

A hand holds a green shoe sole with a white globe logo. A machine with a clear plastic guard is processing the sole. The background is a blurred industrial setting.

2017

GLOBAL FOOTWEAR SOURCING ASSESSMENT

FDRA
FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

A myriad dichotomies has formed across the footwear industry from where footwear is produced, to material costs, to trade policy shifts and beyond. This report seeks to analyze current footwear sourcing opportunities, issues and challenges to help companies and professionals obtain a clearer view of the changing production and supply chain environment in which we now live. This report is part of FDRA's ongoing sourcing intelligence program including its annual summit, monthly newsletter and Shoe-in Podcast interviews with industry leaders on production issues. Be sure to visit footwearfactorycompliance.com to see current import data and analysis, material costs and a range of other important resources.

About FDRA

Since 1944, the Footwear Distributors Retailers of America (FDRA) has been the footwear industry's voice in Washington, DC. Today, FDRA's voice is stronger and more respected than ever. FDRA has also enhanced its member services and support and is now the industry's intelligence hub. FDRA provides its members valuable business intelligence and expertise on a variety of trends and topics including product safety, customs, sourcing strategies, intellectual property and social compliance. It is also the only association able to provide in-depth sales data and analysis for footwear retailers. In short, FDRA boosts its members business. Visit www.fdra.org to learn why over 80% of the U.S. footwear industry belongs to FDRA.

FDRA forecasting seeks to provide the footwear industry with information and critical thought to better prepare it for global challenges and threats that may impact footwear businesses. All forecasts herein should not be considered legal advice in any way.

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I. Intro/Overview: Nine Tales of Two Markets

The evolution of US footwear sourcing is producing—or responding to—different dichotomies across the supply chain, contrasting stark differences in suppliers, retailers, and consumers alike. No longer can one dominant origin supply most of the US footwear market largely on a cost-only basis, just as no longer does shopping primarily happen the same way it did before at traditional outlets and channels. A few of these dichotomies are introduced below:

Dichotomy #1: While footwear imports are faltering, duties per pair of footwear imports continue to rise, reaching another record in 2016.

Dichotomy #2: Footwear duty rates remain relatively high, compared to most other imported goods.

Dichotomy #3: Imports from China, the industry's largest supplier, continue to falter, while shipments from other countries grow.

Dichotomy #4: China remains—by far—the largest footwear supplier to America, but is responsible for most of the decline in shipments last year.

Dichotomy #5: Americans' footwear demand has never been stronger, but growth is slow & continues to underperform overall retail demand. In fact, shoe store sales in 2017 are poised to see their slowest growth since 2009.

Dichotomy #6: The nation's new administration touts "free and fair trade", but policy changes could be detrimental to the footwear industry.

Dichotomy #7: Commodity prices turn mostly flat, in spite of a strong dollar

Dichotomy #8: Oil prices likely little changed, even as OPEC extends production cuts.

Dichotomy #9: Hide Prices Higher in 2017 in Spite of Weaker Cattle Fundamentals

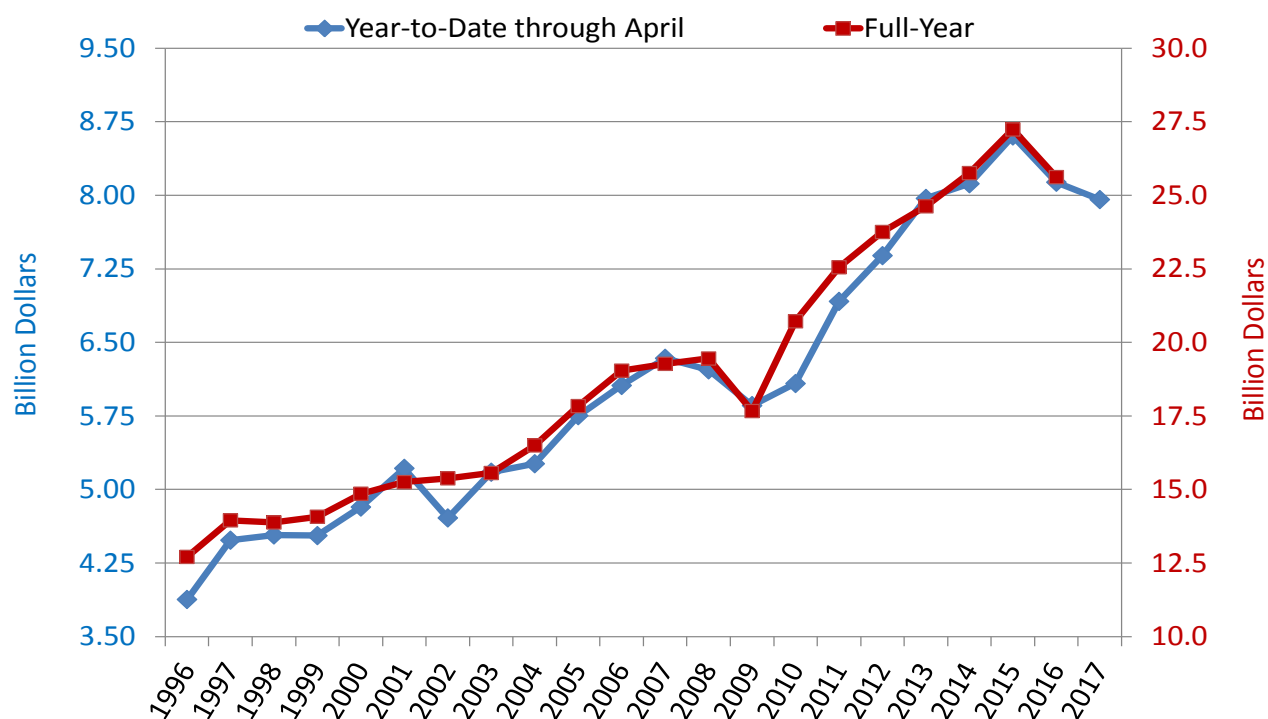
This sourcing assessment presents a review of current footwear production and price trends and a look ahead as a tale of two markets, contrasting these dichotomies between footwear suppliers, retailers, and consumers.



II. State of US Footwear Imports

Dichotomy #1: While footwear imports are faltering, duties per pair of footwear imports continue to rise, reaching records each of the last few years. To borrow the expression, before knowing where one is going one needs to know where one currently is. With this in mind, we review top-line trends in US footwear imports before mapping a projected path to the horizon. After climbing each of the previous six years to a record in 2015, US imports of footwear sagged -5.9% in 2016, only the third annual decline in eighteen years. ***What's more, the volume and value of imports are set to retreat again in 2017.***

Value of Total US Footwear Imports Set to Sink again in 2017



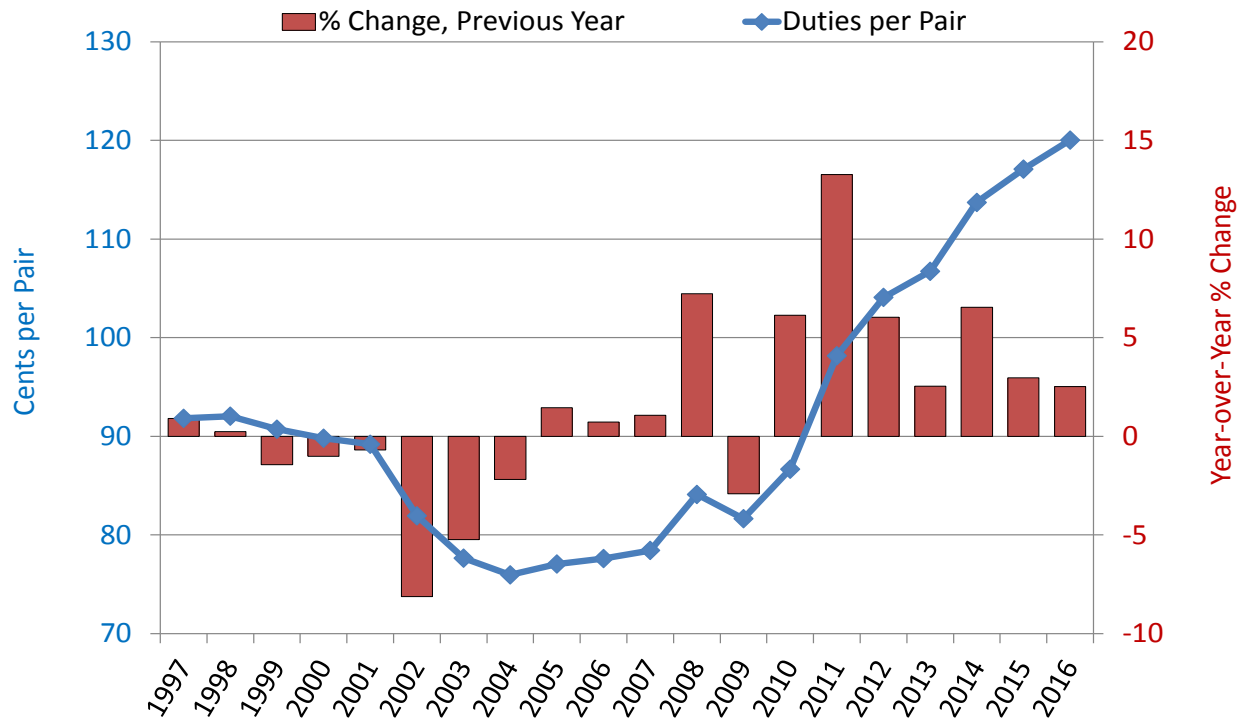
Source: USITC



A key contributing factor behind this recent retreat is that the average duty paid per pair for these imports continues to rise, resulting in higher average landed costs and higher prices paid by consumers. At \$1.20/pair, the average duty paid on imported footwear in 2016 rose for the seventh straight year to the sixth straight record high. What's more, early-2017 data suggest the average duty per pair will climb again this year to another unprecedented, and unwelcome, high.



...but Average Duties per Pair Rise again to another Record

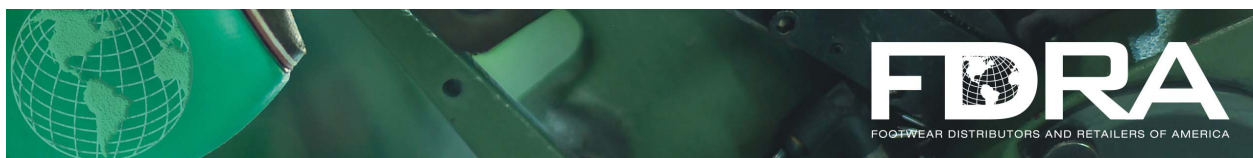


Source: USITC



In turn, the rise in duties is directly related to higher average landed costs of footwear imports. As the graph below demonstrates, over the last two decades the average duty per pair of footwear imports tended to rise or fall in close step with the average landed cost of footwear. More specifically, any annual increase or decline in average duties per pair saw a similar increase or decline in the average landed cost of footwear sixteen of the last eighteen years. Certainly there are more issues at play behind higher footwear import costs than just higher duties, but the strong correlation between higher landed costs and rising duties is unmistakable.

The year over year average duty paid per pair of shoes rose 2.5% in 2016 – A record high.





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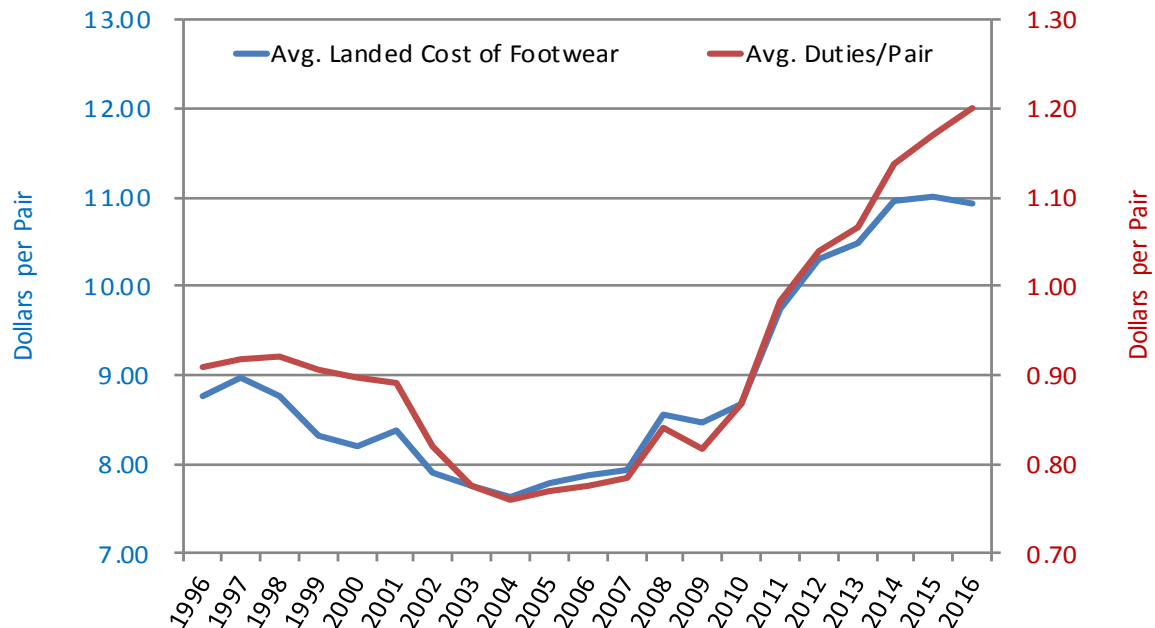
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...Pushing Import Costs Higher over the last Decade as Duties Surge



Source: FDRA calculations based on USITC data.

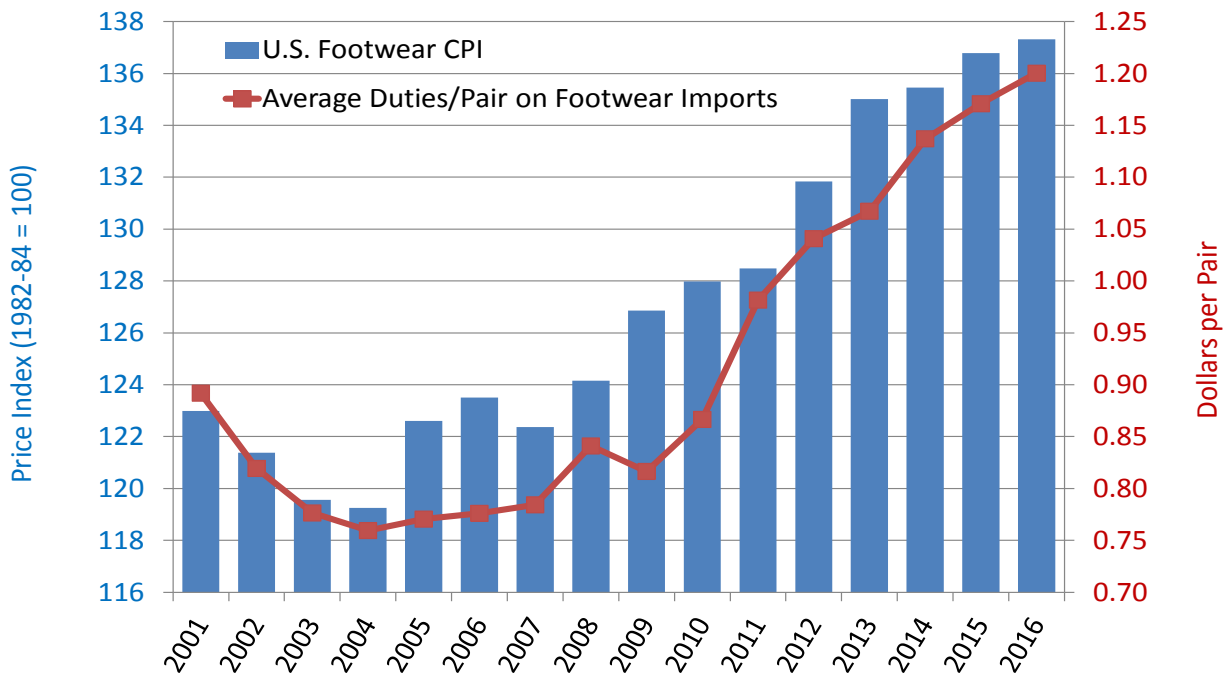


Lastly, changes in duties per pair on footwear imports is strongly correlated with changes in retail footwear prices. More particularly, any annual increase or decrease in the average duty per pair saw a similar increase or decrease in retail footwear prices thirteen times in the last fifteen years. Given this strong correlation, it comes as little surprise then that as the average duty per pair have risen each of the last several years to a record high, average retail prices for footwear similarly have risen each of the last several years, also to record highs. Given this relationship, these higher duties per pair are widely believed to be a key factor behind higher prices at the shoe counter, an issue that stifles demand for footwear.

Beyond duties, the industry has not yet found the proper calculus when it comes to inventory and price. Further complicating pricing, consumers are demanding discounts even on new products. It will take some time for each brand to adjust its models to this new marketplace paradigm.



Higher Average Duties per Pair on Footwear Imports are Passed on to Consumers



Sources: USITC & BLS



Dichotomy #2: Footwear duty rates remain stubbornly high, compared to most other imported goods.

The Office of the US Trade Representative [says](#) the country currently has a trade-weighted average import tariff rate of 2.0% on industrial (non-agricultural) goods, and that one-half of all industrial goods entering the United States enter duty free. At the same time, the average duty rate on US footwear imports reached at an eye-watering 11.0% in 2016, higher each of the last seven years. This wide gap implies that footwear importers, retailers, and consumers are forced to bear an unduly burdensome share of US tariffs. What's more, both average duties per pair and average duty rates on footwear imports have risen each of the last few years to their current records, suggesting this already-burdensome weight on the industry has grown even heavier, crimping demand and profitability along the supply chain.

The Real U.S. Trade Imbalance

**2% Average
Import Duty On
All Goods**



**11% Average
Import Duty On
Shoes**



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Supply Chain Risk Intelligence: Supply Chain Risk Exposure Evaluation Network (SCREEN), is a web-based, global intelligence system that provides data and analysis on Supply Chain Security, Corporate Social Responsibility, and Business Continuity threats And trends. SCREEN is used to measure country level Risk factors through 20+ proprietary risk ratings in over 200 countries. SCREEN is used globally by importers, manufacturers, and governments to monitor global incidents and trends, and gain unparalleled visibility into geographic exposure to the supply chain.

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Contact us to learn more about our sourcing and risk management services and solutions.

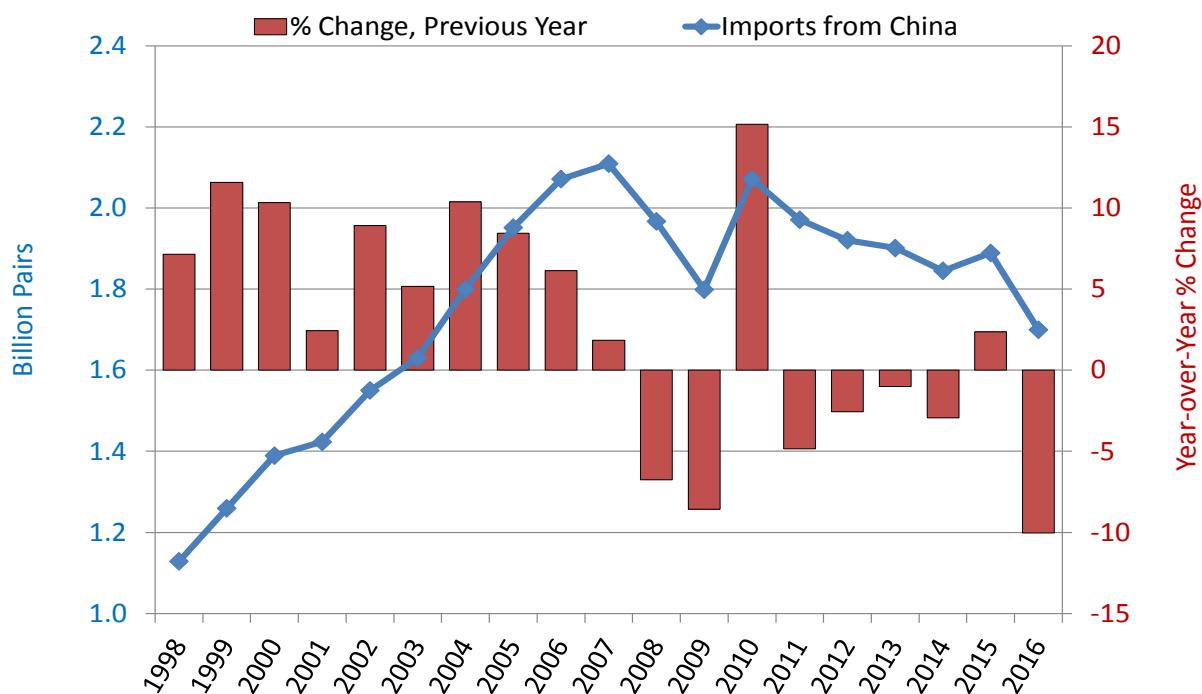
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III. US Footwear Imports by Key Suppliers

Dichotomy #3: Imports from China, the industry's largest supplier, continue to falter, while shipments from other countries grow. China remains, by far, the largest supplier of footwear to the US market, a position it has maintained for decades and is likely to retain for years to come. But Chinese footwear shipments to US shores sank again in 2016, lower seven of the last nine years. At just 1.7 billion pairs, imports last year from this key origin retreated to a thirteen-year low.

US Footwear Imports from China Tumble again to a Thirteen-Year Low in 2016



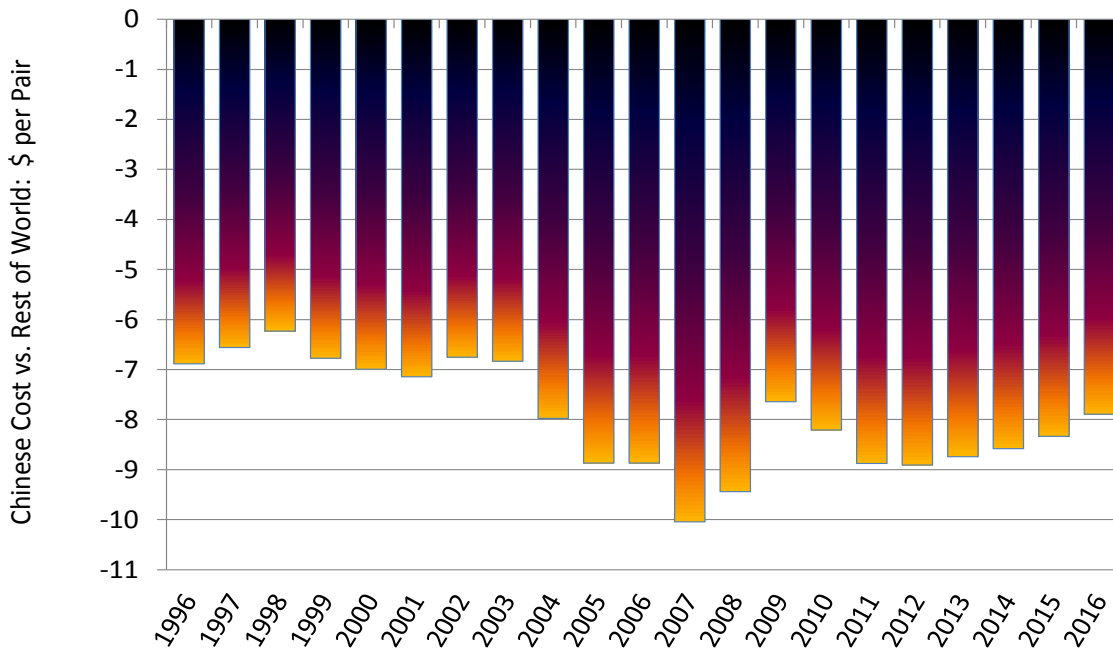
Source: USITC



The reasons behind the lost Chinese trade are not so straightforward or simplistic as to be labeled 'just less cost competitive'. Quite the contrary; the average landed cost of total footwear imports from China has remained substantially less expensive than footwear from the rest of the world over the last two decades, as the graph below demonstrates. Rather, a broad range of issues are at play, ranging from supplier diversification and offshoring to product differentiation and specialization elsewhere to China's efforts to phase out low-end exports in favor of promoting the service sector and high-tech manufacturing. Plus, Chinese shoppers show a growing appetite for footwear, with domestic consumption estimated at a record 3.8 billion pairs in 2015, accounting for nearly one-third of total domestic production. These and other factors are behind the erosion in China's share of the US footwear market.



Avg. Landed Cost of Chinese Footwear Remains much Cheaper than from Rest of World



Source: USITC



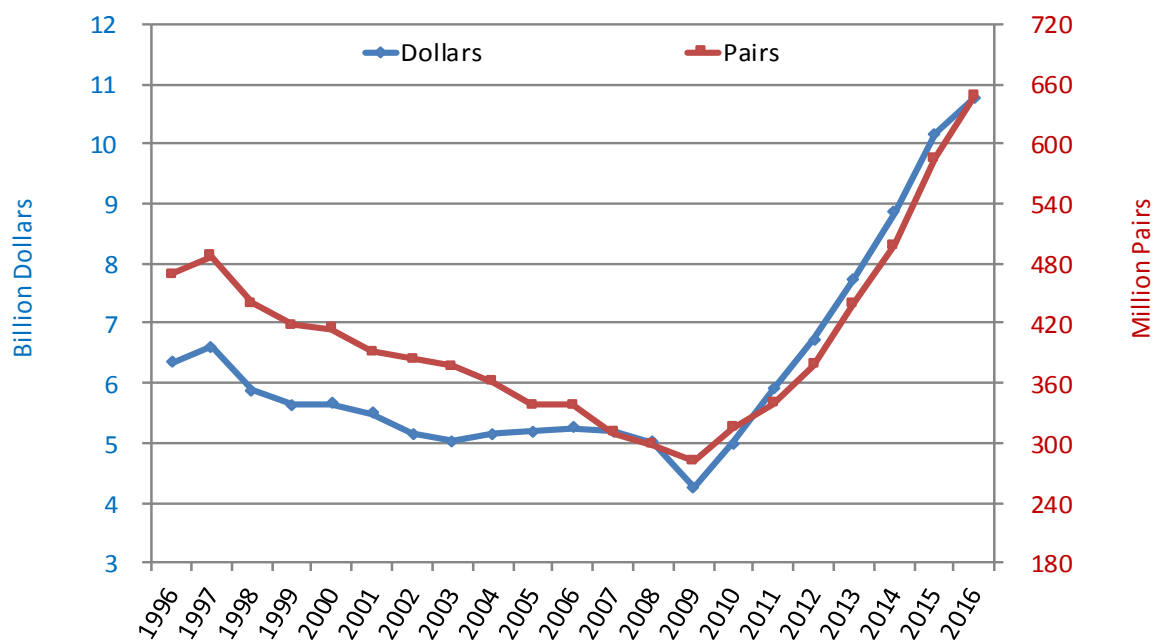
At the same time, US footwear imports from other markets—primarily in Asia—continue expanding, with several origins shipping record amounts to US shores in 2016. In fact, shipments from the world excluding China rose for the seventh straight year in both volume and dollar terms, climbing to record highs again in 2016.

Dichotomy #4: China remains the largest footwear supplier to America, but is responsible for most of the decline in shipments last year. This tumble is clearly illustrated on the graph below, showing US footwear imports from China plunged by \$2.2 billion in 2016. This drop singlehandedly offset a modest increase in shipments from the rest of the world combined, pulling total US imports lower for the year. In fact, China's plunge and Vietnam's jump (up 12.9%, or \$558.1 million) are the two dominant stories behind last year's changes in imports by origin. Shipments from the rest of the world rose modestly, up a combined 0.6%, or \$35.3 million.

Lower US shipments from China but growing imports from the rest of the world naturally imply China is losing share to the rest of the world, extending a trend witnessed for several years. ***Indeed, China's dominant share of US footwear imports continues to erode, slipping from a record 87.2% a decade ago to an eighteen-year low of 72.4% (58.0% in dollar terms) in 2016.***



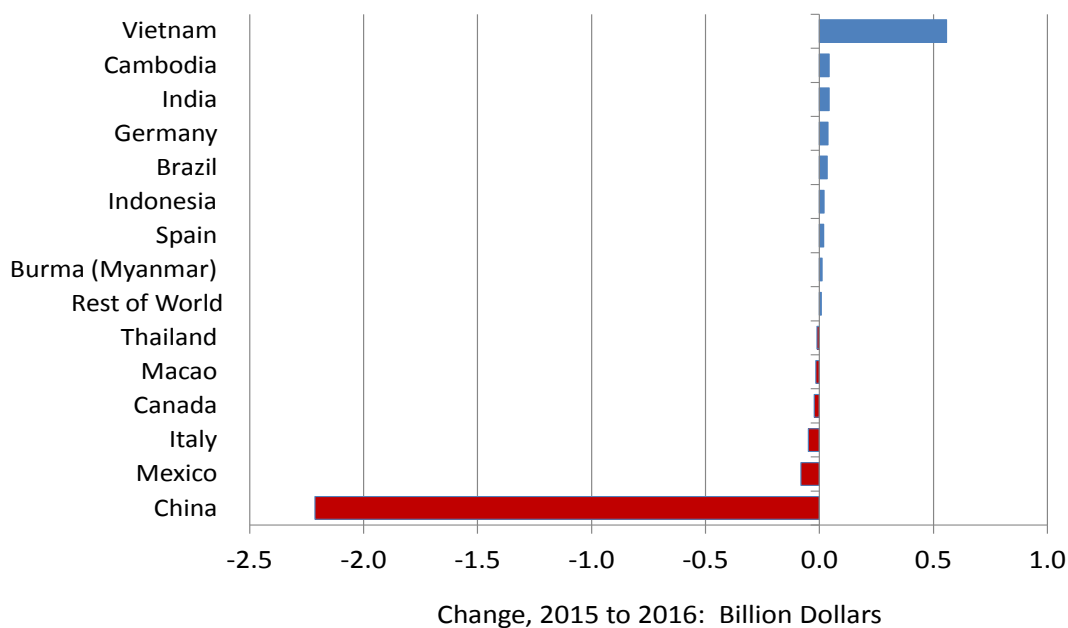
US Footwear Imports from the World excl. China Rise in Volume & Value Terms



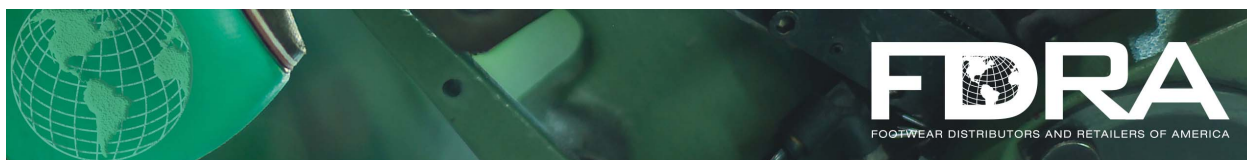
Source: USITC



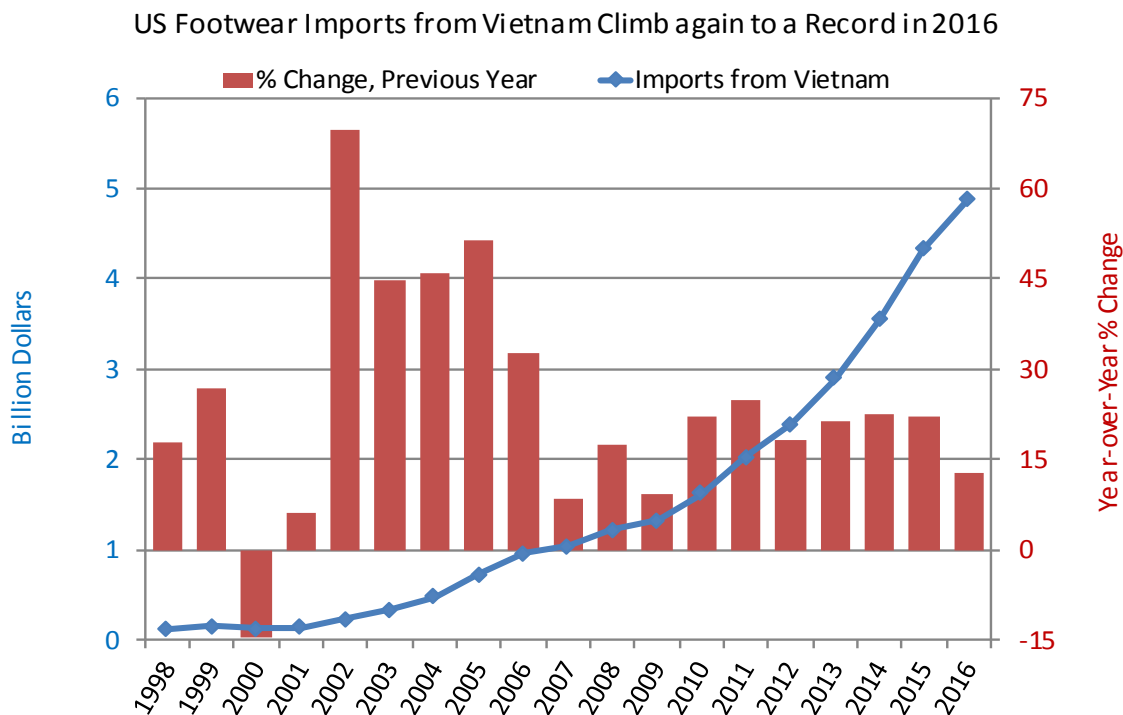
China Behind most of Loss in US Footwear Imports in 2016



Source: USITC



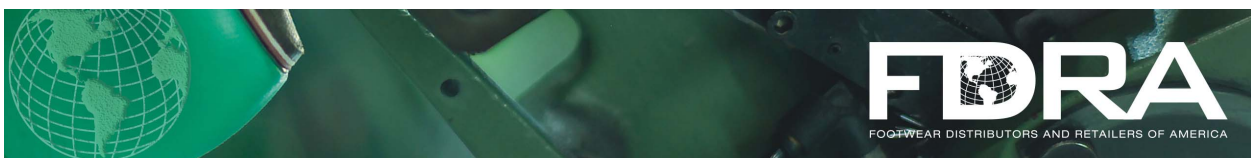
Vietnam: As the second-largest source of footwear imports, Vietnam has taken most of the share lost by China in recent years. The increase in shipments from Vietnam noted above pushed total US imports from this key Southeast Asian supplier to \$4.9 billion, the fifteenth straight record year. Accordingly, Vietnam's share of US footwear imports has grown in step over the years, reaching an unprecedented 15.7% and 19.1% in volume and value terms, respectively. Interestingly, while China has *lost share* even with average landed costs well below the rest of the world, Vietnam has *gained share* even while having average landed costs higher than the rest of the world. This fact implies there is more at play than just competitively-priced footwear to explain trends in import penetration.



Source: USITC

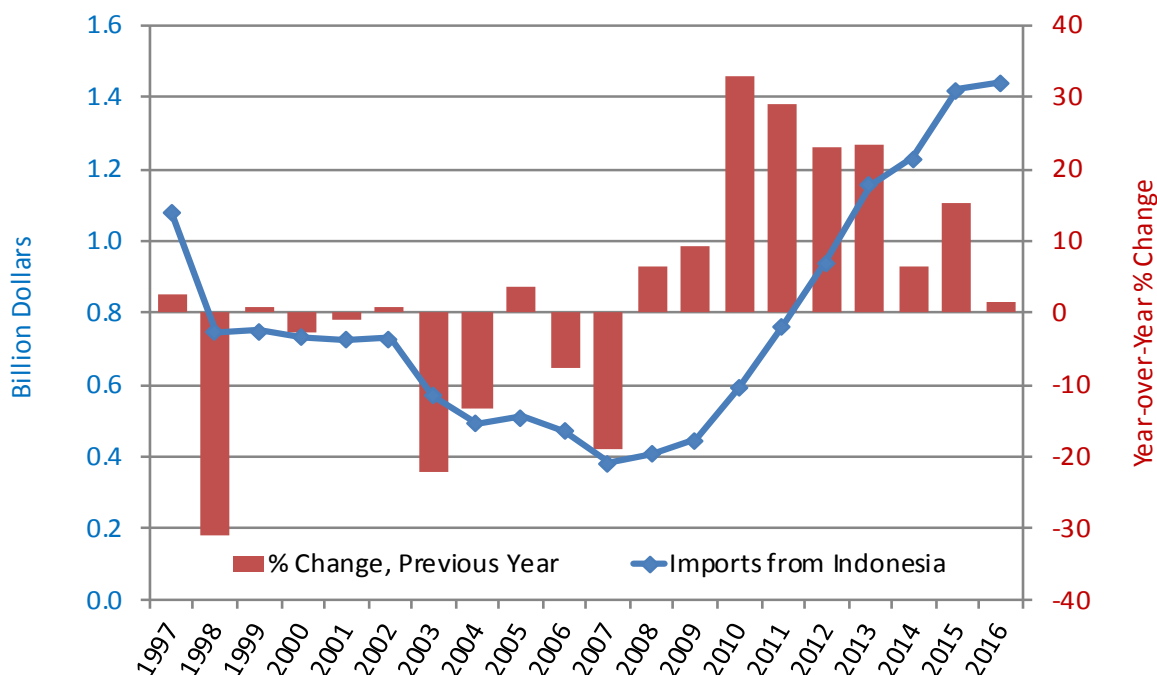


Vietnam has become a great sourcing country for many brands, but it has also freed up capacity in China. Smart brands are using this to their advantage and are negotiating lower production costs with factories in China's traditional shoe making hubs.



Indonesia: As America's third-largest foreign supplier of footwear, the Indonesian footwear sector has enjoyed a revival over most of the last decade. In the decade following the 1997 Asian Financial Crisis, Indonesian footwear exports to the US fell sharply, from \$1.1 billion to less than \$400 million ten years later. But the country's shipments to US shores have rebounded impressively since then, growing each of the last nine years to a record \$1.4 billion in 2016. And early-2017 data suggest this volume will expand again this year to nearly \$1.5 billion.

US Footwear Imports from Indonesia Climb again to a Record in 2016



Source: USITC



Indonesia could continue to see gains in footwear production for the U.S. marketplace if its economy continue to remain stable. It has a large supply of rubber and has the know how to make shoes. If it can remain dedicated to keeping inflation in check, and global markets pick up those who were once burned in the early 2000s may return in earnest again.



Think Footwear

Think INDIA

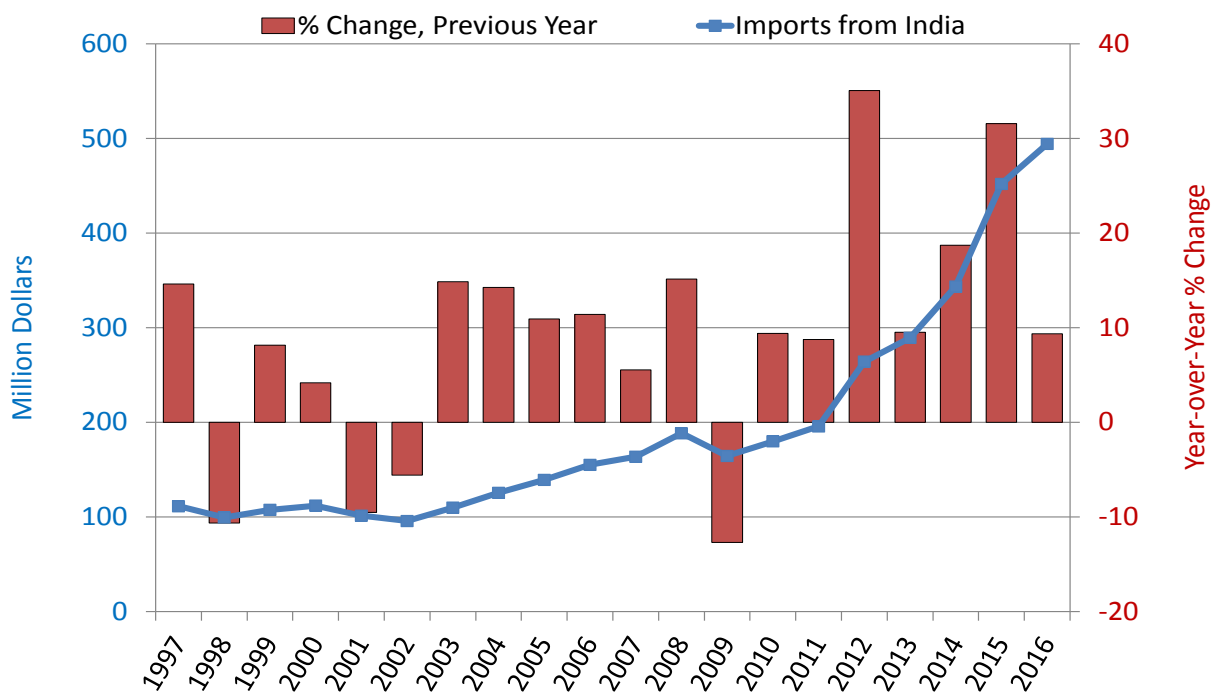
*Compliance
Quality
Turning Units
100%*

***India - the 2nd largest
global footwear producer
for your sourcing needs***

[illegible]

India: Supported by abundant raw materials and a strong domestic support program, Indian exports of footwear—including to the United States—continue to fare well, with lofty goals set for the industry. As the second-largest producer and seventh-largest exporter of footwear in the world, India shipped an unprecedented \$494.3 million worth of footwear to America in 2016, the seventh straight year of expansion and the sixth straight record year. The country is home to 20% of the world's cattle and buffalo populations and 11% of the world's goat and sheep populations. Plus, the three year-old "Make in India" initiative boosted the country to the top destination globally for foreign direct investment, with new investment planned for the domestic leather and footwear sector. Following this investment, the Indian government is targeting export growth from the leather industry of 50% from 2016-2020. If shipments to the US follow a similar growth rate, they will reach some \$741 million in five years.

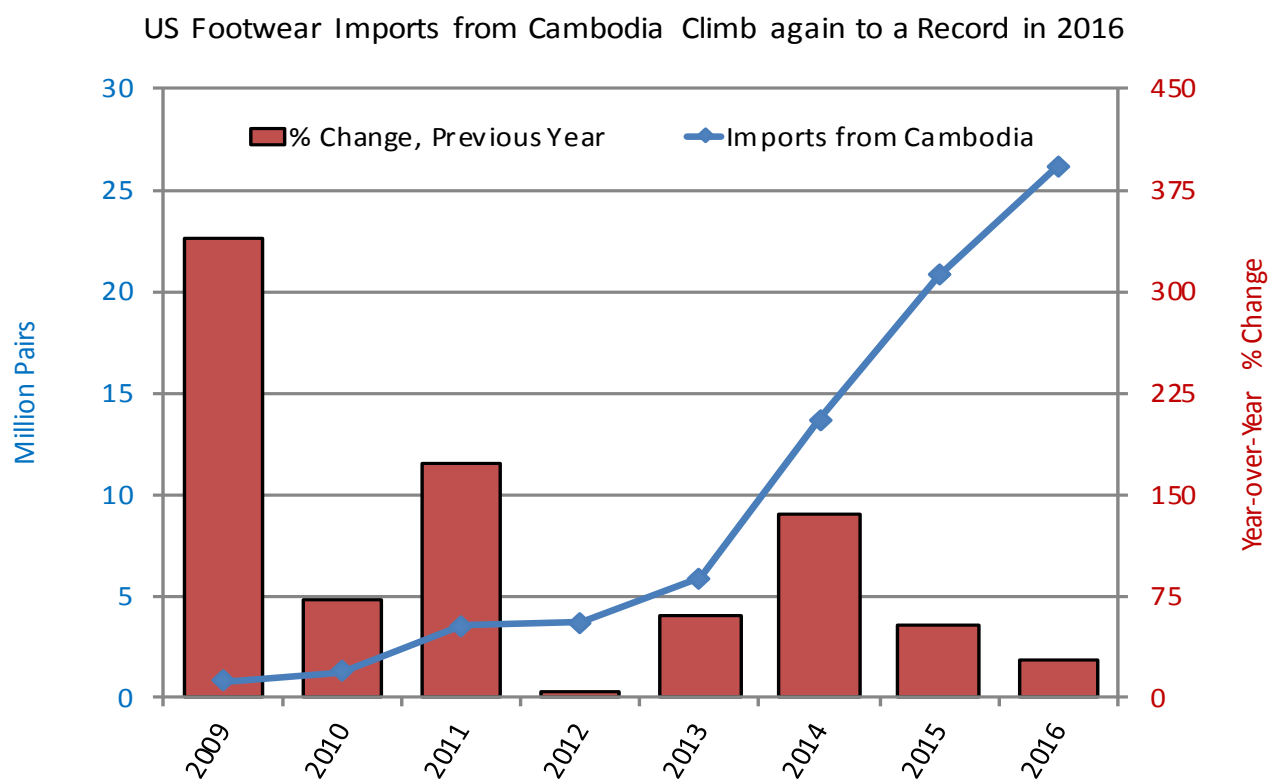
US Footwear Imports from India Climb again to a Record in 2016



Source: USITC



Cambodia: Over the last decade several factors have propelled Cambodia's rise from footwear production obscurity to rival India as a top second-tier footwear supplier to the US market behind only China, Vietnam and Indonesia. At a record 26.2 million pairs, US imports rose 26.3% last year, higher for the ninth straight year. This streak of gains comes as the average landed cost of US footwear imports from Cambodia have been below the average cost from the rest of the world each of the last few years. Additionally, a number of new factories—often Chinese-owned—have opened across the kingdom in recent years to tap its large, young and inexpensive workforce. Plus, Cambodia is a highly dollarized-economy, with a relatively low minimum wage and many other costs involved in footwear production denominated in USD. The dollarization means Cambodian footwear shipments to America are not subject to wild price swings other suppliers subject to the vagaries of a floating exchange rate mechanism may face. The combination of these factors suggests Cambodian footwear shipments to US shores may continue to grow impressively in coming years.

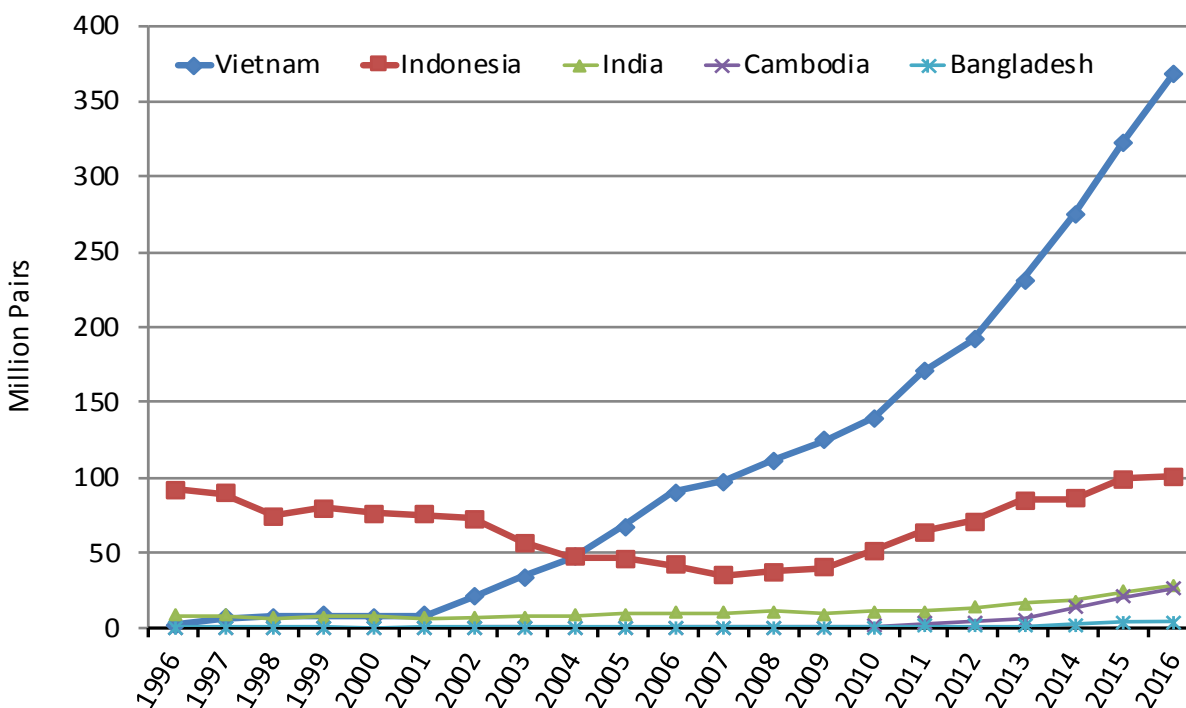


Source: USITC



Other Rising Stars: Several third-tier suppliers are showing impressive gains in footwear shipments to the US and are worthy of note. Among these, Germany (up 63.6%), Bangladesh (off -5.7%), Ethiopia (+26.4%), Burma (+129.6%), Turkey (62.4%), and Guatemala (+63.5%) shipped record volumes of footwear to US shores in 2015 or 2016, and most are on track to expand shipments to America again this year. Combined, these imports rose for the seventh straight year in 2016, up 26.7%. While together these suppliers account for only 0.6% of the volume of US footwear imports, they present intriguing—and rapidly growing—options for importers looking to diversify their sourcing away from a heavily Asian concentration.

US Footwear Imports from non-China Asian Suppliers



Source: USITC



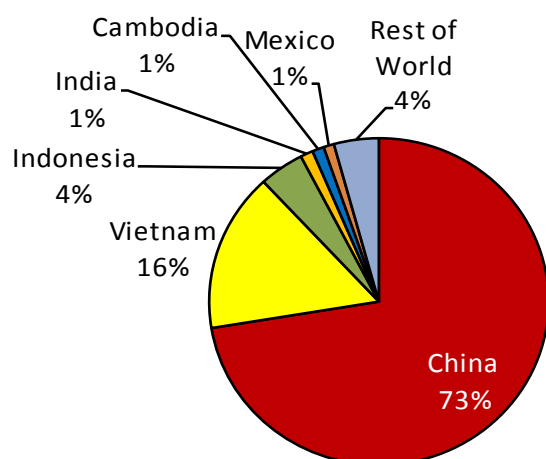
Vietnam's growth has been impressive, but year over year double digit growth is numbered. Rising wages and a limited workforce mean Cambodia and Bangladesh will begin to see "spill over" as companies continue to diversify their sourcing locations.



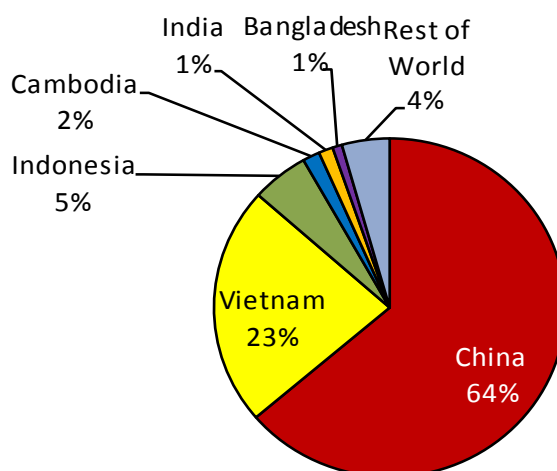
Five-Year Forecasts: Echoing our import projections in earlier annual assessments, FDRA forecasts a continuation of broader macro trends through 2021. We expect US footwear imports will expand modestly over the five-year forecast horizon to more than 2.5 billion pairs, constrained by relatively slower retail demand. China will retain its top spot as the biggest supplier to the US market, but the country's dominant share will continue its gradual erosion, sinking to a thirty-year low of 64% in volume terms. Again, FDRA projects Vietnam will account for much, but not all, the lost Chinese share, with its penetration of the US market expanding to a record 23% of total shipments. The rest of the world combined will expand shipments to the US also, with Indonesia, Cambodia, and India likely to see the biggest gains in percentage terms. On balance, while China is likely to remain the dominant supplier of US footwear imports, South and Southeast Asia will continue to eat away at share from this juggernaut.

US Footwear Imports: Still Dominated by China...for now

2016: 2.35 Billion Pairs



2021: 2.53 Billion Pairs



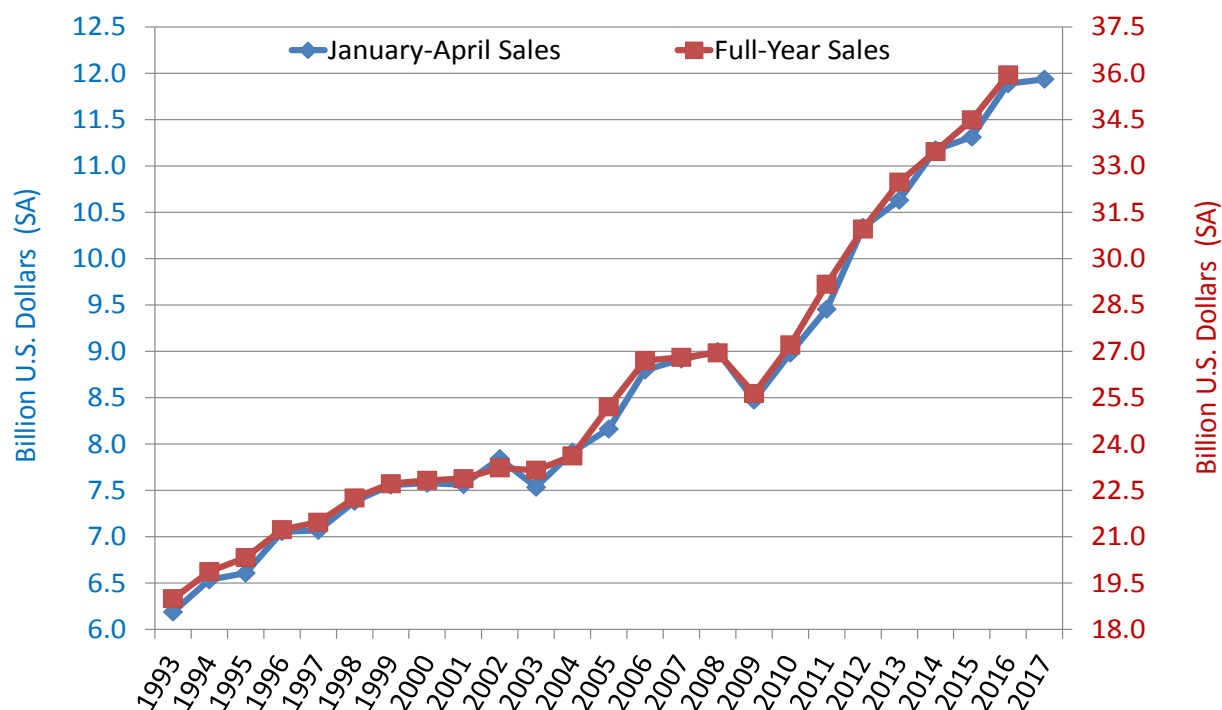
Source: USITC. * 2021 figures are FDRA forecasts.



IV. US Demand for Footwear

Dichotomy #5: Aggregate US footwear demand has never been stronger, but slowing growth in 2017 may be the weakest in years. Full closets across the country indicate Americans clearly are in love with their shoes. But ironically, these same closets full of shoes suggest Americans' appetite to acquire more shoes may be turning sated and slower to grow. First, US shoe stores sales grew again in 2016, expanding a healthy 4.2% to an unprecedented \$35.9 billion. This advance was the 21st gain in the last 23 years and capped the seventh straight record-setting performance.

US Shoe Store Sales Climb to a Record in 2016...



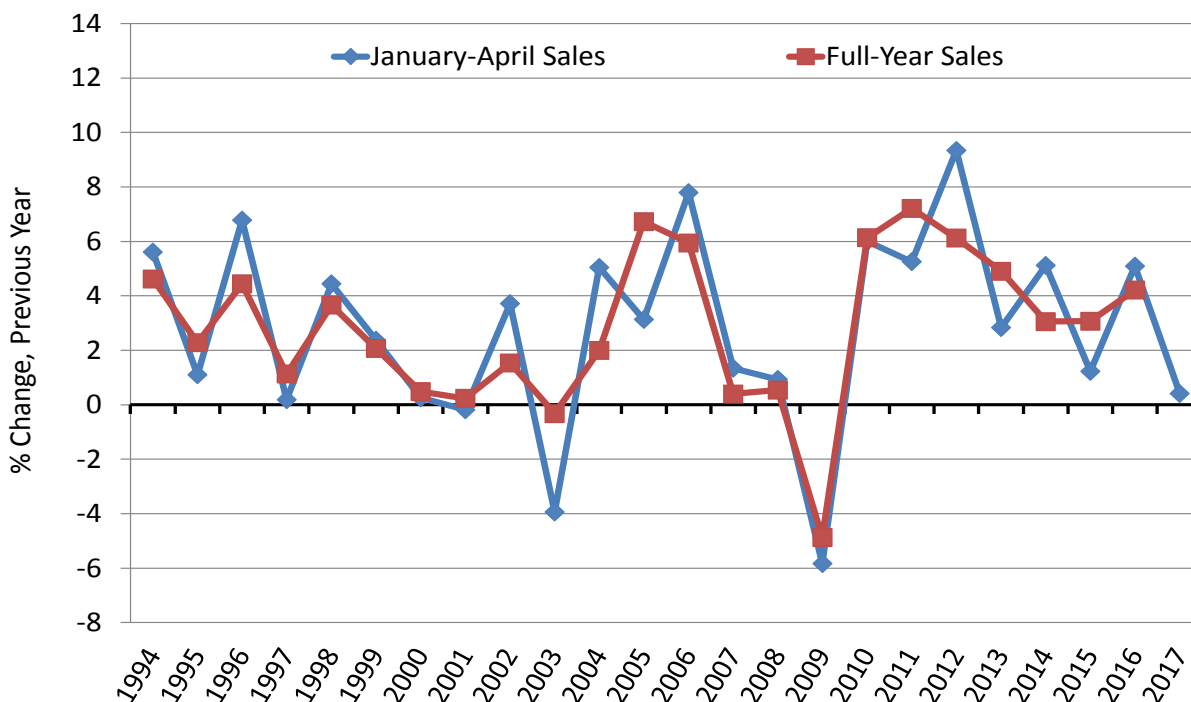
Source: U.S. Census Bureau



But shoe stores sales so far in 2017 are not as robust, hinting this retail sub-sector will see little to no growth this year. January-April shoe store sales are up a modest 0.4% from the same first four months of 2016, foreshadowing the slowest year since 2009. As the graph below demonstrates, full-year sales growth or contractions only differed from January-April growth or contractions by an average 0.5 percentage point over this period, suggesting a dull year ahead for shoe store sales in 2017. What's more, per-capita demand for footwear imports is on track to sag again in 2017 to less than 7.2 pairs per American, the fewest since during the recession in 2009 and second-fewest in fourteen years. With closets already full and consumption at record highs, footwear demand (and imports) may see little near-term cause for optimism.



...but Year-to-Date Shoe Store Sales Gain Portends Little to no Growth in 2017



Source: U.S. Census Bureau



U.S. Footwear Stats of Note:





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V. Policy Prospects

Dichotomy #6: The new Trump Administration touts "free and fair trade", but current and proposed trade policy changes may be detrimental to the footwear industry. Three recent trade developments stand in stark contrast to existing policy. The end of America's participation in the Trans-Pacific Partnership (TPP), the House Republican-proposed Border Adjustment Tax (BAT), and a renegotiated NAFTA—each a dramatic reversal of trade and tax precedent—are new policy issues that could negatively impact footwear trade.

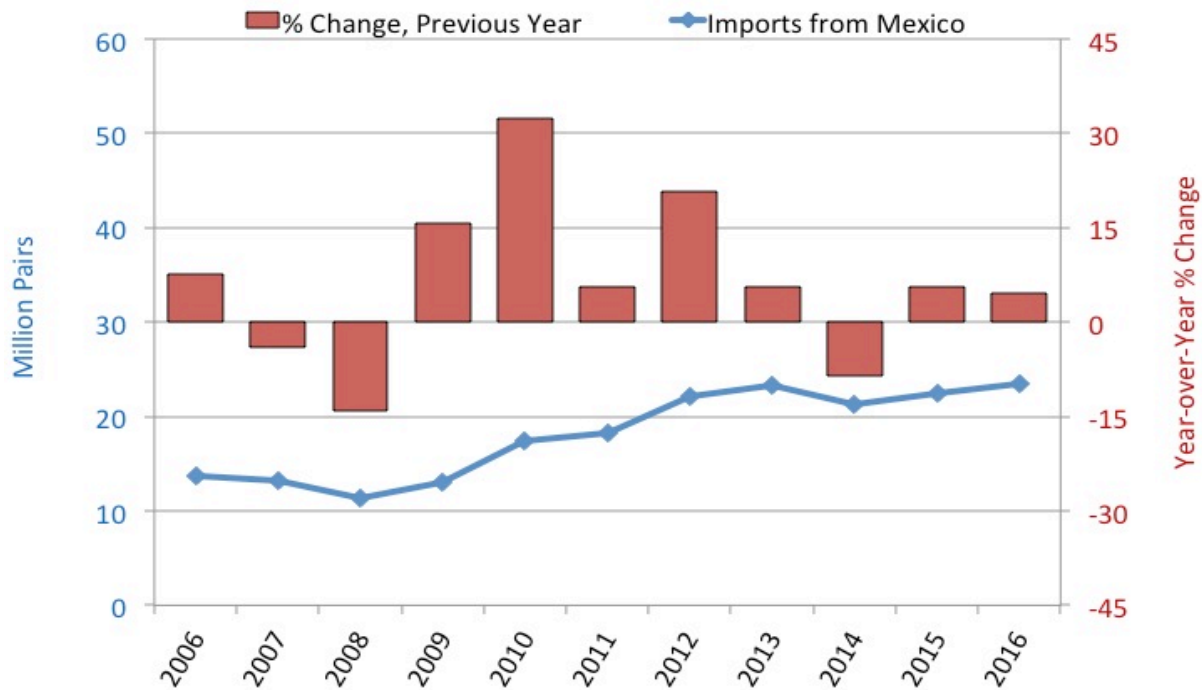
President Trump fulfilled a campaign pledge by withdrawing the United States from the TPP, a landmark free-trade agreement that promised to lower trade barriers and tariffs and boost footwear trade across the region. Early FDRA analysis found the TPP would have been the most commercially significant free trade agreement ever, providing half a billion dollars in savings for footwear consumers and companies during the first year of implementation and six billion dollars over the first decade. But on January 23, 2017, the President signed a [Presidential Memorandum](#) withdrawing the US from the TPP, arguing the agreement would undermine the nation's economy.

As a part of a broader discussion on major US tax reform, House Republican leadership has proposed a controversial Border Adjustment Tax (BAT), a destination-based, border-adjustable international corporate consumption tax system that effectively encourages exports and discourages imports. More particularly, the tax is applied to all domestic consumption and excludes any goods or services that are produced domestically, but consumed elsewhere. The border adjustments included in the proposal are taxes or tax reductions that apply when payments for goods and services cross international borders. Imported goods purchased/consumed domestically are subject to the tax while goods produced domestically and sold internationally are exempt. Analysts believe the BAT would result in an across the board tariff of 20% on imports, while offering an export subsidy of 12%. With imports accounting for roughly 99% of footwear consumed in America, this proposal likely would increase footwear prices for millions of working families across the country. [FDRA continues to advocate strongly against this proposal.](#)

Lastly, the Office of US Trade Representative (USTR) recently notified Congress of its desire to renegotiate the North American Free Trade Agreement (NAFTA). Less than 30 million of the 2.3 billion shoes the US imported in 2016 came under NAFTA, primarily from Mexico. FDRA is focused on delivering a more flexible and robust rule of origin into any NAFTA renegotiation. The current rule of origin is too restrictive, as it requires the upper to originate in North America, and the footwear must contain 55% regional-value content in both labor and materials. FDRA is focused on providing more flexibility for the industry in an agreement that reflects a 21st-century supply chain. Negotiations are expected to begin in earnest later this summer, with FDRA there to ensure our collective voice is heard.



US Footwear Imports from Mexico Climb to 13-Year High, but well off Post-NAFTA Glow

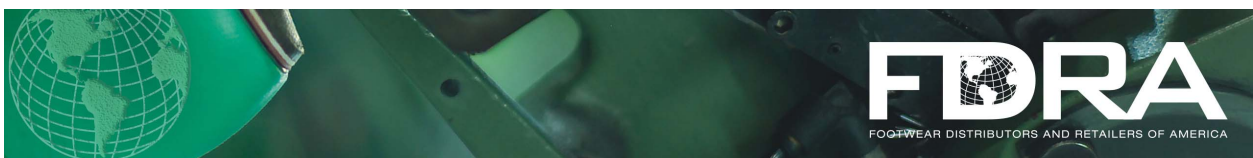


Source: USITC



“A NAFTA 2.0 with less restrictive rule of origin for footwear could be a win-win for everyone. Increased production and factory jobs in Mexico, lower costs on shoes for Americans and Canadians and more good paying jobs in trucking, warehouses, and at retail.”

—FDRA President and CEO Matt Priest

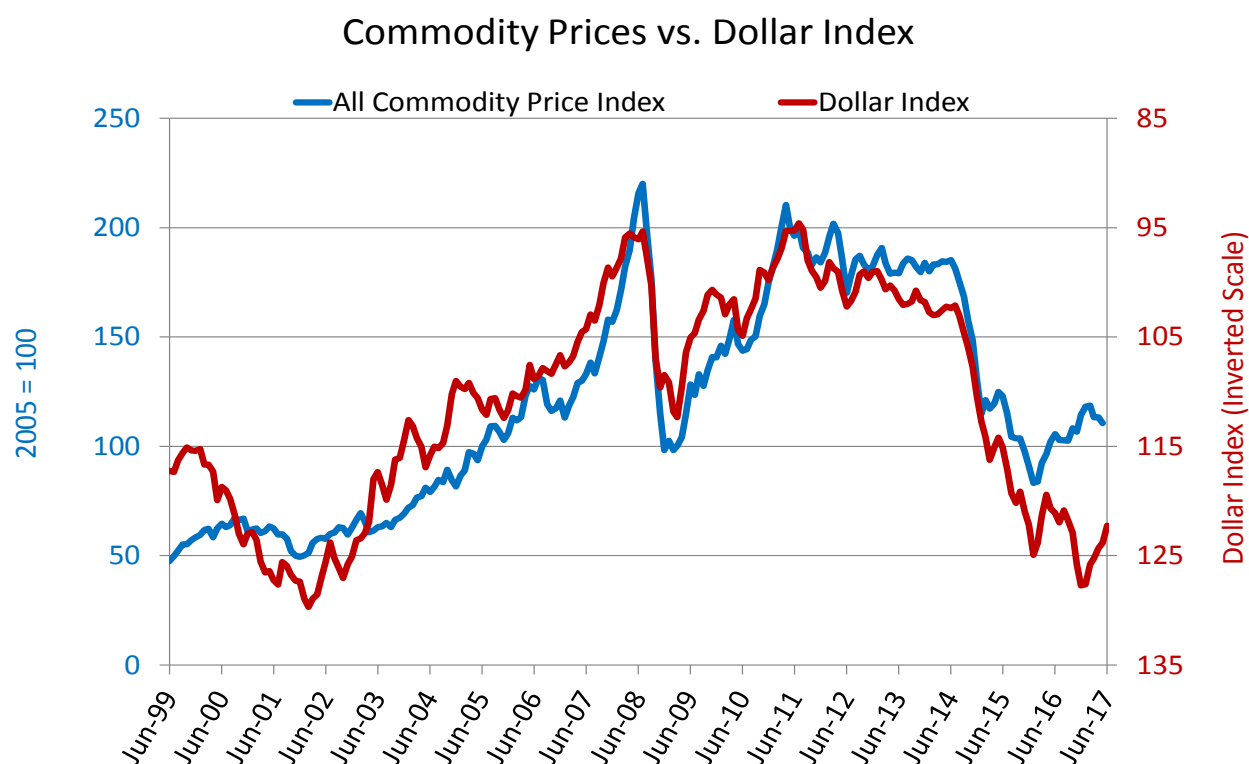


VI. Commodity Outlook

Dichotomy #7: Commodity prices turn mostly flat, in spite of a strong dollar.

The Dollar's Impact on Footwear Manufacturing Costs

Typically, there is an inverse relationship between the value of the dollar and commodity prices. When the dollar strengthens against other major currencies, the prices of dollar-denominated commodities tend to drop. When the value of the dollar weakens against other major currencies, the prices of commodities generally move higher. This is a general rule but it holds true more often than not over the long term, as the graph below demonstrates. What we find interesting is that over the last year this relationship has evaporated—at least for now—with the dollar recently reaching multi-year highs, but commodities generally not dropping as much as this historical relationship would suggest. Whether the traditional inverse co-movement resumes soon or not, a relatively strong dollar is likely to keep commodity prices used in footwear manufacturing relatively low for the foreseeable future.



Sources: IMF & Federal Reserve



The Dollar's Impact on Trade

Similar to commodity prices, arguably the single biggest factor driving US footwear import costs also is the relative strength of the dollar. Key issues that can drive the dollar are the vitality of the US economy and the level of interest rates, particularly relative to rates in other countries. A strong economy will attract investment from all over the world due to the perceived safety and the ability to achieve an acceptable rate of return on investment.

Similarly, relatively higher interest rates imply higher rates on US bonds, thereby attracting foreign investment in these bonds, boosting demand for dollars to buy these bonds. As the dollar rises or falls, costs of imports tend to fall or rise in mirror-opposite fashion, as it takes fewer dollars relative to another currency to pay for imported goods. Naturally, prospects for a stronger or weaker dollar can color the outlook for footwear import costs and ultimately sales. Footwear importers, retailers, and consumers have enjoyed the fruits of a relatively strong dollar over the last year and a half, with the greenback keeping hikes in the average landed cost of footwear imports relatively contained recently.

Looking ahead, we believe the dollar will remain strong over the next several years, owing primarily to relatively weak economic growth abroad and relatively more accommodative economic policies overseas versus at home. Late in 2015 America's Federal Reserve began raising its Federal Funds rate for the first time in nearly a decade, signaling an end of the 'easy money' period that saw this rate decline to a record low. Since then, the Fed has hiked its benchmark rate four times and shown a willingness to raise rates further if economic conditions warrant. If domestic rates rise relative to other key markets the greenback may remain relatively firm, suggesting the currency is unlikely over the next few years to contribute substantially to a surge in footwear import costs.

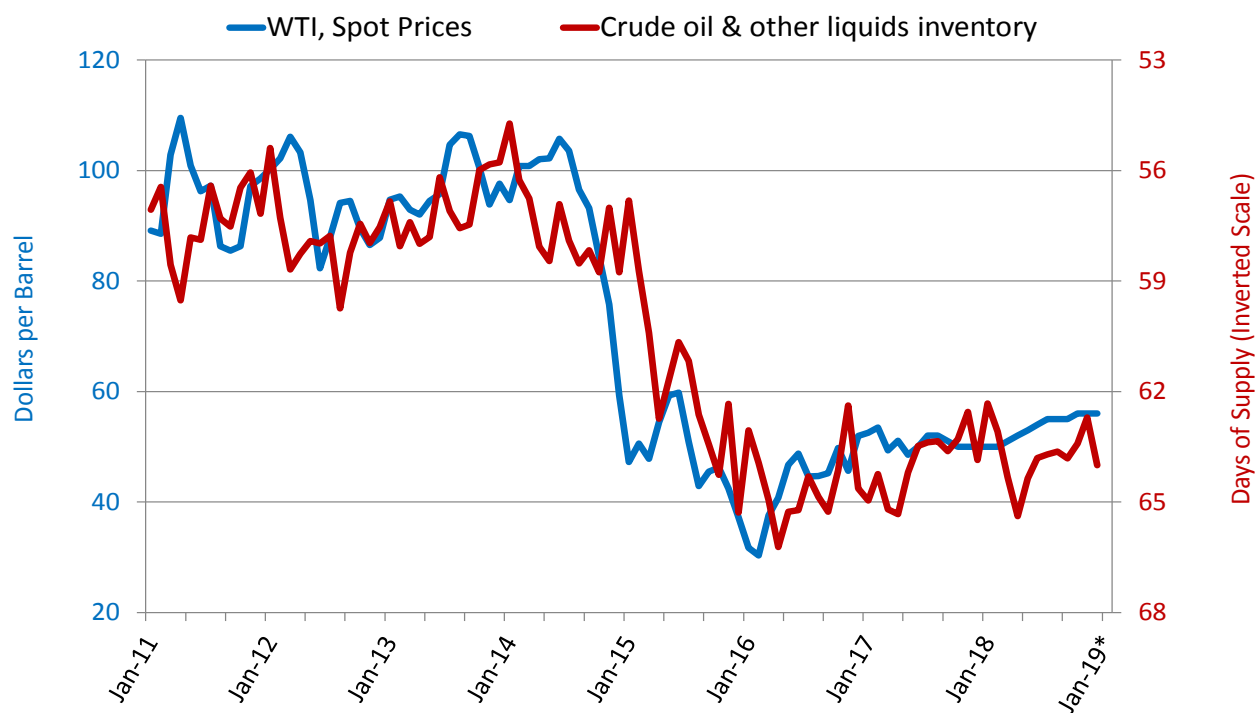
Dichotomy #8: Oil prices likely little changed, even as OPEC extends production cuts. Perhaps no commodity has as pervasive an impact on the global footwear market as petroleum, particularly crude oil. The impact comes in different forms, whether as a key input cost, component of supply, or determinant of consumer purchasing power. As an input cost, crude oil factors into the cost and supply of many primary commodities indirectly through the use of various energy-intensive inputs (e.g., fertilizer, textiles and fuel). Oil and its fuel derivatives of course also enable the transportation of commodities and goods produced and consumed across the footwear supply chain.

As a key influence across a range of commodity prices, oil prices tend to respond to supply/demand drivers as well as geopolitical and other factors, including strength in the dollar. The Organization of the Petroleum Exporting Countries (OPEC) announced in May an extension to voluntary production cuts through March 2018 that were originally set to end in June 2017. Even so, analysts forecast OPEC crude oil production will expand, rising from an average 32.3 million barrels per day (b/d) in 2017 to 32.8 million b/d in 2018, owing in part to renewed US



shale oil production. Higher demand may largely offset the increased output, effectively keeping turnover fairly steady. That is, the number of days of supply of commercial crude oil and other liquids inventory for OECD members may remain relatively steady into 2019, keeping prices for West Texas Intermediate little changed over this period as well.

Oil Prices Respond to Market Fundamentals



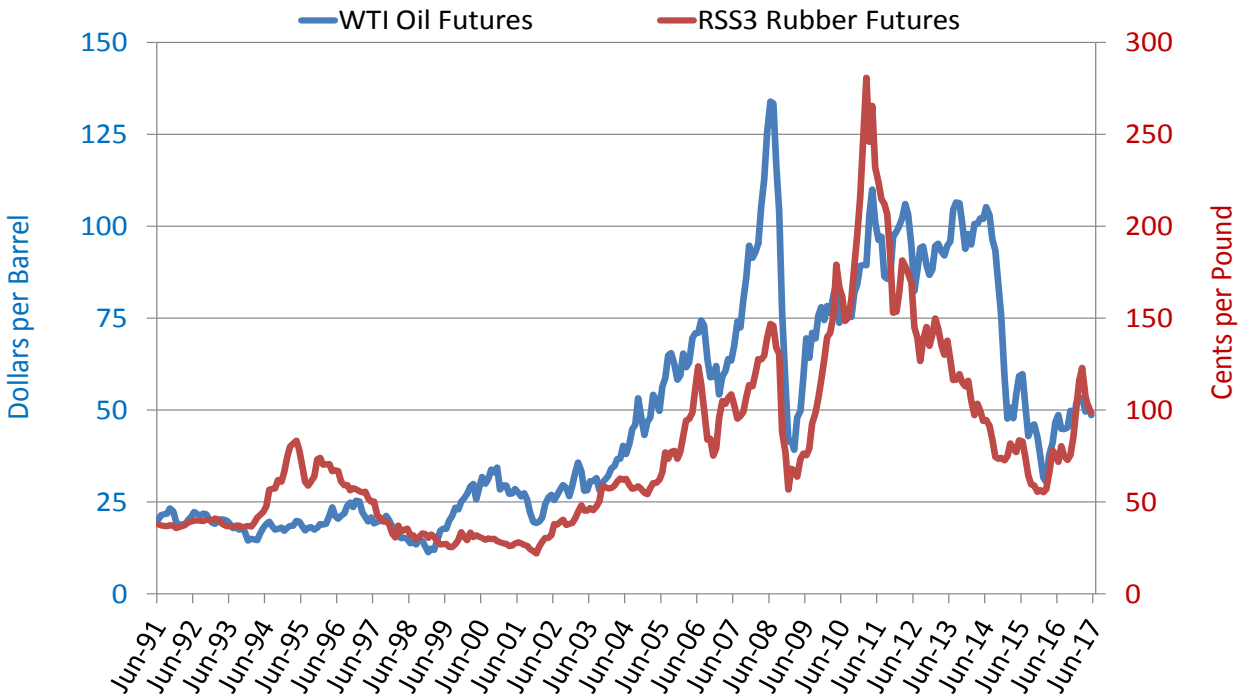
Source: US Energy Information Administration. * Values after June 2017 are forecasts.



And as the root feedstock in the production of a number of synthetic fibers used in footwear manufacturing, petroleum is a key factor in the industry. Other commodities used in footwear manufacturing compete with these synthetic products, particularly cotton vs. manmade fibers, natural vs. synthetic rubber, natural vs. synthetic leather, and so forth. We see an example of this relationship in the graph below, showing the close relationship between oil prices and a benchmark measure of rubber futures, a key cost component in footwear manufacturing. If global oil prices remain relatively stable as we expect, prices for a range of commodities used across the footwear supply chain that are directly or indirectly tied to petroleum also may remain relatively stable.



Oil Prices Dictate Rubber Prices over the Long Term



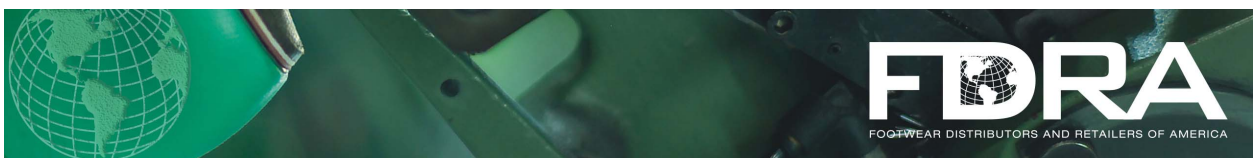
Source: IMF



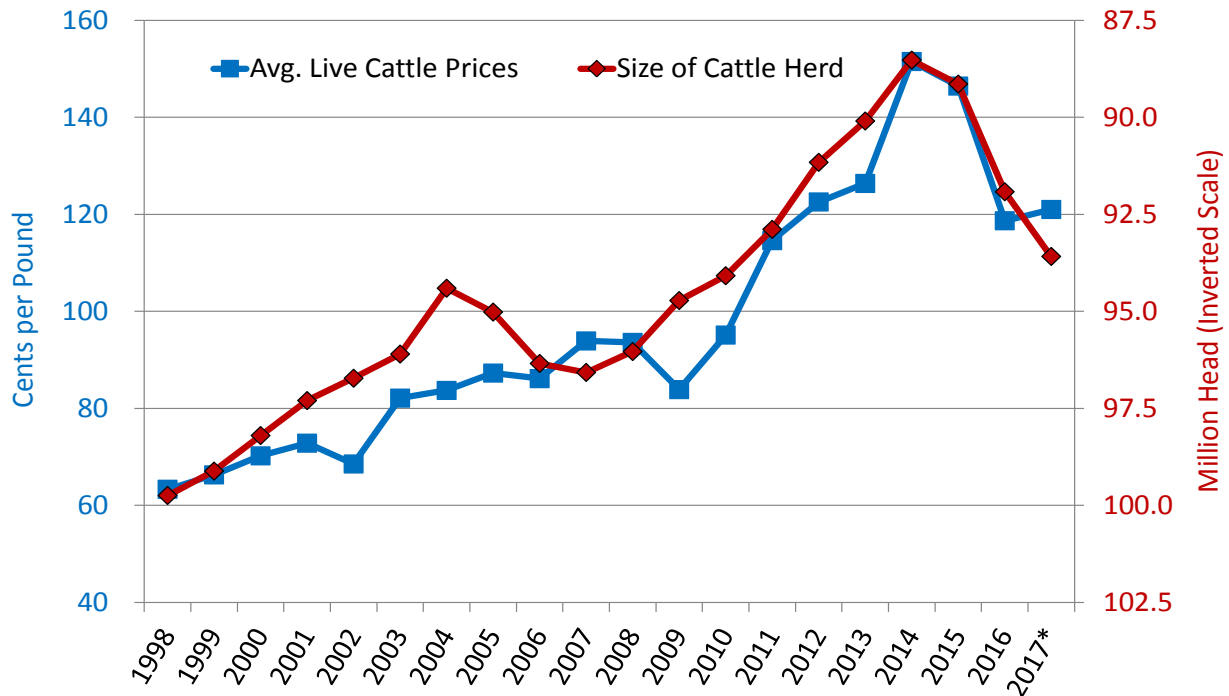
Dichotomy #9: Hide Prices Higher in 2017 in Spite of Weaker Cattle Fundamentals

Along with rubber, one of the biggest material costs in footwear manufacturing is leather, a product that only a few short years ago was subject to unprecedented cost pressure. So far in 2017, hide prices are averaging slightly higher versus the same period last year, in spite of weaker cattle supply/demand fundamentals. Fortunately, evidence suggests costs for cattle--and by extension, leather--will soften over the short term, owing in part to an ongoing rebuild in the US herd size.

Key basic fundamental factors that impact the live cattle market include weather, disease, USDA reports, and broader economic trends and geopolitical factors, among others. Prices for feeds including soybean, hay, corn, and grains also can impact cattle prices, as can prices for substitutes like hogs. The graph below demonstrates how the rebounding herd size--shown on an inverted scale on the right axis--portend live cattle prices may be pressured even lower over the second half of 2017. Indeed, we see limited upside for the market as global beef fundamentals are expected to loosen moderately in the 2018 marketing year.



Bigger U.S. Cattle Herds Suggest Weaker Live Cattle Prices in 2nd Half of 2017



Sources: CME & USDA. * YTD average price.






In turn, we expect over the medium term that hide prices will see little upside potential, more likely rivaling their lowest in seven years. The following graph demonstrates the co-movement between live cattle futures and hide prices over the last several years. If live cattle futures weaken further owing to a larger herd size, hide prices—and by extension, leather costs—similarly may remain relatively contained through the medium term, well below lofty levels witnessed the three previous years.

Among these myriad dichotomies across the industry, FDRA continues to guide the way on issues impacting the footwear market. From services ranging from support to advocacy to market intelligence, from product safety, customs, and factory compliance solutions to helping companies develop advanced sourcing strategies, FDRA is the only trade association dedicated solely to serving the footwear industry. FDRA will continue to provide monthly import data by country and category (athletic, boots, children, and fashion), as well as a look at monthly changes to footwear input costs (rubber, textile, synthetic, etc.) in its monthly sourcing newsletter for members. Be on the lookout each month to note trends and stay ahead of the game.



GLOBAL FOOTWEAR PRODUCTION POWER RANKINGS

FDRA Analyzed Full Year 2016 U.S. Footwear Import Data to Compile These Rankings

| 2016 RANK | | COUNTRY | IMPORT TREND | 2015 RANK | COMMENTARY |
|--------------------------------|---|--|--------------|-----------|--|
| 1 <i>unchanged</i> |  | CHINA 1.7B pairs | ↓ | 1 | <i>Still the dominant supplier to US, but shipments lower 7 of 9 years; US import share at just 72.3%, a 17-year low.</i> |
| 2 <i>unchanged</i> |  | VIETNAM 368M pairs | ↑ | 2 | <i>7 straight years of double-digit growth in shipments to US. Avg. landed cost still high. Record 15.7% US import share.</i> |
| 3 <i>unchanged</i> |  | INDONESIA 101M pairs | ↑ | 3 | <i>9 straight years of gains; record shipments in 2016 with US import share at 16-year high of 4.4%.</i> |
| 4 <i>unchanged</i> |  | INDIA 28M pairs | ↑ | 4 | <i>5th straight year of double-digit; Record tally in 2016 as 'Make in India' initiative gains attention & traction.</i> |
| 5 <i>unchanged</i> |  | CAMBODIA 26M pairs | ↑ | 5 | <i>Shipments to US up 750% over last 4 years; country rivals China as a key low-cost supplier.</i> |
| 6 <i>up 1 spot</i> |  | MEXICO 24M pairs | ↑ | 7 | <i>Shipments to US in 2016 rise for the 7th time in 8 years to a thirteen-year high; but still less than half the 1997 high.</i> |
| 7 <i>down 1 spot</i> |  | ITALY 18M pairs | ↓ | 6 | <i>As domestic footwear manufacturing sank to a modern-era low in 2016, shipments to the US slipped; volume little changed over the last 7 years.</i> |
| 8 <i>unchanged</i> |  | BRAZIL 14M pairs | ↑ | 8 | <i>2016 shipments to the US inched to a 6-year high, but remain little changed over this period and only 1/7th the 2003 high.</i> |
| 9 <i>unchanged</i> |  | DOMINICAN REPUBLIC 13M pairs | ↓ | 9 | <i>This Western Hemisphere duty-free supplier continues to lead all CAFTA-DR countries; last year's volume eased from a 14-year high reached in 2015.</i> |
| 10 <i>unchanged</i> |  | THAILAND 7M pairs | ↓ | 10 | <i>Thai shipments to US in 2016 sank 13 of the last 14 years to the lowest volume in the modern era as average landed cost exceeds average from rest of world.</i> |



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