

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 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



ED ROSENFELD

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.



How FDRA accomplishes its mission

INTELLIGENCE



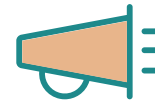
FDRA is the footwear industry's **business intelligence hub** providing data, analysis, and insights on a range of key issues impacting the entire footwear industry, from design and sourcing to retail and fashion.

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.

The Times They Are A-Changin’

To quote Canadian Prime Minister Justin Trudeau,

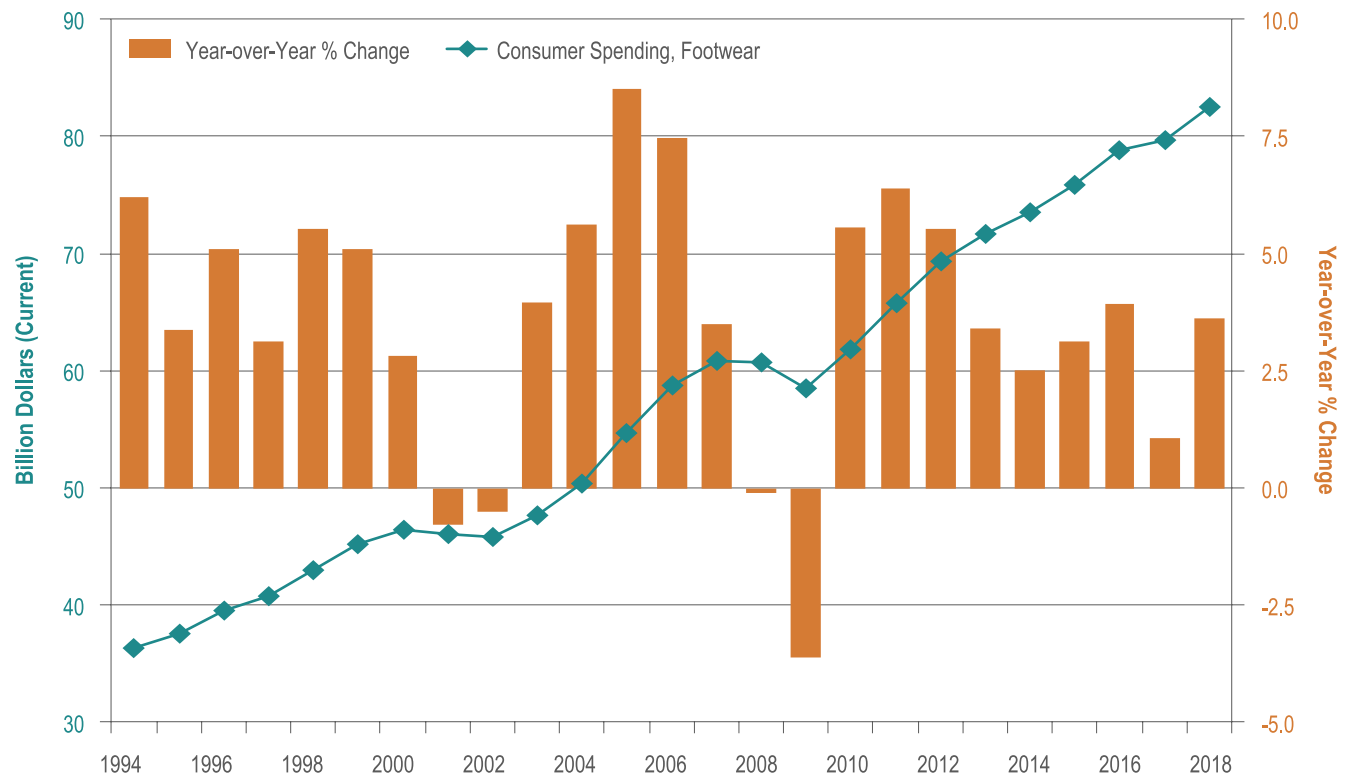
“The pace of change has never been this fast, yet it will never be this slow again.”

These words certainly apply to U.S. sourcing and retailing of footwear, where production, distribution, and demand are seeing rapid evolutions in key players, trade policies, new technologies, and consumer buying behavior. These changes leave distributors and retailers in a tumultuous sea of shifting policies and paradigms. FDRA is here to help the industry navigate these chaotic waters by keeping members abreast of these evolving trends and to address and capitalize upon them as one voice.

U.S. Footwear Demand: Life in the Fast Lane

Buoyed by low unemployment and high consumer confidence, consumer spending on footwear surged a year-over-year 5.9% in the fourth quarter, the fastest pace in nearly seven years. Sales at shoe stores—a subset of the broader retail footwear marketplace—similarly fared well over the final three months of the year, rising to a record seasonally-adjusted dollar total. As a result, shoppers’ demand for footwear expanded for the ninth straight year in 2018, growing another 3.6% to an unprecedented \$82.5 billion. And following the fourth-quarter flourish, full-year sales at shoe stores similarly rose 3.6% to a record \$36.8 billion in 2018, better than our expectation earlier in the year for only a modest annual rebound.

Record Year for U.S. Consumer Spending on Footwear



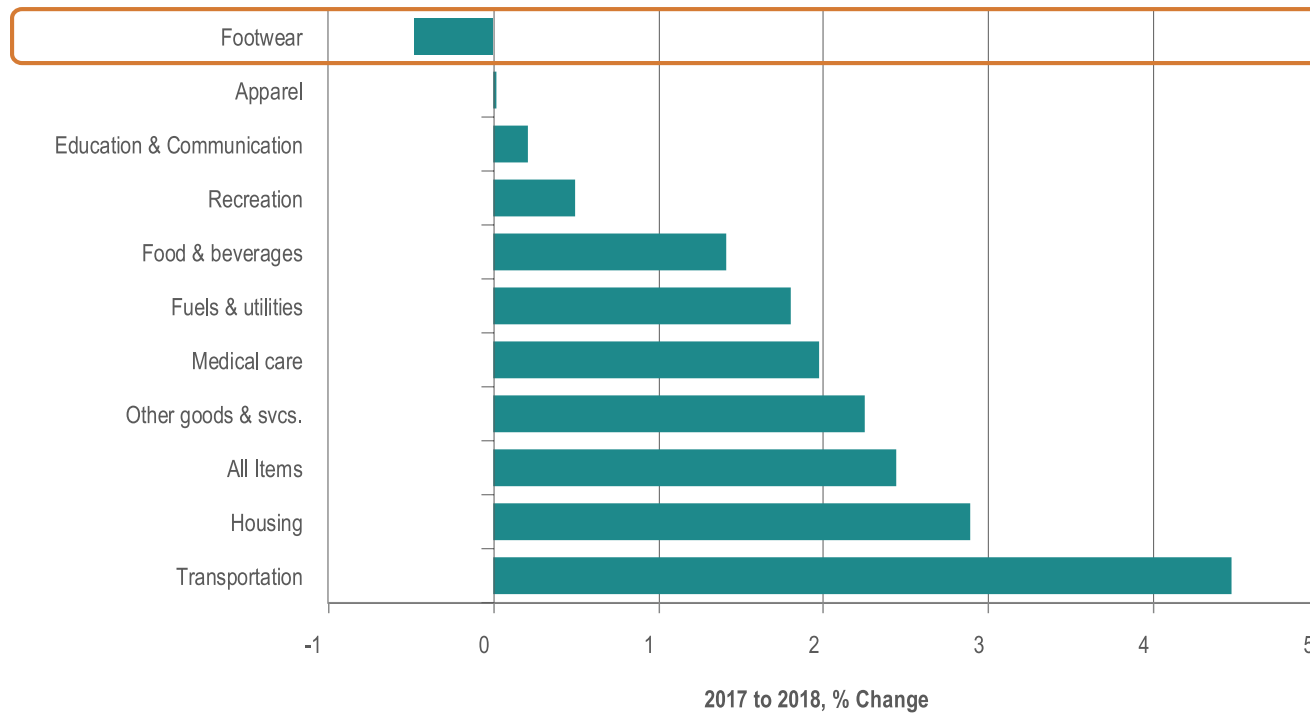
Source: U.S. Bureau of Economic Analysis

Consumer Prices: Under Pressure

While footwear demand surprised to the upside last year, retail prices for footwear contracted again, in spite of broadly higher prices across the rest of the consumer marketplace. Overall retail prices rose 2.4% for the year, led by sharp gains in transportation (up 4.5%) and housing (+2.9%). But footwear prices slipped -0.5% for the second straight year, as a -1.8% tumble in womenswear—the third straight annual drop—offset modest annual gains in men’s and children’s footwear prices. As a result, while the overall retail price for goods and services continues to gain traction in this low-interest rate and low-unemployment environment, prices for footwear—particularly women’s footwear—remains on the defensive. On balance, these sagging prices imply persistently tight margins and squeezed profits for footwear retailers already facing creeping costs for labor, rent, merchandise, distribution, and other inputs.

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Footwear one of Few Sectors to see Consumer Prices Drop in 2018



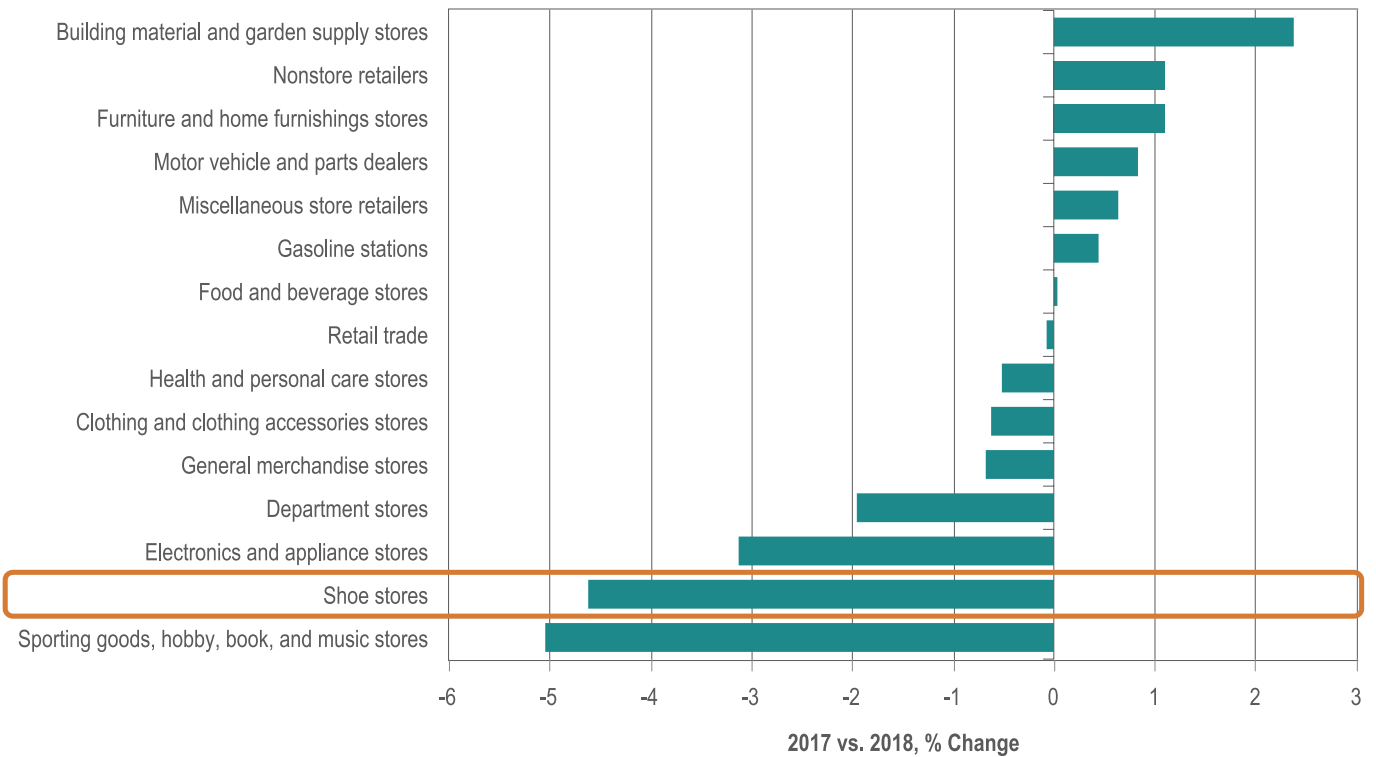
Source: Bureau of Labor Statistics

With shoe store sales recently climbing to a record, the industry effectively is doing more with less.

These Boots were Made for Walking... Right out of a Job

The US shoe store labor force posted some remarkable trends in 2018, indicative of a retail sub-sector in transition as the number of outlets declines but sales grow to a record and competition across the economy for a dwindling supply of labor remains fierce. Shoe store employment faded year-over-year again in December, lower for the nineteenth straight month. As a result, shoe store employment contracted -4.6% in 2018, the second-sharpest annual drop in more than a quarter century. Indeed, the decline in shoe store employment was steeper than in most retail sectors, as the accompanying graph demonstrates.

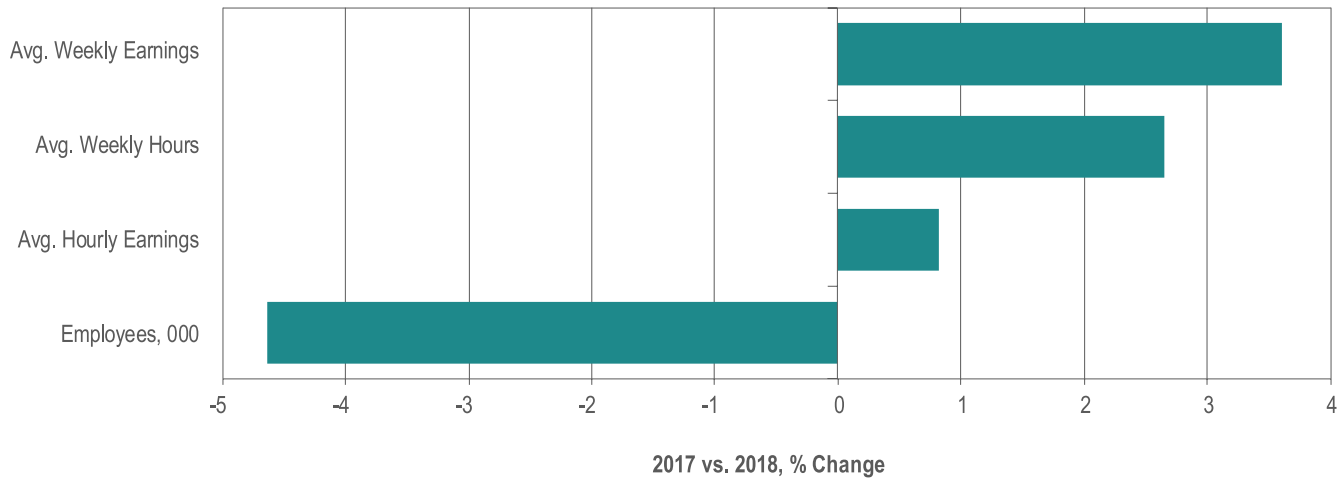
Shoe Stores see Employment Fade Faster in 2018 than Most Other Retail Sectors



Source: Bureau of Labor Statistics

More particularly, while shoe stores are employing fewer workers, they are paying remaining employees *more* and working them longer hours. That is, average hourly earnings rebounded 0.8% in 2018 to a near-record \$17.32 and average weekly hours rose 2.7% last year to 27.1 hours, enabling average weekly earnings to rebound 3.6% last year to a record \$469.56. In an environment of dwindling shoe stores, these seemingly contrary trends of fewer workers but more average pay and hours come as retailers are competing for workers in the tightest labor market in nearly half a century.

Doing More with Fewer: Shoe Stores Have Fewer Workers, but Pay Them More and Work Them Longer



In an environment of dwindling shoe stores, these seemingly contrary trends of fewer workers but more average pay and hours come as retailers are competing for workers in the tightest labor market in nearly half a century.

Source: Bureau of Labor Statistics

The IMF expects Canadian economic growth in 2019 will persist but ease modestly in sympathy with the US economy.

With the European retail footwear marketplace larger than the U.S. market, this development—a reversal from recent years—puts more of the onus on the U.S. consumer to bear the burden of driving footwear demand, a daunting task in light of dimming economic prospects for the country.

Ch-Ch-Changes in Foreign Footwear Sales... for the Worse

The Canadian economy practically came to a halt in the final quarter of 2018, bringing unwelcome implications for footwear demand. After a flaccid end to the year, Canadian shoe store sales shrank -0.8% in 2018, *the first annual contraction in a decade* for this retail sub-sector, confirming our long-held view that full-year Canadian shoe store sales would fail to match the previous year's record sales of nearly CAD4.2 billion. Looking ahead, the IMF expects Canadian economic growth in 2019 will persist but ease modestly in sympathy with the US economy, suggesting Canadian retail sales—and by extension, shoe store sales—may remain flat-footed well into the new year, a dramatic change for a market that has grown an average 4.3% each year over the last decade.

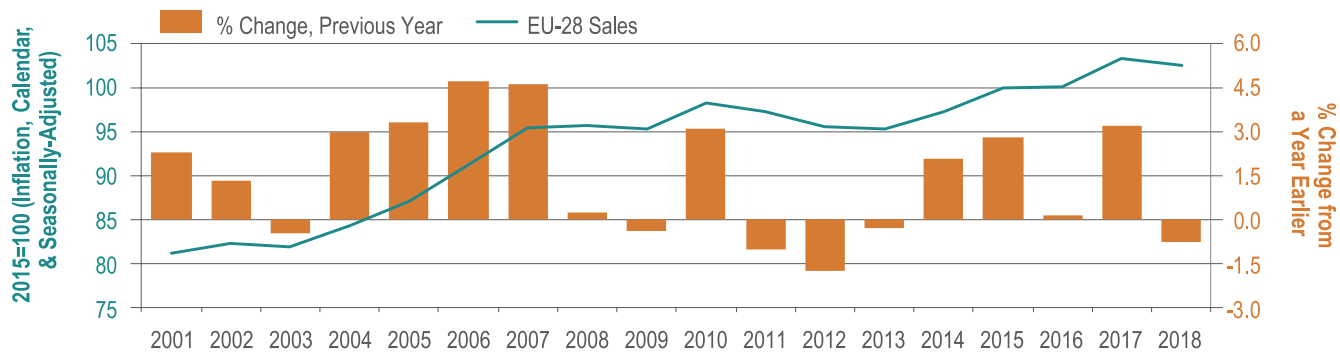
Annual Canadian Shoe Store Sales Contract for First Time in a Decade



Source: Statistics Canada

Similar to Canada, European sales of textiles, clothing, footwear, and leather goods failed to live up to trend, posting an unwelcome contraction for the year and confirming our outlook several months ago. The market shrank -0.8% from 2017, the first decline in the last five years, but lower four of the last eight years.

EU Sales of Textiles, Clothing, Footwear & Leather Goods Slide in 2018

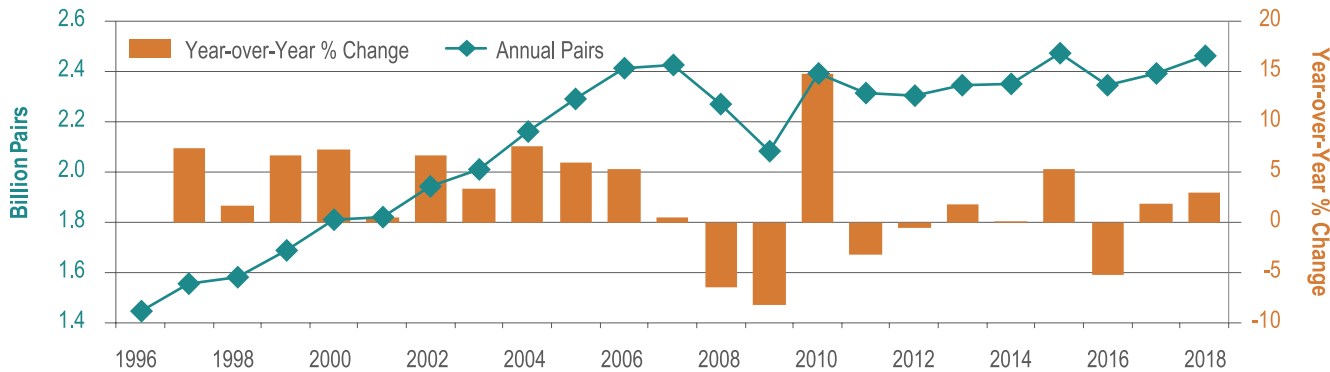


Source: Eurostat

Footwear Imports: Come Sail Away

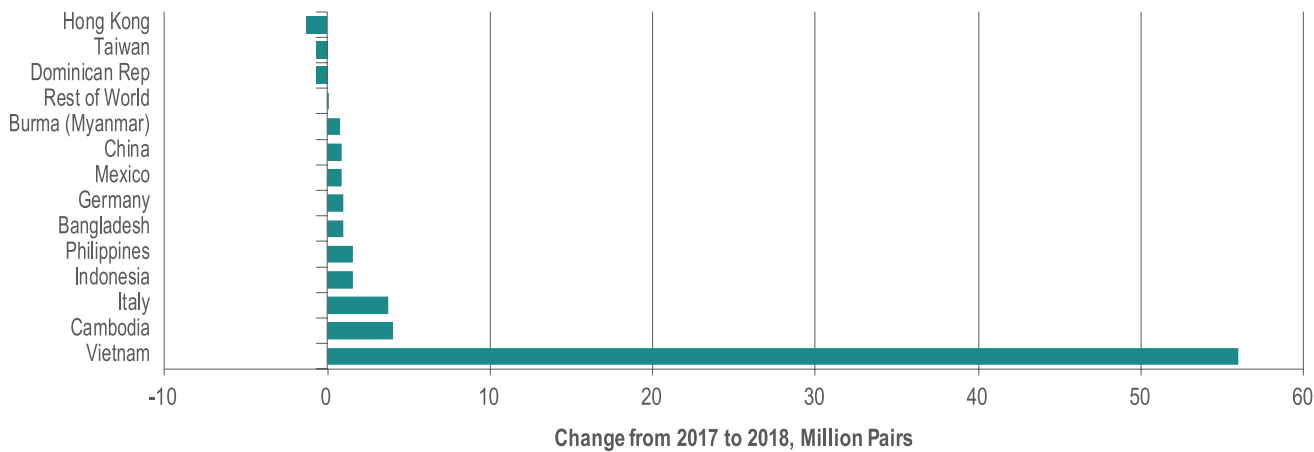
The volume and value of all footwear entering the US rebounded in 2018, growing 4.3% in dollar terms to a near-record \$26.6 billion. In volume terms, footwear imports grew 3.0% to 2.5 billion pairs, just short of the 2015 record. On the surface, shipments have been relatively flat in recent years.

Volume of U.S. Footwear Imports Rebounds in 2018, but falls Short of a Record



Another key issue in footwear sourcing is the evolution to Vietnam as a growing powerhouse origin. While China remains—by far—the largest footwear supplier to the U.S. market, Vietnam’s gradual ascent has been undeniable. Over the last decade China’s share of US footwear imports shrank from a record 76% to a 21-year low of 53% by 2018. The lost share has been captured almost entirely by Vietnam, whose share over the same period jumped from 7.8% to 23.3%. Perhaps this long-term evolution is more impressive when viewed more closely, that is year-over-year.

Vietnam Accounted for most of Growth in 2018 U.S. Footwear Imports



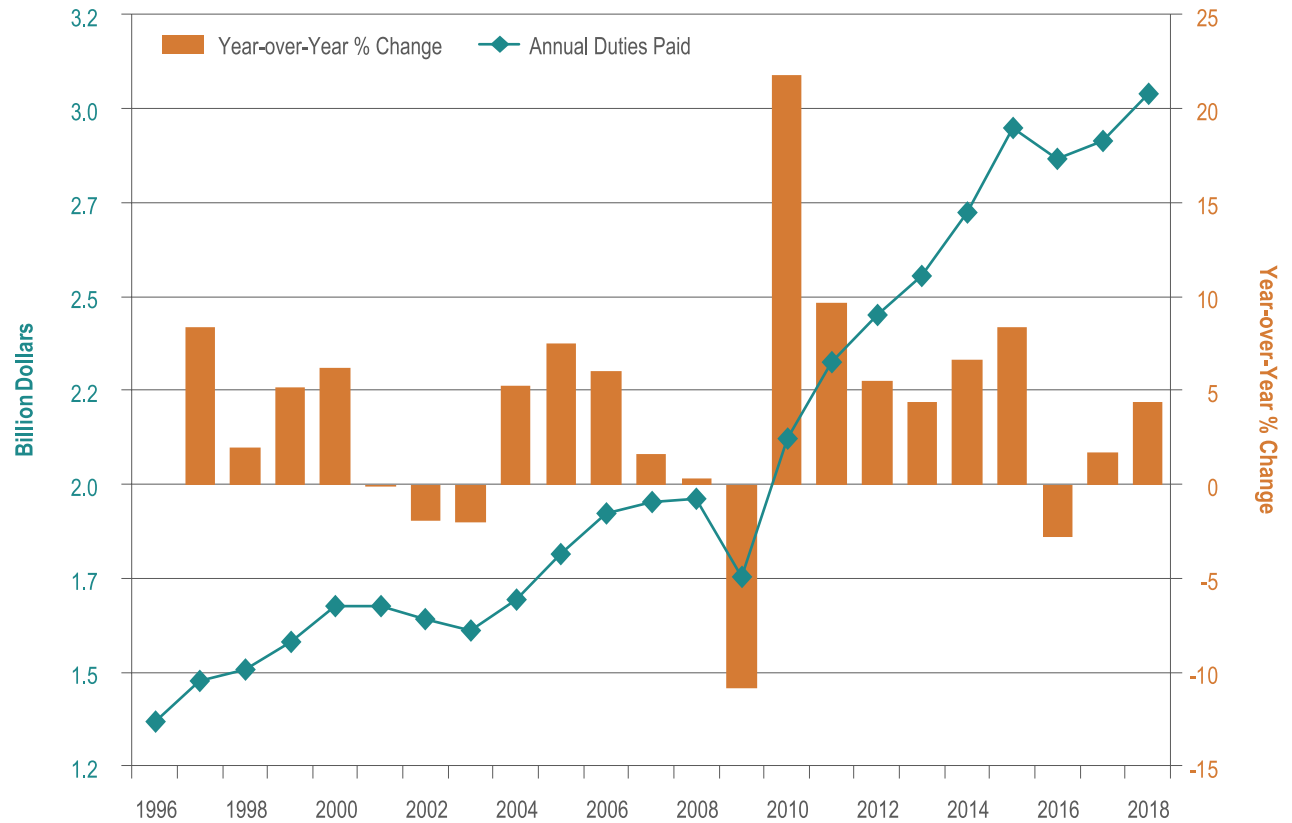
Shipments in 2018 grew from most key suppliers, albeit modestly... +/- 5 million pairs, except for Vietnam, where shipments to America surged by nearly 56 million pairs, far overshadowing changing shipments from all other suppliers last year.

Source both charts: USITC

The threatened US tariff hikes on the remaining \$260 billion of imports from China likely would dramatically increase the average duty rate on footwear from America's largest supplier, at a time when retail footwear prices are falling but the average landed cost of footwear imports are rising, an unwelcome recipe for footwear retailers already constrained by tight margins.

Duties remain problematic for the industry. The average duty paid per pair on U.S. footwear imports rose in 2018 for the twelfth time in the last fourteen years, reaching an unprecedented \$1.21 per pair. What's more, the threatened US tariff hikes on the remaining \$260 billion of imports from China likely would *dramatically* increase the average duty rate on footwear from America's largest supplier, at a time when retail footwear prices are falling but the average landed cost of footwear imports are rising, an unwelcome recipe for footwear retailers already constrained by tight margins.

Duties Paid on U.S. Footwear Imports Rose again to a Record in 2018



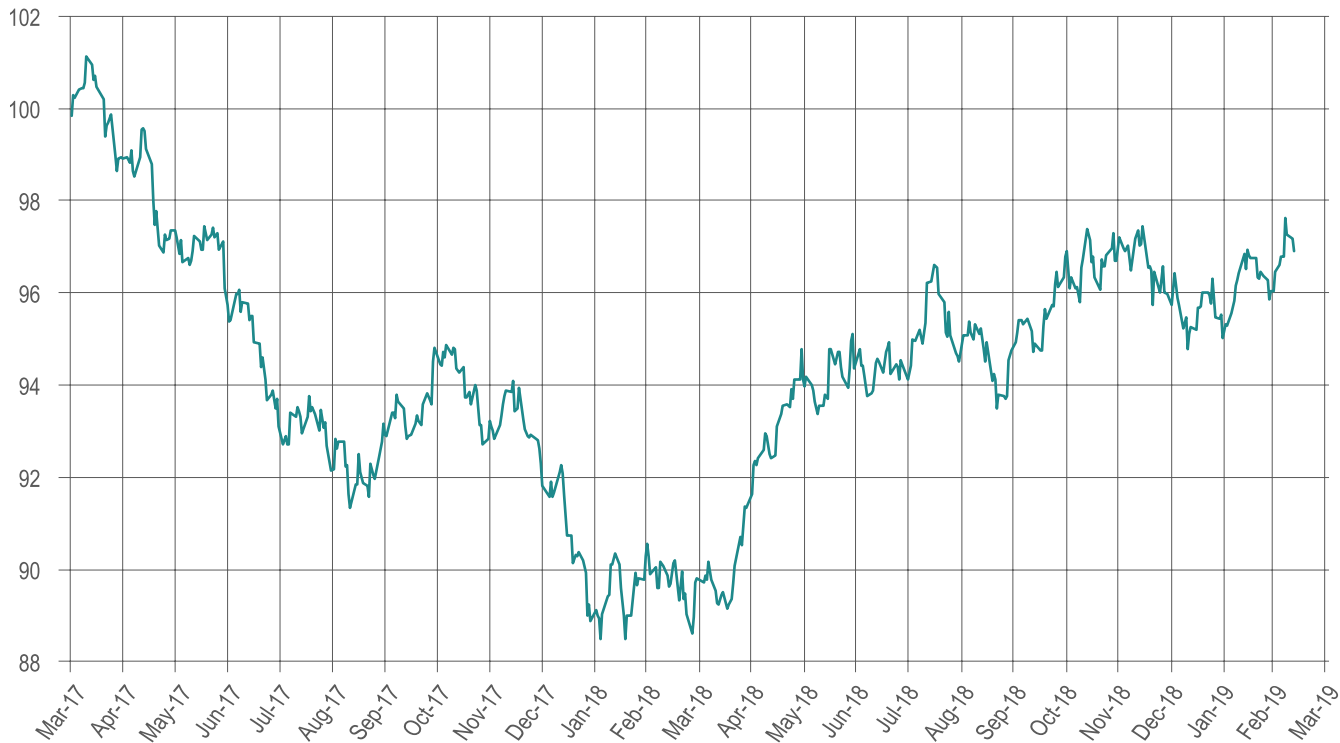
Source: USITC

Dollars Index: Mo' Money, Mo' Problems

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 risk a footwear company's profitability, so anticipation of and the ability to hedge against this volatility are key.

Perhaps no other factor impacts costs involved in global footwear manufacturing and sourcing more than the value of the dollar, both as the key denomination for many commodities traded globally and as a global currency. After plumbing two-year lows during the first quarter of 2018, the greenback has steadily risen since then, recently flirting in early March with its highest in nearly two years following a string of interest rate hikes and above-trend economic growth in 2018. We are less upbeat on the dollar's prospects in 2019, owing to a range of economic and geopolitical issues that may weigh on the currency in coming months. But for now, a currently stronger dollar contributes to lower prices both for US imports and for dollar-denominated commodities used in footwear manufacturing, a welcome development for footwear retailers that have had **little opportunity to raise prices appreciably recently**.

U.S. Dollar Index Nearby Futures near a Two-Year High



Source: ICE Futures U.S.

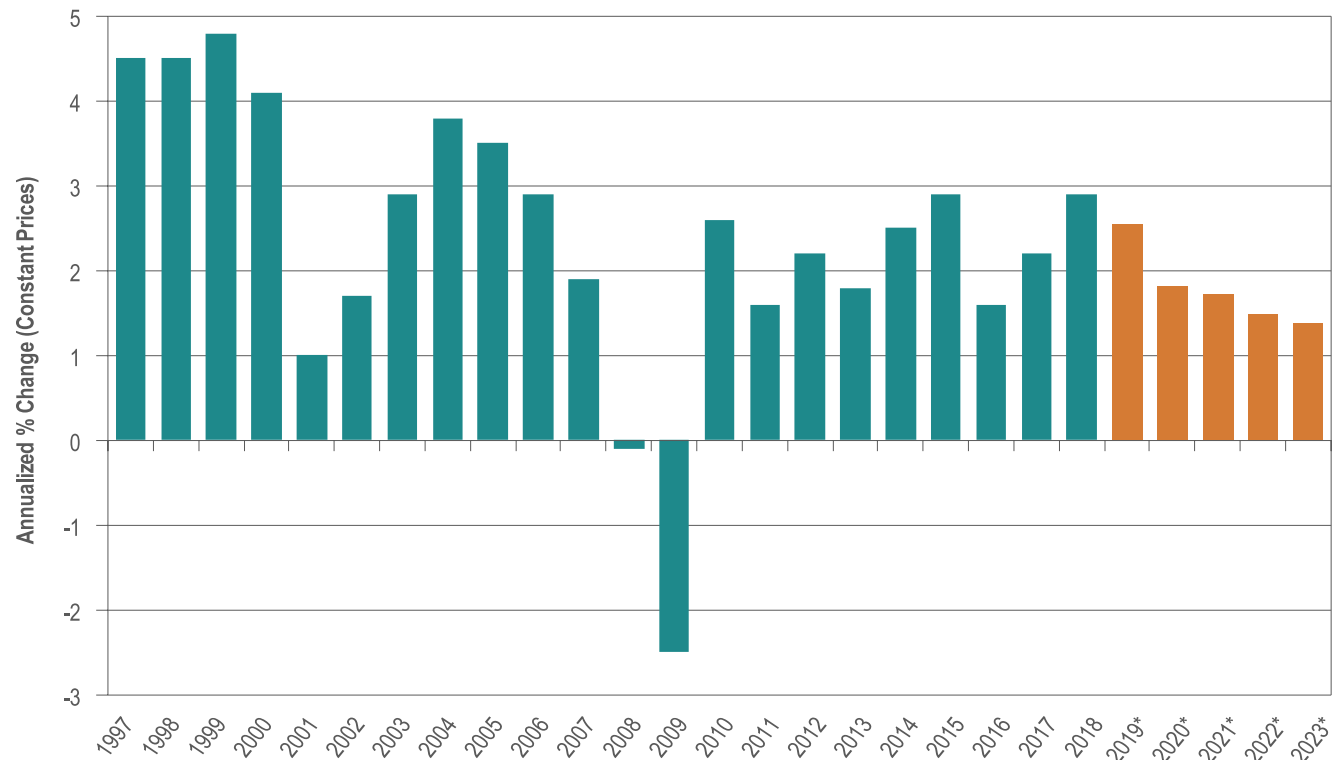
Each month FDRA shares key pricing drivers and trends for a range of commodities and currencies impacting the footwear supply chain [here](#), helping members anticipate the outlook for these markets. Periodically through the year, FDRA shares more in-depth discussion and forecasts into these markets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

A number of forecasters see a decelerating growth trajectory ahead. We also see risks skewed to the downside, primarily from a weakening global expansion, trade tensions, and Brexit.

U.S. Economy: Take the Money and Run

Since the dark days of the Great Recession, the U.S. economy has enjoyed nine straight years of expansion, rivaling the longest in the post-WWII era. Buoyed by a strong dollar, low unemployment, and robust consumer sentiment, the economy certainly has fared well in recent years. But unlike every previous post-war expansion, GDP growth has not surpassed 3% for any calendar year over the last decade. The US economy is widely expected to grow again in 2019, perhaps at a moderate pace. But a number of forecasters see a decelerating growth trajectory ahead. We also see risks skewed to the downside, primarily from a weakening global expansion, trade tensions, and Brexit.

U.S. Economy Posts Ninth Straight Year of Expansion, but Slower Growth Ahead

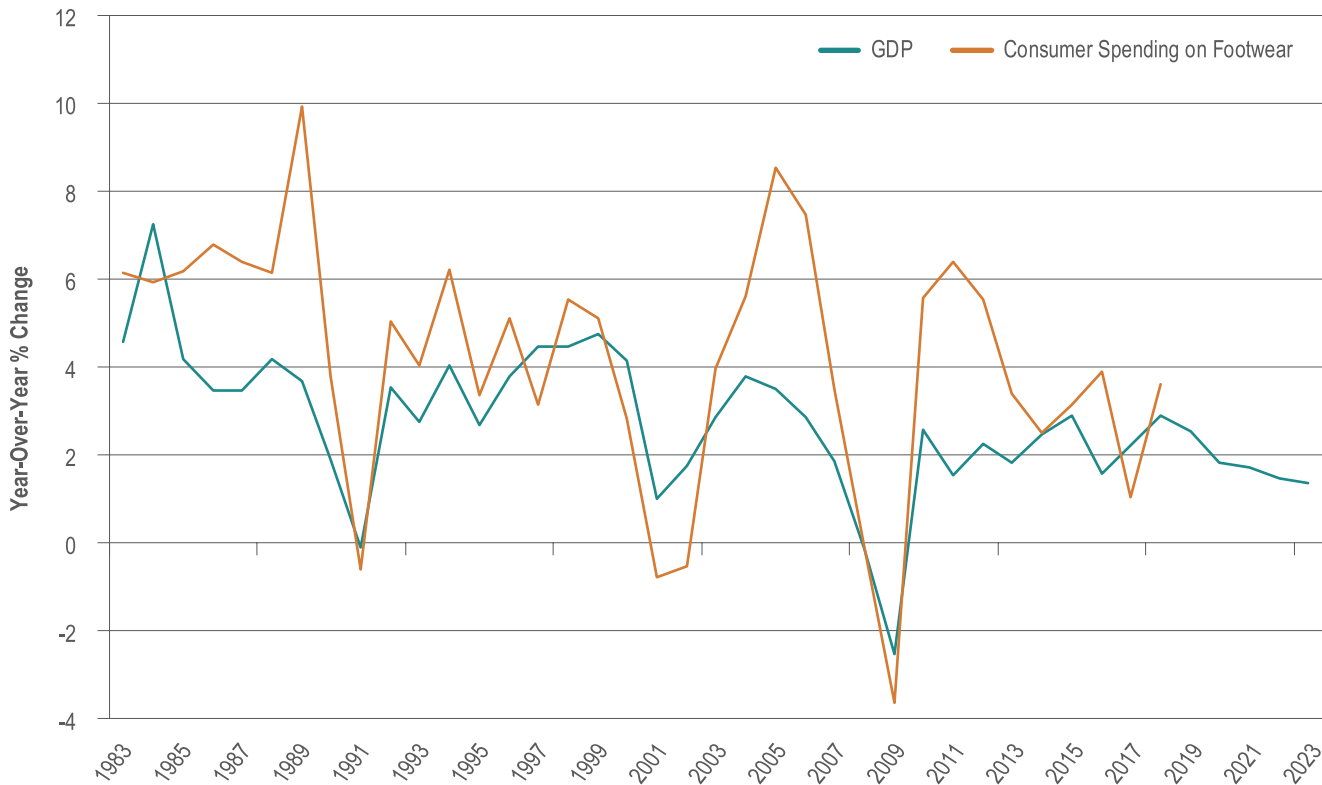


Sources: Bureau of Economic Analysis & * IMF forecasts

U.S. Consumer Spending: Can't Buy Me Love

With consumer spending accounting for roughly 70% of economic activity in the U.S., a slowing economy typically implies flagging consumer demand. In turn, a more satiated consumer may curb spending—particularly discretionary spending—across a range of categories including footwear. While the accompanying graph shows year-to-year changes in footwear spending typically are more volatile than changes in GDP, *a sinking tide tends to lower all ships*. On balance, prospects for slower growth ahead are likely to translate into moderating demand for footwear, a key issue with unwelcome repercussions across the footwear supply chain.

U.S. Consumer Spending on Footwear to Remain Tame as GDP Growth Slows



Prospects for slower growth ahead are likely to translate into moderating demand for footwear, a key issue with unwelcome repercussions across the footwear supply chain.

Sources: U.S. Bureau of Economic Analysis & IMF

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



shoeinshow.com

2019 Professional Development and Events



THE Footwear Executive Summit

Washington, DC

April 3–4



FDRA 75th Anniversary Party

New York, NY

June 4



Sourcing & Sustainability Summit

New York, NY

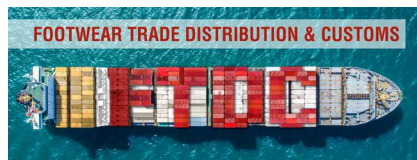
July 22–23



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 CITY
NOVEMBER 12, 2019



Fashion Footwear Design Summit

New York, NY

November 12



Learn more throughout the year at fdra.org/events-and-training



Keep up-to-date on footwear business trends each week on
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