

# FURNITURE ECONOMICS

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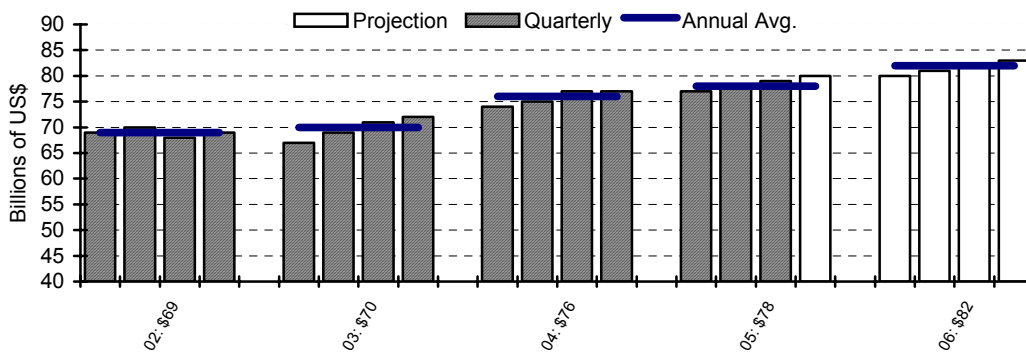
## AKTRIN'S MONITOR FOR AMERICAN CONSUMER SPENDING ON FURNITURE AND BEDDING

The American economy is still performing fairly well. Real GDP growth stood at 3.6% in 2005, only slightly down from 4.2% the year before. However, growth decelerated while the year progressed and this trend became more pronounced in the last quarter of 2005. For the next two years, GDP growth will likely remain lackluster. We predict an average advance of only 3.0% for 2006 and even less next year.

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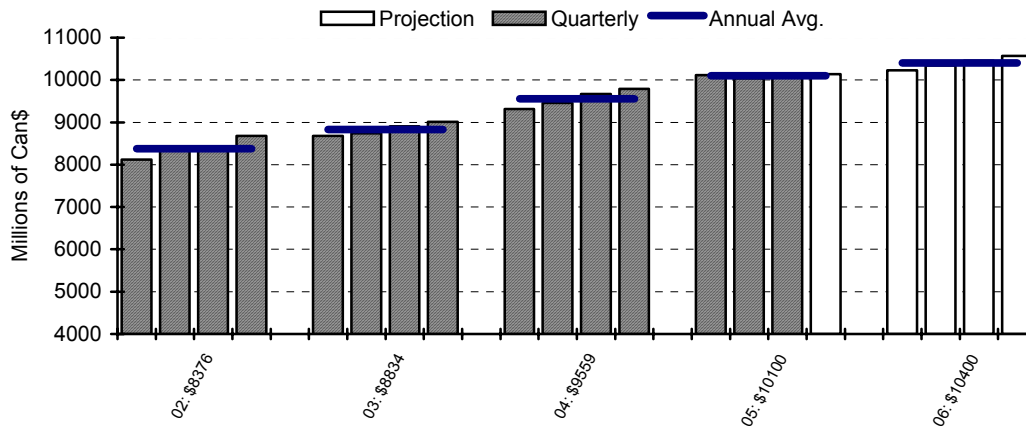
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Quarterly data seasonally adjusted at annual rates  
 Source: U.S. Department of Commerce, Strategic Projections Inc., AKTRIN

## AKTRIN'S MONITOR FOR CANADIAN CONSUMER SPENDING ON FURNITURE AND BEDDING



Quarterly data seasonally adjusted at annual rates  
 Source: Statistics Canada, Strategic Projections Inc., AKTRIN

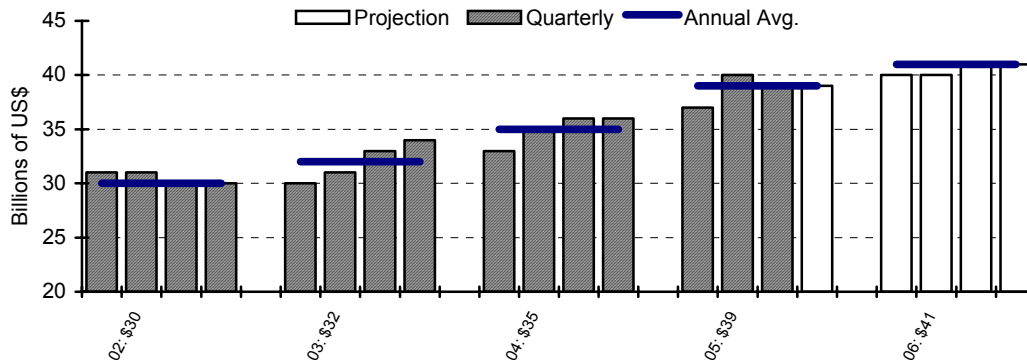
The economy in Canada has been advancing at a rate of 2.9% last year, and we believe that the performance will be only marginally slower in 2006 and 2007.

Personal income growth advanced at a rate of 4.8% in 2005. It is likely to remain at that level during the next two years. Much of the growth impetus goes on account of higher prices. If the impact of inflation and taxes is eliminated, the performance is more modest. Growth of real disposable income in 2005 was only 2.2%. If income taxes will be lowered in the wake of the next federal election, growth may be slightly faster in 2006 and 2007, estimated to be about 2.8%.

The Canadian residential housing market was still healthy in 2005. It advanced by 3.8% (on a value basis), down from 8.3% the year before. However, the market is saturated now and demand is waning. We predict a growth rate of only 2.8% in 2006. It may be even lower in 2006 if mortgage rates continue to climb. In unit terms, this represents a drop from 222,000 in 2005 to about 195,000 this year and only 185,000 next year.

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## AKTRIN'S MONITOR FOR AMERICAN SPENDING ON OFFICE FURNITURE



Quarterly data seasonally adjusted at annual rates  
 Source: U.S. Department of Commerce, Strategic Projections Inc., AKTRIN

After several years of poor profitability, the American corporate sector witnessed much healthier conditions since 2003. Pre-tax corporate profits advanced by 12.6% in 2004 and 13.4% last year. (On the other hand, after-tax profit growth was only half that rate). However, excessive inventories that have recently accumulated in the manufacturing sector suggest that corporate profitability in the USA will decline again in the near future. We predict pre-tax profit growth to be about 6.6% this year but only 4.6% in 2007.

In line with the general business cycle, private investments also got out of the slump and progressed at a vigorous rate of 9.4% in 2004 and 8.8% in 2005. This compares to only 1.3% in 2003. The declining corporate profitability, however, will require more rationalizations in the years to come. This may have a negative impact on office furniture consumption. For 2006, we expect investments to grow by about 5.9% and it is likely that the declining trend will carry over to 2007. Investments in machinery and equipment (which includes office furniture) was doing a bit better, but it is also on a downward trend. After advancing well in excess of 10% both in 2004 and 2005, the performance this year will probably be only in the 6% to 7% range. If interest rates continue to rise and if the value of the American dollar will gain strength, the growth of business investments in machinery and equipment will further decline next year.

In addition to private sector investments, government spending is also providing some support to the economy. Indeed, growth of governmental investments remained in the positive realm in each and every year so far this century, averaging about 2.0% per annum. However, due to the high US budget deficit, government spending is bound to slow down in the years to come.

The employment market is not contributing much stimulus to the office furniture demand. There was only timid growth of 1.1% in 2004 and 1.7% last year. Not much improvements are expected for this year, and employment growth is likely to remain below the 1.5% mark.

Expenditures on non-residential construction – including office space – was very frail during the past few years. Following two years of decline, there were some minor improvements in 2004 when the non-residential construction value grew by 2.2%. Growth last year stood at 2.0%. Indications so far suggest that the investment activity will pick up a bit, with anticipated growth rates of 2.4% this year and 3.3% in 2007. In spite of sluggish non-residential construction, the supply of office space is still adequate to accommodate any expansion of office employment.

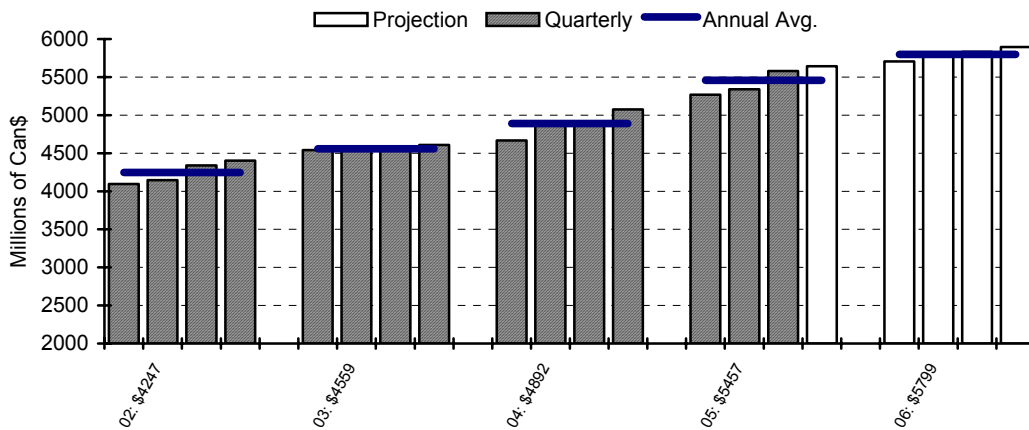
Business outlays for office furniture (evaluated at end-user prices and including recycled furniture) has been falling from \$ 37.2 billion in the second quarter of 2000 (at annual rates) to a low of \$ 29.8 billion in the fourth quarter of 2002. This represents a drop of almost 20%. Even though positive growth can now be detected, it remained very shallow in 2004 and did not reflect the overall pick-up in business investments. Only last year could we witness a noticeable improvement when the office furniture market reached an estimated \$ 38.8 billion, being the first year surpassing the previous peak value of 2000. This is up 11.4% from a value of \$ 34.8 billion in 2004. With most of the pent-up demand being satisfied now, we predict some slower growth again this year, estimated to be about 4.5%. This would bring this year's market size for the first time to a value in excess of \$ 40 billion.

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## AKTRIN'S MONITOR FOR CANADIAN SPENDING ON OFFICE FURNITURE

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Canadian business profits (pre tax) rose by a whopping 18.7% in 2004 and another 10.7% last year. This is a big improvement compared to earlier years. Unfortunately, the growth rate will not remain at this high level. Due to the strength of the Canadian Dollar, corporate profitability came under pressure. With



Quarterly data seasonally adjusted at annual rates  
Source: Statistics Canada, Strategic Projections Inc., AKTRIN

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## **AMERICAN CONSUMER SPENDING ON FURNITURE AND BEDDING**

*(Continuation from page 1)*

Helped by an expected increase in job creation, personal income may hold up better than the economy as a whole. The growth rate stood at 5.9% in 2004 and 5.3% in 2005. It will probably continue to grow at a rate in excess of 5% during the next two years. However, if we take inflation and taxes into account, the anticipated growth rate of real disposable income will be only about 2.5%.

Growth of American consumer spending stood at 3.9% in 2004, and 3.6% last year. We believe that the pace will slow down this year and next, to match the 2.5% growth rate of real disposable income

The durable consumer good market is subject to erratic fluctuations as such goods are quite sensitive to consumers' confidence and household expenditures. After growing by a staggering 10.8% in the third quarter of 2004, it descended to a meager rate of 2.6% in the first quarter of 2005 only to rise again to 10.5% in the third quarter (all rates are annualized). The average annual growth last year amounted to 5.5%. Similar to overall consumer spending, durable good consumption will grow much slower in 2006 and 2007, estimated at 2.3%.

Residential construction was a very strong sector of the American economy during the past two years. Thanks to low mortgage rates, the performance remained robust in 2004 growing at an average rate of 10.3% (in value terms). The housing market is now a bit oversupplied, and growth dropped to a still respectable 7.3% last year. The slowdown in the construction sector is likely to continue for the foreseeable future with annual growth rates dropping below 3%. In volume terms, this translates to approximately 2.04 million new housing units in 2005 but only an expected 1.80 million in 2006.

Furniture consumption in the USA was weak during the first three years of this century. Fortunately, the sector entered a strong recovery phase, recording a 7.9% growth rate in 2004 and 3.8% last year. In line with the growth of real disposable income, we foresee a slightly faster rate of 4.3% in 2006, bringing the market value to about \$ 82 billion. ♣

## **CANADIAN CONSUMER SPENDING ON FURNITURE**

*(Continuation from page 2)*

Canadian consumer spending is an important force contributing to the economy's overall growth. It rose at a rate of 3.9% in 2005. Due to rising interest rates, we anticipate a slower rate of about 2.6% for 2006.

Expenditures for durable consumer goods were even more buoyant last year. Growth stood at a healthy 6.1% in 2005 (up from 3.1% in 2003). However, consumer confidence is declining again. If interest rates continue to climb, we expect durable consumer good sales to advance by only 2.3% this year.

The Canadian furniture market (at retail prices) has been plowing ahead without interruption between the third quarter of 2002 and the first quarter of 2005. Growth during the remainder of last year was flat. However, indications are that growth will resume again this year, estimated to average 3.0%. The size of the Canadian furniture market in 2005 stood at C\$ 10.1 billion and we expect a market valuation of at least C\$ 10.4 billion this year. ♣

## **CANADIAN SPENDING ON OFFICE FURNITURE** *(Continuation from page 4)*

Canada's heavy export reliance, any currency shifts are immediately reflected in the bottom line of corporations. If interest rates continue to rise, corporations will suffer even more. We believe that pre-tax profit growth in Canada will drop to about 7.2% in 2006 and probably still lower next year..

Business investments are strongly influenced by corporate profits, albeit with a considerable time lag. Investments in machinery and equipment rose by 10.5% last year. However, in line with sagging business earnings, the strong investment climate will not carry over to 2006 in particular if interest rates continue to advance. We predict a growth rate of 8.5% this year.

Governmental expenditures have been growing at an average annual rate of 3.0%. In view of Canada's continued budget surplus, it is likely that government investments may be a bit higher in the years to come.

The employment market has been a relatively strong segment in the Canadian economy during the past two years. It grew by 1.8% in 2004 and 1.4% in 2005. Job creation will be only marginally slower this year, estimated to advance by about 1.3%. This is equivalent to some 150,000 new jobs.

Similarly to the USA, there is sufficient vacant office space available in Canada to accommodate any expansion of office jobs. The subdued activity in office building construction during the past few years does not create an impediment to the growth of office employment at the present time. A possible exception may be Calgary and Toronto where vacancy rates have become quite firm. Commercial construction in Canada started to gather some steam in the last quarter of 2005. For this year we predict a quite healthy annual growth rate of 8.2% (in value terms).

Average annual office furniture sales in Canada (at retail prices and including recycled furniture) showed steady growth throughout this decade. Last year's growth stood at 6.3% lifting the market to a value of C\$ 5457 million. We believe that growth this year may surpass the 10% mark and raise the value to about C\$ 5800 million. This , however, implies, that the corporate profitability in Canada remains healthy.

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## **EMPLOYMENT IN THE AMERICAN FURNITURE INDUSTRY**

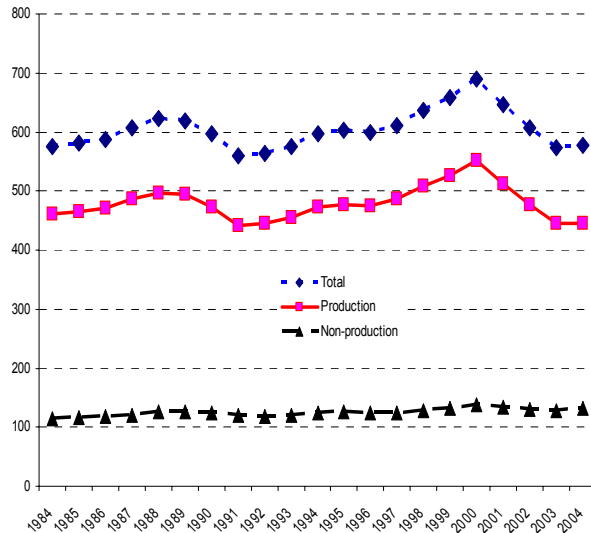
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*Excerpt from a recent AKTRIN report "Employment & Wages in the American Furniture Industry.  
For more information click <http://furniture-info.com/116.htm>*

Total employment in the furniture industry (household and office segments) stood at 577,300 persons in 2004. Employment in all of manufacturing totaled 14.4

million persons. Thus, the furniture industry accounts for only 4.0% of the manufacturing total, and only 0.4% of the 134 million people in total with jobs in the United States in 2004.

Over the past two decades furniture employment has been on the rise both in absolute terms and in relative terms, a claim that cannot be made by overall manufacturing. Between 1984 and 2004, furniture industry employment grew by 0.5% while total manufacturing employment fell by 19.6%. As a result, furniture's share of manufacturing employment has risen. The reason is that the furniture industry lends itself less to labor-saving technologies than other industries.



*EMPLOYMENT IN THE FURNITURE AND FIXTURES INDUSTRY, THOUSANDS OF PERSONS, 1984 TO 2004.*

Kitchen cabinet, household and institutional furniture manufacturers employed 64.8% of the people in the furniture industry. The remaining 35.2%, were employed by office and other furniture manufacturers. Though it still claims the greatest share, kitchen cabinet, household and institutional furniture witnessed a gradual erosion in their share over the last two decades.

The non-production worker share varies widely across the various furniture segments. The non-production share is generally higher within the office group (29%) compared to the household group (19%). Since office furniture is frequently distributed directly by the manufacturers, more marketing and design staff must be retained by office furniture manufacturers.

Production worker employment has grown less rapidly than non-production workers. In the early 1960s salaried and commissioned workers accounted for only about 17% of total employment but more than 20% at the present time. The shift in the labor composition reflects both the introduction of labor-saving technology (which has reduced the relative need for production workers) and the increasingly complex business environment (which has increased the relative need for marketing and administrative workers).

For more information click: <http://furniture-info.com/116.htm>

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## PRODUCT AND CONSUMER TRENDS

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Below are a few quotes from a TCHFM (The Canadian Home Furnishings Market) press release.

- On the wood and metal furniture front, contemporary style continues to reign, with structured profiles, all angles and contours. On the flip side, traditional pieces feature pure lines and gentle curves, as seen on chair backs, table bases, headboards... The straightforward lines typical of contemporary style are seen everywhere, with supply volumes and slender bases the hallmarks of the season.
- While contemporary, urban classics still lead the hit parade, transition is clearly blowing the wind. More and more collections come in "transitional" style – a term used only in North America that denotes a successful blend of contemporary and traditional.
- This season's wood furniture features dark finishes that let the warmth of the wood grain show through. Favourite shades are chocolate, espresso, ebony, and wenge – or, at the other extreme, light natural finishes. No half-measures here!

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