

## PERSPECTIVE

# Quebec's Furniture Industry Was Affected by the Pandemic, but Is Recovering

By Joëlle Noreau, Senior Economist

The furniture industry took a hit from COVID-19. As demonstrated by the economic indicators, 2020 was particularly painful. However, with restrictions being lifted and the housing market experiencing particularly lively activity, a recovery is taking place. Although 2022 promises to be positive, we should not rely solely on the momentum in housing activity and a return to the office to support the industry because competition is fierce. Consumer preferences also change and are guided by environmental considerations, something to which the industry cannot be indifferent. Investments will have to be made in the coming years to remain in the technological race, alleviate the labour shortage and inject flexibility into production to suit consumers' tastes. A new post-pandemic balance is being created.

### Taking the Pulse of Quebec's Furniture Industry

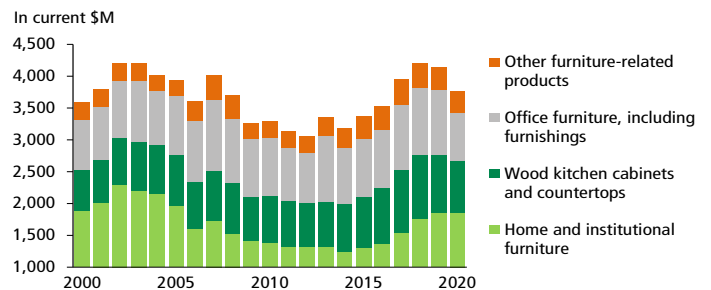
In 2019, before the COVID-19 pandemic hit, Quebec's furniture industry had a real GDP of just over \$1.5B (in 2012 constant dollars) and accounted for 3.0% of real GDP in manufacturing as a whole. What we are referring to here is home and institutional furniture, wood kitchen cabinets and countertops, and office furniture, including furnishings and other furniture-related products (mattresses, blinds and shutters).

The year 2020 was a trying one in many regards. The furniture industry's GDP fell 14.0%, well below that of Quebec manufacturing as a whole (-9.0%). However, for the first eight months of 2021, growth in the furniture sector was three times higher than that of all manufacturing operations combined. The increases were 25.2% and 7.6%, respectively. This is some serious catch-up.

A look at the past few years reveals that the second half of the 2010s was favourable to the industry in terms of manufacturers' sales. Graph 1 shows the progression of the industry's four major sub-groups. In 2019, total sales ticked down, mirroring the widespread slowdown in the global and North American economies. That year, the drop in sales was steeper for kitchen cabinets and countertops (-9.0%), other products (-8.8%) and office furniture (-3.3%). Also that same year, the largest share of sales was in home and institutional furniture (46.3%), followed by office furniture, including

### GRAPH 1

Quebec: Furniture manufacturers' sales had already begun to slow in 2019



Sources: Statistics Canada and Desjardins, Economic Studies

furnishings (24.4%), wood kitchen cabinets and countertops (20.8%) and other furniture-related products (8.5%).

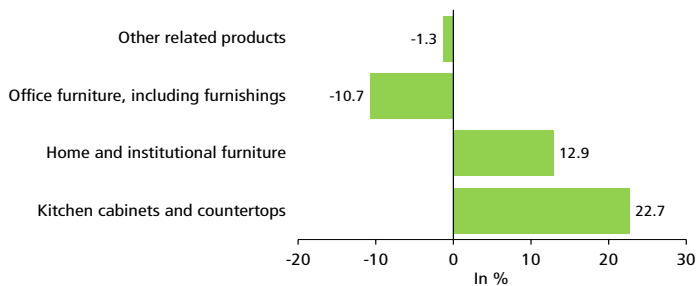
In 2020, the reduction in manufacturers' sales was felt in almost every industry. However, office furniture, including furnishings, was the industry with the sharpest decline (-26.7%) as a result of the widespread move to telework. For 2021, a comparison of the cumulative figures for January to September with those for the same period in 2019 (when production was more regular) shows that sales of home and institutional furniture and kitchen cabinets and countertops were up considerably (at +12.9% and

+22.7%, respectively). One might have thought that the dramatic rise in softwood lumber prices would have weighed heavily in the balance and inflated manufacturers' sales figures. However, the growth in the industrial price index for the furniture and furnishings sector is still moderate, all things considered, and could not alone explain the whole increase in prices. In terms of office furniture sales (including furnishings), a 10.7% decrease is noted for the first nine months of 2021 compared to the same period in 2019 (graph 2). The other products are nearly tied, with a very slight decrease of 1.3%.

Graph 3 also shows that the number of employees has dropped from the peaks reached in the early 2000s. Should we be surprised? No. Very fierce foreign competition, the outsourcing of part of production to Asia and the 2008-2009 recession reduced the number of companies and jobs here. The ageing workforce and difficulties hiring new recruits forced some companies to automate production. A significant increase in manufacturers' sales can nevertheless be seen from 2015 to 2018, as shown in graph 1 on page 1.

**GRAPH 2**  
**Quebec: Unsurprisingly, it is in office furniture that manufacturers' sales lag furthest behind**

Cumulative for the first nine months of 2021 compared to the first nine months of 2019



Sources: Statistics Canada and Desjardins, Economic Studies

The gradual lifting of restrictions, the increased flexibility in consumers' portfolio (special government assistance, lower spending due to telework, bans on foreign travel, etc.), the organization of work at home and home fit-out certainly boosted demand for home furniture. However, as we have seen, office furniture was dealt a blow.

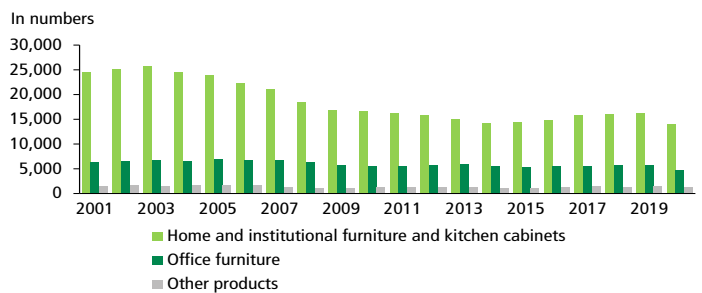
In June 2021, the industry had 1,293 production facilities located throughout Quebec. The vast majority (95.8%) had fewer than 100 employees. More than three quarters (79.2%) employed fewer than 20 people and close to two thirds (64.3%), fewer than 10. Nevertheless, 54 facilities had 100 or more employees.

The large sector comprising home and institutional furniture and kitchen cabinets and countertops consisted of 1,072 facilities, accounting for 82.9% of the total. Of these, 34 employed more than 100 people. The office furniture sector had 153 facilities (11.8% of the total), of which 14 employed 100 or more people. Lastly, there were 68 facilities specializing in related products (5.3% of the total), including 6 with 100 or more employees.

**Employment, a Changing Variable**

In 2019, the industry had 23,602 employees, a figure that slipped to 20,068 in 2020, a 15.0% decrease (graph 3). Despite this, the proportion of each of the three major groups remained the same: between 68.0% and 69.0% for home and institutional furniture and kitchen cabinets and countertops, around 24.0% for office furniture and around 6.0% for related products.

**GRAPH 3**  
**Quebec: The number of employees has fluctuated over time and dropped significantly in 2020**

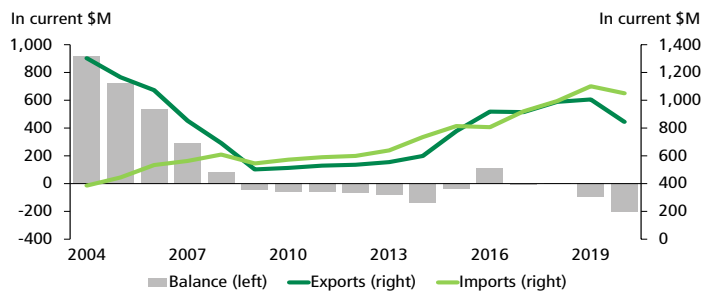


Sources: Statistics Canada and Desjardins, Economic Studies

**Exports and Imports**

In 2019, the value of international furniture manufacturing exports was \$1.0B. However, with the pandemic, it deteriorated to \$0.845B in 2020. Since the early 2000s, exports have followed a "u" pattern (graph 4). They were fairly high (\$1.3B in 2004, in particular) before the wave of products from foreign competitors swept through Canada and the rest of the world. In that respect, the value of imports has grown almost continuously and has been higher than the value of exports since 2009, except in 2016.

**GRAPH 4**  
**Quebec: Furniture exports increased in the 2010s, but so did imports**



Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

With a wider trade balance, 2020 can be said to have been devastating. For 2021, the first nine months saw a rise in total furniture exports (19.9%) and an even faster rise in imports (24.7%). We should mention that the frenetic activity in the residential market is driving demand for furniture. This will be discussed a little later in the text.

In 2019, the last year in which there was a certain degree of normalcy in economic activity, furniture exports were pretty evenly divided between home and institutional furniture, kitchen cabinets and countertops, and office furniture. In 2021, after nine months, the recovery in exports of furniture for residences (home, institutions, cabinets and countertops) was faster (+24.7%) than for the office (+15.9%). The guess is that lockdowns and telework shaped the demand for furniture in favour of residential needs. At the same time, imports picked up faster than exports, despite buy local campaigns. The increase in home and institutional furniture and in wood kitchen cabinets and countertops was 33.2% after nine months and 18.9% for office furniture.

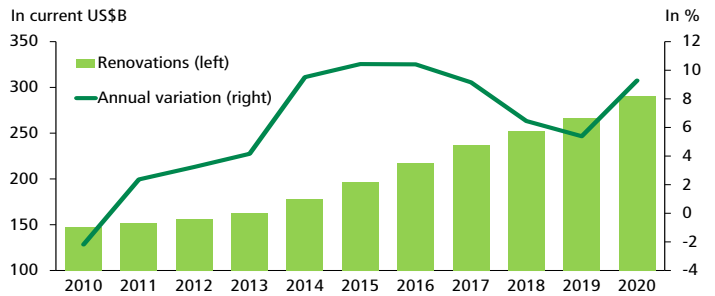
Quebec exports are highly concentrated: virtually all head to the United States (approximately 97%). Imports come from China in proportions that have been hovering around 53% to 55% in recent years. The proportions from other partners have been much smaller, at 7% to 8% from the United States, more or less 5% each from Italy and Vietnam, and smaller percentages from other countries.

**Factors Bolstering the Industry**

What trend will the factors influencing demand for furniture made in Quebec follow? Domestic demand should be one consideration. The other should be international demand, particularly from the United States. The latter is very important because, in 2019, around 54% of Quebec manufacturers' sales came from exports to that country. This percentage is already two thirds of the 2016 sales value. Graph 5 shows that housing starts will be high in 2022. Resales will be up, which should boost demand for furniture. It remains to be seen to what extent

the "Buy American" pledge will be followed by U.S. consumers. Lastly, renovation spending had been rising steadily during the 2010s, following the resale trend (graph 6). We can assume that it will continue on that path in the coming years and might drive up furniture sales.

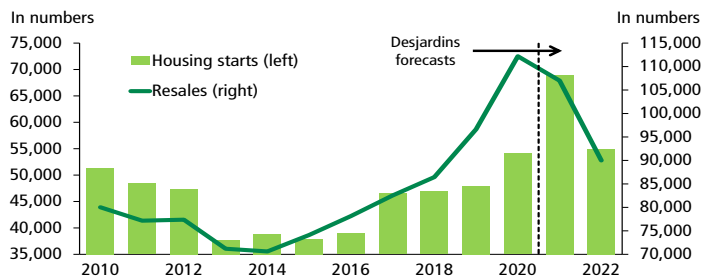
**GRAPH 6**  
**United States: Renovation spending remained steady throughout the decade**



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

In Quebec, manufacturers' sales were buoyed by sustained activity in the housing market, particularly at the end of the 2010s. Graph 7 shows that after the 2008-2009 recession, housing starts were high, as were resales. While 2021 saw a peak in new construction, 2020 saw one in resales. Although a cooling in activity is expected, a collapse is not in the cards.

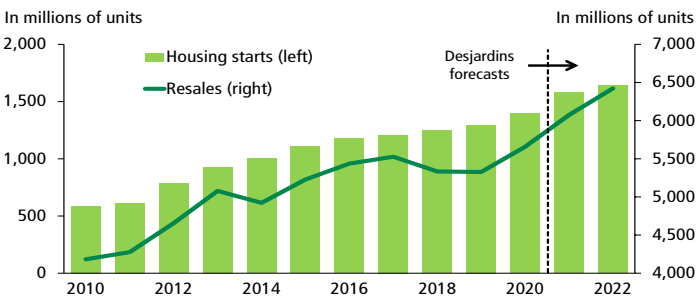
**GRAPH 7**  
**Quebec: After exceptional growth, residential market activity will cool, but not collapse**



Sources: Canadian Real Estate Association, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

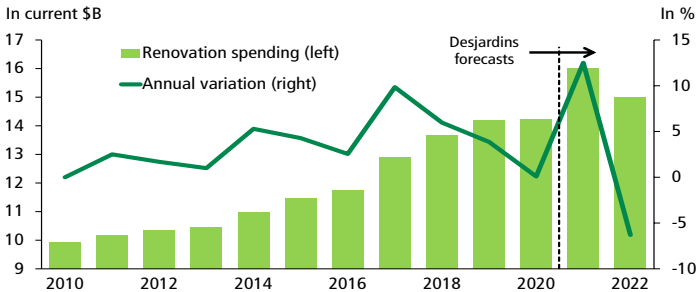
At the same time, renovation spending is also expected to drop after an exceptional year in 2021 (graph 8 on page 4). Does this mean that manufacturers' furniture sales will decline to the same extent? Not necessarily. There may be some difference between renovations and furniture purchases. The cost of building materials (wood and drywall in particular) may have inflated renovation costs in a manner similar to new construction.

**GRAPH 5**  
**United States: The U.S. housing market will continue to be frenetic in 2022**



Sources: DataStream, Mortgage Bankers Association and Desjardins, Economic Studies

**GRAPH 8**  
**Quebec: After peaking in 2021, home renovation spending will decelerate**



Sources: Statistics Canada and Desjardins, Economic Studies

There is another consideration as well: consumers' financial situation. In that respect, we published a [study](#) on November 1 on the effect of the COVID-19 pandemic on the financial situation of Canadian households. A few conclusions emerge. Since the start of the pandemic, households' financial situation has improved if we look at the situation as a whole (table 1). This is not the case for all households, of course. However, generally speaking, the situation is better and households had more savings after a year of the pandemic than they did before the pandemic hit.

**TABLE 1**  
**Widespread increase in the value of household assets\* during the first year of the pandemic**

|                    | REAL ESTATE ASSETS |                     | FINANCIAL ASSETS** |                     |
|--------------------|--------------------|---------------------|--------------------|---------------------|
|                    | Average level 2020 | Variation 2019 2020 | Average level 2020 | Variation 2019 2020 |
| Atlantic provinces | \$300,581          | +7.9%               | \$122,403          | n/a                 |
| Quebec             | \$384,613          | +8.4%               | \$111,962          | +35.4%              |
| Ontario            | \$859,224          | +26.5%              | \$185,084          | +40.2%              |
| Prairies           | \$503,334          | +10.5%              | \$180,732          | +39.2%              |
| British Columbia   | \$945,819          | +23.3%              | \$183,808          | +32.3%              |
| Canada             | \$660,774          | +20.2%              | \$162,958          | +38.4%              |

n/a: not available; \* Value of average assets per individual; \*\* Excludes the value of employer pension plans.

Sources: Ipsos and Desjardins, Economic Studies

What about the second year? The situation looks different: government assistance is less generous, but the labour market has recovered. The extra savings accumulated during the second year, mainly in the first six months of 2021 due to store closures and travel bans, leave room for discretionary spending. Although, analysts believe that some of these savings will be put toward mortgages. However, some could also be spent on new furniture purchases. As we wrap up, we should mention that furniture purchases accounted for 1.1% of the current expenses of Quebec households in 2019, or \$635. This percentage is slightly higher than the decade average (1.0%). What remains to be seen is whether consumers will prefer to buy Quebec products.

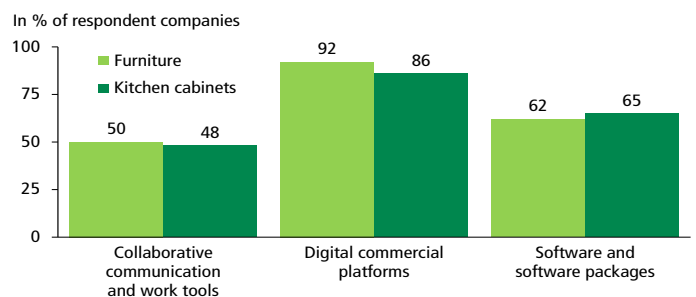
Lastly, south of the border, real personal disposable income (income after tax has been paid and the effect of inflation subtracted) grew 4.5% between the fourth quarter of 2019 and the third quarter of 2021, which is not negligible. There again there is no guarantee that furniture purchases will be a priority for households and that Quebec production will have won them over.

**What the Furniture Industry Will Look like in the Years to Come**

Like the economy as a whole, the furniture industry was rattled by changes in production and consumption patterns. In production, labour shortages have been a concern for years. Automation and the adoption of different work methods as a result of such shortages did not materialize overnight. Trades in the furniture industry are expected to change as well. The introduction of automated production management systems, such as robotization, the Internet of Things, 3D modelling and artificial intelligence, requires new skills. In the years to come, creators, technicians and programmers will be relied on more than non-specialized workers.

In terms of the adoption of digital technologies, commercial digital platforms allowing companies to interact with each other and live with consumers were some of the most used tools in 2020 (graph 9). Of the furniture companies that completed the survey conducted by the Centre facilitant la recherche et l'innovation dans les organisations, 92% had adopted such technologies (86% in the case of kitchen cabinet manufacturers). Software and software packages placed second (at 62% and 65%, respectively) and collaborative communication and work tools, third (at 50% and 48%, respectively).

**GRAPH 9**  
**Quebec: Commercial platforms are one of the most used digital tools in 2020**



Sources: Centre facilitant la recherche et l'innovation dans les organisations and Desjardins, Economic Studies

Environmental consciousness is also on the rise. A growing number of companies are advertising the actions they are taking to reduce the effects of their production. Some plant a tree for every tree cut, while others replant a certain number of trees for every piece of furniture produced or sold on their website. Eco-design, which is notably aimed at cutting down the quantity

of resources used at the source and reducing their footprint after use, is gaining traction. Offcut and scrap recycling and recovery are no longer marginal practices, just like the use of less energy-intensive tools. European manufacturers, pushed up against the wall by competition, have begun a formal reflection process on the [circular economy](#). This option was proposed with the support of the European Commission in 2017. From the introduction of the circular economy emerged an avenue for “creating value” in terms of both consumer awareness and better use of resources and greater profitability.

Changes have also been noted in consumption. Buy local movements are among them. How has the industry been affected? It is difficult to say, but it would be surprising for all the campaigns launched in recent years not to have had an impact on furniture. Quebec’s furniture industry has long shown itself off with pride. According to the 2020 edition of the [Baromètre de la consommation responsable](#), “44% of Quebecers discovered local businesses they did not know existed before the COVID-19 crisis.” The hope is that the furniture industry is included and will be able to take advantage of this momentum.

Aside from purchasing new furniture, which fosters production, consumers are also drawn to used furniture. Although used furniture purchases are not a widespread practice, it is there. According to the [Kijiji Second-Hand Economy Index](#), furniture was the fifth most traded second-hand product in 2018, with 8% of respondents acquiring and 3% offering. It may not be a groundswell movement, but this trend should be taken into account. A major international ready-to-assemble furniture producer took advantage of the phenomenon because an Internet application where furniture is cleaned, repaired, refurbished, sold or given away has emerged.

### Restoring a New Balance after the Pandemic

The furniture industry was hit hard by the pandemic. Economic indicators such as GDP, sales, exports and salaried employment clearly illustrate the extent of the difficulties encountered. The finding was particularly painful for office furniture production. However, 2021 is looking better for the entire industry. The year 2022 seems promising insofar as the frenetic activity in the residential market in recent years continues to drive spending on the fit-out of new living spaces where furniture often has pride of place. With people returning to the office, at least intermittently, office furniture should see better days ahead. However, we should not rely solely on this momentum to support the industry because competition is fierce.

Consumer preferences also change and are guided by environmental considerations, something to which the industry cannot be indifferent. Despite the buy local trend, nothing can be taken for granted: Americans could also favour their national producers. Investments will have to be made in the coming years to remain in the technological race, alleviate the labour shortage and inject flexibility into production to suit consumers’ tastes. A new post-pandemic balance is being created.