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Is Furniture Production Coming back?

By Art Raymond

Recent headlines claim the end is near for China as the cheap workshop for the world. Costs there are rising, and other factors, like fast delivery, are calling for the manufacture of many products in the U.S. Companies like Caterpillar, GE, Apple and others are re-shoring processes and jobs to the U.S. **Will this trend include wood furniture manufacturing?**

Before giving last rites to Chinese furniture manufacturing however, look at recent economic data. Supplying 43.7 percent of wood furniture imports, China remains the number one source for this product category. Second place Vietnam accounts for only 19.4 percent.

More importantly, the share of the U.S. wood furniture market held by foreign producers grew to 74 percent last year versus 71.5 percent a year earlier. At the same time domestic production of wood furniture in the first three quarters of 2012 declined 1.4 percent. In the face of this falling market share, more U.S. wood furniture producers like Henkel Harris, Craftique, and Thornwood recently closed shop. Lincolnton Furniture, a 2012 start-up with the latest in equipment, lasted less than a year. **The U.S. wood furniture industry is far from healthy.**

The tidal wave of Chinese furniture shipments was driven by low wage rates combined with the excellent productivity of workers there. Now, Chinese wage rates are rising by double digits while U.S. wage increases are in the low single digits. The wage gap is closing.

China's declining competitiveness has resulted in plant closures and a shift from exporting to supplying their domestic market. Savvy export factory owners are correctly shifting from reliance on low wages to investing in labor saving equipment. And remember, labor productivity in China trumps that in other foreign countries. Plenty of headroom exists for cost reduction. Combined with the country's excellent infrastructure and network of well-developed material/component suppliers, China should remain an important producer of wood furniture for the world's consumers for years to come.

China is not alone in supplying our furniture market. Joining Vietnam, Indonesia and Malaysia are growing their export wood furniture industries. In 3Q2012 shipments to the U.S. from these two countries rose by 5.3 and 8.4 percent respectively. Viable alternatives to China exist. Some believe the U.S. should be considered.

Those mulling possible re-shoring to the U.S. must first face the shortage of competitive U.S. capacity for wood furniture production. Over 250 U.S. furniture factories have been shuttered since 2000. Few efficient plants remain. And building new facilities here can be hindered by a myriad of regulations not to mention the high cost of construction and equipment. Skilled workers to man today's sophisticated machinery are also scarce.

No one can say with certainty where the industry will move next. Without question, the sourcing decision is becoming more complicated. Beyond wages, many strategic elements must be considered:

1. *Length of the supply chain* – Orders to Asian factories typically take 120 to 150 days to land in the U.S. Higher inventories are often required to satisfy consumers now expecting Amazon-like fast delivery.
2. *Sensitivity to transport costs and disruptions* – The cost of shipping a 40-foot container from the Far East to the U.S. is historically volatile. Labor unrest at U.S. ports of entry can disrupt supply chains.
3. *Product development time* – With designers and factories separated by thousands of miles, time required to develop new products can be lengthened.
4. *Required customization* – Consumers now demand more choice of fabric, finish, hardware, and other product attributes.
5. *Reliance on independent factories* – Without an ownership interest, little, if any control can be exerted on suppliers' cost efficiency and delivery reliability. Often too, competitors buy from the same plants.
6. *Disintermediation Risk* – Many foreign factories are selling direct to retailers. Importers can find themselves squeezed out of the value chain.

Bottom Line*:* Off shoring is no longer a no-brainer. Our marketplace is demanding product and service attributes that provide advantages to U.S.-based producers. Are these benefits enough to drive significant re-shoring? Hardwood lumber producers must stay tuned.