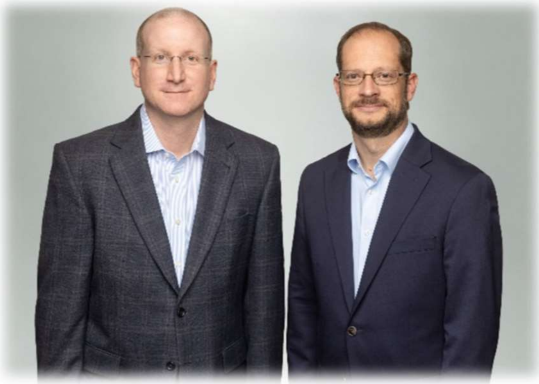
FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

October 2024

HIGHLIGHTS – EXECUTIVE SUMMARY

New orders were down 7% in August 2024 compared to August 2023, which follows the 5% year over year decline last month. However, new orders were up 12% compared to the prior month of July 2024. Year to date through August 2024, new orders are still up 1% compared to 2023, though that spread has continued to narrow with the last four months' declines.



Mark Laferriere (left) with Ben Duckett, Tax Partner

August 2024 shipments were down 10% from August 2023, but up 14% from July 2024, likely driven by last month's 4th of July holiday. Year to date through August 2024, shipments are down 8% compared to 2023.

August 2024 backlogs were down 10% compared to August 2023, and down 5% from July 2024.

Receivable levels were up 6% from July 2024, but down 5% from August 2023, both of which are in line with the respective shipment trends.

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

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** increased in October to 108.7 (1985=100), up from 99.2 in September.

The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—increased by 14.2 points to 138.0.

The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—increased by 6.3 points to 89.1, well above the threshold of 80 that usually signals a recession ahead.

"Consumer confidence recorded the strongest monthly gain since March 2021, but still did not break free of the narrow range that has prevailed over the past two years," said Dana M. Peterson, Chief Economist at The Conference Board. "In October's reading, all five components of the Index improved. Consumers' assessments of current business conditions turned positive. Views on the current availability of jobs rebounded after several months of weakness, potentially reflecting better labor market data. Compared to last month, consumers were substantially more optimistic about future business conditions and remained positive about future income. Also, for the first time since July 2023, they showed some cautious optimism about future job availability."

On a six-month moving average basis, purchasing plans for homes and new cars continued to increase. When asked about plans to buy more durable goods or services over the next six months, consumers continued to express a slightly greater preference for purchasing goods. Consumer buying plans for big-ticket appliances were mixed and buying plans for electronics were slightly down.

EXECUTIVE SUMMARY, CONT.

Thoughts

It was good to see old friends and new in sunny High Point this last week for the Fall Furniture Market. While the Market Authority reported that traffic was down slightly, the mood of market seemed to be largely positive, though the U.S. elections and potential for tariffs were also on many people's minds.

Generally speaking, of the companies we visited with, those with more significant designer customer bases seem to be faring better at the moment as the retail business continues to be challenging.

Certain economic factors do seem to be slowly inching in the right direction, though most people we spoke to, as well as thought leaders in the industry, believe that an increase in housing inventory and activity will be needed for the industry as a whole to fully recover.

However, this is all nothing new for the industry and most companies have figured out how to survive and even thrive in the current environment as they await a return to normalcy, hopefully by the middle of 2025.

Housing

Existing-home sales drew back in September, according to the National Association of REALTORS®. Three out of four major U.S. regions registered sales declines while the West experienced a sales bounce. Year-over-year, sales fell in three regions but grew in the West.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – receded 1.0% from August to a seasonally adjusted annual rate of 3.84 million in September. Year-over-year, sales waned 3.5% (down from 3.98 million in September 2023).

Existing condominium and co-op sales dropped 5.1% in September to a seasonally adjusted annual rate of 370,000 units, down 14.0% from one year ago (430,000 units). The median existing condo price was $361,600 in September, up 2.2% from the previous year ($353,900).

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.44% as of October 17. That's up from 6.32% one week ago but down from 7.63% one year ago.

Sales of new single-family houses in September 2024 were at a seasonally adjusted annual rate of 738,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 4.1% above the revised August rate of 709,000 and is 6.3% above the September 2023 estimate of 694,000.

Compared to August 2023 on a seasonally-adjusted basis, sales were up 9.8% overall with sales also up 18.0% in the South and 26.6% in the Midwest, but down 33.3% in the Northeast and 6.7% in the West.

EXECUTIVE SUMMARY, CONT.

National, Cont.

Other

Real gross domestic product (GDP) increased at an annual rate of 2.8% in the third quarter of 2024, according to the "advance" estimate released by the U.S. Bureau of Economic Analysis. In the second quarter, real GDP increased 3.0%.

The increase in real GDP primarily reflected increases in consumer spending, exports, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Compared to the second quarter, the deceleration in real GDP in the third quarter primarily reflected a downturn in private inventory investment and a larger decrease in residential fixed investment. These movements were partly offset by accelerations in exports, consumer spending, and federal government spending. Imports accelerated.

Sales at furniture and home furnishings stores were down 1.4% in September 2024 from August 2024 on a seasonally-adjusted basis, and down 2.2% from September 2023. Sales were also down 5.1% for year to date September 2024 compared to the same period for 2023 on an unadjusted basis.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders were down 7% in August 2024 compared to August 2023, which follows the 5% year over year decline last month. Approximately 40% of the participants reported an increase in orders in August 2024 compared to a year ago. However, new orders were up 12% compared to the prior month of July 2024. Year to date through August 2024, new orders are still up 1% compared to 2023, though that spread has continued to narrow with the last four months' declines.

Shipments and Backlogs

August 2024 shipments were down 10% from August 2023, but up 14% from July 2024, likely driven by last month's 4th of July holiday. Shipments in August 2024 were down for approximately 83% of the participants compared to August 2023.

Year to date through August 2024, shipments are down 8% compared to 2023.

August 2024 backlogs were down 10% compared to August 2023, and down 5% from July 2024 as current shipments outpaced new orders.

Receivables and Inventories

Receivable levels were up 6% from July 2024, but down 5% from August 2023, both of which are in line with the respective shipment trends.

Inventories were consistent with July 2024 and down 11% from August 2023, which is in line with prior periods and current operational levels.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was down 5% from August a year ago and also down 1% from July 2024.

Payroll expense was up 10% in August 2024 compared to July 2024, which is consistent with shipments and the impact of the 4th of July holiday. Year to date through August 2024, payroll expense is down 2%, which is materially consistent with the employee headcount and prior periods.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2024		
	AUG	JUL	8 MOS
New Orders	2,188	1,920	17,137
Shipments	2,373	2,056	17,779
Backlog	2,416	2,552	

	2023		
	AUG	JUL	8 MOS
New Orders (R)	2,365	2,021	17,106
Shipments (R)	2,622	1,949	19,112
Backlog (R)	2,684	2,816	

A DEEPER DIVE – NATIONAL

Consumer Confidence

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The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—increased by 6.3 points to 89.1, well above the threshold of 80 that usually signals a recession ahead.

"Consumer confidence recorded the strongest monthly gain since March 2021, but still did not break free of the narrow range that has prevailed over the past two years," said Dana M. Peterson, Chief Economist at The Conference Board. "In October's reading, all five components of the Index improved. Consumers' assessments of current business conditions turned positive. Views on the current availability of jobs rebounded after several months of weakness, potentially reflecting better labor market data. Compared to last month, consumers were substantially more optimistic about future business conditions and remained positive about future income. Also, for the first time since July 2023, they showed some cautious optimism about future job availability."

"The drop in confidence was steepest for consumers aged 35 to 54. As a result, on a six-month moving average basis, the 35–54 age group has become the least confident while consumers under 35 remain the most confident. Confidence declined in September across most income groups, with consumers earning less than $50K experiencing the largest decrease. On a six-month moving average basis, consumers earning over $100K remained the most confident."

Peterson added: "The proportion of consumers anticipating a recession over the next 12 months dropped to its lowest level since the question was first asked in July 2022, as did the percentage of consumers believing the economy was already in recession. Consumers' assessments of their Family's Current Financial Situation were unchanged, but optimism for the next six months reached a series high."

Consumers became more upbeat about the stock market: 51.4% of consumers expected stock prices to increase over the year ahead, the highest reading since the question was first asked in 1987. Only 23.6% expected stock prices to decline. The share of consumers expecting higher interest rates over the next 12 months increased to 47.5% after declining for four months in a row. The share expecting lower rates decreased to 30.3%. Write-in responses showed that consumers welcomed the recent reduction in interest rates but felt that levels were still too high.

Meanwhile, despite further slowing in overall inflation and declines in gas prices, average 12-month inflation expectations rose to 5.3% in October from 5.2% last month. This may reflect continued upward pressures on food and services prices. Still, inflation expectations were well below the peak of 7.9% in March 2022. Mentions of prices and inflation continued to top write-in responses as topics affecting consumers' views of the economy, but more respondents mentioned slower inflation and lower grocery prices.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the US declined by 0.5% in September 2024 to 99.7 (2016=100), following a 0.3% decline in August. Over the six-month period between March and September 2024, the LEI fell by 2.6%, more than its 2.2% decline over the previous six-month period (September 2023 to March 2024).

"Weakness in factory new orders continued to be a major drag on the US LEI in September as the global manufacturing slump persists," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "Additionally, the yield curve remained inverted, building permits declined, and consumers' outlook for future business conditions was tepid. Gains among other LEI components were not significant enough to offset weakness among the four gauges mentioned above. Overall, the LEI continued to signal uncertainty for economic activity ahead and is consistent with The Conference Board expectation for moderate growth at the close of 2024 and into early 2025."

The Conference Board Coincident Economic Index® (CEI) for the US inched up by 0.1% in September 2024 to 112.9 (2016=100), after a downwardly revised 0.2% increase in August. The CEI increased by 0.9% in the six-month period ending September 2024, higher than its 0.5% growth rate over the previous six-month period. 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. Payroll employment, personal income less transfer payments, and manufacturing and trade sales contributed positively to the index in September and slightly more than offset a decline in industrial production.

The Conference Board Lagging Economic Index® (LAG) for the US declined by 0.3% to 118.9 (2016=100) in September 2024, after no change in August. The LAG's six-month growth rate turned negative, showing a 0.2% contraction over the six-month period ending in September 2024, after a 1.1% increase over the six-month period from March 2023 to September 2024.

A DEEPER DIVE – NATIONAL, CONT.

Consumer Confidence, Cont.

On a six-month moving average basis, purchasing plans for homes and new cars continued to increase. When asked about plans to buy more durable goods or services over the next six months, consumers continued to express a slightly greater preference for purchasing goods. Consumer buying plans for big-ticket appliances were mixed and buying plans for electronics were slightly down. Regarding services, consumers' priorities were little changed, but they were keen to spend a bit more on some discretionary items going forward. Plans to dine out and stay in hotels popped in October. Plans to enjoy entertainment outside of the home, like museums and amusement parks, while still at the bottom of the list, also ticked up.

In October, write-in responses about politics, including the November elections, were largely unchanged and below both 2020 and 2016 levels. In October 2016, "election" was the most mentioned key word in the write-in responses; in October 2020 it was second behind COVID. "Election" ranked just 5th in this month's survey, behind references to prices, inflation, food and groceries.

Present Situation

Consumers' assessments of **current business conditions** turned positive in October.

- 21.4% of consumers said business conditions were "good," up from 18.6% in September.
- 16.4% said business conditions were "bad," down from 20.5%.

Consumers' appraisals of the labor market improved in October.

- 35.1% of consumers said jobs were "plentiful," up from 31.3% in September.
- 16.8% of consumers said jobs were "hard to get," down from 18.6%.

Expectations Six Months Hence

Consumers were more optimistic about the business conditions outlook in October.

- 21.0% of consumers expected business conditions to improve, up from 19.4% in September.
- 13.2% expected business conditions to worsen, down from 17.1%.

Consumers' assessments of the labor market outlook were more pessimistic in September.

- 16.4% of consumers expected more jobs to be available, up slightly from 16.3% in August.
- But 18.3% anticipated fewer jobs, up from 17.0%.

Consumers' assessments of the labor market outlook became more optimistic than pessimistic for the first time since July 2023.

- 17.8% of consumers expected more jobs to be available, up from 17.1% in September.
- 17.1% anticipated fewer jobs, down from 18.8%.

Consumers' assessments of their income prospects were virtually unchanged in October.

- 18.9% of consumers expected their incomes to increase, unchanged from September.
- 12.8% expected their incomes to decrease, slightly down from 12.9%.

Assessment of Family Finances and Recession Risk

- Consumers' assessment of their Family's Current Financial Situation were essentially unchanged.
- Consumers were more optimistic about their Family's Expected Financial Situation in October.
- Consumers' Perceived Likelihood of a US Recession over the Next 12 Months dropped to a new low in October.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.8% in the third quarter of 2024, according to the "advance" estimate released by the U.S. Bureau of Economic Analysis. In the second quarter, real GDP increased 3.0%.

The increase in real GDP primarily reflected increases in consumer spending, exports, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The increase in consumer spending reflected increases in both goods and services. Within goods, the leading contributors were other nondurable goods (led by prescription drugs) and motor vehicles and parts. Within services, the leading contributors were health care (led by outpatient services) as well as food services and accommodations. The increase in exports primarily reflected an increase in goods (led by capital goods, excluding automotive). The increase in federal government spending was led by defense spending. The increase in imports primarily reflected an increase in goods (led by capital goods, excluding automotive).

Compared to the second quarter, the deceleration in real GDP in the third quarter primarily reflected a downturn in private inventory investment and a larger decrease in residential fixed investment. These movements were partly offset by accelerations in exports, consumer spending, and federal government spending. Imports accelerated.

Current-dollar GDP increased 4.7% at an annual rate, or $333.2 billion, in the third quarter to a level of $29.35 trillion. In the second quarter, GDP increased 5.6%, or $392.6 billion.

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product, Cont.

The price index for gross domestic purchases increased 1.8% in the third quarter, compared with an increase of 2.4% in the second quarter. The personal consumption expenditures (PCE) price index increased 1.5%, compared with an increase of 2.5%. Excluding food and energy prices, the PCE price index increased 2.2%, compared with an increase of 2.8%.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales drew back in September, according to the National Association of REALTORS®. Three out of four major U.S. regions registered sales declines while the West experienced a sales bounce. Year-over-year, sales fell in three regions but grew in the West.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – receded 1.0% from August to a seasonally adjusted annual rate of 3.84 million in September. Year-over-year, sales waned 3.5% (down from 3.98 million in September 2023).

“Home sales have been essentially stuck at around a four-million-unit pace for the past 12 months, but factors usually associated with higher home sales are developing,” said NAR Chief Economist Lawrence Yun. “There are more inventory choices for consumers, lower mortgage rates than a year ago and continued job additions to the economy. Perhaps, some consumers are hesitating about moving forward with a major expenditure like purchasing a home before the upcoming election.”

Single-family home sales edged lower by 0.6% to a seasonally adjusted annual rate of 3.47 million in September, down 2.3% from the previous year. The median existing single-family home price was $409,000 in September, up 2.9% from September 2023.

Existing condominium and co-op sales dropped 5.1% in September to a seasonally adjusted annual rate of 370,000 units, down 14.0% from one year ago (430,000 units). The median existing condo price was $361,600 in September, up 2.2% from the previous year ($353,900).

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.44% as of October 17. That’s up from 6.32% one week ago but down from 7.63% one year ago.

Total housing inventory registered at the end of September was 1.39 million units, up 1.5% from August and 23.0% from one year ago (1.13 million). Unsold inventory sits at a 4.3-month supply at the current sales pace, up from 4.2 months in August and 3.4 months in September 2023.

“More inventory is certainly good news for home buyers as it gives consumers more properties to view before making a decision,” Yun said. “However, the inventory of distressed properties is minimal because the mortgage delinquency rate remains very low. Distressed property sales accounted for only 2% of all transactions in September.”

The median existing-home price for all housing types in September was $404,500, up 3.0% from one year ago ($392,700). All four U.S. regions registered price increases.

“Moderating home price increases are welcome news for home buyers,” Yun added. “With wage growth now outpacing home price appreciation, housing affordability will improve.”

According to the monthly REALTORS® Confidence Index, properties typically remained on the market for 28 days in September, up from 26 days in August and 21 days in September 2023.

First-time buyers were responsible for 26% of sales in September – matching the all-time low from August 2024 and November 2021 – and down from 27% in September 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

Existing-home sales in the Northeast in September retracted 4.2% from August to an annual rate of 460,000, down 6.1% from September 2023. The median price in the Northeast was $467,100, up 6.0% from last year.

In the Midwest, existing-home sales slipped 2.2% in September to an annual rate of 900,000, down 5.3% from the prior year. The median price in the Midwest was $306,600, up 5.0% from September 2023.

Existing-home sales in the South decreased 1.7% from August to an annual rate of 1.72 million in September, down 5.5% from one year before. The median price in the South was $359,700, up 0.8% from one year earlier.

In the West, existing-home sales ascended 4.1% in September to an annual rate of 760,000, up 5.6% from a year ago. The median price in the West was $616,400, up 1.7% from September 2023.

New Residential Sales

Sales of new single-family houses in September 2024 were at a seasonally adjusted annual rate of 738,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 4.1% above the revised August rate of 709,000 and is 6.3% above the September 2023 estimate of 694,000.

The median sales price of new houses sold in September 2024 was $426,300 ($420,600 in August 2024). The average sales price was $501,000 ($492,700 in August 2024).

The seasonally-adjusted estimate of new houses for sale at the end of September was 470,000 (467,000 in August 2024). This represents a supply of 7.6 months at the current sales rate (7.8 months in August 2024).

Compared to September 2023 on a seasonally-adjusted basis, sales were up 4.1% overall with sales also up 5.8% in the South and 21.7% in the Northeast, but down 2.5% in the Northeast and flat (0.0%) in the West.

Housing Starts

Privately-owned housing starts in September were at a seasonally adjusted annual rate of 1,354,000. This is 0.5% below the revised August estimate of 1,361,000 and is 0.7% below the September 2023 rate of 1,363,000.

Single-family housing starts in September were at a rate of 1,027,000; this is 2.7% above the revised August figure of 1,000,000.

The September rate for units in buildings with five units or more was 317,000 (333,000 in August).

Single-family starts compared to September 2023, on a seasonally-adjusted basis, were up 2.7% in total as well as up 10.6% in the Northeast, and 6.6% in the South, while being down 10.4% in the Midwest, and down 2.3% in the West.

Housing Completions

Privately-owned housing completions in September were at a seasonally adjusted annual rate of 1,680,000. This is 5.7% below the revised August estimate of 1,781,000, but is 14.6% above the September 2023 rate of 1,466,000.

Single-family housing completions in September were at a rate of 1,000,000; this is 2.7% below the revised August rate of 1,028,000.

The September rate for units in buildings with five units or more was 671,000 (740,000 in August).

Single-family completions compared to August 2023, on a seasonally-adjusted basis, were down 2.7% in total and also down 5.3% in the South, 2.3% in the Midwest, and 0.9% in the West, while being up 14.3% in the Northeast.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for September 2024, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $714.4 billion, an increase of 0.4% from the previous month, and up 1.7% from September 2023. Total sales for the July 2024 through September 2024 period were up 2.3% from the same period a year ago. The July 2024 to August 2024 percent change was unrevised from up 0.1%.

Retail trade sales were up 0.3% from August 2024, and up 1.4% from last year. Nonstore retailers were up 7.1% from last year, while food services and drinking places were up 3.7% from September 2023.

Sales at furniture and home furnishings stores were down 1.4% in September 2024 from August 2024 on a seasonally-adjusted basis, and down 2.2% from September 2023. Sales were also down 5.1% for year to date September 2024 compared to the same period for 2023 on an unadjusted basis.

Consumer Prices

The Consumer Price Index for All Urban Consumers increased 0.2% on a seasonally adjusted basis, the same increase as in August and July, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all-items index increased 2.4% before seasonal adjustment.

The index for shelter rose 0.2% in September, and the index for food increased 0.4%. Together, these two indexes contributed over 75% of the monthly all-items increase. The food at home index increased 0.4% in September and the food away from home index rose 0.3% over the month. The energy index fell 1.9% over the month, after declining 0.8% the preceding month.

The index for all-items less food and energy rose 0.3% in September, as it did the preceding month. Indexes which increased in September include shelter, motor vehicle insurance, medical care, apparel, and airline fares. The indexes for recreation and communication were among those that decreased over the month.

The all-items index rose 2.4% for the 12 months ending September, the smallest 12-month increase since February 2021. The all-items less food and energy index rose 3.3% over the last 12 months. The energy index decreased 6.8% for the 12 months ending September. The food index increased 2.3% over the last year.

Employment

Total nonfarm payroll employment increased by 254,000 in September, and the unemployment rate changed little at 4.1%, the U.S. Bureau of Labor Statistics reported. Employment continued to trend up in food services and drinking places, health care, government, social assistance, and construction.

Both the unemployment rate, at 4.1%, and the number of unemployed people, at 6.8 million, changed little in September. These measures are higher than a year earlier, when the jobless rate was 3.8%, and the number of unemployed people was 6.3 million.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in September, down three of the last four months, decreased $2.2 billion or 0.8% to $284.8 billion, the U.S. Census Bureau announced. This followed a 0.8% August decrease. Excluding transportation, new orders increased 0.4%. Excluding defense, new orders decreased 1.1%. Transportation equipment, also down three of the last four months, drove the decrease, $3.1 billion or 3.1% to $95.4 billion.

Shipments of manufactured durable goods in August, down following two consecutive monthly increases, decreased $1.7 billion or 0.6% to $289.3 billion, down from the previously published 0.5% decrease. This followed a 1.0% July increase. Transportation equipment, also down following two consecutive monthly increases, drove the decrease, $2.0 billion or 2.0% to $97.0 billion. Shipments of manufactured nondurable goods, down following two consecutive monthly increases, decreased $1.4 billion or 0.5% to $300.8 billion. This followed a 0.6% July increase. Petroleum and coal products, down three of the last four months, drove the decrease, $1.4 billion or 2.3% to $62.8 billion.

On a seasonally-adjusted basis, shipments for furniture and related products were up 0.5% compared to the prior month, while new orders were down 0.9%. On a non-adjusted basis, year to date shipments for furniture and related products were up 0.8% compared to the prior year, while year to date new orders were up 1.5%.