

Some encouraging signs for European furniture sector

The global significance of the European furniture sector, and some positive signs for the sector after the turmoil caused by the COVID pandemic, are highlighted in recent reports in World Furniture, the trade journal of CSIL, the Milan-based furniture market research organisation (www.worldfurnitureonline.com).

In the editorial to the most recent edition (June 2021) of World Furniture, Paola Govoni notes that "the disruptive consequences of the last 18 months are there for all to see. A lot has changed on every level and some of these developments could be here to stay. At the time of writing there are encouraging signals in Italy and most of Europe showing that the summer could be the beginning of an exit-phase from the pandemic. Major international economies have entered a recovery path and the strengthening of the increasing trend resulted in an upward revision of growth forecasts in many countries".

In a report on the Italian furniture sector, which while less dominant in terms of production volume than in previous years is still extremely influential for international furniture design and branding, CSIL Market Researcher Cecilia Pisa observes that "despite the disruptive effects of Covid-19 both on the demand and supply side, the year ended with a better outcome than expected".

According to Ms. Pisa, Italy's total furniture sales at home and abroad were down around 10% overall in real terms in 2020, a significant decline of more than 25% in sales on the domestic market in the first half of 2020 was followed by a rebound in the second half of the year. Italian companies managed to contain losses, some even increasing sales due to ongoing investments in the development of new products, in technological innovation and the opening of new stores.

Ms. Pisa notes that a major driver of purchases of furniture in Europe during the pandemic was renewed interest in home renovation and improvement as the home "acquired a new centrality both for living and working, becoming a new fulcrum of our daily activities". Furthermore, money saved in travel or entertainment expenses has been partly invested in improving living spaces, positively influencing consumption.

Ms. Pisa emphasised that there has been particular attention paid to "the home office environment (ergonomic office chairs, small desks and lighting fixtures), to the kitchen, the comfort segments (from mattresses to upholstery) and the outdoor furniture".

There is also a growing demand for flexible/transformable furniture and sustainable solutions with a preference for natural materials, formaldehyde-free products and water-based paints free of volatile organic compounds. And, of course, the pandemic also led strong acceleration in sales through e-commerce.

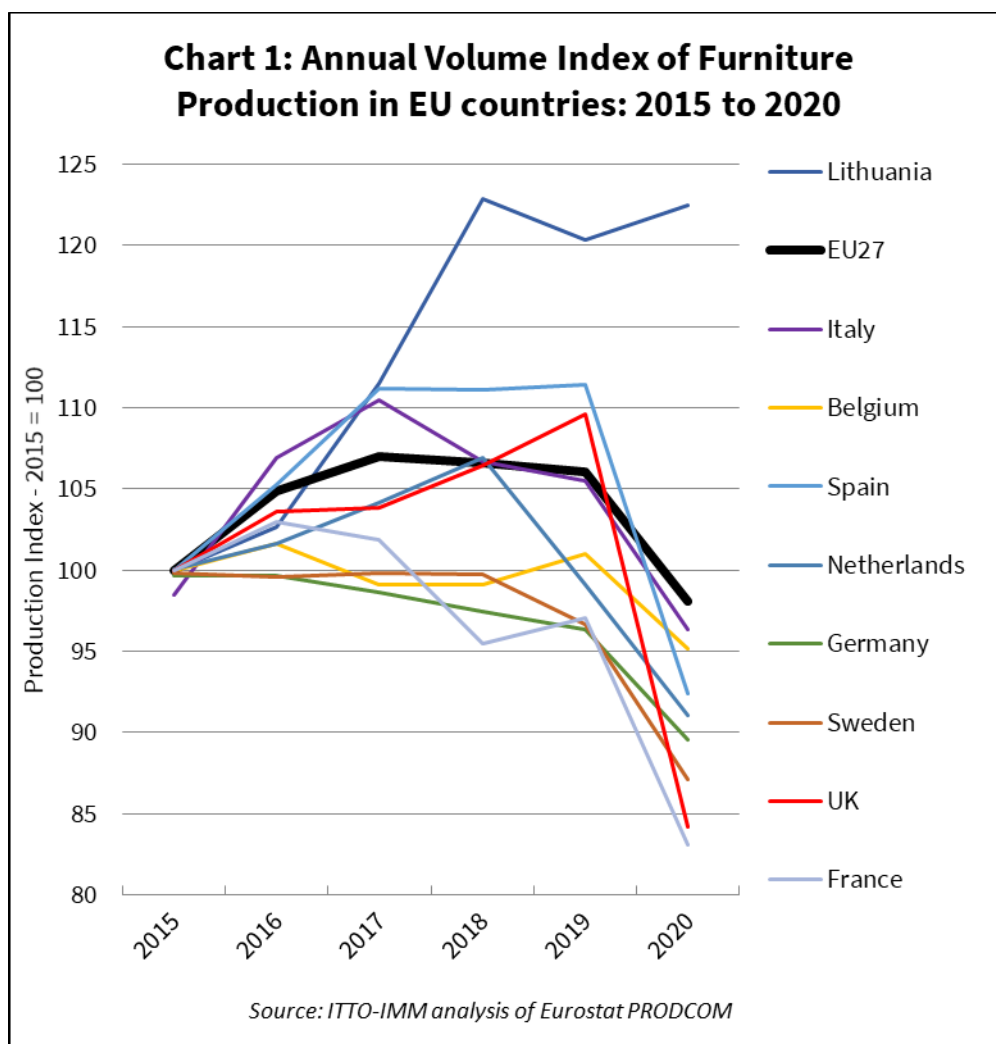
While focusing on the furniture sector, these comments have wider significance for the wood sector, both due to the scale of wood consumption by European manufacturers and the importance of Europe as a market for imported finished furniture, including from the tropics.

According to CSIL's own figures, with a market value of nearly €100 billion (USD120 billion), Europe is the second largest furniture market in the world, accounting for around 26% of all world furniture consumption, second only to Asia and the Pacific region (43%) and larger than the North American market (23%).

In contrast to the North American market, the European market is more heavily dependent on domestic production with manufacturers in the region accounting for well over 80% of consumption.

Wood material is by far the most dominant base material for furniture production in Europe. In those categories of furniture for which material data is available, wood accounted for 74% of the value of furniture production in the EU28 in 2019, compared to 25% for metal and just 1% for plastic furniture.

Eurostat data on actual furniture production in the EU in 2020 has yet to be published, but the Eurostat furniture production index suggests that overall production was down around 8% in the EU27 and 23% in the UK during the year (Chart 1). In the EU27, this followed on from a slight 1% fall in 2019 when production was already weakening in response to sluggish growth of the EU economy and intense competition in global markets, particularly from Chinese manufacturers whose sales in the US market were being diverted elsewhere due to the on-going trade dispute.



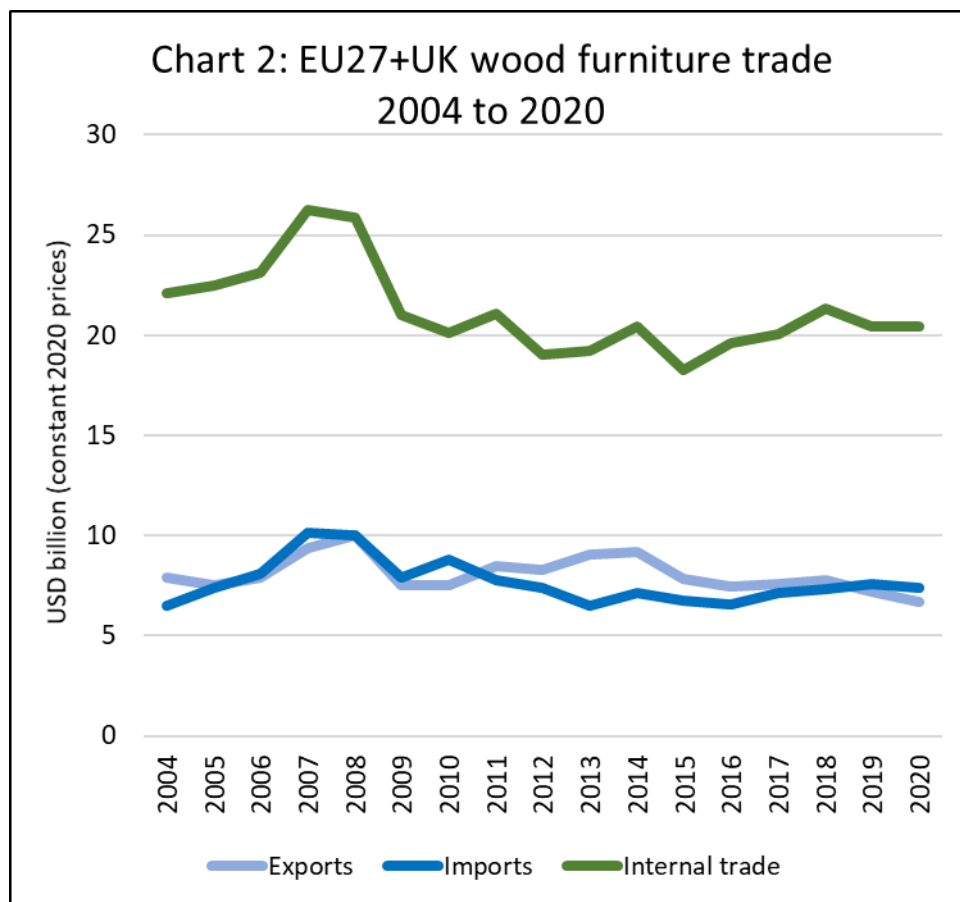
The Eurostat index shows that the production trend varied widely between European countries during 2020, with particularly large declines in the UK (-23%), Spain (-17%), Romania (-16%), and France (-14%), and moderately large declines in Sweden (-10%), Italy (-9%), Netherlands (-8%), Germany (-7%), Belgium (-6%), and Portugal (-5%). In Denmark production was stable in 2020 while

in Lithuania, where there has been a lot of investment in furniture production in recent years, notably by IKEA, the production index actually increased 2% during the year.

Eurostat's monthly furniture production index shows that the decline in EU furniture manufacturing activity was heavily concentrated during the first lockdown period in March and April 2020, when there was a precipitous and unprecedented fall (for example down as much as 90% on normal levels in Italy), but that activity rose sharply throughout the rest of the year. In 2021, the monthly index shows that production in most countries has rebounded to at least as high as the pre-COVID level and in some cases - notably in Italy, Denmark and Lithuania - now exceeds the pre-COVID level.

EU furniture trade surprisingly stable

While the production index gives an insight into the highly volatile market conditions for furniture in Europe during the COVID pandemic, the trade data seems surprisingly stable. In terms of USD trade value, trade in 2020 was little changed from the previous year. This aligns with a longer term trend of relative stability, at least when assessing annual changes in the USD dollar value of wood furniture trade adjusted for inflation (Chart 2).



Looking from the outside, the reality is that while the European market for wood furniture is certainly large, it has experienced only limited growth in the last decade and barely recovered from the large decline experienced during the 2008-2009 financial crises.

Considering the EU27+UK as a whole, wood furniture imports from outside the bloc were USD7.4 billion in 2020, 3% less than the previous year. This represents a partial reversal of the gradual rising trend in import value from USD 6.6 billion in 2016 to a decadal high of USD7.6 billion in 2019.

While imports of wood furniture into the EU27+UK have been tending to rise in recent years, the USD value of exports from the bloc have been sliding, a trend which has accelerated since the start of the pandemic. In 2020, EU27+UK exports of wood furniture to countries outside the bloc fell 7% to USD 6.7 billion 2020. This continues a decline in export value from a high of USD 9.17 billion in 2014 to USD7.2 billion in 2019.

Overall these trends suggest that even before the pandemic, EU wood furniture manufacturers were gradually losing competitiveness in global markets. The competitive benefits of the relative weakness of the euro against the dollar, particularly between 2015 and 2017, and of the cost saving efforts by EU wood furniture manufacturers in the last decade have waned.

In recent years, 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.

In addition to the market and logistical challenges of the COVID pandemic, EU wood furniture manufacturers have suffered in higher-end export markets in Asia, the CIS and Middle East from a range of factors including 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, and low oil prices.

Overall, the combined effects of rising imports and declining exports is that the slight trade surplus in EU27+UK wood furniture trade that persisted between 2011 and 2018 became a trade deficit of USD 420 million in 2019 rising to USD 690 million last year.

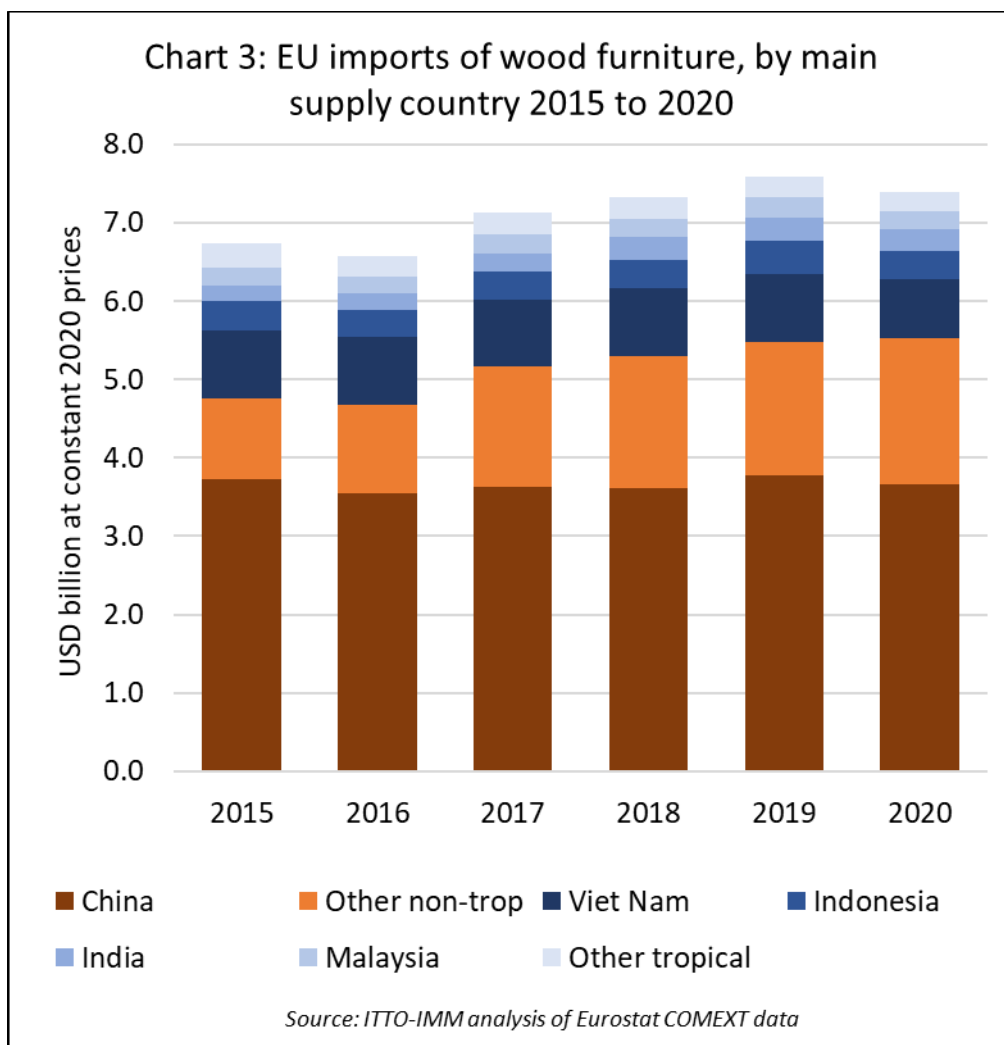
While EU27+UK furniture manufacturers have struggled to maintain sales in external markets they remain the dominant players in their home markets, exploiting to good effect the benefits of close proximity and ease of access to consumers, their depth of knowledge of fashion trends, technical standards and distribution networks, and their strong design skills and brands.

These long-term benefits have been reinforced by the serious logistical problems and rising container rates during the pandemic that have made shipment into the region more difficult and costly.

Internal trade in wood furniture in the EU27+UK region was USD 20.5 billion in 2020, the same level as the previous year and only slightly less than USD 21.3 billion in 2018 when it was at the highest level since before the 2008-2009 financial crises.

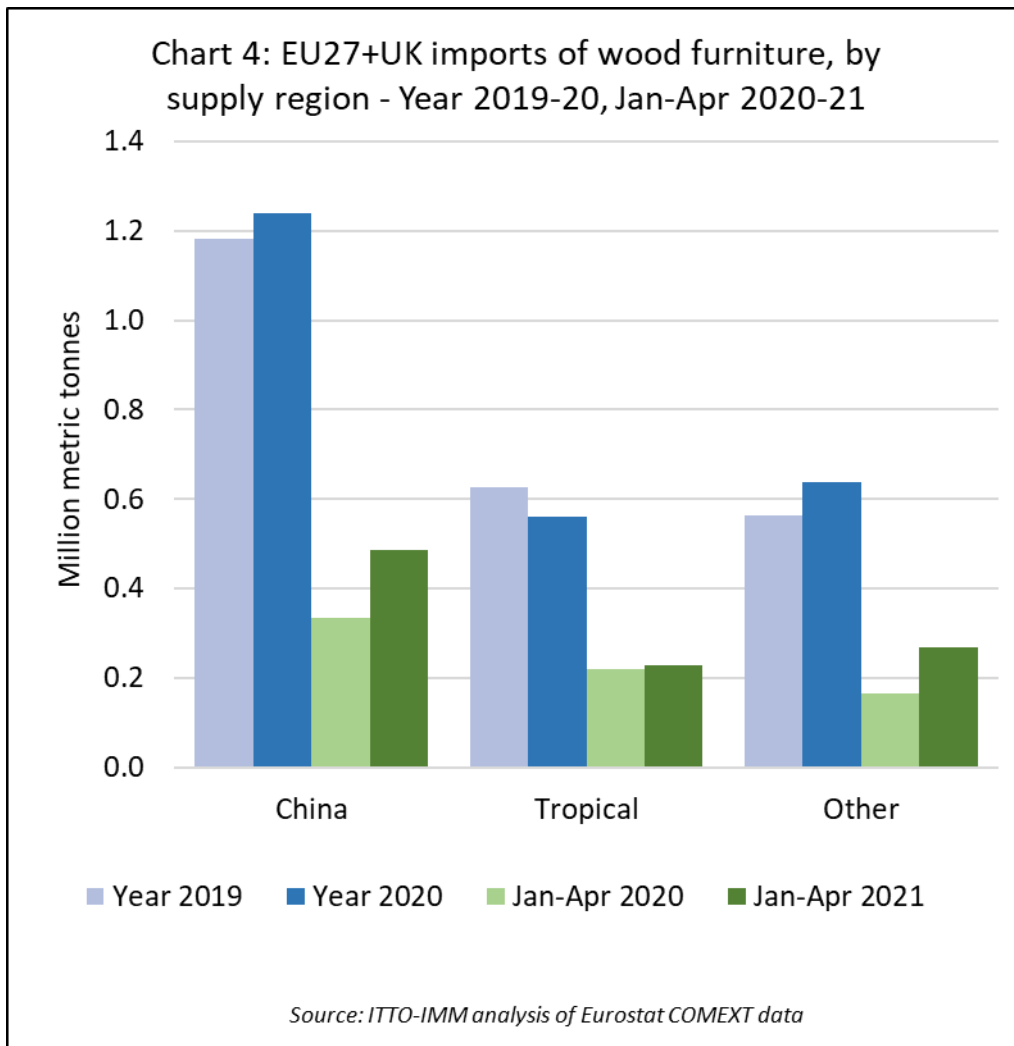
EU27+UK wood furniture import value down 3% in 2020

EU27+UK imports of wood furniture from non-EU countries fell 3% to USD 7.4 billion in 2020 after rising 4% in 2019 (Chart 3). Imports from China, by far the largest external supplier, decreased 3% to USD 3.66 billion in 2020, but imports from other non-tropical countries increased 10% to USD 1.86 billion. Tropical countries, for which EU27+UK imports fell 12% to USD 1.87 billion in 2020, were the major losers, being particularly hard hit by supply problems and rising shipping costs during the year.



While USD value of wood furniture imports into the EU27+UK decreased in 2020, import tonnage actually increased, rising 3% to 2.44 million tonnes. The decline in unit value is likely associated with a shift in the balance of imports away from tropical countries in favour of increased imports from China and countries in Eastern Europe neighbouring the EU. This probably also implies a shift in the balance of furniture imports to include less products for exterior applications (which still dominate in imports from tropics) and more products for interior applications.

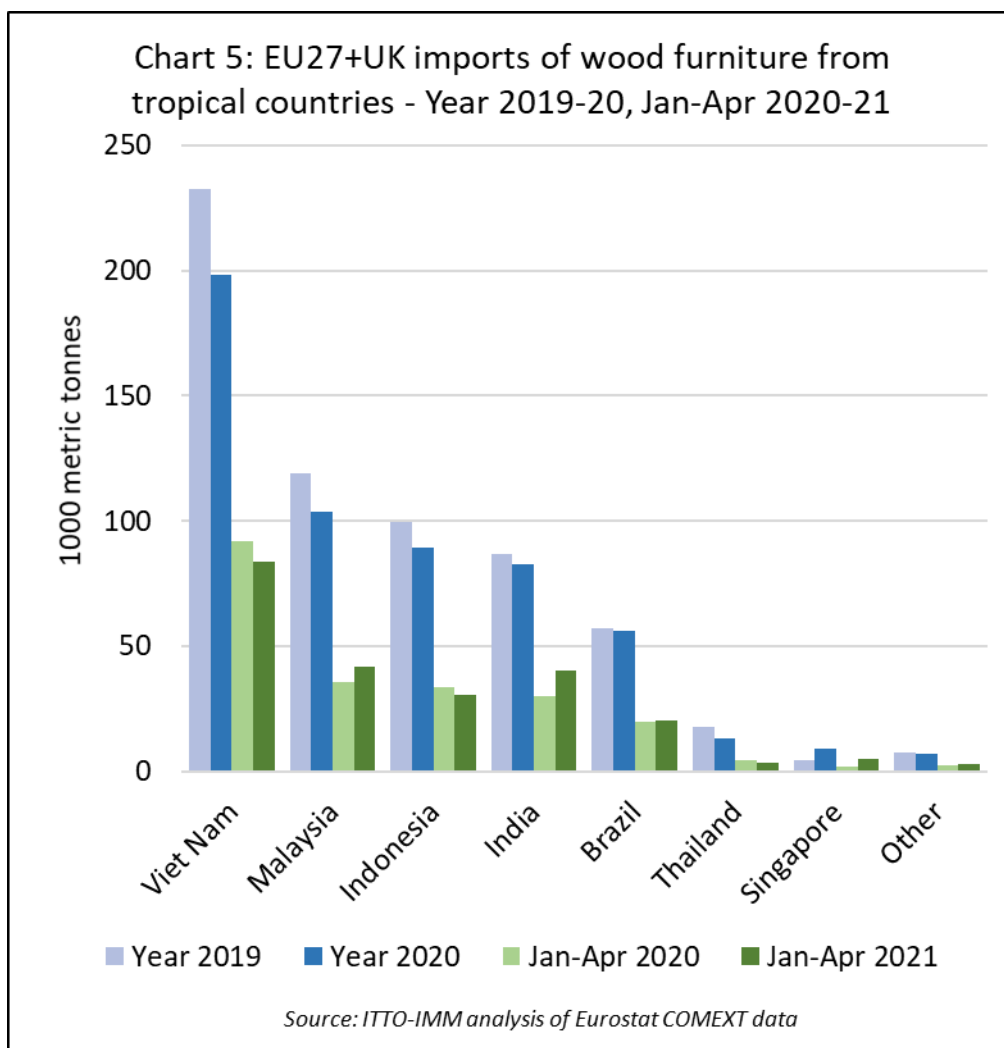
In 2020, import tonnage increased by 5% from China to 1.18 million tonnes and by 13% from other non-tropical countries to 640,000 tonnes. In contrast imports from tropical countries fell by 11% to 560,000 tonnes (Chart 4).



Continuing the trend of recent years, in 2020 there was another significant increase in import tonnage of wood furniture from several countries bordering the EU, including Ukraine (+17% to 123,000 tonnes), Turkey (+26% to 120,000 tonnes), Belarus (+20% to 115,000 tonnes), Bosnia (+4% to 68,000 tonnes), Serbia (+4% to 62,000 tonnes), and Russia (+29% to 40,000 tonnes).

Despite a significant decline in EU27+UK imports of wood furniture from Vietnam last year, down 15% to 198,000 tonnes, the country remained by far the largest tropical supplier to the bloc in 2020.

Imports also declined steeply from Malaysia (-13% to 104,000 tonnes), Indonesia (-10% to 89,000 tonnes) and Thailand (-26% to 13,000 tonnes). Imports fell less steeply from India (-5% to 83,000 tonnes) and Brazil (-2% to 56,000 tonnes). Imports from Singapore nearly doubled, but from a small base to 9,000 tonnes, due to greater availability of containers for shipment out of the country. (Chart 5).



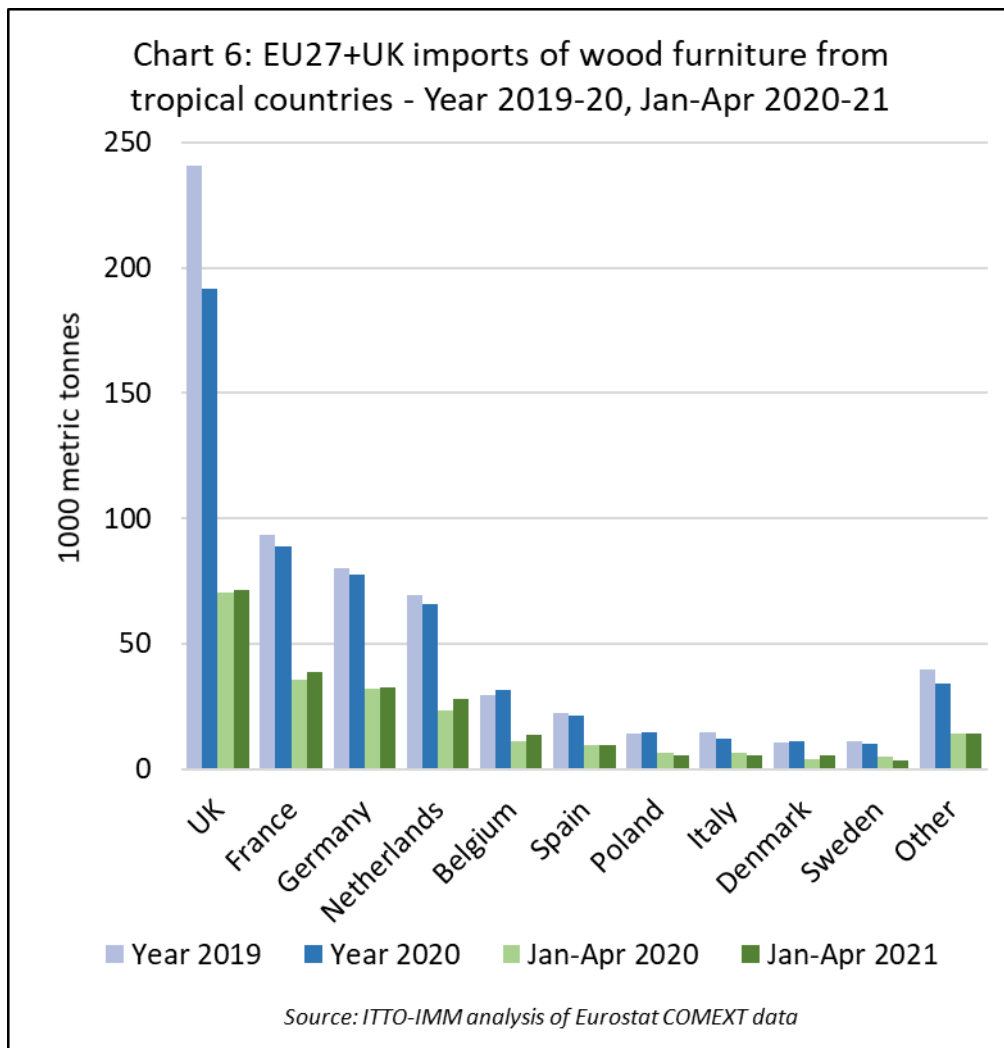
Imports of wood furniture into the EU27+UK strengthened considerably in the opening months of this year, but once again tropical countries lagged behind other supply countries.

In total, the EU27+UK imported 980,000 tonnes of wood furniture in the first four months of 2021, 37% more than the same period in 2020. Imports increased by 46% from China, to 490,000 tonnes, and by 63% from other non-tropical countries to 270,000 tonnes. However, imports from tropical countries increased by only 4%, to 230,000 tonnes.

The biggest increases in EU27+UK imports of wood furniture from tropical countries in the first 4 months of 2021 were from India (+35% to 40,000 tonnes), Malaysia (+18% to 42,000 tonnes) and Singapore (+175% to 5,000 tonnes). Imports from Brazil increased only marginally, by 5% to 21,000 tonnes, but imports continued to decline from Vietnam (-9% to 84,000 tonnes) and Indonesia (-8% to 31,000 tonnes).

Much of the decrease in EU27+UK imports of wood furniture from tropical countries in 2020 was concentrated in the UK which recorded a 20% fall to 192,000 tonnes during the year. Imports from tropical countries fell less dramatically into the other leading markets including France (-5% to 89,000 tonnes), Germany (-3% to 78,000 tonnes), Netherlands (-5% to 66,000 tonnes), and Spain (-

4% to 22,000 tonnes). Imports of furniture from tropical countries made some gains in Belgium (+7% to 32,000 tonnes) and Poland (+5% to 15,000 tonnes) in 2020. (Chart 6).



In the first four months of 2021, EU27+UK imports of wood furniture from tropical countries recovered some of the ground lost in the previous year, rising 4% to 228,000 tonnes. A rise in imports was recorded in nearly all the leading markets including UK (+2% to 72,000 tonnes), France (+8% to 39,000 tonnes), Germany (+2% to 33,000 tonnes), Netherlands (+18% to 28,000 tonnes), and Belgium (+24% to 14,000 tonnes). Imports into Spain were level at 10,000 tonnes) while imports into Poland fell 20% to 5,000 tonnes.

Brexit boosts UK wood furniture imports from China

During 2021, there are some early signs that the departure of the UK, Europe’s second largest economy, from the EU single market and customs union at the start of the year, may be increasing opportunities for non-EU suppliers of wood furniture to the UK market.

The immediate impact of the pandemic on UK trade in wood furniture was to marginally increase reliance on imports from within the EU. In 2020, UK imports from non-EU countries fell 9% to USD 2.4 billion while imports from EU27 countries fell only 5% to USD 1.2 billion.

However in the first quarter of this year, immediately following the UK's departure from the EU single market, UK imports from outside the EU surged to over USD 800 million, nearly 40% more than the same period in 2020. Meanwhile imports from the EU increased by only 4%. Nearly all the gains in UK imports in the first quarter of 2021 came from China which alone accounted for 60% of all UK imports from non-EU countries.

Consolidation and reorganisation amongst world's largest furniture manufacturers

The global furniture sector is renowned for being relatively fragmented, dominated in most countries by large numbers of small and medium sized enterprises with a relatively low degree of concentration. But that is not say that there are no significant large companies (IKEA immediately comes to mind) nor that there has been no consolidation in recent years.

This is immediately apparent from the March 2021 edition of the CSIL report on the "Top 200 Furniture Manufacturers Worldwide". The report shows that the 200 largest furniture companies have a total turnover of over USD 160 billion of which nearly USD 100 billion is related to the furniture sector, accounting for about 20% of world furniture production.

Together the top 200 furniture manufacturers employ about 740,000 people and are headquartered in 30 countries. Nearly 45% of the Top 200 are headquartered in the EU, 20% in North America, 30% in the Asia Pacific region, and 5% in Russia, Turkey, South America, the Middle East and Africa.

According to CSIL preliminary estimates, world furniture production was worth about USD 422 billion in 2020, 7% less than in 2019. The Top 200 companies appear to have performed relatively well compared to the wider sector in 2020, with turnover falling less than 2% during the year. This is linked to those companies' larger financial resources which allowed quicker re-alignment of business strategies, development of new on-line sales channels, and repositioning of their supply chains.

According to the CSIL report, the relative performance of the Top 200 companies has been significantly affected by lockdown policies which have varied significantly across countries, production segments and retail activities. Companies have been affected to varying degrees by store closures and delivery delays. To mitigate risk in the future, CSIL suggest that large furniture companies will diversify their supply bases, reduce dependence on single suppliers and source from a wider range of locations.

CSIL note that a strategy of manufacturing location repositioning has been accelerated in recent years, driven by the increasing need for flexibility and to reduce the time-to-market and minimise overall costs, including production, tariffs, and transportation.

About half of Top 200 companies now have manufacturing activities outside the country where their headquarters is based. Companies that have gone furthest in shifting part of their production activities abroad are those headquartered in Europe (40%), followed by those in Asia (30%) and North America (nearly 30%).

Preferred countries for investment in furniture manufacturing by European companies are across Europe (mostly Eastern European countries), followed by the Asia Pacific (in particular China and Vietnam) and North America (mainly the USA for office furniture production).

Almost all Top 200 companies headquartered in Asian countries that have operations elsewhere have concentrated on opening plants in other Asian countries (notably Vietnam, Thailand and

Malaysia). However some more export-oriented manufacturers have also opened facilities in North America (particularly Mexico and the USA) to reduce time to market and overcome the recent trade tensions between the US and China (and other Asian countries).

The majority of North American companies that have established production activities abroad have chosen to open facilities in Mexico and to a lesser extent in the Asia Pacific region (particularly China).

CSIL note that mergers and acquisitions (M&A) activity has increased amongst the Top 200 companies. Around 30 M&A operations were identified between 2015 and 2016 rising to over 60 between 2017 and 2017. Much of this activity involved US companies acquiring other US firms, but Chinese firms were also involved in several large investments, mostly of foreign companies and particularly in Europe, to increase sales in some key markets and/or expand their manufacturing capacity.

All CSIL reports can be purchased online and downloaded from: www.worldfurnitureonline