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PRESS RELEASE: Industry Report 2020

Covid-19 causes major slump in the Jewellery, Watches and Silverware Industry in 2020

In its economic report, the German Association of the jewellery and watch industry looks back on the Covid-19 Crisis 2020 - and urges prudence in politics, business and society

Pforzheim, 17.02.2021. There is nothing to sugarcoat. In 2020, the German economy experienced a severe recession due to the Corona pandemic, comparable to the economic and financial crisis in 2008 and 2009. According to the German Federal Ministry for Economic Affairs and Energy (BMWi), the gross domestic product fell by 5.0% in 2020.

The German jewellery and watch industry was strongly affected by the economic consequences of the Corona crisis from the beginning of the crisis in China at the beginning of January. Chinese customers are very important as a target group for the German jewellery and watch industry, as they are responsible for around one third of sales in the luxury goods segment. Depending on the company and brand, the market in China and Hong Kong can account for a high double-digit percentage. As a result, local sales and consumption, especially for the larger luxury brands, came to a virtual standstill as early as January. The in-house boutiques in the department stores of the major cities were closed. In addition, production bottlenecks in China in connection with the pandemic posed a major problem for the jewellery and watch industry, as Asian suppliers have been manufacturing components and entire products in certain segments for decades in some cases.

The onset of the crisis in Europe in February was first felt in the jewellery and watch industry by the deterioration of the situation in Italy. The city of Vicenza, the center of jewellery production in Italy, was at the epicenter of the Italian corona pandemic. The German industry was hit hard at the latest since the Italian production ban in mid-March, as the relations between the main German production site in Pforzheim and Vicenza are close.

The final lockdown in Germany and Switzerland from the end of March 2020 had then completely stopped production in the jewellery and watch industry to a large extent. Deliveries to the large luxury groups were completely suspended (in some cases until today), the retail trade was no longer able to take delivery of goods in Germany due to the lockdown and had therefore

partially cancelled or initially suspended orders for the trade fairs that had still taken place (Vicenza in January and Munich in February). The consequences were devastating for our small and medium-sized companies. Similar dire consequences were to be expected as in the retail and catering sectors.

But despite all the prophecies of doom, the further course of events initially gave our industry and the trade a little breathing space. After the opening of the specialized trade, at least those companies whose main customers are the specialized trade experienced a real, albeit small, boom. Depending on the company, it was even possible to make up some of the losses incurred during the lockdown. Until November, it looked as if this part of the businesses would get off with a black eye at most.

However, this positive turn of events did not hide the fact that other parts of the industry were unable to keep pace with this trend. In particular, the major luxury goods brands and their suppliers were unable to feel the effects, or only partially. Selective distribution networks, a lack of art and cultural events, a tourism industry that was at its lowest ebb, and empty shopping miles in the world's metropolises clearly showed them that in the summer and early fall of 2020, they were still very far from "back to normal".

For all market participants, the effects of the gradual spread of the pandemic across the globe were also felt. The jewellery and watch industry is very much focused on a year-round cycle of global trade shows. In 2020, the main dates in Asia, Europe and North America were completely cancelled from March. In 2021, it looks no different for the first half of the year. At the moment, the industry is hoping for a normalization of the situation for the fall of 2021. For the year 2020, the trade show business suffered a total failure for the manufacturers.

The interim high for specialty retail producers has come to a standstill again since mid-December – in the middle of the exorbitantly important Christmas business. The renewed closure of the trade was also a further bitter setback for our industry, which no online trade and no Click & Collect model can even begin to compensate for, at least in the higher-value sector.

Generally speaking, the BMWI's figures may be correct and show that even after the shutdown in the spring and the recovery in the summer, the figures for German industry show an upward trend. For our industry, they show a completely wrong picture, because the partial shutdown has again brought the production of jewellery and watches almost to a standstill. This will have a long-term impact on the structure of the industry and the associated part of the labor market.

Guido Grohmann, Managing Director of the German Association of Jewellery, Watches, Clocks & Supplying Industry (BVSU) urges politicians to be prudent: "Many of the measures taken by the federal and state governments are aimed at bringing the corona infection figures back down without directly or indirectly affecting large parts of the industry and other economic sectors with high value added. The aim is to prevent a massive economic crash like the one that occurred in the second quarter of 2020. Unfortunately, our industry is in the midst of the lockdown, as our main customers are global retailers, which are closed in many parts of the world. Unlike the automotive and mechanical engineering sectors, for example, we are currently producing for stock at most. Suppliers to our industry are also receiving hardly any orders. This has negative consequences for the labor market in the long term. Internationally, we

must prevent border closures beyond the current measures, as happened at the beginning of the Corona pandemic. This will cut supply chains and cripple the industry in the longer term."

The year 2020 in numbers

As in every year, it will be months before the Federal Statistical Office can provide final figures. However, the figures currently available already provide a representative insight. However, they relate to the period up to the end of November 2020 (compared with the annual period up to the end of November 2019) and reporting companies with 50 or more employees.

According to the figures available so far, German watch producers with more than 50 employees, which declined from 14 to 13 in 2020, generated sales of around €267 million in the first eleven months, down 12.3% on the same period of 2019 (€348 million). Similarly, the number of employees fell from 2,358 in the previous 14 companies to 2,168 in the now 13 companies. Exports, at around €1.14 billion, also fell 17.3% short of the November 2019 figures (€1.38 billion). With regard to the latter figure, it should be noted that all companies in the sector are included, regardless of size, if they exceed an annual reporting threshold of €500,000.

	2019	2020	%
Turnover watches, clocks and parts in million Euro; companies with 50 or more employees	348	267	-23,3 %
Number of companies companies with 50 or more employees	14	13	-7,3 %
Number of employees companies with 50 or more employees	2358	2168	-8,1 %
Exports of watches, clocks and parts in million Euro	1378	1140	-17,3 %
Imports of watches, clocks and parts in million Euro	1768	1643	-7,1 %
Imports of movements in million Euro	24	27	+12,5 %

Table 1: Watch industry figures, comparing Nov. 2019 and Nov. 2020 (source: Federal Statistical Office)

The producers of jewellery, goldware and silverware with more than 50 employees, down from 27 to 25, recorded sales of around €370 million in January-November 2020, down 13.4% on the same period last year (€427 million). Accordingly, the number of employees fell by 5.3% to 2,743 (previously 2,895). Exports by the sector as a whole fell by 29.7% year-on-year from around €2.155 billion to €1.782 billion. Here, too, the reporting limit of €500,000 applies, irrespective of individual company size. Due to the reporting limit, the sales figures given here cannot reflect total exports.

	2019	2020	%
Turnover jewellery, gold and silver goods in million Euro; companies with 50 or more employees	427	370	-13,4 %
Number of companies companies with 50 or more employees	27	25	-7,4 %
Number of employees companies with 50 or more employees	2895	2743	-5,3 %
Exports of jewellery, gold and silver goods in million Euro	2155	1782	-29,7 %
Imports of jewellery, gold and silver goods in million Euro	1729	1517	-12,3 %

Table 2: Jewellery industry figures, comparing Nov. 2019 to Nov. 2020 (source: Federal Statistical Office)

For this reason, the internal surveys of member companies are also of important significance for BVSU, as around 60 % of member companies have fewer than 20 employees. This shows, among other things, that 53 % of the smaller member companies report a drop in sales of more than 10 % compared to the previous year, and a further 13 % report a drop in sales of between 5-10 %. For 7%, sales were the same as the previous year, another 7% had sales that were 5-10% better, and 20% had an increase in sales of 10% or more. As reasons for the fluctuations, 44% cite the loss or gain of important markets, 19% very high precious metal prices, and 37.5% see the pandemic in general and problems shipping merchandise as factors. When it comes to sales expectations for 2021, just over 13% of small businesses expect the figures to remain the same, while almost 87% expect sales to be worse.

The analysis is somewhat different for companies with more than 20 employees. Here, no company reports a sales increase of more than 10% for 2020, around 27% report a sales increase of 5-10%, for 36% it remained the same, and slightly more than 36% report a sales decline. As far as sales expectations in 2021 are concerned, 20% of the larger companies expect a more favorable development, 40% expect the trend to remain the same and 40% expect it to be less favorable.

The labor market, which is suffering badly from the Corona pandemic, is proving difficult. In addition, companies are looking with great concern at the upcoming collective bargaining negotiations with IG Metall, which, despite the pandemic, is demanding wage increases of up to 4% nationwide, among other things. The consequence of both factors is clear. Only two companies that participated in the survey are planning to increase staff in the coming year, 10% want to reduce staff, and 50% want to continue to take advantage of the short-time work offer.

Waiting for the trade fair business

As mentioned before, Corona has brought the trade show business to a complete standstill from the beginning of March. In August and September, the smaller trade fairs, such as the Innova Collection, took place, and with "The Show" an event format was presented, which was newly launched. However, these events were not able to make up for the global trade show business, which is so important for German manufacturers, and was certainly not the goal of the organizers, exhibitors and visitors. Nevertheless, the fall events, along with the trade shows

in Munich and Vicenza at the beginning of the year, were small but celebratory bright spots in an otherwise dark trade show year. For this reason, a ranking of the popularity of various trade fairs was not included in the BVSU member survey this year. Instead, the survey asked about the use of digital trade show formats, some of which were offered as substitutes by international trade show organizers. Slightly more than 11% of the companies surveyed tried at least one digital format in 2020, with the remainder choosing not to do so. All companies answered unanimously that they do not see a digital trade show format as an adequate substitute for a trade show in presence. 19% of the respondents would dare to participate in a digital trade show in the future, 81% of the companies reject this.

Uwe Staib, President of the BVSU, is taking a worried look at what is happening after the first cancellations or postponements of trade fairs in 2021: "On the one hand, trade fairs do not make sense at this time because the infrastructure cannot be provided and the health risk is too high. However, the emerging concentration of trade shows in the fall fills us with concern. The currently very tight schedule from mid-August will lead to cannibalization effects among the events. And that, although a relatively low frequency of exhibitors and visitors can also be expected, as long as the global vaccination campaigns have not progressed significantly further than is currently foreseeable. In addition, exhibitors will have to choose between trade shows, if only because possible quarantine regulations could still prevent travel from show to show. The cancellation of Inhorgenta 2021 and the focus on the upcoming February 2022 is bitter, but the right decision by Messe München."

2021: Prudence is called for - Policymakers must act

The pandemic shows: only together can we successfully overcome the crisis. The Corona virus is an adversary that knows no borders. It remains the case that politics, business and society are well advised to react prudently and do things together and not against each other. The media and the way we deal with them also play an important role here. The representatives of the jewellery, watch, silverware and precision industries recognize the necessity of the measures taken so far by the federal government to contain the Corona pandemic. We even consider the closure of stores, which has also severely affected our industry, to be a temporarily justifiable measure, depending on the situation.

However, as the national and international lobby group for industrial companies in our sector, we demand a medium-term strategy from policymakers that, on the one hand, takes into account economic aspects for all sectors of the economy and, on the other, is also communicated clearly, openly and in a way that is understandable to the general public. And we are clearly opposed to longer-term discrimination against entire industries. At the present time, there is a threat that the hotel and catering industry, arts and crafts, specialized trade and parts of the consumer goods industry will be sacrificed in favor of other sectors. Companies are being banned from carrying out their activities, and promised financial bridging aid is flowing slowly or, in some cases, not arriving at all. Strong competition from international online marketplaces is taking over the function of retail and raking in the profits, for incomprehensible reasons still largely tax-privileged.

According to estimates by the associations of the industries and sectors mentioned, many companies will no longer be salvageable once the crisis ends. This has a direct impact on German industry. This is because many industrial companies find buyers for their manufactured goods in the retail sector, often in specialized stores. This is also the case in our industry. If the specialized trade is closed, our industry finds virtually no buyers. Suppliers, in our case e.g. producers of semi-finished products for jewellery or components for watches, also receive no orders. The entire supply chain is thrown into turmoil.

Time and again, politicians also warn against a complete shutdown of industrial production, because it would probably have catastrophic consequences. In our and other industries, however, it is already an everyday occurrence. The shutdown and restart of production processes is very complex and, due to the supply chains, has a direct impact on companies and employees in Germany, especially in jewellery and watch centers such as Pforzheim.

The closure of the specialized trade endangers and costs many jobs. It also directly threatens political stability. Employers and employees in our industry do not understand why a sprawling specialty store must remain closed while crowds are allowed to form at fast food restaurants and snack bars at lunchtime without consequence. They don't understand why our employees also have to be put on reduced hours due to the closure of the specialty store, while it seems that supermarkets have lost all control and mindfulness around minimum distances and maximum number of customers on the premises. And they do not understand why the sales channels for our goods have to remain closed, while supermarkets and drugstores are allowed to sell complementary products, mostly from international low-cost suppliers, on a large scale. In the medium and long term, this lack of understanding will lead to frustration and protest, which we fear will also manifest itself in a partial migration of the population from the political center to the margins. Here, the governing parties in particular are called upon to stop unequally distributed restrictions as quickly as possible.

Light at the end of the tunnel

In conclusion, however, there are also bright spots in our industry that give us hope for a time after the pandemic. For example, some sales channels are starting up again, especially in Asia and the Middle East. It can also be observed at present that the business of German suppliers in the luxury segment is receiving more inquiries. The pandemic seems to have caused more attention to be paid to diversifying the production of supplier parts and bringing it back to Europe in order to cushion the dependence on international and currently uncertain supply chains. However, in order to be able to put these considerations into practice, investments are necessary on the part of suppliers and customers, which are difficult to realize in the middle of the pandemic with tight budgets and cautious banks, or only possible with government support or hedging. And yet these considerations show a way to be better prepared for the future, even industrially.

The refiners were also able to compensate for the loss from our industry with positive outliers, for example the business with coins, bars and similar products, which flourished in the world's crisis mode.

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

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The German Association of Jewellery, Watches, Clocks & Supplying Industry (BVSU) 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 EUROTempus and CPHE. BV Schmuck and Uhren is a member of the Responsible Jewellery Council (RJC).