NKBA Kitchen & Bath Market Report

Prepared October 2011
by the National Kitchen & Bath Association

The NKBA Kitchen & Bath Market Report has been conducted since December of 2008 by surveying kitchen and bath dealers that are members of the National Kitchen & Bath Association. This survey is conducted every three months to track quarterly changes in the kitchen and bath market. For the final month of each quarter, the NKBA tracks the average number of showroom visitors, monthly kitchen sales volume, kitchen sales price, monthly bath sales volume, and bath sales price.

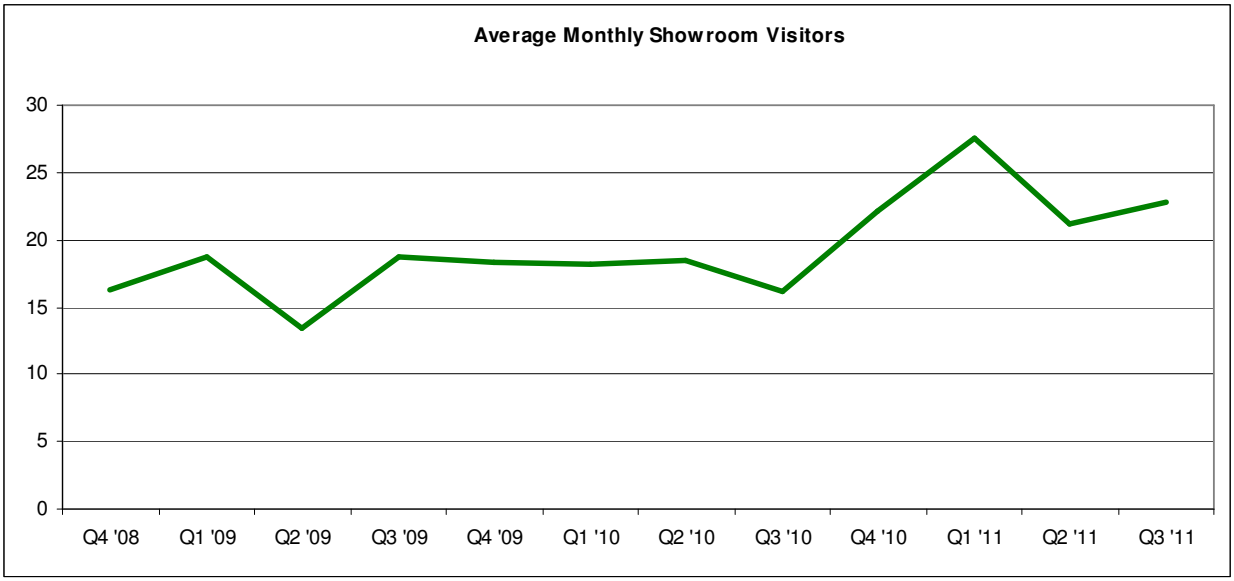
The data below reflects the responses of approximately 150 kitchen and bath dealers across the United States and Canada. Individual dealers may experience trends very different from the overall figures shown here, as no two dealerships will encounter the same market conditions. Note that there were insufficient responses from each particular region (Northeast, Southwest, etc.) to generate statistically significant regional data.

Showroom Visits

Average Monthly Showroom Visitors

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
None	3%	3%	2%	2%	2%	1%	2%	4%	4%
1 to 5	26%	32%	25%	29%	25%	23%	14%	18%	26%
6 to 10	25%	21%	26%	31%	25%	22%	24%	24%	29%
11 to 20	27%	22%	27%	20%	29%	25%	29%	26%	18%
21 to 50	10%	13%	12%	8%	14%	13%	13%	19%	9%
51 to 100	3%	5%	4%	7%	4%	7%	7%	8%	5%
More than 100	6%	4%	4%	4%	1%	6%	9%	2%	10%
Avg. # of Visitors	18.7	18.3	18.2	18.5	16.1	22.2	25.8	21.2	22.8
% Qtrly Change	39%	-2%	-1%	1%	-13%	38%	16%	-18%	8%
% Yearly Change		12%	-3%	38%	-14%	21%	41%	15%	42%

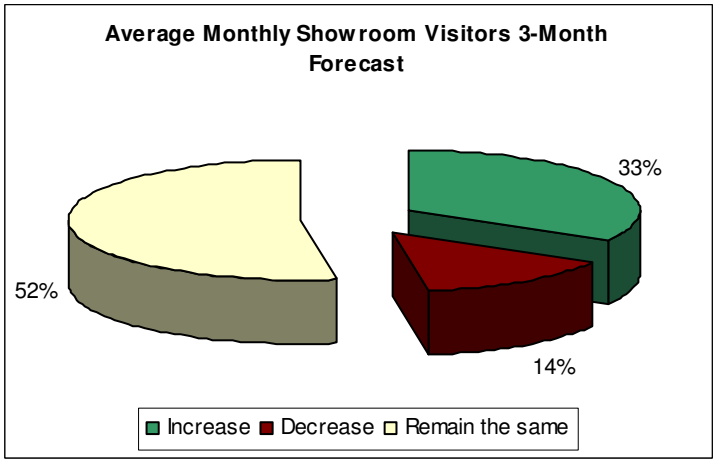
Visits to kitchen and bath showrooms picked up 8% from June after a fallback in the previous quarter, and rose a stunning 42% from a year ago when showroom visits had dipped to their lowest level on record. The typical NKBA kitchen/bath showroom saw, on average, 23 visitors in September of this year compared to approximately 16 a year ago.



Average Monthly Showroom Visitors 3-Month Forecast

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
Increase				43%	39%	79%	75%	51%	33%
Decrease				10%	15%	1%	2%	5%	14%
Remain the same				46%	46%	19%	23%	44%	52%

Although showroom traffic rose in the third quarter after a sharp decline in Q2 of this year, kitchen and bath dealers are far less optimistic for the following quarter than they were three months ago. While more than two dealers expect an increase in showroom traffic through December for every one who expects a decline, only a third of NKBA dealers report that they anticipate an increase in traffic through the end of the year—the lowest level indicated since the National Kitchen & Bath Association began tracking this figure in early 2010.

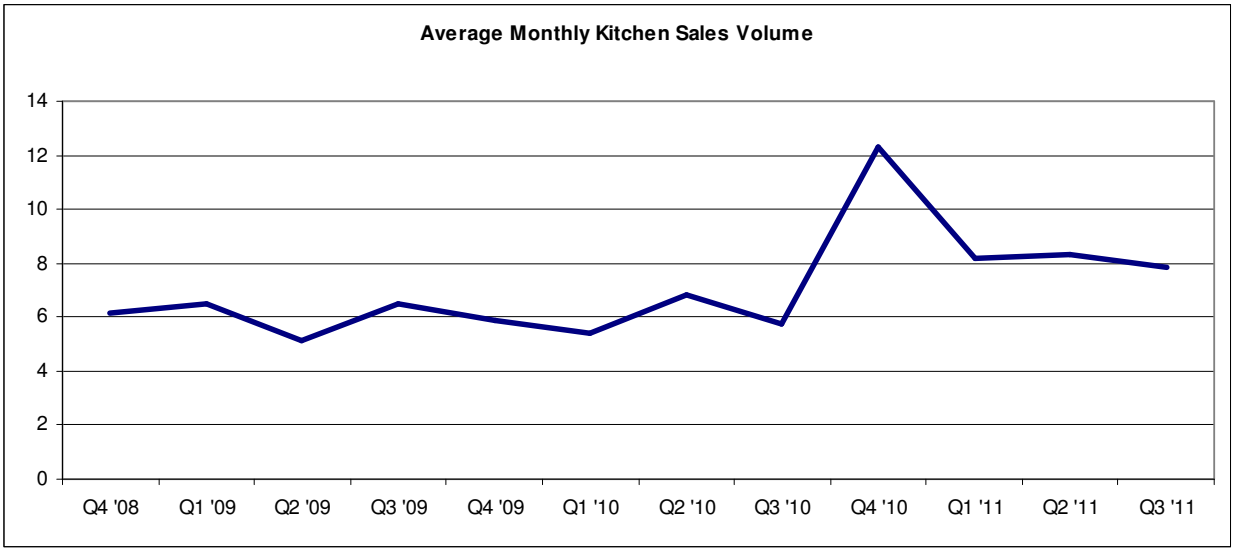


Kitchen Remodels

Average Monthly Kitchen Sales Volume

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
None	14%	22%	10%	14%	14%	9%	9%	6%	10%
1 to 2	35%	38%	31%	32%	35%	32%	21%	19%	30%
3 to 5	30%	25%	34%	31%	34%	28%	39%	42%	37%
6 to 10	13%	6%	17%	12%	9%	12%	15%	19%	13%
11 to 20	4%	6%	5%	6%	5%	9%	8%	8%	4%
21 to 50	3%	1%	2%	2%	1%	0%	6%	3%	2%
51 to 100	0%	2%	1%	2%	0%	3%	1%	2%	2%
More than 100	2%	1%	0%	1%	2%	6%	1%	1%	2%
Avg. Kitchen Sales	6.5	5.9	5.4	6.8	5.8	12.3	8.2	8.3	7.8
% Qtrly Change	25%	-10%	-7%	26%	-16%	113%	-33%	1%	-6%
% Yearly Change		-5%	-17%	32%	-11%	110%	51%	21%	36%

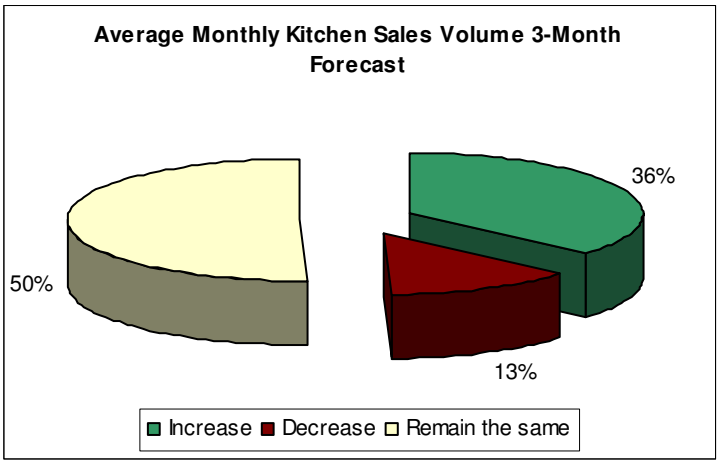
The number of consumers beginning kitchen remodels with NKBA dealers declined 6% in the third quarter to just under 8 per showroom. However, that figure remained well above the year-ago level when just under 6 consumers undertook kitchen remodeling projects. This represents a sharp year-over-year increase in kitchen sales of 36%.



Average Monthly Kitchen Sales Volume 3-Month Forecast

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
Increase				53%	50%	82%	77%	56%	36%
Decrease				5%	12%	2%	2%	4%	13%
Remain the same				42%	38%	17%	21%	40%	50%

Like showroom traffic, kitchen dealers are less optimistic about the outlook for the next three months than they had been for the previous three months. While 36% of dealers expect an increase in kitchen sales, that's a significant falloff from 56% in June. Similarly, 13% of dealers expect a decline now versus just 4% three months ago.



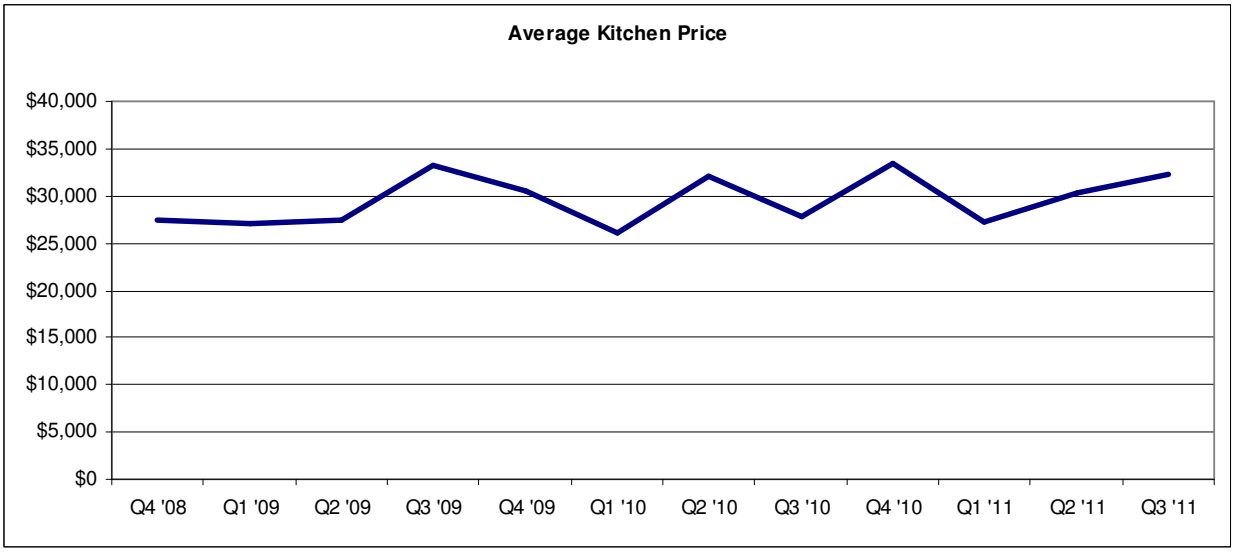
Kitchen Remodeling Budgets

Average Kitchen Price

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
$10,000 or less	10%	14%	13%	10%	12%	24%	10%	12%	9%
$10,001 to $15,000	38%	36%	19%	19%	21%	10%	26%	19%	20%
$15,001 to $20,000			23%	17%	17%	21%	20%	16%	14%
$20,001 to $35,000	36%	34%	26%	15%	18%	14%	20%	19%	22%
$35,001 to $50,000			11%	23%	18%	16%	13%	16%	19%
$50,001 to $75,000	10%	13%	2%	9%	13%	2%	7%	12%	9%
$75,001 to $100,000	3%	2%	4%	6%	1%	7%	1%	4%	5%
$100,001 to $150,000	2%	1%	2%	0%	0%	5%	3%	0%	1%
More than $150,000	2%	1%	0%	1%	0%	2%	0%	1%	1%
Avg. Kitchen Price	$33,175	$30,625	$26,125	$32,125	$27,800	$33,400	$27,275	$30,300	$32,275
% Qtrly Change	21%	-8%	-15%	23%	-13%	20%	-18%	11%	7%
`% Yearly Change		12%	-3%	17%	-16%	9%	4%	-6%	16%

Note: the Q1 2010 study was the first to allow the choice between "$10,001 to $15,000" and "15,001 to $20,000" rather than "$10,001 to $20,000." Also, the Q1 2010 study was the first to allow the choice between "$20,001 to $35,000" and "$35,001 to $50,000" rather than "$20,001 to $50,000."

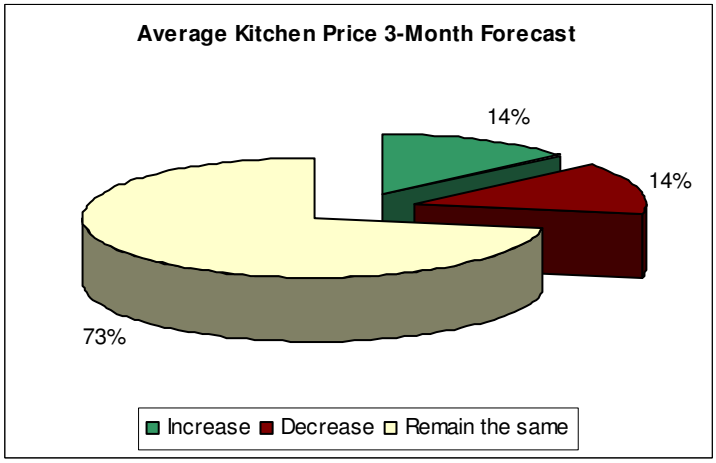
The average price of a kitchen remodel has traditionally gone up and down every three months, with a decline one quarter followed by a rise the next. This pattern, which has held true since the beginning of 2010, was finally broken in the third quarter of this year, as the 11% increase in Q2 was followed up by a 7% increase in Q3, which balances the 6% decrease in the number of kitchen remodels undertaken in the third quarter. These two quarters of back-to-back spending per kitchen remodel bode well for sustainable growth in kitchen remodeling budgets, with consumers willing to undertake larger kitchen remodels.



Average Kitchen Price 3-Month Forecast

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
Increase				22%	13%	34%	35%	18%	14%
Decrease				8%	9%	2%	3%	7%	14%
Remain the same				70%	78%	64%	63%	76%	73%

Almost three quarters of dealers expect average kitchen prices to remain the same through the fourth quarter. However, for the first time since the National Kitchen & Bath Association began tracking this indicator, the percentage of kitchen dealers who are expect a decline in remodeling budgets over the next three months is the same as the percentage of kitchen dealers who expect an increase: 14%.

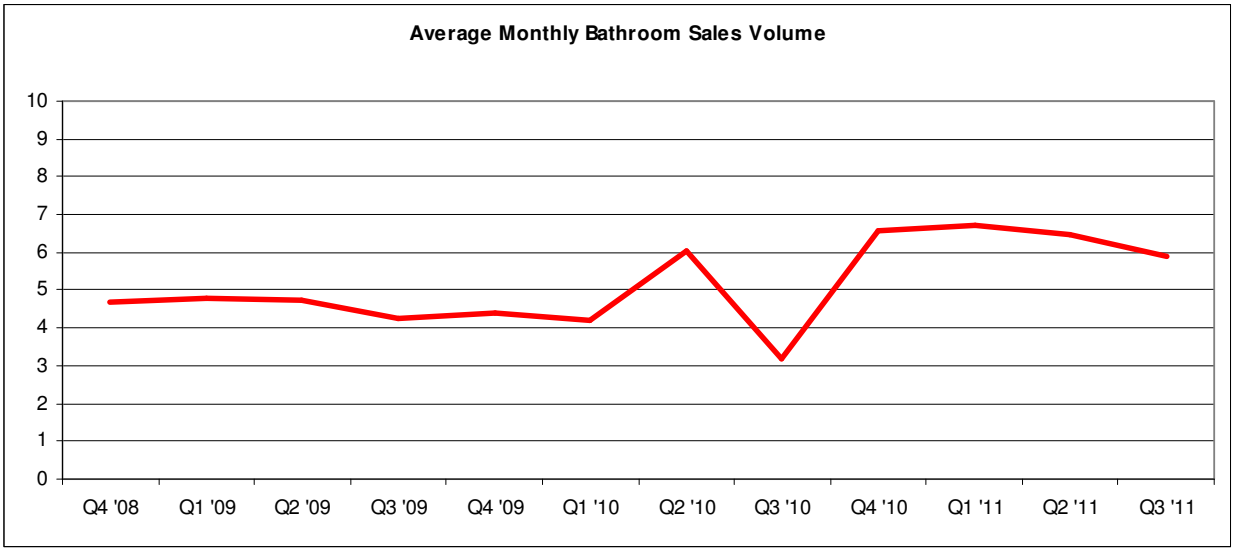


Bathroom Remodels

Average Monthly Bathroom Sales Volume

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
None	28%	28%	20%	12%	21%	20%	12%	9%	14%
1 to 2	38%	39%	38%	39%	36%	34%	30%	38%	39%
3 to 5	23%	24%	27%	33%	32%	25%	34%	35%	26%
6 to 10	6%	5%	8%	8%	5%	8%	11%	10%	13%
11 to 20	1%	2%	1%	4%	4%	7%	5%	3%	5%
21 to 50	1%	1%	5%	1%	1%	3%	7%	2%	2%
51 to 100	1%	1%	0%	2%	0%	3%	1%	2%	1%
More than 100	1%	1%	0%	1%	0%	0%	0%	1%	1%
Avg. Bath Sales	4.2	4.4	4.2	6.0	3.2	6.6	6.7	6.5	5.9
% Qtrly Change	-11%	3%	-4%	43%	-47%	105%	2%	-4%	-9%
% Yearly Change		-7%	-12%	27%	-25%	50%	59%	7%	85%

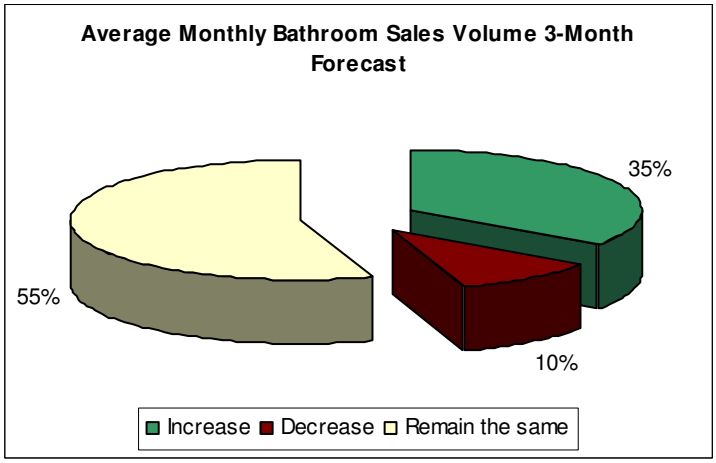
After experiencing a dramatic increase in the fourth quarter of 2010 that doubled the number of remodels over the previous quarter, the bathroom remodeling market has been slightly down since, with bathroom sales declining another 9% in Q3 to an average of 5.9 sales per dealership. However, that still represents an enormous increase over the remarkably low sales figure of 3.2 sales per dealer a year ago.



Average Monthly Bathroom Sales Volume 3-Month Forecast

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
Increase				44%	47%	72%	61%	44%	35%
Decrease				7%	8%	2%	3%	2%	10%
Remain the same				49%	44%	26%	36%	54%	55%

A recurring theme in this quarter's Kitchen & Bath Market report is the declining optimism of kitchen and bath dealers as they look toward the final three months of 2011. While those who expect an increase in bathroom sales outnumber those who expect a decline by a margin of 3.5 to 1, that's far and away the closest that ratio has been since this information began to be recorded in 2010.



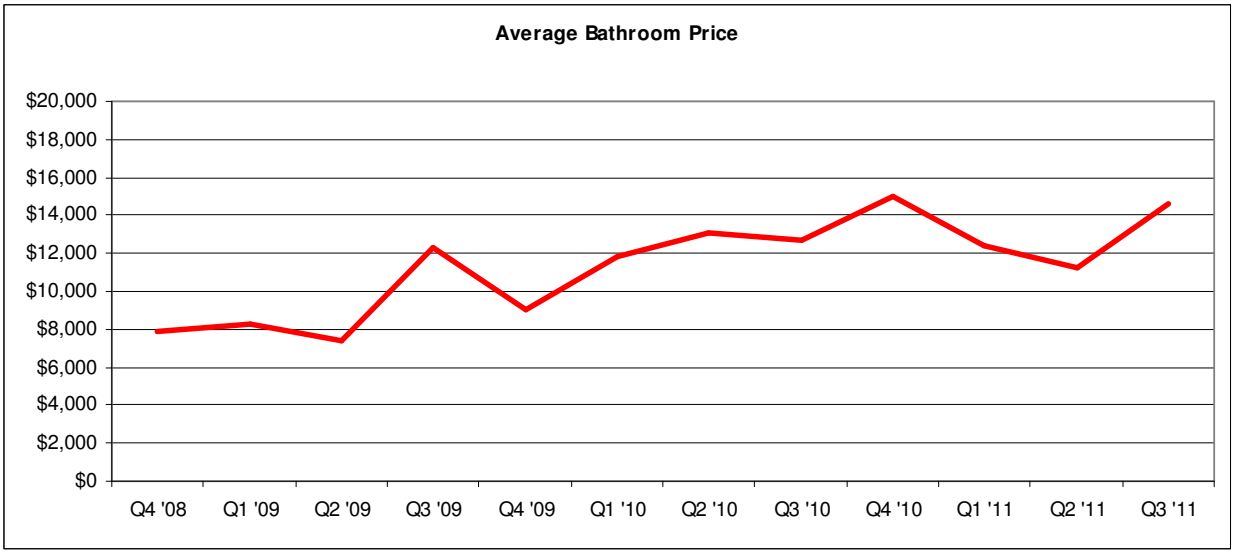
Bathroom Remodeling Budgets

Average Bathroom Price

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
Less than $2,500	30%	32%	11%	13%	14%	14%	17%	17%	9%
$2,501 to $5,000			24%	23%	21%	16%	20%	16%	14%
$5,001 to $10,000	25%	28%	27%	22%	23%	18%	20%	25%	22%
$10,001 to $15,000	22%	25%	13%	7%	4%	18%	12%	11%	17%
$15,001 to $20,000			9%	9%	16%	12%	7%	16%	14%
$20,001 to $35,000	22%	14%	9%	21%	15%	8%	13%	13%	14%
$35,001 to $50,000			4%	2%	6%	6%	7%	2%	6%
$50,001 to $75,000	2%	2%	1%	1%	0%	6%	1%	0%	1%
More than $75,000	1%	0%	1%	1%	0%	0%	0%	0%	1%
Avg. Bath Price	$12,325	$9,050	$11,813	$13,125	$12,663	$14,975	$12,363	$11,288	$14,638
% Qtrly Change	67%	-27%	31%	11%	-4%	18%	-17%	-9%	30%
% Yearly Change		15%	43%	77%	3%	65%	5%	-14%	16%

Note: the Q1 2010 study was the first to allow respondents to choose between "$2,500 or less" and "$2,501 to $5,000." In previous surveys, these two responses were combined as "$5,000 or less." In addition, the Q1 2010 study was the first to allow respondents to choose between "$10,001 to $15,000" and "$15,001 to $20,000." In previous surveys, these two responses were "$10,001 to $20,000." The Q1 2010 study was also the first to allow respondents to choose between "$20,001 to $35,000" and "$35,001 to $50,000." In previous surveys, these two responses were "$20,001 to $50,000."

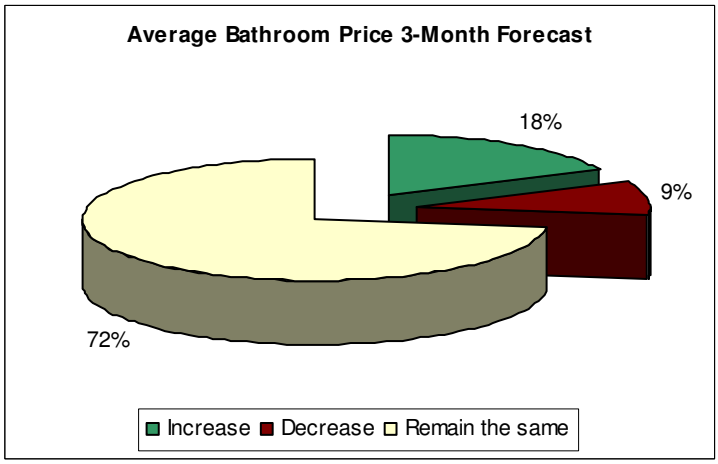
Like average kitchen remodeling budgets, the amount spent on the typical bathroom remodel has traditionally gone up and down each quarter. However, this figure had declined in each of the first two quarters of 2011, returning to levels not seen in two years. Fortunately, that trend ended in September, as the average bathroom remodeling budget increase dramatically by 30% in Q3, which far more than balances the 9% drop in the number of bathroom sales. That also represents a 16% year-over-year increase in the average selling price of a bathroom remodel.



Average Bathroom Price 3-Month Forecast

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
Increase				14%	21%	39%	37%	18%	18%
Decrease				12%	5%	4%	5%	6%	9%
Remain the same				74%	74%	57%	57%	76%	72%

Most NKBA dealer members expect the average price of a bathroom remodel to remain roughly same over the next three months. Of the rest, those who expect an increase outnumber those who expect a decline by a ratio of 2 to 1, down from ratios of 3 to 1 in Q2, 7 to 1 in Q1, and 10 to 1 in Q4 of last year.

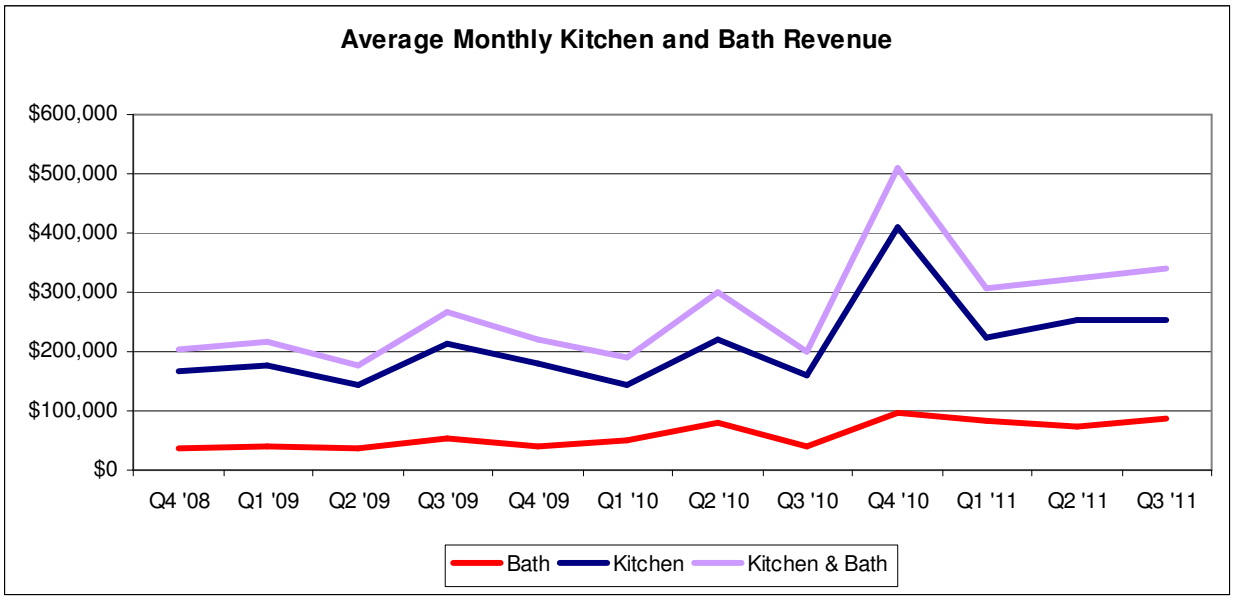


Kitchen & Bath Revenue

Average Monthly Kitchen & Bath Revenue

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
Avg. Bath Sales	$52,320	$39,594	$49,849	$79,275	$40,457	$98,311	$82,891	$72,974	$86,581
Avg. Kitchen Sales	$214,642	$179,309	$141,728	$219,735	$159,989	$410,152	$223,928	$251,793	$252,713
Avg. Dealer Sales	$266,962	$218,903	$191,577	$299,010	$200,446	$508,463	$306,818	$324,767	$339,294
% Quarterly Change	51%	-18%	-12%	56%	-33%	154%	-40%	6%	4%
% Yearly Change		7%	-11%	69%	-25%	132%	60%	9%	69%

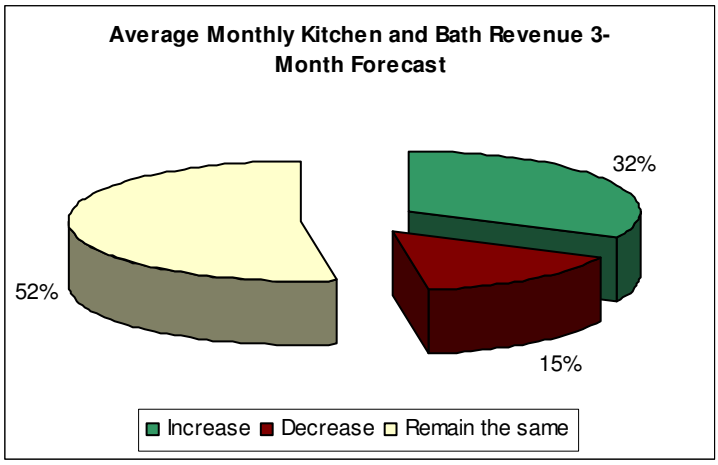
While the number of kitchen and bath remodels undertaken in Q3 fell somewhat, the average budget for these remodels increased over the same period. As a result, NKBA kitchen and bath dealers saw an average 4% increase in total monthly revenues over the previous quarter and an average increase of 69% over the year-ago quarter. Aside from the spectacular fourth quarter of 2010, total revenue per dealership recorded its highest level on record in Q3 of 2011.



Average Monthly Kitchen & Bath Revenue 3-Month Forecast

	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
Increase				47%	43%	78%	74%	49%	32%
Decrease				8%	14%	3%	2%	8%	15%
Remain the same				44%	44%	18%	25%	43%	52%

Despite an increase in total revenue in Q3, kitchen and bath dealers are less optimistic than they've been in the recent past. While 32% forecast an increase in revenue versus 15% who expect a decline, that doesn't compare favorably to the 49%/8% levels in Q2 or the 74%/2% levels in Q1. Overwhelming optimism has been muted, even as revenues continue to rise.

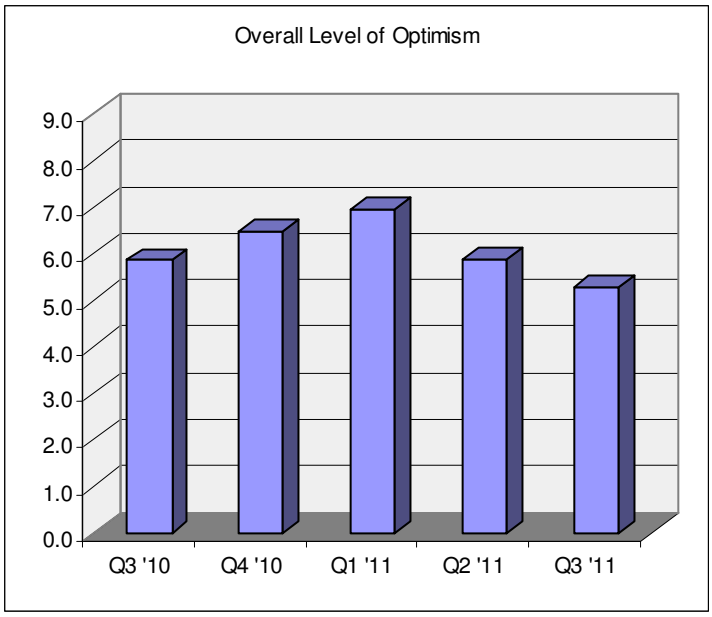


3-Month Overall Forecast

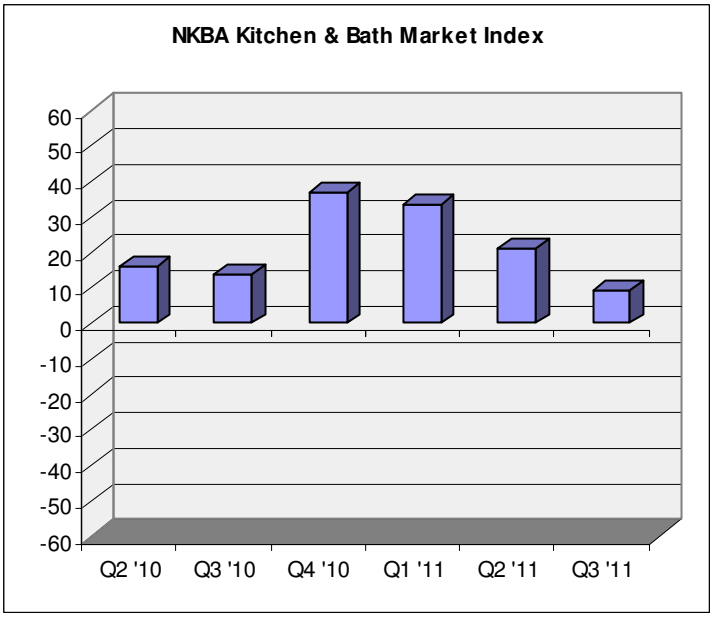
	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11
1-Very pessimistic				4%	3%	3%	0%	1%	4%
2				3%	4%	0%	1%	6%	3%
3-Somewhat pess.				9%	13%	8%	5%	9%	12%
4				8%	3%	6%	2%	9%	17%
5 - Neither				17%	14%	8%	5%	10%	14%
6				18%	18%	11%	14%	12%	17%
7-Somewhat optimistic				24%	36%	32%	46%	35%	23%
8				11%	6%	20%	13%	10%	10%
9-Very optimistic				6%	5%	12%	15%	7%	0%
Average				5.7	5.9	6.5	7.0	5.9	5.3

When asked to indicate relative optimism or pessimism regarding their outlook on the kitchen and bath industry as a whole over the third quarter, NKBA dealers had grown optimistic each quarter since the National Kitchen & Bath Association began gathering this data a year ago.

Measured on a scale from 1 to 9, a score below 5 indicates pessimism, while a mark above 5 indicates optimism. That forecast dropped for the first time in the second quarter, falling from 7.0 to 5.9, and fell again in the third quarter, dropping to 5.3, indicating very slight optimism.



To gauge the sales trends in the kitchen and bath market, the National Kitchen & Bath Association has developed the NKBA Kitchen & Bath Market Index, which indicates NKBA dealers' market sentiment for the next quarter. Ranging from -60 (extreme pessimism) to +60 (extreme optimism), the NKBA Kitchen & Bath Market Index for Q3 is +9. This indicates that dealers forecast an expansion in the market over the next three months, but just slightly. A cause for concern is the decline this indicator has shown recently, falling from +37 in December to +33 in March to +21 in June to +9 in September.



Conclusion

In the Q2 Kitchen & Bath Market Report the National Kitchen & Bath Association forecast a slight increase in the health of the kitchen and bath market through September, and that's exactly what took place. However, the NKBA's Q3 report shows some volatility over the past three months, with showroom visits, kitchen selling prices, and bathroom selling prices increasing, while kitchen sales volume and bathroom sales volume decline. Overall, the increased prices more than compensated for the decline in sales in the third quarter.

More concerning is the lowered expectations that dealers have for the final three months of the year. In every category, fewer dealers expect conditions to improve, while more dealers expect to see declines. However, it's important to note that the number of dealers anticipating an increase in each category—with the exception of the average kitchen remodeling budget—remains markedly higher than the number of dealers expecting decreases.