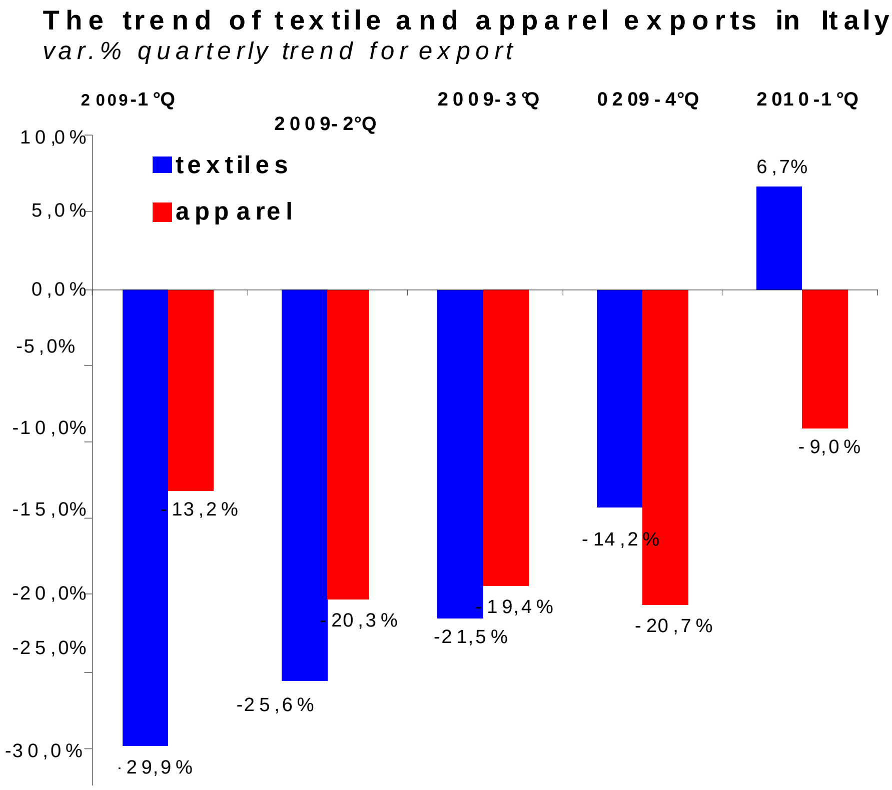
The Economic Situation in Prato

June 2010

ECONOMIC NOTE

by the Study Office of the Industrial Association of Prato

2009 will go down in history as having expressed the full effects of the worst recession in the post WWII period, and **2010 seems to be a year of consolidation, stabilization** and slow recovery.
The **recovery will be very slow, in any case**, and fraught with grave risks of new systemic crises (the case of the Greek default is a perfect example) and doubts about the macroeconomic effects of the various attempts enacted by almost all countries, to correct the public deficit, stretched to the maximum by the need to sustain demand, employment and, in many cases, save the countries from bankruptcy by nationalizing vast parts of the banking system.



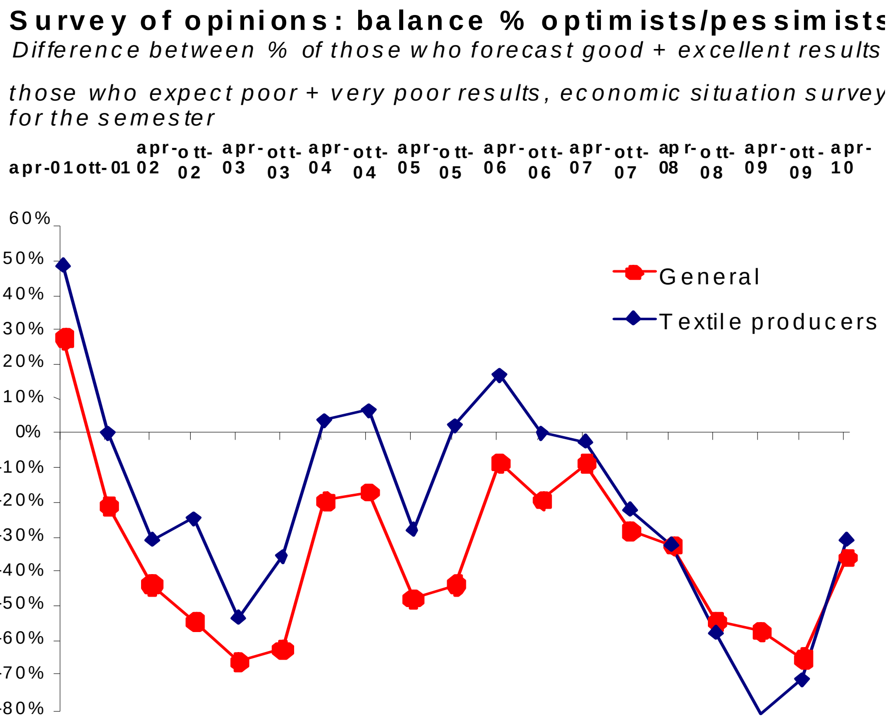
It is a fact, however, that the **early months of 2010** are showing, on the average, an intensification of the **recovery of industrial activity** with positive variations with respect to the corresponding - and effectively terrible – period of 2009. This appears **more evident for intermediate goods**, i.e. sectors upstream of the different industrial chains that were, in any case, the ones damaged earliest by the effects of the recession.

This dynamic can be readily seen in the performance of the Textile and Apparel chain. The **greatly advanced timing that characterizes the world of fashion** produced, when the crisis began, an immediate and drastic vacuum of demands for textile production, caused by the needs of the "downstream" sectors (including distribution) to appraise the extent of the recession and the future behavior of consumers, and to get rid of stocks as much as possible, with the risks connected to a picture that included strong limitations on credit. The "recessive wave" then, at least in the numbers relative to production and sales, "descended" the chain as can be seen clearly in the graph of quarterly export flows in 2009.

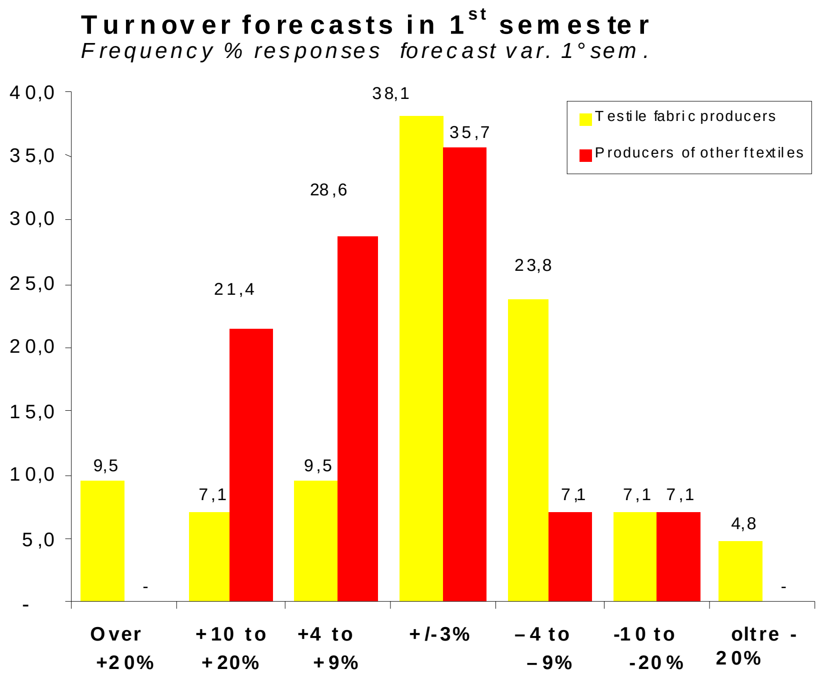
2010 is reversing the trend seen in 2009: in contrast with the positive trends of textile exports in the first quarter (compared with the terrible months) we are still seeing negative variations in apparel.

The Prato district

In this context, the **opinions** of the operators in the district – in the survey made in April-May 2010 interviewing 335 businessmen in the textile, apparel and textile machinery sectors with regard to the production trend of the first half of 2010 – **we found a complete reversal of the trend**: the **difference** % between optimists (the companies that expect their business to do "well" or "very well" in the coming months) and % of pessimists" **improved by 29** percentage points while **remaining**, it is important to note, **still generally negative**.



The qualitative figure of the survey on the economic situation carried out in May is fully supported by the **performance of exports in the province** that, in the first quarter, **was up by as much as +10.4%** over the corresponding period in 2009.

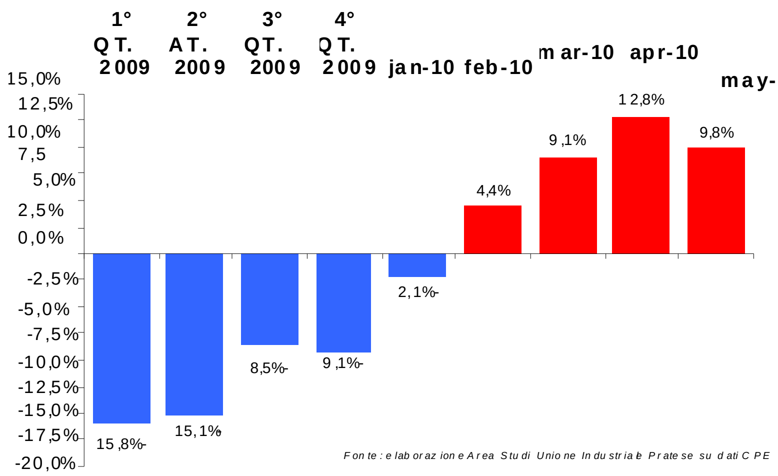


At the sectorial level, comparisons and agreements between qualitative and quantitative data concern almost every sector of production. The production of **woven fabrics** showed a much slower decrease in production levels, with exports in the first quarter at –1.9% and turnover at year end stable or slightly positive with respect to the first half of 2009 when, however, exports and turnover were decreasing in the double digits; forecasts have improved but are still prudent (43.2% of those interview remained pessimistic).

The production of **knitted fabrics, upholstery and special textiles** has already gone into high gear and its exports improved by +9,3% in the first quarter 2010; with slightly positive forecasts for the closure of turnover at the end of the first semester and, coherently with these data, 57.1% of those interviewed felt fairly optimistic or expected a stabilization of production in the coming months.

Trends in electrical energy consumption of a group of industries from Prato district

(Variations % trend of quantity of KWh consumed by a uniform group of 75 textile firms)



The recovery of the textile sector compared to the disastrous levels of activity in 2009 is also shown by the levels of consumption of **electrical energy** in the graph. Consumption divided by months shows the gradual improvement which grew stronger starting in March.

While the percentage of negative forecasts is still high, the improvement in progress also reflects the **sales forecasts on the different markets**: after two years of absolute prevalence of negative responses we are seeing a larger segment of "normal" expectations, and even some slightly positive responses.

As regards export sales of woven fabrics in the first quarter of 2010, in spite of additional losses on the first two markets (Germany –16.5% after – 23.7% in 2009 and Spain –5.3% after – 31.7% in 2009), among the other main clients sales increased in France (+17.3%), England (+12.7%), Russia (+16.6%), Romania (+33.5%), Portugal (+25.0%). Purchases of fabrics made in Prato were down in the period January-March 2010 on the Chinese market (-12.0%), in Turkey (-4.3%) and Hong Kong (-0.1%)

Textile exports* of the Prato district in 2009 and first quarter of 2010 on the main foreign markets**

	2009 mln. Euro	var. % 2009 / 2008	QUOTA % ON TEXTILE EXPORTS DISTRICT 2009	2010 1 QTR m.ni Euro	var. % 2010 / 2009
Germany	125,72	-23,7%	16,4%	24,41	-16,5%
Spain	76,20	-31,7%	9,9%	10,43	-5,3%
France	65,58	-17,3%	8,6%	14,29	+17,3%
UK	41,82	-29,2%	5,5%	9,39	+12,7%
Hong Kong	40,24	-33,6%	5,2%	7,66	-0,1%
China	38,61	-5,8%	5,0%	8,99	-12,0%
Russia	30,32	-30,0%	4,0%	6,88	+16,6%
Romania	28,35	-27,7%	3,7%	6,82	+33,5%
Turkey	25,42	-32,1%	3,3%	3,71	-4,3%
Portugal	25,15	-1,1%	3,3%	4,26	+25,0%
Poland	21,84	-30,8%	2,8%	3,61	-27,3%
[EUROPE]	569,42	-24,7%	74,3%	103,23	-3,4%
[European union 27]	490,65	-23,4%	64,0%	89,63	-4,1%
[Other Europe]	78,77	-32,1%	10,3%	13,59	+1,3%
[AFRICA	34,19	-8,3%	4,5%	5,53	+17,0%
[AMERICA	28,45	-43,5%	3,7%	5,48	-11,5%
[ASIA]	130,63	-27,2%	17,0%	28,50	+3,4%
[WORLD	**766,76**	-25,5%	**100,0%**	**143,53**	-1,9%

** Ateco2007 CB132-Tessuti* *** Export province di Prato, Florence and Pistoia* *Source: Istat*

The companies exhibiting at **PRIMA MODA TESSUTO** will present their fall-winter 2011-2012 collections, the best of textile production looking toward the future and trying to stimulate the recovery with high quality fashion proposals capable of renewing consumer interest, which they perceive as more conservative due to the effects of the crisis, and more reasonable in search of factors of quality and intrinsic value in the products.

Florence, July 6, 2010