First Quarter 2020
# Report Contents

**Kitchen & Bath Market Index (KBMI)**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary</td>
<td>5</td>
</tr>
<tr>
<td>Current KBMI</td>
<td>9</td>
</tr>
<tr>
<td>Current Business Conditions</td>
<td>11</td>
</tr>
<tr>
<td>Future Business Conditions</td>
<td>12</td>
</tr>
<tr>
<td>Health of the Kitchen and Bath Industry</td>
<td>13</td>
</tr>
</tbody>
</table>

**Sales Environment**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 Sales Change</td>
<td>15</td>
</tr>
<tr>
<td>2020 Full-Year Growth Expectations</td>
<td>16</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design Firms</td>
<td>22</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>29</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>35</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>39</td>
</tr>
</tbody>
</table>

**Industry Challenges and Concerns**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Industry Challenges and Concerns</td>
<td>46</td>
</tr>
</tbody>
</table>

**Methodology / Limiting Conditions / Contact Us**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Methodology</td>
<td>50</td>
</tr>
<tr>
<td>Limiting Conditions</td>
<td>52</td>
</tr>
<tr>
<td>Contact Us</td>
<td>53</td>
</tr>
</tbody>
</table>
Conducted jointly by the National Kitchen & Bath Association and John Burns Real Estate Consulting, the Kitchen & Bath Market Index (KBMI) examines current kitchen and bath industry demand, future expectations, and issues and challenges that industry professionals are facing in their businesses. The Q1 2020 report is based on findings from 651 NKBA members across four primary industry segments:

- Design
- Building and construction
- Retail sales
- Manufacturing
EXECUTIVE SUMMARY

Kitchen & Bath Market Index

<table>
<thead>
<tr>
<th></th>
<th>CONTRACTING</th>
<th>EXPANDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 Q1</td>
<td>41.0</td>
<td>69.8</td>
</tr>
<tr>
<td>2019 Q4</td>
<td></td>
<td>69.8</td>
</tr>
<tr>
<td>2019 Q3</td>
<td></td>
<td>64.3</td>
</tr>
<tr>
<td>2019 Q2</td>
<td></td>
<td>65.4</td>
</tr>
<tr>
<td>2019 Q1</td>
<td></td>
<td>68.5</td>
</tr>
</tbody>
</table>

Current Conditions

<table>
<thead>
<tr>
<th></th>
<th>LOWER</th>
<th>THE SAME</th>
<th>HIGHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 Q1</td>
<td>46.9</td>
<td>66.9</td>
<td></td>
</tr>
<tr>
<td>2019 Q4</td>
<td></td>
<td>66.9</td>
<td></td>
</tr>
<tr>
<td>2019 Q3</td>
<td></td>
<td>61.7</td>
<td></td>
</tr>
<tr>
<td>2019 Q2</td>
<td></td>
<td>63.7</td>
<td></td>
</tr>
<tr>
<td>2019 Q1</td>
<td></td>
<td>67.3</td>
<td></td>
</tr>
</tbody>
</table>

Health of the Industry

<table>
<thead>
<tr>
<th></th>
<th>WEAK</th>
<th>NORMAL</th>
<th>STRONG</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 Q1</td>
<td>4.1</td>
<td>7.2</td>
<td></td>
</tr>
<tr>
<td>2019 Q4</td>
<td></td>
<td>7.2</td>
<td></td>
</tr>
<tr>
<td>2019 Q3</td>
<td></td>
<td>6.7</td>
<td></td>
</tr>
<tr>
<td>2019 Q2</td>
<td></td>
<td>6.7</td>
<td></td>
</tr>
<tr>
<td>2019 Q1</td>
<td></td>
<td>6.7</td>
<td></td>
</tr>
</tbody>
</table>

Future Conditions

<table>
<thead>
<tr>
<th></th>
<th>LOWER</th>
<th>THE SAME</th>
<th>HIGHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 Q1</td>
<td>19.8</td>
<td>76.6</td>
<td></td>
</tr>
<tr>
<td>2019 Q4</td>
<td></td>
<td>76.6</td>
<td></td>
</tr>
<tr>
<td>2019 Q3</td>
<td></td>
<td>68.4</td>
<td></td>
</tr>
<tr>
<td>2019 Q2</td>
<td></td>
<td>70.6</td>
<td></td>
</tr>
<tr>
<td>2019 Q1</td>
<td></td>
<td>76.4</td>
<td></td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20) *Values are KBMI totals.
KBMI YEAR-OVER-YEAR COMPARISON

**Kitchen & Bath Market Index**

- **2020 Q1**: 41.0
- **2019 Q1**: 68.5

**Current Conditions**

- **2020 Q1**: 46.9
- **2019 Q1**: 67.3

**Health of the Industry**

- **2020 Q1**: 4.1
- **2019 Q1**: 6.7

**Future Conditions**

- **2020 Q1**: 19.8
- **2019 Q1**: 76.4

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20) *Values are KBMI totals.

© 2020 NKBA
EXECUTIVE SUMMARY

We are pleased to release the Q1 2020 NKBA/John Burns Kitchen & Bath Market Index (KBMI), the industry’s definitive gauge of kitchen and bath industry conditions. This quarterly index is the result of a partnership between the National Kitchen & Bath Association and John Burns Real Estate Consulting.

The industry has begun to contract in response to the COVID-19 pandemic. Our survey shows clear signs of slowing demand and declining optimism as current and future business conditions both rate below the prior four quarters. Our Q1 2020 survey shows:

- **Declining sales growth.** The kitchen and bath industry contracted in Q1 2020, as the KBMI rated a 41.0 on a scale of 0–100, with 50 being flat sales growth. Q1’s KBMI is more than 40% lower than last quarter’s rating of 69.8. The industry points to economic uncertainty, fear of recession, consumer confidence and stock market volatility as underlying challenges.

- **Future industry outlook is pessimistic.** The industry is now considerably less positive on future conditions (19.8 index reading) than on current conditions (46.9 index reading), and 2020 sales growth expectations have weakened as a result of the COVID-19 pandemic and its related economic impacts.
  
  o The industry now expects **-13.7% full-year sales decline in 2020**, down notably from +10.8% expected growth reported by NKBA members as recently as Q4 2019.

- **The two biggest challenges and concerns** of the industry are economic uncertainty and fear of recession. NKBA members now cite consumer confidence and stock market volatility as tied for the third biggest challenge. Concerns about repair and remodel demand are increasingly reported as the COVID-19 pandemic deters some U.S. consumers from undertaking major new projects.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
**EXECUTIVE SUMMARY**

- The industry says the COVID-19 pandemic is having a significant impact across all market segments. COVID-19 related shutdowns and social distancing measures are expected to reduce Q2 2020 sales by more than 50% among builders, dealers and consumer-facing segments of the market, while manufacturing firms expect a still sizable 40% drop relative to pre-COVID sales expectations.

- Across industry segments, NKBA members describe how the COVID-19 pandemic and related government-led shutdown measures are impacting their businesses.
  - Designers, citing broad impacts of the pandemic across their business activities, face the highest shares of cancelled/postponed projects and anticipate the steepest fall-off in 2020 sales. They tend to be more pessimistic on the timing of the recovery as well. More than half of design firms have temporarily closed their brick and mortar locations and 75% report lower demand for bids/proposals.
  - Building and construction companies report widespread project delays, postponements and cancellations. Even so they are more optimistic than designers about resuming activity.
  - Retail sales companies say showroom closures and declining foot traffic are causing major declines to their sales and revenue for 2020. Many describe seeing declines in discretionary remodeling expenditures as a result of consumer uncertainty and fears related to the pandemic.
  - Manufacturers broadly cite layoffs and other COVID-related labor disruptions as reducing their production capacity. Nearly half reported facing order cancellations, yet other manufacturers still forecast significant increases in sales in certain categories.

- Many industry members report supply chain disruptions, particularly for cabinetry sourced from manufacturers that closed due to COVID-related shutdowns, but also for appliance parts, vanities and light fixtures.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)

© 2020 NKBA
At 41.0, the Kitchen & Bath Market Index indicates lower sales in current quarter, a widespread expectation of lower kitchen and bath sales in Q2, and a weakening view of industry health. Manufacturing was the steadiest index at 48.0, while design, retail sales, and building and construction companies all indexed lower, between 38.3 and 43.3.

Scores above 50 indicate industry growth, while scores below 50 indicate slowing activity.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
At 41.0, the Q1 2020 KBMI rates lower than last quarter as well as one year ago. NKBA members are pessimistic about business conditions and the industry has low expectations for the upcoming year. Collectively, the industry decreased their full-year 2020 sales growth outlook to -13.7%, a complete reversal from the 10.8% growth that was expected just a quarter earlier in Q4 2019.

<table>
<thead>
<tr>
<th></th>
<th>Q1 2019</th>
<th>Q2 2019</th>
<th>Q3 2019</th>
<th>Q4 2019</th>
<th>Q1 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KBMI</strong></td>
<td>68.5</td>
<td>65.4</td>
<td>64.3</td>
<td>69.8</td>
<td>41.0</td>
</tr>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>-5%</td>
<td>-2%</td>
<td>8%</td>
<td>-41%</td>
</tr>
<tr>
<td><strong>Current Business Conditions</strong></td>
<td>67.3</td>
<td>63.7</td>
<td>61.7</td>
<td>66.9</td>
<td>46.9</td>
</tr>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>-5%</td>
<td>-3%</td>
<td>8%</td>
<td>-30%</td>
</tr>
<tr>
<td><strong>Future Business Conditions</strong></td>
<td>76.4</td>
<td>70.6</td>
<td>68.4</td>
<td>76.6</td>
<td>19.8</td>
</tr>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>-8%</td>
<td>-3%</td>
<td>12%</td>
<td>-74%</td>
</tr>
<tr>
<td><strong>Health of the Industry</strong></td>
<td>6.7</td>
<td>6.7</td>
<td>6.7</td>
<td>7.2</td>
<td>4.1</td>
</tr>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>0%</td>
<td>0%</td>
<td>7%</td>
<td>-43%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019 Outlook</th>
<th>2020 Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full-Year Sales Growth Outlook</strong></td>
<td>Q1 2019: 5.4%</td>
<td>Q4 2019: 10.8%</td>
</tr>
<tr>
<td></td>
<td>Q2 2019: 4.7%</td>
<td>Q1 2020: -13.7%</td>
</tr>
<tr>
<td></td>
<td>Q3 2019: 3.5%</td>
<td>Change in guidance vs prior quarter: 7.3%</td>
</tr>
<tr>
<td></td>
<td>Q4 2019: -0.7%</td>
<td>-24.5%</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
Overall, the current business conditions index is **46.9**. Manufacturers and retail sales firms index above the total weighted average at a 54.7 and 53.5 respectively, while design firms under-index at 42.2.

### Current Business Conditions

**Sales last quarter vs. same period prior year**

<table>
<thead>
<tr>
<th>Category</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Segments</td>
<td>46.9</td>
</tr>
<tr>
<td>Design</td>
<td>42.2</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>47.2</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>53.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>54.7</td>
</tr>
</tbody>
</table>

**Stayed the same:**

- All Segments
- Design
- Building & Construction
- Retail Sales
- Manufacturing

**Higher:**

- Manufacturers
- Retail Sales

**Lower:**

- Design

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
At 19.8, the industry expects Q2 2020 sales to decline from Q1 2020. Manufacturers are the least pessimistic, while retail sales firms are more unified than other segments in expecting lower growth.

Future Business Conditions
Sales next quarter vs. same period prior year

<table>
<thead>
<tr>
<th>Segment</th>
<th>Higher</th>
<th>Stayed the Same</th>
<th>Lower</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Segments</td>
<td>19.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>20.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>20.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Sales</td>
<td>15.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>24.4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
HEALTH OF THE KITCHEN AND BATH INDUSTRY

The overall kitchen and bath industry currently rates industry health at a **4.1 out of 10**. Manufacturing companies are less pessimistic than design, building and construction, and retail sales businesses.

Health of the Industry
Segment rating from Extremely Strong to Extremely Weak

<table>
<thead>
<tr>
<th>Health Level</th>
<th>All Segments</th>
<th>Design</th>
<th>Building &amp; Construction</th>
<th>Retail Sales</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremly Strong</td>
<td>4.1</td>
<td>4.0</td>
<td>4.0</td>
<td>3.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Normal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extremly Weak</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
SALES ENVIRONMENT
NKBA members reported a sales decline of **-2.8% on average in Q1 2020** compared to the same quarter a year earlier. Retailers and manufacturers reported modest growth, while design firms and building and construction companies reported sales losses in excess of 4%.

### Q1 2020 Sales Change

How much did your Q1 sales or revenue grow (or decline) year-over-year?

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q1 2020 Sales Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Segments</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Design</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>0.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
In 2020 the industry expects total sales to be down 13.7% YOY – a complete reversal from strong growth expected for 2020 as of Q4 2019. Declining sales are expected across all four segments due to COVID-19 related shutdowns and related impacts, including layoffs and consumers’ financial losses.

**Full-Year Sales Revenue**

Do you expect your full-year sales (2020) to be higher, lower or the same as last year (2019) and by how much?

- 4Q 2019
- 1Q 2020

<table>
<thead>
<tr>
<th>Segment</th>
<th>4Q 2019</th>
<th>1Q 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Segments</td>
<td>10.8%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Design</td>
<td>-13.7%</td>
<td>-16.3%</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>-12.9%</td>
<td>-12.1%</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>10.9%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-7.6%</td>
<td></td>
</tr>
</tbody>
</table>

**Sources:** NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
COVID 19: IMPACT ON THE INDUSTRY
SUMMARY OF COVID-19 IMPACT ON INDUSTRY

The COVID-19 pandemic has significantly impacted the kitchen and bath industry. Among all segments, retailers and building and construction companies have reported the most significant impacts (averaging 8.3 out of 10), while design firms and manufacturers are experiencing significant, but slightly lower impact.

Impact of COVID-19

Overall, what impact is COVID-19 having on your business? (1 = “No impact at all” and 10 = “Significant impact”)

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
NKBA members expect Q2 2020 sales to decline by more than 50% compared to prior expectations for the same quarter as a result of the COVID-19 pandemic and its related social, economic and supply chain disruptions. The exception was manufacturing, where Q2 sales were expected to be reduced by 40%.

**Change in Q2 2020 Expected Sales**

By how much do you think COVID-19 related shutdowns will negatively impact (reduce) your Q2 sales?

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
NKBA members reported that more than two-thirds of their projects and/or orders were affected by COVID-19 related shutdowns, with 48% being postponed and 21% being cancelled. Design firms were most impacted by cancellations and postponements, followed by building and construction firms.

**COVID-19 Related Shutdowns**

What percentage of your services were cancelled/postponed due to COVID-19 related shutdowns? (Weighted Averages)

*Services defined for each category: Design is projects, building and construction is orders, and manufacturing is orders cancelled or postponed.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
Over half of NKBA members anticipate that demand will return to normal levels by August of 2020, and more than two-thirds expect a recovery by September. Even so, 1 in 4 members are unsure or expect that conditions will not improve until next year at the earliest. Manufacturers and retail sales firms are on average more optimistic—expecting earlier recoveries—compared to design and building and construction firms.

When do you think the US economy will largely reopen and demand for your products and services will return to normal levels?

68% of KBMI members expect recovery by September

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
COVID 19: IMPACT ON DESIGNERS
Designers Cite Broad Impacts of the COVID-19 Pandemic on Their Business

36% of design firms report that postponed or cancelled projects are the biggest casualty they've experienced as a result of the recent pandemic. About one in four designers describe the lack of new client leads and client fears (over health/safety, job/finances) as impacting their business most. 13% say supply chain disruptions are the most significant impact (cabinets were most often cited as harder to source).

Industry Impact from Coronavirus: Design Firms

Please help us understand how the coronavirus is most significantly impacting your company (% of design firms)

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
PANDEMIC FORCES TEMPORARY CLOSURES

Over half of design firms (52%) report having no brick and mortar presence right now. 37% of design firms report being closed entirely for business, while another 15% report having an online presence only. Despite those closures 44% of design firms still report maintaining a physical presence in their showroom/store.

Are you currently open for business?

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
The majority, or 75%, of design firms report that clients are demanding fewer bids/proposals for future remodeling projects due to the COVID-19 pandemic. Economic fears and uncertainty, job and stock market losses, and health fears were all frequently-cited reasons for the fall-off in new leads. Only a small segment (8%) reported more bids.

Would you say that demand for bids/proposals for future remodeling projects is higher, the same, or lower now that homeowners are confined to their homes as a result of COVID-19?

- 8% higher
- 17% the same
- 75% lower

“People are self-isolating and have a chance to really look at their homes and all the improvements they’ve been meaning to make. This is a motivating factor for those that are now working from home and still have incomes.”

“The phone’s not ringing, and clients are postponing or canceling projects because of economic fears.”

“People are wary of spending money at this time and of beginning projects or even reaching out about future projects.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
INCREASED TECH USAGE SHAPES FORWARD-LOOKING DESIGN FIRM STRATEGIES

1 in 10 designers emphasize more technology usage as one of the most significant impacts of the pandemic. While a few cited e-design work as aiding business continuity, many discussed its limitations, particularly when taking measurements and navigating finish/material selection with clients. Despite virtually flat e-design growth expectations for 2020, some designers expect increased use of technology to be a long-term winning strategy.

E-Design Limitations

“…having client meetings via Skype/Zoom/etc. doesn’t lead to the same level of comfort and confidence.”

“virtual screens can/will help, but colors are not as accurate.”

“it’s hard to navigate finishes/materials selection through a computer.”

“preliminary designs [are being] done remotely as taking dimensions is not possible at this point.”

“E-design is an option for some things, but not for me unless I have already seen a space for myself because pictures and video do not capture the true sense of a room’s feel.”

Compared to 2019, designers expect virtually flat e-design growth in 2020 (-0.2% YOY). While the short-term forecast is flat, some designers believe digital is poised for long-term growth:

“I am changing my business model... Video, face-to-face and online interactions via internet, social media channels will be the new normal.”

“[My current challenge is to develop] more ways to facilitate e-design and e-commerce. Virtual tours of a home/project.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
Design firms suggest that certain larger businesses, and those that service affluent clientele, as well as those sourcing American-made products are feeling lesser effects of COVID-19. Several members noted that businesses able to maintain staffing may be better poised to benefit from a potential surge in demand post-downturn.

### Size of Business, Ability to Access Aid Matter

“Small businesses like mine are struggling and losing business to the big box stores that are allowed to remain open.”

“We will be unable to stay open if we are not approved for the Paycheck Protection Program. Even with furloughs and reduced hours, that’s not enough to keep employees without it.”

### Financial Impacts Differ Among Clients

“…clients are nervous, but the ones who are secure with their finances are confident in moving forward with their projects.”

“I have had a couple of clients decide to remodel because of the lower interest rates on HELOCs, so that is a positive.”

### “Made In America” Saves the Supply Side

“I've always promoted Made In America since my company’s inception… so our supply side has not been impacted except for increased demand now from others whose supply has been impacted due to tariffs and shutdown of imports.”

“My company also was a MADE IN AMERICA company for products so my supply chain is only impacted in increased demand for these products now.”

**Sources:** NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
DESpite negative impacts, some designers identify potential long-term gains

Forward-looking designers are using this slowdown to refocus their business, setting it up to launch in the recovery. Reported proactive steps include preparing for more e-design and video consultations, website improvements, offering podcasts and webinars to re-engage their client base, as well as efficiency improvements.

GREATER INTEREST IN REMODELING...

“People being stuck in their homes … has brought remodeling and renovating to a level of desire we haven’t seen in my 35 years in business.”

TIME FOR BUSINESS DEVELOPMENT AND LEARNING NEW SKILLS...

… the pandemic has caused me to refocus and promote the e-design side of my business. From consultations to podcasts and webinars...I see this as a positive and will contribute to higher revenues going forward.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
Nearly half (48%) of building and construction firms report that 20% or fewer of their active projects are on schedule due to the effects of the COVID-19 pandemic. Inability to access project worksites and interact with clients were frequently cited as obstacles, as were pandemic-related labor shortages and obstacles in obtaining permits.

What percentage of your active (started) projects or jobs are on schedule?

<table>
<thead>
<tr>
<th>% of respondents</th>
<th>48%</th>
<th>9%</th>
<th>9%</th>
<th>17%</th>
<th>17%</th>
</tr>
</thead>
<tbody>
<tr>
<td>% on schedule</td>
<td>0%-20%</td>
<td>21%-40%</td>
<td>41%-60%</td>
<td>61%-80%</td>
<td>81%-100%</td>
</tr>
</tbody>
</table>

CAUSES OF DELAYS

“We have multiple projects that are 95% done, but we can’t get in to finish little details…”

“Planning projects with customers sending pictures and dimensions is taking much longer…”

“Getting building permits is on hold and that will be the biggest obstacle starting back up. Getting permits in a timely manner to keep the projects moving forward was already a major obstacle, right up there with lack of skilled labor, but now will be exacerbated.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
When asked how coronavirus is most significantly impacting their company, building and construction companies were more likely than retail firms to mention **supply chain and labor disruptions**. Frustrations over delays in the supply of **cabinetry** were a major theme. Reports of significant **reductions in the labor force** were also common given little ability to move ahead on postponed construction projects.

### Supply Chain Disruptions and Delays

“Cabinet manufacturers are having a tough time producing, facing delays in material.”

“Lead times from **cabinet manufacturers** are extended out to at least 12 weeks.”

“Some of our vendors [are] either shutting down or not able to deliver products.”

“Several of our orders aren’t even being processed due to the factories being closed or the delivery companies not operating.”

### Layoff and Furloughs as a Major Impact

“Basically our cash flow has stopped suddenly. NO help yet from SBA. We have had to lay everyone off as well.”

“My boss cancelled told us to stay home or find other temporary work probably until August.”

“I worry that construction workers and specialty contractors will become disillusioned and will see employment in other industries, more specifically government jobs where 'essential status' and benefits are easier to come by.”
Despite widespread reports of significant negative impacts from the COVID-19 pandemic, building and construction firms are somewhat more optimistic than designers about returning to postponed projects, with over two-thirds of building and construction firms expecting to resume work before the end of June.

When do you anticipate you will be able to resume these postponed projects?

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
SOME REMODELERS PRIORITIZE NEW SAFETY MEASURES, OTHERS SHIFT TO EXTERIOR WORK

While some K&B remodelers are fortunate to work on unoccupied job-sites, many others are shifting their priorities to focus on safety measures or diversifying outside of kitchen and bath until the pandemic passes.

**SAFETY**

“Clients are concerned with the health and well being of their families. If they can afford to move forward on a remodel project, they may be reluctant to open their home to contractors until the virus passes. We will have to implement disinfection procedures on our job sites.”

“The safety of our staff and the customer service for our customers is very vital. Our biggest challenge is trying to find a balance with the knowledge that there is a virus with no vaccine and keeping our small business healthy both physically and financially.”

**DIVERSIFICATION**

“We are a design-build full-service company doing jobs from concept through construction. 90% of our jobs include a kitchen and multiple bathrooms. ... We will likely need to look at jobs that are outside of the kitchen and bath industry to help maintain our company, such as exterior remodeling, decks, etc.”

“Our inside work like kitchens and baths is 60% of our business and most of that has been postponed. We are lucky to be diversified enough to have additions and exterior work and we are doing mostly that over the next two months to hopefully get us past the curve.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
SOME BUILDING AND CONSTRUCTION FIRMS REMAIN OPTIMISTIC, TAKE PROACTIVE STEPS

Despite the majority of building and construction firms’ projects being postponed or cancelled, and widespread reports of project delays and declining revenues, some NKBA members report minimal impact from the pandemic. Several highlight forward-looking steps and potential positives to look forward to post-COVID-19.

“We do have more than 30 future projects that we have rescheduled with no cancelations; the future looks good.”

“Our clients are optimistic and still look forward to remodeling but at the same time are concerned about spending for home improvements in such an unknown economic climate. We are using this time to do some showroom updates and hopefully be able to get back to business as soon as it is safe.”

“We have been scheduling meetings via web-chats to reduce the amount of foot traffic through the office, but everything else is moving along as normal.”

“Many homeowners are finding things wrong with their house and/or are tired of their kitchen and baths so they want to have them remodeled. One only has to go to big box home store retailers and see the packed parking lots and long lines for proof. I think this virus will actually cause our industry to have a better year than forecasted.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
COVID 19: IMPACT ON RETAIL SALES
Most retail sales firms reported a sizable drop-off (averaging -75%) in **foot-traffic** to stores and showrooms. **Online** traffic for retail sales also fell, albeit by a lesser amount (averaging -12%). Some firms even reported an increase in online sales.

**How much is foot traffic and online traffic up or down since the onset of the COVID-19 crisis?**

- **Foot Traffic**
- **Online Traffic**

---

“The lack of foot traffic has affected our department (Kitchen Sales and Design). We are not currently set up to do online sales, but I think in the future we will be.”

“Our showroom is **closed to all foot traffic** and has been for the last four weeks. All appointments were cancelled, and none are being taken until an undetermined time. Our business is all by phone, email and facetime.”

---

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
One in four retail companies describe the closure of their showroom as being the most significant impact from the coronavirus pandemic. Closures led to a drop-off in new leads, hollowing out what was a previously full or even backlogged Q1 pipeline for many respondents.

**INDUSTRY IMPACT FROM CORONAVIRUS: RETAILERS**

Please help us understand how the coronavirus is most significantly impacting your company. (% of retail sales firms)

- Can’t work / no current work (postponed, cancelled): 35%
- No new leads / clients: 31%
- Showroom closures: 25%
- Client fears and vulnerabilities (health/safety, job, finances): 16%
- Labor issues (unavailable workers, layoffs): 11%
- Supply chain disruptions: 6%

“We had a very good first quarter and have a substantial backlog of work, of course we cannot complete or start those projects. Production income has dwindled to almost zero as a result of work stoppage. As the showroom is closed and only open to very limited appointments our sales income is only about 10% of normal.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
Comments from retailers reveal the **uneven impact of the COVID-19 pandemic** among diverse client segments. Impacted segments cited by retailers include discretionary (including high-end) remodeling spending, new construction, and work on hospitality industry properties and vacation homes. Yet others benefited from winning strategies such as remote sales and curbside pickup sales of mostly DIY product materials and essential supplies.

**Segments or Channels Impacted**
- Walk-in retail traffic
- High-end or discretionary remodeling spending
- New construction, slowed by permits or other hurdles
- Hospitality industry
- Vacation homes

**Successful Strategies**
- Remote design and sales
- Bidding on developers’ business
- Sales of essential supplies (i.e., plumbing)
- DIY sales
- Curbside service

**Sources:** NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
COVID 19: IMPACT ON MANUFACTURING
45% of manufacturers report that they have had to make difficult decisions regarding their employees. On average, these layoffs/furloughs impacted 61 percent of those companies’ workforce. Of the 52% who have not had to make any difficult decisions yet, 16% are considering them and another 5% are planning them.

**Manufacturing**

Have you had to make any difficult decisions regarding your employees?
When surveyed during mid-April, one in five manufacturers reported operating at minimal capacity (0%–20%) while a similar share reported being near full capacity (81%–100%). Manufacturing companies reported that on average, they are using only 52% of their current capacity.

Manufacturing
What percentage of capacity are your operations currently utilizing?
MANUFACTURING ORDER CANCELLATIONS

Nearly half (46%) of manufacturing sector firms reported that customers cancelled orders as a result of lower construction and remodeling activity surrounding COVID-19 related shutdowns. Yet an even higher share (54%) reported that orders are continuing as planned, albeit at a slower pace, due to temporary labor shortages and closures.

Have your customers cancelled orders as a result of lower construction and remodeling activity as a result of COVID-19 related shutdowns?

46% Yes

54% No

Cited as on hold:
“Many remodeling projects have been put on hold indefinitely due to the stock market drop. Although new home construction is not as affected, the production of the homes is slower vs. 2019 because of the concern by new home buyers.” -K&B product wholesale distributor

“Reduction of new sales leads for larger kitchen projects. Clients are in a holding pattern. Smaller sales leads are reduced by at least 40% (i.e., bath remodels, media centers, etc.)” -Cabinet shop

Cited as still going strong:
“Home improvement stores have ramped up purchasing because homeowners sheltering in place have taken on projects during their down-time from work.” -Countertop/flooring manufacturer

“Retail foot traffic has been very slow, however, builder business has remained steady.” -Manufacturer’s rep.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
MANUFACTURERS CITE VARYING IMPACTS

When asked about the most significant impact of the COVID-19 pandemic on their firm, several manufacturers cited uncertainty and frustration surrounding the timing and uneven nature of government-imposed shutdowns. Layoffs and absenteeism to stop the spread of the virus were also cited as having major impacts on production.

Frustration with Inconsistency of Government-Imposed Shutdowns

“The inconsistency from state to state on how governors define ‘essential businesses’ has resulted in plant shutdowns in some states while other states allow manufacturers to remain operational.”

“Indecisive local, state and federal government requirements to be able to stay open or “shelter in place.”

“Differences in which installers are deemed ‘essential’ translates to how the sales for independent retailers are affected and then up the chain to distributors.”

Labor Issues and Absenteeism as A Major Impact

“We furloughed the entire plant for seven business days to give everyone a deep breath before returning to 60% capacity.”

“We are waiting to hire new people when we planned on hiring more.”

“Some of our vendors have long lead times due to lack of workmen.”

“Feeling behind schedule. Although we are open and using stringent measures to keep safe, 10% of our employees have elected NOT to work due to COVID-19.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
With economic uncertainty being the chief concern among manufacturing firms, 70% reported putting capital expenditures on hold due to the coronavirus crisis. Among those firms, over half (57%) of pre-planned or budgeted capital expenditures were postponed.

Have you put pre-planned or budgeted capital expenditures (business investments in new capacity, equipment, machinery, etc.) on hold due to the coronavirus crisis?

- Yes: 70%
- No: 11%
- Not Sure: 19%

What percentage of your 2020 capital expenditures (business investments) have been postponed?

Weighted average of postponed capital expenditure is 57%.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
Of all the K&B segments, manufacturers were most likely to cite the pandemic as having **low or only moderate impact on their business**. Many of these were small- or mid-sized cabinet shops. Several wholesale distributors of plumbing fixtures also forecasted strongly increasing sales for 2020 despite closing their showrooms. As a result, the segment as a whole expects to see less severe sales losses for 2020.

**Share of Firms Citing Low-to-Moderate Impact from Coronavirus Pandemic**

*Rating 0-5 on a 10-point scale, where 1 is no impact at all, and 10 is significant impact*

```
<table>
<thead>
<tr>
<th>Segment</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design</td>
<td>15%</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>13%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18%</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>12%</td>
</tr>
</tbody>
</table>
```

“We are seeing an **increase in demand**. We are in the highest end price point and customers are turning to us because we are still producing.”

– **Mid-sized Cabinet Shop**

“We store traffic is reduced, but with customers home and the home supply stores still open, they are **taking the time to renovate and remodel** their homes. Contractors have more time to finish projects using cabinets also.”

– **Cabinet Maker and Wholesale Distributor**

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
INDUSTRY CHALLENGES AND CONCERNS
Economic uncertainty and associated factors – fear of recession, consumer confidence, and stock market volatility – top the list of the industry’s most significant challenges and concerns in Q1 2020. Availability of skilled laborers, cost of materials and labor costs – the top three concerns just a quarter earlier – remained present but were eclipsed by these broader economic challenges.

**CURRENT TOP INDUSTRY CHALLENGES & CONCERNS**

<table>
<thead>
<tr>
<th>Economic uncertainty</th>
<th>Fear of recession</th>
<th>Consumer confidence</th>
<th>Stock market volatility</th>
<th>Repair / Remodel demand</th>
<th>New construction (starts)</th>
<th>Cost of materials</th>
<th>Availability of skilled laborers</th>
<th>Trade issues</th>
<th>Home prices</th>
<th>Labor costs</th>
<th>Competitive pressures</th>
<th>Availability of professional employees</th>
<th>Private label products</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.6</td>
<td>8.0</td>
<td>7.7</td>
<td>7.7</td>
<td>7.1</td>
<td>6.0</td>
<td>5.9</td>
<td>5.7</td>
<td>5.7</td>
<td>5.5</td>
<td>5.4</td>
<td>5.2</td>
<td>4.1</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
**Economic uncertainty** is the primary challenge/concern across all industry segments. Stock market volatility is a larger concern among designers and retail salespeople, while manufacturers place greater importance on consumer confidence.

<table>
<thead>
<tr>
<th>DESIGN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Economic uncertainty</td>
</tr>
<tr>
<td>2. Fear of recession</td>
</tr>
<tr>
<td>3. Stock market volatility</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING AND CONSTRUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Economic uncertainty</td>
</tr>
<tr>
<td>2. Fear of recession</td>
</tr>
<tr>
<td>3. Consumer confidence</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RETAIL SALES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Economic uncertainty</td>
</tr>
<tr>
<td>2. Fear of recession</td>
</tr>
<tr>
<td>3t. Consumer confidence</td>
</tr>
<tr>
<td>3t. Stock market volatility</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MANUFACTURING</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Economic uncertainty</td>
</tr>
<tr>
<td>2. Consumer confidence</td>
</tr>
<tr>
<td>3. Fear of recession</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
KBMI METHODOLOGY

The NKBA/John Burns Real Estate Consulting Kitchen & Bath Market Index (KBMI) gauges the pulse of kitchen and bath industry in the U.S. The KBMI is based on a quarterly survey of the NKBA membership conducted jointly by NKBA and John Burns Real Estate Consulting.

The NKBA membership base consists of thousands of industry professionals, including remodelers, installers, fabricators, trades, kitchen designers, bath designers, interior designers, architects, planners, product manufacturers, cabinet makers, kitchen and bath product suppliers, wholesale distributors, manufacturer’s representatives, dealers, retailers, showrooms, and kitchen and bath e-tailers.

The Kitchen & Bath Market Index (KBMI) is a diffusion index comparing weighted responses of NKBA members on three key aspects of their business: most recent quarterly sales, expectations about next quarter’s sales growth, and an overall perception of the health of the kitchen and bath industry.

The KBMI survey asks NKBA members to rate latest quarterly sales and next quarter sales expectations as “higher,” “the same,” or “lower” than the same period in the prior year. NKBA members also rate the health of the overall kitchen and bath industry on a scale from 1–10, with 1 being “extremely weak” and 10 being “extremely high.”

<table>
<thead>
<tr>
<th>Survey responses</th>
<th>Building and construction</th>
<th>Design</th>
<th>Manufacturing</th>
<th>Retail sales</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Index</strong></td>
<td>161</td>
<td>347</td>
<td>86</td>
<td>142</td>
<td>736</td>
</tr>
<tr>
<td><strong>Sales</strong></td>
<td>166</td>
<td>361</td>
<td>92</td>
<td>157</td>
<td>776</td>
</tr>
<tr>
<td><strong>COVID impact</strong></td>
<td>152</td>
<td>315</td>
<td>80</td>
<td>132</td>
<td>679</td>
</tr>
</tbody>
</table>

Note: In Q4-2019, we incorporated changes to the KBMI weighting methodology, and all historical data reflects these changes. The revised index weights three inputs: 55% for current sales conditions, 15% for next quarter sales conditions, and 30% for current industry conditions.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
KBMI RESPONSE OVERVIEW

Conducted jointly by the National Kitchen & Bath Association and John Burns Real Estate Consulting, the Kitchen & Bath Market Index (KBMI) examines current kitchen and bath industry demand, future expectations, and issues and challenges that industry professionals are facing in their businesses.

Responses by segment

47% 22% 19% 12%

Design Building and construction Retail sales Manufacturing

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 1Q20, Pub: May-20)
LIMITING CONDITIONS

The conclusions and recommendations presented in this report are based on our analysis of the information available to us from our research as of the date of this report. We assume that the information is correct and reliable and that we have been informed about any issues that would affect project marketability or success potential.

Our conclusions and recommendations are based on current and expected performance of the national, and/or local economy and real estate market. Given that economic conditions can change and real estate markets are cyclical, it is critical to monitor the economy and real estate market continuously, and to revisit key project assumptions periodically to ensure that they are still justified.

The future is difficult to predict, particularly given that the economy and housing markets can be cyclical, as well as subject to changing consumer and market psychology. There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and the differences may be material. We do not express any form of assurance on the achievability of any pricing or absorption estimates or reasonableness of the underlying assumptions.

In general, for projects out in the future, we are assuming “normal” real estate market conditions, and not a condition of either prolonged “boom” or “bust” market conditions. We do assume that economic, employment, and household growth will occur more or less in accordance with current expectations. We are not taking into account major shifts in the level of consumer confidence; in the ability of developers to secure needed project entitlements; in the cost of development or construction; in tax laws that favor or disfavor real estate markets; or in the availability and/or cost of capital and mortgage financing for real estate developers, owners and buyers. Should there be such major shifts affecting real estate markets, this analysis should be updated, with the conclusions and recommendations summarized herein reviewed and reevaluated under a potential range of build-out scenarios reflecting changed market conditions.

We have no responsibility to update our report analysis for events and circumstances occurring after the date of our report. This analysis represents just one resource that should be considered when assessing a market opportunity.
Kitchen & Bath Market Index

Please contact any of us with questions, feedback, or requests for more information.

National Kitchen & Bath Association
Tricia Zach
Head of Research
tzach@nkba.org
(908) 813-3781

Analysis and Index Questions
Elizabeth La Jeunesse
Manager of Building Product Research
elajeanesse@realestateconsulting.com
(513) 708-2655
John Burns Real Estate Consulting

Steve Basten
Senior Manager
sbasten@realestateconsulting.com
(920) 819-9938
John Burns Real Estate Consulting

Todd Tomalak
Principal
ttomalak@realestateconsulting.com
(920) 373-6727
John Burns Real Estate Consulting