

Outside the comfort zone

The US furniture industry is in for a tough time as it faces increasing competition from imports, including those manufactured in the tropics

by Stefan Wille¹ and Mike Adams²

¹AKTRIN Group of Information Centers

USA

aktrin@aktrin.com

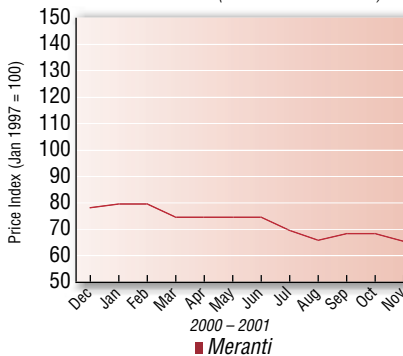
²ITTO Secretariat

Yokohama

itto-mis@itto.or.jp

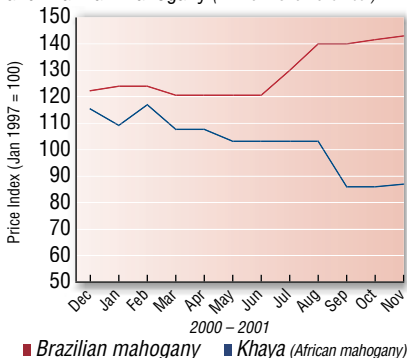
Sawn-off 1

Tropical sawnwood FOB price trends for Southeast Asian meranti (12 months to November)



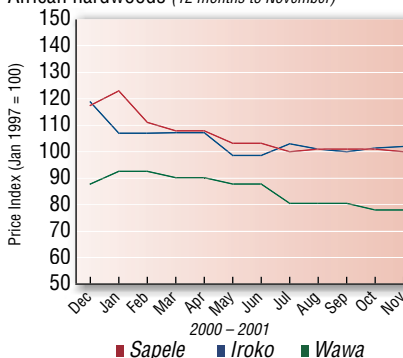
Mahogany mania

Tropical sawnwood FOB price trends for African and Brazilian mahogany (12 months to November)



Sawn-off 2

Tropical sawnwood FOB price trends for West African hardwoods (12 months to November)



READING United States' furniture industry trade journals has been rather sobering lately. Companies that have been in the furniture industry for generations—Athens, Bassett, Broyhill, Century, Ethan Allen, Kimball, Lane, La-Z-Boy, Lexington, Pulaski and Universal, to name a few—have closed or are planning to close plants. Press releases from many us furniture manufacturers have been filled with words like 'restructure', 'reorganize' and 'streamline' as they attempt to cut costs and restore profits.

An analysis compiled by ITTO's North American trade correspondent suggests that the furniture export sectors in itto tropical producer countries are gaining considerable market share in the us. Indeed, it is largely the growth of furniture imports that is precipitating the radical changes now under way in the us furniture industry. Imported furniture already accounts for over 34% of all us furniture sales, and analysts are saying that we have only seen the tip of the import iceberg.

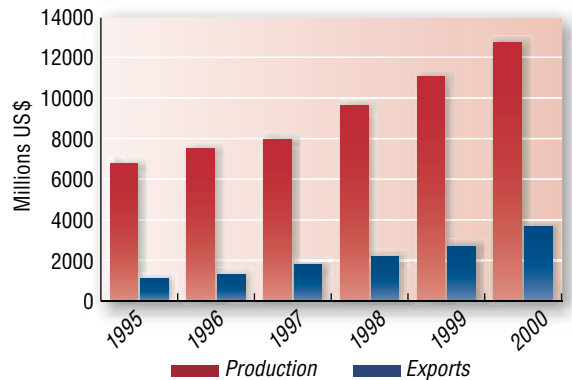
Several years ago, many furniture industry observers predicted that imports, especially from tropical producers, would take on a larger role in us markets. However, few anticipated the speed at which these changes would take place or the extent to which they would affect the industry. Most people expected that imports would only penetrate the lower end of the market because newly emerging overseas suppliers would not be able to provide the quality and service that the American consumer demanded. But the combination of a strong dollar, low foreign wages, new investment in foreign production and aggressive marketing on the part of exporting countries has quickened the pace of change.

For example, it is estimated that 50–75 us furniture plants closed in the first six months of 2001. According to the us Department of Labor, the period January through April 2001 saw 98 cases of mass layoffs (50+ employees) in the furniture industry; in total, 10 205 jobs were lost. Foreign outsourcing and competition were the primary reasons cited by industry observers for most closures. Well-known us furniture companies such as Century,

Hammary, Pulaski now import more than 50% of the furniture they sell. Even Stanley and Richardson Brothers Co, which has long stood apart for its reluctance to import, has succumbed to the pressure and is now importing.

Stairway to prosperity

Figure 1: China's production and exports of furniture



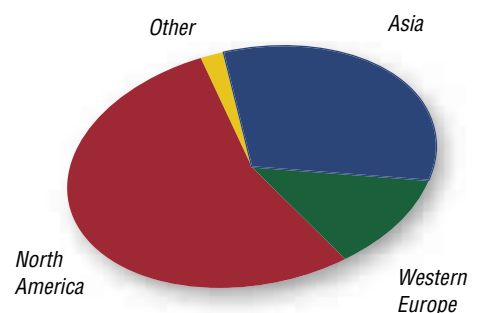
Source: ITTO

China's growth

The growth of Chinese furniture manufacturing and exports has been phenomenal (Figure 1); production doubled in value between 1995 and 2000. More than half of Chinese furniture exports go to the us (Figure 2); in 2000, 29% of all furniture imported to the us and 8% of all furniture sold was manufactured in China. us imports of Chinese wood furniture increased from us\$69 million in 1992 to us\$1.7 billion in 1999. In fact, Chinese furniture imports to the us have increased more than 30% per year for six years straight, including a 45% gain last year. Impressive rates of growth in exports have also been recorded in Malaysia, Thailand and Indonesia.

America ahoj

Figure 2: China's furniture exports by destination



Source: ITTO

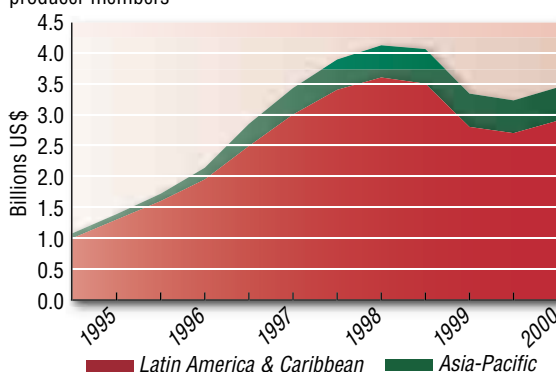
Still, many in the us don't understand the full impact that furniture imports will have on the us hardwood lumber industry. The most common view seems to be that 'they will still have to buy lumber from us as we have the best wood', or 'overseas lumber producers do not produce the quality that buyers want'. But is this more a case of 'we've got our heads in the sand'? In fact, competitors around the world are improving their quality and the advantages that us growers and manufacturers have enjoyed for so long are eroding quickly.

Chinese furniture manufacturers, for example, have made vast improvements in quality in recent years. Most are operating with technology and machinery more advanced than that found in the average US furniture factory. They can no longer be dismissed as low-end suppliers; indeed, several Chinese furniture plants (joint ventures as well as 100% domestic plants) are even attempting to penetrate the high-end US markets.

While China is the leading furniture producer in Asia, plants are also being built elsewhere. In Vietnam, the government is aggressively seeking foreign investment capital to build furniture factories and other industrial plants. Likewise, furniture manufacturing capacity is increasing in Malaysia, Thailand and Indonesia, and also in Latin America, particularly Brazil; *Figure 3* shows that value-added exports from ITTO producer countries have enjoyed massive growth in the last decade, even allowing for a dip in the late 90s due to the Asian financial crisis. Low-cost, educated and highly trainable labour is plentiful in most of these countries.

Arm-chair ride

Figure 3: Exports of tropical value-added wood products by ITTO producer members



Source: ITTO

In addition to their impact on the US and Canadian furniture industries, Asian exports are also having an effect on the domestic furniture industries of other developed countries, including Japan, Korea, Germany, Spain and France. This in turn is having an indirect impact on North American producers by reducing the demand for US hardwood lumber, component parts, panels and veneer.

The future for US lumber

Until recently, nearly a quarter of annual US hardwood production (3.4 billion board feet) was consumed by the furniture industry. As manufacturers have either reduced output or shifted production offshore, their utilisation of North American hardwoods has declined correspondingly. Analysts estimate that hardwood shipments to the domestic furniture industry have fallen by as much as 30% in the last two years. While some of this decline is the result of the slower economy, most is related directly to increased imports of finished goods. It is estimated that usage will decline another 20% over the next two years. If this comes to pass, sellers will have seen their market cut in half in a

four-year period and will need to find new buyers for over 1.5 billion feet of lumber.

For North American hardwood producers, some might say the answer is simple—just ship more lumber to Asia since they are now the ones making the furniture. However, it must also be noted that Asian manufacturers have started purchasing more lumber and logs from Africa, South America, Russia and Eastern Europe. Furniture shipments from China have been increasing at a much faster rate than have North American lumber exports to that country, which confirms that they are sourcing a larger percentage of their hardwood lumber from other parts of the world. Moreover, Asian furniture manufacturers are increasingly substituting pine for hardwoods. If Russia further develops its infrastructure, it could emerge as an even more significant supplier of lumber and logs to Asia. In the end, it is unlikely that the Asian markets will absorb the full amount of lumber previously shipped to the domestic US furniture industry.

US furniture imports from Asia are likely to continue to grow and domestic production will continue to shrink. Within ten years it is probable that only a few domestic furniture manufacturers will remain, most likely high-end producers who offer customisation and rapid delivery; other US furniture companies will shift their production to East and Southeast Asia and focus on marketing and distribution at home. However, as markets mature, retailers may increasingly source furniture directly from foreign-based manufacturers, bypassing US-based companies entirely.

This article uses, with permission, information from the June 2001 edition of the Weekly Hardwood Review and from the AKTRIN Group of Information Centers, USA.

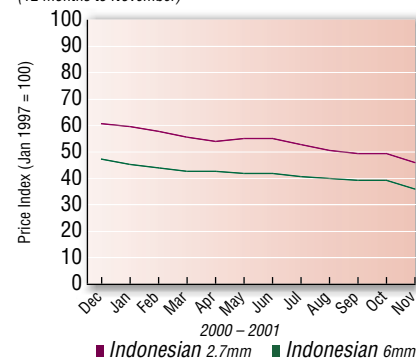
China conference

ITTO is supporting a conference on China's timber and wood products markets to be held next March in Beijing. Discussions will focus on the prospects for China's timber markets and their implications for timber producing countries such as Malaysia, Brazil, Russia, the USA and Indonesia. A wide range of Chinese government agencies, timber traders, suppliers and manufacturers are expected to attend.

Contact details for the 2nd China Timber & Wood Products Markets 2002 Conference, 11–12 March 2002, are given on page 31.

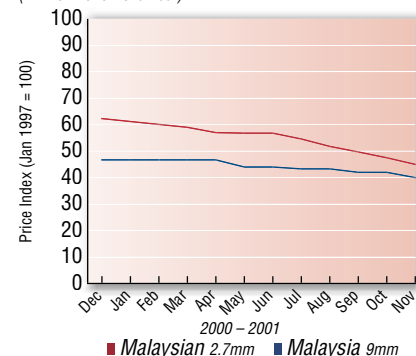
No-buy ply 1

Price trends for Indonesian plywood (12 months to November)



No-buy ply 2

Price trends for Malaysian plywood (12 months to November)



No-buy ply 3

Price trends for Brazilian plywood (12 months to November)

