FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

Our report, once again, sounds like a bit of a broken record as explanations are needed to discuss our latest results. And in some respects, it would really be easier to discuss in person and take a few more hours to research all comparisons. That said, the results of May 2022 were ugly at the first glance. New orders were down 41% from May 2021. But May 2021 orders were up 47% over May 2020. Year-to-date, new orders were down 25% from last year, but the year-to-date numbers were 2% higher than in 2019. Of course, you have to factor in the price increases given in late 2020 and all of 2021, and even into the first part of 2022.

Shipments were much better, up 10% over May 2021 and up 7% year to date. Shipments were up for 76% of the participants year to date. As shipments exceeded new orders, backlogs dropped again falling 4% from last May when they were up 214%. One thing that is affecting new orders is that we ask for those to be present net of cancellations. For the past few months, participants have taken the time to clean up their backlogs. In addition, recently there have been several companies who have cancelled orders due to the slowdown in business at retail. Some who have had significant orders posted to make sure they were in the cue at suppliers have found that they no longer need the large shipments of standard goods.

Receivable levels remain in good shape though we are hearing some slowdown in payments recently. Inventories on the other hand keep growing and were up 41% over May last year and up 9% from April. While many retailers have been quoted as having their warehouses full and some even leasing more space, it appears that some manufacturers and distributors are also over-inventoried.

The number of factory and warehouse employees was down 1% from April but this does not reflect some of the recently announced layoffs.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®* decreased in July, following a larger decline in June. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—fell to 141.3 from 147.2 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—ticked down to 65.3 from 65.8.

"Consumer confidence fell for a third consecutive month in July," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The decrease was driven primarily by a decline in the Present Situation Index—a sign growth has slowed at the start of Q3. The Expectations Index held relatively steady, but remained well below a reading of 80, suggesting recession risks persist. Concerns about inflation—rising gas and food prices, in particular—continued to weigh on consumers."

The University of Michigan Surveys of Consumer report also reflected much lower confidence. The report indicated that the index fell 14.4% from May, the lowest reading on record. Inflation continued to be of paramount concern to consumers; 47% of consumers blamed inflation for eroding their living standards, just one point shy of the all-time high last reached during the Great Recession."

Housing

Total existing-home sales (completed transactions that include single-family homes, townhomes, condominiums and co-ops) dipped 5.4% from May to a seasonally adjusted annual rate of 5.12 million in June. Year-over-year, sales fell 14.2% (5.97 million in June 2021).

"Falling housing affordability continues to take a toll on potential home buyers," said NAR Chief Economist Lawrence Yun. "Both mortgage rates and home prices have risen too sharply in a short span of time."

But like all the comparisons recently, you have to look back at what you are comparing to. June 2021 sales were up 22.9% from June 2020. It is really difficult to just look at this year and talk about it being off, when the prior year was so high. We are seeing the same difficulties looking at furniture results.

Sales of new privately owned homes were down significantly in all four regions compared to June 2021 and down 17.4% overall compared to 2021.

Privately-owned housing starts in June were 2.0% below the revised May estimate and were 6.3% below the June 2021 rate. Single-family housing starts in June were 8.1% below the revised May results.

Single-family starts in June were 15.7% below June 2021. Single-family starts compared to June 2021 were down 40.7% in the Northeast, 10.3% in the South, and 34.3% in the West, while starts were up 13.1% in the Midwest.

Other

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for June 2022 increased 1.0% from the previous month, and 8.4% above June 2021. Total sales for the period of April 2022 through June 2022 were up 8.1% from the same period a year ago. Sales at furniture and home furnishings stores on an adjusted basis were up 4.6% over June 2021. Sales at these stores were up 2.9% over the first six months of the year.

The Consumer Price Index for All Urban Consumers (CPI-U) increased 1.3% in June on a seasonally adjusted basis after rising 1.0% in May. Over the last 12 months, the all-items index increased 9.1% before seasonal adjustment. The increase was broad-based, with the indexes for gasoline, shelter, and food being the largest contributors. The energy index rose 7.5% over the month and contributed nearly half of all items increase, with the gasoline index rising 11.2% and the other major component indexes also rising. The food index rose 1.0% in June, as did the food at home index.

Total nonfarm payroll employment rose by 372,000 in June, and the unemployment rate remained at 3.6%. Notable job gains occurred in professional and business services, leisure and hospitality, and health care.

EXECUTIVE SUMMARY, CONT.

Thoughts

From most of what we are hearing, it seems that the higher inflation is probably affecting retail more at the lower and lower-middle price points. While most seem to feel that business overall is slowing some, those lower price points seem to be hurting more. We all knew that business would not remain at the high levels of the last part of 2020 and all of 2021, but the drop in business seems deeper than might have been expected due to the overall economic decline.

While some are touting the recent drop in gas prices at the pump, prices remain significantly higher than even six months ago. Are we in a recession? Some say the two-quarter drop in GDP says we are. Others say no that GDP is not the correct measure. In the last 50 years, there has been no recession when the unemployment rate has been less than 4%. And since we are still adding jobs, it appears that rate will continue to be low.

But whether we are or not, clearly the economy has stalled. This will help with inflation as long as it doesn't go too deep.

We suggest you read some of the full reports in our Deeper Dive section for a better understanding of what others are saying.

EXECUTIVE SUMMARY, CONT.

Other, Cont.

"The US LEI declined for a fourth consecutive month suggesting economic growth is likely to slow further in the near-term as recession risks grow," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Consumer pessimism about future business conditions, moderating labor market conditions, falling stock prices, and weaker manufacturing new orders drove the LEI's decline in June.

"Amid high inflation and rapidly tightening monetary policy, The Conference Board expects economic growth will continue to cool throughout 2022. Accordingly, we've downgraded our forecast of 2022 annual Real GDP growth to 1.7% year-over-year (from 2.3%), while 2023 growth was downgraded to 0.5% YOY (from 1.8%)."

Gross domestic product fell in the second quarter by 0.9% according to the first estimate. GDP fell by 1.6% in the first quarter.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders were down some 41% in May compared to May 2021. As has been the case and will be the case for some time now, the results will need some explanations. New orders in 2021 were up 47% over May 2020 so the comparison to May 2021 can be misleading. In the May 2022 to May 2021 comparison, some 91% of the participants reported lower new orders.

Year-to-date, new orders were down 25% for the five months vs 2021. Approximately 88% of the participants are now reporting a decline in year-to-date orders. Comparing 2022 year to date vs 2019, new orders were up 2%. Again, units were likely down but dollar orders were affected by price increases that have been put in since 2019.

In looking at the individual results and talking with some of the participants, some companies have cleaned up their backlogs for various reasons. Some reflected cancellations, as we ask for net new orders and as we have heard, several dealers have been overstocked so they have cancelled some of the orders that are not special order. Looking at the results for the last few months, it is clear that several participants have made major adjustments to their backlogs, which has affected net new orders.

Shipments and Backlogs

Shipments were up 10% in May compared to May 2021. Approximately 70% of the participants reported increased shipments for the month. This 10% increase brought the year-to-date results to a 7% increase for the 5-month period. Some 76% of the participants have reported increased shipments year to date.

Backlogs fell again in May, down 8% from April and 4% from May last year. And we continue to hear that most companies are really bringing backlogs down as production has caught up, but the backlogs results were also affected by the clean-up and cancellations.

Receivables and Inventories

Receivables were up 3% in May compared to May 2021, very much in line with the increase in shipments year to date. We are starting to hear that some payments are being stretched out as business for some has slowed. But most are still keeping rather tight reins on the credit policies.

Of continued concern, inventories increased again from April and were up 41% over May 2021. With business slowing as it has, clearly many are becoming over inventoried based on current conditions. We realize that many are guarding against the issues they had with supply chain, whether shortage of raw material or imported finished goods. But we do believe, there is too much inventory for current conditions.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2022		
	MAY	APR	5 MOS
New Orders	1,982	2,384	11,919
Shipments	2,969	3,240	14,549
Backlog	7,476	8,265	

	2021		
	MAY	APR	5 MOS
New Orders	3,359	2,994	15,860
Shipments	2,689	2,880	13,575
Backlog	7,787	7,583	

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees actually declined 1% from April, but we would assume that is timing. While there are layoffs being announced, most of those were after the May period. The number was still 3% higher than at May 2021. Payrolls remined well ahead at a 20% increase over last May and up 18% year to date. These increases reflect the increase in the number of employees but also pay increases as well as more working hours.

MONTHLY RESULTS – JULY 2022

KEY MONTHLY INDICATORS (PERCENT CHANGE)	May 2022 from April 2022	May 2022 from May 2021	5 Mos 2022 vs 5 Mos 2021
New Orders	-17	-41	-25
Shipments	-1	+10	+7
Backlog	-8	-4	
Payrolls	+1	+20	+18
Employees	-1	+3	
Receivables	-8	+3	
Inventories	+9	+41	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2021				
May	+47	+64	+214	+7
June	+7	+38	+153	+8
July	-11	+21	+108	+20
August	-14	+10	+81	+6
September	-20	+4	+56	+5
October	-18	-2	+52	+5
November	–	+3	+50	+5
December	-6	-2	+46	+5
2022				
January	-12	-3	+43	+24
February	-20	–	+35	+4
March	-26	+19	+20	+4
April	-20	+13	+9	+5
May	-41	+10	-4	+3

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* decreased in July, following a larger decline in June. The Index now stands at 95.7 (1985=100), down 2.7 points from 98.4 in June. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—fell to 141.3 from 147.2 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—ticked down to 65.3 from 65.8.

"Consumer confidence fell for a third consecutive month in July," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The decrease was driven primarily by a decline in the Present Situation Index—a sign growth has slowed at the start of Q3. The Expectations Index held relatively steady, but remained well below a reading of 80, suggesting recession risks persist. Concerns about inflation—rising gas and food prices, in particular—continued to weigh on consumers."

"As the Fed raises interest rates to rein in inflation, purchasing intentions for cars, homes, and major appliances all pulled back further in July. Looking ahead, inflation and additional rate hikes are likely to continue posing strong headwinds for consumer spending and economic growth over the next six months."

Present Situation

Consumers' appraisal of current business conditions was less favorable in July.

- 17.0% of consumers said business conditions were "good," down from 19.5%.
- 24.0% of consumers said business conditions were "bad," up from 22.8%.

Consumers' assessment of the labor market was less optimistic.

- 50.1% of consumers said jobs were "plentiful," down from 51.5%.
- 12.3% of consumers said jobs were "hard to get," up from 11.6%.

Expectations Six Months Hence

Consumers were mixed about the short-term business conditions outlook in July.

- 14.0% of consumers expect business conditions will improve, down from 14.6%.
- Conversely, 27.2% expect business conditions to worsen, down from 29.7%.

Consumers were also mixed about the short-term labor market outlook.

- 15.7% of consumers expect more jobs to be available, down marginally from 15.9%.
- Conversely, 21.4% anticipate fewer jobs, down from 22.2%.

Consumers were more pessimistic about their short-term financial prospects.

- 14.7% of consumers expect their incomes to increase, down from 16.1%.
- 15.7% expect their incomes will decrease, up from 15.3%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.8% in June 2022 to 117.1 (2016=100), after declining by 0.6% in May. The LEI was down by 1.8% over the first half of 2022, a reversal from its 3.3% growth over the second half of 2021.

"The US LEI declined for a fourth consecutive month suggesting economic growth is likely to slow further in the near-term as recession risks grow," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Consumer pessimism about future business conditions, moderating labor market conditions, falling stock prices, and weaker manufacturing new orders drove the LEI's decline in June. The coincident economic index which rose in June suggests the economy grew through the second quarter. However, the forward-looking LEI points to a US economic downturn ahead."

"Amid high inflation and rapidly tightening monetary policy, The Conference Board expects economic growth will continue to cool throughout 2022. A US recession around the end of this year and early next is now likely. Accordingly, we've downgraded our forecast of 2022 annual Real GDP growth to 1.7% year-over-year (from 2.3%), while 2023 growth was downgraded to 0.5% YOY (from 1.8%)."

A DEEPER DIVE – NATIONAL, CONT.

University of Michigan Surveys of Consumers

Joanne Hsu, PhD, Director of the University of Michigan Surveys of consumers, said “The final June reading confirmed the early-June decline in consumer sentiment, settling 0.2 Index points below the preliminary reading and 14.4% below May for the lowest reading on record. Consumers across income, age, education, geographic region, political affiliation, stockholding, and homeownership status all posted large declines. About 79% of consumers expected bad times in the year ahead for business conditions, the highest since 2009. Inflation continued to be of paramount concern to consumers; 47% of consumers blamed inflation for eroding their living standards, just one point shy of the all-time high last reached during the Great Recession.”

The report noted that Labor market expectations, while remaining relatively strong, are softening somewhat. About a third of consumers reported expecting more unemployment in the year ahead, up slightly from 29% in May and comparable to pre-pandemic levels. Just over half of consumers expect their incomes to grow over the next year, though only 13% expect their incomes to keep pace with inflation. Continued pessimism on both personal finances and the economy could dampen consumer spending going forward.

Gross Domestic Product

Real gross domestic product (GDP) decreased at an annual rate of 0.9% in the second quarter of 2022 , according to the "advance" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP decreased 1.6%.

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

The decrease in private inventory investment was led by a decrease in retail trade (mainly general merchandise stores as well as motor vehicle dealers).

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales dropped for the fifth straight month in June, according to the National Association of Realtors®. Three out of four major U.S. regions experienced month-over-month sales declines and one region held steady. Year-over-year sales sank in all four regions.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, dipped 5.4% from May to a seasonally adjusted annual rate of 5.12 million in June. Year-over-year, sales fell 14.2% (5.97 million in June 2021).

Single-family home sales declined to a seasonally adjusted annual rate of 4.57 million in June, down 4.8% from 4.80 million in May and down 12.8% from one year ago. The median existing single-family home price was $423,300 in June, up 13.3% from June 2021.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 550,000 units in June, down 9.8% from May and down 24.7% from one year ago. The median existing condo price was $354,900 in June, an annual increase of 11.5%.

"Falling housing affordability continues to take a toll on potential home buyers," said NAR Chief Economist Lawrence Yun. "Both mortgage rates and home prices have risen too sharply in a short span of time."

Total housing inventory at the end of June was 1,260,000 units, an increase of 9.6% from May and a 2.4% rise from the previous year (1.23 million). Unsold inventory sits at a 3.0-month supply at the current sales pace, up from 2.6 months in May and 2.5 months in June 2021.

The median existing-home price for all housing types in June was $416,000, up 13.4% from June 2021 ($366,900), as prices increased in all regions. This marks 124 consecutive months of year-over-year increases, the longest-running streak on record.

Properties typically remained on the market for 14 days in June, down from 16 days in May and 17 days in June 2021. The 14 days on market are the fewest since NAR began tracking it in May 2011. Eighty-eight percent of homes sold in June 2022 were on the market for less than a month.

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

"Finally, there are more homes on the market," Yun added. "Interestingly though, the record-low pace of days on market implies a fuzzier picture on home prices. Homes priced right are selling very quickly, but homes priced too high are deterring prospective buyers."

First-time buyers were responsible for 30% of sales in June, up from 27% in May and down from 31% in June 2021.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage was 5.52% in June, up from 5.23% in May. The average commitment rate across all of 2021 was 2.96%.

Regional

At an annual rate of 670,000 in June, existing-home sales in the Northeast were unchanged from May and down 11.8% from June 2021. The median price in the Northeast was $453,300, a 10.1% jump from one year ago.

Existing-home sales in the Midwest slid 1.6% from the previous month to an annual rate of 1,230,000 in June, retreating 9.6% from June 2021. The median price in the Midwest was $306,900, a 10.2% increase from one year before.

Existing-home sales in the South slipped 6.2% in June to an annual rate of 2,260,000, down 14.1% from the previous year. The median price in the South was $374,900, a 16.8% bounce from one year ago. For the tenth consecutive month, the South recorded the highest pace of price appreciation in comparison to the other three regions.

Existing-home sales in the West decreased 11.1% compared to the month before to an annual rate of 960,000 in June, down 21.3% from this time last year. The median price in the West was $624,000, an increase of 9.6% from June 2021.

New Residential Sales

Sales of new single-family houses in June 2022 were at a seasonally adjusted annual rate of 590,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 8.1% below the revised May rate of 642,000 and was 17.4% below the June 2021 estimate of 714,000. Sales were down significantly in all four regions of the country.

The median sales price of new houses sold in June 2022 was $402,400. The average sales price was $456,800. The seasonally adjusted estimate of new houses for sale at the end of June was 457,000. This represents a supply of 9.3 months at the current sales rate.

Housing Starts

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced that privately-owned housing starts in June were at a seasonally adjusted annual rate of 1,559,000. This was 2.0% below the revised May estimate of 1,591,000 and was 6.3% below the June 2021 rate of 1,664,000. Single-family housing starts in June were at a rate of 982,000; this was 8.1% below the revised May figure of 1,068,000. The June rate for units in buildings with five units or more was 568,000.

Single family starts in June were 15.7% below June 2021. Single family starts compared to June 2021 were down 40.7% in the Northeast, 10.3% in the South and 34.3% in the West, while starts were up 13.1% in the Midwest.

Housing Completions

June 2022 single family home completions were 8.5% above June 2021 completions. Regionally, June completions were up 4.8% in the Northeast, 4.4% in the Midwest, 17.2% in the South but were down 6.4% in the West.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 1.3% in June on a seasonally adjusted basis after rising 1.0% in May, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 9.1% before seasonal adjustment.

The increase was broad-based, with the indexes for gasoline, shelter, and food being the largest contributors. The energy index rose 7.5% over the month and contributed nearly half of the all items increase, with the gasoline index rising 11.2% and the other major component indexes also rising. The food index rose 1.0% in June, as did the food at home index.

The index for all items less food and energy rose 0.7% in June, after increasing 0.6% in the preceding two months. While almost all major component indexes increased over the month, the largest contributors were the indexes for shelter, used cars and trucks, medical care, motor vehicle insurance, and new vehicles. The indexes for motor vehicle repair, apparel, household furnishings and operations, and recreation also increased in June. Among the few major component indexes to decline in June were lodging away from home and airline fares.

Retail Sales

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for June 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $680.6 billion, an increase of 1.0% from the previous month, and 8.4% above June 2021. Total sales for the April 2022 through June 2022 period were up 8.1% from the same period a year ago.

Retail trade sales were up 1.0% from May 2022, and up 7.7% above last year. Gasoline stations were up 49.1% from June 2021, while food services and drinking places were up 13.4% from last year.

Sales at furniture and home furnishings stores on an adjusted basis were up 4.6% over June 2021. Sales at these stores were up 2.9% of the first six months of the year.

Employment

Total nonfarm payroll employment rose by 372,000 in June, and the unemployment rate remained at 3.6%, according to the U.S. Bureau of Labor Statistics. Notable job gains occurred in professional and business services, leisure and hospitality, and health care.

The unemployment rate was 3.6% for the fourth month in a row, and the number of unemployed persons was essentially unchanged at 5.9 million in June. These measures are little different from their values in February 2020 (3.5% and 5.7 million, respectively), prior to the coronavirus (COVID-19) pandemic.

In June, 7.1% of employed persons teleworked because of the coronavirus pandemic, down from 7.4% in the prior month. These data refer to employed persons who teleworked or worked at home for pay at some point in the 4 weeks preceding the survey specifically, because of the pandemic.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in June increased $5.0 billion or 1.9% to $272.6 billion, the U.S. Census Bureau announced. This increase, up eight of the last nine months, followed a 0.8% May increase. Excluding transportation, new orders increased 0.3%. Excluding defense, new orders increased 0.4%. Transportation equipment, up three consecutive months, led the increase, $4.5 billion or 5.1% to $92.7 billion. Shipments of manufactured durable goods in June, up thirteen of the last fourteen months, increased $0.7 billion or 0.3% to $269.6 billion. This followed a 1.5% May increase. Computers and electronic products, up seven of the last eight months, led the increase, $0.4 billion or 1.4% to $29.0 billion.

According to the final report for May results, shipments of furniture and related products were up 8.7 % over May 2021 and were up 6.4% year to date. New orders in this category were up 2.6% over May 2021 and up 1.3% year to date.