

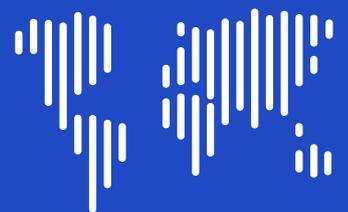
**WORLD
FOOTWEAR**

**BUSINESS
CONDITIONS
SURVEY**

2021

2nd SEMESTER

ISSUE 5



WORLD FOOTWEAR

by **Portuguese Shoes**

In collaboration with

SHOE[≡]
INTELLIGENCE

EXECUTIVE SUMMARY

After a very difficult year for the business, the most recent statistics for footwear trade show an uplifting picture of recovery in the first semester of 2021. The latest projections of the International Monetary Fund and the World Bank estimate the strongest growth of the world's GDP of the last 80 years in 2021. Obstacles to vaccination and additional COVID-19 waves may, however, create obstacles to economic recovery worldwide.

With all this in mind, the general outlook of this survey is nevertheless optimistic. Most of our panel members believe that, over the next six months, the quantity of footwear sold will increase along with prices, which is a positive evolution in comparison to the perspectives from some months ago. The majority of our respondents also expect their businesses to have a "strong" health in the next months.

The recovery of the demand, together with the supply-chain problems that are affecting the world economy, are pressuring the footwear business. The cost of merchandise or raw materials, as well as human resource problems, are now the main sources of difficulties for the industry, according to our experts, with references to insufficient demand having collapsed.

Asked about the evolution of footwear consumption in 2022, most of our panel members expect moderate growth (between 1.5% and 5%) compared with pre-pandemic levels. Should these forecasts prove accurate, footwear consumption will grow by 3.3% in Oceania, 3.2% in South America, 2.4% in Asia, but only 1.8% in Europe and 1.2% Africa, and fall 3.6% in North America, this year, on average.

Half of our experts do not believe that the footwear business can achieve carbon neutrality by 2050.

BUSINESS CONTEXT

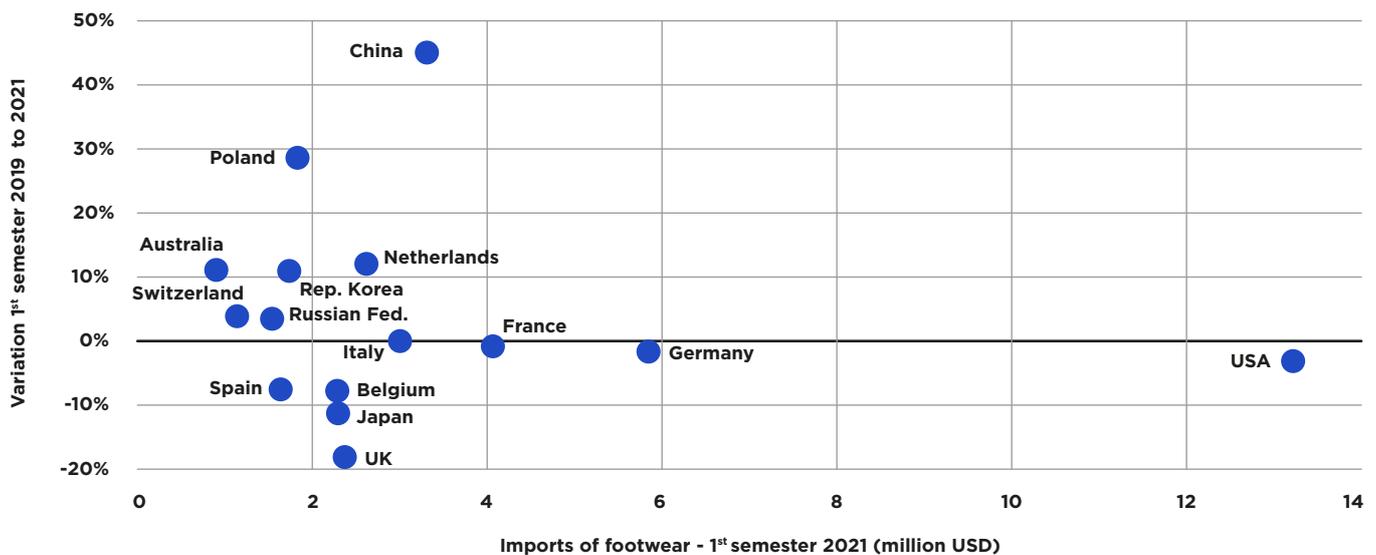
The most recent statistics for international footwear trade show a picture of considerable normalization, although with variation from country to country. In some of the largest footwear markets in the world, such as the USA (-3.2%), Germany (-1.2%), France (-0.7%), and Italy (-0.1%), imports in the first semester of 2021 were very close to the pre-pandemic level of the first semester of 2019. There are even some cases of substantial increases in imports, noticeably in Poland (+28.5%) and, especially, China (+44.9%).

Some markets, however, are taking longer to recover: imports to Spain, Belgium, and Japan have fallen close to 10%, and those to the UK are still 18.4% below the pre-pandemic level.

As compared to the first semester of 2020 instead, footwear imports grew strongly amongst the world's largest importers: 48% in Australia, 41% in China, 31% in the USA, and between 26% and 30% in France, Italy and in the Netherlands.

IMPORTS OF FOOTWEAR

2019 VS 2021



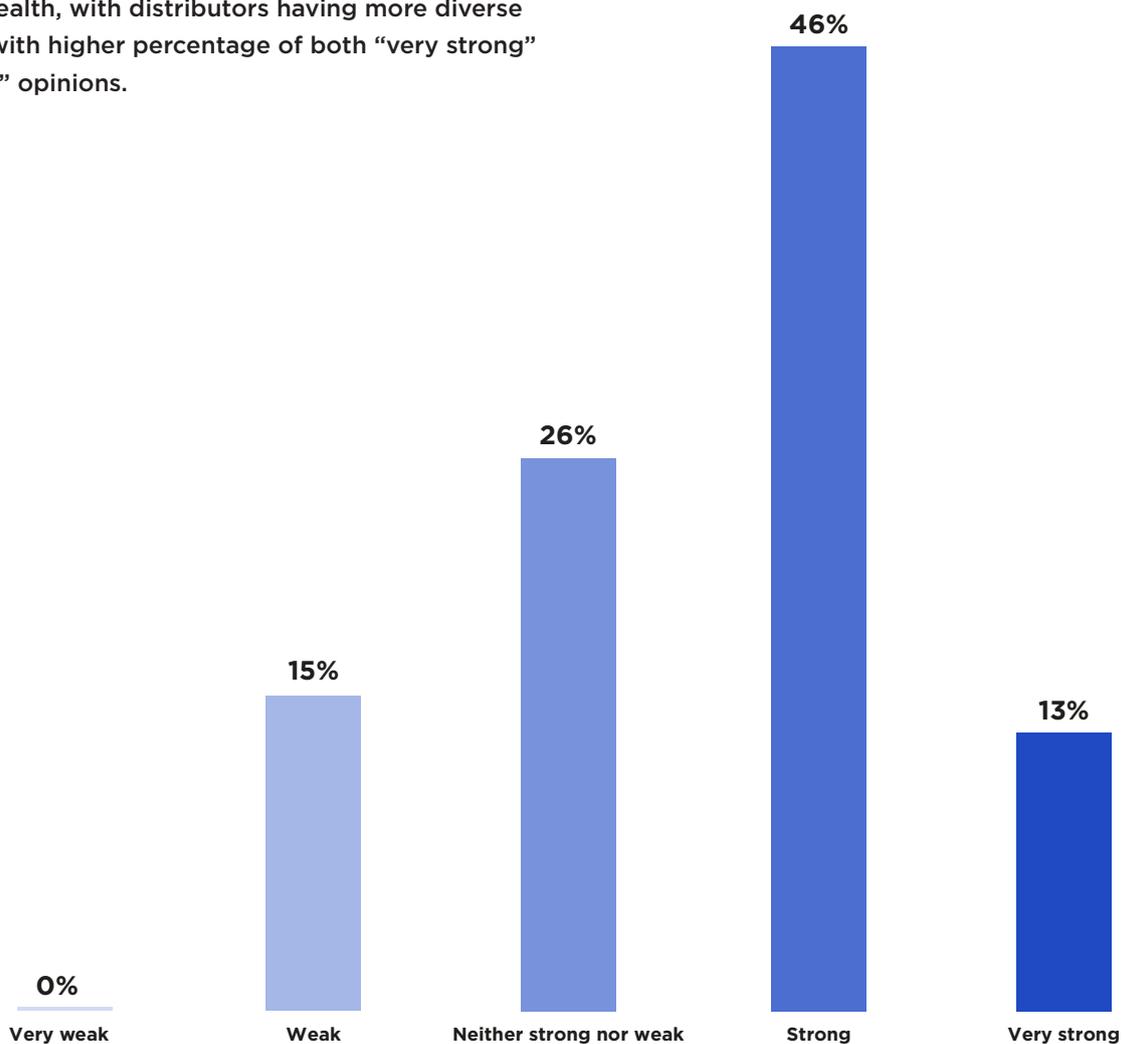
Source: Trade Map

The most recent projections by the International Monetary Fund estimate an increase in the world's real GDP of 5.9% in 2021 – its strongest post-recession pace in 80 years. However, this recovery is uneven worldwide: for e.g., China is expected to grow 8%, the USA 6% and the European Union 5.1%. Additionally, in many economies, obstacles to vaccination, additional COVID-19 waves and financial stresses may continue to delay the pace of recovery.

In this edition of the Business Conditions Survey, we continue to look at our expert's expectations on the evolution of the footwear business in the near future.

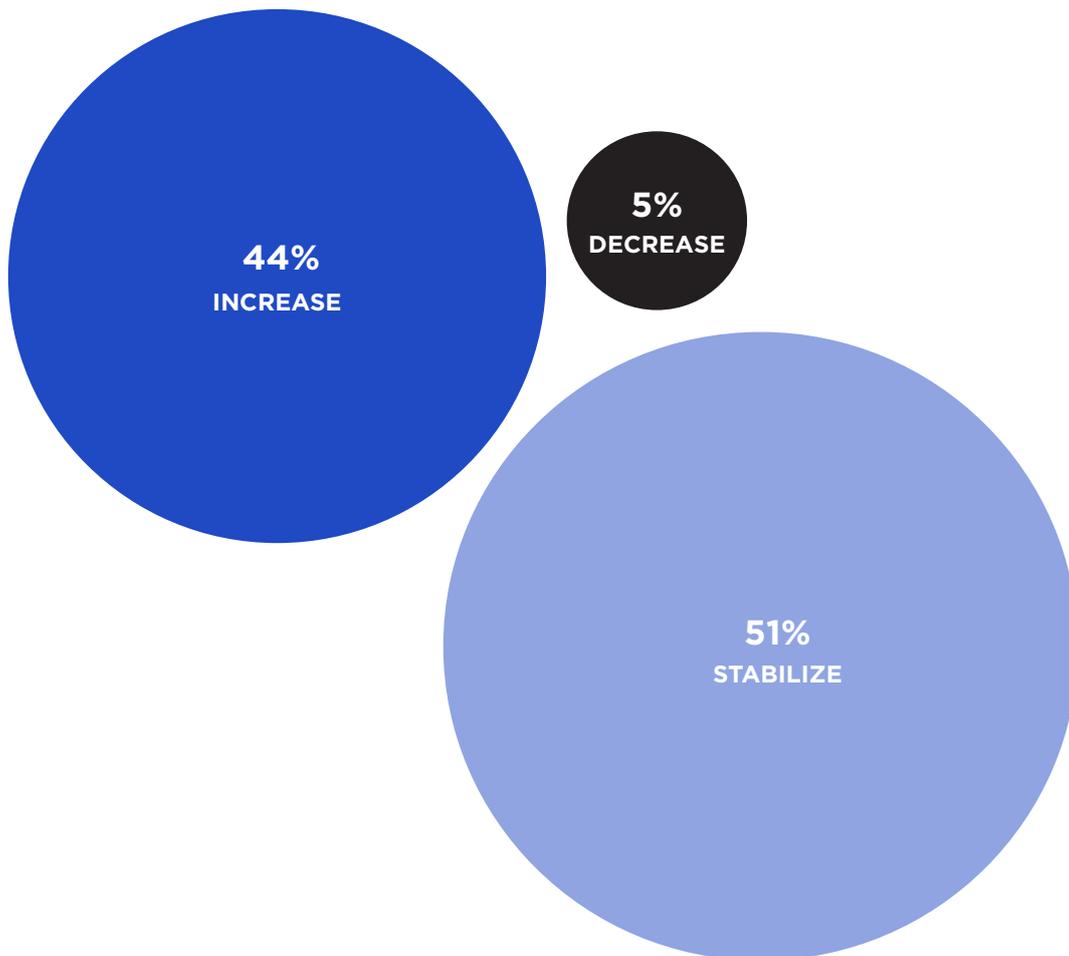
HEALTH OF THE BUSINESS

The sentiment in the industry improved markedly in the last semester. The majority of the respondents to this edition's WF Business Conditions Survey think that the health of their businesses in the next six months is going to be either strong (46%) or very strong (13%), whereas only 15% expect it to be weak. Asian respondents are particularly upbeat, with 29% of them expecting that the health of their businesses will be "very strong", while in Europe this percentage is only 4%. Manufacturers' answers are more homogeneous, with 55% forecasting "strong" health, with distributors having more diverse opinions, with higher percentage of both "very strong" and "weak" opinions.



EMPLOYMENT LEVEL

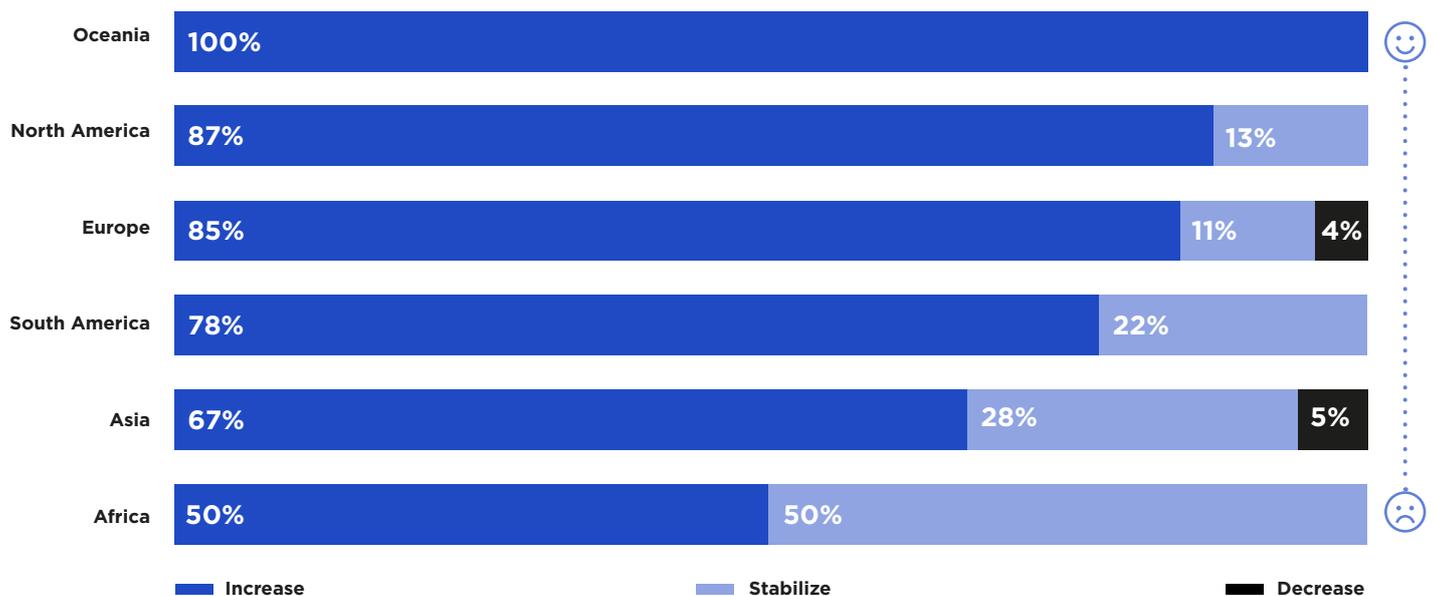
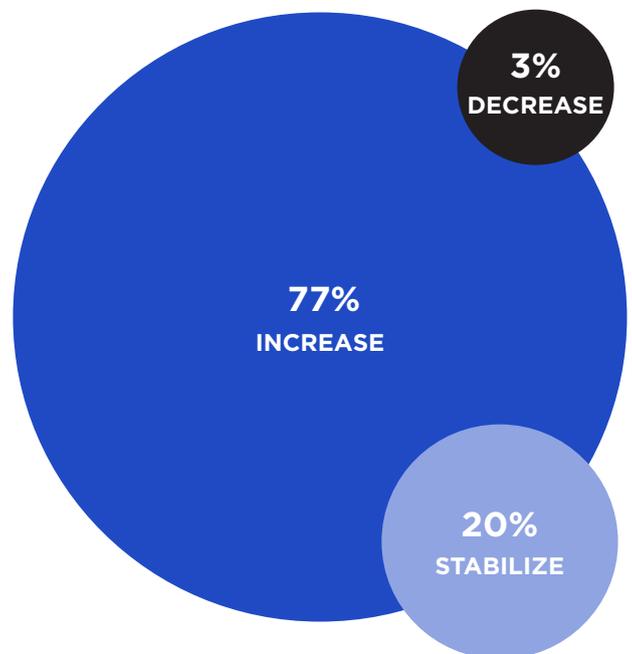
This optimism translates into favourable forecasts for employment in the footwear business. When asked about the perspectives for the evolution of employment in their companies, the percentage of respondents indicating an increase exceeded by 39 percentage points those that expect a fall. On this issue, no significant difference exists between Asian and European businesses, both sharing a strong optimism. Small organizations, employing less than 50 people are less optimistic than others.



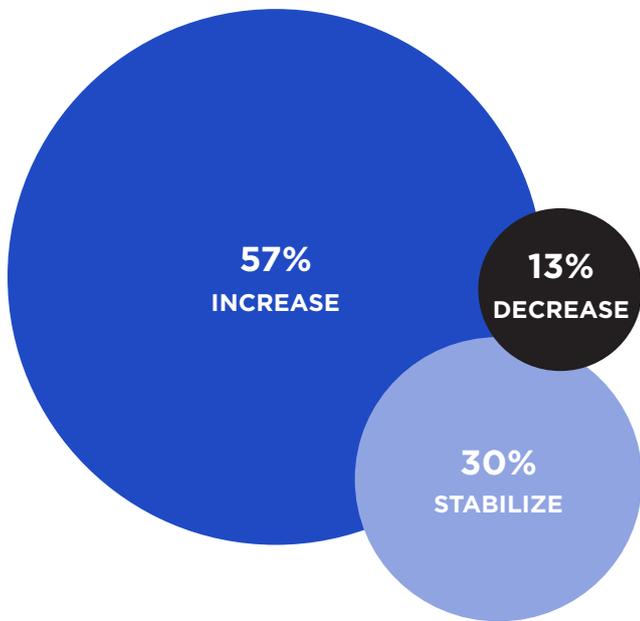
PRICES

Expectations for the prices of footwear suffered a drastic upward tilt since the last edition of this Bulletin, in line with inflationary pressures that are being felt around the world: more than three quarters of our experts now expect prices to increase, while only 3% believe they will decrease. Only one in five respondents expects prices to remain unchanged.

This sentiment is common to respondents operating in every line of business. Geographically, perspectives on the evolution of prices are slightly more cautious in Africa or Asia than in other continents, but the balance of extreme answers is larger than 50 percentage points everywhere.

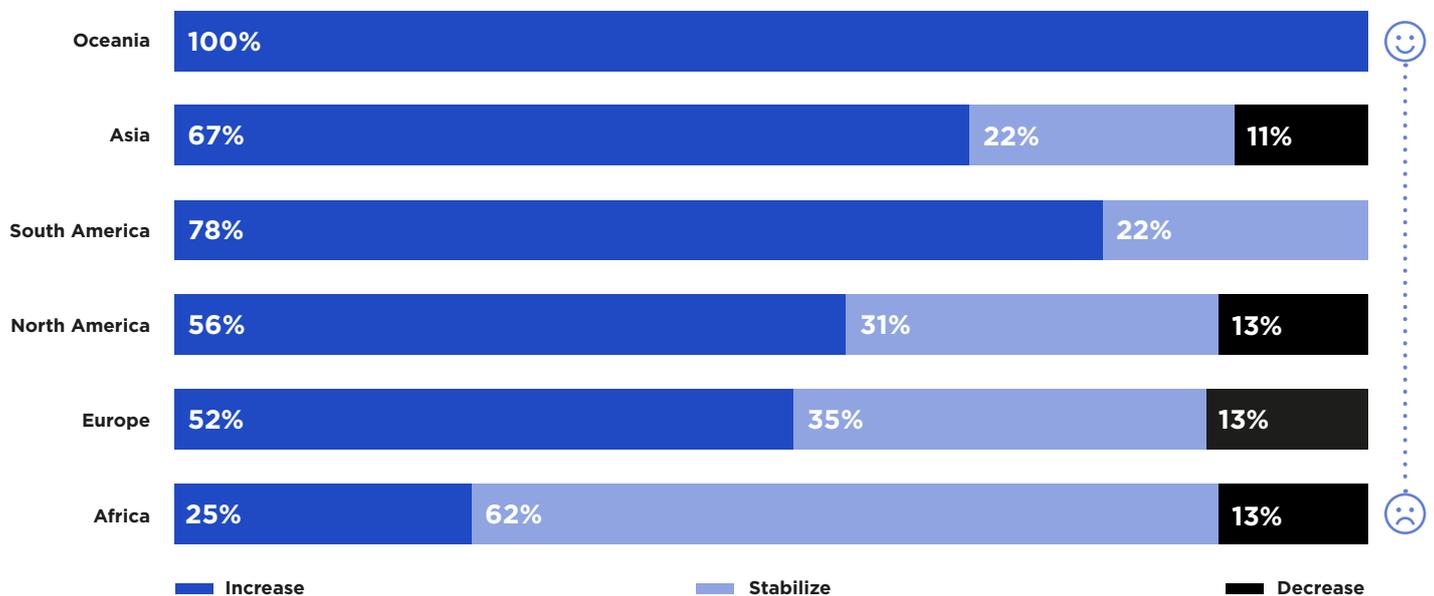


QUANTITY



In what concerns the perspectives on the evolution of the quantity of footwear sold over the next six months, significant improvements since the last edition of this survey were registered as well: the balance of extreme answers increased from +4 to +44 percentage points. On this matter, this is the most positive result since the first edition of this Bulletin, in second semester of 2019. From the previous edition to this one, the balance of extreme answers among manufacturers increased by 38 percentage points, and by 27 percentage points among traders.

A positive balance of extreme answers was registered for every continent. Perspectives for Asia are considerably more optimistic (balance of extreme answers: 56%) than for North America (43%) or Europe (39%).



	2 nd Sem. 2019	1 st Sem. 2020	2 nd Sem. 2020	1 st Sem. 2021	2 nd Sem. 2021
Manufacturers	11	-50	-34	4	42
Traders	-4	-85	-3	21	48

Balance of extreme answers (increase - decrease) in percentage points

DIFFICULTIES

The expectation of price increases is being driven by the upward pressure in the cost of materials. This is now referred by 84% of our respondents as one of the three main difficulties for the next six months, being the main concern of footwear businesses by a very large margin. This can be explained by the global supply chains slow down, started by the pandemic, which has created shortages, and increased costs. Additionally, new virus outbreaks and responding lockdowns in some parts of the world are scaling down production, leading prices to increase, and can also help to explain the following difficulty, human resource problems, which were mentioned by 43% of respondents as a main source of concern.

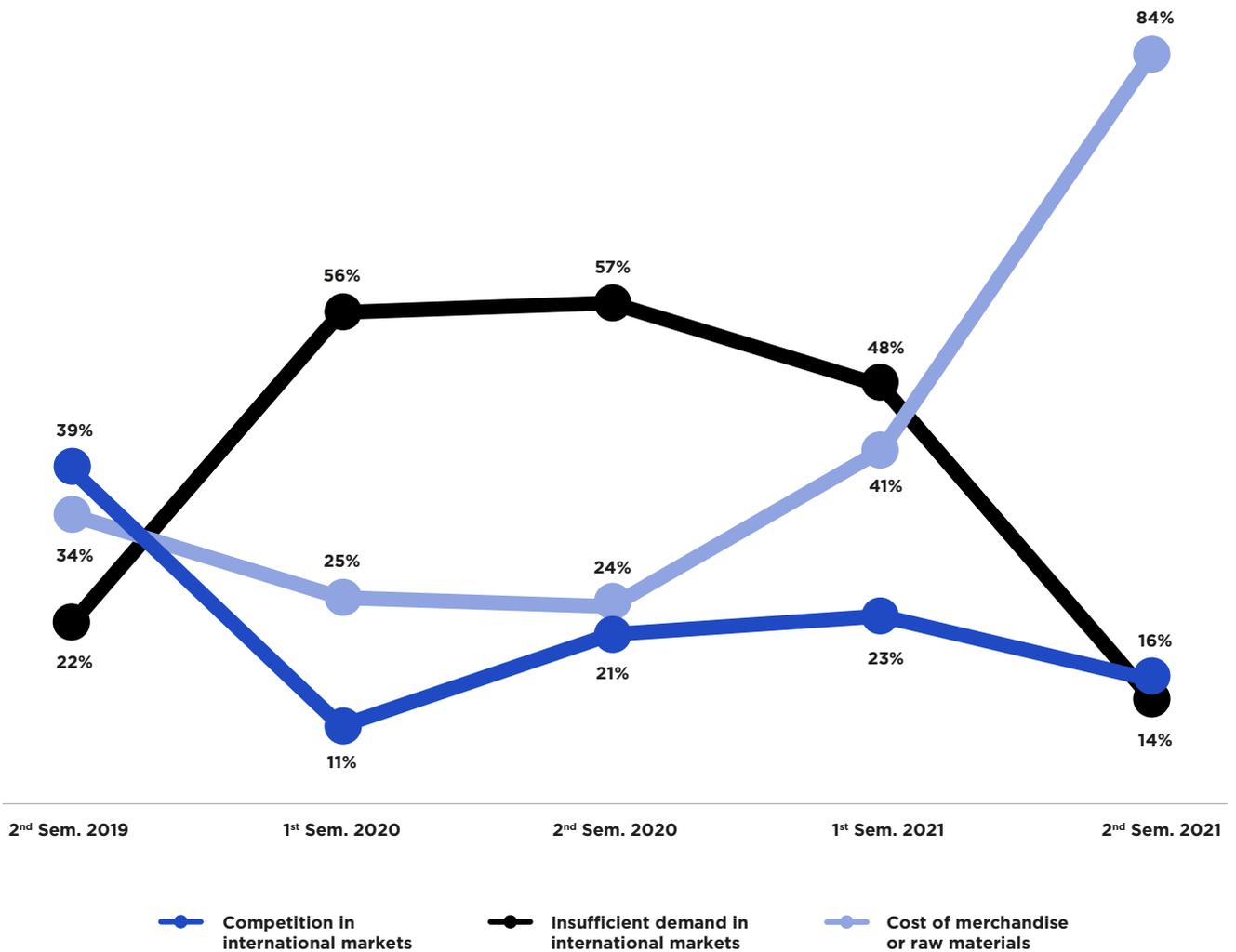
References to demand as a main source of concern have plunged since the Spring edition of the Bulletin, from 50% to 20%, in the case of the respondents' home markets, and from 48% to 14%, in what concerns international markets. References to "financial difficulties" have also greatly abated, from 44% in the previous edition to 20% in the current one even if they continue to be the fourth most relevant source of difficulties for the business.

On the contrary, references to problems associated with competition in international markets declined slightly in importance in comparison to the answers in the previous edition (from 23% to 16%). Finally, issues associated with regulatory or administrative requirements, legal or administrative obstacles to international trade, taxes and climate seem comparatively less pressing than other difficulties.

Cost of merchandise or raw materials	84%
Human resources problems (unavailability, lack of adequate training, etc.)	43%
Insufficient demand in our home market	20%
Financial difficulties	20%
Competition in our home market	17%
Competition in international markets	16%
Insufficient demand in international markets	14%
Lack of adequate equipment or other technological problems	10%
Regulatory or administrative requirements	9%
Legal or administrative obstacles to international trade	7%
Taxes	7%
Climate	3%
Others	16%

Note: Figures do not sum to 100% because respondents could select up to 3 options.

When the first edition of this survey was published, in the second semester of 2019, competition in international markets lead the concerns of the footwear business. With the COVID-19 pandemic, demand-side factors, such as insufficient demand in international markets, become much more pressing. But since the pandemic crisis started showing signs of improvement, cost concerns are on the rise.



TYPES OF FOOTWEAR

In terms of major trends, the views of our experts on the evolution of the market share of different types of footwear, over the next three years, have not changed significantly from the previous editions. Our panel continues to believe that sneakers and other sports-related footwear will continue to expand (balance of extreme answers of 75 and 71 percentage points, respectively). On the contrary, perspectives on the evolution of the market share of classic leather footwear, particularly men's footwear, are gloomy, but the balance of extreme answers improved from -45 to -29 percentage points, respectively, from the previous edition of this survey to this one.

As regards the category of plastic or rubber footwear there are no changes to register. Finally, waterproof footwear is also expected by our experts to gain market share, but the balance of extreme answers for this category decreased slightly from 15 p.p. to 9 p.p. in this edition of the survey.

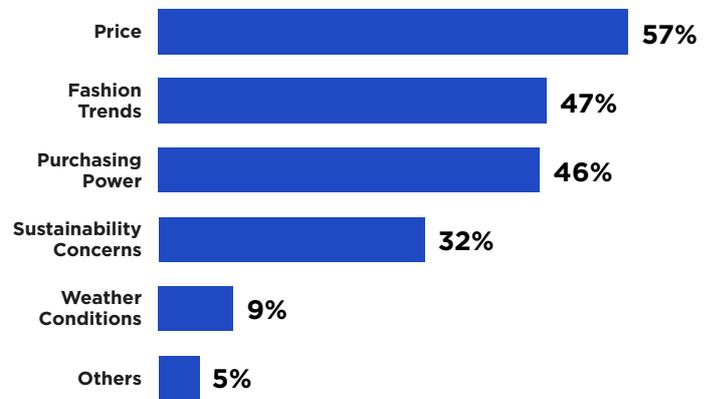
	INCREASE	STABILIZE	DECREASE	BALANCE OF EXTREMES P.P.
Sneakers (for daily use)	77%	21%	2%	75
Other sports-related footwear	75%	21%	4%	71
Waterproof footwear	25%	59%	16%	9
Other plastic or rubber footwear	30%	49%	21%	9
Classic women's leather footwear	24%	39%	37%	-13
Classic men's leather footwear	15%	41%	44%	-29



POSSIBLE EXPLANATIONS

When asked about the factors considered to be the most relevant in determining the evolution of sales of each category of footwear, our panel of experts seem to have slightly different views than in the previous editions. While price continues to be one of the most important drivers – now considered by 57% of respondents to be the most important one – in this edition, fashion trends were considered more important than before (+ 9 p.p. of responses in comparison to the previous edition) and even surpassed, though by only one percentage point, purchasing power. The importance attributed to sustainability also declined by 7 percentage points in comparison to the previous edition, reversing a continuous upward trend that had been taking place since the first edition of the WF Business Conditions Survey.

Some differences among respondents should be noted. Sustainability concerns are considered particularly less relevant by North American respondents (only mentioned by 6.3%) than by others. In what concerns different lines of business, purchasing power is considered more critical by manufacturers (47.4%) than by traders (26.1%).



Note: Figures do not sum to 100% because respondents could select up to 2 options.

RETAIL CHANNELS

Digital channels are increasingly important and during the onset of the COVID-19 pandemic, many retail businesses had to quickly adjust from in-store to digital sales. Since the first edition of this survey, we have been asking our panel of experts about their expectations regarding the evolution of different retail channels over the next three years.

In this regard, there are no significant changes to be noticed from the previous edition of this survey to the current one: more than 70% of the panel members believe that the importance of general online sellers, multi-brand and own-brand online channels will increase over the next three years (balance of extreme responses

ranging from +65 p.p. for own-brand online stores to +66 p.p. for general online stores). The differences to be noted regard the balance of extreme answers for large-scale retail and multi-brand shoe retail stores, which are no longer negative and range from 0 p.p. for multi-brand shoe retail stores to 9 p.p. for large-scale retail stores. Own-brand physical retail stores are also expected to grow slightly (balance of extreme answers of 3 p.p.).

The views on the evolution of other non-specified retail channels continue to be positive as in the previous edition, registering a balance of extreme answers of 5 p.p. (4 p.p. in the previous edition).

	INCREASE	STABILIZE	DECREASE	BALANCE OF EXTREMES P.P.
General online sellers	73%	20%	7%	66
Multi-brand online shoe or fashion stores	72%	22%	6%	66
Own-brand online retail stores	72%	21%	7%	65
Large-scale retail	35%	39%	26%	9
Other channels	22%	61%	17%	5
Own-brand physical retail stores	28%	47%	25%	3
Multi-brand shoe retail stores	30%	40%	30%	0

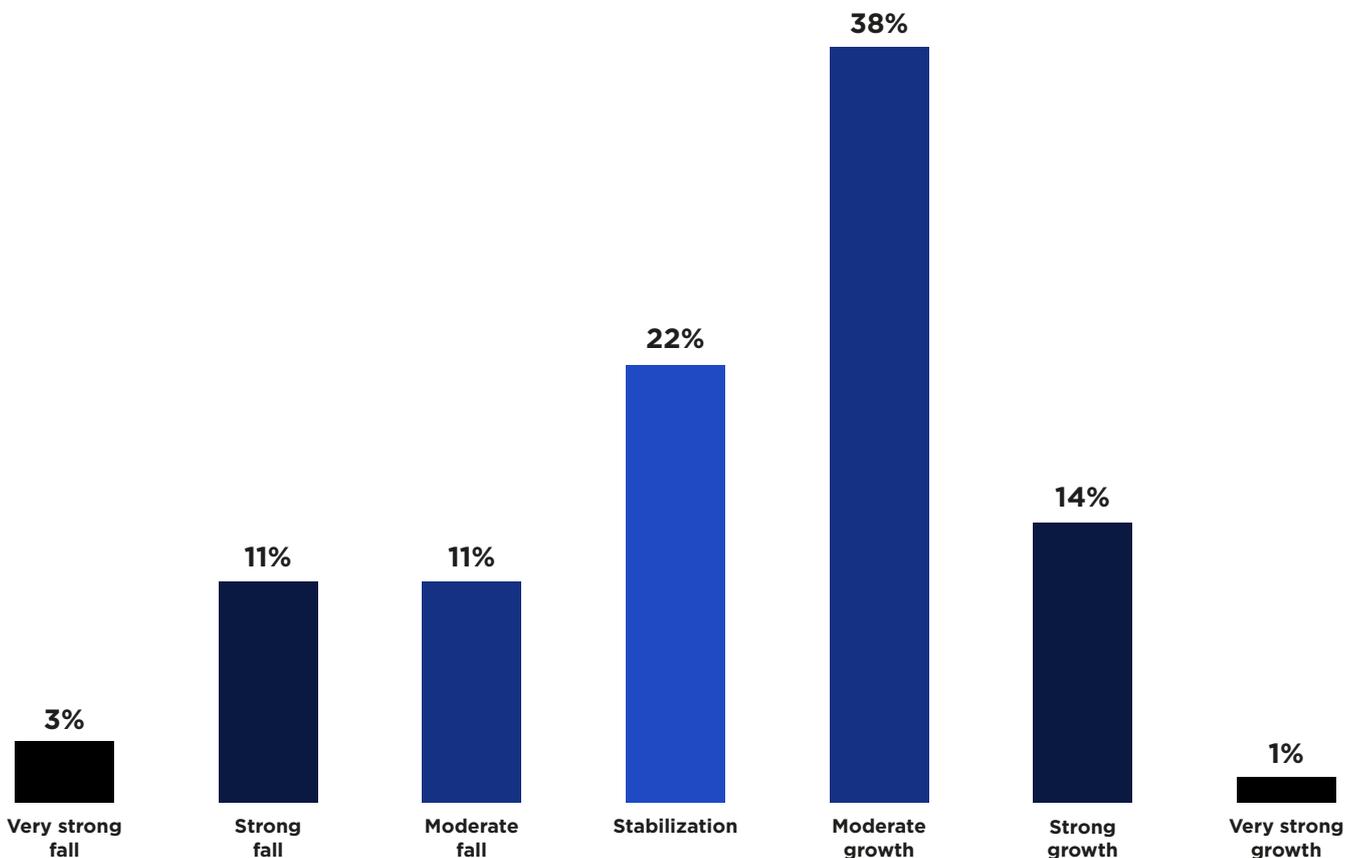


POST-PANDEMIC EXPECTATIONS

DOMESTIC CONSUMPTION

As in the previous editions, we also questioned our panel of experts about their opinions on some more general topics.

We asked our panel about their expectations regarding the evolution of footwear consumption in 2022, both in their home countries and globally. Regarding domestic consumption, 38% of our respondents expect moderate growth, between 1.5% and 5%, in footwear consumption at home. **On average, our experts expect a growth of 1.1% in the consumption of footwear, in pairs, in 2022, compared to the 2019 pre-COVID levels in their own countries.**



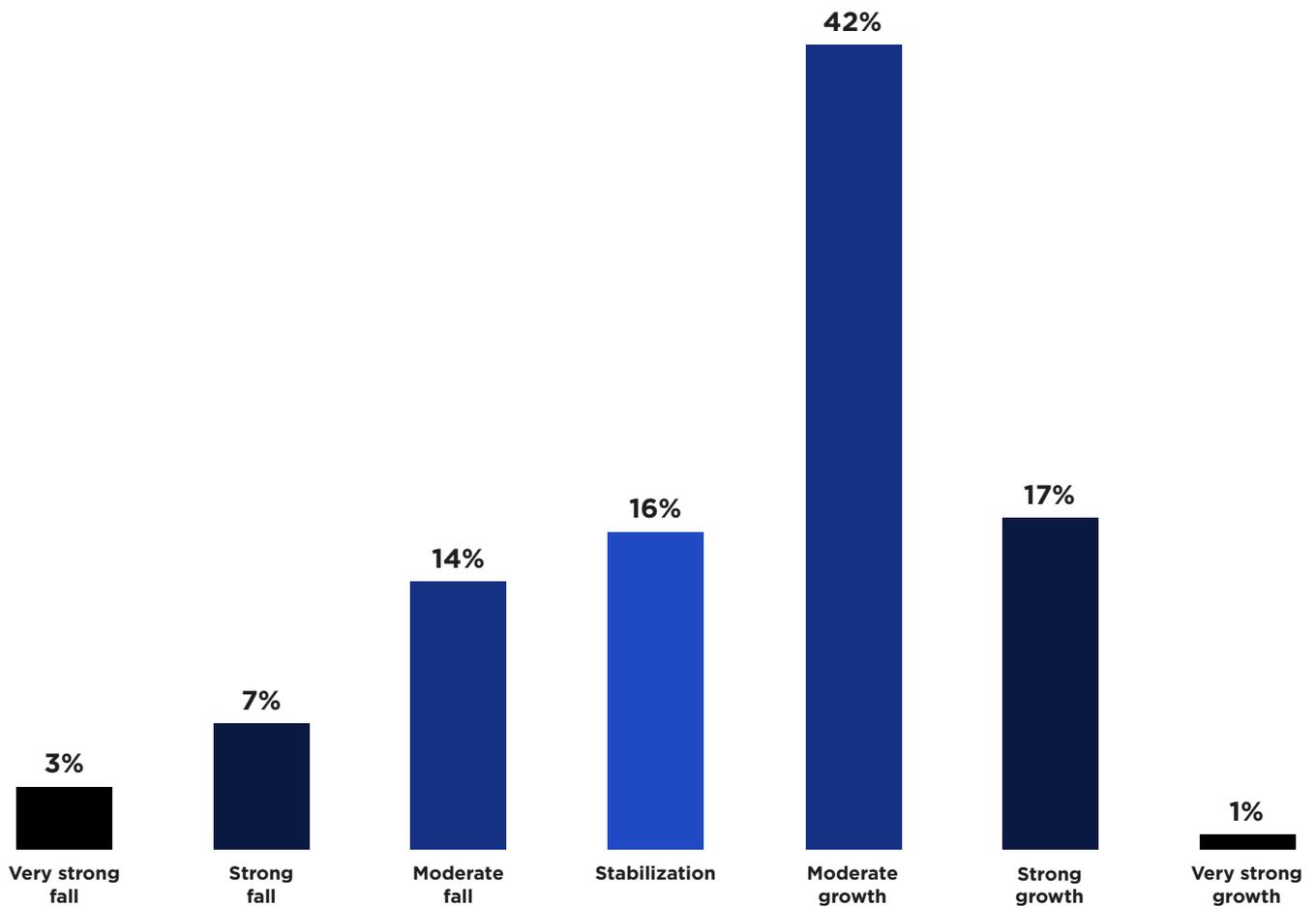
POST-PANDEMIC EXPECTATIONS

GLOBAL CONSUMPTION

As regards the global consumption of footwear, 42% of our experts expect moderate growth, between 1.5% and 5%, in 2022, compared to the 2019 pre-COVID levels.

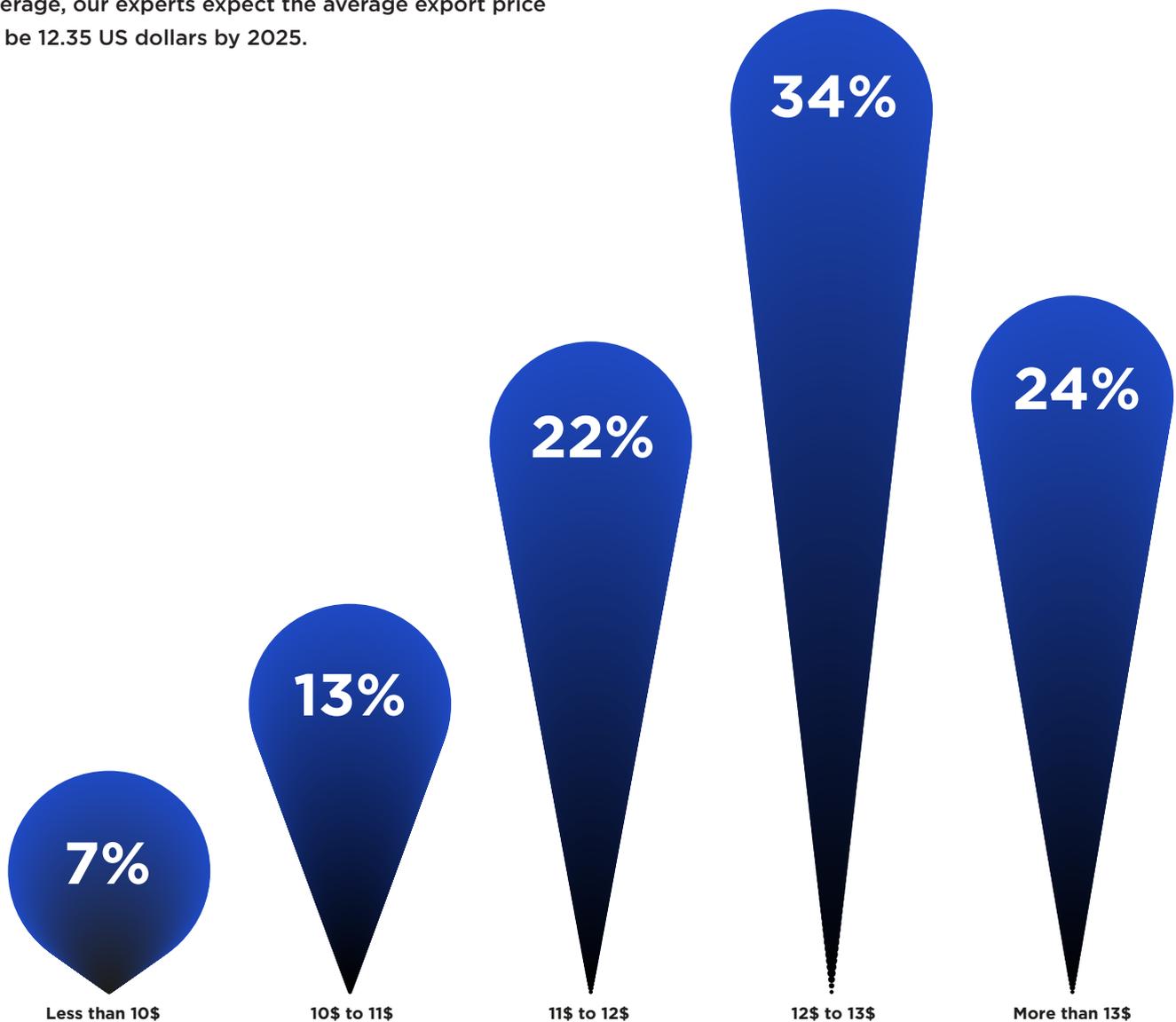
On average, our experts expect a growth of 2.0% in the global consumption of footwear, in pairs, in 2022.

Should our experts' forecasts prove accurate, footwear consumption will grow 3.3% in Oceania, 3.2% in South America, 2.4% in Asia, 1.8% in Europe and 1.2% Africa, and fall 3.6% in North America, this year, on average, compared with pre-pandemic levels.



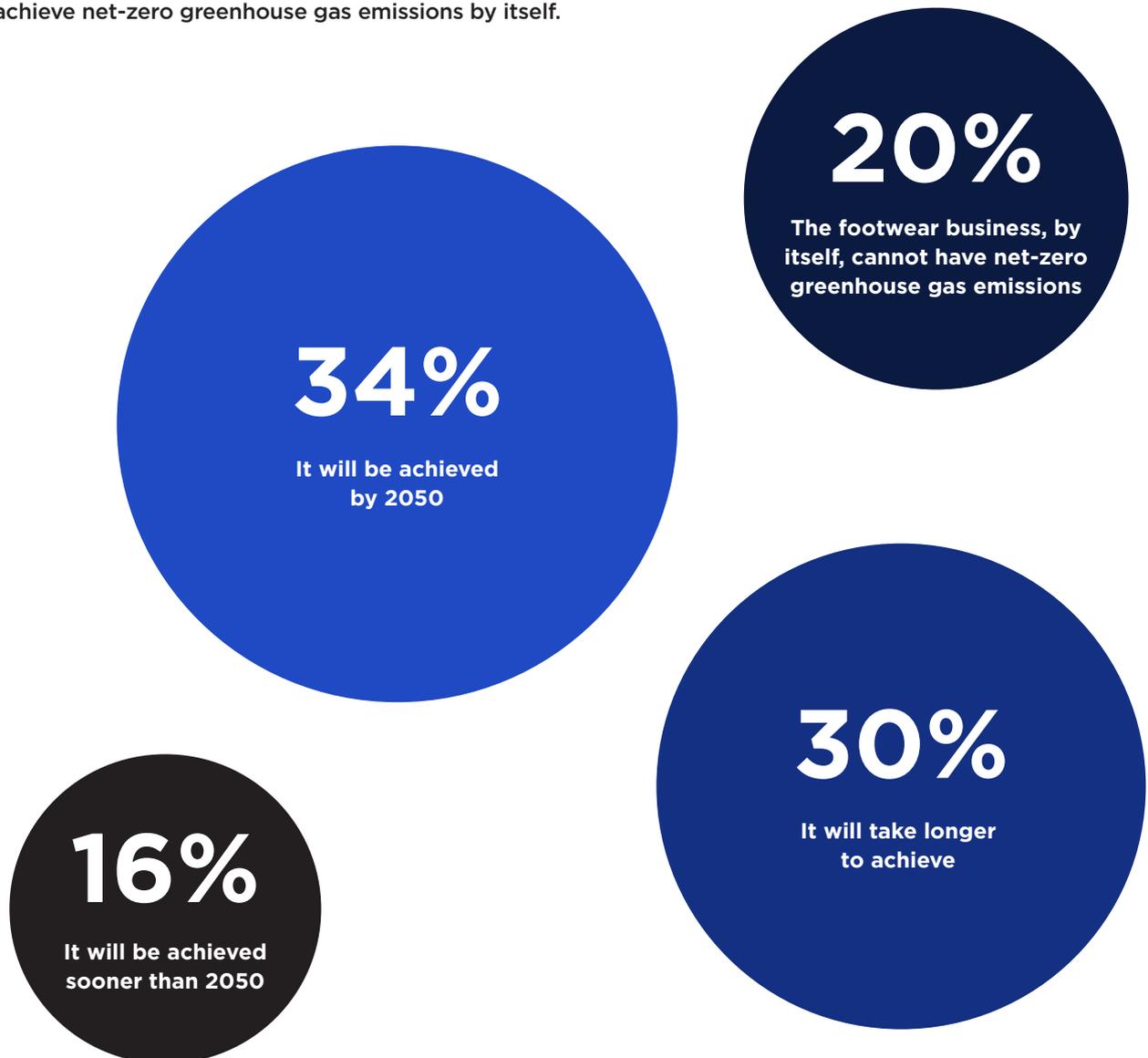
FOOTWEAR PRICES TO GROW 20% UNTIL 2025

According to the most recent edition of the World Footwear Yearbook, the average export price per pair of shoes increased by 33.8% between 2011 and 2020, from 7.75 US dollars to 10.37 US dollars. In light of this information, we asked our experts how much they expected the average export price to be by 2025. On average, our experts expect the average export price to be 12.35 US dollars by 2025.



FOOTWEAR BUSINESS NOT EXPECTED TO BE CARBON NEUTRAL BY 2050

The European Union aims to be climate-neutral by 2050, with net-zero greenhouse gas emissions. In this edition of the survey, we asked our experts to evaluate this carbon-neutrality objective regarding the footwear business in their countries. More than a third of our respondents believe this target is going to be achieved by 2050, while 30% expect it to take longer to be reached. However, 20% of our experts consider that the footwear industry cannot achieve net-zero greenhouse gas emissions by itself.



ABOUT THE SURVEY

In 2019 the World Footwear has created the World Footwear' expert panel and is now conducting a Business Conditions Survey every semester.

The objective of the World Footwear Experts Panel Survey is to collect information regarding the current business conditions within the worldwide footwear markets and then to redistribute such information in a way it will provide an accurate overview of the situation of the global footwear industry.

The fifth edition of this online survey was conducted during the month of October 2021. We have obtained 122 valid answers, 43% coming from Europe, 30% from Asia, 13% and 7% from North and South America, respectively, 6% from Africa and 1% from Oceania. Half of respondents are involved in footwear manufacturing (manufacturers) - 31% - or footwear trade and distribution (traders) - 19% - and the other half in other footwear-related activities such as trade associations, consultancy, journalism, etc. (others).

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Who we are

World Footwear is an initiative of APICCAPS, the Portuguese Footwear, Components and Leather Goods Manufacturers' Association, and it includes two communication channels: an annual edition of the World Footwear Yearbook and an electronic platform with updated industry news (www.worldfootwear.com).

The first edition of the World Footwear Yearbook, a comprehensive report that analyses the main trends within the footwear sector around the world, was released in September 2011, with new updated editions published on a yearly basis. Each report is published with the most updated data up to the previous year and analyzes the position of the relevant countries of the footwear industry in terms of different variables (Production, Exports, Imports and Consumption) and evaluates the strategic positioning of the different sector players. The World Footwear Website disseminates all relevant news about the worldwide footwear industry on a daily basis.

Report Coordination

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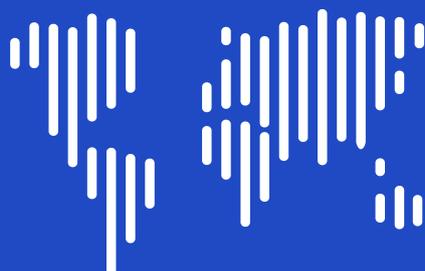
With special thanks to Vasco Rodrigues and Filipa Cunha Mota for their contribution.

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This edition of the Business Conditions Survey was developed in collaboration with Shoe Intelligence, a business publication on the non-athletic footwear market focusing on brands, manufacturers, retailers, and suppliers. More information can be found at www.shoeintelligence.com

Disclaimer

Although due care has been taken in the preparation of this report, APICCAPS cannot guarantee the accuracy or completeness of the report and cannot be held responsible for any error or the opinions expressed herein.



WORLD FOOTWEAR

www.worldfootwear.com

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