

The USA – from mighty producer to mighty consumer

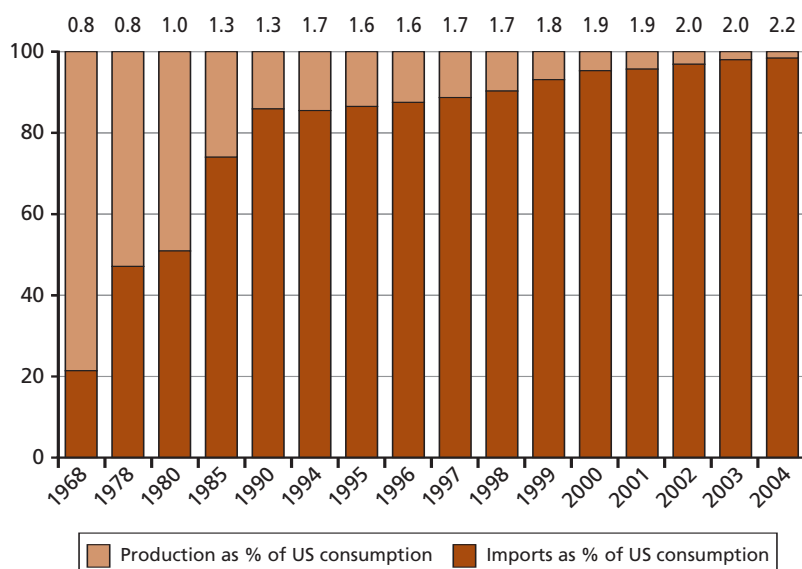
It will be no surprise to anyone that, over the past fifteen years, the face of the US footwear industry has changed out of all recognition. Indeed, if we go back as far as 1968, the change is nothing short of staggering in view of the sheer numbers involved in this huge market. The latest statistics compiled by the American Apparel & Footwear Association (AAFA) are most revealing.

Actual pairage totals show that domestic production took the greatest hit during the twenty years up to 1990, when it fell from 642 million to around 200 million pairs. By 2004 it was only 35 million. During the same overall period, consumption increased from 818 million to a staggering 2.15 billion, so it is an immense consumer market. According to the US Census Bureau's 2004 population estimate of 293,655,404 people, 7.4 pairs of footwear of all types were purchased by every man, woman and child in the country.

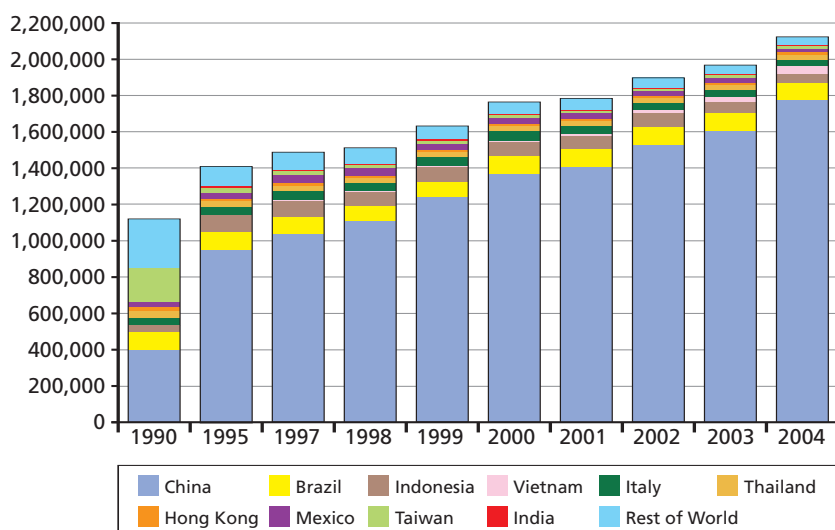
The problem is China. In 2004 China had 83.5% of the US market in terms of pairage and 69.1% in value. Everyone else was out of sight. Brazil in second place had only 4.7% and 6.7% respectively, Indonesia 2.2% and 3.0%. Vietnam, however, increased its penetration during the year by 43.5% to 2.1% of total pairage and 2.9% of total value. In the process, it overtook Italy and is set to have passed Indonesia during 2005.

The really alarming fact for all other shoe exporting countries is that Chinese imports had an average value of only \$6.30. Italy, in contrast, stood at \$35.20. The clear implication is that despite all the big brands' marketing hype, most

Consumption of footwear (billions of pairs)

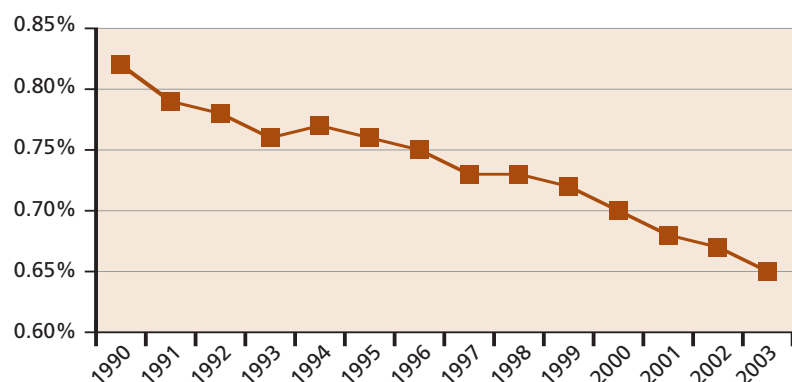


Footwear imports by country (thousands of pairs)



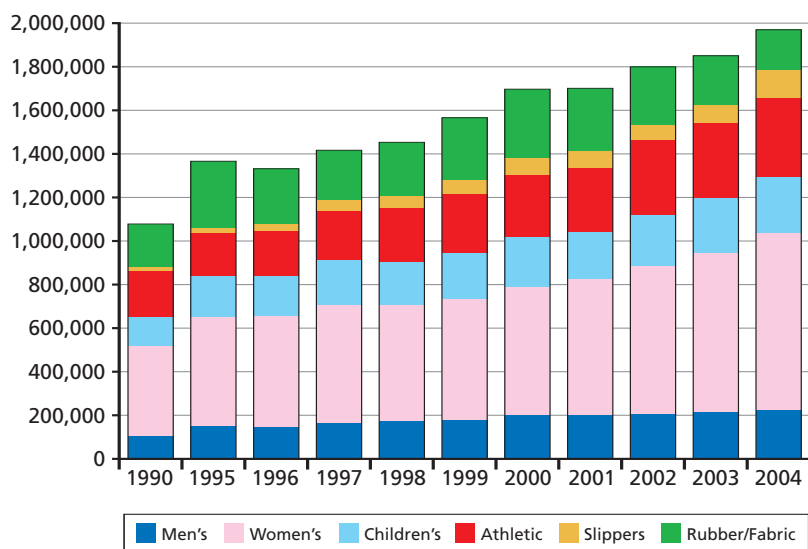
REGIONAL SURVEY: NORTH AMERICA

Footwear as a percentage of total personal consumption expenditure (PCE)



Note: PCE figures for 2004 not available until August 2006

Imports of footwear by category (thousands of pairs)



Americans would appear to prefer buying more shoes at cheaper prices.

Footwear as a percentage of personal consumption expenditure (PCE) has steadily declined over the past 15 years as the retail value of footwear has gone down. Between 1998 and 2004, it fell 6.8% while at the same time overall retail prices rose by 15.9%. Incomes did not fall during this period—quite the contrary. What has happened is that consumers are buying cheaper clothing and footwear in order to spend more on consumer durables, and Chinese imports have made this possible.

Needless to say, ladies' footwear remained the biggest import category at 38.3% with athletic shoes showing a substantial 17%, which together made up 55% of all imports. Imports of slippers

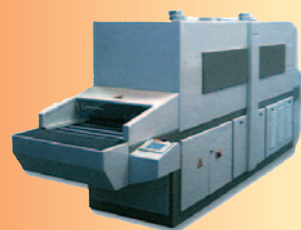
rose sharply in 2004 as most of the remaining production was moved offshore. Rubber/fabric footwear, on the other hand, fell by 16.5% reflecting the continued shrinkage of this once considerable sector of the US market.

Manufacturing today

Where has this left manufacturing? As import graphs show steep increases, so that for production is the complete reverse. Overall domestic production fell a further 11.4% in 2004, led by a 25% decline in rubber/fabric footwear. Output of safety and military boots both showed a healthy 10% increase, however, doubtless on the back of government contracts for the war in Iraq (US law requires the military to procure only US-made footwear). ➤

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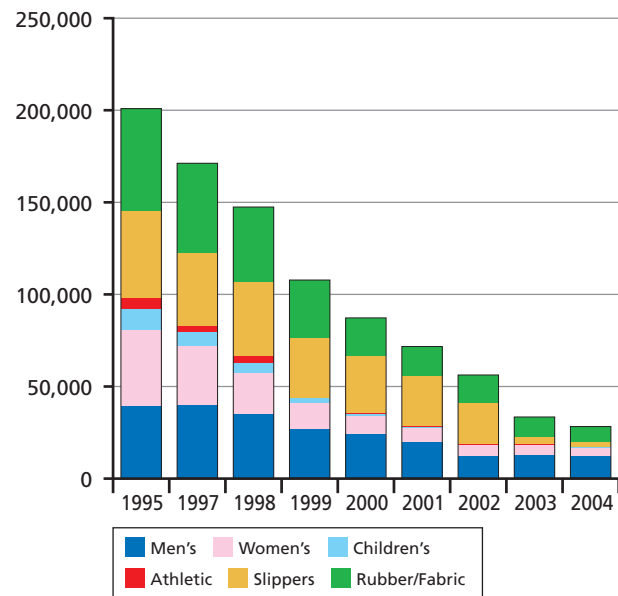
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WORLD FOOTWEAR

US footwear production (Thousands of pairs)



Note: 2004 volumes represent AAFA estimates based on historical trends and anecdotal input.

All that is left today are companies like Bates, Cove and Altama, making boots for the military, Wesco producing highly specialised work boots, Allen Edmunds, making classic men's Goodyear welted wing and cap shoes or the very best Western Boot makers like Luchesse, RJ Boots or DW Frommer II. Florida-based Otabo is a real rarity in America, a new footwear manufacturer. It is once again a niche producer, this time in computerised made-to-measure footwear. The common factor in all these is specialisation and small volume, or protected markets that do not attract importers. All the mass market products are long gone and even the best made New England Penny Loafers have now moved offshore.

Openings for importers

Having said all this, there is still quite a chunk of market for countries producing higher quality and therefore more expensive footwear. Style still counts a great deal and in a country of almost 294 million people, there are still plenty of people who are prepared to pay for something better or different.

In 2004 Brazilian imports were approaching 99 million pairs valued at just over \$1 billion. From Italy they were a little over 35 million pairs and \$1.25 billion in value. That is still good business for someone. The problem is that China has not only conquered the USA but is doing the same worldwide. The competition between the world's shoemakers is therefore tougher than ever before and can only become worse. It is often said that whatever happens in America happens elsewhere ten years later. The years are ticking by. 🌐

Sources

American Apparel & Footwear Association
US Census Bureau
US International Trades Commission
US Department of Commerce