❖ INDUSTRY CANADA ❖

Volume

Wood Kitchen Cabinets Review

Winter 1998

Production Reaches Historical High Despite Weak Housing Starts
Exports to US Surge to Record Levels
Domestic Demand and Imports Both Lower

Shipments

Although faced with weakening domestic demand, kitchen cabinet production in Canada increased in the third quarter of 1998. Shipments in the July to September period increased 7.3 percent to $343.5 million, up from $320 million in 1997. On a seasonally adjusted and annualized basis, third quarter shipments reached $1.306 billion, an increase of 8.14 percent over $1.2 billion in the third quarter of 1997. The positive increase in the SAAR shipment figures reflect the industry's increased production to supply export markets. Using the kitchen cabinet producer price index, prices for producers appears to have increased slightly in the third quarter. Production of kitchen cabinets in Canada for the first nine months of the year were $963.3 million, increasing 7.6 percent from $894.9 million in the same period in 1997. It should be noted that the actual growth rate of shipments has fallen as compared to 1996 and 1997.

Domestic demand for kitchen cabinets was down slightly for the first nine months of the year. The apparent domestic market (ADM) for kitchen cabinets, through the January to September period, fell 0.66 percent to $637.2

Also in this Issue

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million. Although the Canadian housing market was weak, domestic producers gained a larger share of the domestic kitchen cabinet market as domestic producers replaced imports from the US. Imports, which represented 4.1 percent of the apparent domestic market in 1997, fell to 2.9 percent of the Canadian kitchen cabinet market in the first nine months of the year. This shift from imports was due in large part to the significant decrease in the value of the Canadian dollar.

International Trade

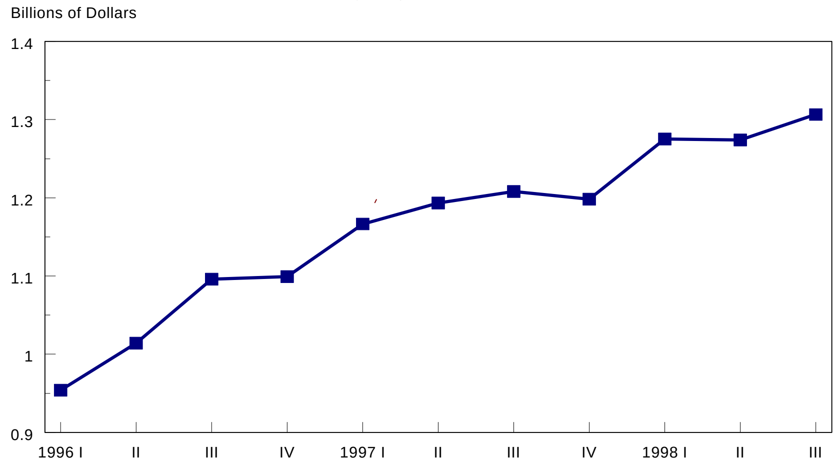
Kitchen cabinet exports in the first nine months of the year surged to $344.9 million, up 23.5 percent over $279.6 million in the same period in 1997. Third quarter exports reached $120.8 million, increasing 22.2 percent over the third quarter of 1997. Through the first nine months of the year, exports represented 35.8 percent of the Canadian kitchen cabinet industry's production.

Exports to the US

Exports of kitchen cabinets to the US continued to be strong in the third quarter. Exports in the July to September period were $119 million, up 22.5 percent from $97.2 million in the same period in 1997. While the second and third quarters represent record highs for exports to the US, export growth this year has been particularly strong and consistent. For the first nine months of the year, Canadian exports of kitchen cabinets increased

Canadian Kitchen Cabinet Shipments
1996-1998 3Q

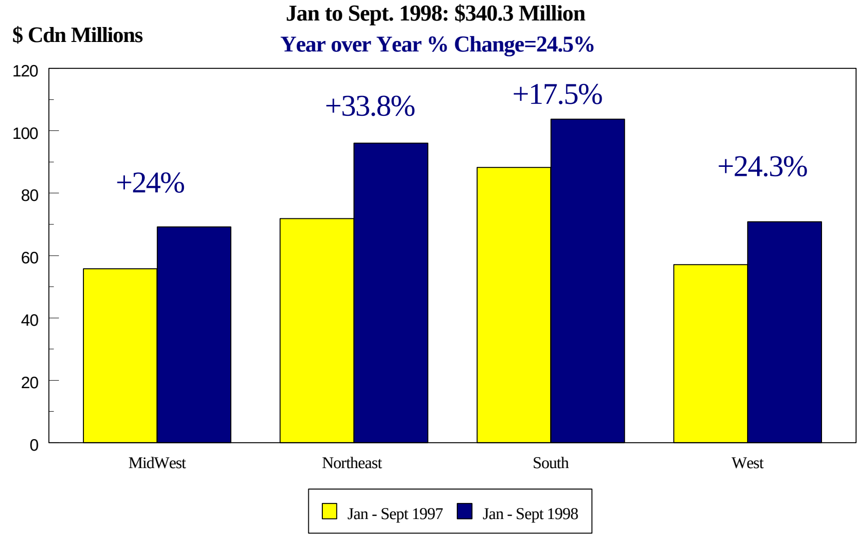
Seasonally Adjusted and Annualized



Source: Industry Canada based on Statistics Canada 1998

Kitchen Cabinet Exports to the US:
1997/98 Jan-Sept Comparison By Region

Jan to Sept. 1997: $273.3 Million
Jan to Sept. 1998: $340.3 Million
Year over Year % Change=24.5%



Source: Statistics Canada

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22.5 percent to reach $340.3 million. In comparison, exports for the same period in 1997 were $273.3 million. Canadian export success to the US has been dependent on several factors, the most important of which has been the strength and duration of the current housing construction boom.

By region, the US South is the largest export market for Canadian kitchen cabinet manufacturers. Through the first nine months of the year, exports to Southern states were $103.8 million, an increase of 17.5 percent over exports of $88.3 million for the same period in 1997. Third quarter exports to the US south were particularly strong with exports increasing 24.2 percent to $36.9 million. While the South represents 46 percent of housing starts, the region accounts for 31 percent of Canadian kitchen cabinet exports. Florida is the single largest market among the southern states with year to date exports of $32.2 million.

Exports to the US northeast were the fastest growing in both the third quarter and through the first nine months of the year. From January to September, exports to the Northeast states were $96.1 million, up 33.8 percent from $55.8 million in 1997. Third quarter exports to this region were up 29 percent to $33.7 million. New York, with nine month exports of $34.8 million, is the largest importer of Canadian kitchen cabinets. Exports to the Midwest rose 24 percent in the first nine months of the year. A strong third quarter, where exports grew 22 percent to $22.7 million, pushed exports for the January to September period over $69.2 million. In comparison, exports to the Midwest were $55.8 million for the same period in 1997.

Canadian kitchen cabinet exports to the states on the US west coast grew 24.3 percent to $70.9 million for the first nine months of 1998. Exports to this region could have been higher if exports had not slowed in September. Third quarter exports worth $25.6 million grew at 13.4 percent as compared to first and second quarter growth of 40 and 24 percent respectively.

Top 5 Kitchen Cabinet Export Destinations in the US 1998
In Thousands of Cdn Dollars

Rank		Exports Jan-Sept	% Ch Y/Y	Share Total US
	US	$340,292	24%	100%
1	New York	$34,819	53%	10%
2	Florida	$32,204	40%	9%
3	California	$29,317	17%	9%
4	Illinois	$24,522	50%	7%
5	Georgia	$19,922	30%	6%

Source: Industry Canada based on Statistics Canada data

Offshore Trade

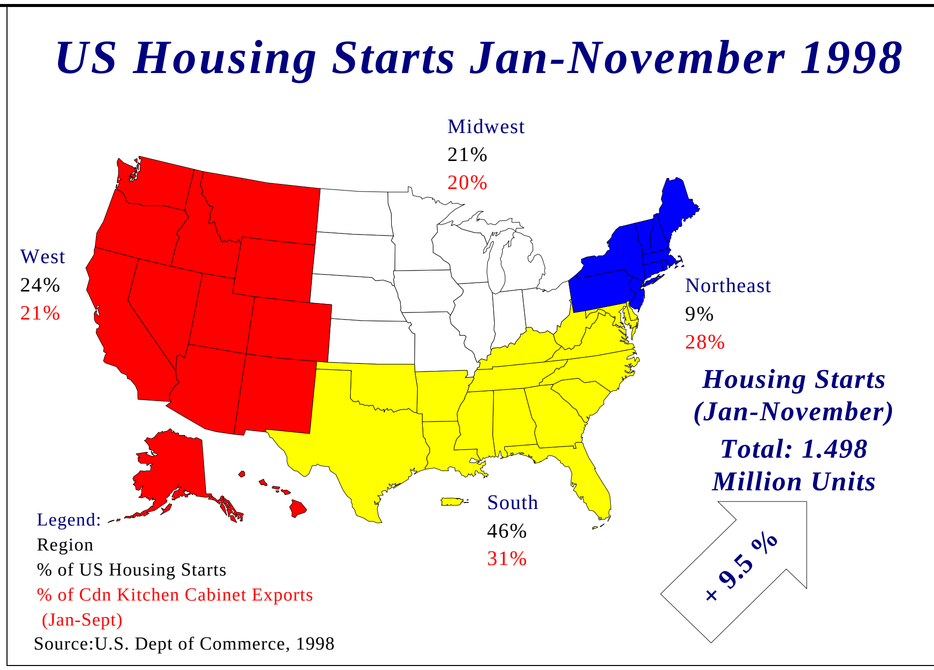
Exports to markets other than the US totalled $4.6 million from January to September, down 27 percent from $6.3 million in 1997. Weak demand from key Asian markets, especially Japan, continued to plague overseas exports. Exports to Japan, which remains the second largest export market for the Canadian industry, were down 61 percent, reaching only $1.3 million for the first nine months. This represents less then half of the $3.4 million worth of kitchen cabinet exports to Japan for the first nine months of 1997. While demand in Japan fell, exports to other international markets showed some signs of strengthening. Exports for the first nine months were $3.2 million, up 13.8 percent. Just under half of these exports were recorded in the third quarter, when exports totalled $1.4 million, up 60.3 percent on a year over year basis. The inconsistent

(Continued on page 4)

(Continued from page 3)
growth pattern would tend to indicate special one time orders for Canadian kitchen cabinets. Exports to all offshore markets represent only 1.4 percent of total exports.

Imports

Imports of kitchen cabinets into Canada for the first nine months of 1998, mainly from the US, were $18.8 million, down 27.9 percent from $26 million in same period in 1997. Most of the decline in imports occurred in the third quarter, when imports fell 46.8 percent to $6.2 million. The Canadian dollar's turmoil in July and August made kitchen cabinet imports more expensive for domestic consumers. Ohio was the single largest source of imports, representing $5.4 million in Canadian imports between January and September. Thailand remains the largest offshore source of kitchen cabinets, with $1.8 million worth of product entering Canada. Ontario accounts for 61 percent of imports, followed by British Columbia with 21 percent of kitchen cabinet imports.



Value-Added Building Products Export Directory

A new edition of the Canadian Value-Added Building Products Export Directory is being prepared. The cost effective promotional directory, showcasing Canadian windows and doors, kitchen cabinets, hardwood flooring and mouldings is a collaborative effort of the CWDMA, CKAC, and CLA. It is a high-quality, glossy publication featuring company information with full-colour photographs. Ten thousand copies of the directory will be published and distributed worldwide by Industry Canada to Canadian embassies and trade posts around the world. It will also be made available at many international trade shows where the federal government participates. In addition, each entry in the directory will be featured on the Canadabuild Website (http://canadabuild.com). The deadline for participation is March 15th, 1999. If you are interested in promoting your company's product internationally, please contact France Roy of the CWDMA at (613) 233-9804.

Secteur de l'industrie
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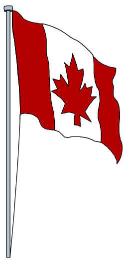
Industry Sector
Forest Industries & Building Products Branch

Canada

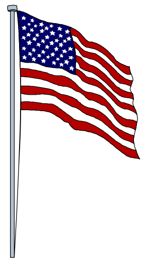
Construction and Housing Review

Construction in Canada



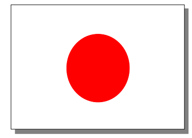
The Canadian economy grew at an annualized rate of 1.8 percent in the third quarter, down from 3.1 in the first quarter, but up from 1.4 percent growth experienced in the second quarter. While the economic situation improved slightly, labour disputes and weak domestic demand continued to plague the economy. Housing starts continued weak in the third quarter, reaching 131 300 on a seasonally adjusted annualized rate (SAAR), down 11.5 percent from the same period in 1997. Starts in British Columbia and Quebec were particularly depressed, down 32 and 22.5 percent respectively. Ontario, which accounts for approximately 38 percent of all starts in Canada, was down 11.7 percent to 48 300 starts (SAAR). The Prairies, boosted by strong construction markets in Alberta, continued to outperform the rest of Canada with starts up 17.4 percent to 32 400 units (SAAR). In Calgary, building permits rose 21 percent in the first 11 months of the year. Final 1998 housing starts are expected to be approximately 137 000. In the recently released Homeowner Repair and Renovation Expenditure Survey from Statistics Canada, renovation and repairs expenditures increased 7.3 percent to $12.8 billion in 1997. Average spending per household was $1 712, of which 38 percent was for building materials.

Construction in the United States



In late summer and early fall, the very public retreat of the US equity markets and the poor economic news from around the globe gave the impression of a weakening and fragile US economy. Fortunately, the reality was not quite so bleak. US gross domestic product in the months between July to September grew at a healthy annualized rate of 3.9 percent. This growth spread into the construction sector as new housing starts continued very strong across all regions. Housing starts were up 9.5 percent for the first 11 months of 1998, totalling some 1.498 million units. This surpasses the 1.474 million units started in all of 1997. The US south led all regions with 688 400 housing starts, up 11.1 percent from 1997 levels and accounted for 46 percent of all housing starts in the US. The Northeast, Midwest and West regions all experienced growth and accounted for 9, 20, and 25 percent of national housing starts respectively. The recent easing of interest rates by the Federal Reserve should have a positive effect on housing construction in 1999.

Construction in Japan



The economic situation in Japan has gone from bad to worse. By October, the economy had contracted for a fourth consecutive quarter. The situation is so dire, the Japanese government is preparing a fiscal stimulus package worth 24 trillion Yen. Weak consumer confidence and worries about their own employment situation have caused consumer spending to drop. The bleak outlook for the Japanese economy extends to the construction sector. Housing starts for the first 11 months were 1.098 Million units, down 14 percent from 1997. This represents 176 600 fewer housing starts from a year ago. Data from Japan's Ministry of Construction indicates the number of prefabricated housing starts and 2X4 homes were down 8.7 and 10.7 percent respectively from 1997 levels. In a recent Toronto Star article of interest to manufacturers, a Canadian firm's prefabricated 2X4 homes built in Japan were reported to have a $66 per sq.ft. advantage over a steel framed Japanese built prefabricated homes.

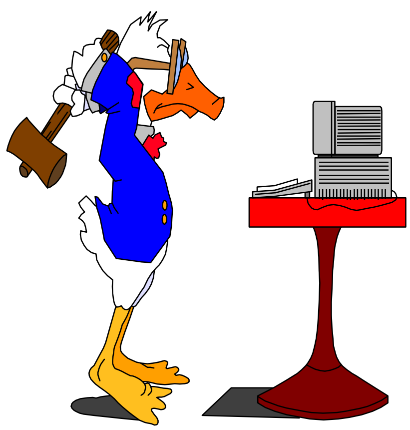
Special Features

The Building Products Industry and the Year 2000 - Are you ready?

The Canadian Building Products Industry has undergone tremendous growth in the last few years. To sustain this growth, the building products industry must be sure it is prepared to meet the challenge of the millennium bug which is only a few months away. On January 1st, 2000, the Year 2000 problem could affect any computer and software used in business, such as integrated accounting software and information technology systems. The Millenium bug may also affect any kind of data-activated device such as the embedded technology used in production, maintenance, field operations and telecommunications. The effects of the illenium bug may be experienced before the Year 2000—in either case, costly errors or computer failures will result if no action is taken.

Being prepared for the Year 2000 computer challenge extends to domestic and international building product producers, suppliers, retailers, and consumers. If the industry can address the Year 2000 problem, the millennium bug challenge can become a competitive advantage for Canada's building products industry in global markets. Correcting the Year 2000 problem is now a matter of crucial importance and a national priority.
For more information on the Year 2000 Challenge:

Call toll-free: 1-800-270-8220
(08:00 to 20:00 EST Monday to Friday)
or visit the SOS2000 Website at:
http://strategis.ic.gc.ca/sos2000
The toll-free number for the Telecommunications
Device for the Hearing Impaired is:
1-800-465-7735.



Adding Value to Canada's Building Products Industry

Industry Canada, in partnership with the Canadian Forest Service, is undertaking consultations with firms and associations to develop an action-oriented strategy to support the future growth and development of this important sector. These consultations are part of the federal government's contribution to promote the value-added wood building products sector. For this purpose, Industry Canada has published a consultation paper which provides an objective and factual diagnostic of recent trends, current challenges and opportunities which are influencing the performance and future growth prospects of the value-added wood building products industry in Canada.

The consultation paper has been designed to summarize and build on past and current federal government initiatives to facilitate discussions with the industry. To obtain a copy of the paper , please contact Brian Eyford (613) 954-3505. Industry participation in the consultation process will ensure industry's needs are met.

Feedback on Industry Canada's Quarterly Reviews

Industry Canada publishes Quarterly Reviews on the ***Prefabricated Housing****,* ***Kitchen Cabinet*** *and* ***Window and Door*** *industries. We are undertaking this* ***feedback survey*** *to improve the content of the Quarterly Reviews. Completing this survey is voluntary but your reply will be greatly appreciated and will make the Reviews a better product. Your feedback is* ***important****! You can respond by faxing this page and your responses to* ***(613) 952-8384*** *or by completing the survey on our web page at* http://www.strategis.ic.ca/foreind .

On the Reviews...

I currently receive the Prefabricated Housing__ Kitchen Cabinet__ Window and Door __ Review.
Do you wish to continue receiving the Review? Yes__ No__
How would you rate the Review? Poor__ Fair__ Good__ Excellent__
Do you find the Review relevant to your strategic business planning? Yes__ No__
Please elaborate: ____

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What data or features are most useful to you?
Exports__ Shipments__ Construction Section __ Industry News__ Special Features__
Which areas could use improvement?
Exports__ Shipments__ Construction Section __ Industry News__ Special Features__
What else would you like to see in the Review(s)?
Economic forecasts__ More Trade Information__ Price Trends__ Links to useful websites__
Other __ (please specify)_______________________
Do you have suggestions on how to improve the Review(s) or additional general comments? Write to us!

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Internet Access

Do you have an E-mail address? Yes__ No__
Do you use the Internet? Yes__ No__
If Yes, How do you access the Internet? LAN__ 56.6K modem__ 28.8K__ 14.4K__ Don't Know__
Have you down loaded the Adobe Acrobat Reader to view Adobe *.PD files? Yes__ No__
Does your company or organization have a website? Yes__ No__
Would you like Industry Canada to provide a link to your website from Strategis?
If yes, what is you website address? ______________________________
Do you access the reviews on our Strategis (http://strategis.ic.gc.ca/foreind) website? Yes__ No__
Is your company listed on the Canadabuild website (http://www.canadabuild.com)? Yes__ No__
Interested firms can register directly on the Canadabuild website.

Name:_______________________________ Company:________________
E-mail address:_________________________ Fax:_____________________

Thank you for completing our Survey!
Should you have any questions, please contact:
Murray Hardie Tel: (613)954-3037 or E-mail: hardie.murray@ic.gc.ca
Patrick Hum Tel: (613) 954-3048 or E-mail: hum.patrick@ic.gc.ca
Forest Industries and Building Products Branch
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