

# Woodworking & housing: Positive trends and actions

This exclusive study looks at the housing market's impact on woodworking businesses and the actions taken to increase wood product sales.



Wood products manufacturers that produce building components, cabinetry, furniture and millwork are keeping close watch on new residential construction and remodeling trends in order to determine their own business actions.

A majority of the woodworking industry remains intrinsically tied to the housing industry, particularly businesses involved in producing cabinetry, furniture, millwork and components. For that reason, construction market conditions and trends – both past and future projections – are critical.

It's against this backdrop that the seventh annual housing market study was conducted in early 2016. A joint effort by Virginia Tech, the U.S. Forest Service and Woodworking Network, the study examines: whether the woodworking industry continues to realize sales volume increases; what

investments are being planned to improve capabilities in the current business environment; the status and activities of U.S. manufacturers, as well as an analysis of what has changed since last year. (See "About the survey," page 56).

As they have for the past four years, the construction-based markets continued their overall growth trend in 2015, as U.S. spending on single family housing, multi-family housing, repair and remodeling (i.e., residential improvements), and nonresidential construction all increased (**Figure 1**). The largest proportional increase was in

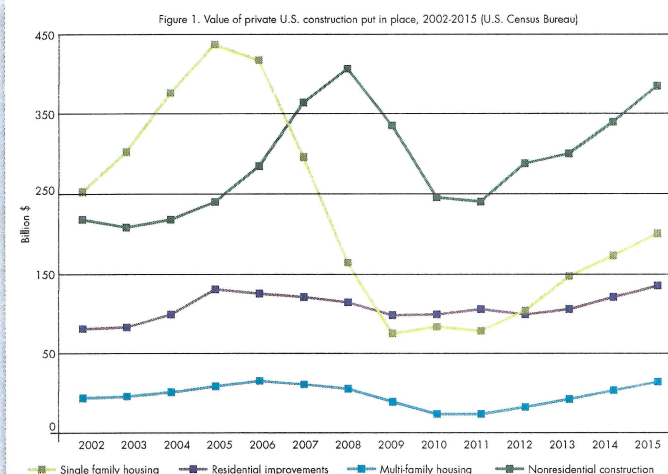


Figure 1: The upward growth trend of the construction markets bodes well for the woodworking industry.

multi-family housing, which increased by 24% from 2014 to 2015, compared to single-family housing, which increased by 13%. This increase in multi-family spending followed a 31% increase from 2013 to 2014. Greater activity in multi-family housing construction likely reflects, in part, affordability factors for single-family homes, especially for potential first-time buyers.

## Market trends

Analysis of year-over-year sales performance for the past seven years reveals continued gradual improvement for the companies surveyed.

In 2009, 81% of respondents reported losing sales volume from the previous year; by 2015 this proportion had declined to 20%. Furthermore, the proportion of respondents in the “Somewhat Better” (sales up by 10%) category has been increasing or holding steady each year, reaching nearly 30% in 2015. While there was a decline in the “Much Better” category (sales up by 20% or more) in 2015, there was an increase in the “Unchanged” category. The “Unchanged” category has generally been increasing with each year, suggesting more firms are seeing a stabilizing marketplace.

2015 also saw continued movement away from the residential housing market and into other sectors. In fact, since 2013 there has been a 10 percentage-point decline in the number of respondents that have a

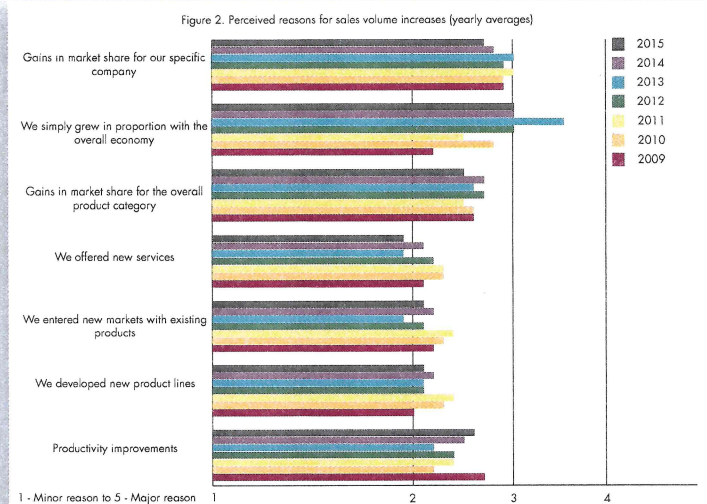


Figure 2: New products, productivity and service are gaining prominence as reasons for sales growth.

moderate proportion (21-60%) of their production volume in the single-family housing market. At the same time, there was a 6 percentage-point increase in those saying that none of their production volume was in single-family housing.

There also were notable changes in the importance of the remodeling market, including an 11% drop between 2014 and 2015 in the number of respondents that said a moderate proportion (21-60%) of their production volume was in remodeling. However, this decline was offset by an 8% increase by those saying that a large proportion (61-100%) of their production was in the remodeling market.

Nonresidential construction continued to be a minor market for most respondents, with 69% saying either none or only a small proportion (1-20%) of their production volume was geared toward this market.

## How to increase sales

As in past years, sales growth is still viewed as largely “economy dependent,” although it is less of a factor today than was indicated two years prior (Figure 2). Also spurring growth were improvements in productivity and service, and the development of new product lines.

Green building products are another way to leverage sales volume, although there continues to be a lack of interest from customers seeking to source –



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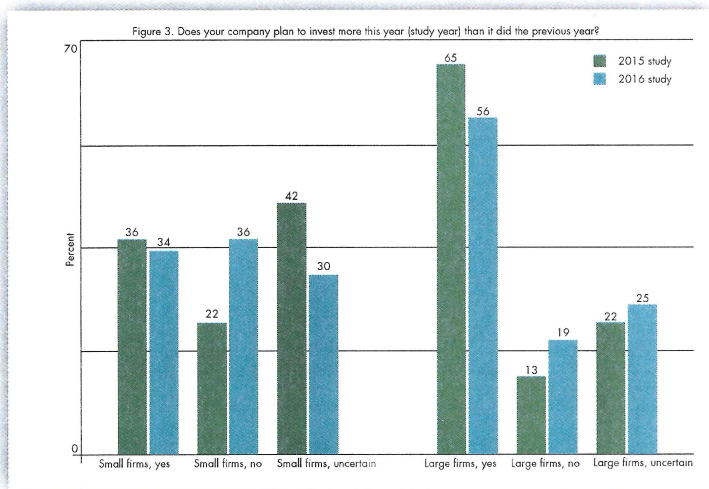


Figure 3: 56% of large companies are planning to invest more in 2016, while 34% of small firms said they would.

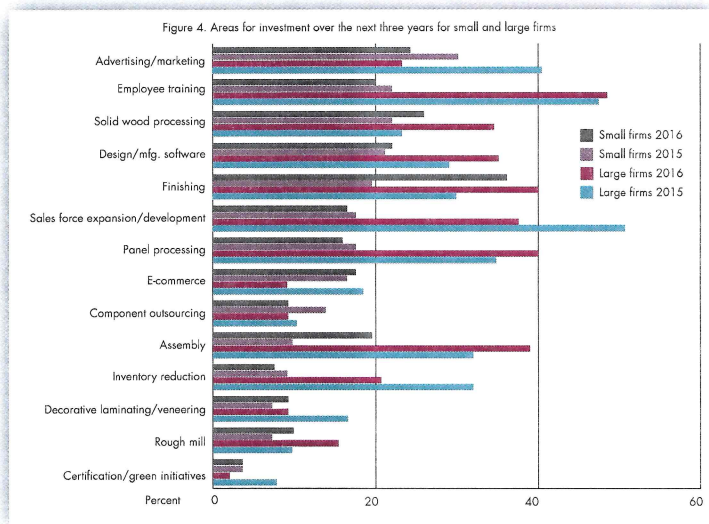


Figure 4: Finishing remains a top spending area for small and large firms. Training is also a priority for large firms.

or pay an increased price – for products compliant with green building standards programs. Interest in green products appeared to have peaked in 2009 (58%), and while there has been stabilization for the past four years in terms of respondents indicating they had seen an increase (36-38%), 2015 saw a plurality (47%) indicating they had not seen an increase.

Demand for custom and/or Batch 1 production continues to be important for the secondary wood industry, as noted in each year's study. 2016 was no ex-

ception, with 54% of respondents indicating that over 80% of their overall product mix could be classified as made-to-order. However, while higher than last year (50%), this figure was lower than previous survey years when the figure ranged from 60-70%.

The North American wood products industry also continues to target higher price-points, as 63% of respondents reported they operated at medium-high to high price-points, which was similar to previous years.

Survey respondents also continue to be domestically focused; with 85% indicating that more than 60% of their sales in 2016 would result from domestically produced and/or sourced products. Conversely, about 26% said they had increased the use of wood imports in their respective product lines over the past five years. Of those reporting an increased use of wood imports, 49% brought in components or lumber, 18% imported finished products, and 32% imported both finished products and lumber or components.

As expected, offshore competition was once again a leading cause of sales volume declines. Other factors for sales losses included domestic competition, and competition from non-wood products. Similar to last year, the overall economy, rather than construction markets specifically, was the highest rated cause of sales declines in 2015 – by a wide margin. However the most dramatic finding was the continued decrease we're seeing in the importance of housing and remodeling markets as causes of sales declines.

### Where's the spending?

How much are companies willing to invest in order to improve their productivity or capabilities? The sample was divided into 202 small firms (1-19 employees) and 77 large firms (20 or more employees).

While more than half (56%) of the large companies are planning to invest more in 2016 than they did in 2015, just over a third of the small firms said they would do likewise (Figure 3). While the number of small businesses planning investments remained relatively unchanged compared to last year, there was a 9% drop in the number of large manufacturers, although this could indicate that they made signifi-

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cant investments last year and that's why their plans for 2016 will be less.

When asked about their firms' investment plans over the next three years, 100% of the large companies said they planned to invest, with 31% indicating they would spend more than \$1 million over the next three years. In contrast, 20% of the small firms said they had no plans to invest, and 70% indicated they would spend less than \$250,000.

Where will the improvements be made? (Figure 4)

For small firms, finishing is the number one area (33%), followed by solid wood processing (28%) and assembly (19%). The most common answer in the 2015 study, advertising/marketing communication, dropped to third this year but was still relatively highly rated (27%). A trend toward investments in more equipment/technology and less in "softer" areas such as marketing and employee training was observed.

For large firms, several differences were noted from last year's study. Similar to their smaller counterparts, a number of large companies plan to improve their finishing (40%) and assembly (38%), respectively. Also seeing gains were panel processing (40%), design/manufacturing software (35%), and solid wood processing (32%). At 47%, employee training remained the most important investment for large companies.

### About the survey

This is the seventh consecutive year we have conducted the Housing Market survey. While several of the questions have remained the same from year to year to help track industry activities over time, more recent studies have included questions related to industrial investment activities. The 2016 study was conducted in February/March via e-mail to Woodworking Network and FDMC subscribers. A total of 339 usable responses were re-

ceived, which was about 49% more than last year's total.

Similar to past years, kitchen/bath cabinet producers comprised the largest percentage of the sample, representing 40% of respondents. Nearly 18% were household furniture producers, 9% were millwork manufacturers, 6% were architectural fixtures firms, 6% were producers of dimension or components, and 6% manufactured office/hospitality/contract furniture. While an additional 15% indicated their

production was in "other" categories, most could reasonably be classified into one of the aforementioned categories (especially components) or a

combination of these categories. Similar to past years, most responding firms were small, with 60% having sales of less than \$1 million in 2015, and another 24% having sales of \$1 million-\$10 million. Furthermore, 72% of respondents had 1-19 employees, which was the highest proportion of small firms in any of the previous study years (at least 61% of the sample has consisted of small firms in each year).

Almost half of respondents (48%) held positions in corporate or operating management, and another 22% indicated they were the owners. Production managers accounted for 11% of respondents. Responses were received from 43 states, with CA, FL, IL, NC, PA, TX and VA each accounting for at least 4% of the total responses. Geographic markets served ranged from a high of 40% and 36% doing regular business in the Midwest and Northeast, respectively, to a low of 21% and 23% doing regular business in Northwest and the Southwest, respectively. Business conducted by respondents in all other U.S. regions fell within this range. ◀

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When asked about spending plans, 100% of the large firms said they'll invest; 1/3 plan to spend more than \$1 million over the next 3 years.