

U.S. CERAMIC TILE MARKET UPDATE: FIRST HALF OF 2011

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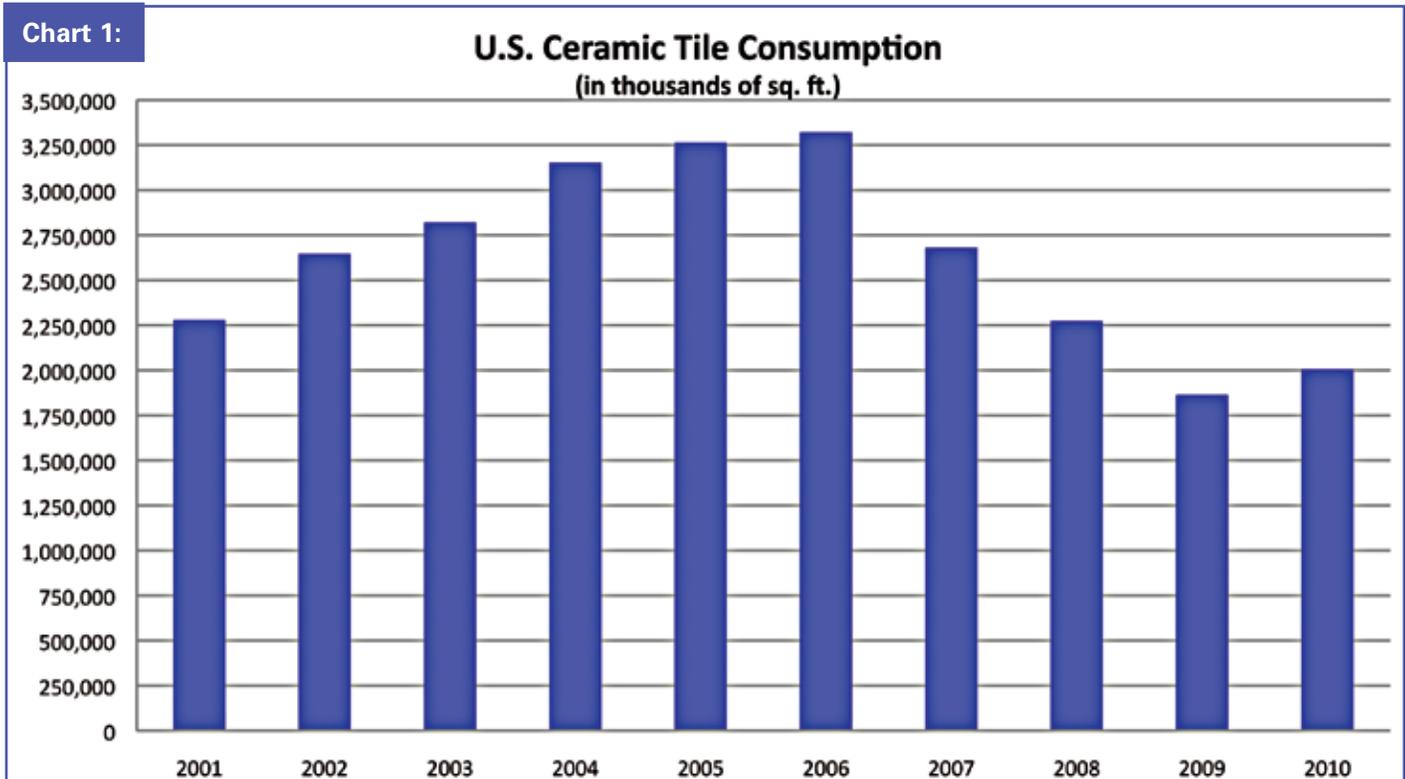


Chart 1: U.S. shipments, imports and total consumption of ceramic tile over the last decade.

Last year brought the first increase in U.S. tile consumption in four years. According to U.S. Census Bureau figures, tile consumption was at 2 billion square feet, up 7.7% (in square feet) from 2009. Though there is still a long way to go before we return to pre-recession numbers, it was a step in the right direction.

Through 2Q 2011 YTD, U.S. tile consumption was at 1.04 billion square feet, which represented a 1.9% increase versus 2Q 2010 YTD¹. **Table 1** lists U.S. shipments, imports, exports and total consumption in square feet.

Though U.S. tile consumption was up last year and at the midway point of 2011, according to the U.S. Census Bureau, consumption was still very low compared to recent years. **Chart 1**

Table 1: U.S. shipments, imports, exports and total consumption in square feet.

Year	(in thousands sq. ft.)				% Change in Consumption from Previous Year
	U.S. Shipments	Imports	Exports	Total Consumption	
2011 (2Q YTD)	357,066	708,386	23,455	1,041,997	1.9*
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
2008	634,374	1,685,532	50,512	2,269,394	-15.2

*Note: % change from 2Q 2010 YTD.

shows U.S. shipments, imports and total consumption of ceramic tile over the last decade.

Imports

Through 2Q 2011 YTD, 708 million square feet of ceramic tile arrived in the

Chart 2:

% Share of U.S. Imports
Top 5 Countries (by sq. ft.)

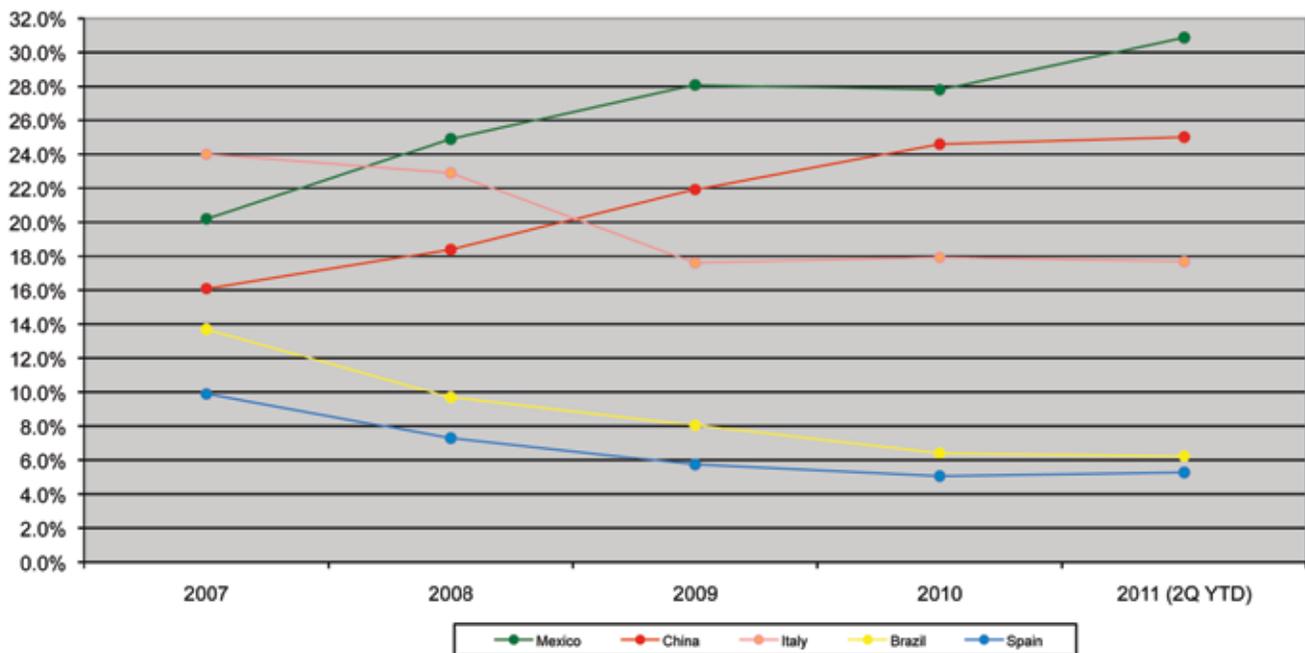


Chart 2: Percent share of U.S. imports for the top five countries over the past five years.

Table 2:

The top five countries from which tile was imported (in square feet) in 2Q 2011 YTD and, for comparison, their 2Q YTD totals over the past two years.

Country	Sq. Ft. 2Q 2011 YTD	Sq. Ft. 2Q 2010 YTD	Sq. Ft. 2Q 2009 YTD	2011/2010 % Change	2010/2009 % Change
Mexico	218,631,027	221,015,717	183,479,873	-1.1%	20.5%
China	177,150,156	156,974,648	127,123,569	12.9%	23.5%
Italy	125,257,677	130,474,719	113,011,921	-4.0%	15.5%
Brazil	44,224,581	41,892,515	59,372,449	5.6%	-29.4%
Spain	37,412,941	35,587,651	37,537,103	5.1%	-5.2%

U.S. This was a decrease of 2.9% from 2Q 2010 YTD, in which 730 million square feet of ceramic tile were imported, but an 11.1% increase from 2Q 2009 YTD totals.

Imports made up 68.0% of U.S. tile consumption (in square feet) through 2Q 2011 YTD -- their lowest percentage since 1998. Imports' share of U.S. tile consumption has declined five years in a row as demand for domestically produced tile has steadily increased.

Table 2 shows the top five countries from which tile was imported (in square feet) in 2Q 2011 YTD and, for comparison, their 2Q YTD totals over the past two years.

Through 2Q 2011 YTD, Mexico remained the top exporter to the U.S. in square feet, with a 30.9% share of U.S. imports, its highest share on record. Mexico has held the top position since 2008, and its share of U.S. imports has increased each of the last eight years.

China held the second position, comprising 25.0% of U.S. imports (in square feet) -- its highest share on record. Chinese-produced tile has gained market share every year since 1999, and its share of U.S. imports has doubled in the last five years.

Italy was in third place with a 17.7%

share (in square feet). U.S. consumption of Italian tile has fallen significantly over the past decade. Italy's share through 2Q 2011 YTD (in square feet) was roughly half of what it was 10 years ago.

Brazil and Spain round out the top five exporters to the U.S. (in square feet) comprising 6.2% and 5.3% respectively of U.S. imports.

Chart 2 shows the percent share of U.S. imports for the top five countries over the past five years.

On a dollar value basis (including duty, freight and insurance), imports rose 2.6% from 2Q 2010 YTD to 2Q 2011 YTD.

Italy remained the largest exporter to the U.S. in dollar value with a 35.1% share, down from 2Q 2010 YTD, in which it comprised 36.2% of imports (in dollar value). China and Mexico had the next highest shares in dollar value, comprising 20.6% and 18.2%, respectively.

The average values of tile from the top five countries (based on square feet) from which tile was imported through 2Q 2010 YTD are shown in **Table 3**.

The per unit value of Mexican imports rose 4.3% from 2Q 2010 YTD. Chinese and Italian imports' per unit values increased 1.3% and 3.6%, respectively, from 2Q 2010 YTD.

The per unit value of all tile imports increased 5.7% from \$0.89 in 2Q 2010 YTD to \$0.94 in 2Q 2011 YTD².

Domestic shipments

Through 2Q 2011 YTD, domestic shipments were at 357 million square feet, up 13.3% from 2Q 2010 YTD (315 million square feet). As previously mentioned, over this same timeframe, U.S. imports were down 2.9%.

This continues the trend of the last five years, in which domestically produced tile has consistently outperformed imports. Domestic shipments in 2010 were down slightly (-1.4%) versus 2005, while U.S. imports were down 47.1% versus 2005³.

A major reason for the growth in domestic shipments has been the weakness of the dollar versus other currencies, particularly the Euro, which has made imports more expensive for U.S. consumers.

Exports

U.S. exports of ceramic tile were at 23.5 million square feet through 2Q 2011 YTD, up 4.0% from 2Q 2010 YTD.

The largest consumers of these exports (in square feet) were Canada (46.9%), China (18.1%) and Mexico (9.4%).⁴

Key economic factors

GDP: Real GDP increased at an annual rate of 1.3% in 2Q 2011. GDP has increased in each of the last eight quarters, though the rate of growth has been relatively weak.⁵

U.S. unemployment rate: As of September 2011, the U.S. unemployment rate was at 9.1%. While down from 9.6% last year, unemployment remained at a very high rate historically. In fact, since World War II, the only years in which unemployment was greater than 9.0% were 1982-83.⁶

As one would expect, the high unemployment rate impedes an economic recovery, as those without jobs -- as well as those who feel insecure about their jobs -- delay making major purchase decisions such as buying or remodeling a home.

Mortgage rates: 30-year fixed mortgage rates in September 2011 were at 4.11%, the lowest rate on record. A year ago (September 2010) the 30-year rate was

Table 3: The average values of tile from the top five countries (based on square feet) from which tile was imported through 2Q 2010 YTD.

Country	Value per Sq. Ft. 2Q 2011 YTD	Value per Sq. Ft. 2Q 2010 YTD	Value per Sq. Ft. 2Q 2009 YTD
Mexico	\$0.55	\$0.53	\$0.57
China	\$0.77	\$0.76	\$0.78
Italy	\$1.86	\$1.80	\$1.85
Brazil	\$0.67	\$0.71	\$0.66
Spain	\$1.44	\$1.34	\$1.35

4.35%, which at the time was also an all-time low.⁷

Housing starts: August 2011 new home starts were at a seasonally-adjusted annual rate of 571,000 units. This represented a 5.8% decrease from a year ago (August 2010). Single-family housing starts in August 2011 were at an annual rate of 417,000 units (-2.3% versus August 2010) and comprised 73.0% of total new housing starts.⁸

New Home Sales: New single-family home sales continue to cause concern, given the historical correlation between new home sales and tile sales. New single-family home sales were 75% lower in 2010 than in 2005 and are on pace to decline this year to a new historical low. As of August 2011, new home sales were at an annual rate of 295,000 units, down for the fourth month in a row.⁹

programs (e.g. loan modifications and mortgage payment assistance for the unemployed) -- do not signal a real recovery but rather a slowing of the foreclosure process.

- Historically low new home sales

Based on the small growth in tile consumption so far this year reported by the Census Bureau and what we've heard from U.S. manufacturers regarding 3Q sales, we feel consumption for the year will be flat at best. For any meaningful and sustained growth to occur, the aforementioned issues must first be resolved. **TILE**

1 U.S. Census Bureau
2 U.S. Dept. of Commerce
3 U.S. Dept. of Commerce
4 U.S. Dept. of Commerce
5 U.S. Bureau of Economic Analysis
6 Bureau of Labor Statistics
7 Freddie Mac
8 U.S. Census Bureau
9 U.S. Census Bureau

Summary

Many of the same issues that have led to the decline in tile consumption over the last five years continue to negatively affect the market, such as:

- Struggling commercial construction and residential housing markets, despite historically-low mortgage rates
- High unemployment and low housing prices, which lead to less purchasing power for consumers
- Weak economic growth
- Foreclosures: although down versus 2010, the decreases the market is experiencing -- which began with the robo-signing controversy last year and continue with the help of other

ABOUT THE AUTHOR



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