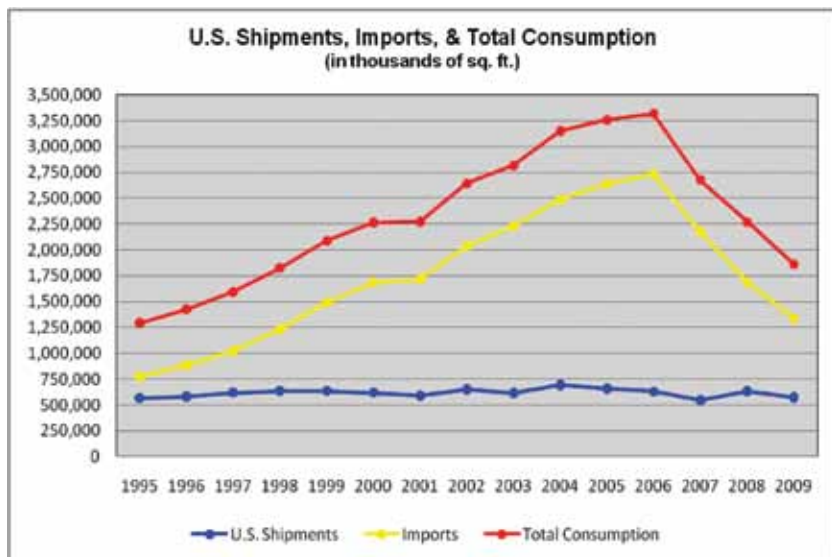


Chart 1



The year 2009 was another year of considerable struggles for the U.S. economy, and most people were not sorry to turn the calendar over to 2010. While there has been some good news for the U.S. ceramic tile industry in the first half of 2010, we recognize this was stimulated by government incentives that are no longer in place.

Of particular note, historically-low new single family home sales are very concerning, given the historical correlation between new home sales and tile sales. Through April 2010, new home sales appeared to be on the upswing, but once the federal tax credits expired, sales fell in May to an annual rate of 282,000 units, the lowest level on record. As of August, new home sales were down 28.9% from Aug. 2009.¹

Tile Consumption Update

Through 2Q 2010 YTD, U.S. tile consumption was at 1.02 billion sq. ft., which represented a 13.8% increase vs. 2Q 2009 YTD.² However, as TCNA members have informed us of weaker sales in 3Q, which traditionally is one of the stronger quarters, we do not expect to see double-digit growth in 2010.

U.S. Ceramic Tile Market Update: First Half of 2010

By Andrew Whitmire

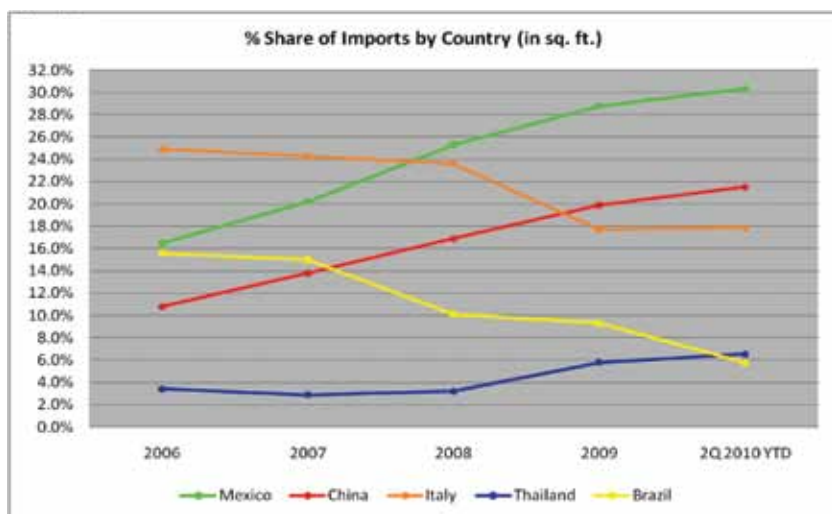


Chart 2

Annualizing the data available for the first half of 2010, total consumption for the year would be 2.03 billion sq. ft., approximately the same consumption level as in 1999.

The chart titled “U.S. Shipments, Imports & Total Consumption” shows U.S. shipments, imports, and total consumption of ceramic tile for the last 15 years.

Imports

Through 2Q 2010 YTD, 730 million sq. ft. of ceramic tile arrived in the U.S. This was an increase of 14.4% from 2Q 2009 YTD, in which 638 million sq. ft. of ceramic tile were imported, but a 13.1% decrease from 2Q 2008 YTD totals.

Imports made up 71.8% of U.S. tile consumption through 2Q 2010 YTD.

Table 2 shows the top five countries from which tile was imported (in sq. ft.) in 2Q 2010 YTD and, for comparison, their 2Q YTD totals over the past two years.

Through 2Q 2010 YTD, Mexico remained the top exporter to the U.S. in sq. ft. with a 30.3% share of U.S. imports, its highest on record. Mexico has held the top position since 2008 and has seen its share of U.S. imports steadily increase each of the last seven years.

China held the second position, making up 21.5% of imports (in sq. ft.), down slightly from its all-time high share (21.9%) in 2009. Consumption of Chinese-produced tile has increased significantly over the past decade, rising from 3 million sq. ft. in 2000 to almost 300 million in 2009.

Italy was in third place with a 17.9% share, up from 17.6% in 2009. Prior to last year, however, Italian tile's percent share of imports declined nine years in a row.

Thailand, which in 2009 surpassed Spain as the fifth largest exporter to the U.S., has since also overtaken Brazil to move into fourth place with a 6.5% share.

Chart 2 (% Share of Imports by Country) shows the percent share of U.S. imports for the top five countries over the past five years.

On a \$ value basis (including duty, freight, and insurance), imports rose 9.5% from 2Q 2009 YTD to 2Q 2010 YTD.

Italy remained the largest exporter to the U.S. in \$ value with a 36.2% share. This was a slight increase from 2Q 2009 YTD, in which it comprised 35.4% of imports (in \$ value).

China and Mexico had the next highest shares in \$ value, comprising 18.5% and 18.1%, respectively.

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

The per unit value of Mexican imports fell 7.0% from 2Q 2009 YTD and was also down 14.5% from 2Q 2008 YTD. Chinese and Italian imports' per unit values fell 2.6% and 2.7%, respectively, from 2Q 2009 YTD.

The per unit value of all tile imports decreased 4.3% from \$0.93 in 2Q 2009 YTD to \$0.89 in 2Q 2010 YTD.³

Domestic Shipments

Through 2Q 2010 YTD, domestic shipments were at 309 million sq. ft.,

up 10.9% from 2Q 2009 YTD.

During the recession, domestic shipments have not declined nearly as much as imports. Comparing last year's domestic shipments (571 million sq. ft.) to domestic shipments in 2006 (630 million sq. ft.), the year tile consumption was at its peak, domestic shipments were down 9.3%. During that same timeframe, imports decreased 51.2% from 2.7 billion sq. ft. to 1.3 billion sq. ft.⁴

Exports

2Q 2010 YTD U.S. exports were at 22.5 million sq. ft., down 5.4% from 2Q 2009 YTD.

The majority of these exports (in sq. ft.) were to Canada (51.0%) and Mexico (32.9%).⁵

Key Economic Factors

GDP: After falling four consecutive quarters for the first time on record, GDP has since increased four quarters in a row. Following a 3.7% increase in 1Q 2010, GDP increased at an annual rate of 1.7% in 2Q 2010.⁶

U.S. Unemployment Rate: As of Aug. 2010, the U.S. unemployment rate was at 9.6%. Though this number was down slightly from 9.7% one

Table 1 Amounts shown are in thousands of square feet

Year	Shipments	Imports	Exports	Total Consumption	% Change from Previous Year
2010 (2Q YTD)	309,212	729,641	22,546	1,016,306	13.8 *
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
2007	544,988	2,178,258	47,478	2,675,768	-19.3

**Note: % change from 2Q 2009 YTD figures*

Table 2

Country	SQ FT 2Q 2010 YTD	SQ FT 2Q 2009 YTD	SQ FT 2Q 2008 YTD	2010/2009 % Change	2009/2008 % Change
Mexico	221,015,717	183,479,873	212,664,537	20.5%	-13.7%
China	156,974,648	127,123,569	141,980,865	23.5%	-10.5%
Italy	130,474,719	113,011,921	197,732,162	15.5%	-42.8%
Thailand	47,596,752	36,876,522	27,118,919	29.1%	36.0%
Brazil	41,892,515	59,372,449	84,808,107	-29.4%	-30.0%

Table 3 Average values of tile from the top five countries

Country	Value per SQ FT 2Q 2010 YTD	Value per SQ FT 2Q 2009 YTD	Value per SQ FT 2Q 2008 YTD
Mexico	\$0.53	\$0.57	\$0.62
China	\$0.76	\$0.78	\$0.71
Italy	\$1.80	\$1.85	\$1.82
Thailand	\$0.54	\$0.54	\$0.50
Brazil	\$0.71	\$0.66	\$0.69

year ago (Aug. 2009), it is still very high historically. Prior to last year, unemployment had not risen to such a level since 1983.⁷

High unemployment continues to make any economic recovery difficult, as those without jobs as well as those who feel insecure about their jobs put off making major purchase decisions such as buying or remodeling a home.

Mortgage Rates: Thirty-year fixed mortgage rates in Aug. 2010 were at 4.43%, the lowest rate on record. A year ago (Aug. 2009), the 30-year rate was 5.19%.⁸

Many housing forecasters predict that although housing starts will reach record lows this year, 2010 will bring considerable gains.

Housing Starts: August 2010 new home starts were at a seasonally-adjusted annual rate of 598,000 units. This was a 10.5% increase from the July 2010 total of 541,000 units and a 2.2% increase from Aug. 2009. Single family housing starts in Aug. were at an annual rate of 438,000 units and comprised 73.2% of Aug. total new housing starts.⁹

Existing Home Sales: Existing one-family home sales were at a seasonally-adjusted annual rate of 3.62 million units in Aug. 2010. This was a 7.4% increase from the July 2010 total of 3.37 million units but a 19.2% decrease from Aug. 2009.¹⁰

Circle 15 on Information Card

Summary

Though we have seen some positive signs from the economy and tile market, there are still challenges that need to be overcome:

- 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
- High number of foreclosures
- Surplus of existing housing, as foreclosures and the surplus of unsold new homes have made it difficult for new home starts to grow

Furthermore, we reiterate our concern about declining new home sales, as we expect this will negatively impact tile consumption.

“Despite the difficulty of the past three years, our industry has a history of growth and success, and we fully expect that to continue, but at a lower level in the near future,” noted Eric Astrachan, executive director of Tile Council of North America. “Prior to 2007, U.S. tile consumption increased eleven years in a row. That is a very good track record and demonstrates consumer desire for the value, durability, and quality ceramic tile provides.” **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. Dept. of Commerce

⁶ U.S. Bureau of Economic Analysis

⁷ Bureau of Labor Statistics

⁸ Freddie Mac

⁹ U.S. Census Bureau

¹⁰ National Association of Realtors



About the Author

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Andrew Whitmire

He began working for TCNA in 2003 after getting his B.S. in Marketing and MBA from Clemson University.