

The Carpet Market

CARE

May 5, 2008

FLOOR F O C

Recent Good News about the Economy

- The Institute for Supply Management's index of non-manufacturing businesses, which makes up almost 90 percent of the economy, rose to 52 in April from 49.6 the prior month. Readings greater than 50 signal growth.
- The Federal Reserve lowered the bellwether federal funds rate by one-quarter point to 2 percent, the lowest level since December 2004.
- No official recession yet: GDP grew 0.6 percent in the first quarter, the same as the fourth quarter 2007.

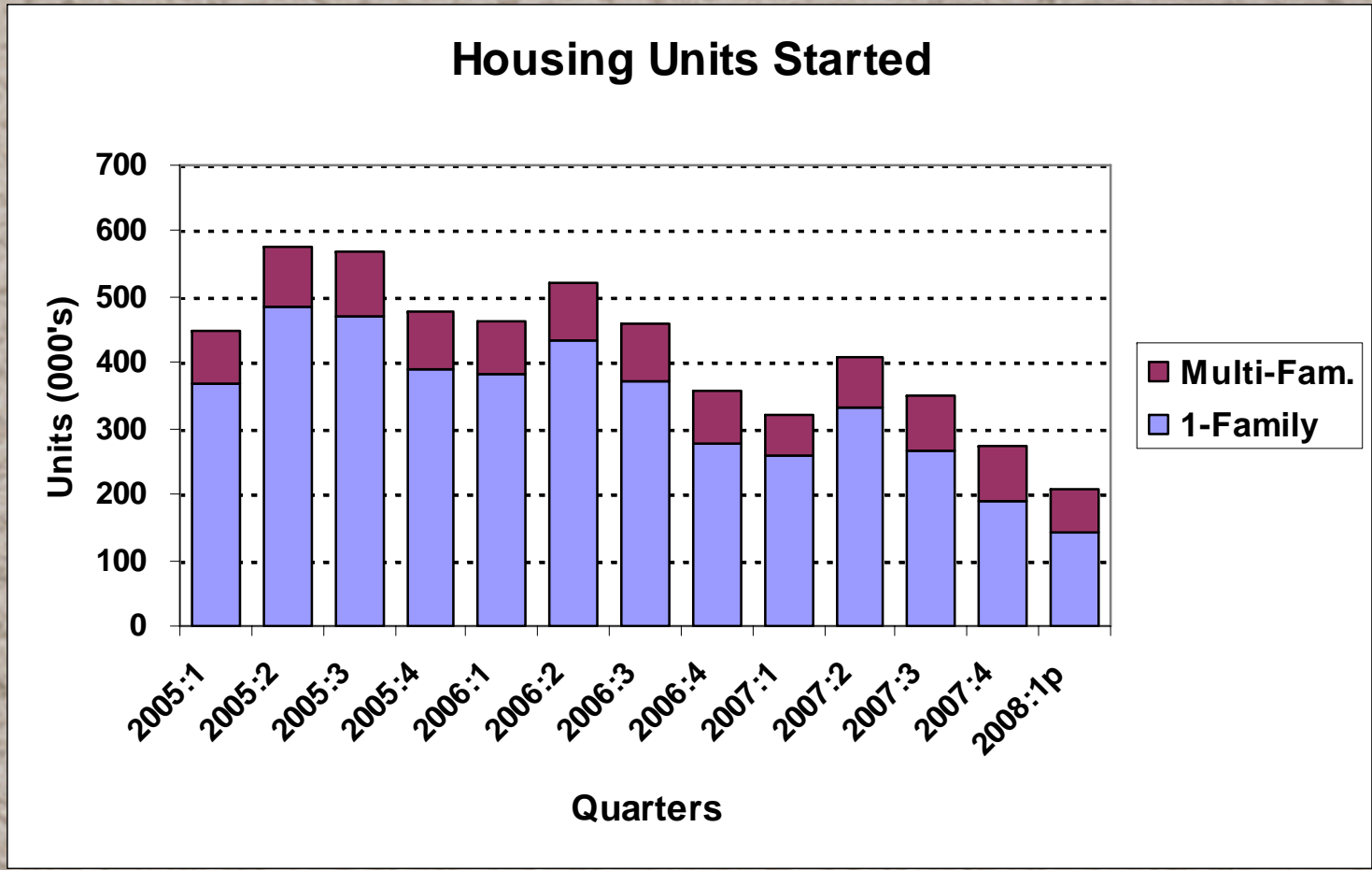
Recent Bad News about the Economy

- Oil prices briefly touched \$119 per barrel.
- U.S. consumer sentiment fell more than expected in April to its lowest level in 26 years. The reading was 62.6, the weakest since 1982.
- Gasoline prices now average \$3.62 per gallon.
- The AIA Billings Index, a future indicator of U.S. nonresidential construction activity, fell to a record low in March.
- Home construction fell sharply in March to the lowest level in 17 years, according to the Commerce Department. Housing construction dropped by 11.9 percent to a seasonally adjusted annual rate of 947,000 units.
- Initial jobless claims for state unemployment benefits surged 35,000 to 380,000 in the week ending April 26, according to the Labor Department.

Industry Results Q1-2008

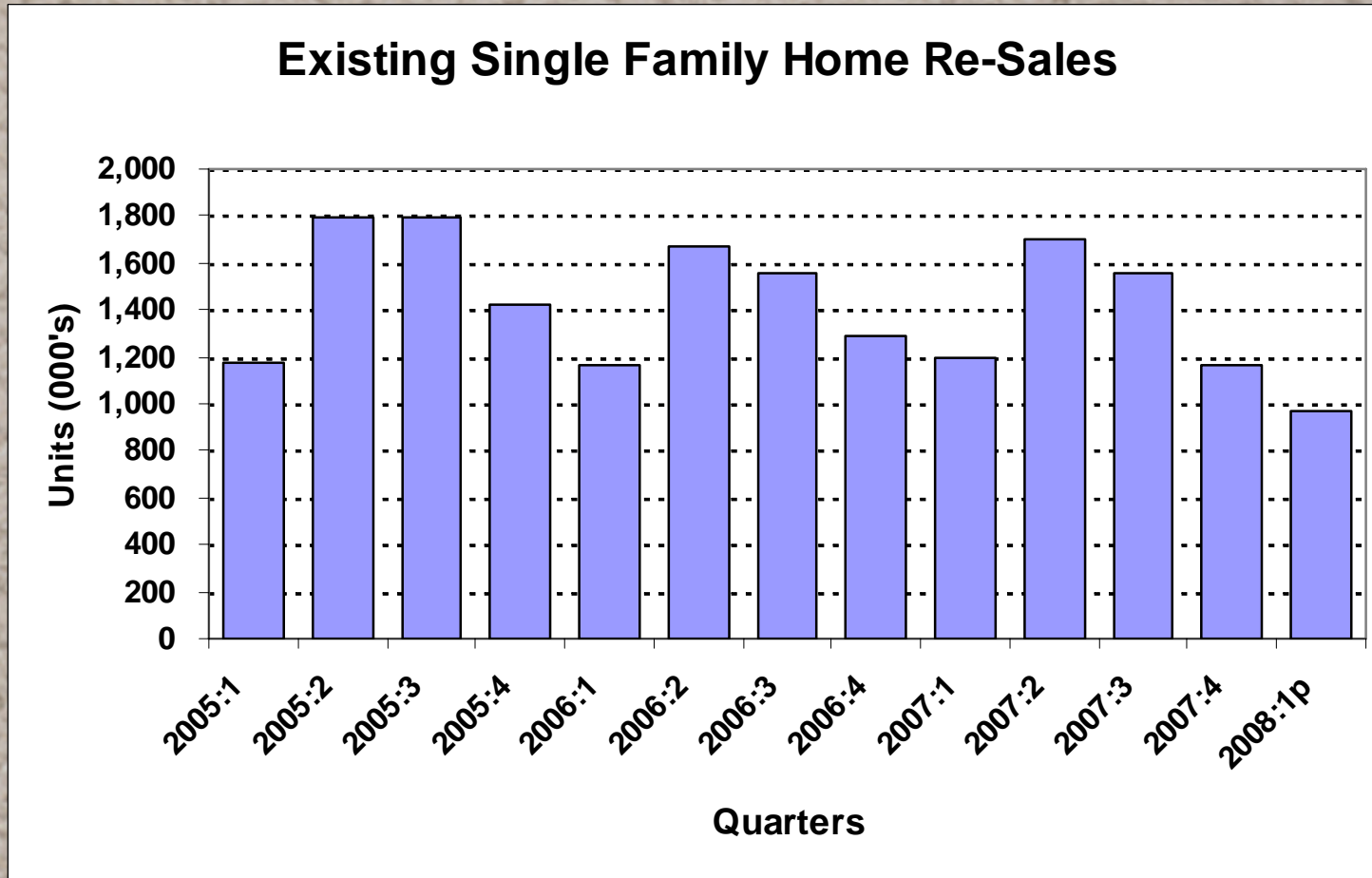
- Mohawk Industries
 - Earnings ↓28%
 - Revenue ↓6.7%
 - Carpet ↓13.6%
- Shaw Industries
 - Earnings ↓44%
 - Revenue ↓5%
 - Carpet ↓8% overall, ↓10% residential
- Dixie
 - Earnings ↓64%
 - Revenue ↓5%
 - Carpet ↓10.6% residential, ↑10% commercial
- Armstrong
 - Earnings ↓50%
 - Revenue ↓7%
 - Resilient ↓3% residential, Hardwood ↓20%

Recent Decline in New Home Construction

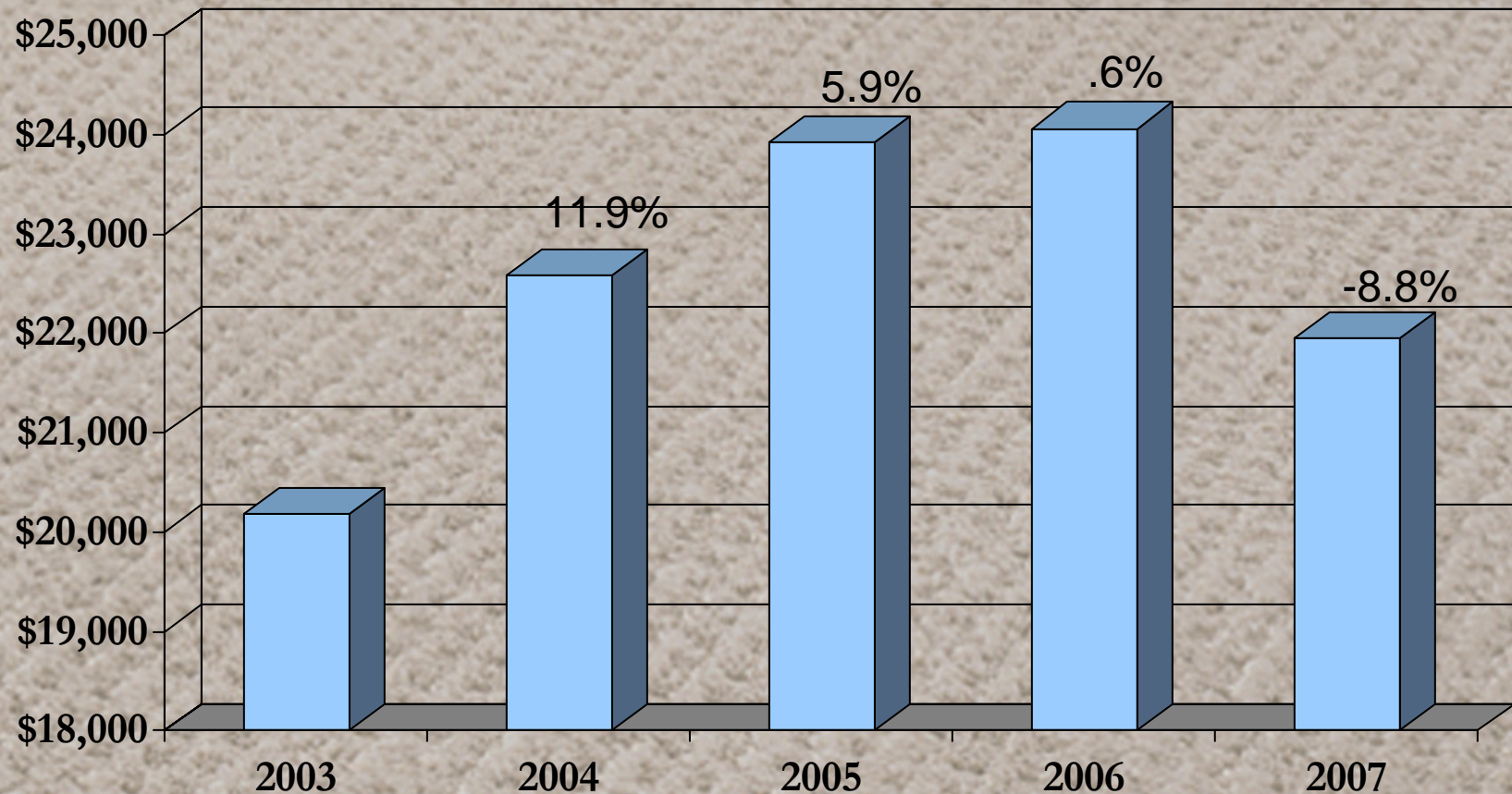


Existing Home Sales

Existing Single Family Home Re-Sales



U.S. Flooring Market (wholesale value)



U.S. Flooring Consumption

Flooring Categories	2007	2006	% Change
	(\$, MM)	(\$, MM)	
Market Value (\$ in millions at mill sell price):			
Carpet & Rugs	<u>14,308</u>	<u>15,517</u>	<u>-7.8%</u>
Area Rugs	2,870	2,886	-0.6%
Carpet	11,438	12,631	-9.4%
Ceramic Floor Tile	1,893	2,213	-14.5%
Wood Flooring	2,244	2,556	-12.2%
Laminate Flooring	1,057	1,278	-17.3%
Resilient Flooring	1,708	1,688	1.2%
Rubber Flooring	734	812	-9.6%
Total Flooring Market-	<u>21,944</u>	<u>24,064</u>	<u>-8.8%</u>

Product Shares of U.S. Flooring Mkt (% of \$)

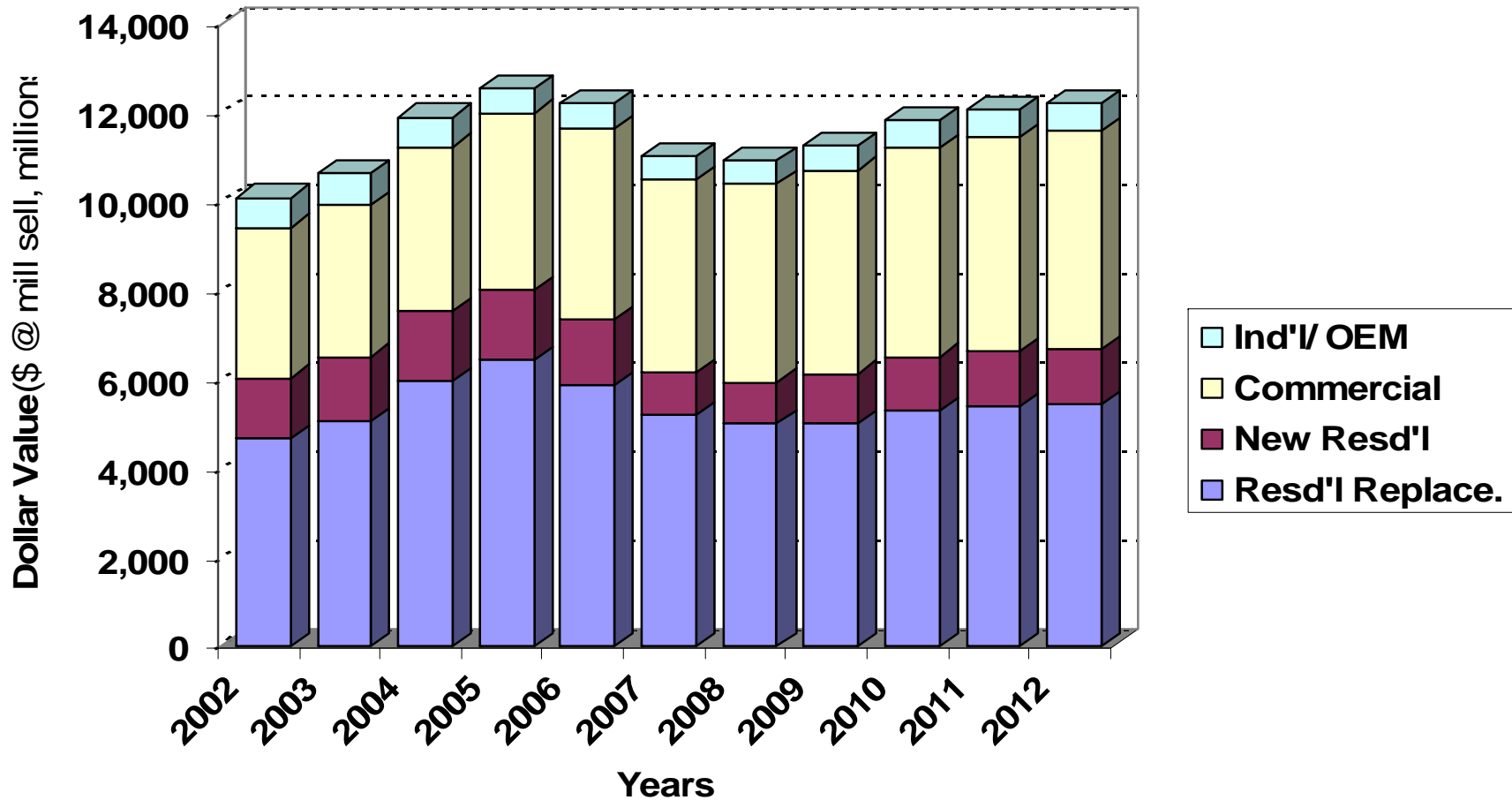
	2002	2007	2012est
Resilient Flooring	9.4%	7.2%	6.1%
Laminate Flooring	3.9%	5.8%	6.7%
Wood Flooring	8.9%	9.5%	11.3%
Ceramic Floor Tile	8.9%	9.5%	11.0%
Carpet	52.0%	51.1%	47.6%
Area Rugs	13.4%	13.4%	12.5%
Rubber Flooring	3.5%	3.5%	4.8%
Totals	100%	100%	100%

1 share point is equal to \$219 million

FLOOR F O C

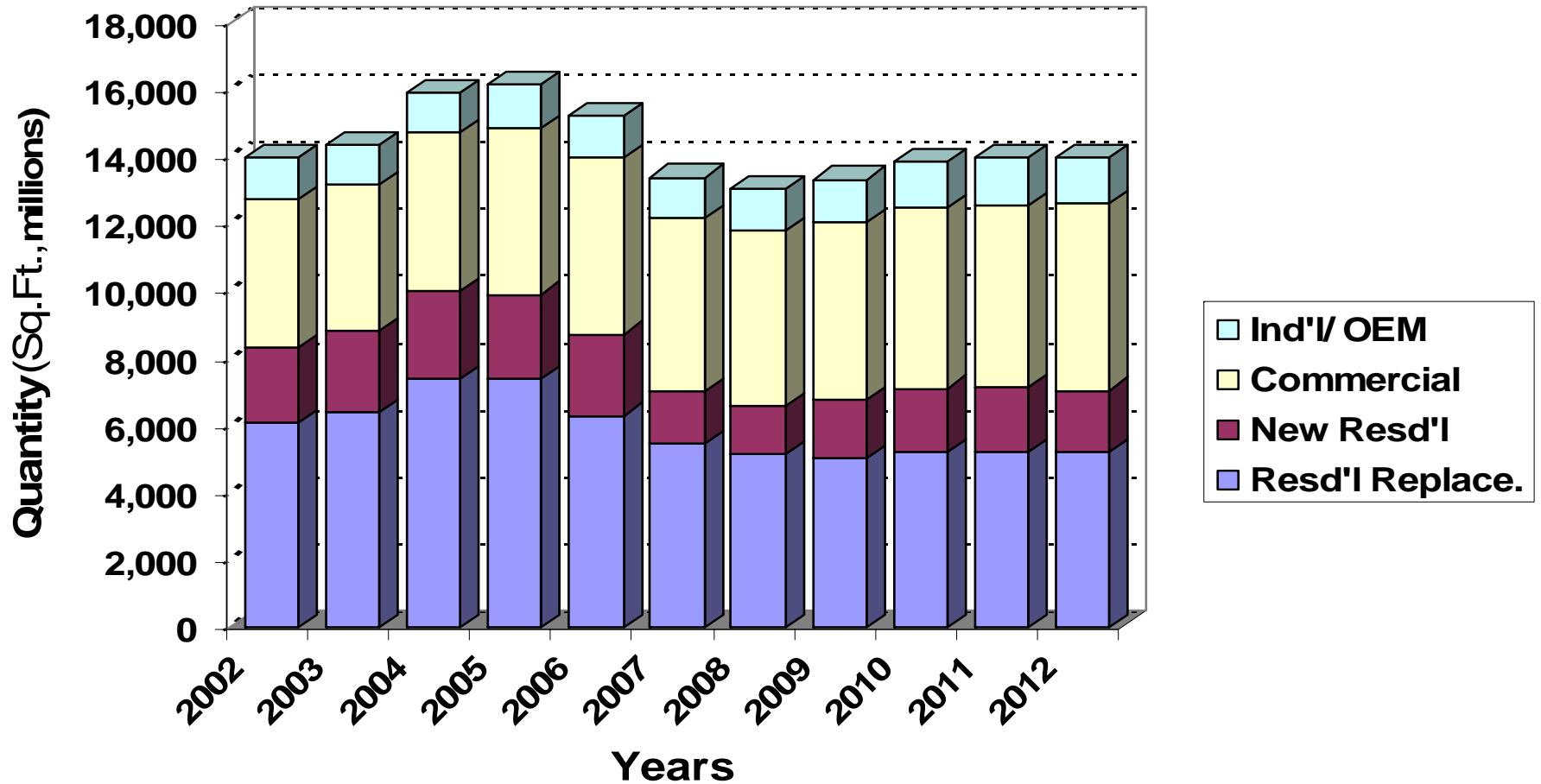
Price increases make dollar sales outlook look better than that for units.

U.S. Carpet Rollgoods & Tile Consumption \$



Majority of growth is in the commercial segment

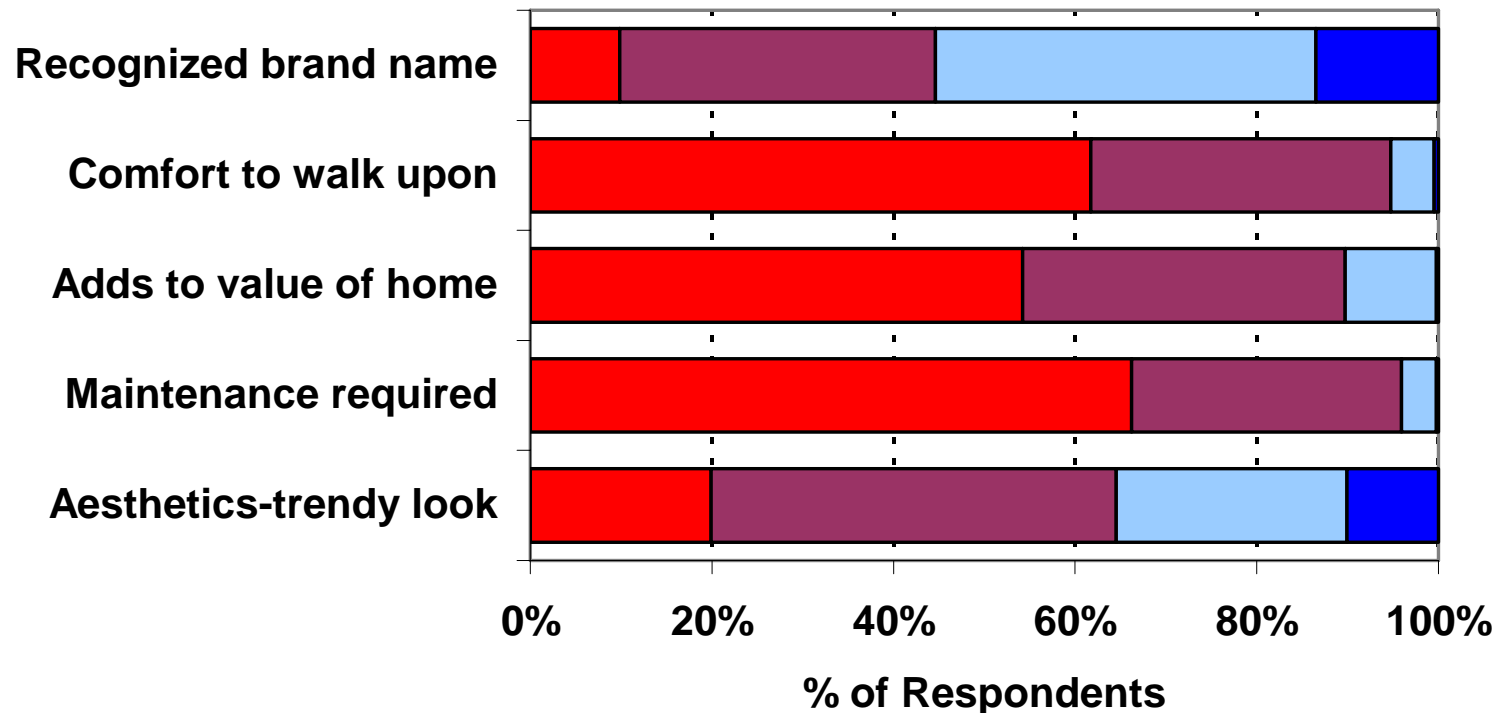
U.S. Carpet Rollgoods & Tile Consumption



Carpet Does Well in Factors Important to Consumers

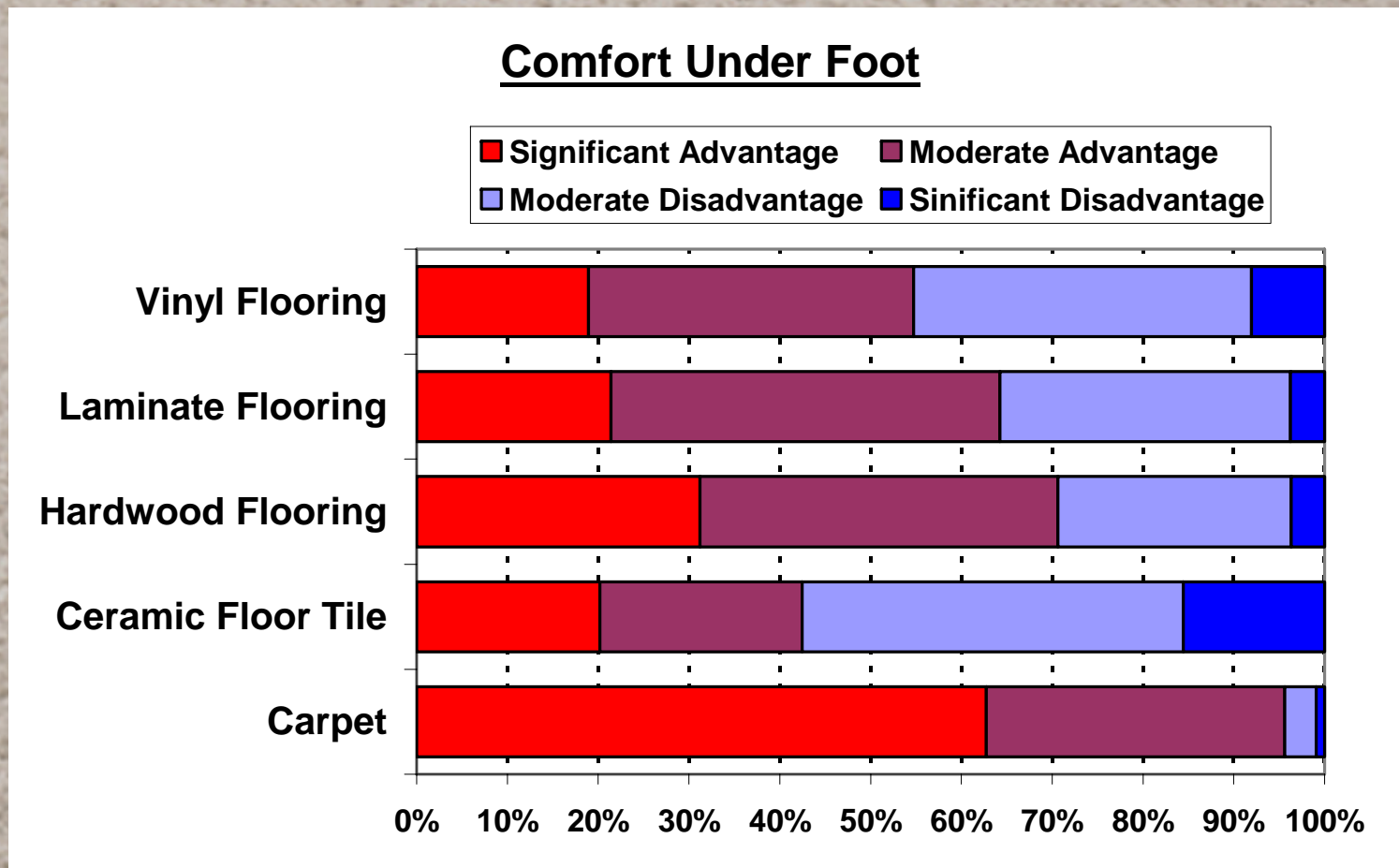
Importance of Criteria to Flooring Decision

■ Very Important ■ Somewhat Important ■ Somewhat Unimportant ■ Not at all Important



Source: Floor Focus Research

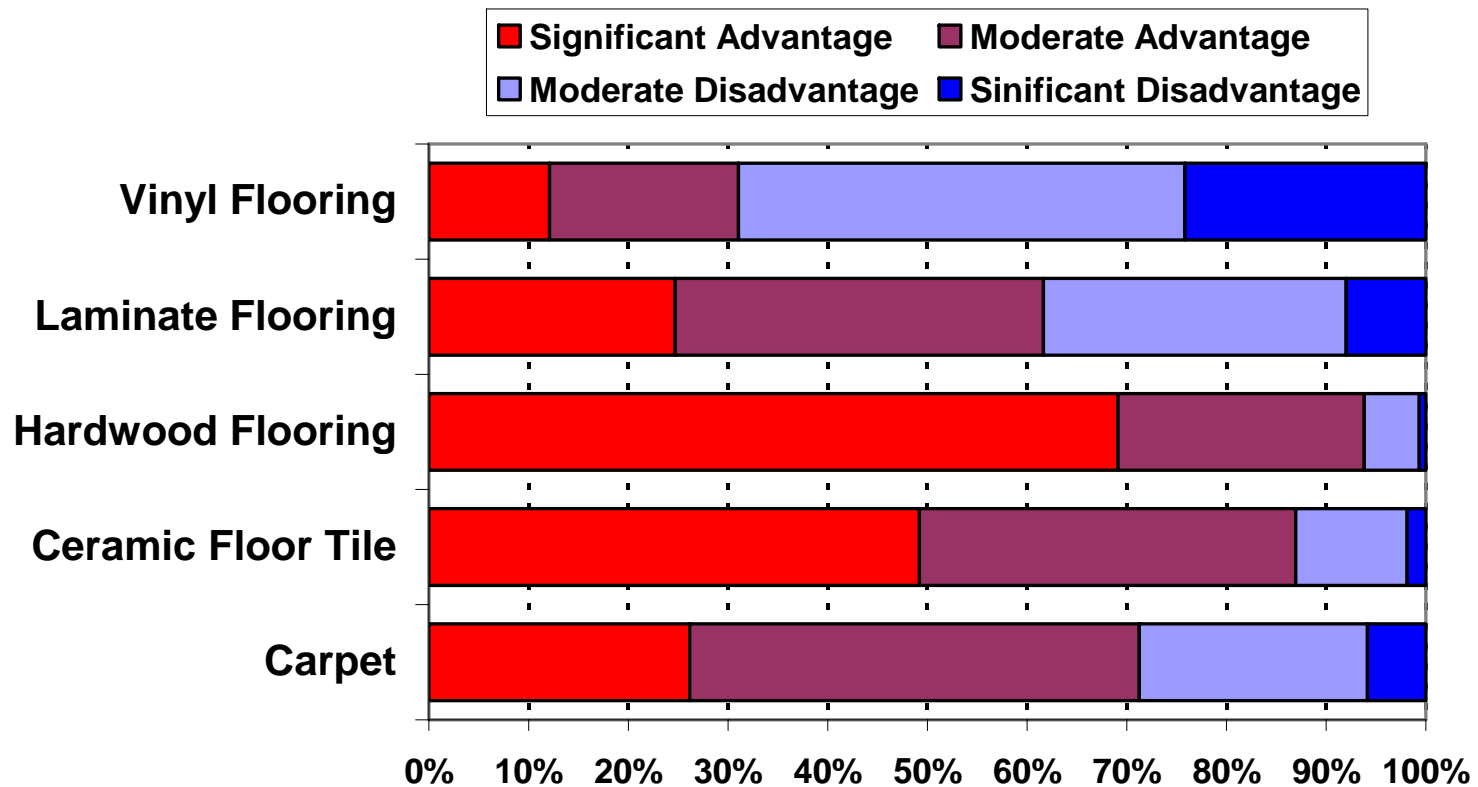
Carpet is best in “comfort under foot”



Source: Floor Focus Research

Carpet is competitive in “value-add”

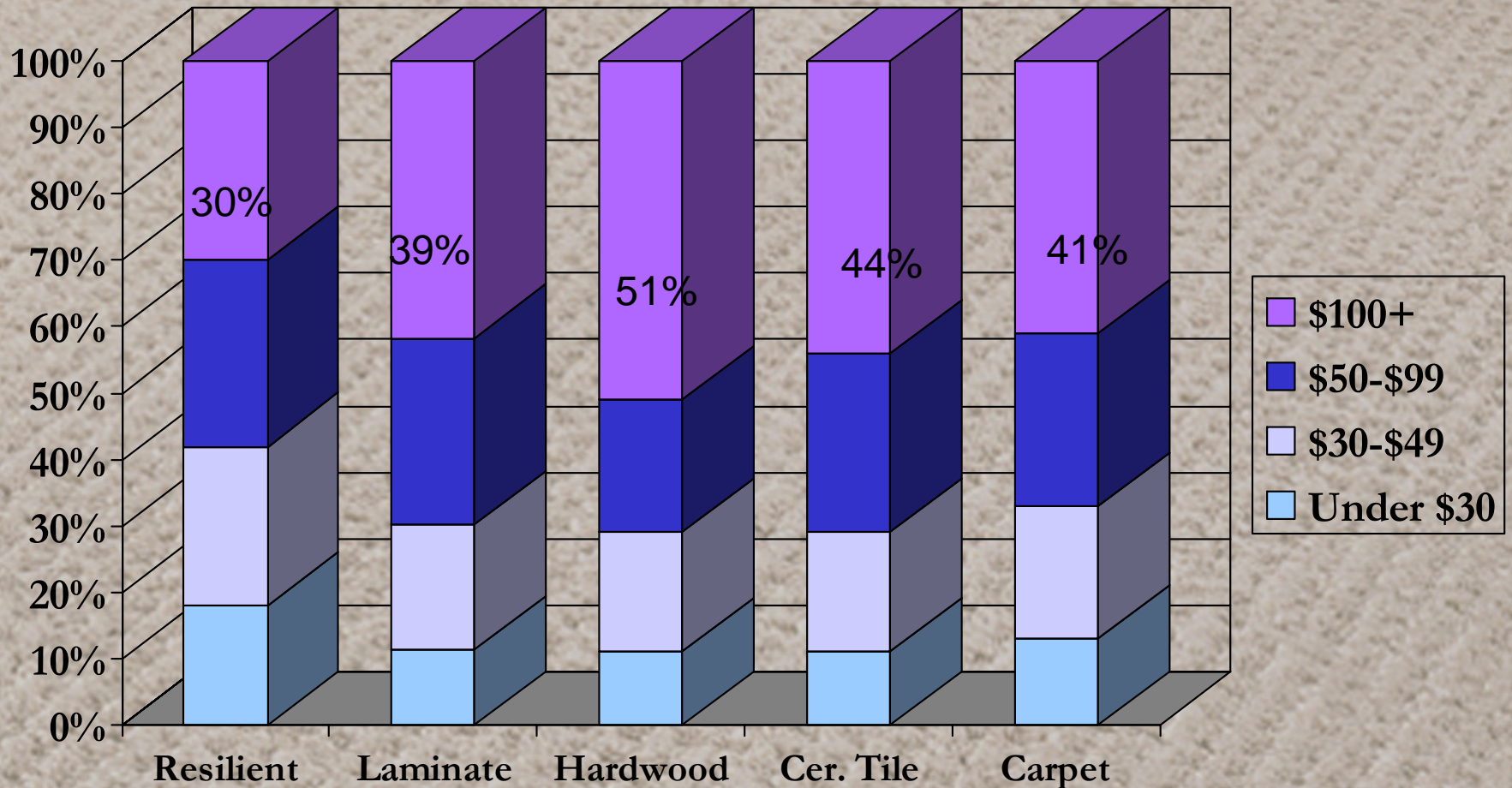
Adds to the Value of the Home



Source: Floor Focus Research

Purchasers Annual Household Income in 2002

(Annual Household Income in 000's)

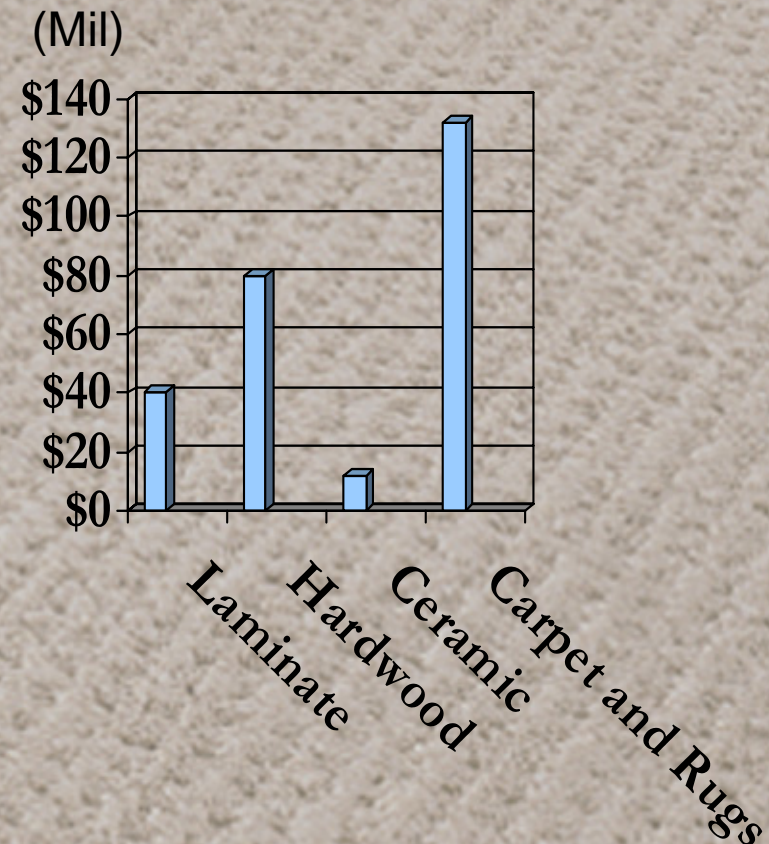


From 1995 to 2002, carpet has fallen from 49% to 37% in the \$100+ category.

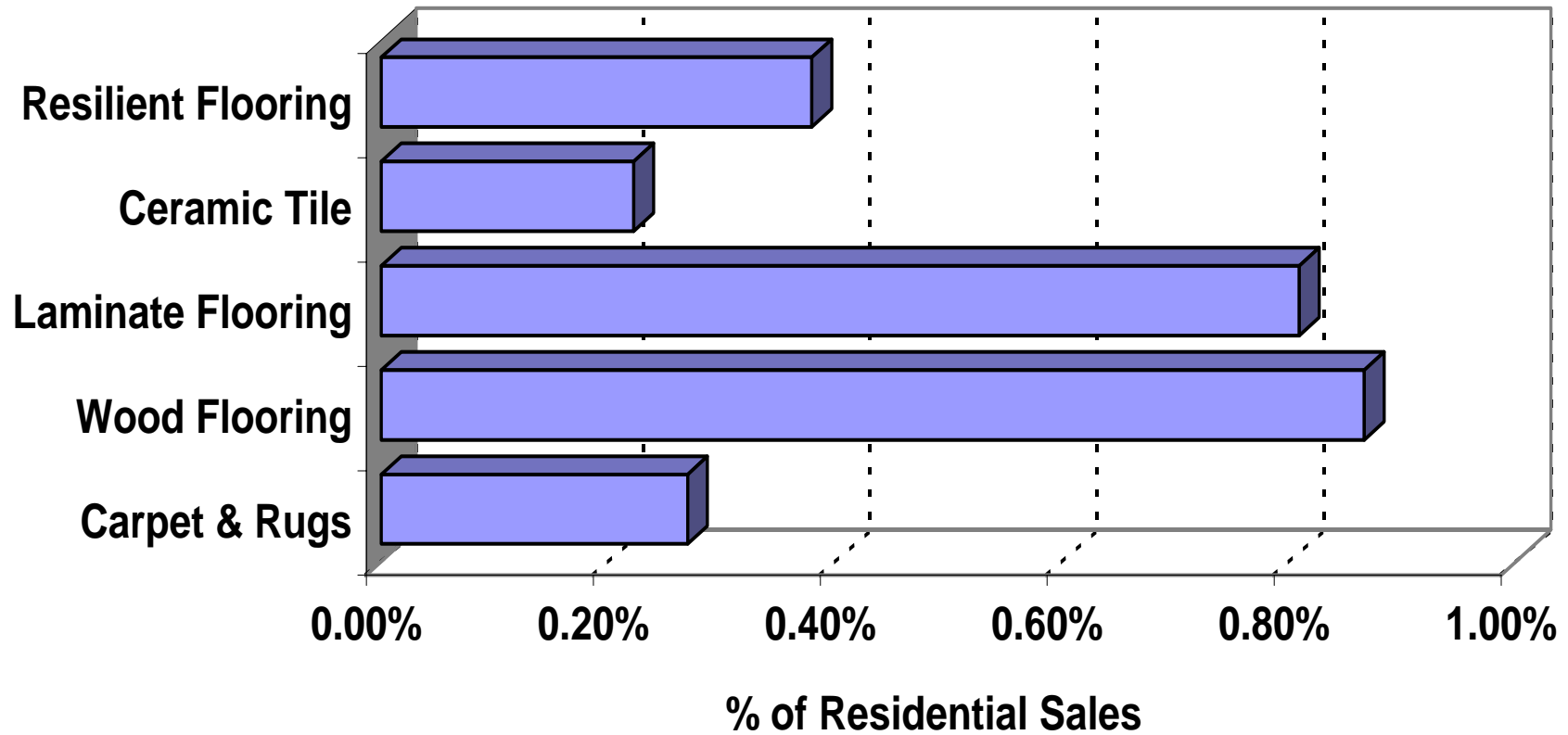
Consumer Ad Spend for All Flooring Categories

- Of \$132 mil spent over the five year period to promote carpet, 54% came from mills and 46% came from fiber companies.
- With the exception of resilient, all flooring categories are supported with consumer ad spending that ranges from .8% to 2% of sales.
- In the Mid-80's, the Stainmaster consumer campaign arrested the decline trend of carpet for 5 years.

(2002-2006)



Average Consumer Advertising Investment 2002 to 2006



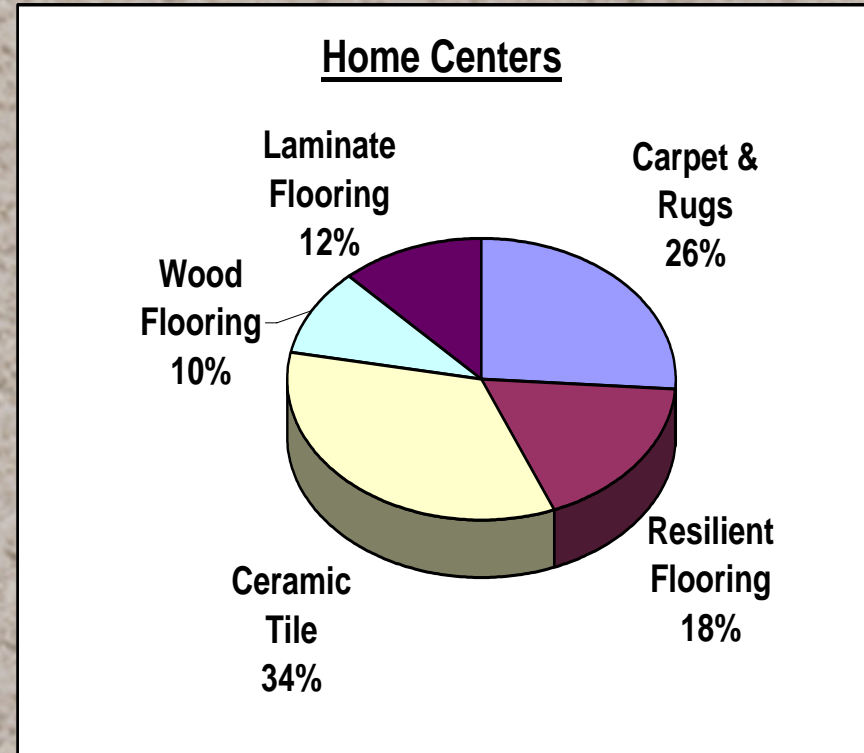
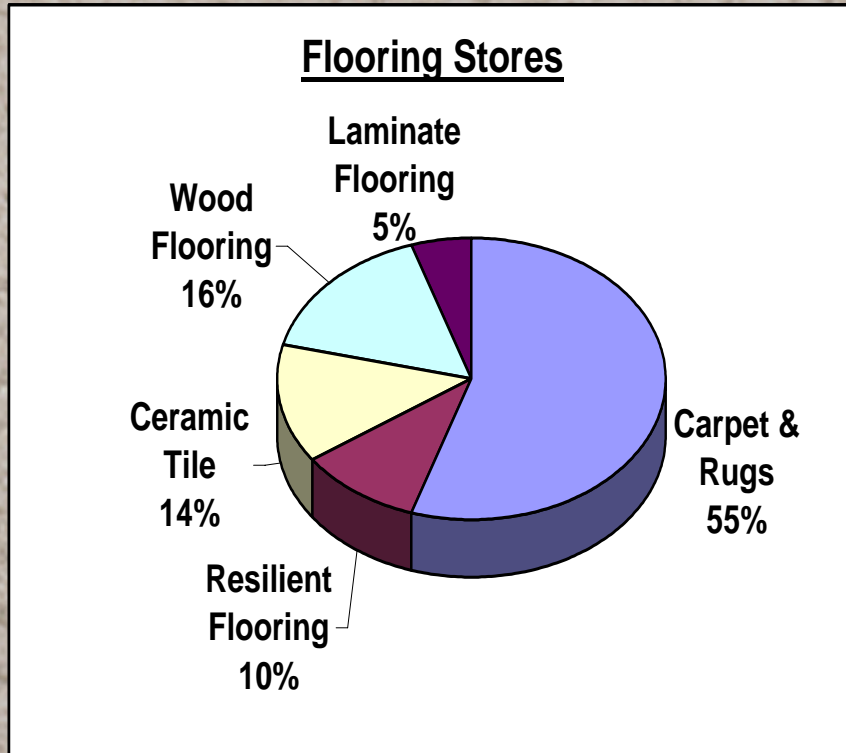
Sources: Leading National Advertisers, Market Insights/Torcivia

Residential Carpet's Primary Issues

- **Low Mind Share Among Consumers – Low Advertising to Revenue ratio**
 - Mills spent 1.1% of residential sales (2002 -2006)
 - Fiber brands spent .9% over same period
 - Total amount spent was 2% of residential sales
- **Carpet is Perceived as Out-of-Style and Lower-Status**
 - A commodity with little or no product differentiation.

Retail Channels

Flooring Sales Shares by Retail Channel



Sources: U.S. Census of Retail Trade, WFCA Financial Management Report, Market Insights/Torcivia

Statistics that Might Lead to a Solution

- According to a statistic given at the last CCA Global meeting – 50.4% of the nations income is going to the top 20% of U.S. Population. That equates to \$3.5 trillion in the hands of 23 million people.
- In the replacement market, 60+% of the final flooring selection decisions are made in the store.
- Over 60% of flooring consumers do research on the internet before they make a final flooring decision

Consumer Flooring Trends

- Wood Flooring scores highest in style and desirability.
- Durability and cleaning/maintenance are important flooring decision factors – both are areas where carpet does not score well.

Other Factors That Will have an Impact on Residential Share Shift

- Hardwood pricing is falling
- Under-tile heat takes away one negative that may lead to more ceramic tile sales
- Home centers now account for 35% of all retail flooring sales and many of their customers seek cash and carry solutions.
- In new home construction, carpet is losing the dining and living rooms to hardwood.

Information sources

- Global Insights (Formerly FW Dodge)
- U.S. Government
- Market Insights/Torcivia
- Mediamark Research
- Floor Focus Editorial Staff