

U.S. Department of Commerce Industry Outlook
Dolls, Toys, Games, and Children's Vehicles NAICS Code 33993

Industry Definition

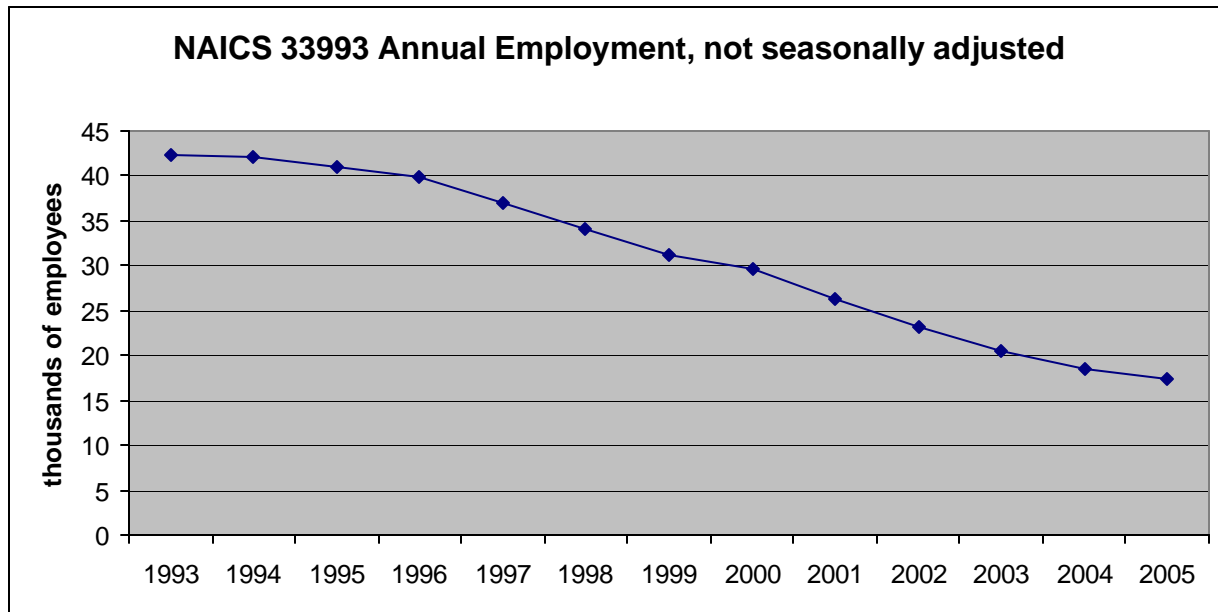
NAICS 339931 comprises establishments primarily engaged in manufacturing complete dolls, doll parts, and doll clothes, action figures, and stuffed toys. NAICS 339932 comprises establishments primarily engaged in manufacturing games and game sets for adults and children, and mechanical and non-mechanical toys. Establishments primarily engaged in manufacturing electronic video game cartridges and non-doll rubber toys are not included.

Current Economic Indicators

The U.S. toy industry is the world's leader in children's entertainment products. It achieved that position by combining high value-added domestic operations, such as product design, engineering and strategic marketing, with substantial overseas production. The two largest U.S. companies are Mattel and Hasbro. Mattel is the world's number one toy manufacturer marketing some of the leading brands including American Girl, Barbie, Fisher Price, Hot Wheels, Matchbox, and holds licenses for Barney, Sesame Street, and Star Wars. Hasbro markets Milton Bradley, Parker Brothers, Playschool, and Wizards of the Coast among others. Both are publicly held and reported 2005 sales of \$5,179.1 million and \$3,087.6 million.

While the majority of toys destined for the American market are designed in the United States, large-scale production has shifted abroad. Accordingly, total employment in the doll, toy, and game industry has declined from its high in 1993 with 42,300 workers to 17,400 workers in 2005¹. The industry has lost more than half of its employment in the last ten years, see figure 1.

Figure 1



¹ Bureau of Labor Statistics, Employment, Hours, and Earnings from the Current Employment Statistics survey.

Even though large portions of the major U.S. toy companies' product lines are manufactured abroad, they still incorporate important U.S. value in terms of the product design, marketing, research and development, and corporate support functions. While U.S. toy companies have their own toy development divisions, they also support a loose network of independent toy inventors and designers that sell their concepts to the larger companies. Such jobs are not counted in the U.S. Government estimates of toy industry employment.

The industry's domestic production in 2004, the latest year of available data, was valued at approximately \$3.541 billion. New York City was once the toy manufacturing capital although today the industry is more dispersed with approximately half of the companies located in the following ten states; California, New York, Pennsylvania, Ohio, Illinois, Florida, Colorado, Michigan, Missouri and Maryland. The first five states account for 36 percent of all U.S. toy companies and 42 percent of U.S. employment in the sector².

A few large manufacturers and many small producers characterize the industry; of the 139 establishments that produced dolls in the United States in 2002, the latest year of detailed statistics, 80 percent employed less than 20 people. Doll production wages averaged \$9.40 per hour and ranged from \$9.57 in Colorado to \$9.15 in Ohio. Similarly, of the 742 establishments that produced toys in the U.S. in 2002, 78 percent employed less than 20 people. Toy production wages averaged \$13.20 in 2002³ and ranged from \$19.65 in Maryland to \$9.84 in Iowa.

Toy Sales and Distribution

The U.S. Toy Industry Association, TIA, estimates that 2005 retail sales of traditional toys was \$21.3 billion in 2005, down 3.7 percent from 2004, see figure 2 for a breakdown of toy sales by category⁴. Sales of toys for the infant and pre-school age groups illustrates the trend that children are moving away from toys at an early age and replacing traditional play with TV and movies, computers, and other electronic devices.

Figure 2

Traditional Toy Sales in the U.S. by Category*	U.S. Dollars
Infant & Pre-school	3.1 billion
Dolls	2.7 billion
Outdoor and Sports	2.7 billion
Other	2.5 billion
Arts & Crafts	2.4 billion
Games & Puzzles	2.4 billion
Vehicles	1.8 billion
Action Figures and Accessories	1.3 billion
Plush	1.3 billion
Building Sets	695.2 million

² 2002 Economic Census of Manufacturing NAICS 339931 for Dolls and Stuffed Toys

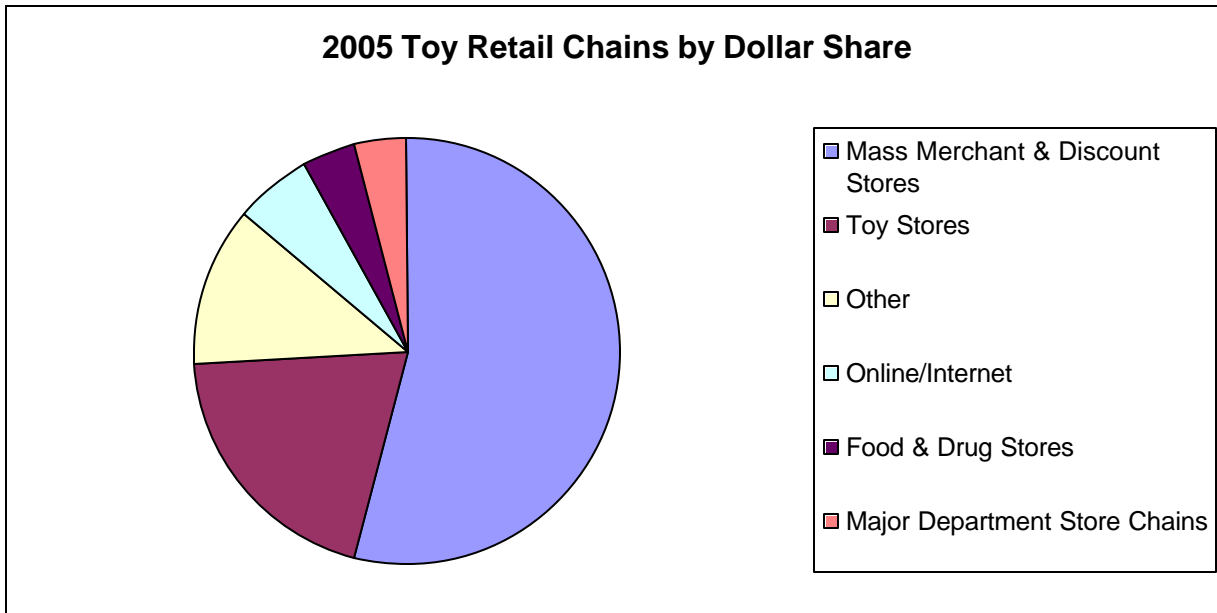
³ 2002 Economic Census of Manufacturing NAICS 339931 for Dolls and Stuffed Toys

⁴ The NDP Group Statistics, Toy Industry Association 2005 Annual Report <http://www.toy-tia.org>

*Not including video games

The US toy industry sells its products through a wide distribution channel, see figure 3.⁵ In recent years the mass merchandise and discount retail channels have become the primary source of distribution and accounted for more than 50 percent of all toy sales in 2005. Wal-Mart, Toys “R” Us, and Target are the currently the three largest toy retailers.

Figure 3



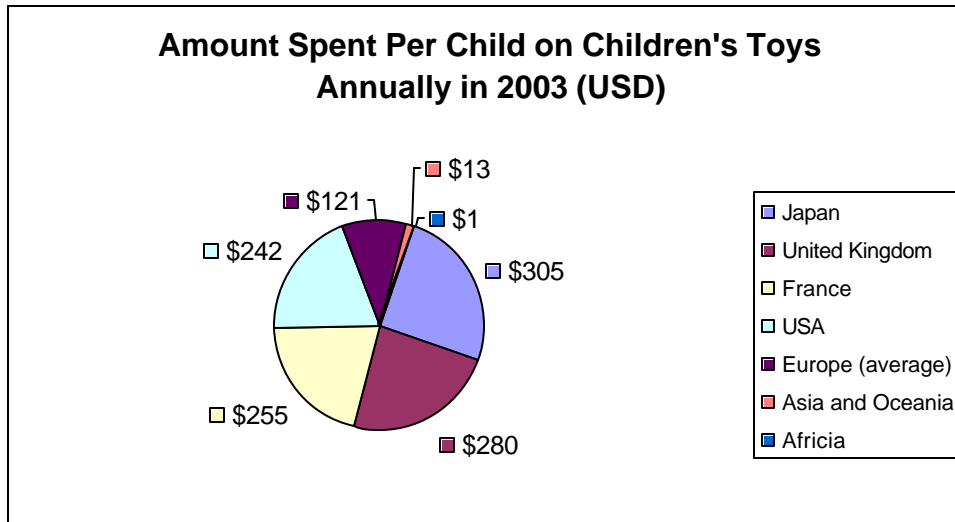
World Markets and Trends

The toy industry is global in both the production and the sale of products. Worldwide sales of traditional toys, excluding video games, totaled \$59.4 billion in 2003, up 6.1 percent from 2002 and including video games totaled \$85.4 billion in 2003, up 6.2 percent from 2002 according to the International Council of Toy Industries.⁶

The U.S. and Canada consumed approximately 44 percent of total world sales of traditional toys⁷, games and dolls in 2003⁸. According to the International Council of Toy Industries, the world average spent on toys for children was \$26 in 2003, see figure 5 for a breakdown on annual spending per world region ranging from \$1 in Africa to \$305 in Japan.

⁵ The NDP Group Statistics, Toy Industry Association 2005 Annual Report <http://www.toy-tia.org>
⁶ International Council of Toy Industries http://www.toy-icti.org/resources/wtf&f_2003/
⁷ The traditional toy market excludes sales of video games and related components.
⁸ International Council of Toy Industries 2001 report: <http://www.toy-icti.org/resources/statistics.htm>

Figure 5



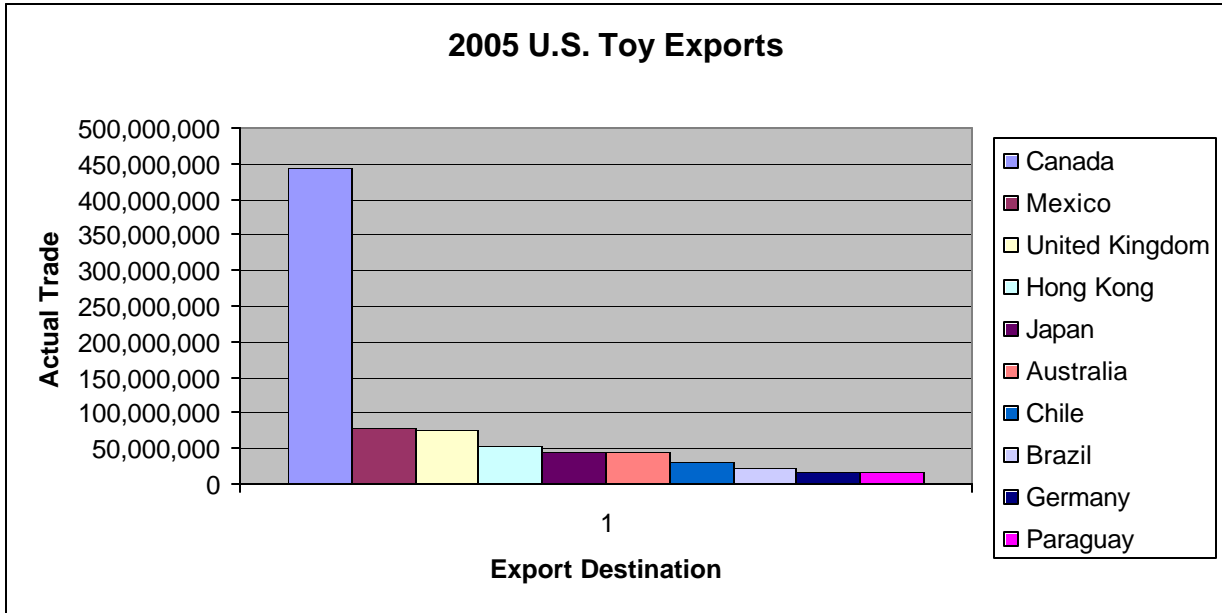
U.S. toy companies report that the global market for traditional toys is declining while demand for video games and other electronic toys is increasing. The industry considers the greatest threat to be the fact that children are losing interest in traditional toys at a younger age and other consumer goods products, such as cell phones and MP3 players, are replacing traditional toys.

Detailed Trade Statistics

U.S. trade statistics don't reflect the global strength of the U.S. toy industry since the majority of toys consumed in the U.S. imported or produced regionally to serve specific markets. The U.S. toy industry exported \$1.07 billion in 2005, an increase of 21.5 percent over 2004 levels⁹. The top five export destinations were Canada, Mexico, the United Kingdom, Hong Kong, and Japan, see figure 6. Combined, Canada and Mexico accounted for 49 percent of toy exports.

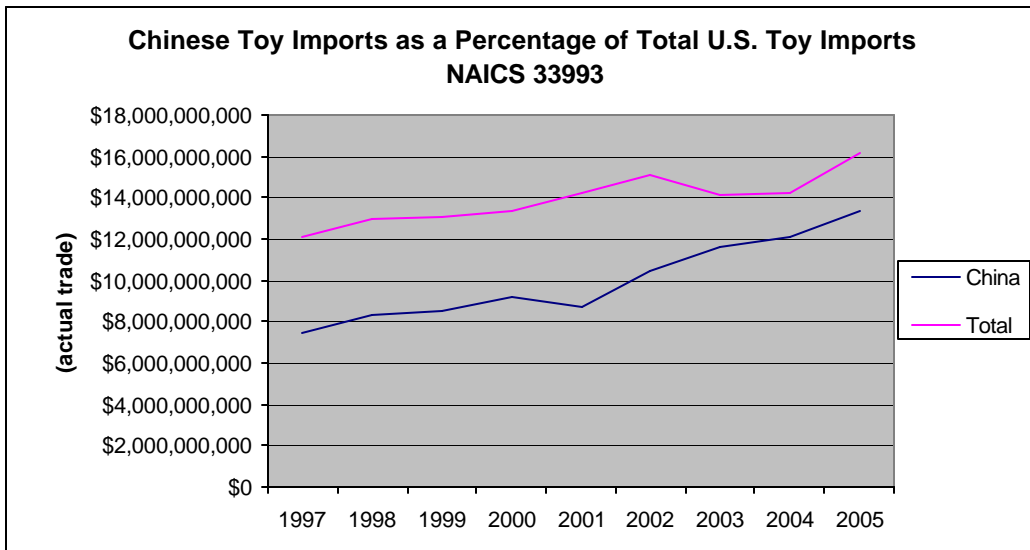
Figure 6

⁹ U.S. International Trade Commission, Trade Dataweb.



The toy industry imported \$16.12 billion worth of toys, dolls and games in 2005, an increase of 14 percent over 2004 levels. The top five source countries were China, Japan, Mexico, Taiwan, and Hong Kong, see figure 7 for China's share of U.S. imports. U.S. apparent consumption of toys was approximately 16.8 billion in 2004 with imports accounting for 84 percent of the total.

Figure 7



Trade Policy

The U.S. toy industry faces relatively low foreign tariffs. U.S. toy tariffs were reduced beginning in 1995, and eliminated by 1999, as part of the GATT Uruguay Round "Zero-for-Zero" negotiations. Other signatories to the agreement include the European Union, Japan, and Korea. Toy trade between Canada, Mexico and the United States is duty free under the NAFTA agreement. As part of China's accession to the WTO, it agreed to eliminate tariffs on most toy

categories by 2005. Given the size of the consumer market, many producers are looking to China and its growing middle class as a logical future growth market.

While U.S. toy companies have benefited from increased market access, they are still facing non-tariff barriers in many markets. Over the past few years, several countries have used product standards and certification, safeguards and other mechanisms to protect their domestic toy industries from foreign competition. The following is a summary of the primary barriers faced by U.S. toy companies abroad.

Argentina Import Licensing Regime

On October 20th, 2005, Argentina notified the WTO of its new non-automatic import licensing procedures for toys and footwear. U.S. toy exporters have reported that the requirements act as quantitative restrictions for their products. The WTO-legality of the procedures is currently being analyzed.

Brazil Toy Safeguard

Brazil has had a longstanding safeguard measure in place on toys that expired on June 30, 2006, the end of the 10-year maximum period allowed developing countries by the WTO. Press reports from Brazil indicate that the government is seeking an additional extension of the safeguard and is also considering other measures that would extend protection to its domestic toy industry.

EU Reach Initiative

On December 13th, 2005, the European Council voted unanimously to approve the chemical registration planned known as REACH (Registration, Evaluation and Authorization of Chemicals). Under the system, enterprises that manufacture or import more than one metric ton of a chemical substance per year would be required to register in a database. The legislation is expected to be voted on by the European Parliament for a second time in 2006, paving the way for its entry into force in 2007. The toy industry is one of the targeted sectors.

EU Phthalates Restrictions

The Directive restricting the use of phthalates in toys was published on December 27th, 2005. Member States have since adopted their own national legislation and can apply the measures starting on January 16, 2007. The Directive effectively bans the use of six phthalates (DEHP, DBP, BBP, DINP, DIDP, DNOP) in toys and childcare articles. Since 1999, the EU has restricted these phthalates under a temporary measure, which was renewed every three months, but it only applied to toys and childcare articles “intended to be placed in the mouth by children of less than three years of age”. Recent European Parliament actions indicate support for restricting the use of these phthalates in all “indoor products” and advocate precautionary policy choices over the use of sound science.

Phthalates are commonly used plasticizers found in many everyday items such as shower curtains, electrical cables, garden hoses, protective clothing, flooring, and medical devices. They are a family of chemical substances that have been in use for more 50 years, primarily to make polyvinyl chloride (PVC) soft and flexible. The U.S. toy industry is primarily concerned with the impact of the restrictions on one of the six phthalates: DINP.

According to the U.S. Consumer Product Safety Commission (CPSC), the science does not indicate that under normal use conditions DINP-containing toys pose a risk of injury to children. In 1998, a CPSC study concluded that “few, if any, children are at risk of liver or other organ toxicity from mouthing teethingers, rattles, and other PVC toys that contain DINP.” In 2003, in response to a petition requesting the ban of PVCs in products intended for children five and under, the CPSC in denying the petition concluded that PVC toys made with DINP did not pose a demonstrated health risk to children five years of age and under, and therefore no ban on such products was necessary.

Industry Shows and Trade Events

January

Hong Kong Toys & Games Fair, Hong Kong

exhibitions@tdc.org.hk

<http://hktoyfair.com>

Univers D’Enfants, Paris

www.univers-enfants.com

The Toy Fair, London

toyfair@btha.co.uk

www.britishtoyfair.co.uk

Canadian Toy and Hobby Fair, Toronto

info@cdntoyassn.com

www.cdntoyassn.com

February

Spielwarenmesse International Toy Fair, Nuremberg

info@spielwarenmesse.de

www.toyfair.de

American International TOY FAIR™, New York City

toyfairs@toy-tia.org

www.toy-tia.org/AITF

March

Toy & Game 2005, Moscow

Toy-game@maxima-expo.ru

www.maxima-expo.ru

April

Australian Toy, Hobby and Nursery Fair, Melbourne

toyfair@austoy.com.au

www.austoy.com.au

October

Shanghai Toy Expo, Shanghai

jinxh@goalmark.com

www.shanghaitoyexpo.com

American International Fall Toy Show™, New York City

falltoyshow@toy-tia.org

www.toy-tia.org

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