FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

April 2024

HIGHLIGHTS – EXECUTIVE SUMMARY

New orders were up 7% in February 2024 compared to February 2023, resuming our streak with 8 out of 9 straight months with order growth over the prior year after the decline in January. New orders were also up 5% over January 2024.

Shipments in February 2024 were down (5)% from February 2023, but up 8% from January 2024. February 2024 backlogs were down (24)% compared to February 2023, but flat compared to January 2024.

Receivable levels were up 1% from January 2024, but down (7)% from February 2023, which is materially in line with the decline in shipments for same period.

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

Mark Laferriere (right) with James Harmon, Assurance Director

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** deteriorated for the third consecutive month in April, retreating to 97.0 (1985=100) from a downwardly revised 103.1 in March.

The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—declined to 142.9 (1985=100) in April from a downwardly revised 146.8 in March.

Meanwhile, the ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 66.4 (1985=100) from a slightly upwardly revised 74.0 last month. An Expectations Index reading below 80 often signals a forthcoming recession.

Expectations that **stock prices** will increase over the year ahead declined slightly, after rising every month since November of last year. Meanwhile, the share of consumers expecting higher **interest rates** over the year ahead rose again, to 53.8% in April. On a six-month basis, **buying plans** for homes and big-ticket appliances, which are interest-rate sensitive, continued to soften. Vacation plans also decreased to the lowest level since June 2023, with planned trips both within the US and abroad declining.

Housing

Existing-home sales slipped in March, according to the National Association of REALTORS®. Among the four major U.S. regions, sales slid in the Midwest, South and West, but rose in the Northeast for the first time since November 2023. Year-over-year, sales decreased in all regions.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – receded 4.3% from February to a seasonally adjusted annual rate of 4.19 million in March. Year-over-year, sales waned 3.7% (down from 4.35 million in March 2023).

Single-family home sales declined to a seasonally adjusted annual rate of 3.8 million in March, down 4.3% from 3.97 million in February and 2.8% from the prior year. The median existing single-family home price was $397,200 in March, up 4.7% from March 2023.

At a seasonally adjusted annual rate of 390,000 units in March, existing condominium and co-op sales decreased 4.9% from last month and 11.4% from one year ago (440,000 units). The median existing condo price was $357,400 in March, up 5.8% from the previous year ($337,900).

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.88% as of April 11. That's up from 6.82% the previous week and 6.27% one year ago.

Sales of new single-family houses in March 2024 were at a seasonally adjusted annual rate of 693,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 8.8% above the revised February rate of 637,000 and is 8.3% above the March 2023 estimate of 640,000.

Compared to March 2023 on a seasonally-adjusted basis, sales were up 8.3% overall with sales up 4.5% in the South, 23.4% in the Midwest, 18.8% in the West, and down (13.2)% in the Northeast.

EXECUTIVE SUMMARY, CONT.

Thoughts

We enjoyed attending the High Point Furniture Market in April and seeing so many old friends, great product, and new showrooms. Similar to the mixed results from our monthly stats, discussions of current business conditions, as well as expectations for the rest of 2024, were across the spectrum. However, a shared concern we heard repeatedly was about the continued lack of traffic in retail stores.

Nationally, consumer confidence remains shaky, with consumers relatively positive about their present situations, but growing more anxious about prospects for future business conditions and jobs, among other things. With waning consumer sentiment combined with stagnant GDP and housing, inflation refusing to budge, continued political and international concerns, and rate cuts slow to materialize from the Fed (as announced this week) things will presumably continue to be challenging for the industry for the duration of 2024. Perhaps some of those who have been on the sidelines of the housing market will drive some further activity despite the interest rate environment.

However, there are a few bright spots including national employment remaining steady. And while furniture orders certainly are not where we want them to be, they do remain above comparable periods of 2023, which along with manageable supply chains and inflation at least provides companies some continuity with which to manage their businesses, control what they can control, and pursue opportunities as they present themselves.

EXECUTIVE SUMMARY, CONT.

National, Cont.

Other

Real gross domestic product (GDP) increased at an annual rate of 1.6% in the first quarter of 2024, according to the "advance" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2023, real GDP increased 3.4%.

The increase in **real GDP** primarily reflected increases in consumer spending, residential fixed investment, nonresidential fixed investment, and state and local government spending that 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 0.3% in March 2024 from February 2024 on a seasonally-adjusted basis, and down 6.1% from March 2023.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders were up 7% in February 2024 compared to February 2023, resuming our streak of 8 out of 9 straight months with order growth over the prior year after January's decline. Approximately two-thirds of the participants reported increased orders in February 2024 compared to a year ago. New orders were also up 5% over January 2024.

Shipments and Backlogs

Shipments in February 2024 were down (5)% from February 2023, but up 8% from January 2024. Shipments in February 2024 were down for approximately two-thirds of the participants compared to February 2023. February 2024 backlogs were down (24)% compared to February 2023, but flat compared to January 2024.

Receivables and Inventories

Receivable levels were up 1% from January 2024, but down (7)% from February 2023, which is materially in line with the decline in shipments for same period.

Inventories were also up 1% from January 2024, but down (24)% from February 2023 (notably, same as backlog decline), again indicating that most companies have rebalanced their inventories levels to match current operations.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was down (7)% from February a year ago, and flat with January 2024. Similarly, payroll expenses were down (2)% from February a year ago, though up 5% from January 2024, likely due to some reduced production schedules to start the year.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2024		
	FEB	JAN	2 MOS
New Orders	2,193	2,113	4,306
Shipments	2,322	2,152	4,474
Backlog	2,588	2,609	

	2023		
	FEB	JAN	2 MOS
New Orders	2,053	1,976	4,029
Shipments	2,444	2,403	4,847
Backlog	3,383	3,599	

MONTHLY RESULTS – MARCH 2024

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Feb 2024 from Jan 2024	Feb 2024 from Feb 2023	2 Mos 2024 vs 2 Mos 2023
New Orders	+5	+7	+6
Shipments	+8	-5	-9
Backlog	–	-24	
Payrolls	+5	-2	-7
Employees	–	-7	
Receivables	+1	-7	
Inventories	+1	-24	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2023				
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
February	+7	-5	-24	-7

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board ***Consumer Confidence Index***® deteriorated for the third consecutive month in April, retreating to 97.0 (1985=100) from a downwardly revised 103.1 in March. Despite these three months of weakness, the gauge continues to move sideways within a relatively narrow range that's largely held steady for more than two years.

The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—declined to 142.9 (1985=100) in April from a downwardly revised 146.8 in March. Meanwhile, the ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 66.4 (1985=100) from a slightly upwardly revised 74.0 last month. An Expectations Index reading below 80 often signals a forthcoming recession.

"Confidence retreated further in April, reaching its lowest level since July 2022 as consumers became less positive about the current labor market situation, and more concerned about future business conditions, job availability, and income," said **Dana M. Peterson, Chief Economist at The Conference Board.** "Despite April's dip in the overall index, since mid-2022, optimism about the present situation continues to more than offset concerns about the future."

"In the month, confidence declined among consumers of all age groups and almost all income groups except for the $25,000 to $49,999 bracket. Nonetheless, consumers under 35 continued to express greater confidence than those over 35. In April, households with incomes below $25,000 and those with incomes above $75,000 reported the largest deteriorations in confidence. However, over a six-month basis, confidence for consumers earning less than $50,000 has been stable, but confidence among consumers earning more has weakened."

Peterson added: "According to April's write-in responses, elevated price levels, especially for food and gas, dominated consumer's concerns, with politics and global conflicts as distant runners-up. **Average 12-month inflation expectations** remained stable at 5.3% despite concerns about food and energy prices. Consumers' *Perceived Likelihood of a US Recession over the Next 12 Months* rose slightly in April but is still well below the May 2023 peak."

Assessments of the present situation weakened in April but remain in relatively optimistic territory. While consumers continued to rate current **business conditions** positively, their views of the current **employment situation** weakened, with fewer consumers saying that *jobs are plentiful* and more reporting *jobs are hard to get*.

Meanwhile, expectations for the next six months slipped to the lowest level since July 2022, driven by a more pessimistic outlook for **future business conditions**, **labor market conditions**, and **income expectations**. In addition, consumers were less optimistic about their **family's financial situation**, both currently and over the next six months (measures not included in calculating the *Present Situation and Expectations Index*).

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.3% in March 2024 to 102.4 (2016=100), after increasing by 0.2% in February. Over the six-month period between September 2023 and March 2024, the LEI contracted by 2.2%—a smaller decrease than the 3.4% decline over the previous six months.

"February's uptick in the U.S. LEI proved to be ephemeral as the Index posted a decline in March," said **Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board.** "Negative contributions from the yield spread, new building permits, consumers' outlook on business conditions, new orders, and initial unemployment insurance claims drove March's decline. The LEI's six-month and annual growth rates remain negative, but the pace of contraction has slowed. Overall, the Index points to a fragile—even if not recessionary—outlook for the U.S. economy. Indeed, rising consumer debt, elevated interest rates, and persistent inflation pressures continue to pose risks to economic activity in 2024. The Conference Board forecasts GDP growth to cool after the rapid expansion in the second half of 2023. As consumer spending slows, US GDP growth is expected to moderate over Q2 and Q3 of this year."

The Conference Board Coincident Economic Index® (CEI) for the U.S. rose by 0.3% in March 2024 to 112.0 (2016=100), after a 0.1% increase in February. As a result, the CEI rose by 0.6% over the six-month period ending March 2024, down from a 0.9% increase 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 improved last month. Industrial production and personal income less transfer payments made the largest positive contributions to the Index.

The **Conference Board Lagging Economic Index®** (LAG) for the U.S. was unchanged in March 2024 at 119.0 (2016 = 100), after a 0.3% increase in February. The LAG is up by 1.0% over the six-month period from September 2023 to March 2024, after recording no growth over the previous six months.

A DEEPER DIVE – NATIONAL, CONT.

Consumer Confidence, Cont.

Expectations that **stock prices** will increase over the year ahead declined slightly, after rising every month since November of last year. Meanwhile, the share of consumers expecting higher **interest rates** over the year ahead rose again, to 53.8% in April. On a six-month basis, **buying plans** for homes and big-ticket appliances, which are interest-rate sensitive, continued to soften. Vacation plans also decreased to the lowest level since June 2023, with planned trips both within the US and abroad declining.

According to a supplemental question asking consumers what spending they would cut back on to save money, discretionary purchases rose to the top—including food away from home, clothing/fashion items, entertainment away from home, and vacations. Meanwhile, fewer consumers plan to reduce spending on non-discretionary purchases like childcare, education, and health care.

Present Situation

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

- 20.6% of consumers said business conditions were "good," up from 19.2% in March.
- 17.4% said business conditions were "bad," down from 17.6%.

Consumers' appraisal of the **labor market** deteriorated in April.

- 40.2% of consumers said jobs were "plentiful," down from 41.7% in March.
- 14.9% of consumers said jobs were "hard to get," up from 12.2%.

Expectations Six Months Hence

Consumers were more pessimistic about the **short-term business conditions outlook** in April.

- 12.8% of consumers expect business conditions to improve, down from 14.3% in March.
- 19.9% expect business conditions to worsen, up from 18.5%.

Consumers' assessment of the **short-term labor market outlook** worsened in April.

- 11.7% of consumers expect more jobs to be available, down from 14.3% in March.
- 19.6% anticipate fewer jobs, up from 18.8% last month.

Consumers' assessment of their **short-term income prospects** also deteriorated in April.

- 15.4% of consumers expect their incomes to increase, down from 17.3% in March.
- 13.9% expect their incomes to decrease, up from 13.5%.

Assessment of Family Finances and Recession Risk

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

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 1.6% in the first quarter of 2024, according to the "advance" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2023, real GDP increased 3.4%.

The increase in **real GDP** primarily reflected increases in consumer spending, residential fixed investment, nonresidential fixed investment, and state and local government spending 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 fourth quarter, the deceleration in **real GDP** in the first quarter primarily reflected decelerations in consumer spending, exports, and state and local government spending and a downturn in federal government spending. These movements were partly offset by an acceleration in residential fixed investment. Imports accelerated.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales slipped in March, according to the National Association of REALTORS®. Among the four major U.S. regions, sales slid in the Midwest, South and West, but rose in the Northeast for the first time since November 2023. Year-over-year, sales decreased in all regions.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – receded 4.3% from February to a seasonally adjusted annual rate of 4.19 million in March. Year-over-year, sales waned 3.7% (down from 4.35 million in March 2023).

"Though rebounding from cyclical lows, home sales are stuck because interest rates have not made any major moves," said NAR Chief Economist Lawrence Yun. "There are nearly six million more jobs now compared to pre-COVID highs, which suggests more aspiring home buyers exist in the market."

Single-family home sales declined to a seasonally adjusted annual rate of 3.8 million in March, down 4.3% from 3.97 million in February and 2.8% from the prior year. The median existing single-family home price was $397,200 in March, up 4.7% from March 2023.

At a seasonally adjusted annual rate of 390,000 units in March, existing condominium and co-op sales decreased 4.9% from last month and 11.4% from one year ago (440,000 units). The median existing condo price was $357,400 in March, up 5.8% from the previous year ($337,900).

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.88% as of April 11. That's up from 6.82% the previous week and 6.27% one year ago.

Total housing inventory registered at the end of March was 1.11 million units, up 4.7% from February and 14.4% from one year ago (970,000). Unsold inventory sits at a 3.2-month supply at the current sales pace, up from 2.9 months in February and 2.7 months in March 2023.

The median existing-home price for all housing types in March was $393,500, an increase of 4.8% from the previous year ($375,300). All four U.S. regions registered price gains.

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 32% of sales in March, up from 26% in February and 28% in March 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

Existing-home sales in the Northeast climbed 4.2% from February to an annual rate of 500,000 in March, ending a four-month streak where sales in the Northeast registered 480,000 units. Compared to March 2023, home sales were down 3.8%. The median price in the Northeast was $434,600, up 9.9% from one year ago.

In the Midwest, existing-home sales retracted 1.9% from one month ago to an annual rate of 1.01 million in March, down 1.0% from the prior year. The median price in the Midwest was $292,400, up 7.5% from March 2023.

Existing-home sales in the South faded 5.9% from February to an annual rate of 1.9 million in March, down 5.0% from one year before. The median price in the South was $359,100, up 3.4% from last year.

In the West, existing-home sales slumped 8.2% from a month ago to an annual rate of 780,000 in March, a decline of 3.7% from the previous year. The median price in the West was $603,000, up 6.7% from March 2023.

A DEEPER DIVE – HOUSING, CONT.

New Residential Sales

Sales of new single-family houses in March 2024 were at a seasonally adjusted annual rate of 693,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 8.8% above the revised February rate of 637,000 and is 8.3% above the March 2023 estimate of 640,000.

The median sales price of new houses sold in March 2024 was $430,700. The average sales price was $524,800. The median sales price of new houses sold in February 2024 was $400,500. The average sales price was $485,000.

The seasonally-adjusted estimate of new houses for sale at the end of March was 477,000. This represents a supply of 8.3 months at the current sales rate (8.4 months in February 2024).

Compared to March 2023 on a seasonally-adjusted basis, sales were up 8.3% overall with sales up 4.5% in the South, 23.4% in the Midwest, 18.8% in the West, and down (13.2)% in the Northeast.

Housing Starts

Privately-owned housing starts in March were at a seasonally adjusted annual rate of 1,321,000. This is 14.7% below the revised February estimate of 1,549,000 and is 4.3% below the March 2023 rate of 1,380,000.

Single-family housing starts in March were at a rate of 1,022,000; this is 12.4% below the revised February figure of 1,167,000.

The March rate for units in buildings with five units or more was 290,000 (377,000 in February).

Single-family starts compared to March 2023, on a seasonally-adjusted basis, were up 21.2% in total and also up 13.8% in the South, 15.0% in the Midwest, 80.5% in the West, while being down (22.4)% in the Northeast.

Housing Completions

Privately-owned housing completions in March were at a seasonally adjusted annual rate of 1,469,000. This is 13.5% below the revised February estimate of 1,698,000 and is 3.9% below the March 2023 rate of 1,528,000.

Single-family housing completions in March were at a rate of 947,000; this is 10.5% below the revised February rate of 1,058,000.

The March rate for units in buildings with five units or more was 502,000 (644,000 in March).

Single-family completions compared to March 2023, on a seasonally-adjusted basis, were down (8.5)% in total while also down (7.1)% in the South, (3.0)% in the Midwest, (6.8)% in the West and (37.9)% in the Northeast.

Retail Sales

Advance estimates of U.S. retail and food services sales for March 2024, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $709.6 billion, up 0.7% from the previous month, and up 4.0% above March 2023. Total sales for the January 2024 through March 2024 period were up 2.1% from the same period a year ago. The January 2024 to February 2024 percent change was revised from up 0.6% to up 0.9%.

Retail trade sales were up 0.8% from February 2024, and up 3.6% above last year. Nonstore retailers were up 11.3% from last year, while food services and drinking places were up 6.5% from March 2023.

Sales at furniture and home furnishings stores were down 0.3% in March 2024 from February 2024 on a seasonally-adjusted basis, and down 6.1% from March 2023.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers increased 0.4% in March on a seasonally adjusted basis, the same increase as in February, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all-items index increased 3.5% before seasonal adjustment.

The index for shelter rose in March, as did the index for gasoline. Combined, these two indexes contributed over half of the monthly increase in the index for all-items. The energy index rose 1.1% over the month. The food index rose 0.1% in March. The food at home index was unchanged, while the food away from home index rose 0.3% over the month.

The index for all-items less food and energy rose 0.4% in March, as it did in each of the 2 preceding months. Indexes which increased in March include shelter, motor vehicle insurance, medical care, apparel, and personal care. The indexes for used cars and trucks, recreation, and new vehicles were among those that decreased over the month.

The all-items index rose 3.5% for the 12 months ending March, a larger increase than the 3.2% increase for the 12 months ending February. The all-items less food and energy index rose 3.8% over the last 12 months. The energy index increased 2.1% for the 12 months ending March, the first 12-month increase in that index since the period ending February 2023. The food index increased 2.2% over the last year.

Employment

Total nonfarm payroll employment rose by 303,000 in March, and the unemployment rate changed little at 3.8% (down from 3.9%), the U.S. Bureau of Labor Statistics reported. Job gains occurred in health care, government, and construction.

Both the unemployment rate, at 3.8%, and the number of unemployed people, at 6.4 million, changed little in March. The unemployment rate has been in a narrow range of 3.7% to 3.9% since August 2023.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in March, up two consecutive months, increased $7.3 billion or 2.6% to $283.4 billion, the U.S. Census Bureau announced. This followed a 0.7% February increase. Excluding transportation, new orders increased 0.2%. Excluding defense, new orders increased 2.3%. Transportation equipment, also up two consecutive months, led the increase, $6.8 billion or 7.7% to $95.9 billion.

Shipments of manufactured durable goods in March, down three of the last four months, decreased $0.1 billion or virtually unchanged to $282.4 billion. This followed a 1.2% February increase. Transportation equipment, also down three of the last four months, drove the decrease, $0.4 billion or 0.5% to $89.4 billion.

On a seasonally-adjusted basis, shipments for furniture and related products were down (0.7)% compared to the prior month while orders were up 1.1%. On a non-adjusted basis, year to date shipments for furniture and related products were up 1.1% compared to the prior year while orders were up 0.1%.