CBI MARKET SURVEY

THE DOMESTIC FURNITURE MARKET IN HUNGARY

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Introduction
This CBI market survey gives information on some main developments in the domestic furniture market in Hungary. The information is complementary to the information provided in the CBI market survey 'The domestic furniture market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.eu/marketinfo.

1 Market description: consumption and production

Consumption
The Hungarian market for domestic furniture was valued at € 513 million in 2008 in terms of retail sales. In the same year, Hungarians spent € 51 per capita, which was much lower than the EU average of € 161. Hungary was a small to medium-sized furniture market in the EU and had a similar market value to a cluster of other countries, including the Czech Republic and Ireland.

Table 1.1 Consumption of domestic furniture in Hungary, 2004-2008, € million

2004	2005	2006	2007	2008	Average ann. % change	Population (million)	per capita in €	Occupants per household	Households (thousand)
449	476	511	540	513	3.4	10.1	51	2.4	4,260

Source: KSH (2009)

The average annual growth rate of 3.4% between 2004 and 2008 was above the EU average of 1.1%, but the market contracted sharply in 2008 as the Hungarian economy experienced difficulties, even before the global economic downturn took its toll. Hungarian consumers have lost confidence in their economy and are only spending on essential items.

Trends in consumption
Hungarian consumers are choosing to refurbish and redecorate their homes, rather than move, according to a recent study by market research specialists Gfk. However significant differences were found between different consumer groups. For example, in the top social group, 60% had painted their homes in the last 5 years, 30% had renovated their bathroom and 38% had replaced their kitchen. Conversely in the working-poor group, just 52% had painted their homes, 19% renovated their bathroom and 22% replaced their kitchen.

Loft apartments are becoming more popular in Budapest and some other larger cities. These offer the opportunity of large open plan spaces and the possibility of creative interior solutions and personalised home furnishings. This will increase the demand for more individualised pieces of furniture. These properties are relatively expensive, so furniture styles will also tend to be of higher quality.

Elsewhere, traditional furniture styles continue to be popular despite the growing number of younger consumers who prefer more contemporary designs. In this sense, furniture designs are changing more slowly in Hungary than in other countries. Consumers continue to rate price as more important than design or quality. This may also be as a result of a lack of confidence in the economy. Differences can be seen between the urban and rural areas. In the rural areas where income levels are lower, consumers are conservative and tend to buy lower-priced country style furniture, while more affluent consumers in the major cities are starting to purchase more contemporary designs, inspired in part by the success of IKEA and some of the other international furniture retailers now operating on the market.

Consumption by product group
In terms of the respective product groups, it is estimated that dining and living room furniture was the largest group, accounting for 26% of sales; upholstered furniture 25%; kitchen furniture 18%; bedroom furniture 18% and other furniture 13%.

Market outlook
While there are some indications that consumer confidence is slowly starting to return in mid-2009, this is unlikely to prevent the furniture market from also declining in this year. 2010 may see a slow return to spending on lower priced furniture. This may provide an increase in volume sales in the market, but an increase in market value is unlikely before 2011.

Production
Hungary is a medium-sized EU furniture producer. In 2008, its production was valued at € 821 million. The furniture industry represents an important part of the Hungarian economy, but has been very badly affected by the global economic downturn. The fall in 2008 continues to worsen. Production in the 1st quarter of 2009 was 30% lower than the equivalent period in 2008. Exports were well down but sales to the domestic market were down by 50%.

Much of the industry has now restructured in order to supply the international market and there is some foreign ownership of production facilities. Those that have not continue to compete on the domestic market, primarily in the low cost sector. In 2006, there were over 3,000 small to medium sized companies, employing 17,397 people. Most companies are located around Lake Balaton in the north east of the country.

Table 1.2 Production of domestic furniture in Hungary, 2004-2008, € million

2004	2005	2006	2007	2008	Average ann. % change	Number of companies 2006	Number of employees 2006
682	707	830	933	821	4.7	3,164	17,397

Source: National Statistics, Eurostat (2009)

According to Eurostat, the value of Hungarian production in 2008 was sub-divided into furniture parts 35%; non-upholstered seating 24%, bedroom furniture 13%; other furniture 11%; dining and living room furniture 10% and kitchen furniture 7%. Eurostat does not provide information on upholstered seating, but in 2005 this accounted for approximately 20% of all production.

Interesting manufacturers in Hungary include:
- Balaton Butor - http://www.balaton-butor.hu - has been producing furniture for over 100 years, particularly tables, chairs and other occasional furniture.
- 3F Studio - http://www.3fconsoft.com - located in Budapest, manufactures designer and contemporary furniture, for the kitchen, dining room and living room.
- Abauj - http://www.abauj-butor.hu - located in Encs, is a producer of classical and upholstered furniture. This company was established in 1992.
- Eben-H - http://www.eben-h.hu - located in Gyongos, designs and produces rustic furniture with sculptures. The main wood used is cherry. This company was founded in 1990.
- Demko Feder - http://www.demko.hu - is one of the country's leading manufacturers. Consumers can also buy directly from them.

More manufacturers can be found at http://www.butorszovetseg.hu/taglista.php.

Trends in production

Until 2007, this industry was developing strongly as a result of a focus on exports and partnerships with overseas investors. The crisis in 2008 suggests that the restructuring of the industry was not sufficiently robust to withstand the global downturn. The industry is now trying to develop its own identity and is focusing less on being a manufacturer of parts. It is uncertain as to whether the industry will be able to obtain the necessary finance to be able to achieve this.

Opportunities and threats

+ The growing middle class in Hungary is looking for more interesting furniture designs and many do not rate the local producers. This will provide an opportunity for exporters from developing countries.
+ The greatest opportunities are at the lower and middle end of the market, as this segment represents the largest segment of the population. However niche segments of consumers higher up the market have disposable income and offer a different set of opportunities for exporters.
+ The local industry is very vulnerable at the moment. Sales to the domestic market have fallen sharply. This indicates opportunities for foreign suppliers who are able to understand the needs of Hungarian furniture consumers.

Many exporters will also be viewing the opportunities available on the Hungarian market. Any of these trends can equally be an opportunity for one exporter but a threat to another. Buyers are not always loyal to specific suppliers, so you could lose out to a supplier from your own country or another developing country.

More information on opportunities and threats can be found in Chapter 7 of the CBI market survey ‘The domestic furniture market in the EU’.

2 Trade channels for market entry

The furniture trade in Hungary is fragmented, with a large number of small specialist retailers, many of which are also manufacturers. However the market is concentrating rapidly and non-specialists such as hypermarkets and DIY chains are taking an increasing share of the market. There are two levels of specialist retail chains. Average quality is the norm and is represented by Kika or IKEA, but there are also a growing number of exclusive high quality outlets appearing.

Despite this growing concentration, there are many wholesalers and importers that continue to supply the traditional segment. Furniture agents are not widely used in Hungary.

Interesting wholesalers and importers include:

- Butor Trend - http://www.butor-trend.hu - is an importer and wholesaler of a wide range of different furniture types.
- Elisa Rattan Aruhaz - http://www.elisa-nadbutor.hu - located in Budapest, imports bamboo and rattan furniture from Thailand. It has a shop on line.
- Karabuka - http://www.karabuka.hu - located in Budapest, imports and wholesales ethnic and oriental furniture made of rattan or teak.
- Európa Bútorház - http://www.europabutorhaz.hu - supplies a wide range of domestic furniture styles to the retail trade.
- Matracfutár - http://www.matracfutar.hu - is a wholesaler, which also sells online.

There are a number of links to furniture suppliers in Hungary, including http://www.cegbongeszo.hu/tev-ceg-en/Trade+of+furniture-3950.htm, http://irodabutor.lap.hu/ and http://lakberendezes.lap.hu/.

Retail trade
There were 4,660 retailers of furniture and lighting, of which 1,000 specialist outlets sell furniture. Independent retailers represent the largest number of outlets, but now account for just 50% of the market value, as specialist chains develop, particularly international specialist chains. IKEA - http://www.ikea.com/hu - has one outlet in Budapest and the facility to purchase online. Kika - http://www.kika.hu - from Austria has 6 outlets, and Sconto - http://www.sconto.hu/moebelix - owned by the German Möbel Walther, has 3 outlets.

Other international retailers such as Jysk, Ligne Roset and BoConcept are also present. Two Spanish (Kolonial Home and Banak Importa) and one German (Möbel Kolonie) have also announced plans to enter the market. Domus - http://www.domus.hu - is the leading domestic specialist chain with 5 outlets.

In the non-specialist sector, the hypermarkets Cora and Auchan, and DIY chains Bricostore, Praktiker, Baumax and Obi are the leading players. Mail order is not strong in Hungary, although it is a growing channel. The German operator Otto Versand - http://www.otto.hu - is in Hungary, but furniture sales are quite low. There are many online furniture retailers and this segment has received a boost by the introduction of IKEA's online purchasing facility. It is expected that others will follow this.

Price structure
Throughout the furniture trade, different prices and margins apply. As the market is not yet as ordered and transparent as the more mature EU markets, higher margins can still be earned in Hungary. Hungarian consumers are very price conscious, but there is not a full appreciation of what they should expect to pay for different furniture items. The margin figures quoted in Table 2.1 are calculated as a percentage of the price purchased from whom they buy in the chain, not as a percentage of the CIF price.

Table 2.1 Overview of margins in domestic furniture

	Low	**High**
Importers/wholesalers' margins	20%	35%
Agents' margins	10%	15%
Retailers' margins	80%	100%
Mark-up CIF price - Consumer price	**2.6**	**3.5**

The VAT rate in Hungary is 20%. More information can be found in Chapter 3.2 of the CBI market survey 'The domestic furniture market in the EU'.

Contacts can be found at http://www.cegbongeszo.hu and http://www.caboodle.hu. More information on trade structure and business contacts can be found at the Business Information Service - http://www.cel.hu, at the Hungarian Investment and Trade Development Agency - http://www.itd.hu - and at the Budapest Chamber of Commerce and Industry - http://www.bkik.hu. The Association of Shopping Centres - http://www.mbsz.hu - has information on the retail trade.

3 Trade: imports and exports

Imports
In 2008, Hungarian imports of domestic furniture were valued at € 362 million, or 112 thousand tonnes. Out of the 27 EU countries, Hungary was ranked eighteenth largest in value and seventeenth in volume, and as such was regarded as a small-sized country for domestic furniture imports. This was similar in value to Finland and Ireland, and similar in volume to Finland, Slovakia and Ireland.

Between 2004 and 2008, Hungarian imports increased by an average of 0.2% per annum in value (from € 360 million) but decreased by 1.1% in volume (from 118 thousand tonnes). Germany, Poland, Austria and Italy were the leading importers.

Exports were double the value of imports, but imports and exports were very similar in volume in 2008. Exports were increasing more quickly than imports. The same period has seen a decrease in domestic furniture production and an above average annual increase in consumption. Despite the increase in production, imports were taking a growing share of the market.

By source, around 6% of Hungarian imports, valued at € 22 million or 10 thousand tonnes, came from developing countries in 2008 (8.7% by volume). This proportion was 7.1% in 2004 (10% by volume). China accounted for 48% of all developing country supplies by value in 2008, followed by Turkey (14%) and Indonesia (9.4%). Vietnam and Malaysia were also important suppliers. While China's supplies increased by an annual average of 7% over the period, supplies from Turkey decreased by 4.5%. Supplies from Vietnam increased over the period, while supplies from Indonesia and Malaysia decreased.

By product group, Hungarian imports by value were sub-divided as follows:
- The leading two groups were furniture parts with 56% of value and 29% of volume (€ 202 million or 32 thousand tonnes) and other furniture with 10% of value and 19% of volume (€ 37 million or 21 thousand tonnes).
- Dining/living room furniture also represented 10% of value and 19% of volume (€ 37 million or 21 thousand tonnes) and upholstered seating accounted for 8% of value and 8% of volume (€ 28 million or 9 thousand tonnes).
- The remainder was taken up as follows: non-upholstered seating (€ 25 million), bedroom furniture (€ 17 million), kitchen furniture (€ 10 million) and rattan furniture (€ 5 million).

Exports

Domestic furniture exports from Hungary were valued at € 727 million in 2008, representing 125 thousand tonnes. 74% of this was furniture parts. Between 2004 and 2008, the average annual increase in exports was 1.4% by value and 3.5% by volume. There may be some re-exporting from the Hungarian market, as exports are close to registered domestic production. The high proportion of furniture parts also suggests that the Hungarian market is largely used for partial assembly of furniture before onward shipping for completion elsewhere. Most exports were destined for Germany and Austria.

Opportunities and threats

\+ The main growth opportunities for developing country suppliers are in furniture parts. As well as being the largest sub-group, they have increased significantly over the period.
\+ Other notable opportunities are in items for non-upholstered seating.
\- The other product groups have not offered the same opportunities. Imports of dining/living room, other furniture and rattan furniture have decreased over the period, while the other groups have been static.
\- Hungary takes a very low proportion of its imports from developing countries.

See Chapter 7 of the CBI market survey 'The domestic furniture market in the EU' for more information on opportunities and threats.

Useful sources
- EU Expanding Exports Helpdesk - http://exporthelp.europa.eu/
- Eurostat – official statistical office of the EU - http://epp.eurostat.ec.europa.eu;
- Understanding eurostat: Quick guide to easy comext ➔ http://www.eds-destatis.de/en/database/download/Handbook_Comext_Database.pdf

4 Price developments

Consumer prices
Consumer prices of domestic furniture in Hungary were well below the European average. In terms of purchasing power, prices in Hungary were similar to prices in Estonia, Slovakia and the Czech Republic.

According to Eurostat, furniture retail prices decreased by 5.2% between 2004 and 2008, but by 0.3% in 2008, indicating a fall in the rate of decrease. This compared to furniture retail price increases of 6.7% for the EU as a whole, but 2.6% for 2008. This also compares with the all-price index in Hungary, which was 22.4% higher in 2008 than in 2004. Hence furniture price decreases in Hungary compared to EU average increases and high all-price index increases in Hungary.

Import prices
Although the industry does not make price agreements based on tonnage, it is useful to see how import prices compare. There is an upward trend in developing country import prices since 2004. As Table 4.1 highlights, developing country import prices were increasing, while intra-EU import prices were decreasing. However, intra-EU import prices to Hungary were above the EU average. Please note these trends should be interpreted with care, as changes in imports do not always reflect changes in demand.

Table 4.1 Development in Hungarian average import values/prices, 2004 – 2008, €

	2004 ave price per '000 tonnes	**2006** ave price per '000 tonnes	**2008** ave price per '000 tonnes	**ave. Annual % change**
Total imports	3.06	3.43	3.22	1.3
Intra-EU	3.59	2.81	3.22	-1.9
Developing countries	2.10	2.17	2.27	2.0

Source: Eurostat (2009)

The website of Hungarian National Statistics - http://www.ksh.hu - publishes harmonised indices of consumer prices. For up-to-date furniture prices, see IKEA - http://www.ikea.com/hu, and retailers Kika - http://www.kika.hu, Maxcity - http://www.maxcity.hu - and Domus - http://www.domus.hu. In a price comparison of the same IKEA products in 18 EU countries, Hungary was sixth lowest. See Chapter 5 of the CBI survey 'The domestic furniture market in the EU' for more details.

5 Market access requirements

As a manufacturer in a developing country preparing to access Hungary, you should be aware of the market access requirements of your trading partners and the Hungarian government. For information on legislative and non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select domestic furniture and Hungary in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found at the website of ITC on export packaging: http://www.intracen.org/ep/packit.htm

Information on tariffs and quota can be found at http://exporthelp.europa.eu/

6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from http://www.cbi.eu/marketinfo - go to search publications. For more information on doing business in Hungary, visit the following websites:

- The Hungarian Furniture Alliance - http://www.butorszovetseg.hu.
- The Hungarian Wood Directory - http://www.woodinfo.hu - features companies involved in the furniture industry. The Hungarian Federation of Forestry and Wood Industries - http://www.fagosz.hu - also has additional information.
- BNV and Furniture World - http://www.butorvilag.hu - takes place in Budapest each September. Hometrend and Design - http://www.lakastrend.hu - takes place in March.
- The Furniture Alliance publishes an online newsletter called Hirlevel (see above). Other publications are Hirfa - http://www.hirfa.hu, Profifa - http://www.profi-fa.hu - and Butortrend - mailto:iscreen@iscreen.hu. Interieur - http://www.interieurmagazin.hu - is a consumer magazine dedicated to furniture and interiors.
- Good links to furniture design can also be found at http://www.lakaskultura.hu.
- Good general online business publications are http://www.realdeal.hu, http://www.napi.hu and http://www.magyarinfo.hu.
- Market information can be obtained from the local websites of AC Nielsen - http://www.hu.nielsen.com - and Gfk – http://www.gfk.hu.

This survey was compiled for CBI by ***Searce***