Hardwood flooring markets: 2009 outlook

by **MICHAEL BUCKLEY**

Panels & Furniture Asia gives a hard look on what the flooring markets will bring to manufacturers in Asia in the year ahead.

There can be, in the present circumstances, only one conclusion for the future direction of hardwood flooring markets in most regions: down! And that is not the worst of it. Flooring as a "finishing" trade, comes at the end of the construction cycle. So, given that new housing starts and new construction projects throughout much of the world are now massively reducing, the new flooring business in the pipeline for 2009 is likely to be disappointing.

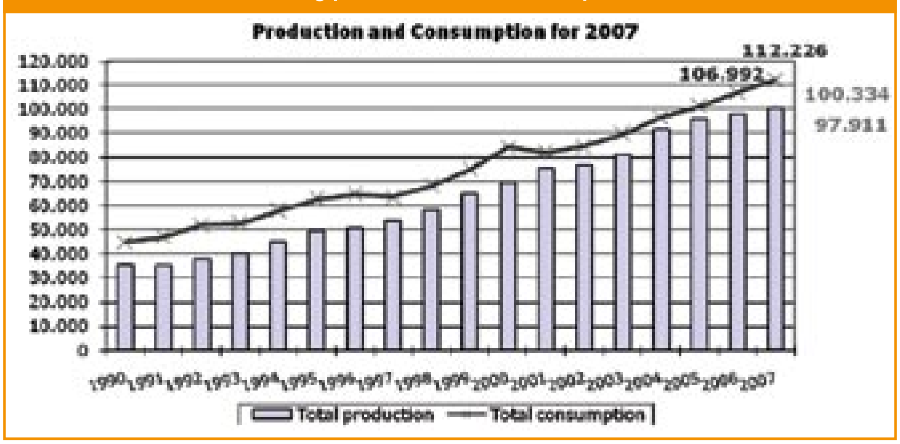
In earlier forecasts for the 2008 flooring market prospects in *Panels & Furniture Asia* (see February 2008 issue pages 48-50), it was pointed out that the US is more focussed on solid wood and less on engineered/pre-finished flooring than the EU. To this extent the American and Canadian hardwood industries are likely to suffer more than their European counterparts.

However after many years of sustained and uninterrupted growth for 20 years by European manufacturers, 2009 will surely mark a halt in their progress of expansion. European production grew from 2 million sqm in 1987 to 100 million sqm in 2007, according to the European Federation of the Parquet Industry (FEP). On the other hand existing construction projects, yet to be completed, will buffer some European manufacturers, and local demand in Asia will also likely help Asian flooring producers to weather the pain of reduced exports to their traditional markets in Europe and the US.

In the US as far back as November 2007, there were worrying signs when, for example, Hoboken Wood Flooring – the largest national distributor – together with its sister company closed; and others followed. Even before the full realisation of the current financial and banking crisis the sub-prime mortgage problems led to the lowest level of housing starts in 27 years and the largest drop in single-family homes for 25 years, with house prices declining for the first time in four decades. According to a recent UN report: *"The decline in the US (economy) has been led by a decline in growth in residential investment which began at the beginning of 2006 and has continued for nine successive quarters through the first quarter of 2008... the longest periods of decline… in the last 50 years".*

Now there are further strong indications of the extent of the downturn in the US market. Armstrong Hardwood Flooring in Pennsylvania, one of the majors, announced third quarter 2008 sales of wood flooring at US$171 million, down 11% from US$191.9 million in the third quarter of 2007. They attributed the fall to weak residential housing activity and project that the residential market will further reduce significantly, while their commercial market "should hold steady" at best. In November 2008, Mohawk Industries Inc of Georgia announced that net sales decreased 9% from the same period the year before

EU flooring production and consumption 2007



Source: www.parquet.net (FEP)

Photo: Turnstone Singapore

(source: National Wood Flooring Association (NWFA), 2008).

At the October 2008 meeting of the National Hardwood Lumber Association in San Francisco, it was suggested that deliveries of flooring ex-mill were down 13.3% by August, year-to-date on 2007, and now are in the third year of falling demand, representing the longest continuous downturn since 1983. This is resulting in a contraction of US producers, in contrast to the growth in European and Asian production that has continued until the present crisis, which has now been exacerbated by the lack of cash flow and new finance. There are also those in the US industry that have been saying for some time that overproduction has seriously undermined margins and that a correction was necessary (source: Hardwood Market Report).

Europe will probably display a much more varied picture, region by region. The property market in the UK is falling fast in terms of residential prices but there remains an underlying demand for homes and so new construction is likely to recover more quickly than in other markets. Spain, which has experienced a speculative construction boom for several years, has few buyers and its market demand for second (vacation) homes, led by the British, is also in sharp decline. The Pound Sterling has fallen in value and effectively dried up that market, which may take a very long time to recover. By contrast there has also been some growth in consumption as the domestic markets of Eastern Europe have developed in a new era of prosperity following their staggered entry to the EU.

Nevertheless, in Europe and North America, hardwood is the increasing choice of floor covering for many consumers and especially in the renovation sector

Ongoing construction – but not likely to last

Oak flooring

which may be less hurt than the new-build sector. In November 2006, a survey was conducted by the NWFA in the US with interior designers nationally confirmed that real wood floors are a decorating element that coordinates with any décor.

"Of the designers surveyed, 96% agreed that wood floors work with many decorating styles, 94% agreed they add value to a home, 92% agreed they are warmer than other flooring options, and 88% agreed they are hypo-allergenic. In addition, more than 75% agreed that wood floors are environmentally friendly, easy to maintain, and easy to make look like new. When adding the fact that wood floors will last a lifetime, they become a real value as well." (Source: NWFA)

Popular flooring types

Oak is by far the predominant species with a market share of 57% of all European hardwood flooring production (source: UN/ECE 2008), and probably higher in the US. Flooring distributors in the US report that they sell 60% oak (44% white and 16% red) although the total consumption including direct mills sales and multi-product outlets may alter these numbers slightly. This is in contrast to 2006 when red oak accounted for 36%. In total, temperate species account for 84% of distributor sales in US. Many of them such as hard maple, white and red oak, cherry and black walnut are unique to North America.

Tropical hardwood species have grown slightly from a smaller base, now accounting for over 15% in Europe and similar in North America. What is also noticeable is the increasing range of tropical flooring species from Australasia, Africa and South America. One of the most popular however, merbau, has run into difficulty in some environmentally sensitive markets. In the UK, "Next" a high profile distributor announced the discontinuation of merbau from its flooring range, following the release of a research report by the London-based Environmental Investigation Agency entitled "Buyer Beware", which concluded that *"customers were unwittingly decking out their homes with highly suspect rainforest timber"*.

This is just one example of the extent to which some markets in Europe, and others such as Australia, are becoming increasingly influenced by environmental pressure groups, voluntary responsible trade policies and even the growing

Bamboo flooring

Rustic grade solid red oak

threat of government interference in the wood sector to curb illegal logging and encourage sustainable forestry. Currently such tropical species as cumaru, ipe, jatoba, massaranduba, Brazilian cherry and wenge all have market niches as well as the ever popular, but increasingly expensive, teak.

Flooring producers in Asia have experienced some difficulties in recent times, such as the shifting policies of the Chinese government towards taxes and reduced export rebates. Now without warning a 10% export tax is imposed by the Vietnamese authorities on wood flooring.

The country's Finance Minister, Mr Vu Van Ninh is reported to have said: "the export tax on finished products made of domestic natural forest is 10%, in order to reserve the domestic forest. In reality, the control of export of finished products made of woods from domestic forests and from imported wood is very difficult as there've been many cases of commercial fraud. Therefore, the new tax is to ensure encouragement of export as well as transparency".

Opponents, many of whom have sold forward at fixed prices, argue that "if commercial fraud prevents the government from distinguishing between woods from domestic forest and imported woods, we need to re-consider. Every time a company imports woods, there's a customs declaration on the origin of the woods (based on the Certificate of Origin provided by exporter) so when the finished product is exported, it is cross-checked with the customs declaration and packing list when imported.

Also the imported wood (species) doesn't grow in domestic forests so it can't be said that domestic wood is mixed up for commercial fraud. Hence, the government mixes up honest with fraudulent businesses" and they suggested that the Finance Minister re-considers.

At the same time, anecdotal evidence seems to suggest that bamboo flooring is cashing in on the environmental bandwagon as a "green material" for flooring as well as for other interior products including furniture. Yet there are unanswered questions as to the embodied energy in bamboo production, high dependence on adhesives giving rise to issues about emissions and a lack of biodiversity in its plantations.

The NWFA in the US is calling for more focus on life cycle analysis (LCA) on this issue. "The bottom line," it says, "is that the green movement presents a tremendous opportunity for those of us in the wood flooring business. Wood is the only flooring material that is totally sustainable and renewable, making it the obvious choice for the ecologically aware consumer. Therefore, it is our job to educate our customers about the environmental benefits of wood flooring."

To download a copy of the NWFA Industry Research Foundation's Life Cycle Analysis for Solid Hardwood Flooring, go to www.nwfa.org, and click on the 'What's New' link".

The prospects for 2009 are hard to predict, and certainly there is unlikely to be any clear market direction when the first round of trade fairs, such as Domotex in January in Germany, takes place. The best that most producers and traders can hope for is to hold their own and survive what is becoming one of the worst markets in memory; and inevitably the downturn does not yet reflect the true level of demand, nor will do so until the low level of construction starts works its way through to the finishing trades.

Meanwhile, one saviour for flooring manufacturers in most markets in 2009 will be the renovation sector. **PFA**