INDUSTRY CANADA
Wood Kitchen Cabinets Review

Volume 4 Issue 3 Fall 1998

Exports Drive Production Toward Record Levels
Domestic Market Shows Signs of Weakness
Global Economic Crisis Begins Impacting Overseas Exports

Shipments

Canadian kitchen cabinet shipments, on a seasonally adjusted and annualized basis, increased for the ninth consecutive quarter. Shipments for the first six months of 1998 were $619.7 Million, up 7.8 percent from the same period a year ago, making it one of the best six month periods for shipments for the Canadian kitchen cabinet industry this decade. Production growth from January to June has been driven primarily by exports to the US.

On a seasonally adjusted and annualized basis, second quarter shipments were $1.28 Billion, up 6.2 percent from $1.2 Billion in the second quarter 1997. The growth rate from April to June was down slightly from 9.7 percent in the first quarter of 1998. This, along with a slowing domestic housing market, suggests more moderate growth for the kitchen cabinet industry in the next few quarters.

The domestic kitchen cabinet market remained unchanged from a year ago. The apparent domestic market, (shipments plus imports less exports) was $408.4 Million in the first six months of the

Also in this Issue

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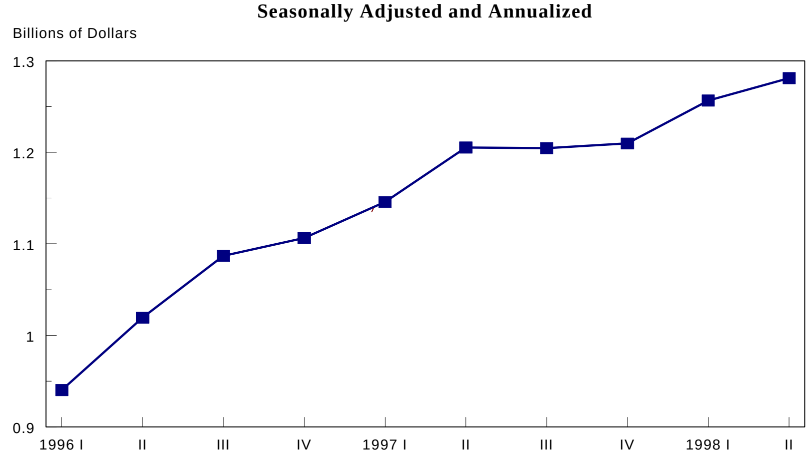
year. A weak Canadian housing market caused domestic demand to drop off in the second quarter. The apparent domestic market between April and June was $227.2 Million, a decrease of 1.6 percent.

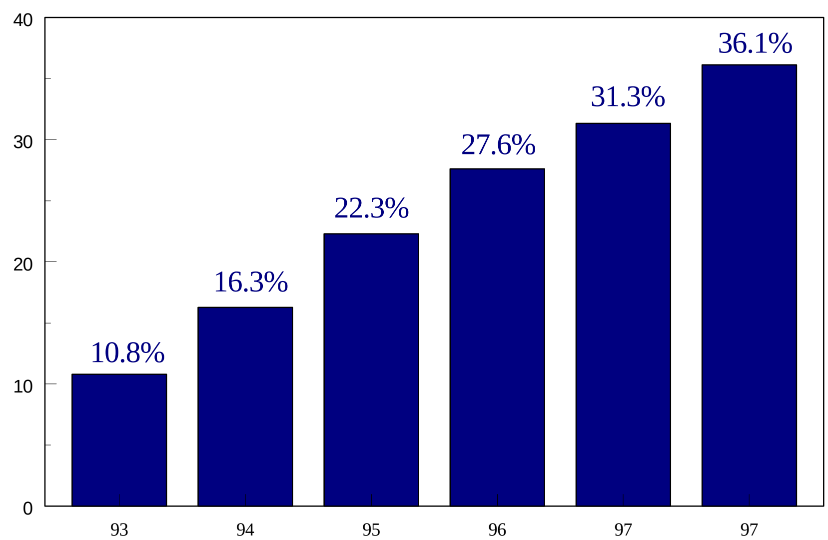
Canadian Kitchen Cabinet Shipments 1996-1998 2Q

Seasonally Adjusted and Annualized



Source: Industry Canada based on Statistics Canada 1998

Kitchen Cabinet Exports as a Percentage of Total Production 1993-1998



Source: Industry Canada based on Statistics Canada data, 1998

International Trade

Total kitchen cabinet exports reached a record $223.8 Million for the first six months of the year. This represents a 23.8 percent increase over exports in the first half of 1997 which totalled $180.7 Million. Second quarter exports were $117.9 Million, up 21.6 percent from the same period in 1997. At present, exports account for 36.1 percent of total industry production, up from 31.3 percent in 1997 and up from just 10.8 percent in 1993.

Exports to the US

Canadian kitchen cabinet exports to the US totalled $221 Million for the January to June period. This represents a 25.6 percent increase over first half 1997 shipments of $176 Million. With the current state of the global economy, the US will continue to offer the best opportunities for Canadian kitchen cabinet producers. The US, to no surprise, was the largest destination for Canadian kitchen cabinets, accounting for 98.8 percent of exports.

In the second quarter, exports to the US were $116.6 Million, 22.6 percent higher than second quarter 1997 exports. Strong demand between April and June, key construction months, helped to push exports higher. Southern states accounted for 30 percent of Canadian exports to the US, but grew by just 15 percent to $33.9 Million in the second quarter. Exports to the Midwest and West were $24 and $24.8 Million respectively, representing

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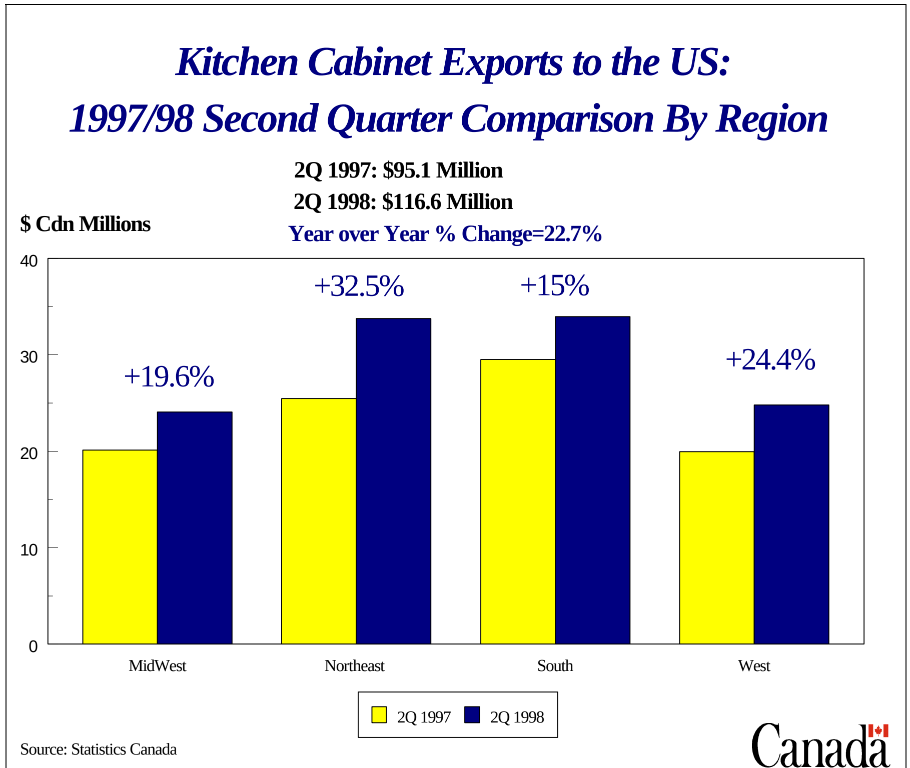
gains of 19.6 and 24.4 percent during the quarter. The fastest growing region was the Northeast, which saw exports rise 32.5 percent to $33.7 Million, up from $25.4 Million in the second quarter of 1997.



Offshore Trade

While offshore trade represents only 1.2 percent of total exports, global economic problems have had a significant impact on various overseas markets. Exports to the European Union and Japan continued to fall in the first half of the year, down 82 and 67 percent respectively. In the first six months, exports to the EU were $170 000, compared with $963 000 in the first six months of 1997. Exports to Japan totalled $854 000 from January to June, versus $2.6 Million for the same period in 1997. Latin America and the Caribbean represented the largest non-US destination for Canadian kitchen cabinet exports. For the first six months, exports were $1.07 Million, a gain of 94 percent due mainly to increased exports to Bermuda. In the first six months, kitchen cabinet exports to Bermuda increased 180 percent to $468 000. Third and fourth quarter export results for the Latin America and Caribbean region will provide more information on the sustainability of this market for Canadian producers.

Imports

Imports are another indicator of Canadian demand for kitchen cabinets. Imports from all countries were down 12.3 percent in the first half of the year, reaching only $12.5 Million. Imports from the US were down 18.2 percent for the first six months and down 36 percent in the second quarter. Historically, the US has accounted for 85 to 90 percent of kitchen cabinet imports. In the first six months of the year, US imports represented only 81 percent of imports. In contrast, imports from Asia-Pacific (including Japan) have increased to $1.75 Million, up 47 percent for the January to June period and representing 14 percent of the import market. The current state of the Canadian dollar has made imports from the US more expensive and Asian imports (especially those from Malaysia) cheaper.

Industry News

1999 CKCA National Forum February 4-6, Kitchener

The Canadian Kitchen Cabinet Association will be holding their National Forum on February 4-6 1999 in Kitchener, Ontario. For more information contact Robert Rivard of the CKCA at 613-233-6205.

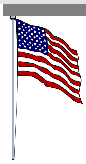
Please note

Construction and Housing Review

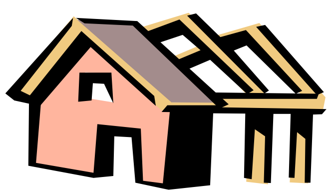
Construction in Canada

During the second quarter of the year, the Asian economic crisis along with other global economic factors, began to have a more dramatic impact on the Canadian economy, highlighted by weaker commodity prices and a sliding dollar. Labour disruptions, most notably the GM strike, also added to the economy's slowing performance. Consequently housing starts, on a year over year basis, fell by 4 percent to only 42 093 units in the second quarter. Ontario and the Prairies were the only regions to record an increase in housing starts, up 3 and 17 percent respectively. Building permits totalled 46 960, down 6 percent in the second quarter. In Calgary, building permits increased 27 percent, while Edmonton saw a healthy 15 percent increase in permits issued. Toronto saw building permits fall by 5 percent from the second quarter 1997 level. BC was the hardest hit province, with housing starts down 32 percent and building permits down 20 percent from a year ago. The BC economy is more tied to trade with Asian economies than any other part of Canada.

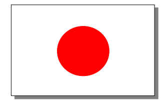
Construction in the United States



The global economic turmoil also began to have a more pronounced impact on the US economy between April and June. A sharp decrease in US exports and the prolonged GM strike, which lasted into July, had a negative impact on real GDP growth which fell to 1.6 percent in the second quarter from 5.5 percent in the first three months of the year. Even with these shocks to the economy, the construction sector in the US remained robust. Spurred by low unemployment and higher consumer spending, housing starts rose 7 percent in the second quarter, and were 8 percent higher for the first six months of the year. Housing starts in the Northeast and Western regions were particularly strong, up 10 percent in the second quarter. Housing starts in the Midwest and South, which accounted for 26 and 46 percent of all US housing starts, were up 5 and 6 percent respectively. There were some 773 000 housing starts in the first six months of the year.

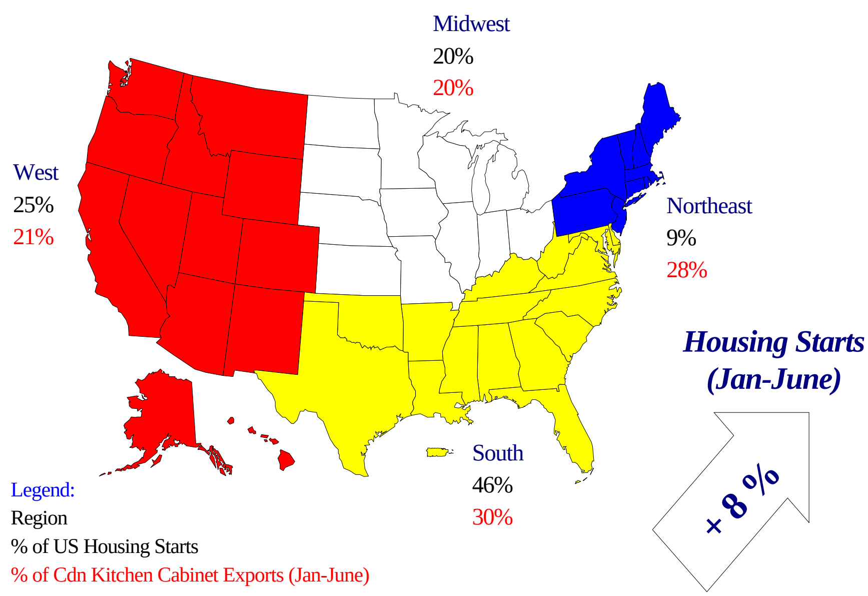


Construction in Japan



Japan's GDP in the second quarter of 1998 fell by approximately 3 percent, further signalling the ailing state of the economy. This was the third consecutive quarter in which GDP shrank. Housing starts on a year over year basis were down 15 percent to 315 219 units for the period April to June. Unemployment has reached a record high 4.3 percent, the highest it has been in the post-war era. Japan is effectively in a liquidity trap where the real economy is insensitive to interest rates, and the country has turned to government spending to boost the economy. This has been ineffective to date and has had no affect on improving the dim residential construction situation.

US Housing Starts Jan-June 1998



Source:U.S. Dept of Commerce, 1998

Special Features

Canada's Commercial Officers in the United States

Over the past few years, Canadian companies have make significant gains in the US market and given the current state of the world's economy, the US market presents some of the best opportunities for Canadian building product manufacturers.

Canada's commercial officers in the US help to promote the economic interests of Canadian firms abroad. They help companies, be they new or experienced exporters, prepare for the challenges of doing business outside of Canada by providing market information, trade leads, and contact names.

The current list of Canada's commercial officers responsible for building products in the US can be found on the next page.

For more information visit the web site:
http://www.infoexport.gc.ca/section3/menu-e.asp

Canadian Business Service Centres

A role of CBSC is to help reduce the complexity of dealing with various levels of government by providing a single point of contact for a wide range of information on government services, programs and regulations. The CBSC initiative is the result of cooperative arrangements among 28 federal business departments, provincial governments and in some cases, private sector, associations, academic and research communities.

Currently there are twelve CBS Centres, one in every province, the Northwest Territories and the Yukon. The participants and designated federal managing partners who are responsible for the development and management of the CBSCs vary from province to province.

Each CBS Centre offers a variety of products, services and export referrals to help you obtain quick, accurate and comprehensive business information. The CBS Centres minimize telephone runaround, inadequate or incorrect information, and duplication of government services. This help enables you to make well-informed business decisions in an increasingly global economy.

For more information visit the Web site:
http://www.cbsc.org

Canadian Window Technology Transfered to Japan

Two window manufacturing operations have recently been established in Japan using Canadian window manufacturing equipment and components.

IMS Canada, a Japanese distributor of Canadian building products, has established a window manufacturing plant in the Kyushu region of Japan. This plant assembles windows using Canadian made components, machinery and manufacturing technology. The second plant is in Toyoma City. These developments signal an increased opportunity for the transfer of Canadian building product technology, equipment and components.

More information on opportunities abroad and contact names can be found at:
http://www.infoexport.gc.ca/menu-e.asp

Canadian Consulate and Commerical Officers

Location	Name	Telephone	FAX	E-Mail
Atlanta, Georgia	William Stolz	404-532-2017	404-532-2050	william.stolz@atnta01.x400.gc.ca
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Buffalo, New York	Jay Mileham	716-858-9559	716-852-4340	jay.mileham@bfalo01.x400.gc.ca
Chicago, Illinois	Rock Dustchin	312-616-1860 Ext. 3366	312-616-1878	dustchin.rock@chcgo01.x400.gc.ca
Dallas, Texas	Cate Lisak	214-922-9812 Ext. 3357	214-922-9815	cate.lisak@dalas01.x400.gc.ca
Detroit, Michigan	Tom Quinn	313-567-2340 Ext. 3364	313-567-2164	tom.quinn@dtrot01.x400.gc.ca
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Seattle, Washington	James Sheehan	206-443-1777 Ext. 3358	206-443-9735	james.sheehan@seatl01.x400.gc.ca
Washington D.C.	Manuel Ellenbogen	202-682-7766	202-682-7619	manuel.ellenbogen@wshdc01.x400.gc.ca

The Year 2000 Challenge

On January 1, 2000, the Year 2000 problem —known as the millennium bug—could affect any computer and any kind of data-activated device such as the embedded technology used in production, maintenance, field operations and telecommunications. There is also a good possibility that the effects will be experienced before the Year 2000—in either case, costly errors or computer failures will result if no action is taken.

"We urge all Canadian business leaders, chief executive officers, presidents and business owners to implement immediately a formal action plan for Year 2000 preparedness—if they have not yet done so. Firms that are prepared for the Year 2000 computer challenge could gain a significant competitive advantage in the marketplace at home and abroad. Those that are not prepared could inflict business losses on themselves and on others.

We urge those firms actively pursuing their Year 2000 formal action plans also to enquire into the preparedness of their key domestic and international trade partners, and to plan accordingly. Correcting the Year 2000 problem now is a matter of crucial importance and a national priority."

Task Force Year 2000, February 1998

For more information
Call toll-free: 1-800-270-8220
(08:00 to 20:00 EST Monday to Friday)
or visit our Web site:
http://strategis.ic.gc.ca/sos2000
The toll-free number for the Telecommunications Device for the Hearing Impaired is:
1-800-465-7735.