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China, Peoples Republic of

Solid Wood Products

Furniture Industry Report

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Report Highlights:
Housing reform and rising incomes are driving rapid growth in demand for furniture in China. The domestic industry is also growing, resulting in greater demand for imported wood products. While China is the world's largest furniture exporter, growing demand will create more opportunities for imports.

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A Promise and a Threat

The market for furniture in China is growing rapidly, and has contributed to rapid growth in imports of hardwood. Imports of U.S. hardwood lumber, for example, have grown from a value of $408,000 in 1990, to an estimated $56 million in 2000, with much of the growth taking place in the past two years. Growth in demand and production is forecast to continue at 12-15% over the next 10 years. For finished furniture, China is both a major competitor and a growing market. Timber industry representatives from Europe, New Zealand, Canada and the U.S. have established a marketing presence in China, and competition for imports is certain to intensify.

Reforms Furnish Growing Demand

Domestic demand is the engine driving growth in China's furniture industry. One of the key causes of this growth is housing reform. The reforms seek to gradually scrap the system of state and workplace-distributed housing in favor of individual ownership, and changes in banking practices are making it easier for families to obtain loans for purchasing their houses. One third of the respondents to a recent survey indicated that their top priority was to buy their own home. According to the Ministry of Construction, China constructs well over 440 million square meters of housing per year in urban areas. When purchased, Chinese homes are typically concrete shells, and the home buyer must hire a contractor to finish the house or apartment. Since they have greater control over the final appearance of the apartment, private owners have proved much more willing to invest in high-quality furniture to complement their new house. Redecoration demand is also substantial, and it is estimated that, of China's 120 million urban households, some 10% will redecorate or replace furniture each year. Since ninety percent of urban residents already possess a range of basic appliances, improved furniture is seen as the next key acquisition target.

Construction of hotels and other public buildings has also grown at a steady pace in cities like Guangzhou, Shanghai and Beijing. This has translated into strong demand for office and hotel furnishings. For example, Shanghai has more than 2,500 high-rise buildings completed or currently under construction. Among the top 100 multinational companies, 53 have plans to establish branches or principal offices in Shanghai, adding to the demand for office furniture. This market segment particularly favors imported furniture. A growing number of foreign-invested enterprises are being set up in Shanghai and furnished with imported furniture. This is in turn providing Chinese employees with a greater appreciation of imported furniture.

Consuming Issues

Consumption patterns for furniture are changing, as people have come to regard furniture as a consumable fashion item more than a mere utility object to be passed from generation to generation. In rural areas, the younger generation is giving up locally handmade furniture in favor of modern, industrially manufactured furniture. Because the quality of local, handmade furniture is highly variable, many people view the manufactured furniture as being superior in quality. Demand for medium to low priced furniture is expected to grow at an annual rate of 30% in rural areas. High income consumers, however, tend to favor imported modern furniture or high-quality hardwood furniture over domestically-made, panel-based furniture. Though accounting for a small proportion of domestic demand, this group is growing, and represents the best market for imported furniture. Somewhere in between, middle-class consumers account for 70% of the urban population. This group tends to favor manufactured, solid wood or panel furniture at reasonable prices.

Other key market segments include newly married couples and children. Roughly 10 million couples get married each year in China. Since most of these couples live with their parents prior to marriage, they typically have little furniture of their own when they leave. These new families typically spend between five and ten thousand RMB ($600-1,200) on new furniture as they establish their new households. Children's furniture is another rapidly growing market segment. With living space increasing, more and more children now have rooms of their own. In addition, China's one-child policy has increased the amount of money that families can spend on their child. This has created a boom in specialized children's furniture.

The most recent trend of note for U.S. hardwood suppliers is a shift to dark-colored furniture. Previously, light colors have been dominant, favoring imports of beech wood from Europe. Early this year, however, furniture manufacturers along the south and east coast began active promotions for dark furniture and flooring. Furniture made of walnut and cherry wood are very popular. This trend is also present in the markets for wood flooring. Light-colored flooring made of oak or beech is no longer dominant, as many customers have switched to darker colors. Cherry wood flooring is now reported to fall well short of demand.

The Home Team

While China represents an excellent, growing market for furniture, the domestic industry is also a formidable competitor, occupying roughly 90% of the domestic market and increasing exports at double-digit rates. In 1999, total industry output of furniture surpassed $12.5 billion, growing by 20% over 1998, and more than 79 times the level of 1978. Growth is expected to continue at a rate of 12-15% over the next 10 years. At the end of 1999, China had more than 50,000 furniture manufacturers with a total of 5 million employees. China's industry is dominated by small and medium sized manufacturers, which account for 90% of the industry's output, and 99% of the firms registered with China's Industrial and Commercial Bureau. The majority of furniture manufacturers are privately owned, likely contributing to the success of the industry.

There are four major furniture making regions in China. The southern region is in the province of Guangdong, and embraces over one fourth of China's furniture manufacturers. 'Northern furniture' is mainly manufactured in the cities of Beijing, Tianjin, Dalian, Shenyang and Harbin, while 'eastern furniture' refers to furniture made in Shanghai and in Zhejiang and Jiangsu provinces. The southwest region includes Sichuan and the surrounding areas.

In southern China, although manufacturers are small in scale, they tend to be heavily concentrated in small regions, such as Dongguang and Zhanjiang in Guangdong province, and Kunshan in Jiangsu province. Manufacturers in this area have been the best market for imported wood, and are also the primary exporters of Chinese furniture. A recent survey on wood material usage of furniture manufacturers and interior decoration companies in Guangdong province showed that more than 80% of wood materials used in these companies were imported from

Europe, the U.S., and Southeast Asia. This region also has the largest number of foreign-owned furniture manufacturers. The largest domestic manufacturers are in the northern region, and traditionally rely on wood from local sources. This could change, however, as government policies to protect forest resources have limited domestic wood supplies. The establishment in Shanghai and Beijing of timber exchange centers with a strong international presence may herald growing import demand from the North and East.

Though imports of hardwood are increasing, China's forest protection policies have led to a drop in the overall supply of solid wood available to manufacturers. Faced with limited supplies, Chinese manufacturers are rapidly diversifying into artificial wood materials, metal, plastic, stone and leather. At present, the main categories for furniture include wood, plastic, metal, glass, bamboo and rattan. Of this, wood accounts for about 70%. However, within this category, 90% is made of wood-based panels, such as MDF and particleboard. Techniques for overlaying on solid wood, use of decorative paper with wood grains, decorative boards, veneer, and micro veneer are rapidly becoming widespread. The most commonly used domestic hardwoods are Chinese ash and walnut. Imported wood species include European beech (mostly used in floorings), Southeast Asian rubber wood (primarily for dining tables), Russian oak, Australian eucalyptus, South American rosewood and New Zealand pine. American white oak and cherry are gaining wide acceptance, due in large part to the efforts of the American Forest and Paper Association, and the American Hardwood Export Council. Use of softwood in furniture production remains relatively low, apart from panel products, though there are signs that this may be changing.

Visitors

Foreign investment in the Chinese industry is substantial, and growing rapidly. This investment has tended to be concentrated in southern China, and is dominated by Hong Kong and Taiwanese companies. Nearly all of Hong Kong's furniture manufacturers have moved to Guangdong and Fujian provinces, and there are more than 400 Taiwanese firms now operating in mainland China. Singapore has also established a presence, with Singaporean companies investing over $100 million in Kunshan in Jiangsu province. The U.S. office furniture manufacturer, HBF, together with its Austrian counterpart, Svoboda, has also established production facilities in Guangdong and a showroom in Beijing. This has shortened delivery times from eight weeks to several days. Although the products from HBF and Svoboda are much more expensive than domestic products, they have found a good market among famous designers and high-end markets.

Musical Chairs

China is both a major exporter and a growing importer of furniture. China's exports have maintained double-digit growth in recent years, making it the number one exporter of furniture in the world, outstripping Canada. From January to October, 2000, total exports of furniture reached $2.9 billion. By comparison, exports for the entire year in 1999 amounted to $2.7 billion, itself an increase of 23.7% over the previous year. Of this, exports of wood furniture totaled $1.3 billion. The top market for China's exports is the United States, which imported a total of $1.9 billion worth of furniture. Furniture exports consist primarily of solid wood furniture and low value-added furniture. Growth is expected to be fastest in exports of panel, metal and high-quality furniture.

At the same time, China's gargantuan domestic market is attracting the attention of foreign furniture exporters. At present, imports represent only 1% of domestic sales, and growth has been uneven. Sweden, Italy, Germany, Spain and the United States are all striving to increase their furniture exports to China. Furniture made in the U.S. and Europe first entered the Chinese market in large quantities in 1997, after voluntary tariff reductions made imports more practical. Prior to the mid 1990's, the average tariff on furniture was as high as 78%. Since then, tariffs have fallen to an average of 22% as of January 1, 1999. Compared with domestic furniture, which tends to imitate a small number of successful designs, the imported products have presented a fresh appearance. Now hundreds of foreign companies are exporting to China, and China's total imports of wood furniture alone reached $24.8 million in 1999. Future prospects are even brighter, as WTO will provide improved access for imported furniture. Under the terms of China's WTO agreement, tariffs are scheduled to fall from an average of 11% down to between 4% and 7.5% over a four year period, with some items being tariff-free.