

Dynamics and Trends in U.S. Value-Added Wood Product Markets

Richard Vlosky, Ph.D.

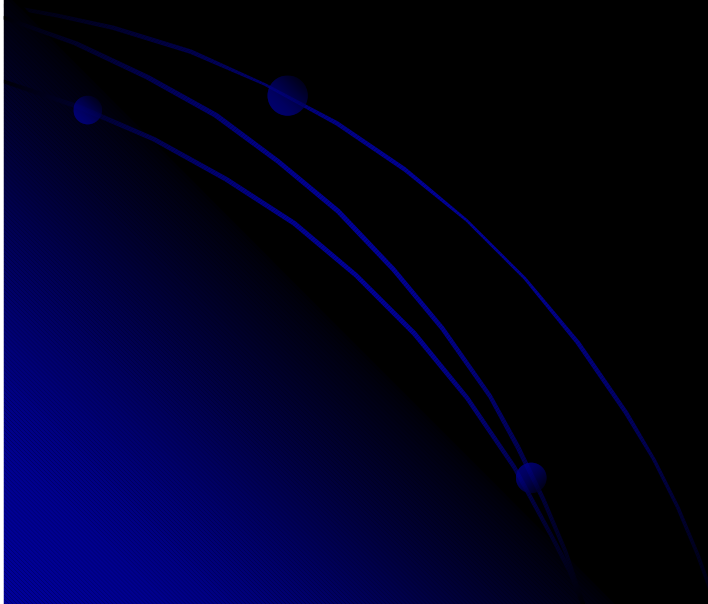
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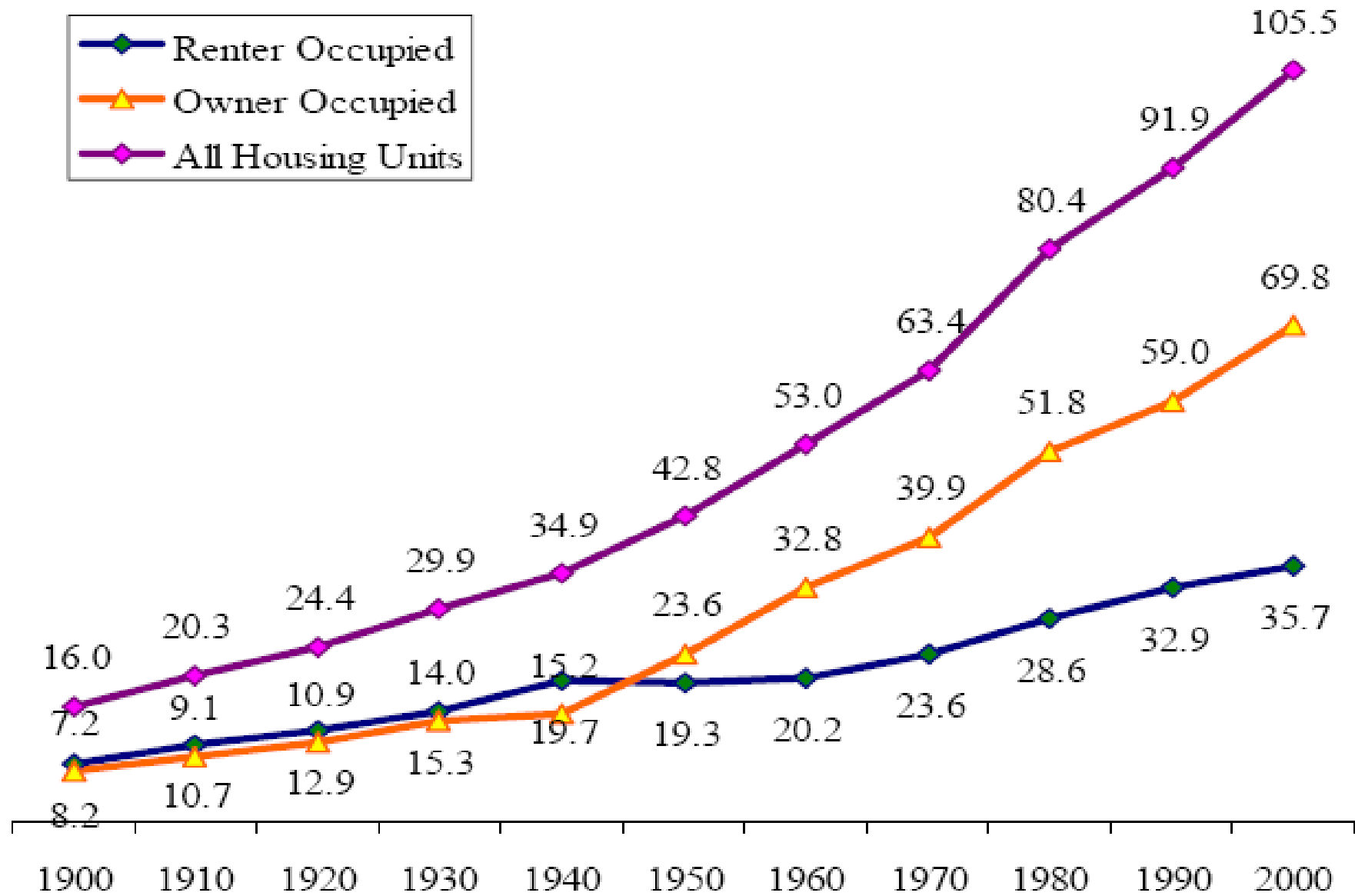
Presentation Outline

- Demographics/Demand Drivers
- The U.S. Furniture Industry
- U.S. Market Trends
- Household Furniture
- Office Furniture
- Millwork, Molding, Flooring
- The Balkans
- Recommendations

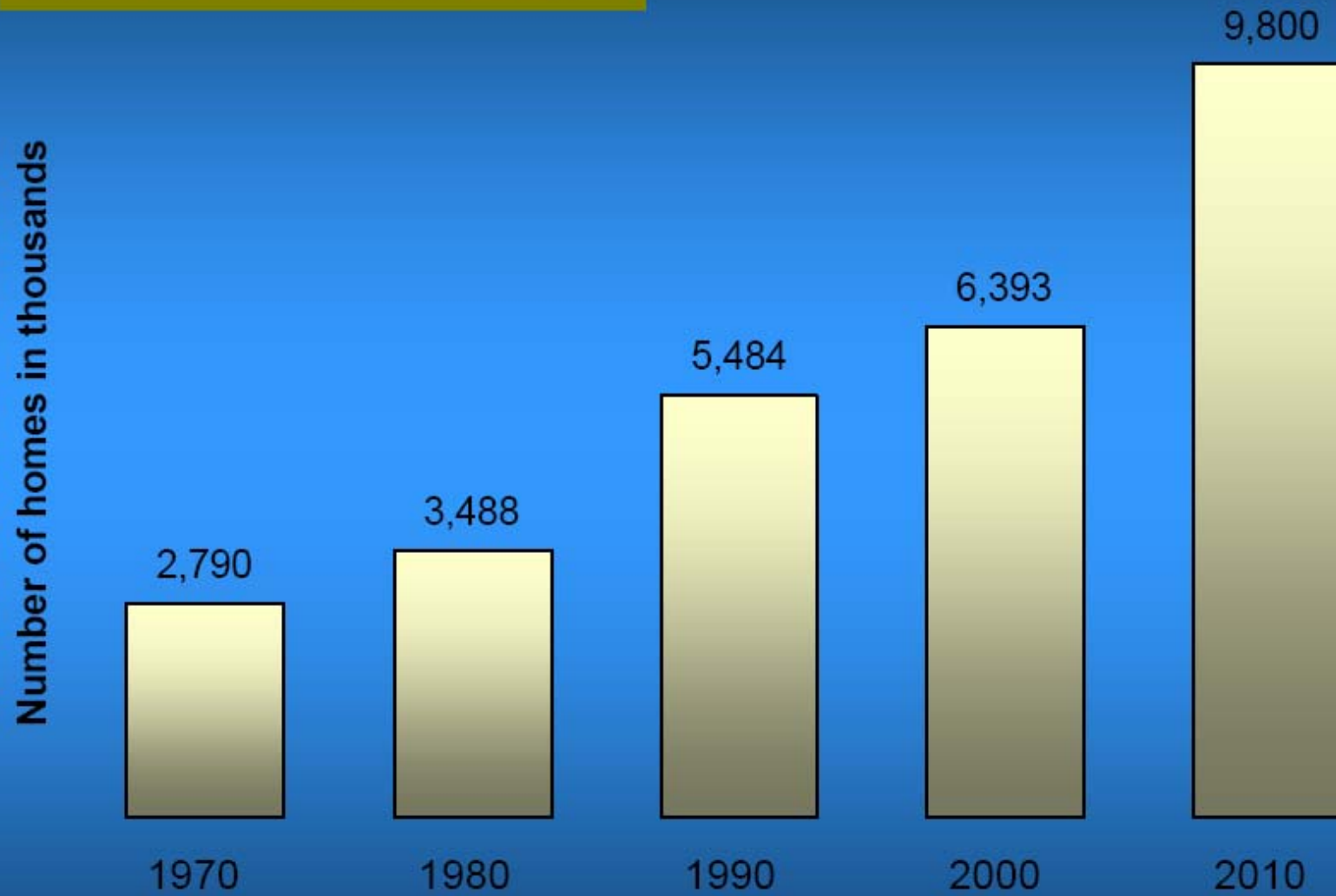
Demographics/ Demand Drivers



**Ownership/Rental Status of Occupied U.S.
Housing Units, 1900-2000**
(In Millions)

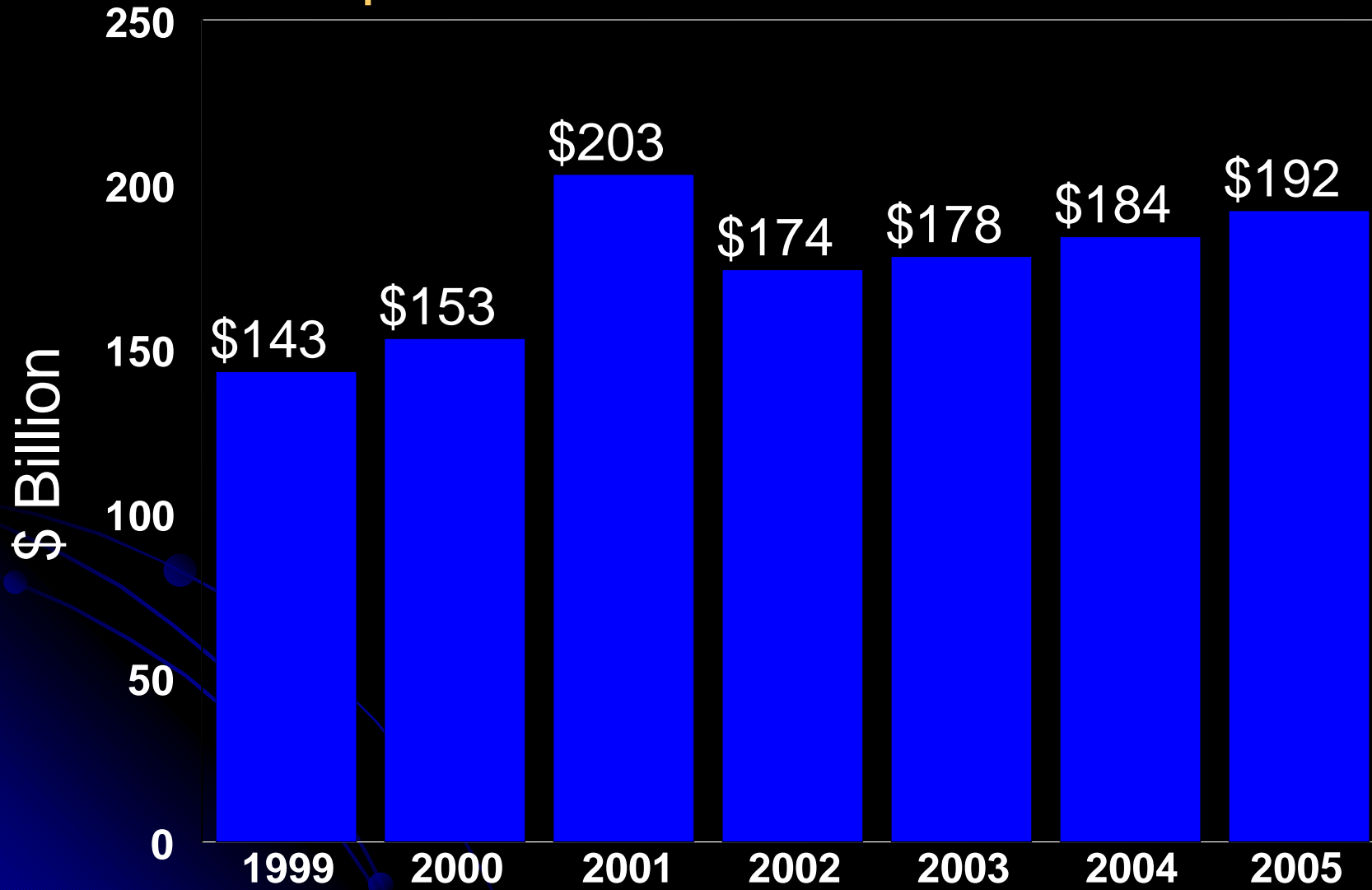


HOME SWEET SECOND HOME



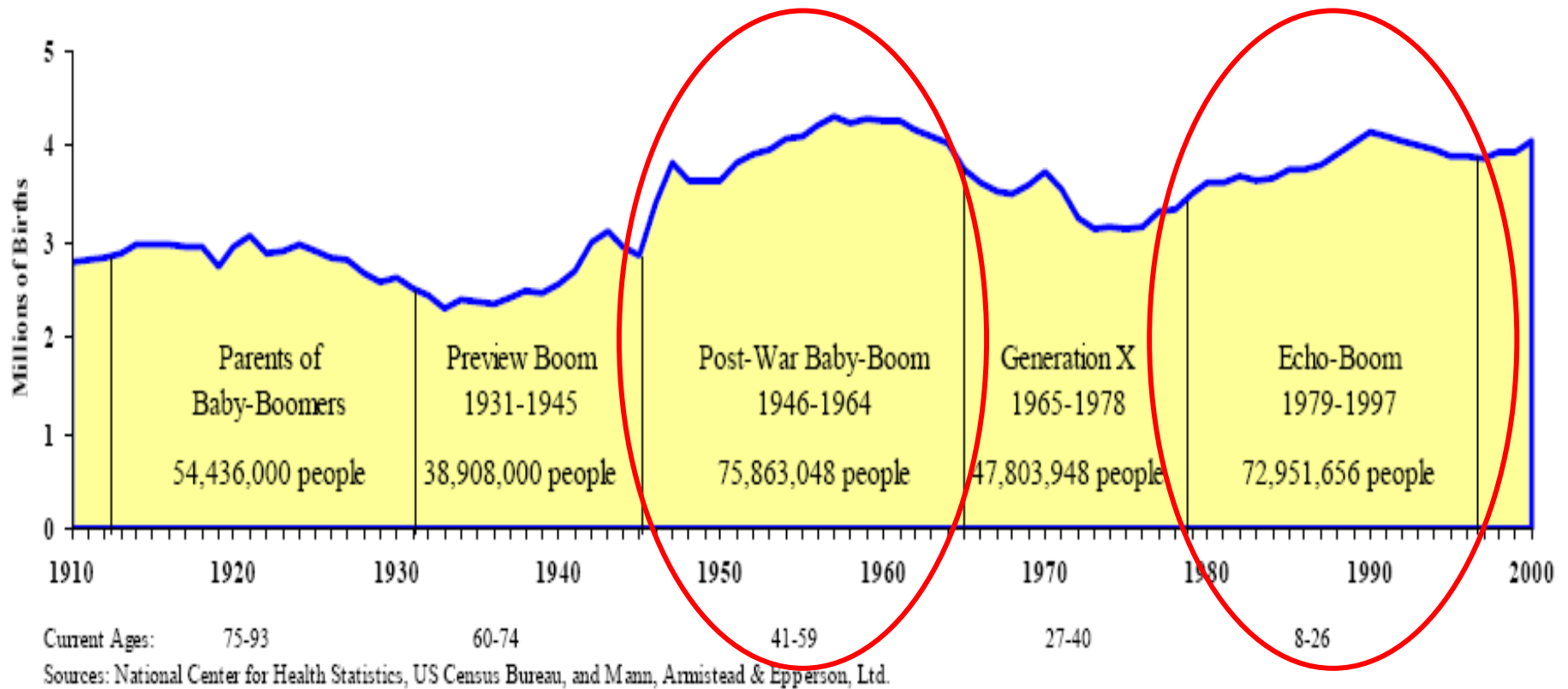
Source: Census Bureau for 1970 to 2000; Peter F for 2010 projections

U.S. Home Improvement Sales \$ Billion 1999-2005



Source: Home Channel News

Live Births



Demographics-Baby Boomers

- 76 Million Baby Boomers
- Highly influential
- Reaching peak spending years of 45-54. Boomers are now 39-57
- Near-peak earnings (value on job, inheritances, accumulated assets, repaid debts) and are buying with a longer time horizon
- Wave of inheritances: coming in our 50's because boomers' parents are living longer; \$10+ trillion; biggest generational shift of wealth ever
- This spending trend is being reinforced by wealthiest group of immigrants ever to come to America

Source: Mann, Armistead & Epperson, Ltd., Investment Bankers & Advisors

Demographics-Echo Boomers

- Up to 80 Million “Echo Boomers” (Generation Y)
- These are the children of the “Baby Boomers”
- Wealthiest young generation ever
 - entrepreneurial, global
 - truly mixed ethnically
 - best educated; both men and women
 - computers are a primary language
 - parents are giving this group more money
- Starting in 1998 growing to 2022 (peak: 2016 or so)

Source: Mann, Armistead & Epperson, Ltd., Investment Bankers & Advisors

Top 16 U.S. Wood Product Imports 2005



The “Value-Added” Industry is Diverse



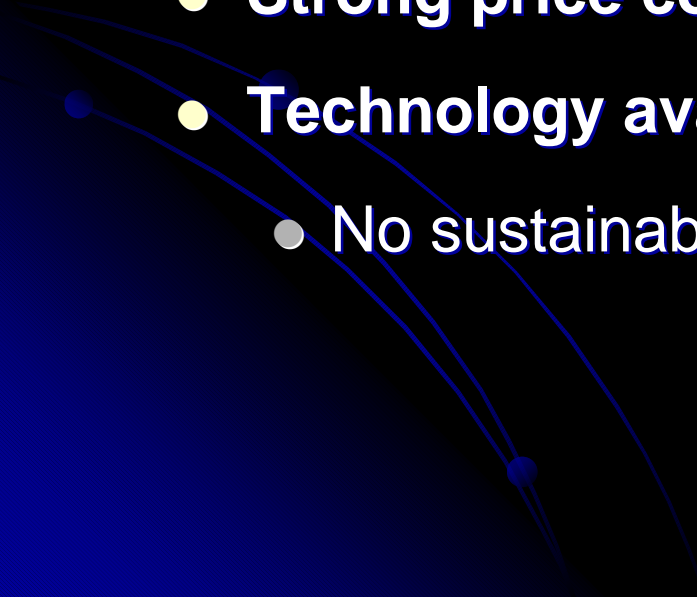
Household Furniture



The U.S. Furniture Industry

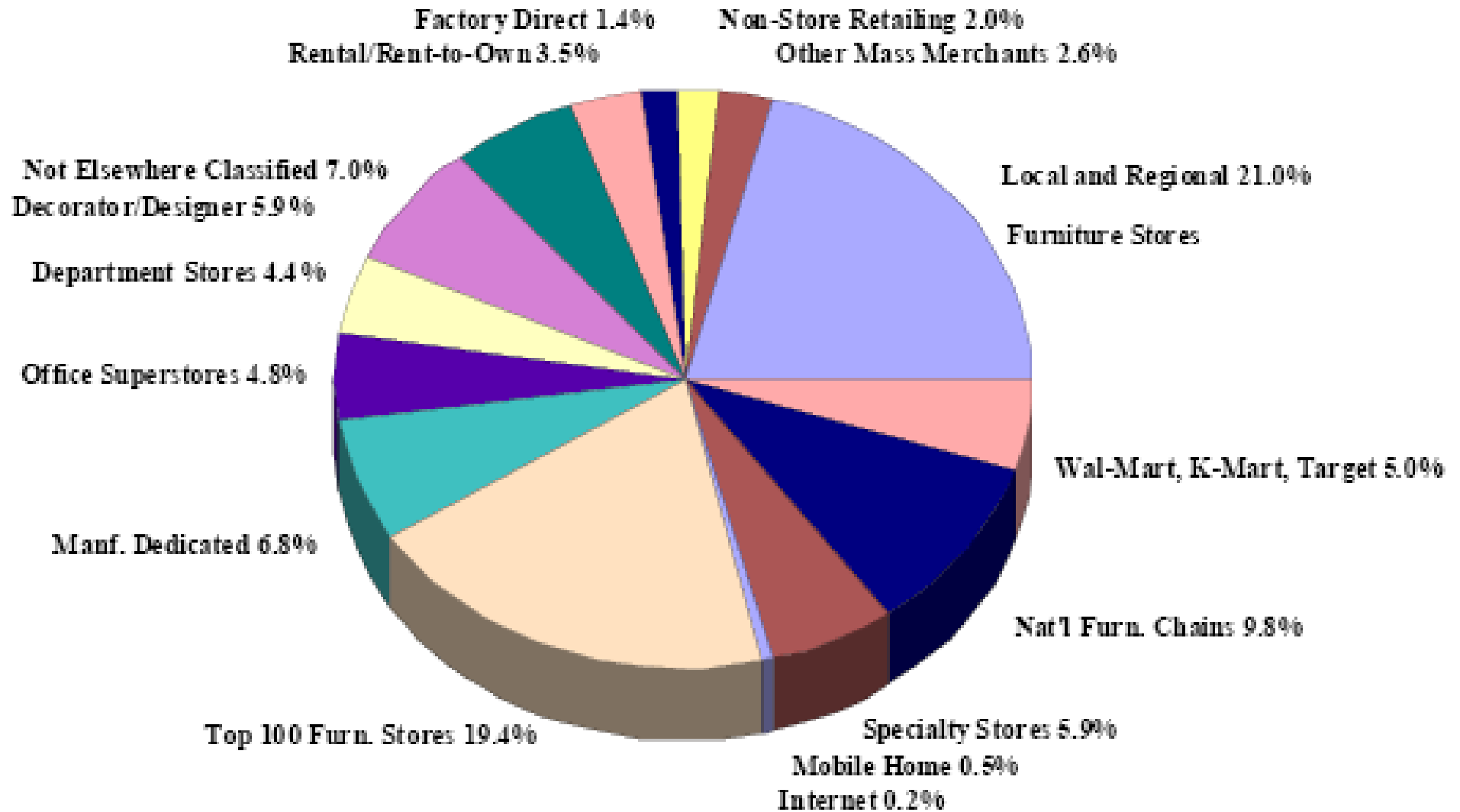
- The species of lumber used: oak, cherry, yellow poplar, maple, and pine.
- Processes vary widely from customized work requiring skilled workers to mass production performed by high-speed machines.
- U.S. producers consist primarily of:
 - Integrated manufacturers of either household or office furniture
 - Assemblers of pre-cut wood household or upholstered furniture
 - Niche producers

The U.S. Furniture Industry

- **Fragmented**
 - No firms controlling large market share
 - **Limited brand recognition in the market**
 - Products perceived as relatively homogeneous
 - **Strong price competition**
 - **Technology available for all firms**
 - No sustainable competitive advantage
- 

CHANNELS OF DISTRIBUTION FOR RESIDENTIAL FURNITURE

2002



Source: Mann, Armistead & Epperson, Ltd., Investment Bankers & Advisors

U.S. Furniture Industry Trends

- Manufacturers have overcome initial resistance to eBusiness to avoid losing business to competing virtual retailers.
- East Asian producers have opened assembly /production facilities in the United States for mid-to-upper priced, fully-assembled wood household furniture.
- Higher profit margins in this segment are driving this strategy, although the lower-priced segment remains dominated by imports from East Asian manufacturers.

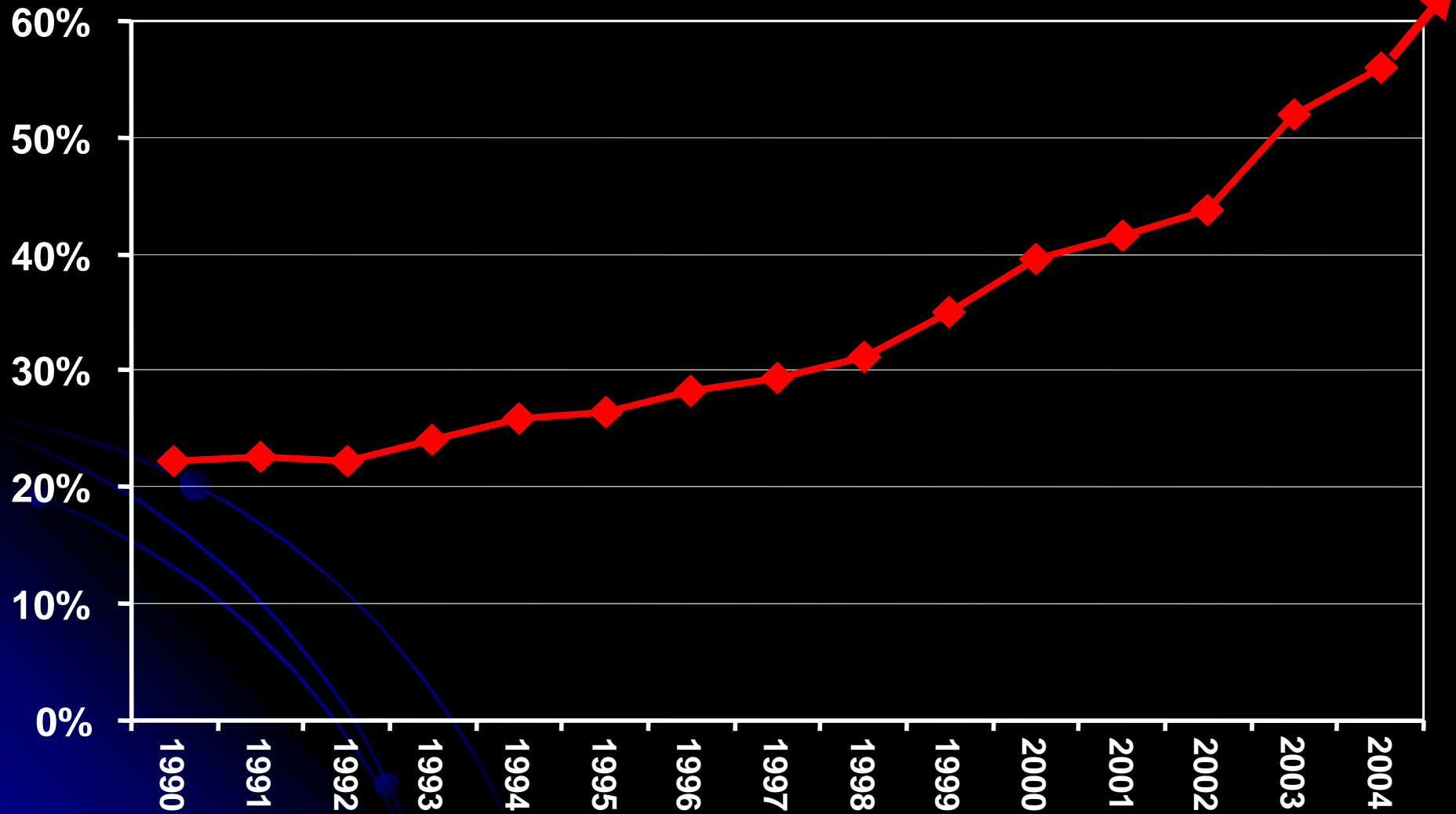
U.S Furniture Industry Trends

- High transportation costs for fully-assembled furniture greatly reduces the cost competitiveness of U.S. furniture in other markets.
- To service more distant markets, several U.S. producers of office furniture and a few U.S. household furniture manufacturers have established fabrication facilities in Europe and Asia.

U.S. Furniture Industry Trends

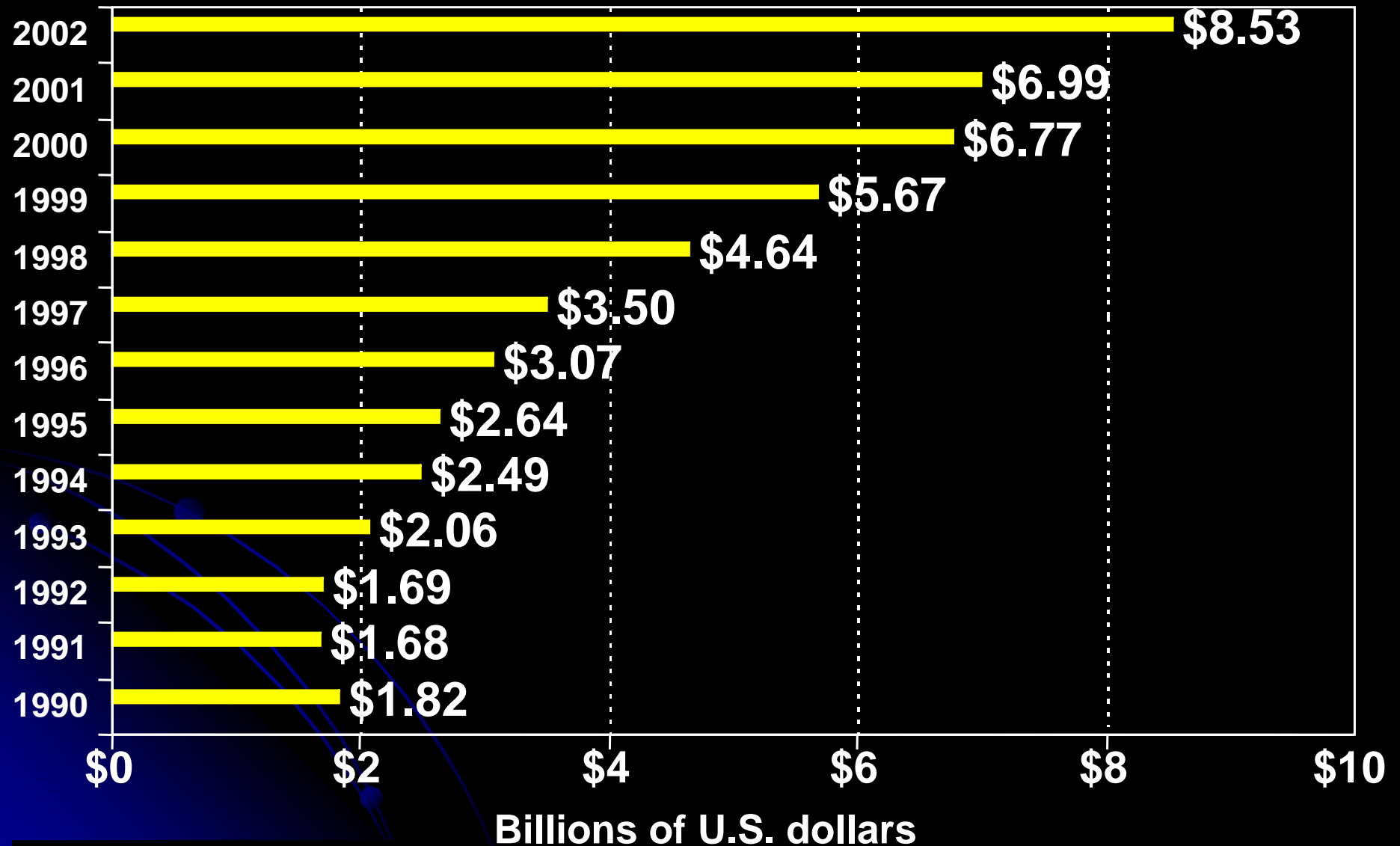
- Impacted by a relatively weak U.S. dollar
- A decade ago, 26% of all residential wood furniture sold in the U.S. was imported
 - #1 Taiwan
 - #2 Canada
- Imports now represent ~60% of wood household furniture sold to U.S. consumers

Household furniture markets are dominated by imports



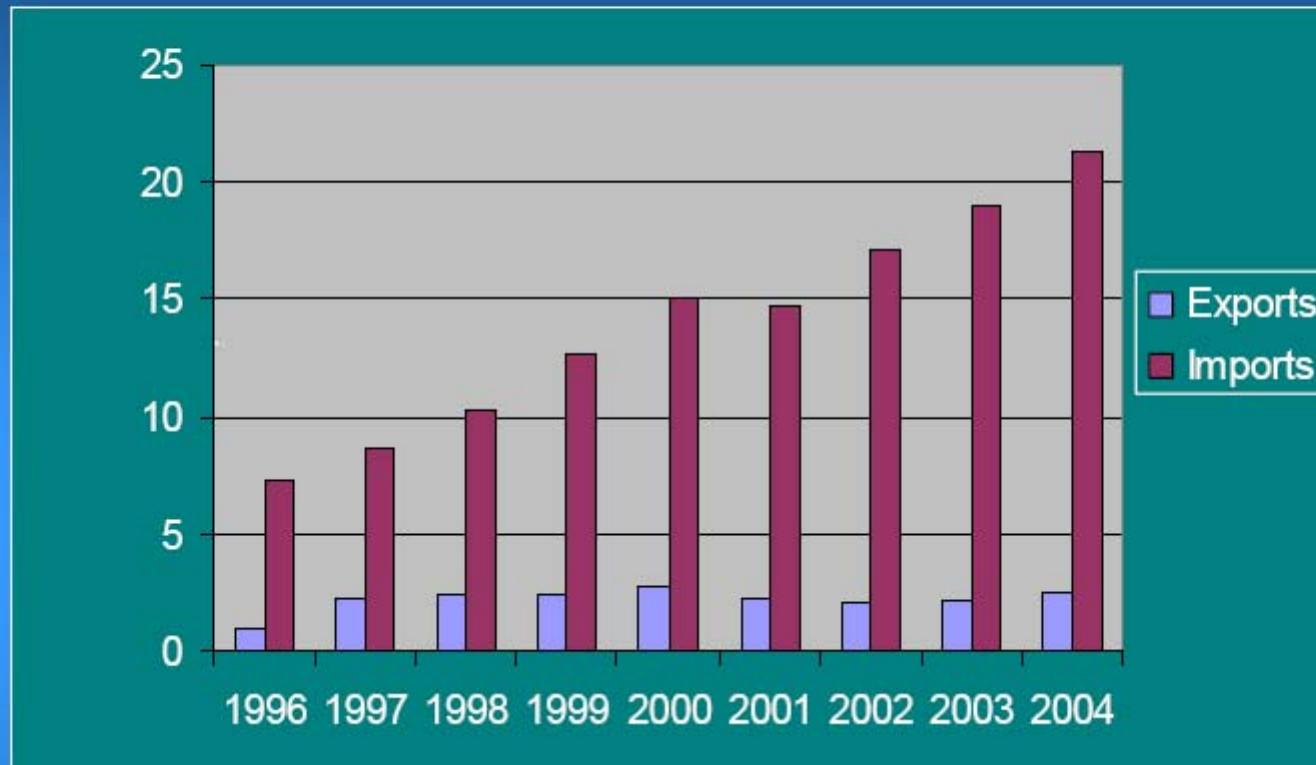
Sources: U.S. Commerce, Bur. Census, Intl. Trade Div., Wash., DC

U.S. Wood Household Furniture Trade Deficit Escalated since the early 90's



Source: Buehlmann and Schuler 2004

US furniture trade (in) balance

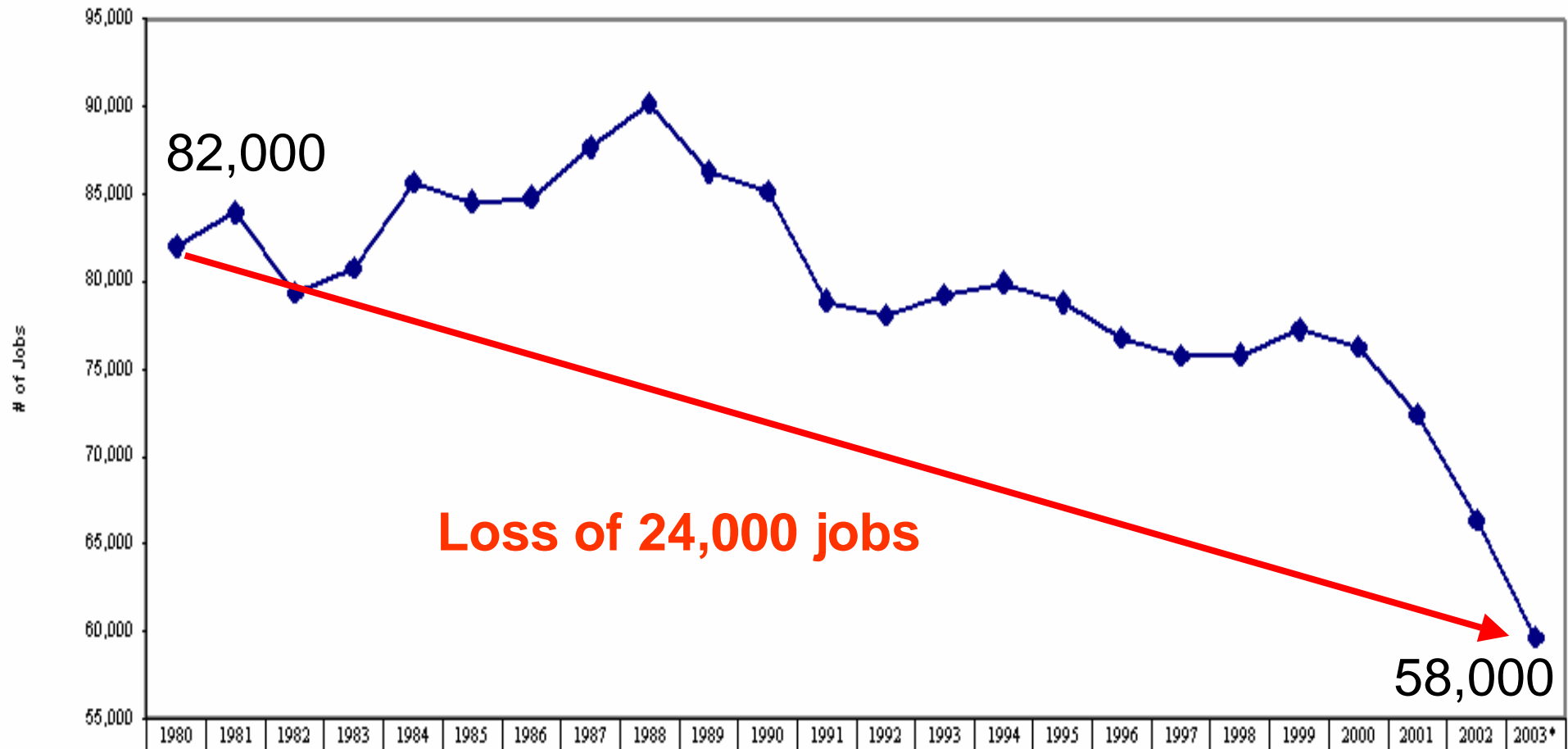


Source: US Census of Manufacturers

- ◆ From 1996 to 2003 furniture imports grew 264%
- ◆ From 1996 to 2003 furniture exports grew 13%

Tremendous impact...

North Carolina Furniture Industry Employment Trend 1980-2003



Source: U. Nwagbare, NC Dept. of Commerce, NC Employment Security Commission

Typical North Carolina Furniture Manufacturing Facility



Source: Buehlmann and Schuler 2004

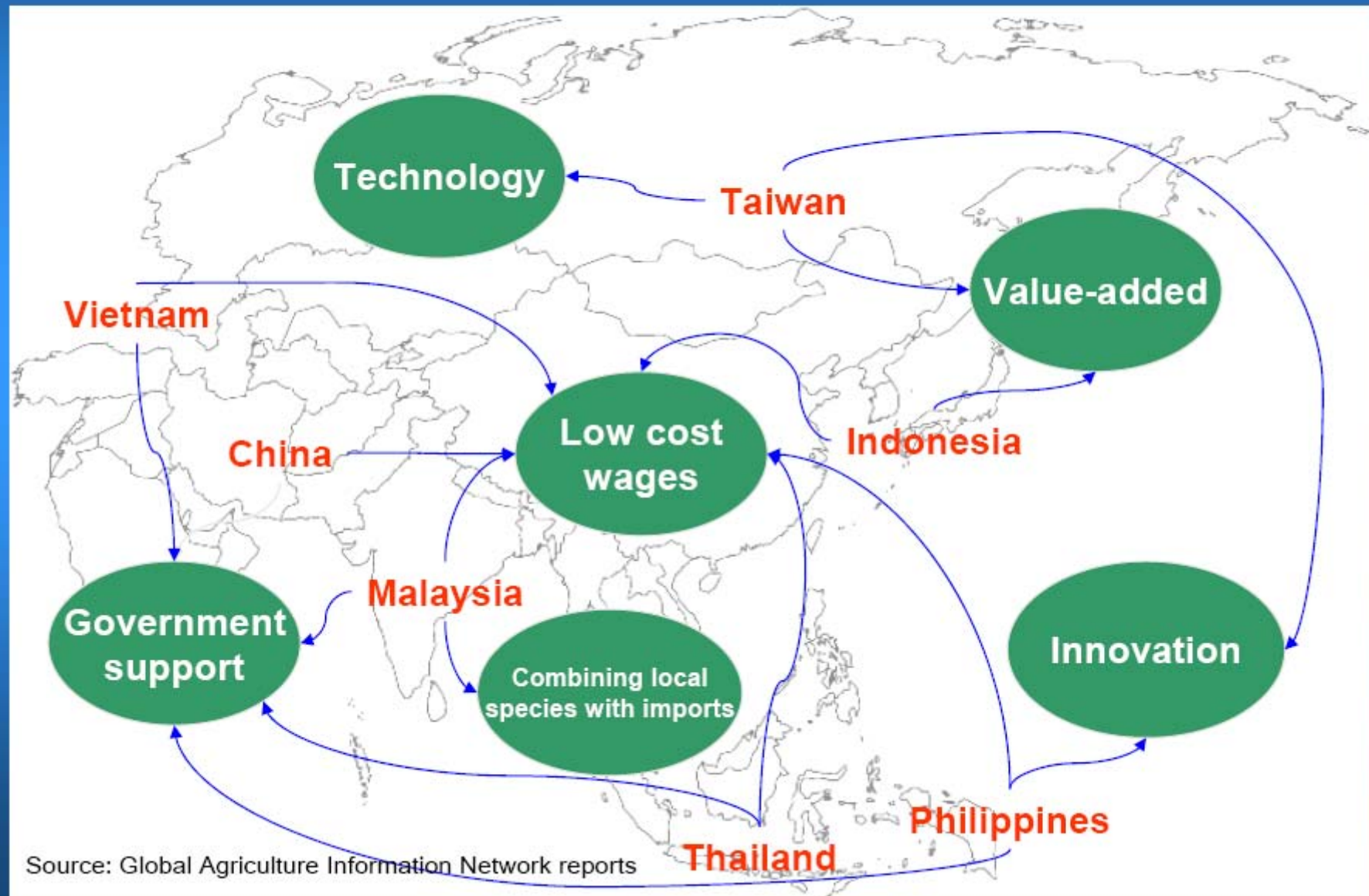
Wood Household Furniture Imports by Significant Countries

(millions of dollars)

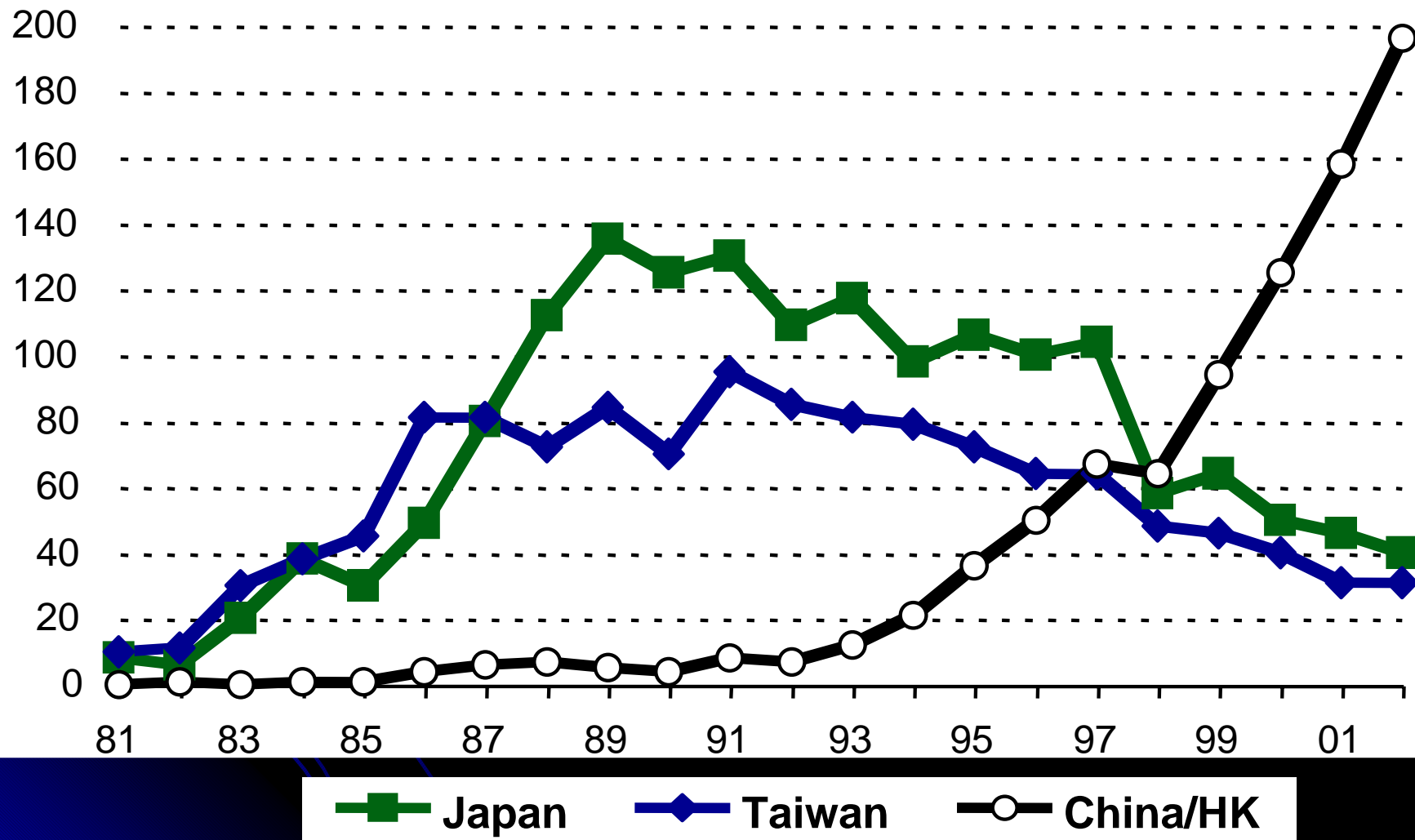
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>CAGR</u>
China	323.3	422.9	572.2	794.0	1,141.0	1,650.7	1,897.6	2,893.6	3,592.5	4,179.5	32.9%
Canada	523.2	638.2	775.4	947.5	1,182.9	1,368.5	1,306.7	1,267.7	1,240.4	1,276.8	10.4%
Malaysia	270.3	329.9	336.3	340.4	396.4	399.5	364.4	414.5	442.6	521.3	7.6%
Italy	218.0	233.8	255.6	306.4	392.6	460.4	453.6	484.3	479.2	451.3	8.4%
Indonesia	146.3	160.7	205.0	254.6	332.2	373.4	376.7	414.2	405.1	422.8	12.5%
Thailand	131.6	122.7	125.0	149.7	188.2	225.8	226.7	297.7	310.2	392.5	12.9%
Mexico	176.4	242.5	293.0	353.7	371.9	392.8	372.2	372.1	341.6	336.0	7.4%
Vietnam	NA	0.2	0.3	1.0	2.1	7.1	10.6	63.1	148.3	321.6	NM
Brazil	66.3	51.6	55.9	52.0	70.3	92.6	126.1	187.9	200.1	272.6	17.0%
Taiwan	444.8	401.8	378.9	381.7	402.7	349.4	280.6	260.2	175.1	145.1	-11.7%
Total Imports	2,826.8	3,147.2	3,615.9	4,301.2	5,303.1	6,292.6	6,354.8	7,605.1	8,349.3	9,485.6	14.4%

Source: ITA

Critical success factors of largest Asian furniture exporters to the US



U.S. Lumber Exports



Source: U.S.D.C. and Bumgardner



Source: Morgan Keegan, January 2004

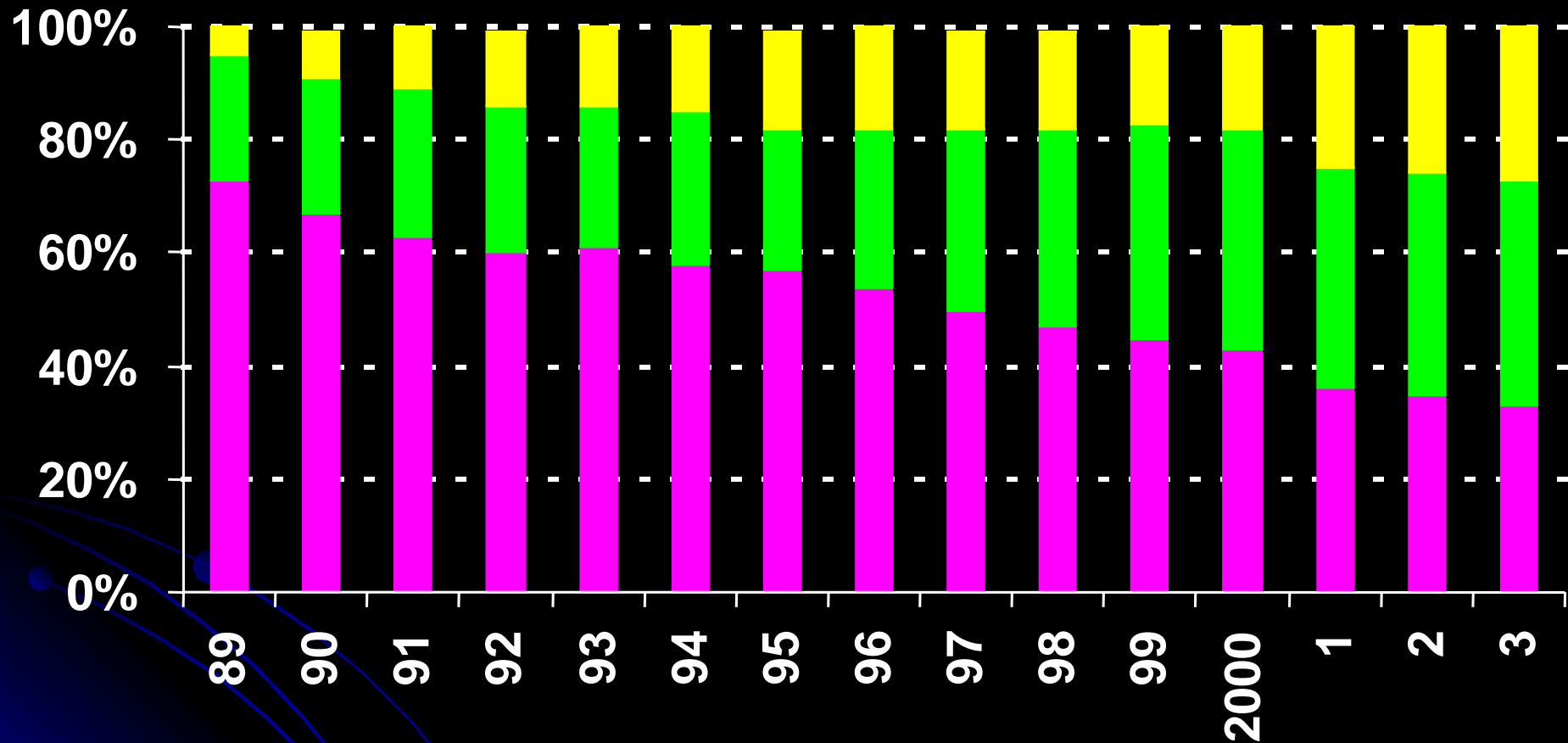
Molding, Millwork, Flooring



Molding, Millwork, Flooring

- Windows, window parts, doors, door parts, wood moldings
- Higher grades of lumber
- Threats:
 - Imports
 - Substitute materials

Domestic molding markets are being attacked by imports and substitutes



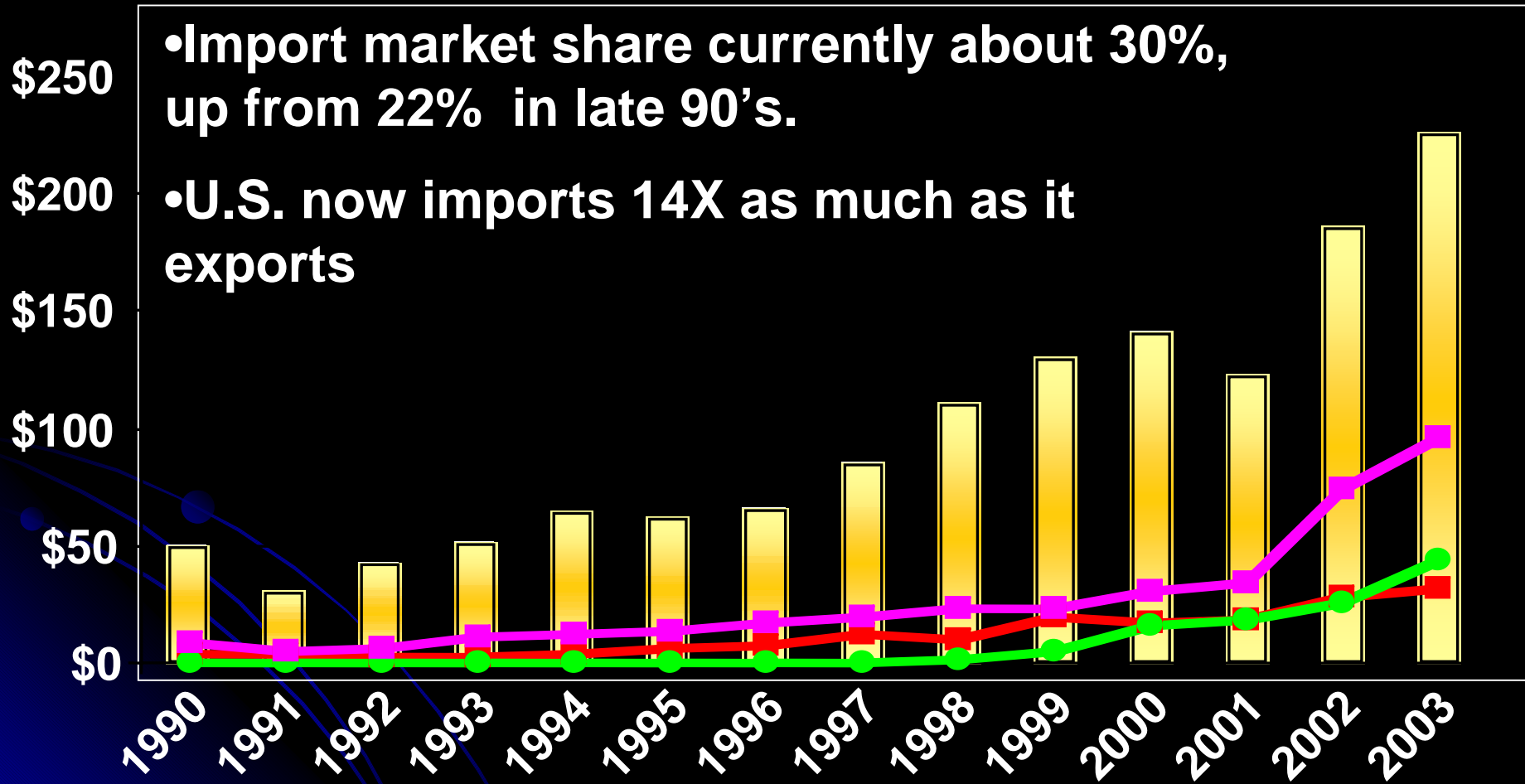
■ US Produced Wood Moldings **■ Imported Wood Moldings**

■ MDF/Plastic Moldings

Source: R. Taylor,
WMM, 2004

U.S. Hardwood Molding Imports

Million \$

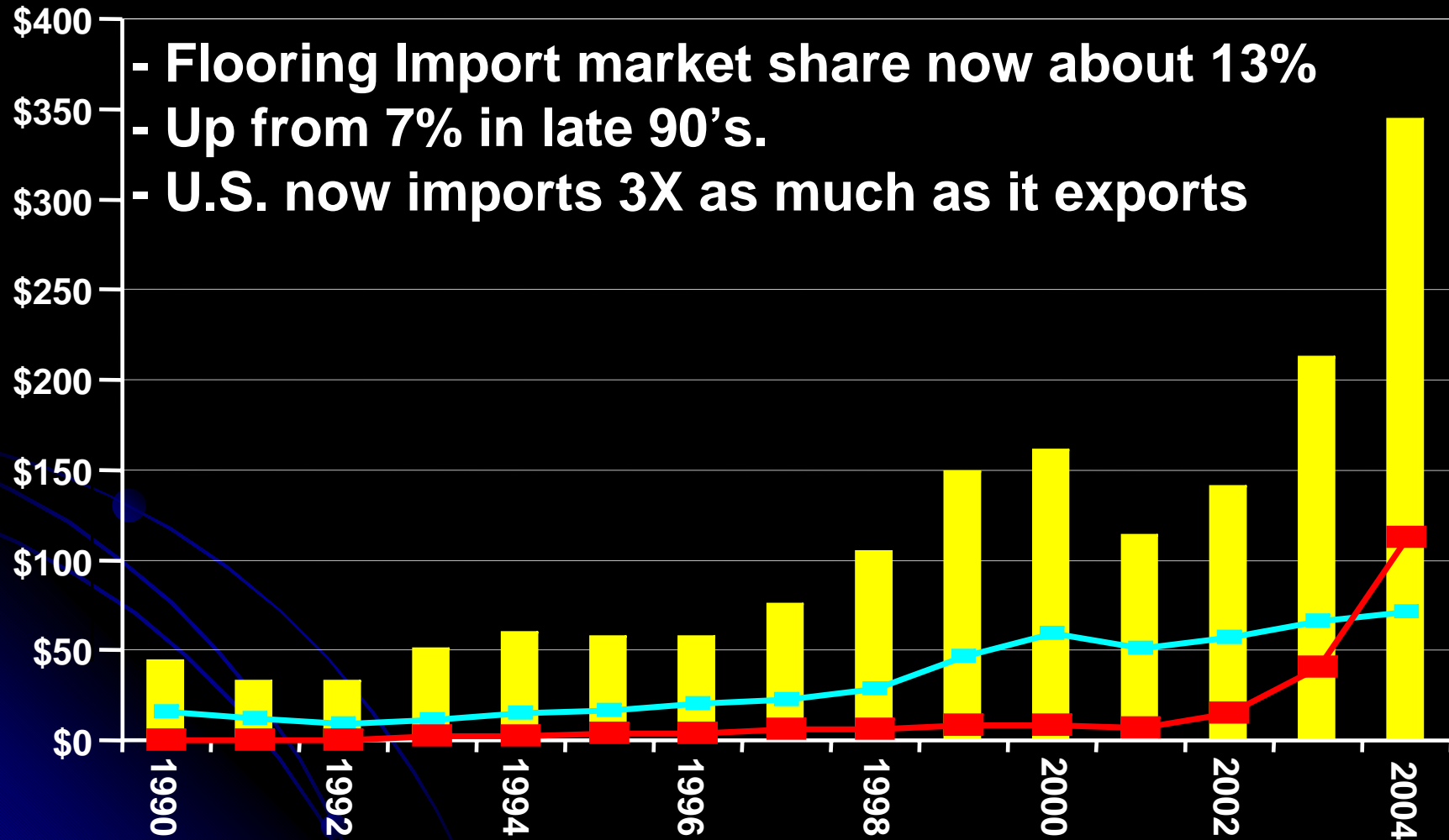


Source: R. Taylor,
WMM, 2004

■ Total ■ South America ● China ■ Canada

U.S. Hardwood Flooring Imports

Million \$



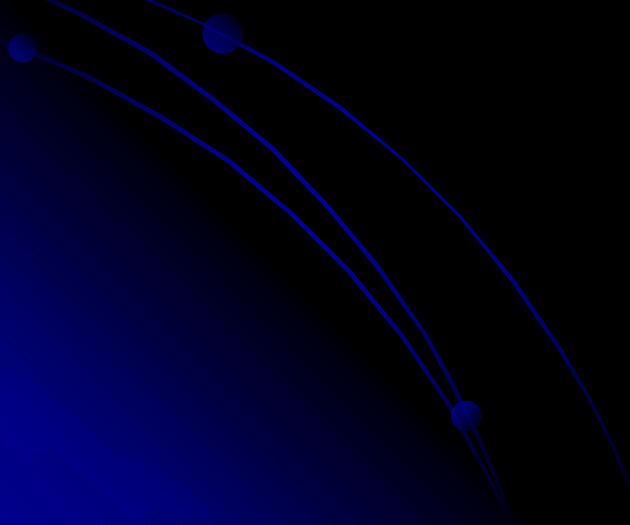
Source: R. Taylor,
WMM, 2004

■ Total

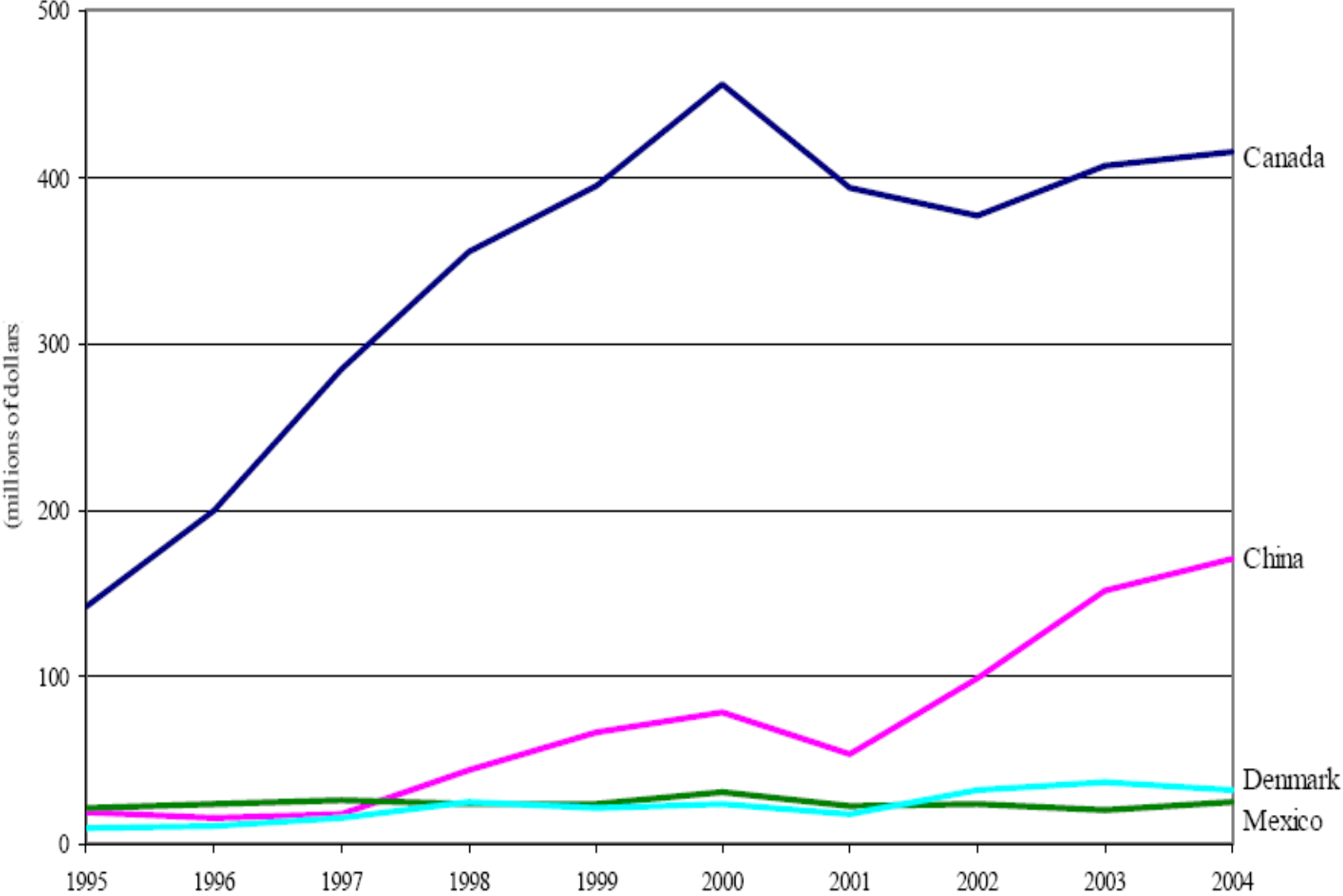
— Europe

■ China

Office Furniture



Wood Office Furniture Imports



Source: ITA

Wood Office Furniture Imports by Significant Countries

(millions of dollars)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>CAGR</u>
Canada	142.5	200.3	284.5	355.4	395.3	455.2	394.0	376.5	406.9	414.8	12.6%
China	19.5	15.3	18.5	44.7	66.8	78.9	54.4	99.8	151.4	171.4	27.3%
Denmark	10.2	11.0	16.1	25.4	21.9	24.0	17.6	32.0	36.6	32.6	13.8%
Mexico	21.2	24.3	25.8	24.5	23.3	31.3	23.0	24.1	19.8	25.6	2.1%
Total Imports	243.4	302.6	403.2	509.3	575.8	704.6	583.5	629.9	725.6	763.36	13.5%

Source: ITA

Labor-A Competitive Advantage

U.S. : \$20.00 /hr

China: \$0.32 /hr

Vietnam: \$0.25 /hr



Source : Morgan Keegan, Janvier 2004

Challenges and Opportunities for The Balkan Countries

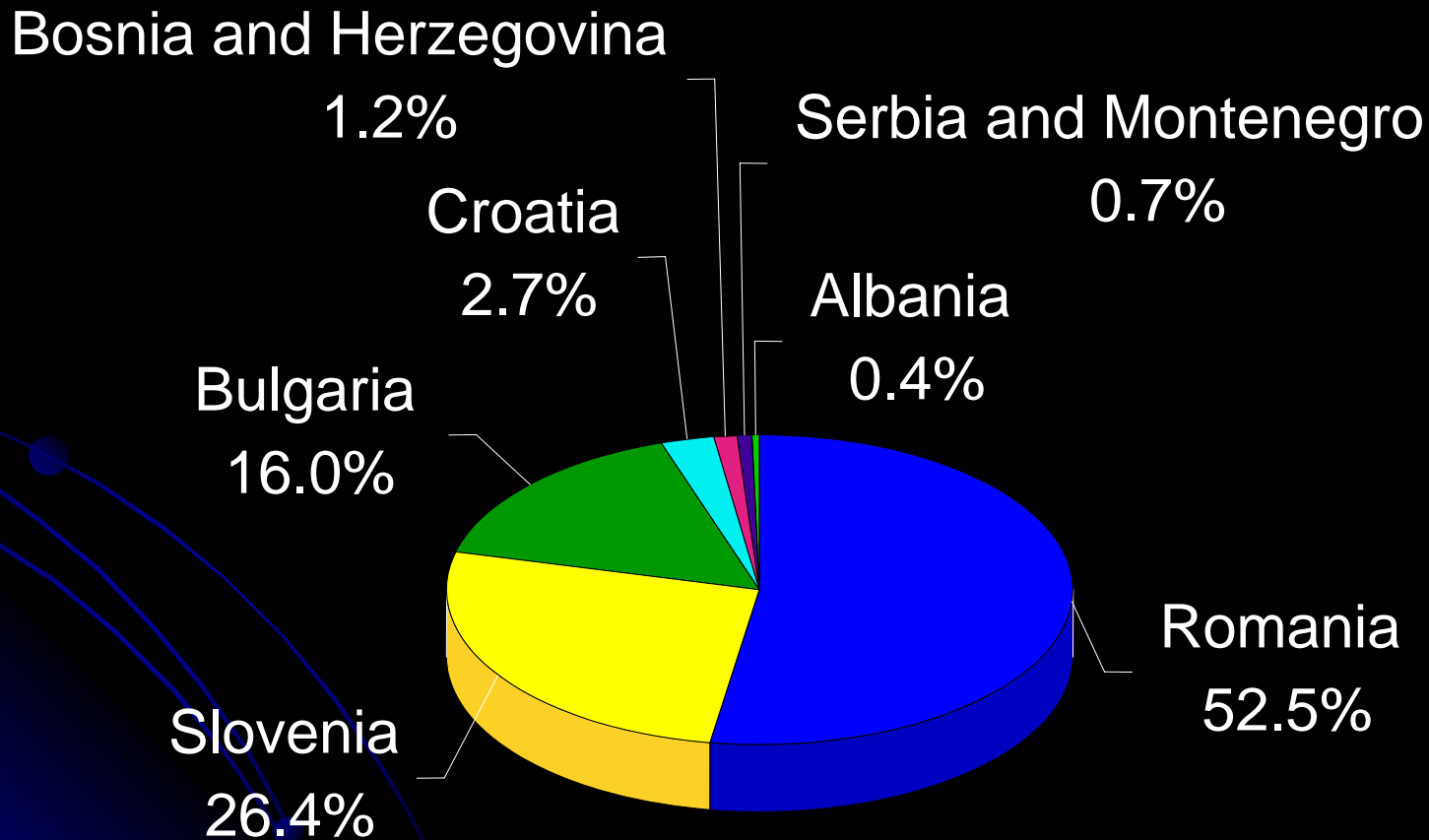


Challenges and Opportunities for Participating Balkan Countries

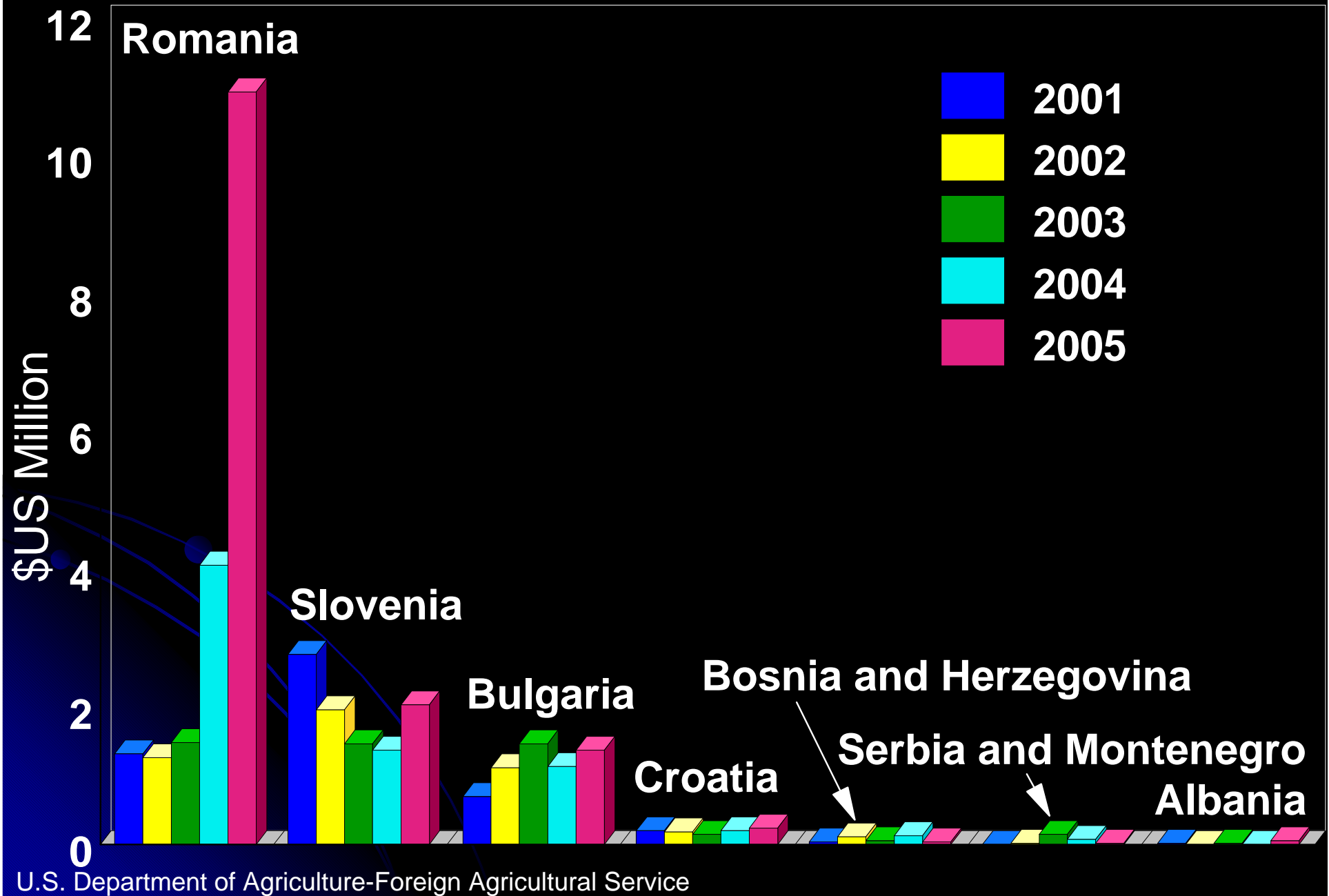
- **Albania**
- **Bosnia and Herzegovina**
- **Bulgaria**
- **Croatia**
- **Former Yugoslav Republic of Macedonia**
- **Romania**
- **Serbia and Montenegro**
- **Slovenia**

Balkan Countries Wood Products Exports to the U.S. (2001-2005)

Total = US \$36.4 Million



Balkan Countries Wood Products Exports to the U.S. (2001-2005)



Balkan Countries Wood Products Exports to the U.S. (2001-2005)

Albania

DECEMBER - NOVEMBER
VALUES IN 1000 DOLLARS

2001 2002 2003 2004 2005

		2001	2002	2003	2004	2005
ALBANIA	SOFTWOOD MOLDING	0	0	0	0	66
	OTHER WOOD PRODUCTS	27	12	36	0	0
TOTAL		27	12	36	0	66

Balkan Countries Wood Products Exports to the U.S. (2001-2005)

Bosnia and Herzegovina	DECEMBER - NOVEMBER VALUES IN 1000 DOLLARS				
	2001	2002	2003	2004	2005
HARDWOOD LUMBER	21	98	0	17	19
HARDWOOD FLOORING	0	11	0	4	15
SOFTWOOD LUMBER	0	0	6	50	10
HARDWOOD LOGS	10	0	0	0	0
SOFTWOOD FLOORING	0	4	30	0	0
SOFTWOOD MOLDING	21	0	0	0	0
OTHER PANEL PRODUCTS	0	0	0	37	0
BUILDERS CARPENTRY	0	0	0	5	0
PULPWOOD	0	0	0	16	0
OTHER WOOD PRODUCTS	0	15	31	9	0
	52	128	67	137	45

Balkan Countries Wood Products Exports to the U.S. (2001-2005)

Bulgaria

DECEMBER - NOVEMBER
VALUES IN 1000 DOLLARS

2001 2002 2003 2004 2005

	2001	2002	2003	2004	2005
BUILDERS CARPENTRY	91	168	402	800	951
COOPERAGE PRODUCTS	416	480	537	45	182
OTHER WOOD PRODUCTS	147	146	90	127	152
SOFTWOOD LUMBER	0	27	111	0	42
HARDWOOD LUMBER	30	83	202	144	37
HARDWOOD LOGS	19	11	18	6	17
SOFTWOOD LOGS	0	0	0	10	0
HARDWOOD FLOORING	6	0	0	0	0
HARDWOOD PLYWOOD	0	177	104	0	0
HARDBOARD	0	24	0	0	0
WOOD PACKING MATERIAL	0	0	7	6	0
PREFABRICATED BUILDINGS	0	4	0	0	0
	708	1,119	1,472	1,137	1,380

Balkan Countries Wood Products Exports to the U.S. (2001-2005)

Croatia

DECEMBER - NOVEMBER
VALUES IN 1000 DOLLARS

2001 2002 2003 2004 2005

	2001	2002	2003	2004	2005
OTHER WOOD PRODUCTS	141	151	136	160	217
HARDWOOD LUMBER	23	0	17	18	18
BUILDERS CARPENTRY	0	0	0	0	3
HARDWOOD LOGS	3	0	6	30	0
HARDWOOD FLOORING	9	34	0	0	0
HARDWOOD VENEERS	23	0	0	0	0
HARDWOOD PLYWOOD	2	0	0	0	0
COOPERAGE PRODUCTS	8	0	0	0	0
	209	185	159	209	238

Balkan Countries Wood Products Exports to the U.S. (2001-2005)

Romania

JANUARY - DECEMBER
VALUES IN 1000 DOLLARS

	2001	2002	2003	2004	2005
SOFTWOOD LUMBER, OTHER SPRUCE	0	0	0	1,682	5,330
OTHER WOOD PRODUCTS	1,130	1,019	1,055	1,346	3,086
SOFTWOOD LUMBER, OTHER PINE	0	0	0	0	1,730
SOFTWOOD FLOORING	0	20	62	400	243
HARDWOOD FLOORING	0	0	49	67	146
HARDWOOD LOGS, MAPLE	0	0	0	0	75
HARDWOOD MOLDING	0	0	0	73	66
HARDWOOD PLYWOOD	32	89	0	0	55
COOPERAGE PRODUCTS	34	45	52	109	48
HARDWOOD LUMBER, BEECH	25	0	20	35	41
HARDWOOD LOGS, WALNUT	0	0	0	0	37
OTHER BUILDERS CARPENTRY	0	58	102	149	19
FABRICATED STRUCTURAL WOOD MEMBERS	13	21	20	154	18
HARDWOOD LUMBER, BIRCH	0	0	0	0	18
PREFABRICATED BUILDINGS	21	0	8	16	13
WOOD DOORS AND FRAMES	3	0	34	0	11
HARDWOOD VENEERS	0	0	0	0	11
WOOD PACKING MATERIAL	4	3	0	0	5
HARDWOOD CHIPS	0	0	0	11	3
HARDWOOD LOGS, BEECH	9	0	0	0	0
SOFTWOOD LUMBER, PONDEROSA PINE	0	0	0	4	0
HARDWOOD LUMBER, RED OAK	0	5	0	0	0
HARDWOOD LUMBER, WHITE OAK	7	0	0	4	0
HARDWOOD LUMBER, MAPLE	0	4	0	0	0
HARDWOOD LUMBER, OTHER TEMPERATE	31	16	18	17	0
TREATED LUMBER	2	0	0	0	0
POLES	0	0	7	0	0
PARTICLEBOARD	0	0	42	0	0
OTHER PANEL PRODUCTS	0	0	18	0	0
WOOD WINDOWS AND FRAMES	6	0	0	0	0
	1,318	1,279	1,487	4,066	10,955

U.S. Department of Agriculture-Foreign Agricultural Service

Balkan Countries Wood Products Exports to the U.S. (2001-2005)

Serbia and Montenegro

JANUARY - DECEMBER
VALUES IN 1000 DOLLARS

2001 2002 2003 2004 2005

OTHER BUILDERS CARPENTRY	0	0	0	21	22
HARDWOOD LOGS, BEECH	0	10	106	0	0
SOFTWOOD LUMBER, OTHER PINE	0	0	0	10	0
HARDWOOD LUMBER, BEECH	0	15	0	0	0
HARDWOOD LUMBER, TROPICAL	0	0	18	0	0
SOFTWOOD MOLDING	0	0	0	13	0
OTHER WOOD PRODUCTS	0	0	24	32	0

0 25 148 75 22

Balkan Countries Wood Products Exports to the U.S. (2001-2005)

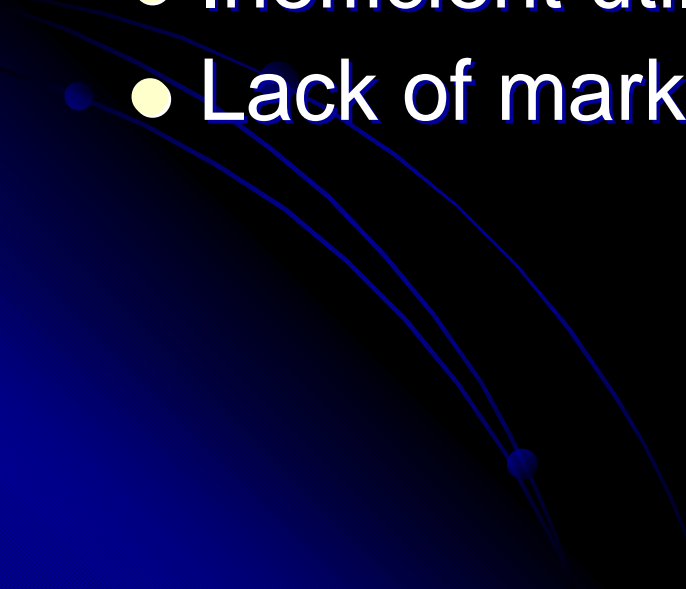
Slovenia

JANUARY - DECEMBER
VALUES IN 1000 DOLLARS

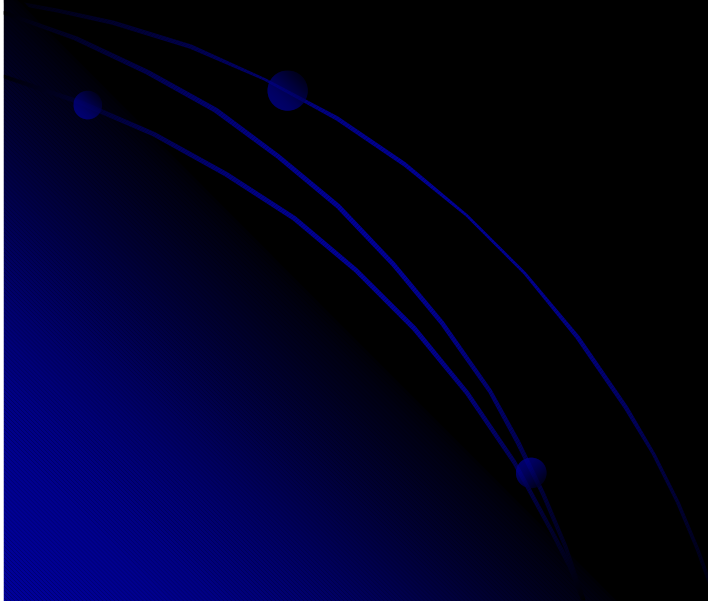
2001 2002 2003 2004 2005

	2001	2002	2003	2004	2005
OTHER WOOD PRODUCTS	1,573	1,816	1,323	1,276	1,642
HARDWOOD VENEERS	70	105	127	72	327
HARDWOOD LUMBER, BEECH	49	26	5	0	56
WOOD DOORS AND FRAMES	25	0	3	5	7
HARDWOOD LOGS, BEECH	0	0	16	0	0
SOFTWOOD MOLDING	983	14	0	0	0
WOOD WINDOWS AND FRAMES	0	0	0	19	0
FABRICATED STRUCTURAL WOOD MEMBERS	64	0	0	0	0
COOPERAGE PRODUCTS	0	2	0	0	0
	2,765	1,963	1,474	1,372	2,033

Common Challenges

- Exploitation of forests
 - Illegal logging and trade
 - Export of commodity forest products
 - Overdependence on popular species
 - Inefficient utilization of wood raw material
 - Lack of marketing expertise
- 

Recommendations



A Integrated Approach



From the forest....

A Integrated Approach

Or from plantations....



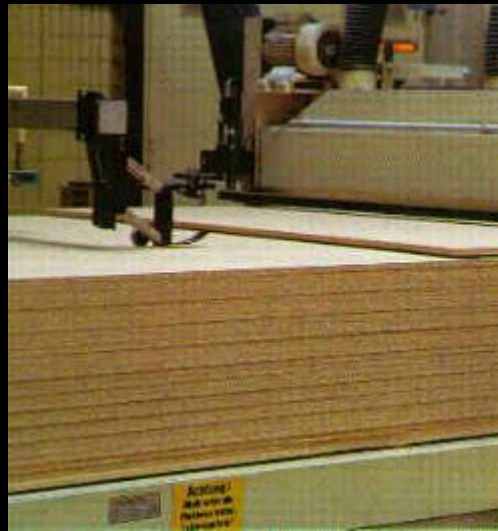
A Integrated Approach

To the mill....



A Integrated Approach

To primary products....



A Integrated Approach

To value-added products.



Recommendations

- Potential competitive advantage for certified wood products.
- Focus on key target markets
- Develop formal organizational structures to coordinate export activities.
- Conduct national SWOT analysis to identify specific weaknesses and strengths.
 - value-chain
 - production processes
 - export mechanisms
 - Policies
 - competitive environment

- ◆ Furniture exporters to US compete based on **product costs, high productivity, strong government support, strong investment in innovation and technology, and marketing strategies**





Questions?

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