Slow, steady growth continues

According to Catalina Research, U.S. floor coverings manufacturer dollar sales (shipments minus exports plus imports) are estimated to have increased by 5.6 percent in 2014 to $21.83 billion. Quantity sales could have climbed by 3 percent to 19.6 billion square feet. These gains continued the recovery in floor coverings over the past three years. Between 2011 and 2014, dollar floor coverings sales are estimated to have increased at a 6.9 percent compound annual rate and square foot sales could have increased by 4.3 percent annually. These are the strongest industry growth trends since the 2002 to 2005 housing boom.

The recovery in U.S. floor coverings sales, commercial demand. The stronger recoveries in the builder and commercial markets contributed to additional growth.
Dynamic market conditions shape numbers

Housing, imports, pricing keep hold on category

By Mallory Cruise

After years of chasing price increases—some 20-plus percent since 2012—the hardwood industry is beginning to see some slight pricing relief. Demand for hardwood flooring too remains strong and sales of the category are increasing, despite the pressure raw material continues to place on the segment. What’s more, imports keep their stronghold on the market, with engineered wood in particular showing dominance over the category.

And while Catalina Research reported that hardwood sales grew 14.7 percent in 2014 to $3.3 billion, executives said that because of the category’s current challenges, that increase isn’t being realized on the bottom line. In comparison, square foot sales grew just 7 percent to 1.4 billion square feet. Still, executives said the needle is indeed moving.

Michael Martin, president and CEO of the National Wood Flooring Association (NWFA), said the increases are in direct response to the recovering housing market and consumer demand for higher-end floor coverings.

"Consumer confidence results in more discretionary spending for high-end products like wood flooring," he said.

Hardwood also continues to take market share from other categories. In 2014, it is estimated that hardwood sales accounted for 15.3 percent of all U.S. floor coverings dollar sales, up from 12.2 percent in 2013, according to Catalina.

Dan Natkin, senior director of residential products at Mannington Mills, said in general, last year was a fairly strong builder year and new home construction improved quite a bit as investments were being made in construction. This, said Natkin, is helping to grow the category.

"The first half of 2014 was sluggish but improved in the second half. The first half was about chasing price increases due to escalating raw material costs. The second half was about buckling down and really focusing on growing the market," he explained.

Michel Collin, director of marketing at Mercier Wood Flooring, said category growth can be attributed to the builder market’s affinity for using wood flooring due to its perceived value.

Consumers too continue to demand hardwood products, particularly those with a strong price to value relationship, said Harry Bogner, senior vice president of hardwood at Unilin.

"Our company’s manufacturing technologies enable our brands to offer products that feature rich visuals and designs, while still keeping prices within a consumer’s budget," he said.

Raw material supply, cost leave lasting effects

Contributed to the market growth, rising raw materials costs played a part in the disparity between hardwood dollar sales and square foot sales.

However, he added, "That growth is promising. Everyone in the industry is watching it closely as raw material costs and the unpredictability of pricing will continue to impact the industry."

Escalating raw material prices in fact caused a rise in the average value of hardwood per square foot to $2.34—a 6.8 percent increase over 2013, Catalina reported.

“We went through a period of a year and a half chasing raw material prices and it has since leveled slightly. As an industry we came short of the total cost increases experienced during that time period," said Natkin at Mannington.
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Product and manufacturing innovation are also propelling the category forward, according to Drew Hash, director of hard surface, Shaw. But, he said, as increased demand in new home construction contributed to the market growth, rising raw materials costs played a part in the disparity between hardwood dollar sales and square foot sales.

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Raw material supply indeed remains difficult and contains to pose a challenge to the industry, said Ron Oliver, vice president of sales and marketing at Hallmark Floors.

“It was a wet spring which made it harder

Continued on page 12
Dynamic market

Continued from page 9

to get the logs out. Raw material challenges have forced us to do things like buy more logs and make adjustments in what format we buy lumber in,” he said.

Imports impact sales

While the flood of lower priced imports into the market — especially from China — has helped hardwood gain market share, it also continues to challenge domestic makers. According to Catalina, wood flooring imports in 2014 are estimated to have increased by about 18.8 percent in dollars and 24.8 percent in square feet as average import prices declined.

The lower end of the wood segment is in fact heavily dominated by imported products, noted Luc Robitaille, vice president of sales at Boa Franc, makers of the Mirage brand. “This is where the bulk of the sales come from in the wood industry and since 2010 these imports, especially Asian, had some cost advantages that couldn’t be met by domestic producers. Recently we have seen this advantage diminish with their costs going up at all levels — labor, raw material and energy for example, so we should expect to have lower market share for import products in the near future,” he said.

But Oliver at Hallmark said the continued flooding of hardwood imports is actually a two-fold situation. As manufacturing and labor costs in Asia do continue to rise, there has been more automation and innovation coming out of Asia.

“We’ve also seen a tremendous consolidation of manufacturing in Asia as compared to five years ago. As there are fewer manufacturers in Asia, they’re becoming extremely efficient and automated in order to increase the quality of product and control costs,” he explained.

Mannington’s Natkin said there is a lot of fragmentation in the industry in regards to imports and, ultimately, engineered wood. “Consumers are seeking value or seeking lower prices, and Chinese producers are exploiting that. It’s primarily Chinese importers of engineered hardwood and now we’re seeing more come out of Southeast Asia as well. Imports are also growing due to home centers and places like Lumber Liquidators where the vast majority of the product assortment is not U.S. produced,” he said, adding, “If you go back 10 to 15 years and visited an independent retailer you’d see five to six importers. Now you see 20 importers — it’s becoming a highly fragmented category.”

A primary driver for imports, offered Shaw’s Hash, are price points. But he said, producing in demand styles that provide value and managing raw material costs will be instrumental in domestic producers remaining competitive.

Lower priced imports are creating a buyers’ market, explained Collin at Mercier. “Most consumers prefer North American products but sometimes the money is the main decision factor,” he said.

In today’s global economy, there is always some place where labor is cheaper, explained Unilin’s Bogner, therefore the key to keeping production at home in the U.S. is innovation and technological leadership.

“By effectively using technology, our domestic hardwood plants are able to offer better quality, innovative value-added features and still keep prices competitive,” he said.

Robitaille at Boa Franc said there are other factors that will help level the playing field even more in regards to imported products — the pending ITC ruling on tariffs and the fact that more consumers want to buy local. According to Catalina Research, the increase in import shipments is being led by the rising demand for engineered wood flooring as the ITC works to ensure parity for both importers and domestic producers.

“If you add all of these factors together, domestic products will certainly recapture overall market share,” said Robitaille.

The continued growth of engineered...
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The continued growth of engineered

From a product standpoint, engineered wood floors continue to experience significant growth and it is due mainly to the fact that they are more versatile and flexible than solid floors regarding installation possibilities, explained Robitaille at Boa Franc.

“These products also better adapt to more difficult conditions. More precisely, engineered floors provide a better dimensional stability and have the required properties to be produced in a much wider format and still be stable, and we know larger widths have consumer preference,” he said.

And the shift from solid to engineered hardwood has only accelerated, said Shaw’s Hash.

“Solid hardwood still has a place in the market. At the same time, advances in engineered hardwood provides numerous options at affordable prices,” he said, adding that engineered hardwood is particularly well-suited for wide-planks, which continue to be on-trend.

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September 2015

[Image]
Housing, builder growth ease price pain

Hardwood flooring sales growth continues to outpace that of other floor coverings despite price hikes and stiff competition from other categories with strong hardwood visuals and lower pricing, Catalina Research reported.

Helping to give hardwood a boost is sharp inroads being made in both the residential replacement and builder markets where much of the category's gains were made. Catalina reported that residential replacement captured 52.8 percent of wood sales by end use market. The builder market grabbed 25.3 percent of hardwood sales, up from 21.1 percent in 2013.

Michael Martin, president and CEO of the National Wood Flooring Association (NWFA), explained that new housing starts were the source of two-thirds of hardwood's gains in 2014 with the remaining being sales of existing homes/renovations.

"Housing demand grew as mortgage rates decreased, and personal incomes improved. Additionally, rebounding housing prices boosted the residential replacement market," he said.

Martin also said, though, that the housing recovery that spurred the growth of hardwood flooring happened at the same time the industry experienced soaring lumber prices, which manufacturers passed on.

"While the industry recovered on a sales level (dollars), the growth on a volume level was not as high. There also is the additional challenge presented by less-expensive, look-alike products (laminate, tile, etc.)," he said.

Luc Robitaille, vice president of sales at Boa Franc, makers of the Mirage brand, added that the recovery in the economy and therefore the growing residential replacement purchases had a positive impact on the hardwood flooring market which is in better shape than it was a few years ago, and the numbers reflect that.

"Wood is the number one desired product in floor covering by consumers. If they can afford it they will purchase it as their first choice," he said.

Retail too remains strong and has proved beneficial to the growth of the hardwood market. This is prompting executives to believe dealers may in fact be selling more wood.

"Wood is one of the few categories where the home centers and mass merchants account for less than half of the category's sales — approximately 20 to 30 percent — because it's predominately professionally installed," explained Dan Natkin, senior director of residential products at Mannington Mills.

— Mallory Cruise

2014 key points

Wood

While 2014 wood flooring dollar sales increased an estimated 14.7 percent, the growth included an average increase in square foot pricing of 6.8 percent keeping the hardwood

Source: Catalina Research
"With Mercier, it’s all in the box! Wood species, colors, widths, grades and the only Greenguard certified floor on the market. What more do you want?"

DUSTIN PERIN, VICE-PRESIDENT INTERMOUNTAIN WOOD FLOORING

"At Intermountain Wood Flooring, we’ve been in the business of excellence since 1931. With 11 distribution centers and millions of square feet of hardwood floors sold, it’s critical for us to rely on manufacturers like Mercier that not only deliver quality hardwood floors, but are also on the cutting edge of design trends and environmentally-conscious solutions. Their attention to detail and their passion for excellence lets us concentrate on supplying our customer base, knowing that what’s in the box will exceed their expectations.

Doing it right: that’s our Mercier edge."

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2014 key points

**Wood**

*While 2014 wood flooring dollar sales increased an estimated 14.7 percent, the growth included an average increase in square foot pricing of 6.8 percent keeping the hardwood volume increase at just 7.3 percent.*

*The increase in average wood flooring manufacturer selling prices of 6.8 percent in 2014 reflects a nearly 8.2 percent increase in lumber prices.*

*Owing an estimated 15.3 percent of total U.S. floor coverings dollar sales in 2014, up from 14.1 percent in 2013, wood is outpacing other floor coverings, Catalina reported.*

*An 18.8 percent increase in imported hardwood dollar sales and 24.8 percent in square foot sales contributed to overall dollar sales growth but at the expense of U.S. suppliers.*

*The average price per square foot of imported hardwood flooring in manufacturer dollars in 2014 was $1.85 (including product, freight, insurance and tariff charges), up from $1.84 in 2013. The average value per square foot of hardwood flooring shipped from a domestic supplier was $2.73, up from $2.28 in 2013, Catalina reported.*

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Bostik is celebrating 125 years and has once again changed the game for hardwood flooring installation with the development of a new Tri-Linking™ polymer technology called AXIOS™, found in GreenForce™ and Ultra-Set® SingleStep2™. This technology combines the high-end benefits of polyurethane with unmatched ease of use. AXIOS™ offers a Lifetime Unlimited moisture vapor protection warranty (NO slab moisture testing required) and was developed to be one of the easiest products on the market to clean, both wet and after cure.

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Tom Ourada – Owner of Ourada Designs
WINNER OF THE 2014 NWFA FLOOR OF THE YEAR AWARD

“People love their wood flooring. We’ve grown up in the wood flooring business, providing installations with a commitment to keep customers happy. The best way to accomplish this, obviously, is with Bostik.”

Why soft surface wins in contract
Despite beautiful hard surface alternatives, many specifiers still choose broadloom or carpet tile. Bentley’s Grogan explained, “I think customers still demand the features

is coming from the office market, while healthcare, education, hospitality and retail are also improving. People are feeling better and there’s a lot of work on the books,” Ganley reported.

“The first quarter 2015 was the best in the past seven years for Interface,” Wells said. “Interface Americas sales were up 17 percent, led by hospitality, government and education. Corporate sales were up 13 percent. FLOR (Interface’s residential business) sales were up 13 percent with 20 stores nationwide and sales of $50 million,” he reported.

According to Dixie’s 2015 first quarter results, its commercial business was up 15.7 percent. Lee Martin, president of Dixie’s Commercial business, explained that the education segment moved to hard surface decades ago after a scare that carpet was bad for indoor air quality. But, he said, “That has been disproved since, and today we are seeing carpet come back in that segment because noise has become a big issue in K-12 and carpet mediates sound. Right now, hospitality is considering hard surface but we will sell them rugs instead. Corporate is holding its share of soft surface. Higher education and assisted living are using a lot of carpet and carpet tile,” he noted. “Healthcare has moved to a lot of hard surface but in MOB (medical office buildings), there is a lot of soft surface like there is in any office building.”

J+J Flooring is also seeing improvement. “For J+J, the first quarter 2015 was OK but the second quarter has been one of the best ever,” noted Ross Leonard, J+J Flooring Group vice president of marketing. “Most activity is from corporate and education,” Leonard said.

Bentley’s business so far in 2015 is showing double-digit growth for the first half of the year, according to Ralph Grogan, president and CEO of Bentley Mills. “We are forecasting a strong second half as well,” Grogan said.