

Market trends

European wooden furniture production and imports down from pre-crisis levels¹

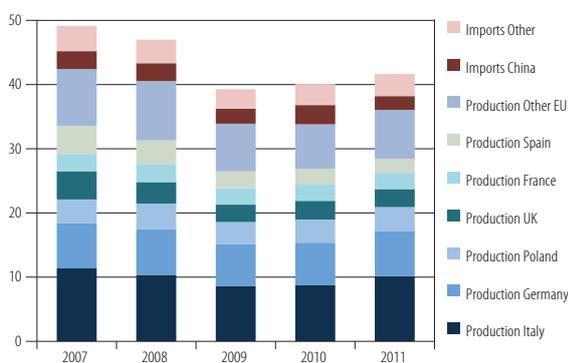
Rupert Oliver

Forest Industries Intelligence Ltd.
(rjoliver@btopenworld.com)

The EU's furniture sector remains a major global player, not just due to its size but also because of its role in influencing international fashion and design trends. The EU accounts for around one quarter of world furniture production and consumption. However, the EU's role in the global furniture market has changed dramatically during the last decade, particularly during the financial crises in western countries.

In 2011, EU production of wood furniture was valued at €36 billion, down from €42 billion in 2007 (Figure 1). The EU has moved from the first to the second position (after China) amongst the world's major producing areas.

Figure 1. EU-25 wooden furniture supply (billion €)



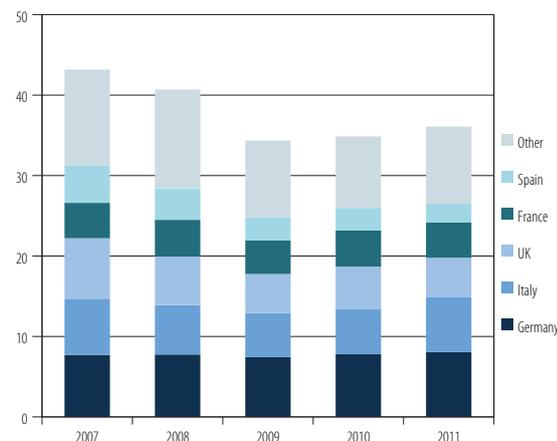
While furniture manufacturing in Eastern Europe has risen during the last decade, particularly in Poland, the traditional western European manufacturing countries still retain a very large share of EU furniture production capacity. In fact, the two largest western European producers, Italy and Germany, together account for over 40% of all wood furniture supplied into the EU, and this share was actually rising during 2007 to 2011. Despite widespread reports of declining consumption and intense competition during those years, the value of wood furniture production in the leading western European manufacturing countries remained very resilient.

In addition to being major producers, European countries remain major consumers of furniture products despite the recession (Figure 2). EU wood furniture consumption fell from €43.2 billion to €34.4 billion between 2007 and 2009. Consumption then recovered slowly to 36.1 billion in 2011. The recovery was particularly robust in Germany, now the EU's largest market. Germany consumed €8.1 billion of wood furniture in 2011, up from €7.4 billion in 2009. There was also strong recovery in Italy, the EU's second largest market for wood furniture. Italian wood furniture consumption increased from €5.5 billion in 2009 to €6.8 billion in 2011. In the UK and France wood furniture consumption was quite stable between 2009 and 2011 at around €5 billion and €4.4 billion respectively. However consumption in Spain continued to fall during this period from €2.9 billion in 2009 to €2.4 billion in 2011.

Domestic manufacturers continue to dominate European market

While the EU's presence on the global furniture market has declined in recent years, European manufacturers have remained very dominant in their domestic markets. The share of imports in total EU wood furniture supply peaked at only 16% in 2010 before falling away again to 13% in 2011. This is in contrast to the United States, for example, where a very large section of the furniture manufacturing industry shifted to lower cost locations, particularly China, during the 2000 to 2008 period.

Figure 2. EU-25 wooden furniture consumption (billion €)



The continuing dominance of local manufacturers in the European market might seem surprising given relatively high labour and other costs of production in Europe. There are a number of reasons for this. One factor is the high level of investment in machinery and product development in the European furniture sector. This has reduced the relative contribution of labour to overall costs, and placed a premium on technical, design and market knowledge. It has boosted the general quality of European products and perceived value of European brands. European manufacturers have built on this through sophisticated marketing and communication campaigns. This in turn has encouraged high levels of loyalty to European products amongst consumers.

European manufacturers have also exploited other advantages of proximity to the consumer. Increasingly important factors in wood furniture marketing include the ability to supply quickly on demand, respond rapidly to changing tastes, and to provide customers with support services – including “no-questions-asked” guarantees for customers wanting to return products. In many European countries, the retailing sector is quite fragmented with many smaller companies. Selling into these countries requires local knowledge and a large network of contacts. It is no accident that the UK, where the retailing sector is more dominated by large companies, is also the European country with the largest market penetration by Chinese and other Asian suppliers.

... Market trends

For all these reasons, European manufacturers choosing to relocate during the last decade have tended to opt for countries in Eastern Europe which offer a good compromise between lower costs of production and continued proximity to the large consuming markets of Western Europe. German manufacturers have tended to shift to Poland, while many Italian manufacturers opted for Slovenia.

The IKEA factor

It is not possible to discuss the distribution of wood furniture manufacturing in Europe without reference to IKEA. The Swedish-based corporate giant operates a network of 332 stores in 38 countries and has a global annual turnover of \$31 billion. As such, IKEA claims 6.1% of the entire world furniture market. Around three quarters of IKEA's sales are in Europe where it is hugely dominant at the budget end of the market.

While IKEA has been expanding sales operations into other parts of the world, its manufacturing base remains firmly rooted in Europe. IKEA's wood furniture manufacturing facilities are operated by the IKEA subsidiary Swedwood. This company currently manages 49 production units, all but two of which are in Europe (the others being in Russia and the USA). Swedwood facilities employ around 17 000 people and manufacture approximately 100 million units of furniture each year. Around two thirds of Swedwood production is in eastern European countries, with a high concentration in Poland. Much of the rest of production is located in Western Europe (Sweden, Germany and Portugal).

Operating under its lean production concept, the Swedwood Way of Production (SWOP), the organisation has forced down costs by focusing heavily on efficiency and waste reduction. There is considerable investment in R&D, both to increase efficiency and product quality. This is seen as vital to the company's reputation and success. The business has become a leader in robotic automation of the furniture manufacturing process. Swedwood also sees it as vital to be located close to its market in order to respond to local demands.

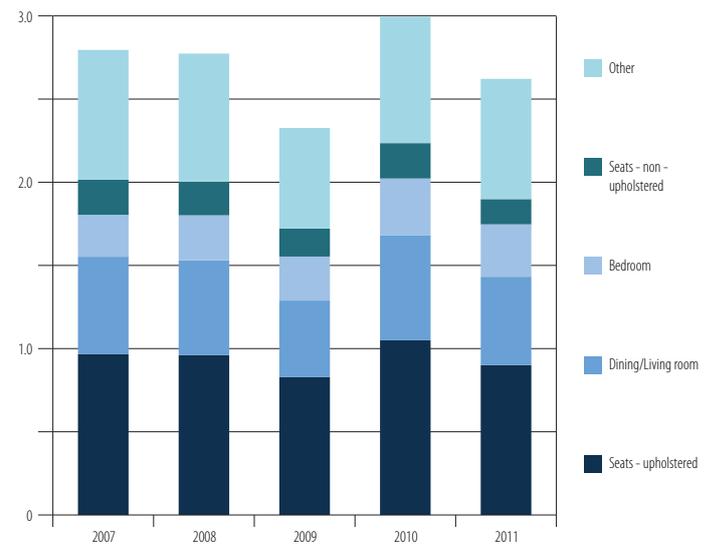
Until the onset of recession, Swedwood was very actively increasing production activity close to large consuming markets in Europe and North America. In 2008 it opened five new state-of-the-art factories in Sweden, Poland, Russia, the US and Portugal. Since then the company has temporarily suspended its plans to increase capacity. However its' long term strategy, once demand begins to pick up, is to further expand manufacturing in Europe and other large consuming markets.

China's position in the EU furniture market

EU imports of wood furniture from China have been very volatile in recent years (Figure 3). Imports fell sharply at the height of the financial crisis, from €2.8 billion in 2008 to only €2.3 billion in 2009. However they then rebounded strongly to reach a peak of €3 billion in 2010.

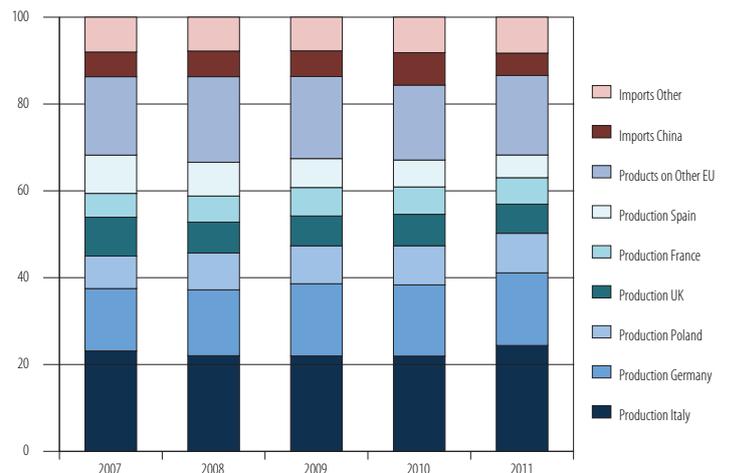
However, this import level seriously over-shot actual consumption and imports fell back again to €2.6 billion in 2011. In 2011, upholstered seating was the main wood furniture product imported into the EU from China, accounting for 34% of import value. Of the remainder, 20% was dining/living room furniture, 12% was bedroom furniture, 6% was non-upholstered seating and 28% other product categories.

Figure 3. EU-25 wooden furniture imports from China (billion €)



China's share in total EU wood furniture consumption peaked in 2010, at 8%, before falling away to 6% in 2011 (Figure 4). China's penetration of the market varies widely between EU Member States, from 16% in the UK to less than 2% in Italy.

Figure 4. Share of EU-25 wooden furniture supply by source (%)



Recent trends and outlook for the European furniture market

The most recent Eurostat data indicates that wood furniture production across the EU region was only around 83% of pre-recession levels during 2012 and is still trending downwards. Furniture production during the first nine months of 2012 in Italy, Poland, the UK, France and Spain was significantly lower than during the same period the previous year. However production in Germany during 2012 was higher than in 2011. It seems likely that many markets will continue to be impacted by fall-out and further developments from the euro crisis.

Read the bi-weekly ITTO MIS on www.itto.int.