



News Article

The Great Urbanization: Threats and Opportunities in Floor Covering

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In this two part column we address two converging forces that will impact the world's economy and affect demand for finished flooring, the raw materials used to make that flooring and even where the flooring will be made.

Threat or opportunity? In the near future Asia will not be able to meet its domestic demand for floor covering, it will consume more timber each year than several countries can harvest, and the balance of supply and demand will shift from the West to the East.

Emerging trends

Spotting and acting on emerging trends is how companies take advantage of market opportunities. Over the coming decade, two global trends: urbanization and a shift in supply and demand caused by emerging markets will profoundly reshape the global economy and by extension the floor covering industry in a surprisingly direct manner.

According to McKinsey & Company research, more than 70 million people are joining the ranks of the middle class each year, virtually all in emerging countries. By the end of the decade, the globe's middle class will have doubled. Emerging markets will no longer be suppliers of low-cost goods and services but will have evolved into consuming economies with huge demand for goods and services - half of the world's work force and half of the world's new construction will be in emerging markets.

Asia's cities will hold 54 percent of the world's urban population creating the largest work force ever known. Already Asia's labor productivity is growing five times faster than in the West. By 2025 nearly 2.5 billion Asians will create an unprecedented shift in supply and demand for raw materials and finished products, not the least of which will be floor covering for the billions of square feet of new construction required to support the urbanization.

Asia's new infrastructures and construction markets will be massive

if estimates are correct, Asia will add more than 30 billion square feet of new floor space a year to support its migrating populations. China will account for two thirds of this space; India one third. Consider that most of the floor covering in Asia is hard surface; in China it's about 90%.

Now consider that in 2009 the US hard surface floor covering market (new plus remodel/replacement) was 5.66 billion square feet. Asia's huge demand for flooring will surely create opportunities for Western flooring manufacturers to become suppliers to this growing market. It will also stress the supply of many raw materials.

Impact on the world's timber supply

By 2015 the gap between China's supply and demand for timber will exceed the entire Canadian timber harvest in 2009, according to the International Wood Markets Group. Canada has increased its lumber exports to China by almost 800% in the last four years making China the largest importer of North American wood. China is already the world's largest manufacturer and consumer of wood-based flooring, panels, furniture and doors causing difficulty for the country to meet its current demand for timber. China needs more wood fiber now to feed its huge plywood, OSB, particleboard and MDF industries. Its panelboard output in 2009 was more than triple that of North America.

China's wood flooring usage has increased domestically 7-8% annually and some of its manufacturing capacity and raw material supply has already shifted away from exports to fill domestic demands.

Already some US companies that considered opening a plant in China to supply North America have realized the better strategy is to redirect those plants to supply the burgeoning Asian market. Is the global industry ready to recognize and act upon the threats and opportunities that these converging trends will cause? Watch for Part II of this column in the next issue.

Asia's Urbanization: Threats and Opportunities in Floor Covering

In part one of this column we addressed the impact of Asia's fast urbanization on the global economy, its estimated 30 billion square feet of new floor space a year and its unprecedented demand for flooring and raw materials.

Some say China's economy is slowing down or it's just "a bubble" and dismiss its potential as neither threat nor opportunity. That "slowing" Chinese economy is still growing at 7% - more than twice that of the US. Unlike a democracy where progress requires a negotiated majority, China's central government is free to create and implement its plans with little challenge. Consider that only 15 years ago China's 10th Five-Year Plan set a goal of 7% annual economic growth and in that time it has grown from obscurity to the world's largest consumer of [autos](#), [energy](#) and timber products. While the US continues to debate its energy strategy, China has become the world's largest producer of [wind turbines](#), [hydroelectric power](#) and [solar panels](#) with more nuclear power plants under construction than any other country..

So What?

Asia's urbanization is so profound it cannot happen without consequences to the rest of the planet. McKinsey estimates that the coming decade will be the first in 200 years when emerging markets contribute more growth than developed ones. As this "great rebalancing" takes place, Asia will be home to over half of the world's new construction needing over 30 billion square feet of new floor space every year. This will create a hard surface opportunity three times that of the entire U.S. hard surface market. China's timber demand already exceeds what several countries can produce; China will likely have to redirect raw material and manufacturing to meet its domestic demand. Increased demand will create shortages of material, higher prices, and in turn innovation and new technologies. Manufacturing hubs will shift to the East, perhaps to Indonesia where costs are lowest.

With this in mind, we have to ask ourselves these questions: As growth continues to increase the needs and production capacity of emerging markets what opportunities will emerge for Western companies? Who will fill Asia's demand for finished flooring? Who will provide the raw materials? Where will it be made? How will this impact the flooring industry worldwide?

Some may see only threats and retreat. Some may see opportunity and explore it. If you are open to exploring then begin now to study the possibilities. Read everything you can about how other industries are approaching emerging markets. Partner with a guide that knows the market and visit first hand; expensive lessons await those unfamiliar with cultural, business and governmental differences in the East.

Take a note from Asian manufacturers who exhibit at Surfaces and use an international show to gain exposure, exhibit products or find customers. Both Domotex shows in Germany and Shanghai draw 40,000 attendees from around the world.

Buyers also need to foresee the possible ramifications that these global forces will have on their businesses. Higher prices and possible shortages are just two. Partnering with suppliers that are positioning for the future is important. Understand your suppliers' strategic plans to address these issues and make certain that your long terms goals are on the same path.

Just to be clear, "the future" is not ten years away. Just like Honeywell used to advertise, "someday is today." These are not futuristic dreams but today's reality.

Read more about this topic at the Floor Covering Institute blog site:

<http://blog.floorcoveringinstitute.com/2010/07/great-urbanization-threats-and.html>.

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