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THE ITALIAN FOOTWEAR INDUSTRY: IN THE FIRST QUARTER OF 2023 THERE WAS AN INCREASE IN TURNOVER (+13.6%) AND EXPORTS IN VALUE TERMS (+16.1%), BUT EXPORT VOLUMES FELL (-2%) AND SO DID PRODUCTION (-1%)

Milan, 10 July 2023

The first quarter of 2023 saw the recovery of the Italian footwear sector continue, with turnover up +13.6% compared to the same period in the previous year. This is the snapshot provided by the Confindustria Moda Research Centre for Assocalzaturifici, which also shows an improvement in the balance of trade (+21%).

"After yet another record being broken with the final balance for exports in 2022 (12.65 billion euro, +23% over 2021), the growth in exports continued, with a further +16.1% increase in value," explains Giovanna Ceolini, Chair of Assocalzaturifici. "In particular, all the top 20 international destinations for Italian footwear, with the sole exception of Switzerland (-7.8%), saw increases in value, that were almost always in double-digit territory. However, the situation is different for volumes, as North America slowed down noticeably (-19.4%) and decreases were seen in Germany (-8.8%), the United Kingdom (-10.1%) and in direct flows to Switzerland (-24.8%), the traditional logistics hub for luxury brands. There was a strong recovery in Russia and Ukraine, although it should be noted that in March last year, immediately after the start of the conflict, sales to these two markets had plummeted; the results for Kazakhstan (+77% in value) were very positive. The recovery in the domestic market also continued (+8.2% in household purchases over Q1 2022)".

However, despite the favourable trends for the main economic variables, there is still cause for concern. Indeed, there are several signs of a slowdown in growth (which is to an extent natural), after the V-shaped recovery in 2021 and the further consolidation in 2022. Despite a somewhat uneven trend across companies, this recovery allowed the sector as a whole to return to pre-Covid revenue levels in 2019. Companies' forecasts for revenues for the second quarter onwards remain positive, but appear to be cooling progressively; in terms of volume the slowdown is even more evident, with some decreases already emerging compared to Q1 2022. In the first 3 months of the year export volumes shrunk slightly (-2%) as did production (-1%, according to ISTAT's index of industrial production).

"The survey conducted by the Confindustria Moda Research Centre amongst our members," - notes Giovanna Ceolini, - "also revealed that high prices for energy and raw materials are currently the biggest problem for footwear companies, due to their impact on balance sheets. The survey responses also confirmed the tightening of banking credit in recent months as reported by the Bank of Italy and Istat: as much as 39% of the sample reported further restrictions (with this figure rising to 51% when we exclude companies who do not currently use credit facilities). Finally, the analysis confirmed once

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again the sector's difficulties in finding skilled labour - with 84% of entrepreneurs identifying this as a significant problem for their businesses."

The report also shows that the selection process among companies is still ongoing (with -107 less active businesses compared to December, i.e. -2.8%), while the number of employees remains fairly stable (-0.3%). After the exceptional peak during the pandemic, the number of authorised wage support hours in the leather sector fell again (-20.4% in the first five months), despite a reversal of this trend in April-May (+12.6%): there were 5.7 million hours authorised overall, still +76.2% higher than in the first 5 months of 2019, before Covid.

Returning to exports, the breakdown by product type reveals uneven trends. The leather uppers footwear segment - the leading segment, which accounts for 63% of the value of exports - is the only one to have increased in the first quarter both in value terms (slightly above the average, +18.6%) and volume (+1.4%) compared to the same period in 2022; nevertheless, volumes are still down markedly compared to 2019 (-16.6%). Among the segment's items, there was a significant reduction for children's leather footwear (-12% in volume), bringing to an end the recovery over the last two years; there were positive signs for the "men's" (+4.7% in total volume, despite the decrease in "high boots") and "women's" segments (+1.5% in volume, with +2.2% and +4.2% increases for walking shoes and sandals respectively and a -24.5% reduction for boots/ankle boots).

In terms of export performance across different production regions, when analysing the data, consideration should be given to distortions resulting from potential discrepancies between the manufacturing province/region and the place where export goods are actually dispatched from. Strong export growth in some provinces is attributable to logistics hubs, which are often linked to online sales, or storage facilities for luxury brand multinationals. This helps explain the performance of Milan, which increased by +64% in the first quarter to become the leading exporting province in the sector after overtaking Florence (-11%). Looking in detail at the destination markets of these two territories, however, we note the marked increase in flows from Milan to Switzerland, which were up by +251%, i.e. 103 million euro compared to Q1 2022: this is roughly equivalent to the reduction recorded by the province of Florence in flows towards the same country (-99.8 million euro, i.e. -28% from Q1 2022). These variations are related purely to changes in distribution dynamics, and are not attributable to the economic situations in the respective areas.

As a result of these changes, Lombardy (with its +49.5% jump) overtook Tuscany (-6%) in the regional export ranking, rising to second place behind Veneto for the period, with the latter seeing an increase of +12.6%. With the exception of Tuscany and Puglia (which remained stable, -0.2%), all the other main footwear areas saw double-digit increases; Marche's growth of +20.3% (with similar trends for Fermo, +23.3%, and Macerata, +21.8%, and more moderate rises for Ascoli, +13.6%), means it is now 4% above pre-Covid levels in Q1 2019. Conversely, despite a +22.2% increase, Campania is the only region that remains below pre-Covid levels (-3.8%). Returning to the figures for Tuscany, it should be noted that, net of flows to Switzerland, exports would actually have recorded a double-digit increase (+14.3%). This is in line with the national average and means there are no particular criticalities compared to other areas.

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