

STRUCTURAL EFFECTS AND MUTATIONS CAUSED BY THE ECONOMIC CRISIS ON FURNITURE TRADE AT THE EUROPEAN UNION LEVEL

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The global economic crisis had most negative effects on the entire economic sphere and especially in what the consuming industry is concerned, which may be considered “luxurious”, the way in which we may talk about the furniture industry. Along times of economic crisis at social level, a decrease in financial power at microeconomic, individual level is felt. Under conditions of social decrease in buying capacity, the request for commercial furniture is in rapid fall and thus the industry as such suffers serious structural mutations. Analyzing a series of macroeconomic indices from the European furniture industry led to the result that during the late years there has been a positive trend within the furniture industry in matters of production, however, with concern to trading, the situation is more complicated. There is a behaviour difference in the furniture industry between emergent countries and EU developed states and based on the performed analysis, a SWOT analysis at sectorial level crystallized, in which we propose ways of growth in the European furniture industry.

Key words: furniture industry, economical crisis, SWOT analysis, structural mutations.

JEL Code: F18, F36, L11.

1. Introduction

The furniture industry represents an economic sector of interest from several points of view: for society by its common use, for producers for the added value that it may offer and for traders by the opportunity of realizing a win margin through its sales. For the final furniture user, this represents a need, however for the other two categories of interested factors, furniture involves an entire value creating system by superior wood exploitation.

Superior wood exploitation, we think, is insufficiently turned into account in Romania, seen through an inter-connected look over the forestry fund available in our country, in the total amount of more than 26% of the country area. The country potential is much higher than it is exploited at the moment.

With regard to furniture trading, we will study the main macroeconomic indicators that reflect an eventual connection between the economic crisis, started in 2008 and the European furniture trade dimension.

As the subject investigation is very wide, we claim no exhaustivity in treating it but wish to consider it an open subject for subsequent development on the theme, namely on economic crisis effects on the furniture industry.

2. Research Methodology

As research methodology for this paper, we mainly used descriptive analysis realized in dynamics, of indicators specific to furniture trading and other derived indicators, the comparison procedure and other procedures, specific to macroeconomic analyses.

A special useful tool in this type of analysis is the SWOT analysis. This objective evaluation tool allows for an economic entity presentation or of a sectorial activity according to two essential characteristics, namely the internal and the external environment for the entity or analyzed sector. Realized in a frame with four dials, the SWOT analysis offers the possibility to represent a multitude of characteristics of the analyzed object, in a vision that offers the possibility of short, medium and long term strategy formation. For these two reference elements strong and weak points are formulated for the

internal environment and opportunities and existent threats in society or the analyzed sector formulated for the external environment [1].

Data used in this paper had as source especially the Eurostat European Statistics Office, as well as other papers and specialized studies found on the researched topic.

3. Literature review

At the moment, on the globe, according to the Centre for Industrial Studies 2013, furniture world trade involves about 70 countries. The biggest furniture exploitation countries in the world are China, Germany, Italy or Poland, and the greatest importers are USA, Germany, France or England [2].

For a presentation overview of the European furniture industry, according to the Romanian Centre for Foreign Investments and Trade Promotion [3], we note down that at the moment, at European level, the furniture industry includes about 150.000 companies, with a turnover of about 126 billion euro and an added value of 38 billion euro. The furniture industry sector is mainly dominated by microenterprises. About 85% from furniture producing countries in Europe have less than 10 employees. In the competitive circumstances intertwined by the multitude of companies in the sector, small companies are usually subcontracted by large companies for elements production or semi-finite products.

From the point of view of furniture trading, there are several types of furniture. The Romanian Centre for Foreign Investments and Trade Promotion[4] mentions that 38% from the total furniture production at European level is represented by wood furniture for dining rooms, bedrooms, lobbies or other spaces, 29% is represented by office furniture, 17% is represented by different types of chairs and 12% is represented by kitchen furniture.

Scientific literature deals with the mutation of the furniture industry as a result of interested factors oriented towards directions to which the market was submitted under the pressure of the global economic crisis. Under the multitude of factors generated by the crisis, a series of considerations were changed, regarding furniture production, furniture trade and client orientation in choosing furniture. At the core, the two big branches of furniture industry, production and trading, are dependent on the factor determining these, namely the consumer's likes. Altogether, the consumer in his turn is influenced in his decision to buy furniture or not both by the cost-quality relation and by elements that belong to the subjective personal style through the prism of art, represented by furniture.

Among the phenomena resulting from the economic crisis, we think declining purchasing power is a result of the crisis widely recognized. With regard to the economic crisis, according to the authors D. Cazan și Alina Cunos, this can be considered a "time in dynamics of a system and can be defined as a multitude of problems such as conflicts or tensions, elements that can lead to strong pressure" [5]. Regarding the trader and default manufacturer in the furniture industry, we consider *the cost factor causes a long series of mutations generating new systems and policies to reduce costs through more leverage existing in the global economic mechanism*.

Ratnasingam et al. [6] notes that at the global trade in furniture, it can be said that there are two ways by which the increased competitiveness is realized: *targeting investors with cheap labour force areas and extremely advantageous trade between countries with very cheap raw materials*, such as China, Malaysia and Vietnam. Another factor that is designed to attract higher value-added in the industry *is the exploitation of labour force much cheaper than in Europe* in cheaper countries in human factors, such as Asian or Latin American countries. Another country with cheap labour force is Mexico, and exports 90% of its furniture production in USA.

Likewise, Xiao Han et al. [7], with regard to the problem of *mutation* furniture industry in the world in recent years, notes that, in terms of strategy, *industry relies on searching cheap labour force and cheap raw material*. However, although the export volume of furniture in China is very high, the competitiveness of the manufacturing and marketing of world furniture industry grows and develops strongly in other economic regions such as East and South-East Asia, Eastern Europe or Latin America.

A great development of the furniture industry has been made by China, the main furniture supplier for EU. A detailed analysis of China's export strategy is made by Hongqiang Yang et al., in his work *China's Wood Furniture Manufacturing Industry: Industrial Cluster and Export Competitiveness* [8]. According to the authors, based on impressive figures within the furniture industry in the last decade, the furniture industry in China has become an important part of the economy. According to the study, ***the sustainable development policy of China's furniture industry is complex, designed to ensure the sustainability of this industry branch over time, reducing the effects of the global economic crisis through diversification***. The furniture market in China, with total exports of 18 billion Euro, 27.3% of world exports of furniture, has become attractive - as the authors say - due to ***cheap labour force***, international certified wood and labour force productivity growth, elements that can ensure the future sustainability of

the industrial sector in future as well. An analysis of the European Statistical Office Eurostat confirms that at EU level, the demand for furniture decreased primarily due to increased demands in the European countries of furniture products from China [9].

4. Case Study

4.1. Furniture Trade Indicators at EU Level

For our present analysis on trade policy developments at EU level in recent years of economic crisis, for contextualization, it is necessary to realize a brief presentation of the most important countries in world trade. Therefore, based on the European Statistical Office [10] we have designed a chart of world trade in 2010, according to the share of total export and import countries in the world. The situation in world exports and imports is projected in Fig 1, according to our own vision:

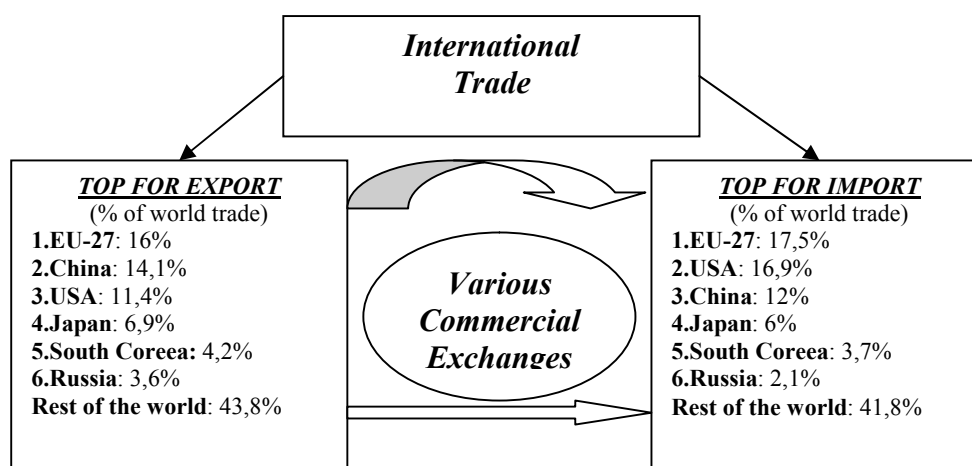


Figure 1. The main countries in world trade in 2010

Source: Personal projection based on Eurostat data (internal code: *ext_lt_introle*).

Thus we observe that that some of the most important countries in the world, next to the European Union, in import and export are China, USA, Japan, South Korea and Russia. They performed together with the European Union in 2010, 56.2% of total world exports and no less than 58.2% of total world imports. Given China's share in total world exports and imports and the fact that it has a positive trade balance we might appreciate that it has the best position of the countries analyzed, and that while the EU is mainly importing. The next country as share in international trade is the United States, a country which although it has 11.4% of world exports, ranks second in world imports (16.9%), the first after the European Union, resulting in a negative trade balance. This demonstrates that the United States is a powerful consuming country.

The last three countries in importance in world trade, the last big players on the international exchange of goods and services market are Japan, South Korea and Russia. Each of these countries, although together represent less than the share of EU total imports or exports with corresponding figures, can be considered positive trade balance. Japan is the country with one of the highest annual growth rates in the world, one of the most powerful economies in the world. The other two countries, South Korea and Russia are countries with important resources and also have a very advanced industry, enabling them to obtain a high quality product.

Having outlined in huge lines the most important countries involved in international trade, we highlight the biggest markets in the furniture industry, where it will be noticed that the furniture industry is included in the world trade context. Although the EU is an important market in the world in terms of furniture by the well known tradition of countries like Italy, Germany and Spain, the economic crisis has profoundly affected this trade, especially for developed countries of the European Union. *For emerging countries, there will be inferred from the detailed analysis of furniture trade policy for many countries, that the economic crisis on the furniture industry was per-assembly milder.* A quick image on the furniture production dynamics is shown in Table 1.

Table 1. Furniture production in great producing EU countries

Country/year	2008 <i>Mil. euro</i>	2009 <i>Mil. Euro</i>	2010 <i>Mil. Euro</i>	2011 <i>Mil. euro</i>	2008/2009 %	2008/2011 %
Italy	25.362,2	21.131,1	21.255,4	21.227,8	-17,56	-16,30
Germany	22.184,4	17.588,4	19.110,2	20.621,1	-20,71	-7,04
Poland	7.516,5	6.562,5	6.382,5	7.127,6	-12,69	-5,17
France	7.932,9	6.907,9	6.924,1	7.113,5	-12,92	-10,32
England	10.734,5	7.174,2	7.982,5	6.887,5	-33,16	-35,83
Spain	9.468,1	6.962,3	6.818,4	5.992,8	-26,46	-36,70
Austria	3.154,9	2.826,0	2.782,7	2.897,9	-9,28	-8,14
Sweden	2.838,4	2.200,9	2.604,7	2.818,4	-22,45	-0,70
Belgium	2.312,8	2.169,1	2.275,2	2.606,5	-6,21	+12,63
Denmark	2.554,2	1.965,2	1.792,1	1.693,9	-23,06	+12,65
Romania	1.761,1	1.345,3	1.439,3	1.481,8	-23,61	-15,85
Total E.U.-27	109.904,21	88.000	90.000	92.000,0	-19,93	-16,29

Source: Personal projection [11] based on Eurostat data (online data code: sbs_na_ind_r2).

The first discrepancy between these two categories of major countries in the furniture industry can be seen in the data on output dynamics. Countries with a tradition in the furniture industry suffered during the economic crisis plummeting production, ranging from 25% -35%, decline which has improved slightly since 2010, while the emerging countries of the subject analysis showed a higher growth after 2009, with the end of 2011 having the same amount of production as before the economic crisis.

International furniture trade in 2011 globally recorded transactions worth \$ 109 billion versus \$ 118 billion in the period before the crisis. Still globally, United States remains the main furniture importing country in the world, with an import value of over \$ 12.4 billion in 2011. However, the major producing and exporting countries of furniture in the EU, such as Germany and Italy, have been oscillating in evolution [12].

Table 2. The furniture trade balance at EU level

Indicator/Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total import	7.494	8.245	9.935	11.376	11.902	14.086	13.903	11.840	14.227
Total export	10.244	9.621	9.923	10.227	11.046	12.294	12.743	10.269	11.325
Balance	2.750	1.376	-12	-1149	-856	-1.792	-1.160	-1.571	-2.902

Source: Eurostat [13];

From the analysis of dynamic data in Table 2 there results apparently the negative trend in the evolution of EU furniture trade policy. We note that in the years 2002-2010 the industry has a strong involution, a negative annual trend in which the EU furniture trade balance value drops to *5.65 billion Euros*. However, the economic crisis on the industry is obvious by doubling the furniture trade balance deficit between 2009-2010. It is the most drastic decrease in the balance of trade in furniture within the analyzed period.

Figure 2 shows the graphical representation of the furniture trade policy situation in the European Union.

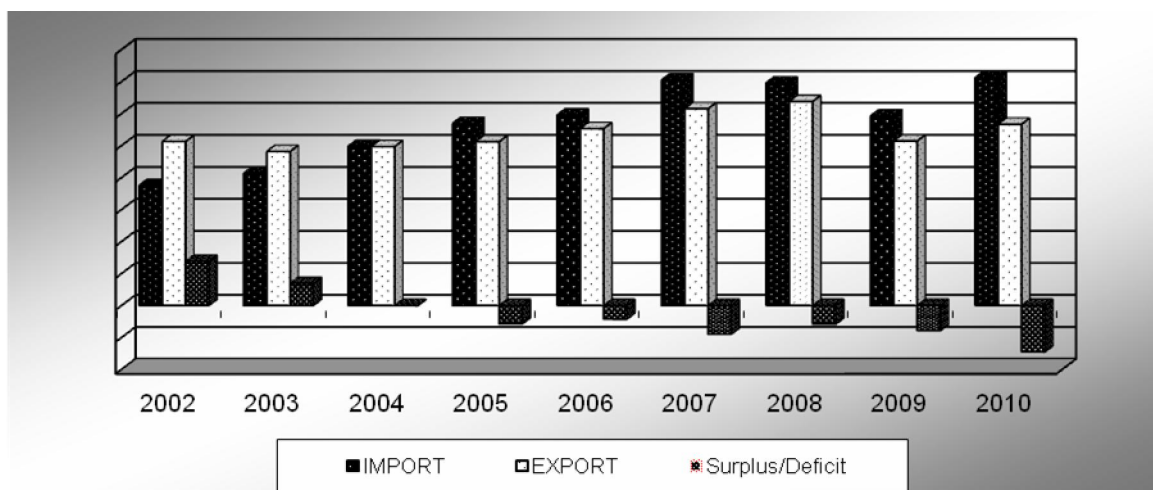


Figure 2. The balance of furniture trade policy at EU level

Source: personal design.

At EU level, the European Statistical Office data (Eurostat) in Table 2 shows that the furniture trade balance was a downward trend from a surplus of 2.75 billion in 2002 to a deficit of 2.9 billion Euro in 2010.

To examine further developments in furniture trade policy more observations are required. Thus, in the analyzed period, **furniture trade has increased significantly in absolute terms**. We see from Figure 2 that the value of imports has doubled in the period 2002-2010 while exports remained relatively constant, with the highest value in 2008, followed by a decrease in both indicators during the economic crisis.

Different evolution of imports over exports in the analyzed period can be explained by the accession of new emerging countries to the European Union, in 2007. If developed countries of Western Europe were members of the European Union in 1952, emerging countries entered the community much later: In 2004, Latvia, Lithuania, Cyprus, Poland, Portugal, Czech Republic, Hungary, and so on, and in 2007 Bulgaria and Romania [14]. This determines the balance of trade with the EU policy to significant changes: the countries that joined the EU in 2004 were mainly importing in the furniture industry, with a lower export market, so that becoming member countries they influenced in decline the furniture trade balance trend.

From the presentation of the size of the furniture production for the most important sector of the EU countries (Table 1) we see that Germany and Italy hold together about 45% of EU furniture. Coupled, we see that before the year of the new countries accession, trade balance was in surplus in 2004 and after the emerging countries joining, the balance became impaired. This explains the fact that *although the furniture trade balance declined in absolute numbers, the figures of furniture commerce in the European Union increased*.

Another observation that emerges is that the effect of the European Union accession of these new countries acceding has determined that international trade between the States and the accession countries as intra-community. By joining the EU countries *two clear elements* are can be mentioned:

- emerging countries benefit from facilitating the movement of goods embodied in *many commercial facilities* and support from the Union;
- they are *forced to adapt to EU standards of quality and safety work*, specific standards applicable of course to the furniture industry, as well.

It is obvious that the furniture industry mutation in the economic crisis caused strong structural changes on furniture trade as well. This mutation is largely a reconsideration of the global furniture industry strategy in which focus is sometimes on importing prefabricated or even finished furniture elements in Asia, Latin America or emerging countries with existing plentiful raw material and cheap labour force. In this case, the result is that the countries of tradition in the furniture industry have regressed due to its high production costs.

This hypothesis of separate development between emerging and developed countries on the furniture industry is under conformity with CSIL study [15]. According to the study authors, furniture industry outlook globally is of growth, having an uneven distribution between emerging and developed countries of the world. In view of the emerging countries import, 2013 has a very low growth, i.e. 2%

China, Brazil 5%, 6% India. With a view to import penetration into developed countries, it appears that in this case the figures would be much larger, but differ from case to case. A sharp increase is expected in the furniture industry for emerging countries and furniture demand will become, according to the source, greater in Asia, and South America, and more modest in North America. A standstill is set for Europe in the furniture industry but it will except Eastern Europe.

Based on available data from Eurostat source, in Table 3 we present the ten most important furniture supplier countries to the European Union, in an analysis carried out in dynamic:

Table 3. Top 10 furniture suppliers for EU (mil. euro)

Country	2006	2007	2008	2009	2010	Of total %	Deviations 2006/2010 %
China	5333	6902	7052	6320	8151	57,3	+52,8
Vietnam	605	723	752	627	703	4,9	+16,2
Turkey	514	659	731	600	639	4,5	+24,4
Indonesia	805	834	712	550	625	4,4	-22,3
Sweden	513	556	559	434	437	3,1	-14,8
Malaysia	397	439	391	343	363	2,6	-8,6
USA	549	527	473	394	358	2,5	-34,9
Taiwan	277	311	290	247	306	2,2	+10,7
Norway	333	353	343	266	287	2	-13,7
India	273	320	292	243	286	2	+4,9
TOTAL	11902	14086	13903	11840	14227	100%	+19,5

Source: Eurostat [16].

The main furniture supplier country of the EU is China. As a leading furniture provider for the European Union, in 2010 it had no less than 57.3% of the total share of suppliers, increasing by 52.8% from 2006. European Union furniture imports have known, within the analyzed period, significant increase, while exports remained with small oscillations at the same level.

The existence of giant retail companies (eg IKEA) that have invested in their own furniture production throughout China and developed mammoth shops in Chinese cities, reveals a highly attractive sector for investors and for domestic consumption in China as well. Certainly the Chinese model in the furniture industry deserves to be studied in detail by producers in Romania because we think Romania has low-size structural premises substantially similar in development to Chinese main situation.

4.2. SWOT Analysis of Furniture Trade Policy at the European Union Level

The existence of some of the largest retail companies in the world in Europe provides a good distribution of furniture across the entire European Union, allowing citizens to purchase various products at different prices, but also a different quality.

In recent years in emerging countries, as is the case of Romania, can be observed a shift in the furniture industry mainly due to foreign and domestic investments, with direct consequences on the growth of the furniture industry sector as a whole. Foreign direct investment in the furniture industry can attract outstanding benefits for the whole sector. Increase of technology and automation can deliver superior returns in production increasing the added value.

The specific development and production of large retail companies in the furniture industry differ from case to case, but the most popular benefits of investment in the field are plentiful availability of raw materials and cheap, qualified labour force with a good outlet. Modern infrastructure and political climate and economic stability are major advantages, sought by investors in this industry.

In Romania the furniture industry development center is located in Maramureş where raw materials are plentiful, cheap and skilled labour force is found and a local-market chain mostly made by the small companies in the industry that are contracted by large companies-element that allows the full development of industry.

In the context mentioned in the paper we want to emphasize in personal vision a number of factors that affect or may affect the facts of European industry and implicitly furniture trade in the European Union.

SWOT ANALYSIS OF THE FURNITURE SECTOR IN THE EUROPEAN UNION	
STRONG POINTS	WEAK POINTS
<ul style="list-style-type: none"> ➤ European production of furniture is of high quality, globally recognized; ➤ Possession of superior technologies in developing countries; ➤ In terms of trade, the existence on the continent of the strongest retailers in the world in the furniture industry; ➤ Use elements and advanced techniques on marketing and promotion; ➤ The existence of a framework to promote best practice instruments in the field by the European Commission; 	<ul style="list-style-type: none"> ➤ Exceeded technology in emerging countries and non-competitive technological processes; ➤ high production costs in developed countries of the EU; ➤ High Consumption of timber resource declining in the EU; ➤ Economic gap between the EU countries can create the phenomenon of labour force migration from emerging countries to the developed West-European; ➤ poor infrastructure in emerging countries;
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ➤ Increase of the share of furniture industry in the wood industry for member states, due to higher added value within the furniture industry; ➤ Increased flexibility and production adaptation to major global market outlets; ➤ Stimulating domestic consumption of EU found in a downtrend, by measures of stimulating the European economy; ➤ Adapt legislation, stimulate and promote internal cooperation between developed and emerging countries of EU, in order to decrease imports in the sector; ➤ Use of renewable technologies in furniture production and increased attention to forest ecosystem protection in the EU. 	<ul style="list-style-type: none"> ➤ Cheap furniture imports growing outside the EU, particularly in China; ➤ Massive investments of European brands in Asian countries more attractive by low production costs and cheap labour force; ➤ Single currency fluctuation and signals of economic instability in context; ➤ Insufficient concern for alignment with European standards of quality, safety and certification in the furniture industry for some emerging countries, EU states, <i>in return for these major concerns reported by major producing countries in Asia</i>;

Figure 3. SWOT Analysis in the EU furniture sector

Source: Personal projection of the author

5. Conclusions

From the data analysis we noticed that there are a number of cues regarding the influence of the economic crisis on the furniture industry in the European Union in general and particularly in the furniture trade. This is evidenced by the analysis of specific indicators in the paper.

We highlighted the advantages and disadvantages regarding the furniture industry for developed member countries and developing countries. The most important factors in this respect are the key raw material and the cost factor. These two factors, particularly in times of economic crisis, caused serious mutations both in production and in the furniture trade, favouring the choice of cheaper products at the expense of quality.

In view of the furniture industry sector in the EU, we synthesized in the presented SWOT analysis the main problems observed and opportunities to overcome these problems. Efforts to resume trend growth of the industry in terms of trade can be coordinated with the idea of recovering point strengths and opportunities mentioned in the paper and by reducing or eliminating as far as possible the sector weaknesses and threats.

We believe that **a correlation of industry needs with available resources**, i.e. balancing the internal balance between the demand for products and market offerings, can offer to the European furniture industry a sustainable resumption and a much better trade balance.

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