

The Furnishings Digest Newsletter

Second Quarter 2024
Volume 31, Issue #1

The latest news, views, and announcements

IN THIS ISSUE

Reading Time: 18
min

Contents:

Ready for High Point?

Are we sure interest rates will fall in 24?

Inflation still has hiccups

Fed has brought back investors to housing

Gas Prices are on the Rise

Latest Import Statistics



WELCOME TO HIGHPOINT

We expect the spring 2024 market to be the most important in recent years as the home furnishings industry begins to prepare for an extended economic recovery.

SEE YOU SUNDAY MORNING- THE 14th - AT 9 AM AT THE NFA'S "RETAIL RESOURCE CENTER" on the first floor of the Market Suites Building (located next to the La-Z-Boy showroom building) where I will present my thoughts on our industry and our outlook.

SO WHAT HAS CHANGED?

Over the last sixty days we have had discussions with many furniture and mattress retailers, manufacturers, importers, component suppliers and others who rely, like us, on our industry. Going on three years now we have seen our sales decline as housing turnover slowed with higher mortgage rates, as inflation robbed our consumers of spending power, and as our confidence in our own government's decisions eroded. Being blunt, we expected most contacts within our industry to be negative based on recent experience BUT WE FOUND A PLEASANT, OFTEN UPBEAT DISCUSSION ON OUR PROSPECTS FOR THE COMING YEARS.

- Many mentioned how opportunities have been created and now give them new product and sales openings.

Our retailers, in particular, were upbeat about store expansion because so many competitors have withdrawn from their service territories. Real estate costs are more reasonable and there are more store acquisitions available because of store owners retiring or wanting to not face more of the intense competitive pressures experienced in recent years.

Many mentioned everything from COVID 19, to extreme inflation, raw materials and labor shortages, many never experienced before challenges in the logistics of our business from port, rail and truck issues and driver shortages to fuel costs. While many hated to lose key sales persons and staff, they may find more talent available as sales improve.

-Among our vendors, many mentioned that the multiple factory closings, almost all unexpected, have created new demands from retailers and better arrangements with suppliers of components and raw materials. They see product opportunities and new retail customers, too.

-Domestic factories and retailers are finding more people looking for employment and ways to advance in their jobs. This is very different than in 2021-2023.

HOW CERTAIN ARE YOU OF INTEREST RATE DECLINES THIS YEAR?

"Yesterday (April 1, 2024) marked the beginning of a new week, month, and quarter.

The markets have a lot to live up to, especially given how well they've performed over the last month(s) and quarter(s).

Yesterday was also the first full trading day for the market to respond to last Friday's Personal Consumption Expenditures (PCE) index. It came in mostly as expected with headline inflation up 2.5% y/y, up a bit from last month's 2.4%, but in line with expectations for 2.5%. The core rate (ex-food & energy) was up 2.8% y/y, which was just under last month's upwardly revised 2.9% (from 2.8%), and in line with views for the same. While core inflation is still a ways away from the Fed's 2% target, it's well under 2022's peak of 5.3%.

The Fed is expected to hold rates steady when they meet again on April 30/May 1. But they are expected to finally begin cutting rates at their June 11-12 meeting.

We'll get three more inflation reports, however, before the next meeting.

We'll also get one more employment report. The employment report is an important data point the Fed considers when setting monetary policy given their dual mandate which requires them to keep prices stable (moderate inflation), but also to promote maximum employment.

The labor market has been incredibly resilient. So much so that Fed Chair Jerome Powell recently remarked with seeming incredulity (given the Fed's historic rate hike cycle), that rates have risen to 5% while the unemployment rate is still so low.

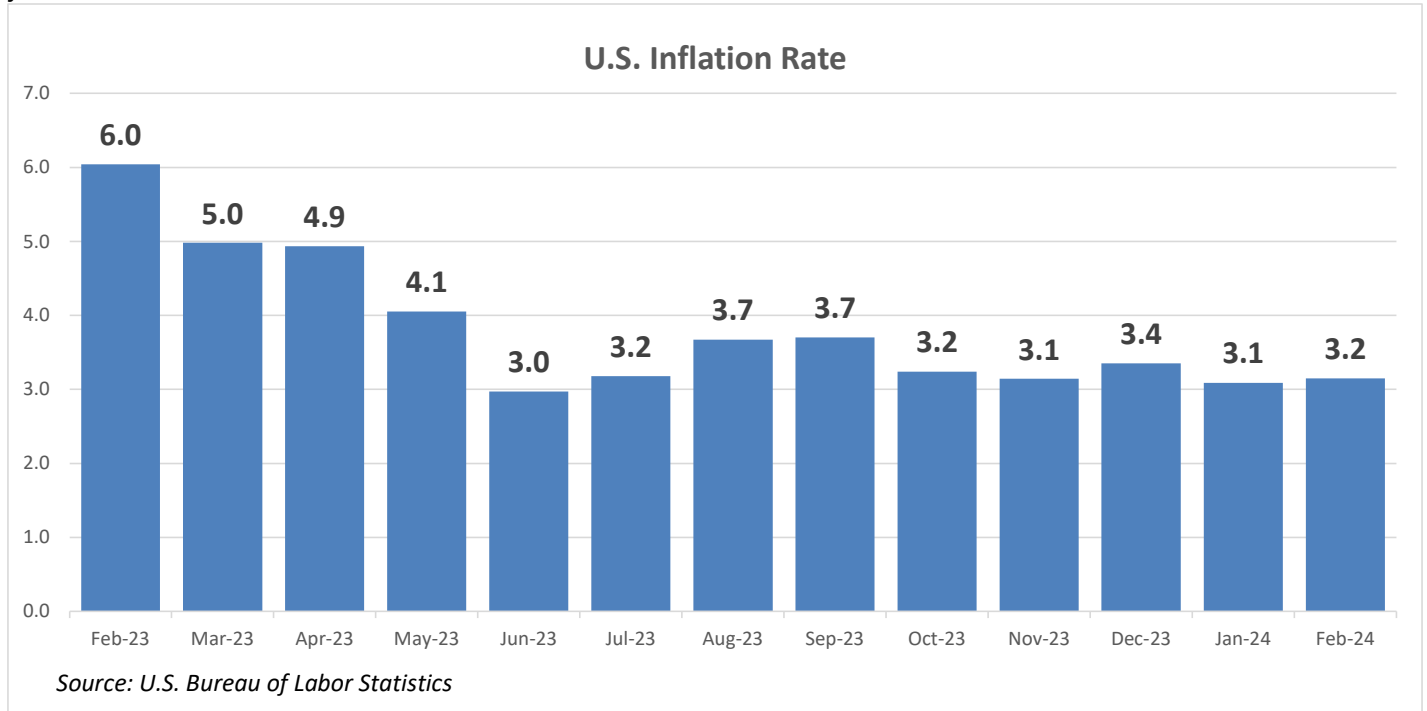
Fortunately, the unemployment rate doesn't have to rise before the Fed cuts rates. But the unemployment rate is a proxy for the economy. And the Fed is balancing between not cutting rates too soon, which could allow inflation to creep back up, and waiting too long which could bring "unneeded damage to the economy and the labor market."

So, Friday's employment situation report will be watched and analyzed closely."

Source: Zach's April 2, 2024

In February, the Federal Reserve stated that while it did not raise rates then, it still anticipated lowering its key rate by three cuts this calendar year vs. the five cuts it had anticipated late in 2022.

Inflation is still showing minor 0.1% hiccups up and down causing queasiness in the stock market occasionally but, as stated in the Zach's quote, the progress slowing inflation is ahead of expectations at this point. This has given the Fed watchers more comfort in their expectations for lower interest rates before year end 2024.

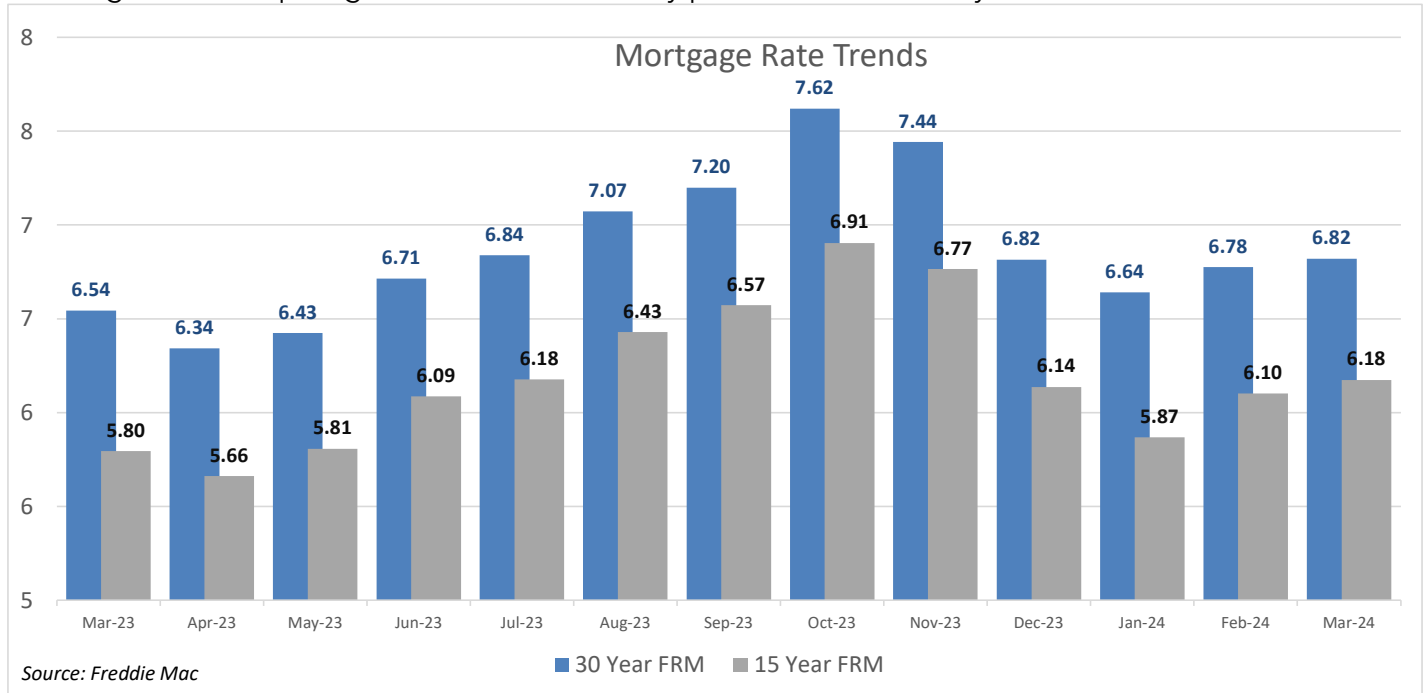


Remember, it does not require a huge decline to have positive implications for housing, consumer confidence and many other economic factors. IT IS USUALLY THE DIRECTION OF INTEREST RATES (up or down) THAT HAS MORE IMPORTANCE THAN THE DEGREE OF THE MOVEMENT.



DID SOMEONE JUST TURN ON THE LIGHTS?

It is as if someone just woke up the home furnishings industry late in March. This coincides with the actions (or lack of action) by the Fed as a larger wave of consensus and hope that we were nearing lower interest rates— especially mortgage rates —and you could see a rebound in the interest in home related investment opportunities. Investor groups like private equity groups, family owners, and strategic acquirers now are reaching out and inquiring about how this industry performs in a recovery?



For example:

-who shows the first signs of a consumer spending upswing? Retailers, domestic manufacturers, branded merchandise?

-which product categories? Mattresses, upholstery, bedroom, youth?

-can we measure the quantity of demand that needs to be met?

-what is the impact of Internet retailing? Imports?

Keep in mind there are dozens of various furniture and mattress companies that vary by product, size, ownership, types of facilities, earnings records and much more. Likewise, there are hundreds of potential buyers. This is a complex process that most companies only go through once, and this is where Mann, Armistead & Epperson shines!

SEE YOU IN HIGH POINT!

We will be well represented in High Point with four investment bankers and furniture and mattress specialists there and wanting to meet you.

OTHER THINGS TO CONSIDER

- The loss of the Francis Scott Key bridge could be a larger problem but already major East Coast ports from Georgia to New York are making plans to help. The port handles 27% of all our coal exports.

- The Economist is publishing a series of articles on how young women today are having trouble finding eligible single men who have similar education levels and other interests. With women getting over 60% of college degrees, this is understandable. Some men say feminism has gone too far.

-All of the major stock indices have done well this year with the small caps outperforming the big caps, the reverse of 2023. All are within reach of record levels

- Expect higher petroleum prices this summer and higher advertising costs (blame the elections!)

- Vietnam is being challenged by its neighbors on exports and furniture is a very important product. Indonesia, Thailand, Cambodia and others see an opportunity.

LATEST IMPORT STATISTICS

We offer the following quarterly tables to show and quantify the latest the important source nations for the U. S.

All Household Furniture Imports by Significant Countries

Table 1.

USD \$ (millions)

Country	3Q22	4Q22	3Q23	4Q23	3Q%Δ	4Q%Δ
China	2,840.3	2,497.5	2,073.0	2,376.8	-27.0%	-4.8%
Vietnam	2,594.8	2,314.8	2,125.0	2,332.9	-18.1%	0.8%
Mexico	871.8	854.6	800.2	768.0	-8.2%	-10.1%
Canada	519.9	546.0	534.5	543.5	2.8%	-0.5%
Italy	411.0	354.0	364.3	325.1	-11.4%	-8.2%
Indonesia	396.4	380.3	301.6	318.2	-23.9%	-16.3%
Malaysia	392.2	357.5	262.9	292.1	-33.0%	-18.3%
Taiwan	201.3	180.5	176.4	173.3	-12.3%	-4.0%
India	191.6	182.1	184.8	165.0	-3.5%	-9.4%
Cambodia	99.3	109.5	96.3	118.9	-3.0%	8.6%

Wood Furniture Imports by Significant Countries

Table 2.

USD \$ (millions)

Country	3Q22	4Q22	3Q23	4Q23	3Q%Δ	4Q%Δ
Vietnam	1,742.5	1,534.2	1,251.7	1,351.2	-28.2%	-11.9%
China	528.9	468.2	398.7	435.9	-24.6%	-6.9%
Canada	258.8	268.2	257.1	249.5	-0.7%	-7.0%
Malaysia	329.6	300.2	216.3	236.4	-34.4%	-21.3%
Mexico	276.2	252.9	199.7	189.7	-27.7%	-25.0%
Italy	237.8	190.4	212.4	184.8	-10.7%	-2.9%
Indonesia	250.4	242.2	178.1	166.3	-28.9%	-31.3%
India	127.0	118.5	124.2	110.9	-2.2%	-6.4%
Thailand	96.5	101.7	67.4	59.6	-30.2%	-41.4%
Poland	109.3	62.2	73.9	56.7	-32.4%	-8.8%

Upholstered Furniture Imports by Significant Countries

Table 3.

USD \$ (millions)

Country	3Q22	4Q22	3Q23	4Q23	3Q%Δ	4Q%Δ
China	908.5	711.7	670.3	794.3	-26.2%	11.6%
Vietnam	550.2	536.2	605.1	723.4	10.0%	34.9%
Mexico	242.3	240.4	218.5	218.0	-9.8%	-9.3%
Italy	107.6	94.6	88.6	87.7	-17.7%	-7.3%
Canada	67.1	71.5	65.2	71.6	-2.8%	0.0%
Cambodia	31.9	39.2	40.3	48.9	26.5%	24.9%
Malaysia	42.9	42.8	37.5	42.5	-12.7%	-0.5%
Indonesia	26.8	24.4	22.6	26.8	-15.9%	9.7%
Thailand	34.1	22.1	17.2	18.4	-49.6%	-16.6%

Metal & Other Furniture Imports by Significant Countries

Table 4.

USD \$ (millions)

Country	3Q22	4Q22	3Q23	4Q23	3Q%Δ	4Q%Δ
China	1,402.3	1,316.9	1,003.0	1,145.8	-28.5%	-13.0%
Mexico	255.3	263.1	263.0	263.7	3.0%	0.3%
Vietnam	297.3	237.4	258.8	245.3	-13.0%	3.3%
Canada	184.2	196.8	205.2	216.7	11.4%	10.1%
Taiwan	117.1	107.9	121.0	124.4	3.3%	15.3%
Italy	60.6	64.9	58.0	50.7	-4.3%	-21.9%
India	51.2	51.3	46.7	42.8	-8.8%	-16.7%
Thailand	73.8	60.1	44.0	37.2	-40.4%	-38.1%
United Kingdom	34.5	27.1	32.5	34.8	-5.9%	28.1%
Indonesia	45.5	37.0	21.9	31.8	-51.9%	-14.1%
Cambodia	41.0	37.8	21.6	25.4	-47.2%	-32.8%

Mattress Imports by Significant Countries

Table 5.

USD \$ (millions)

Country	3Q22	4Q22	3Q23	4Q23	3Q%Δ	4Q%Δ
Mexico	98.0	98.2	119.0	96.5	21.5%	-1.7%
Indonesia	73.7	76.7	79.1	93.3	7.4%	21.6%
Burma	4.0	3.2	41.4	65.9	925.0%	1952.3%
Kosovo	26.1	22.5	12.6	26.4	-51.9%	17.1%
Taiwan	36.3	24.0	22.8	17.8	-37.1%	-25.8%
South Korea	1.6	3.5	20.6	15.6	1188.1%	348.7%
Vietnam	4.8	7.0	9.3	13.1	92.3%	87.0%
Philippines	7.0	7.8	9.5	11.0	35.5%	41.5%
Singapore	2.1	1.1	4.1	8.2	90.1%	622.8%
Spain	12.1	7.3	2.7	8.2	-77.7%	13.3%
Canada	9.7	9.4	7.0	5.8	N/M	-38.1%
Bosnia-Herzegov	7.0	3.8	1.8	5.6	-74.5%	47.4%

Furniture Imports by Category

Table 6.

USD \$ (millions)

Furniture Category	2021	2022	2022	22-21%Δ	23-22%Δ
Total Furniture	38,640.1	41,362.3	32,433.8	7.0%	-21.6%
Wood Furniture	16,063.5	17,959.3	13,553.5	11.8%	-24.5%
Upholstered Furniture	9,919.4	9,448.6	7,688.4	-4.7%	-18.6%
Metal & Other	11,325.3	12,507.7	9,843.8	10.4%	-21.3%
Mattresses	1,331.9	1,446.7	1,348.1	8.6%	-6.8%

* All import data is from the United States International Trade Commission

INVESTING IN HOME FURNISHINGS COMPANIES TODAY: MERGERS AND ACQUISITIONS

In the universe of acquirers of home furnishings businesses today, there are strategic buyers already in home furnishings, foreign buyers looking to establish a stronger presence in North America, wealthy families who make long-term investments for stability and growth, and investment funds that buy companies to improve and grow them usually with the expectation to sell these investments in five to seven years, often called "private equity investors". There are thousands of these funds of all sizes, various interests and expertise, and with different preferences. It is an important part of our business to be aware of and have contacts with these possible acquirers.

Our home furnishings universe is furniture, mattresses and accessory manufacturers, importers, retailers and suppliers.

A key to acquirers' interest in home furnishings is the encouraging outlook for our population mix, the increasing demand for residential housing, and the growing importance of the home in everyone's lives with new technology that allows more people to work, study, shop, be entertained and to communicate from their homes.

Mann, Armistead and Epperson would like to meet with companies that wish to learn more about the current market and demand for home furnishings companies.

Monthly Numbers

Table 7.

% Change y/y	2024											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	(4.6%)	(0.8%)										
Furniture stores sales (a)	(12.0%)	(6.3%)										
Furniture factory shipments (b)	N/A	N/A										
% Change y/y	2023											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	8.2%	1.9%	(0.1%)	(3.6%)	(2.7%)	(1.0%)	(0.5%)	(1.5%)	(1.5%)	(4.1%)	(0.4%)	(0.0%)
Furniture stores sales (a)	6.8%	0.1%	(3.1%)	(11.6%)	(5.8%)	(3.4%)	(7.3%)	(6.9%)	(7.1%)	(12.0%)	(5.4%)	(7.2%)
Furniture factory shipments (b)	(3.5%)	(6.5%)	(16.5%)	(28.5%)	(18.1%)	(28.5%)	(20.6%)	(17.0%)	(20.5%)	(8.1%)	(16.0%)	(14.4%)

Sources:

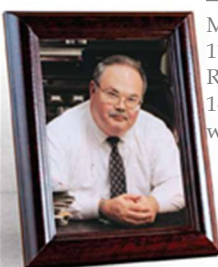
(a) U.S. Department of Commerce (b) "Furniture Insights" a monthly publication by Smith Leonard (d) quarterly shipments

About Mann, Armistead & Epperson, Ltd.

Mann, Armistead & Epperson, Ltd. is a privately owned investment banking and corporate advisory firm. Our clients deal directly with the founding partners, who bring to the table over 120 years of aggregate investment banking experience. While possessing specialized professional experience in the furnishings industry, the firm has extensive experience in a wide range of industries. Please see our website at **MAELTD.com**.

The professionals at Mann, Armistead & Epperson, Ltd. specialize in the following services:

- Merger, acquisition, sell-side and buy-side advisory services including fairness opinions where appropriate.
- Corporate finance and strategic advisory services, such as advising on capital formation, balance sheet and bank debt restructurings, valuations and other specialized professional services.
- Furnishings industry research and extensive expertise accumulated in over five decades.



Mann, Armistead & Epperson, Ltd.
 119 Shockoe Slip
 Richmond, VA 23219
 1-804-644-1200
 www.maeltld.com

Wallace "Jerry" W. Epperson, Jr., C.F.A.
 Managing Director

Jin S. Ko
 Financial Analyst

About the Furnishings Digest Newsletter

Driven by founding partner Jerry Epperson's respected insight and long-term commitment to the furniture and mattress industries, Mann, Armistead & Epperson, Ltd. publishes the Furnishings Digest Newsletter. For more information, please email research@maeltld.com or call (804) 644-1200.