

## JUNIOR APPAREL IN 2007-2008

Notes by:

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### 1. *The (preliminary) balance-sheet for 2007*

It is estimated that the Italian junior apparel industry closed the year 2007 with a substantial acceleration in sales (+ 4.7%), a final performance datum that is well above the estimated result for the textile-fashion system as a whole (+ 3.3%). The junior apparel recovery phase that began two years ago picked up steam in 2007, permitting the sector to close with (nominal) annual sales topping those of 2001-2002; that is, the period before the effects of the long recessive phase that affected the textile-fashion system began to be felt in this sub-sector.

The almost 2.7 billion euros sales estimate means that the sub-sector will continue to offer a star contribution to Italian fashion system annual turnover: in fact, last year's sales of junior apparel accounted for 5% of all textile-fashion sales (but the percentage rises to well above 8% if we consider only the "downline" sectors).

*Accelerating sales for junior apparel. The sector results are among the best on the entire textile-fashion panorama.*

**Table 1 – The Italian Junior Clothing Industry (2003-2007) (1)  
(Millions euros at current value)**

	2003	2004	2005	2006	2007(3)
<b>Sales</b>	2,538	2,489	2,492	2,556	2,675
Var. %		-1.9	0.1	2.6	4.7
<b>Value of production</b>	2,075	2,009	1,968	2,033	2,070
Var. %		-3.2	-2.0	3.3	1.8
	0	0	0	0	0
<b>Exports</b>	586	600	608	657	708
Var. %		2.4	1.4	8.1	7.8
	0	0	0	0	0
<b>Imports</b>	830	954	1,030	1,194	1,245
Var. %		15.0	8.0	15.9	4.3
	0	0	0	0	0
<b>Trade Balance</b>	-244	-354	-422	-537	-537
	0	0	0	0	0
<b>Domestic Consumption</b>	4,450	4,549	4,662	4,948	5,140
Var. %		2.2	2.5	6.1	3.9
	0	0	0	0	0
<b>Structural Indicators</b>					
Exports/Sales	23.1	24.1	24.4	25.7	26.5
Normalized Trade balance	-17.2	-22.8	-25.8	-29.0	-27.5
Imports/Consumption at Production	29.8	33.5	35.3	38.6	38.8

(1) Knit and fabric clothing for boys and girls ages 0-14 years, including underwear and accessories

(2) Family expenditures, out-of-family consumption, and restocking (3) Estimates.

Source: sample surveys and ISTAT and SitaRicerca data processed by SMI-ATI.



The overall increase in 2007 sales was made possible - analogously to what happened in the previous year - by the contribution of domestic demand (consumption and restocking) but it also owes much to the contribution by foreign sales, which for the first time since 2003 was not negative.

*The domestic market is still supplying the strongest stimuli to expansion . . .*

Exports are in fact estimated to have achieved excellent results (+ 8% ca. according to SMI sample surveys), while for incoming flows, following the booming trends of the last few years, the forecast is for a slowdown (at least in the value data): a sign that imported products are having some difficulty in positioning themselves in the high and very high market ranges, which are less sensitive to solely price-related factors.

*. . . but thanks to accelerating export and a simultaneous slowdown in imports, the results on the foreign trade front are also encouraging.*

The estimated dynamics of import/export should have had a stabilizing influence on both the sector trade deficit (which nevertheless remains one of the "heaviest" in the entire textile-fashion industry) and the share of gross domestic demand (inclusive, that is, of purchases of products destined for subsequent re-export) met by imports.

In structural terms, the junior apparel companies continue to make a little less than 3/4 of their sales in Italy, and as we have remarked in the past this figure points up a certain difference between the sector and the fashion system as a whole (which by now makes way over half its sales outside of Italy). Underlying this situation are both offer-related factors (for example, the generally small size of the junior apparel producer companies, which makes it more difficult for them to approach foreign markets) and elements linked to demand (for example, the greater propensity shown by Italian consumers for expenditure for these products *vis à vis* other traditional markets for clothing products).

*Company size and Italian families' willingness to purchase explain the low propensity for export . . .*

## **2. The most recent data**

On the basis of the most recent economic trends information available for the sector, we can hypothesize continuance of the current favorable phase.

The sample data relative to the sell-in for S/S 2008 are favorable for the second season running and show nominal increases on the order of 4%. It is very interesting to note that this result is determined in large part by the excellent increases in foreign orders (+ 8/9%), which suggest that the sector could be overcoming some of the limitations mentioned above.

*. . . but the most recent statistics in data suggest that these limitations can be overcome*

The data from the domestic market is also encouraging. The winter 2007-2008 sales campaign has begun well: while it may well be fruit of a significant modification of survey methods (which further improves quality but does not guarantee one-on-one comparison with past data), the SitaRicerca data show, for the two-month period September-October 2007, increases on the order of 4% in Italian families' expenditure for junior apparel products. The datum reflects the

*Renewed increases in foreign orders and accelerating domestic sell outs lend a "positive" cast to the short-term forecasts for the sector.*

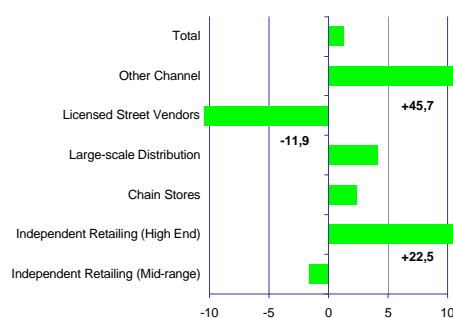


positive sell-out trends in both girls' (46% of the total) and boys' (39%) clothing: in the first case, sales increased by more than 4%, while nominal growth was even higher in the second (+ 5% ca.). Only in the niche represented by infants' clothing (15% of the market) were the results not as satisfactory (+ 0.1% ca.).

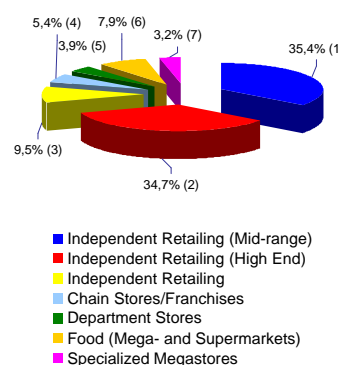
### 3. A step backwards: the results of the F/W 2006-07 sales campaign on the Italian market

Neither did infants' clothing pass the gauntlet of the long recessive cycle in domestic consumption unscathed, but differently from many sectors it showed a greater capacity to hold its own: the level of consumption in 2006, even net the price effect, was in fact analogous to that marked at the beginning of the decade. Underlying these results is the increased sensitivity to the child's world that is by now established at all levels of society and which has made these expenditures relatively "non-compressible." And in fact, since F/W '04-05 the sell-out in this sector is once again on the increase, albeit slowly: the growth rhythm reached 1% in S/S 2006 but attenuated in the last winter season (+ 0.2%). F/W '06-07 thus closed in substantial stability, but this result must be interpreted as positive, given the brusque slowdowns that characterized many other textile-fashion segments. The data for end-of-season clearance sales also confirms the stability of the various micro-sectors: boys, girls, and infants (in the latter case, an important role in explaining the recent consumption results is, naturally, to be attributed to stabilization of the birth rate).

**Figure 1 – Sell-out Performance in Junior Apparel Distribution Channels (F/W '06-07) (\*)**  
(% var. in consumption, in value, by channel)



**Figure 2 – The Distribution Structure in the Junior Apparel Sector (F/W '06-07)**  
(% of overall consumption, in value)



Source: SitaRicerca data processed by SMI-ATI

(\*) Differently from Table 1, the data refers only to expenditures by Italian families, excluding restocking and out-of-family consumption.



At the single-product level, knitwear and shirts showed a more positive evolution over time than did fabric outerwear, which was penalized by a falloff in the appeal of these more traditional garments.

On the retail front, the chains specialized in infants' and young children's clothing are by now playing a decisive role, handling a full one-third of expenditures for junior apparel and almost half that for infants. In the last few years we have in fact seen, season after season, entry onto the market by new specialists capable of replacing the traditional neighborhood clothing and/or notions shop. In the last season, however, the sell-out in this channel obtained satisfactory results (+ 5.3% in value) only in the girl's apparel segment, while for both boys and infants we saw mere confirmation of the data for the preceding winter season. Large-scale distribution obtained its best results in infants' clothing, thanks to the booming trend in department store sell-out (+ 36.6%), but channel results in the girls' segment were also clearly above average.

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