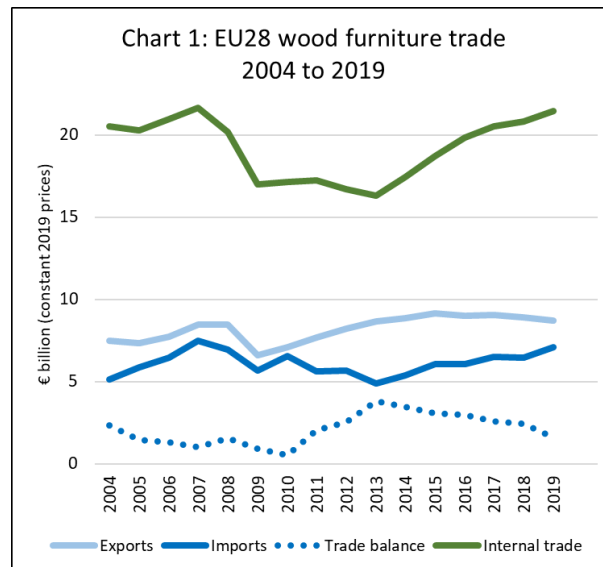


EU wood furniture imports last year at highest level since 2007

It is ironic that in 2019, just before the market chaos created by COVID-19, the EU recorded its strongest year for wood furniture imports since 2007. That was, of course, when the last consumer boom was at its peak just prior to the market meltdown of the financial crises.

The EU imported wood furniture from outside the bloc with a total value of €7.07 billion in 2019, 10% more than the previous year. Last year was only the second time in history, alongside 2007, when annual imports of wood furniture into the EU exceeded €7 billion (at constant 2019 prices) (Chart 1).



Several factors on both the supply and demand side combined to drive growth in EU imports of wood furniture in 2019. Last year was the culmination of a period of slow but consistent expansion of the EU economy which began five years before in 2014.

The slow growth in EU imports was interrupted in the second half of 2018, particularly in the UK owing to Brexit uncertainty, which in retrospect turned out to be an over adjustment and led to increased imports last year.

At the same time China, embroiled in a bitter trade dispute with the U.S. during 2019, was looking to the EU as an alternative outlet for furniture products. Meanwhile, several tropical suppliers – notably Vietnam, Indonesia and India - were also seeking to build on new investment in capacity and to diversify markets by targeting the EU.

The long-term trend towards increased imports from several neighbouring countries on the Eastern borders of the EU, notably Turkey, Bosnia, Ukraine, Serbia and Belarus, also continued last year.

Economic integration drives strong EU internal furniture trade in 2019

The trade data suggests that there was a real increase in EU consumption of wood furniture in 2019. This is implied not only by rising imports from outside the region, but also by a resumption in the rising trend in internal EU trade of wood furniture during the year.

This last trend which also began in 2014 had slowed in 2018 but picked up again in 2019. In 2019, internal EU trade in wood furniture was valued at €21.46 billion, 3% more than in 2018 and 23% greater than 5 years before.

Rising internal EU trade in wood furniture is being driven by increased market integration within the region, the shift in manufacturing from higher cost countries in the western EU to lower cost eastern locations, particularly Poland, and the growing presence and influence of large-scale retailing chains operating at cross country level, most notably IKEA.

More wood furniture imports into the EU from outside the region are also now being funnelled via larger ports in western Europe, particularly the Netherlands and Belgium, before being redistributed to other parts of the EU.

The drive towards greater integration of the EU furniture market and access to relatively lower cost manufacturing locations in the eastern EU help to explain the continuing dominance of EU-based manufacturers in the region. ITTO's own estimates based on analysis of Eurostat data indicate that EU-based manufacturers account for around 85% of all wood furniture sold in the region.

In recent years, European manufacturers have boosted productivity and competitiveness through investment in more advanced computer-controlled and automated manufacturing, cutting overheads and reducing the relative labour cost advantages of overseas producers.

There's been a particularly large investment by Western European furniture manufacturers in Eastern European countries, notably since their accession into the EU from 2004, and this is now maturing. From being principally production satellites for large western European brands, Eastern European manufacturers are now developing their own identity and market momentum.

Furniture manufacturers in the EU area are also making a virtue of their shorter supply chains which not only reduce transport costs but also allow products to be delivered more rapidly.

External suppliers face other more direct challenges to expanding sales in the EU. Despite some recent consolidation, there is still a relatively high degree of fragmentation in the retailing sector in many European countries which complicates market access. Many overseas suppliers remain reliant on agents and lack direct access to information on fashions and other market trends.

The progressive migration of European furniture sales online has also tended to favour local manufacturers better placed to meet the short lead times demanded by internet retailers and consumers.

Another fall in EU wood furniture exports

Nevertheless, the gradual rise in EU imports of wood furniture since 2014 suggests that external suppliers are becoming progressively more competitive in this market. Their heightened competitiveness is also suggested by the fact that EU manufacturers have been struggling to expand sales outside the region. Last year the value of EU wood furniture exports to non-EU countries fell 2.3% to €8.68 billion.

This continues a trend of flatlining, or slowly declining exports to countries outside the EU after reaching an all-time high of just over €9 billion in 2015. Since then the competitive benefits of the relative weakness of the euro against the dollar and other cost saving efforts of EU wood furniture manufacturers have waned.

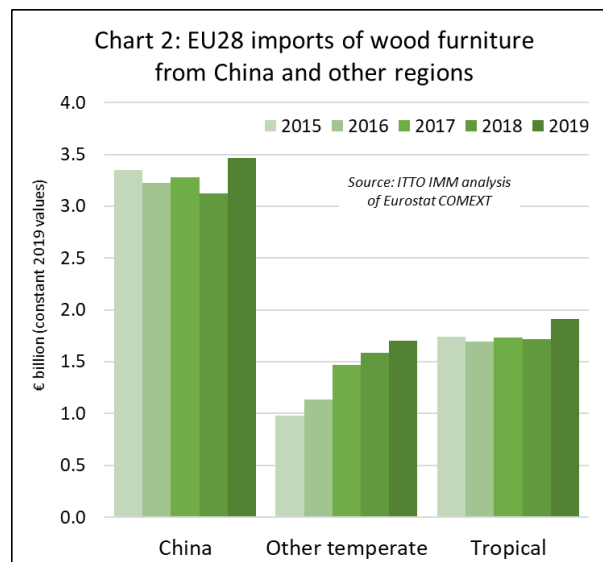
Competition for EU-based manufacturers has intensified from newly emerging producers in Eastern European countries outside the EU and from Vietnam which in the last 5 years has rapidly overtaken all other tropical countries in the global league table of wood furniture producing nations.

EU wood furniture manufacturers have suffered in higher-end export markets in Asia, the CIS and Middle East from a range of factors including cooling of the Chinese economy, the diversion of Chinese products away from the US to other markets, a sharp fall in global equity markets towards the end of 2018, extreme weakness of the Russian rouble, relatively low oil prices and political instability.

Overall, the combined effects of rising EU imports and declining exports is that the total EU external trade balance in wood furniture fell 35% from €2.45 billion in 2018 to €1.61 billion last year.

Surge in EU wood furniture imports from China in 2019

EU wood furniture imports from China, by far the largest external supplier, surged 11% to €3.46 billion in 2019, the highest level since 2010 (at constant prices) (Chart 2). EU imports of upholstered seats with wooden frames from China increased 14% to €1367 million, while imports of wood dining room furniture were up 2% to €515 million, bedroom furniture increased 19% to €419 million, and non-upholstered seating increased 11% to €202 million.



During 2019, imports of Chinese wood furniture were particularly strong into the UK, rising 14% to €1273 million, the Netherlands, where they increased 23% to €292 million, and Belgium with a 12% rise to €131 million.

Perhaps more surprising than for these countries which are traditionally large furniture traders was a sharp rise in imports of Chinese furniture last year by EU counties which are themselves large manufacturers. Imports increased by 20% to €130 million in Italy and by 28% to €102 million in Poland.

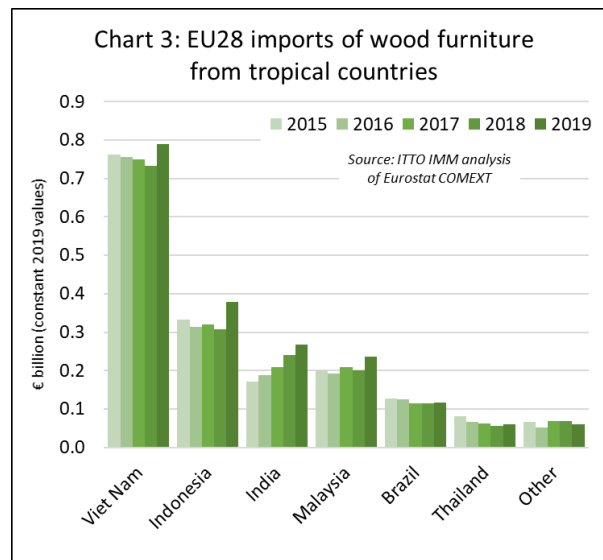
Last year EU imports of wood furniture also continued to rise from temperate countries other than China, mainly bordering the EU. Total EU imports from these countries increased 7% to €1.7 billion, double the level of only five years before. Last year imports increased 21% from Turkey to €262 million, 5% from Bosnia to €239 million, 28% from Ukraine to €217 million, 17% from Serbia to €159 million, and 26% from Belarus to €149 million.

Much of the rise in EU imports from these Eastern temperate neighbours last year was destined for Germany, France, Poland, Romania and Croatia. In contrast the UK, which has historically been the largest EU importer of wood furniture from outside the region, continues to import very little from

these countries (excepting Turkey) and has continued to be much more oriented towards Asian suppliers.

Vietnam and Indonesia drive 11% rise in EU wood furniture imports from tropics

The EU imported wood furniture from tropical countries with a total value of €1.91 billion in 2019, up 11% compared to the previous year. The main South East Asian supply countries all followed a similar trajectory in the EU wood furniture market in the last five years. A period of flat or declining imports between 2015 and 2018 was followed by a sharp upturn in 2019 (Chart 3).



After falling 2% to €733 million in 2018, EU imports from Vietnam rebounded by 8% to €789 million in 2019, with much growth in the UK which accounted for over 40% of all EU imports from Vietnam last year.

Around a third of EU furniture imports from Vietnam comprise “Other products not elsewhere stated” (i.e. not seats or bedroom, dining room, office or shop furniture), likely to consist largely of garden furniture manufactured almost exclusively from tropical timber which is not identified separately.

The second largest category of EU import from Vietnam comprises dining room furniture, accounting for around one quarter of total EU imports from the country. This product group is likely to be manufactured from a mix of temperate and tropical plantation species, such as acacia and rubberwood.

Following a decline of 4% in 2018, EU imports of wood furniture from Indonesia increased 23% to €379 million in 2019. Unlike Vietnam, where other plantation wood and imported temperate hardwoods are widely used, most products imported into the EU from Indonesia comprise plantation teak.

EU imports of Indonesian non-upholstered seating increased 39% to €109 million while imports of “other not elsewhere stated” wood furniture (i.e. primarily tables and other items for exterior use) increased 30% to €154 million.

The rapid increase in imports of Indonesian garden furniture products in 2019, a sector which has been a key focus of environmental campaigning in the past, suggests that FLEGT licensing may be

playing an important role to increase their competitiveness in the EU market, particularly following efforts by EU authorities to tighten implementation of the EU Timber Regulation in recent years.

This is also suggested by the fact that the increased imports from Indonesia in 2019 were destined mainly for the Netherlands and, to a lesser extent, UK, Belgium and Germany, all markets where certification has been particularly important for market development.

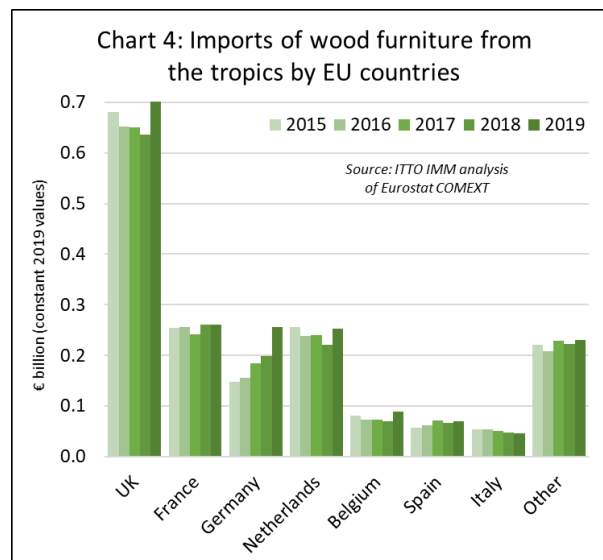
EU imports of wood furniture from Malaysia, which mainly comprises rubberwood product for interior use at the lower end of the price spectrum, increased 18% to €236 million in 2019. EU imports for Malaysia of wood bedroom furniture increased 27% to €96 million, wood dining furniture was up 23% to €48 million, while non-upholstered seating rose 13% to €48 million.

EU wood furniture imports from India continued to rise last year, up 11% to €268 million building on a 15% gain in 2018. Imports from India mainly consist of products made from local plantation species such as mango, sheesham, acacia and rubberwood, often in rustic style which are hand-crafted and for which formal quality standards were not high.

Usage of sheesham for Indian furniture manufacturing has been declining, as it is a CITES-listed Dalbergia species, while use of mango has been rising in recent years.

There were also shifts in the destinations for wood furniture imported into the EU from tropical countries in 2019. Imports in the UK, by far the largest market, were €703 million last year, 11% more than in 2018. There was also a particularly large rise in imports by Germany, up 29% to €256 million, with significant gains in German imports from Vietnam, India and Indonesia.

Imports of tropical wood furniture into the Netherlands increased 14% to €252 million last year, with imports from Indonesia up nearly 70% at €117 million. Imports of tropical wood furniture into Belgium were up 30% in 2019, with imports from Indonesia rising 28% to €41 million. Imports of tropical wood furniture into France were level at €261 million last year.



Furniture sector particularly hard hit by COVID-19 crises

It is far too early to assess the full impact of COVID-19 on EU furniture imports this year, but early signs are that the downturn will be at least as great as during the financial crises of 2008-2009.

With its trade fairs cancelled, showrooms shuttered and deliveries of larger items largely curtailed due to social distancing, the furniture industry in Europe has been particularly badly hit by current restrictions on trade and travel. Brands that were already in a perilous position, such as Lombok and Laura Ashley in the UK, have started to collapse.

According to a study quoted by [Statista](#) on the projected impact of COVID-19 on retail sales in Europe, between March 9, 2020 and April 21, 2020, retailers are expected to face a loss of GBP3.26 billion (US\$4 billion) due to disruptions caused by the current outbreak. Furniture is one sector expected to be hit hardest as consumers forego discretionary purchases in favour of stocking up on food and household supplies.

The larger better resourced furniture retailers, particularly those with a large and highly evolved online presence, have been better placed to respond to the crises. As the world's largest furniture retailer, Ikea's range of responses have been of a different order and scale than most of its competitors.

Ikea has refocused on its e-commerce platform and reports a surge in demand for many products, particularly in the home office category. Ikea is also trying to ensure the robustness of its supply chain, offering loans and speeding up the payment of invoices to embattled suppliers.

However, Ikea is an outlier in this, as in so much else, and the impact of the downturn on smaller retailers and manufacturers worldwide will be profound, threatening their very survival as business entities.

The challenges are vividly illustrated in a recent statement by the Vietnam Timber and Forest Product Association (VTFPA) that the wood industry in the country faced a 'disaster' with many businesses left without orders from now until 2021 due to the COVID-19 pandemic.

"Many Vietnamese wood processing enterprises have had orders cancelled or suspended," said the VTFPA. "Since March, 80% of Vietnamese exporters to the US and EU markets had received cancellations or delays until the situation improves".

The VTFPA statement also highlights that wood manufacturing businesses are facing sharp rises in input prices for wood and other materials while freight costs have increased \$500-1,000 per container. Some Vietnamese furniture companies are now sitting on 100s of containers of finished goods that cannot be shipped and must be stored in warehouses at considerable cost for an unknown length of time.

Unfortunately, this same situation now prevails in many furniture manufacturing districts where the survival of companies has become heavily dependent on the extent, efficiency and effectiveness of government intervention to help them ride out the storm.

Commenting on the situation in Italy at the start of April, drawing on the experience of industry contacts, the American Hardwood Export Council notes that "everything in Italy has virtually stopped. All non-essential factories are closed, which includes wood distributors and their manufacturing customers (furniture, flooring, kitchens joinery etc). There are predictions circulating in the Italian media that 40% of industry may not even reopen after the lockdown restrictions are lifted".

The furniture industry that eventually emerges from this crisis may be very different from that which entered it.