INDUSTRY CANADA
Wood Kitchen Cabinets Review
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1999 Year In Review
US Exports Continue to Soar
Strong Demand Pushes Production Higher

Production

The production of Canadian kitchen cabinets in the fourth quarter capped off a very successful year with a nearly 7 percent growth over the same period in 1998. Overall, annual production increased by 12.5 percent between 1998 and 1999, bringing industry shipments to over $1.56 billion. Much of the industry's growth can be attributed to the focus on exports, an area which increased 25 percent between 1998 and 1999. On a seasonally adjusted and annualized rate (SAAR) basis, the fourth quarter growth was even more impressive with 1999 improving on the preceding year's pace with a 9 percent growth rate. This represents the change between $1.48 billion worth of shipments in 1998, to 1999's total of $1.62 billion on an SAAR basis.

The apparent domestic market for kitchen cabinets in Canadaincreased by 6 percent between 1998 and 1999. This was largely due to the recovery of the Canadian construction market. Shipments to the domestic market accounted for 97.3 percent of Canadian demand in 1999, the same share it had in 1998. The domestic market trailed off during the fourth quarter of 1999, decreasing from 1998 totals by about 3.6 percent.

Also in this Issue

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If you have any comments or suggestions or want to be added to the Industry Canada mailing list, contact:
Murray Hardie at
Tel: (613) 954-3037
Fax: (613) 941-8048
E-Mail: hardie.murray@ic.gc.ca
or
Patrick Hum at
Tel: (613) 954-3048
Fax: (613) 941-8048
E-Mail: hum.patrick@ic.gc.ca

However, annual totals presented a different story. The ADM in 1999 was $1.007 billion, an increase of 6 percent from $948 million in 1998.

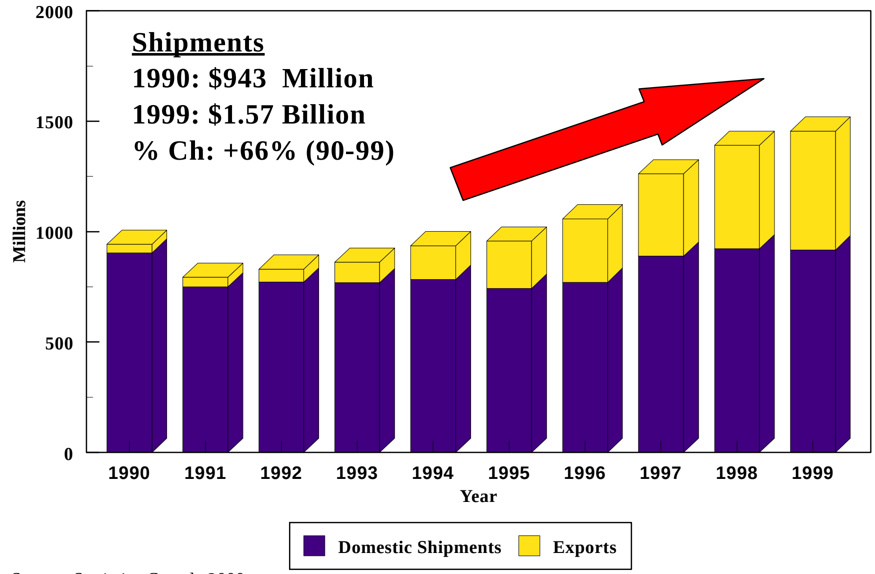
International Trade

Kitchen cabinet exports had a particularly strong fourth quarter in 1999, growing 29.7 percent from the same quarter in 1998. The United States continued to absorb the vast majority of exports, while other export markets suffered declines as compared with 1998 figures. This is a continuation of recent trends in these markets. Overall, exports totalled $586 million in 1999. This represents a growth of 25 percent over 1998 exports, which ended the year at nearly $469 million. Canadian exports accounted for 37.6 percent of 1999 production, up from 36 percent in 1998 and 4.7 percent in 1988.

Exports to the US

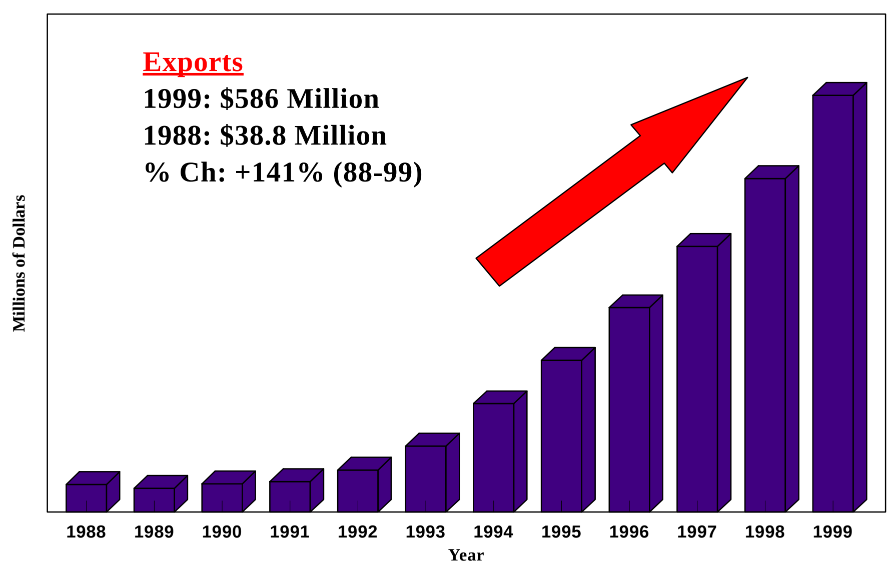
The US continues to be the primary destination for exports of Canadian kitchen cabinets. In 1999, approximately 99.1 percent of kitchen cabinet exports were shipped to the US. The value of exports in 1999 totalled $580 million, a 25.4 percent increase on the $462 million achieved in 1998. Exports for the fourth quarter of 1999 were particularly strong at $159 million, a 30.4 percent jump on the same period in 1998. All major regions of the US saw healthy growth rates in imports of Canadian kitchen

Kitchen Cabinet Shipments 1990-1999



Source: Statistics Canada 2000

Kitchen Cabinet Exports 1988-1999



Source: Statistics Canada 2000

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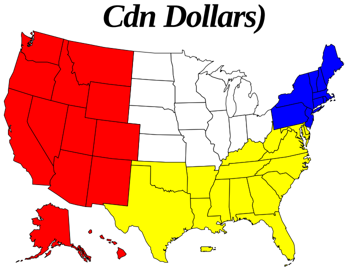
cabinets.

The region with the highest level of imports was the South, with a total of $186.8 million in 1999. This is a 30.1 percent increase over values of $143.5 million in 1998. Privately owned housing starts in 1999 were 761,300 for the South, a region which is driven by the markets in Georgia, North Carolina and Florida, its largest importer. Kitchen cabinet exports to the US West region were tremendous in the fourth quarter, growing to $36 million, a 38.6 percent increase over the same quarter in 1998. For the year, exports to the West Coast finished at $121.5 million, up 24.8 percent from the 1998 total. California remained the region's largest importer of Canadian kitchen cabinets at nearly $50 million for the year.

The US Northeast experienced a 26.5 percent gain on the 1998 total with Canadian shipments valued at $164.4 million for 1999. New York continues to be the largest destination, while Massachusetts showed growth potential with a 52 percent increase on 1998 imports of kitchen cabinets to arrive at $29.2 million in 1999. Although they did finish the year with a fourth quarter gain of 29 percent over the previous year's final quarter, exports to the US Midwest grew at a more moderate pace in 1999. Total exports were $101.9 million in 1999, an increase of 11.1 percent on the $91.6 million achieved the year before. Illinois, the largest market in the Midwest, grew by only 5 percent between 1998 and 1999, while the same figure for Michigan was 103 percent to rank it in the top ten export markets for Canadian kitchen cabinets amongst US states.

Exports to the Top 25 US States 1999

(In Thousands of Cdn Dollars)

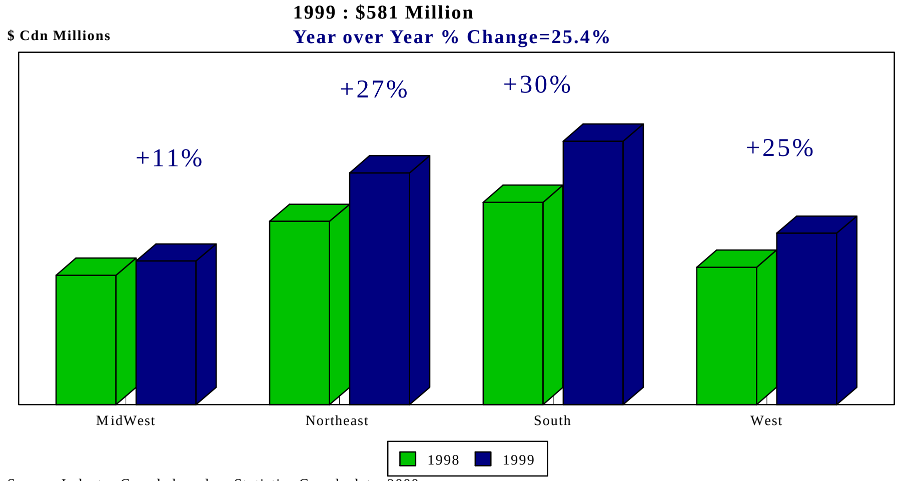


Source: Industry Canada Based on Statistics Canada data, 2000

		1999	1998	% Ch 98/99
1	Florida	58,877	45,979	28.10%
2	New York	55,015	47,242	16.50%
3	California	49,710	39,697	25.20%
4	Illinois	34,414	32,484	5.90%
5	North Carolina	33,868	23,313	45.30%
6	Michigan	30,611	15,062	103.20%
7	Georgia	30,041	26,605	12.90%
8	Massachusetts	29,213	19,219	52.00%
9	New Jersey	24,642	15,253	61.60%
10	Washington	22,706	14,520	56.40%
11	Colorado	19,122	15,507	23.30%
12	Pennsylvania	18,578	9,374	98.20%
13	Texas	16,091	14,590	10.30%
14	New Hampshire	14,509	14,043	3.30%
15	Ohio	13,895	9,287	49.60%
16	Maryland	13,617	6,332	115.00%
17	Virginia	10,164	12,109	-16.10%
18	Indiana	9,794	4,791	-51.10%
19	Connecticut	9,109	4,985	82.70%
20	Wisconsin	9,100	10,603	-14.20%
21	South Carolina	8,060	4,885	65.00%
22	Nevada	7,832	8,089	-3.20%
23	Maine	6,575	4,024	63.40%
24	Arizona	5,837	7,822	-25.40%
25	Vermont	5,708	15,192	-62.40%

Kitchen Cabinet Exports to the US: 1998/99 Comparison By Region

1998 : $463 Million
1999 : $581 Million
Year over Year % Change=25.4%



Source: Industry Canada based on Statistics Canada data, 2000

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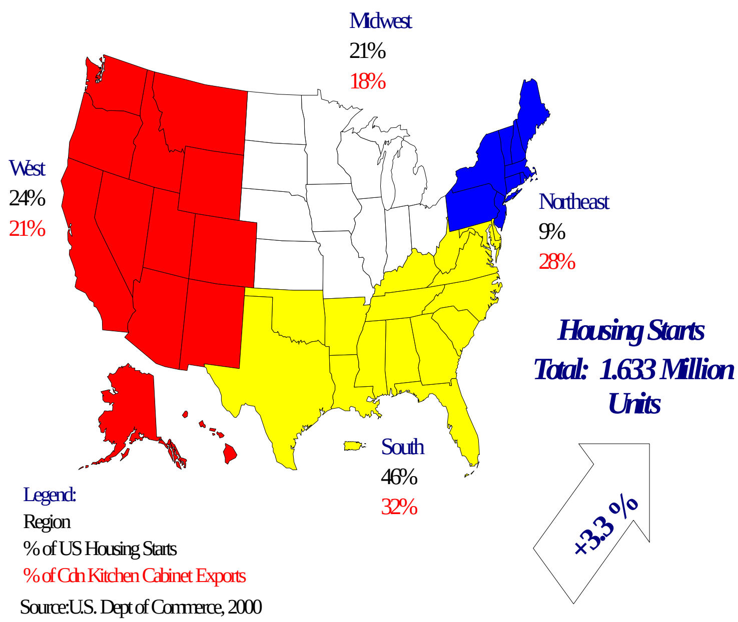
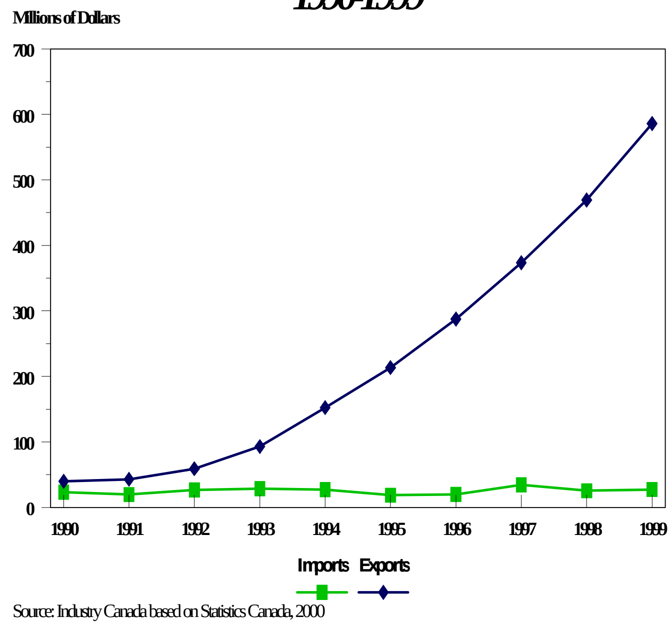
US Housing Starts 1999



Canadian Kitchen Exports Versus Imports 1990-1999



Offshore Trade

Exports to Japan and the European Union, Canada's largest markets after the US, suffered declines in both the fourth quarter and the total year. Shipments overseas constituted only 0.9 percent of Canada's exports in 1999. This figure has progressively fallen from 2.8 percent in 1997. The economic boom in the US, coupled with a further Japanese downswing contributed to this result. Japan had a relatively low fourth quarter, down 33.2 percent from 1998 to $294 thousand in 1999. Overall, shipments to Japan slipped from $1.9 million in 1998 to $1.59 million in 1999. Exports to the EU in 1999 fell to $270 thousand.

Imports

Imports reached $27.5 million in 1999, a 7.6 percent increase on the preceding year's total of $25.5 million. The US continues to be the major source of kitchen cabinets imports. Interestingly, imports from Germany have increased ten fold from $149 thousand in 1998 to $1.54 million in 1999. The fourth quarter of 1999 saw a surge in imports, increasing 48 percent over the same period in 1998, despite a decrease of 3.6 percent in apparent domestic demand for the period. Ontario remains the largest importer by far. In 1999, the province imported 58 percent of the country's total, roughly $16 million worth of wood kitchen cabinets.

Industry News

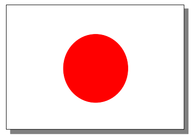
The Canadian Kitchen Cabinet Association (CKCA) will be holding their regional meeting, June 14 and 15, 2000 in St.-Jean-sur-Richelieu, Quebec. The meeting will include plant tours of Formica Canada, Richelieu Hardware, and Sedan Industries. For more information contact: Suzanne Cardinal of the CKCA at tel: 613 233-6205 fax: 613 233-1929 or by e-mail: scardinal@ckca.on.ca

Construction and Housing Review

Construction in Canada

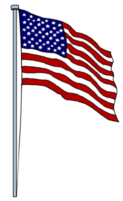
Following healthy economic growth, Canadian housing starts increased more than 12,500 units in 1999, representing a 9 percent annual gain over 1998. Total housing starts in 1999 were 149,968. The fourth quarter was particularly strong for the construction industry. During the same period, inflation remained low and the Canadian currency witnessed marginal gains. Over 11,000 more building permits were issued as compared to 1998. Toronto continues to be the largest construction market, increasing its annual total of building permits by 22 percent to 36,585 in 1999. With totals around 13,000, Montreal also issued more permits this year than last, establishing itself as the second largest market in an industry traditionally dominated by western cities . Some smaller markets such as Halifax, Oshawa and Kitchener experienced substantial gains. Their respective increases were 32, 37 and 35 percent over last year's totals. Although they are still large markets, Calgary and Vancouver suffered minor losses. While Vancouver had a very strong last few months of 1999, Calgary has remained at lower levels in comparison with 1998. The new housing market in 2000 will look to match sustained growth numbers with the rest of the economy, benefiting from mutual prosperity with the United States. Based on analysts' estimates, the short-term outlook for housing starts is favourable.

Construction in Japan



Despite strong November housing starts, December of 1999 indicated a relapse to a level below that of 1998. While Japanese GDP growth was positive at 0.6 percent, this is relative to last year's weak performance where GDP fell 2.8 percent from 1997. The number of housing starts rose from 1.179 million to 1.214 million representing a growth of nearly 3 percent in 1999. Two-by-four housing starts experienced a growth of nearly 11 percent this past year and prefabricated houses rebounded from 1998's totals by 2 percent. This growth may be attributed to deflation, as well as, falling interest rates, led by the Bank of Japan lowering its interest rate to 0 percent. Although most economic analysts are predicting a modest growth in GDP, as well as, housing starts, another consecutive quarter of negative GDP growth will mean Japan will fall back into recession. However, housing starts in 2000 are anticipated by some analysts to grow slowly in the short term as the government looks to encourage investment in the eonomy.

Construction in the United States



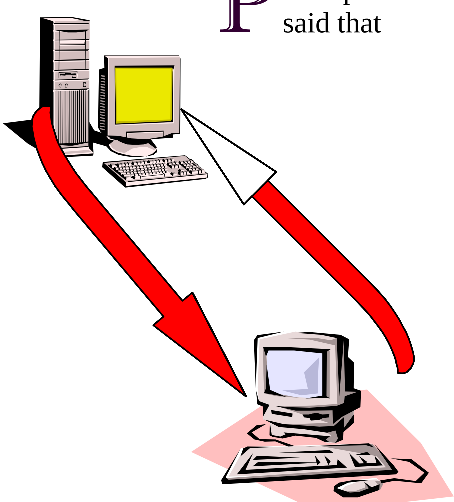
Housing starts in the U.S. for 1999 grew at a rate of 3.3 percent from the previous year, despite falling slightly off pace in the final two months. The rate of growth in building permits issued was slightly under par; growing just under 2 percent from 1.6123 million in 1998 to 1999's figure of 1.6402 million. The US increase in housing starts remained proportionate to the country's strong economic growth: the GDP grew by 4 percent in 1999. Overall, housing starts increased from 1.617 million in 1998 to 1.665 million in 1999. After a particularly strong November, the US Midwest finished the year with an 8 percent growth over the previous year's number of issued building permits, while the South and Northeast Regions experienced growth rates of 2.5 and 3.6 percent, respectively. The West encountered a slight drop from last year. As in previous years, much of the US construction activity has been concentrated in the South and Midwest regions. The threat of inflation in the first half of 2000, combined wth rising producer and consumer prices, are expected to impact housing starts. Most analysts anticipate a decrease in construction market activity for the current year.

Special Feature

DISPELLING THE MYTHS ABOUT E-COMMERCE IN THE BUILDING PRODUCTS

In November, 1999, Industry Canada commissioned Decima Research Inc., a leading research firm, to identify the perceived barriers to the adoption of e-commerce in the building products industry. Decima conducted focus group sessions with 22 executives (in Toronto and Montreal) whose firms had yet to undertake an e-commerce initiative. Here is a summary of their results.

Decima found that while many of these firms had their own website, all of the participants perceived the Internet as mostly a marketing tool, providing universal and real-time access to information about their company's products and services. Many participants felt that their web site was an effective business tool, and brought them clients that they might not have otherwise. Participants said that important barriers to introducing e-commerce in their firm included:



- many of their suppliers, clients and end-users don't have computers;
- many senior executives were unfamiliar with Internet technology and its capabilities;
- the financial cost of adopting e-commerce;
- the customized nature of their products did not lend itself well to selling their products on the Internet, and
- many participants were afraid that they did not have the manufacturing capacity to handle the increased demand that the Internet would bring.

Many participants also felt that buying and selling on the Internet would eliminate the personal relationship with buyers, and that their products could not be sold on-line using a credit card. There were also concerns about on-line fraud, hackers and computer viruses.

Here's what Decima had to say about these perceived barriers:

"Several of the perceived barriers to the adoption of e-commerce expressed by focus group participants are **more imagined than real**. Current e-commerce solutions can be tailored for B2B (Business to Business) transactions and processes are not limited to B2C (Business to Consumer) buying and selling. Detailed production designs and build-to-order price quotations can now be transmitted securely over the Internet...E-commerce is not limited to standard, fixed price items. Not all customers and suppliers in a firm's value network need be connected to realize substantial benefits from adopting e-commerce. E-commerce can be used to enhance person-to-person communication with suppliers and customers, rather than eliminate "the personal touch". On-line credit verification is possible, and standard industry delayed payment terms can be accommodated in current B2B e-commerce solutions...[E-commerce] can dramatically reduce costs, increase profits, reach new customers, increase business with existing customers, attract and keep valued employees and build competitive advantage for Canadian firms."

If you would like copies of the report, or have questions about adopting e-business, please contact our E-business Analyst, George Schoenhofer.
E-mail: schoenhofer.george@ic.gc.ca
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