FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

February 2024

HIGHLIGHTS – EXECUTIVE SUMMARY

Mark Laferriere and Patrick Willis, Tax Partner

New orders rose 6% in December 2023 compared to December 2022, which marks the 8th straight month orders have grown over the prior year, but a cooling off from the double-digit percentages we've been seeing. For calendar 2023, new orders were up 5% over 2022, which were down (33)% from 2021.

Shipments in December 2023 were down (4)% from November 2023 and down (14)% from December 2022, which were up 3% from December 2021. For calendar 2023, shipments were down (17)% from 2022. So despite recent improvements in new orders, trends continue to be affected by many companies shipping from their historically high backlogs through much of 2022. Accordingly, December 2023 backlogs were down (5)% from November 2023 and down (33)% compared to December 2022.

Receivable levels were down (12)% from November 2023, reversing the apparent 5% timing difference increase from the prior month. Receivable levels were down (16)% from December 2022, which is materially in line with the year to date decline in shipments.

Inventories and employee levels are again in line with prior months, but down from December 2022, indicating that companies have substantially adjusted levels to match current operations.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** fell in February to 106.7, down from a revised 110.9 in January. February's decline in the Index occurred after three consecutive months of gains.

The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—fell back to 147.2 in February from 154.9 in January.

The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—slipped to 79.8, down from a revised 81.5 in January. An Expectations Index reading below 80 often signals recession ahead.

On a six-month basis, **buying plans** for autos, homes, and big-ticket appliances dipped slightly. The share of consumers planning a vacation over the next six months also declined. Expectations that **interest rates** will rise over the year ahead picked up slightly to 42.7%, which may have influenced buying plans. Meanwhile, consumers remained upbeat about **stock prices** over the year ahead.

Housing

Existing-home sales grew in January, according to the National Association of REALTORS®. Among the four major U.S. regions, sales accelerated in the Midwest, South and West, and remained steady in the Northeast. Year-over-year, sales improved in the West, and decreased in the Northeast, Midwest and South.

Total existing-home sales elevated 3.1% from December to a seasonally adjusted annual rate of 4.00 million in January. Year-over-year, sales slipped 1.7% (down from 4.07 million in January 2023).

Single-family home sales moved higher to a seasonally adjusted annual rate of 3.6 million in January, up 3.4% from 3.48 million in December but down 1.4% from the prior year. The median existing single-family home price was $383,500 in January, up 5.0% from January 2023.

At a seasonally adjusted annual rate of 400,000 units in January, existing condominium and co-op sales were unchanged from last month and down 4.8% from one year ago (420,000 units). The median existing condo price was $339,400 in January, up 5.7% from the previous year ($321,100).

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.77% as of February 15. That's up from 6.64% the previous week and 6.32% one year ago.

Sales of new single-family houses in January 2024 were at a seasonally adjusted annual rate of 661,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 1.5% above the revised December rate of 651,000 and is 1.8% above the January 2023 estimate of 649,000.

Compared to January 2023 on a seasonally-adjusted basis, sales were up 1.5% overall with sales up 72.0% in the Northeast, 7.7% in the Midwest, 38.7% in the West, and down (15.6)% in the South.

EXECUTIVE SUMMARY, CONT.

Thoughts

Economic indicators, as well as our monthly stats, continue to provide mixed results and accordingly, expectations for 2024.

Overall consumer confidence took a step back in February 2024, which seems at odds with positive economic data such as steady employment, diminishing inflation, and a strong stock market.

Housing is also showing some signs of life despite the current interest rate environment, and though expected to come slowly and methodically, there appears to be help on the way in the form of mid-year interest rate cuts from the Fed that should drive additional housing and furniture sales activity.

Consistent with many economic reports, the Conference Board is no longer forecasting a general recession for 2024, though we know the furniture industry tends to move at its own pace.

People we've spoken to recently within the industry are largely cautiously optimistic about 2024 and that recent trends and positive outlooks for the coming year will outweigh the negative factors associated with the election and international concerns that seem to dominate the news cycle.

EXECUTIVE SUMMARY, CONT.

National, Cont.

Other

Real gross domestic product (GDP) increased at an annual rate of 3.2% in the fourth quarter of 2023, according to the "second" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 4.9%.

Real GDP increased 2.5% in 2023 (from the 2022 annual level to the 2023 annual level), compared with an increase of 1.9% in 2022. The increase in real GDP in 2023 primarily reflected increases in consumer spending, nonresidential fixed investment, state and local government spending, exports, and federal government spending that were partly offset by decreases in residential fixed investment and private inventory investment. Imports decreased.

Sales at furniture and home furnishings stores were up 1.4% in January 2024 from December 2023 on a seasonally-adjusted basis, but down 9.8% from January 2023.

The Consumer Price Index for All Urban Consumers increased 0.3% in January on a seasonally adjusted basis, after rising 0.2% in December, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all-items index increased 3.1% before seasonal adjustment.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders rose 6% in December 2023 compared to December 2022 marking the 8th straight month orders have grown over the prior year, though cooling off from the double-digit percentage growth we saw in the previous seven months. Approximately two-thirds of the participants reported increased orders in December 2023 compared to a year ago. For calendar 2023, new orders were up 5% over 2022, though 2022 year-to-date orders were down (31)% from 2021.

Shipments and Backlogs

Shipments in December 2023 were down (4)% from November 2023 and down (14)% from December 2022, which were up 3% from December 2021. Shipments in December 2023 were down for approximately two-thirds of the participants compared to December 2022. For calendar 2023, shipments were down (17)% from 2022. So despite recent improvements in new orders, trends continue to be affected by many companies shipping from their historically high backlogs through much of 2022. And with month over month orders declining, December 2023 backlogs were down (5)% from November 2023 and down (33)% compared to December 2022.

Receivables and Inventories

Receivable levels were down (12)% from November, which seems to be a normalization from the 5% increase spike we saw in the prior month. Receivable levels were down (16)% from December 2022, which is materially in line with the year to date decline in shipments.

Inventories were down slightly from November 2023 and were down (28)% from December 2022, again 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 (7)% from December a year ago and materially flat with November 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		
	DEC	NOV	12 MOS
New Orders	1,974	2,441	27,256
Shipments	2,120	2,138	28,300
Backlog	2,611	2,765	

	2022		
	DEC	NOV	12 MOS
New Orders	1,880	1,937	25,858
Shipments	2,478	2,545	34,177
Backlog	3,869	4,254	

MONTHLY RESULTS – FEBRUARY 2024

KEY MONTHLY INDICATORS (PERCENT CHANGE)	Dec 2023 from Nov 2023	Dec 2023 from Dec 2022	12 Mos 2023 vs 12 Mos 2022
New Orders	-22	+6	+5
Shipments	-4	-14	-17
Backlog	-5	-33	
Payrolls	-11	-9	-8
Employees	-1	-7	
Receivables	-12	-16	
Inventories	-1	-28	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2022				
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
December	+6	-14	-33	-7

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board ***Consumer Confidence Index***® fell in February to 106.7 (1985=100), down from a revised 110.9 in January. February's decline in the Index occurred after three consecutive months of gains. However, as January was revised downward from the preliminary reading of 114.8, the data now suggest that there was not a material breakout to the upside in confidence at the start of 2024.

The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—fell back to 147.2 (1985=100) in February from 154.9 in January. The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—slipped to 79.8 (1985=100), down from a revised 81.5 in January. An Expectations Index reading below 80 often signals recession ahead.

"The decline in consumer confidence in February interrupted a three-month rise, reflecting persistent uncertainty about the US economy," said **Dana Peterson, Chief Economist at The Conference Board.** "The drop in confidence was broad-based, affecting all income groups except households earning less than $15,000 and those earning more than $125,000. Confidence deteriorated for consumers under the age of 35 and those 55 and over, whereas it improved slightly for those aged 35 to 54."

Peterson added: "February's write-in responses revealed that while overall inflation remained the main preoccupation of consumers, they are now a bit less concerned about food and gas prices, which have eased in recent months. But they are more concerned about the labor market situation and the US political environment."

Assessments of the present situation weakened in February, as consumers' views of both **business conditions** and the **employment situation** became less favorable. Furthermore, consumers' assessments of their personal financial situation (a measure not included in calculating the *Present Situation Index*) also weakened.

Consumer expectations for the next six months deteriorated in February, driven by renewed pessimism regarding **future business** and **labor market conditions**. Consumers were also a bit less optimistic about their **family financial situation over the next six months** (a measure not included in calculating the *Expectations Index*). Additionally, consumers' *Perceived Likelihood of a US Recession over the Next 12 Months* picked back up after falling over the previous three months.

On a six-month basis, **buying plans** for autos, homes, and big-ticket appliances dipped slightly. The share of consumers planning a vacation over the next six months also declined. Expectations that **interest rates** will rise over the year ahead picked up slightly to 42.7%, which may have influenced buying plans. Meanwhile, consumers remained upbeat about **stock prices** over the year ahead.

Average 12-month inflation expectations ticked down further to 5.2% in February. After peaking at 7.9% in mid-2022, expected inflation has now fallen to its lowest level since March 2020, when it stood at 4.5%. This aligns with continued slowing in consumer price inflation in government reports and fewer complaints about food and energy prices in our survey.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. fell by 0.4% in January 2024 to 102.7 (2016=100), following a 0.2% decline in December 2023. The LEI contracted by 3.0% over the six-month period between July 2023 and January 2024, a smaller decrease than the 4.1% decline over the previous six months.

"The U.S. LEI fell further in January, as weekly hours worked in manufacturing continued to decline and the yield spread remained negative," said **Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board.** "While the declining LEI continues to signal headwinds to economic activity, for the first time in the past two years, six out of its ten components were positive contributors over the past six-month period (ending in January 2024). As a result, the leading index currently does not signal recession ahead. While no longer forecasting a recession in 2024, we do expect real GDP growth to slow to near zero percent over Q2 and Q3."

The Conference Board Coincident Economic Index® (CEI) for the U.S. rose by 0.2% in January 2024 to 112.1 (2016=100), after a 0.2% increase in December 2023. The CEI expanded by 1.0% in the six-month period ending January 2024, down from a 0.8% growth rate over the previous six months. 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. Three out of four components of the index were positive in January, with payroll employment and personal income less transfer payments having the strongest contributions, followed by a much smaller positive contribution from manufacturing and trade sales.

The **Conference Board Lagging Economic Index®** (LAG) for the U.S. rose by 0.4% in January 2024 to 118.6 (2016 = 100), reversing a decline of 0.4% in December 2023. The LAG is up by 0.9% over the six-month period from July to January 2024, following a decline of 0.1% over the previous six months.

A DEEPER DIVE – NATIONAL, CONT.

Consumer Confidence, Cont.

Present Situation

Consumers' assessment of current **business conditions** fell slightly in February.

- 21.2% of consumers said business conditions were "good," down slightly from 21.3% in January.
- 17.1% said business conditions were "bad," up from 15.3%.

Consumers' appraisal of the **labor market** was also less positive in February.

- 41.3% of consumers said jobs were "plentiful," down from 42.7% in January.
- 13.5% of consumers said jobs were "hard to get," up from 11.0%.

Expectations Six Months Hence

Consumers were, on balance, more pessimistic about the **short-term business conditions outlook** in February.

- 14.8% of consumers expect business conditions to improve, down from 16.7% in January.
- 15.5% expect business conditions to worsen, down from 16.0%.

Consumers' assessment of the **short-term labor market outlook** was more pessimistic in February.

- 14.7% of consumers expect more jobs to be available, down from 15.6% in January.
- 17.3% anticipate fewer jobs, up from 16.7%.

Consumers' assessment of their **short-term income prospects** was, on balance, more optimistic in February.

- 16.9% of consumers expect their incomes to increase, down from 17.1% in January.
- 11.3% expect their incomes to decrease, down from 12.5%.

Assessment of Family Finances and Recession Risk

- Consumers' assessment of their **Family's Current Financial Situation** was less positive in February.
- Consumers were a bit less optimistic about their **Family's Financial Situation** going forward.
- Consumers' **Perceived Likelihood of a US Recession over the Next 12 Months** ticked up in February.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 3.2% in the fourth quarter of 2023, according to the "second" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 4.9%.

The GDP "second" estimate is based on more complete source data than were available for the "advance" estimate issued last month. In the advance estimate, the increase in real GDP was 3.3%. The update primarily reflected a downward revision to private inventory investment that was partly offset by upward revisions to state and local government spending and consumer spending.

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

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

Real GDP increased 2.5% in 2023 (from the 2022 annual level to the 2023 annual level), compared with an increase of 1.9% in 2022. The increase in real GDP in 2023 primarily reflected increases in consumer spending, nonresidential fixed investment, state and local government spending, exports, and federal government spending that were partly offset by decreases in residential fixed investment and private inventory investment. Imports decreased.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales retreated in January, according to the National Association of REALTORS®. Among the four major U.S. regions, sales accelerated in the Midwest, South and West, and remained steady in the Northeast. Year-over-year, sales improved in the West, and decreased in the Northeast, Midwest and South.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – elevated 3.1% from December to a seasonally adjusted annual rate of 4.00 million in January. Year-over-year, sales slipped 1.7% (down from 4.07 million in January 2023).

Single-family home sales moved higher to a seasonally adjusted annual rate of 3.6 million in January, up 3.4% from 3.48 million in December but down 1.4% from the prior year. The median existing single-family home price was $383,500 in January, up 5.0% from January 2023.

Single-family home sales moved higher to a seasonally adjusted annual rate of 3.6 million in January, up 3.4% from 3.48 million in December but down 1.4% from the prior year. The median existing single-family home price was $383,500 in January, up 5.0% from January 2023.

At a seasonally adjusted annual rate of 400,000 units in January, existing condominium and co-op sales were unchanged from last month and down 4.8% from one year ago (420,000 units). The median existing condo price was $339,400 in January, up 5.7% from the previous year ($321,100).

"While home sales remain sizably lower than a couple of years ago, January's monthly gain is the start of more supply and demand," said NAR Chief Economist Lawrence Yun. "Listings were modestly higher, and home buyers are taking advantage of lower mortgage rates compared to late last year."

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.77% as of February 15th. That's up from 6.64% the previous week and 6.32% one year ago.

Total housing inventory registered at the end of January was 1.01 million units, up 2.0% from December and 3.1% from one year ago (980,000). Unsold inventory sits at a 3.0-month supply at the current sales pace, down from 3.1 months in December but up from 2.9 months in January 2023.

The median existing-home price for all housing types in January was $379,100, an increase of 5.1% from one year ago ($360,800). All four U.S. regions posted price increases.

"The median home price reached an all-time high for the month of January," Yun added. "Multiple offers are common on mid-priced homes, and many homes were still sold within a month. The elevated share of cash deals – 32% – indicated a market full of multiple offers and propelled by record-high housing wealth."

"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 28% of sales in January, down from 29% in December and 31% in January 2023. NAR's 2023 *Profile of Home Buyers and Sellers* – released in November 2023 – found that the annual share of first-time buyers was 32%.

A DEEPER DIVE – HOUSING, CONT.

Regional

At 480,000 units, existing-home sales in the Northeast were unchanged from December but down 5.9% from January 2023. The median price in the Northeast was $434,300, up 10.1% from the prior year.

In the Midwest, existing-home sales increased 2.2% from one month ago to an annual rate of 950,000 in January, down 3.1% from last year. The median price in the Midwest was $271,700, up 7.6% from January 2023.

Existing-home sales in the South rose 4.0% from December to an annual rate of 1.84 million in January, a decline of 1.6% from the previous year. The median price in the South was $345,100, up 4.1% from one year ago.

In the West, existing-home sales elevated 4.3% from a month ago to an annual rate of 730,000 in January and grew 2.8% from one year earlier. The median price in the West was $572,100, up 6.3% from January 2023.

New Residential Sales

Sales of new single-family houses in January 2024 were at a seasonally adjusted annual rate of 661,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 1.5% above the revised December rate of 651,000 and is 1.8% above the January 2023 estimate of 649,000.

The median sales price of new houses sold in January 2024 was $420,700. The average sales price was $534,300.

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 of new houses for sale at the end of January was 456,000. This represents a supply of 8.3 months at the current sales rate.

Compared to January 2023 on a seasonally-adjusted basis, sales were up 1.5% overall with sales up 72.0% in the Northeast, 7.7% in the Midwest, 38.7% in the West, and down (15.6)% in the South.

Housing Starts

Privately-owned housing starts in January were at a seasonally adjusted annual rate of 1,331,000. This is 14.8% below the revised December estimate of 1,562,000 and is 0.7% below the January 2023 rate of 1,340,000.

Single-family housing starts in January were at a rate of 1,004,000; this is 4.7% below the revised December figure of 1,054,000.

Single-family starts compared to January 2023 were up 22.0% in total and also up 8.4% in the South, 17.3% in the Midwest, 80.0% in the West and 24.6% in the Northeast.

January rate for units in buildings with five units or more was 314,000.

Housing Completions

Privately-owned housing completions in January were at a seasonally adjusted annual rate of 1,416,000. This is 8.1% below the revised December estimate of 1,541,000, but is 2.8% above the January 2023 rate of 1,377,000.

Single-family housing completions in January were at a rate of 857,000; this is 16.3% below the revised December rate of 1,024,000.

Single-family completions compared to January 2023 were down (15.8)% in total and also down (8.7)% in the South, (24.6)% in the Midwest, (25.2)% in the West, and (28.3)% in the Northeast.

The January rate for units in buildings with five units or more was 538,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for January 2024, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $700.3 billion, down 0.8% from the previous month, and up 0.6% above January 2023. Total sales for the November 2023 through January 2024 period were up 3.1% from the same period a year ago.

Retail trade sales were down 1.1% from December 2023, and down 0.2% below last year. Nonstore retailers were up 6.4% from last year, while food services and drinking places were up 6.3% from January 2023.

Sales at furniture and home furnishings stores were up 1.4% in January 2024 from December 2023 on a seasonally-adjusted basis, but down 9.8% from January 2023.

Consumer Prices

The Consumer Price Index for All Urban Consumers increased 0.3% in January on a seasonally adjusted basis, after rising 0.2% in December, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all-items index increased 3.1% before seasonal adjustment.

The index for shelter continued to rise in January, increasing 0.6% and contributing over two thirds of the monthly all items increase. The food index increased 0.4% in January, as the food at home index increased 0.4% and the food away from home index rose 0.5% over the month. In contrast, the energy index fell 0.9% over the month due in large part to the decline in the gasoline index.

The index for all items less food and energy rose 0.4% in January. Indexes which increased in January include shelter, motor vehicle insurance, and medical care. The index for used cars and trucks and the index for apparel were among those that decreased over the month.

The all-items index rose 3.1% for the 12 months ending January, a smaller increase than the 3.4% increase for the 12 months ending December. The all-items less food and energy index rose 3.9% over the last 12 months, the same increase as for the 12 months ending December. The energy index decreased 4.6% for the 12 months ending January, while the food index increased 2.6% over the last year.

Employment

Total nonfarm payroll employment rose by 353,000 in January, and the unemployment rate remained at 3.7%, the U.S. Bureau of Labor Statistics reported. Job gains occurred in professional and business services, health care, retail trade, and social assistance. Employment declined in the mining, quarrying, and oil and gas extraction industry.

In January, the unemployment rate was 3.7% for the third month in a row, and the number of unemployed people was little changed at 6.1 million.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in December, down two of the last three months, decreased less than $0.1 billion or virtually unchanged to $295.4 billion, down from the previously published virtually unchanged increase. This followed a 5.4% November increase. Transportation equipment, also down two of the last three months, drove the decrease, $1.0 billion or 0.9% to $106.8 billion. New orders for manufactured nondurable goods increased $1.2 billion or 0.4% to $298.9 billion.

Shipments of manufactured durable goods in December, down three of the last four months, decreased $0.9 billion or 0.3% to $282.1 billion, unchanged from the previously published decrease. 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 $89.6 billion. Shipments of manufactured nondurable goods, up following two consecutive monthly decreases, increased $1.2 billion or 0.4% to $298.9 billion. This followed a virtually unchanged November decrease. Food products, up five of the last six months, led the increase, $0.4 billion or 0.5% to $80.3 billion.