



Impacts of housing market trends on the wood products industry

This exclusive survey looks at construction market conditions and trends to help determine what's ahead for woodworking firms.

What's ahead for wood products manufacturers involved in construction-based sectors and what investments have companies planned to improve their capabilities in the current business environment?

To gain perspective, construction-based markets continued their growth trends in 2018, as U.S. spending on multi-family housing increased for an eighth consecutive year, while spending on new single family housing and non-residential construction both increased for a seventh straight year, and spending on repair and remodeling increased for the sixth consecutive time, according to the U.S. Census Bureau. The total value of private construction (residential and non-residential) put in place in 2018 was \$993 billion, up from \$963 billion in 2017.

The largest percentage increase from 2017 to 2018 was in single family housing construction, which increased by 5%; non-residential construction increased by 3%, and residential improvements and multi-family housing each increased by 0.3%.

The number of single family housing starts in 2018 was 875,800, representing an increase of 3% but still well below the peak number of nearly 1,716,000 in 2005, according to U.S. Census Bureau figures.

Against this backdrop, the tenth annual housing market study was conducted in early 2019 to assess market conditions for secondary woodworking manufacturers involved in construction-based and other related sectors. The studies are a joint effort by Virginia Tech, the USDA Forest Service, and *Woodworking Network/FDMC*. (See "About the Survey" on page 26.)

Sales & market trends

Analysis of year-over-year sales performance reveals a somewhat stable percentage of firms reporting positive changes in sales volume in recent years. However, this was the first year where the percentage of firms reporting a loss of sales volume increased. For 2018, 21% of the firms reported a decline in sales volume, up slightly from 19% in 2017, but still nowhere near the 81% that reported declines back in 2009. (**Figure 1**). In addition, this year's survey found 68% indicated a year-over-year sales increase for 2018, down slightly from 71% in 2017. That said, the percentage of respondents in the Somewhat Better category (sales up by 10%) has been trending upward with 34% now in this category.

Single family housing and remodeling continue to the top volume markets for

secondary wood products manufacturers. For 2018, 34% of respondents indicated that at least 61% of their production volume was directly associated with single family housing construction (i.e., used in building or trimming), which was the highest percentage recorded to date. In addition, 65% reported that a substantial portion of their production (more than 20% of production volume) was associated with single family housing construction, followed by the repair and remodeling market (61%), non-residential construction (28%), and multi-family housing (22%).

Product demand & price points

Although green building products remain an area for woodworkers to diversify their products and leverage sales volume, customer interest in these products may be waning. Even though there was a slight uptick in the number of firms reporting an increase (from 24% to 28%), the number of firms reporting a decline in interest also rose slightly, (from 58% to 60%), with another 13% uncertain.

Meanwhile, demand for batch one/custom production continues to be important, with 55% of respondents indicating that over 80% of their overall product mix could be classified as made-to-order. The industry also continues to target higher price-points, with 66% reporting they operate at medium-high to high price-points.

Lastly, respondents continue to be domestically focused, with 86% indicating that more than 60% of their sales in 2019 would result from domestically produced and/or sourced products. However, 29% also indicated they had

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

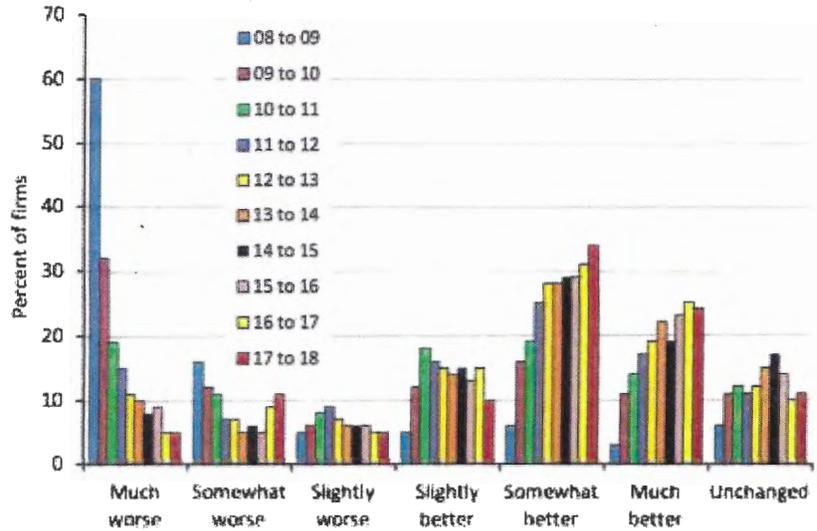
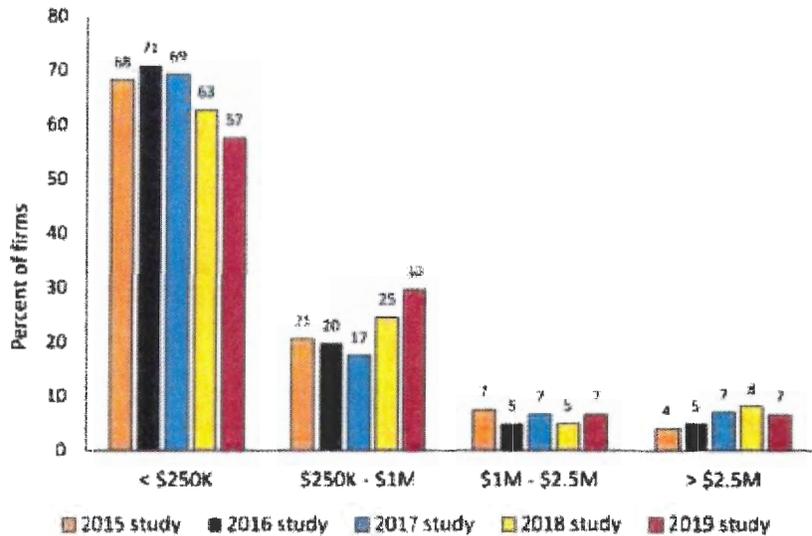


Figure 2. Over the next three years, about how much does your company plan to spend on investments to improve productivity or capabilities?



increased the use of wood imports in their product lines over the past five years, similar to the findings of the past two years. Of those reporting increased imports, 56% imported components or lumber, 3% imported finished products, and 41% imported both finished products and lumber or components.

Planned investments

Similar to past years, 46% of respondents indicated their firms planned to spend more in 2019 compared to 2018, with 28% uncertain.

When asked about their investment plans over the next three years, 57% indicated they would spend less than

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\$250,000, which is a lower percentage than previous study years (Figure 2). Conversely, there was an increase in those firms reporting they would spend between \$250,000 and \$1 million, amounting to 30% of respondents.

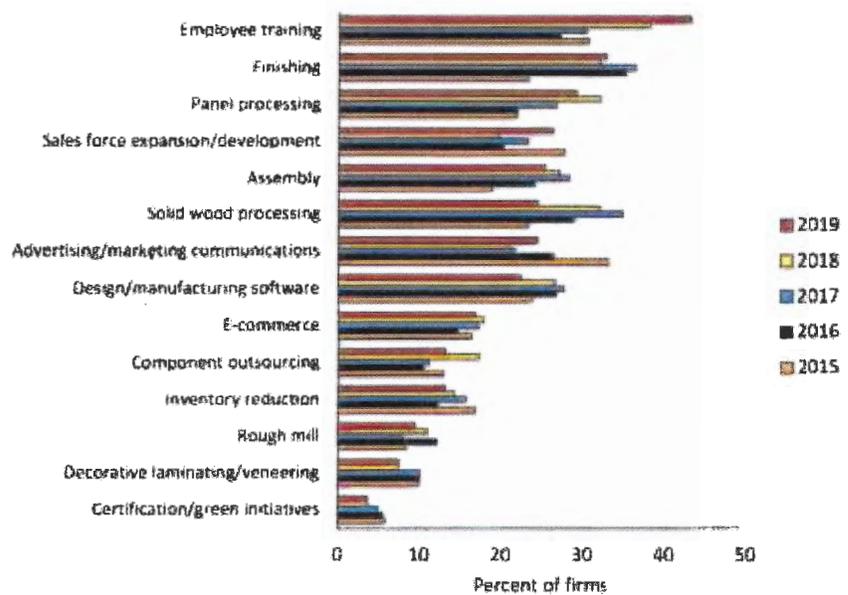
Where will they invest (Figure 3)? Several areas related to manufacturing were mentioned relatively frequently, including finishing and panel processing, but most categories scored similarly or lower than last year. Exceptions that scored higher included employee training, sales force expansion/development, and advertising/marketing communications. These trends suggest that firms are keen on retaining good employees and shifting more funds to generating sales relative to manufacturing. Separately, several firms also responded to an open-ended question that they had increased, or planned to increase, investments in sales and marketing activities to maintain or grow sales volume.

Lastly, a majority of firms indicated they had increased computerization to collaborate with customers in design activities, and in their manufacturing processes. Nearly half of respondents had increased the use of computerization for accounting purposes, and around 30% had increased use for inventory tracking and supply chain management.

About the survey

This is the tenth consecutive year for the Housing Market survey. While several of the questions have remained the same from year to year to help track industry activities, more recent studies also have included questions

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



related to investment and computerization activities. The 2019 study was conducted in March/April via e-mail invitations sent by *Woodworking Network* and *FDMC* to their subscribers. A total of 110 usable responses were received.

Similar to past years, cabinet producers comprised the largest percentage of the sample, representing 50% of respondents. Fourteen percent of respondents were moulding/millwork producers, 10% were dimension or component firms, 8% were household furniture producers, and 4% each were producers of architectural fixtures or office/hospitality/contract furniture. While an additional 11% indicated that their production was in “other” categories, most could reasonably be classified into one of the aforementioned categories or worked in closet manufacturing. Also similar to past years, most responding firms were small, with 49% having sales of less than \$1 million, and another 31% having sales of \$1 million-\$10 mil-

lion. Furthermore, 60% of respondents had 1-19 employees and another 17% had 20-49 employees.

A majority of those responding (65%) held management positions, and another 13% indicated they were the owners. Responses were received from 41 states, with AL, CA, FL, MN, NC, OR and WA each accounting for at least 4% of the total responses. Geographic markets served ranged from a high of 58% doing regular business in the Midwest to a low of 22% doing regular business in the Southwest. Business conducted by respondents in all other U.S. regions fell within this range. +

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