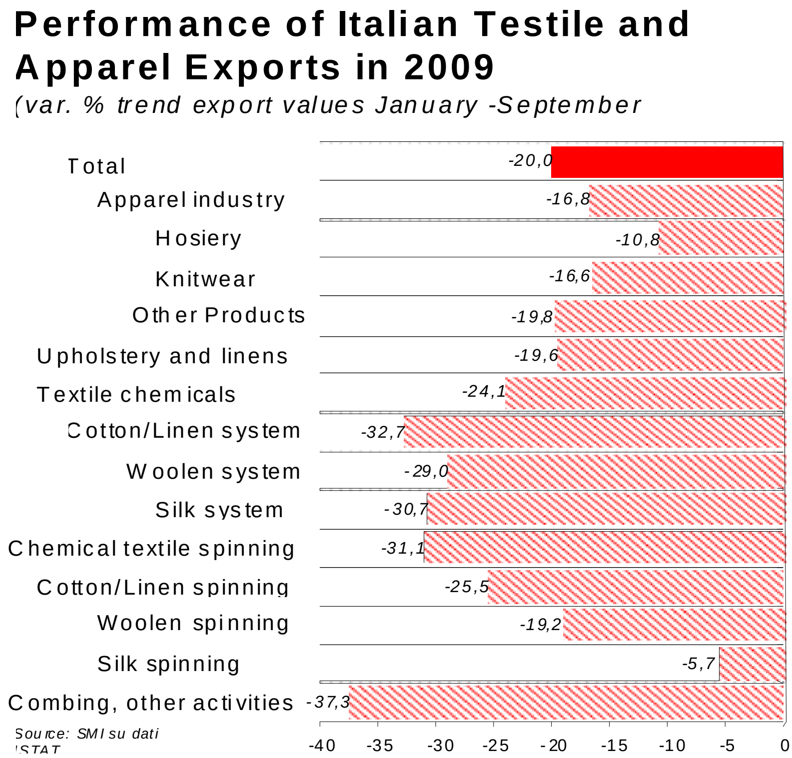
The Economic Situation in Prato
January 2010

ECONOMIC REPORT

by the Study Office of the Industrial Association of Prato

The **recession** caused by the American real estate and financial catastrophe in 2008, struck the **real global economy in 2009 with devastating effects**.

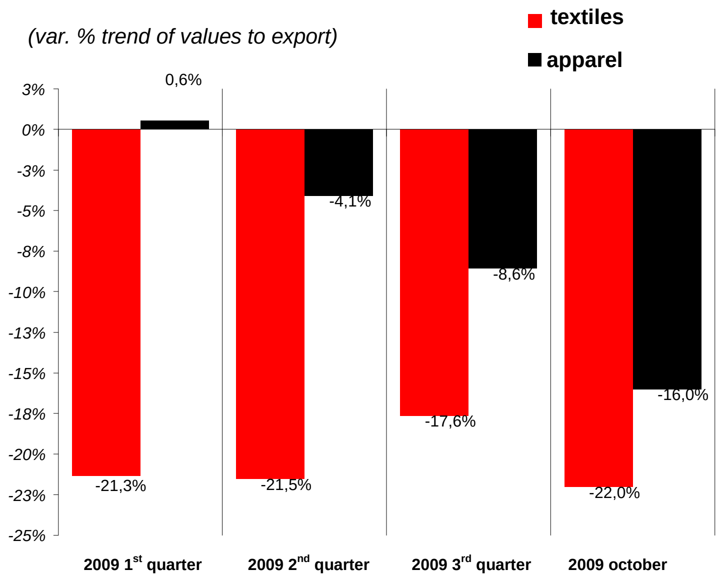


Like other sectors in the domestic economy, the **Italian textile and apparel system** encountered **severely negative demand conditions** on practically all its markets.

The freeze **struck in different ways in different segments, affecting even the highest levels** that had appeared to be more protected against variations of the economic situation, causing the consumers to use, in general, **great prudence in their purchases and sharp attention to the quality/price ratio**.

Competitive positions were subjected to an enormous shake-out: a number of players cited as examples for their success in previous years were badly damaged, mortally in some cases.

Performance of Apparel Imports in 2009

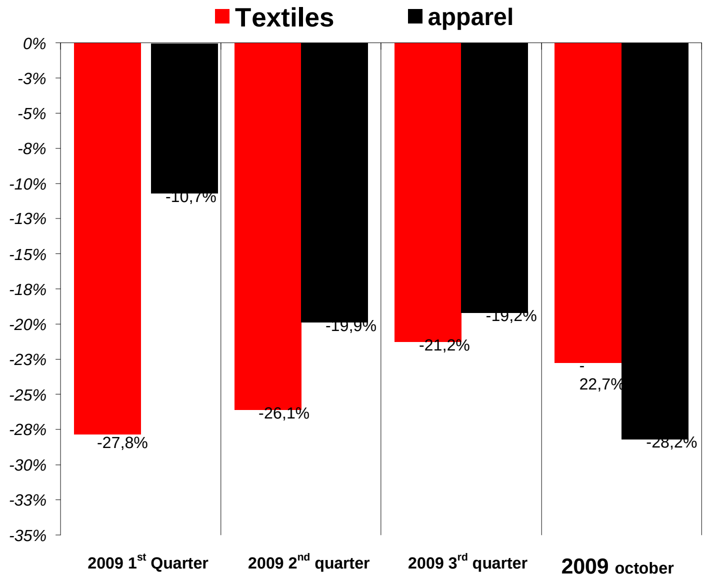


Undoubtedly, the crisis pushed **demand downward**, changing many aspects, and opened new **a new breach for penetration of the markets by cheap imports**, and it is certainly no coincidence that apparel imports to Italy grew at a different rate with respect to the reduction of consumption and exports.

The greatest impact of the crisis on the domestic T&A sector appeared to be the **upheaval in performance figures for the different sectors of the chain**.

Performance of Italian Textile and apparel exports

(var. % quarterly trend of export values)



While differentiated performance between the upstream and downstream segments of the market has normally characterized the export trade in recent years (for example, in 2008 it was down –10.4% for textiles and –0.7% for apparel) the difference in 2009 was truly extraordinary: the wedge between the performance of sales in distribution and production of apparels and textiles literally exploded.
There was an abrupt **reversal of policy regarding stocks** due to the sudden freeze of the market and equally sudden **credit restrictions**, the need to **dispose of stocks as much as possible and the economic and financial risks connected** to them, **uncertainty** about the extent of the recession and the possible future behavior of consumers, and these problems, merging with the **advance timing the characterizes the chain in the fashion world**, caused **effects of increasing intensity on its gradual "upturn".**

For the "upstream" segment, i.e. **the textile industry, the early months of 2009 showed a highly unusual absence demand,** which was only partially overcome by an improvement in orders for production of the winter 2009-2010 season. The same seemed be true, six months later, for the spring-summer 2010 production. However, the Italian textile industry ended the year on a downward trend of –23.9% (January-November 2009) while apparel was down –17.8%.

Exports of the textile industry in 2009 by the main Italian textile districts (period January-September)

	Jan Sept '09 m.ni Euro	var. % Jan. Sept. '09/ Jan Sept. '08	SHARE % ON TEXTILE EXPORTS ITALY 2009
Prato district*	**978,95**	**-22,9%**	**17,3%**
Biella district**	639,91	-28,2%	11,3%
Milan	558,69	-30,5%	9,9%
Como	533,86	-27,6%	9,4%
Bergamo	385,80	-22,2%	6,8%
Varese	263,99	-27,2%	4,7%
Vicenza	262,17	-13,6%	4,6%
Treviso	256,54	-17,7%	4,5%
Brescia	132,60	-22,9%	2,3%
Cuneo	100,77	-24,9%	1,8%
Novara	70,90	-43,5%	1,3%
Other provinces	1.468,89	-25,0%	26,0%
Italian Textile Exports	**5.653,08**	**-25,3%**	**100,0%**

** Export provinces of Prato, Florence and Pistoia* *** Export provinces of Biella and Vercelli*

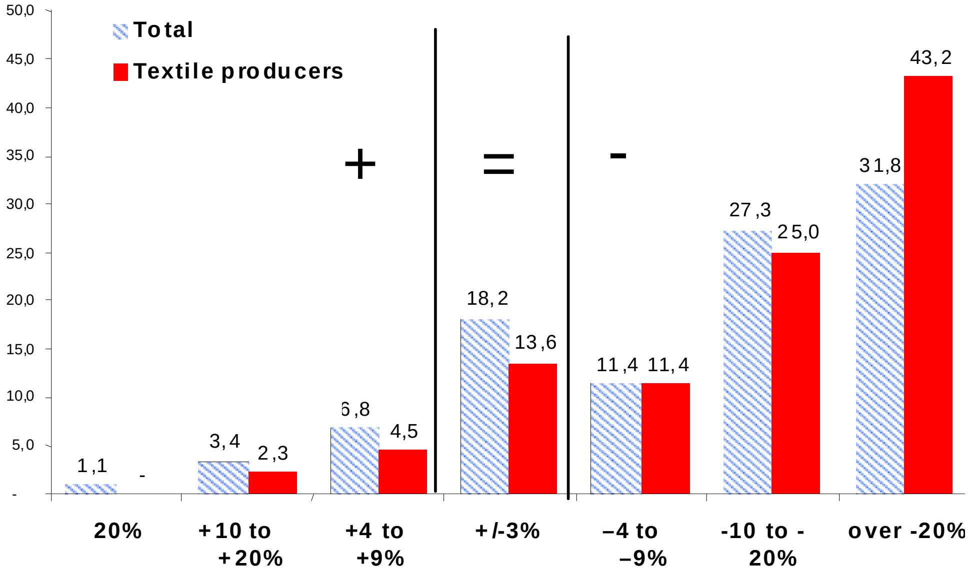
Source: Istat data processed by the Study Office of the Industrial Association of Prato

The consequences of this upheaval in the chain are distributed throughout the textile industry everywhere in the country. The data on foreign trade from January to September 2009 showed **significant losses of value in exports** compared to the same period in **all the main Italian textile districts**.

In view of the particular temporal logic of the chain, **production upstream (i.e. textiles) should be in "pole position" to benefit from the return to normal** of an economic climate that, in any case, **announces lower levels of consumption than before the crisis** and a **slow recovery characterized by great difficulty** and possible missteps.

Early total of variation of turnover in Prato's T&A companies and textile producers in 2009

(% of response on a sample of T&A businessmen in January 2010)

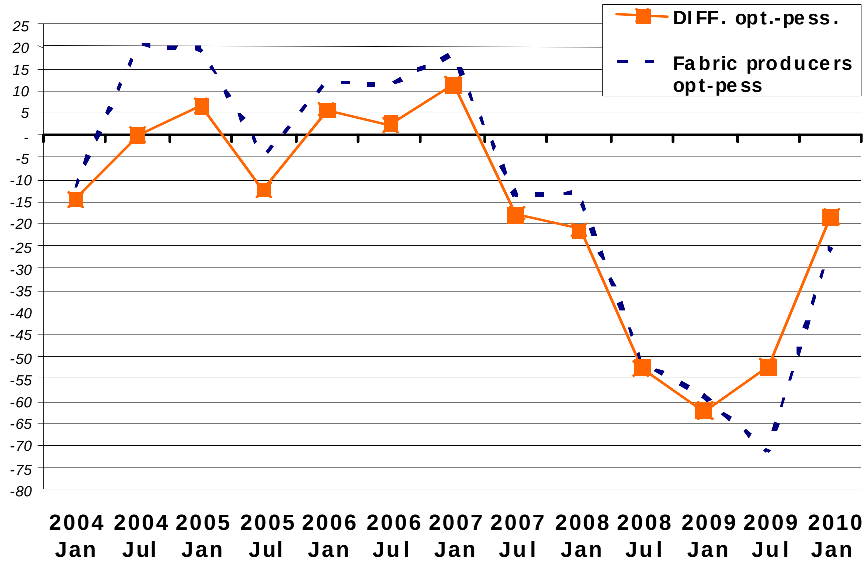


In particular, the coming months of production for **winter 2010-2011** appear to be **fundamental** for **Prato's textile manufacturers**. They hope their **historic woolen specialization**, the **positive market trends on this family of fibers**, the **cold** of this winter, the **realignment of production to de-mands of intrinsic quality** of the products and *value for money*, will provide some of the **elements needed to give new impetus** after a year in 2009 that everyone just wants to forget.

From its study of the effects of the economic situation on industry in Prato, made between the second and third week of January 2010 it would appear that **79.5% of the producers ended 2009 with negative revenues compared with 2008**.

Early forecasts for the season

(series of surveys % optimists - % pessimists in responses of a group of textile and apparel producers)



Regarding the coming months, the difference between the percentage of textile manufacturers in Prato who declare they are optimistic and those who are pessimistic is still in the largely negative direction **but with a definite reversal compared to the climate of opinions reported in the three previous surveys.**

The companies exhibiting at **PRIMA MODA TESSUTO** with the collections for spring-summer 2011 are the top textile producers, companies with an eye on the future and that want to stimulate the recovery with high quality fashion proposals capable of reviving consumer interest, made more conservative by the effects of the crisis, and more determined to find special features and intrinsic quality in the products.

Florence, January 27, 2010