FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

March 2024

HIGHLIGHTS – EXECUTIVE SUMMARY

New orders were down (1)% in January 2024 compared to January 2023 breaking our streak of 8 straight months with order growth over the prior year. However, new orders were up 7% over December 2023.

Mark Laferriere (right) with Mitch Garrison, Assurance Director

Shipments in January 2024 were down (13)% from January 2023, which is consistent with the (14)% decline last month and the (17)% annual decline we saw in 2023 compared to 2022. However, shipments were up 2% over December 2023 after returning from the holiday break. And with month over month orders declining and shipments up slightly, January 2024 backlogs were down (1)% from December 2023 and down (27)% compared to January 2023.

Receivable levels were up 6% from December 2023, which is likely a function of timing around the holidays. However, receivable levels were down (12)% from January 2023, which is materially in line with the decline in shipments.

Inventories and employee levels are again in line with recent months, but down from January 2023, indicating that companies have substantially adjusted levels to match current operations.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** was 104.7 in March, essentially unchanged from a downwardly revised 104.8 in February.

The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—increased to 151.0 in March from 147.6 in February.

Meanwhile, the ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 73.8, down from 76.3 last month. An Expectations Index reading below 80 often signals a forthcoming recession.

Sentiment about **stock prices** over the year ahead continued to strengthen. The share of consumers expecting an increase in **interest rates** over the year ahead rose above 50% for the first time since November 2023. On a six-month basis, **buying plans** for interest-rate-sensitive items like autos, homes, and big-ticket appliances dipped again. However, based on a supplemental question, planned spending for services in 2024 increased relative to the same time last year. Among services, consumers anticipate spending more on health care, motor vehicle services, and lodging for personal travel, but less on entertainment.

Housing

Existing-home sales climbed in February, according to the National Association of REALTORS®. Among the four major U.S. regions, sales jumped in the West, South, and Midwest, and were unchanged in the Northeast. Year-over-year, sales declined in all regions.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – bounced 9.5% from January to a seasonally adjusted annual rate of 4.38 million in February. Year-over-year, sales slid 3.3% (down from 4.53 million in February 2023).

Single-family home sales grew to a seasonally adjusted annual rate of 3.97 million in February, up 10.3% from 3.6 million in January but down 2.7% from the previous year. The median existing single-family home price was $388,700 in February, up 5.6% from February 2023.

At a seasonally adjusted annual rate of 410,000 units in February, existing condominium and co-op sales increased 2.5% from last month but declined 8.9% from one year ago (450,000 units). The median existing condo price was $344,000 in February, up 6.7% from the previous year ($322,400).

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.74% as of March 14. That's down from 6.88% the prior week but up from 6.60% one year ago.

Sales of new single-family houses in February 2024 were at a seasonally adjusted annual rate of 662,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 0.3% below the revised January rate of 664,000 but is 5.9% above the February 2023 estimate of 625,000.

Compared to February 2023 on a seasonally adjusted basis, sales were up 5.9% overall with sales up 60.9% in the Northeast, 15.3% in the Midwest, 43.4% in the West, and down (10.0)% in the South.

EXECUTIVE SUMMARY, CONT.

Thoughts

Consumer sentiment related to the *current* economic environment remained largely unchanged from the prior month. And despite diminishing concerns about inflation and the likelihood of a widespread recession, the general outlook for the remainder of the year has deteriorated due to concerns about *future* business conditions, jobs, and the political environment, among other things. Some of these negative sentiments seem to be playing into what we're seeing with new order trends in our monthly year-over-year stats recently.

But at the same time, the housing market continues to show signs of life despite the elevated interest rate environment. Perhaps buyers have finally accepted this new normal and gotten on with life. Hopefully this activity, along with the expected interest rate cuts from the Fed in the second half of the year, will spur additional housing and furniture sales.

We look forward to seeing many of you at the High Point Spring Market in a few weeks.

EXECUTIVE SUMMARY, CONT.

National, Cont.

Other

Real gross domestic product (GDP) increased at an annual rate of 3.4% in the fourth quarter of 2023, according to the "third" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 4.9%.

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

Sales at furniture and home furnishings stores were down 1.1% in February 2024 from January 2024 on a seasonally-adjusted basis, and down 10.1% from February 2023.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders were down (1)% in January 2024 compared to January 2023 breaking our streak of 8 straight months with order growth over the prior year. Approximately half of the participants reported increased orders in January 2024 compared to a year ago. However, new orders were up 7% over December 2023, which would be expected after returning from the holidays.

Shipments and Backlogs

Shipments in January 2024 were down (13)% from January 2023, which is consistent with the (14)% decline last month and the (17)% annual decline we saw in 2023 compared to 2022. However, shipments were up 2% over December 2023 after returning from the holiday break. Shipments in January 2024 were down for approximately three-fourths of the participants compared to January 2023. So despite recent improvement in new orders overall, trends continue to be affected by many companies shipping from their historically high backlogs through much of 2022 into early 2023. And with month-over-month orders declining and shipments up slightly, January 2024 backlogs were down (1)% from December 2023 and down (27)% compared to January 2023.

Receivables and Inventories

Receivable levels were up 6% from December 2023, which is likely a function of timing around the holidays. However, receivable levels were down (12)% from January 2023, which is materially in line with the decline in shipments.

Inventories were down slightly from December 2023 and were down (28)% from January 2023, 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 January a year ago and materially flat with December 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)

	2024	2023
	JAN	DEC
New Orders	2,113	1,974
Shipments	2,152	2,120
Backlog	2,609	2,611

	2023	2022
	JAN	DEC
New Orders	2,126	1,880
Shipments	2,474	2,478
Backlog	3,599	3,869

KEY MONTHLY INDICATORS (PERCENT CHANGE)		
	January 2024 From December 2023	January 2024 From January 2023
New Orders	7	-1
Shipments	2	-13
Backlog	-1	-27
Payrolls	1	-12
Employees	-1	-7
Receivables	6	-12
Inventories	-1	-28

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
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
2024				
January	-1	-13	-27	-7

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board ***Consumer Confidence Index***® was 104.7 (1985=100) in March, essentially unchanged from a downwardly revised 104.8 in February.

The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—increased to 151.0 (1985=100) in March from 147.6 in February. Meanwhile, the ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 73.8 (1985=100), down from 76.3 last month. An Expectations Index reading below 80 often signals a forthcoming recession.

"Consumers' assessment of the present situation improved in March, but they also became more pessimistic about the future," said **Dana M. Peterson, Chief Economist at The Conference Board.** "Confidence rose among consumers aged 55 and over but deteriorated for those under 55. Separately, consumers in the $50,000-$99,999 income group reported lower confidence in March, while confidence improved slightly in all other income groups. However, over the last six months, confidence has been moving sideways with no real trend to the upside or downside either by income or age group."

Peterson added: "Consumers remained concerned with elevated price levels, which predominated write-in responses. March's write-in responses showed an uptick in concerns about food and gas prices, but in general complaints about gas prices have been trending downward. Indeed, **average 12-month inflation expectations** came in at 5.3%—barely changed from February's four-year low of 5.2%. Recession fears continued to trend downward both in write-in responses and as measured by consumers' *Perceived Likelihood of a US Recession over the Next 12 Months*. Meanwhile, consumers expressed more concern about the US political environment compared to prior months."

Assessments of the present situation improved in March, primarily driven by more positive views of the current **employment situation**. Notably, the employment differential—those saying *jobs are plentiful* minus those saying *jobs are hard to get*—rose in March and has been trending higher this year.

However, expectations for the next six months slipped to the lowest level since October 2023. Consumers' outlook for **future business conditions**, **labor market conditions**, and **income expectations** all deteriorated in March. They were also a bit less optimistic about their **family's financial situation**, both currently and over the next six months (measures not included in calculating the *Expectations Index*).

Sentiment about **stock prices** over the year ahead continued to strengthen. The share of consumers expecting an increase in **interest rates** over the year ahead rose above 50% for the first time since November 2023. On a six-month basis, **buying plans** for interest-rate sensitive items like autos, homes, and big-ticket appliances dipped again. However, based on a supplemental question, planned spending for services in 2024 increased relative to the same time last year. Among services, consumers anticipate spending more on health care, motor vehicle services, and lodging for personal travel, but less on entertainment.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.1% in February 2024 to 102.8 (2016=100), following a 0.4% decline in January. Over the six-month period between August 2023 and February 2024, the LEI contracted by 2.6%—a smaller decrease than the 3.8% decline over the previous six months.

"The U.S. LEI rose in February 2024 for the first time since February 2022," said **Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board**. "Strength in weekly hours worked in manufacturing, stock prices, the Leading Credit Index™, and residential construction drove the LEI's first monthly increase in two years. However, consumers' expectations and the ISM® Index of New Orders have yet to recover, and the six- and twelve-month growth rates of the LEI remain negative. Despite February's increase, the Index still suggests some headwinds to growth going forward. The Conference Board expects annualized US GDP growth to slow over the Q2 to Q3 2024 period, as rising consumer debt and elevated interest rates weigh on consumer spending."

The Conference Board Coincident Economic Index® (CEI) for the U.S. rose by 0.2% in February 2024 to 112.3 (2016=100), after a 0.1% increase in January. The CEI rose 1.1% over the six-month period ending February 2024, up from 0.8% 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. All four components of the index were positive last month, with personal income less transfer payments and payroll employment having the strongest contributions to the Index.

The **Conference Board Lagging Economic Index®** (LAG) for the U.S. rose by 0.3% in February 2024 to 118.8 (2016 = 100), after a 0.3% increase in January. The LAG is up by 0.8% over the six-month period from August 2023 to February 2024, after recording no growth over the previous six months.

A DEEPER DIVE – NATIONAL, CONT.

Consumer Confidence, Cont.

Present Situation

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

- 19.5% of consumers said business conditions were "good," down from 20.4% in February.
- 17.2% said business conditions were "bad," down from 17.7%.

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

- 43.1% of consumers said jobs were "plentiful," up from 42.8% in February.
- 10.9% of consumers said jobs were "hard to get," down from 12.7%.

Expectations Six Months Hence

Consumers more pessimistic overall about the **short-term business conditions outlook** in March.

- 14.3% of consumers expect business conditions to improve, up from 14.0% in February.
- 17.6% expect business conditions to worsen, up from 16.9%.

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

- 13.9% of consumers expect more jobs to be available, down from 14.1% in February.
- 18.2% anticipate fewer jobs, up from 17.5%.

Consumers' assessment of their **short-term income prospects** was, on balance, also more pessimistic in March.

- 16.5% of consumers expect their incomes to increase, up slightly from 16.3% in February.
- However, 13.8% expect their incomes to decrease, up from 11.9%.

Assessment of Family Finances and Recession Risk

- Consumers' assessment of their **Family's Current Financial Situation** was less positive in March.
- 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** declined in March—continuing its downward trajectory after a brief uptick last month.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 3.4% in the fourth quarter of 2023, according to the "third" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 4.9%.

The increase in **real GDP** primarily reflected increases in consumer spending, state and local government spending, exports, 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 and residential fixed investment. Imports decelerated.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales climbed in February, according to the National Association of REALTORS®. Among the four major U.S. regions, sales jumped in the West, South and Midwest, and were unchanged in the Northeast. Year-over-year, sales declined in all regions.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – bounced 9.5% from January to a seasonally adjusted annual rate of 4.38 million in February. Year-over-year, sales slid 3.3% (down from 4.53 million in February 2023).

Single-family home sales grew to a seasonally adjusted annual rate of 3.97 million in February, up 10.3% from 3.6 million in January but down 2.7% from the previous year. The median existing single-family home price was $388,700 in February, up 5.6% from February 2023.

At a seasonally adjusted annual rate of 410,000 units in February, existing condominium and co-op sales increased 2.5% from last month but declined 8.9% from one year ago (450,000 units). The median existing condo price was $344,000 in February, up 6.7% from the previous year ($322,400).

"Additional housing supply is helping to satisfy market demand," said NAR Chief Economist Lawrence Yun. "Housing demand has been on a steady rise due to population and job growth, though the actual timing of purchases will be determined by prevailing mortgage rates and wider inventory choices."

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.74% as of March 14. That's down from 6.88% the prior week but up from 6.60% one year ago.

Total housing inventory registered at the end of February was 1.07 million units, up 5.9% from January and 10.3% from one year ago (970,000). Unsold inventory sits at a 2.9-month supply at the current sales pace, down from 3.0 months in January but up from 2.6 months in February 2023.

The median existing-home price for all housing types in February was $384,500, an increase of 5.7% from the prior year ($363,600). All four U.S. regions posted price increases.

According to the monthly REALTORS® Confidence Index, properties typically remained on the market for 38 days in February, up from 36 days in January and 34 days in February 2023.

First-time buyers were responsible for 26% of sales in February, down from 28% in January and 27% in February 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%.

Regional

At 480,000 units, existing-home sales in the Northeast were identical to January but down 7.7% from February 2023. It's the fourth consecutive month that home sales in the Northeast registered 480,000 units. The median price in the Northeast was $420,600, up 11.5% from one year ago.

In the Midwest, existing-home sales propelled 8.4% from one month ago to an annual rate of 1.03 million in February, down 3.7% from the previous year. The median price in the Midwest was $277,600, up 6.8% from February 2023.

At 480,000 units, existing-home sales in the Northeast were identical to January but down 7.7% from February 2023. It's the fourth consecutive month that home sales in the Northeast registered 480,000 units. The median price in the Northeast was $420,600, up 11.5% from one year ago.

In the Midwest, existing-home sales propelled 8.4% from one month ago to an annual rate of 1.03 million in February, down 3.7% from the previous year. The median price in the Midwest was $277,600, up 6.8% from February 2023.

Existing-home sales in the South leapt 9.8% from January to an annual rate of 2.02 million in February, down 2.9% from one year earlier. The median price in the South was $354,200, up 4.1% from last year.

In the West, existing-home sales skyrocketed 16.4% from a month ago to an annual rate of 850,000 in February, a decline of 1.2% from the prior year. The median price in the West was $593,000, up 9.1% from February 2023.

A DEEPER DIVE – HOUSING, CONT.

Regional, Cont.

"Due to inventory constraints, the Northeast was the regional underperformer in February home sales but the best performer in home prices," Yun added. "More supply is clearly needed to help stabilize home prices and get more Americans moving to their next residences."

New Residential Sales

Sales of new single-family houses in February 2024 were at a seasonally adjusted annual rate of 662,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 0.3% below the revised January rate of 664,000, but is 5.9% above the February 2023 estimate of 625,000.

The median sales price of new houses sold in February 2024 was $400,500. The average sales price was $485,000. The median sales price of new houses sold in January 2024 was $420,700. The average sales price was $534,300.

The seasonally-adjusted estimate of new houses for sale at the end of February was 463,000. This represents a supply of 8.4 months at the current sales rate (8.3 months in January 2024).

Compared to February 2023 on a seasonally-adjusted basis, sales were up 5.9% overall with sales up 60.9% in the Northeast, 15.3% in the Midwest, 43.4% in the West, and down (10.0)% in the South.

Housing Starts

Privately-owned housing starts in February were at a seasonally adjusted annual rate of 1,521,000. This is 10.7% above the revised January estimate of 1,374,000 and is 5.9% above the February 2023 rate of 1,436,000.

Single-family housing starts in February were at a rate of 1,129,000; this is 11.6% above the revised January figure of 1,012,000.

The February rate for units in buildings with five units or more was 377,000 (314,000 in January).

Single-family starts compared to February 2023, on a seasonally-adjusted basis, were up 35.2% in total and also up 32.9% in the South, 80.5% in the Midwest, 23.6% in the West and 23.2% in the Northeast.

Housing Completions

Privately-owned housing completions in February were at a seasonally adjusted annual rate of 1,729,000. This is 19.7% above the revised January estimate of 1,445,000 and is 9.6% above the February 2023 rate of 1,577,000.

Single-family housing completions in February were at a rate of 1,072,000; this is 20.2% above the revised January rate of 892,000.

The February rate for units in buildings with five units or more was 644,000 (538,000 in January).

Single-family completions compared to February 2023, on a seasonally-adjusted basis, were up 4.2% in total and also up 1.8% in the South, 30.6% in the Midwest, 4.7% in the Northeast, but down (4.1)% in the West.

Retail Sales

Advance estimates of U.S. retail and food services sales for February 2024, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $700.7 billion, up 0.6% from the previous month, and up 1.5% above February 2023. Total sales for the December 2023 through February 2024 period were up 2.1% from the same period a year ago. The December 2023 to January 2024 percent change was revised from down 0.8% to down 1.1%.

Retail trade sales were up 0.6% from January 2024, and up 0.8% above last year. Nonstore retailers were up 6.4% from last year, while food services and drinking places were up 6.3% from February 2023.

Sales at furniture and home furnishings stores were down 1.1% in February 2024 from January 2024 on a seasonally-adjusted basis, and down 10.1% from February 2023.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers increased 0.4% in February on a seasonally adjusted basis, after rising 0.3% in January, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all-items index increased 3.2% before seasonal adjustment.

The index for shelter rose in February, as did the index for gasoline. Combined, these two indexes contributed over sixty percent of the monthly increase in the index for all-items. The energy index rose 2.3% over the month, as all of its component indexes increased. The food index was unchanged in February, as was the food at home index. The food away from home index rose 0.1% over the month.

The index for all items less food and energy rose 0.4% in February, as it did in January. Indexes which increased in February include shelter, airline fares, motor vehicle insurance, apparel, and recreation. The index for personal care and the index for household furnishings and operations 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 275,000 in February, and the unemployment rate increased to 3.9%, the U.S. Bureau of Labor Statistics reported. Job gains occurred in health care, government, food services and drinking places, social assistance, and transportation and warehousing.

The unemployment rate rose by 0.2 percentage point to 3.9% in February, and the number of unemployed people increased by 334,000 to 6.5 million. A year earlier, the jobless rate was 3.6%, and the number of unemployed people was 6.0 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 February, up following two consecutive monthly decreases, increased $3.5 billion or 1.2% to $282.7 billion. This followed a 0.8% January decrease. Transportation equipment, also up following two consecutive monthly decreases, led the increase, $3.4 billion or 4.0% to $89.8 billion.

On a seasonally-adjusted basis, orders for furniture and related products were up 1.4% compared to the prior month with shipments down 2.2%.