6) and Emilia Romagna (-5) were smaller. Campania bucked the trend (15 units more than at the end of 2019). The remaining regions show 1 more company overall.

These data, not particularly alarming so far, are unfortunately destined to worsen considerably in the coming months, when the realities that have not managed to overcome the exceptional difficulties that companies have had to (and still have to) face as a result of the emergency will begin to be counted in the Chamber registers.

The cancellation of orders and non-payment (4 out of 10 participants in the Confindustria Moda survey complain of over 40% of outstanding payments) have significantly reduced the income of most companies, while the number of departures has remained virtually unchanged (for staff, suppliers, tax authorities and banks), causing liquidity crises.

Almost 90% of entrepreneurs had to revise their planned investment plan due to Covid.

Uncertainty about the duration, course and geographical extent of the pandemic obviously makes it difficult to make predictions about the short-term evolution and the time frame for the return to more profitable levels of activity.

The year 2020 is expected to close with markedly negative results. In need of a forecast of annual turnover, 44% of leather entrepreneurs indicated a drop of between 20 and 50%. On average, weighting the responses with the company size, it is estimated that there will be a decrease of around 40%, which would imply only a slight improvement in the sector's economic situation in the second half of 2020. A sample data, provided 5 months after the end of the year and subject to various variables, but still very significant.

The absence of new shocks and a gradual overcoming of the pandemic emergency in the various areas of the planet should favour a progressive recovery in demand in 2021, which could be completed in 2022.

However, we need policies, instruments and support measures that will enable companies to overcome the long and delicate phase of the current emergency to reach that point..

*Milan, September 16th 2020*

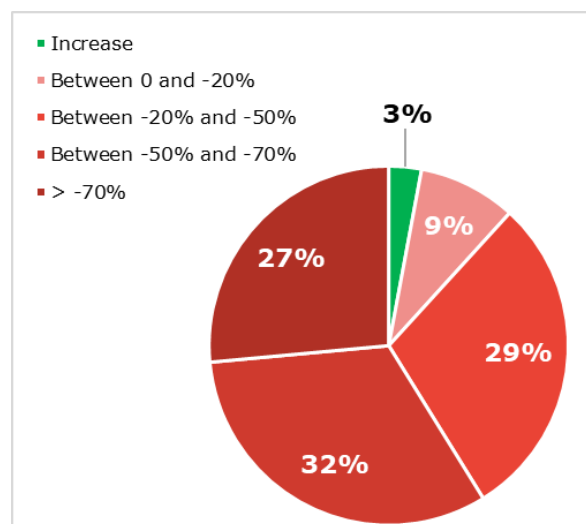
Statistical attachment follows



**Extract from the second Confindustria Moda survey "Impact of Covid on companies in the sector", conducted in July 2020 on a sample of member companies - FOCUS ITALIAN LEATHER GOODS**

## TURNOVER Trend

**In the second quarter 2020**  
(compared to the corresponding period of 2019)



97% of companies stated, with reference to the second quarter, that they had suffered a decrease in turnover compared to the same period last year. For almost 6 out of 10 respondents the decrease was more than -50%. The average decline is calculated at **-49.2%**.

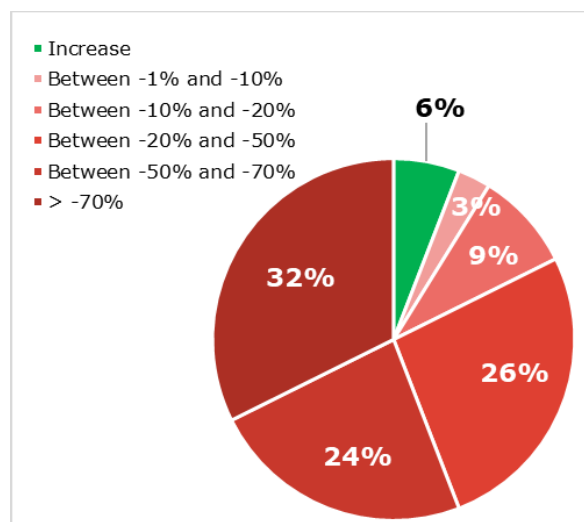
This result follows the **-37.1%** reported by leather manufacturers for the first quarter. Overall, therefore, it is estimated that sector turnover fell by **43.2% in the first 6 months of 2020 (a loss of e 1.9 billion)**.

44% of the companies in the sample expect to close 2020 with a drop in annual turnover of between -20% and -50%. A further 38% estimate a drop of more than -50%. Only 6% now believe they can close the year with growth or at least unchanged.

On the basis of the answers provided, the sector could show a **decline in turnover in 2020 of -40.5%** (with a loss of **3.6 billion euros**), recording a little significant improvement in the second half of the year. Although this is a preliminary assessment, carried out when there are still 5 months left until the end of 2020 and based on a limited sample of companies, the data well summarises the heavy effects that the pandemic will leave on the current year.

## ORDERS Trend

**In the second quarter 2020**  
(compared to the corresponding period of 2019)



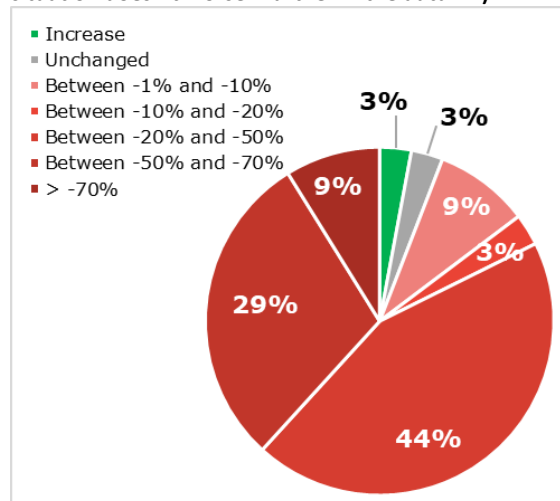
Orders collection still in markedly negative territory in the second quarter of the year.

Only 6% of respondents indicated growth compared to the same period in 2019. For almost 1 in 3 companies, order intake was more than 70% lower.

By weighting individual responses with company turnover, the average decline in orders for leather goods was **-54.2%** compared to April-June last year.

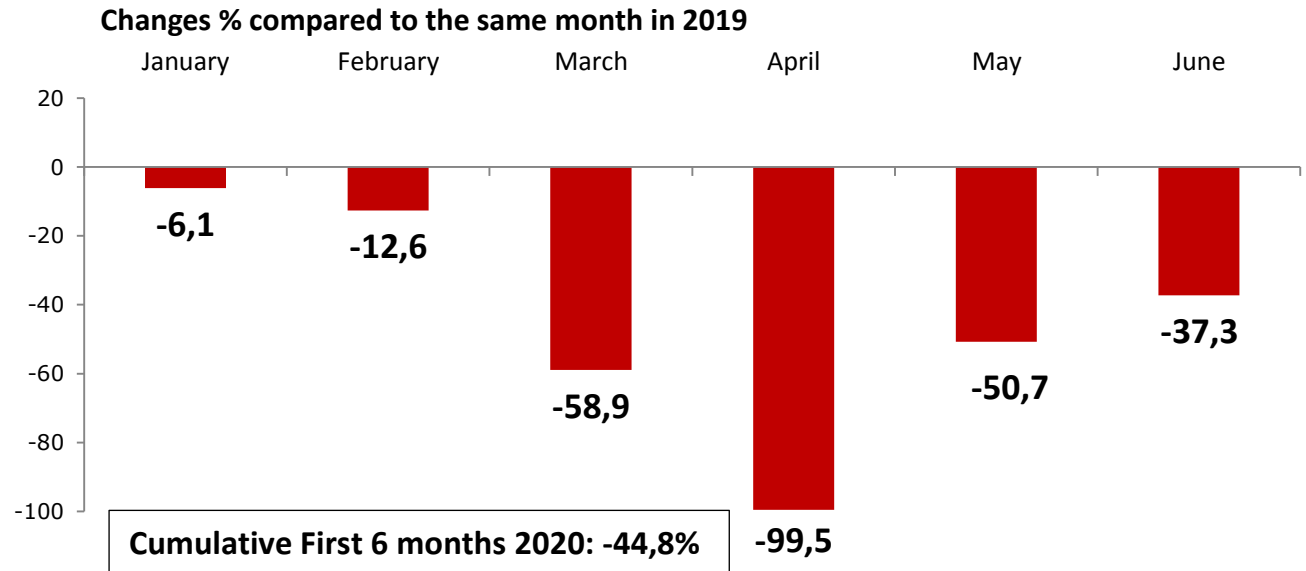
## FORECAST TURNOVER AT THE END OF THE YEAR

(final estimate 2020 out of 2019, assuming that the health situation doesn't worsen further in the autumn)



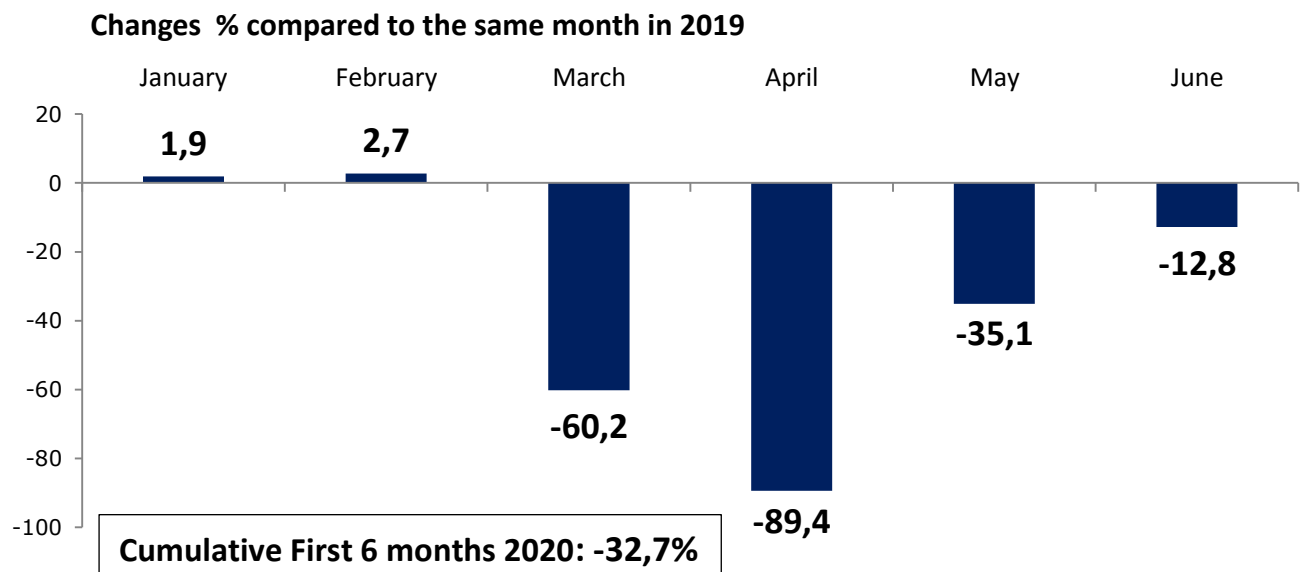
### Istat monthly index of italian industrial production

(heading Ateco CB1512 'Manufacture of travel goods, handbags and the like, leather goods and saddlery', correct data for calendar effects)



### Monthly Istat index of the value of italian retail sales

(referred to "Leather and Travel articles + footwear" - raw data)



# ITALIAN LEATHER GOODS COMMERCIAL EXCHANGE

## FIRST 6 MONTHS 2020

### EXPORTS

	Value (Millions of €)	Quantity (Millions of KG)	Average Price €/KG
January-June 2019	5,146.98	31.6	162.96
January-June 2020	3,574.13	23.7	150.54
% var	-30.6%	-24.8%	-7.6%

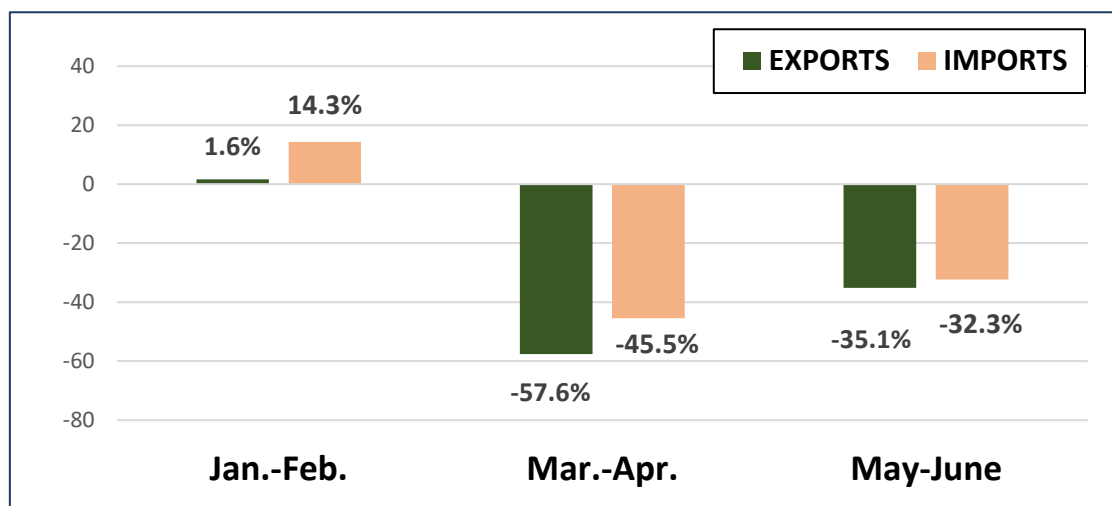
### IMPORTS

	Value (Millions of €)	Quantity (Millions of KG)	Average Price €/KG
January-June 2019	1,632.26	70.9	23.01
January-June 2020	1,305.98	56.9	22.96
% var	-20.0%	-19.8%	-0.2%

### TRADE BALANCE

	Value (Millions of €)
January-June 2019	3,514.72
January-June 2020	2,268.14
% var	-35.5%

The trend of trading before, during and after the lockdown  
(% change on same period in 2019. Data in value terms)

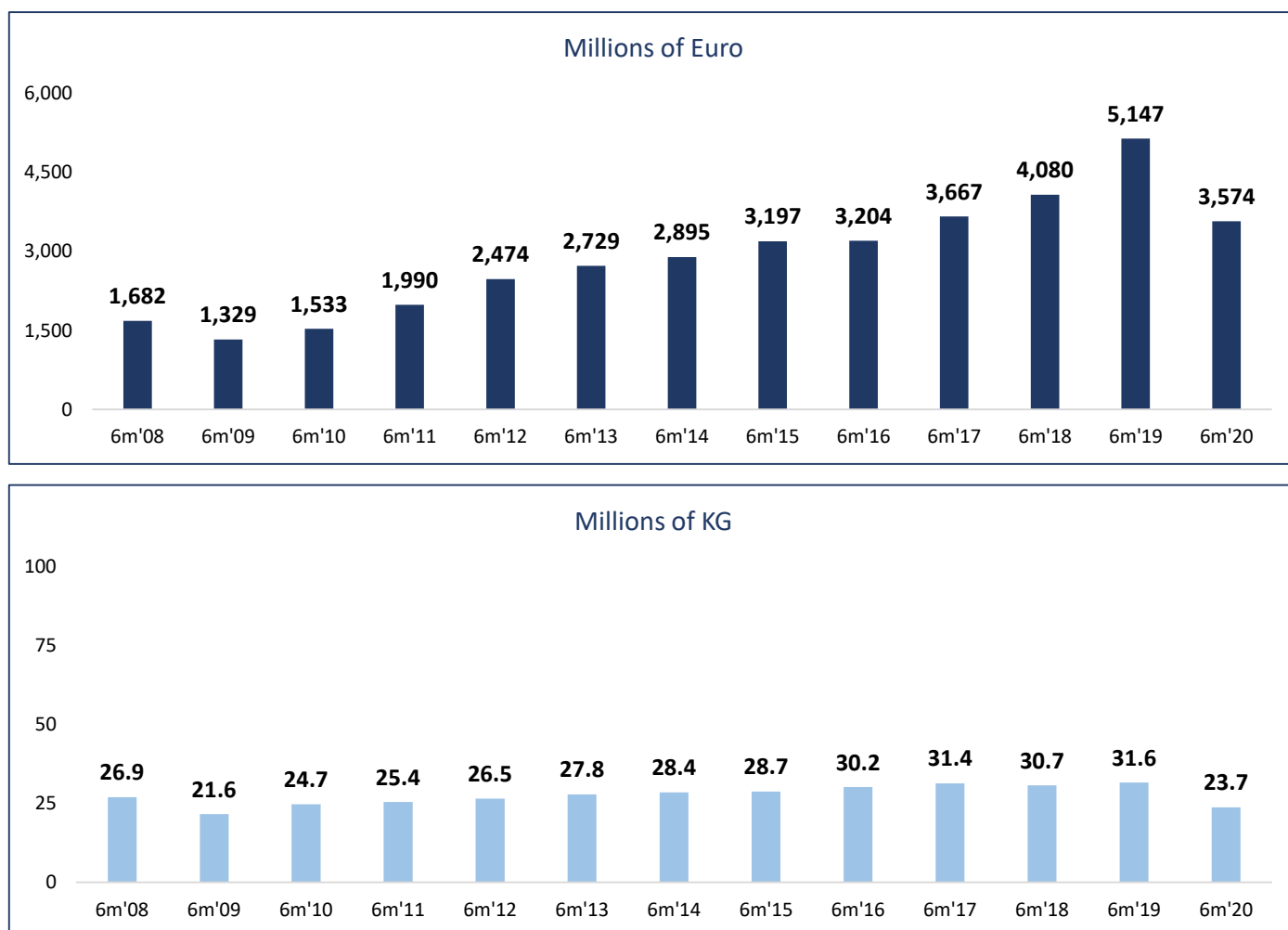


Source: Confindustria Moda Research Centre on ISTAT data



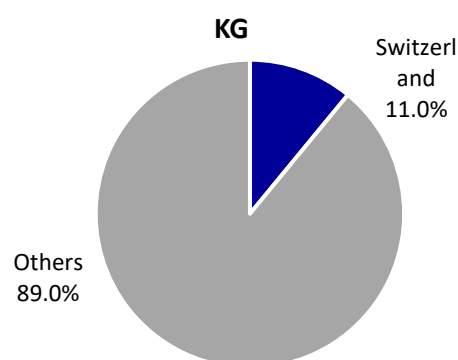
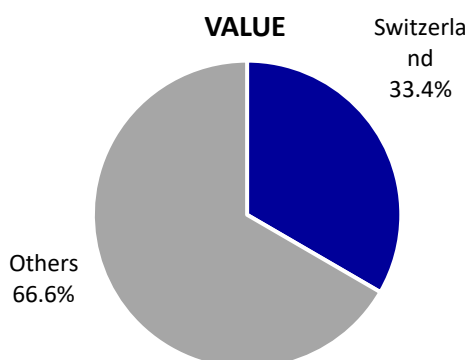
## EXPORTS

### Historical series of the first 6 months of years 2008-2020, value and quantity (KG)



### ITALIAN LEATHER GOODS EXPORTS, FIRST 6 MONTHS 2020: SHARE OF SWITZERLAND ON TOTAL

	Value (Millions of €)	Quantity (Millions of KG)	Average Price €/KG	% Var. on previous year		
				val	qty	a.p.
Total Exports	3,574.13	23.7	150.54	-30.6%	-24.8%	-7.6%
of which towards:						
Switzerland	1,192.79	2.6	458.33	-39.7%	-38.5%	-1.9%
Others	2,381.34	21.1	112.65	-24.9%	-22.7%	-2.8%



Source: Confindustria Moda Research Centre on ISTAT data

## Exports by product type and raw material

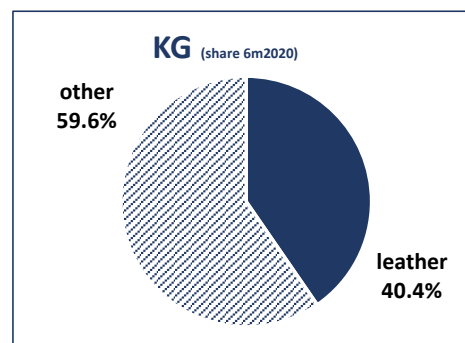
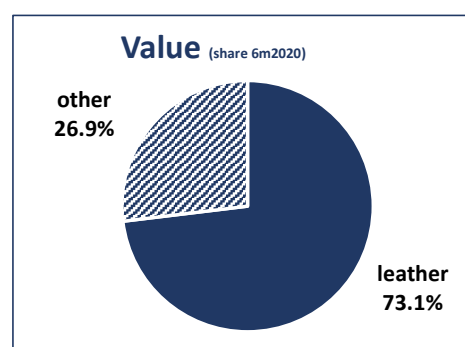
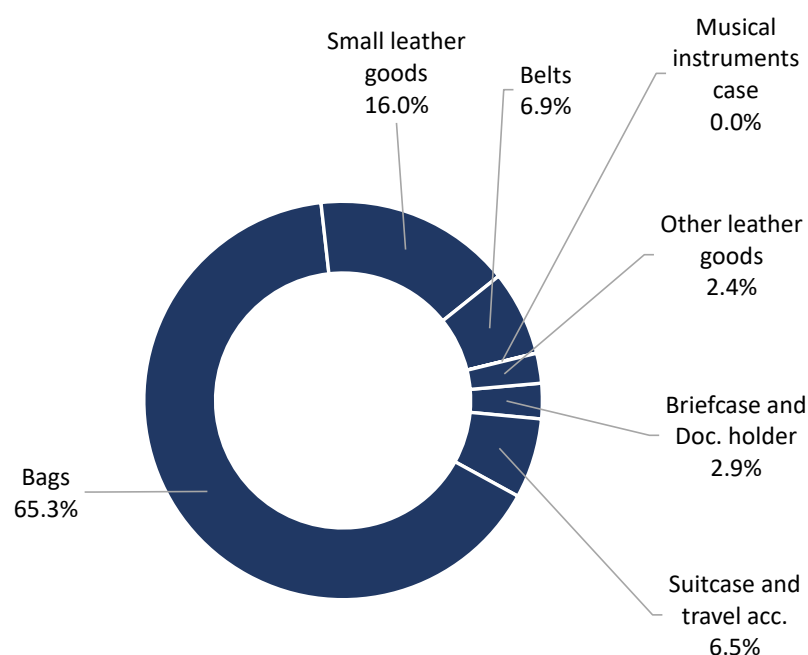
Period: January-June 2020

Value in euro (millions)

PRODUCTS	TOTAL			LEATHER			SUBSTITUTE		
	6m2019	6m2020	% Var	6m2019	6m2020	% Var	6m2019	6m2020	% Var
Briefcase and document holder	164.58	102.71	-37.6%	73.26	48.81	-33.4%	91.32	53.91	-41.0%
Suitcase and travel accessories	331.55	231.89	-30.1%	122.76	95.66	-22.1%	208.79	136.24	-34.7%
Bags	3,140.47	2,332.22	-25.7%	2,454.72	1,724.79	-29.7%	685.75	607.44	-11.4%
Small leather goods	950.67	573.10	-39.7%	734.46	409.30	-44.3%	216.22	163.80	-24.2%
Belts	422.61	246.79	-41.6%	422.61	246.79	-41.6%	-	-	-
Musical instruments case	0.61	0.80	32.6%	-	-	-	0.61	0.80	32.6%
Other leather goods	136.50	86.60	-36.6%	136.50	86.60	-36.6%	-	-	-
<b>TOTAL EXPORTS</b>	<b>5,146.98</b>	<b>3,574.13</b>	<b>-30.6%</b>	<b>3,944.30</b>	<b>2,611.94</b>	<b>-33.8%</b>	<b>1,202.68</b>	<b>962.19</b>	<b>-20.0%</b>

Source: Confindustria Moda Research Centre on ISTAT data

### Exports by product type (value share), First 6 months 2020



### Quantity in kg (000)

PRODUCTS	TOTAL			LEATHER			SUBSTITUTE		
	6m2019	6m2020	% Var	6m2019	6m2020	% Var	6m2019	6m2020	% Var
Briefcase and document holder	5,199	4,404	-15.3%	413	241	-41.8%	4,786	4,163	-13.0%
Suitcase and travel accessories	3,728	3,249	-12.8%	703	712	1.3%	3,026	2,538	-16.1%
Bags	13,475	9,771	-27.5%	7,625	5,351	-29.8%	5,850	4,419	-24.5%
Small leather goods	5,778	4,297	-25.6%	2,002	1,288	-35.7%	3,776	3,009	-20.3%
Belts	1,934	1,151	-40.5%	1,934	1,151	-40.5%	-	-	-
Musical instruments case	25	21	-15.6%	-	-	-	25	21	-15.6%
Other leather goods	1,446	850	-41.2%	1,446	850	-41.2%	-	-	-
<b>TOTAL EXPORTS</b>	<b>31,585</b>	<b>23,742</b>	<b>-24.8%</b>	<b>14,122</b>	<b>9,592</b>	<b>-32.1%</b>	<b>17,462</b>	<b>14,150</b>	<b>-19.0%</b>

Source: Confindustria Moda Research Centre on ISTAT data

## Exports towards the main Countries of destination

Period: January-June 2020

Ranking top 25 per value

	Countries of destination	Value in euro (millions)				Quantity in kg (000)			
		6m2019	6m2020	% Var	Share 2020 (%)	6m2019	6m2020	% Var	Share 2020 (%)
1	Switzerland	1,977.16	1,192.79	-39.7%	33.4	4,232	2,602	-38.5%	11.0
2	France	482.60	440.13	-8.8%	12.3	3,530	3,308	-6.3%	13.9
3	South Korea	294.60	297.85	1.1%	8.3	752	692	-8.0%	2.9
4	USA	329.80	204.85	-37.9%	5.7	2,364	1,515	-35.9%	6.4
5	UK	225.66	195.38	-13.4%	5.5	1,917	1,430	-25.4%	6.0
6	Japan	250.10	174.24	-30.3%	4.9	1,026	716	-30.3%	3.0
7	Germany	221.81	170.57	-23.1%	4.8	4,169	3,550	-14.8%	15.0
8	China	229.47	161.71	-29.5%	4.5	682	486	-28.7%	2.0
9	Hong Kong	293.99	155.21	-47.2%	4.3	803	402	-50.0%	1.7
10	Netherland	75.22	65.29	-13.2%	1.8	1,079	1,077	-0.2%	4.5
11	Spain	81.19	50.43	-37.9%	1.4	1,708	1,071	-37.3%	4.5
12	Russia	43.01	29.91	-30.5%	0.8	358	241	-32.5%	1.0
13	Romania	33.68	25.77	-23.5%	0.7	717	386	-46.2%	1.6
14	U.A. Emirates	39.35	24.16	-38.6%	0.7	201	129	-35.6%	0.5
15	Poland	22.26	23.77	6.8%	0.7	648	533	-17.8%	2.2
16	Taiwan	29.23	23.39	-20.0%	0.7	92	60	-34.1%	0.3
17	Macao	35.01	22.53	-35.6%	0.6	37	22	-39.4%	0.1
18	Canada	31.18	22.06	-29.3%	0.6	166	92	-44.7%	0.4
19	Austria	35.15	19.94	-43.3%	0.6	697	455	-34.7%	1.9
20	Australia	29.16	19.94	-31.6%	0.6	141	86	-39.2%	0.4
21	Singapore	34.46	17.95	-47.9%	0.5	92	51	-43.9%	0.2
22	Belgium	19.58	16.90	-13.7%	0.5	437	356	-18.5%	1.5
23	Hungary	16.28	15.87	-2.5%	0.4	353	250	-29.2%	1.1
24	Mexico	21.00	12.53	-40.3%	0.4	105	40	-61.9%	0.2
25	Thailand	19.92	11.66	-41.4%	0.3	56	30	-45.4%	0.1
...									
TOTAL EXPORTS		5,146.98	3,574.13	-30.6%	100.0	31,585	23,742	-24.8%	100.0

of which:

to EU27 Countries post-Brexit	1,113.67	916.56	-17.7%	25.6	16,918	13,452	-20.5%	56.7
to EXTRA-EU27 Countries	4,033.31	2,657.57	-34.1%	74.4	14,666	10,291	-29.8%	43.3

Source: Confindustria Moda Research Centre on ISTAT data