

SHOE REVIEW

A look at the
evolving
fundamentals
of the footwear
marketplace

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FDRA is the footwear industry's business and trade association

“FDRA’s mission is to support the footwear industry as its business intelligence hub on a range of issues, and be its voice and advocate in Washington, DC and around the globe on government regulations, trade and tax policy. Join us.”

ED ROSENFELD

FDRA Chairman and CEO of Steve Madden

Founded in 1944, FDRA is governed and directed by footwear executives. We are the only trade organization focused solely on the footwear industry, serving the full footwear supply chain and boosting the bottom lines of its members. How? Innovative products, training and consulting on footwear design and development, sourcing and compliance, trade and customs, advocacy, and consumer and sales trend analysis for retailers selling shoes around the world. FDRA also runs the footwear industry’s weekly podcast *Shoe-In Show* featuring leading footwear executives and experts discussing key business trends.

FDRA members range from small family-owned footwear businesses to multi-national footwear companies. Members include the majority of US footwear manufacturers, brands, retailers and importers. In all, FDRA supports over 130 companies and 250 brands worldwide, representing 80% of total US footwear sales, making us by far the largest and most respected American footwear trade and business association.

FDRA leadership team



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FDRA Chairman
Chairman & CEO
Steve Madden, Ltd.



MIKE JEPPESEN

FDRA Vice Chairman
President, Global Operations
Wolverine Worldwide



CLIFF SIFFORD

FDRA Treasurer
President & CEO
Shoe Carnival



RICK MUSKAT

FDRA Ex Officio Chairman
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ANDY GILBERT

Chairman
Membership Outreach
Genesco



JENNIFER BENDALL

Chairman
Government
Relations, NIKE



KELLIE DAVIES

Chairman
Sourcing &
Compliance, Target



JOSUE SOLANO

Chairman
Product Safety
BBC International



OLIVER NG

Chairman
Asia Outreach
Ever Rite Factory Group



MATT PRIEST

President
& CEO
FDRA

WHY IS OVER 80% OF THE FOOTWEAR INDUSTRY A MEMBER OF FDRA? BECAUSE WE BOOST THEIR BUSINESS.



Footwear Customs
Classification
Guidance



Exclusive
Sales Data
and Trends



Social Compliance
and Product
Safety Expertise



Customized
Sourcing Strategy
Support



How FDRA accomplishes its mission

INTELLIGENCE



FDRA is the footwear industry's **business intelligence hub** providing data, analysis, and insights on a range of key issues impacting the entire footwear industry, from design and sourcing to retail and fashion.

SOLUTIONS



FDRA is the footwear industry's **thought leader** finding innovative solutions to a range of challenges impacting the footwear industry, from sourcing to product safety regulations and beyond.

ADVOCACY



FDRA is the footwear industry's **voice on government policy** pushing for the elimination of global footwear barriers and tariffs that drive up costs for companies and consumers.

EDUCATION



FDRA is the footwear industry's **leading educator** hosting a range of events from webinars to major summits to *Shoe-In Show*, focusing on industry challenges, best practices, and common solutions.

Shoe store sales underperformed the expansion in the broader retail market for the ninth straight month in August.

If this target range comes to fruition, annual shoe store sales either will extend their gradual deceleration witnessed since 2012, or may even contract for the first time since the dark days of the Great Recession in 2009.

Disappointing Shoe Store Sales Dim Full-Year Outlook

Overall retail demand grew a year-over-year **4.4%** in September, the fastest growth in 5 months. Lagging by a month, sales at US shoe stores slipped **-0.5%** in August versus 12 months earlier, and even lower 5 of the last 7 months, as closures at a number of outlets weigh on the footwear retail sub-sector. At a seasonally-adjusted **\$3.01 billion**, shoe store sales in August were close to their year-to-date monthly average.

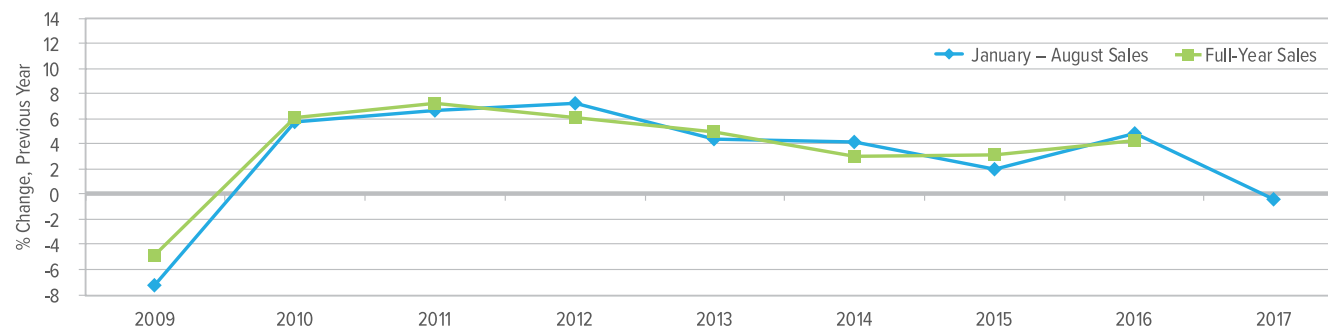
US shoe store sales retreat in August; lower 4 of the last 6 months



Source: US Census Bureau

Given the August contraction, year-to-date sales are now modestly lower versus the same first 8 months of 2016, suggesting full-year US shoe stores sales will see little to no expansion this year from the unprecedented **\$36.0 billion** level witnessed in 2016. More particularly, full-year sales gains or contractions only differed from January – August growth or contractions by an average 0.9 percentage point over the last 24 years, cementing our long-held view of a disappointing year for shoe store sales in 2017. Statistically speaking, based on this historical relationship and current year-to-date sales, there is about a 2-in-3 chance that full-year shoe store sales will range from a **-0.9%** contraction to a modest **0.2%** expansion, a range that narrows with each passing month.

Year-to-date shoe store sales dip foreshadows little to no growth in 2017

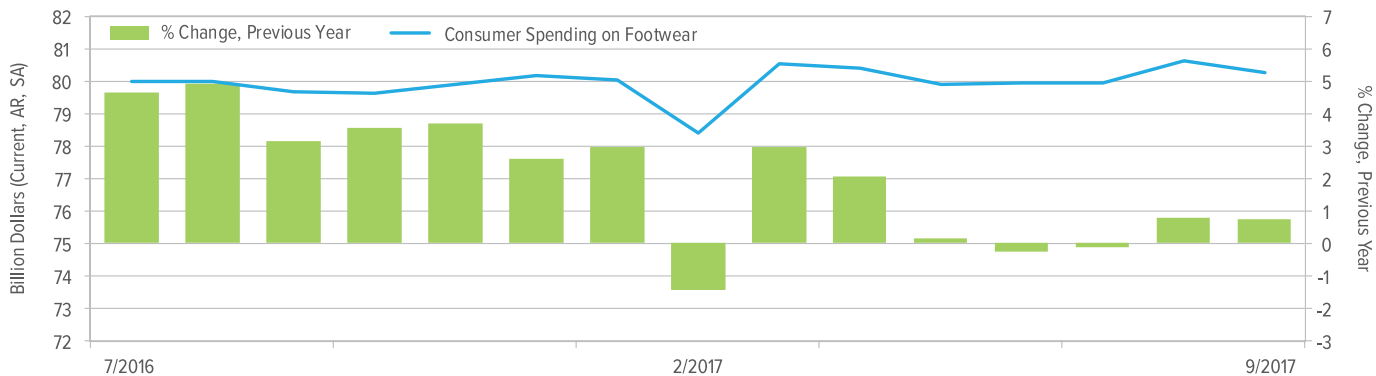


Source: US Census Bureau

Consumer Spending on Footwear on the Defensive

Consumer spending on footwear remains little changed in recent months at a seasonally-adjusted, annualized rate of **\$80.3 billion**. This broader gauge of spending on footwear grew a modest **0.7%** in September from a year earlier, the fifth straight month of sub-par performance.

US consumer spending on footwear remains dull in September

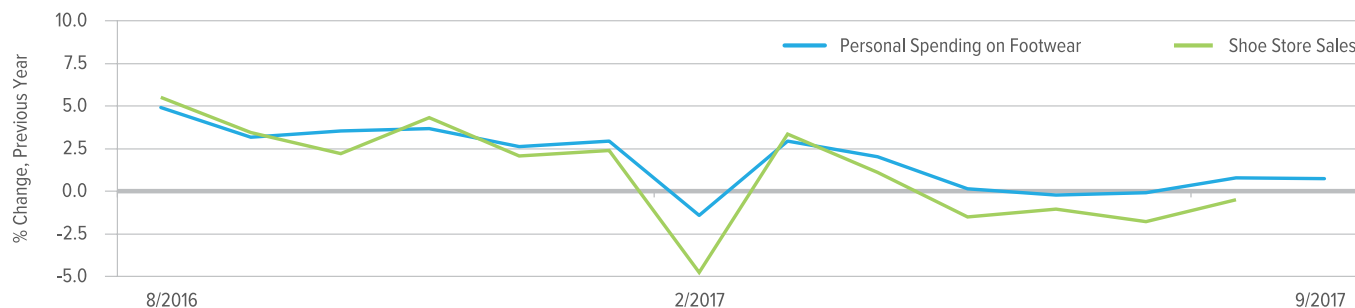


Source: Bureau of Economic Analysis

At this rate, overall consumer spending on footwear also is on track for mediocre growth in 2017, albeit better than shoe stores.

Comparing shoe store sales to consumer spending on footwear—a broader measure that encompasses big-box retailers and online-only retailers—yields insights into one channel versus others. August marks the eighth time in the last 9 months that the year-over-year change in shoe stores has underperformed the change in sales at their big-box brethren, suggesting shoe stores have not fared as well in 2017. This graph also shows that this broader measure of footwear spending has seen little to no growth in recent months.

US personal spending on footwear vs. shoe store sales



Sources: Bureau of Economic Analysis and US Census Bureau. Both series in current, seasonally-adjusted dollars. Shoe store sales are comprised of shoe-store specific data including footwear independent retailers, large footwear retail chains, and some footwear internet sales. Consumer spending on footwear is comprised of both shoe store sales and big-box retailers.

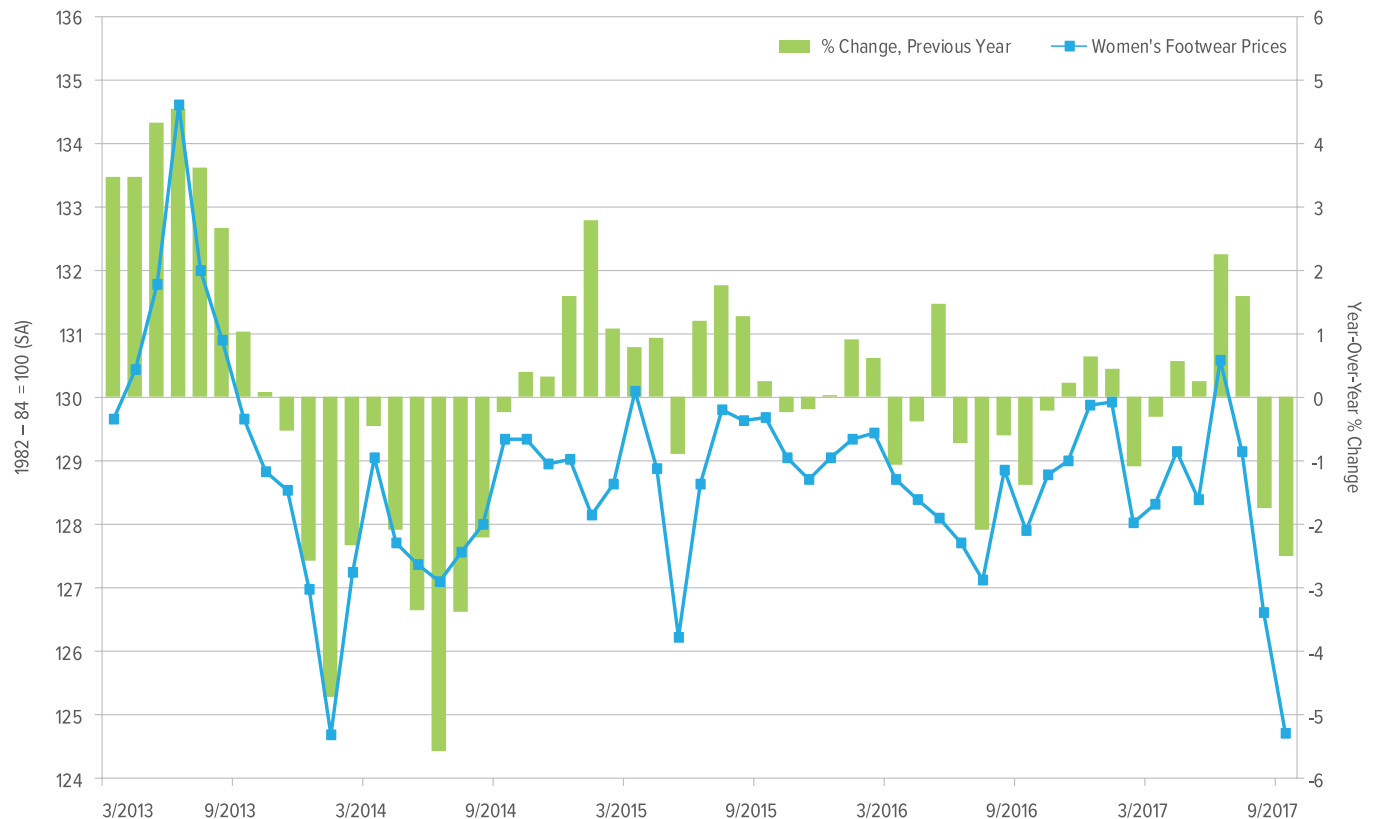
August marks the eighth time in the last 9 months that the year-over-year change in shoe stores has under-performed the change in sales at their big-box brethren, suggesting shoe stores have not fared as well in 2017.

The September reading solidifies our long-held observation that overall footwear prices will see little increase this year, constrained by sinking prices for women's footwear.

Footwear Price Volatility Continues

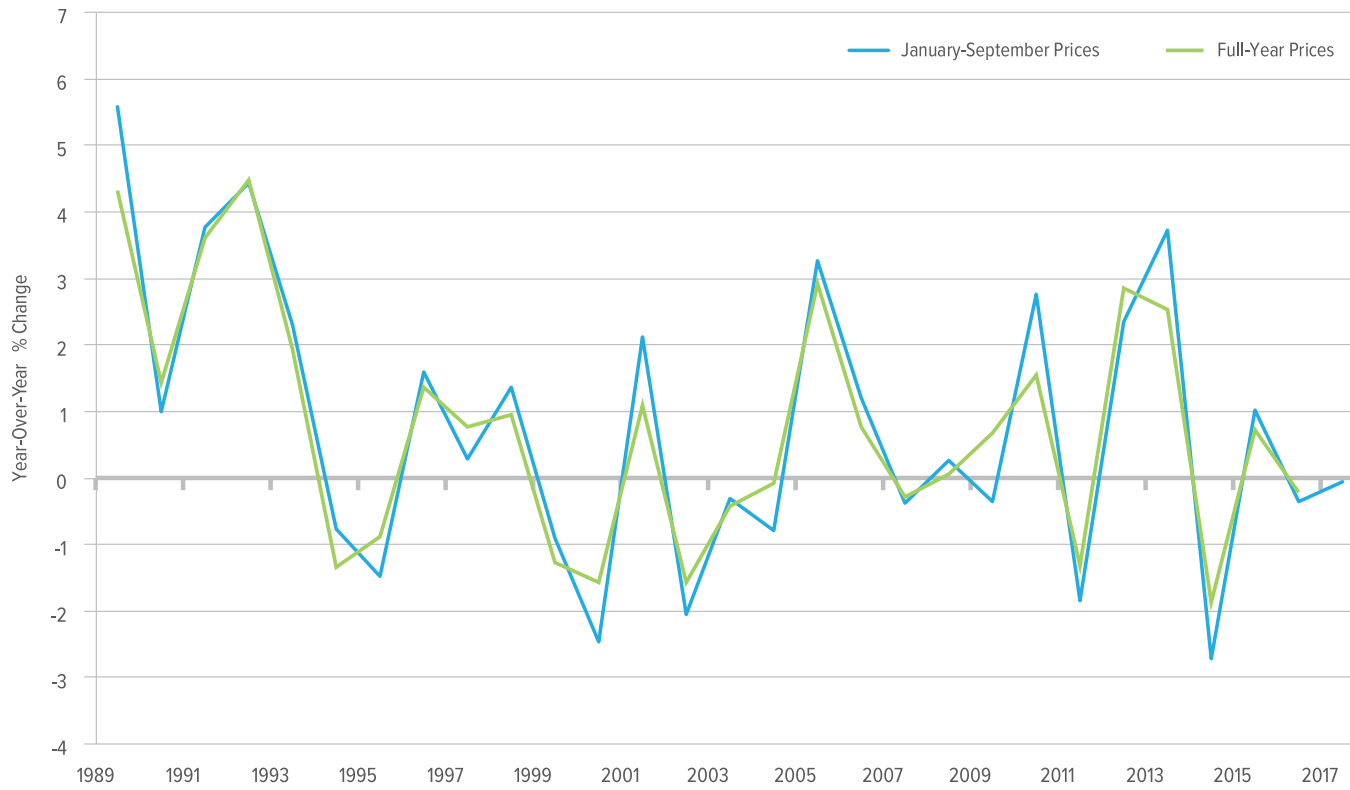
Retail prices for women's footwear sank again in September, paving the way for prices of the largest market for shoe sales to turn flat or lower for the second straight year. A sharp **-2.5%** drop in women's footwear prices pulled total footwear prices lower again in September. In fact, as the graph below demonstrates, at **124.7** (1982 – 84 = 100) this latest reading for womenswear marks the lowest average price since January 2014, and the **-2.5%** tumble the steepest in more than 3½ years.

Women's retail footwear prices tumble in September...



Source: Bureau of Labor Statistics

...suggesting these prices will be flat-to-lower for the second straight year



Source: Bureau of Labor Statistics

Retailers continue to struggle to raise the selling prices of footwear at the same rate that prices for other goods and services are rising.

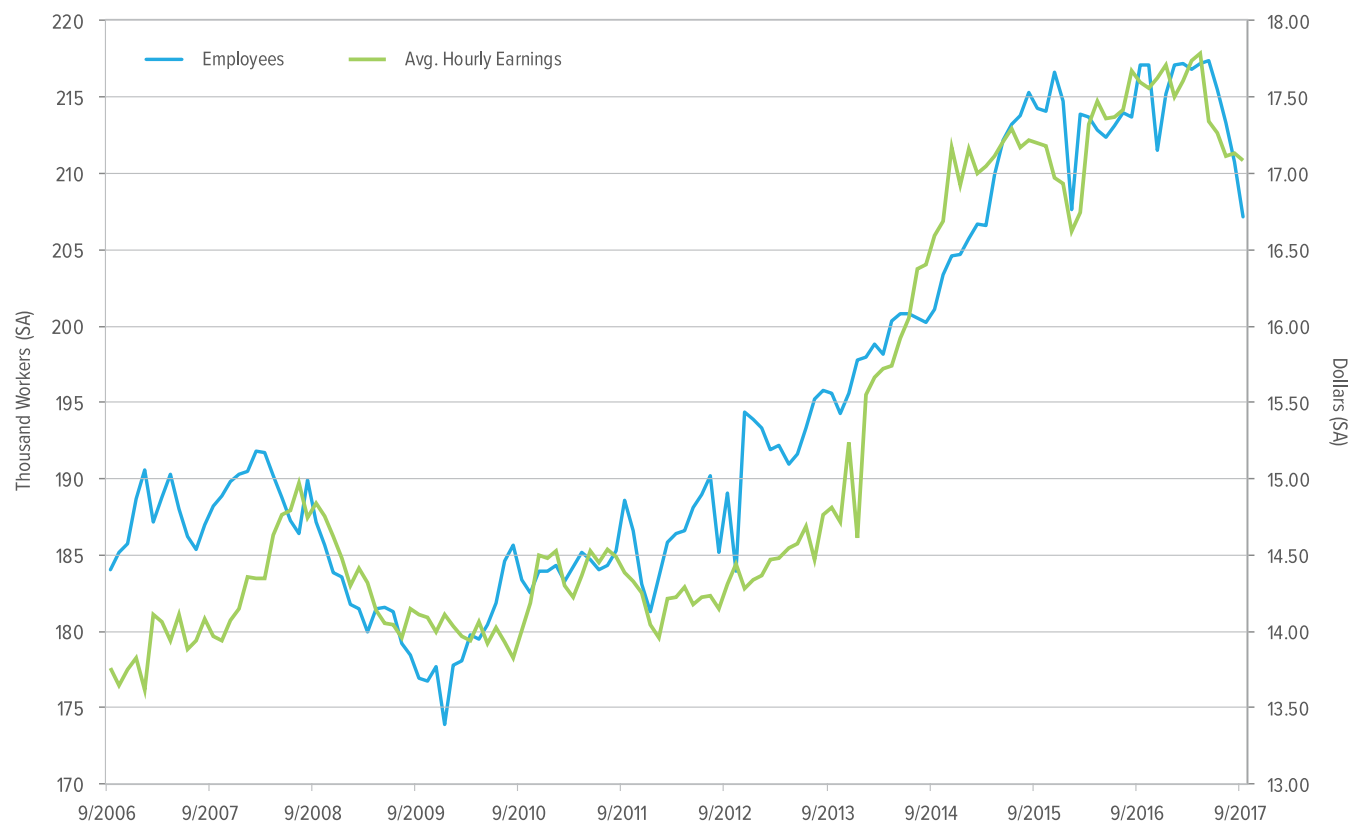
With reporting for only 3 months remaining in the year, there is a 2-in-3 chance that women's footwear prices will range from **-0.4%** lower to **0.3%** higher from last year. If so, 2017 will extend the trend of these prices turning flat to lower, an unwelcome prospect for retailers. On balance, women's footwear retailers continue to have little leeway to raise prices appreciably to combat higher input costs.

A mixed labor market in October hints at a still-strong economy, but also shows more cracks developing across the retail market.

Shoe Store Employment Trends

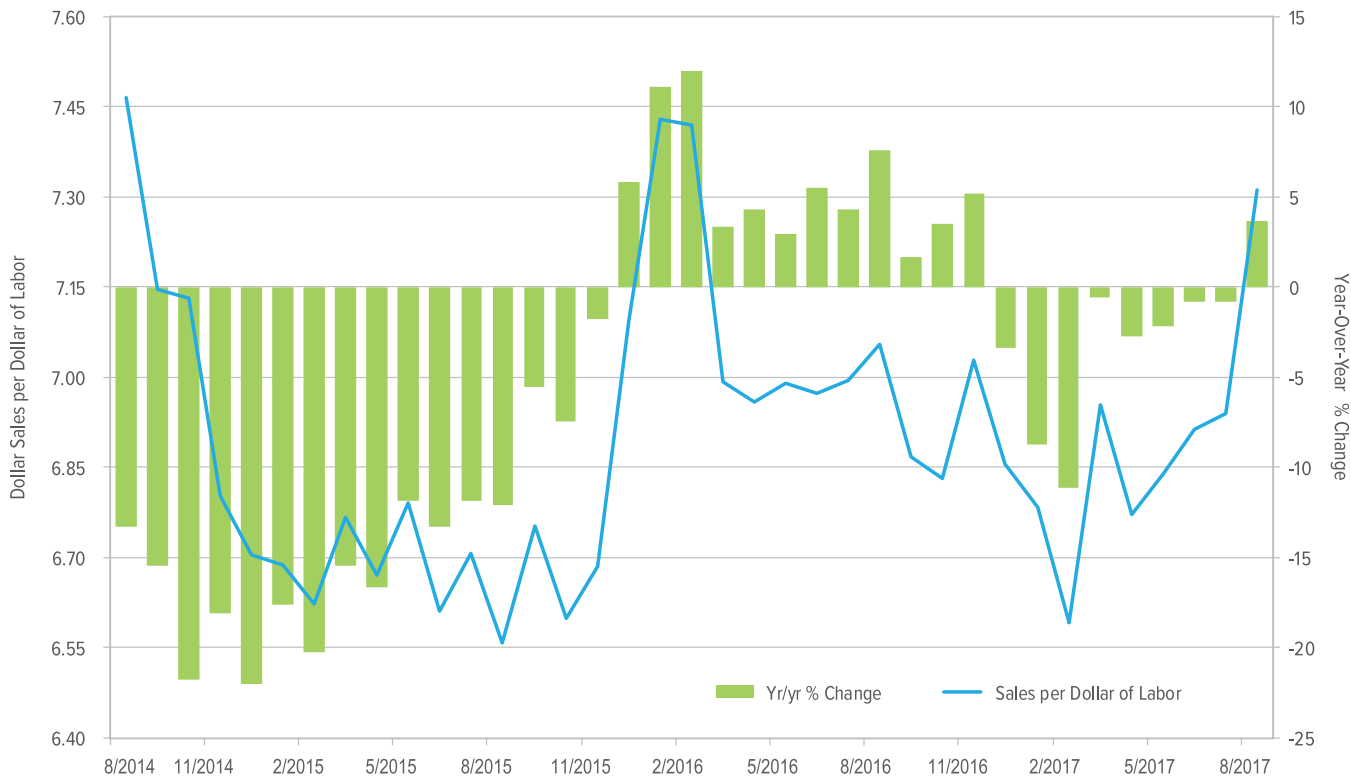
The federal government recently reported its latest read on the country's employment situation, noting the national unemployment rate shrank to a seasonally-adjusted **4.1%**, the lowest reading since December 2000. While employment expanded again in most key sectors as the economy grew in October, retail continues to contract, shedding a year-over-year 65,400 workers, lower for the fourth straight month. Within the sector, shoe store employment shrank for the third straight month to 207,200 workers, a 30-month low. As hiring has eased, so has pressure to boost wages. Average hourly earnings at shoe stores similarly declined for the fifth straight month to **\$17.09**, the lowest since March 2016.

Number of shoe store workers and hourly earnings tumble in September...



Source: Bureau of Labor Statistics

...but a rebound in sales per dollar of labor hints the worst soon may be over



Source: Bureau of Labor Statistics

While shoe stores struggling with dull sales welcome the dip in wage pressure, we continue to look for more fallout ahead. Ignoring the seasonal effect of holiday hiring, we maintain our view that retail shoe store employment is likely to contract further as 2017 begins to draw to a close.

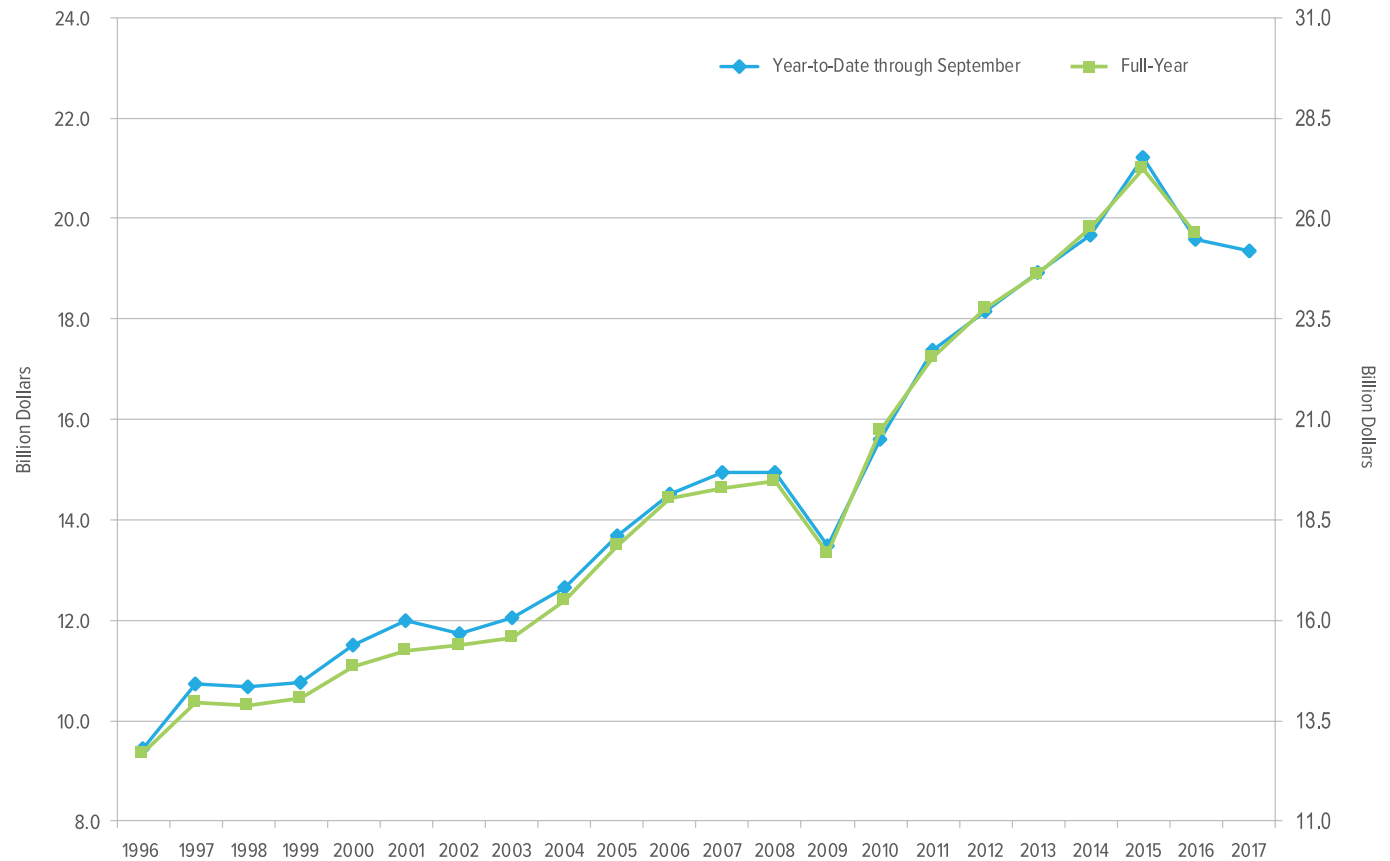
We can gauge the likelihood of this consolidation continuing by reviewing shoe store sales per dollar of labor. By multiplying the number of workers in shoe stores by average hourly earnings, we can measure aggregate payrolls for shoe stores. By then dividing shoe store sales by this dollar figure of aggregate payrolls, we see on the graph above that August sales per dollar of labor rebounded to **\$7.31**, the highest in a year and a half. This rebound follows 8 straight months of sinking sales per dollar of labor. This modest, tentative improvement in August suggests stores reduced labor costs enough to compensate for the decline in sales. Still, we look for shoe stores to continue to curb hiring and/or wages to improve their returns on labor costs, particularly if sales continue to fall. While shoe store employment is likely to fade further, this latest rebound hints the worst soon will pass for the sub-sector.

China remains by far America's dominant footwear supplier. But while its year-to-date shipments are lower versus the first 9 months of 2016, Vietnamese shipments have grown faster, making the country the largest supplier of rubber/fabric footwear to the US market this year.

Footwear Import and Inventory Trends

US footwear imports expanded modestly in volume terms again in September, suggesting shipments in 2017 also may rise modestly. The volume of footwear reaching US shores in September rose a year-over-year **3.7%**, owing to jumps from America's 3 largest foreign suppliers: China, Vietnam and Indonesia. Given the little change in imports in September, both the year-to-date volume and value of footwear entering the US also are little changed versus the same first 9 months of last year.

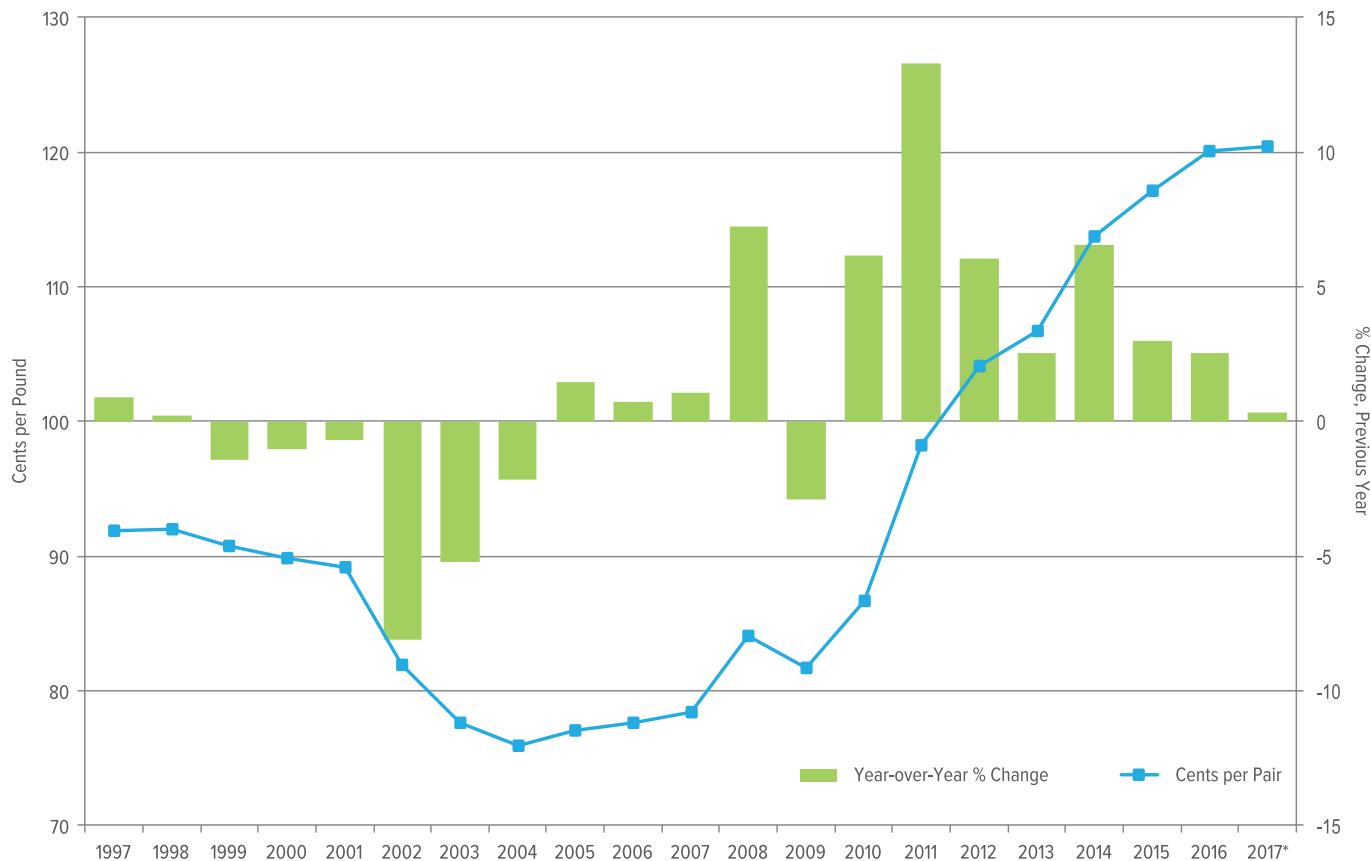
Drop in YTD value of footwear imports portends declining imports this year



Source: USITC

But year-to-date duties paid on these imports are higher. By category, footwear imports were mixed. In volume terms, athletic footwear imports rebounded a year-over-year **7.1%**, higher for 8 of the last 10 months. While year-to-date imports in this category are modestly higher, duties remain on track to rise to another record in 2017, an unwelcome prospect. Bootwear imports tumbled again, off a sharp **-9.2%** year-over-year, lower for the sixteenth straight month, the longest streak on record. Meanwhile, children's footwear shipments expanded **5.9%**, higher for 5 of the last 7 months.

Footwear duties per pair set to climb to a record in 2017



* FDRA forecast

Source: USITC

Rising duties in conjunction with flat to lower imports imply the average duty paid per pair on footwear imports is poised to rise again in 2017, likely to a record high.

Exposure to volatility in prices for these commodities and currencies can crimp a footwear company's profitability.

The Federal Reserve has begun whittling its \$4.5 trillion balance sheet.

Footwear Material Cost Update

Of course, footwear manufacturing and distribution involves a wide range of materials and commodities, along with exposure to foreign currency fluctuations. These materials can include natural and synthetic rubber and leather, foam cushioning materials, nylon, polyester, and canvas, as well as polyurethane and plastic compounds, among others. Exposure to volatility in prices for these commodities and currencies can crimp a footwear company's profitability, so anticipation of and ability to hedge against this volatility is key. For example, we discuss the outlook for the US dollar:

US dollar index nearby futures



Source: ICE Futures US

After breaching a multi-year high earlier this year, the dollar fell a sharp **10%** before ricocheting to a 3-month high in late October. But September FOMC minutes show many Fed officials remain concerned that inflation will remain lower for longer, suggesting limited upside for the dollar in coming weeks. While still strong by historical standards, a now-weaker domestic currency may contribute to higher prices for imports, an unwelcome prospect for footwear retailers already paying near-record average hourly wages while seeing little breathing room in the form of higher retail prices.

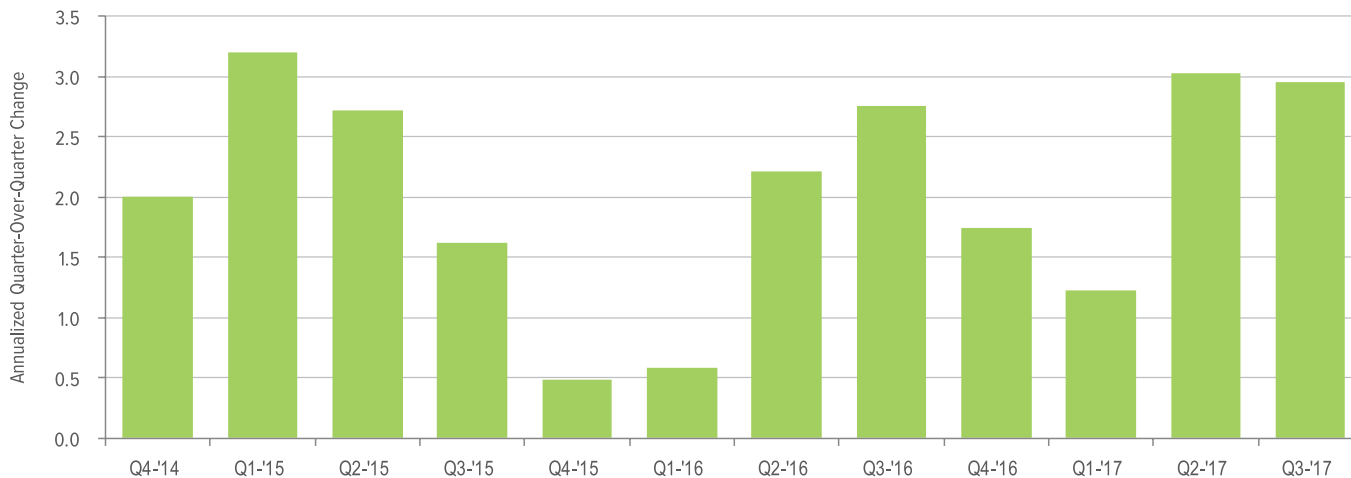
Each month, FDRA shares key pricing drivers and trends for a range of commodities and currencies impacting the footwear supply chain, helping members anticipate the outlook for these markets. Periodically through the year, FDRA shares more in-depth discussion and forecasts into these markets as conditions warrant.

US Economic Outlook

Economic activity expanded across the country again in the third quarter, growing an annualized **3.0%** on quarter, according to BEA's advance estimate. Economic activity increased in September through early October, with the pace of growth modest to moderate. Eastern states reported major disruptions from Hurricanes Harvey and Irma in some areas and sectors, including transportation, energy, and agriculture. Manufacturing activity and non-financial services expanded modestly. Retail spending rose slowly, while vehicle sales and tourism increased in many areas. Residential construction continued to increase, and growth in commercial construction was up slightly on balance. Low home inventory levels continue to constrain residential sales in many areas, while nonresidential real estate activity increased slightly overall. Loan demand was generally stable to modestly higher. Growth in the energy sector eased slightly. Agricultural conditions were mixed; while some regions were reporting better-than-expected harvests, low commodity prices continued to weigh down farm incomes.

Consumer spending appears to be rising across the country.

US GDP Growth Rate



Source: BEA

Employment growth has been modest on balance, with labor markets widely described as tight. Many employers report having difficulty finding qualified workers, particularly in construction, transportation, skilled manufacturing, and some health care and service positions. These shortages are also restraining business growth. Firms report that scarcity of labor, particularly related to construction, would be exacerbated by hurricane recovery efforts. Despite widespread labor tightness, wage pressure remains only moderate overall.

Price pressures remain modest. Retail prices generally are increasing slightly. Transportation, energy, and construction materials prices are increasing more rapidly, presumably owing to effects from recent hurricanes.

Employment across most of the nation maintained a modest to moderate pace of expansion.

August marks the 41st straight year-over-year expansion in Canadian shoe store sales.

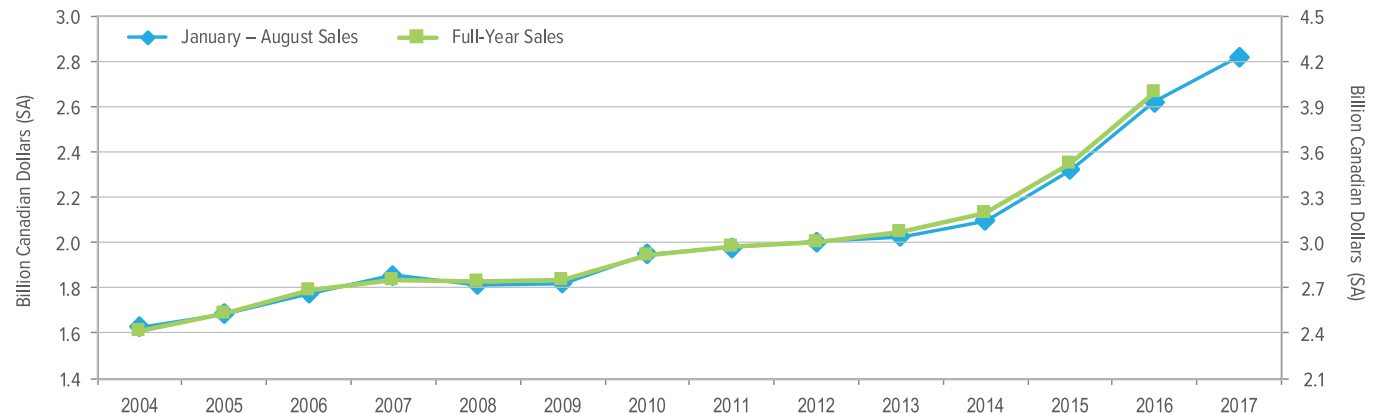
European sales of textiles, clothing, and footwear at specialized stores grew to the highest seasonally-adjusted August on record.

Global Outlook

Canada Shoe Store Sales Update

Seasonally-adjusted sales at Canadian shoe stores grew a year-over-year **5.7%** in August, markedly slower than during the previous 4 months. At a seasonally-adjusted **CAD356 million**, this latest reading stands as the biggest August on record for the sub-sector. Given another month of growth in August, full-year Canadian shoe stores sales remain on track to expand to an unprecedented level in 2017, likely exceeding **CAD4.2 billion**.

Year-to-date sales hint at another record year for shoe store sales in 2017



Source: Statistics Canada

European Retail Footwear Update

Seasonally-adjusted sales of textiles, clothing, footwear, and leather goods in specialized stores across the EU surged **9.0%** in September, the fastest in a decade. We expect that full-year sales in this retail sub-sector will accelerate from the negligible expansion posted in 2016. Part of this upbeat view comes after the European third-quarter GDP grew **2.5%** year-over-year, its strongest pace of growth in more than 6 years.

EU sales of textiles, clothing, and footwear poised to grow faster in 2017



Source: Eurostat

Keep up with industry business and consumer trends with Shoe-In Show

FDRA's Shoe-In Show is a weekly podcast of news, views, and interviews with industry players. The footwear industry is in an age of constant change—from how we design and produce footwear to how we market and sell shoes to consumers around the world. Old business models are being shattered and remade in ways that cannot be explained in 140 characters. That's why we started this show—to have in-depth conversations about the business of footwear with the people actually designing, making, marketing, and selling shoes.

Our goal is to pull back the curtain and get industry leaders to open up and give an insider look at the industry and their businesses. Listeners will hear amazing personal stories and unique approaches to current challenges facing the industry, as well as best practices, trends, and tips from experts and executives.



Join co-hosts Matt Priest and Andy Polk each week as we have in-depth and dynamic conversations about the business of footwear, and probably have a laugh while you're at it. Visit www.shoeinshow.com to listen.

Save the Date: 2018 Executive Summit May 3, 2018 // Washington, DC





FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

