

## ITALIAN MEN'S FASHION IN 2009-2010

Notes by:



Federazione Tessile e Moda

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For: Pitti Immagine Uomo

### *The preliminary balance sheet for 2009*

For Italian men's fashion (understood as including fabric and knit outerwear, shirts, ties, and leather clothing), the early (and still provisory) estimates, based on information from the companies associated with SMI and on the economic trends emerging from the macroeconomic reference scenario (where hints of recovery are not lacking), the year 2009 should close with turnover down by 9.7%, a rate that will push sector sales below the 9 billion mark to which it had sunk in the previous years.

The major factor affecting the menswear result was the slump in world demand following the explosion of the financial crisis. It goes almost without saying that for a sector that exports upwards of 50% of its production, decreases in foreign sales on all the major export markets (especially outside of Europe) caused significant re-dimensioning of sector activity and unprecedented low points.

Although feeling the effects of the generally negative dynamics, the domestic market has shown great staying power. Nevertheless, since its atonicity has by now become chronic, home-front sales were certainly insufficient to single-handedly reverse the fortunes of the fashion industry over the course of 2009.

*For Italian men's fashion, estimates point to a - 9.7% drop in sales in 2009.*

*In the wake of the world recession, foreign demand had a strong effect on sector performance.*

**Table 1 – The Italian Men's Fashion Industry (2005-2009)**  
(Millions euro at current value)

	2005	2006	2007	2008	2009 (*)
<b>Sales</b>	8,987	8,943	9,453	9,163	8,278
% Var.		-0.5	5.7	-3.1	-9.7
<b>Value of Production</b>	5,553	5,270	5,688	5,457	4,772
% Var.		-5.1	7.9	-4.1	-12.6
<b>Exports</b>	4,701	4,826	5,229	5,133	4,490
% Var.		2.6	8.4	-1.8	-14.1
<b>Imports</b>	3,227	3,638	3,649	3,612	3,543
% Var.		12.8	0.3	-1.0	-2.9
<b>Trade Balance</b>	1,475	1,187	1,579	1,521	947
<b>Domestic Consumption (**)</b>	9,877	9,878	9,930	9,525	9,222
% Var.		0.0	0.5	-4.1	-7.1
<b>Structural Indicators (%)</b>					
Exports/Sales	52.3	54.0	55.3	56.0	54.2
Imports/Consumption at Production	52.3	58.9	58.8	60.7	61.5

Source: ISTAT, SitaRicerca and internal study data processed by SMI

(\*) - Estimates; (\*\*) Inventories and out-of-family consumption included



It is estimated that negative performance, albeit at different intensities, will be a common trait in the end-of-year balance sheets for all the micro-segments that go to make up men's fashion. Leather clothing and ties will close the books on 2009 with especially disappointing results; fabric outerwear should show a loss in excess of - 11%, while knit outerwear and shirts should be able to cut their losses to only a little more than - 8%.

The dynamics of domestic production, which already last year was showing signs of difficulty, are undergoing strong deterioration with losses on the order of - 12.6%. Stocks have also influenced trends: being, like those for the majority of sector segments, oversized when the crisis exploded, they have been progressively eroded over the course of the year with inevitable repercussions on the production cycle.

*Italian production, net marketing of imported products, shows a falloff of - 12.6%.*

On the labor market front, sector companies had ample recourse to "social shock-absorbers" over the course of the year. Nevertheless, internal sample surveys show that overall loss of employment in the fashion industry is likely to exceed the average rate for workers in the downline sector segments (- 6%).

In line with the general trend throughout Textile-Fashion (in which, according to the preliminary balances calculated by SMI, exports will drop by - 20.3% on an annual basis), in 2009 menswear too is seeing a strong decrease in foreign sales: estimates are for - 14.1%, which only worsens the 2008 losses (- 1.8%). A decrease is also expected for imports, albeit at a slower pace: about - 3%.

*The trade surplus has slipped to below the billion mark.*

For the sector trade surplus, therefore, estimates are for a significant contraction that is expected to bring the total to below the one billion mark.

A more detailed picture of trends and international market performance by Men's Fashion emerges from analysis of foreign trade in the first nine months of 2009 as painted by the ISTAT data available to date.

From January through September, foreign sales of men's fashion dropped by - 14.6%. The most significant losses were linked to the economies that were hardest hit by the global recession. The extra-EU areas, which in the last few years were the driving force in the sector, lost - 20% overall: the result was influenced by the drop offs on the most important menswear markets such as the U.S. (- 22.8%), Russia (- 31.3%), and Japan (- 14.6%). In the intra-EU area (which toted an overall decrease of - 10.1%), we can distinguish between the countries that have suffered most from the world crisis, such as Spain and the United Kingdom (with very heavy losses: - 17.7% and - 16.3%, respectively) and, on the other side of the scale, countries like France and Germany, which, closing with only limited contractions (- 4.2% and - 7.2%, respectively), guaranteed greater satisfaction for sector operators and confirmed their importance as regards sector export.

*Exports dropped by - 14.6% in the first nine months of 2009.*

In the same period, imports also decreased, by - 5.4%. In this case, the greatest losses show up in intra-Community marketplaces (- 9.4%), while the drop-off in incoming flows from the extra-EU areas came up short at - 3.2%.

*... and imports were down by - 5.4%.*

**Table 2 – Italian Men's Fashion: Foreign Trade (\*)**  
(January-September 2009)

1) Exports				2) Imports			
Country of destination	Millions Euro	%Var.	% Share	Country of origin	Millions Euro	% Var.	% Share
<b>TOTAL</b>	<b>3.523</b>	<b>-14,6</b>	<b>100,0</b>	<b>TOTAL</b>	<b>3.037</b>	<b>-5,4</b>	<b>100,0</b>
<i>of which:</i>				<i>of which:</i>			
<i>Intra UE 27</i>	2,026	-10.1	57.5	<i>Intra UE 27</i>	1,020	-9.4	33.6
<i>Extra UE 27</i>	1,498	-20.0	42.5	<i>Extra UE 27</i>	2,017	-3.2	66.4
<u>Top 10 consumer countries</u>				<u>Top 10 supplier countries</u>			
Switzerland (**)	500	-18.4	14.2	China	929	7.0	30.6
France	436	-4.2	12.4	Tunisia	252	-19.8	8.3
Germany	315	-7.2	8.9	Romania	242	-13.5	8.0
Spain	280	-17.7	7.9	Bangladesh	175	13.2	5.8
United States	228	-22.8	6.5	France	156	-4.8	5.1
United Kingdom	216	-16.3	6.1	Turkey	154	-20.3	5.1
Netherlands	149	-12.7	4.2	Belgium	92	-31.7	3.0
Russia	147	-31.3	4.2	Germany	91	-9.0	3.0
Greece	119	-17.6	3.4	India	88	-6.6	2.9
Japan	117	-14.6	3.3	Netherlands	83	0.1	2.7

Source: ISTAT data processed by SMI

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(\*) Differently from Table 1, this aggregate includes Junior products

(\*\*) To be considered above all a logistics/marketing platform

Against the general tide outlined above, imports of men's clothing from China and Bangladesh are growing. The ace supplier of men's fashion to Italy, with a 30.6% share, China registered a new increase in the first three quarters of 2009, equal to 7%, that brings the value of Chinese imports to 929 million euros. Imports from Bangladesh also grew at a fine clip, + 13.2% to be exact. The incidence of imports from this country on total men's fashion imports thus rose to close to 6%.

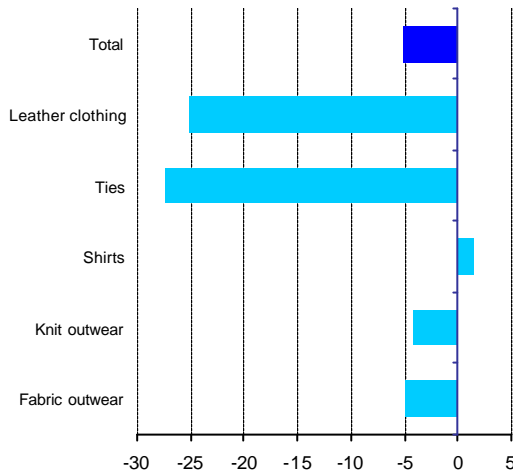
Down, instead, are imports from countries closer to home: Tunisia, our second supplier country (with an 8.3% share, and thus amply outdistanced by China) dropped by - 19.8%; Romania was down by - 13.5% and Turkey by - 20.3%. Trade with France was, instead, quite satisfactory: imports from our Transalpine neighbor arrested their slide at - 4.8%.

Sector activity in 2009 was not given a particularly helpful hand by domestic demand: with reference to the solar year, we should be seeing a nominal decrease in consumption (both family and out-of-family expenditure, including inventories) of - 7.1% with respect to the year 2008.

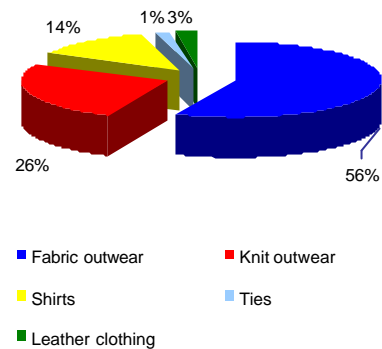
*Battling the tide are China and Bangladesh, countries from which Italian imports of men's fashion are growing.*

**Figure 1 – Men’s Fashion: Consumption and Distribution on the Italian Market**  
(Season: Fall/Winter 2008-2009)

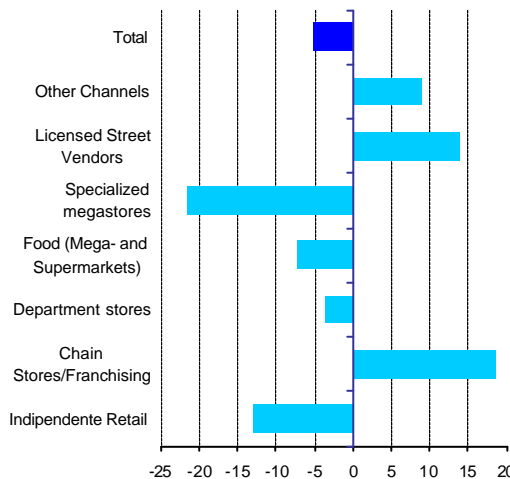
**Figure 1.1 – Sell-out Trends: Product-by-Product Analysis**  
(% variation in consumption, in value, by product)



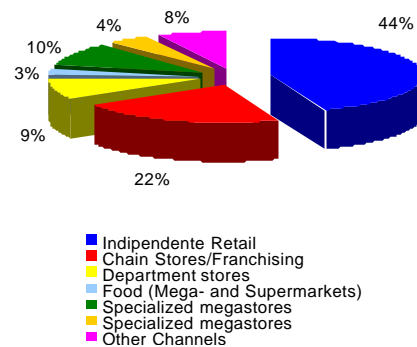
**Figure 1.2 – Sell-out Structure: Product-by-Product Analysis**  
(% of overall consumption, in value)



**Figure 2.1 – Sell-out Trends: Analysis by Distribution Channels**  
(% variation in consumption, in value, by channel)



**Figure 2.2 – The Distribution Structure: Analysis by Distribution Channels**  
(% of overall consumption, in value)



Source: SitaRicerca data processed by SMI.

(\*) Differently from Table 1, this data refers to Italian family expenditure, inventories and out-of-family consumption excluded.

At the product-line level, the latest (final) winter sell-out data refer to the Fall/Winter 2008-2009 season, which closed with a drop in sales of - 5% in value. The strong downward trend in leather clothing and ties that has been afflicting these two product lines for some seasons now showed no signs of slowing and, indeed, caused a further decrease of more than - 20%. Fabric outerwear (especially on account of the difficulties experienced by the “classics”) and knit outerwear showed sell-out contractions aligned with the sector average, at about - 5%. Contrariwise,

In the past F/W 2008/2009 season, domestic demand for men’s fashion fell by - 5% in value, while sales of shirts were up.



current sales of shirts increased by 1.4% with respect to the corresponding period of 2007/2008.

A look at performance by the single distribution formats shows that the most significant increases in sales in the F/W 2008-2009 season were had by chain stores/franchising (+ 18.7%), licensed street vendors (+ 14%), and the outlets (listed in the "other channels" category). With similar results, the single-brand men's fashion chains accounted for 22% of the sector sell-out mediated within Italy.

*In retail, highly positive results for chains and outlets.*

Independent retailers, who have been down for many seasons now, experienced a worsening of their situation, in part due to the general economic situation but also to a change in Italian families' consumption style, with a downslide that in a single season reached almost 13% (- 12.8%). But despite this fact, the traditional retailing channel confirmed its position as market leader, handling the largest share of sales: 44%.

SitaRicerca estimates for the current season (F/W 2009-2010) do not point to a trend turnaround for the industry. Quite the contrary: previsions are for continuance of the negative dynamics (sell-outs are expected to drop by - 3% ca., in value, in the September-October two-month period). Nevertheless, some recovery in sell-out is expected during the Christmas season and the clearance sales, which should provide a booster shot of dynamism for the fashion industry.

*Great expectations for the Christmas season and clearance-sale sell-outs.*

Based on the sample surveys conducted by SMI, it would seem that there is no inversion of the trend to be seen in the orders for the upcoming S/S 2010 season, at least insofar as regards the first three months of the new year.

When global demand finally picks up, however, it will find the Italian men's fashion companies – thanks to their legendary international competitiveness – ready to exploit the opportunities that will be blossoming on the markets and to offer the new consumers who will populate the post-crisis scenario a flexible, creative proposal that will surely reaffirm Italian style and quality leadership.

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