

A troubled year

STUART CLEAVER

2019 was a somewhat difficult year with potential threats to economies, trade and stability. Trump's trade war with China—threatening or adding higher tariffs on a range of goods including footwear, sanctions against Iran and anyone dealing with Iran, Brexit still to be finalised in the UK and bringing some disruption to the EU, economic and political problems in the likes of Brazil and Argentina, were just some of the factors which businesses would have to take into account. China's 'belt and road initiative' was viewed in two ways. On the one hand, it offered investment and an expansion of trade to many poorer countries in Asia, the Middle East, Africa and elsewhere at a time when the USA was no longer so involved in this way. On the other hand, it was also viewed by some as saddling many developing countries with debt for many years, something they could not afford.

Within this context, it is therefore difficult not to divorce the footwear industry in this period from the broader picture. Whilst it is true to say that the 2008 onwards depression had somewhat eased, signs were again being seen of a new possible downturn as even countries such as Germany saw industrial output falling, in particular due to pressure on its pivotal motor trade exports to China and the USA. Two of the leading 'drivers' of the global economy, China and Germany, were both seen to be faring worse than heretofore. China was seeing growth slowing down, needing to redress the population level again with the disbanding of the one child rule and saying that greater emphasis had to be placed on domestic consumption rather than on exports.

Germany, with its reliance on exports was flirting with a recession even as exports slowed. In recent years, its car industry has been especially important for the German economy but also suffered problems in 2019. The headline news, however, was the stance of Trump with his protectionism, US first and tariff waving. Sanctions against Iran and those that dealt with Iran was one thing; a trade war with China was another.

DAMAGING TARIFFS

On the 1st September 2019 a new wave of tariffs on consumer goods in particular, triggered further dismay and China complained to the WTO (World Trade Organization). These tariffs were expected to impinge on \$300 billion worth of Chinese goods in total. Included amongst the goods which would carry a tariff in September was footwear or at least the majority of footwear, the rest starting in December 2019. An additional 15% duty was being charged on top of existing tariffs which averaged 11% but could be as much as 67%. The worst hit products would be lower cost footwear and children's footwear. FDRA

(Footwear Distributors and Retailers of America) and others calculated that the 15% duty would cost US consumers an additional \$4 billion.

China, in response, indicated the possibility that it could raise tariffs itself on \$75 billion worth of imports. There have been suggestions that China might simply devalue the Yuan



The sneaker market continues to grow.

CREDIT: VOSK

but, as transactions are usually carried out in US dollars, what would be the point? The feeling was that Trump may well change tack at some point but the uncertainty generated did no-one any favours. With increasing moves to protectionism it was therefore pleasing from a free trade point of view to learn that the EU and the Mercosur bloc of Argentina, Brazil, Paraguay and Uruguay, had reached an agreement in July to reduce trade barriers. The EU and Mercosur blocs represent 780 million people and €1 trillion in trade, with the EU selling €45 billion worth of products in 2018 and €23 billion services in 2017. As far as footwear is concerned, some of the highest duties (35%) were placed on footwear exported to Mercosur countries such as Brazil. Leather footwear will be free of duties and other types will see their duties decrease over the next 15 years.



China continues to dominate with 52% of global production in 2018.

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GLOBAL PRODUCTION

Global footwear production in 2018 is estimated to have been 22.1 billion, pairs, excluding production of footwear parts such as closed uppers, which represents an increase of 2.8% over the previous year. Whilst 0.5% down on the 2017 percentage rise, it is nevertheless rather better than what was achieved during the 'recession years'. What is not surprising are the names of the leading shoe manufacturing countries and, indeed, their dominance. China alone accounted for 52% of global shoe production. Adding India and Vietnam meant that these three countries were responsible for 70% of world production and a top five also including Brazil and Indonesia took it to up to 79%.

At the time of writing, complete year 2019 results were not yet available and so the effect of such factors as the trade war between the USA and China, the USA and the European Union, sanctions against Iran, the 'non enactment' of the TPP (Trans Pacific Partnership) agreement, the slowing down of the economy in Europe and the UK partly due to Brexit, were not yet totally apparent. The withdrawal of the USA from the TPP agreement in 2016 was nevertheless a blow to the likes of Vietnam, which had visions of gaining ground on China in sales to the USA. In fact, all members of the original

agreement (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam) agreed to go ahead without the United States under a 'Comprehensive and Progressive Agreement for Trans Pacific Partnership' in 2018. It was ratified by six members to come into force on 30th December 2018.

One early indicator for the complete year 2019 was the part year results for US footwear imports. For the period January to September 2019 total footwear imports amounted to 1.9 billion pairs. This was actually showing a decrease of 6.9% compared with the corresponding period of 2018. Interestingly, China was showing an even greater fall in volume of 12.8% down to around 1.2 billion pairs. Vietnam, on the other hand, actually achieved an increase in pairage sent to the United States of 6.3% to 348 million pairs.

China is of course pivotal in the shoe industry. Whilst it continues to battle with a lower growth economy, trade wars with Trump, not to mention demonstrations in Hong Kong, the perennial question remains if anyone can cut its dominant lead in shoe production. World Shoe Review* and Safety Footwear Global Review* indicate that although Vietnam and Indonesia have made some progress, it is not yet too threatening to China's

lead. Bangladesh, Cambodia, Myanmar have come on as a 'third tier' while Ethiopia, Nicaragua and Laos still have a fair way to go to make an international mark.

ATHLEISURE AND SNEAKERS

One of the strong trends in the 2018/2019 period has been the increasing presence of athleisure footwear and sneakers. To some extent, this reflects the trend, even in the workplace, to dress down and not wear a suit or tie. This trend has come later to some countries than others. In Scandinavia, for example, it has been more the norm for some time. To put it in context, some people estimate that the two largest markets for all footwear are the USA with a value of \$80 billion and China with \$59 billion. The global sneaker market in 2018 is estimated to have reached \$58 billion.

Even high end brands have dipped into the strong growth trend for this type of footwear with their own upmarket versions of the sneaker which have correspondingly attracted a premium price. These have included, for example, the likes of Louis Vuitton. A Berenberg survey for 2017 estimated that the leaders in the luxury sneaker market in 2017 were as follows: Balenciaga Triple S with a market share of 52%, Louis Vuitton 17%,

Balenciaga speed trainer 12%, Actileaf Simons 6%, John Geiger 4%, Reebok/Vetements 4%, adidas/Henker 2%, Fear of God 2% and adidas-Rick Owens 1%. The fastest growing category in this sector in the USA in 2018 was the running inspire category of sneaker. It achieved a 39% market share, whilst casual athletic was 24%. Running shoes, by contrast, fell by 7% and trainers by 15%. Performance shoe sales fell 10% in 2017 but were still worth \$7.4 billion.

Two of the largest and most influential shoe brands globally are, of course, adidas and Nike. Their results for the latest complete year (2018 and 2018/19) showed they were both reporting positive results. Adidas achieved sales of €12.8 billion (+3%) in footwear out of a total of all products of €21.9 billion (+8%). Interestingly 47% of its suppliers were located in Vietnam, with 24% in Indonesia, and China now down to 22%. Nike's footwear sales were \$24.2 billion (+9%) out of a grand total across all products of \$32.5 billion (+7%). Their suppliers were fairly similar to adidas in that the leading supply country was Vietnam (49%), followed by China (23%) and Indonesia (21%). Chinese company Pou Chen/Yue Yuen, one of the largest suppliers to sports brands, produces around 325 million pairs in its various locations.

ONLINE RETAILING

Another factor in the shoe sector, as with so many other products and services, was the impact of online retailing. This method of selling has had a dramatic effect on stores and high streets across all countries, resulting in the closure of many retailers and a reduction in the number of retail outlets. Footfall into the shops or stores has been instrumental in this demise with, for example, a decrease of 6.7% in the UK being fairly typical. Clarks, one of the leading shoe retailers in the UK saw losses of £82.9 million in 2018/2019 and a decrease of 4.6% in sales. This was due to difficult trading conditions in its main markets of the UK and USA. On the other hand, results in Europe were positive as were its e-commerce results. As a consequence, 18 stores were closed and the last remaining factory (re-opened in 2017) also closed. The



Online retailing is leading to the closure of an increasing number of high street stores.

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company issued a statement indicating that many more stores could also go over the next five years. Altogether Clarks has over 1,000 stores with 553 of them in the UK and Ireland.

Going into 2020, the future for the shoe sector is likely to be increasingly dependent on the outcome of a few large scale battles which will continue to be fought into the new decade.

1. Free trade versus protectionism. The advance of free trade groups has to some extent been hit by Trump and the like. There is, however, some indication that he could just as soon reverse his actions against China. This seems quite likely before the end of 2020 at least.
2. The inexorable rise of the Chinese export drive may be slowing down, with 2019 seeing a fall in exports to its largest market, the USA. However, with alternative suppliers such as a slightly resurgent Vietnam lagging so far behind, little will change in 2020 in absolute terms.
3. The online versus high street battle has seen increasing numbers of store casualties. This will continue and the only hope for stores would appear to be a fairer tax system for high street retailers which is most unlikely in 2020.
4. The type of footwear being sold has seen athleisure and sneakers

continue to gain at the expense of more formal shoes. This will continue into 2020. For example, in the UK sports footwear market over 50% of recent sales have been athleisure.

2020 is therefore likely to be another tumultuous year with several issues seemingly approaching the point at which action has to be taken. If the USA-China trade war can be resolved, prospects may improve for the footwear sector amongst others. Brexit is unlikely to benefit either the UK or Europe in the short term. The plight of the high street is unlikely to be resolved any time soon and the need for governments to do something will become more and more evident. Online business still constitutes probably less than 20% of sales in most countries but is having a detrimental effect on even established high street names. The rate of progress in technology particularly in places like Shenzhen in China will bring profound effects to both manufacturing and retailing in the next few years; but that is another story. 🚫

**World Shoe Review and Safety Footwear Global Review are compiled and written by the author of this article for World Footwear.*