



Housing & woodworking: Industry actions and trends

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

What's ahead for woodworkers in construction-based sectors and the planned investments for improving production and profits?

For a seventh straight year, construction-based markets continued their growth trends as U.S. spending on multi-family housing increased in 2017, while spending on single family housing and nonresidential construction both increased for a sixth straight year, and spending on repair and remodeling increased for the fifth consecutive year. The total value of private construction (residential and non-residential) put in place was \$954 billion in 2017, up from \$899 billion in 2016. The largest proportional

increase from 2016 to 2017 was in repair and remodeling, which increased by 16%. In addition, single family housing grew by 9%, multi-family increased by 4%, and nonresidential construction rose by 1%, according to U.S. Census Bureau figures.

Against this backdrop, the ninth annual housing market study was conducted in early 2018 to assess market conditions for secondary woodworking manufacturers involved in construction-based and related sectors. The studies are a joint effort by Virginia Tech, the U.S. Forest Service, and *Woodworking Network/FDMC*. (See "About the Survey," page 36.)

Sales & market trends

Analysis of sales performance over the

past nine years shows continued improvement, with 71% of respondents indicating a year-over-year sales increase, while those reporting a decline dropped to 19%. The cumulative proportion of respondents indicating Somewhat Better (sales up by 10%) and Much Better (sales up by 20% or more) also has been trending upward, representing 56% of respondents. (Figure 1)

Overall, single family housing and remodeling continue to be the most important volume markets for secondary woodworking manufacturers. For 2017, 31% of respondents indicated that more than 60% of their production volume was directly associated with the single family market – the highest percentage recorded

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to date. In addition, 60% of respondents reported that a substantial portion of their production (more than 20% of production volume) was associated with the repair and remodeling market, followed by single family housing construction (56%), non-residential construction (28%), and multi-family housing (18%).

Product demand & price points

Green building products are a possibility for leveraging sales volume, although there has been a decline over the years of respondents who see increased interest from customers. This year was no exception, with only 24% indicating they had seen an increase, while 58% reported they had not (18% were uncertain). This was the widest gap to date, with 2011 the last year when “yes” responses exceeded “no” responses.

Meanwhile, demand for made-to-order (customized) production continues to be important, with 58% of respondents indicating that a large majority (over 80%) of their overall product mix could be classified as made-to-order. This number represents an increase from last year (51%) and reversed a trend of five years of decline. The highest number recorded for batch-one production was in 2010, when 70% of respondents indicated that over 80% of their product mix was made-to-order.

And while the industry continues to target higher price-points, there was an apparent decline in the 2017 and 2018 surveys. In 2018, 56% of respondents reported their firms operated at medium-high to high price-points, which was similar to 2017, but lower than the 63% reported in 2016.

Lastly, respondents’ production continues to be domestically focused, with 83% indicating that more than 60% of their sales in 2018 would result from domestically produced and/or sourced products. However, 31% also indicated that they had increased the use of wood imports in their respective product lines over the past five years, which tied with 2017 for the largest percentage to date. Of those reporting increased use of wood imports, 59% imported components or lumber, 25% imported finished products, and 16% imported both finished products and lumber or components.

Planned investments

Similar to past years, 45% of respondents indicated that their firms planned to spend more in 2018 than they had in 2017, with 31% uncertain.

Figure 1. Compared to the previous year, last year’s sales volume was...

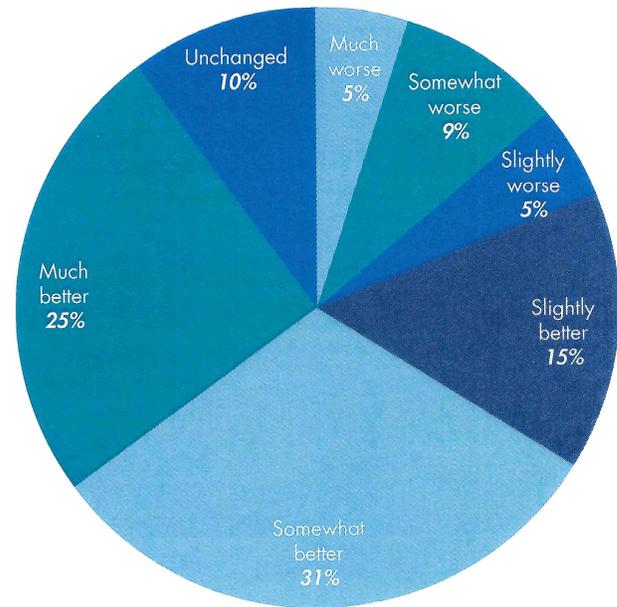
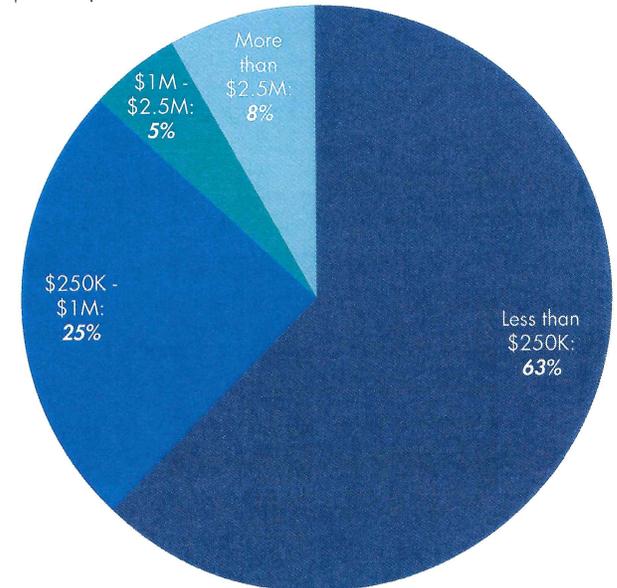


Figure 2. Over the next three years, about how much does your company plan to spend on investments to improve productivity or capabilities?



When asked about their firms’ investment plans over the next three years, 63% indicated they would spend less than \$250,000, which is lower than past study years (Figure 2). Conversely, there was an increase in those firms reporting they would spend between \$250,000 and \$1 million on investments, and also at the high end of the scale, where the percentage of firms indicating plans to spend more than \$2.5 million rose to 8%.

Where will the improvements be made? (Figure 3) The study *Continued...*

reveals increased investments are being planned in panel processing and employee training, which was the leading category. Conversely, management-based investments such as sales force development and advertising/marketing showed declining activity, suggesting companies are focused more on manufacturing and less on promotion, as would be expected given the market conditions. Separately, several firms also responded to an open-ended question that they researched and/or recently purchased new equipment to improve production capabilities. Improving website and e-commerce capabilities also were mentioned by several.

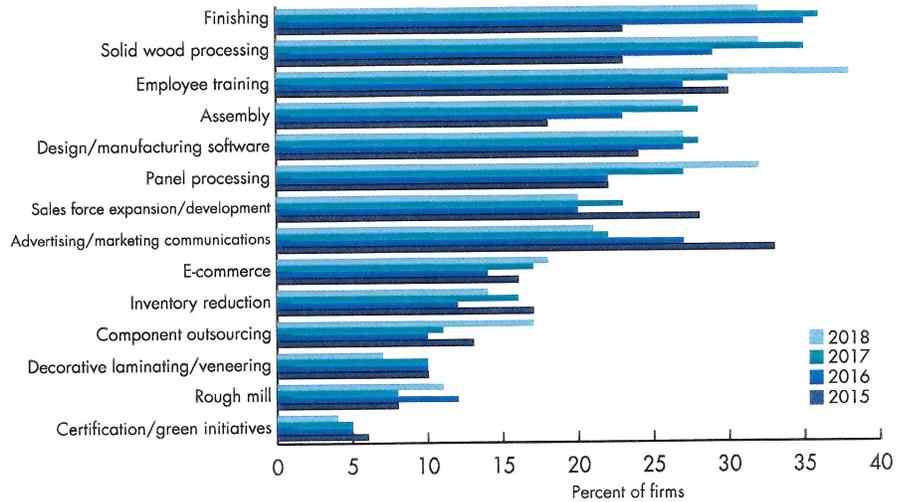
Lastly, a majority of firms indicated an increase in computerization to collaborate with customers in design activities (showing designs or products, virtual reality, etc.), and in their manufacturing processes. Half of respondents had increased their use of computerization for accounting purposes, and around 30% had increased the use for inventory tracking and supply chain management.

Survey summary

Changes in year-over-year sales volume have largely stabilized; just 19% of respondents indicated that sales volume declined in 2017, which is similar to the past two studies. There has been movement back into single family markets by secondary woodworking firms. However, even with continued improvements in construction markets, many respondents (31%) remained uncertain of their investment plans for 2018.

Looking ahead at the next three years, since most respondents were small companies (1-19 employees), most

Figure 3. Areas where respondents will invest significantly within the next three years



are planning investments of less than \$250,000. However, there has been an uptick in firms planning to spend between \$250,000 and \$1 million over the next three years, and continued increases in those planning even larger investments. Manufacturing-related investment activity has been increasing relative to management-based investments as markets have improved, and this year saw a substantial increase in firms planning to invest in employee training.

About the survey

This is the ninth consecutive year for the Housing Market Survey. The 2018 study was conducted in March/April via e-mail to *Woodworking Network* and *FDMC* subscribers. A total of 163 usable responses were received.

Similar to past years, cabinet producers comprised the largest percentage of the sample, representing 47% of respondents. Fifteen percent of respondents were household furniture producers, 9% were millwork firms, 7% were architectural fixture manufacturers, 6% were

producers of dimension or components, and 3% manufactured office/hospitality/contract furniture. While an additional 13% indicated that their production was in “other” categories, most could reasonably be classified into one of the aforementioned categories. Similar to past years, most responding firms were small, with 54% having sales of less than \$1 million, and another 28% having sales of \$1-\$10 million. Furthermore, 67% of respondents had 1-19 employees and another 13% had 20-49 employees.

A majority of those responding (64%) held management positions, and another 15% indicated they were the owners. Responses were received from 37 states, with CA, FL, MN, NC, OR, SC, TX, and WI each accounting for at least 4% of the total responses. **+**

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