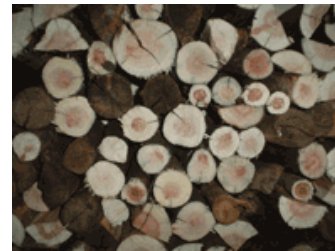


Business Briefing

Usage of US Hardwoods Decline

By Art Raymond, araymond@raymondnet.com

2006 saw the use of U.S. hardwoods continue to decline. After reaching a high of 12.37 billion board feet (BBF) in 2000, total hardwood consumption by all users has dropped by 24 percent. Machinery makers who supply higher value-adding sectors like furniture and cabinetry have seen their customers' use of U.S. hardwoods fall by nearly 26 percent since the turn of the century.



To view statistics for US Hardwood Lumber Usage, [click here](#).

U.S. wood users are purchasing less imported hardwoods, too. Fewer hardwood lumber imports are flowing into our market than at any time during the last decade. Interestingly, imports of tropical hardwoods jumped 3 percent last year. Despite the environmental stigma associated to 'rain forest' woods, U.S. consumers apparently like exotic species more than traditional domestic woods. This trend is also evidenced by the 28 percent decline in hardwood imports from Canada since 2004. Canada, long a heavy trade partner in hardwoods with the U.S., accounted for only 38 percent of hardwood lumber imports in 1Q2007 vs. 72 percent in 2003.

Thankfully for hardwood producers, the weak U.S. dollar is supporting strong exports of U.S. hardwoods. Last year U.S. mills shipped 1.33 BBF abroad. While the long-standing demand for U.S. species by U.S. furniture, flooring and cabinet consumers has weakened, buyers around the world apparently like our wood.

The U.S. Economy Strengthens

Second quarter gross domestic product jumped to a 3.4 percent annual rate, the strongest pace in more than a year. Economic growth in 1Q2007 was an anemic 0.6 percent, the slowest in four years.

The good news for machinery makers is the strength of business investment. U.S. businesses boosted their spending on plant and equipment in the quarter by a stunning 22.1 percent annual rate, the strongest in 13 years.

But Homebuilding Slide Continues

The downturn in residential construction that began in 2006 continues. The bad news is that forecasts for next year show no indication of a meaningful recovery.

**History & Projections for Housing Starts & Home Sales
(in thousands)**

	2004	2005	2006	2007	2008
Total Housing Starts	1,950	2,073	1,817	1,455	1,528
Single Family Housing Starts	1,604	1,719	1,478	1,163	1,230
Existing Home Sales	5,914	6,182	5,708	5,548	5,775
New Single Family Home Sales	1,201	1,280	1,055	938	1,062

Sources: National Association of Home Builders, National Association of Realtors

Remodeling, an important sector of homebuilding for the wood products industry, is now only growing at a 2 percent rate quarter to quarter vs. 20 percent in 2005.

The only bright spot for housing-related wood products is kitchen remodeling. The National Kitchen & Bath Association is forecasting a total of 7.55 million kitchen remodeling projects in 2007 vs. 7.4 million in 2006.

Economic Factoid

Many states are now mandating that electric utilities operating in their jurisdictions supply energy from renewable sources. Just how realistic are those regulations?

Wind Energy – To generate the same amount of energy as a single 1,000 megawatt nuclear power plant requires a 475 square mile wind farm. Providing enough power to meet U.S. electric demand in 2005 would have taken an area the size of Texas covered with windmills running 24 hours per day.

Biomass – Any significant contribution by biomass fuels requires land areas up to ten times larger than wind power.

Hydropower – Every drop of annual rainfall in the Canadian province of Ontario stored behind a 200 foot high dam would be required to generate 80 percent of the electricity supplied by Canada's 25 nuclear plants.

Solar - The entire State of Connecticut would have to be covered with solar cells to supply electricity to power New York City.

Even eco-activists must admit that heavy reliance on these renewable sources is not so 'green'. The best route to eco-friendly U.S. energy independence must combine improved efficiency by users, increased use of natural gas and nuclear power.

Sector Report

Kitchen Cabinets

The continuing downturn in new home construction mentioned above has slammed the cabinet industry. June marks the eighth straight month of weakness in the cabinet industry. According to the KCMA's *Trend of Business Survey*, June sales fell by 15 percent versus the same month last year. YTD 2007 sales were down 13.5 percent. For the year, stock cabinet sales have fallen just over 20 percent vs. last year while semi-custom and custom have declined only 7 percent and 5 percent respectively. The latter categories are typically buoyed by the remodeling segment of the homebuilding economy during downturns.

At the company level...

- **Masco**, the largest cabinetmaker in the U.S., saw their cabinet sales dropped by 14.6 percent year-over-year. Despite the decline operating margin climbed to 14.5 percent from 11.9 percent in the first quarter. Analysts indicate that the company's position in the home improvement market through its relationship with The Home Depot will offset poor sales to the homebuilder channel.
- A Florida-based partnership headed by industry veteran James Lestorti, formerly of LesCare, has acquired two manufacturing facilities. The 55,000 ft2 Design Crafters plant in Margate, FL, will enable the new company to produce cabinets for distribution to the Southeast U.S. The company also is rejuvenating Hooker Furniture's former Martinsville, VA, plant that was closed earlier this year.
- **Showplace Wood Products**, Harrisburg, SD, has broken ground for a 54,000 ft2 addition, its fifth expansion since 2000. The new space will be used primarily for employee facilities, warehousing, and shipping. Showplace currently employs about 500 workers and will add 100 when the new addition is completed. The expanded plant will total 280,000 ft2.

Home Furniture

At the company level...

- **Furniture Brands** reported a 2Q2007 decline in sales of 11 percent to \$535 million. Operating profit fell by 67 percent.
- **Ethan Allen** announced a 5 percent decline in 4Q2007 revenues while net income fell by 8.5 percent. For the full year, sales dropped 5.7 percent vs. FY2006.
- **La-Z-Boy** reported 4Q2007 sales down 9.4 percent from the same quarter last year. Continuing restructuring efforts, however, produced an improved operating margin of 3.1 percent, up from a 0.8 percent loss year on year.
- **Bassett Furniture** announced a \$2.4 million loss in its 2Q2007 as sales fell by 14 percent. Approximately 46 percent of its products were imported.
- **Stanley Furniture** reported that its 2Q2007 sales were down 12.6 percent from the same period last year. The \$9.8 million decline resulted in a \$2.4 million operating loss. For the first six months sales totaled \$142.8 million, down 11.3 percent, and the operating loss was \$700,000.
- **Sauder Woodworking** will phase out domestic production at its Progressive Furniture division's Claremont, NC, plant by the end of 2007. The plant will be converted into a distribution center for imported products. The work force of 330 will be laid off. The division will source its products from Mexico and Asia.
- **Baker Furniture** announced the closing of two plants in Mocksville, NC, and the transfer of their production to the Hildebran, NC, factory. The 166,000 ft2 Milling Road upholstery operation and the 176,000 ft2 case goods plant will be sold. Some of the 200 workers will be transferred to Hildebran.

News from Canadian furniture makers continues grim...

- Canadian producer **Shermag** reported its 4Q2007 sales down 29 percent from a year earlier and an operating loss of C\$4.1 million. Full-year sales were down to C\$156 million, 17.4 percent below 2006. The total operating loss for the fiscal year was C\$17.4 million. Over the past several years the company has closed a number of plants, reduced its work force by half, and now sources over a third of its products from non-Canadian sources.
- **Palliser** announced the closing of its 142,000 ft2 leather upholstery plant in Airdrie, Alberta. Production will be moved to company factories in Winnipeg, Manitoba, and Saultillo, Mexico. The closure will idle 135 workers.
- Casegoods producer **Durham Furniture** announced the lay-off of 80 workers at its Chesley, Ontario, plant and transfer of production to its Durham, Ontario, factory.

Office Furniture

BIFMA, the sector trade association, reported June orders for office furniture up 13 percent. Shipments increased by only 5 percent. Analysts, who have been forecasting a slowdown in this sector, were surprised by this performance and point to the strength in corporate profits, non-residential construction, and service sector employment as reasons. The industry is shipping at an \$11.08 billion rate vs. \$13.35 billion at the historic top of late 2000.

At the company level...

- **Steelcase** reported an 11.2 percent jump in its 1Q2008 sales. Gross margin rose to 32.65 percent, up from 30.3 percent last year. Operating margin also recovered to nearly 6 percent from just under 4 percent in the same period last year.
- **Herman Miller** announced a 9.3 percent increase in its 4Q2007 revenues. Gross margin declined moderately to 33.6 percent from 34.1 in the same period last year. Due to a decline in SG&A expenses operating margin rose to 9.2 percent from 8.5 percent in the prior year's fourth quarter.
- **HNI Corporation** reported 2Q2007 sales of its office products down 1.4 percent. Management is expecting office products to grow in the low single digits in the third quarter.
- **Knoll** reported 2Q2007 sales up nearly 10 percent vs. the same period last year. Operating margin rose to 13.8 percent.

Wood Flooring

NOFMA, the primary flooring industry association, has ceased reporting monthly strip flooring production data. When an alternative source for this information is identified, *Business Briefing* will resume reporting this indicator of flooring industry health.

At the company level...

- **Mohawk Industries** reported 2Q2007 sales of its Unilin laminate flooring at \$363.5 million, up nearly 16 percent from \$313.8 million in the same quarter last year. Operating margin on laminate flooring sales jumped to 22.5 percent, up from 19 percent last year. The company acquired prefinished strip flooring plants in Holden, WV, and Melbourne, AR, and engineered wood flooring plants in Danville, VA, and Sungai Petani, Malaysia, from Columbia Forest Products. These plants produce approximately \$180 million in annual sales but are operating at 50 percent capacity. Columbia is a long-time supplier to Mohawk.