AREA STUDI MEDIOBANCA

ITALIAN WOOD, FURNITURE AND LIGHTING SUPPLY CHAIN OPTIMISTIC FOR 2021

Following the 7.8% contraction in 2020, total sales at world level are expected to reach €564bn by 2026, almost €50bn lower than pre-Covid estimates

China was again the leading player worldwide in 2020, with a market share of 39.4%, ahead of the United States with 13.6%; in Europe Italy and Germany lead the way, with market shares of 4.7% each

Total sales for the largest Italian companies were down 8.2% in 2020, with resilient performances in kitchen furniture (down 4.5%), chairs, tables, accessory parts (down 3.4%) and bathroom furniture (down 1.1%); but it was a bad year for manufacturers of lighting (total sales down 13.1%) and sofas/armchairs (down 12.5%)

However, a strong recovery is expected for 2021, with total sales set to grow by 8.7%; 52.5% of the companies also expect to see increases in investment

Sharp increases in the prices of raw materials in Italy

Milan, 21 June 2021

The **Mediobanca Research Area** has presented its new report on the **wood, furniture and lighting supply chain,** which analyses the earnings and financial data of 475 Italian manufacturing and commercial companies, and contains an indepth review of the sector performance at international level.

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Total sales increasing globally but still far off pre-Covid levels

Global production of furniture for domestic and professional purposes in 2020 reflects **a 7.8% reduction,** posting **total sales** of **€443.2bn** (factory prices). The sector **recovery expected in 2021**, including realignment with long-term growth rates for the years that follow (3-4%), should take global production to €491bn in 2022 and to **€564bn in 2026**, almost €50bn below the level expected pre-Covid (€612bn).

China was the largest producer in 2020, reporting total sales of some €175bn, representing 39.4% of global output. Second, a long way behind, came the United States with €60.4bn (13.6%). The **EU-28** (i.e. including the United Kingdom) reported an aggregate turnover of €107.9bn, or 24.3% of the world total. Within the European aggregate, **Italy shared top place with Germany**, reporting total sales of €20.7bn (market share of 4.7%), ahead of Poland which posted turnover of €13.5bn (3%) and the United Kingdom of €7.8bn (1.8% of global output).

Italy is the third largest exporter within the EU-28 in the wood, furniture and lighting supply chain, with 15.5% of total exports, behind Germany (18.2%) and Poland (16.6%). **Globally Italy is the fourth largest exporter**, behind the same two European competitors which in turn rank below China, which dominates the rankings with just under 40% of global exports.

Italy facing challenges in terms of competitiveness and sustainability

The Italian wood, furniture and lighting supply chain is engaged in tackling various **structural issues** that will take several years to address fully. The relatively low entry barriers to this segment have meant Western producers, which include Italy, have had to optimize costs while at the same time increasing the quality and exclusivity of their products and improving sustainability in terms of their consumption of natural resources. If **sensitivity to environmental issues** becomes more widespread, this could lead to a tendency to extend the useful life of furniture, requiring increased willingness and availability on the part of manufacturers to provide after-sale care in terms of maintenance (refurbishment) and supply of spare parts.

Another major issue for the **Italian supply chain** is the lack of scale, making operators significantly **dependent on supplies from outside the country** on terms which are obviously less advantageous for the companies concerned. Italy is thus penalized by having higher average sourcing costs than the majority of its main competitors. In addition, between mid-2020 and 1Q 2021, wood prices have grown strongly, as have the prices of other materials essential for furniture production. This price increase has been compounded by an extension of the timescales required for supplies to reach the country. There has also been considerable volatility in the wood prices, which have fluctuated from €264 per cubic meter in April 2020, to €989 in September of the same year, and reaching €1,686 in May 2021.

Italian sector performance

The **475 leading Italian companies** (five of which are distributors) delivered **aggregate total sales of €24.2bn in 2019**, €20.2bn of which by the manufacturers, and €4bn by the distributors.

The majority of the companies is located in North-East Italy (226), followed by North-West Italy (143). The Italian wood, furniture and lighting supply chain is strongly correlated to the nation's industrial districts, with 282 of the firms located in districts accounting for 53.8% of total sales; if the €1bn in sales generated by the 19 companies based in the local production systems is added to the district-based companies, the share rises to 58%.

In terms of specialization, wood and wood derivatives accounted for sales worth €3.8bn, whereas, of the finished products, the segment that generated the highest turnover was chairs, tables and accessories, with total sales of €4.2bn. Next in line after this segment were contractors, with €3.1bn, the lighting manufacturers with €2.6bn, then the producers of kitchen furniture with €2bn. The aggregate of products for living and sleeping (i.e. including bedroom furniture for children and teenagers) generated net sales of just under €1.9bn, followed by the upholstery segment (i.e. armchairs and sofas) with €1.7bn. The turnover posted by manufacturers of bathroom furniture and mattresses was lower, at €322m and €511m respectively. High-end products generated total sales of €4.3bn, demonstrating that the majority of the aggregated turnover is originated by companies operating in the segments variously referred to as medium-/low-range, cheap or mass market (€19.9bn).

In the years from 2017 to 2019, the 475 companies **posted growth in total sales of 3.8%** (domestic sales up 4.2%, exports up 3.2%). The distributors posted a higher increase than the manufacturers (total sales up 6.3% vs 3.3%), especially in exports, which were up 25.4% (vs 2.9%). The high-end segment grew less than the cheaper bracket, with total sales in these products up 3.5% (vs 3.8%), but fared better in terms of exports, which grew by 3.3% (vs 3.1% for the cheaper segment). By individual manufacturing segment, particularly outstanding performances were recorded at the top-line level by contractors (up 6.1%), living & sleeping (up 6%), kitchen furniture (up 5.6%), and seats, tables and accessories (up 5%).

Italian firms' expectations

Total sales in 2020 were **down 8.2% on 2019,** with the reduction in exports slightly more pronounced than that for the domestic market (down 9%, vs 7.6%). In the year that will go down in history as the year of Covid-19, the high-end furniture segment saw a more drastic reduction in turnover than the companies operating at the cheaper end of the market, with total sales down 11.6% (compared with 6.9%). In terms of the various specializations, the heaviest reductions were reported by the lighting manufacturers (down 13.1%), the armchair and sofa producers (down 12.5%), and the operators working further upstream in the supply chain in the wood-working segment (down 11.7%). More resilient, by contrast, were the manufacturers of kitchen furniture (down 4.5%), chairs, tables and accessories (down 3.4%), and bathroom furniture (1.1%). Exports, meanwhile, reported double-digit reductions in particular for contractors (down 24%) and upholstered chairs (down 17.6%).

For 2021 **79.2% of firms expect their sales to grow by over 5%**, and **47.5% expect their top lines to grow by more than 10%.** Only 11.9% of the companies foresee a decline in revenues for 2021, compared to 78.2% which actually saw their revenues decrease in 2020. The individual segments appear optimistic of posting recoveries compared to the situation reported in 2020, with some variations between them. Overall the recovery is estimated at 8.7%, higher for the domestic market (up 9.7%) than for exports (up 7.6%). High-end products expect to fare better than the mass market segment, seeing growth in sales of 9.4% compared to 8.5%, while the living & sleeping manufacturers and raw timber and semi-finished product manufacturers expect to post double-digit growth, of 12.6% and 11.1% respectively. The three segments which managed to contain losses in 2020 expect to perform well in 2021 too (kitchen furniture up 9.1%; bathroom furniture up 8.5%; seats, tables and accessories up 6.9%).

Finally, **52.5%** of the companies covered in the report expect to embark on **rounds of investment higher** than those that were possible in 2020.