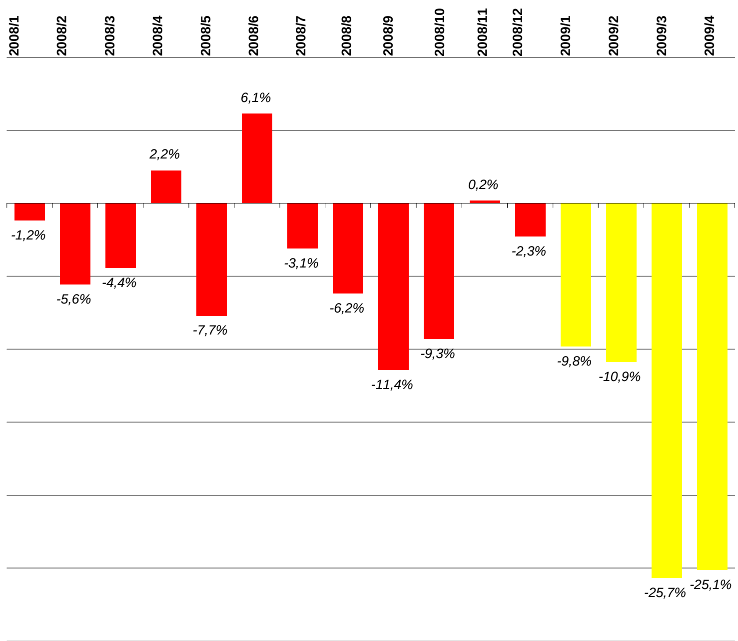
The economic situation
July 2009

ECONOMIC REPORT
prepared by the Study Office of the Industrial Association of Prato

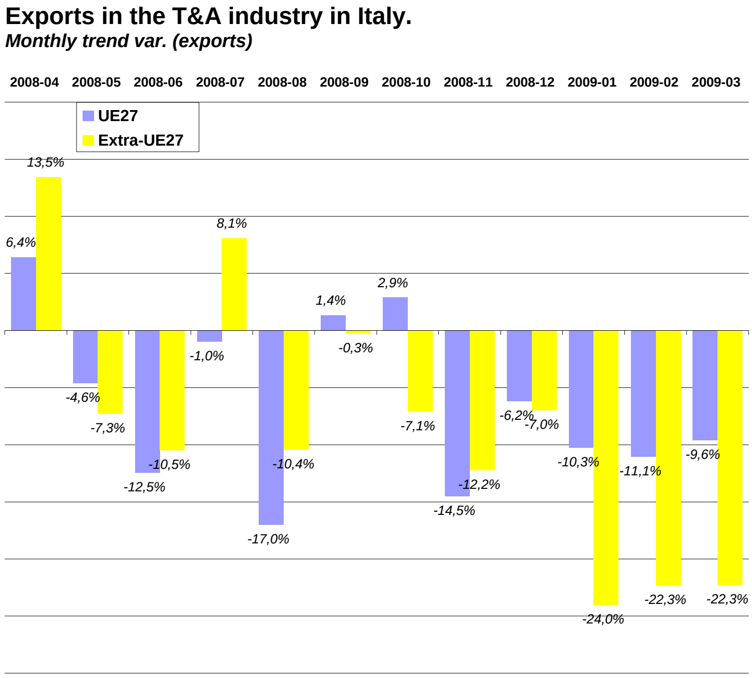
The sudden **precipitation of the global crisis** after September/October 2008 had a profound impact on the Italian Textile & Apparel sector, causing recessive consequences on the demand for products by the sector in practically all its markets, both domestic and foreign.

Production in the Italian T&A industry.
Monthly trend variation – ISTAT index of industrial production



The statistics relative to the reduction of consumption in the apparel sector, though intrinsically significant, conceal vast differences among the segments, with the heaviest downturn at the higher levels that appeared to be better protected against economic variations, and what we are seeing in general is extreme caution in purchases and keen attention to the quality/price ratio.

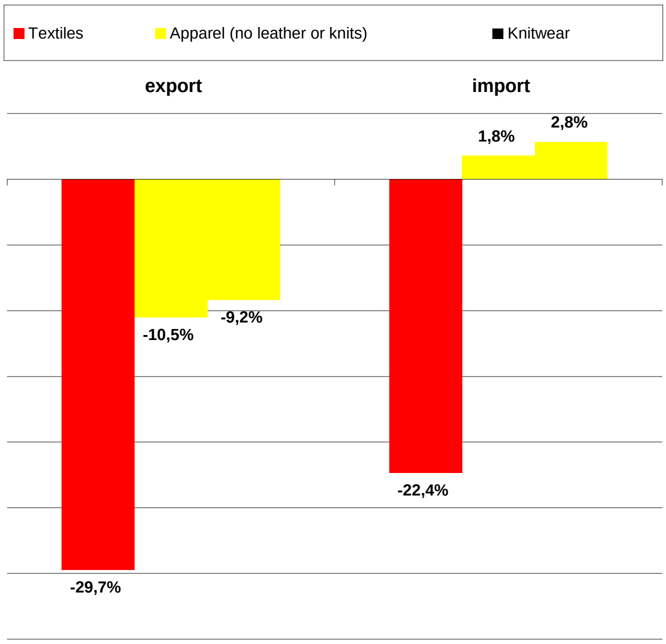
It is certainly true that the crisis, tending to reshape and **reallocate downward a portion of demand,** has opened a further breach for the penetration of the markets by imports from low cost countries, and not coincidentally the performance of apparel imports into Italy has continued at a different rate with respect to the reduction of consumption and exports.



The most severe impact of the crisis on domestic T&A trade is, however, clearly visible in what is nothing less than a complete upheaval in the various elements of the business chain.

If a **differentiated performance between the upstream and downstream sectors** has always characterized even the recent years (the turnover was down in the textile chain by 4.3% in 2008 compared with 2007, while for the apparel industry it was up by +2.8%; the same can be said for exports, down by –9.8% in 2008 compared with 2007 in value and up in apparel by +0.8%), the divarication in the first part of 2009 was even greater: in the first quarter of 2009 (surveyed on a sampling of SMI) compared with the same period of 2008, for example, **turnover in the textile sector was down by –27.7%** while in the **apparel sector it was “limited” to a reduction of –6.3%.**

Foreign Exchange in 2009 in the textile and apparel knitwear industry in Italy.
Trend variations January-March



In the light of this trend, we can see indications of the combination of several factors: **the effect on distribution stocks** caused by the sudden explosion of the financial and real crisis last year (only partially offset by clearance sales), the **restrictions on the distribution of credit to the enterprises** that were applied to a sector highly dependent on them, that found itself suddenly having to deal with an exhausting financial cycle, the consequent need to reduce stocks to a minimum at every level of the chain before activating new production, the **uncertainty about consumer behavior** also in relation to the uncertainty about the effective gravity of the recession.

All these are factors whose consequence is to reduce the demand for products "upstream" but the result of this should also be to cause a **temporal repositioning** of procurement so as to bring it closer to the time of final sales or at least to the first concrete signals of the reviving market.

Exports in the first quarter of 2009 by the textile industry (Ateco 2007) in the main districts

	2009 1st qtr. mln Euro	var. % 2009 / 2008	QUOTA % EXPORTS ITALY 2009
District of Prato*	265,31	-24,9%	15,2%
District of Biella**	216,08	-27,0%	12,4%
Milan	172,03	-35,9%	9,9%
Como	171,60	-30,0%	9,9%
Bergamo	122,94	-27,3%	7,1%
Varese	78,13	-20,3%	4,5%
Vicenza	73,66	-20,2%	4,2%
Treviso	86,14	-10,9%	5,0%
Brescia	44,74	-30,9%	2,6%
Cuneo	34,08	-31,4%	2,0%
Novara	22,87	-45,3%	1,3%
Other prov.	452,27	-28,9%	26,0%
Textile Exports - Italy	**1.739,85**	**-27,8%**	**100,0%**

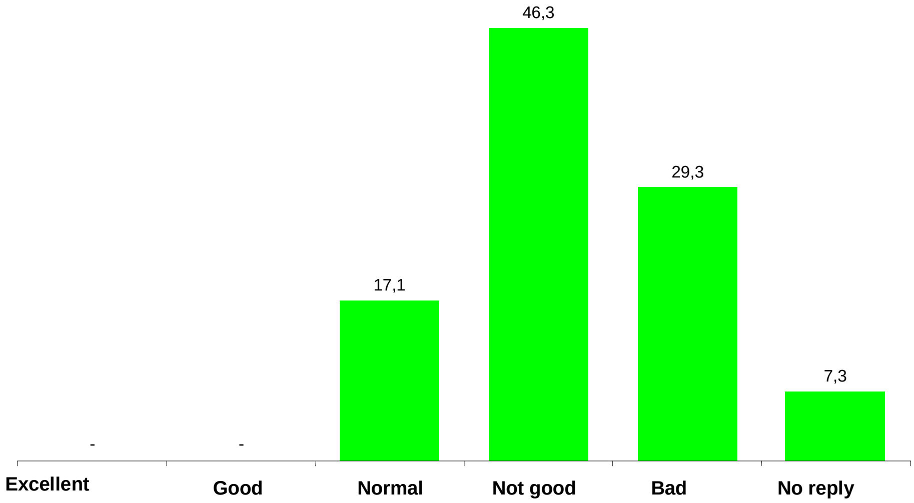
** Exports by provinces of Prato, Florence and Pistoia*
*** Export by provinces of Biella and Vercelli*
Source:ISTAT data processed by Industrial Association of Prato Study Office

The production of the **programmed winter collections for the 2009-2010 season** appears to be, for the timing that characterizes fashion textiles, certainly the **most deeply affected** by the consequences of the crisis that burst upon us in the last months of 2008. A conclusive judgment on the consequences "upstream" of this stage, extremely critical in any case, must be able to verify what will happen in the coming months, where a final demand that might not be so depressed, combined with a higher content of service required of a temporal repositioning of purchases, could produce some return of the production in the coming months.

In any case, the consequences of this upheaval of the chain are **scattered throughout the textile industry everywhere in the country**.
The data on foreign trade in the first quarter of 2009 revealed heavy losses in the export values compared with the first quarter of 2008 in all the main Italian textile districts.

Forecasts for performance of the comany in coming months in a group of textile mills

(data collected between April and May 2009, % of replies)



The forecasts by the textile producers (in the survey made in April/May 2009 for the first half) are severely **negative**. None of the mills expects positive results and only 17.1% expect to close the semester "normally" with respect to the reference season.

Expectations of sales on the reference markets are also aligned with the general expectations. Good or stable forecasts do not reach the threshold of 30% in all markets.

The tidal wave of global crisis is submerging a textile and fashion sector that was already badly shaken and redefined by the selective processes that took place after 2001: it is reasonable to suppose that **only companies that continue to invest will remain afloat in a market that grows more complex and competitive every day**.

The companies that believed in and participated in PRIMA MODA TESSUTO, have this kind of spirit and determination.

Prato, July 2009