

***The US Furniture Industry:  
Trends in Production and Emerging Certified Demand***

by

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*Today we will examine . . .*

- ✓ *Overview* of US furniture industry.
- ✓ Trends in production – especially *outsourcing* activities.
- ✓ Indicators of growing *demand* for certified furniture.
- ✓ *Strategic drivers* likely to accelerate demand for certified furniture in the near future.

## The U.S. Furniture Industry At-A-Glance:

- ✓ Total furniture *shipments* sold domestically equal between \$25-30 billion US annually.
- ✓ Domestic *production* of wood furniture in 2000 = \$12.4 billion US
- ✓ *Exports* play a role in the US industry, but ...
- ✓ ... *Imports* are a significant and growing factor (almost 50% of total domestic production).

*Overview of US furniture industry . . .*

*dramatic changes in a short period of time.*

*Let's take a look . . .*

## *The good news . . . Furniture exports from the US:*

- ✓ **Dropped by 2% in 1999, but . . .**
- ✓ **Surged 13% in 2000.**
- ✓ **70% of top 10 export countries surged by double-digit percentages.**

## *The good news . . . Furniture exports from the US:*

- ✓ **Total export \$ volume in 1999: \$1.7 billion US.**
- ✓ **Total export \$ volume in 2000: \$1.9 billion US.**
- ✓ **US furniture exports to China have been growing by 43% annually since 1992.**

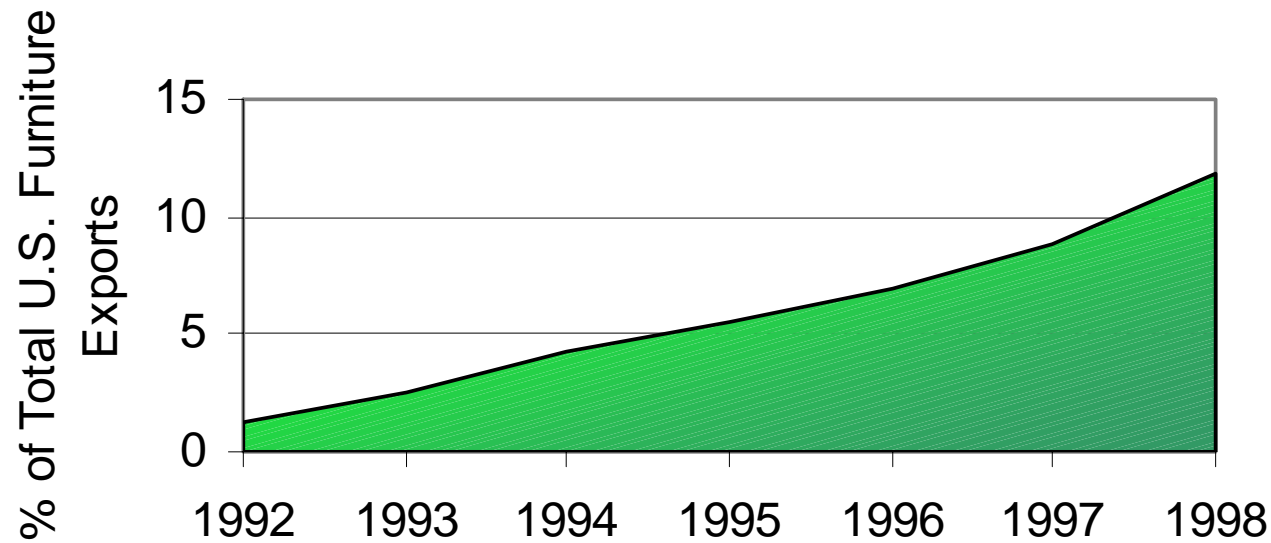
## *US furniture exports by major destination countries:*

	<b>% change from 1999</b>
<i>Canada</i>	13%
<i>Mexico</i>	49%
<i>United Kingdom</i>	22%
<i>Japan</i>	5%
<i>Saudi Arabia</i>	0%
<i>Germany</i>	42%
<i>Bahamas</i>	35%
<i>Netherlands</i>	28%
<i>Kuwait</i>	9%
<i>Korea</i>	82%
<b>WORLD TOTAL</b>	13%

*The good news . . . Furniture exports from the US:*

## 1998 U.S. Furniture Exports to China

*Wood Digest, Jan. 2000*





*But . . . the export picture is dwarfed by the import picture. Consider:*

- ✓ US companies import more than 6 times the dollar amount of furniture they export to other countries.
- ✓ China leads furniture imports to the US, realizing a 42% increase in 2000 over 1999 values.
- ✓ The dramatic increase is largely due to US companies outsourcing piece production to Chinese companies, with final assembly occurring back in the US.

# *US Furniture Industry Trends*

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## *Household Wood and Upholstered Furniture : U.S. Imports* *(US Total = \$5.7 billion US)*

	<b>Percent Change from 1998-1999</b>
<i>China</i>	42.3%
<i>Italy</i>	26.8%
<i>Taiwan</i>	8.2%
<i>Malaysia</i>	18.1%
<i>Indonesia</i>	31.7%
<i>Thailand</i>	32.8%
<i>Philippines</i>	28.6%
<i>Brazil</i>	44.4%
<i>France</i>	34.2%
<i>Hong Kong</i>	32.05
<b>TOTAL</b>	28.8%

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## *Outsourcing:*      *What Is It?*

✓ *Manufacturer Provides service to customer through:*

- **Component production**
- **Full product production**
- **Assembly**

## *Outsourcing:*      *How Big Is It?*

- ✓ In US, a **burgeoning business**:
  - 1996 - \$100 billion
  - 2000 - \$325 billion
  
- ✓ Between 1992 – 1995, outsourcing of wood furniture **increased from 14% to 16%**
  
- ✓ According to US Outsource Institute: US companies w/over \$80mm in revenue will **increase outsourcing expenditures by 26%** (to = \$85 billion).

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to the every day run-of-the-mill.

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QUALITY!**



*the quality of wood  
is affordable*

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<http://www.eliaswoodwork.com>

*Outsourcing practices to offshore companies are growing due to:*

✓ *Labor costs* in furniture manufacturing:

US	=	\$14.24/hr.
Mexico	=	\$ 2.20/hr.
China	=	\$ .69/hr
Indonesia	=	\$ .32/hr

✓ *Labor training & retention.*

- Must hire 5 to retain 1
- Retraining cost equals 25% of total profit margin

*Outsourcing practices to offshore companies are growing due to:*

- ✓ **Costs to meet *environmental regulations*:**
  - **Safety conditions for workers**
  - **Production requirements for dust control, air & water treatment, etc.**

**Can equal more than 25% of total operating costs.**

Raleigh, North Carolina - USA

February 12, 2001

## A rough end in Marion

### Lower labor costs, overhead lure furniture makers overseas

By CARLENE HEMPEL AND STEVE CANNON  
STAFF WRITERS

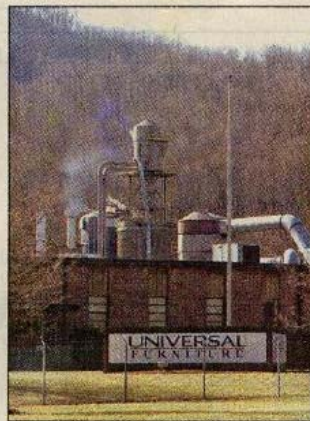
**MARION** — Every week, Jim Miller gets a trim from the town barber on Main Street. And every week, he looks up and down the block and wonders how long before there's another empty storefront.

This town, like so many in Western North Carolina, was built on manufacturing. Recent factory closings have already convinced many that the local economy can no longer depend on textiles. But today, there's even more concern as furniture makers, some of the area's biggest employers, have also started to struggle.

"Ten years from now," says Miller, a retired manufacturing sales rep who has lived in the town since 1986, "there will be no textiles and no furniture in McDowell County, in my opinion."

Miller lives in what's known around the world as furniture country, that green and mountainous strip between Greensboro and Asheville. He worries he might be witnessing the latest American manufacturing meltdown. Like the textile mills in Lowell, Mass., and the auto plants in Flint, Mich., the state's furniture factories are struggling to compete in a market increasingly dependent on cheap foreign labor, and the effects are being felt in communities such as Marion.

Statistics show that North Carolina, which ships about \$6 billion worth of merchandise a year, still has about 75,000 employees making furniture. But during the past year, thousands of industry jobs have been cut. In January, Universal



Universal Furniture is shutting down. Friday is its last day of operation.

Furniture started laying off 360 employees as it gets ready to shut down its Marion operation. And last year, Furniture Brands International, the St. Louis-based company that owns North Carolina manufacturers such as Thomasville Furniture, Broyhill and Hickory Chair, announced it won't build any more furniture factories in the United States. What's more, rather than build other factories in Asia, it will buy and rebrand from manufacturers already there.

Marion sits just below the Blue Ridge Parkway, an hour east of Asheville and south of Boone. Table Rock and Hawks Bill mountains loom blue and foggy to the west, on the other side of Linville Gorge. Marion has about 5,000 residents and is the seat of McDowell County, which has a population of about 41,000.

In this small town, only one restaurant sells wine by the glass, the water is so pure it's used by Baxter Healthcare Corp. to fill 50 percent of the nation's intravenous bags for hospitals, and manufacturing has always been king.

Eight of the county's top 10 employers are manufacturers, and three of those are furniture manufacturers. Two of the furniture plants sit within Marion's 3.3 square miles.

"There's a lot of people, they've been born and raised here and that's all they know is furniture factories," said Marlon Pace, 65, who worked in furniture manufacturing for 16 years. She worked first at Ethan Allen's plant right outside of town, and then Broyhill Furniture, the county's third-largest furniture employer now that Universal has closed. She retired in 1995. Her daughter has worked down the road at Drexel Heritage Furnishings for 27 years.

Pace worries that Universal is just the first to fall. She remembers what it was like in the '90s, when a textile plant closed, and then another and another, until six were out of business and more than 1,000 people were out of work.

SEE CLOSING, PAGE 9A

*“During the past year, thousands of industry jobs have been cut.”*

*“Furniture Brands International, the St. Louis-based company that owns North Carolina manufacturers such as Thomasville Furniture, Broyhill, and Hickory Chair, announced it won't build any more furniture factories in the United States. What's more, rather than build other factories in Asia, it will buy and rebrand from manufacturers already there.”*



*While furniture production practices are changing to outside the US . . . end customers (US consumers) are increasing their demand for certified products inside the US:*

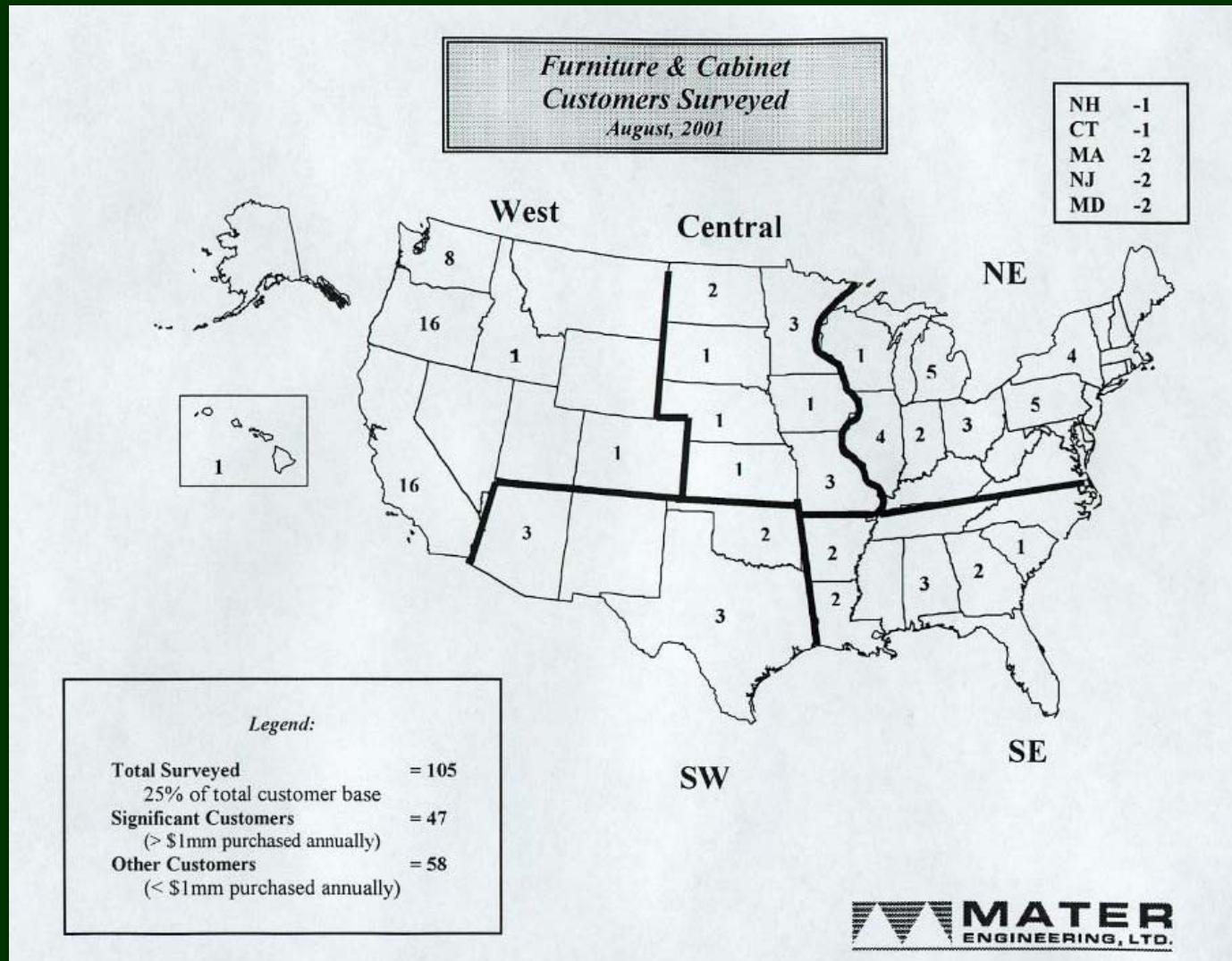
- ✓ August 2001 customer survey across US.
- ✓ Major lumber & fiberboard supplier to furniture – cabinetry producers.
- ✓ **Results:**
  - Many desire FSC products now.
  - All desire FSC products in 2-3 years.

## *August 2001 Customer Survey Included:*

- ✓ *“Significant”* customers – purchase \$1 million US or more of product per year.
- ✓ *“Other”* customers – purchase less than \$1 million US of product per year.

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## *Certified Product Importance to Customers* *(n=105)*

	<i>Significant</i>	<i>Other</i>
<i>Current</i>	34%	29%
<i>Future*</i>	89%	67%

\* Next 2-3 years

*Certified Product Importance*

*Q: Who Values Now?*

**A:** \* “Significant” customers in the West and Southeast.

\* “Other “ customers - Central

*Q: Who Values in the Near Future?*

**A:** Customers across all regions of the US.

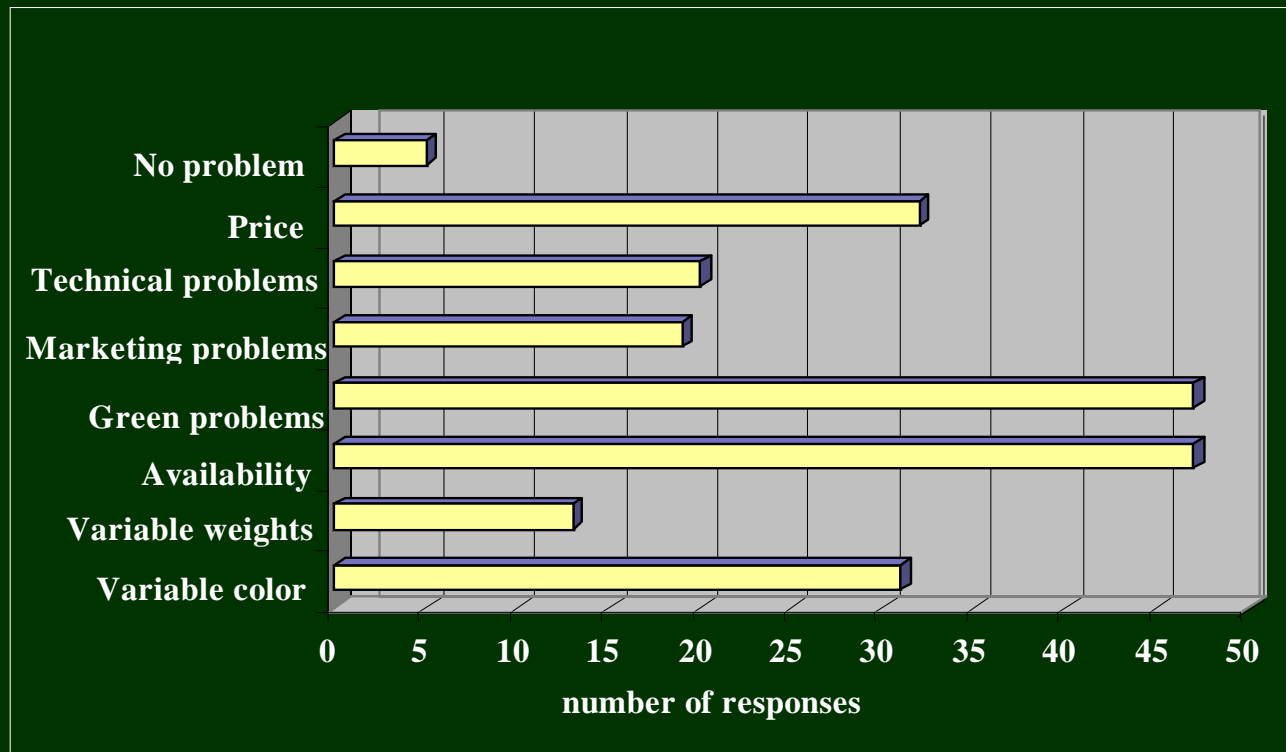
## *Certified Product Importance*

	West		Southwest		Central		Northeast		Southeast	
	Significant	Other	Significant	Other	Significant	Other	Significant	Other	Significant	Other
<i>Current</i>	48%	20%	25%	0%	0%	60%	17%	32%	40%	20%
<i>Future</i>	87%	75%	75%	75%	33%	80%	58%	58%	100%	40%

*International players also underscore the impact of credible sustainable forestry practices in value-added production:*

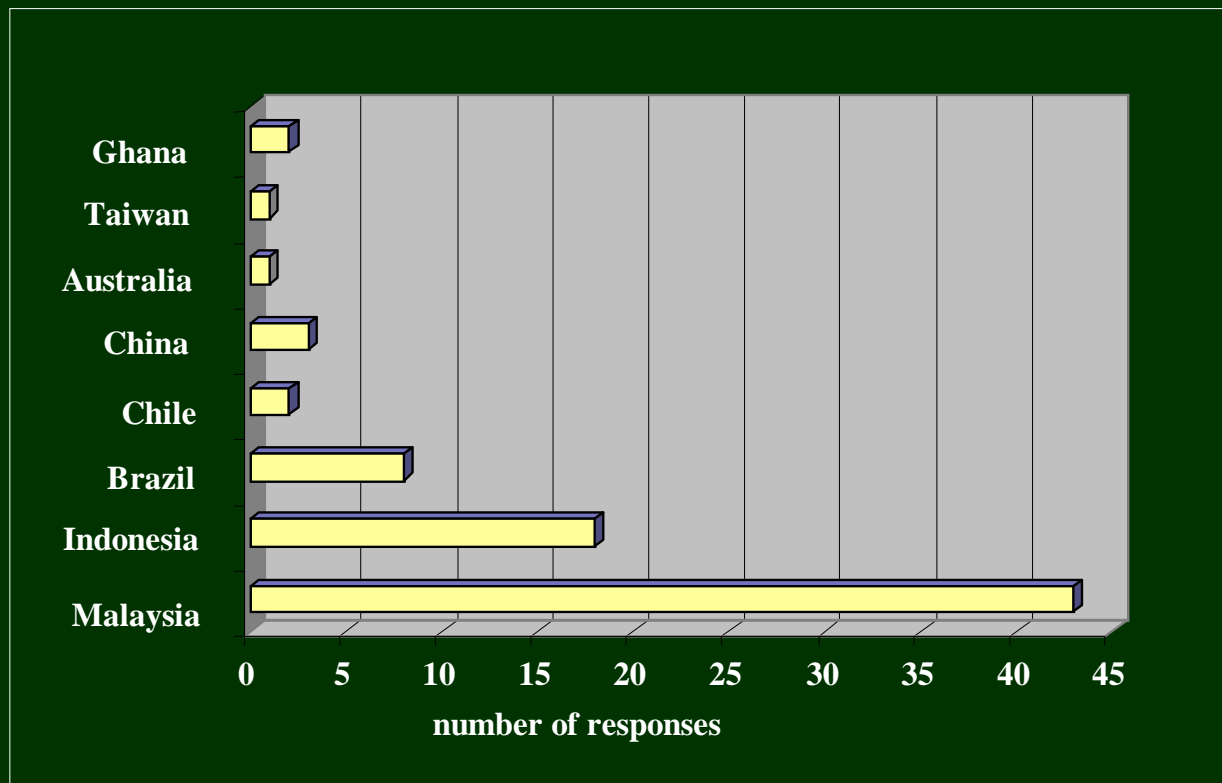
- ✓ **July, 2001**
- ✓ **Survey analysis**
- ✓ **Subscribers to International Timber Trade organizations (ITTO) market information services.**

*What are the main problems with using tropical timbers from the natural forest for added value production?*

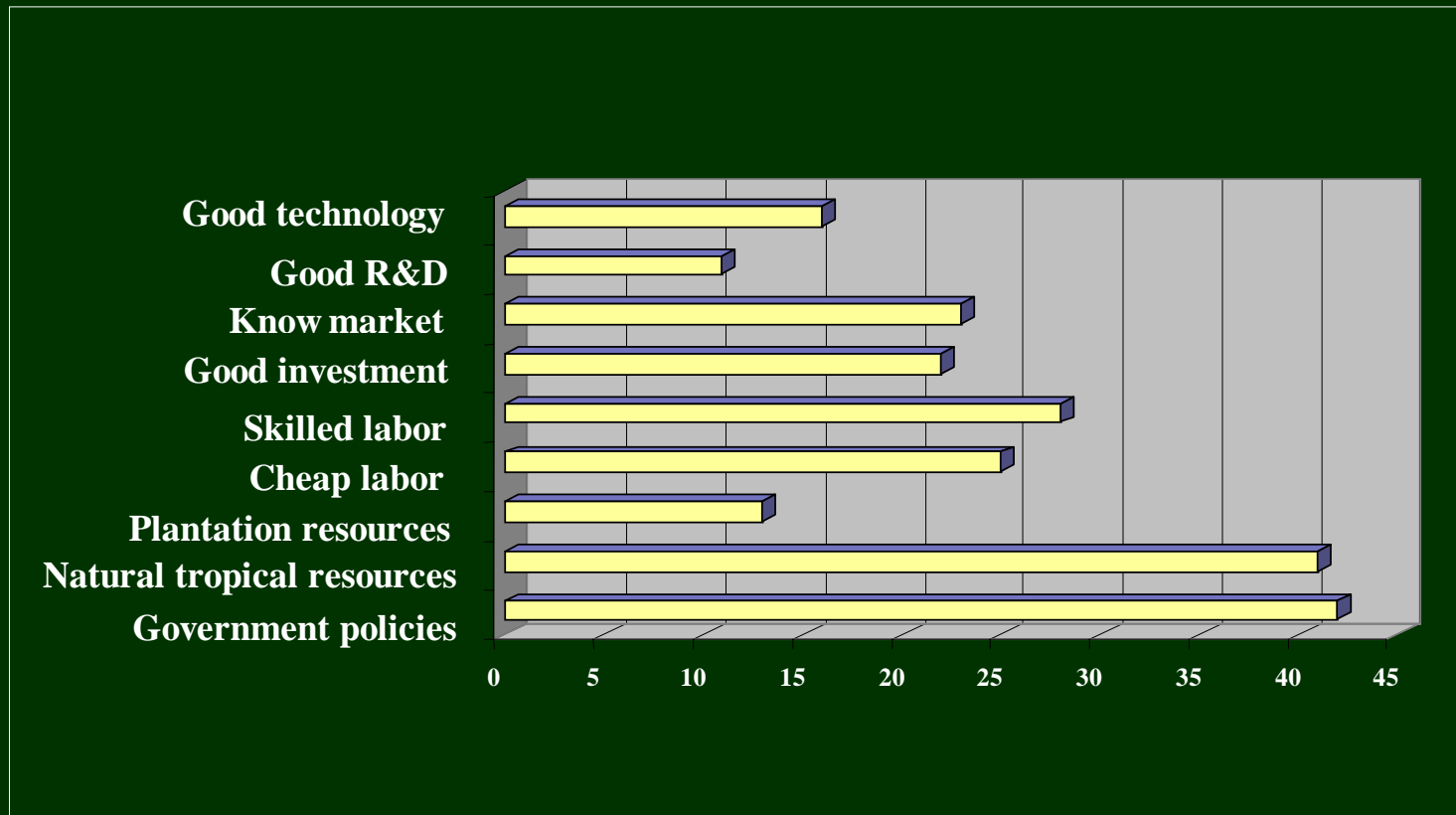




*Which country has scored the greatest success with its added value exports?*



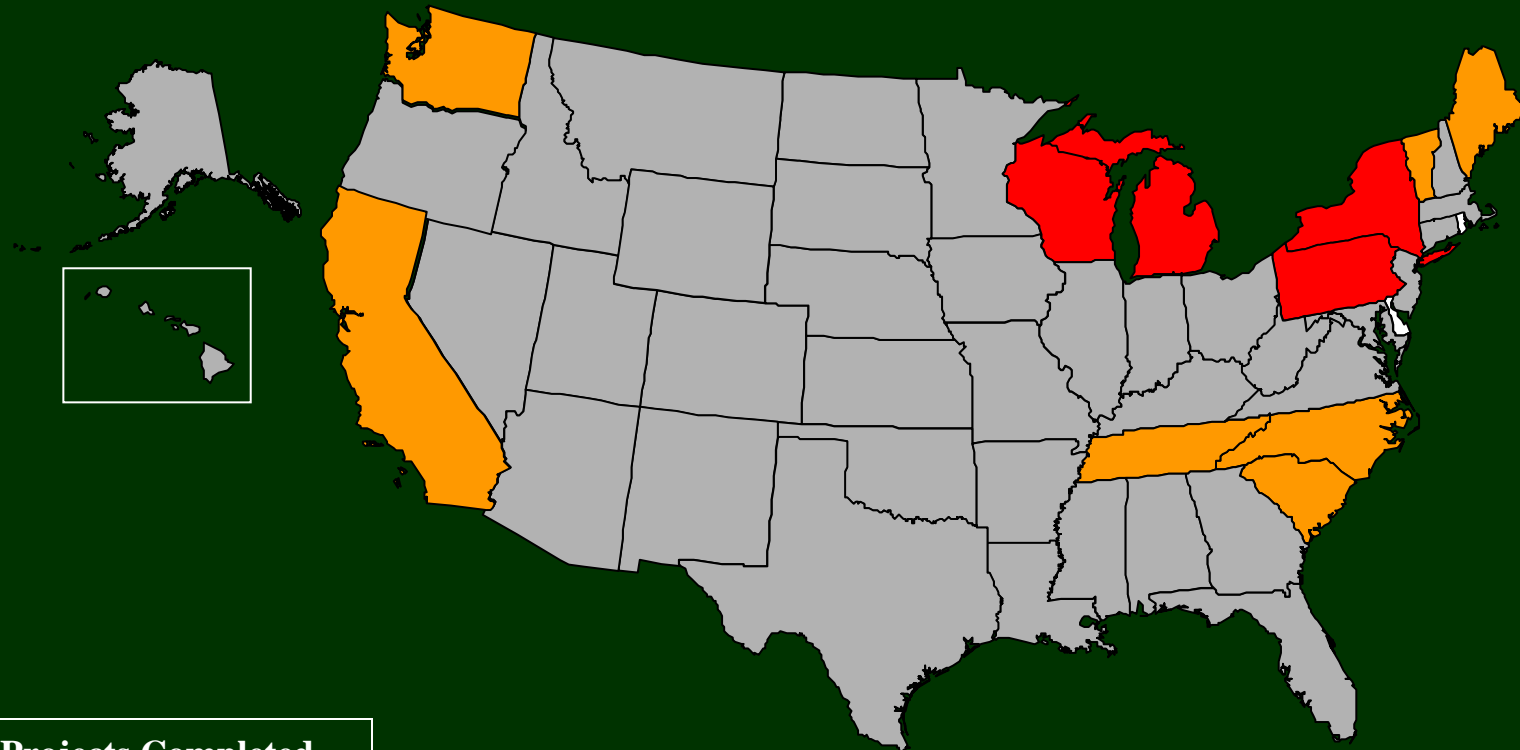
## *Why has success been realized?*



*Strategic drivers likely to accelerate demand for certified product in furniture production in the US:*

- ✓ Policies from *public forestland managers* (state, federal, Indian nations) embracing certification as a credible system:
  - **In 1998** - 10,000 acres (municipal)
  - **In 1999** - + 2million acres (state & county)
  - **In 2000** - + 2 million acres (state)
  - **In 2001** - To be announced shortly; over 6mm acres being assessed (state, federal, and Indian nations)

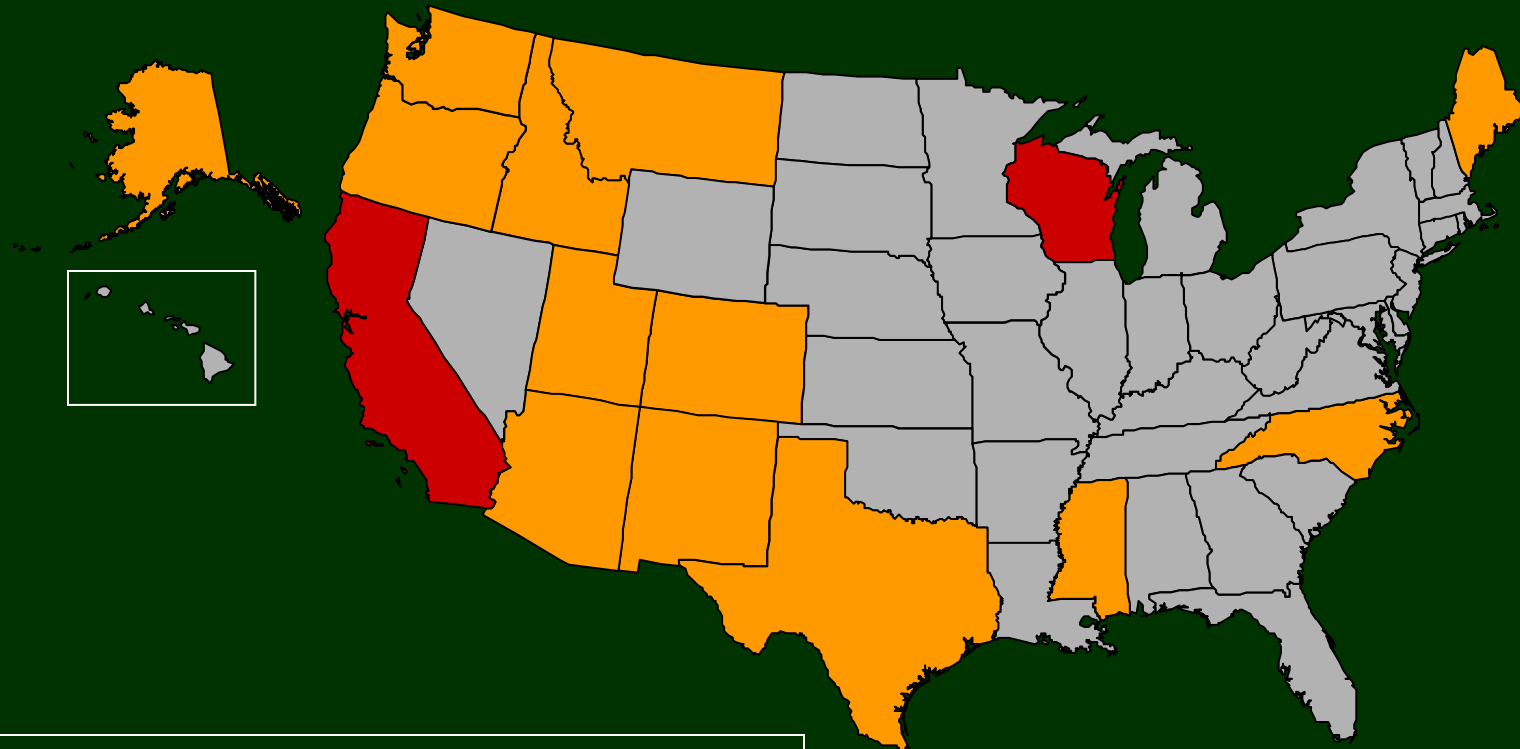
## Certification projects on government lands:





- Projects Completed
- Projects underway

Over 4 million acres of public forestland included in pilot projects

## *Native American Forests–US*



-  States with certified tribal forestlands
-  Tribal projects underway

Represents 16 mm acres of tribal forestlands

*Strategic drivers likely to accelerate demand for certified product in furniture production in the US:*

- ✓ Certification of *hybrid poplar plantations* to service the furniture industry:
  - Potlatch Corporation takes the lead with FSC certification of 22,000 acres in August, 2001
  - Will provide over 80 mmbf of certified hardwood lumber into the market on an annual basis.
  - Another 20,000 acres of hybrid poplar owned by other corporations now poised for certification assessment.

