The Carpet Market

CARE
May 5, 2008
Recent Good News about the Economy

• The Institute for Supply Management's index of non-manufacturing businesses, which makes up almost 90 percent of the economy, rose to 52 in April from 49.6 the prior month. Readings greater than 50 signal growth.

• The Federal Reserve lowered the bellwether federal funds rate by one-quarter point to 2 percent, the lowest level since December 2004.

• No official recession yet: GDP grew 0.6 percent in the first quarter, the same as the fourth quarter 2007.
Recent Bad News about the Economy

• Oil prices briefly touched $119 per barrel.
• U.S. consumer sentiment fell more than expected in April to its lowest level in 26 years. The reading was 62.6, the weakest since 1982.
• Gasoline prices now average $3.62 per gallon.
• The AIA Billings Index, a future indicator of U.S. nonresidential construction activity, fell to a record low in March.
• Home construction fell sharply in March to the lowest level in 17 years, according to the Commerce Department. Housing construction dropped by 11.9 percent to a seasonally adjusted annual rate of 947,000 units.
• Initial jobless claims for state unemployment benefits surged 35,000 to 380,000 in the week ending April 26, according to the Labor Department.
Industry Results Q1-2008

• Mohawk Industries
  – Earnings ↓28%
  – Revenue ↓6.7%
  – Carpet ↓13.6%
• Shaw Industries
  – Earnings ↓44%
  – Revenue ↓5%
  – Carpet ↓8% overall, ↓10% residential
• Dixie
  – Earnings ↓64%
  – Revenue ↓5%
  – Carpet ↓10.6% residential, ↑10% commercial
• Armstrong
  – Earnings ↓50%
  – Revenue ↓7%
  – Resilient ↓3% residential, Hardwood ↓20%
Recent Decline in New Home Construction

Housing Units Started

- Quarters:
  - 2005:1
  - 2005:2
  - 2005:3
  - 2005:4
  - 2006:1
  - 2006:2
  - 2006:3
  - 2006:4
  - 2007:1
  - 2007:2
  - 2007:3
  - 2007:4
  - 2008:1p

- Units (000's):
  - Multi-Fam.
  - 1-Family
Existing Home Sales

Existing Single Family Home Re-Sales

Units (000's)

Quarters

U.S. Flooring Market (wholesale value)

- 2003: $18,000
- 2004: $19,000
- 2005: $20,000
- 2006: $21,000
- 2007: $22,000

Percentage growth:
- 2004: 11.9%
- 2005: 5.9%
- 2006: .6%
- 2007: -8.8%
## U.S. Flooring Consumption

<table>
<thead>
<tr>
<th>Flooring Categories</th>
<th>2007</th>
<th>2006</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carpet &amp; Rugs</td>
<td>14,308</td>
<td>15,517</td>
<td>-7.8%</td>
</tr>
<tr>
<td>Area Rugs</td>
<td>2,870</td>
<td>2,886</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Carpet</td>
<td>11,438</td>
<td>12,631</td>
<td>-9.4%</td>
</tr>
<tr>
<td>Ceramic Floor Tile</td>
<td>1,893</td>
<td>2,213</td>
<td>-14.5%</td>
</tr>
<tr>
<td>Wood Flooring</td>
<td>2,244</td>
<td>2,556</td>
<td>-12.2%</td>
</tr>
<tr>
<td>Laminate Flooring</td>
<td>1,057</td>
<td>1,278</td>
<td>-17.3%</td>
</tr>
<tr>
<td>Resilient Flooring</td>
<td>1,708</td>
<td>1,688</td>
<td>1.2%</td>
</tr>
<tr>
<td>Rubber Flooring</td>
<td>734</td>
<td>812</td>
<td>-9.6%</td>
</tr>
<tr>
<td><strong>Total Flooring Market</strong></td>
<td>21,944</td>
<td>24,064</td>
<td>-8.8%</td>
</tr>
</tbody>
</table>
### Product Shares of U.S. Flooring Mkt (% of $)

<table>
<thead>
<tr>
<th>Product</th>
<th>2002</th>
<th>2007</th>
<th>2012est</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resilient Flooring</td>
<td>9.4%</td>
<td>7.2%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Laminate Flooring</td>
<td>3.9%</td>
<td>5.8%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Wood Flooring</td>
<td>8.9%</td>
<td>9.5%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Ceramic Floor Tile</td>
<td>8.9%</td>
<td>9.5%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Carpet</td>
<td>52.0%</td>
<td>51.1%</td>
<td>47.6%</td>
</tr>
<tr>
<td>Area Rugs</td>
<td>13.4%</td>
<td>13.4%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Rubber Flooring</td>
<td>3.5%</td>
<td>3.5%</td>
<td>4.8%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

1 share point is equal to $219 million
Price increases make dollar sales outlook look better than that for units.
Majority of growth is in the commercial segment

U.S. Carpet Rollgoods & Tile Consumption

Years

Quantity (Sq.Ft.), millions


Ind'l/ OEM
Commercial
New Resd'l
Resd'l Replace.
Carpet Does Well in Factors Important to Consumers

Importance of Criteria to Flooring Decision

- **Recognized brand name**
- **Comfort to walk upon**
- **Adds to value of home**
- **Maintenance required**
- **Aesthetics-trendy look**

Source: Floor Focus Research
Carpet is best in “comfort under foot”

Source: Floor Focus Research
Carpet is competitive in “value-add”

Source: Floor Focus Research
From 1995 to 2002, carpet has fallen from 49% to 37% in the $100+ category.
Consumer Ad Spend for All Flooring Categories

- Of $132 mil spent over the five year period to promote carpet, 54% came from mills and 46% came from fiber companies.
- With the exception of resilient, all flooring categories are supported with consumer ad spending that ranges from .8% to 2% of sales.
- In the Mid-80’s, the Stainmaster consumer campaign arrested the decline trend of carpet for 5 years.
Average Consumer Advertising Investment 2002 to 2006

- Resilient Flooring
- Ceramic Tile
- Laminate Flooring
- Wood Flooring
- Carpet & Rugs

% of Residential Sales

Sources: Leading National Advertisers, Market Insights/Torcivia
Residential Carpet’s Primary Issues

• Low Mind Share Among Consumers – Low Advertising to Revenue ratio
  – Mills spent 1.1% of residential sales (2002 -2006)
  – Fiber brands spent .9% over same period
  – Total amount spent was 2% of residential sales

• Carpet is Perceived as Out-of-Style and Lower-Status
  – A commodity with little or no product differentiation.
Retail Channels
Flooring Sales Shares by Retail Channel

**Flooring Stores**
- Carpet & Rugs: 55%
- Ceramic Tile: 14%
- Wood Flooring: 16%
- Resilient Flooring: 10%
- Laminate Flooring: 5%

**Home Centers**
- Carpet & Rugs: 26%
- Ceramic Tile: 34%
- Resilient Flooring: 18%
- Wood Flooring: 12%
- Laminate Flooring: 10%

Sources: U.S. Census of Retail Trade, WFCA Financial Management Report, Market Insights/Torcivia
Statistics that Might Lead to a Solution

• According to a statistic given at the last CCA Global meeting – 50.4% of the nation’s income is going to the top 20% of U.S. Population. That equates to $3.5 trillion in the hands of 23 million people.

• In the replacement market, 60+% of the final flooring selection decisions are made in the store.

• Over 60% of flooring consumers do research on the internet before they make a final flooring decision.
Consumer Flooring Trends

– Wood Flooring scores highest in style and desirability.
– Durability and cleaning/maintenance are important flooring decision factors – both are areas where carpet does not score well.

Source – CRI 2006 Consumer Research
Other Factors That Will have an Impact on Residential Share Shift

- Hardwood pricing is falling
- Under-tile heat takes away one negative that may lead to more ceramic tile sales
- Home centers now account for 35% of all retail flooring sales and many of their customers seek cash and carry solutions.
- In new home construction, carpet is losing the dining and living rooms to hardwood.
Information sources

• Global Insights (Formerly FW Dodge)
• U.S. Government
• Market Insights/Torcivia
• Mediamark Research
• Floor Focus Editorial Staff