

# Fashion Economic Trends

Camera Nazionale della Moda Italiana

September 2016

THE ITALIAN FASHION INDUSTRY: KEY FIGURES (FASHION AND ALLIED SECTORS\*)

|                     | 2013    | 2014    | 2015    | 2016 forecast |
|---------------------|---------|---------|---------|---------------|
| Turnover (mln €)    | 74.408  | 80.588  | 82.484  | 83.639        |
| % change            | 0,0%    | 2,8%    | 2,4%    | 1,4%          |
| Export (mln €)      | 57.198  | 59.269  | 61.085  | 62.001        |
| % change            |         | 3,6%    | 3,1%    | 1,5%          |
| Import (mln €)      | 30.899  | 33.616  | 36.358  | 37.085        |
| % change            |         | 8,8%    | 8,2%    | 2,0%          |
| Net export (mln €)  | 26.299  | 25.653  | 24.727  | 24.916        |
| Production (var. %) | -2,7%   | -0,6%   |         |               |
| Employment (.000)   | 681mila | 648mila | 627mila |               |
| N. of Enterprises   | 70mila  | 66mila  |         |               |

**Fashion** = Textiles, Apparel, Leather, Leathersgoods, Footwear; **Allied Sectors**= Eyewear, Jewelry, Beauty, Perfumes  
Source: Camera Nazionale della Moda Italiana

## OVERVIEW

- The dominant sentiment after the summer break is of slowness: a phase of slow growth that involves sales, exports and imports.
- The integrated system of Italian fashion, the fashion industry in the strict sense plus the allied sectors of eyewear, jewellery and cosmetics, experienced ups and downs in the first half of 2016. The turnover decreased in the first quarter--compared to the same quarter of 2015 – but grew +3.8% in the second. The positive trend in the second quarter was the result of a stability in the fashion industry and a growth in the allied sectors. Overall, sales in the second quarter were slightly lower than expected, but stronger than the Italian GDP, that scored +2.1% (at current prices, only +0.8% net from inflation).
- Exports were positive but slow in the first 5 months (+0.9%), both in fashion (+0,9%) and the allied sectors (+0,8%) with a growing trend in May (+2%). Imports followed suit at the same slow pace.
- In July and August the business confidence in the manufacturing sector declined, according to ISTAT, in line with the negative trend in the European countries and in the US. The decline was affected by the psychological effect of the BREXIT 23 June referendum, whose impact is expected to weaken in the next months. The third quarter data are expected to be comparable to the negative second, more than to the positive first, with a turnover stability or slight decline, between -0.3% and -0.5%.
- Assuming no negative shocks or political instability from the Italian institutional referendum in December, and that the BREXIT psychological effect will progressively relax, we expect a return to growth in the fourth quarter. The recovery main driver can be an improvement in exports. The setback in the third quarter, however, will affect the overall growth of the fashion industry revenue in 2016 that is forecast to +1.7%.



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Industry Turnover was down in the first quarter, but performed well in the second. Industrial prices still very weak.

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Industry turnover was down in the first quarter, but performed well in the second. Industrial prices still very weak..

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Retail sales of fashion slowed down in Italy in the second quarter after the momentum in the first. Strong recovery in Spain, but negative trend in the UK. Sales in China still up to 6%

### Forecast

# Sales and prices trend

**INDUSTRY TURNOVER WAS DOWN IN THE FIRST QUARTER, BUT PERFORMED WELL IN THE SECOND. INDUSTRIAL PRICES STILL VERY WEAK.**

The integrated fashion industry – which includes the fashion industry in the strict sense plus the allied sectors of the eyewear, jewelry and cosmetics sectors – has undergone in 2016 the same ups and downs as the rest of the Italian economy.

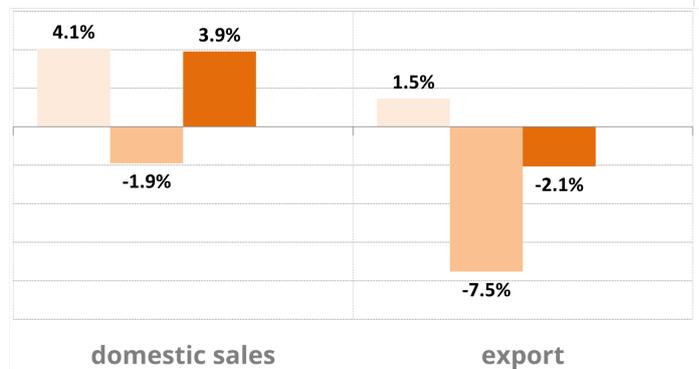
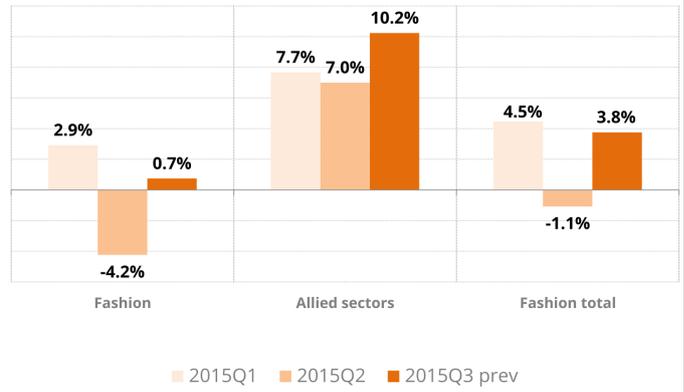
The final quarter of 2015 was good, sales were up +4.5% compared to the same quarter of the previous year, but the 2016 began in negative, -1.1% down in the first quarter compared to the first quarter 2015. In the second quarter the trend has reversed again with a recovery (+3.8%) that was stronger than the Italian GDP growth (+ 2.1% at current prices, + 0.8% adjusted for inflation).

The fashion industry in the strict sense (textiles, clothing, leather and footwear) grew less than expected in the second quarter (+0.7%) but acted as a multiplier for the allied industries that have not felt at all the decline in the first quarter (+7%) and increased in double digits in the second (+10.2%), with a very positive trend in all sectors.

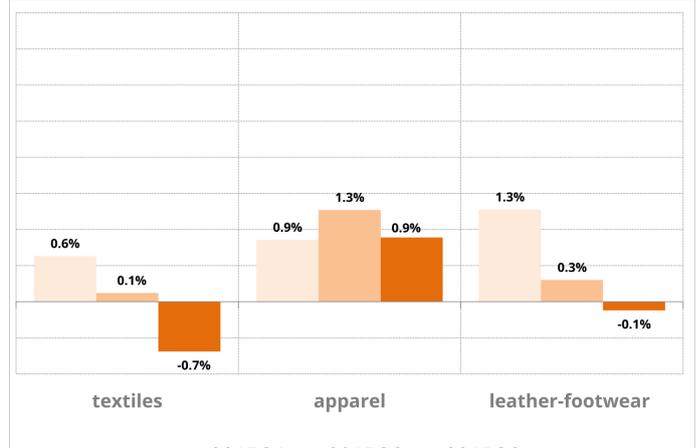
The unsatisfactory performance of fashion in the second quarter is due to the weakness in the international markets. ISTAT surveys recorded a fall of -7.5% of foreign sales in the first quarter and of -2.1% in the second. However, it must be considered that in the last 12 months ISTAT surveys on foreign sales have systematically underestimated the “real” trend of exports, while they had overestimated it systematically previously, between 2012 and mid-2015. The “real” foreign sales of fashion in the strict sense in the second quarter of 2016 could thereby be about 2-3 percentage points above what the ISTAT survey recorded.

Industrial *ex-fabrica* (retail sell-in) prices trend remained weak throughout the first half of the year.

## Italian Fashion Industry Sales, Y/Y % change



## Italian Fashion Industry Sell-in and sell-out prices Y/Y % change



Source: calc on ISTAT official data

# External Trade

## EXPORTS KEEP ON AT SLOW PACE IN 2016 WITH A DOWNWARD TREND TO EXTRA-EU MARKETS, ESPECIALLY TO CHINA AND ARAB EMIRATES.

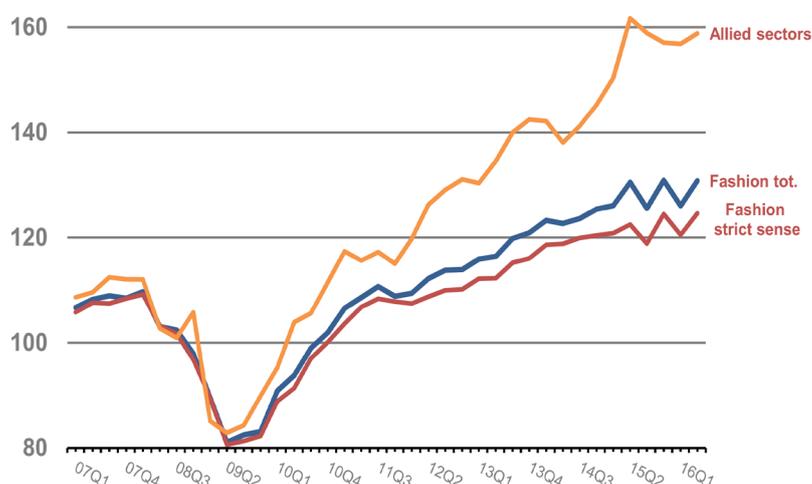
The weakness in foreign markets that started in mid-2015 is continued in the first half of 2016. Exports growth was lower than +1%, both for fashion in the strict sense and the allied industries.

In the fashion sector export EU markets recovered (+2.1%), particularly to France and Germany (+3% both), which had been negative in 2015, but exports to non-EU countries was down (-0.4%), in particular to Russia and Turkey (both -5.6%), the Emirates (-8.1%), the USA (-3.5%), Hong-Kong (-1.2%) and China (-5.5%). The divergence between EU (+5.5%) and non-EU markets (-2.1%) was clearly worst in the allied sectors: the

worst performances were recorded in the Emirates (-13.4%) as a result of the decline in oil prices.

Imports were also weak (+0.8%). The trade balance remains active for 10.3 billion, 0.3 billion higher than the in same period in 2015.

Quarterly Exports.  
Fashion tot, Fashion strict sense, Allied sectors



Italian Fashion Industry. Exports. Top 10 Markets. Jan- May 2016. mln.€ and Y/Y% change.

| Total Fashion + Allied Sectors |        |       | Fashion     |        |       | Allied Sectors       |       |        |
|--------------------------------|--------|-------|-------------|--------|-------|----------------------|-------|--------|
| Paese                          | mln €  | Y/Y   | Paese       | mln €  | Y/Y   | Paese                | mln € | Y/Y    |
| France                         | 2.727  | 0,4%  | France      | 2.102  | 3,0%  | USA                  | 785   | 9,3%   |
| USA                            | 2.287  | 0,6%  | Germany     | 1.839  | 3,0%  | France               | 625   | -7,3%  |
| Germany                        | 2.196  | 4,6%  | USA         | 1.502  | -3,5% | Switzerland          | 524   | -10,7% |
| Switzerland                    | 2.024  | -0,3% | Switzerland | 1.500  | 4,0%  | United Arab Emirates | 486   | -13,4% |
| Hong Kong                      | 1.530  | -3,1% | Hong Kong   | 1.152  | -1,2% | Hong Kong            | 377   | -8,4%  |
| UK                             | 1.421  | 4,1%  | UK          | 1.101  | 2,2%  | Germany              | 357   | 13,5%  |
| Spain                          | 1.222  | 4,6%  | Spain       | 963    | 3,5%  | UK                   | 320   | 11,6%  |
| Romania                        | 761    | 3,4%  | Romania     | 712    | 3,3%  | Spain                | 259   | 8,9%   |
| China                          | 747    | -6,7% | Japan       | 668    | 6,7%  | Turkey               | 140   | -2,0%  |
| Japan                          | 742    | 7,6%  | China       | 667    | -5,5% | Netherlands          | 113   | 13,5%  |
| WORLD                          | 25.354 | 0,9%  | WORLD       | 19.637 | 0,9%  | WORLD                | 5.717 | 0,8%   |
| Extra-Ue 28                    | 12.912 | -0,8% | Extra-Ue 28 | 9.440  | -0,4% | Extra-Ue 28          | 3.472 | -2,1%  |
| Ue 28                          | 12.442 | 2,7%  | Ue 28       | 10.196 | 2,1%  | Ue 28                | 2.245 | 5,5%   |

Italian Fashion Industry. Imports. Top 10 Markets. Jan- May 2016. mln.€ and Y/Y% change.

| Total Fashion + Allied Sectors |        |       | Fashion     |        |        | Allied Sectors |       |        |
|--------------------------------|--------|-------|-------------|--------|--------|----------------|-------|--------|
| Paese                          | mln €  | var.% | Paese       | mln €  | var.%  | Paese          | mln € | var.%  |
| China                          | 2.770  | -8,9% | China       | 2.400  | -10,4% | France         | 494   | -3,7%  |
| France                         | 1.459  | 1,5%  | France      | 965    | 4,3%   | China          | 369   | 2,4%   |
| Germany                        | 922    | 7,0%  | Romania     | 770    | 6,7%   | Germany        | 266   | 11,8%  |
| Spain                          | 800    | 10,7% | Spain       | 726    | 9,3%   | Switzerland    | 204   | -38,4% |
| Romania                        | 797    | 6,5%  | Germany     | 656    | 5,2%   | Belgium        | 193   | 9,0%   |
| Belgium                        | 670    | 11,6% | Turkey      | 579    | 1,2%   | USA            | 101   | 12,9%  |
| Turkey                         | 601    | 1,5%  | Bangladesh  | 548    | -1,0%  | UK             | 95    | 5,5%   |
| Bangladesh                     | 549    | -1,0% | Belgium     | 476    | 12,7%  | Spain          | 74    | 26,6%  |
| India                          | 533    | 0,3%  | India       | 470    | -1,7%  | Israel         | 64    | 164,9% |
| Paesi Bassi                    | 437    | 20,9% | Netherlands | 398    | 22,2%  | India          | 63    | 18,3%  |
| WORLD                          | 15.024 | 0,8%  | WORLD       | 12.654 | 0,7%   | MONDO          | 2.370 | 1,3%   |
| Extra-Ue 28                    | 8.140  | -4,3% | Extra-Ue 28 | 7.161  | -4,4%  | Extra-Ue 28    | 979   | -3,5%  |
| Ue 28                          | 6.884  | 7,5%  | Ue 28       | 5.492  | 8,1%   | Ue 28          | 1.391 | 4,9%   |

# Retail Sales

**RETAIL SALES OF FASHION SLOWED DOWN IN ITALY IN THE SECOND QUARTER AFTER THE MOMENTUM IN THE FIRST. STRONG RECOVERY IN SPAIN, BUT NEGATIVE TREND IN THE UK. SALES IN CHINA STILL UP TO 6%.**

General retail sales trend slowed down in Italy in the second quarter flattening out to the 2015 second quarter levels and bringing down to just +0.4% the overall growth in the first half of this year. Sales in non-food products had a similar pattern recording + 0.5% in the first half compared to the same period of 2015. The trend in apparel retail sales was very similar: the +0.9% growth in the first quarter was followed by a slight contraction ( -0.5%) in the second. Footwear and leather goods also were down in the second quarter ( -0.8%), that resulted in an overall decline in the semester.

Sales in fashion stores were positive in the first half of 2016 in Spain (+2.7%) and Germany (+0.2%), but negative in France (-1.3%) and very negative in the United Kingdom ( -4.6%). The last June figures confirm the positive trend in Spain (+8%) and show an upswing in France (+3.3%).

US retail sales rose in the first quarter of 2016 (+0.5%) but remained broadly steady in the first half average, confirming a very slow growth trend.

Retail sales of clothing and footwear rose by 3.2% in Japan in the first quarter, compared to the first quarter of 2015, but growth has come to a halt in the second (+0.5%). The growth in sales of larger fashion stores in China grew +6.4% in the first half, with greater momentum in the second quarter (+7.6%).

## Forecast

### Macroeconomic outlook

Uncertainty factors in the international scenario increased in recent months. The most important of them is the outcome of the BREXIT referendum, that prompted the IMF to revise downward the global growth forecast from +3.2% (2016) and + 3.6% (2017) to + 3.1% (2016) and + 3.4% (2017). Looking at the bare numbers it is matter of decimal points, the impact is however much larger as growth expectations were hold back once more and financial risks to the economy are boosted again.

On the other hand, the expansionary phase keeps on in the US with household consumption increasing and GDP growth up to +2.2% in 2016 and + 2.5% in 2017. GDP forecast for the Euro area remains weak: +1.6% in 2016 and +1.4% in 2017. The latest GDP forecasts for the UK point to +1.7% in 2016 and +1.3% in 2017. China's short-term prospects have improved thanks to recent Government interventions in support to the economy, growth is expected to stabilize at

+6.6% in 2016 and + 6.2% in 2017. The ongoing stabilization in oil prices will ease the economic situation in Russia where GDP is expected to grow +1% in 2016 and +2.5% in 2017.

### The Italian fashion industry in 2016

The setback in the second quarter lowered the growth potential of sales in 2016. However, the macroeconomic framework remains positive and drives the expectation for stabilization in third quarter (with possibly a marginal decrease of turnover of -0.3/-0.5% compared to the same period in 2015) and a return to growth in the fourth. An internal risk factor remains possible political instability on failure of the institutional referendum of December.

On the assumption that there will be no exogenous shocks and that the policy framework will stabilize, sales growth for the integrated system of fashion (fashion in the strict sense + related industries) in 2016 is forecast to + 1.7%.