THE INFANTS' AND CHILDREN'S CLOTHING SECTOR

In an economic phase that is still very uncertain for the Italian fashion system as a whole, junior clothing continues to perform at levels above the general average. Although 2002 closed with overall drops in sales of close to 4% for textiles/clothing as a whole, in the junior apparel sector (with its more than 2000 companies and about 30,000 employees), total sales grew by 3.3%, jumping well beyond the 1.8 billion euro threshold.
This result was made possible by a still-growing trend in exports (+4.3%, for 584 million euro), which accounted for more than 31% of all sales, and a slight increment on the domestic consumption front (+1.4%) following the disappointing results that characterized the year 2001.

Table 1: the Italian Junior Clothing Industry (in millions euro)
(% variation at current prices)

	2000	2001	2002
Sales	1,686	1,797	1,856
% variation		6.6	3.3
Exports	535	560	584
% variation		4.7	4.3
Final Consumption *(*)*	3,527	3,396	3,444
% variation		-3.7	1.4

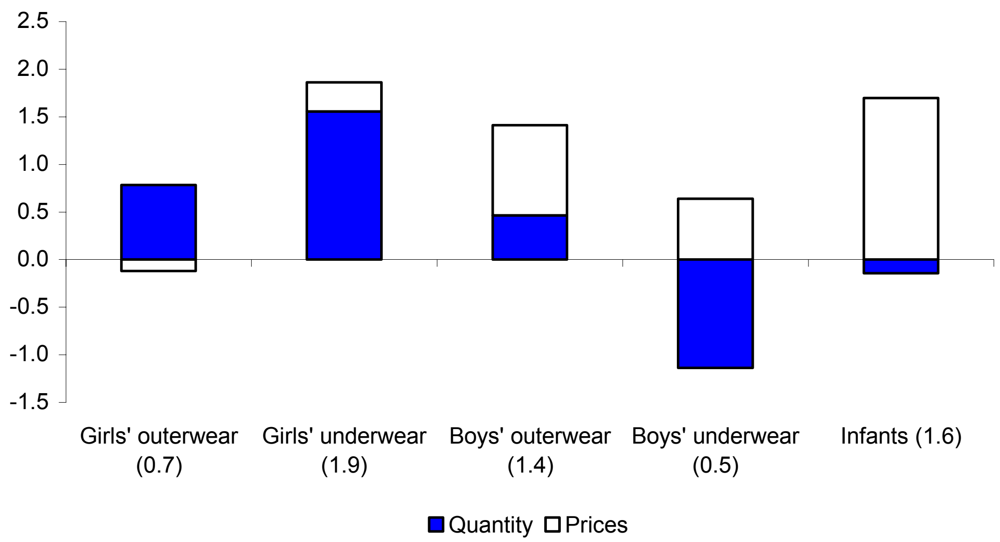
Source: Internal and AC-Nielsen data processed by SMI
(*) sell-out values

At the sector level, the most satisfying domestic consumption results for last year were those achieved by the girl's underwear niche (+1.9%, thanks to very positive results by cotton hosiery) and by infants' clothing (+1.6%). In the latter case, we saw a rise in per capita spending (435 euro/year) following the brusque drop registered in 2001.
In the "big" outerwear sectors, the best results were had in boys' clothing (+1.4%), thanks above all to knitwear (+7.4%), which compensated the disappointing trend in sales of fabric garments (+0.5%). In the girls' sector as well (+0.7% increase in spending on the final balance sheet), knit outerwear was the type of garment most sough after by consumers (+13.6%), but even in the leather clothing micro-sector the increases came close to 10%. Analogously to the trend in the boys' segment, the results for fabric outerwear in the girls' sector were not positive (-4.8%).
The most recent information on economic trends nevertheless shows a series of signs of weakness.

Pitti Immagine srl
50123 Firenze, via Faenza 111

Tel. 055 36931 Telefax 055 3693200
Home page http://www.pittimmagine.com
E-Mail stampa.italia@pittimmagine.com
E-Mail stampa.estero@pittimmagine.com

Figure 1: Domestic Consumption in Selected Sectors of Junior Clothing in Early 2003
(% variation in overall spending)



Source: AC-Nielsen Sita

On the demand side, the first four months of the year showed an anything but negligible drop in final consumption (-1.4% for the sector as a whole), with especially disheartening results in girls' outerwear (-3% in the first four months and still very disappointing performances by fabric garments, down -7.7%). Less penalizing results were obtained in the boys' sector (-0.8%), while the only satisfactions for retail came from underwear (boys' to some extent, but above all girls').

Many elements of uncertainty that are completely "exogenous" to the sector as such (macroeconomic stagnation and the war in Iraq, to name just two) have "frightened" consumers and in the first months of 2003 slowed down sales in a sector that, from the point of view of the offer, did not shirk on its efforts (in terms of continual renewal of the collections, reassortments, last-minute orders, etc.) to stimulate consumers and spark "love at first sight" and impulse buying.

Substantially, what was missing in the first months of this year were customers, not products!

Downward signs were evident on the export front as well. The official ISTAT information for the first two months of this year (unfortunately, available only for the "small" infants' segment) show a drop-off of close to 11%, after a year 2002 instead characterized by sufficient market resistance (-0.4%). Among the first ten export markets, positive news for the January-February period came in only from the United States, which almost doubled (+93.2%) its absorption capacity with respect to the corresponding period last year. On the others, with the exception of Kuwait and Greece, we saw a series of substantial decreases, often in the two-figure range.

Table 2: Exports of Infants' Clothing (0-2 years)

(January-February 2003)

Country	Millions €	% var. over Jan-Feb 2002	% of Total
Japan	4.2	-9.8	14.0
Spain	4.0	-1.0	13.3
United States	3.4	93.2	11.5
Saudi Arabia	1.4	-7.7	4.8
Portugal	1.4	-16.5	4.6
Hong Kong	1.3	-7.5	4.2
Kuwait	1.2	70.2	4.0
France	1.1	-25.4	3.6
Germany	1.0	-32.6	3.3
Greece	0.8	22.0	2.8
World	**29.8**	**-10.9**	**100.0**

Source: ISTAT data processed by SMI

For an overall picture of trends in sales abroad - the infants' sector in fact represents only about 15% of all junior clothing production - we must integrate the official data with the sample data gathered directly by SMI (Sistema Moda Italia) at the associated companies. From these data there emerges a weakening in foreign sales for the first three months of 2003 that while less apparent (down 1.2% with respect to the corresponding period 2002) was nevertheless sufficient to translate into a decrease in the relative weight of exports on total sales with respect to the average that characterized last year.

Table 3: the Economic Situation for Junior Clothing

(% variation)

	4th Quarter 2002	1st Quarter 2003	2nd Quarter 2003 (*)
Sales	4.8	2.3	0.6
Production	2.0	0.7	6.6

Source: SMI economic trends studies

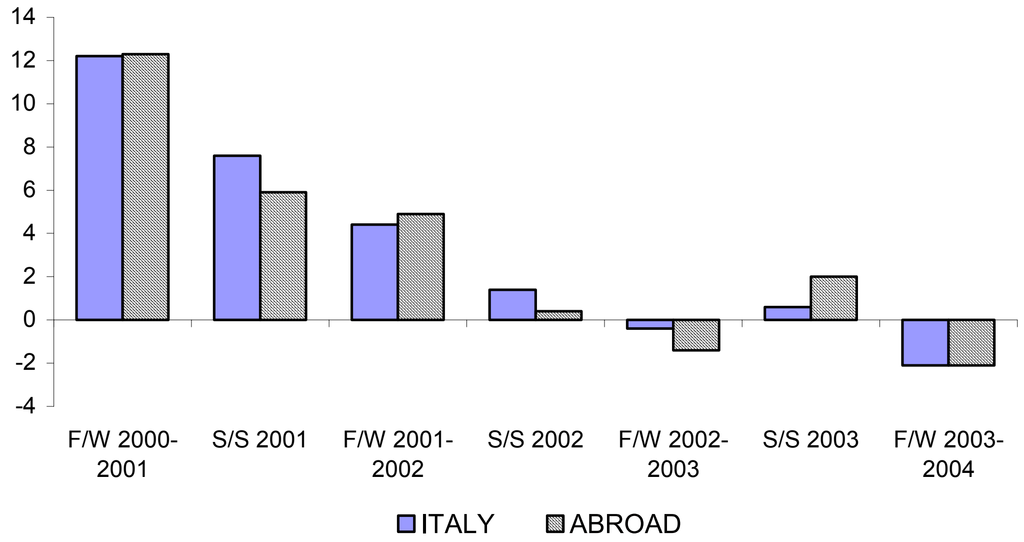
(*) Company forecasts

Furthermore, in the estimates of the companies, we should not expect interesting developments on the foreign sales front even in the second three-month period of this year.

As regards sector activity (which sees more than 50% of production entrusted to Italian outside contractors, a percentage that has climbed in the last quarters), instead, the companies seem slightly more optimistic. The companies included in the SMI sample tend to see the first quarter of this year as the period in which the current cyclical phase may have reached its low; however, they also feel that from this quarter onward we could be seeing significant acceleration of the ricovery, thanks above all to the summer production reassortments.

These estimates, nevertheless, are subject - as has already happened in the past - to undergo strong alteration, since the importance of the "unprogrammed" share in this sector generates space for development of pronounced differences between the data gathered at the beginning and the end of the campaign. In this case, analysis of the information from the final market leaves space for revisions upward. In fact, the most recent estimates indicate that starting in the current Spring/Summer season the road to recovery will begin for the sell-out in junior clothing - which would thus confirm it as one of the sectors least influenced by Italian family "budget cuts."

Figure 3: the Orders Campaign in the Junior Clothing Sector
(% variation at current prices)



Source: SMI economic trends survey - June 2003

Table 4: Forecasts for Domestic Consumption of Junior Clothing
(var. %)

	S/S 2003	**F/W 2003**	**S/S 2004**
Quantity	-0.3	0.4	0.8
Prices	2.2	1.6	1.2
Overall Expenditure	**1.9**	**2.0**	**2.0**

Source: AC-Nielsen Sita

Notes prepared by the Area Centro Studi of Sistema Moda Italia for Pitti Immagine.
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