The *Cutting Edge*™October 2004

More on the U.S. Job Market

As *Business Briefing* readers know, the U.S. Department of Labor maintains two indices to measure the state of the U.S. job market:

- The Household Survey polls about 60,000 households to determine who is working and who is not. This survey captures data on farm workers and self-employed workers as well as company employees.
- The Establishment Survey collects payroll data from about 300,000 businesses across the country. This survey includes only non-farm workers who are actual 'employees' of an established business.

Due to differences in the sample group and size, these surveys typically provide conflicting data especially regarding job creation. Comparing the number of jobs as of August 2004 with the end of the recession in November 2001, for example, the Household Survey shows that the economy has created 3.4 million jobs vs. only 0.6 million reported in the Establishment Survey.

Arbitrating such a disagreement calls for a third employment metric. One such measure is the Monster Employment Index (MEI) maintained by Monster.com, the online service that connects job seekers to employers. This Index is a monthly analysis of U.S. job demand online and counts job postings on 1,500 Web sites as an indicator of employer demand for employees. An independent research firm audits the data used in the MEI. Accuracy is within +/-1.05%.

The August MEI is 145, the highest level reached since the metricOs debut in March of this year. Results for the first eight months of 2004 are:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
102	107	109	125	128	136	134	145

Job demand in August was strong across most industries with 14 sectors climbing to their highest levels in 2004. Manufacturing jumped to 146 from 118 in April. Demand was high across every occupational category. In addition, all nine geographic regions tracked by Monster achieved their highest levels in August since October 2003.

Bottom Line: By most measures, the U.S. job engine is revving up strongly since the last recession. Keep your eye on the MEI by clicking on Press Releases at www.monsterworldwide.com. A new Index is released in the first week of each month.

Unfair Competition

Seems the U.S. furniture industry is not the only group complaining about Chinese competition. The American Forest & Paper Association (AF&PA) reported in July that the Chinese forest products industry enjoys government subsidies and other support giving its domestic producers an unfair advantage in world markets.

The Chinese government is seeking to reduce its dependence on imported wood fiber, paper, and processed wood products. A four-point program is in motion that aims to:

- Develop a domestic wood fiber base by developing fast-growth plantations, reduce taxes on forestation investments, and reducing tariffs on imported processing machinery.
- Encourage foreign investment in the forest products sector through financial and tax incentives.
- Promote exports of value-added wood and paper products through tax rebates.
- Subsidize the restructuring of paper and wood products companies.

Both central and local governments have stepped up development aid in these initiatives. Part of this program is the large scale development of the plywood and panelboard sectors.

The AF&PA has vowed to work with U.S. trade agencies to address 'ChinaOs market distorting policies to ensure the U.S. industry has a fair chance to competeO L. Their full report on this important issue can be viewed here

Bottom Line: Few industry sectors are immune from attack by the big bear thatOs China. In the wood arena, furniture is gone. Will kitchen cabinets and cabinet components be next? Stay tuned.

Economic Factoid What U.S. companies are the largest traders through our ports? On the import side the names are familiar merchants of inexpensive foreign products Wal-Mart, Home Depot, and Target along with food companies Dole and Chiquita Brands. According to The Journal of Commerce, Wal-Mart, the worldOs biggest retailer, moved a staggering 471,600 20-foot equivalent containers (TEUs) inbound in the last twelve months. On the export side, Weyerhaeuser was the second leading shipper with 102,200 TEUs followed by DuPont at 101,200 TEUs. The leading exporter via container ship is an unknown company, American Chung Nam. WhatOs it shipping? Wastepaper to China at a rate of 187,500 TEUs a year.

Sector Situation Report

Latest news from the wood products industry by sector...

Office Furniture BIFMA reported that July 2004 orders fell by 5% putting an end to a seven-month run of increases. Shipments did grow by 4% but well below their high single-digit performances of the prior four months. In spite of this poor showing, analysts remain optimistic that the contract office furniture market is recovering from its horrendous performance in 2001-03. Many producers have instituted price increases to offset rising materials costs. Sales of office furniture are an indicator of business investment, a key component in the U.S. economy, as companies buy desks and chairs for new employees. Keep your eye on this vital statistic.

- **Steelcase** reported 2Q2005 revenues up 6.4% versus the same quarter last year and up nearly 9% over their 1Q. Much of this improvement came from price increases particularly on steel products.
- **Herman Miller** noted that 1Q2005 sales were up 10.1% versus the same quarter last year. Gross margin remained essentially flat at 31.4% due to higher materials costs. Like Steelcase, Miller also increases its prices to offset these materials cost increases.

Kitchen Cabinets Cabinet sales rose 17.3% in August vs. the same month in 2003 according to the KCMAOs Trend of Business Survey. For the first eight months of 2004 cabinet sales were up 18.4%.

Fueled by the continued strong growth in new home construction and remodeling, virtually every major cabinetmaker is seeking additional capacity either through acquisition, new plant construction, or expansion of existing plants.

- **Masco**, the largest U.S. cabinetmaker, reported a 16% increase in their total 2Q2004 sales. Cabinet sales in their Merillat, KraftMaid, and Mills Pride brands increased nearly 15% to $797 million. Operating margin in the cabinet segment was 17%.
- **American Woodmark**, the second largest U.S. cabinetmaker, reported sales growth of 21% for their 1Q2005, but gross margin declined to 20.7% from 21.8% in the same quarter 2004. Management blamed the decline on higher raw materials costs. Operating margin, however, strengthened to 8.5% from 8.1% last year.

Home Furniture The on-going investigation into dumping of wood bedroom furniture by Chinese producers continues to wend its way toward a late December final determination. On 7 September the Department of Commerce (DOC) boosted the tariff rate for Chinese producers who have been granted separate rate status from 10.92% to 12.91%. This group consists of seven of the largest furniture makers in China, all of whom were mandatory respondents to the DOCOs investigation.

Business Briefing believes that any tariff less than 30% will not level the playing field for U.S. furniture makers. And such a price increase will inevitably result in lower demand for both Chinese and U.S. bedroom furniture. The Chinese set the price expectations of retailers and consumers long before the anti-dumping petition. If tariffs are imposed, producers in Vietnam, Brazil, and other low labor cost countries will supply quality products to meet pre-petition prices.

And the saga of plant and company closures continues...

- **La-Z-Boy** announced the closure of its two Pennsylvania House plants in Lewisburg and White Deer, PA and lay-off of 425 workers there. A Kincaid Furniture plant in Hudson, NC, will also close with the loss of 120 jobs. These moves were made in an effort 'to strengthen its struggling casegoods division.O L In the meantime LA-Z-Boy also shuttered its Booneville, MS, upholstery plant terminating 100 workers.
- **Bassett Furniture** is closing its Macon, GA, plant and laying off 200 workers. Operating since 1969 the Macon plant produced home office and entertainment furniture. Some of these items will be imported.
- **Henredon**, a Furniture Brands company, is closing its Spruce Pine, NC, plant idling 350 workers. Product will be moved to their Morganton, NC, plant.
- **Hooker Furniture** will close its Maiden, NC, plant in October. The 200,000 ft2 operation employs about 240 workers. Hooker will transfer Maiden products to its plants in Martinsville, VA; Roanoke, VA; and Pleasant Garden, NC, with the objective of running these three plants on full production schedules. In spite of an aggressive program to implement more flexible production of smaller cuttings and quick shipment, management was unable to offset the low labor cost advantage of foreign competitors.
- **Vaughan Furniture** is closing its 260,000 ft2 Stuart, VA, casegoods plant at a cost of 208

jobs. Management blamed low-priced Chinese imports for the closure. The company is left with two plants totaling about 600,000 ft2 and a distribution center, all in Galax, VA. In June Vaughan closed its Johnson City, TN, plant.

- **Kushwood**, the Ontario, CA, casegoods producer, is suspending domestic production at its 450,000 ft2 plant and opting to import its entire product line. Management blamed the high cost of labor, environmental obstacles, and foreign competition for ending its 25-year run as a U.S. furniture maker.
- **Guy Chaddock & Company**, the Bakersfield , CA, maker of custom reproduction furniture, has closed due to a labor union dispute. The shuttering of this third generation business will idle 175 workers.
- Casual dining specialist Dinaire Furniture is moving its production and distribution to Canadian suppliers in an effort to improve competitiveness. Its Buffalo, NY, plant is for sale.

Meanwhile results at other U.S. producers are mixed...

- Casegoods maker **Stanley Furniture** reported 2Q2004 sales of $70.7 million, up 15.2%, and operating income of $8.7 million, up 41% from the prior year. This quarter was the ninth consecutive quarter of year-over-year sales growth. Imported product accounted for about 27% of sales, and management expects that segment to reach 30% for FY2004.
- **Chromcraft Revington** reported a 3.5% decline in 2Q2004 sales but an increase of 22.1% in operating profit. Management attributed this weakness to increased foreign competition and a weak economy.
- Ready-to-assemble producer **OOSullivan Industries** reported a sales rebound of 14% in its 4Q2004. That improvement however did not remedy its poor performance in prior quarters, and FY2004 sales were down 7%. Its full year operating income was 3.4% of sales, down from 9% in the prior year. The newly-appointed management team attributed its lower bottom line to increased materials costs and announced four initiatives focused on new products, a reorganized sales force, additional Asian sourcing, and improved productivity. The company is also moving its headquarters to Atlanta from Lamar, MO.

Wood Flooring July shipments of strip flooring increased 12% over the same month in 2003. For the first seven months of 2004, shipments were up 10% over last year. For the twelve-month period ending in July strip flooring shipments have totaled 668 million board feet, up nearly 6.5% from the prior twelve months.