

Housing market & woodworking: Beyond the pandemic

An exclusive look at housing market trends and the impact on woodworker's spending plans.

The total value of private construction (residential and nonresidential) put in place in the United States was over a trillion dollars (\$1,245 billion) in 2021, up 12.4% from \$1,108 billion in 2020. Spending in all residential categories increased in 2021, including a 33.0% increase for single family, a 15.6% increase for multi-family, and a 13.7% increase for residential improvements. Spending on nonresidential construction, however, declined by 2.1%. The number of single family housing units started in 2021 was 1,127,200 an increase of 13.8% from 2020 and the tenth consecutive increase since 2011. Single family starts still are well below the peak of nearly 1,716,000 units in 2005; how-

ever, the last time starts were above one million was in 2007, according to U.S. Census Bureau figures. These increases in residential construction spending and housing starts came on the heels of the COVID-19 pandemic, which caused numerous production and supply chain disruptions, especially in 2020.

Against this backdrop, the 13th annual housing market study was conducted in early 2022 to assess market conditions for secondary woodworking manufacturers involved in construction-based and related sectors. Did the woodworking industry realize continued sales volume declines associated with the pandemic, as was seen in 2020? What do companies plan as investments to improve their capabilities in the current business

environment? Information is provided on the status and current activities of manufacturers, as well as analysis of what has changed since last year. This study is a joint effort by Virginia Tech, the USDA Forest Service, and Woodworking Network/FDMC (see "About the survey" page 32).

Sales performance & market trends

Analysis of year-over-year sales performance reveals a somewhat stable environment for secondary manufacturers until 2020, when there was a spike (45%) in the number of firms reporting a decline in sales volume in connection with the COVID-19 pandemic (Figure 1). For 2021, impacts of the pandemic seemed to abate with only 18% of firms

reporting a sales volume decline. This percentage is similar to pre-pandemic levels; for example, the figure hovered around 20% from 2014 to 2018. In a related question, 44% of respondents indicated that the pandemic had a negative effect on their firm's ability to be profitable in 2021, 41% said it had a positive effect, and 15% said that the pandemic had no effect on profitability. Last year, just 6% of respondents indicated the pandemic had no effect on profitability.

For 2021, a relatively large percentage of companies directed moderate levels of their production volume (21-60%) at each of the major housing markets (Figure 2). This suggests that companies are diversifying their production across housing markets given the relative strength in each.

Although green building products are another market possibility for secondary woodworkers to leverage sales volume, customer interest continues to decline. This year, 20% of respondents reported they had seen an increase, which was the lowest level to date. Most respondents (61%) continued to indicate they had not seen an increase, while 18% were uncertain.

Demand for made-to-order production continues to be important for the woodworking industry. For 2022, 49% of respondents indicated 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 54% of respondents reporting they operated at medium-high to high price-points in 2022.

Lastly, respondents continued to be domestically focused, with 62%

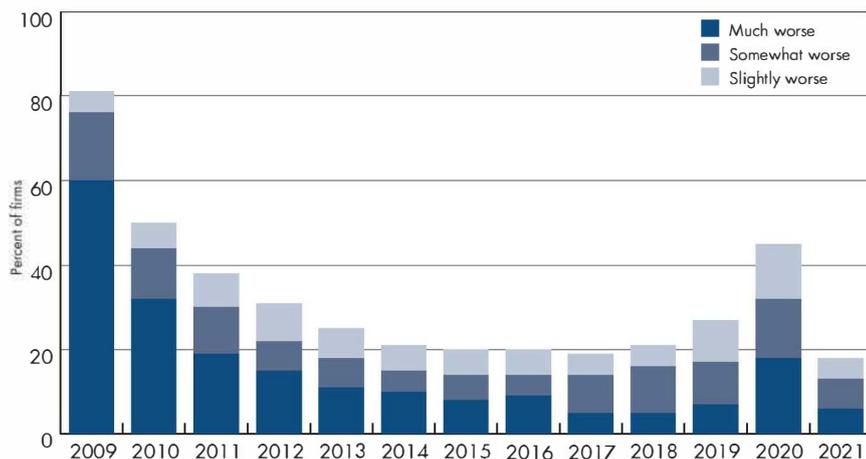


Figure 1. Percentage of firms reporting sales volume declines by year

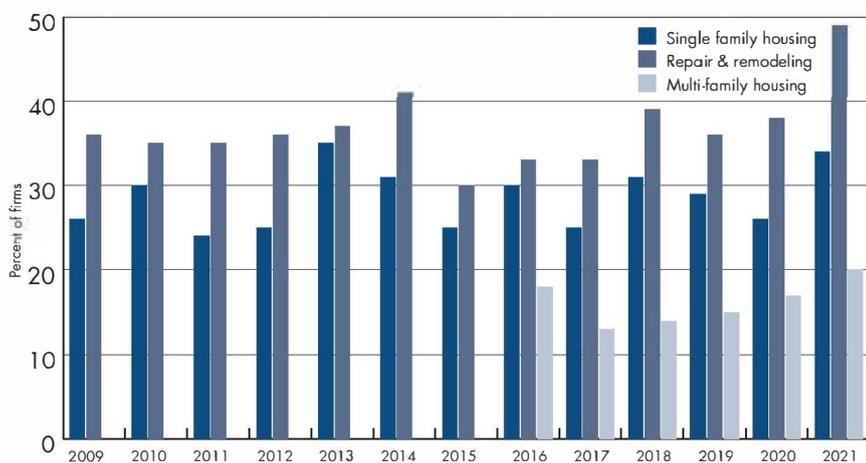


Figure 2. Percentage of firms with 21-60% of their production volume directly associated with the major housing-related markets (data not available for multi-family housing prior to 2016)

indicating that more than 60% of their 2022 sales would result from domestically produced and/or sourced products, although this was the lowest percentage to date in the study series. In line with this observation, 41% of respondents indicated that they had increased the use of wood imports in their respective product lines over the past five years, which like last year was the highest figure to date. Of those reporting increased use of wood imports, 53% imported components or lumber, 15% imported finished products, and

33% imported both finished products and lumber or components.

Planned investment activities

For 2022, 50% of respondents indicated that their respective firms planned to spend more than in 2021, which continued a positive trend evident since 2020 and was the largest value to date (Figure 3). In addition, about 30% of respondents were uncertain whether their firm would spend more on investments, which was similar to

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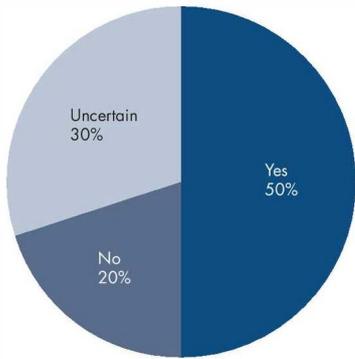


Figure 3. Does your company plan to invest more in productivity and capability improvements this year than it did last year?

previous years.

When asked about their firms' investment plans over the next three years, 52% of respondents in this year's study indicated they would spend less than \$250,000, which was the lowest percentage in the series (Figure 4). Conversely, there were noticeable differences in some of the larger investment amount categories, including \$250 thousand to \$1 million (31%) and more than \$2.5 million (11%).

The study also assessed the general categories or areas where investments were planned over the next three years (Figure 5). Several manufacturing-based investments continue to appear near the top of the list. For this year's study, solid wood processing, assembly, and finishing were mentioned the most frequently, followed closely by employee training. For example, one respondent mentioned cross-training employees to address staffing issues. Advertising/marketing communications, which ranked the highest in 2015, has dropped several percentage points since then and reached its lowest level in 2022. A similar trend

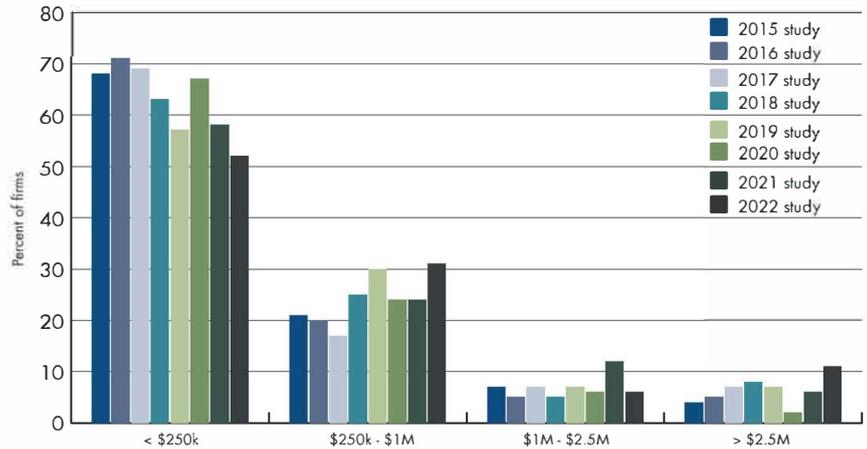


Figure 4. Over the next three years, about how much does your company plan to spend on investments to improve productivity or capabilities?

is seen with salesforce expansion/development. Taken together, these investment trends suggest that many companies currently are receiving sufficient orders without the need for major efforts to generate sales.

Lastly, respondents were asked to indicate if their firms had increased the use of computerization over the last three years in several functional areas (Figure 6). A majority of firms indicated they had increased use in design (64%), collaborating with customers (60%), manufacturing processes (55%), and accounting (55%). For inventory tracking, the percentage of firms increasing computerization rose from 31% in 2021 to 43% in 2022, representing the largest increase in any area and the largest percentage to date for this function. Supply chain management also increased to its largest percentage in 2022, increasing from 35% to 41%. As one respondent noted, their company was “working closely with our suppliers to overcome production and shipping issues, and to build inventories to overcome potential

supply chain issues.” Such strategies might involve investments in associated technology.

Summary

There was a noticeable decrease in the number of firms reporting sales volume declines in 2022 as the pandemic impacts waned and housing-related markets were energized. Companies also appeared to diversify their production more across housing markets (single family, multi-family, and remodeling). Concurrent with these positive trends were plans to increase investments for many firms; for the first time in the study series, half of respondents indicated they planned to invest more this year compared to last year. Major areas for planned investments included production related areas (solid wood processing, assembly, and finishing) as well as employee training. Increased investments also concurred with increased computerization in several functional areas, with notable upturns occurring for

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inventory tracking and supply chain management. These investments likely are a function of challenges in the supply chain for many firms to get the materials they need to meet increased demand.

About the survey

This is the 13th consecutive year for the Housing Market survey. While several of the questions remain the same from year to year to help track industry trends, more recent studies also have included questions related to investment and computerization activities. The 2022 study was conducted in February/March/April via e-mail invitations sent by Woodworking Network/FDMC to their subscribers. A total of 98 usable responses was received.

Similar to past years, kitchen/bath cabinet producers comprised the largest percentage of the sample, representing 47% of respondents. Thirteen percent of respondents were household furniture producers and another 12% were moulding/millwork producers. Other types of producers in the sample included dimension and components (7%), office/hospitality/contract furniture (6%), and architectural fixtures (4%). While an additional 10% indicated 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 48% having sales of less than \$1 million in 2021, and another 30% having sales of \$1-\$10 million. Furthermore, 64% of respondents had 1-19 employees and another 11% had

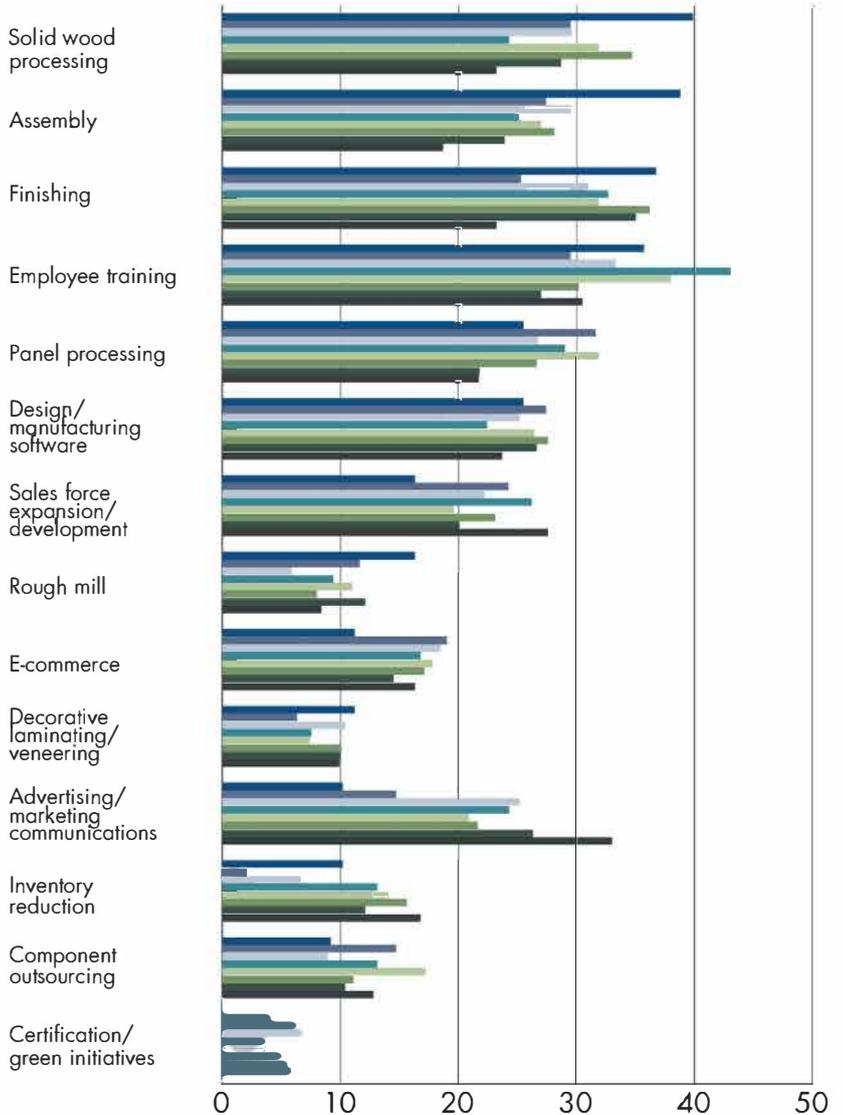


Figure 5. Areas where respondents will invest significantly within the next three years

20-49 employees.

A majority of respondents (66%) held positions in corporate or operating management or were the owners of their respective firms. Responses were received from 38 states and provinces, with AB, CA, GA, OH, ON, TN, and WI each accounting for at least 4% of the total responses. Geographic markets served ranged from a high of 42% doing regular business in the Midwest to a low of 16% doing regular

business in the Southwest. Business conducted by respondents in all other U.S. regions (eight total) fell within this range. **+**

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