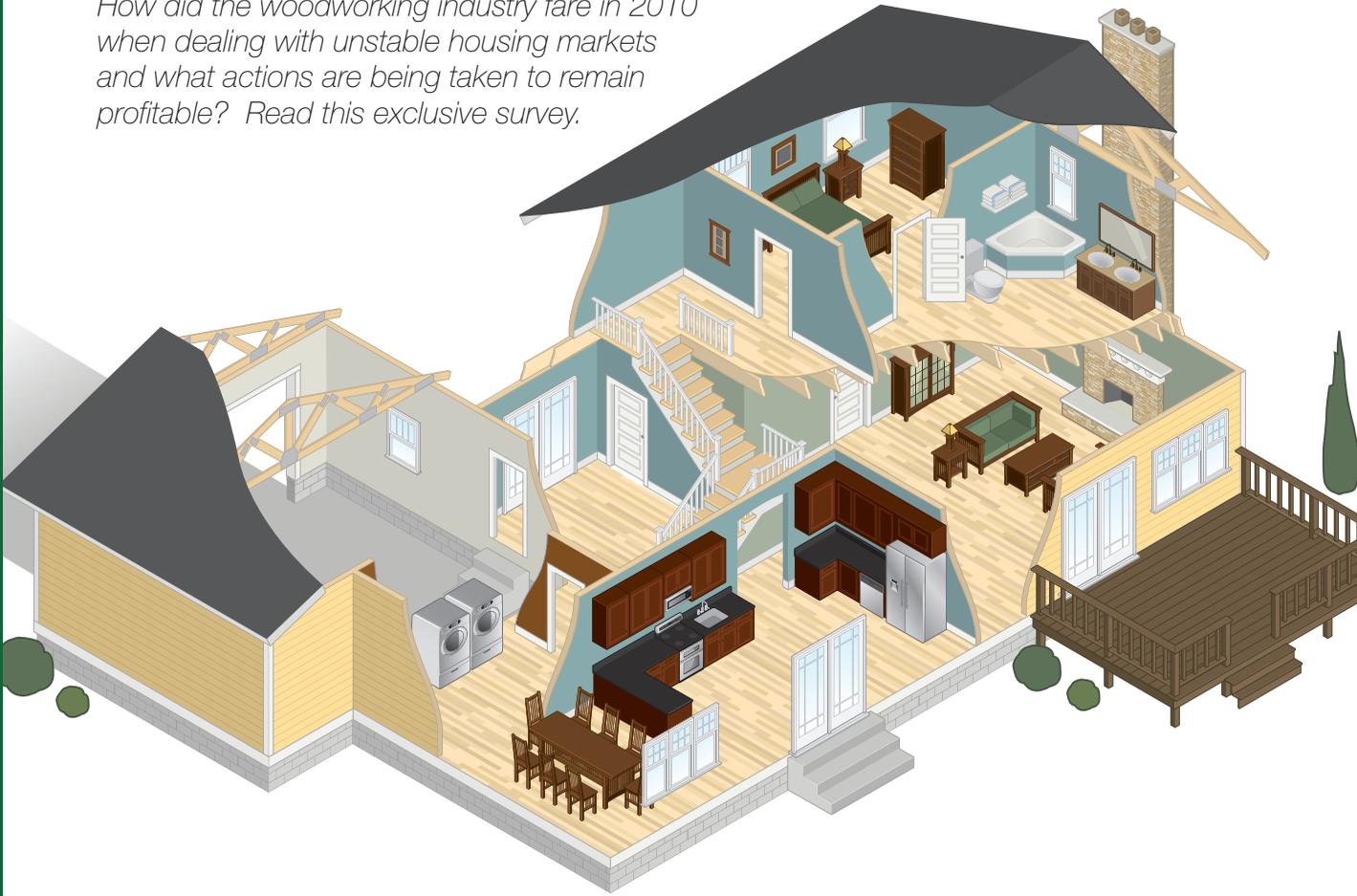


HOUSING AND THE WOOD INDUSTRY

TRENDS & MARKET CONDITIONS

How did the woodworking industry fare in 2010 when dealing with unstable housing markets and what actions are being taken to remain profitable? Read this exclusive survey.



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

Housing markets continue to have major impacts on the secondary wood industry. So, what are the steps being taken by wood products manufacturers in order to stay viable?

As a follow-up to last year's article, "Housing Market's Impact on the Secondary Woodworking Industry" (*Wood & Wood Products*, July 2010), the focus of this year's study was to update trends in the industry and discern what has changed in terms of industry performance, market conditions, and the actions being taken by secondary firms to remain profitable. The study was a joint product of Virginia Tech, the USDA Forest Service, and *Wood & Wood Products*. Three hundred and twenty-five woodworking professionals participated in the online study, spanning wood products manufacturing industries integrally connected with the housing market: cabinet manufacturing, fixtures and millwork,

furniture and components (*see the "About the Survey" inset for more details*).

Difficult Housing Markets Continue

Many of the issues confounding housing markets, as discussed in last year's article, remain in play today. For example, new single-family home sales fell to a record low in February 2011, suggesting that demand for new housing — and the secondary wood products needed to furnish them — continues to be soft.

One of the biggest problems continues to be excess housing inventories, which leads to downward pressure on prices and low demand for new construction. According to figures from the U.S. Census Bureau, in March 2011 the inventory of new homes for sale was at about a seven-month supply. Similarly, according to the National Association of Realtors,

the supply of existing homes on the market was at about an eight-month supply. In addition, foreclosures are expected to remain high in 2011, in essence constituting a “shadow” housing inventory that further adds to the supply of existing homes over time.

With the over-supply of homes from these sources, new single-family housing starts remain low, although Census Bureau figures show there was slight improvement in the number of single-family starts in 2010 (471,000) compared to 2009 (445,000). However, the seasonally adjusted annual rate for the first quarter of 2011 was trending lower than for 2010 (422,000), suggesting that consistent improvement in new home construction remains elusive. These figures compare to 1.7 million single-family starts in the peak year of 2005 – a decline of 75% – illustrating the severity of the downturn.

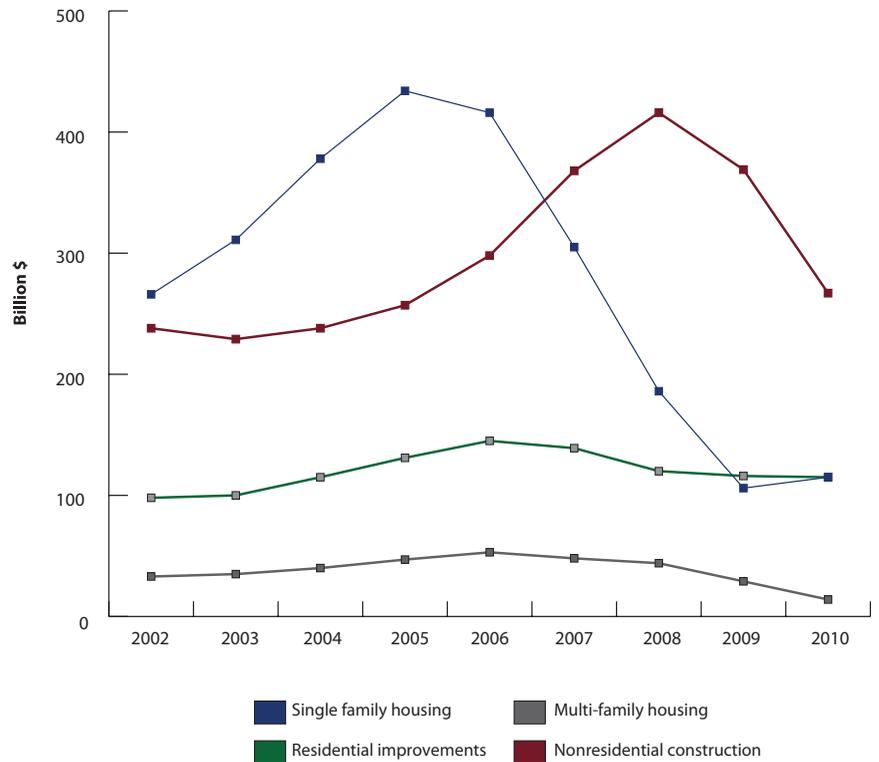
Fortunately for the industry, other construction-based markets exist for secondary wood products, but the situation outside of single-family housing remains somewhat mixed. As shown in **Figure 1** (right), spending in residential improvement markets (i.e., remodeling) has remained somewhat stable over the past three years, offering opportunities for secondary wood products manufacturers.

Improvement in Sales

Despite the difficulties faced in construction markets, respondents in this year’s study demonstrated some level of recovery, or at least stabilization after the previous year’s heavy decline. Half of respondents (50%) reported losing sales volume in 2010 compared to 2009, which was a marked improvement over the previous result of 81%. In 2009, 60% reported year-over-year sales volume declines of 20% or more, compared to 32% in 2010. Also in 2010, 39% reported sales increases of at least 5%.

However, these improvements must be tempered with the fact that 61% said that sales volume was worse or unchanged from what was a very difficult year in 2009. Given that the residential housing market has not improved much overall, this suggests that companies have found other sectors, such as remodeling, more profitable. The results from this study help

Figure 1 Value of Private U.S. Construction



bear this out, as shown in **Figure 2A** (on page 26), where the percentage of respondents with 61-100% of their production volume in the single family housing market declined in 2010, compared to 2009.

In contrast, **Figure 2B** (page 26) shows the proportion of respondents with 61-100% of their production volume in the residential repair and remodeling market increased. Interestingly, few companies reported that they did no business in residential repair and remodeling, as compared to single family housing where one in four companies did no business in 2010. This year, 75% of respondents also reported that some of their production volume was in non-residential/business construction in 2010, with a plurality (38%) reporting that this segment accounted for 1-20% of their production.

No prevailing explanations emerged for the sales increases. As shown in **Figure 3** (page 27), none of the specific drivers for sales increases asked on the questionnaire drew strongly favorable responses. However, there were a couple of notable changes from 2009. The number of companies that claimed their sales grew in rela-

tion to improvements in the overall economy, tallied significantly higher in 2010 compared to 2009. Second, productivity improvements were rated significantly lower in 2010 compared to 2009, perhaps indicating that respondents felt they had reached the limits of using productivity gains as a means to remain profitable.

Not surprisingly, when asked for causes of sales declines, residential construction markets were cited as the major reason by most respondents, especially single family housing (**Figure 4** page 27). Despite declines overall, respondents viewed nonresidential construction as being very similar in 2009 and 2010. Overall, very few changes from last year’s study were detectable, although the overall economy was rated as being slightly more favorable in 2010.

Interestingly, offshore competition and non-wood substitutes continue to be rated as secondary factors affecting the secondary wood products industry, compared to the current influence of the housing market.

Actions for Continued Survival

Respondents were presented with several

Figure 2A: Proportion of 2010 production volume in single family housing compared to the previous year

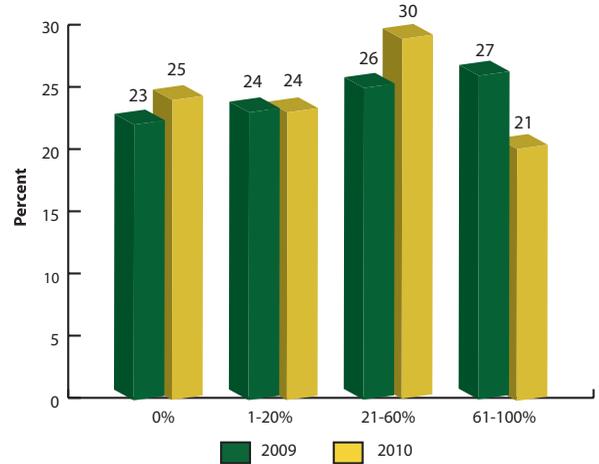
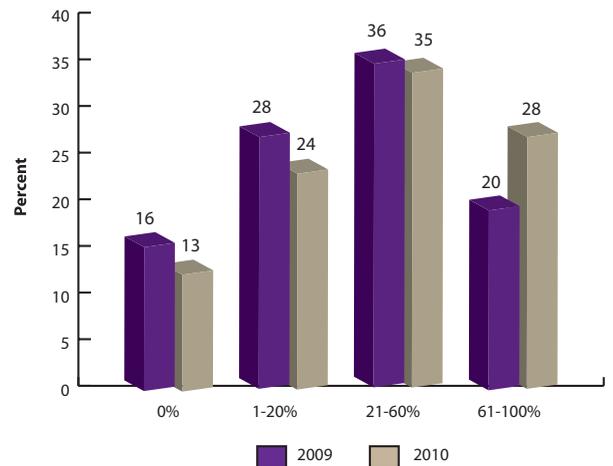


Figure 2B: Proportion of 2010 production volume in residential repair & remodeling compared to the previous year



potential marketing actions to maintain or increase sales volume in declining markets and asked to rate them in terms of implementation. Advertising and other promotional campaigns again received relatively high marks, both to remind existing customers of products and services (mean rating of 3.2 on a 5-point scale) and to reach potential new customers (mean of 2.8). Also receiving relatively high ratings were: adding features, services, or customizing features to enhance product value (mean rating of 3.4); developing differentiated product lines to reach small potential customer groups (3.1); and developing new applications for existing products (2.8). Exporting again ranked lowest (1.8) as respondents continue to focus on the U.S. market.

Other actions undertaken to improve sales included: becoming leaner and reducing costs (7%), focusing more on customer service (6%), developing a web presence (6%), and reconnecting with past customers (6%). The latter is not sur-

Figure 3: Causes for sales increase in 2009 and 2010

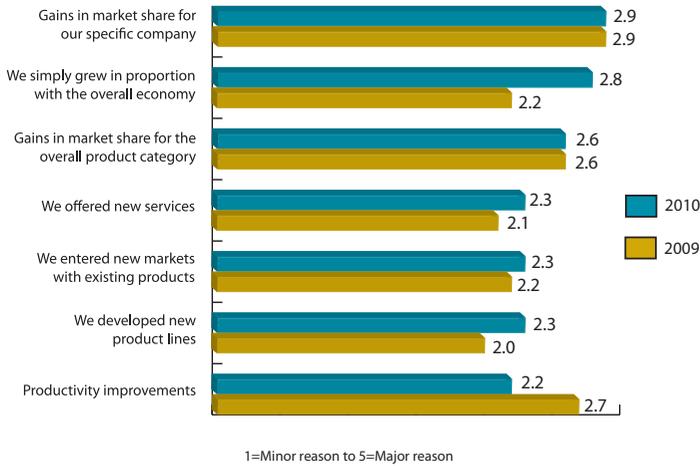
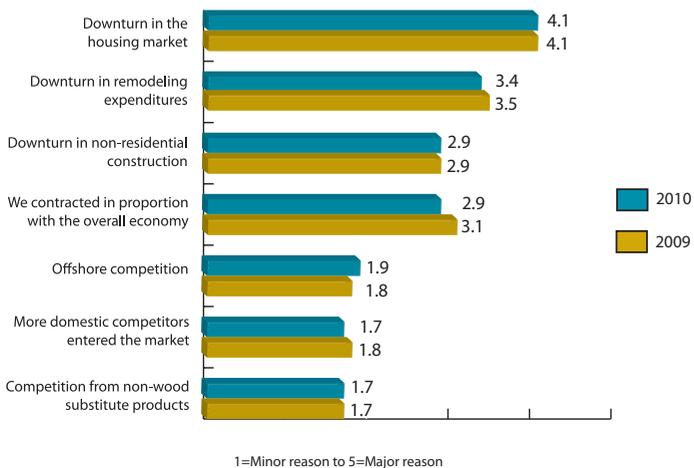


Figure 4: Causes for sales decline in 2009 and 2010



prising given the overall increased importance for many firms to find new customers, as this likely means firms' existing or past customers are being contacted more frequently by potential new competitors. As one respondent stated, his company sought to "Keep all existing customers happy no matter what!" The relatively high number of mentions for using the web and/or social media also was a noticeable change from last year's study. Similar to last year, several respondents also indicated they had worked in the previous year to bid on more projects (5%), though many of these have been smaller and often farther from home.

Markets for green building products continue to be a potential source of demand for wood product manufacturers, although this year's results were slightly different from last year. In the 2010 survey, 58% of respondents indicated they had seen increased interest from customers in sourcing products compliant with a green building standards program. This year,

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that figure dropped to 48%. Possible reasons for the decrease could be a stabilizing interest in sourcing green products, given that the question asks about increased interest, or it could be attributed to the slow overall housing market. Still, in both years more firms than not indicated seeing increased interest in green products.

Demand for custom/mass customization and semi-custom production contin-

ues to be important. Similar to last year, nearly seven in 10 respondents indicated that at least 81% of their product mix was made-to-order, and about 17% indicated this proportion had increased over the past three years. Additionally, price-points also tended to be on the higher-end, with 66% operating at a high or medium-high price-point. Generally, the customized, higher-end products tend not

to be affected by lower-cost, commodity-based items.

The good news for suppliers to the secondary industry is that nearly 87% of respondents reported that 61-100% of their sales resulted from domestically produced and/or sourced products, and only 20% reported increased use of imported wood in their product lines over the past five years. Of those reporting increases in imports, 64% brought in components or lumber, 13% imported finished products and 23% imported both finished products and lumber/components.

Building Sector Trends and Outlook

With the housing outlook still mixed, respondents were mildly more optimistic about most building sectors, especially for 2012 than for this year. While residential housing (single family and multifamily) were projected to improve the most, on average they were still rated quite low overall. Only 5% of respondents rated new single family housing as at least somewhat good for 2011 (rating of "4" or higher), and 10% anticipate that this market will be at least somewhat good in 2012. However, last year (in 2010) 17% indicated that single family housing would be at least somewhat good in 2011, suggesting the single family market is improving slower than many had anticipated.

“Nearly 87% said most of their sales were from domestically produced/sourced products.”

Repair and remodeling markets, whether residential or nonresidential, were rated higher and near the scale midpoint. More positively, 36% project that residential repair and remodeling markets will be at least somewhat good in 2012.

Although there were signs of improvement in the U.S. secondary wood industry compared to last year's survey, conditions in the housing sector continue to be challenging, and most respondents said

they did not anticipate new construction markets would show substantial improvement anytime soon. On the plus side, optimism was higher for remodeling markets, and the overall economy was not rated as negatively as last year.

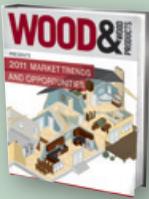
The snapshot of the secondary industry in 2011 is one of continued focus on customization — including mass or semi — and

adding value while being more aggressive in searching for new markets and customers, even if that means taking on smaller projects and being more versatile in what jobs to do. Many respondents said they planned to increase their marketing efforts or new product offerings to improve profitability, as remaining options for reducing costs and/or increasing productivity likely

are limited after several years of dealing with contracting housing markets. **W&WP**

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ABOUT THE SURVEY



The *Housing Market* survey was conducted in February/March 2011 via e-mail to *Wood and Wood Products*' VIP panel of professional woodworkers and other subscribers; 325

usable responses were received, a similar number to last year's study.

Similar to last year, almost half of the respondents, 44%, were kitchen/bath cabinet manufacturers, 11% were millwork producers, 7% were household furniture manufacturers, 7% were architectural fixtures companies, 6% were contract/office furniture producers, 3% manufactured dimension and components products, and 2% produced countertops. Another 19% indicated their production was in "other" categories, but much of this (44%) could reasonably be classified into the aforementioned categories, mostly millwork or contract furniture. Like last year, many firms (52%) had sales of less than \$1 million and 24% had sales between \$1 million and \$10 million. Correspondingly, 61% of respondents had 1-19 employees and another 12% employed 20-49 people. Nearly 80% reported operating a single facility.

A majority of respondents (54%) represented corporate or operating management, 13% were owners, and 9% each were in production management or marketing and sales, respectively. A majority (62%) also indicated that their firms used a combination of solid wood and composites in their production processes, while 25% indicated using mostly solid wood.

Responses were received from 46 states, with CA, IN, MN, PA, NC, WI, MI, NY, and WA each accounting for at least 4% of the responses.

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