

Economic Update and Flooring Outlook

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Summary

- ▶ Don't know how bad crisis is or what recovery will look like.
- ▶ How bad crisis is for you depends on where you are.
And on the U.S. virus curve and overall economy's recovery.
- ▶ Floor covering demand recovery will be slow.
- ▶ Many actions NWFA members can take to survive and then thrive.
- ▶ You're not alone if you're a member of NWFA.
- ▶ **We will get through this.**

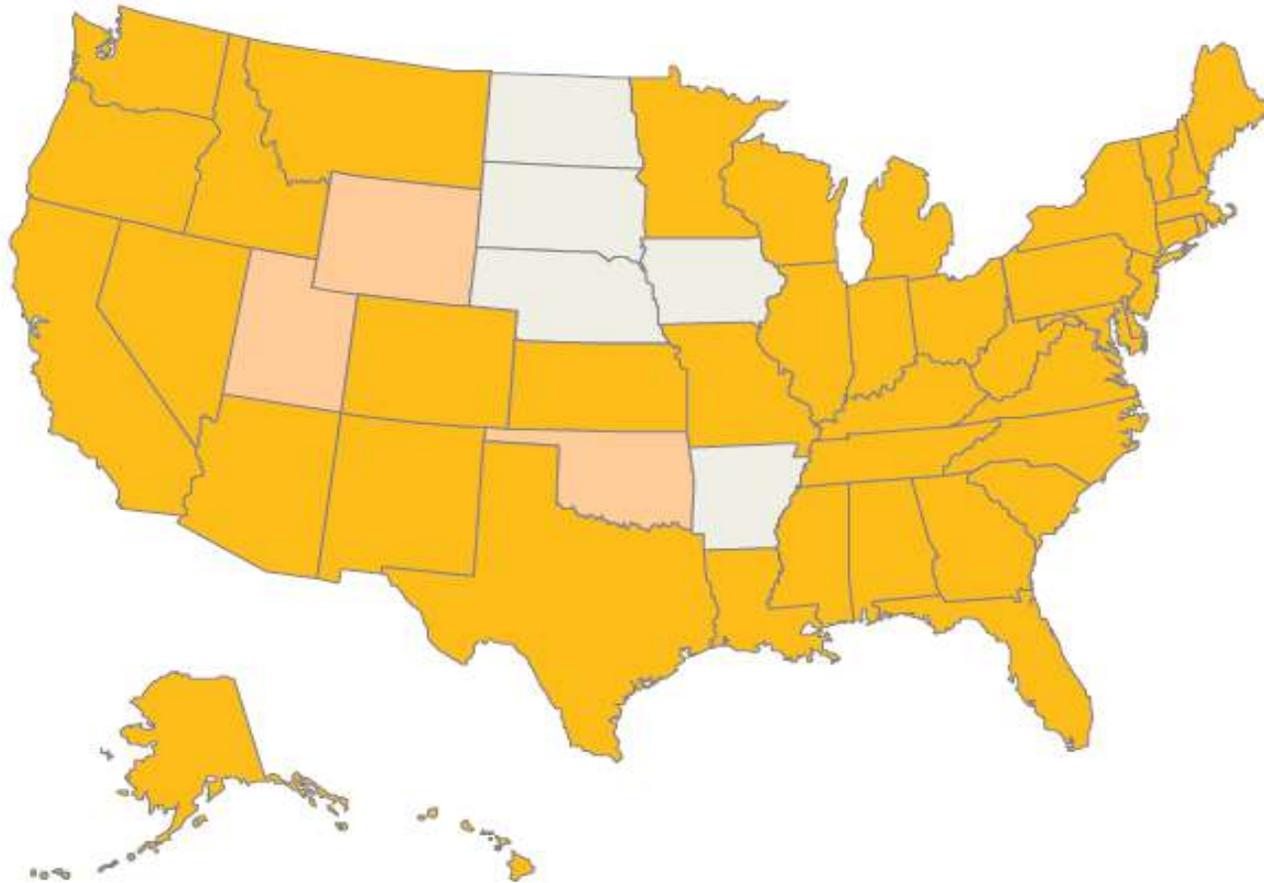
Topics

- ▶ **Macro View**
- ▶ **Reopening**
- ▶ **NWFA Members' Thoughts**
- ▶ **Flooring Overview**
- ▶ **Summary**

Economic Update – Macro View

- ▶ Recession depth and length unknown.
- ▶ 2008 Great Recession similar, but different.
- ▶ Health crisis causing unprecedented economic disruption.
- ▶ This is global on an enormous scale.
- ▶ Health crisis continues for an unknown duration with unclear consequences.
- ▶ Unemployment, loss of wealth, loss of confidence.
- ▶ Government funds partially offset those.
- ▶ **Multiple data points, read everything, share information.**

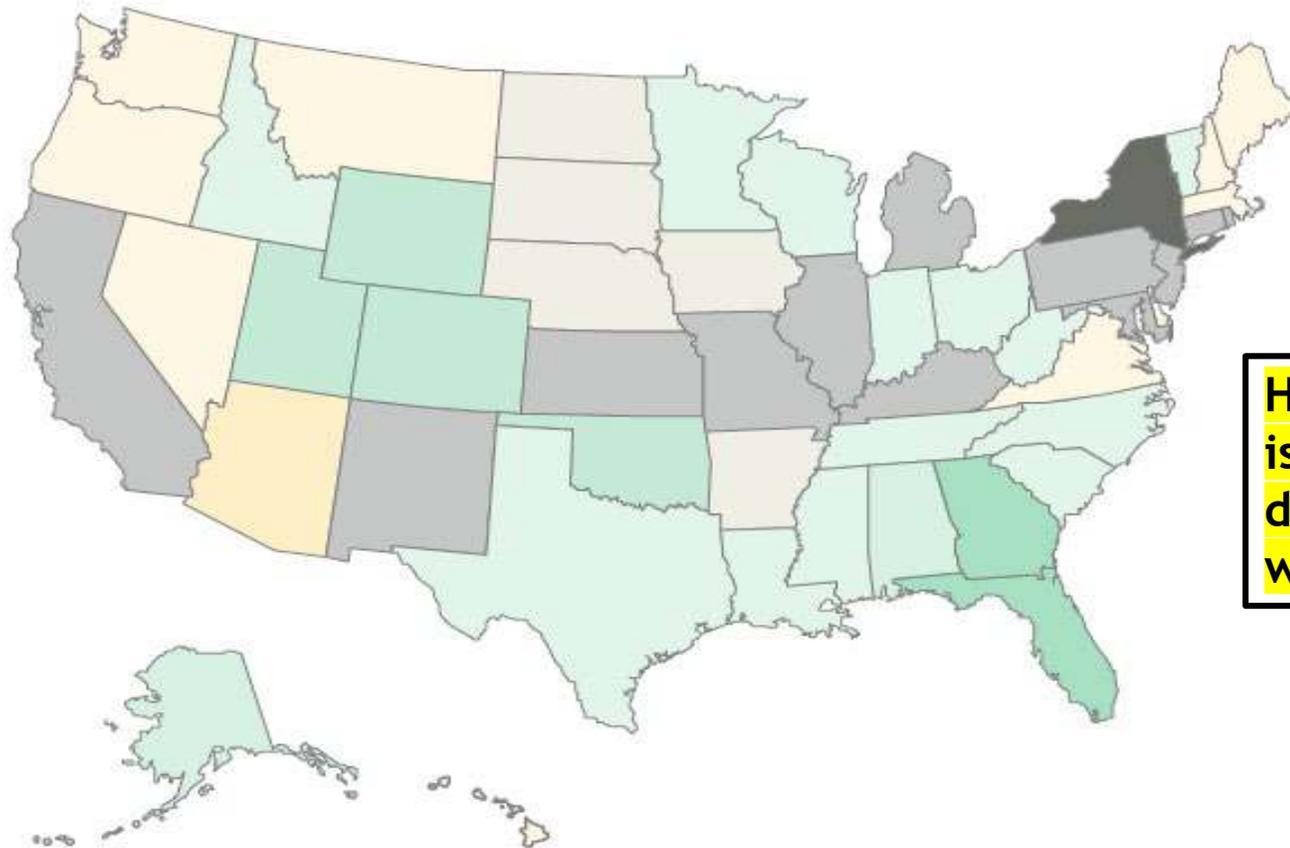
How bad crisis is for you depends on where you are.



Legend

- Statewide order
- Order in parts of state
- No stay at home order

Loosening / Tightening Regulations



How bad crisis is for you depends on where you are.

Legend

-  Loosening regulations
-  No recent legislation toward either reopening or stricter stay at home orders
-  Recent action made towards implementing stricter regulations and / or recent indicators that the state will not reopen in the near future
-  No stay at home order

Economic Update – Reopening

- ▶ State orders drive reopening.
- ▶ Reopening will improve our businesses.
- ▶ April was terrible and driven by March momentum.
- ▶ May momentum based on April, so it could be worse than April.
- ▶ Recovery will likely be flat U-Shape. But who knows.
- ▶ Every business is different. Success depends on three things:
 - ▶ Where you are doing business and the business you are in.
 - ▶ Your cash.
 - ▶ Your plan and your people.
- ▶ **Share with trusted others what you are doing and learn.**

Flooring Update – NWFA Members

What NWFA Thought Leaders said....

Retailers, Contractors, Distributors, Manufacturers - Calls March 23 - April 23

- ▶ Tough for distributors, tougher for retailers. Distributors hanging in there.
- ▶ Most call participants applied for loan or received approval or funds. Some gave up.
- ▶ Retailers getting used to virtual showrooms and appointment only.
- ▶ Work costs more. Projects take longer. Safety protocols a must. You must be creative.
- ▶ Long-term, after unemployment cycle, labor will not be as scarce as pre-COVID. Maybe?
- ▶ Most members laid off or furloughed employees, or cut hours. Fewer trying to retain all.
- ▶ Some employees would rather be laid off due to increased unemployment benefits.
- ▶ Employees either stepping up or stepping away. Some excited to “get back.”

Flooring Update – NWFA Members

What NWFA Thought Leaders said....

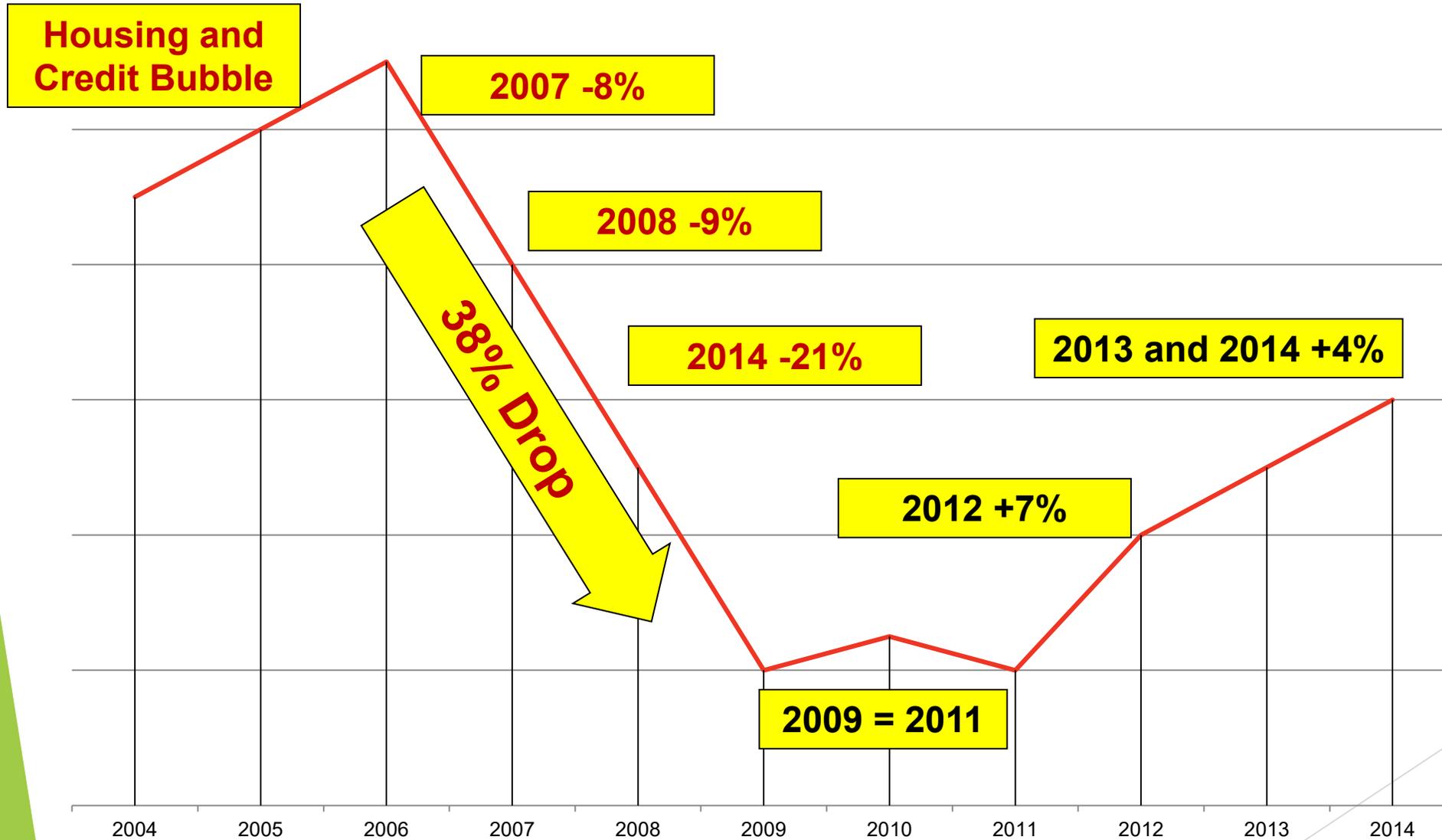
Retailers, Contractors, Distributors, Manufacturers - Calls March 23 - April 23

- ▶ In difficult states, members' orders fell and still falling off.
- ▶ Many projects in holding pattern. Future new project order outlook is unknown.
- ▶ Many members worried about economy, unemployment, cautious companies.
- ▶ Some reported increased traffic and hope for pent-up demand to restart their sales.
- ▶ Few supply problems so far, but worries about manufacturers taking downtime.
- ▶ Excess product inventory in pipeline is a concern. Must sell what you already have.

Flooring Update – BAZ Overview

- ▶ Estimates based on multiple data points. Some of the inputs:
 - ▶ ABI, NAHB, RMI, Zellman, CRG, other flooring CEOs, private surveys, NWFA Thought Leaders
- ▶ But everything depends on where your business is located.
- ▶ April U.S. flooring down 20-30% average compared to last April.
- ▶ Range = -10% to -80%.
- ▶ 2008 Great Recession flooring declined almost 40%.
- ▶ Took place over years, not weeks.

Flooring Demand (Shipments) 2004 - 2014



Flooring Update – BAZ Overview

- ▶ May will/might be lower than April. June should start recovery.
- ▶ Will be a slow recovery this time, again.
- ▶ Back to “normal” 2019 level in first half 2021. Hope it’s better sooner.
- ▶ Will vary by state, end-use segment, product, and channel.
- ▶ 2008 recovery a very wide U.
- ▶ This time may be a less wide U. Who knows.

Flooring Update – BAZ Segment View

- ▶ New housing was taking off in Q1.
- ▶ Will resume as state orders lifted. Might feel like a surge in some areas.
 - ▶ But then new housing demand will suffer despite low interest rates.
 - ▶ Credit is tightening and in disarray, which will slow new home buying.
- ▶ Residential remodel was doing well in Q1.
- ▶ Big boxes/megas favored by state orders. Independents suffered share loss.
 - ▶ Most consumers have time, but not the money, for high-ticket discretionary purchases.
 - ▶ Recovery could be slow and tilted toward value products and prices, and credit offerings.

What is happening, and will happen, depends on your business and state orders.

Flooring Update – BAZ Segment View

- ▶ Commercial sector was doing okay.
- ▶ Q1 plans fed April, but pipeline will not be refilled quickly or strongly.
 - ▶ May be a brief surge of products in the pipeline, which were paused and then resume.
 - ▶ Some sectors will struggle (offices, leisure) and some will do well (health, schools - briefly).
- ▶ Other matters:
 - ▶ Labor - Not smooth in the near-terms.
 - ▶ Fewer people working on a project. Some workers at risk and unwilling to work.
 - ▶ Product availability - Disruptions, not shortages. Longer lead times on some items.
 - ▶ Competitive market. Importers hungry for sales and dollars.
 - ▶ Lumber - I'm not an expert. Lower demand, sawmill viability, and trade mean change is coming.

Summary

Many actions NWFA members can take to survive and then thrive

▶ Level One

- ▶ Manage your cash. Get loans as possible. Forecast activity and manage your cash closely.
- ▶ Virus preparedness - Above all, protect your people and your customers as well as you can.
- ▶ Make tough people decisions early and then protect your best and as many as you can.
- ▶ Over communicate with your people. Reassurance, your direction, and ask for their input.

Summary

▶ Level Two

- ▶ Move fast to be ready to “get back,” orders are being lifted. PPE, customer protocols, etc.
- ▶ Communicate with customers much more. Ask opinions and tell them your plans.

▶ Level Three

- ▶ Decide what will be your competitive edge “coming back” and start promoting it.
- ▶ Use social media externally and apply what you learned about working remotely.
- ▶ Use this time to change and improve.
- ▶ Motivate and enlist your people in change.

We Will Get Through This

- ▶ Flooring will be needed. Consumers will always love wood floors.
- ▶ Your people and your customers want you to succeed and will help.
- ▶ Being an NWFA member means that you are not alone.
- ▶ If we learn, maybe we can be better.

America Strong 2020. We will be different, but fine.

Stay safe and God bless us all.

And, thank you NWFA.

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