

Chart 1

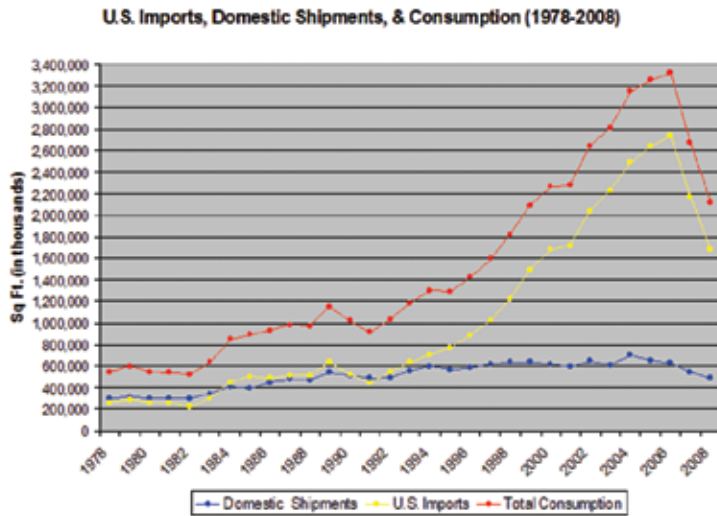
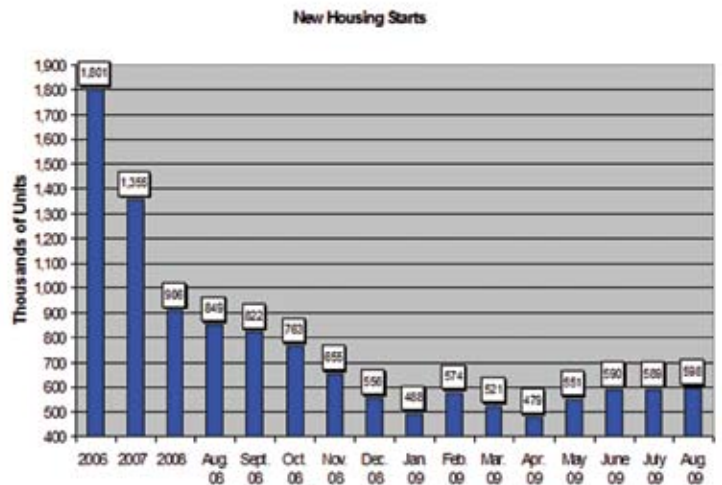


Chart 3



U.S. Ceramic Tile Market Update: First Half of 2009

Chart 2

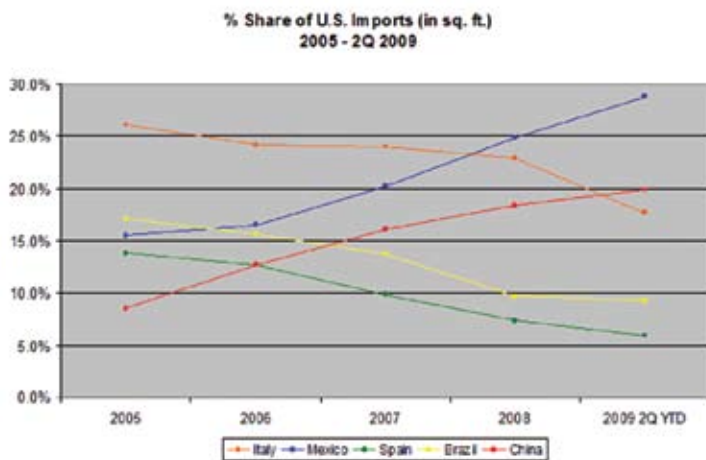
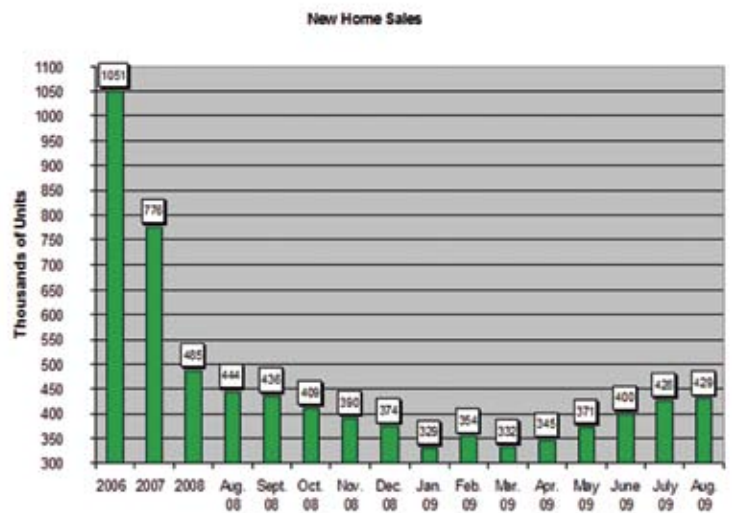


Chart 4



Tile Consumption Update

Based on trends to date, U.S. tile consumption will decrease for the third year in a row. This is the first time this has occurred since 1982, during the midst of the last major recession. Through 2Q 2009 YTD, U.S. tile consumption was at 827 million sq. ft., which represented a 21.9% decrease vs. 2Q 2008 YTD. U.S. tile consumption fell 20.8% and 19.3% in 2008 and 2007, respectively.¹

Annualizing the data available for the first half of 2009, total consumption for the year would be 1.65 billion sq. ft., approximately the same consumption level as in 1997.

Nevertheless, there have been some encouraging signs in the market. Imports have increased in each of the last four months (from Feb. - June 2009), and domestic shipments rose 13.8% from 1Q to 2Q 2009.

Additionally, even though the market has greatly declined from where it was in 2006, **Chart 1** shows the overall growth of U.S. ceramic tile consumption over the past three decades.

Imports

Through 2Q 2009 YTD, 638 million sq. ft. of ceramic tile arrived in the U.S. This was a decrease of 24.0% from 2Q 2008 YTD, in which 839 million sq. ft. of ceramic tile were imported. This was also a 42.4% decrease from 2Q 2007 YTD totals.

Even though imports declined, they still comprised the majority share of the U.S. market. Import penetration was 77.1% in 2Q 2009 YTD, the lowest it has been since 2002. It has decreased each year since peaking at 82.4% in 2006.

Table 2 shows the top five countries from which tile was imported (in sq. ft.) in 2Q 2009 YTD and, for comparison, their 2Q YTD totals over the past two years.

In the first half of 2009, two-thirds of tile imports (in sq. ft.) came from three countries – Mexico, China, and Italy. Mexico's proximity to the U.S. market, along with lower tariffs and shipping costs, helped make it the top exporter to the U.S. These factors and the fall-

ing value of the dollar vs. the Euro have helped shift demand away from Europe.

After overtaking Italy in 2008 as the top tile exporter to the U.S. (in sq. ft.), Mexico's share of imports rose to an all-time high of 28.8% (2Q 2009 YTD). This total was up from 2Q 2008 YTD, in which Mexican tile accounted for 25.3% of imports.

Just five years ago, Chinese tile comprised 4.4% of imports. Through 2Q 2009, however, China was the second largest exporter (in sq. ft.) to the U.S. with a 19.9% share of imports. China has steadily gained market share in each of the last 10 years.

Italy, which was the second largest exporter (in sq. ft.) to the U.S. last year, had the third highest percentage share (17.7%), followed by Brazil (9.3%) and Spain (5.9%).

Chart 2 shows these same countries' % share of imports over the past five years. Note how much more widely dispersed import shares are now vs. 2005.

On a dollar value basis (2Q 2009 YTD), imports declined 30.3% vs. 2Q 2008 YTD, considerably more than the 21.9% decrease in sq. ft. over the same

time period. This is a reflection of falling overall import prices due to the growing percentage of imports from low-cost producing countries and less tile coming from high-cost countries such as Italy and Spain.

Despite losing its position as the top exporter to the U.S. in sq. ft., Italy remained the largest exporter in dollar value with a 35.4% share. However, this total decreased significantly from 2Q 2008 YTD, in which it comprised 42.4% of imports (in \$ value).

The next highest total belonged to Mexico, which made up 17.8% of the total \$ value of imports. Chinese tile was in the third position with a 16.9% share of \$ value.

The average values of tile from the top five countries (based on sq. ft.) from which tile was imported through 2Q 2009 YTD are shown in **Table 3**.

The per unit value of Mexican imports fell 8.1% from 2Q 2008 YTD. Chinese and Italian imports' per unit values rose 9.9% and 1.6%, respectively, from 2Q 2008 YTD. The per unit value of all imports declined 7.9% from \$1.01 (2Q 2008 YTD) to \$0.93 (2Q 2009 YTD).²

Year	Shipments	Imports	Exports	Total Consumption	%Change from Previous Year
2009 (2Q YTD).....	213,083	637,865	23,825	827,122	-21.9*
2008.....	484,999	1,685,532	50,512	2,120,019	-20.8
2007.....	544,988	2,178,258	47,478	2,675,768	-19.3
2006.....	629,672	2,732,199	45,107	3,316,764	1.8
2005.....	658,198	2,638,359	37,022	3,259,535	3.5

**Note: % change from 2Q 2008 YTD figures*

Country	SQ FT 2Q 2009 YTD	SQ FT 2Q 2008 YTD	SQ FT 2Q 2007 YTD	2009/2008 % Change	2008/2007 % Change
Mexico	183,479,873	212,664,537	223,307,149	-13.7%	-4.8%
China.....	127,123,569	141,980,865	152,442,364	-10.5%	-6.9%
Italy	113,011,921	197,732,162	268,749,483	-42.8%	-26.4%
Brazil.....	59,372,449	84,808,107	165,843,281	-30.0%	-48.9%
Spain.....	37,537,103	65,379,507	118,323,523	-42.6%	-44.7%

Table 3

Country	Value per SQ FT 2Q 2009 YTD	Value per SQ FT 2Q 2008 YTD	Value per SQ FT 2Q 2007 YTD
Mexico	\$0.57	\$0.62	\$0.60
China.....	\$0.78	\$0.71	\$0.65
Italy.....	\$1.85	\$1.82	\$1.66
Brazil.....	\$0.66	\$0.69	\$0.61
Spain.....	\$1.35	\$1.33	\$1.16

Table 4 Value of U.S. Dollar Vs. Selected Currencies (2004 – Sept. 2009) — \$1 buys:

End of Yr./Mo.	Euro	Chinese Yuan	Mexican Peso	Brazilian Real
Sept. 2009	0.68	6.83.....	13.48	1.78
2008.....	0.72	6.82.....	13.83	2.32
2007.....	0.68	7.30.....	10.92	1.78
2006.....	0.76	7.80.....	10.80	2.14
2005.....	0.84	8.07.....	10.63	2.34
2004.....	0.74	8.28.....	11.15	2.74

Domestic Shipments

While shipments of domestic tile fell 12.5% 2Q 2009 YTD vs. 2Q 2008 YTD, they rose in the most recent quarter 13.8% (1Q to 2Q 2009). Domestic shipments have performed very well vs. imports, as the % decrease in imports (-24.0%) so far this year was almost double the decrease in domestic tile consumption (-12.5%).³

Exports

U.S. tile exports have increased each year since 2004 and reached an all-time high of 50 million sq. ft. in 2008. For 2Q 2009 YTD, they are down slightly (-1.8%) vs. 2Q 2008 YTD. The vast majority of these exports (in sq. ft.) are to neighboring countries - Canada (55.9%) and Mexico (23.2%).⁴

Key Economic Factors

After experiencing the worst economy in decades, the U.S. market appears to be making a gradual recovery. The government’s estimate of 2Q 2009 real GDP was -0.7%. This was significantly higher than 1Q 2009, in which GDP was down 6.4%. While GDP has fallen four consecutive quarters for the first time since the Bureau of Economic Analysis began track-

ing GDP, this latest decline is substantially less than the previous three.⁵

Mortgage rates

Historically low mortgage rates have given the housing market a much-needed boost in 2009, hitting an all-time low of 4.81% in April. As of Sept. 2009, the rate on a 30-yr. fixed mortgage was 5.06%, down from 6.04% this time a year ago.⁶

Housing Starts

New housing starts in Aug. 2009 were at a seasonally adjusted annual rate of 598,000 units, the highest rate since Nov. 2008. August’s total represented a 1.5% increase from the July 2009 total of 589,000 units but a 29.6% decrease from Aug. 2008. Single-family housing starts, which comprised 80.1% of Aug. new housing starts, declined 3.0% from July.⁷

Many housing forecasters predict that although housing starts will reach record lows this year, 2010 will bring considerable gains. The National Association of Home Builders (NAHB) predicts that single-family starts will rise 36% next year. Freddie Mac is even more optimistic, predicting housing starts to jump 57% in 2010.⁸

New Home Sales

August new single-family home sales increased for the fifth month in a row – up 0.7% from July 2009. The current pace (Aug. 2009) of 429,000 units per year was the highest level for new home sales in almost a year (since Sept. 2008). The average months’ supply (average # of months it would take to sell current inventory) continues to fall and was at 7.3 months, the lowest level since early 2007. This figure needs to continue to fall for the residential housing market to recover.⁹

Unemployment

The U.S. unemployment rate was at 9.8% (as of Sept. 2009), the highest level in 26 years. For comparison, unemployment was at 6.2% in Sept. 2008 and 4.7% in Sept. 2007.

The rising unemployment rate hampers a housing market recovery, as job market uncertainty causes potential homebuyers to delay their decision to make major purchases, such as a home.¹⁰


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Value of Dollar vs. Other Currencies


The U.S. dollar fell 5.6% vs. the Euro from the end of 2008 to Sept. 2009. The dollar also lost ground vs. the Mexican Peso (-2.5%) and Brazilian Real (-23.3%) since the end of 2008. The dollar held steady with the Chinese Yuan compared to 2008, but has lost 17.5% of its value vs. the Yuan in the past five years.

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Summary

Even with positive signs from the economy, the U.S. tile market still has several critical issues to overcome:

- Unemployment is expected to rise throughout 2009 and into 2010, causing uncertainty among potential homebuyers.
- Rising number of foreclosures, as more adjustable rate mortgages are expected to reset later this year.
- Tight credit for homebuilders and homebuyers
- Weak dollar, leading to tile imports' being more expensive for U.S. buyers

Despite the current state of the industry, there are signs the market is on its way to a recovery. We are hopeful 2010 will bring the industry's first increase in consumption since 2006, and the worst of the economic recession is behind us. As the housing market begins to heal, new construction and pent up demand for remodeling will help drive the demand for ceramic tile. As savvy consumers already know, ceramic tile is a great choice for its value, beauty, versatility, and environmental sustainability. **TILE**

¹ U.S. Dept. of Commerce

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 Freddie Mac

⁷ U.S. Census Bureau

⁸ Builder Online: "Economists Predict Recovery Next Year" July 14, 2009

⁹ U.S. Census Bureau

¹⁰ U.S. Bureau of Labor Statistics



About the Author

Andrew Whitmire is the Trade Data Analyst for the Tile Council of North America.

Andrew Whitmire

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