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1Q 2013 U.S. Ceramic Tile Industry Update

Economic Overview:

The U.S. residential market continued to surge forward in 1Q 2013. According to the U.S. Census Bureau, new home starts in Mar. rose to a seasonally-adjusted annual rate of 1,005,000 units, up 42.1% from Mar. 2012 figures.

New home sales, with which ceramic tile sales are closely linked, jumped 29.2% from Mar. 2012 to Mar. 2013 to a seasonally-adjusted annual rate of 451,000 units, per the U.S. Census Bureau.

Existing home sales were up as well, rising 9.3% from 3.96 million units in Mar. 2012 to 4.33 million units in Mar. 2013 (source: National Association of Realtors).

The housing market was strengthened by falling unemployment and historically low interest rates. As of Mar. the U.S. unemployment rate was at 7.6%, the lowest it has been since Dec. 2008 (Bureau of Labor Statistics). 30-year fixed rate mortgages were at 3.57% as of Mar. 2013. Though up from the record low of 3.35% (Dec. 2012), the Mar. rate was still very low historically speaking (Freddie Mac).

Additionally, the Census Bureau reported U.S. construction spending (including both private and public residential and non-residential construction) as of Mar. 2013 was at a seasonally-adjusted annual rate of \$869 billion, a 6.3% increase from Mar. 2012.

U.S. Tile Consumption Overview:

The U.S. ceramic tile market started the year off strongly with an 8.4% increase in consumption in 1Q 2013 (vs. 1Q 2012).

The following table shows U.S. shipments, imports, exports, and consumption in thousands of sq. ft.

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| <u>Year</u> | <u>U.S. Shipments (incl. Exports)</u> | <u>Imports</u> | <u>Exports</u> | <u>Total Consumption*</u> | <u>% Change in Consumption from Previous Year</u> |
|-------------|---|----------------|----------------|-------------------------------|---|
| 1Q 2013 | 198,236 | 388,523 | 10,495 | 576,264 | 8.4** |
| 2012 | 748,290 | 1,491,845 | 45,618 | 2,194,518 | 5.4 |
| 2011 | 717,865 | 1,410,194 | 45,278 | 2,082,781 | 4.0 |
| 2010 | 649,057 | 1,394,779 | 42,044 | 2,001,792 | 7.7 |
| 2009 | 571,255 | 1,333,252 | 45,555 | 1,858,952 | -18.1 |

*Note: U.S. Shipments + Imports - Exports

** Note: % change vs. 1Q 2012

Imports:

In 1Q 2013, 388.5 million sq. ft. of ceramic tile arrived in the U.S. This was an increase of 11.6% from 1Q 2012, in which 348.2 million sq. ft. of ceramic tile were imported into the U.S. and a 17.0% increase from 1Q 2011.

Import penetration was at 67.4% in 1Q 2013, up from 65.5% in 1Q 2012.

Mexico remained the top exporter to the U.S. in 1Q 2013 (in sq. ft.) with a 31.6% share. China held the second position, making up 29.1% of imports (in sq. ft.). Italy was in third place with a 16.7% share.

On a dollar basis, Italy continued to hold the top exporter position in 1Q 2013, making up 33.4% of U.S. imports. The next two highest shares belonged to China and Mexico, which had 25.1% and 18.7% of the \$ value of U.S. imports, respectively.

The \$ value/sq. ft. of all tile imports rose from \$0.93 in 1Q 2012 to \$0.96 in 1Q 2013.

The top five countries from which tiles were imported in 1Q 2013 based on sq. ft. were:

| Country | Sq Ft 1Q 2013 | Sq Ft 1Q 2012 | 2013/2012 % Change | 2012/2011 % Change |
|----------------|--------------------------|--------------------------|-------------------------------|-------------------------------|
| Mexico | 122,607,624 | 118,600,252 | 3.4% | 10.1% |
| China | 113,153,983 | 95,019,636 | 19.1% | 19.9% |
| Italy | 64,777,353 | 57,939,837 | 11.8% | 4.3% |
| Spain | 19,301,101 | 16,077,709 | 20.0% | -4.4% |
| Brazil | 19,050,087 | 14,589,436 | 30.6% | -31.7% |

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The top five countries from which tiles were imported in 1Q 2013 based on total U.S. \$ value (including duty, freight, and insurance) were:

| Country | \$ Val 1Q 2013 | \$ Val 1Q 2012 | 2013/2012 % Change | 2012/2011 % Change |
|---------|----------------|----------------|-----------------------|-----------------------|
| Italy | 124,248,791 | 112,439,629 | 10.5% | 9.7% |
| China | 93,177,938 | 71,167,992 | 30.9% | 17.9% |
| Mexico | 69,674,135 | 66,444,298 | 4.9% | 12.7% |
| Spain | 28,463,304 | 23,948,979 | 18.8% | 0.7% |
| Brazil | 11,707,221 | 9,108,209 | 28.5% | -36.7% |

The average values of tile from the top five countries (based on sq. ft.) from which tiles were imported in 1Q 2013 were:

| Country | Sq Ft 1Q 2013 | Tot Val 1Q 2013 (in U.S. \$) | Val/Sq Ft 1Q 2013 | Val/Sq Ft 1Q 2012 | Val/Sq Ft 1Q 2011 |
|----------------------|--------------------|---------------------------------|----------------------|----------------------|----------------------|
| Mexico | 122,607,624 | 69,674,135 | \$0.57 | \$0.56 | \$0.55 |
| China | 113,153,983 | 93,177,938 | \$0.82 | \$0.75 | \$0.76 |
| Italy | 64,777,353 | 124,248,791 | \$1.92 | \$1.94 | \$1.85 |
| Spain | 19,301,101 | 28,463,304 | \$1.47 | \$1.49 | \$1.41 |
| Brazil | 19,050,087 | 11,707,221 | \$0.61 | \$0.62 | \$0.67 |
| All Countries | 388,523,400 | 371,892,579 | \$0.96 | \$0.93 | \$0.91 |

U.S. Shipments:

U.S. shipments (less exports) were at 187.7 million sq. ft. in 1Q 2013, up 2.4% from 1Q 2012.

Exports:

U.S. exports in 1Q 2013 were at 10.5 million sq. ft., down 0.7% vs. 1Q 2012. The vast majority of these exports (in sq. ft.) were to Canada (56.8%), Mexico (18.7%), and China (8.6%).

(Source: U.S. Commerce Dept.)

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