

CBI MARKET SURVEY

The market for leather garments in Hungary

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Introduction

This CBI market survey gives exporters in developing countries (DCs) information on some main developments on the leather garments market in Hungary. The information is complementary to the information provided in the CBI market survey 'The market for leather garments in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used as well as information on other available documents for this sector. It can be downloaded from <http://www.cbi.eu/marketinfo>.

1. Market description: consumption and production

Consumption

Consumer spending on leather garments in Hungary amounted to € 31 million in 2008, an annual decrease of 5.5% in the period 2004-2008, of which 2007 showed the biggest fall (-25%). Growth during 2004-2006 (+7.5%) was higher than growth in 2006-2008 (+5.0%), partly due to a reduction in the VAT rate (from 25% to 20%) and to economic developments in the last six months of 2008. Leather garments accounted for 1.7% of total outerwear consumption in 2008 against 2.5% in 2004.

Hungary ranked 19th in leather garments consumption after Ireland (17th) and Slovakia (18th). Per capita expenditure on leather garments in Hungary amounted to € 4.25, which was far below the EU average of € 13.75.

Table 1.1 Consumption of leather garments in Hungary, 2004-2010, in € million

	2004	2006	2008	AAGR*	2010 forecasts
Total leather garments	40.2	39.1	31.4	-5.5%	30.0
Total outerwear	1,608	1,735	1,806	+3.1%	1,630
Consumption of leather garments in % of total outerwear	2.5%	2.3%	1.7%		1.8%

* Average annual growth

Sources: Derived from Eurostat (2009) and Euromonitor (2009)

Experts forecast that leather garments expenditure will have decreased by around 4% in 2009, but will decrease by less than 1% in 2010.

Demand for leather garments is determined by several factors like type of product, demographics, economic developments and attitude of consumers towards fashion. These factors are discussed below. Other more general factors are discussed in chapter 2 of the CBI market survey 'The market for leather garments in the EU'.

Type of product

A detailed breakdown of the different types of leather garments is not available, as explained in appendix A of the CBI market survey 'The market for leather garments in the EU'.

The increasing trend, away from formal wear (for daily use), favouring sales of casual and leisure wear, is also valid for Hungary. It can be assumed that jackets and coats (around 90% of total expenditure on leather garments) remained by far the largest segment.

Demographics

Hungary's population is declining. During the period 2004-2008 the population fell by 0.8%; from 10.12 million in 2004 to 10.04 million in 2008. The main cause of this decline is a higher rate of deaths than births, resulting in fewer young people aged 0-14 than mature citizens aged 65 or over. Similar to many of its Central, Eastern and even West European neighbours, Hungary's population is ageing, mainly as a result of improved healthcare, while at the same time there is a declining birth rate.

Attitude of consumers towards fashion

European brands are popular in Hungary, for each type - from teenage to elegant - of women. Family stores, selling a broad assortment including leather garments, are very strong in Hungary. Younger consumers prefer shops selling fast fashion, which implies clothes based on one-season trends (and therefore inferior technical quality) for a low price.

The market is supplied by a combination of locally produced leather garments, and imported products, many of which are low-priced, but also some high-priced leather garments from countries such as Germany, Austria and France.

Economic developments

The Hungarian economy has been one of the strongest performers in the region over the last 10 years until 2006, attracting a large volume of foreign investment, due to its economic and political stability. GDP growth has also contributed to consumer wealth, which remains low by West European standards, but is growing rapidly. Real GDP growth in Hungary was 3.5% in 2005 and 4.0% in 2006. It fell to a growth of 1.0% in 2007 and reported a further declining growth of 0.6% in 2008. GDP contracted 6.3% in 2009. The depreciating Hungarian currency will deteriorate current accounts, but may aid exporters by making their products more competitively priced. The economy is expected to remain in recession in 2010 (-0.7%) and is expected to recover modestly in 2011 (+2.8%) as domestic and external demand recover.

Trends

- European brands are popular in Hungary, for each type - from teenage to elegant - of women. Family stores, selling a broad assortment including accessories, are very strong in the market in Hungary.
- Many Hungarians on lower incomes will continue to seek low-price clothes in a steadily growing discount sector. On the other hand, quality and convenience will become more important.

More general trends and fashion trends related to leather garments can be found in chapter 1 of the CBI market survey 'The market for leather garments in the EU'.

Production

Hungary's clothing industry is shrinking and moving towards production in the East and the Far East, due to the lower costs in those regions. According to AHLI (Association of Hungarian Light Industry) 25,400 employees worked in the Hungarian clothing industry at the end of 2008, a reduction of 10% compared to 2007.

Just like in other CEECs, the value of leather garments production, according to Eurostat/Prodcom (€ 1.2 million in 2008 against € 2.7 million in 2004) was much lower than the value derived from consumption and trade figures (€ 3.9 million in 2008 against € 11.9 million in 2004). This discrepancy was caused by the fact that SMEs constitute a significant part of the Hungarian leather garments industry, which has consequences for gathering statistical data. In 2008, 70% of domestic production was exported and 30% was sold locally. Sales of Hungarian clothing manufacturers are expected to fall further in 2009, caused by lower sales on the domestic market, as well as on export markets.

Trends

- Output of the Hungarian leather garments industry decreased considerably, mainly caused by increased imports from other EU countries (mostly re-exports).

More trends related to production of leather garments can be found in chapter 2 of the CBI market survey 'The market for leather garments in the EU'.

Opportunities and threats

- + As the market has polarised into high and low segments, leather garments importers and wholesalers are looking for medium-priced, quality products to supply independent retailers, specialists shops, small retail chains and domestic hypermarkets.
- ± Hungarian consumers are used to purchasing imported leather garments. They are receptive to new styles and becoming more aware of current fashions, due to the growing presence of international retail chains.
- However, the market itself is still small and of relatively low value, so the scale of opportunities will be relatively small.
- Hungary is one of the EU countries with a very low per capita expenditure.

2. Trade channels for market entry

Direct entrance to the Hungarian leather garments market is rather difficult for exporters in DCs, because the number of manufacturing companies, importers/wholesalers and domestic retail organizations (mainly clothing chains and hypermarkets) is limited.

Which channel will be chosen, depends on factors like (among others):

- Which type of leather garments producer (CMT, FOB, private label or own brand producer) tends to export to Hungary. These types of producer are described in chapter 1 and 2 of the CBI survey 'Guidelines for exporting leather garments to the EU'.
- The resources available and the priority given to the Hungarian market.

Manufacturers

The number of Hungarian manufacturers of leather clothing is limited. Manufacturers in Hungary can be found at the website of the Hungarian Business Information service under Textilforum - http://textilforum.cel.hu/ceglista_en.htm or at the general websites of trade directories as mentioned in the CBI survey 'The market for leather garments in the EU'. Two manufacturers of leather garments are Gloria 86 (<http://www.gloria86.hu>) and Nuovapell (<http://www.nuovapell.hu>).

Wholesalers

Only a few wholesalers specialised in leather garments operate in Hungary, an example being Venator (<http://venator.hu>). General wholesalers could be interesting for exporters to the Hungarian market, such as Sansha (<http://www.sansha.com/wholesale.htm>) an internationally operating wholesaler with headquarter for Europe in Hungary. Other general wholesalers can be found at the website of the Hungarian Business Information service under Textilforum - <http://textilforum.cel.hu> or at the general websites of trade directories as mentioned in the CBI survey 'The market for leather garments in the EU'.

Retailers

Specialist clothing retailers account for an estimated 50% of the outerwear market, of which 22% independent retailers and 28% clothing multiples.

The Hungarian clothing market has traditionally been heavily fragmented and dominated by independents and local operators. However, the clothing sector is nowadays dominated by foreign firms, with Aranypók being the only domestic retailer of note. Many foreign multiples have been expanding rapidly in the last five years. C&A is the market leader, followed by Marks & Spencer (through a franchise) and H&M. German discount chain KiK is also set to open soon.

Aranypók (27 outlets; <http://www.aranypok.hu>) is market leader in bodywear, sells casual wear but has no leather garments in its assortment.

Leather garments are sold, besides domestic independent stores, by the increasing number of international chains. C&A from Germany leads the clothing sector with 37 stores, followed by

Kenvelo (Czech Rep., 27 stores), Hennes & Mauritz (10 stores, Sweden), Marks and Spencer (10 franchised stores, UK), LPP (6 stores, Poland), Inditex (16 stores, of which 5 Zara stores, Spain), Orsay (20, Germany), Mango (9 stores, Spain), Mexx (13 stores, USA) and New Yorker (29 stores, Germany).

Non-specialists accounted for 50% of the outerwear market in 2008, of which 13% department and other general stores, 19% hyper- and supermarkets, while the remaining 18% includes market stalls, Chinese shops and home shopping.

The market share of the formerly strong department stores decreased drastically, because they failed to adapt sufficiently to a changing consumer and retail climate. One of Europe's leading mail order houses is present in Hungary: Otto (<http://www.otto.hu>).

Hypermarkets and discounters occasionally have leather garments in their assortment. The number of hypermarkets grew very fast in Hungary (from 65 in 2004 to 120 in 2009); they have an important share in the Hungarian clothing market and are, as usual, focused on price-competitive clothing. It should be noted that nearly all hypermarket chains and discounters came from abroad, such as are Tesco (90 stores, UK), Interspar (29, Austria), Cora (7, France) and Auchan (11, France). International discount formula operating in Hungary are Lidl (90 stores), Penney Market (172), Plus Discount (185), Profi (73) and Aldi (35).

The cash & carry formula of Interfruct (22) and Metro (12) are active in Hungary.

Margins

Different margins and prices apply in each trade channel, with multiples of 2.5 up to 3.5 of the manufacturer's or importer's price. Wholesalers' margins tend to range between 30–40% of the CIF price, while retailers' margins are between 55–75%. Price is an important selling factor, especially in the lower segments of the clothing market (hyper- and supermarkets and discounters), whereas in the higher segments factors like quality and fashion are more important than price. An indication of differences in price levels by types of outlets has been given in chapter 1 of the CBI market survey 'The market for leather garments in the EU'.

3. Trade: imports and exports

Imports

Hungary imported 257 tonnes of leather garments valued € 7.4 million in 2008. Total imports decreased on average 3.6% annually (in terms of value) in the period 2004-2008, of which 2.2% in 2008 compared to 2007.

Hungary is the 19th largest importer of leather garments in the EU, behind Romania (17th) and Bulgaria (18th), and accounted for 0.5% of EU total imports in 2008.

In 2008, Germany remained the leading leather garments supplier to Hungary despite a fall of 26% in the period 2006-2008. Germany reached an import share of 20% in terms of value; it was followed by China (17%), Austria (15%), Slovakia (12%), France (11%), Pakistan (5%), Italy, Spain and Poland (each country 3%). Countries with increasing exports to Hungary during 2006-2008 were, among others: Slovakia, Spain and Poland.

A strongly decreasing share of 25% of Hungarian imports came from DCs in 2008, against 36% in 2006. Total Hungarian imports from DCs decreased in terms of value (-42%) during 2006-2008. This fall can be ascribed (for 96%) to decreasing imports from China, Pakistan and India.

Exports

Hungary exported 38 tonnes of leather garments valued € 2.7 million in 2008. Total leather garments exports fell on average 17% per year during the period 2004-2008. Exports in 2008 increased 5% in 2008 compared to 2007.

Hungary is the 17th largest exporter of leather garments in the EU, behind Slovenia (15th) and Finland (16th), and accounted for 0.7% of EU total exports in 2008.

Destinations were mainly (97% in value) other EU countries, like Italy (69% of total exports), the Czech Republic and Poland (each country 7%), France (6%), and Germany (4%). Leading destinations outside the EU were Ukraine (2%), Serbia, Norway, Israel, Bosnia & Herzegovina, USA and Switzerland (each country <1%).

Re-exports

The size of re-exports cannot be derived from the available trade and production statistics.

Opportunities and threats

- + Based on the value-for-money concept, the traditional lower range market segment, but also the largest middle range market segment, may offer good opportunities for exporters in DCs.
- + The sharp fall in imports from Germany and Austria indicated that re-exports were replaced by direct imports.
- A decreasing share of Hungarian imports came from DCs. This share fell from 36% in 2006 to 25% in 2008. This import share from DCs was one of the lowest in the EU, which offers possibilities for exporters in those countries.
- During the period January-November 2009, Hungarian imports of leather garments decreased by 44% in terms of value (compared to the same period in 2008), while total EU imports fell by 11%.

Useful sources

- EU Expanding Exports Helpdesk - <http://exporthelp.europa.eu> → go to: trade statistics
- Eurostat – official statistical office of the EU - <http://epp.eurostat.ec.europa.eu> → go to 'themes' on the left side of the home page → go to 'external trade' → go to 'data – full view' → go to 'external trade - detailed data'
- Understanding Eurostat: Quick guide to easy Comext → http://www.eds-destatis.de/en/database/download/Handbook_Comext_Database.pdf
- Euratex bulletins - <http://www.euratex.org>

4 Price developments

Consumer prices

Inflation varied considerably in Hungary from 6.8% in 2004 to 3.9% in 2006, to 7.9% in 2007 and to 6.1% in 2008. Inflation was higher than the EU average during the review period. Inflation averaged 4.2% in 2009 and is forecast to fall to 4% in 2010, assuming that the forint remains stable.

Annual growth of consumer prices for clothing in Hungary increased, but remained rather low: +1.0% in 2006 and +2.5% in 2008.

According to a price level study by Eurostat, clothing prices in Hungary were 5% below the EU average in 2008. This price level of clothing is similar to France.

The VAT rate for leather garments is 20% in Hungary. Hungary does not take part in the euro. The average interbank exchange rate during 2008 was: 250.0 florints for 1 euro.

Import prices

Prices of imports into Hungary increased very strongly during the period 2006-2008, as table 4.1 indicates. There is an upward trend in import prices, particularly since Hungary joined the EU.

Table 4.1 Average import prices of leather garments in Hungary (in € per kg.), 2006-2008

	2006	2007	2008	AAGR*
Total imports	25.05	26.72	28.69	+7.3%
Intra-EU	31.92	33.02	33.66	+2.7%
DCs	18.61	17.88	19.20	+1.6%

* Average annual growth
Sources: Eurostat (2009)

Useful sources:

An impression of average prices can be formed by browsing through the websites of home shopping companies, like <http://www.otto.hu>, of catalogues of large multiples, or of other company websites. For other websites, we refer to chapter 2.

5 Market access requirements

As a manufacturer in a DC preparing to access Hungary, you should be aware of the market access requirements of your trading partners and the Hungarian government.

For information on legislative and non-legislative requirements, go to 'Search CBI database' at <http://www.cbi.eu/marketinfo>, select garments and Hungary in the category search, click on the search button and click on market access requirements.

There are several aspects to the **labelling** of leather garments of which you should be aware:

- Basic information includes brand marking and sizing.
- Labelling has to be formulated in the Hungarian language.
- Outer material and materials used for lining and eventually interlining must be mentioned separately.
- In the case of leather garments, labels of 'genuine leather' are found on most products.
- Country of origin labelling (not compulsory).
- Care labelling, i.e. the inclusion of cleaning instructions. The recommendation 'special dry cleaning' has to be mentioned on a label to avoid claims, therefore use Ginetex symbols, the system used throughout Europe (see: <http://www.ginetex.net>). Leather garment care can give additional information like storage, drying, cleaning, advice to prevent damage.

General information on **packaging** can be found at the website of ITC on export packaging: <http://www.intracen.org/ep/packaging/packit.htm>. More information about packaging of leather garments can be found in chapter 6 of the CBI market survey 'The market for leather garments in the EU'.

Information on **tariffs and quota** can be found at <http://exporthelp.europa.eu>.

6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from <http://www.cbi.eu/marketinfo> - go to search publications.

For more information on doing business in Hungary, visit the following websites:

- The Association of Hungarian Light Industry (AHLI) includes the clothing sector. There is no website available, but the association can be reached by e-mail (mailto: mksz2@axelero.hu).
- <http://www.kwintessential.co.uk/resources/global-etiquette/hungary-country-profile.html>
- Websites offering information on Hungarian business practice: http://www.buyusa.gov/hungary/en/doing_business_in_hungary.html
- Hungarian Chamber of Commerce and Industry - <http://www.mkik.hu/index.php> or at the Budapest Chamber of Commerce and Industry (<http://www.bkik.hu>).
- Hungarian Business Information service (<http://www.cel.hu>)

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