HOUSING TRENDS
& IMPACTS ON WOOD PRODUCTS MANUFACTURING

Business conditions are slowly improving for the housing industry, and the wood products manufacturers that serve the construction markets. Read this exclusive survey.

By Matt Bumgardner, Urs Buehlmann, Al Schuler and Karen Koenig

While there are some signs of improvement in the business conditions and sales volume faced by the secondary wood industry in relation to the housing market, they are slow in coming.

This third annual housing market survey looks at the trends in the industry and analyzes what has changed in terms of market conditions, company performance and the actions being taken by woodworkers to remain profitable. The studies are a joint effort by Virginia Tech, the USDA Forest Service, and *Wood & Wood Products.* The 2012 survey garnered 307 responses from industry professionals representing a variety of secondary wood products companies from across the United States. (*See "About the Survey" on page 22.*)

Housing Market Overview

With inventories still relatively high by recent historical standards, and demand for new construction low, housing markets remain difficult. However, according to figures from the U.S. Census Bureau and National Association of Realtors, housing inventories have been trending downward since July 2011, with just over a five-month supply of new homes and just over a six-month supply of existing homes reported for March 2012.

Unfortunately, declining inventories did not show up in terms of new construction activity in 2011. Census Bureau figures show single-family starts numbered 431,000 units for 2011, which was an 8.5 percent decrease from 2010 and the lowest total since modern records began in 1959. Through March 2012, however, starts had improved slightly to a seasonally adjusted annual rate of 462,000 units.

As shown in ***Figure 1***, the value of private construction in the United States for 2011 was very similar to that of 2010 for the major sectors indicated, with 2011 bringing slight improvement in nonresidential construction after two years of decline. Also of note is that remodeling spending was very similar to, or slightly higher than, spending on single-family housing construction for the third straight year.

This trend is driven, in part, by the aging of the U.S. housing stock, where half of U.S. homes were at least 36 years of age in 2009, according to the Census Bureau.

Another factor driving remodeling spending is that homeowners seem to be planning to stay in their homes longer. For example, a recent study by the National Association of the Remodeling Industry (NARI) found that nearly 60 percent of respondents planned to stay in their existing homes for at least six more years, with remodeling projects focused more on specific wants and not on increasing potential resale value. The relative strength of the remodeling market also illustrates continued softness in single-family construction compared with the first half of the past decade, and possibly represents a shift in demand for new home construction versus remodeling of existing homes and multi-family housing construction.

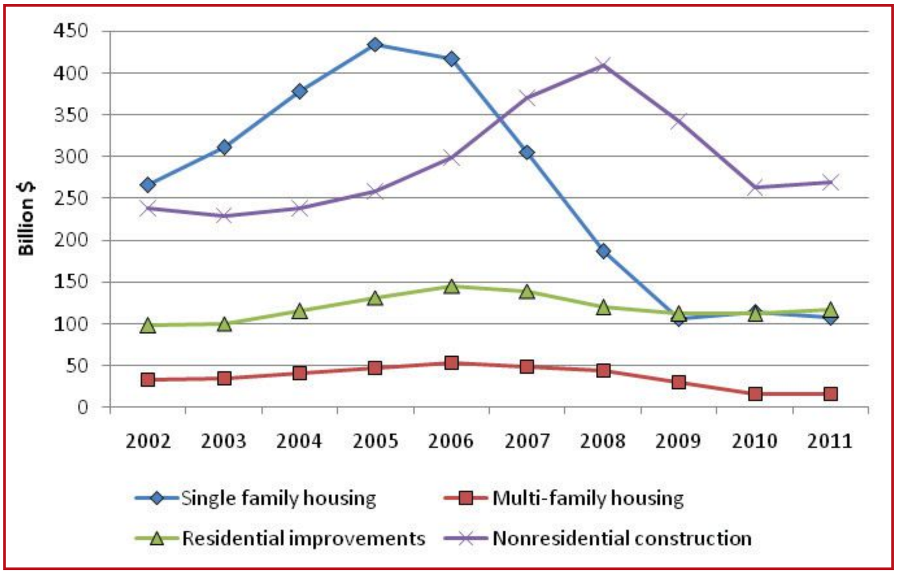


Figure 1: Value of Private U.S. Construction, 2002-2011 *Source: U.S. Census Bureau*

Sales Performance, Markets

Analysis of year-over-year sales performance for the past three years reveals something of a mixed story: Conditions seemingly improved for many companies, but the overall improvements are tempered by the fact that several respondents experienced a sales volume decline from 2010 to 2011.

About 38% reported losing sales volume in 2011, which was an improvement over last year's result of 50% having lost sales volume in 2010, and a huge improvement over 2009, when 81% of respondents reported losing sales volume. For the first time since starting the studies, over half (51%) of respondents indicated that year-over-year sales volume had increased in 2011.

However, an important consideration is that some firms that experienced drastic sales declines near the outset of the housing crisis likely have since ceased operations, which has allowed remaining firms to increase sales volume even though overall demand has been essentially flat or slightly declining since 2009. For example, figures from the Bureau

of Labor Statistics show there were nearly 2,000 fewer companies in the wood kitchen cabinet and countertop manufacturing sector (NAICS 33711) in 2011 compared to 2008, which was about a 17% decline.

There has been a gradual shift away from new single-family housing markets for secondary manufacturers. Over half (54%) of respondents reported that markets associated with single-family housing construction represented 20% or less of their production volume in 2011 (***Figure 2A***). Similar to last year, only 22% of respondents indicated that the new single-family housing market represented more than 60% of their production volume. Conversely, a solid majority (68%) continued to indicate that more than 20% of their production volume was associated with residential repair and remodeling markets (***Figure 2B***), a figure identical to last year.

In the absence of strong single-family housing markets, nonresidential construction markets also are important, with 81% of respondents indicating that at least some of their production volume was associated with this market in 2011, which was an increase from the previous year.

No prevailing explanations emerged for sales increases. While there was a small trend for developing new products, the results suggest that companies have survived the downturn more by finding new customers than by lowering costs.

For those that lost sales volume, downturns in the housing market and in remodeling expenditures were rated as the most important causes. While factors such as offshore competition, more domestic competitors, and non-wood substitutes continued to be rated low relative to housing construction and remodeling markets, there were small upticks noted for each in 2011, especially for offshore competition.

Actions Taken

When asked what steps had been taken to increase or maintain sales volume, marketing-based actions were mentioned most frequently, along with a relatively high number for product-based actions, or no actions at all. Overall, marketing-based actions increased in importance, along with customer service and improving quality.

The actions for which mentions declined included reconnecting with past customers and bidding on more projects. According to the comments, more emphasis was put on finding new customers and sales channels, with a focus on improved quality and customer service. In addition to "face-to-face" contact with customers and potential customers, and "shoe-to-the-pavement sales," respondents also mentioned increasing use of social media and developing or upgrading their web presence, which were similar to trends noted in last year's survey.

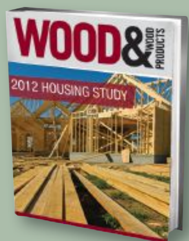
Green building products are another market possibility for secondary wood products firms to leverage sales volume. For the second straight year, however, a majority of respondents indicated they had not seen increased interest from customers seeking to source products compliant with

a green building standards program.

Demand for made-to-order and customized production continues to be important. For 2011, 67% of respondents indicated that over 80% of their overall product mix could be classified as made-to-order, and nearly 20% indicated that their made-to-order production had increased compared to three years ago. This made-to-order production also was associated with higher price points, as 71% of respondents reported they operated at medium-to-high to high price-point, which is similar to previous years but trending upward (63% in 2009 and 66% in 2010).

Lastly, respondents continued to be domestically focused, with 87% indicating that more than 60% of sales in 2012 would result from domestically produced and/or sourced products — identical to last year. Though also like last year, 18% indicated that they had increased the use of wood imports in their product lines over the past five years, with 68% bringing in components or lumber, 11% finished products,

ABOUT THE SURVEY



For a third consecutive year, the Housing Market survey was conducted in February/March via e-mail to subscribers of *Wood & Wood Products*. A total of 307 usable responses were received, slightly smaller than past survey amounts.

Similar to last year, 41% of the respondents were cabinet manufacturers. Nearly 13% produced household furniture, 11% were millwork manufacturers, 10% were architectural fixtures firms, 7% manufactured office/hospitality/contract furniture, 4% produced dimension or components, and 1% manufactured countertops. While an additional 13% indicated their production was in "other" categories, most (78%) could reasonably be classified into one of the aforementioned categories, mostly components, millwork, or contract furniture or fixtures. A majority (59%) reported that their firms used a combination of solid wood and wood composites while 28% indicated that they used mostly solid wood.

Similar to last year, most responding firms were small; nearly 56% had sales of less than $1 million, and another 27% had sales of $1 million to $10 million. Over 82% of respondents represented a single-facility operation.

Responses were received from 42 states, with CA, PA, NC, FL, IN, MI, WI, and TX each accounting for at least 4% of the total responses. Geographic markets served ranged from 48% doing regular business in the Midwest to 26% doing regular business in California.

More Housing Market information online at WoodworkingNetwork.com

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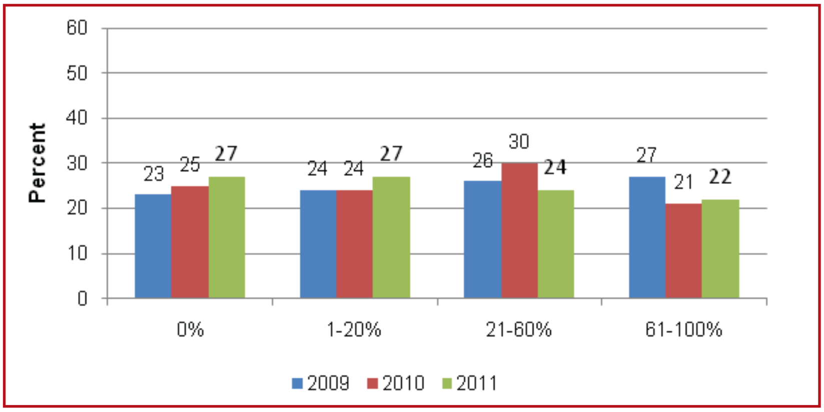

Fig. 2A: Proportion of 2011 Production Volume - Single Family Construction

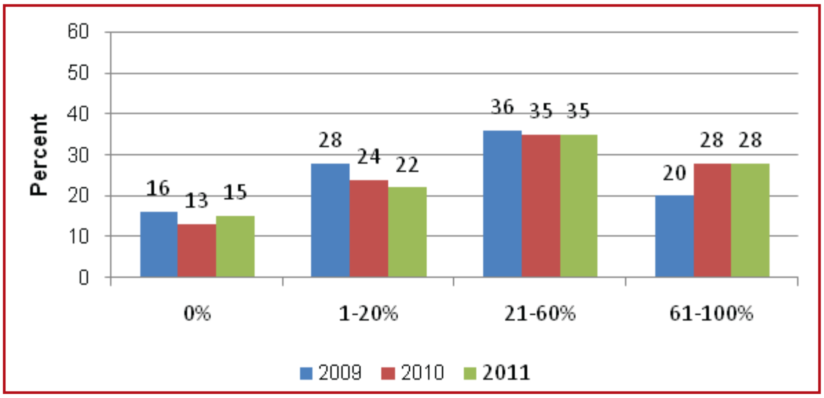

Fig. 2B: Proportion of 2011 Production Volume - Residential Repair/Remodel

and 21% both finished products and lumber or components.

Outlook for 2013

As in past surveys, respondents tended to rate construction markets worse for the current year than what was anticipated for the following year, suggesting that the industry generally maintains a level of optimism that conditions will eventually improve.

For 2012, new single-family housing rated quite poorly, while residential repair and remodeling rated as moderately good. In between, and below the mid-point, were multi-family, nonresidential construction and nonresidential repair and remodeling.

Very modest improvements are expected for 2013 across all categories except residential repair and remodeling, which is expected to remain steady.

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