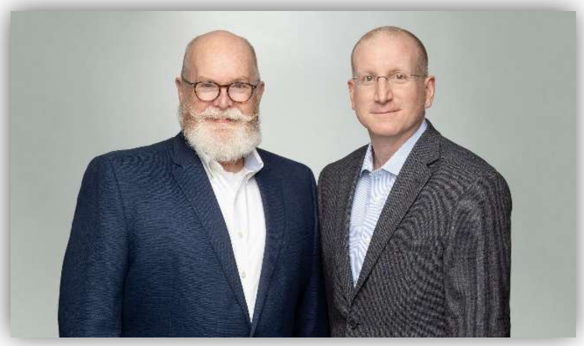
FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

August 2024

HIGHLIGHTS – EXECUTIVE SUMMARY

New orders were down 6% in June 2024 compared to June 2023, which follows the 3% year over year decline last month. New orders were also down 8% compared to the prior month of May 2024. However, year to date through June 2024, new orders are still up 3% compared to 2023, though that spread has narrowed signfiicantly with the last two months' declines.



Mark Laferriere (right) with Mitch Garrison, Assurance Director

June 2024 shipments were down 8% from June 2023, but relatively flat with May 2024. Year to date through June 2024, shipments are down 9% compared to 2023.

June 2024 backlogs were down 6% compared to June 2023, and down 2% from May 2024.

Receivable levels were down 1% from May 2024, and also down 7% from June 2023, with both being materially in line with shipments for the same periods.

Inventories and employee 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®*** rose in August to 103.3 (1985=100), from an upwardly revised 101.9 in July.

The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—improved to 134.4 from 133.1 in July.

The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—also improved in August to 82.5. As the Expectations Index for July was revised up to 81.1, August marked the second consecutive month of the Index above 80. (A reading below the threshold of 80 usually signals a recession ahead.)

"Overall consumer confidence rose in August but remained within the narrow range that has prevailed over the past two years," said Dana M. Peterson, Chief Economist at The Conference Board. "Consumers continued to express mixed feelings in August. Compared to July, they were more positive about business conditions, both current and future, but also more concerned about the labor market. Consumers' assessments of the current labor situation, while still positive, continued to weaken, and assessments of the labor market going forward were more pessimistic. This likely reflects the recent increase in unemployment. Consumers were also a bit less positive about future income. "On a six-month moving average basis, purchasing plans for homes fell to a 12-year low. While buying plans for cars were little changed, buying plans for most big-ticket appliances increased slightly. Additionally, more consumers reported plans to buy a smartphone or laptop/PC in the next six months.

On a six-month moving average basis, purchasing plans for homes fell to a new 12-year low, while buying plans for cars improved slightly. Buying plans for big-ticket appliances were up on average but the increase was driven by only a few items: refrigerator, TV, and washing machine. Plans to buy a smartphone or laptop/PC in the next six months increased again.

Housing

Existing-home sales improved in July, breaking a streak of four consecutive monthly declines, according to the National Association of REALTORS®. Three out of four major U.S. regions registered sales increases while the Midwest remained steady. Year-over-year, sales rose in the Northeast and West but retreated in the Midwest and South.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – ascended 1.3% from June to a seasonally adjusted annual rate of 3.95 million in July. Year-over-year, sales fell 2.5% (down from 4.05 million in July 2023).

Single-family home sales grew 1.4% to a seasonally adjusted annual rate of 3.57 million in July, down 1.4% from the previous year. The median existing single-family home price was $428,500 in July, up 4.2% from July 2023.

Existing condominium and co-op sales in July were identical to June at a seasonally adjusted annual rate of 380,000 units, down 11.6% from one year ago (430,000 units). The median existing condo price was $367,500 in July, up 2.7% from the prior year ($357,900).

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.49% as of August 15. That's up from 6.47% one week ago but down from 7.09% one year ago.

Sales of new single-family houses in July 2024 were at a seasonally adjusted annual rate of 739,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 10.6% above the revised June rate of 668,000 and is 5.6% above the July 2023 estimate of 700,000.

Compared to July 2023 on a seasonally-adjusted basis, sales were up 5.6% overall with sales also up 2.2% in the South, 3.3% in the Northeast, 17.1% in the Midwest, and 9.0% in the West.

EXECUTIVE SUMMARY, CONT.

Thoughts

June 2024 marked the second straight month in which both new orders and shipments declined over the comparable prior year month for the companies in our survey. This is in line with the 6% average decline in revenues reported by a representative group of the industry's public companies in their latest quarterly filings.

As stated before, the national economic indicators continue to be "mixed" in July/August 2024. Specifically, consumer confidence inched up overall and the housing sales showed some signs of life compared to prior periods, not to mention a relatively positive earnings report from Home Depot. However, consumers are still concerned with the overall labor market in light of recent unemployment data and consumer debt remains high, which is a factor for certain sectors of the industry.

Meanwhile, ocean container rates, while still higher than we'd prefer, continued to decline in August compared to July overall. The latest World Container Index ("WCI") indicates that spot rates decreased 3% overall last week.

There continue to be indications that interest rate cuts are coming, with many expecting that to occur at the Fed's next meeting in mid-September. However, it could be next year before the full effect of those trickles down to the industry.

Of course, here in the States, we have the Labor Day holiday and its annual sales events coming up this weekend, which should provide some signal as to which way the industry is headed for the remainder of the year. I've read some reports that many retailers are cautiously optimistic, and I hope they are right.

Happy Labor Day and happy selling everybody!

EXECUTIVE SUMMARY, CONT.

National, Cont.

Other

Real gross domestic product (GDP) increased at an annual rate of 3.0% in the second quarter of 2024, according to the "second" estimate released by the U.S. Bureau of Economic Analysis. In the first quarter, real GDP increased 1.4%.

The increase in real GDP primarily reflected increases in consumer spending, private inventory investment, and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

Compared to the first quarter, the acceleration in real GDP in the second quarter primarily reflected an upturn in private inventory investment and an acceleration in consumer spending. These movements were partly offset by a downturn in residential fixed investment.

Sales at furniture and home furnishings stores were up 0.5% in July 2024 from June 2024 on a seasonally-adjusted basis, but down 2.4% from July 2023.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders were down 6% in June 2024 compared to June 2023, which follows the 3% year over year decline last month. Approximately two-thirds of the participants reported a decline in orders in June 2024 compared to a year ago. New orders were also down 8% compared to the prior month of May 2024. However, year to date through June 2024, new orders are still up 3% compared to 2023, though that spread has narrowed significantly with the last two months' declines.

Shipments and Backlogs

June 2024 shipments were down 8% from June 2023, but relatively flat with May 2024. Shipments in June 2024 were down for approximately 80% of the participants compared to June 2023.

Year to date through June 2024, shipments are down 9% compared to 2023.

June 2024 backlogs were down 6% compared to June 2023, and down 2% from May 2024.

Receivables and Inventories

Receivable levels were down 1% from May 2024, and also down 7% from June 2023, with both being materially in line with shipments for the same periods.

Inventories were consistent with May 2024 and down (16)% from June 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 6% from June a year ago and also down 3% from May 2024.

Year to date through June 2024, payroll expense is down 7%, which is consistent with the employee headcount and prior periods.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2024		
	JUN	MAY	6 MOS
New Orders	2,096	2,226	13,029
Shipments	2,210	2,228	13,350
Backlog	2,626	2,682	

	2023		
	JUN	MAY	6 MOS
New Orders (R)	2,242	2,289	12,920
Shipments (R)	2,402	2,433	14,916
Backlog (R)	2,816	2,876	

MONTHLY RESULTS – AUGUST 2024

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	Jun 2024 from May 2024	Jun 2024 from Jun 2023	6 Mos 2024 vs 6 Mos 2023
New Orders	-8	-6	3
Shipments	-1	-8	-9
Backlog	-2	-6	
Payrolls	-4	-2	-3
Employees	-3	-6	
Receivables	-1	-7	
Inventories	–	-16	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2023				
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
March	+2	-17	-17	-6
April	+22	+2	-12	-6
May	-3	-4	-6	-4
June	-6	-8	-6	-6

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board ***Consumer Confidence Index***® rose in August to 103.3 (1985=100), from an upwardly revised 101.9 in July.

The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—improved to 134.4 from 133.1 in July.

Meanwhile, the ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—also improved in August to 82.5. As the Expectations Index for July was revised up to 81.1, August marked the second consecutive month of the Index above 80. (A reading below the threshold of 80 usually signals a recession ahead.)

"Overall consumer confidence rose in August but remained within the narrow range that has prevailed over the past two years," said Dana M. Peterson, Chief Economist at The Conference Board. "Consumers continued to express mixed feelings in August. Compared to July, they were more positive about business conditions, both current and future, but also more concerned about the labor market. Consumers' assessments of the current labor situation, while still positive, continued to weaken, and assessments of the labor market going forward were more pessimistic. This likely reflects the recent increase in unemployment. Consumers were also a bit less positive about future income."

"In August, confidence declined among consumers under 35 while it increased for those 35 and older. On a six-month moving average basis, confidence remained the highest among young consumers. Despite the overall improvement in the headline Index, confidence declined for consumers earning less than $25K. On a six-month moving average basis, consumers earning over $100K remained the most confident. Confidence among consumers earning $15K to $24.9K continued to trend down and was almost as low as for those earning less than $15K."

Peterson added: "Consumers were likely rattled by the financial market turmoil in early August, as they were less upbeat about the stock market. In August, 46.9% of consumers expected stock prices to increase over the year ahead (down from 50.6% in July), while 27.2% expected a decrease (up from 23.1%). August's write-in responses also included more mentions of stock prices and unemployment as affecting consumer's views of the US economy. However, consumers did not change their views about a possible recession: the proportion of consumers predicting a recession was stable and well below the 2023 peak."

Consumers' assessments of their Family's Current Financial Situation were less positive, but consumers were more optimistic for the next six months. (These measures are not included in calculating the Consumer Confidence Index®.)

Average 12-month inflation expectations dropped to 4.9% in August—the lowest since March 2020 and consistent with slower overall inflation and declines in some goods prices. Nonetheless, mentions of prices and inflation topped write-in responses. Meanwhile, the share of consumers expecting higher interest rates over the next 12 months dropped for the third month in a row to 46.5%—the lowest since February 2024. The share expecting lower rates increased to 31.5%, the highest since April 2020.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. fell by 0.6% in July 2024 to 100.4 (2016=100), following a decline of 0.2% in June. Over the six-month period ending in July 2024, the LEI fell by 2.1%, a smaller rate of decline than its −3.1% over the six-month period between July 2023 and January 2024.

"The LEI continues to fall on a month-over-month basis, but the six-month annual growth rate no longer signals recession ahead," said **Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board.** "In July, weakness was widespread among non-financial components. A sharp deterioration in new orders, persistently weak consumer expectations of business conditions, and softer building permits and hours worked in manufacturing drove the decline, together with the still-negative yield spread. These data continue to suggest headwinds in economic growth going forward. The Conference Board expects US real GDP growth to slow over the next few quarters as consumers and businesses continue cutting spending and investments. US real GDP is expected to expand at a pace of 0.6% annualized in Q3 2024 and 1% annualized in Q4."

The Conference Board Coincident Economic Index® (CEI) for the U.S. was flat in July 2024 at 112.5 (2016=100), after increasing by 0.2% in June. The CEI grew by 0.9% in the six-month period between January and July of 2024, faster 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. All components improved in July, except for industrial production, which experienced its largest negative contribution to the CEI since January 2024.

The **Conference Board Lagging Economic Index®** (LAG) for the U.S. inched down by 0.1% in July 2024 to 119.6 (2016=100), partially reversing an increase of 0.2% in June. The LAG's six-month growth rate softened to 0.6% over the six-month period ending in July 2024, about half the 1.1% increase over the six-month period from July 2023 to January of 2024.

A DEEPER DIVE – NATIONAL, CONT.

Consumer Confidence, Cont.

On a six-month moving average basis, purchasing plans for homes fell to a new 12-year low, while buying plans for cars improved slightly. Buying plans for big-ticket appliances were up on average but the increase was driven by only a few items: refrigerator, TV, and washing machine. Plans to buy a smartphone or laptop/PC in the next six months increased again.

In August write-in responses, the share of respondents believing the 2024 elections would impact the economy was stable, at slightly above 2020 levels—but well below the August 2016 level.

Present Situation

Consumers' assessment of current business conditions were more positive in August.

- 20.8% of consumers said business conditions were "good," up from 19.2% in July.
- 17.7% said business conditions were "bad," down from 18.2%.

But consumers' appraisals of the labor market deteriorated in August.

- 32.8% of consumers said jobs were "plentiful," down from 33.4% in July.
- 16.4% of consumers said jobs were "hard to get," slightly up from 16.3%.

Expectations Six Months Hence

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

- 18.4% of consumers expected business conditions to improve, up from 15.2% in July.
- 15.6% expected business conditions to worsen, down from 16.2%.

Consumers' assessments of the labor market outlook were slightly less optimistic in August.

- 16.1% of consumers expected more jobs to be available, up from 15.2% in July.
- 17.5% anticipated fewer jobs, also up from 16.4%.

Consumers' assessments of their income prospects were more pessimistic in August.

- 16.9% of consumers expected their incomes to increase, down from 17.2% in July.
- 12.7% expected their incomes to decrease, up from 11.6%.

Assessment of Family Finances and Recession Risk

- Consumers' assessment of their Family's Current Financial Situation weakened further in August.
- However, consumers' assessments of their Family's Financial Situation going forward improved.
- Consumers' Perceived Likelihood of a US Recession over the Next 12 Months was virtually unchanged, and well below the 2023 peak.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 3.0% in the second quarter of 2024, according to the "second" estimate released by the U.S. Bureau of Economic Analysis. In the first quarter, real GDP increased 1.4%.

The increase in real GDP primarily reflected increases in consumer spending, private inventory investment, and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

Compared to the first quarter, the acceleration in real GDP in the second quarter primarily reflected an upturn in private inventory investment and an acceleration in consumer spending. These movements were partly offset by a downturn in residential fixed investment.

Current-dollar GDP increased 5.5% at an annual rate, or $383.2 billion, in the second quarter to a level of $28.65 trillion, an upward revision of $23.2 billion from the previous estimate .

The price index for gross domestic purchases increased 2.4% in the second quarter, an upward revision of 0.1 percentage point from the previous estimate. The personal consumption expenditures (PCE) price index increased 2.5%, a downward revision of 0.1 percentage point. Excluding food and energy prices, the PCE price index increased 2.8%, a downward revision of 0.1 percentage point.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales improved in July, breaking a streak of four consecutive monthly declines, according to the National Association of REALTORS®. Three out of four major U.S. regions registered sales increases while the Midwest remained steady. Year-over-year, sales rose in the Northeast and West but retreated in the Midwest and South.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – ascended 1.3% from June to a seasonally adjusted annual rate of 3.95 million in July. Year-over-year, sales fell 2.5% (down from 4.05 million in July 2023).

"Despite the modest gain, home sales are still sluggish," said NAR Chief Economist Lawrence Yun. "But consumers are definitely seeing more choices, and affordability is improving due to lower interest rates."

Single-family home sales grew 1.4% to a seasonally adjusted annual rate of 3.57 million in July, down 1.4% from the previous year. The median existing single-family home price was $428,500 in July, up 4.2% from July 2023.

Existing condominium and co-op sales in July were identical to June at a seasonally adjusted annual rate of 380,000 units, down 11.6% from one year ago (430,000 units). The median existing condo price was $367,500 in July, up 2.7% from the prior year ($357,900).

"The median home price of condominiums is cheaper, yet the condominium market is underperforming compared to the single-family market," Yun added. "Rising maintenance and insurance costs have lessened the appeal for condominiums."

According to Freddie Mac, the 30-year fixed-rate mortgage averaged 6.49% as of August 15. That's up from 6.47% one week ago but down from 7.09% one year ago.

Total housing inventory registered at the end of July was 1.33 million units, up 0.8% from June and 19.8% from one year ago (1.11 million). Unsold inventory sits at a 4.0-month supply at the current sales pace, down from 4.1 months in June but up from 3.3 months in July 2023.

The median existing-home price for all housing types in July was $422,600, up 4.2% from one year ago ($405,600). All four U.S. regions posted price increases.

According to the monthly REALTORS® Confidence Index, properties typically remained on the market for 24 days in July, up from 22 days in June and 20 days in July 2023.

First-time buyers were responsible for 29% of sales in July, identical to June but down from 30% in July 2023. NAR's 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 in July climbed 4.3% from June to an annual rate of 490,000, an increase of 2.1% from July 2023. The median price in the Northeast was $505,100, up 8.3% from last year.

In the Midwest, existing-home sales were unchanged in July at an annual rate of 920,000, down 5.2% from the previous year. The median price in the Midwest was $321,300, up 4.5% from July 2023.

Existing-home sales in the South increased 1.1% from June to an annual rate of 1.79 million in July, down 3.8% from one year before. The median price in the South was $372,500, up 2.3% from one year earlier.

In the West, existing-home sales rose 1.4% in July to an annual rate of 750,000, also up 1.4% from a year ago. The median price in the West was $629,500, up 3.4% from July 2023.

A DEEPER DIVE – HOUSING, CONT.

New Residential Sales

Sales of new single-family houses in July 2024 were at a seasonally adjusted annual rate of 739,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 10.6% above the revised June rate of 668,000 and is 5.6% above the July 2023 estimate of 700,000.

The median sales price of new houses sold in July 2024 was $429,800 ($417,300 in June 2024). The average sales price was $514,800 ($487,200 in June 2024).

The seasonally-adjusted estimate of new houses for sale at the end of July was 462,000 ($476,000 in June 2024). This represents a supply of 7.5 months at the current sales rate (9.3 in June 2024).

Compared to July 2023 on a seasonally-adjusted basis, sales were up 5.6% overall with sales also up 2.2% in the South, 3.3% in the Northeast, 17.1% in the Midwest, and 9.0% in the West.

Housing Starts

Privately-owned housing starts in July were at a seasonally adjusted annual rate of 1,238,000. This is 6.8% below the revised June estimate of 1,329,000 and is 16.0% below the July 2023 rate of 1,473,000.

Single-family housing starts in July were at a rate of 851,000; this is 14.1% below the revised June figure of 991,000.

The July rate for units in buildings with five units or more was 363,000 (360,000 in June).

Single-family starts compared to July 2023, on a seasonally-adjusted basis, were down (14.8)% in total as well as down (18.4)% in the South, (19.0)% in the Northeast, and (16.8)% in the West, while being up 8.2% in the Midwest.

Housing Completions

Privately-owned housing completions in July were at a seasonally adjusted annual rate of 1,529,000. This is 9.8% below the revised June estimate of 1,696,000, but is 13.8% above the July 2023 rate of 1,343,000.

Single-family housing completions in July were at a rate of 1,054,000; this is 0.5% above the revised June rate of 1,049,000.

The July rate for units in buildings with five units or more was 473,000 (656,000 in June).

Single-family completions compared to July 2023, on a seasonally-adjusted basis, were up 3.6% in total and also up 7.7% in the South and 14.4% in the West, while being down (29.0)% in the Northeast and (13.7)% in the Midwest.

Retail Sales

Advance estimates of U.S. retail and food services sales for July 2024, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $709.7 billion, an increase of 1.0% from the previous month, and up 2.7% from July 2023. Total sales for the May 2024 through July 2024 period were up 2.4% from the same period a year ago. The May 2024 to June 2024 percent change was revised from virtually unchanged to down 0.2%.

Retail trade sales were up 1.1% from June 2024, and up 2.6% from last year. Nonstore retailers were up 6.7% from last year, while food services and drinking places were up 3.4% from July 2023.

Sales at furniture and home furnishings stores were up 0.5% in July 2024 from June 2024 on a seasonally-adjusted basis, but down 2.4% from July 2023.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers increased 0.2% on a seasonally adjusted basis, after declining 0.1% in June, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all-items index increased 2.9% before seasonal adjustment.

The index for shelter rose 0.4% in July, accounting for nearly 90% of the monthly increase in the all-items index. The energy index was unchanged over the month, after declining in the two preceding months. The index for food increased 0.2% in July, as it did in June. The food away from home index rose 0.2% over the month, and the food at home index increased 0.1%.

The index for all-items less food and energy rose 0.2% in July, after rising 0.1% the preceding month. Indexes which increased in July include shelter, motor vehicle insurance, household furnishings and operations, education, recreation, and personal care. The indexes for used cars and trucks, medical care, airline fares, and apparel were among those that decreased over the month.

The all-items index rose 2.9% for the 12 months ending July, the smallest 12-month increase since March 2021. The all items less food and energy index rose 3.2% over the last 12 months and was the smallest 12-month increase in that index since April 2021. The energy index increased 1.1% for the 12 months ending July. The food index increased 2.2% over the last year.

Employment

The unemployment rate rose to 4.3% in July, and nonfarm payroll employment edged up by 114,000, the U.S. Bureau of Labor Statistics reported. Employment continued to trend up in health care, in construction, and in transportation and warehousing, while information lost jobs.

The unemployment rate rose by 0.2 percentage point to 4.3% in July, and the number of unemployed people increased by 352,000 to 7.2 million. These measures are higher than a year earlier, when the jobless rate was 3.5%, and the number of unemployed people was 5.9 million.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in July, up five of the last six months, increased $26.1 billion or 9.9% to $289.6 billion, the U.S. Census Bureau announced. This followed a 6.9% June decrease. Excluding transportation, new orders decreased 0.2%. Excluding defense, new orders increased 10.4%. Transportation equipment, up two of the last three months, drove the increase, $26.4 billion or 34.8% to $102.2 billion.

On a seasonally-adjusted basis, shipments for furniture and related products were up 0.2% compared to the prior month, while new orders were down 0.2%. On a non-adjusted basis, year to date shipments for furniture and related products were flat (0.0%) compared to the prior year, while year to date new orders were up 0.7%.