FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

January 2024

HIGHLIGHTS – EXECUTIVE SUMMARY

First of all, I'd like to thank Ken Smith for his dedication and service to the furniture industry over the years, including this very week helping to provide for a smooth transition with the newsletter. Ken has been a long-time friend and mentor to many of us both within the industry and here at Smith Leonard and his impact cannot be overstated. I am privileged and humbled to follow behind one of the greats with the support of our great Smith Leonard team and our countless combined years of experience serving the furniture and related industries. With that said, let's get down to business shall we.

New orders rose 26% in November 2023 compared to November 2022, which marks the 7th straight month orders have grown double-digit percentages over the prior year. Year to date, new orders were up 4% over the same period of 2022, though 2022-to-date orders were down 34% over the same period of 2021. As we've stated previously, comparisons to prior years have been difficult due to the unprecedented circumstances impacting the industry since mid-2020, but that does seem to be normalizing, even if still not at the levels we'd prefer.

Shipments in November 2023 were down 16% from November 2022, which were up 1% from November 2021. Year to date, 2023 shipments were down 17% over the first 11 months of 2022. So despite recent improvement in monthly new orders, annual trends continue to be affected by many companies shipping from their historically high backlogs through much of 2022. Accordingly, November 2023 backlogs were up a modest 3% from October 2023, but down 35% compared to November 2022.

EXECUTIVE SUMMARY, CONT.

Receivable levels were up 5% from October, which may be a result of timing given the slight decrease in shipments. Receivable levels were down 13% from November 2022, which is materially in line with the year-to-date decline in shipments.

Inventories and employee levels were materially in line with October 2023, but down from November 2022, indicating that companies have substantially finished adjusting levels to match current operations.

National

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** rose in January to 114.8, up from a revised 108.0 in December. The reading was the highest since December 2021, and marked the third straight monthly increase. The ***Present Situation Index*** surged to 161.3 from 147.2 last month. The ***Expectations Index*** improved to 83.8 in January, up from a revised reading of 81.9 in December.

"January's increase in consumer confidence likely reflected slower inflation, anticipation of lower interest rates ahead, and generally favorable employment conditions as companies continue to hoard labor," said **Dana Peterson, Chief Economist at The Conference Board.** Consumers' *Perceived Likelihood of a US Recession over the Next 12 Months* continued to gradually ease in January, consistent with an *Expectations Index* rising above 80."

Peterson added: "Assessments of the present situation rose in January, buoyed by more positive views of **business conditions** and the **employment situation**. Furthermore, when asked to assess their **current family financial conditions** (a measure not included in calculating the *Present Situation Index*), the proportion reporting 'good' increased while those saying 'bad' fell. This suggests consumers are starting off the year in good spirits about their current finances."

However, on a month-to-month and six-month basis, **buying plans** for autos, homes, and big-ticket appliances declined slightly for all three categories.

Housing

Existing home sales retreated in December. Among the four major U.S. regions, sales slipped in the Midwest and South, rose in the West, and were unchanged in the Northeast. All four regions experienced year-over-year sales decreases.

Total existing home sales decreased 1.0% from November to a seasonally adjusted annual rate of 3.78 million in December. Year-over-year, sales declined 6.2%.

Single-family home sales edged lower to a seasonally adjusted annual rate of 3.4 million in December, down 0.3% from 3.41 million in November and 6.1% from the previous year. The median existing single-family home price was $387,000 in December, up 4.0% from December 2022.

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.60% as of January 18. That's down from 6.66% the prior week but up from 6.15% one year ago.

EXECUTIVE SUMMARY, CONT.

Thoughts

The general economic indicators as well as our monthly stats continue to provide mixed results and accordingly, mixed expectations for 2024. Overall consumer confidence is trending in a positive direction, though housing remains fairly stagnant. Other factors, such as inflation, supply chain, stock market performance (though perhaps overvalued), and employment data are also favorable or at least manageable. On the flip side, there are international and election concerns to consider.

Perhaps the expected rate cuts in 2024 (Fed meeting as of publication), coupled with improving confidence, will stimulate growth in housing which drives furniture sales. However, it seems rate cuts may be slow to materialize as the Fed is able to work methodically, with the economy adequately shuffling along.

The Conference Board still suggests there will be a short recession during the middle of 2024 (Q2-Q3) before recovering late in the year. If not already feeling it, we all know that furniture tends to be one of the first to feel the effects of a recession and one of the last to recover.

So, while new orders are trending positively year over year, many of the companies we speak with have seemingly adjusted to operating at the "old normal" (meaning back to 2019 volumes). However through gradual implementation and holding of price increases, coupled with manageable cost inflation as of late, many have seen consistent or improved gross profits despite flat or declining revenue (as adjusted for inflation). Generally, upholstery (particularly custom) appears to be stronger than case goods and high-end stronger than low-end goods, though there are always exceptions.

With more time to breathe and look internally after returning to historical norms following an extended period of unprecedented demand, we hope companies will "control what you can control," be open to change and opportunities, look at processes and ways to operate more efficiently throughout the organization, and to invest in relationships with their employees, customers, vendors, lenders, and most importantly, accountants.

EXECUTIVE SUMMARY, CONT.

Housing, Cont.

Sales of new single-family houses in December 2023 were at a seasonally adjusted annual rate of 664,000, which is 8.0% above the revised November rate of 615,000 and is 4.4% above the December 2022 estimate of 636,000. Compared to December 2022, sales were up 4.4% overall with sales up 3.7% in the South, 6.0% in the Midwest, and 7.6% in the West with sales down 2.9% in the Northeast.

Other

Real gross domestic product (GDP) increased at an annual rate of 3.3% in the fourth quarter of 2023, according to the "advance" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 4.9%.

Advance estimates of U.S. retail and food services sales for December 2023, were up 0.6% from the previous month, and up 5.6% above December 2022. Total sales for the 12 months of 2023 were up 3.2% from 2022. Total sales for the October 2023 through December 2023 period were up 3.9% from the same period a year ago.

Sales at furniture and home furnishings stores in December were down 4.6% from December 2022 and down 5.4% year to date.

The Consumer Price Index for All Urban Consumers increased 0.3% in December on a seasonally adjusted basis, after rising 0.1% in November. Over the last 12 months, the all-items index increased 3.4% before seasonal adjustment. The index for shelter continued to rise in December, contributing over half of the monthly all-items increase. The energy index rose 0.4% over the month as increases in the electricity index and the gasoline index more than offset a decrease in the natural gas index.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders rose 26% in November 2023 compared to November 2022. While there is considerable “noise” behind these numbers (including the impact of general inflation and container rate fluctuations to name just two), this does mark the 7th straight month orders have grown double-digit percentages over the prior year, so there does appear to be some traction. Two-thirds of the participants reported increased orders in November 2023 compared to a year ago. Year-to-date, new orders were up 4% over the same period of 2022, though 2022 to date orders were down 34% over the same period of 2021.

Shipments and Backlogs

Shipments in November 2023 were down 16% from November 2022, which were up 1% from November 2021. Shipments in November 2023 were down for two-thirds of the participants compared to November 2022. Year to date, shipments were down 17% over the first 11 months of 2022. So despite recent improvement in new orders, trends continue to be affected by many companies shipping from their historically high backlogs through much of 2022. Accordingly, November 2023 backlogs were up a modest 3% from October 2023, but down 35% compared to November 2022.

Receivables and Inventories

Receivable levels were up 5% from October, which may be a result of timing issues around the holidays or more slow-paying customers on average, given the slight decrease in shipments. Receivable levels were down 13% from November 2022, which is materially in line with the year-to-date decline in shipments.

Inventories were flat in October 2023 and were down 29% from November 2022 (consistent with 35% decline in backlogs), indicating that most companies have rebalanced their inventory levels to match current operations.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was down 6% from November a year ago and flat with October 2023, again indicating most companies have right-sized their teams, though most are still eager to add good people when available.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2023		
	NOV	OCT	11 MOS
New Orders	2,441	2,353	25,282
Shipments	2,138	2,307	26,180
Backlog (R*)	2,765	2,664	

(R* Affected by change in participants)

	2022		
	NOV	OCT	11 MOS
New Orders	1,937	1,922	24,388
Shipments	2,545	2,510	31,699
Backlog	4,254	4,675	

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	Nov 2023 from Oct 2023	Nov 2023 from Nov 2022	11 Mos 2023 vs 11 Mos 2022
New Orders	+17	+26	+4
Shipments	-1	-16	-17
Backlog	+3	-35	
Payrolls	-2	-4	-7
Employees	–	-6	
Receivables	+5	-13	
Inventories	+1	-29	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2022				
November	-35	+1	-52	-2
December	-31	+3	-43	-2
2023				
January	-25	-3	-40	-4
February	-17	-6	-62	-5
March	-14	-16	-63	-6
April	-19	-28	-64	-9
May	+15	-18	-61	-9
June	+23	-28	-58	-9
July	+28	-21	-54	-8
August	+29	-17	-51	-8
September	+13	-20	-45	-7
October	+12	-13	-43	-7
November	+26	-16	-35	-6

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board ***Consumer Confidence Index***® rose in January to 114.8, up from a revised 108.0 in December. The reading was the highest since December 2021, and marked the third straight monthly increase. The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—surged to 161.3 from 147.2 last month. The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—improved to 83.8 in January, up from a revised reading of 81.9 in December.

"January's increase in consumer confidence likely reflected slower inflation, anticipation of lower interest rates ahead, and generally favorable employment conditions as companies continue to hoard labor," said **Dana Peterson, Chief Economist at The Conference Board.** "The gain was seen across all age groups, but largest for consumers 55 and over. Likewise, confidence improved for all incomes groups except the very top; only households earning $125,000+ saw a slight dip. January's write-in responses revealed that consumers remain concerned about rising prices although inflation expectations fell to a three-year low. Buying plans dipped in January, but consumers continued to rate their income and personal finances favorably currently and over the next six months. Consumers' *Perceived Likelihood of a US Recession over the Next 12 Months* continued to gradually ease in January, consistent with an *Expectations Index* rising above 80."

Peterson added: "Assessments of the present situation rose in January, buoyed by more positive views of **business conditions** and the **employment situation**. Furthermore, when asked to assess their **current family financial conditions** (a measure not included in calculating the *Present Situation Index*), the proportion reporting 'good' increased while those saying 'bad' fell. This suggests consumers are starting off the year in good spirits about their current finances."

"Consumer expectations for the next six months increased slightly in January, due to receding pessimism around **future business conditions, labor market,** and **income prospects**. Expectations that interest rates will rise in the year ahead plummeted to just 41.5%. Consumers expecting stock prices to be higher in the year ahead retreated slightly after surging in December but remained near three-year highs. **Average 12-month inflation expectations** fell to 5.2%, the lowest since March 2020 (4.5%). Consumers' views of their **expected family financial situation, six months hence** (not included in calculating the *Expectations Index*) were slightly more tempered in January but remained on net optimistic. On a month-to-month and six-month basis, **buying plans** for autos, homes, and big-ticket appliances declined slightly for all three categories."

Present Situation

Consumers' assessment of current **business conditions** was more positive in January.

- 22.5% of consumers said business conditions were "good," up from 21.1% in December.
- 14.2% said business conditions were "bad," down from 17.2%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. fell by 0.1% in December 2023 to 103.1 (2016=100), following a 0.5% decline in November. The LEI contracted by 2.9% over the six-month period between June and December 2023, a smaller decrease than its 4.3% contraction over the previous six months.

"The US LEI fell slightly in December, continuing to signal underlying weakness in the US economy," said **Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board.** "Despite the overall decline, six out of ten leading indicators made positive contributions to the LEI in December. Nonetheless, these improvements were more than offset by weak conditions in manufacturing, the high interest-rate environment, and low consumer confidence. As the magnitude of monthly declines has lessened, the LEI's six-month and twelve-month growth rates have turned upward but remain negative, continuing to signal the risk of recession ahead. Overall, we expect GDP growth to turn negative in Q2 and Q3 of 2024 but begin to recover late in the year."

The Conference Board Coincident Economic Index®(CEI) for the U.S. rose by 0.2% in December 2023 to 111.7 (2016=100), following a 0.2% increase in November. The CEI expanded by 1.1% over the second half of 2023, up from its 0.8% growth rate over the first half of 2023. The CEI's component indicators—payroll employment, personal income less transfer payments, manufacturing and trade sales, and industrial production—are included among the data used to determine recessions in the US. All four components of the index were positive in December, with personal income less transfer payments continuing to be the strongest contributor, followed by much smaller positive contributions from the remaining three components.

The **Conference Board Lagging Economic Index®** (LAG) for the U.S. declined by 0.2% in December 2023 to 118.4 (2016 = 100), partially reversing an increase of 0.5% in November. The LAG is up by 0.6% over the six-month period from June to December 2023, following no change over the previous six months.

A DEEPER DIVE – NATIONAL, CONT.

Consumer Confidence, Cont.

Present Situation, cont.

Consumers' appraisal of the **labor market** was also more positive in January.

- 45.5% of consumers said jobs were "plentiful," up from 40.4% in December.
- 9.8% of consumers said jobs were "hard to get," down from 13.1%.

Expectations Six Months Hence

Consumers were, on balance, slightly less optimistic about the **short-term business conditions outlook** in January.

- 16.6% of consumers expect business conditions to improve, down from 18.7% in December.
- However, only 16.0% expect business conditions to worsen, down from 17.8%.

Consumers' assessment of the **short-term labor market outlook** was slightly less pessimistic in January.

- 16.0% of consumers expect more jobs to be available, down from 17.6% in December.
- 15.3% anticipate fewer jobs, down from 18.4%.

Consumers' assessment of their **short-term income prospects** was, on balance, less pessimistic in January.

- 16.4% of consumers expect their incomes to increase, down from 18.3% in December.
- 11.5% expect their incomes to decrease, down from 13.6%.

Assessment of Family Finances and Recession Risk

- Consumers' assessment of their Family's Current Financial Situation was more positive in January.
- Consumers remained optimistic in rating their **Family's Expected Financial Situation, Six Months Hence**.
- Consumers' **Perceived Likelihood of a US Recession over the Next 12 Months** continued to abate in January.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 3.3% in the fourth quarter of 2023, according to the "advance" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 4.9%.

The increase in **real GDP** reflected increases in consumer spending, exports, state and local government spending, nonresidential fixed investment, federal government spending, private inventory investment, and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

The increase in consumer spending reflected increases in both services and goods. Within services, the leading contributors were food services and accommodations as well as health care. Within goods, the leading contributors to the increase were other nondurable goods (led by pharmaceutical products) and recreational goods and vehicles (led by computer software).

Compared to the third quarter of 2023, the deceleration in **real GDP** in the fourth quarter primarily reflected slowdowns in private inventory investment, federal government spending, residential fixed investment, and consumer spending. Imports decelerated.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales retreated in December, according to the National Association of REALTORS®. Among the four major U.S. regions, sales slipped in the Midwest and South, rose in the West and were unchanged in the Northeast. All four regions experienced year-over-year sales decreases.

On an annual basis, existing-home sales (4.09 million) dropped to the lowest level since 1995, while the median price reached a record high of $389,800 in 2023.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums and co-ops – decreased 1.0% from November to a seasonally adjusted annual rate of 3.78 million in December. Year-over-year, sales declined 6.2% (down from 4.03 million in December 2022).

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

Single-family home sales edged lower to a seasonally adjusted annual rate of 3.4 million in December, down 0.3% from 3.41 million in November and 6.1% from the previous year. The median existing single-family home price was $387,000 in December, up 4.0% from December 2022.

Existing condominium and co-op sales recorded a seasonally adjusted annual rate of 380,000 units in December, down 7.3% from November and one year ago (both 410,000 units). The median existing condo price was $343,800 in December, up 8.2% from the previous year ($317,700).

"The latest month's sales look to be the bottom before inevitably turning higher in the new year," said NAR Chief Economist Lawrence Yun. "Mortgage rates are meaningfully lower compared to just two months ago, and more inventory is expected to appear on the market in upcoming months."

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.60% as of January 18. That's down from 6.66% the prior week but up from 6.15% one year ago.

Total housing inventory registered at the end of December was 1 million units, down 11.5% from November but up 4.2% from one year ago (960,000). Unsold inventory sits at a 3.2-month supply at the current sales pace, down from 3.5 months in November but up from 2.9 months in December 2022.

The median existing-home price for all housing types in December was $382,600, an increase of 4.4% from December 2022 ($366,500). All four U.S. regions posted price increases.

"Despite sluggish home sales, 85 million homeowning households enjoyed further gains in housing wealth," Yun added. "Obviously, the recent, rapid three-year rise in home prices is unsustainable. If price increases continue at the current pace, the country could accelerate into haves and have-nots. Creating a path towards homeownership for today's renters is essential. It requires economic and income growth and, most importantly, a steady buildup of home construction."

First-time buyers were responsible for 29% of sales in December, down from 31% in November 2023 and December 2022. NAR's 2023 *Profile of Home Buyers and Sellers* – released in November 2023[4] – found that the annual share of first-time buyers was 32%.

Regional

At 470,000 units, existing-home sales in the Northeast were unchanged from November but down 9.6% from December 2022. The median price in the Northeast was $428,100, up 9.4% from the previous year.

In the Midwest, existing-home sales retracted 4.3% from the prior month to an annual rate of 900,000 in December, down 10.9% from last year. The median price in the Midwest was $275,600, up 5.9% from December 2022.

Existing-home sales in the South descended 2.8% from November to an annual rate of 1.72 million in December, a decrease of 4.4% from the prior year. The median price in the South was $352,100, up 3.8% from one year ago.

In the West, existing-home sales grew 7.8% from a month ago to an annual rate of 690,000 in December but were down 1.4% from one year before. The median price in the West was $582,000, up 4.8% from December 2022.

New Residential Sales

Sales of new single-family houses in December 2023 were at a seasonally adjusted annual rate of 664,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 8.0% above the revised November rate of 615,000 and is 4.4% above the December 2022 estimate of 636,000.

The median sales price of new houses sold in December 2023 was $413,200. The average sales price was $487,300.

The seasonally adjusted estimate for new houses for sale at the end of December was 453,000. This represents a supply of 8.2 months at the current sales rate.

Compared to December 2022, sales were up 4.4% overall with sales up 3.7% in the South, 6.0% in the Midwest, and 7.6% in the West with sales down 2.9% in the Northeast.

A DEEPER DIVE – OTHER NATIONAL

Housing Starts

Privately-owned housing starts in December were at a seasonally adjusted annual rate of 1,460,000. This is 4.3% below the revised November estimate of 1,525,000, but is 7.6% above the December 2022 rate of 1,357,000.

Single-family housing starts in December were at a rate of 1,027,000; this is 8.6% below the revised November figure of 1,124,000 and up 7.6% above December 2022.

An estimated 1,413,100 housing units were started in 2023. This is 9.0% below the 2022 figure of 1,552,600.

Single-family starts compared to December 2022 were up 10.2% in the South, 46.1% in the Midwest, 21.2% in the West and down 46.8% in the Northeast.

Housing Completions

Privately-owned housing completions in December were at a seasonally adjusted annual rate of 1,574,000. This is 8.7% above the revised November estimate of 1,448,000 and is 13.2% above the December 2022 rate of 1,390,000. Single-family housing completions in December were at a rate of 1,056,000; this is 8.4% above the revised November rate of 974,000.

An estimated 1,452,500 housing units were completed in 2023. This is 4.5% above the 2022 figure of 1,390,500.

Single-family completions compared to December 2022 were up 13.2% in total and also up 18.0% in the South, 7.0% in the Midwest, 3.7% in the West, and 18.3% in the Northeast.

Retail Sales

Advance estimates of U.S. retail and food services sales for December 2023, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $709.9 billion, up 0.6% from the previous month, and up 5.6% above December 2022. Total sales for the 12 months of 2023 were up 3.2% from 2022. Total sales for the October 2023 through December 2023 period were up 3.9% from the same period a year ago.

Retail trade sales were up 0.6% from November 2023, and up 4.8% above last year. Nonstore retailers were up 9.7% from last year, while food services and drinking places were up 11.1% from December 2022.

Sales at furniture and home furnishings stores in December were down 4.6% from December 2022 and down 5.4% year to date.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in December on a seasonally adjusted basis, after rising 0.1% in November, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all-items index increased 3.4% before seasonal adjustment.

The index for shelter continued to rise in December, contributing over half of the monthly all-items increase. The energy index rose 0.4% over the month as increases in the electricity index and the gasoline index more than offset a decrease in the natural gas index. The food index increased 0.2% in December, as it did in November. The index for food at home increased 0.1% over the month and the index for food away from home rose 0.3%.

The index for all-items less food and energy rose 0.3% in December, the same monthly increase as in November. Indexes which increased in December include shelter, motor vehicle insurance, and medical care. The index for household furnishings and operations and the index for personal care were among those that decreased over the month.

The index for all items less food and energy rose 0.3% in November, after rising 0.2% in October. Indexes which increased in November include rent, owners' equivalent rent, medical care, and motor vehicle insurance. The indexes for apparel, household furnishings and operations, communication, and recreation were among those that decreased over the month.

The all-items index rose 3.4% for the 12 months ending December, a larger increase than the 3.1% increase for the 12 months ending November. The all-items less food and energy index rose 3.9% over the last 12 months, after rising 4.0% over the 12 months ending November. The energy index decreased 2.0% for the 12 months ending December, while the food index increased 2.7% over the last year.

Employment

Total nonfarm payroll employment increased by 216,000 in December, and the unemployment rate was unchanged at 3.7%, the U.S. Bureau of Labor Statistics reported. Employment continued to trend up in government, health care, social assistance, and construction, while transportation and warehousing lost jobs.

The unemployment rate held at 3.7% in December, and the number of unemployed persons was essentially unchanged at 6.3 million. These measures are higher than a year earlier, when the jobless rate was 3.5% and the number of unemployed persons was 5.7 million.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in December, up three of the last four months, increased $0.1 billion or virtually unchanged to $295.6 billion, the U.S. Census Bureau announced today. This followed a 5.5% November increase. Excluding transportation, new orders increased 0.6%. Excluding defense, new orders increased 0.5%. Primary metals, also up three of the last four months, drove the increase, $0.4 billion or 1.4% to $27.1 billion.

Shipments of manufactured durable goods in December, down three of the last four months, decreased $0.9 billion or 0.3% to $282.2 billion. This followed a 1.0% November increase. Transportation equipment, also down three of the last four months, led the decrease, $0.7 billion or 0.8% to $89.5 billion.