

PERSPECTIVE



The Furniture Industry Regains Some of Its Lustre

Quebec's furniture industry has taken a fair beating for 25 years. However, it has posted gains in the last two years, thanks to a favourable economic conditions and a sustained effort to set itself apart from its competitors. It will take a lot of energy to reach consumers and buyers, both to entice them to buy and to deliver their purchases. The U.S. market has appeared receptive in the last few years, but nothing is certain, particularly given the upcoming North American Free Trade Agreement (NAFTA) negotiations. However, it could take some time before an agreement is reached, so the industry should not let up on its efforts to conquer the U.S. market. Quebec furniture manufacturers are facing a promising outlook but also have their work cut out for them.

A World Unto Itself

It is easy to think one knows Quebec's furniture industry before taking a closer look. It then becomes apparent that one merely has a surface knowledge of this economic sector, which includes furniture for homes, offices, institutions (such as schools and hospitals), as well as kitchen cabinets and counter tops, partition walls, display cases, shelving, racks, mattresses, blinds and shutters.

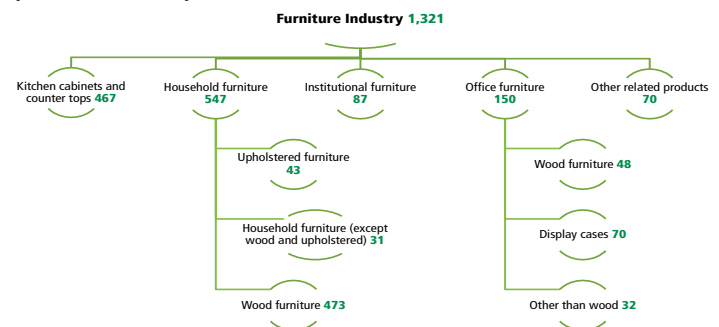
In 2016, the Quebec furniture industry had 1,321 work sites¹ (graph 1). Household furniture (547 sites) headed the list, followed by kitchen cabinets and counter tops (467 sites). In the household furniture category, wood furniture made up the lion's share (473 sites), with upholstered furniture (43 sites) and household furniture (except wood and upholstered) (31 sites) trailing far behind. Among the other major segments classified by Statistics Canada, office furniture (150 sites) came in third place, followed by institutional furniture (87 sites) and other related products (70 sites).

Although the industry is primarily made up of SMEs, some 15 companies were named to the 2017 list of Quebec's 500 largest companies, which is established by French-language newspaper *Les Affaires*. Eight of these companies ranked among the top 300. However, upon comparing Quebec companies to their U.S. counterparts, we note that Quebec companies are smaller. Nevertheless, they have been able to capitalize on their smaller size by offering greater flexibility and adaptability than larger foreign manufacturers.

¹ A company can have two production sites, which are accounted for separately.

GRAPH 1

Quebec: Furniture industry – Manufacturing – December 2016 (number of sites)



Sources: Statistics Canada and Desjardins, Economic Studies

An Evolution with Ups and Downs

The industry has experienced highs and lows for 25 years. The evolution in the value of shipments speaks for itself (graph 2 on page 2). While a slight uptick was observed (in current dollars) in 2015 and 2016, the industry has seen better days, particularly between 1994 (signing of NAFTA) and 2002. Quebec manufacturers appear to be cautiously optimistic about the recent upturn.

The period spanning 2002 to 2014 was marked by a number of pitfalls for the Quebec furniture industry. The surge in the Canadian dollar and the arrival of cheap manufacturing in Asia took a significant toll on Quebec manufacturers in both the Canadian and U.S. markets. Higher lumber prices were an additional setback. The collapse of the U.S. housing market and the 2008-2009 financial crisis merely added to an already difficult

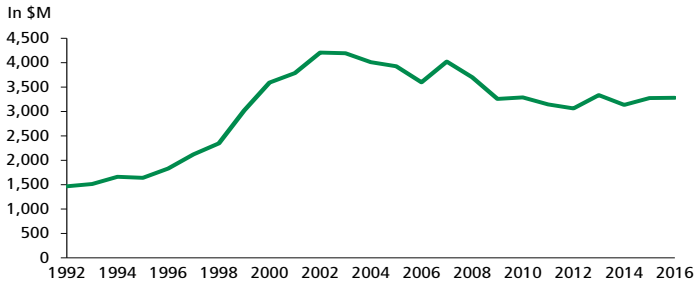
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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GRAPH 2
Quebec: 2015 and 2016 offer some hope for furniture manufacturing sales



Sources: Statistics Canada and Desjardins, Economic Studies

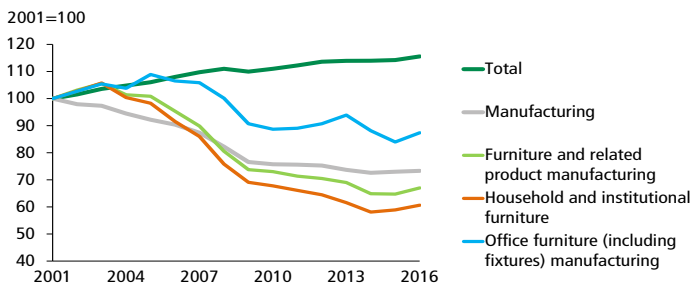
situation. As a result, the Quebec furniture industry saw a considerable drop in its sales and exports. A number of factories were relocated, which hurt Quebec production.

These converging factors also had a negative impact on employment (graph 3). From 2001 to 2016, the total number of workers grew 15.5% in Quebec. For the manufacturing sector as a whole, employment declined 26.7% in the same period. Employment in the household and institutional furniture sector fell 39.4%, and for office furniture and fixtures, the figure fell 12.6%. It's worth noting that the number of workers grew in 2016, in a similar vein to the rise in the value of manufacturing sales.

The furniture industry also generates some activity for suppliers of raw materials (wood, metal, fabric, varnish, stuffing, etc.), wrought iron items (door handles and hinge, in particular), a variety of mechanisms, transportation and packaging, to name a few. It remains difficult to assess the impact the slowdown in the furniture industry is having on the operations of these suppliers.

One can easily imagine that exports contributed to the tumble in the value of Quebec production. It is important to note that some 95% of Quebec furniture exports is destined for the

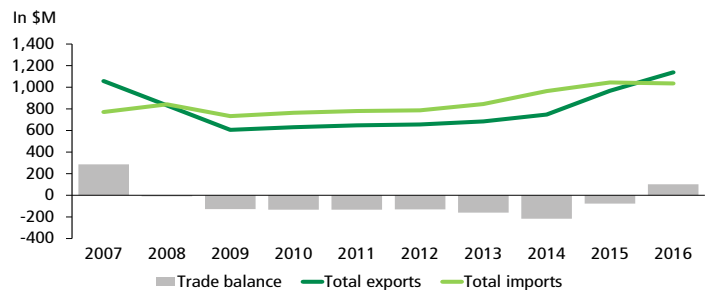
GRAPH 3
Quebec: Employment in the furniture sector grew slower than total employment in Quebec



Sources: Statistics Canada and Desjardins, Economic Studies

United States (96% in 2016). Graph 4 shows that 2009 was a particularly difficult year. After that, the recovery was very slow. The graph also shows that furniture imports (particularly from China) rose slightly through to 2013, then surged in 2014 and 2015. This upward trend slowed in 2016, and for the first time since 2009, Quebec posted positive sales in the furniture industry that year. This good news was welcomed by the industry, which does not generally boast. However, we note that exports represented approximately 35% of the value of Quebec's shipments in 2016.

GRAPH 4
Quebec: Furniture trade has strengthened in the last few years



Sources: Statistics Canada and Desjardins, Economic Studies

New Momentum

How can the current upswing in Quebec's furniture industry be explained? Is it merely riding a wave of a particularly favourable economic conditions? The weak Canadian dollar has certainly opened doors to the U.S. market. Moreover, the healthy housing market and economy in Canada and the United States support demand for Quebec furniture. China's impact is diminishing due to its rising labour costs, higher transportation costs and significant turnaround times. Despite the drop in popularity of Chinese products, competition with China will not disappear as there is a market for low-cost furniture.

While current economic conditions are driving furniture sales, the Quebec furniture industry is also trying to promote its other advantages. These include high-end and luxury furniture options, a more customized approach and a focus on quality. The industry is rolling out this strategy gradually. In addition to its improved performance, the industry appears to be better organized and coordinated.

Working Together to Win

The furniture industry is virtually everywhere in Quebec, but some regions stand out from the rest. The niches of excellence created under the ACCORD program² are an example of the industry building on its strengths. In Lanaudière and Mauricie, the focus has been placed on furniture design, to make companies more competitive. Centre-du-Québec is highlighting furniture and woodworking, and Estrie is targeting its efforts on the processing of appearance products and composites.

The furniture industry is highly competitive, which is why Quebec has been trying to rally its troops to regain some of the ground lost in the 2000s. The Quebec Furniture Manufacturers Association (QFMA) is particularly active in promoting Quebec furniture within the province and elsewhere.

Lastly, the furniture industry is 1 of the 17 sectors prioritized by the Quebec government for promoting exports from 2016 to 2020. Five priority actions were identified for the furniture retail market in Canada and the United States. The strategy focuses on the following: developing commercialization skills, supporting businesses in the transition toward digital, organizing trade missions and hosting buyers in order to develop new business contacts, showcasing a Quebec brand image, and financially supporting industry associations or businesses so they can participate in strategic trade shows.

The Market Is Changing and Companies Must Follow Suit

In a market with fierce competition, the Quebec furniture industry already knows that it cannot fight the battle on price alone. In addition, as is the case for other North American manufacturers, quality is a prerequisite for staying in the market, so it is not the only differentiating factor to count on. How can Quebec furniture manufacturers stand apart? Some have found the answer by seeking out niche markets that competitors have ignored or by customizing their products by offering a wide range of options.

Customization is the name of the game these days, and furniture manufacturers have caught on to this trend. As a result, some companies now produce to order. This enables them to offer a number of different materials, finishes, colours and wrought iron components to cater to buyers' tastes and create a somewhat unique product.

However, manufacturers also need to be flexible by adapting to consumer fashions and tastes. In the 2000s, larger homes were popular, whereas the trend now is for smaller spaces. Furniture

must therefore be designed and produced to be functional without taking up too much room, and perhaps even have a double purpose (such as a wall cabinet that becomes a bed or a table that becomes a bench).

This trend towards occupying less space is not specific to the housing sector; it has also been observed in offices and stores. This means rethinking how to use space in an even more functional way. With the popularity of teleworking and the growing number of self-employed workers, manufacturers must also offer solutions that are adapted for those who work from home.

The aging population has also created business opportunities. Manufacturers need to make smaller furniture in some cases, while in other cases, they need to create new furniture or review their choice of materials in order to better meet the needs of this market.

Consumers are becoming more demanding, which is why there has been more of a focus on design in the last few years. This is yet another way for manufacturers to set themselves apart from the competition. However, there is still work to be done in this regard.

Lastly, the arrival of the Internet has changed consumer shopping habits, whether for furniture or for other products. Online purchases are more and more frequent. A few manufacturers have websites where individuals can buy products directly, thereby cutting out the middleman. Others have opted to showcase their items online and point buyers to their showrooms or retailers. In short, they're trying to reach those who make the purchasing decisions.

A Comprehensive Plan Is in Sight

As we have seen, the furniture industry must adapt to the changing needs of buyers amid intensifying competition. At the same time, it must work towards improving its own performance to retain and grow its market share. Part of the battle involves distribution. Attracting consumers online is one thing; delivering quickly is another. Manufacturers must be able to keep the shimmering promises made on the Internet. First, they need to have an online storefront, which is not a given for all manufacturers. Then they must have the transportation logistics to turn dreams into reality.

In addition to focusing on distribution, the furniture industry must also be increasingly environmentally friendly. Consumer demands and tightened environmental standards and certifications (ISO 14000) are forcing them to go green. Starting with the product design, manufacturers must think about reducing their environmental impact, saving energy and materials, and limiting waste. This concern extends to the choice of solvents and finishing products. Some manufacturers even go so far as to choose certified organic fabrics (with natural components).

² Ministère de l'Économie, de la Science et de l'Innovation: "The ACCORD (concerted action for regional cooperation in development) capitalizes on the strength of Quebec's regions and encourages them to strive for excellence in Quebec's key sectors. It also helps bring together business people and entrepreneurs in the same region, who have a shared vision of their industry and will establish a long-term strategy to promote it."

The industry must also find ways to improve its productivity. In a climate where recruiting labour is difficult due to the aging workforce, the sector's lack of appeal to young people and the low number of graduates from the École nationale du meuble et de l'ébénisterie (which has two campuses: one in Montreal and one in Victoriaville), automation is an attractive. According to the Comité sectoriel de main-d'œuvre des industries des portes et fenêtres, du meuble et des armoires de cuisine, the industry needs cabinet makers, installers and factory workers (labourers, day labourers). It is also trying to recruit recent immigrants.

The visibility of Quebec products in Canada and abroad is another challenge for the industry. Even the best products cannot be sold if no one knows about them. That's why assistance in developing marketing skills and organizing trade missions and hosting buyers have been included in the priority actions in the export strategy. In addition, the QFMA has launched the "Meuble du Québec" signature and has asked retailers to display it (in shores, on their websites, in circulars or via other advertising platforms). The industry is also increasing its visibility by participating in furniture trade shows in Canada and the United States.

Innovation remains the key to the furniture industry's success. This means developing new products as well as updating production methods. The flexibility of Quebec's furniture industry, for which it is renowned, must be maintained. This will require investment.

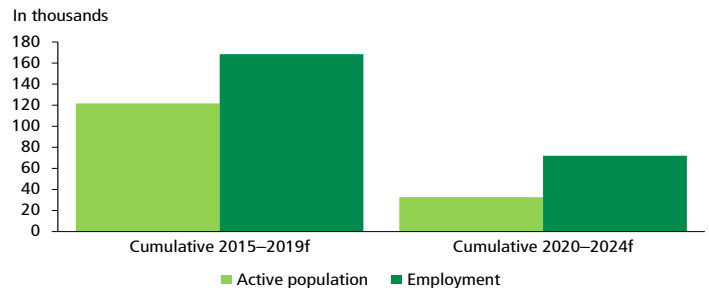
In Step with the Population, Labour Market and Trade Relations

After two years of modest growth, what can the Quebec furniture industry hope for? The outlook for household furniture relies in part on demographic growth scenarios, which are modest for Quebec for the coming years, and anticipated increases are lower than in recent decades. In all likelihood, average population growth will be faster, on average, in Canada and the United States. In this context, exporting a portion of production appears to be an attractive option. For office furniture, the dynamic is based on the active population and employment. In this regard as well, Emploi-Québec's forecasts (graph 5) for 2020 to 2024 are less encouraging than they are for the short term. This is another argument for making inroads in the rest of Canada and the United States.

However, free-flowing trade hinges on harmonious trade relations. Canada has begun to remove some of the barriers between provinces.³ With regard to the United States, negotiations to renew NAFTA are set to begin in August. It is too soon to make any determinations, but hundreds of years of trade will not be simply swept away with the wave of a hand.

³ For more information, see: [The many barriers to interprovincial trade could lessen with the new Canadian Free Trade Agreement](#), Desjardins, Economic Studies, *Economic Viewpoint*, August 23, 2016, 3 p.

GRAPH 5
Quebec: Employment outlook is less optimistic after 2020



f: forecasts
 Source: Emploi-Québec

The United States clearly has China in its sights for a number of industrial sectors and it may decide to limit access to its market, which would be advantageous for Canadian products. However, this is merely conjecture. It could be some time before an agreement is reached, so the industry should not let up in its efforts to conquer the U.S. market. Quebec furniture manufacturers are facing a promising outlook but also have their work cut out for them.

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