

U.S. Department of Commerce Industry Report

Furniture and Related Products NAICS Code 337

The furniture and related products manufacturing industry (NAICS 337) is comprised of several categories of establishments manufacturing household and office furniture and related products. The following NAICS categories are included in the industry:

- 337110 Wood Kitchen Cabinet and Countertop Manufacturing
- 337121 Upholstered Household Furniture Manufacturing
- 337122 Nonupholstered Wood Household Furniture Manufacturing
- 337124 Metal Household Furniture Manufacturing
- 337125 Household Furniture (Except Wood and Metal) Manufacturing
- 337127 Institutional Furniture Manufacturing
- 337129 Wood Television, Radio, and Sewing Machine Cabinet Manufacturing
- 33712N Other Household Nonupholstered Furniture
- 337211 Wood Office Furniture Manufacturing
- 337212 Custom Architectural Woodwork and Millwork Manufacturing
- 337214 Office Furniture (Except Wood) Manufacturing
- 337215 Showcase, Partition, Shelving, and Locker Manufacturing
- 33721N Office Furniture
- 337910 Mattress Manufacturing
- 337920 Blind and Shade Manufacturing

The United States furniture industry is a relatively mature cyclical industry with long-term growth highly dependent on population and income growth. There were 21,523 companies in the industry in 2002. This is not unexpectedly large in view of the large number of categories included in the furniture industry. Relatively few manufacturers are in more than one of the above listed categories. Due to the widely different conditions in each of the categories, the number of manufacturers and industry concentration in each furniture category varies widely. For example, wood kitchen cabinet and countertop manufacturing accounts for 9,452 companies, nearly 44 percent of the total. This is due to the localized nature of that business category. At the other extreme is household furniture, except wood and metal, which accounted for only 178 companies.

The biggest long-term challenge facing the furniture industry is increasing imports. These have risen sharply in recent years as the industry has globalized. In the past two decades, several countries such as China, India, Russia and the Eastern European countries have entered the global market and joined the World Trade Organization if not already a member. Also encouraging imports has been falling tariffs rates, first through such tariff reduction programs as the Generalized System of Preferences (GSP) and the North American Free Trade Agreement (NAFTA) and then, pursuant to the Uruguay Round negotiations, through zero-for-zero tariff reductions for major exporting countries. The result is that today furniture entering the United States enters duty-free. However, duties are still applicable for the related products of mattresses and blinds and shades. Those products were not included in the negotiated zero-for-zero

furniture tariff reductions. Nevertheless, imports of those products from many countries are eligible to enter duty-free pursuant to many other trade agreements including NAFTA, GSP, and several bilateral trade agreements with countries such as Australia, Chile, and Singapore.

Economic Factors

Currently, several negative factors point to a major downturn in furniture shipments for 2008 and 2009. While many of these factors would be sufficiently important to seriously impact the industry individually, together they have created a perfect storm for the economy in general and the furniture industry in particular. These factors include a peaking and subsequent fall in the price of housing that resulted from the housing price bubble in many parts of the country. This has had a cascading effect on demand for housing as many holders of subprime mortgages defaulted when they were unable to sell or refinance their homes as interest rates for variable rate mortgages increased. Many potential home buyers decided to wait for expected lower prices. As demand and sales of housing declined, many over-extended home builders went bankrupt due to excessive raw land and housing inventory, falling prices, and tightening bank credit. The market for securitized mortgages collapsed with rising mortgage default rates. Investors around the world were affected including banks, pension funds, hedge funds, as well as individuals. Many large well-known institutions, such as the Federal National Mortgage Association and Federal Home Mortgage Corporation, Merrill Lynch, American International Group, Lehman Brothers, Countrywide Financial, IndyMac Bank, and Washington Mutual, were forced to close, be acquired by other institutions, or to sell debt or partial ownership to the U.S. government. As the crisis deepened, the stock market peaked and began a major decline beginning in October 2007. By October 2008, the stock market had fallen by 48 percent at one point during the month from its intra-day high in 2007. U.S. unemployment rose to a 6.7 percent rate in November 2008 while consumer defaults on credit cards, automobile and student loans increased. Many banks were forced to cut lines of credit to businesses and consumers due to losses of capital reserves. Consumer confidence plunged as a result with sharp declines in all types of retail sales.

To boost the economy, the federal government sent economic stimulus payments to more than 124 million households beginning in May 2008. Payments ranged from \$300 to \$600 per eligible individual. However, the beneficial effects had disappeared by the third quarter. The U.S. economy shrank at a 0.3 percent annual rate in the third quarter, its sharpest contraction in seven years as consumers cut spending and businesses reduced investments in the face of rising fears of a recession. Consumers cut spending on durable goods like cars and furniture at a 14.1 percent annual rate in the quarter.

Housing starts are an important factor in furniture sales. Housing starts, which were 1,474.0 thousand in 1997, rose steadily until peaking in 2005 at 2,068.0 thousand. Housing starts then dropped 12.9 percent and 24.7 percent to 1,800.9 thousand and 1,355.0 thousand in 2006 and 2007, respectively. Housing starts totaled 864.4 thousand through November 2008 compared to 1,286.1 thousand through November 2007, a decline of 32.8 percent. A turnaround for housing starts is not expected soon since at year-end 2008, approximately 10 percent of all mortgages outstanding were either delinquent or in foreclosure. In addition, prices were still declining rapidly in many parts of the country at year-end. In spite of the declines to that point, many

analysts still considered housing overpriced in relation to incomes. So, further declines in housing starts were expected.

November 2008 retail sales declined an estimated 7.4 percent from the year before in current dollars while October sales were down 8.5 percent. December Christmas sales were reported as quite weak by most retailers and many store closings and retail bankruptcies were forecast for early 2009. The poor retail sales were attributed to the weak job market and to greatly reduced mortgage equity withdrawals by homeowners.

Furniture product shipments increased from \$61.1 billion in 1997 to \$80.5 billion in 2006. Adjusted for inflation the increase was 1.2 percent per year over the nine year period in constant dollars. Product shipments in 2007 and 2008 are estimated to have declined 3 and 10 percent, respectively, in constant dollars. With the economy expected to be weak at least through the first half of 2009, product shipments are expected to decline again in 2009.

Employment

Between 1997 and 2006 total employment in the furniture industry initially rose 6.2 percent from 603,700 employees in 1997 to 641,000 employees in 2000 before declining 18.9 percent to 520,100 employees in 2006. Overall, the decline from 1997 to 2006 was 13.8 percent. Bucking the trend, wood kitchen cabinets employment increased 46.0 percent to 145,000 employees during the nine year period reflecting the housing construction boom. At the other extreme, employment for nonupholstered wood household furniture fell 44.0 percent to 71,500 employees due to increased imports. During 2007 and 2008, total estimated industry employment declined an additional 4.6 percent and 7.3 percent, respectively, to 496,300 and 460,000 employees.

Anti-Dumping Issues

In international trade, dumping is the act of a manufacturer in one country exporting a product to another country at a price which is either below the price it charges in its home market or is below its costs of production. Under U.S. law, antidumping duties will be imposed when the Department of Commerce (DOC) determines that the foreign merchandise is being, or is likely to be, sold in the United States at less than fair value, and the International Trade Commission (ITC) determines that an industry in the United States is materially injured or threatened with material injury by reason of imports of that merchandise. A domestic firm, union, or certain other groups or associations can petition the DOC and the ITC for relief from dumping.

On January 4, 2005, following an antidumping investigation, DOC published an antidumping duty order on wooden bedroom furniture from China. The China-wide duty charged was 198.08 percent unless it was determined in the investigation that a particular Chinese manufacturer should have been charged a lower rate. Most of the named manufacturers were charged a duty of 6.65 percent although a few were charged other rates, ranging from 0.83 percent to 15.78 percent. Since the antidumping order was issued, two annual administrative reviews of the order have been conducted and a third is ongoing. The completed reviews have resulted in some minor changes in the duty charged to certain companies as well as a change in the China-wide rate to 216.01 percent.

In December 2007, Leggett & Platt Inc. filed an antidumping petition for imports of innersprings from China, Vietnam, and South Africa. In February 2008, the ITC issued its affirmative preliminary determination that there was a reasonable indication that industry was materially injured or threatened with material injury by reason of imports from those countries. In July 2008, the DOC preliminarily determined that Chinese, South African and Vietnamese producers/exporters had sold innersprings in the United States at 118.17 to 234.51 percent, 121.39 percent, and 116.31 percent less than normal value, respectively. In October 2008, DOC announced its affirmative final determination in the antidumping duty investigation regarding imports from South Africa and Vietnam. The final dumping rates were 121.39 and 116.31 percent for exporters from those respective countries. In December 2008, DOC announced that the final dumping rates for China were 164.75 to 234.51 percent. Several named respondents were determined to have sold innersprings at 164.75 percent less than normal value while the China-wide margin was determined to be 234.51 percent. As a result of these determinations, the U.S. Customs and Border Protection is collecting cash deposits or bonds based on the final rates.

Flammability Standards

In February 2006, the Consumer Products Safety Commission (CPSC) gave final approval to a federal open-flame standard applicable to all mattresses and mattress/foundation sets sold in the United States beginning July 1, 2007. This new standard, issued under the authority of the Flammable Fabrics Act, established performance requirements based on research conducted by the National Institute of Standards and Technology. Mattresses and mattress and foundation sets that comply with the requirements generate a smaller size fire with a slower growth rate, thus reducing the possibility of flashover occurring. The new standard was meant to reduce deaths and injuries related to mattress fires, particularly those initially ignited by open flame sources such as lighters, candles and matches. The CPSC had previously issued a flammability standard directed toward cigarette ignition of mattresses. However, a significant number of mattress fires were being ignited by open flame sources and were not directly addressed by that standard.

California's Bureau of Home Furnishings and Thermal Insulation had previously issued an open flame fire standard for mattresses and mattress/box spring sets and futons which went into effect January 1, 2005. Both the new CPSC standard and California's standard use the same basic test method and have similar maximum peak heat release rates except that the CPSC standard sets a stricter limit during the first ten minutes of the test.

Mattress manufacturers are free to choose the means of complying with the standard. Options available include the use of inherently flame resistant materials, flame resistant barriers, and flame resistant chemicals. To meet the standard, flame resistant chemicals would most likely be applied to components inside the mattress, such as batting or barriers. However, flame resistant chemicals might be applied to mattress ticking (cover fabric) in some cases. The potential risk presented by any chemical, including flame resistant chemicals, depends on both toxicity and exposure. To the extent that flame resistant chemical treatments remain bound to or within the mattress, exposure and its attendant risk would be minimized.

On March 6, 2008, the CPSC proposed flammability standards for residential upholstered furniture under the Flammable Fabrics Act. The proposal would establish performance

requirements and certification and labeling requirements for upholstered furniture. Manufacturers could choose one of two possible methods of compliance: they could use cover materials that are sufficiently smolder resistant to meet a cigarette ignition performance test; or they could place fire barriers that meet smoldering and open flame resistance tests between the cover fabric and interior filling materials.

Furniture covered with predominantly cellulosic fabrics, such as cotton and rayon, is much more likely to be involved in cigarette-ignited fires than furniture covered with predominantly thermoplastic fabrics, such as polyester, polyolefin, and nylon. The proposed standard focuses primarily on reducing deaths and injuries from smoldering ignited fires. It is estimated that about 14 percent of currently produced furniture would fail the proposed standard's smoldering ignition test for cover fabrics. Manufacturers will most likely bring their products into compliance by modifying the physical characteristics of the cover fabrics rather than by using flame retardant fabric treatments.

Lacey Act Amendments – Illegal Logging

The Lacey Act prohibits trade in fish, wildlife, and plants taken or possessed in violation of state, federal or foreign laws. In May 2008, the Act was amended to address illegal logging by expanding its protection to a broader range of plants and plant products. The amendments prohibit all trade in plant and plant products, such as timber and wood furniture that are illegally sourced from any U.S. state or foreign country beginning December 15, 2008. They require importers to declare the country of harvest, the genus and species of all plants contained in their products, the quantity and measure, and the value. Many products will be exempt from the import declaration requirements since the statute exempts "common food crops" (except trees) and "common cultivars" and the parts of products made from these from the import declaration requirements. Actions that can trigger a Lacey Act violation include: theft of plants; taking plants from an officially protected area, such as a park or reserve; failure to pay appropriate royalties, taxes or fees associated with the plant's harvest, transport or commerce; and violating laws governing export or trans-shipment, such as a log-export ban.

Import declarations will not be required until the U.S. Customs and Border Protection's (CBP) system is updated to accept the import declarations electronically. Prior to the availability of electronic filing, from December 15, 2008, to April 1, 2009, or as soon thereafter as the electronic system is available, the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) will make a paper declaration form available for voluntary submission. Once the electronic system is completed, a phase-in approach to enforcement of the import declaration requirements will be used. The enforcement of the declaration requirements for furniture will begin approximately July 1, 2009.

Currently, the percentage of logging that is done illegally is an estimated 10 percent. Sources of illegally harvested lumber include several countries in Central Africa, South America, and Southeast Asia.

U.S. – Canada Softwood Lumber Dispute

In October 2006, a U.S. – Canada softwood lumber agreement became effective which ended a long-running trade dispute concerning Canadian "stumpage" fees. These fees, charged to harvest

government-owned timber, were set below market prices and considered an unfair subsidy by the United States. Under the 7-year agreement (which can be extended to 9-years), U.S. antidumping and countervailing duties (as high as 27 percent) would no longer be collected. Instead, during periods of weak lumber prices, Canadian exporting provinces would choose either to collect an export tax that ranges from 5 to 15 percent depending on price or to collect lower export taxes and limit export volumes. The agreement also includes provisions to address potential Canadian import surges, provides for effective dispute settlement, and disciplines future trade cases.

Foreign Trade

Over the past decade, furniture imports have increased much more rapidly than have furniture exports. Between 1999 and 2007, imports increased 107.7 percent to \$3.4 billion while exports increased 40.4 percent to \$27.2 billion. The year 2008 is expected to be the first down year for imports since 2001. Imports during the first nine months of 2008 were down 4.0 percent while exports increased 17.2 percent. The weak economy and housing market as well as the falling dollar on exchange markets were the primary causes for the drop in imports. Exports benefited from the dollar's fall.

China is far and away the largest supplier of furniture to the United States. It accounted for 54.4 percent of imports in 2007. Far behind in order were Canada, Mexico, Vietnam, and Italy. These four countries together accounted for 26.4 percent of imports in 2007. Of the five largest import suppliers, only Vietnam saw imports increase in the first nine months of 2008 with imports up 20.3 percent. Total furniture imports were down 4.0 percent during the period. Imports from Vietnam have increased rapidly since 1999 when it supplied only \$3.6 million of furniture compared to 2007 when it supplied \$1.2 billion. Among the factors accounting for Vietnam's rise in the furniture industry are its joining the WTO, a policy of encouraging foreign investments, nearby supplies of lumber, a stable government, and a strategy of many foreign investors to diversify away from China due to its inflation, shortages of labor and energy, strengthening currency and rising labor rates. The recent U.S. anti-dumping rulings against several Chinese furniture manufacturers were also a factor in this diversification.

As mentioned, long-term furniture exports are rising much slower than imports. The leading furniture export markets are Canada, Mexico, the United Kingdom, Japan, and China. Canada accounted for \$1.8 billion or 52.3 percent of total exports in 2007. The other four countries accounted for 19.1 percent of total exports in 2007. Exports to Canada and Mexico are aided by proximity and the benefits of NAFTA. China is a growing market for furniture subassemblies, parts and supplies. Over the past eight years, exports to Canada and Mexico increased 74.3 percent and 96.2 percent, respectively, while exports to China increased 312.8 percent. During the first nine months of 2008, exports to the five leading export markets ranged from an increase of 23.1 percent to Mexico to a 4.6 percent decline to Japan. Total furniture exports were up 17.2 percent during the period.

Over the past 10 years, the furniture categories showing the greatest import growth were upholstered household furniture; metal household furniture; showcases, partitions, and shelving; and mattresses. Over the same period, export growth was strongest for virtually the same categories except including wood kitchen cabinets and excluding metal household furniture.

Readers wishing greater detail regarding the imports and exports in the individual furniture categories are referred to the furniture foreign trade tables contained on the Office of Consumer Goods website.

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