

SMARTER PERSPECTIVE: HOME FURNISHINGS

A Lender's Guide to Navigating the 2025 Home Furnishings Landscape, With Emphasis on the Wholesale Market

By Matt Perry

February 2025 As 2025 gets underway, the home furnishings industry is contending with an environment characterized by economic variability, shifting material costs, and shifting consumer preferences. The connection between the housing market and the home furnishings sector remains pivotal, as housing trends directly influence consumer demand for furniture, décor, and soft goods.

Despite recent challenges, the outlook for the home furnishings industry in 2025 is promising. Following stagnant sales in 2023 and 2024, the sector is projected to experience renewed growth, fueled by rising consumer confidence, a revival in housing market activity, and a continued focus on enhancing living spaces. Retailers are evolving to meet shifting consumer expectations by blending e-commerce with physical retail, broadening product offerings, and emphasizing sustainability. Ethical sourcing and product traceability have

gained prominence as consumers increasingly demand transparency and accountability in their purchasing decisions. These trends, combined with innovative strategies, position the home furnishings industry for a rebound in the coming year.

Housing Market Trends Shape the Industry

Elevated mortgage rates throughout 2024 slowed home buying, with existing home sales reaching their lowest point since 1995. This downturn posed challenges for home improvement and furnishing businesses, contributing to store closures and financial hardships for companies like Big Lots, Conn's Home Plus, Badcock Home Furniture & More, The Room Place and American Freight. While we are focusing primarily on the wholesale market in this article it is important to note that the overall home furnishings outlook for 2025 is cautiously optimistic. With declining interest rates

likely to further stimulate economic growth and revitalize housing activity. Increased home sales could, in turn, provide a boost to the home furnishings market, as historical trends have shown that new homeowners also tend to invest in new furniture and updated home décor.

The Role of Material Costs

Raw material prices, particularly for cotton, steel, and lumber, play a crucial role in shaping production costs and pricing strategies in the home furnishings sector.

- **Lumber:** Following a period of volatility, lumber prices have stabilized, aligning more closely with seasonal norms. By mid-September 2024, the cost of Western Spruce-Pine-Fir 2x4 returned to 2023 levels at \$410 per thousand board feet, enabling manufacturers and builders to plan more reliably.
- **Steel:** Price fluctuations in the steel market, driven by global supply chain disruptions and fluctuating demand, remain a key consideration. While steel has experienced an extended period of downward pressure and specific data for January 2025 is limited, prices are generally expected to rebound this year and manufacturers are closely monitoring these costs, which directly



influence the pricing of metal furniture and components.

- Cotton: The textile segment, essential for upholstered furnishings, continues to grapple with cotton price volatility caused by factors like weather-driven crop variability and global trade policies. To adapt, manufacturers are exploring alternative materials and diversifying product lines to offset rising costs.

Operators who are able to effectively address these challenges through strategic planning and nimble execution will be in the best position to achieve successful outcomes amid the evolving economic and consumer landscape in 2025.

Logistics and Supply Chain Challenges

The home furnishings industry continues to face logistical hurdles that impact operations and profitability. Persistent supply chain disruptions, including transportation bottlenecks and labor shortages, have led to delays and increased operational costs. Lenders should encourage portfolio companies to prioritize supply chain resilience through diversification of their sourcing

strategies and adopting advanced technologies. Businesses should be pursuing strategies that leverage artificial intelligence as a pivotal tool in optimizing inventory management and streamlining distribution networks. Those that do so will be best prepared to adapt to changing market dynamics.

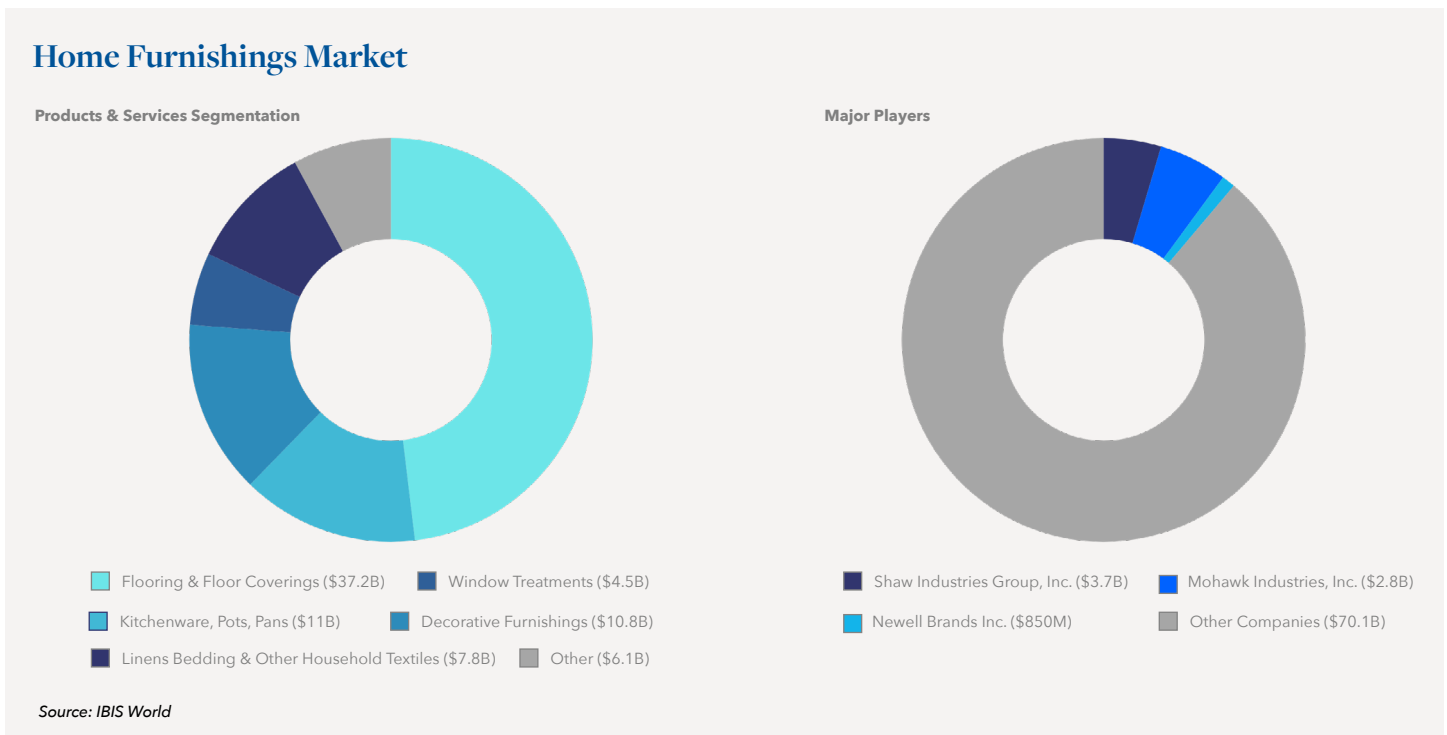
Challenges and Adaptations in the Home Furnishings Wholesale Industry

The home furnishings wholesale sector has faced considerable volatility in recent years. Fluctuations in construction activity—driven by shifts in disposable income, inflation, interest rates, and consumer uncertainty—have dampened demand for furnishings, leading to revenue declines since 2019. Although residential construction values surged in 2020 and 2021, a weak nonresidential construction market limited the benefits for wholesalers. While 2021 saw optimism fueled by an improved economic outlook and discretionary spending on furnishings, inflationary pressures soon curbed non-essential purchases. As a result, industry revenue grew modestly, with a compound annual growth rate (CAGR) of 0.9%, reaching \$77.4 billion by the end of 2024,

including a 1.6% increase that year.

In response to these challenges, many home furnishing manufacturers have implemented internal distribution systems, bypassing traditional wholesalers by selling directly to retailers and consumers. This direct-sales approach has enabled manufacturers to expand their logistics networks, delivering products more efficiently and affordably. By cutting out merchant wholesalers, vertically integrated manufacturers have lowered costs for retailers, offering greater pricing flexibility and intensifying competition. While this shift has eroded revenue streams for many wholesalers, it has also created opportunities to capitalize on the growing demand for affordable imports, providing some insulation for the industry.

Looking ahead, we expect wholesalers to benefit from an improving macroeconomic environment. Rising disposable income, stabilizing inflation, and anticipated interest rate cuts are likely to boost discretionary spending. A recovery in both residential and nonresidential construction is also projected to drive increased demand



for wholesale products. However, wholesalers will continue to face pressure from vertical integration and direct-to-retailer strategies. To remain competitive, many are focusing on niche markets, distributing cost-effective imported products to retain their role in the supply chain. These strategies, combined with broader economic recovery, are forecast to support revenue growth at a CAGR of 1.9%, reaching \$85.0 billion by 2029.

Challenges and Opportunities for Furniture Wholesalers and Online Sales

Volatility in the Furniture Wholesale Market

Furniture wholesalers have faced notable challenges in recent years, with sales closely tied to the performance of the residential and nonresidential construction sectors. During the early phase of the pandemic, wholesalers experienced significant setbacks due to increased office rental vacancies, rising unemployment, and declining corporate profits. These factors contributed to reduced demand for office furniture, the industry's largest product segment. While demand for home furniture increased during this time, supported by near-zero interest rates and higher disposable incomes, these gains were insufficient to offset the losses from the

commercial sector. As a result, industry revenue contracted at an estimated compound annual growth rate (CAGR) of 1.3%, falling to \$61.1 billion by 2024, despite a modest 0.8% gain projected for that year.

Bypassing Wholesalers: A Growing Threat

The trend of bypassing traditional wholesalers has created additional headwinds for the industry. Many upstream furniture producers have established direct distribution capabilities, enabling them to sell directly to retailers and end-users. This shift eliminates intermediaries from the supply chain, allowing producers to increase profit margins and enhance price-based competition. Consequently, wholesalers face growing pressure to operate with slimmer margins, forcing many to exit the market.

Despite these challenges, some wholesalers maintain a competitive edge by offering a diverse selection of affordable, imported furniture. However, as foreign manufacturers increasingly adopt direct distribution models, wholesalers continue to lose ground in the global furniture supply chain.

Future Prospects for Wholesalers

Looking ahead, furniture wholesalers

are expected to benefit from a gradually recovering economy. Improving macroeconomic conditions—including rising disposable incomes, stable interest rates, and subdued inflation—are anticipated to drive housing starts and home sales, boosting demand for home furniture. Similarly, an eventual recovery of the nonresidential sector is expected to spur growth in office furniture sales, supported by rising corporate profits and declining office rental vacancies.

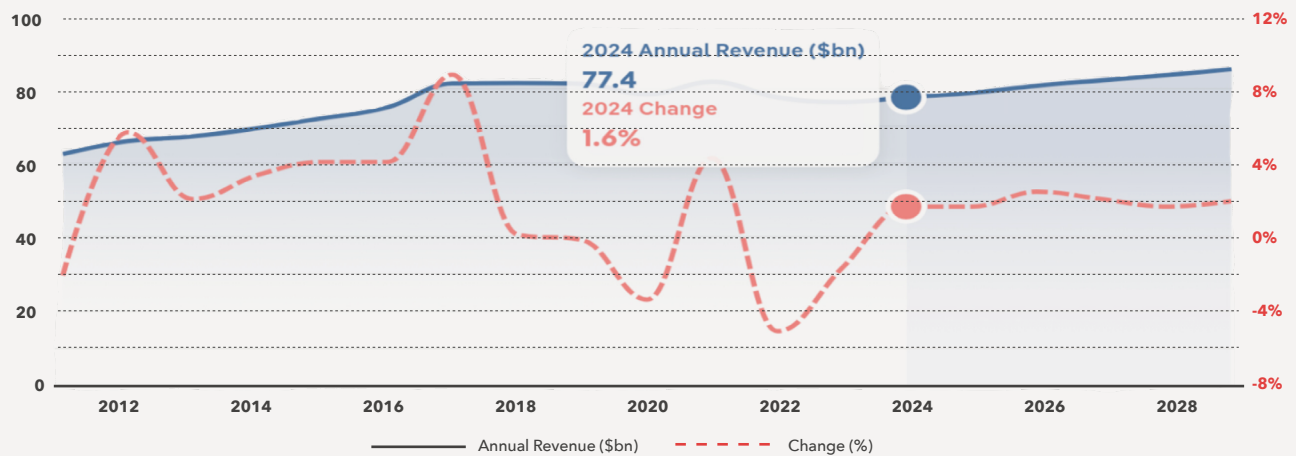
To adapt to evolving market dynamics, wholesalers are increasingly investing in e-commerce platforms and expanding their product offerings to attract a broader customer base, which should support moderate sales growth. However, competition from vertically integrated manufacturers will remain a significant challenge, limiting overall revenue expansion. Industry revenue is projected to grow at a CAGR of 2.3%, reaching \$68.3 billion by 2029.

Growth in Online Household Furniture Sales

Over the past five years, the Online Household Furniture Sales industry has experienced robust growth, driven by the increasing accessibility of the internet and the convenience of online shopping. Consumers have increasingly turned to e-commerce for its ease of

Home Furnishings Revenue

Total value (\$) and annual change from 2011 - 2029. Includes 5-year outlook.



Source: IBIS World



use and competitive pricing, leading the share of retail sales conducted online to grow consistently each year. Expanding broadband connectivity and rising e-commerce activity have further fueled this trend, and many true e-tailers and traditional furniture retailers have developed substantial online platforms that strive to compete with the likes of Amazon and Wayfair. Between 2019 and 2024, industry revenue grew at a CAGR of over 14%, reaching \$93.5 billion.

Conclusions

As we have seen in recent years, the home furnishings market is notably influenced by a variety of external factors, including material costs, economic conditions, cultural shifts and unforeseen crises or incidents. We advise lenders to remain well informed about industry and other developments that have the potential to disrupt a borrower's supply chain or erode margin, and keep a watchful eye on inventory mix and aging. As always, we advocate maintaining open and ongoing communications with multiple contacts within the businesses you lend to, as a means of best protecting your investments in the dynamic market landscape.

If you have a current or evolving

situation with one or more of your home furnishings portfolio businesses or are looking at lending to any such business in the near future, our team has a wealth of knowledge and insights gained during recent engagements that we can share to help make you and your borrowers more successful. We encourage you to reach out to us. We are here to help.

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