

Housing's impact on wood products sales

This exclusive study looks at the U.S. housing market and trends in the woodworking industry.

What are the market conditions for woodworkers involved in construction-based sectors and what investments are planned to improve capabilities in the current business environment?

For a fifth straight year, construction-based markets continued their growth trends in 2016, as U.S. spending on single family housing, multi-family housing, and nonresidential construction all increased, with repair and remodeling increasing for a fourth straight year, according to the U.S. Census Bureau. Total value of construction put in place in these sectors was \$877 billion in 2016.

It's against this backdrop that the eighth annual housing market study was conducted in early 2017 as a joint effort by Virginia Tech, the U.S. Forest Service and *Woodworking Network/FDMC*. (See "About the survey," page 54.)

Market trends

Analysis of sales volume performance over the past eight years shows continued improvement, with 65% of the survey participants indicating year-over-year sales increases, compared to 15% reporting no change, and 20% reporting a decline. What's notable is the upward trend of the respondents in the Somewhat Better (sales up by 10%) and Much Better (sales up by 20% or more) categories, which accounted for over half the responses.

Overall, single-family housing and remodeling continue to be the most important volume markets for secondary woodworking manufacturers, with 87% of respondents reporting that at least some of their production volume was associated with repair and remodeling, followed by single-family housing construction at 82%, non-residential construction at 72%, and multi-family housing, 57%. Of those doing work in the single-family market, 60%



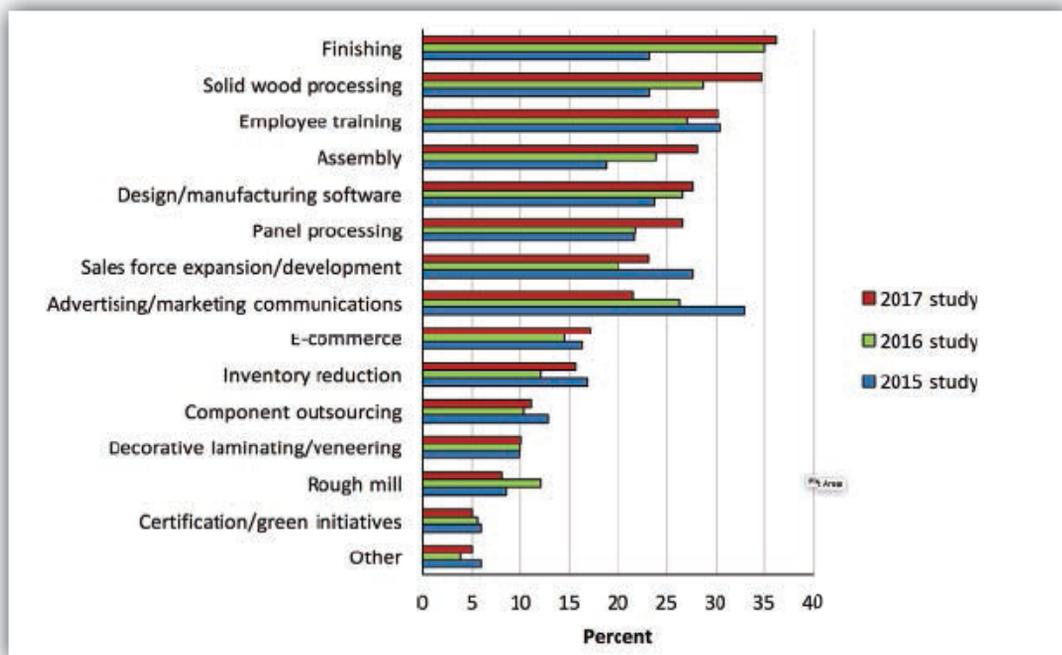
Wood products manufacturers are keeping a close watch on the housing market as they plan for future business.

indicated that at least a moderate amount of their production volume (21% or more) was directly associated with this segment in 2016, up from 49% in 2015.

Products in demand

Not surprisingly, while consumers like to be perceived as environmentally conscious, they don't want to pay extra for the privilege. There continues to be a declining trend in the number of respondents with customers seeking to source products compliant with green building standards programs, with just 29% indicating they had seen an increase, 57% reporting a decrease and 14% that were uncertain.

Demand for custom/Batch 1 production continues to be important, with 51% of respondents indicating that more than 80% of their overall product mix could be classified as made-to-order,



The chart highlights the target areas where respondents say they will invest significantly within the next three years.

up slightly from the previous year, although lower than the 60-70% range from 2012-2014.

And while the industry continues to target higher price-points, there was an apparent decline in 2017, with 54% of respondents reporting they operated at medium-high to high price-points, compared to the mid to high 60% range seen in previous years.

Lastly, respondents continued to be domestically focused, with 89% indicating that more than 60% of their sales in 2017 would result from domestically produced and/or sourced products. However, about 31% said they increased the use of wood imports in their product lines over the past five years, which was the largest percentage to date. Of those reporting an increased use of wood imports, 58% imported components or lumber, 16% imported finished products, and 26% imported both finished products and lumber or components.

Planned investments

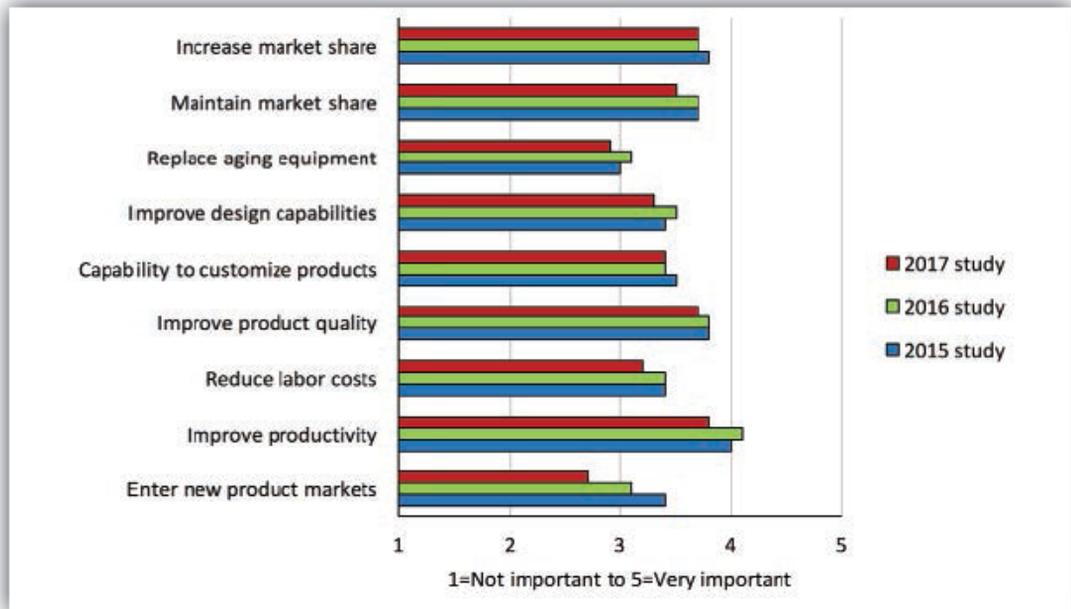
Where and how much are woodworking companies

willing to invest in order to grow their business?

For 2017, 45% of respondents said they planned to invest more dollars than they had done in the previous year, compared to 40% in the 2016 survey.

When asked about their investment plans over the next three years, 69% of the respondents indicated they would spend less than \$250,000, a figure similar to what was reported in 2016 and 2015. An interesting trend was also observed at the high end of the scale (investments greater than \$2.5 million), where the percentage of firms has increased steadily, reaching 7% in 2017.

Where will the improvements be made? The trend is for manufacturing-based investments, including finishing (36%), solid wood processing (35%), employee training (30%) and assembly (28%), suggesting shops are looking to update their production capabilities as construction markets improve. Increases also were noted for manufacturing software (28%) and panel processing (27%). And although we're seeing less overall spending in management-based investments such



The chart lists the top factors behind the investment plans by wood products manufacturers, over the next three years.

as sales force development (23%) and advertising/marketing communications (21%), the goal to increase market share is almost equal in importance to improving product quality and productivity when it comes to ranking the factors for investment plans.

About the survey

This is the eighth consecutive year for the Housing Market & Woodworking study. The 2017 survey was conducted in February and March by *Woodworking Network/FDMC* via e-mail invitations sent to subscribers. A total of 203 usable responses were received.

Similar to past years, kitchen/bath cabinet producers comprised the largest percentage of the sample, representing 43% of respondents. Fourteen percent of respondents were household furniture producers, 12% were architectural fixture manufacturers, 9% were millwork firms, 7% were producers of dimension or components, and 3% manufactured office/hospitality/contract furniture. While an additional 11% indicated their production was in “other” categories, most could reasonably be classified into one of the aforemen-

tioned categories or a combination of these categories.

Similar to past years, most responding firms were small, with 57% having sales of less than \$1 million in 2016, and another 25% having sales of \$1 million-\$10 million. Furthermore, 69% of respondents had 1-19 employees, which was down from 72% in 2016 but still the second-highest proportion of small firms in any of the study years (at least 61% of the sample has consisted of small firms in each year).

A majority of respondents (63%) held positions in corporate or operating management, and another 16% indicated they were the owners of their respective firms. Similar to past years, responses were received from 42 states, with CA, FL, MN, NC, OH, PA, and TX having the most participants and each accounting for at least 4% of the total responses. ◀

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