

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 250 companies and 500 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



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 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.

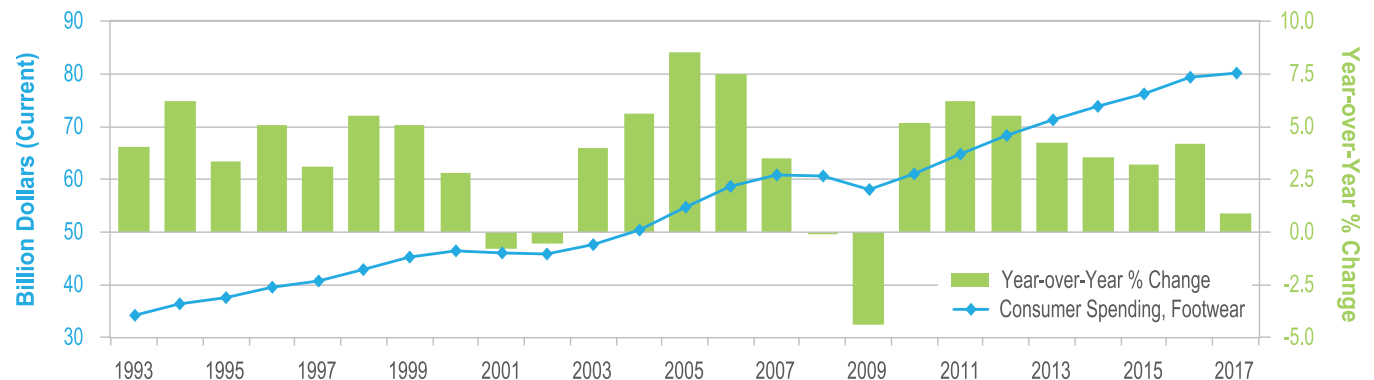
Shoe Review 2017: A Year of Dichotomies

Americans' demand for footwear has never been stronger, but shoe store sales sank in 2017. The number of workers in shoe stores is the highest in 25 years, but shoe retailers continue to downsize and shutter stores. Americans paid record average duties per pair on footwear imports, but retail footwear prices fell in 2017 for first time in a decade. These and other seemingly contrary facts about the American footwear market are all accurate, as the US footwear industry faced a number of dichotomies in 2017 that have 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.

Spending on Shoes Grows to a Record — But Not For All Retailers

In 2017, consumer spending on footwear rose to the 7th straight record year, reaching **\$80.2 billion**. Similarly, per-capita demand for footwear also expanded in 2017 to a record **\$246**, higher for the 8th straight year. While we welcome this news, we caution that consumer spending on footwear grew a modest 0.9% last year, the slowest since the sharp 2009 contraction witnessed during the “Great Recession”. This reading confirms FDRA’s long-held outlook predating the presidential election that darker days were in store for footwear retailers in 2017.

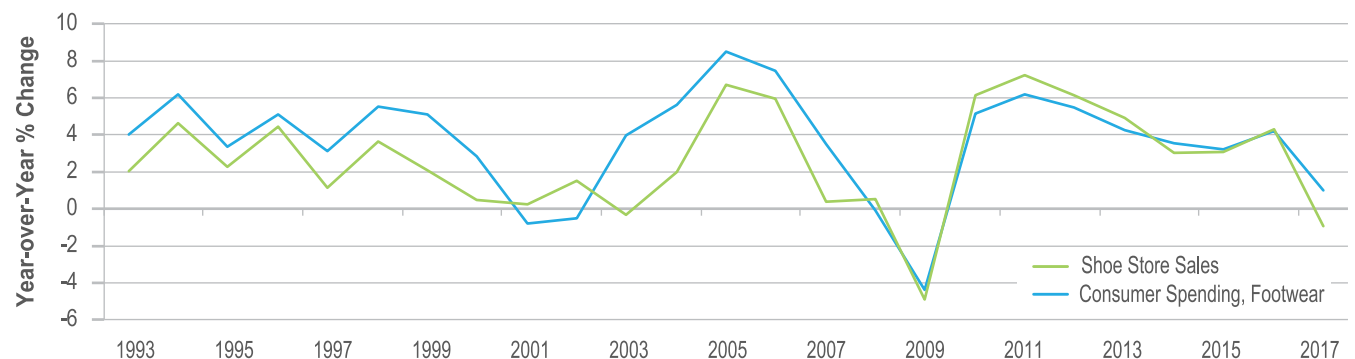
Record Year for US Consumer Spending on Footwear — Barely



Source: US Bureau of Economic Analysis

Within this top-line number, sales were mixed across channels. Shoe store sales contracted -0.9% for the year, the first drop since 2009 and only the 3rd annual decline in more than a quarter century. This dip in the face of rising total demand for footwear implies that non-shoe stores — that is, big-box stores, online-only retailers, mail order, and other channels — fared relatively better selling footwear last year than did pure-play shoe stores.

US Consumer Spending on Footwear Expands While Shoe Store Sales Contract

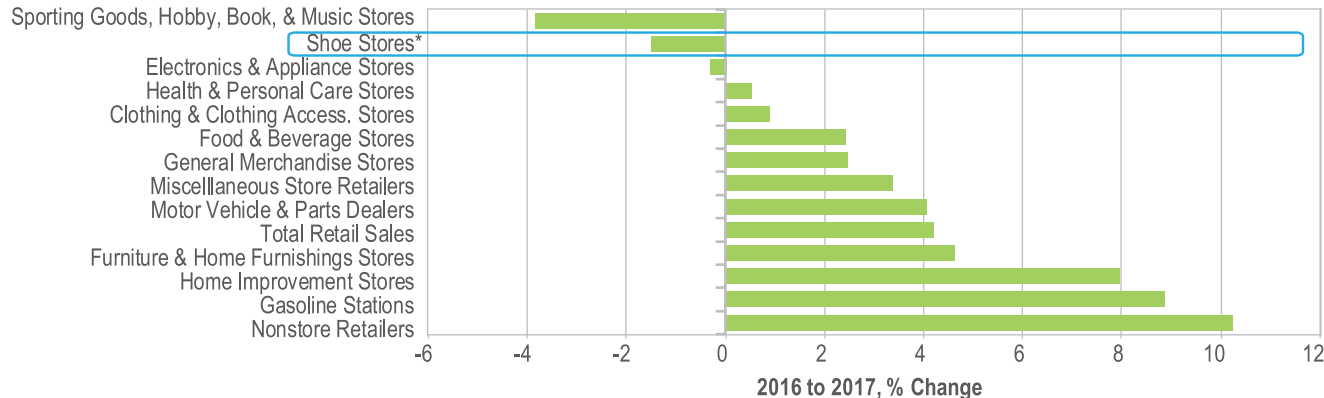


Source: US Bureau of Economic Analysis & US Census Bureau

Stores Close, But Employment Expands

Predictions of a “Retail Apocalypse” continue but are overblown — even as thousands of North American retail stores shuttered operations. In reality, overall retail sales grew **4.2%**, their best showing in 3 years and the 8th straight year of expansion. While sales at shoe stores — a sub-sector of clothing and clothing accessories stores — shrank in 2017, almost all retail sectors expanded last year. With their sales falling, footwear retailers closed or plan to close hundreds of stores nationwide, an issue that will weigh on this retail sub-sector well into 2018.

Shoe Stores One of Few Retail Sectors to See a Decline in Sales in 2017



* Shoe stores are a sub-sector of Clothing & Clothing Access Stores.

Source: US Census Bureau

News about the “Retail Apocalypse” was a bit overblown — in 2017... In reality, overall retail sales grew 4.2%, their best showing in 3 years.

We expect more fallout ahead for shoe stores in 2018, with more stores likely to close. In spite of this trend, the number of workers in shoe stores rose in 2017 to **213,700**, the highest in more than a quarter century. While we welcome the advance, the number of shoe store workers is expected to contract in 2018 in response to dull sales and declining store numbers.

Shoe Store Employment Rises in 2017 to Highest Since 1990



Sources: US Bureau of Labor Statistics

More fallout ahead for the sub-sector in 2018... the number of shoe store workers is expected to contract in 2018 in response to dull sales and declining store numbers.

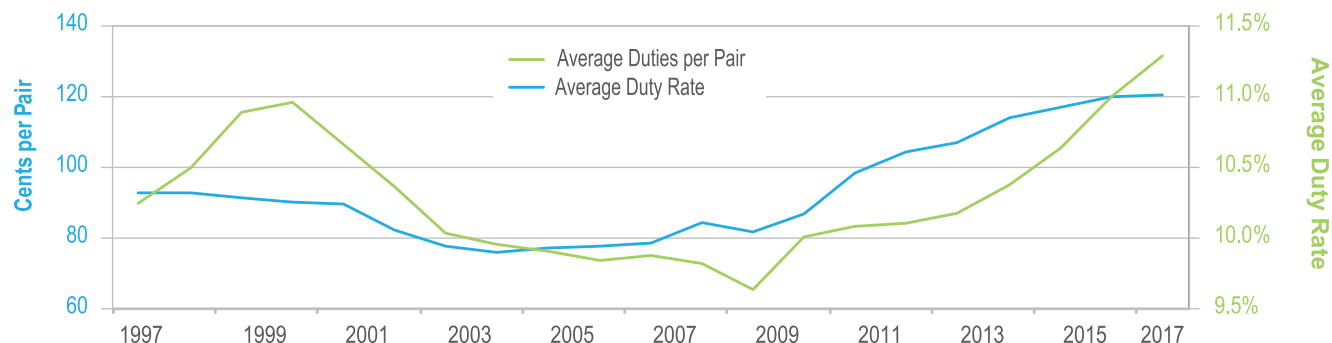
Last year, footwear imports averaged \$1.20 per pair, an unprecedented high.

Total footwear duties in 2017 were \$2.88 billion. That's enough to hire 48,700 new footwear workers at an annual salary of \$60,000.

Duties Rise As Prices Drop — Squeezing Profits

Historically, the ebb and flow of duties on footwear imports has been strongly correlated with the ebb and flow of retail shoe prices. But these trends diverged in 2017, as per-pair duties climbed to a record while consumer prices on footwear sagged. Last year, footwear imports averaged **\$1.20** per pair, an unprecedented high. On a related note, the average duty rate on footwear imports rose for the 8th straight year to an eye-watering **11.3%**. This streak of gains comes even as total footwear imports have been mostly flat over the last decade.

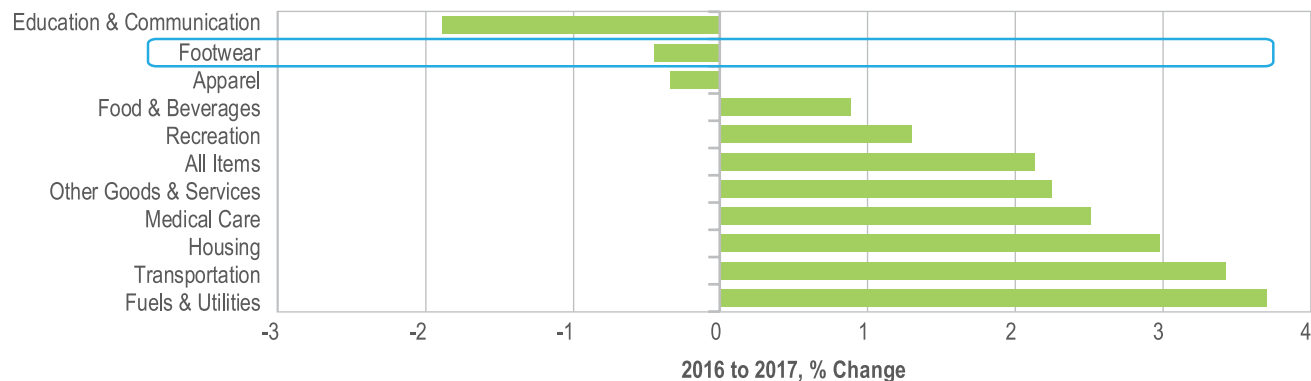
Footwear Imports' Average Duties Per Pair and Duty Rate Rise to Records In 2017



Source: USITC

While duties per pair rose again in 2017, retail footwear prices fell last year for first time in a decade. In fact, footwear was one of the few sectors to see consumer prices retreat last year, sliding **-0.5%**. The implication is that retailers, distributors, and importers were forced to pay more on average for each pair of shoes they sourced abroad last year, but the prices they sold for those shoes fell, implying tighter margins.

Footwear One of Few Sectors to See Consumer Prices Drop in 2017



Source: Bureau of Labor Statistics

Rising Concerns Over a Weak Dollar and Higher Interest Rates May Raise Costs

Footwear manufacturing and distribution involves a wide range of materials and commodities, including natural and synthetic rubber and leather, foam cushioning materials, nylon, polyester, and canvas, among others. Exposure to volatility in prices for these commodities and currencies can crimp 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 sourcing more than the value of the dollar, both as the key denomination for many commodities traded globally and as a global currency. The greenback lost ground through mid-February after recent data showed a drop in US retail sales and industrial production, accompanied by reports showing higher consumer and producer prices. Rising inflation data lifted expectations for possibly a 4th interest-rate rise in 2018 by the Federal Reserve, yet that failed to support the currency for long, as analysts judged the higher inflation and lower retail sales numbers as an indicator of the late-cycle stage of the US economy. While still strong by historical standards, the dollar index is down about **12%** since President Trump's inauguration. A weaker dollar may contribute to higher prices for US imports, an unwelcome prospect for footwear retailers that have had little opportunity to raise prices appreciably recently.

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Future interest rate hikes may impact capital for growth and may have a slight impact on spending.

US Dollar Index Nearby Futures Hover Near a 3-Year Low



Source: ICE Futures US

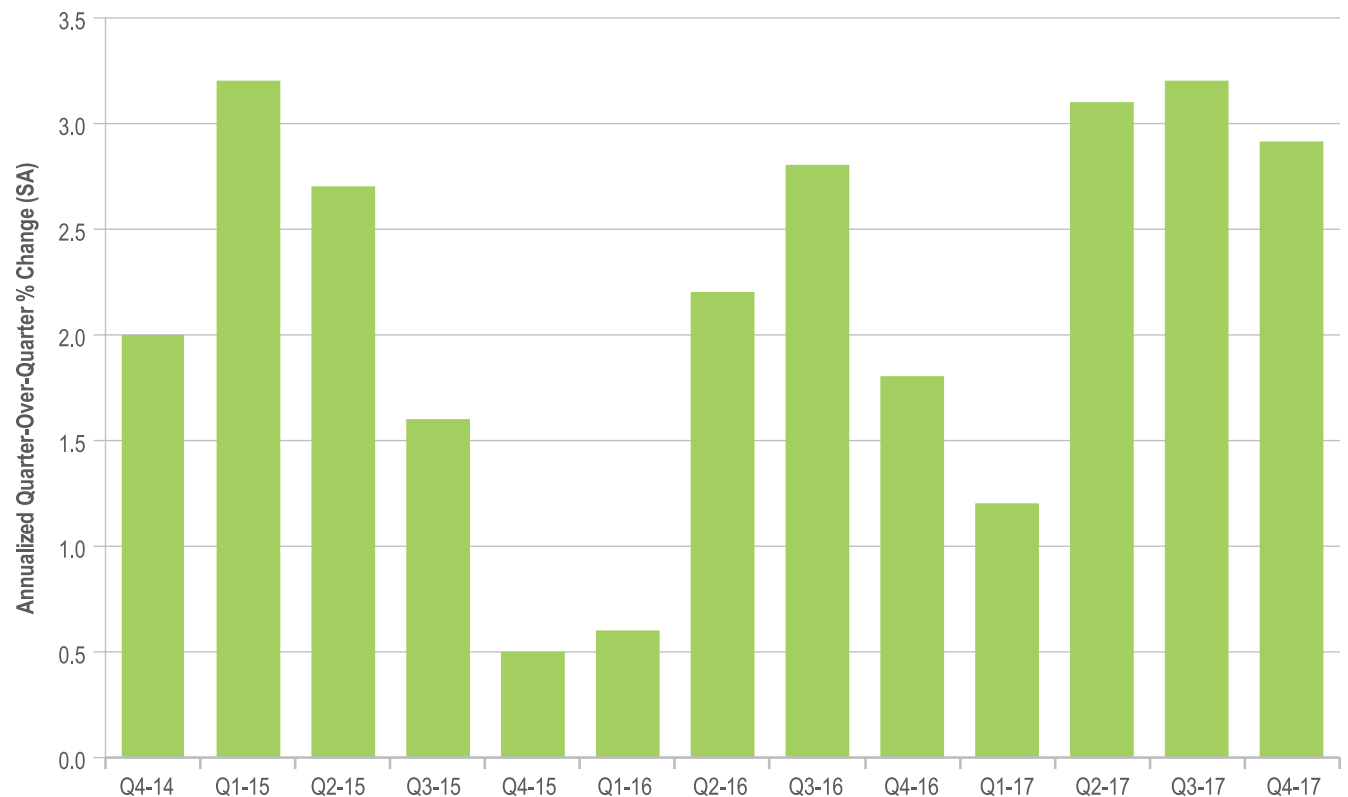
Each month FDRA shares key pricing drivers and trends for a range of commodities and currencies impacting the footwear supply chain, helping members anticipate the outlook for these markets. Periodically through the year, FDRA shares more in-depth discussion and forecasts into these markets as conditions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

US Economic Outlook — Trade Wars May Halt Progress

The world's largest economy maintained its picture of general economic growth for the 8th straight year in 2017, with early gauges hinting at continued — if a bit slower — growth in store during the year ahead. America's gross domestic product (GDP) increased at an annual rate of **2.9%** in the 4th quarter of 2017, pegging full-year expansion at **2.3%**. According to the Federal Reserve, economic activity expanded at a modest to moderate pace during the first 2 months of 2018, while employment and inflation continue to grow at a moderate pace.

Recent changes to US tax policy are expected to stimulate activity, with a positive effect on growth prospects through 2020. But we caution recent proposals for tariff hikes on some goods — and threats of retaliatory tariffs by foreign countries — could crimp growth targets, should these threats materialize. On balance, economic growth is likely to continue through 2018, but prospects for a trade war could weigh on growth targets over the second half of the year.

US Economy Sees Above-Trend Growth in Last 3 Quarters



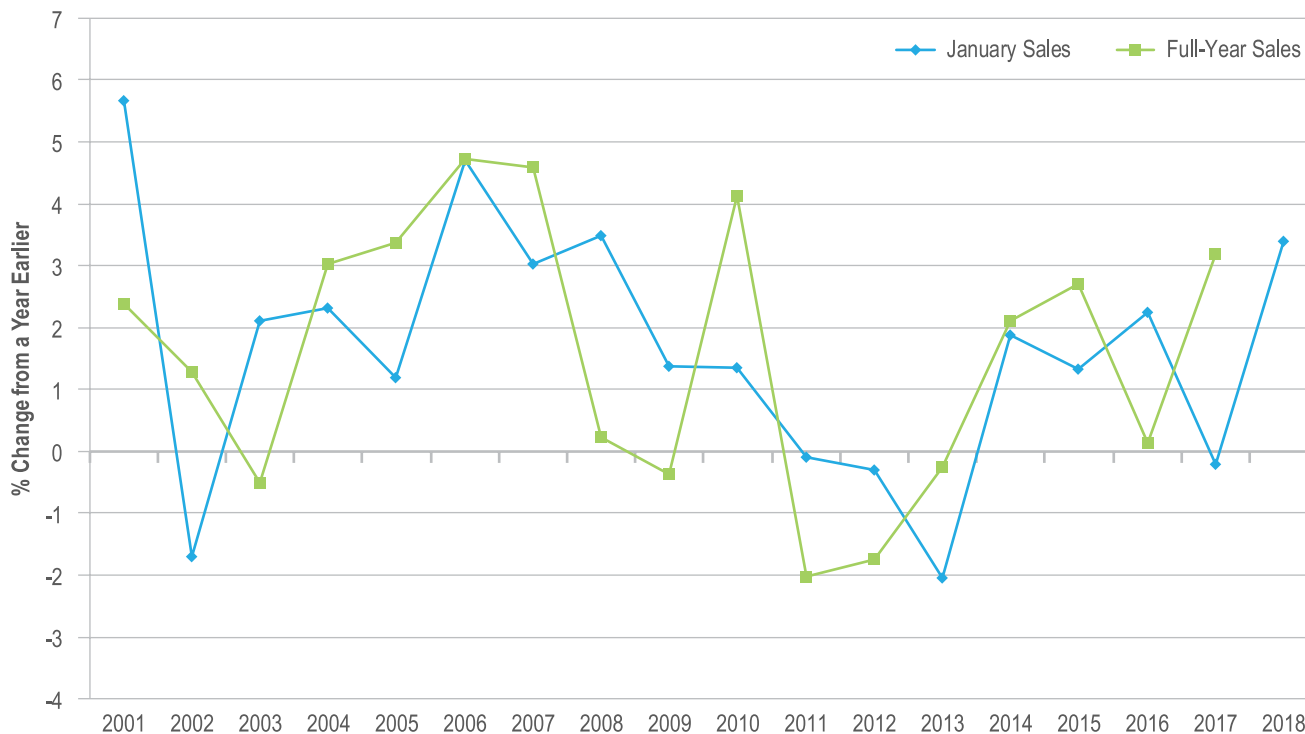
Source: Bureau of Economic Analysis

Global Outlook — European Retail Update

Buoyed by above-trend economic activity, European demand for textiles, clothing, and footwear fared well in 2017, and early evidence hints continued gains are in store in 2018. Eurostat, the European Statistical Agency, is reporting GDP across the continent rose **2.4%** in 2017, marking the 5th straight year of expansion and the fastest growth in a decade. Similarly, retail demand across the European Union rose **2.6%** in 2017. In turn, sales of textiles, clothing, and footwear across the bloc grew **3.2%** for the year, the best showing in 7 years. Extending the trend, January sales in this retail sub-sector rose 3.4% to a seasonally-adjusted **103.8** (2015 = 100), the biggest January on record. While admittedly early in 2018, the January expansion hints that full-year sales of textiles, clothing, and footwear across the European Union again may grow at an above-trend rate, perhaps comparable to last year's robust 3.2% advance.

European demand for textiles, clothing, and footwear fared well in 2017, and early evidence hints continued gains are in store in 2018.

EU Sales of Textiles, Clothing, and Footwear Poised to Grow Fast Again in 2018



Source: Eurostat

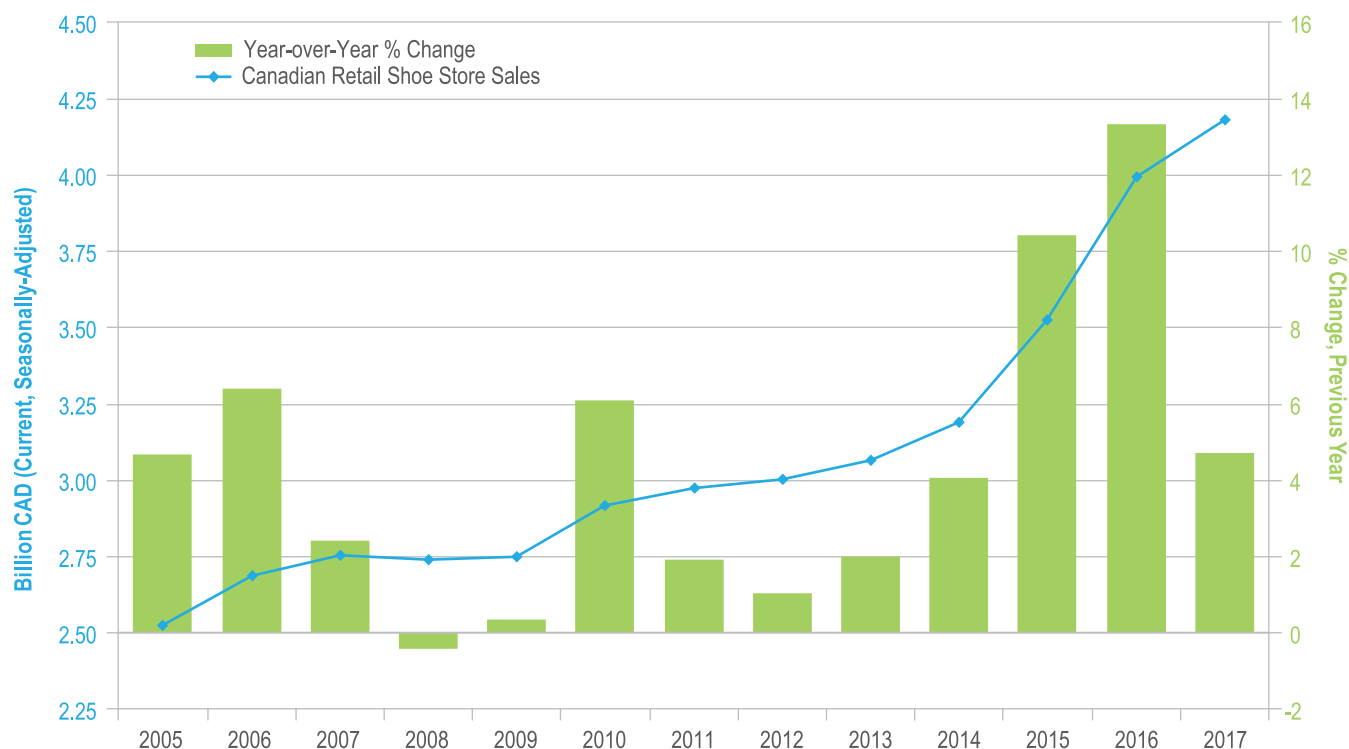
Supporting this view, the International Monetary Fund and World Bank both expect growth in the euro-area economy will moderate but remain above trend in 2018 largely as monetary policy stimulus gradually unwinds and the recent rebound in domestic demand levels off. If so, European shoppers' appetite for textiles, clothing, and footwear is likely to expand again in 2018, albeit perhaps at a modestly slower rate than the robust pace witnessed last year.

Overall retail sales rose 6.7%, the best annual showing in two decades. Annual shoe store sales growth is faster than most other developed markets.

Global Outlook — Canadian Shoe Store Sales Update

In concert with strong GDP growth, Canadian overall retail sales rose **6.7%** last year, the best annual showing in two decades. The robust performance came as all retail sectors expanded in 2017, driven by gasoline station sales (up 12.9%) and home improvement sales (+12.7%). Canadian shoe store sales rose a slower 4.7% last year, reaching an unprecedented level just shy of **CAD4.2 billion** for the year. While slower than in other sectors, this annual growth is faster than in most other developed markets, an upbeat reading for footwear distributors, importers, and retailers supplying the Canadian market.

Canadian Shoe Store Sales Expand to Another Record in 2017



Source: US Census Bureau

Looking ahead, the IMF expects Canadian economic growth in 2018 and 2019 will persist but ease modestly, suggesting retail sales — and by extension, shoe store sales — may continue to expand in kind, albeit slower than the impressive pace posted in 2017.

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: Footwear Sourcing and Innovation Summit July 23 – 24, 2018 | New York



FOOTWEAR SOURCING AND INNOVATION SUMMIT

July 23 – 24, 2018
New York Stock Exchange



FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

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FDRA.org