

## ITALIAN MEN'S FASHION IN 2007-2008

Notes by:

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Centro Studi

For: Pitti Immagine Uomo

### 1. The balance sheet for 2007

It is estimated that the men's fashion sector (understood as including fabric and knit outerwear, shirts, ties, and leather clothing) closed the books on 2007 with a notable recovery in sales (+ 6%), which all told came close to the 8.6 billion euros mark. This estimate takes into account the excellent results for the first part of the year (and "pre-released" in the economic notes published in occasion of the last edition of Pitti Uomo) but also that certain slowdown which - according to SMI economic trends data - characterized the latter portion of 2007.

*Italian men's fashion will be closing the books on 2007 with the best results in recent years, thanks above all to good performance in the first half.*

Above and beyond the overall magnitude of the growth figures, which will be toted up in the final data, the year just ended was without a doubt the most favorable in recent years for the fashion industry. For the first time since 2001, sales increased to nominal levels not unlike those of 2002.

*Increases in sales have had positive impacts on production activity and labor market conditions have also improved.*

**Table 1 – The Italian Men's Fashion Industry (2003-2007)**  
(Millions euro at current value)

	2003	2004	2005	2006	2007 (*)
<b>Sales</b>	8 342	8 152	8 128	8 109	8 596
% variation		-2.3	-0.3	-0.2	6.0
<b>Value of Production</b>	7 731	7 473	7 148	7 159	7 411
% variation		-3.3	-4.4	0.1	3.5
<b>Exports</b>	4 551	4 478	4 661	4 781	5 251
% variation		-1.6	4.1	2.6	9.8
<b>Imports</b>	2 901	3 088	3 354	3 798	3 915
% variation		6.4	8.6	13.3	3.1
<b>Trade Balance</b>	1 649	1 391	1 308	983	1 336
<b>Domestic Consumption (**)</b>	10 709	10 818	10 912	11 401	11 617
% variation		1.0	0.9	4.5	1.9
<b>Structural Indicators (%)</b>					
Exports/Sales	54.5	54.9	57.3	59.0	61.1
Normalized Trade Balance	22.1	18.4	16.3	11.5	14.6
Imports/Consumption at Production	43.3	45.7	49.2	53.3	53.9

Source: ISTAT and SitaRicerca data processed by SMI-ATI

(\*) estimates (\*\*) including inventories in all sector areas



The estimates for production value trends (a variable that attempts to restrict the field of observation for analysis to the sole contribution of activities actually carried out in Italy) are also positive (+ 3.5%), and even as far as the actual physical quantity of production goes, 2007 should have marked a hiatus in the downsizing trend that has prevailed since the beginning of the decade, with positive effects for the labor market as well (where, for the first time in years, the sample trends surveys report a move toward stabilization).

As in other years, the value dynamics of last year's sales are estimated to be significantly better than those concerning "physical" activity. This fact points up how the focus is still shifting from "quantity" to "value" in a continuing process that targets repositioning toward the top end of the offer spectrum in an attempt to retreat from what is proving to be a losing battle with the emerging producer countries on the price competition front.

Foreign demand made a determinant contribution to the results total for 2007, since men's fashion exports proceeded at an extremely lively pace during the entire first part of the last year 2007. Between January and August (Table 2.1), growth in foreign sales marched at rhythms exceeding 10%, with extra-EU destinations (+ 14.7%) continually stealing the scene on the broad sector export stage (thanks in part to the contribution of Switzerland, which further consolidated its role as logistics/commercial platform for high-end products destined for the major world markets).

*The process of repositioning toward the high end of the range continues non-stop, with the focus more than ever on creation of value.*

*Foreign trade provided the best news for 2007: accelerated exports and a simultaneous slowdown in imports permit a substantial improvement of the trade surplus figures.*

**Table 2 – Italian Men's Fashion: Foreign Trade<sup>(\*)</sup>**  
(January-August 2007)

1) Exports				2) Imports			
Country of Destination	Millions Euro	% Var.	% Share	Country of Origin	Millions Euro	% Var.	% Share
TOTAL	3 670	10.5	100,0	TOTAL	2 913	2.8	100,0
<i>of which:</i>				<i>of which:</i>			
<i>Intra UE27</i>	1 970	7.1	53.7	<i>Intra UE27</i>	1 049	-0.3	36.0
<i>Extra UE27</i>	1 700	14.7	46.3	<i>Extra UE27</i>	1 864	4.7	64.0
<i>Top 15 customer countries</i>				<i>Top 15 supplier countries</i>			
SWITZERLAND	510	23.3	13.9	CHINA	737	16.1	25.3
FRANCE	396	5.6	10.8	TUNISIA	283	9,5	9,7
GERMANY	322	-2.7	8.8	ROMANIA	258	-26.5	8.8
USA	314	-3.3	8.6	TURKEY	179	10.7	6.2
SPAIN	294	6.7	8.0	FRANCE	140	11.1	4.8
UNITED KINGDOM	253	15.8	6.9	BANGLADESH	135	-0.7	4.6
RUSSIA	160	47.4	4.4	BELGIUM	102	18.1	3.5
JAPAN	158	0.0	4.3	INDIA	100	-2.2	3.4
NETHERLANDS	135	5.7	3.7	GERMANY	88	13.7	3.0
GREECE	114	14.8	3.1	SPAIN	86	28.0	3.0
HONG KONG and CHINA	96	35.1	2.6	NETHERLANDS	70	24.4	2.4
BELGIUM	88	11.2	2.4	BULGARIA	66	-8.1	2.3
AUSTRIA	64	15.1	1.8	UNITED KINGDOM	54	34.2	1.9
SOUTH KOREA	52	13.6	1.4	MOROCCO	43	18.1	1.5
DENMARK	51	-7.1	1.4	ALBANIA	39	4.9	1.4

Source: ISTAT data processed by SMI-ATI

<sup>(\*)</sup> Differently from Table 1, this table includes data for Junior products



Among the extra-EU countries, Russia (+ 47.4%) confirmed its standing as far and away the most receptive market for *Made in Italy* menswear, but China and Hong Kong (+ 35%) are also, by now, just a rung away from the "Top 10" listing of Italy's major foreign trade markets. Again in Asia, the dynamism shown by trade flows to South Korea (+ 13.6%), the region's third-largest economic force, merits attention.

Less satisfactory, instead, were the results obtained in the U.S. (- 3.3%) and in Japan (0%), where the effects of the appreciation of the euro were bound to be felt. Net currency exchange considerations, however, men's fashion exports to these two countries show significant increases in the analysis period (about of 4.6% and 12%, respectively).

But gratification was not lacking for the Italian companies within the European Union either. The EU markets (still accounting for almost 54% of all Italian men's fashion exports) increased their absorption capacity by more than 7% in the first eight months of 2007.

Among the principal markets of destination, the United Kingdom proved the most dynamic (+ 15.8%), but France and Spain also guaranteed good development rhythms (+ 5.6% and + 6.7%, respectively). On the opposite side of the scale, Germany continued to lose ground (- 2.7%): the effects of the country's already weak clothing consumption dynamics were magnified in a context in which the pressure exerted by extra-EU imports is still among the highest anywhere.

All things considered, the strong dynamism in exports should have permitted foreign sales to further increase their weight with respect to sector sales as a whole, to 61.1% in the 2007 end-of-year figures.

The contribution of foreign trade to the growth of sector activity in 2007, guaranteed by the clear acceleration of exports, was further amplified by a simultaneous slowdown in imports.

In the first eight months of the year, for example, the import growth rate did not exceed 3% (more than four times slower than in 2006). The figure synthesizes substantial stagnation in purchasing from Community partners (- 0.3%) and an only moderate increase in flows from extra-EU countries (+ 4.7%).

In the ranking of principal suppliers to the Italian market, China has further consolidated its leadership (imports from the Asian giant, which by now controls more than 25% of the total import market, topped out at + 16%), subtracting market shares from Romania in particular (- 26.5%). Other Mediterranean euro countries (Tunisia, Turkey, and Morocco) are instead proving to be well-girded for combating Asian competition.

Although feeling the effects of a certain slowdown in export in the last part of 2007, the year just ended should have closed with a net improvement in the sector trade surplus, which after the brusque drop-off of 2006 (when, for the first time in recent years, the sector surplus did not reach one billion euros) is estimated to have returned to a level well above the 1.3 billion euros threshold.

*The role of extra-EU countries in the foreign sales framework continues to grow, with Russia and the Asian markets in the spotlight.*

*The strong euro has not - so far - had dramatic effects on flows to the U.S. and Japan.*

*With the glaring exception of Germany, the EU markets have also guaranteed significant increases in Italian companies' foreign sales.*

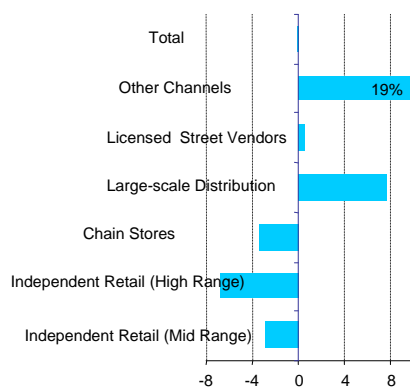
*Import is slowing down: the emerging countries are evidently encountering difficulty in attacking those market ranges that are less sensitive to purely price-based competition.*



Growth of sector activity in 2007 also benefited from a slightly favorable contribution from the domestic market: despite generalized stagnation as regards volume of sales, nominal homeland expenditure should have registered an increase on the order of 2% during the solar year.

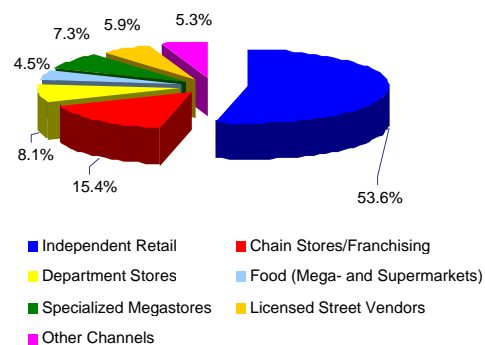
**Figure 1 – Sell-out Trends in Italian Men’s Fashion Retail Channels (F/W 2006-2007)**

(% variation in consumption, in value, by channel)



**Figure 2 – Italy: The Structure of Men’s Fashion Distribution (F/W 2006-2007)**

(% of overall consumption, in value)



Source: SitaRicerca data processed by SMI-ATI

At the single-product level, the most recent seasonal data on winter sales again refer to 2006-2007 and point up an attenuation of the performance differential between the “classical” and “sportswear” areas of fabric outerwear, thanks above all to sales of jackets (+ 10% in terms of quantity), that amply compensated for the stagnation seen in suits sell-outs and the drop-off in classical trousers.

The results for sports outerwear were, instead, still disappointing, partly because of inflation higher than the sector average. Ground was lost by parkas (following many seasons in which the product was the best performer) and even by jeans (- 1.5%), a product whose positive dynamics provided a mainstay for the casual clothing demand in the past.

At the retail level, in F/W 2006-2007 the top sales increases (+ 19%) were had by the outlets, company stores, and on-line sales included in the “Other Channels” aggregate slice in Figures 1 and 2.

The other “star” channel for the last winter season was large-scale distribution, where we saw sell-outs peak at above 7%.

The distribution channels in greatest difficulty were, instead, the single-brand chains and independent retailing, both of which saw their sales fall by more than 3%.

Despite the continual drop-offs of the last few years, independent retail continues to handle 54% of all men’s fashion sales to end customers, a share more than eight percentage points above the average for the textile-fashion industry as a whole.

*Less brilliant the news from the domestic market, but some improvement is to be seen even on this front.*

*At the retail level, the alternative distribution channels and large-scale distribution gained market shares during the last F/W season.*



With reference to the current season (F/W 2007-2008), instead, the available SitaRicerca data point to a substantially positive season start (+ 2.8%, for example, the preliminary datum for October expenditure), but the forecast for the campaign as a whole is still for stability. In classical clothing, we expect a positive contribution from suits, in a context in which the expansion cycle currently enjoyed by jackets could be marking time. The overcoat (shorter, closer-fitting, lighter) should also gain ground. Another area in relative difficulty is sportswear, where the leader products (long and short outer jackets), following the successes obtained a few seasons ago, may have trouble meeting consumer expectations.

All in all, it would seem that although the domestic market is in better condition than in the recent past, this year as well the fate of Italian men's fashion will depend on export trends. And on this front there is no lack of uncertainty: at the macro level, for example, we will be feeling the effects of the general slowdown in economic growth and of the strong euro, while at the industry level we will have to reckon with two major factors: an expected slowdown in clothing consumption dynamics on the major Community markets (even though here, several qualified observers tell us that we should be seeing some signs of recovery from Germany), and extension of the products field (from basic to mid-range) on which we will be squaring off against competition from emerging competitors.

As has often been the case in the past, in this competitive scenario the most significant factor in determining the overall performance of *Made in Italy* men's fashion will be the decisions taken by the single companies; that is, the industry's ability to continually shore up the non-price advantages of its offer.

*The most recent sell-out data (October 2007) are interesting, but - in light of the many signals of uncertainty at the macro level - it is too early to say whether or not the F/W 2007-2008 balance sheet will close with positive results.*

*Italian men's fashion is navigating by sight, but encouraged by the inversion of the economic trend in 2007 the sector is still setting their compass heading to research into quality, a beacon for consolidating the good results obtained to date in 2008.*

**Florence, 9 January 2008**

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**Publication by Tessile & Moda Service – soc. Unipersonale**

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