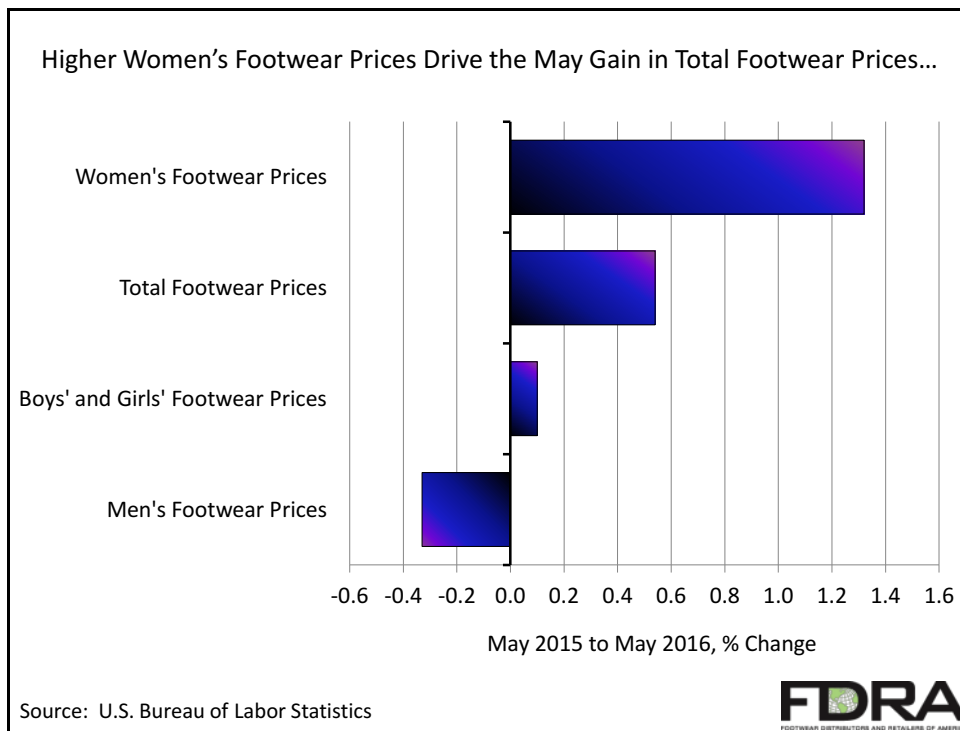




## May Footwear Prices and the Outlook for 2016

Buoyed by shoppers paying more for women's shoes, U.S. retail footwear prices rose again in May, paving the way for footwear prices to climb in 2016 for the ninth straight year. This week the federal government released its [latest read](#) on U.S. consumer prices, including retail prices for footwear. This report indicates total footwear prices rose a seasonally-adjusted 0.6% in May from a year earlier, higher for the fifth straight month. A 1.3% advance in prices for womenswear--the biggest jump in nine months--led the way, followed by a tepid 0.1% gain in prices for boys' and girls' footwear, while men's footwear prices sank -0.3%, the first decline in four months. While the modest increase in footwear prices is welcome, May marks the eighth time in the last nine months that these prices have underperformed the rate of overall inflation, evidence of tighter margins for shoe retailers.



This latest data point adds more support to our earlier view that footwear prices will rise this year, albeit modestly at best. The May uptick pegs year-to-date footwear prices 0.8% above the same first five months of 2015. As the graph below demonstrates, the year-over-year change in year-to-date average prices often points the way for full-year trends, an accuracy that improves with each passing month. More specifically, over the previous 30 years, of the sixteen times that year-to-date footwear prices rose at least as fast as this year's 0.8% advance, full-year prices rose *all sixteen years*, up an average 2.3%. But viewed another way, in the other fourteen years over these same three decades when the year-to-date change in prices was declining or no faster than it is this year, full-year footwear prices were soft, never growing

more than 0.7%. On balance, while modestly higher prices in 2016 may bring a bit of breathing room for retailers seeing tight margins, recent rebounds in commodity prices used in footwear manufacturing may spur higher producer prices for shoe stores, negating any benefit to retailers.

