HOUSING TRENDS & IMPACT ON WOOD MANUFACTURING

An exclusive survey on the construction industry's impact on actions in woodworking.

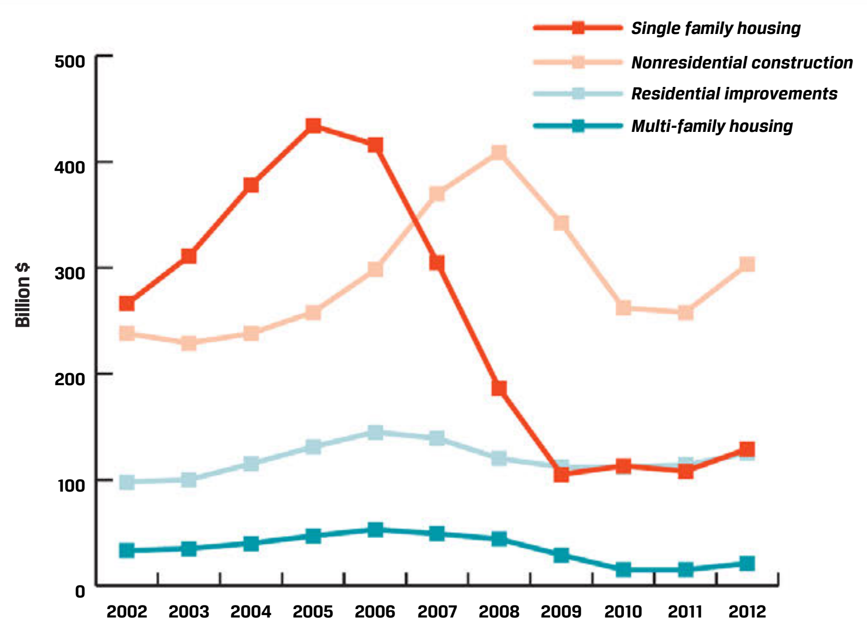
Demand from housing and other construction-related sectors continues to be an important issue for the secondary wood products industry.

Conducted in early 2013, this fourth annual survey provides updated information on the status and actions of U.S. manufacturers affected by these industries. The study is a joint effort by Virginia Tech, the USDA Forest Service, and *Wood Products*. *(See about the survey, page 28)*

Housing Market Synopsis

Though construction-based markets in many areas remain challenging, market data shows some improvement for 2013. According to the U.S. Census Bureau, inventories of new houses continue to trend downward and were just over

VALUE OF PRIVATE U.S. CONSTRUCTION, 2002-2012



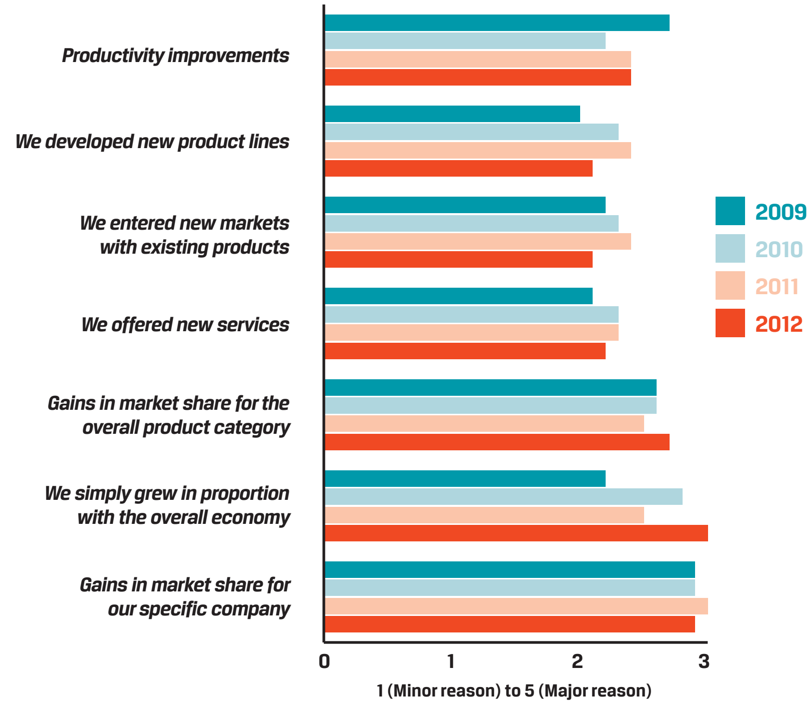
Source: U.S. Census Bureau

a four-months' supply in March of 2013. Similarly, figures from the National Association of Realtors show existing home inventories also fell to just under a five months' supply in March.

The inventory declines correspond with increased construction activity. The Census Bureau reports single-family housing starts increased to about 535 thousand starts in 2012, up 24% from 2011 figures; though still a fraction of the nearly 1,716 thousand starts in the peak year of 2005. Multi-family housing starts have been trending upward of late and held 31% share of the total starts in 2012.

Analysis of year-over-year sales performance over the study's four years reveals gradual improvement in terms of woodworking firms reporting positive changes in sales volume, with 58% reporting an increase in sales volume from 2011 to 2012. Offsetting that, 31% reported a decline in sales volume,

WOODWORKERS: CAUSES FOR SALES GROWTH IN 2009-2012



with the loss being attributed mostly to the slow construction and remodeling markets.

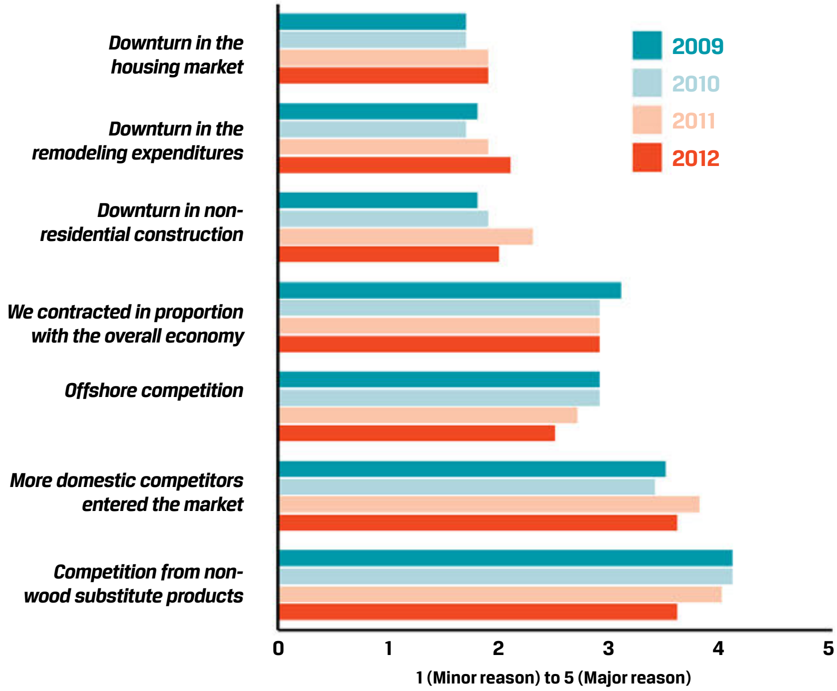
Also, as noted in last year's article, another dynamic at work is the decline in the number of establishments in the secondary woodworking industry since the housing slowdown began. Having fewer competitors obviously can help surviving firms to increase sales, even in a down market.

Actions to Grow Sales Volume

Not surprisingly, over the last three years large wood products firms engaged in more marketing communications, more frequently, than did small ones. Other activities used to grow sales include productivity enhancements, i.e., lean strategies and investing in equipment, as well as new revenue sources such as new products and markets, as well as increased advertising.

Green building products are another marketing option for secondary woodworkers

WOODWORKERS: CAUSES FOR SALES DECLINES IN 2009-2012



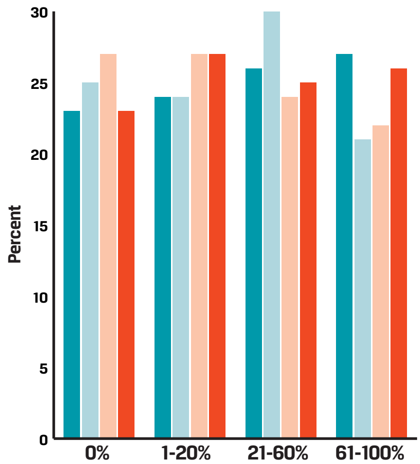
to leverage in order to grow sales volume. Across the four years of this study, however, respondents have said they have not seen increased sales resulting from customers seeking to source products compliant with a green building standards program. As noted last year, this trend could be related to the slow construction markets overall, or perhaps represents stabilizing interest.

Demand for made-to-order, custom, and mass-customized production continues to be important to the secondary wood industry. For 2012, 65% of respondents indicated that over 80% of their overall product mix could be classified as made-to-order, and 11% indicated that their made-to-order production had

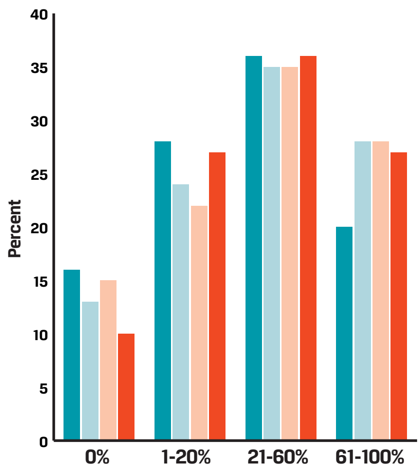
PRODUCTION VOLUME PROPORTIONS

Proportion of 2012 production volume associated with non-residential/business construction compared to previous years

Proportion of 2012 production volume associated with single-family housing construction compared to previous years



Proportion of 2012 production volume associated with residential repair and remodeling compared to previous years



increased compared to three years ago. This continues to be associated with higher price-points, as 68% of respondents reported they operate at medium to high price-points, which is similar to previous years but perhaps shows a general trend upward.

Lastly, wood manufacturers that responded to this year's survey also continued to be domestically focused, with 89% indicating that more than 60% of their 2012 sales resulted from domestically produced and/or sourced products. Of those with increased use of wood imports, 47% brought in components or lumber, 23% imported finished products, and 30% imported both finished products and lumber or components. ■

ABOUT THE SURVEY

For a fourth consecutive year the Housing Market survey was conducted in February/March via e-mail to *Wood Products* subscribers. A total of 244 usable responses were received.

Similar to past years, cabinetmakers made up the largest component of the sample, representing 42% of the respondents. Over 14% were household furniture producers, 11% were millwork manufacturers, 8% were architectural fixtures firms, 7% made office/hospitality/contract furniture, 6% produced dimension or components, and 1% manufactured countertops. While an additional 11% indicated their production was in "other" categories, most (77%) could reasonably be classified into one of the aforementioned categories, mostly millwork, architectural fixtures, or contract casework and closets. Over 81% of respondents represented a single facility operation.

Responses were received from 41 states, with FL, CA, NC, IN, WI, MI, MN, NY, TX, and PA each accounting for at least 4% of the total responses. Geographic markets served ranged from 48% doing regular business in the Midwest to 24% each doing regular business in California and the Northwest.

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