Outlook for North Carolina's Furniture Industry is Mixed

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Article:

The News & Record recently reported that the U.S. Census Bureau's just-released Annual Survey of Manufactures had some sobering news for the textile industry in North Carolina ("North Carolina Leads Nation in Losing Textile and Apparel Jobs," Nov. 20).

From 1997 to 1998, the number of people employed by North Carolina companies in the industry fell by about 9,900, a decrease of nearly 5 percent. North Carolina is still the country's largest employer in textile and apparel manufacturing, but those 9,900 lost jobs were the most of any state in the U.S.

Since the Triad is the state's most manufacturing-intensive region, I wondered what the ASM had to say about another of the state's signature industries, home furnishings. In North Carolina, the furniture manufacturing industry is a little under half the size of the textile industry, in terms of both sales and employment. But furniture manufacturing dwarfs, and is the driving force behind, the state's more visible furniture retailing industry.

I knew the news wouldn't be entirely good. That's the reality for mature manufacturing industries in the knowledge economy. And sure enough, the picture painted by the ASM is a mixed bag. Employment in furniture and related manufacturing in North Carolina was stagnant in 1998, and productivity was low. But the data contain a few nuggets of optimism for the long term.

Nationally, employment in furniture manufacturing grew faster than for manufacturing as a whole. Overall manufacturing employment rose 1 percent but furniture employment rose 4 percent. Employment of furniture production workers grew even faster, by over 5 percent.

In contrast, employment growth in the North Carolina furniture industry was virtually nonexistent. Overall furniture employment was essentially unchanged, and the number of production workers rose by a mere half-percent.

In addition, the productivity of North Carolina furniture workers lags behind the rest of the industry, as well as the economy as a whole.

"Value added" is the contribution of the manufacturing process to the final value of goods. It's the difference between the value of goods produced and the value of the materials and inputs used. Throughout the U.S. manufacturing economy, the average worker produced $111,000 of value added in 1998, followed closely by the $107,000 figure for all North Carolina manufacturing.

In the U.S. furniture industry, productivity in 1998 was lower, about $60,000 of value added per employee. But in North Carolina, the average furniture employee produced only $52,000 of value added.

Labor becomes more productive as workers become more skilled and as they use more efficient production techniques. Much of the labor used in furniture manufacturing is skilled labor, but the technical side of the equation can't be ignored. And capital spending, the amount spent to upgrade and buy new plants and equipment, is still low in the furniture industry.

According to the ASM, capital spending nationwide is hovering just under 4 percent of total sales. The figure for the national furniture industry is a little under 3 percent. North Carolina furniture manufacturers are spending only a little over 2 percent of revenues on new plants and equipment.

But there is a bright side to this news. Between 1997 and 1998, spending on plants and equipment was essentially unchanged in all U.S. manufacturing industries, and it actually fell by about 2.5 percent in all North Carolina industries. But in furniture nationwide, capital spending rose 12 percent. Among North Carolina furniture manufacturers, the rate of growth was almost double that, 23 percent.

This is reflected in the dramatic gains in productivity in furniture manufacturing. Productivity in North Carolina furniture grew faster than in the national furniture industry, and faster than in the broader economy. In North Carolina, furniture labor productivity grew by 1 1 percent, as compared to 5 percent in the national furniture industry, and just 2.5 percent in all industries nationwide.

The key to sustainable growth in any industry is on-going investment, both in its labor force and its productive capital. New capital can be labor-saving or labor-enhancing. In the textile industry, production and sales are growing in spite of significantly falling employment. The reason, of course, is new labor-saving technologies that allow companies to produce more cloth and yarn than before but with less labor.

Furniture will likely always be more labor-intensive than textiles, and so its future health depends more on labor-enhancing machines and techniques. In the past decade the industry has consolidated, with numerous old-line manufacturers going out of business. The ASM figures suggest that the remaining manufacturers, especially in North Carolina, realize the importance of investment and innovation.

But it's easy to invest when times are good, as they were in 1998 and have been for nearly 10 years. Since 1998, industry forecasters have repeatedly predicted slower retail furniture sales. It hasn't happened yet, but eventually (and probably soon) the forecasters will be right.

Also looming on the horizon is the growing importance of foreign furniture manufacturing. Imports have increased in recent years, and many American furniture makers have begun investing in off-shore facilities instead of domestic capacity.

Will the North Carolina furniture industry's commitment to investment and long-term growth continue in the face of foreign competition and a future recession? Only time will tell.