FDRA

FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

A look at the evolving fundamentals of the footwear marketplace

SHOE REVIEW

Inside

Footwear Executive Report

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 U.S. footwear manufacturers, brands, retailers and importers. In all, FDRA supports over 250 companies and 500 brands worldwide, representing 80% of total U.S. 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
Principal
Deer Stags Concepts

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 MEMBERS OF FDRA? BECAUSE WE BOOST THEIR BUSINESS.

Footwear Customs Classification Guidance

Exclusive Sales Data and Trends

Social Compliance and Product Safety Expertise

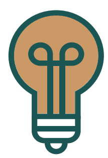
Customized Sourcing Strategy Support

How FDRA accomplishes its mission

INTELLIGENCE

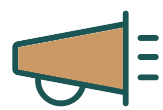
FDRA is the footwear industry's business intelligence hub providing data, analysis, and insights on a range of key issues impacting the entire footwear industry, from design and sourcing to retail and fashion.

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.

Letter from FDRA President & CEO

"FDRA members range from family-owned footwear businesses to global footwear companies and include domestic producers, importers and retailers across all footwear segments. FDRA works extremely hard to ensure all our members get great services and products at a very affordable rate. If you want key business strategy support, contact us to see if membership makes sense for you. FDRA is more affordable than you may think."

MATT PRIEST
President & CEO, FDRA

If you have questions about FDRA membership benefits and annual dues, please contact Andy Polk at **info@fdra.org**.

FDRA's countless meetings with executives this year have revolved around one theme—the continued fear that President Trump will add new duties to footwear out of China. So far, FDRA has done a great job of keeping shoes off any government tariff lists, but uncertainty lies at the heart of President Trump's politics and policy.

Even if new tariffs are not added to shoes from China, recent trade spats have compelled companies to speed up sourcing diversification. Vietnam continues to see growth in footwear production, but continuous movement towards Vietnam is being met with rising labor costs and narrowing capacity. Footwear companies are also looking into Cambodia or Bangladesh for potential production, where wages are lower but are coupled with longer, more complex supply chains.

The fact is that costs are going up and there are few sourcing locations that will mitigate the negative impact of this trend. The result is an industry undergoing massive transformation. We have all seen companies transform sales channels as consumer behavior continues to evolve, but now backroom operations are adapting to find new efficiencies and develop new models for success. While transformative change is difficult, it is also exciting to see brands collaborate to address common challenges unique to our industry. Take as an example FDRA's Material Exchange, a new platform created by brands working together to build a new digital platform. Companies can now better search and select materials for design and development, enhance communication with their suppliers, and cut costs while enhancing their supply chain agility.

There is also some good news on trade despite the current environment and anxieties around China—FDRA has helped push through over $100 million in duty cost savings through Miscellaneous Tariff Bills or MTBs. This year Congress passed, and President Trump signed into law, a bill that will temporarily cut tariffs on thousands of imported products, including 65 different types of shoes. Achieving MTB duty relief has been a top priority for FDRA, and this new law represents a multi-year effort. FDRA filed petitions for footwear companies starting in 2016, worked hard to educate members of Congress on the importance of these MTBs, and helped advance this key initiative. Now that the bill has become law, FDRA continues to advise FDRA members on ways in which they can best utilize this new tool to achieve footwear duty savings immediately.

Other good news you will find in this most recent report shows that consumer demand continues to be strong and even brick and mortar shoe stores may see growth in 2018—all good signs of a strong economy and a confident consumer base.

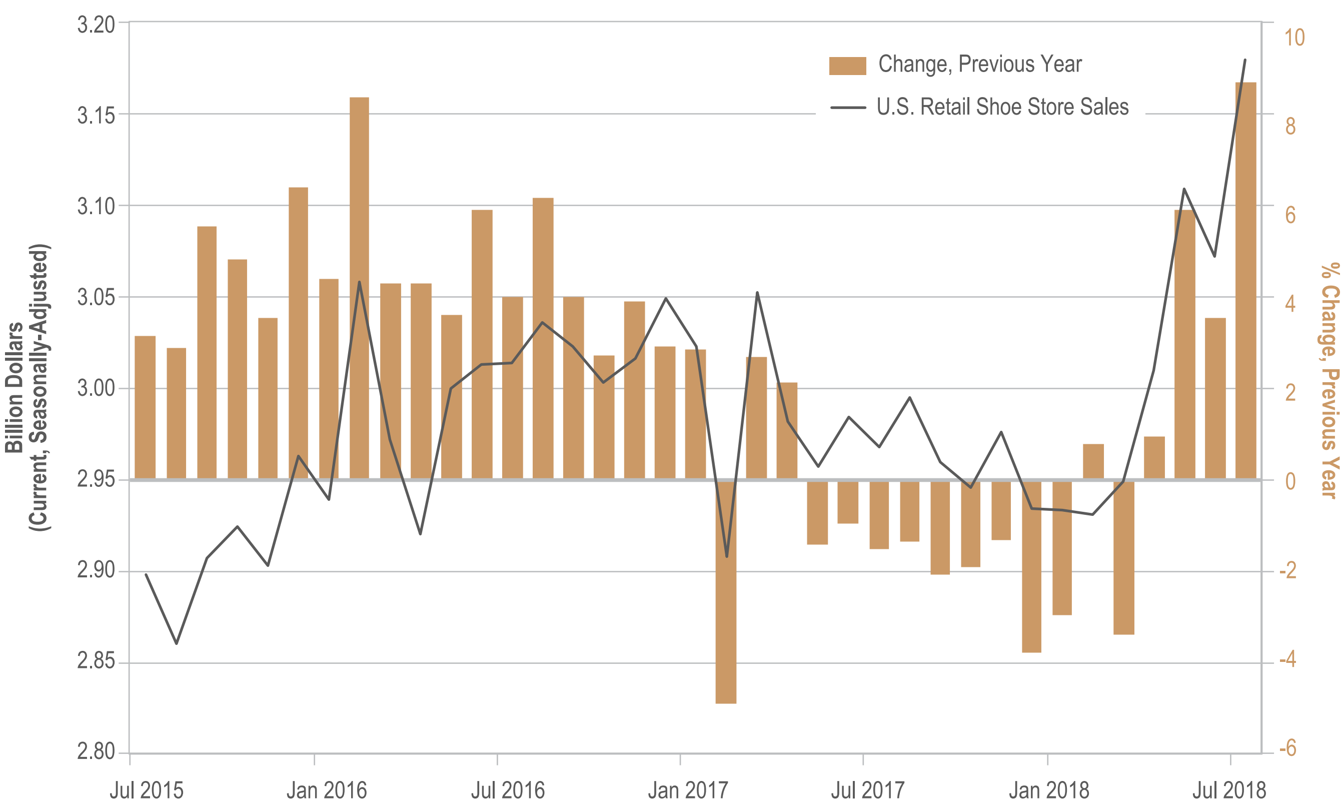
In these positive but challenging times, FDRA remains your voice in Washington, DC as well as your business intelligence hub for issues related to sourcing shifts and retail data. People more than ever are asking what they can do around trade, and my answer is simple: Join FDRA. Join FDRA to help us increase the power of our collective industry voice. Join FDRA to get best practices from industry leaders on all areas of your business. Join FDRA to get key data and analysis on the changing footwear marketplace. No matter the reason, join FDRA. You'll be glad you did.

Matt Priest
President & CEO, FDRA

2018 shoe store sales likely to rebound only modestly in spite of July spurt

Buoyed by low unemployment and high consumer confidence, overall retail demand again grew an impressive 6.6% year-over-year in August, the second-fastest advance in more than six years. Lagging by a month, sales at U.S. shoe stores surged an impressive 8.7% in July, the biggest advance in nearly five years. At a seasonally-adjusted $3.18 billion, shoe store sales in July posted the best month on record for the sub-sector.

U.S. Shoe Store Sales Surge to a Record in July



Source: U.S. Census Bureau

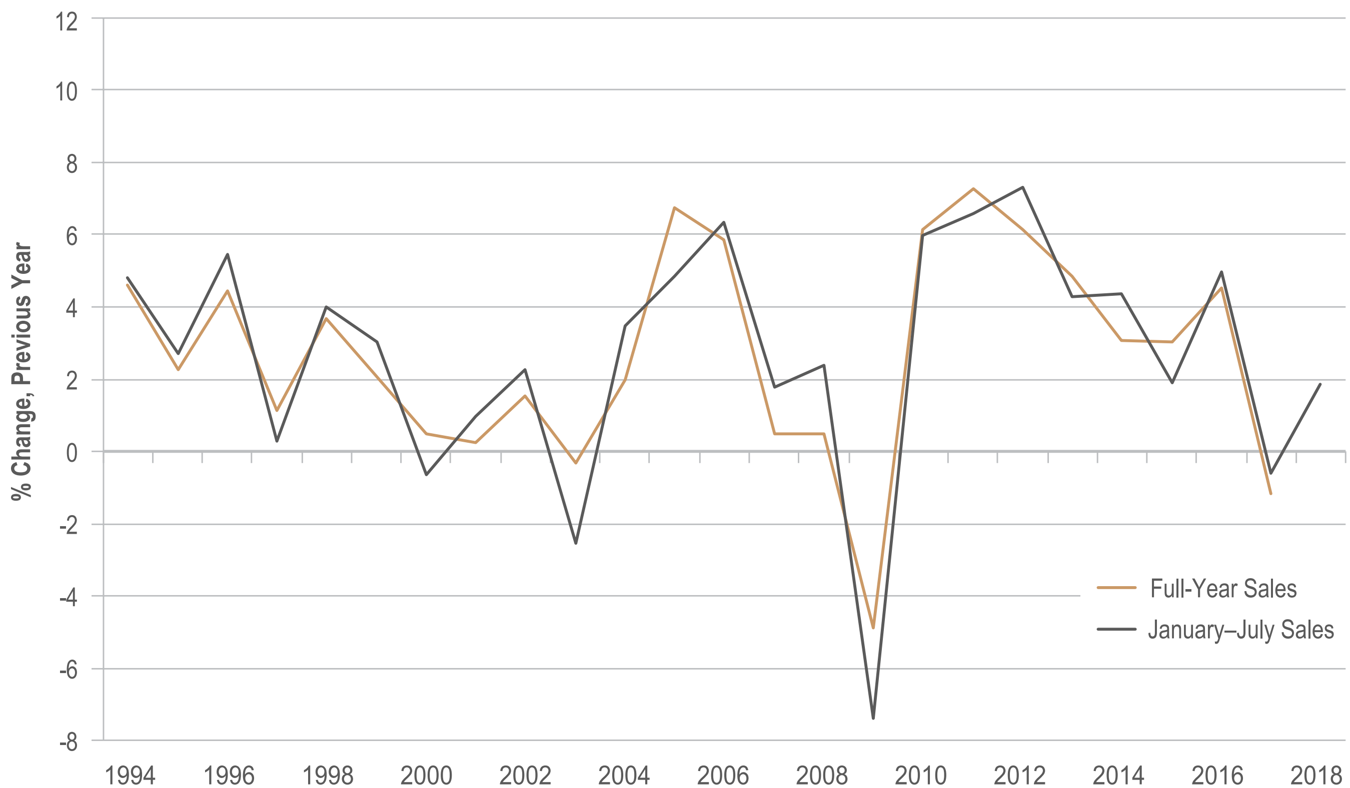
Shoe Review 2018: You Say You Want an Evolution

The year marks a pronounced evolution in footwear supply and demand, as shifting trends from producers and consumers alike reveal a dynamic marketplace fraught with both peril for some and opportunity for others. For example, while footwear demand is rebounding in America, sales across the EU and Canada are likely to reverse course and fade in 2018. While U.S. shoe store employment is hovering near its lowest in years, average weekly hours worked are set to expand this year. While China remains the dominant supplier of footwear to American consumers, others are growing faster and taking share. And while the U.S. economy is strong, signs are mounting that growth will slow markedly the next few years, weighing on footwear demand and imports longer term. This latest semi-annual *Shoe Review* touches on these issues and more. FDRA is here to help the industry navigate these chaotic waters by keeping members abreast of these evolving trends, and addressing and capitalizing upon them as one voice.

The first industry evolution focuses on trends in retail demand. FDRA analysis points to a 2018 rebound in shoe store sales from last year's contraction, albeit a modest one. Even though overall retail demand is on track to expand in 2018 at its fastest pace in seven years, the improvement in shoe store sales this year is likely to be tepid at best. If so, 2018 will mark the second straight year that shoe store sales will underperform growth in overall retail sales, implying that shoppers continue to spend a declining share of their total retail purchases on footwear in this channel.

Given the welcome improvement in July, year-to-date sales are modestly higher versus the same first seven months of last year, suggesting full-year sales similarly will rise modestly to roughly $36.7 billion, a record year. More particularly, full-year sales gains or contractions only differed from January – July growth or contractions by an average 1.0 percentage point over the last 25 years, cementing our long-held view of a moderate rebound for shoe store sales in 2018. Statistically speaking, based on this historic relationship and current year-to-date sales, there is about a 2-in-3 chance that full-year shoe store sales will range from 1.2% to 2.5% higher, a range that narrows with each passing month.

Year-to-Date Shoe Store Sales Rebound Foreshadows Modest Uptick in 2018



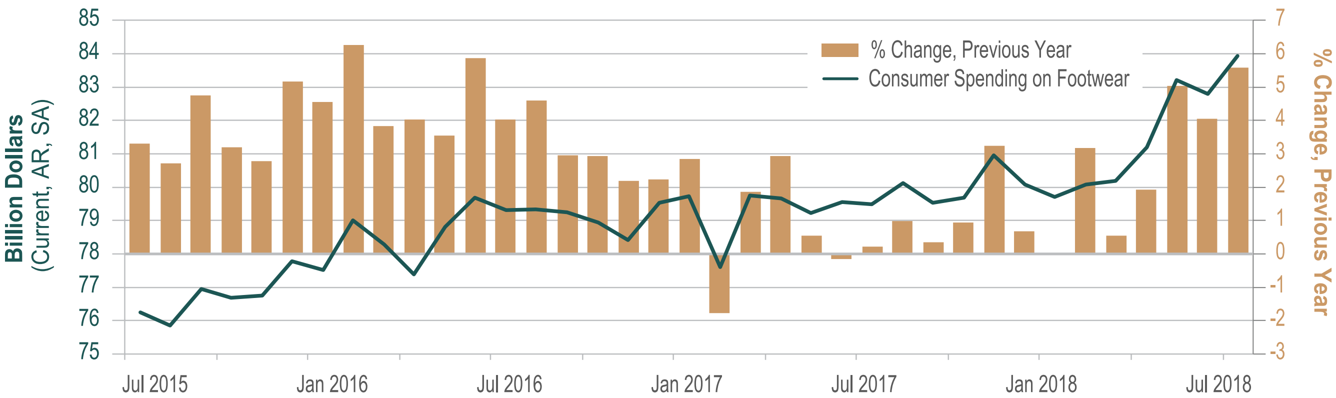
Source: U.S. Census Bureau

Improving footwear demand not evenly shared in 2018 across all retailers

Consumer spending on footwear also has gained traction in recent months, growing a seasonally-adjusted 5.6% year-over-year to an annualized $83.9 billion. The welcome July reading pegs year-to-date consumer spending on footwear 2.9% bigger than the same first seven months of last year, helping to spur demand across the footwear supply chain this year.

Consumer spending on footwear is increasing, helping to spur demand across the footwear supply chain this year.

U.S. Consumer Spending on Footwear Climbs Impressively to a Record in July

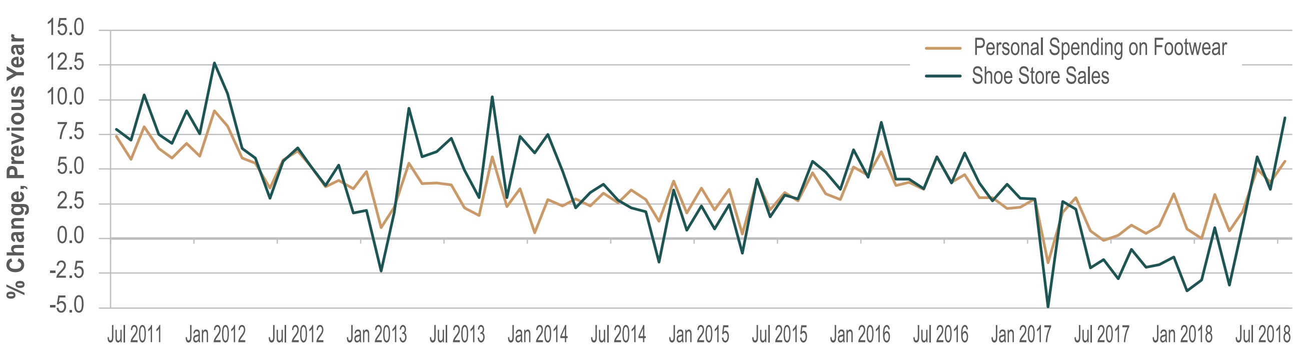


Source: Bureau of Economic Analysis

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. July marks only the second time in the last sixteen months that the year-over-year change in shoe stores has outperformed the change in sales at their big-box and online-only brethren, suggesting shoe stores are still faring relatively worse again so far this year, in spite of the May and July reversals.

Shoe stores are still faring relatively worse than other channels so far in 2018.

U.S. Personal Spending on Footwear vs. Shoe Store Sales both Jump in July



Sources: Bureau of Economic Analysis and U.S. 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.

Retail prices for women's footwear is continuing to decline in 2018.

The drop in women's footwear prices is dragging overall footwear prices lower for the year, leaving footwear retailers, particularly women's, with little leeway to raise prices to combat inflationary pressures and rising input costs.

Duties rise as prices drop—squeezing profits

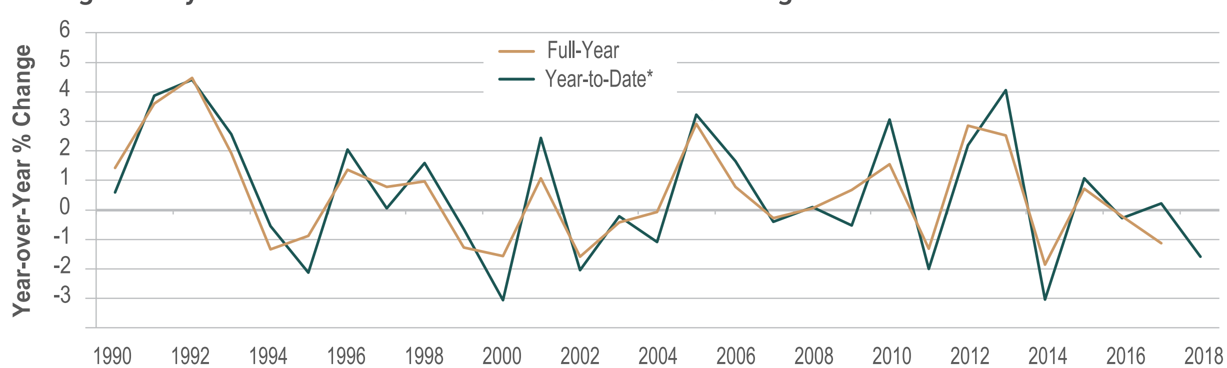
Retail prices for women's footwear sank again in August to a nine-year low, off a year-over-year -3.1%, lower eleven of the last thirteen months. This latest decline supports our earlier outlook that prices for the largest component of footwear demand—womenswear—will fade again in 2018, lower for three of the last four years.

Women's Footwear Prices Sink in August to a Nine-Year Low...

Source: Bureau of Labor Statistics

This latest drop pegs women's footwear prices over the first eight months of 2018 off -1.6% from the corresponding period last year. Based on this year-to-date decline and historical trends, there is about a two-in-three chance that full-year women's footwear prices will range from off -1.1% to off -2.1%. In turn, this prospect may drag overall footwear prices lower for the year, leaving footwear retailers—particularly of women's footwear—with little leeway to raise prices appreciably to combat percolating inflationary pressures and rising input costs.

...Paving the Way for Full-Year Women's Footwear Prices to Sink again in 2018



* January – August of each respective year
Source: Bureau of Labor Statistics

Employment fades, but average hours worked expands

The federal government recently reported its latest read on the country's employment situation, noting the national unemployment rate shrank to a seasonally-adjusted 3.7%, the lowest reading in nearly 50 years. While the economy created jobs for a record 96 straight months, shoe store employment fell to the lowest since March 2015. At a seasonally-adjusted 207,000 workers, the number of jobs in the sector faded year-over-year for the twelfth time in the last thirteen months to the lowest in three and a half years. As a result, despite the strong economy, year-to-date shoe store employment remains lower than during the same period last year and is almost certain to post an annual contraction. As hiring in this retail sub-sector has eased, so has pressure to boost wages. Average hourly earnings at shoe stores declined year-over-year for fourteen of the last fifteen months to $17.01.

The number of jobs in shoe stores faded to the lowest in 3.5 years.

Average hourly earnings at shoe stores declined to $17.01.

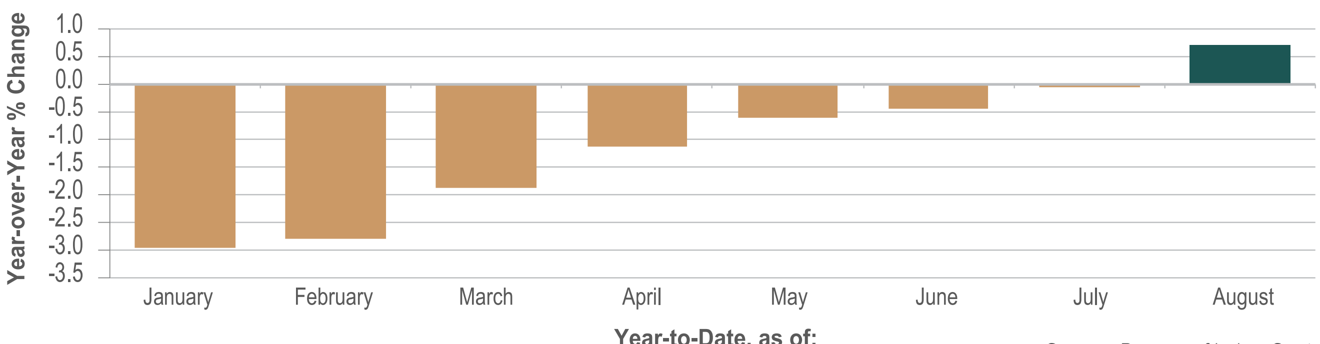
Shoe Store Employment Fades to a 3.5-Year Low...

Source: Bureau of Labor Statistics

Despite waning employment and hourly wages in U.S. shoe stores, average weekly hours jumped in August to tie the most (27.9 hours) in eight and a half years. This latest advance in average hours worked is a marked reversal from a downbeat start to 2018, as the graph below demonstrates. As a result, average weekly hours worked in U.S. shoe stores so far this year are up 0.7% from the same period in 2017, the culmination of a gradual ease in the year-to-date declines witnessed in each previous month.

Average weekly hours jumped in August to tie the most (27.9 hours) in eight and a half years.

...but Year-to-Date Average Weekly Hours Worked in Shoe Stores Finally Expands



Source: Bureau of Labor Statistics

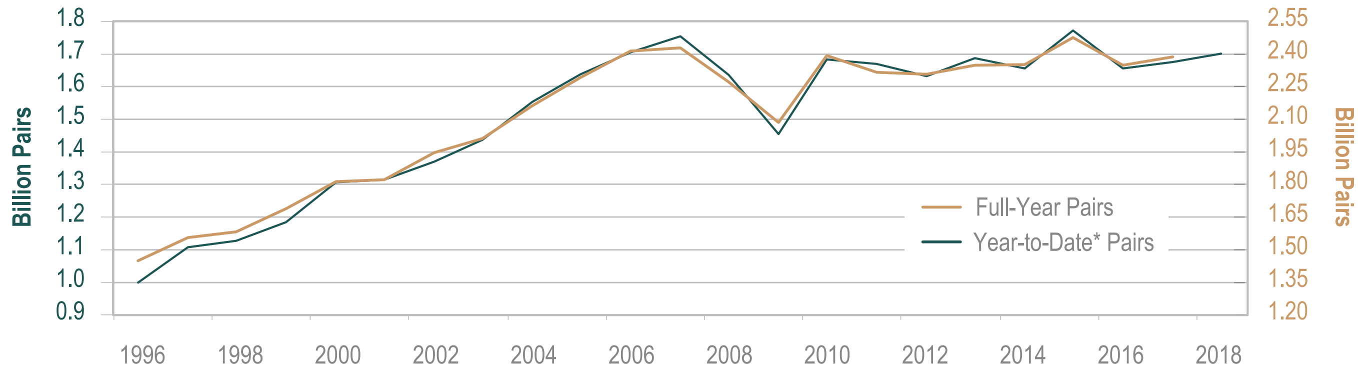
These patterns of a receding China and a surging Vietnam in 2018 continue trends witnessed over recent years. In the age of Trump, the specter of a looming surge in tariffs on imports from China—by far, America's largest footwear supplier—threatens both to exacerbate this evolution away from China and to raise footwear costs for importers, distributors, retailers, and consumers alike.

These higher costs could come in the form of higher production costs in other countries as sourcing leaves lower-cost producers in China, or as presumably higher Chinese tariffs are passed along the supply chain. Either way, higher costs tend to discourage consumer demand, an unwelcome prospect for all.

U.S. Footwear Imports: a smooth surface masks shifting undercurrents among origins

U.S. footwear imports digressed in August, rising modestly in value terms but sinking in volume terms, keeping year-to-date imports on track to post little to no growth in 2018. But beneath this deceptively calm surface are strong shifts in undercurrents, as shipments from largest-supplier China are poised to fade again to a thirteen-year low while footwear sourced from Vietnam is likely to expand for the eighteenth straight year to a record high.

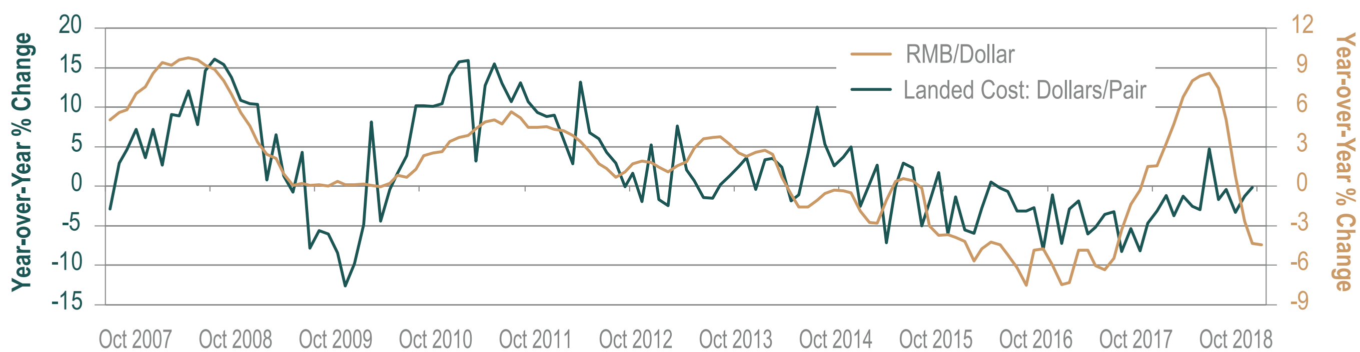
Year-to-Date Volume of U.S. Footwear Imports Hints at Modest Growth in 2018



*Year-to-date = January - August of each respective year
Source: USITC

As the largest footwear supplier to America and the world, China's impact on the global industry is undeniable. Exchange rates between China's renminbi and its customers' currency naturally can have a major impact on sourcing and costing. Over the last six months the RMB has weakened considerably against the U.S. dollar, recently touching a decade-low near 7 per dollar. While we have not yet seen this manifest as a dramatic decline on landed costs of Chinese footwear, FDRA continues to monitor the currency and will advise members if a pronounced impact begins to come to fruition.

A Recently Weaker RMB shows Little Impact—for now—on U.S. Cost of Chinese Footwear Imports

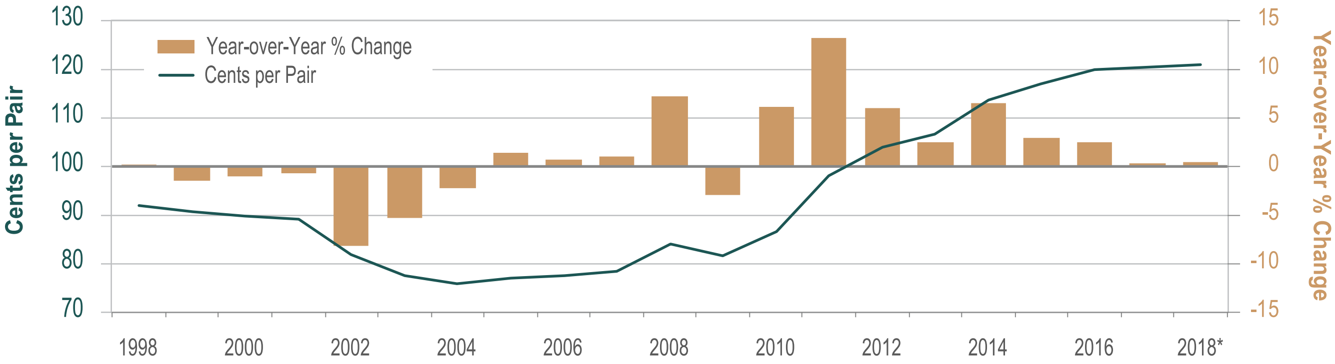


Sources: FDRA calculations of data from Federal Reserve & USITC

Implications for footwear as duties and the dollar both rise in 2018

Duties remain problematic for the industry. After rising to a record in 2017, duties per pair on U.S. footwear imports so far this year are higher versus the same first eight months of last year. This evidence hints that full-year average duties per pair are poised to climb again in 2018 to an unprecedented record near $1.21, higher 13 of the last 14 years.

Footwear Duties per Pair Set to Climb to a Record in 2018—Barely



Source: USITC

After spurting to a thirteen-month high north of 96 in August, the U.S. Dollar Index retreated over the next month to trade between 93.5 – 95.5. We continue to see one more rate hike from the Federal Reserve later this year, keeping the dollar well supported into 2019. But optimism has taken root in Europe, as a Brexit deal in coming weeks looks realistic, ECB President Draghi was relatively upbeat as he left inflation forecasts unchanged, and Turkey's central bank finally raised rates, calming the local situation for now. On balance, the dollar may see heightened volatility in coming months, but there is little strong evidence for a looming trend in either direction. A stronger dollar may contribute to lower prices for U.S. imports, a welcome prospect for footwear retailers that have had little opportunity to raise prices appreciably recently.

U.S. Dollar Index Nearby Futures Approach 17-Month High set in August

Source: ICE Futures U.S.

Duties remain problematic for the industry. After rising to a record in 2017, duties per pair on U.S. footwear imports so far this year are higher versus the same first eight months of last year. This evidence hints that full-year average duties per pair are poised to climb again in 2018 to an unprecedented record near $1.21, higher 13 of the last 14 years.

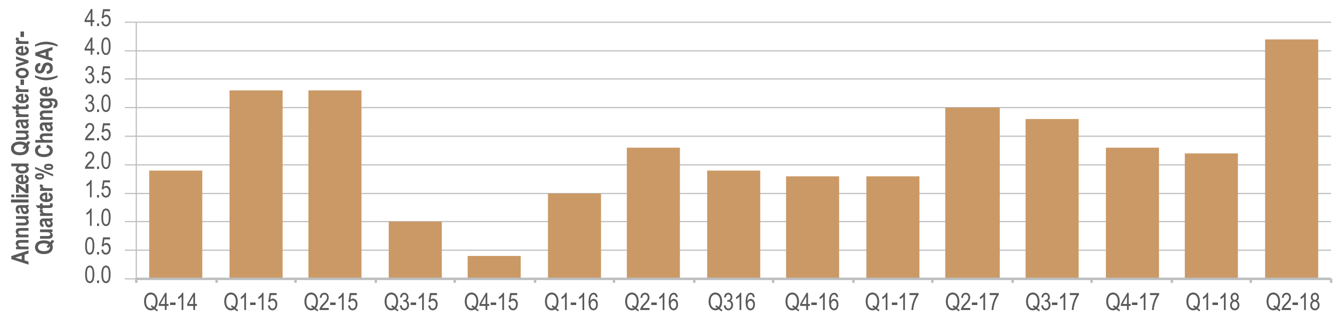
Earlier FDRA research has shown a strong correlation between changes in the average landed cost of footwear from the world and changes in the average duty per pair paid on footwear just from China. If the U.S. imposes higher tariffs on Chinese footwear as the White House has threatened, the average landed cost of total footwear imports is likely to surge in step, rivaling a record high.

U.S. Economy: great party, but it's getting late

If investment and net exports moderate in coming quarters as we expect, economic growth is likely to cool in step.

Economic activity across the country expanded the fastest in nearly four years in the second quarter, growing an annualized 4.2% on quarter, according to BEA's final estimate. While welcome news, this latest upbeat read may lack staying power, as a confluence of one-off and short-term measures boosted headline growth. In particular, the recently-enacted federal tax cut prompted a short-term spurt in investment, while the trade spat with China prompted a surge in exports—particularly soybeans—before tariff hikes took effect. If investment and net exports moderate in coming quarters as we expect, economic growth is likely to cool in step. Indeed, the Federal Reserve's latest "Beige Book" report on current economic conditions across the country already notes consumer spending—accounting for 70% of economic activity—grew only "modestly" since mid-July and most Districts noted concern and uncertainty about trade tensions—particularly though not only among manufacturers—had prompted some businesses to scale back or postpone capital investment.

U.S. Economy sees Above-Trend Growth in Latest Quarter...

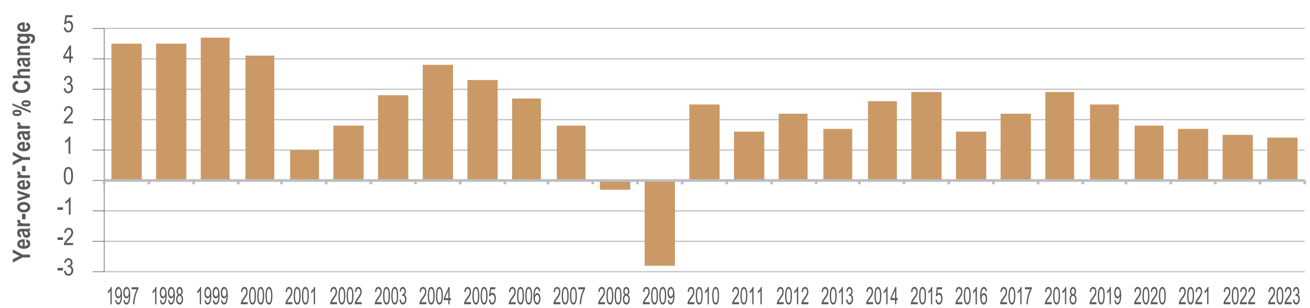


Source: Bureau of Economic Analysis

As a "sinking tide lowers all ships", weaker GDP growth prospects strongly suggest footwear demand and imports will turn soft in coming years.

A combination of factors hints at slower longer-term growth prospects for the U.S. economy, weighing on prospects for footwear demand. From higher interest rates to the tariff tiff with China to the unwinding of the recently-enacted fiscal stimulus, these issues indicate downside risks to growth have risen in the past six months and the potential for upside surprises has receded. Already, the IMF cut its 2019 U.S. GDP growth forecast to 2.5% and expects growth will decelerate over at least the next five years. And as a "sinking tide lowers all ships", weaker GDP growth prospects strongly suggest footwear demand and imports will turn soft in coming years.

...but Growth in the U.S. Economy is Expected to Decelerate in Coming Years



* IMF forecasts
Source: Bureau of Economic Analysis

Canadian and European footwear retailers stumble in 2018

While overall retail demand remains healthy in Canada, seasonally-adjusted shoe store sales grew only modestly year-over-year in July, reinforcing our earlier view that 2018 sales in this sub-sector will fade, a stark shift for a market that has not seen an annual contraction in a decade. Indeed, shoe store sales over the first seven months of the year are off -2.3% from the same period in 2017, strongly suggesting full-year sales will tumble. The writing remains on the wall that Canadian shoe store retailers in 2018 will not fare as well as in the past, and likely will see their worst year in decades.

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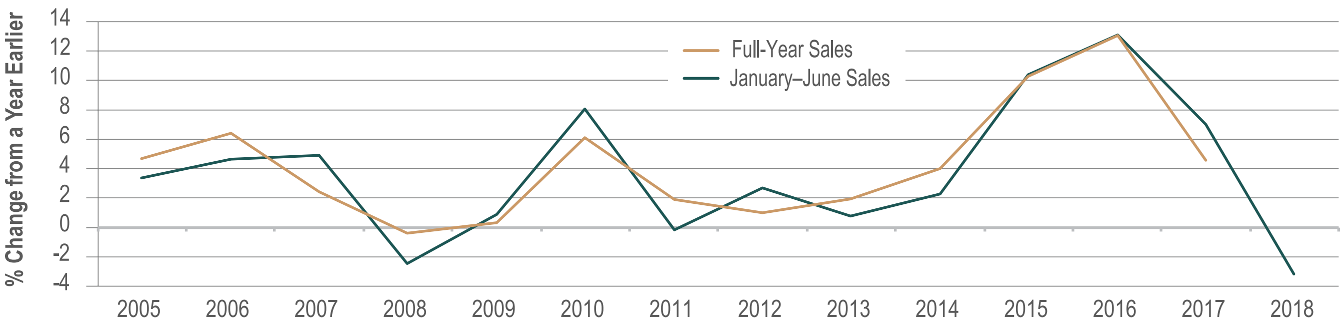
Tumble in Year-to-Date Canadian Shoe Store Sales Point to Contraction in 2018



Source: Statistics Canada

Seasonally-adjusted sales of textiles, clothing, footwear and leather goods in specialized stores across the EU under-performed again, inching higher a year-over-year 0.3%, reversing—barely—three straight months of flat to lower sales. August's tepid performance does little to offset a year-to-date decline (off -0.7%) or to brighten full-year prospects. In fact, the contraction in year-to-date sales through August coupled with historical trends suggest there is about a two-in-three chance that full-year sales will range from -0.4% to -1.0% lower, the fourth annual decline in seven years. Part of this downbeat view also is attributable to weaker 2018 GDP growth prospects from the IMF, ratcheted 0.2 percentage point lower in July and again in October. What's more, the IMF expects Euro Area growth will decelerate over at least the next six years, weighing on prospects for footwear demand across the continent.

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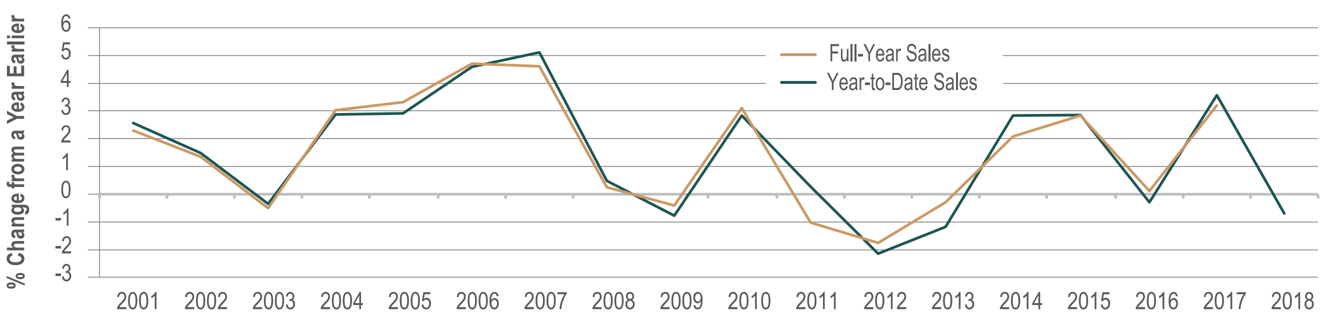
EU Sales of Textiles, Clothing, & Footwear Poised to Shrink Modestly in 2018



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.

The footwear industry's weekly podcast featuring executives and experts

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February 20

THE Footwear Executive Summit
Washington, DC
April 3–4

FDRA 75th Anniversary Party
New York, NY
June 4

Sourcing & Sustainability Summit
New York, NY
July 22–23

Footwear Materials Innovation Summit
Portland, OR
August 13

Footwear Trade Distribution & Customs Conference
Long Beach, CA
October 27–30

Fashion Footwear Design Summit
New York, NY
November 12

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