by Matt Bumgardner, Urs Buehlmann, and Karen Koenig

Housing market & woodworking: Industry plans & actions

An exclusive report on current housing trends and their impact on woodworkers' spending.

What are the market conditions for woodworkers involved in construction-based sectors and how do they plan to improve their capabilities?

For perspective, the total value of private construction (residential and nonresidential) put in place in the United States was nearly $1.5 trillion ($1,435 billion) in 2022, up 12.1% from 2021. Spending increased in all residential categories: 4.4% for single family, 4.4% for multi-family, and 31.4% for residential improvements. Spending on nonresidential construction also increased by 9.8%. However, the increases in private construction spending reflect, in part, inflationary prices throughout 2022.

The number of single family housing units started in 2022 was 1,005,200, a decrease of 10.8% from 2021. This decrease follows ten consecutive years of increase and is well below the peak of nearly 1,716,000 units in 2005, according to U.S. Census Bureau figures. In comparison, multi-family starts were 547,400 in 2022, up

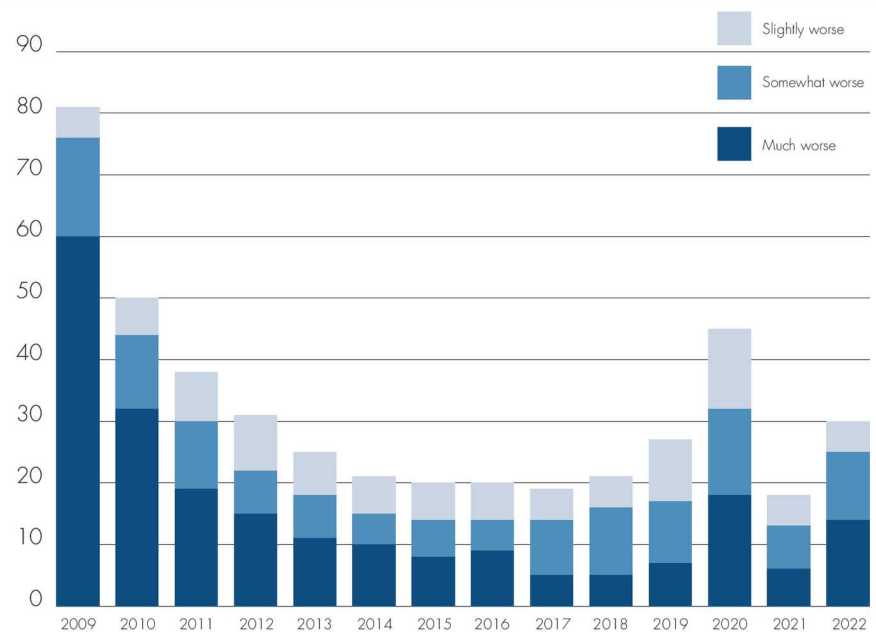

Figure 1: Percentage of secondary wood products manufacturers reporting sales volume declines (shown by year).

15.5% from 2021 and the highest since this housing study series began in 2009.

Against this backdrop, the 14th annual housing market study was conducted to assess conditions for secondary woodworking manufacturers involved in construction-based and related sectors. This study is a joint effort by Virginia Tech, the USDA Forest Service, and Woodworking Network/FDMC (see About the Survey).

Changes in sales & markets served

Analysis of year-over-year sales performance reveals a somewhat stable environment for secondary manufacturers until 2020, when the number of firms reporting a decline in sales volume spiked (45%) in connection with the COVID-19 pandemic. For 2021, the impacts of the pandemic seemed to abate with only 18% of firms reporting a sales volume decline, a percentage similar to pre-pandemic levels (**Figure 1**). However, for 2022, there was a notable increase in firms reporting sales volume declines (30%). Compared to 2021, the largest increase was in firms reporting sales were "Much worse" (+8 percentage points). The largest decrease was in firms reporting sales were "Much better" (-13 percentage points).

Why was sales volume down for many in 2022? Respondents largely attributed a downturn in the housing market and a decline in the overall economy (**Figure 2**). The housing market has not scored as such a prominent perceived factor in sales declines since 2012. Although scoring lower overall, it seemed respondents also noted an increase in both offshore competition and domestic competitors in 2022, perhaps reflecting that the relative strength in housing construction in 2021 attracted more business activity.

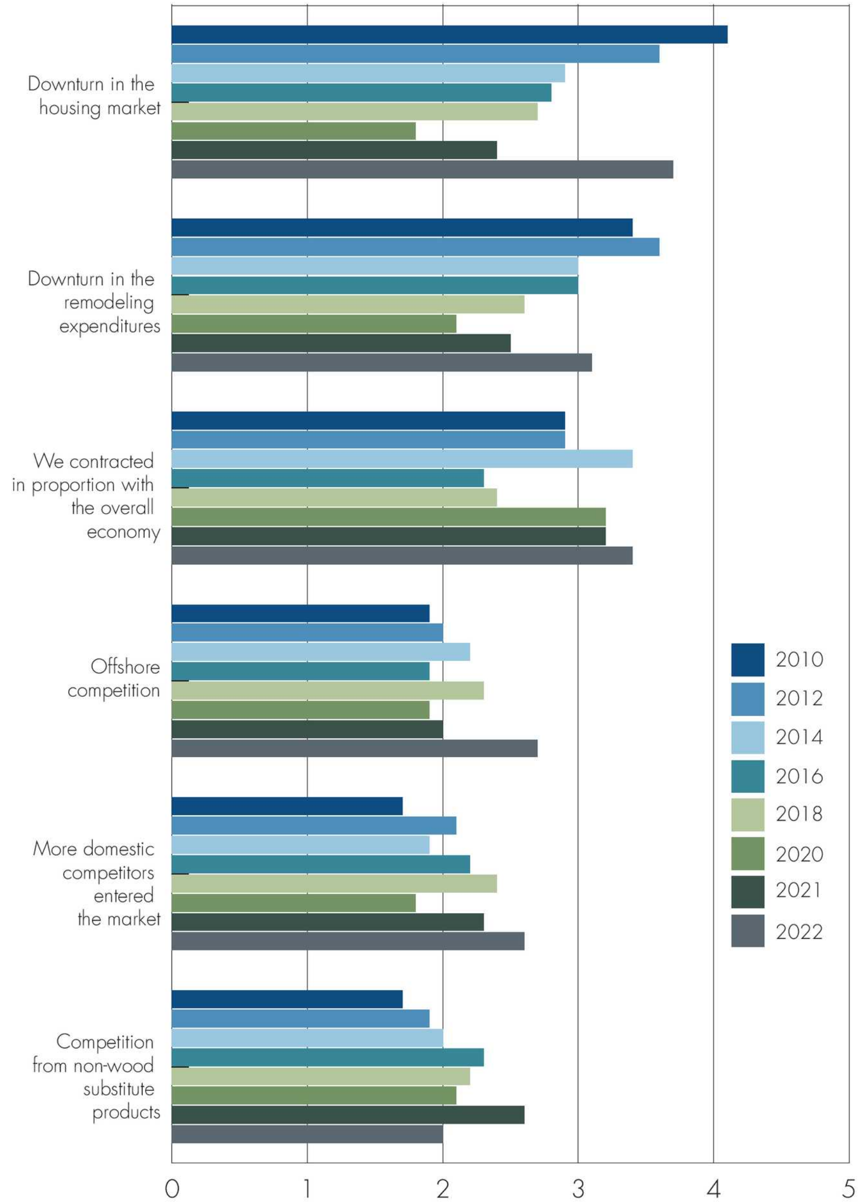

Figure 2: Causes responsible for lower sales (selected years shown). Range: 1=Minor Reason to 5=Major Reason

Even though 30% of respondents lost sales volume in 2022, another 55% of respondents reported sales volume increases while 15% reported no change compared to 2021. The main factor attributed to success was simply growing in proportion with the overall economy.

For 2022, 35% of respondents had most of their production volume (61-100%) associated with single family housing, 13% indicated multi-family, 18% for repair and remodeling, and 9% for non-residential construction. This shows the relative importance of single family housing construction to the secondary woodworking industry. However, as shown in **Figure 3**, firms have been shifting more

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activity to multi-family housing in recent years. Just 28% of respondents indicated that none of their production volume was associated with multi-family housing in 2022 compared to 46% in 2019.

What's generating sales? While demand for made-to-order production continues to be important, the numbers have been declining. For the past two years, less than half of the respondents indicated that batch one production was greater than 4/5 of their product mix (49% and 47%, respectively). This figure was 70% of respondents in 2010. Lastly, respondents continued to be domestically focused, with 84% indicating that more than 60% of their sales in 2023 would result from domestically produced and/or sourced products. Conversely, 32% indicated that they had increased the use of wood imports in their product lines over the past five years. The industry also continues to target higher price points, with 56% reporting they operated at medium-high to high price points in 2023 compared to 54% in 2022.

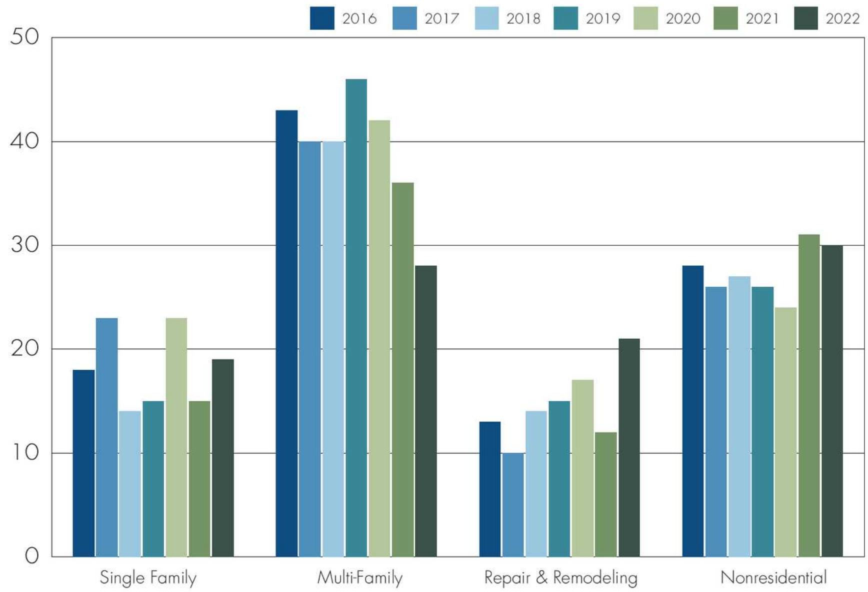

Figure 3: Proportion of respondents with no production volume (0%) in each major construction sector.

Planned investment activities

For 2023, 44% of respondents indicated their firms planned to spend more than they did last year, which was similar to past years, but down from 2022's high of 50% (**Figure 4**). Conversely, about 28% did not plan to spend more on investments, an increase from last year's 20%.

When asked about their firms' investment plans over the next three years, 54% indicated they would spend less than $250 thousand, which was lower than most years but up slightly from last year. The percentage projecting a higher investment was similar to past years, with 28% indicating their firms would spend $250 thousand to $1 million.

The study also assessed the general categories where investments were planned (**Figure 5**). Similar to recent years, several manufacturing-based investments continue to appear at the top of the list. Panel processing (33%), solid wood processing (30%), and finishing (30%) scored highest, followed closely by assembly (29%) and design/manufacturing software (28%). Employee training scored relatively high as well (30%), which also is consistent with past years.

Advertising/marketing, which reached its lowest level in 2022, rebounded by 7 percentage points. A similar trend was seen with sales force expansion/development. This suggests many companies are beginning to redouble marketing efforts to generate sales.

Lastly, respondents were asked if their firms had increased the use of computerization over the last three years. For the 2023 study, a majority indicated they increased it in design (71%), manufacturing processes (70%), accounting (56%), and collaborating with customers (54%). The largest growth has been with manufacturing processes and inventory tracking, which rose 23 and 19 percentage points, respectively, between 2020 and 2022.

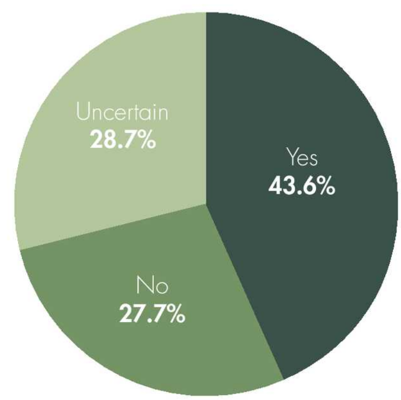

Figure 4: Does your company plan to invest more in improvements compared to 2022?

Summary

There was a noticeable increase in the number of firms reporting sales volume

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declines for 2022 as construction markets slowed from their 2021 pace. A downturn in the housing market was rated as the biggest cause for sales declines, which corresponded with the first decline in single family housing starts in ten years. Plans for business investments also cooled slightly from last year, but a plurality of firms (44%) still plan to increase the amount for 2023, with panel processing, solid wood processing, and finishing leading the list.

There also seems to be a shift toward the multi-family housing sector even though the repair and remodeling sector has experienced the greatest growth in value since 2020. Still, single family housing remains the most important construction sector for respondents as a percentage of their overall sales volume.

About the survey

This is the 14th consecutive year for the Housing Market survey. The 2023 study was conducted from February to April via e-mail invitations sent by Woodworking Network/FDMC to their subscribers. A total of 94 usable responses was received.

Similar to past years, kitchen/bath cabinet producers comprised the largest percentage, representing 41% of respondents. Fourteen percent were household furniture producers and another 14% were moulding/millwork producers. Other types of producers included architectural fixtures (7%), dimension and components (6%), and office/hospitality/contract furniture (5%). While an additional 12% indicated their production was in "other" categories, many could reasonably be classified into one of the aforementioned categories; closets and accessories also were represented.

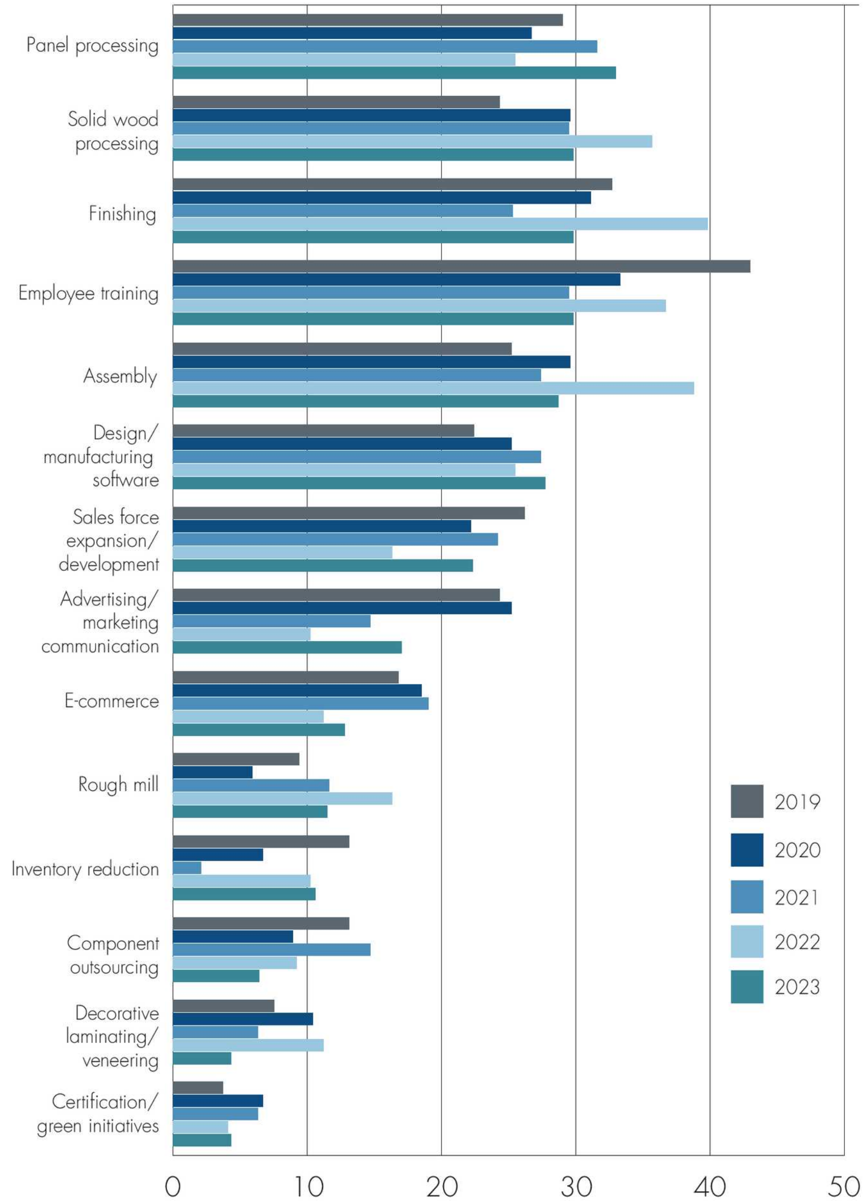

Figure 5: Areas where respondents say their companies will invest significantly within the next three years (selected years shown).

Most responding firms were relatively small, with 37% having sales of less than $1 million in 2022, and another 43% having sales of $1-$10 million.

Responses were received from 35 states and provinces. Geographic markets ranged from a high of 50% doing regular business in the Midwest to a low of 20% doing regular business in the Southwest. Business conducted by respondents in all other regions fell within this range.

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