

Internet/e-Commerce

Takeaways from our home furnishings expert call

Industry Overview

February data picks up after softer January

We hosted a call with Jason Shefrin, COO of Ubique Group, a privately-held furnishings company that primarily focuses on the value segment and sells across all major Online channels. 2024 reportedly started soft vs. the promotional-heavy holiday season, which began approx. a week earlier than usual with “staggering” promotional activity, according to Mr. Shefrin. Some January demand was likely shifted into 4Q, but Mr. Shefrin indicated that total sales for US brands declined 10-25% y/y in January (Chinese brands likely fared better) despite relatively flat y/y unit trends, suggesting persistent pricing headwinds from inventory markdowns and customer trade downs. Trends have reportedly improved so far in February, with total sales down 10% y/y and units up slightly, indicating pricing headwinds are abating. Industry data is relatively in line with BAC aggregated credit and debit card data showing a softer January, and a pickup in February trends so far is a constructive for improving trends in 2024.

Green shoots in 2H'24 spurred by housing

The industry will likely be flat to up slightly in '24 (with a return to growth in 2H), and while higher consumer confidence has yet to translate to improved furnishings demand, trends should be spurred by an uptick in housing volumes (we est. housing will also return to growth in 2H'24). Per Mr. Shefrin, housing could provide a material and quick boost to furniture sales given relatively short lead times (“months, not quarters”) and pent-up consumer demand. Mortgage rates, which have climbed 25bps YTD according to Bankrate (and could remain higher for longer if inflation data shows limited improvement) should be a tight, leading indicator of furnishings demand.

Online gains to drive eCommerce growth in '24

With reopening headwinds easing, trends suggest Online category penetration has returned to a more normalized rate of expansion, a key driver for eComm growth in '24 (see [eCommerce Year Ahead](#)). Improvement in Online trends are driven in part by omni-channel growth from large retailers (WMT/TGT/HD/LOW) that should also benefit RH/ARHS/WSM, while Chinese direct brands are outperforming US brands on the lower-end of the market (positive for AMZN/W). Specifically on Chinese eComm sites like Temu, Mr. Shefrin notes furnishings is limited on the platforms, but also believes the category could be a natural progression particularly in lower-priced and unbranded categories.

Shipping impact neutral but tariffs would hurt demand

The largest impact from the Red Sea disruptions, per Mr. Shefrin, could be extended lead times of up to 14-21 days, which could also tie up working capital. Despite these disruptions, Mr. Shefrin expects freight costs to be flat for large importers when contracts are negotiated in May as disruptions appear to have peaked and demand remains weak. However, if Red Sea disruptions were to worsen, freight pricing could increase up to 25% y/y, per Mr. Shefrin. On the possibility of additional tariffs, Mr. Shefrin believes that a round of global tariffs would be “destructive” to demand, with companies again likely to pass through costs fully to the consumer (such as with the 2018 tariffs).

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