Household Furniture

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I N D U S T R Y P R O F I L E

1990–1991

HOUSEHOLD FURNITURE

FOREWORD

In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to growth and prosperity. Promoting improved performance by Canadian firms in the global marketplace is a central element of the mandates of Industry, Science and Technology Canada and International Trade Canada. This Industry Profile is one of a series of papers in which Industry, Science and Technology Canada assesses, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological, human resource and other critical factors. Industry, Science and Technology Canada and International Trade Canada assess the most recent changes in access to markets, including the implications of the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the profiles.

Ensuring that Canada remains prosperous over the next decade and into the next century is a challenge that affects us all. These profiles are intended to be informative and to serve as a basis for discussion of industrial prospects, strategic directions and the need for new approaches. This 1990–1991 series represents an updating and revision of the series published in 1988–1989. The Government will continue to update the series on a regular basis.

Michael Wilson

Michael H. Wilson
Minister of Industry, Science and Technology
and Minister for International Trade

Introduction

Canadian furniture manufacturing is made up of industries that produce household, office and other furniture. In 1988, the household furniture industry accounted for 43 percent of total furniture shipments, while the office furniture industry contributed 24 percent. A further 33 percent of total furniture manufacturing fell into the "other" category, which includes many dissimilar products made for a variety of hotel, restaurant and institutional (HRI) facilities. A separate industry profile has been prepared on *Office Furniture.*

Structure and Performance

Structure

The Canadian household furniture manufacturing industry consists of establishments primarily engaged in the manufacture of furniture products for household use. Wood household furniture products make up about 54 percent of industry shipments and upholstered furniture about 35 percent, with the remaining 11 percent consisting of products of other materials, most of which are metal and plastic. This industry structure parallels that in most countries, except that Statistics Canada excludes bedsprings and mattresses from its data on household furniture. The value of bedspring and mattress shipments in the United States, for example, amounts to about 12 percent of that country's total household furniture shipments.

Canadian industry shipments in 1989, the latest year for which 12-month trade and production data are available, were worth more than $2 billion, and the industry employed 29 225 people. In the same year, about 11 percent of Canadian furniture shipments went to export markets, while 23.6 percent of the domestic market was supplied by imported furniture (Figure 1). The United States, by far Canada's largest export

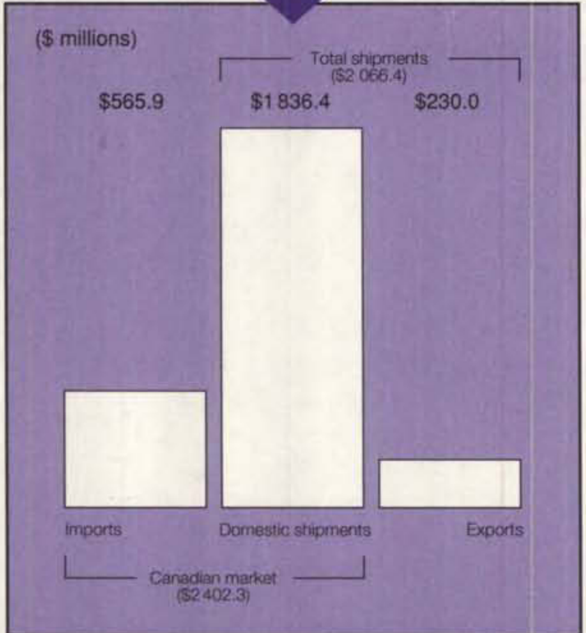

Figure 1 — Imports, Exports and Domestic Shipments, 1989

market, received about 96 percent of all furniture exports in 1989. The United States was also the largest supplier of furniture imported into Canada, accounting for 49 percent of total Canadian furniture imports in 1989. The balance of trade in household furniture products with the United States that year was more than $55 million in favour of the United States. Other main sources of imports are the European Community (EC), which accounted for 29 percent of the 1989 total, and Asia, which accounted for 20 percent.

The industry purchases a variety of raw materials, components and parts from both domestic and foreign sources. In 1988, the latest year for which such data are available, total purchases amounted to $1 billion. Items purchased in substantial quantities include lumber and wood-based components, particleboard, textile products, hardware and finishing materials. In upholstered furniture, for example, textile products are the most important material input. The cost of the textile fabric alone can represent between 25 and 30 percent of the total product manufacturing cost. About 50 percent of the industry's fabric requirements are met by materials of U.S. origin.

In 1989, the latest year for which consistent principal statistics from Statistics Canada are available, the industry consisted of 1 029 establishments, of which 47 percent were located in Quebec and 34 percent in Ontario. In these two provinces, the plants are equally distributed between metropolitan areas and smaller communities. Between 1986 and 1988, Ontario accounted for 46 percent of industry shipments and Quebec accounted for 40 percent. About 13 percent of shipments originated in Western Canada and were more or less equally distributed between Manitoba, Alberta and British Columbia. Ownership of firms in the industry is predominantly Canadian; less than 5 percent of the companies are foreign-owned. Some Canadian-based manufacturers also operate production facilities in the United States.

The mix of industry firms by size is similar to that in other developed countries. In Canada, 69 percent of furniture manufacturing establishments employ fewer than 20 people and account for 13 percent of shipments, 25 percent have from 20 to 100 employees and account for 40 percent of shipments and 6 percent (or 62 establishments) have a staff of 100 or more and account for about 47 percent of shipments. In countries with populations greater than Canada's, large firms generally operate on a larger scale than their Canadian equivalents. In the United States in 1987, for example, there were approximately 100 establishments with more than 500 employees and 20 establishments with more than 1 000, whereas there were only 3 establishments in Canada with more than 500 employees and none with more than 1 000.

The market served by the furniture industry is 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. Canadian manufacturers have maintained a dominant position in the domestic market by producing a wide variety of designs and styles in all price ranges. Each manufacturer tends to produce a broad product line within a given price range or particular market niche to suitably serve its accounts. Expanding companies may begin to serve clients in another price range or market niche, often by producing a new product line under a different brand name. Similar ends are achieved through acquisitions and mergers.

Most household furniture products are marketed nationally, although small manufacturers typically serve regional markets. In some situations, transportation costs preclude the profitable sales of a product in distant markets. In Canada, personal expenditures on household furniture amount to about 1.35 percent of total expenditures on consumer goods and services.[1]

Performance

Canadian consumption of furniture products has shown moderate long-term growth interspersed with periods of varying

[1]Source: System of National Accounts Branch of Statistics Canada, Ottawa.

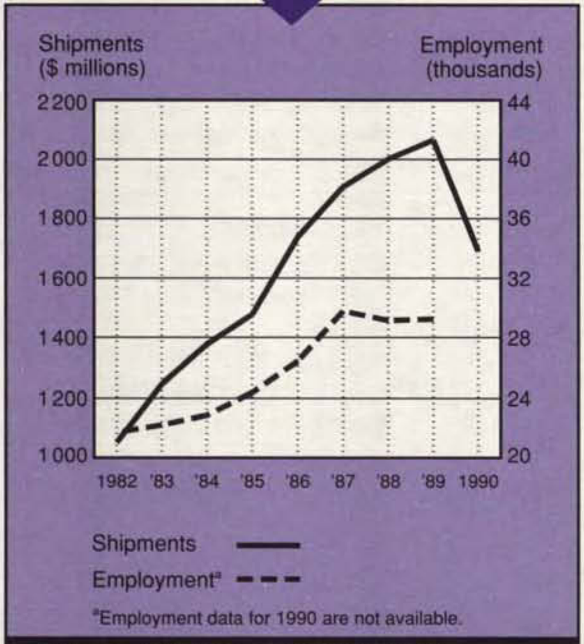

Figure 2 — Total Shipments and Employment

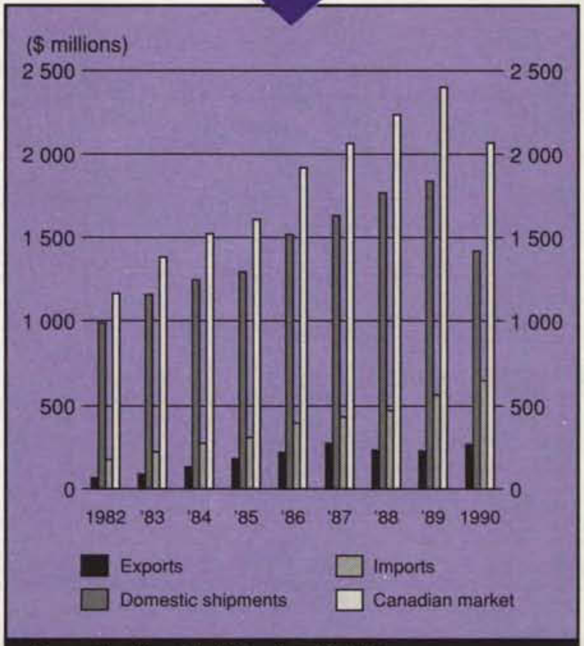

Figure 3 — Household Furniture Market

degrees of negative and positive growth, for the most part reflecting economic downturns and recoveries (Figure 2). From 1973 to 1989, the Canadian market for household furniture, measured in constant 1981 dollars, increased from almost $1 416 million to $1 671 million, representing an average annual growth rate of approximately 1.1 percent. Long-term market growth peaked from 1971 to 1981, with an average growth of 4 percent per year on a 10-year moving average basis. This high average was due to the above-average growth experienced between 1971 and 1973, when the market increased from $1 035 million to $1 416 million, an increase of $381 million. In subsequent years, the market either increased only marginally or declined until 1979, when a peak of $1 532 million was reached. Thereafter, declines or minimal increases were experienced from 1980 to 1987, such that the domestic market in 1987 at $1 557 million was barely above the 1979 level. After the peak (10-year average) growth rate of 4 percent per year experienced between 1971 and 1981, the market shrank in the three subsequent years and increased marginally after that.

With the onset in 1990 of weak demand conditions typical of a recession in the Canadian economy, however, there was an estimated 16.5 percent reduction in domestic demand for furniture relative to the 1989 level. At the time of writing, the Canadian and U.S. economies were showing signs of recovering from a recessionary period. During the recession, companies in the industry generally experienced reduced demand for their outputs, in addition to longer-term underlying pressures to adjust. In some cases, the cyclical pressures may have accelerated adjustments and restructuring. With the signs of recovery, though still uneven, the medium-term outlook will correspondingly improve. The overall impact on the industry will depend on the pace of the recovery.

The long-term market growth rate parallels the average rate of change in family size over the same period. Demographic and social considerations such as the "baby boom," the aging of the population, the smaller size of families and the reduced size of dwellings in urban areas have not significantly 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.

Trends and cyclical variations in furniture industry shipments have paralleled those of the domestic market, although a loss of market share to imports has resulted in slightly less overall growth (Figure 3). The increase in imports has been offset to a large extent by increases in exports. The recent weak demand conditions have had an adverse impact on furniture purchases throughout North America, resulting in a decrease of more than 20 percent of Canadian factory shipments in 1990 relative to 1989 levels. Consequently, companies in

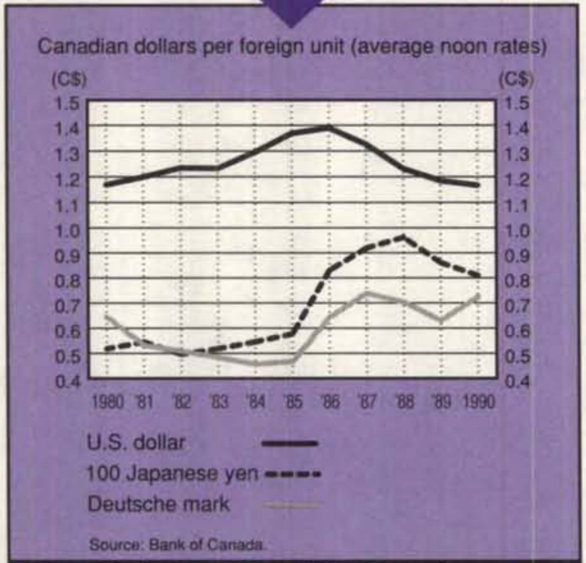

Figure 4 — Exchange Rates of Major Currencies

the household furniture industry were facing significant cyclical pressures, and there were industry-wide layoffs. A high percentage of these employment cutbacks have been associated with plant closures and company failures, unlike the 1981–1982 recession when reductions were generally associated with production cutbacks. Established brand names such as Bauhaus, Biltmore, Deilcraft and Gervais are disappearing from the marketplace, or their rights are being transferred to other companies.

Until the early 1970s, imports of household furniture were relatively constant at 6 percent of the Canadian market. Since then, imports have grown rapidly from 7.7 percent of the market in 1971 to 23.6 percent in 1989, and it is estimated that imports in 1990 may have accounted for more than 30 percent of the domestic market. Moreover, there have been significant shifts 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. In 1987, the trend reversed, and by 1990 imports from the United States represented 55 percent of the total. Imports from Asian countries grew from 5 percent in 1976 to 20 percent in 1983 and have remained at about that level since. The EC share of Canadian imports fluctuated between 20 and 30 percent between 1976 and 1982, increasing to 47 percent by 1986, then decreasing to 25 percent by 1990. The shifts in the portions of imports originating in the United States and the EC have remained consistent with changes in the value of the Canadian dollar against European and U.S. currencies (Figure 4).

Imports of furniture from Mexico currently amount to about $1.2 million annually. They do not provide strong competition for Canadian producers, but they are becoming increasingly competitive in the U.S. market. In the first six months of 1990, imports from Mexico to the United States totalled 6 percent of U.S. furniture imports, an increase of 24 percent over the comparable 1989 period. Imports from Canada to the United States represented about 12 percent of total U.S. imports.[2]

The growth in furniture imports from Asia reflects the growing competitiveness of producers in that region, particularly in Taiwan, the Republic of Korea, Singapore and the Philippines. These imports from Asia provide particularly strong competition in metal furniture, wood living room and outdoor furniture, and they account for more than 30 percent of all Canadian imports in these commodities. Some Canadian manufacturers import complete sets of finished furniture parts for assembly and packaging in Canadian plants, while others import finished products to complete their product line or import component parts to use in their manufacturing process. In addition, there are imports of assembled and ready-to-assemble products by importers and retailers.

Exports of Canadian household furniture increased 12-fold between 1973 and 1990 to $270 million, representing an increase from 3.7 percent of shipments to 16.0 percent. Traditionally, exports to the United States have represented more than 90 percent of total exports and from 1985 to 1990 were 95 percent or more of the total.

In addition to the competition from imports of furniture into Canada, the Canadian industry faces competition from other products and services vying for the same consumer dollar. Personal expenditures on furniture since 1982 have ranged between 1.24 and 1.35 percent of total expenditures on consumer goods and services, compared with an average of about 1.45 prior to 1982. Although the reduction in percentage terms is minimal, each tenth of one percent represents close to $400 million, or about 6 to 7 percent of consumer expenditures on furniture items.

Data compiled by Statistics Canada from more than 1 000 companies indicate that the industry, overall, has consistently shown a profit. Profits after tax on total income have varied from 0.3 percent in 1982 to 2.6 percent in 1986 and in 1987, the most recent years for which relevant Statistics Canada data are available. This profit margin is low in comparison with the U.S. furniture industry's profit margin.

[2]Source: *Furniture/Today*, 1 October 1990, pages 1, 30 and 31. Published by Cahners Business Newspapers, High Point, North Carolina.

Investment also has been low in comparison with that in total Canadian manufacturing. From 1985 to 1990, capital expenditures have varied between 1.1 and 2.1 percent of shipments, compared with about 4 percent for Canadian manufacturing as a whole.

Strengths and Weaknesses

Structural Factors

The key factors influencing the competitiveness of household furniture are price, service, design and quality. The relative importance of these factors may vary considerably according to price range or product category. For example, price is often the most important consideration in the lower price ranges, whereas quality and design are more important in the higher price ranges. Delivery and service are also becoming more important as retailers strive to balance a low inventory against consumer delivery expectations.

The furniture industry is labour-intensive. In both Canada and the United States, labour accounts for 23 to 31 percent of the value of shipments, and materials and supplies for 47 to 56 percent. In the United States, however, the total cost of these inputs is in the range of 72 to 75 percent, compared with about 80 percent in the Canadian industry. A more detailed comparison of these inputs in the various subsectors is shown in the accompanying table. For upholstered furniture and metal furniture, the discrepancy is mainly a result of a higher cost for some input materials used by Canadian manufacturers, whereas for wood furniture it is largely due to a higher labour content. In the case of some input materials imported from the United States, such as upholstery fabrics, the duties are higher than on the finished product. Additionally, in most cases, input materials originating in third countries enter the United States with a lower tariff rate than those entering Canada.

Household Furniture Inputs, 1987 (% of shipments)

	Production wages	Total payroll	Material costs	Total material and labour
Wood furniture				
Canada	26.5	30.8	48.2	79.0
United States	19.7	25.3	47.4	72.7
Upholstered furniture				
Canada	21.8	26.3	54.7	81.0
United States	18.7	24.6	50.0	74.6
Metal furniture				
Canada	20.9	25.4	55.5	80.9
United States	15.4	23.3	51.5	74.8

Sources: *Furniture and Fixtures Industries, 1988*, Statistics Canada Catalogue No. 35-251, annual; and U.S. Department of Commerce.

In the United States, North Carolina and the neighbouring southern states account for a major portion of U.S. furniture shipments. North Carolina alone accounts for more than 25 percent of the U.S. total. In this region, labour rates in manufacturing are about 15 to 20 percent less than the U.S. average. Furthermore, the average labour rate for furniture manufacturing in Canada is about 25 percent greater than that in the United States.[3]

The Canadian manufacturers are located near the major Canadian markets as well as some major U.S. markets close to 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 enjoy the benefits of longer production runs.

Large U.S. plants also tend to use 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 U.S. firms overall have attained a greater level of productivity than their Canadian counterparts. This competitive advantage is most evident in the low- to medium-priced ranges, where sales volumes are greatest. In the Canadian industry, the value-added per production employee in 1987 was $37 000, which was an estimated 15 percent less than equivalent U.S. production.[4]

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 feature unique modern or contemporary designs that appeal to smaller market segments in higher-priced ranges.

[3]See *Employment, Earnings and Hours*, September 1990, Statistics Canada Catalogue No. 72-002, monthly; and *Employment and Earnings*, U.S. Department of Labor, September 1990.

[4]See *Furniture and Fixtures Industries, 1988*, Statistics Canada Catalogue No. 35-251, annual; and *The Household Furniture Market*, Business Trend Analysts, 1990.

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 in a particular style or design, or with products in the higher-priced ranges, where design and quality are more important than price. At the International Home Furnishings Market held semi-annually in High Point, North Carolina, Canadian exhibitors are creating a U.S. market niche for themselves by concentrating on building contemporary products, while the U.S. industry has focused more on traditional styling.[5]

Trade-Related Factors

Beginning in 1988, imports into Canada have been classified according to the Harmonized Commodity Description and Coding System, which is the standard for most of the world. The same change-over took place in the United States in 1989. While the change may have had an effect on the compilation of furniture trade statistics for comparison purposes, it did not affect the rates of duty. The rates applied to furniture imported into Canada continue to depend upon the chief component material. The Canadian tariff on metal furniture (i.e., furniture whose major value-contributing component is metal) from countries having Most Favoured Nation (MFN) status is 12.5 percent. For other furniture, including wood, the Canadian MFN tariff is 15 percent. The corresponding General Preferential Tariff rates on household furniture imports from developing countries are 8 percent and 10 percent, respectively.

The MFN rates of duty imposed on furniture entering the United States range between 2 and 7 percent. For example, the rate for wood furniture (excluding wooden chairs) is 2.5 percent, while for furniture made of textile materials, it is 7 percent. The MFN tariff assessed by the EC for furniture and parts is 5.7 percent, while Japan's MFN rate is 3.8 percent.

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

Raw materials and parts used in furniture manufacturing are imported into Canada at varying rates of duty. For instance, wood and lumber, when not further manufactured, are generally free; the MFN rate for particleboard is 4 percent; and parts of furniture have the same rate as the product. The rate for most hardware is 10.2 percent, while the rate for upholstery fabrics most generally applicable is 25 percent.

Under the Canada-U.S. Free Trade Agreement (FTA), all tariffs on finished furniture are being phased out in five equal, annual steps, beginning with the FTA's implementation on 1 January 1989. Furniture products qualify for tariff elimination under the Rules of Origin chapter of the FTA if offshore raw materials or components have been sufficiently transformed in Canada or the United States to be classed as furniture and if 50 percent or more of the manufacturing costs are incurred in either or both countries. On most input materials used by the industry, including hardware and textile fabrics, tariffs under the FTA were originally scheduled to be phased out in 10 equal, annual steps. Since Canadian furniture manufacturers purchase significant amounts of input materials from the United States, this difference in the elimination of tariffs initially created a competitive disadvantage for the Canadian furniture industry.

The tariff anomaly created by the uneven tariff phase-out periods was the subject of analysis and investigation by the concerned government departments and the Canadian International Trade Tribunal (CITT).[6] In the case of upholstery fabrics, relief has been provided by reducing the phased implementation to five steps under the accelerated tariff elimination provisions of the FTA. The report of the CITT inquiry into tariff anomalies contained similar recommendations for other inputs.

Technological Factors

Until recently, furniture manufacturing technology was considered quite mature; advances were marginal, consisting mainly of tool improvement for speed and precision of operation. Generally, manufacturers have sought to improve productivity by standardizing and rationalizing production to increase the length of production runs and thereby justify investment in high-capacity modern machines, which are costly and often require considerable set-up time to effect production changeovers. The largest U.S. manufacturers have succeeded in achieving significant productivity improvements.

Computerized machinery has substantially reduced setup times, making shorter production runs more economically feasible, particularly 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. Computer-integrated manufacturing (CIM) and other systems incorporating new technologies, such as flexible manufacturing systems (FMS) and computer-aided design and computer-aided manufacturing (CAD/CAM), are available and will help to offset traditional scale disadvantages of Canadian firms.

[5]Source: *Home Goods Retailing*, September/October 1990, pages 12 and 14. Published by Maclean Hunter Canadian Publishing.

[6]See "Report to the Minister of Finance on the Canada-U.S. Free Trade Agreement Tariff Anomalies," Canadian International Trade Tribunal, 15 October 1990.

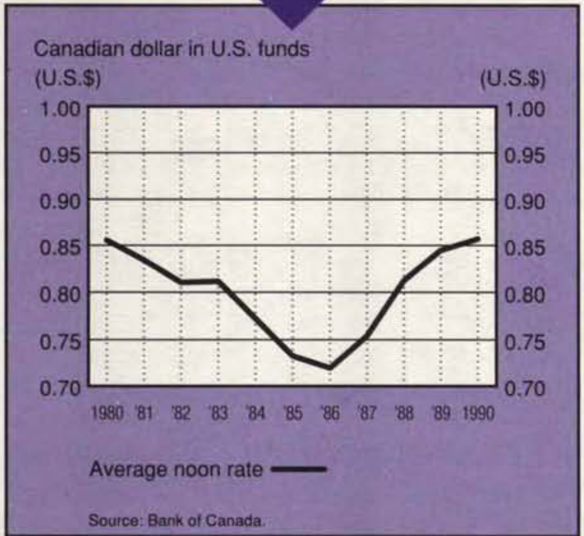

Figure 5 — Canadian–U.S. Exchange Rates

A 1989 Statistics Canada survey[7] of manufacturing technologies used by Canadian industries indicates that the furniture and fixtures sector has been below the Canadian manufacturing average in introducing new technologies to their operations. This fact is particularly true in the areas of automated materials handling, communications and control, and automated inspection. The furniture industry has been closer to the national average in the introduction of computer numerically controlled (CNC) machines, CAD and management information systems (MIS). The survey also suggests that many furniture industry managers believe that these technologies do not apply to their operations, and industry plans to introduce new technologies are therefore limited.

Other Factors

World currency exchange rates have had a significant bearing on foreign trade in furniture. U.S. import pressures on Canadian manufacturers have been greatest during the mid-1970s and during 1989 and 1990. Also, imports from Europe increased their share of total Canadian imports between 1982 and 1986, when North American currencies were relatively strong compared with European currencies. Canadian furniture trade statistics now reflect the ebb and flow of the European currencies and the U.S. dollar relative to the Canadian dollar, which took place from 1986 to 1990.

The industry has expressed concern about the relatively higher value of the Canadian dollar in recent periods vis-à-vis the American dollar (Figure 5). On the other hand, under certain economic conditions, it is widely recognized that a significantly lower value is likely to be inflationary. The resulting higher domestic costs and prices can erode, over time, the short-term competitive gains of such a lower-valued dollar.

Evolving Environment

Expenditures on household furniture per family have remained fairly constant over the past two decades. Consequently, the growth of the Canadian furniture market has been similar to the increase in the number of families in private households. Since 1971, this growth has been about 1.5 to 2 percent per year. Forecasts for the period from 1986 to 2011 suggest a reduction in the growth of the number of families to an average of about 0.7 percent per year. This forecast compares with annual averages of 2.5 percent from 1971 to 1976 and of 1.3 percent from 1981 to 1986. Coupled with modest growth projections for real disposable income, these reductions in growth rates of family formation will have a moderating effect on the growth of household furniture sales as well.[8] Shifts from one type of furniture to another will probably continue. The growth in the popularity of ready-to-assemble furniture is expected to continue and new products will be introduced to accommodate the home office, which is becoming more popular. Recently, increased attention has been given to designing products that satisfy the needs of both the aging and disabled populations. Similar trends are anticipated in the U.S. market.

Economic considerations, such as high unemployment experienced in the 1981–1982 recession and during the most recent recession, seem to have had more impact on the market than any other factor. Fluctuations in these economic factors could continue to have a short-term cyclical impact but probably will not affect the long-term trend in household furniture shipments.

As Canadian tariffs have gradually fallen under various rounds of multilateral trade negotiations (MTN) under the General Agreement on Tariffs and Trade (GATT), the Canadian furniture industry has become more 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

[7]See *Survey of Manufacturing Technologies, 1989: Statistical Tables*, Services, Science and Technology Division, Statistics Canada (Ottawa: The Division, 1989).
[8]Source: *Market Research Handbook, 1991*, Chapter 9, Statistics Canada Catalogue No. 63-224, annual.

of Korea, the Philippines, Singapore and Thailand are among the Asian countries that are developing efficient furniture manufacturing industries for the purpose of exporting. However, this potential is limited by the types of furniture they can export to Canada because of distance and transportation costs. To meet this competition, Canadian manufacturers may find more sources of components in Asia for assembly in Canadian plants, particularly in lower-priced wood furniture products.

In the United States, Canada's major furniture export market, there has also been increased competition and import penetration by furniture products from Asia and Europe. More recently, U.S. manufacturers have taken advantage of low wage rates in Mexico to produce furniture from U.S. parts. The products are then shipped back to the U.S. market under the "Maquiladora Industries" arrangement, whereby duty is applied only to the value added in Mexico. Mexico will become a more important manufacturer and supplier to the U.S. market when a free trade agreement between the two countries is reached. With Canada becoming a party to the agreement, Mexican-made furniture could supplant imports from the United States and Asia, which are currently successful in the Canadian market by virtue of their competitive prices.

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 multiplant U.S. firms, which tend to have greater productive capacity in a wider range of products than Canadian manufacturers. They are therefore in a better position to supply large-volume orders.

To meet the increased demands of consumers with respect to service and quality, retailers will be expecting improved service from their suppliers. Some retailers are already giving preference to those manufacturers who have a recognized quality assurance program in place in their facilities.

As tariffs are phased out under the FTA, there are increased opportunities both for Canadian products in the United States and for U.S. products in the Canadian market. American manufacturers have required little adjustment to take advantage of new opportunities in the Canadian market; these opportunities are widespread. Perhaps as important as the tariff reductions has been the "demonstration" effect; the FTA has made U.S. furniture manufacturers more aware of the Canadian market and the suitability of their products for that market. Additionally, easier access to and competitive pricing of U.S.-made products have encouraged more Canadian retailers to shop at U.S. trade shows.

Although Canadian manufacturers already have reasonable access to the U.S. market, the freer trading conditions under the FTA give them an additional incentive to make the production and marketing adjustments needed to capitalize on the opportunities. Those opportunities will likely continue to be with high-priced products and products serving a specialized market segment. To take advantage of the current lower value of the U.S. dollar, lower wage rates and state-administered regional incentives to relocate, a number of Canadian firms have commenced manufacturing operations in the United States.[9] In some of these cases, production is destined for the U.S. market and, in others, both Canadian and U.S. market demands are satisfied.

Competitiveness Assessment

The Canadian household furniture industry is not generally cost-competitive with counterparts in the United States or abroad in the low- to medium-priced categories. Some Canadian manufacturers, however, are successfully exploiting market niches in the United States, either by specializing in products targeted to specific market segments or by focusing on products in the higher-priced ranges, where design and quality are more important than price. Given the past substantial tariff protection, Canadian manufacturers were able to have a dominant presence in most segments of the domestic market. As tariffs on U.S.-made furniture are eliminated, competitive challenges will increase.

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. Mexico's emergence as an important participant in the North American market will increase the competition faced by the Canadian industry in both domestic and main export markets. Western European producers are particularly competitive in small, higher-priced market segments featuring products with unique modern designs.

The FTA has significantly increased competition from U.S. manufacturers in the Canadian market. This trend, coupled with competition from overseas suppliers, will encourage Canadian manufacturers to improve their productivity and competitiveness by implementing more efficient manufacturing methods, focusing on product specialization, developing new markets and undertaking mergers or acquisitions. Canadian manufacturers may also have to close some plants. Additional

[9]See *Proceedings of the Standing Senate Committee on Foreign Affairs*, Senate of Canada, 6 March 1990.

investment for new technologies and manufacturing systems, as well as new marketing strategies to take greater advantage of opportunities in the U.S. market, will be important factors in improving Canadian competitiveness in the furniture industry.

To meet future competition, Canadian manufacturers will need to pursue the productivity gains available through the use of new technologies and advanced manufacturing systems. The increased use of new technologies, coupled with more emphasis on the development of export markets, is likely to allow medium-sized firms to offer a narrower product line to a broader market base. Small firms will not likely undergo these adjustments, as they will continue to serve regional or specialized market segments. The industry, in competing with continuing demands on the consumer dollar, will need to direct some effort towards ensuring that consumers are aware of the wide range of household furniture products available and of the lifestyle benefits they provide.

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

Consumer Products Branch
Industry, Science and Technology Canada
Attention: Household Furniture
235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 954-3098
Fax: (613) 954-3107

PRINCIPAL STATISTICS[a]

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Establishments	874	930	949	994	1 035	1 065	1 157	1 029	N/A
Employment	21 725	22 224	22 878	24 386	26 429	29 767	29 136	29 225	N/A
Shipments ($ millions)	1 052.6	1 246.6	1 377.3	1 476.7	1 737.5	1 906.1	2 000.7	2 066.4[b]	1 690.0[c]
Industry selling price index (1981 = 100)	109.4	114.4	119.3	122.4	126.5	132.7	138.5	143.8	149.5
Shipments (constant 1981 $ millions)	962.2	1 089.7	1 154.5	1 206.5	1 373.5	1 436.4	1 444.5	1 437.0	1 130.4
GDP[d] (constant 1981 $ millions)	365.5	450.5	468.9	503.7	538.2	567.2	567.9	586.9	448.6
Investment[e] ($ millions)	19.3	16.5	17.0	19.9	35.2	40.9	28.1	32.0	18.3
Profits after tax[f] ($ millions)	4.2	38.9	27.5	39.3	57.4	66.3	N/A	N/A	N/A
(% of income)	0.3	2.6	1.6	2.2	2.6	2.6	N/A	N/A	N/A

[a]For establishments, employment and shipments, see *Furniture and Fixtures Industries*, Statistics Canada Catalogue No. 35-251, annual (industry group 261, household furniture industries).

[b]See *Monthly Survey of Manufacturing*, Statistics Canada Catalogue No. 31-001, monthly.

[c]ISTC estimate.

[d]See *Gross Domestic Product by Industry*, Statistics Canada Catalogue No. 15-001, monthly.

[e]See *Capital and Repair Expenditures, Manufacturing Subindustries, Intentions*, Statistics Canada Catalogue No. 61-214, annual.

[f]See *Corporation Financial Statistics*, Statistics Canada Catalogue No. 61-207, annual.

N/A: not available

TRADE STATISTICS

	1982	1983	1984	1985	1986	1987	1988[a]	1989[a]	1990[a]
Exports[b] ($ millions)	65.6	88.8	131.7	181.7	219.7	276.3	235.0	230.0	270.0
Domestic shipments ($ millions)	987.0	1 157.8	1 245.6	1 295.0	1 517.8	1 629.8	1 765.7	1 836.4	1 420.0
Imports[c] ($ millions)	176.3	224.9	276.3	311.9	400.0	435.9	473.6	565.9	650.0
Canadian market ($ millions)	1 163.3	1 382.7	1 521.9	1 606.9	1 917.8	2 065.7	2 239.3	2 402.3	2 070.0
Exports (% of shipments)	6.2	7.1	9.6	12.3	12.6	14.5	11.7	11.1	16.0
Imports (% of Canadian market)	15.2	16.3	18.2	19.4	20.9	21.1	21.1	23.6	31.4

[a]It is important to note that data for 1988 and after are based on the Harmonized Commodity Description and Coding System (HS). Prior to 1988, the shipments, exports and imports data were classified using the Industrial Commodity Classification (ICC), the Export Commodity Classification (XCC) and the Canadian International Trade Classification (CITC), respectively. Although the data are shown as a continuous historical series, users are reminded that HS and previous classifications are not fully compatible. Therefore, changes in the levels for 1988 and after reflect not only changes in shipment, export and import trends, but also changes in the classification systems. It is impossible to assess with any degree of precision the respective contribution of each of these two factors to the total reported changes in these levels.

[b]See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

[c]See *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

SOURCES OF IMPORTS[a] (% of total value)

	1983	1984	1985	1986	1987	1988	1989	1990
United States	49	43	36	31	33	45	49	55
European Community	31	36	46	47	44	34	29	25
Asia	20	20	17	20	22	20	20	19
Other	–	1	1	2	1	1	2	1

[a]See *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

DESTINATIONS OF EXPORTS[a] (% of total value)

	1983	1984	1985	1986	1987	1988	1989	1990
United States	92	93	96	98	97	95	96	95
European Community	3	3	2	1	2	2	2	3
Asia	1	–	–	–	–	1	–	–
Other	4	4	2	1	1	2	2	2

[a]See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

REGIONAL DISTRIBUTION[a] (average over the period 1986 to 1988)

	Atlantic[b]	Quebec	Ontario	Western Canada[b]
Establishments (% of total)	3	47	34	16
Employment (% of total)	1	42	44	13
Shipments (% of total)	1	40	46	13

[a]See *Furniture and Fixtures Industries*, Statistics Canada Catalogue No. 35-251, annual.

[b]Employment and shipments data for the Atlantic and Western Canada regions are ISTC estimates.

MAJOR FIRMS

Name	Country of ownership	Location of major plants
Dutailier Inc.	Canada	Berthierville, Quebec Saint-Elie-de-Caxton, Quebec Saint-Pie-de-Bagot, Quebec Martinsville, Virginia
Industries de la Rive Sud Ltée	Canada	Coaticook, Quebec Laurierville, Quebec Sainte-Croix, Quebec
Palliser Furniture Ltd.	Canada	Airdrie, Alberta Winnipeg, Manitoba Fargo, North Dakota Troutman, North Carolina
Shermag Inc.	Canada	Arthabaska, Quebec Disraëli, Quebec Lennoxville, Quebec Scotstown, Quebec Saint-François, New Brunswick Verchères, Quebec
Sklar-Peppler Furniture Corp.	Canada	Whitby, Ontario Ecru, Mississippi Lenoir, North Carolina
Strathearn House Group Limited	Canada	Downsview, Ontario Durham, Ontario Edmonton, Alberta Stratford, Ontario Wingham, Ontario

INDUSTRY ASSOCIATIONS

Canadian Council of Furniture Manufacturers
Suite 913, 350 Sparks Street
OTTAWA, Ontario
K1R 7S8
Tel.: (613) 232-3322
Fax: (613) 232-3343

Furniture West Inc.
1873 Inkster Boulevard
WINNIPEG, Manitoba
R2R 2A6
Tel.: (204) 632-5529
Fax: (204) 694-1281

Ontario Furniture Manufacturers' Association
Suite 200, 6900 Airport Road
P.O. Box 85
MISSISSAUGA, Ontario
L4V 1E8
Tel.: (416) 677-6561
Fax: (416) 677-5212

Quebec Furniture Manufacturers' Association
Suite 101, 1111 Saint-Urbain Street
MONTREAL, Quebec
H2Z 1Y6
Tel.: (514) 866-3631
Fax: (514) 871-9900

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