



It's not all satin and lace in the global footwear market: there are huge price pressures on manufacturers and on consumers' pockets, but at least the world continues to need shoes. CREDIT: RENE TILLMANN/MESSSE DÜSSELDORF

The state of the industry

Among the important issues we touched on recently in World Footwear is the fact that the number of manufacturing companies in China's traditional footwear heartland, the province of Guangdong, has greatly diminished in the last year. In September, the China Leather Industry Association (CLIA), the state-run organisation that promotes the country's leather and footwear industries, said the number of producers in that part of China had dropped dramatically to 2,428 from almost exactly double that number a year ago.

However, CLIA's leaders, Madam Zhang Shu Hua and Su Chaoying, have both argued that there is a positive side to this and have pointed out that, while volumes of footwear exports from Guangdong have fallen in 2008 (by 25.4%, they have said), the value of the shoes going into export markets has gone up, by 8%.

This picture is repeated across China as a whole. Between January and May 2008, Chinese total leather exports reached \$10.2 billion rising 10.6% in value. Of this total, leather shoe exports were worth \$3.5 billion, a rise of 0.7% compared with the prior-year period.

We wanted to capture a picture of the global footwear industry as it is now, at the end of 2008. This article gives up-to-date impressions of how business is developing in the shoe sector in some of the key markets across the globe.

However, the quantity of leather shoes exported fell 14.5% to 457.3 million pairs. Meanwhile, footwear component exports rose 39.4% in value to \$581.3 million in the January to May period. Growth was even more significant in terms of volume, rising 107% to 177,000 tonnes

During the same period, imports of leather shoes rose dramatically, up 81.5% in terms of value and volume. China imported 680,000 pairs of leather shoes between January and May, while their value reached \$183.1 million. Footwear component imports fell 10.2% in quantity and 5.4% in value. Component imports for the five-month period totalled 11,000 tonnes and \$117.5 million.

These figures, the latest available at the time of writing, relate to the first half of the year, and the mood in the global economy has become much darker since then, as everyone knows. Perhaps, then, the increase in the value of footwear exports will prove short-lived.

Chris Collins, vice-president and general manager for the leather division of Dongguan Leeway Footwear, part of the Brown Shoe Company, is not convinced that export volumes have dropped quite as much as CLIA has said, but he confirms that manufacturers have been moving their production of cheaper shoes to "far-away provinces". In some cases this has been to provinces with decent transport links, including Wenzhou on the east coast. In other instances, factory owners have returned to their ancestral homes, Mr Collins says, because they have strong relationships with local governments there, making it easier for them to find the land and labour they need for their operations.

"Even now there is a tremendous movement away from Guangdong of the most labour-intensive parts of footwear production—cutting and stitching—to places that are as much as ten hours away from here by road," he explains, "so that in Guangdong what we are left with is the production of better grade shoes. So in that sense, I think the CLIA comments are accurate. These changes will weed out the bad players."

Bad, here, is a reference to more than the quality of the finished product. It's also a question of paying better wages and handing over taxes to the authorities on time. Dongguan Leeway Footwear has increased rates of pay for its workers by 20% two years running, which means levels are now 40% higher than in 2006. It's been a necessary step in the company's efforts to maintain a stable labour force, which Chris Collins says is now the footwear industry in China's greatest challenge. But he insists that companies such as his—one of eight in Guangdong that is now brining in more than \$100 million a year in footwear exports—were already treating workers well, paying above the established minimum wage, and making sure local management teams were abiding by corporate codes of conduct on overtime, underage workers and so on.

There are other cost increases, mostly in the chemicals space. Increases imposed by chemical providers soon after the price of oil hit \$150 have made outsole costs, for example, very expensive, and Mr Collins notes that the subsequent fall in the price of oil has not yet brought a corresponding reprieve. In contrast, he says the price of leather, which he sources from 30 countries,

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has been steady and has, in fact, begun dropping in the last two months, which he puts down to the fall in demand from the struggling automotive and upholstery sectors. "In recent years, automotive and upholstery seemed to overtake footwear in importance for some tanneries," he says, "but now those sectors seem really to have fallen on hard times and orders have not been coming the tanners' way from those companies."

He explains that his company's planning suggests that full-year results for 2008 will be slightly down, by perhaps 3% or 4%, and with the global business climate as uncertain as it is, they may slightly down again next year. But he insists that Chinese footwear is still cheap and that business results would improve

substantially if retailers would only charge a fairer price for a pair of shoes. One big customer of his, a North American retailer, thought it was doing his company a huge favour earlier this year when it agreed to increase the retail prices of its shoes by between 4% and 6%, but, coming at a time when costs were going up by, he estimates, at least 10%, the outcome has been less positive.

"One answer would be to increase the price that retailers sell our shoes for," he concludes. "Footwear here is still very cheap. I mean, we opened the country up 20 years ago and now have 80% of the world market in shoes that sell for less than \$100 at retail, and the shoes we make today are cheaper than they were when we started."

US slowdown

Overall, the US footwear market slowed in 2007. US footwear consumption fell 0.4%, from 2.4 billion pairs in 2006 to 2.39 billion pairs in 2007. Growth in US consumption of men's work shoes was robust but slowed somewhat during the second half of the year, increasing by 37.4% for the full year, but having registered a 62.9% increase during the first half. In contrast, US consumption of women's footwear (non-rubber), the largest footwear category by far, only increased 0.8% in 2007 to 952.2 million pairs. US consumption of athletic shoes fell 10.1% to 334 million pairs and consumption of slippers fell 9.3% to 119 million pairs.

The value of US footwear consumption, as measured by Personal Consumption Expenditures (PCE), increased at its slowest pace in years in 2007, growing only 1.9% to \$59.2 billion. That increase, however, coupled with the decline in the volume of shoes consumed in 2007, portends growing price pressures for the industry.

US footwear production continued to decline, dropping 4% in 2007. Import penetration, or the percentage of the US market that is supplied by imports, remained at 98.7% in 2007. US imports from China currently account for 83.8% of the total US footwear market. Imports supply virtually 100% of the juvenile, athletic, slipper and women's footwear markets. US-produced shoes in 2007 supplied a significant, but shrinking, portion of the US market in only men's work shoes (15.2%) and plastic/protective footwear (23.7%). The success of these two footwear categories can largely be attributed to footwear made for the military.

Over the last 10 years, footwear retail prices have experienced a deflationary trend with overall footwear prices actually declining 4.5% while overall retail prices surged 27.2% during the period. However, increasing cost pressures from rising energy and labour costs are forcing footwear brands and retailers to increase prices. For example women's shoe prices increased 2.6% from 2006 to 2007, setting the stage for the rest of the footwear industry to follow. With the onset of the 2008 economic downturn, it remains unclear if these rising costs will be passed onto consumers in the form of higher prices.

US shoe imports were relatively strong throughout 2007 but abruptly declined during the final months of the year. On an annual basis, US imports of footwear decreased 0.4%, from 2.37 billion pairs in 2006 to 2.36 billion pairs in 2007. On the other hand, prompted by rising costs, the value of imported footwear increased 1.2% from \$18.7 billion in 2006 to \$18.9 billion in 2007. China remains by far the largest supplier to the US market, accounting for 86.4% of the quantity and 71.5% of the value of all US footwear imports. While US imports from Vietnam, the second largest supplier to the US market, increased 3.9% in 2007, most other large suppliers saw their trade levels decline during the period. Of the remaining top ten suppliers, only US imports from number-seven supplier, Taiwan, increased during the year.

India aiming to expand

Leather footwear exports from India grew by 9.5% in the first part of 2008, with a total value in the period covering January to May 2008 of \$165.6 million. It's a good performance, but, as in China, the domestic market is becoming more important and more valuable all the time. It's interesting to note that, even if none of India's total estimated production capacity for finished leather shoes (909 million pairs a year) and leather uppers (a further 100 million pairs) went for export, it would still not be enough to supply everyone who lives in India with one pair each.

As the name suggests, though, the Council for Leather Exports (CLE) exists to make sure as many of the shoes India produces as possible go to lucrative export markets, including the US, the United Kingdom, Germany and Russia. Its chairman, Shri Mukhtarul Amin, says 2,400 companies from different parts of the



A man's boot design from Brazil. Export volumes have fallen, but the average price for Brazilian footwear exports has risen by almost 5%. CREDIT: RENE TILLMANN/MESE DÜSSELDORF

country are involved in this effort, although he puts the number of footwear factories at 368 at the moment, a figure that is growing. "We calculate India's share of the global footwear market as 2.62% at the moment," he says, "but we are planning to make that 5%, and the way we are going, we are sure we will do it. We have excellent raw material, we have the tanning skills and we have the workforce. So we can expand to cope with growth in demand from both the export and the domestic markets."

New markets for Brazil

According to Abicalçados (Brazilian Association of Shoe Manufacturers), the country's footwear exports totalled \$160.3 million in August 2008 compared with \$180.5 million in August 2007, a decline of 11.2%. In terms of quantity, the number of pairs exported in August fell 29.2% to 10.6 million pairs compared with 15 million pairs in the same month last year. Despite this, the average price per pair rose 25.4% from \$12.07 in August 2007 to \$15.13 this year.

During the January to August 2008 period, the value of exports rose 0.5% to \$1.3 billion compared with 1.298 billion for the same period last year. Volume-wise, exports fell 4.2% to 1.2 billion pairs compared with 1.1 billion pairs in the January to August period last year. The average price per pair was up 4.9% from \$10.92 to \$11.46.

There are some interesting statistics to be drawn in terms of countries importing shoes from Brazil. Emerging economies such as Russia and the UAE have started importing far greater quantities of Brazilian shoes. During the January to August 2008 period, Brazilian footwear exports to Russia rose 54.9% in value and 46.1% in volume year-on-year. It exported 1.2 million pairs worth \$17.4 million to Russia in the 2008 period compared with 805,000 pairs worth \$11.3 million in the prior-year period. The average price per pair rose from \$13.98 to \$14.83.

Similarly, although on a smaller scale, Brazilian exports to the UAE showed strong growth. The number of pairs exported to the UAE in the January to August period was up 1.3% from 785,000 in the 2007 period to 795,000 in the 2008 period. In value terms, exports grew a substantial 16.9% from \$9.3 million to \$10.8 million. Average price per pair rose from \$11.81 to \$13.63.

In terms of trade with other Mercosur countries, Brazilian exports fared reasonably well. While exports to Uruguay fell 7.2% in value and 8.1% in volume between January and August, exports to Argentina and Paraguay showed strong annual growth.

Exports to Argentina rose 22.7% in value from \$98 million in the 2007 period to \$120.2 million in the eight-month period this year. The number of pairs rose 6.9% from 8.4 million to nine million and average price per pair rose from \$11.62 to \$13.34.

The real battle for Russia

It's no surprise to learn of the growing importance of Russia to footwear exporters in Brazil. This is the case with every producing country that is attempting to move up the quality ladder; everyone wants a piece of the high-end Russian market, in which money is often no object.

Except that there is a lot more to the Russian economy and the Russian footwear market than just the super-rich elite. Certainly as far as volume is concerned, the real battle in Russian retail, according to World Footwear's industry contacts there, is in the middle ground, with locally based manufacturing companies—who make a considerable contribution to the overall Russian market of between 400 million and 500 million pairs—at loggerheads with importers. By far the largest quantity of imported shoes is for the mid-market and come from lower-cost producing companies than Italy, Brazil, Portugal or Spain. These cheaper products are the ones most local producers are in competition with, and competition is fierce.

And if, on the one hand, the government has lowered taxes on chemical products and other raw materials that shoe manufacturers consume, it has also eased the pain of import taxes on finished footwear, and so the battle rages on.

Germany

As Europe's biggest economy (around \$3,300 billion as its gross domestic product) Germany is always going to be a crucial market for the global footwear industry.

According to Manfred Junkert, chief executive of HDS, the German Footwear Industry Federation, production declined significantly in 2006 and a number of companies moved production to cheaper destinations overseas. However, this did not continue in 2007. Official figures from the Federal Statistics Office for 2007 show that shoe production in Germany, projected from three-quarters to the whole year, increased, with the number of pairs up 9.4% to 26.8 million. In December 2007 there were 55 German shoe manufacturers compared with 56 in December 2006. Employment in the German shoe sector increased by 3.6% to approximately 12,507 posts.

Sales in the German shoe industry rose by 2.6% compared with 2006 figures, totalling €2.8 billion. While domestic sales increased to €2.02 billion (+2.3%), overseas sales rose 3.4% to €780 million. The proportion of foreign sales in comparison to total sales rose slightly from 27.7% to 27.9%. Despite this, December sales fell 10.2% year-on-year.

Shoe imports to Germany rose significantly again in 2007. The average price per pair fell by 10.5% from €9.80 in 2006 to €8.78 in 2007. Mr Junkert says: "This price drop was marked above all by the strongly reduced average prices of shoe imports from China. An increase of 27.6% in the number of pairs imported from there to 252 million pairs was accompanied by a fall in the average price of 18.6%."

Chinese shoe imports account for more than 50% of Germany's total imports. Vietnam holds second place and imports from that country rose 7.2% in 2007 to 71 million pairs. The share of shoe imports from Vietnam came to 14.3% in 2007. Imports from Italy fell again, down 8.1% in 2007 with a total of 35 million pairs. Its import share is now 7%. Spanish shoe imports also fell



Miss Germany 2008, Kim-Valerie Voigt, shows off some of her country's footwear production at the GDS exhibition in Düsseldorf. CREDIT: RENE TILLMANN/MESSE DÜSSELDORF

again following a 30% decline in 2006. Imports in 2007 fell a further 5.9%.

Shoe exports from Germany rose 15.1% from 123 million pairs in 2006 to 141 million pairs in 2007. The average price per pair fell from €16.25 to €15.57, down 4.1%. Austria continued to take top place among the export countries with approximately 22 million pairs, despite representing a 1.9% decline in comparison to 2006. The share of exports to Austria in the total number of exports fell from 18.7% to 16%. Poland was the second largest export destination with a 14% share. Exports to Poland rose 22.3% to 19.7 million. France was in third place with an 8.2% share, followed by the Netherlands (8.1%) and the UK (5.4%).

Vietnam still growing

In spite of the effects of European anti-dumping measures (see separate article in this issue), official figures show that, in the first six months of 2008, exports of leather, leather footwear and leathersgoods grew by 20.1% year-on-year. These exports, which were worth \$2.7 billion, accounted for a significant portion of Vietnam's total exports for the January to July period, which stood at \$29.7 billion. Meanwhile, statistics for July alone show that footwear exports for the month rose to \$480 million compared with \$390 million in July 2007.

There is scope for further growth, especially if management teams can find a way of improving productivity. A 450-labourer footwear factory in Vietnam can make 500,000 pairs a year. This is a low productivity figure compared with factories in other parts of south-east Asia.

At the end of 2007, Vietnam's footwear industry had 600,000 workers around 80% of whom are women. The government has used this point to argue that the industry plays a critical role in helping it eradicate poverty (for the simple reason that wages paid to a mother are certain to go towards feeding children).

Italy: nobody does it better

Italy is the footwear industry's star player, offering true artistry and craftsmanship to apply to the wonderful leather produced by its highly skilled tanners. But it's a sector that takes nothing for granted and has been the loudest of the voices crying 'foul' over perceived unfairness from competitors in Asia.

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Italian shoe exports for the first five months of 2008 totalled 107.6 million pairs with a combined value of €2.9 billion. While this represents a 6% decline in terms of volume, value rose 3.2%. The average price per pair rose 9.9% to €26.86. Italian shoe imports for the January to May period totalled 180.1 million pairs with a value of €1.3 billion. The quantity of shoes imported fell 6.6%, while the value rose 0.3%. The average price per pair of imported shoes rose 7.4% to €7.50.

EU countries collectively topped the list of export destinations, with 73 million pairs shipped at a value of €1.6 billion for the five-month period. While volumes of exports to these countries fell by 9.5%, value rose slightly (0.21%) and the average price per pair

rose 10.7% to €22.25. Eastern Europe and Russia imported 10.3 million pairs of Italian shoes at a value of €405.5 million, up 17% and 20.6%, respectively. North America was the third largest export destination with 8.3 million pairs worth €315.8 million exported. However, this represents a decline of 21.6% and 11.3%, respectively. Large increases in the number of shoes exported to South and Central America (+39.8% in volume and +39.1% in value) and the Middle East (+38.1% in volume and +26.4% in value) were also recorded.

The largest number of shoe imports came from Asian countries, with 124.6 million pairs, although this number was down 8.2% year-on-year. The value of these imports totalled €556.4 million, up 8.7%, and the average price per pair was up 18.4% to €4.46. Second place in terms of quantity was Eastern Europe and Russia, with imports from these countries totalling 25.8 million pairs, although the number fell 6.6% year-on-year. Value was also down 8.9% at €303.1 million and average price per pair fell 2.5% to €11.73. Imports from European countries not part of the EU rose 9.1% in volume to 804 million pairs and 27.2% in value to €14.8 million. Average price per pair rose 16.6% to €18.43. Volume and value increases were seen in the Middle East (+73.7% and +24%, respectively) and in South and Central America (+25% and +29.6%, respectively).

Over the piece, the Italian National Footwear Manufacturers Association (ANCI) calculates that the footwear industry's own trade balance for Italy is €1.54 billion. The association's president, Vito Artioli, says: "We are honoured and pleased to be making a positive contribution to the Italian economy. We face unfavourable conditions because of the weakness of the dollar, high energy prices and the wider financial crisis, but we are doing everything we can." 🌐