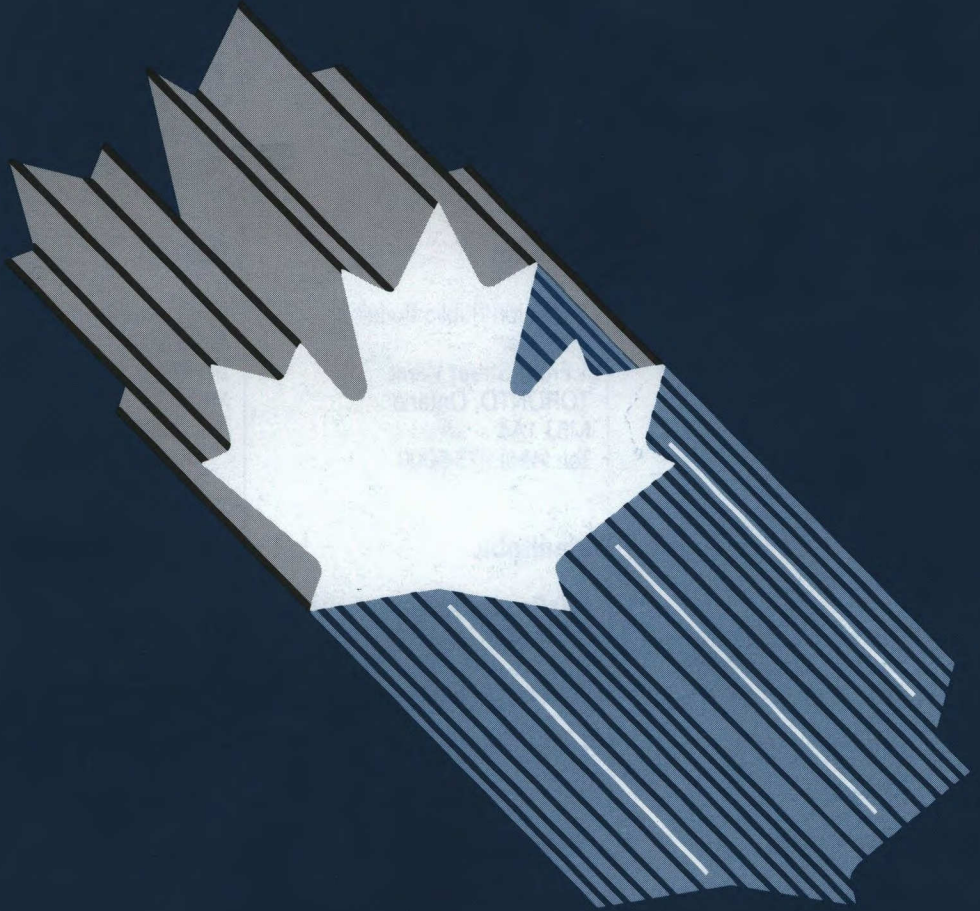


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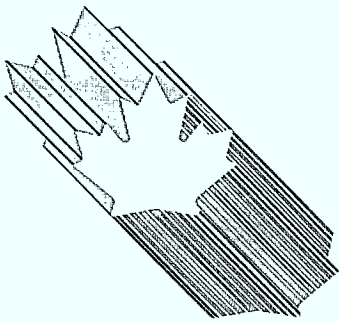


Industry, Science and
Technology Canada

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Household Furniture

Canada



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FOREWORD



In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to survival and growth. This Industry Profile is one of a series of papers which assess, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological and other key factors, and changes anticipated under the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the papers.

The series is being published as steps are being taken to create the new Department of Industry, Science and Technology from the consolidation of the Department of Regional Industrial Expansion and the Ministry of State for Science and Technology. It is my intention that the series will be updated on a regular basis and continue to be a product of the new department. I sincerely hope that these profiles will be informative to those interested in Canadian industrial development and serve as a basis for discussion of industrial trends, prospects and strategic directions.

Minister

Canadian furniture manufacturing comprises three industries: household, office and other furniture. Household furniture accounts for 42 percent of total furniture shipments, office, 26 percent and other furniture, 32 percent. The other furniture industry includes manufacturers of bed springs and mattresses, hotel, restaurant and institutional furniture, picture and mirror frames and furniture frames and components. A separate Industry Profile has been prepared on office furniture.

1. Structure and Performance

Structure

The Canadian household furniture industry consists of establishments primarily engaged in the manufacture of furniture products for household use. It accounts for annual shipments worth more than \$1.6 billion, and employs about 26 000 persons.

Wood furniture accounts for 50 percent of industry shipments, and upholstered furniture for about 35 percent, with the remaining 15 percent consisting mainly of metal and plastic furniture products. The composition of the industry is similar to that in other countries with the main exception being that in most countries, including the United States, bed springs and mattresses are included in household furniture. In the United States, for example, the value of bed spring and mattress shipments amounts to about 12 percent of all household furniture shipments.

The portion of Canadian furniture shipments destined for export markets is 14 percent, while 23 percent of the domestic market is supplied by imported furniture. The United States is by far Canada's largest export market, representing about 98 percent of total exports. Imports are mostly from Europe (47 percent), the United States (31 percent) and Asia (20 percent). The balance of trade in household furniture products with the United States is \$90 million in Canada's favour.

Italy, Sweden, Denmark and the Federal Republic of Germany are the main import suppliers from Europe, accounting for 42, 17, ten and eight percent respectively.

The industry purchases a variety of raw materials, components and parts from both domestic and foreign sources. In 1985 total purchases amounted to \$710 million. Items purchased in substantial quantities include lumber and wood-based components, particleboard, textile products, hardware and finishing materials. In upholstered furniture, textile products are the most important material input. The cost of the textile materials alone used in an upholstered product can represent from 25 to 30 percent of the total manufacturing cost. About 50 percent of the industry's fabric requirements are of U.S. origin.

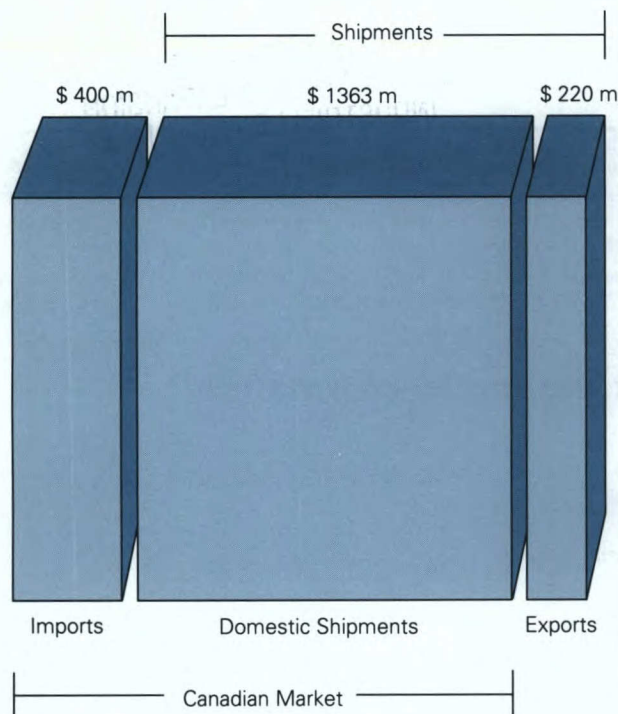
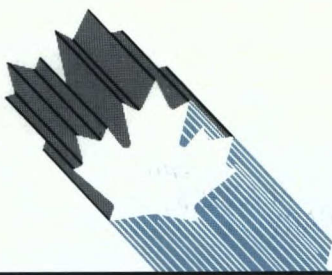
In 1985, the industry consisted of 994 establishments located mainly in Quebec (45 percent) and Ontario (35 percent). In these two provinces, the plants are more or less equally distributed between metropolitan areas and smaller communities. About 11 percent of industry shipments originate in western Canada and are equally distributed between Manitoba, Alberta and British Columbia. Ownership of the sector is predominantly Canadian: less than five percent of the companies are foreign-owned.

Canada



Industry, Science and
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Technologie Canada



*Imports, Exports and Domestic Shipments
1986*

The structure of the industry in Canada is similar to that of other developed countries. That is, small establishments with fewer than 20 employees are in the majority but account for a small portion of output, while the large firms, generally less than 10 percent of the total, account for 50 percent or more of output. In countries with populations in excess of Canada's, large firms are generally of a greater scale than that of the large Canadian firms. In the United States, for example, there are approximately 100 establishments with more than 500 employees, whereas in Canada there is only one.

In Canada, 72 percent of the furniture manufacturing establishments employ fewer than 20 persons and account for 13 percent of shipments, while six percent (or 56 establishments) have a staff of 100 or more and account for about 47 percent of shipments. The remaining 22 percent have from 20 to 100 employees and account for 40 percent of shipments.

Most household furniture products are marketed nationally, although small manufacturers typically serve regional markets. In some situations transportation costs preclude the marketing of a product in distant markets.

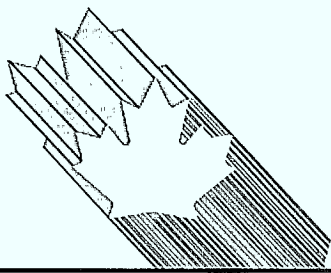
Performance

Industry shipments, in constant 1981 dollars, increased 25 percent between 1971 and 1986 for an average annual growth of 1.5 percent. This growth rate parallels the average rate of change in the number of families over the same period. Demographic and social considerations such as the "baby boom," the continued ageing of the population, the smaller size of families and the reduced size of dwellings in urban areas have not seriously affected the overall volume of household furniture purchases. However, there have been shifts in the type of furniture being purchased. For example, fewer complete room sets are bought today, wall units have become popular, and there has been the emergence of knock-down or ready-to-assemble furniture.

Up to the early seventies, imports of household furniture were relatively constant at six percent of the Canadian market; since then, imports have grown rapidly from 7.7 percent of the market in 1971 to a peak of 23 percent in 1986. Moreover, there has been a significant shift in the origin of these imports. The United States, which accounted for 66 percent of all Canadian imports in 1976, had its share shrink to 31 percent in 1986. Imports from Asian countries grew from five percent in 1976 to 20 percent in 1983, and they have remained essentially at that level through to 1986. The European share of Canadian imports fluctuated between 20 and 30 percent over the 1976-1983 period, then increased to 47 percent in 1986. The portion of imports from Europe increased most rapidly during 1983-85 as the U.S. dollar increased in value against European and Canadian currencies.

The growth in furniture imports from Asia reflects the growing competitiveness in that region, particularly in Taiwan, the Republic of Korea, Singapore and the Philippines. These imports from Asia are particularly strong in wood and metal furniture, where they account for about 25 percent of all Canadian imports in these commodities. Canadian manufacturers, in some cases, import complete sets of finished furniture parts for assembly and packaging in their Canadian plants, while other manufacturers import finished products to complete their product line, or import component parts for use in their manufacturing process. These are in addition to imports of assembled and ready-to-assemble products by importers and retailers.

Total exports increased tenfold between 1973 and 1986, to \$220 million, representing an increase from 3.7 percent of shipments to 13.9 percent. Since the early 1970s, exports to the United States have been between 80 and 98 percent of total exports.



Data compiled by Statistics Canada from more than 1000 companies indicate that, overall, the industry has regularly shown a profit. Profits after tax on total income have varied from 0.3 percent in 1982 to 2.5 percent in 1985. This is low, compared to the United States where Dun and Bradstreet reports median after-tax profits for the 12-month period ending July 1987 of three percent for upholstered furniture, 3.9 percent for metal furniture and 4.8 percent for wood household furniture. Investment in the sector has been low, when compared to total investment in manufacturing. During the past six years, capital expenditures have averaged about two percent of shipments, as compared to about six percent for Canadian manufacturing as a whole.

2. Strengths and Weaknesses

Structural Factors

The market served by the furniture industry is quite heterogeneous, with a wide variety of consumer preferences in style, design, uniqueness, quality and price. However, across all products, there are recognized categories of low-, medium- and high-priced ranges. As a result, manufacturers tend to produce a broad product line within a given price range to service their accounts properly. As a group, Canadian manufacturers have maintained a dominant position in the domestic market by producing a wide variety of designs and styles in all price ranges.

The furniture industry remains relatively labour intensive. In both Canada and the United States, materials account for almost 50 percent of the value of shipments and labour between 25 and 30 percent.

Taking into account a U.S.-Canada currency exchange rate in the range of US75¢ to 80¢, a comparison of the industry in Canada and the United States shows that input costs are about equal, and design and manufacturing capabilities are similar. In the case of some input materials that are imported from the United States, such as upholstery fabrics, the duties are significantly higher than on the finished product. The Canadian industry is located close to the major Canadian markets as well as some major U.S. markets near the Canada-U.S. border. However, in serving a much larger domestic market, the U.S. industry has attained a higher level of product specialization and standardization. As a result, the larger U.S. furniture plants have been able to exploit economies of scale and to enjoy the benefits of longer production runs. These large U.S. plants also tend to benefit from the use of more modern machinery and equipment. By contrast, Canadian manufacturers, with their smaller market, have found it necessary to produce a wider range of products in order to maintain reasonable production volumes. The net effect is that overall, U.S. firms have attained a greater level of productivity than the Canadian industry. This is most evident in the low- to medium-priced ranges, where sales volumes are greatest.

Aided by a similarity of consumer preferences and the proximity of major market areas, some Canadian manufacturers have developed a market for their products in the United States. In most cases, they have succeeded either with products targeted to one specific market segment, where competitiveness is achieved from product specialization, or with products in the higher-priced ranges, where design and quality are more important than price.

Imports from Asian countries and some European countries are in the low- to medium-priced ranges and compete with Canadian products to a large extent on the basis of price. The industries in these countries have the advantages of lower wage rates and large-scale cost-efficient plants serving world markets. They offset high transportation costs, in part, by shipping the product unassembled, thereby reducing the volume-to-value ratio.

Furniture products imported from the developed countries of Europe tend to be products that feature unique modern or contemporary designs appealing to smaller market segments in higher-priced ranges.

Trade-related Factors

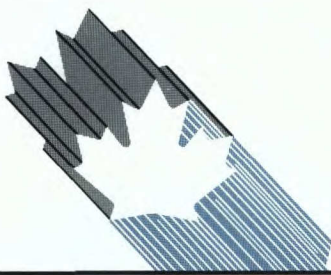
Most furniture imported into Canada is classified according to the chief component material. The Most Favoured Nation (MFN) tariff for metal furniture (that is, whose major value-contributing component is metal) is 12.5 percent; for other furniture, including wood, it is 15 percent. The corresponding General Preferential rates are eight percent and ten percent.

The rates of duty imposed on Canadian furniture entering the United States range between two and seven percent. For example, the rate for wood furniture (except for wooden chairs) is 2.5 percent; for furniture made of textile materials it is seven percent.

The European Community (E.C.) MFN tariff rate for furniture and parts is 5.7 percent, while for Japan the rate is 3.8 percent.

Non-tariff barriers are not a significant factor in international trade in furniture products.

Tariffs on raw materials and parts imported into Canada are dutiable at varying rates. Wood and lumber, not further manufactured, generally are free; the MFN rate for particleboard is six percent; and parts of furniture have the same rate as the product. The rate for most hardware is 10.2 percent, while for upholstery fabrics, the rate most generally applicable is 25 percent.



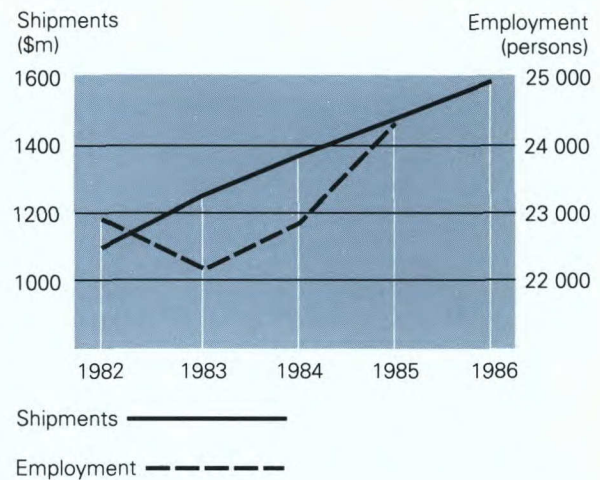
Under the Canada-U.S. Free Trade Agreement (FTA) all tariffs on furniture and parts are to be phased out in five equal annual steps, with the first to take place on January 1, 1989. The tariffs on most input materials used by the industry, including hardware and textile materials, will be phased out over a ten-year period. Since Canadian furniture manufacturers presently are purchasing significant amounts of input materials from the United States, this difference in the phasing of the tariff reductions represents a competitive problem for the Canadian furniture industry. There could be a further delay in the tariff concessions on particleboard used in furniture manufacturing. This could result from a condition of the FTA pertaining to the approval of the use of U.S.-manufactured C-D grade plywood in Canadian housing financed through the Canada Mortgage and Housing Corporation. Although particleboard is available from Canadian sources, its price is normally equal to that of U.S. particleboard landed duty-paid in Canada.

Furniture will qualify under the rules-of-origin chapter of the FTA if offshore raw materials or components have been sufficiently transformed to be classified as furniture and if 50 percent or more of the manufacturing costs are incurred in either or both countries.

Technological Factors

Until recently, furniture manufacturing technology was considered quite mature; advances were marginal, consisting mainly in tool improvement for speed and precision of operation. In general, manufacturers have sought to improve productivity by standardizing and rationalizing production to increase the length of production runs and thereby justify the investment in high-capacity modern machinery requiring significant set-up times. The largest U.S. manufacturers have succeeded in achieving significant productivity improvements.

The introduction of computerized machinery has substantially reduced set-up times; furniture manufacturers can now use new technologies for most product lines. This is particularly true in ready-to-assemble furniture production, where panels are laminated, cut-to-size, edgebanded and drilled — only the dimensions change from panel to panel for a variety of products. Manufacturing systems incorporating new technologies such as computer-integrated manufacturing (CIM), flexible manufacturing systems (FMS) and computer-assisted design and manufacturing systems (CAD-CAM) are available, and will help to offset traditional scale disadvantages of Canadian firms.



Total Shipments and Employment

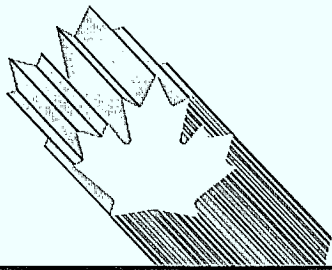
Other Factors

World currency exchange rates have had a significant bearing on foreign trade in furniture. Import pressures on Canadian manufacturers from the United States were greatest during the mid-seventies when the value of the Canadian dollar was high. Also, imports from Europe increased their share of total Canadian imports during the period 1982-1985 as North American currencies strengthened against European currencies. The weakening of the North American currencies against European currencies since 1986 has not yet shown up in the trade statistics of this sector.

3. Evolving Environment

Since expenditures on furniture per family have remained fairly constant over the past two decades, the growth of the Canadian furniture market is expected to follow the increase in the number of families, which is currently forecast at about two percent per year. There will likely continue to be shifts from one type of furniture to another. The growth in the popularity of ready-to-assemble furniture is expected to continue. Similar trends are anticipated in the U.S. market.

Economic considerations, such as high interest rates and high unemployment experienced in 1982, seem to have had more impact on the market than any other factor. Fluctuations in these economic factors at any point during the next decade could have short-term cyclical impacts but probably will not affect the long-term trend.



With the gradual reduction of Canadian tariffs under various GATT rounds of multilateral trade liberalization, Canadian furniture has become increasingly exposed to international competition. The rapid growth in imports from the Far East over the past few years is indicative of potential competitive pressures in the medium to long term. Taiwan, The Republic of Korea, Singapore and the Philippines are developing efficient furniture manufacturing industries, for the purpose of exporting. This potential is, however, limited by the types of furniture that they can export to Canada because of distance and transportation costs. To meet this competition, Canadian manufacturers may source more components in Asia for assembly in Canadian plants, particularly in lower-priced wood furniture products.

In Canada's major furniture export market, the United States, there has also been increased competition and import penetration by furniture products from Asia and Europe. More recently, U.S. manufacturers are taking advantage of low wage rates in Mexico to produce furniture from U.S. parts which is then re-imported for the U.S. market under the "Maquiladora Industries" with duty being applied only to the value added in Mexico. These trends are expected to continue.

In the distribution of furniture, there has been a trend towards centralized buying by department stores, furniture chains and buying groups of independent retailers. This trend is expected to continue and could benefit the large multi-plant U.S. firms which tend to have greater productive capacity in a wider range of products than Canadian manufacturers. They are thus in a better position to supply large-volume orders.

With the phasing out of tariffs under the FTA, there will be increased opportunities for Canadian products in the United States and for U.S. products on the Canadian market. For Canadian manufacturers, the opportunities initially will likely continue to be with high-priced products and products serving a specialized market segment. The opportunities for U.S. firms will be more widespread. Meeting the rules-of-origin criteria is not expected to be a problem for Canadian manufacturers.

Although Canadian manufacturers already have reasonable access to the U.S. market, the freer trading conditions under the FTA will give them an additional incentive to make the required production and marketing adjustments to capitalize on the opportunities.

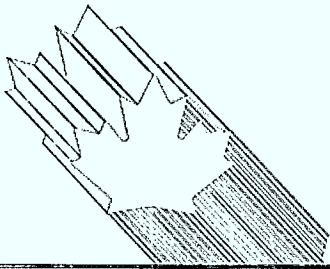
American manufacturers will require little adjustment to take advantage of new opportunities on the Canadian market. In upholstered furniture, these opportunities will be considerably enhanced, given that tariffs on upholstered textile materials will be eliminated over a ten-year period while tariffs on furniture will be eliminated over a five-year period. Canadian furniture manufacturers will be burdened with the cost of the tariffs on textile imports for a period of five years during which the finished U.S. furniture product will be imported into Canada duty-free. Similarly, if the concessions on particleboard are delayed, Canadian manufacturers will be at a competitive disadvantage.

To meet future competition, improved productivity by Canadian manufacturers through the use of new technologies and advanced manufacturing systems will be important. Such efforts are likely to result in medium-sized firms offering a narrower product line to a broader market base. Small firms will not likely undergo these adjustments as they continue to serve regional or specialized market segments in the manner in which they do at present.

4. Competitiveness Assessment

While the Canadian household furniture industry is not generally cost-competitive with the United States or other foreign industries in the low- to medium-priced categories, some manufacturers are successfully exploiting market niches in the United States, either by specializing in a product targeted to a specific market segment, or by focusing on products in the higher-priced ranges, where design and quality are more important than price. Given substantial tariff protection, Canadian manufacturers have maintained a dominant presence in the domestic market.

In both Canada and the United States, Asian and some European producers are competitive in products in the low-to medium-priced ranges that are suitable for the ready-to-assemble or knock-down market segment. Western European producers are particularly competitive in small, higher-priced market segments featuring products with unique modern designs.

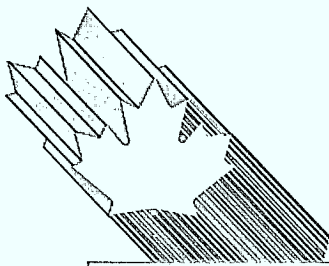


The implementation of the FTA will significantly increase competition from U.S. manufacturers in the Canadian market, particularly in view of cost disadvantages facing Canadian firms on textile inputs resulting from the different phase-in periods discussed above. This increased competition, along with that from overseas suppliers, will cause Canadian manufacturers to improve productivity and competitiveness through the use of more efficient manufacturing methods, product specialization, the development of new markets and the undertaking of mergers or acquisitions. This may be accompanied by the closing of some plants. Additional investment for new technologies and manufacturing systems, and new marketing strategies to take greater advantage of opportunities in the U.S. market will be important factors in improving competitiveness.

For further information concerning the subject matter contained in this profile, contact:

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PRINCIPAL STATISTICS

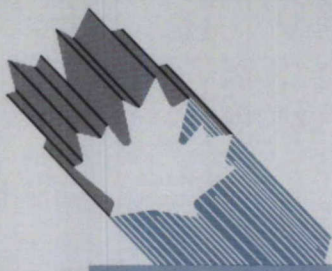
SIC(s) COVERED: 261 (1980)

| | 1973 | 1982 | 1983 | 1984 | 1985 | 1986 |
|--|--------|--------|--------|--------|--------|-------|
| Establishments | 655 | 917 | 930 | 949 | 994 | |
| Employment | 26 800 | 22 973 | 22 224 | 22 876 | 24 386 | |
| Shipments (\$ millions) | 591 | 1 112 | 1 247 | 1 377 | 1 477 | 1 583 |
| Shipments (constant 1981 \$ millions) | 1 290 | 1 016 | 1 090 | 1 154 | 1 206 | 1 251 |
| Investment (\$ millions) | 21.8 | 27.0 | 25.3 | 26.3 | 29.9 | 43.8 |
| Profits after tax (% of income) | 3.5 | 0.3 | 2.6 | 1.7 | 2.5 | |

TRADE STATISTICS

| | 1973 | 1982 | 1983 | 1984 | 1985 | 1986 |
|--|------|-------|-------|--------|-------|--------|
| Exports (\$ millions) | 22 | 66 | 89 | 132 | 182 | 220 |
| Domestic shipments (\$ millions) | 569 | 1 046 | 1 158 | 1 245 | 1 295 | 1 363 |
| Imports (\$ millions) | 79 | 176 | 225 | 276 | 312 | 400 |
| Canadian market (\$ millions) | 648 | 1 222 | 1 383 | 1 521 | 1 607 | 1 763 |
| Exports as % of shipments | 3.7 | 5.9 | 7.1 | 9.6 | 12.3 | 13.9 |
| Imports as % of domestic market | 12.2 | 14.4 | 16.3 | 18.1 | 19.4 | 22.7 |
| Source of imports (% of total value) | | | U.S. | Europe | Asia | Others |
| | | 1983 | 49 | 31 | 20 | — |
| | | 1984 | 43 | 36 | 20 | 1 |
| | | 1985 | 36 | 46 | 17 | 1 |
| | | 1986 | 31 | 47 | 20 | 2 |
| Destination of exports (% of total value) | | | U.S. | Europe | Asia | Others |
| | | 1983 | 92 | 3 | 1 | 4 |
| | | 1984 | 93 | 3 | — | 4 |
| | | 1985 | 96 | 2 | — | 2 |
| | | 1986 | 98 | 1 | — | 1 |

(continued)

**REGIONAL DISTRIBUTION — Average over the last 3 years**

| | Atlantic | Quebec | Ontario | Western Canada |
|-----------------------------|----------|--------|---------|----------------|
| Establishments – % of total | 3 | 45 | 35 | 17 |
| Employment – % of total | 1 | 40 | 47 | 12 |
| Shipments – % of total | 1 | 39 | 49 | 11 |

MAJOR FIRMS

| Name | Ownership | Location of Major Plants |
|--|-----------|--------------------------|
| Bauhaus Designs (Canada) Ltd. | Canadian | Ontario |
| Palliser Furniture Ltd. | Canadian | Manitoba, Alberta |
| Shermag Inc. | Canadian | Quebec |
| Sklar-Peppler Inc. Division of PCL Industries | Canadian | Ontario |
| Strathearn House Group Limited | Canadian | Ontario, Alberta |

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