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PRESS RELEASE

Jewellery and watch manufacturers look back on a good year 2019 - Optimism is slowed down by Corona

The Federal Association of Jewellery and Watches presents its economic report for the year 2019 and advises prudence for 2020.

Pforzheim/Munich, 14.02.2020. The German jewellery and watch industry looks back on the year 2019 with one laughing and one crying eye. The striking accompanying factors of the overall economy - above all various trade disputes, the struggle for Brexit at European level and the weakening of the domestic economy - have left their mark on the jewellery and watch industry, but could not sustainably damage the 2019 fiscal year.

Companies in the major industrial sectors remain in recession. Mechanical engineering and automotive suppliers are particularly affected, but also chemical and electrical companies. So far, an overall recession in Germany has only been prevented by the service sector and a booming construction industry. Our industry cannot escape this downturn either, as many companies in the precious metals and precision industries are feeling the effects of a downturn in the business areas where orders from the automotive, mechanical engineering and electrical industries play a role.

China and Hong Kong are the problem children of export

The global economic environment remains difficult. The global economy is growing at the slowest pace in ten years, and the United Kingdom's official withdrawal from the European Union will restructure trade flows. The Chinese economy is even growing at the slowest pace in 20 years. The latter in particular, coupled with the politically motivated demonstrations in the Hong Kong Special Administrative Region, has also caused difficulties in the jewellery and watch industry. Watch exports from Germany and Switzerland to Hong Kong and China slumped massively, and the effects were also clear in the jewellery sector. According to Jewellerynet Asia, jewellery sales in Hong Kong from January to November 2019 declined by more

than 20 % compared to the same period in 2018, and in November sales were down 43.5 % compared to the same month last year.

The concerns in the Hong Kong sales market are anything but new, especially for the luxury brands. This once incredibly powerful market for luxury watches and jewellery has received a few massive blows over the past few years, with global repercussions. It didn't start with the ongoing political protests in the city, but in fact several years ago when the Chinese government decided to no longer allow consumers to enter the country with luxury goods purchased abroad without paying VAT. Hong Kong as a destination for mainland Chinese no longer sold as many watches and jewellery because the tax incentive was removed. In addition, Hong Kong protests were added in 2019. The statistics vary in terms of the impact on sales, but they are clearly noticeable for German, but also Swiss and French luxury goods manufacturers.

Since the beginning of 2020, the sometimes devastating effects of the corona virus have been added to this. In order to limit the spread of the virus, entire cities in China are currently sealed off from the outside world, and airlines do not currently fly to the Greater Region. Since the Chinese make up around a third of the target group for luxury goods, the watch and jewellery industry is threatened by yet another severe setback.

The first negative consequences are also already apparent with regard to the trade fair activities of the industry. The March edition of the jewellery fair in Hong Kong as one of the most important industry fairs worldwide has already been cancelled and postponed to May. Whether it can take place then or whether the trade fair calendar will become even more chaotic in the long term is not yet foreseeable. The Swiss Swatch Group's in-house exhibition "Time to Move", which was to have taken place in March, has also been cancelled. All the more reason for the German industry to have high expectations of the results of the leading German trade fair Inhorgenta Munich, which opens its doors today and has again become the favourite trade fair of German manufacturers in recent years.

Dr Guido Grohmann, Director General of the German Association of Jewellery, Watches, Clocks & Supplying Industry (BVSU) is looking forward to Inhorgenta: "It goes without saying that the as yet unforeseeable effects of the corona virus are making the members of our industry nervous. This makes Inhorgenta Munich all the more important for our German companies, where manufacturers and specialist dealers can set the course for a successful start to the year 2020 in the next few days. Looking back to 2019, we can attest that we have worked very well despite all the negative trends."

This is also confirmed by the first statistical analyses of the 2019 financial year for the industry. Although December 2019 could not yet be evaluated by the Federal Statistical Office, the figures up to the end of November encourage us to expect a good overall result for 2019, which will probably be finally evaluated in March 2020.

According to the figures available to date, the German watch manufacturers with more than 50 employees (only these are covered by the Federal Statistical Office), which in 2019 had declined from 16 to 14 companies, achieved sales of approximately € 348 million in the first eleven months of 2019, a decrease of 7.2% compared to the same period of the previous year 2018. The number of employees also fell from 2,741 in the previous 16 companies to 2,358 in the now 14 companies. Exports, at around € 1.38 billion, were also down 8.7% on the figures for

November 2018. With regard to the latter figure, it should be noted that all companies in the sector are included regardless of their size if they exceed an annual reporting threshold of € 500,000.

Producers of jewellery, gold and silversmiths' wares, which now number 27 with more than 50 employees, recorded sales of approximately € 427 million from January to November 2019, an increase of around 15% over the same period of the previous year (€ 370 million). However, the number of companies with more than 50 employees increased from 24 to 27. Accordingly, the number of employees rose by about 17% to 2,895, although exports for the entire sector fell by about 9.2% to about € 2.155 billion compared to the same period in 2018. Due to the reporting limit, the turnover figures given here cannot reflect total exports.

For this reason, the internal statistical data collection is also important for BVSU, as about 60% of the member companies have less than 20 employees. For example, 43 % of the smaller member companies report a 5-10 % increase in turnover in the second half of 2019 compared to the same period of the previous year, while 67 % of the member companies with more than 20 employees report a constant turnover. Around 22% of the larger firms report a slightly higher turnover.

As far as sales expectations in the first half of 2020 are concerned, 33% of the larger companies expect a more favourable development, the same number expect the trend to remain the same. In contrast, only 17% of the smaller firms expect the same trend as in 2019, and 50% expect the same development as in 2019. 36% of the larger firms expect a more favourable development in exports (previous year: 47%). In the domestic market, 33 % (previous year: 35 %) expect a positive development. In terms of their sales expectations, around 60% of the smaller companies expect their share of exports to remain unchanged and 50% expect stable conditions on the domestic market.¹

The labour market continues to be difficult, suffering on the one hand from a shortage of skilled workers and on the other from higher wages in the precious metals industry. The relocation of jobs abroad is a logical consequence, thus confirming the fears of BVSU expressed in last year's economic report. It is therefore not surprising that 70 to 80 % of the member companies of the BVSU have no plans to increase their staff. Around 15% of the smaller and 22% of the larger firms nevertheless intend to try to hire new employees.

Despite all the prophecies of doom, trade fairs at home and abroad continue to be important marketing and communication platforms for BVSU member companies. According to the latest survey, the following rankings were awarded: 1st place Inhorgenta Munich (previous year 2nd place), 2nd place Vicenza Oro January (previous year 1st place), 3rd place Hong Kong March, 4th place Hong Kong September. The former leading fair Baselworld slips to 5th place in the member ranking.

End-of-year rally at German retailers

Irrespective of the concerns caused worldwide, the figures from the specialist trade also show that the last quarter of 2019 in particular has performed very well. BVSU President Uwe Staib

¹ It should be noted that the interviews took place before the corona virus became known.

explains: “After a few ups and downs during the course of the year, sales in the specialist trade and also online delivered a really good result in the last quarter. The figures from our partner, the German Jewellers' Association (BVJ), speak for themselves and confirm the impressions we German manufacturers have gained in the year-end business.” According to the BVJ, the total turnover of the German retail sector in 2019 rose by 3.9 % to 3.53 billion euros.²

Gold and platinum jewellery account for the majority of sales. Compared to previous years, the trend jewellery segment is declining, and the classic watch products are also under pressure. In the overall retail figures, the pressure on watch manufacturers is offset by "new" products from the Smart and Connected Watch ranges. The theme of wedding and wedding rings is showing a consistently high level. The number of weddings in Germany is at an all-time high, and the total expenditure on weddings is also at a record level. The market for wedding rings benefits from this. “All in all, we are cautiously looking forward to the future in a positive light. The German market is stable, worldwide we hope for an early end of the corona crisis”, says BVSU president Uwe Staib.

German Association of Jewellery, Watches, Clocks & Supplying Industry (BVSU)

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The German Association of Jewellery, Watches, Clocks & Supplying Industry (BV Schmuck & Uhren) was founded in Pforzheim in 1947. As a lobby group for over 170 predominantly medium-sized member companies, BVSU represents the interests of its members at a national, European and international level. BVSU is a member of the Federation of German Industries (BDI). It is responsible for coordinating the federal associations of the German jewellery and silverware industry. In this capacity it is also integrated in global efforts of the World Jewellery Confederation, CIBJO. BVSU represents the interests of the German watch and clock industry at a European level as a member of the European watchmaking associations EUROTemptus and CPHE. BV Schmuck and Uhren is a member of the Responsible Jewellery Council (RJC).

² BVJ: Qualitatives Wachstum im Schmuckmarkt, press release of Bundesverbands der Juweliere, Schmuck- und Uhrenfachgeschäfte e. V., 14.02.2020.