FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

Our latest survey of residential furniture manufacturers and distributors continued to reflect the slower business levels. New orders in February were down 17% from February 2022, though up slightly from January 2023. Orders were down for over 80% of the participants. Year to date, orders were down 20% for the two months compared to last year. We looked back at February 2020 results, the month before the start of the pandemic, and found that orders were down about 10% from that month. Obviously, there have been several price increases since that time, so the decline in units is likely more, depending on the mix of products.

Shipments were down 6% in February compared to February 2022. Year to date, shipments were down 4%. As shipments exceeded orders in dollars, backlogs fell again, down 6% from January. Backlogs were down 62% from backlogs in February 2022. Shipments were down for 56% of the participants.

Receivable levels seem in line and in talks, seem to be in good shape. There are some concerns over the slow business at retail which may cause cash flow issues for some. Inventory levels fell again in February compared to January and were only 5% ahead of February last year, much more in line with current business. At least some of the increase over last year is in price increases, though that will change as some freight costs have now dropped.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The *Consumer Confidence Index* fell in April to 101.3, down from 104.0 in March. The Present Situation Index increased to 151.1 from 148.9 last month. The Expectations Index fell to 68.1 from 74.0. The Expectations Index remained below 80 almost every month since February 2022, which is the level associated with a recession expected within the next year.

Ataman Ozyildirim, Senior Director, Economics at The Conference Board said "April's results show consumer inflation expectations over the next 12 months remain essentially unchanged from March at 6.2%. Overall purchasing plans for homes, autos, appliances, and vacations all pulled back in April, a signal that consumers may be economizing amid growing pessimism."

Housing

Existing-home sales edged lower in March with month-over-month sales declining in three out of four major U.S. regions, while sales in the Northeast remained steady. All regions posted year-over-year decreases. Year-over-year, sales fell 22.0%.

Single-family home sales were down in March, down 2.7% from February and 21.1% from one year ago. The median existing single-family home price was $380,000 in March, down 1.4% from March 2022.

"Home sales are trying to recover and are highly sensitive to changes in mortgage rates," said NAR Chief Economist Lawrence Yun. "Yet, at the same time, multiple offers on starter homes are quite common, implying more supply is needed to fully satisfy demand. It's a unique housing market."

Sales of new single-family houses in March 2023 were 9.6% above the revised February rate but were 3.4% below the March 2022 estimate. Compared to March 2022, sales were down 11.3% in the Midwest, 3.3% in the South, and 9.0% in the West. Sales in the Northeast were up 27.5%.

Privately owned housing starts in March were 0.8% below the revised February estimate and 17.2% below the March 2022 rate. Single-family housing starts in March were 2.7% above the revised February estimate.

Single-family starts were down in double digits in all regions of the country except for the Northeast where they were up 10.9% compared to March 2022.

Other

Advance estimates of U.S. retail and food services sales for March 2023, were down 1.0% from the previous month, but up 2.9% above March 2022. Total sales for the January 2023 through March 2023 period were up 5.4% from the same period a year ago. Retail trade sales were down 1.2% from February 2023 but up 1.5% above last year.

Sales in March at furniture and home furnishings stores were down 2.4% from March 2022. Year to date, sales at these stores were up 1.5% for the three months.

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in March on a seasonally adjusted basis, after increasing 0.4% in February. Over the last 12 months, the all-items index increased 5.0% before seasonal adjustment.

The index for shelter was by far the largest contributor to the monthly all-items increase. This more than offset a decline in the energy index. The food index was unchanged in March with the food at home index falling 0.3%.

The all-items less food and energy index rose 5.6% over the last 12 months. The energy index decreased 6.4% for the 12 months ending March, and the food index increased 8.5% over the last year.

Real gross domestic product (GDP) increased at an annual rate of 1.1% in the first quarter of 2023, In the fourth quarter, real GDP increased 2.6%.

EXECUTIVE SUMMARY, CONT.

Thoughts

We finished off our visits at the High Point Market with what seemed like a pretty good market, at least from an attendance standpoint. The significant retailers and buyers were here, and more and more designers continue to come. As always, the "mood" of market was good as it is always great to see old friends, make new ones, and see great product shown the way furniture is supposed to be shown.

That said, the talk of business back at home for most was best described as "slow." For retailers, the comments were that traffic is down but those that do shop, seem to be buying.

The overall economy is definitely slower. The GDP for the quarter reflected that and the economic news seems to say recession is near, though many would say it is already here, especially at the lower end.

The troubled banks are not going to help matters and the continued increase in rates is not helping. The higher mortgage rates, along with higher inflation in general, are definitely affecting most people's pocketbooks, especially for purchases that can be delayed. The issues also are slowing the housing market, which usually helps to drive furniture purchases.

The one issue we heard at market that was also troubling was the continued push to lower retail prices. We have pushed for prices to stay at higher levels as during the last couple of years. It has been proven that product could be sold at the higher prices. We understand that prices can and should be dropped for the change in container costs, but most other prices for material and labor have not gone down much, if any. It would be a shame for the industry to give back much-needed margins that were seen during the pandemic.

EXECUTIVE SUMMARY, CONT.

National, cont.

Other, cont.

The Conference Board Leading Economic Index® (LEI) for the U.S. fell by 1.2% in March 2023 following a decline of 0.5% in February. The LEI is down 4.5% over the six-month period between September 2022 and March 2023.

"The U.S. LEI fell to its lowest level since November of 2020, consistent with worsening economic conditions ahead," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "The weaknesses among the index's components were widespread in March. The Conference Board forecasts that economic weakness will intensify and spread more widely throughout the US economy over the coming months, leading to a recession starting in mid-2023."

HIGHLIGHTS – MONTHLY RESULTS

New Orders

New orders in February were 17% lower than orders in February 2022 after falling 25% in the January to January comparison. For the month, approximately 81% of the participants reported lower orders in February vs last year. Compared to the estimate for February 2020, the month before the start of the pandemic, new orders were down approximately 10%. Obviously, this decline does not reflect the effects of the price increases that were put in during the period of late 2020 through much of 2022.

Year to date, new orders were down 20% from 2022 and were down for some 78% of the participants.

Shipments and Backlogs

Shipments in February were down 6% compared to February 2022, the second month in a row for declines in shipments. Except for a couple of months, shipment comparisons were up in 2022 compared to 2021. The decline was not across the board though as only 56% of the participants reported lower shipments.

Year to date, shipments were down 4% compared to the same period of 2022. Similar to the monthly results, shipments year to date were down for 56% of the participants.

Backlogs continued to fall, dropping 6% from January, as shipments continued to outpace the level of new orders. Backlogs were down 62% from February 2022, when they were still up 35% over February 2021.

Receivables and Inventories

Receivables were down 12% from last February and 4% from January. The declines were somewhat in line with the reduced shipment levels. Most we have talked with have not had major issues with keeping receivables in good shape.

Inventories fell 9% from January but were still up 5% compared to last year February levels. As with inventories at the retail level, inventories continue to seem a bit high, likely at the case goods levels as logistics issues have caused fluctuations in the need for inventories.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse workers was about even with January levels but were down about 5% from February 2022. Most of this from what we hear is primarily from attrition. Payrolls were down 8% from February 2022 reflecting the fewer workers as well as some reduced time.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2023		
	FEB	JAN	2 MOS
New Orders	2,053	1,976	4,029
Shipments	2,444	2,403	4,847
Backlog (R)	3,383	3,599	
	2022		
	FEB	JAN	2 MOS
New Orders	2,462	2,548	5,010
Shipments	2,614	2,391	5,005
Backlog	8,877	9,029	

MONTHLY RESULTS – FEBRUARY 2023

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Feb 2023 from Jan 2023	Feb 2023 from Feb 2022	2 Mos 2023 vs 2 Mos 2022
New Orders	+2	-17	-20
Shipments	+2	-6	-4
Backlog	-6	-62	
Payrolls	-2	-8	-2
Employees	–	-5	
Receivables	-4	-12	
Inventories	-9	+5	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2022				
February	-20	–	+35	+4
March	-26	+19	+20	+4
April	-20	+13	+9	+5
May	-41	+10	-4	+3
June	-39	+10	-17	+2
July	-37	-6	-25	+1
August	-34	+9	-35	+1
September	-26	+5	-40	–
October	-30	+2	-47	-1
November	-35	+1	-52	-2
December	-31	+3	-43	-2
2023				
January	-25	-3	-40	-4
February	-17	-6	-62	-5

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* fell in April to 101.3 (1985=100), down from 104.0 in March. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—increased to 151.1 (1985=100) from 148.9 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 68.1 (1985=100) from 74.0. The *Expectations Index* has now remained below 80—the level associated with a recession within the next year—every month since February 2022, with the exception of a brief uptick in December 2022. The survey was fielded from April 3—about three weeks after the bank failures in the United States—to April 19.

"While consumers' relatively favorable assessment of the current business environment improved somewhat in April, their expectations fell and remain below the level which often signals a recession looming in the short-term," said Ataman Ozyildirim, Senior Director, Economics at The Conference Board. "Consumers became more pessimistic about the outlook for both business conditions and labor markets. Compared to last month, fewer households expect business conditions to improve and more expect worsening of conditions in the next six months. They also expect fewer jobs to be available in the short term. April's decline in consumer confidence reflects particular deterioration in expectations for consumers under 55 years of age and for households earning $50,000 and over."

"Meanwhile, April's results show consumer inflation expectations over the next 12 months remain essentially unchanged from March at 6.2%—although that level is down substantially from the peak of 7.9% reached last year, it is still elevated. Overall purchasing plans for homes, autos, appliances, and vacations all pulled back in April, a signal that consumers may be economizing amid growing pessimism."

Present Situation

Consumers' assessment of current business conditions improved somewhat in April.

- 18.8% of consumers said business conditions were "good," same as last month.
- However, 18.1% said business conditions were "bad," down from 19.3%.

Consumers' appraisal of the labor market improved slightly.

- 48.4% of consumers said jobs were "plentiful," up slightly from 47.9%.
- 11.1% of consumers said jobs were "hard to get," down slightly from 11.4% last month.

Expectations Six Months Hence

Consumers became more pessimistic about the short-term business conditions outlook in April.

- 13.5% of consumers expect business conditions to improve, down from 16.4%.
- And, 21.5% expect business conditions to worsen, up from 19.2%.

Consumers' assessment about the short-term labor market outlook was less positive.

- 12.5% of consumers expect more jobs to be available, down from 15.5%.
- 21.0% anticipate fewer jobs, up slightly from 20.5%.

Consumers' short-term income prospects was, on balance, somewhat more favorable.

- 15.7% of consumers expect their incomes to increase, down slightly from 16.2% last month.
- 11.6% expect their incomes will decrease, down from 13.8% last month.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. fell by 1.2% in March 2023 to 108.4 (2016=100), following a decline of 0.5% in February. The LEI is down 4.5% over the six-month period between September 2022 and March 2023—a steeper rate of decline than its 3.5% contraction over the previous six months (March–September 2022).

"The U.S. LEI fell to its lowest level since November of 2020, consistent with worsening economic conditions ahead," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "The weaknesses among the index's components were widespread in March and have been so over the past six months, which pushed the growth rate of the LEI deeper into negative territory. Only stock prices and manufacturers' new orders for consumer goods and materials contributed positively over the last six months. The Conference Board forecasts that economic weakness will intensify and spread more widely throughout the US economy over the coming months, leading to a recession starting in mid-2023."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.2% in March 2023 to 110.2, after also rising 0.2% in February. The CEI is now up 0.8% over the six-month period between September 2022 and March 2023—slightly lower than the 1.0% growth it recorded over the previous six months.

The Conference Board Lagging Economic Index® (LAG) for the U.S. decreased by 0.2% in March 2023 to 118.3 following an increase of 0.2% in February. The LAG is up 1.1% over the six-month period from September 2022 and March 2023, substantially less than the growth rate of 4.4% over the previous six months.

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 1.1% in the first quarter of 2023, according to the "advance" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.6%.

The increase in real GDP reflected increases in consumer spending, exports, federal government spending, state and local government spending, and nonresidential fixed investment that were partly offset by decreases in private inventory investment and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales edged lower in March, according to the National Association of Realtors®. Month-over-month sales declined in three out of four major U.S. regions, while sales in the Northeast remained steady. All regions posted year-over-year decreases.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops – fell 2.4% from February to a seasonally adjusted annual rate of 4.44 million in March. Year-over-year, sales fell 22.0% (down from 5.69 million in March 2022).

Single-family home sales faded to a seasonally adjusted annual rate of 3.99 million in March, down 2.7% from 4.10 million in February and 21.1% from one year ago. The median existing single-family home price was $380,000 in March, down 1.4% from March 2022.

Existing condominium and co-op sales were at a seasonally adjusted annual rate of 450,000 units in March, identical to February but down 28.6% from the previous year. The median existing condo price was $337,300 in March, an annual increase of 2.1%.

"Home sales are trying to recover and are highly sensitive to changes in mortgage rates," said NAR Chief Economist Lawrence Yun. "Yet, at the same time, multiple offers on starter homes are quite common, implying more supply is needed to fully satisfy demand. It's a unique housing market."

Total housing inventory registered at the end of March was 980,000 units, up 1.0% from February and 5.4% from one year ago (930,000). Unsold inventory was at a 2.6-month supply at the current sales pace, unchanged from February but up from 2.0 months in March 2022.

"Home prices continue to rise in regions where jobs are being added and housing is relatively affordable," Yun noted. "However, the more expensive areas of the country are adjusting to lower prices."

The median existing-home price for all housing types in March was $375,700, a decline of 0.9% from March 2022 ($379,300). Prices climbed slightly in three regions but dropped in the West.

Properties typically remained on the market for 29 days in March, down from 34 days in February but up from 17 days in March 2022. Sixty-five percent of homes sold in March were on the market for less than a month.

First-time buyers were responsible for 28% of sales in March, up from 27% in February but down from 30% in March 2022. NAR's 2022 *Profile of Home Buyers and Sellers* – released in November 2022 – found that the annual share of first-time buyers was 26%, the lowest since NAR began tracking the data.

According to Freddie Mac, the mortgage rate averaged 6.27% as of April 13. That's down from 6.28% from the previous week but up from 5% one year ago.

"With overall consumer price inflation calming and rents expected to decelerate from robust apartment construction, the Federal Reserve's monetary policy will surely shift from tightening to neutral to possibly loosening over the next 12 months," Yun added. "Therefore, home sales will steadily rebound despite several months of fluctuations."

A DEEPER DIVE – HOUSING, CONT.

Regional

Existing-home sales in the Northeast were unchanged from February at an annual rate of 520,000 in March, but down 21.2% from March 2022. The median price in the Northeast was $395,400, up 1.0% from one year ago.

In the Midwest, existing-home sales were down 5.5% from one month ago to an annual rate of 1.03 million in March, falling 17.6% from the previous year. The median price in the Midwest was $273,400, up 1.7% from March 2022.

Existing-home sales in the South fell 1.0% in March from February to an annual rate of 2.07 million, a 20.4% decrease from the prior year. The median price in the South was $347,600, an increase of 0.3% from one year ago.

In the West, existing-home sales declined 3.5% from the previous month to an annual rate of 820,000 in March, down 30.5% from the prior year. The median price in the West was $565,400, down 7.5% from March 2022.

New Residential Sales

Sales of new single-family houses in March 2023 were at a seasonally adjusted annual rate of 683,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 9.6% above the revised February rate of 623,000, but was 3.4% below the March 2022 estimate of 707,000.

Compared to March 2022, sales were down 11.3% in the Midwest, 3.3% in the South and 9.0% in the West. Sales in the Northeast were up 27.5%.

The seasonally-adjusted estimate of new houses for sale at the end of March was 432,000. This represented a supply of 7.6 months at the current sales rate.

Housing Starts

Privately-owned housing starts in March were at a seasonally adjusted annual rate of 1,420,000. This was 0.8% below the revised February estimate of 1,432,000 and was 17.2% below the March 2022 rate of 1,716,000. Single-family housing starts in March were at a rate of 861,000; this was 2.7% above the revised February figure of 838,000.

Single family starts were down in double digits in all regions of the country except for the Northeast where they were up 10.9% compared to March 2022.

Housing Completions

Privately-owned housing completions in March were at a seasonally adjusted annual rate of 1,542,000. This was 0.6% below the revised February estimate of 1,552,000 but was 12.9% above the March 2022 rate of 1,366,000. Single-family housing completions in March were at a rate of 1,050,000; this was 2.4% above the revised February rate.

An estimated 1,392,300 housing units were completed in 2022. This was 3.8% above the 2021 figure of 1,341,000.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in March on a seasonally adjusted basis, after increasing 0.4% in February, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all-items index increased 5.0% before seasonal adjustment.

The index for shelter was by far the largest contributor to the monthly all items increase. This more than offset a decline in the energy index, which decreased 3.5% over the month as all major energy component indexes declined. The food index was unchanged in March with the food at home index falling 0.3%.

The index for all items less food and energy rose 0.4% in March, after rising 0.5% in February. Indexes which increased in March include shelter, motor vehicle insurance, airline fares, household furnishings and operations, and new vehicles. The index for medical care and the index for used cars and trucks were among those that decreased over the month.

The all-items index increased 5.0% for the 12 months ending March; this was the smallest 12-month increase since the period ending May 2021. The all items less food and energy index rose 5.6% over the last 12 months. The energy index decreased 6.4% for the 12 months ending March, and the food index increased 8.5% over the last year.

Retail Sales

Advance estimates of U.S. retail and food services sales for March 2023, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $691.7 billion, down 1.0% from the previous month, but up 2.9% above March 2022. Total sales for the January 2023 through March 2023 period were up 5.4% from the same period a year ago.

Retail trade sales were down 1.2% from February 2023, but up 1.5% above last year. Nonstore retailers were up 12.3% from last year, while food services and drinking places were up 13.0% from March 2022.

Sales in March at furniture and home furnishings stores were down 2.4% from March 2022. Year to date, sales at these stores were up 1.5% for the three months.

Employment

Total nonfarm payroll employment rose by 236,000 in March, and the unemployment rate changed little at 3.5%, according to the U.S. Bureau of Labor Statistics report.

Employment continued to trend up in leisure and hospitality, government, professional and business services, and health care.

Both the unemployment rate, at 3.5%, and the number of unemployed persons, at 5.8 million, changed little in March. These measures have shown little net change since early 2022.

The number of persons not in the labor force who currently want a job was little changed at 4.9 million in March and has returned to its February 2020 level. These individuals were not counted as unemployed because they were not actively looking for work during the 4 weeks preceding the survey or were unavailable to take a job.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in March, up following two consecutive monthly decreases, increased 3.2% to $276.4 billion, according to the U.S. Census Bureau announcement. This followed a 1.2% February decrease. Excluding transportation, new orders increased 0.3%. Excluding defense, new orders increased 3.5%. Transportation equipment, also up following two consecutive monthly decreases, led the increase, 9.1% to $97.4 billion.

Shipments of manufactured durable goods in March, following two consecutive monthly decreases, increased 1.1% to $277.0 billion. This followed a 0.8% February decrease. Transportation equipment, also up following two consecutive monthly decreases, drove the increase, $3.3 billion or 3.7% to $93.3 billion.