

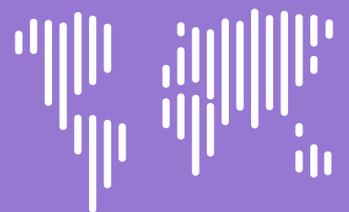
**WORLD
FOOTWEAR**

**BUSINESS
CONDITIONS
SURVEY**

2022

1st SEMESTER

ISSUE 6



WORLD FOOTWEAR

by Portuguese Shoes

EXECUTIVE SUMMARY

The most recent statistics for footwear trade show a positive picture of recovery of the footwear industry in 2021. When compared to 2020, imports increased in most of the main markets for footwear worldwide at moderate rates. However, inflationary pressures, increasing energy prices, and a war have comprised the initial projections of economic growth for this year. The latest projections of the International Monetary Fund and the World Bank now estimate a softer growth of the world's GDP in 2022.

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 moderately along with prices, which are expected to increase strongly. Naturally, the outlook regarding the evolution of prices may be reflecting the expected impact of increasing production costs. Most of our respondents also expect their business to have “strong” health in the coming months, and employment to increase.

The cost of merchandise and raw materials is singled out by our panel as the main difficulty for footwear business for the next six months. Human resource problems and financial difficulties come next but with much fewer references. Insufficient demand and competition issues are no longer at the forefront of the industry's concerns, contrary to what happened in recent periods.

Asked about the evolution of footwear consumption worldwide in 2022, most of our panel members expect a moderate growth (between 1.5% and 5%) in comparison to 2021. Should our experts' forecasts prove accurate, footwear consumption will grow 2.5% in North America, 5.2% in Europe, 6.8% in Africa, 7% in South America, and 8.9% in Asia, this year, on average, compared to 2021.

Our experts almost unanimously believe that footwear will not escape the inflationary pressures that are being felt worldwide: 97% state that it is either very likely or likely that the rapidly increasing prices of commodities and energy will have a significant impact on the prices of footwear in their countries.

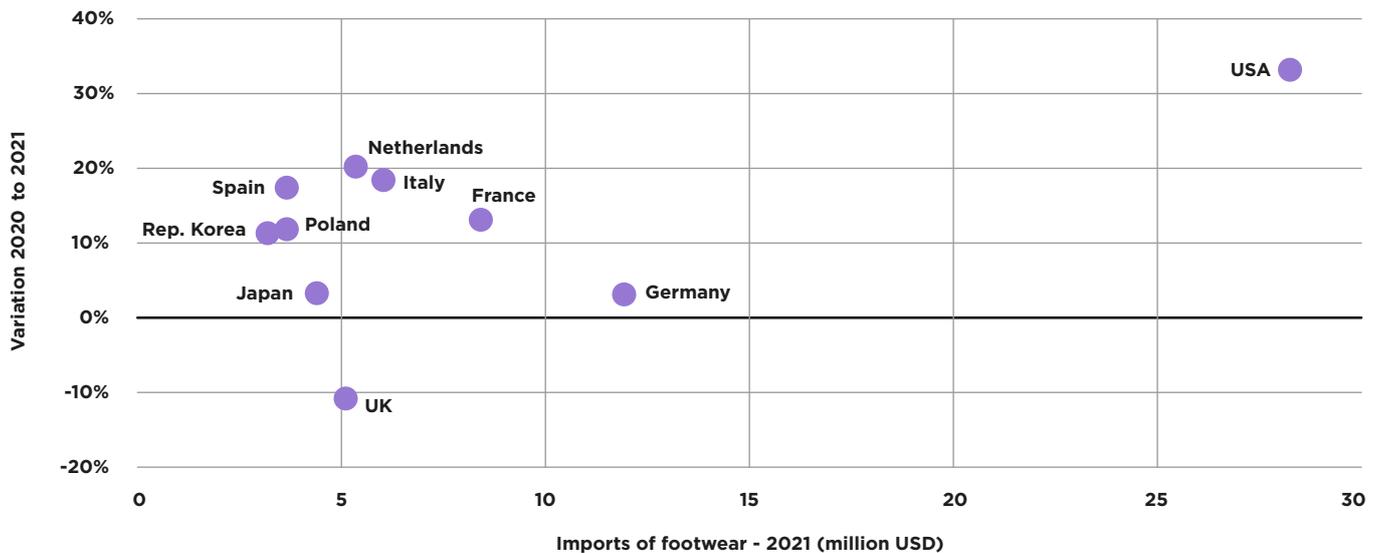
Finally, in the current edition of this survey, we asked our panel of experts on their views regarding the impact of the war in Ukraine. More than two third of our experts believe this war is going to negatively impact the footwear business in their domestic markets.

BUSINESS CONTEXT

The most recent statistics for footwear trade in 2021 show a distinguished scenery from country to country, but an overall positive picture. As compared to 2020, footwear imports grew almost 33% in the USA, the world's largest footwear importer. The United Kingdom was the only of the world's largest importers where imports fell (10.8%) compared to the previous year. In Europe, imports grew strongly in the Netherlands

(20.1%), Italy (18.3%), Spain (17.9%), and France (12.9%). But in Germany, Europe's largest import market, imports grew only 3.1% overall, with different categories of footwear displaying trends: while imports of waterproof footwear increased 34.6%, imports of textile footwear fell 1.4%. In Asia, imports increased 11% in Korea, but only 3.3% in Japan.

IMPORTS OF FOOTWEAR 2020 VS 2021



Source: Trade Map

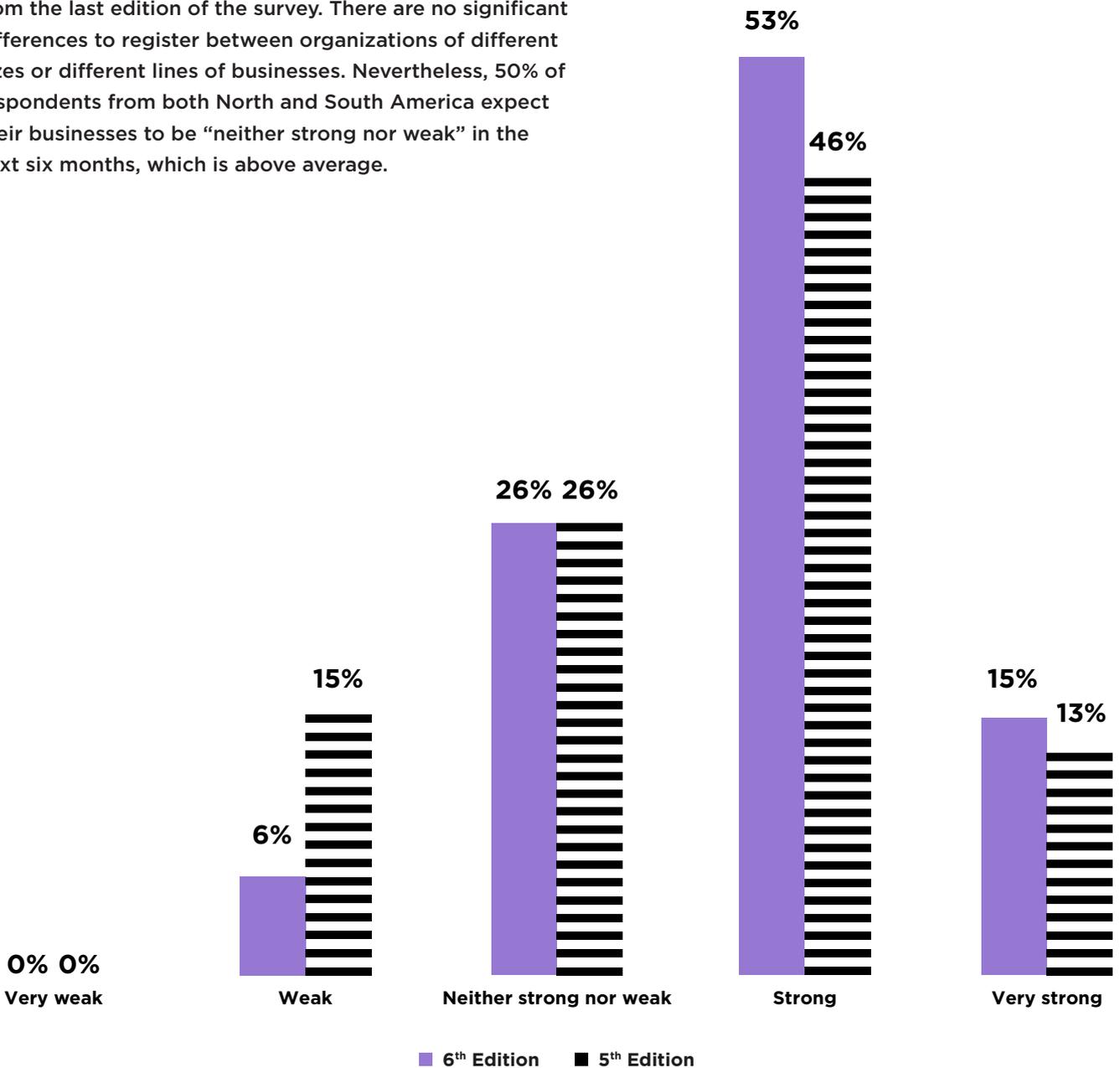
In April, the International Monetary Fund revised downwards its estimate for the increase in the world's real GDP in 2022 by 0.8 percentage points compared to what it had predicted as recently as January, reflecting the current turbulences associated with inflationary pressures, increasing energy prices and the war in Ukraine. The IMF now expects that the world economy will grow 3.6% this year. Growth in China is expected to

slow down considerably, to only 4.4%, but still above the one expected for developed economies such as the USA (3.7%), the UK (3.7%) and the European Union (2.9%).

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.

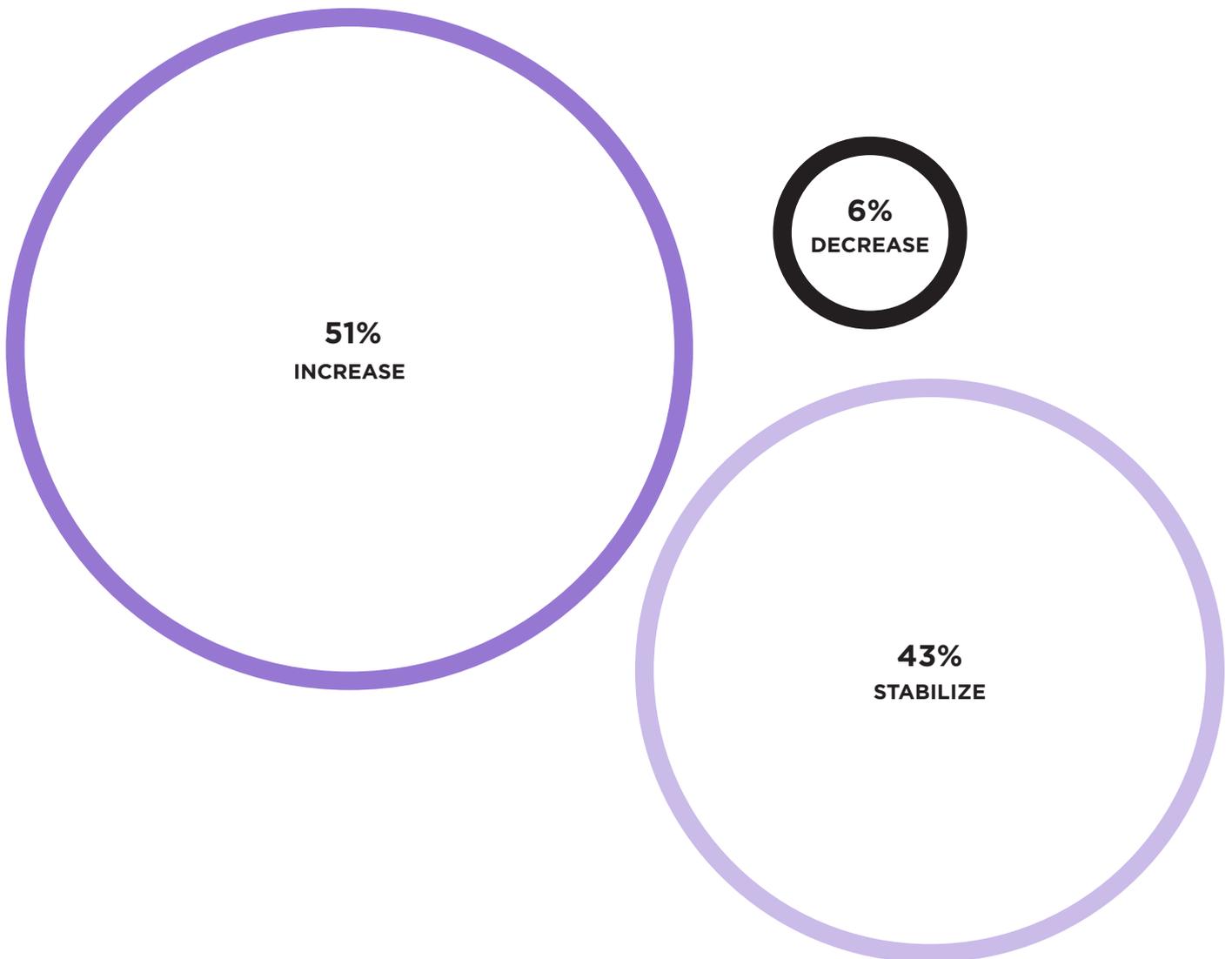
HEALTH OF THE BUSINESS

The sentiment in the industry improved slightly in the last semester. Most of the respondents to this edition's WF Business Conditions Survey believe that the health of their businesses in the next six months is going to be either strong (53%) or very strong (15%), whereas only 6% expect it to be weak. These results outperform the ones from the last edition of the survey. There are no significant differences to register between organizations of different sizes or different lines of businesses. Nevertheless, 50% of respondents from both North and South America expect their businesses to be "neither strong nor weak" in the next six months, which is above average.



EMPLOYMENT LEVEL

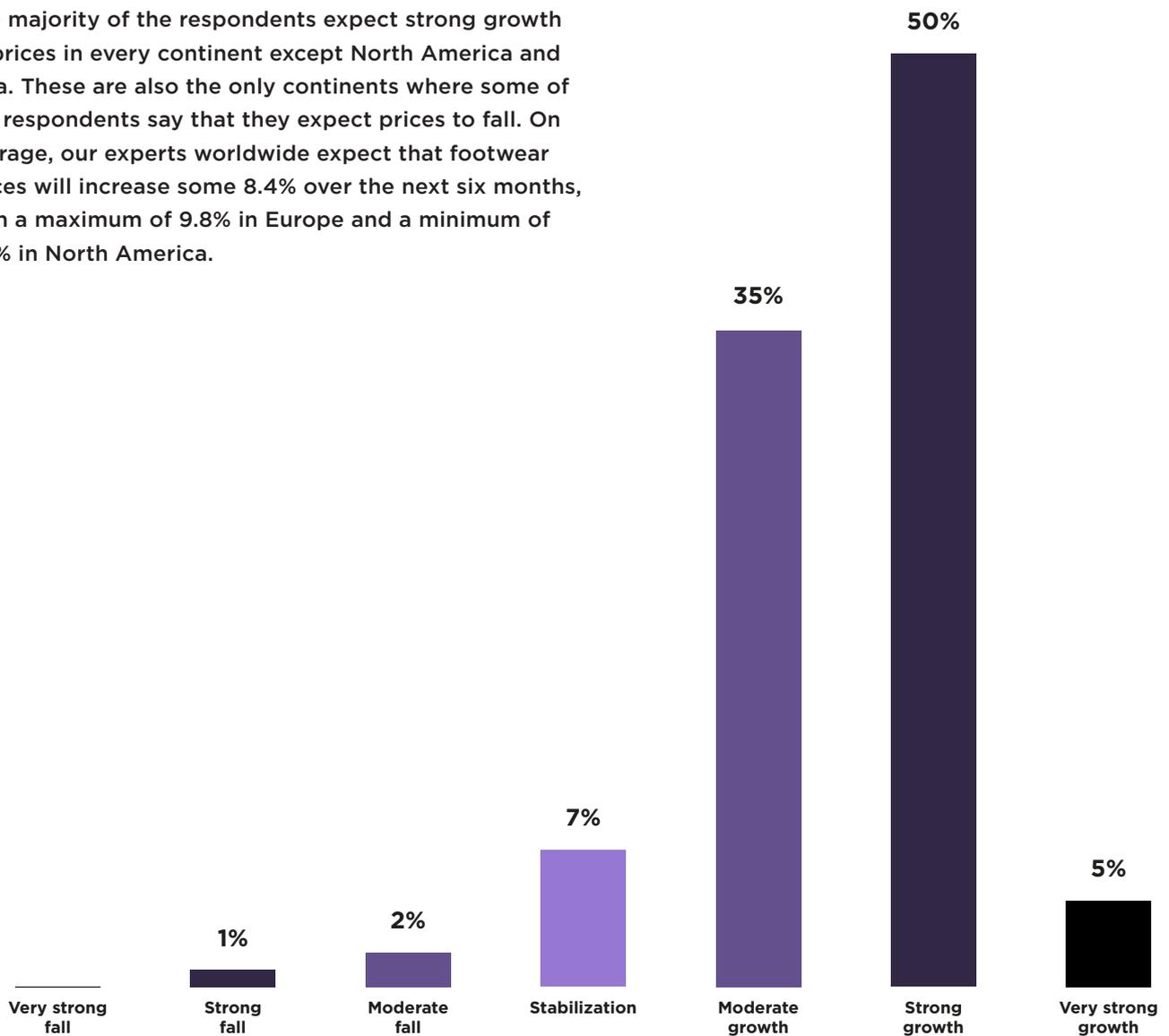
There is an overall more optimistic expectation regarding the evolution of employment in this edition of the survey. When asked about the perspectives for the evolution of employment in their companies over the next six months, the percentage of respondents expecting an increase exceeded by 45 percentage points those that anticipate a fall. "Increase" is the most common answer. Europeans are, however, less optimistic than respondents elsewhere: 48% expect employment to stabilize and only 39% to increase, and 13% even expect it to decrease. There are no significant differences to register between organizations of different sizes.



PRICES

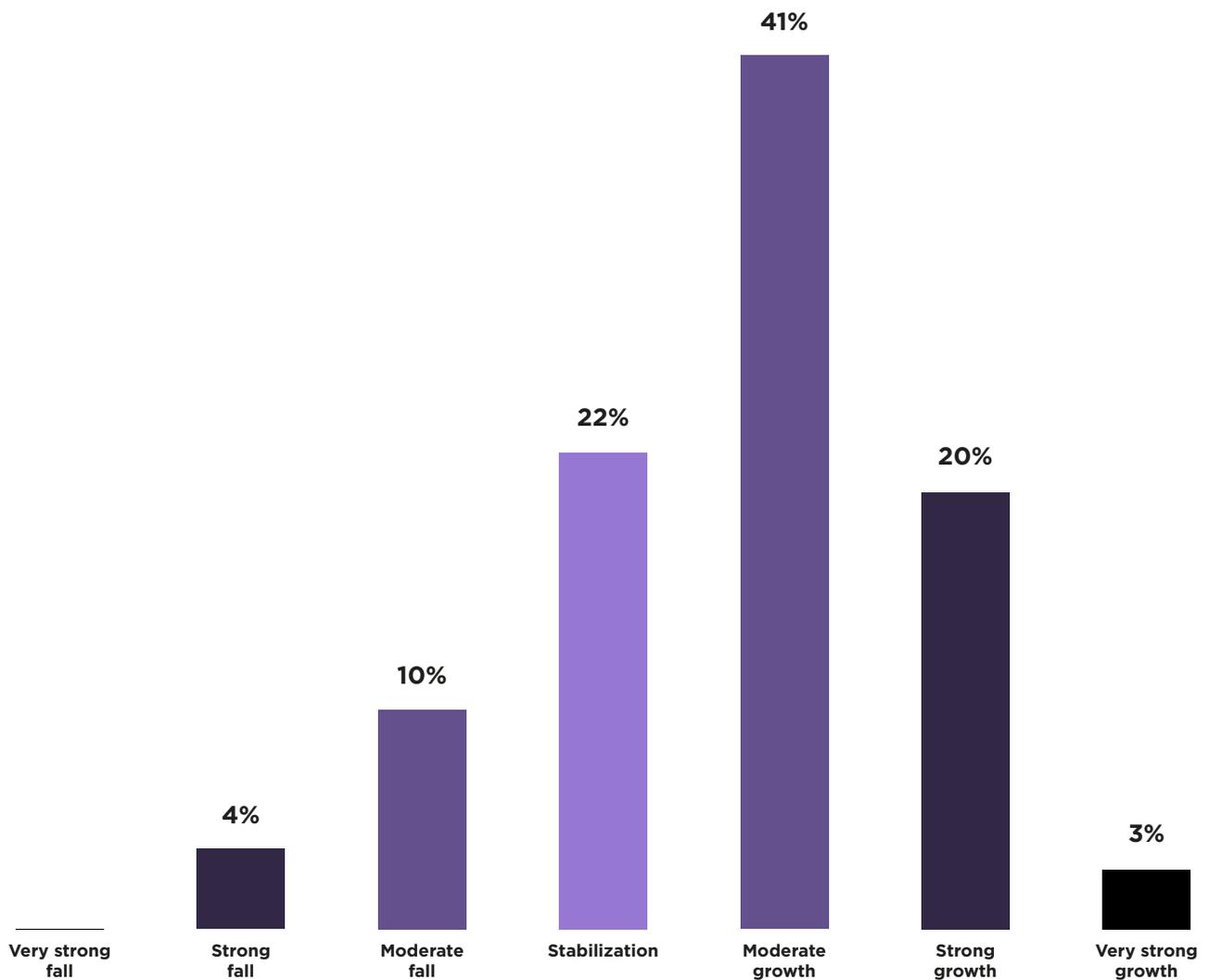
Expectations for the evolution of footwear retail prices are mostly on the upside: half of our experts expect prices to increase strongly (between 5% and 20%), and 35% expect them to increase moderately (between 1.5% and 5%) over the next six months. Only 3% of respondents expect prices to fall. These prospects may reflect the expected impact of increasing production costs - namely, energy - on prices. This sentiment is common to respondents operating in every line of business and across organizations of different sizes.

The majority of the respondents expect strong growth of prices in every continent except North America and Asia. These are also the only continents where some of the respondents say that they expect prices to fall. On average, our experts worldwide expect that footwear prices will increase some 8.4% over the next six months, with a maximum of 9.8% in Europe and a minimum of 5.7% in North America.



QUANTITY

Perspectives on the evolution of the quantity of footwear sold by country are less one-sided even if clearly optimistic: 64% of respondents expect it to grow and 22% to stabilize, but 14% forecast they will fall. Respondents in Asia and South America are more upbeat than elsewhere, with some 80% expecting sales to increase. Footwear manufacturers show more diverse expectations than traders, with some expecting strong falls or very strong growth.



DIFFICULTIES

The expectation of price increases is mainly driven by the rising pressure in the cost of materials. This is referred by 84% of our respondents as one of the three main difficulties for footwear businesses in the next six months and leads the list of such difficulties by a very large margin for the second consecutive edition of this survey. Since our previous edition, war in Ukraine, increasing energy prices, and expectations of (further) inflation joined the disruption in supply chains that resulted from the pandemic to explain upward pressure on prices.

Human resources problems, mentioned by almost 40% of our respondents, are the second most important source of concern for footwear businesses, also for the second consecutive time. References to financial difficulties have increased, from the previous edition to the current one, from 20% to 27.8%, and now occupy the third position of our list (instead of 4th). Taxes also moved up several positions since the last edition of the survey and were mentioned by 12% of our respondents as a source of concern.

Following the contrary trend, references to competition or demand-related problems, both in domestic markets and internationally, which are the subsequent main sources of concern, do not reach 20% of responses, being comparatively less important now than in the first editions of this survey.

Cost of merchandise or raw materials	84%
Human resources problems	40%
Financial difficulties	28%
Insufficient demand in our home market	19%
Competition in our home market	17%
Competition in international markets	15%
Taxes	12%
Insufficient demand in international markets	11%
Regulatory or administrative requirements	9%
Lack of adequate equipment or other technological problems	7%
Legal or administrative obstacles to international trade	5%
Weather Conditions	2%
Others	10%

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

RETAIL CHANNELS

Since the first edition of this survey, we have been asking our panel of experts about their expectations regarding the evolution of the percentage that different retail channels represents in the total sales of footwear in their country.

About two-thirds of the experts surveyed believe that digital retail channels will increase their share in footwear sales in the next three years, with the perspectives being slightly stronger for general online sellers (balance of extreme answers of 63 p.p.) than for own-brand (59 p.p.) and multi-brand (56 p.p.)

retail stores. Forecasts are much more sober for physical stores, with only one third of the respondents believing that they will increase market share. Among physical stores, large-scale retail is expected to perform better than other formats.

The views on the evolution of other non-specified retail channels continue to be positive but registering a smaller balance of extreme answers than in the previous edition of this survey (2 p.p. compared to 5 p.p. in the previous edition).

	INCREASE	STABILIZE	DECREASE	BALANCE OF EXTREMES P.P.
General online sellers	68%	27%	5%	63
Own-brand online retail stores	67%	25%	8%	59
Multi-brand online shoe or fashion stores	67%	22%	11%	56
Large-scale retail	32%	48%	20%	12
Multi-brand shoe retail stores	32%	40%	28%	4
Own-brand physical retail stores	32%	39%	29%	3
Other channels	20%	62%	18%	2

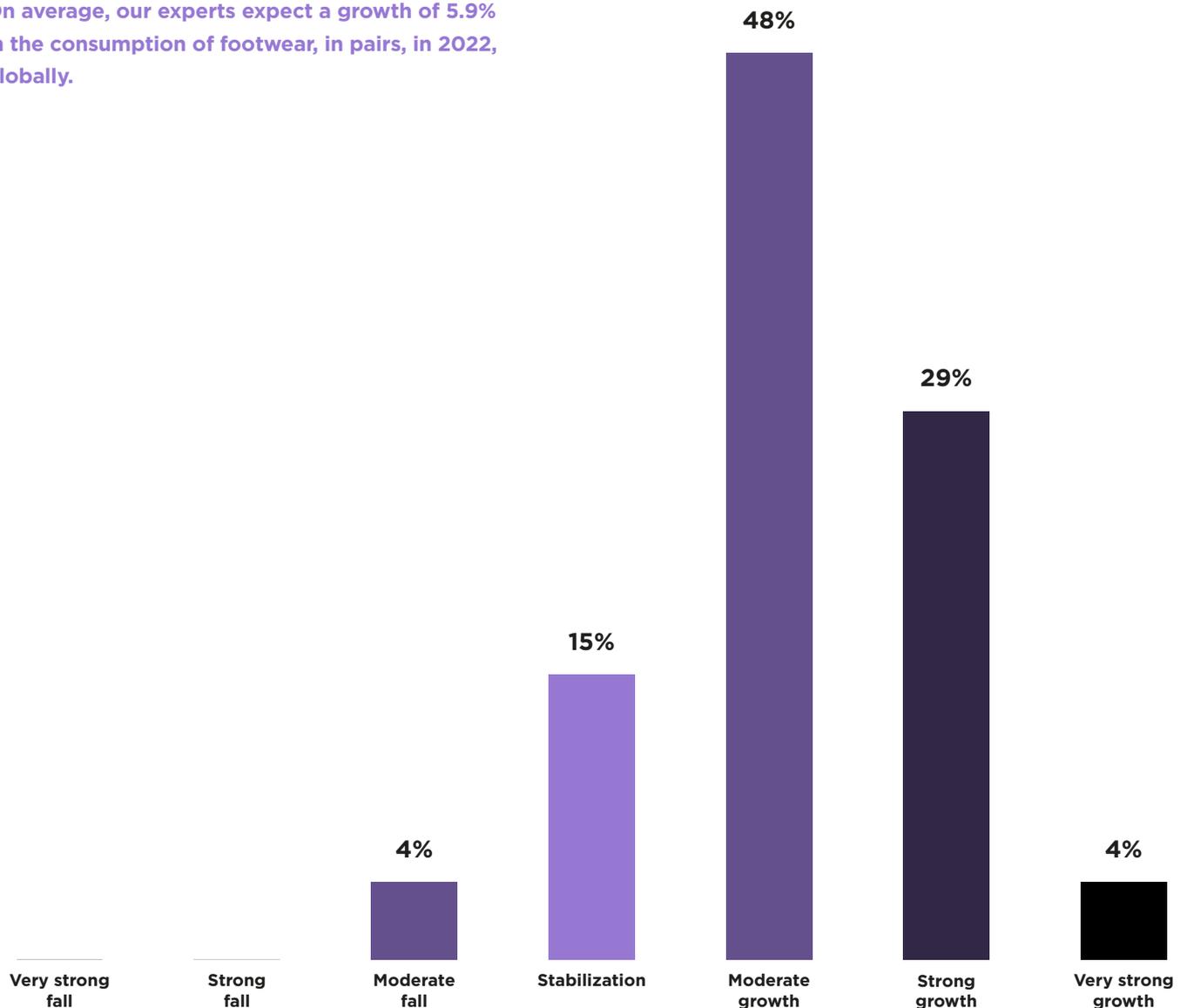


AVERAGE GROWTH OF FOOTWEAR CONSUMPTION TO REACH 5.9%

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

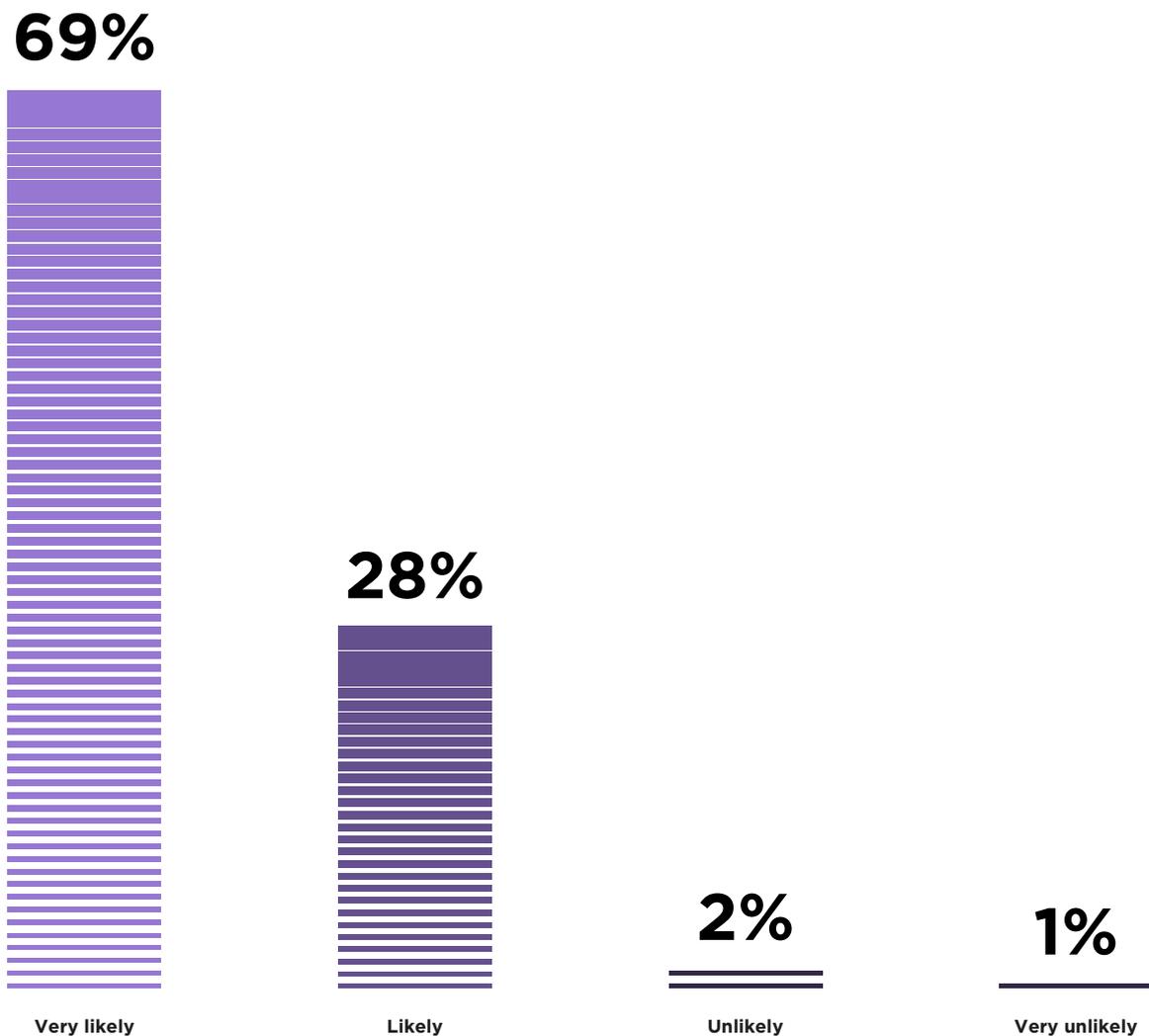
We asked our panel about their expectations regarding the evolution of footwear consumption in 2022, when compared to 2021. Almost half of the respondents believe that consumption will grow between 1.5% and 5%, but more of them believe that growth will be stronger than that rather than weaker.

On average, our experts expect a growth of 5.9% in the consumption of footwear, in pairs, in 2022, globally.



FOOTWEAR PRICES EXPECTED TO INCREASE

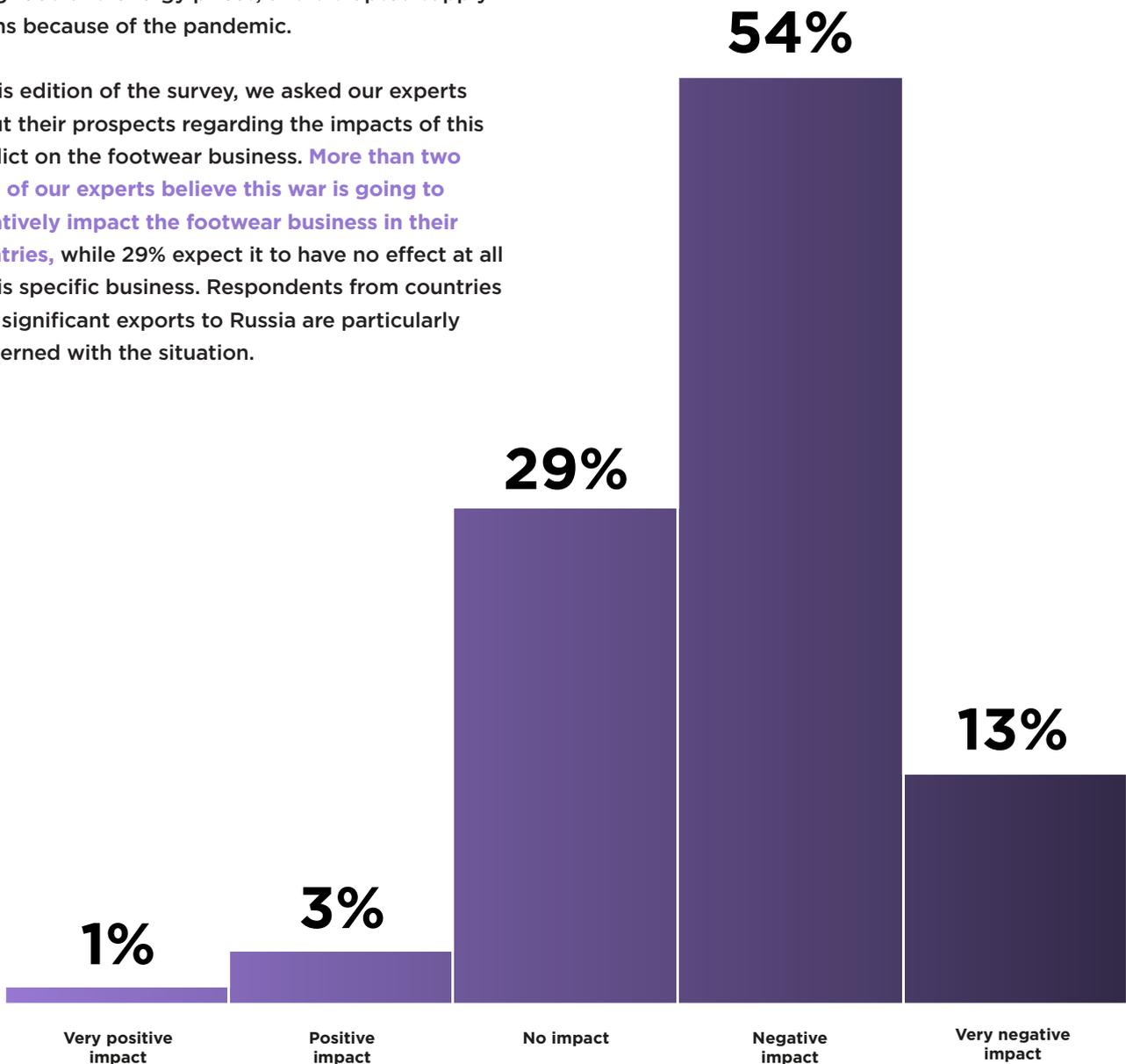
The prices of commodities and energy have been increasing rapidly in different parts of the world. Asked about how they expected this trend to affect the footwear business in their countries, **97% of our experts stated that it is either very likely (69%) or likely (28%) that the prices of footwear will be significantly impacted by these cost increases over the next six months.**



WAR ON UKRAINE TO NEGATIVELY IMPACT FOOTWEAR

On the 24th February 2022 Russia invaded Ukraine. As the war is now on its third month, its economic fallout, to Europe and the rest of the world, is becoming clearer, adding turbulence to already existing global inflationary pressures, reflecting on rising food and energy prices, and disrupted supply chains because of the pandemic.

In this edition of the survey, we asked our experts about their prospects regarding the impacts of this conflict on the footwear business. **More than two third of our experts believe this war is going to negatively impact the footwear business in their countries**, while 29% expect it to have no effect at all in this specific business. Respondents from countries with significant exports to Russia are particularly concerned with the situation.



ABOUT 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 to redistribute such information in a way it will provide an accurate overview of the situation of the global footwear industry.

The sixth edition of this online survey was conducted during the month of April 2022. We have obtained 108 valid answers, 48% coming from Europe, 22% from Asia, 14% and 9% from North and South America, respectively, and 7% from Africa. Half of respondents are involved in footwear manufacturing (manufacturers) or footwear trade and distribution (traders) – 32% and 18%, respectively – and the other half in other footwear-related activities, including trade associations (20%), consultancy, journalism, etc.

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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

APICCAPS' Studies Office

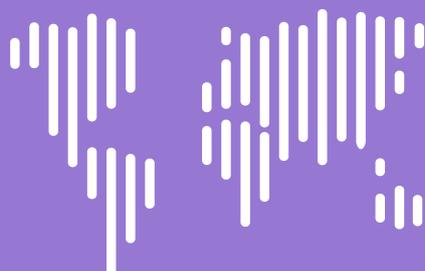
Joana Vaz Teixeira

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

This report was prepared by the Research Centre in Management and Applied Economics (CEGEA) of Católica Porto Business School for APICCAPS.

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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