FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

We continue to struggle with the category comparisons, as the changes in levels of the pandemic and numbers of people affected by the virus continued to change from one year to the next. In the January to January comparisons, new orders were down 12% from January 2021, but January 2021 orders were up 27% over January 2020. So January 2022 new orders were up 16% over January 2020. In addition, even with the 12% decline in overall orders in the January 2022 comparisons to the January 2021 results, some 55% of the participants reported increased orders for the month.

Shipments were down 3% from January 2021. But January 2021 shipments were up 7% over January 2020. Backlogs increased 1% over December making backlogs up 43% over January 2021. January 2021 backlogs were up 177% over January 2020 so backlogs continue to increase, though slightly.

Receivable levels continue to be in good shape and as we work with clients, we are seeing this in the ageings. Most customers are staying current or very close to it. We know the PPP loan money has helped customers to do this. We just hope the goods can get shipped as soon as possible. Inventory levels have been built back for the most part, hopefully with the right mix of raw materials and or finished goods.

Once again, the number of factory and warehouse employees has grown slightly, but not to the degree they need to grow. Payrolls have also grown with not only a few more people but also higher wages.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index® increased slightly in March, after a decrease in February. The Index now stands at 107.2 (1985=100), up from 105.7 in February. The *Present Situation Index* improved to 153.0 from 143.0 last month. However, the *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—declined to 76.6 from 80.8.

Photo courtesy of highpointmarket.org

Lynn Franco, Senior Director of Economic Indicators at The Conference Board said "The Present Situation Index rose substantially, suggesting economic growth continued into late Q1. Expectations, on the other hand, weakened further with consumers citing rising prices, especially at the gas pump, and the war in Ukraine as factors. Meanwhile, purchasing intentions for big-ticket items like automobiles have softened somewhat over the past few months as expectations for interest rates have risen."

"Nevertheless, consumer confidence continues to be supported by strong employment growth and thus has been holding up remarkably well despite geopolitical uncertainties and expectations for inflation over the next 12 months reaching 7.9%—an all-time high. However, these headwinds are expected to persist in the short term and may potentially dampen confidence as well as cool spending further in the months ahead."

Housing

Existing-home sales fell slightly in February from January and compared to February 2021; sales were down in all regions except the South. The report indicated that continued rising prices, as well as increasing mortgage rates, were slowing down the activity. According to the report, "Monthly payments have risen by 28% from one year ago – which interestingly is not a part of the consumer price index – and the market remains swift with multiple offers still being recorded on most properties."

Sales of new single-family houses in February 2022 were 2.0% below the revised January rate of 788,000 and were 6.2% below the February 2021 estimate of 823,000. Sales were down in all regions except the Northeast where they were up 7.5% compared to February 2021.

Privately-owned housing starts in February were up 6.8% above the January estimate and were 22.3% above the February 2021 rate.

Single-family starts compared to February last year were up 13.7% with starts up 17.4% in the Northeast, 39.8% in the Midwest, and 18.4% in the South, but down 5.1% in the West.

EXECUTIVE SUMMARY, CONT.

National, Cont.

Other

Advance estimates of U.S. retail and food services sales for February 2022 increased 0.3% from the previous month, and 17.6% above February 2021. Retail trade sales were virtually unchanged from January 2022, but up 15.9% above last year. Gasoline stations were up 36.4% from February 2021, while food services and drinking places were up 33.0% from last year. Sales at furniture and home furnishings stores were up 7.4% over February 2021 and up 4.4% year to date on an adjusted basis.

The Consumer Prices Index increased 0.8% in February after rising 0.6% in January. Over the last 12 months, the all-items index increased 7.9% before seasonal adjustment. Increases in the indexes for gasoline, shelter, and food were the largest contributors to the increase. The gasoline index rose 6.6% in February and accounted for almost a third of the all-items monthly increase. The food index rose 1.0% as the food at home index rose 1.4%; both were the largest monthly increases since April 2020. The energy index rose 25.6% over the last year, and the food index increased 7.9%, the largest 12-month increase since the period ending July 1981.

"The US Leading Economic Indicators rose slightly in February, partially reversing January's decline," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "However, the latest results do not reflect the full impact of the Russian invasion of Ukraine, which could lower the trajectory for the US LEI and signal slower-than-anticipated economic growth in the first half of the year. The global economic impact of the war on supply chains and soaring energy, food, and metals prices—coupled with rising interest rates, existing labor shortages, and high inflation—all pose headwinds to US economic growth. While the Omicron wave and its economic impact waned in recent months, the potential for new COVID-19 variants remains. Amid these risks, The Conference Board revised its growth projection for the US economy down to 3.0% year-over-year GDP growth in 2022—still well above the pre-pandemic growth rate, which averaged around 2%."

EXECUTIVE SUMMARY, CONT.

Thoughts

From what we can tell, most of our participants as well as others we talk with are continuing to see some growth but clearly at some more manageable levels. The problem seems to be making enough dents in the backlogs. The lack of employees continues to be a real issue. Add to that the continued issues with freight and other supply chain issues, these times are tough for most to continue to provide good service to customers at the wholesale as well as the retail levels.

Throw in some significant inflation issues (aka price increases), the turmoil in Ukraine and Russia, more virus issues especially in foreign countries, and it really is making things difficult. We have said it before, but I am not sure many would ever have believed that business could be as good as it is from an order standpoint yet being this difficult to deal with.

In spite of the issues mentioned and more not yet covered, consumer confidence remains at fairly high levels and most believe that the economy in the U.S. is still reasonably strong.

We start the High Point Market in a couple of days (ok we know it has been started for a few already). It will be interesting to hear what folks are seeing and feeling in the real world when they are at home. We still think market will be reasonably good as even though much of last market orders may not have yet been shipped, there is still need for new products on the floors or online as there continues to be need out there. Good luck while here finding some new ideas to take back home with you. Safe travels.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

New orders in January 2022 were down 12% from January 2021 levels according to our latest survey of residential furniture manufacturers and distributors. In spite of overall orders being down, approximately 55% of the participants reported increased orders. In addition, the 12% decline was against a comparison of January 2021 orders up 27% over January 2020, so comparing January 2022 to January 2020, orders were up 16%. So, comparisons during this pandemic period continue to be difficult.

Shipments and Backlogs

Shipments were down 3% in January compared to January 2021 when shipments were up 7% over January 2020. Shipments were also up for some 55% of the participants despite the overall decline.

Backlogs continues to grow though just slightly, up 1% over December 2021 and were up 43% over January 2021. Last month backlogs were up 46% over December 2020. January 2021 backlogs were up 177% over January 2020, so needless to say, backlogs remain a major issue.

Receivables and Inventories

Receivable levels were down 5% compared to January 2021, somewhat in line with the 3% decline. Receivables were up 6% over December levels with shipments up 3% from December. So overall, receivable levels continue to appear to be in good shape based on volume levels.

Inventories were up 24% over January 2021 levels and up 4% from December 2021 about equal to the results reported last month.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees increased 3% over January 2021 numbers down from 5% reported last month as the number of employees fell 1% from December. Once again, the lack of employees is not allowing much catch up on the backlogs that remain an issue.

Factory and warehouse payrolls we about even with December payrolls and were up 4% over last year. The comparisons to December payrolls are usually difficult to compare as some participants report vacation pays differently than others.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2022	2021
	JAN	DEC
New Orders	2,651	2,718
Shipments	2,490	2,418
Backlog	9,250	9,103

	2021 (R)	2020
	JAN	DEC
New Orders	2,998	2,907
Shipments	2,567	2,480
Backlog	6,469	6,222

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MONTHLY RESULTS – MARCH 2022

KEY MONTHLY INDICATORS (PERCENT CHANGE)		
	January 2022 From December 2021	January 2022 From January 2021
New Orders	-2	-12
Shipments	+3	-3
Backlog	+1	+43
Payrolls	–	+4
Employees	-1	+3
Receivables	+6	-5
Inventories	+4	+24

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2021				
January	+27	+7	+177	-3
February	+34	+18	+184	-2
March	+96	+34	+251	–
April	+134	+196	+266	+14
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

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® increased slightly in March, after a decrease in February. The Index now stands at 107.2 (1985=100), up from 105.7 in February. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—improved to 153.0 from 143.0 last month. However, the *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—declined to 76.6 from 80.8.

"Consumer confidence was up slightly in March after declines in February and January," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index rose substantially, suggesting economic growth continued into late Q1. Expectations, on the other hand, weakened further with consumers citing rising prices, especially at the gas pump, and the war in Ukraine as factors. Meanwhile, purchasing intentions for big-ticket items like automobiles have softened somewhat over the past few months as expectations for interest rates have risen."

"Nevertheless, consumer confidence continues to be supported by strong employment growth and thus has been holding up remarkably well despite geopolitical uncertainties and expectations for inflation over the next 12 months reaching 7.9%—an all-time high. However, these headwinds are expected to persist in the short term and may potentially dampen confidence as well as cool spending further in the months ahead."

Present Situation

Consumers' appraisal of current business conditions improved in March.

- 19.6% of consumers said business conditions were "good," up from 17.6%.
- 22.1% of consumers said business conditions were "bad," down from 25.1%.

Consumers' assessment of the labor market also improved.

- 57.2% of consumers said jobs were "plentiful," up from 53.5%, a new historical high.
- 9.8% of consumers said jobs are "hard to get," down from 12.0%.

Expectations Six Months Hence

Consumers' optimism about the short-term business conditions outlook declined in March.

- 18.7% of consumers expect business conditions will improve, down from 21.3%.
- 23.8% expect business conditions to worsen, up from 19.9%.

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

- 17.4% of consumers expect more jobs to be available in the months ahead, down from 19.4%.
- Conversely, 17.7% anticipate fewer jobs, down from 19.6%.

Consumers were also mixed about their short-term financial prospects.

- 14.9% of consumers expect their incomes to increase, up from 14.7%.
- 13.7% expect their incomes will decrease, up from 13.0%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.3% in February to 119.9 (2016 = 100), following a 0.5% decrease in January and a 0.8% increase in December.

"The U.S. LEI rose slightly in February, partially reversing January's decline," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "However, the latest results do not reflect the full impact of the Russian invasion of Ukraine, which could lower the trajectory for the US LEI and signal slower-than-anticipated economic growth in the first half of the year. The global economic impact of the war on supply chains and soaring energy, food, and metals prices—coupled with rising interest rates, existing labor shortages, and high inflation—all pose headwinds to US economic growth. While the Omicron wave and its economic impact waned in recent months, the potential for new COVID-19 variants remains. Amid these risks, The Conference Board revised its growth projection for the US economy down to 3.0% year-over-year GDP growth in 2022—still well above the pre-pandemic growth rate, which averaged around 2%."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.4% in February to 108.0 (2016 = 100), following a 0.3% increase in January and a 0.1% decrease in December.

The Conference Board Lagging Economic Index® (LAG) for the U.S. remained unchanged in January at 110.3 (2016 = 100), following a 0.7% increase in January and a 0.6% increase in December.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales dipped in February, continuing a seesawing pattern of gains and declines over the last few months, according to the National Association of Realtors®. Each of the four major U.S. regions saw sales fall on a month-over-month basis in February. Sales activity year-over-year was also down overall, though the South experienced an increase while the remaining three regions reported drops in transactions.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums, and co-ops, sank 7.2% from January to a seasonally adjusted annual rate of 6.02 million in February. Year-over-year, sales decreased 2.4% (6.17 million in February 2021).

Single-family home sales dropped to a seasonally adjusted annual rate of 5.35 million in February, down 7.0% from 5.75 million in January and down 2.2% from one year ago. The median existing single-family home price was $363,800 in February, up 15.5% from February 2021.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 670,000 units in February, down 9.5% from 740,000 in January and down 4.3% from one year ago. The median existing condo price was $305,400 in February, an annual increase of 10.9%.

"Housing affordability continues to be a major challenge, as buyers are getting a double whammy: rising mortgage rates and sustained price increases," said Lawrence Yun, NAR's chief economist. "Some who had previously qualified at a 3% mortgage rate are no longer able to buy at the 4% rate.

"Monthly payments have risen by 28% from one year ago – which interestingly is not a part of the consumer price index – and the market remains swift with multiple offers still being recorded on most properties."

Total housing inventory at the end of February totaled 870,000 units, up 2.4% from January and down 15.5% from one year ago (1.03 million). Unsold inventory was at a 1.7-month supply at the current sales pace, up from the record-low supply in January of 1.6 months and down from 2.0 months in February 2021.

Yun notes that rising rates and escalating prices have prevented many consumers from making a purchase.

"The sharp jump in mortgage rates and increasing inflation is taking a heavy toll on consumers' savings," he said. "However, I expect the pace of price appreciation to slow as demand cools and as supply improves somewhat due to more home construction."

The median existing-home price for all housing types in February was $357,300, up 15.0% from February 2021 ($310,600), as prices grew in each region. This marks 120 consecutive months of year-over-year increases, the longest-running streak on record.

Properties typically remained on the market for 18 days in February, down from 19 days in January and 20 days in February 2021. Eighty-four percent of homes sold in February 2022 were on the market for less than a month.

First-time buyers were responsible for 29% of sales in February, up from 27% in January and down from 31% in February 2021. NAR's 2021 Profile of Home Buyers and Sellers – released in late 2021 – reported that the annual share of first-time buyers was 34%.

A DEEPER DIVE – HOUSING, CONT.

Regional

Existing-home sales in the Northeast slipped 11.5% in February, registering an annual rate of 690,000, a 12.7% drop from February 2021. The median price in the Northeast was $383,700, up 7.1% from one year ago.

Existing-home sales in the Midwest fell 11.3% from the prior month to an annual rate of 1,330,000 in February, a 1.5% decrease from February 2021. The median price in the Midwest was $248,900, a 7.5% climb from February 2021.

Existing-home sales in the South fell 5.1% in February from the prior month, posting an annual rate of 2,790,000, an increase of 3.0% from one year ago. The median price in the South was $318,800, an 18.1% jump from one year prior. For the sixth straight month, the South experienced the highest pace of price appreciation compared to the other regions.

"Employment is vital for housing demand," said Yun. "The Southern states are seeing faster job growth, and consequently, it's the only region to experience a sales gain from a year ago.

Existing-home sales in the West slid 4.7% from the previous month, reporting an annual rate of 1,210,000 in February, down 8.3% from one year ago. The median price in the West was $512,600, up 7.1% from February 2021.

New Residential Sales

Sales of new single-family houses in February 2022 were at a seasonally adjusted annual rate of 772,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 2.0% below the revised January rate of 788,000 and was 6.2% below the February 2021 estimate of 823,000.

The median sales price of new houses sold in February 2022 was $400,600. The average sales price was $511,000. The seasonally adjusted estimate of new houses for sale at the end of February was 407,000. This represents a supply of 6.3 months at the current sales rate.

Compared to February 2021, sales in February 2022 were down 19.2% in the Midwest, 3.0% in in the South and 9.3% in the West but were up 7.5% in the Northeast.

Housing Starts

Privately-owned housing starts in February were at a seasonally adjusted annual rate of 1,769,000. This was 6.8% above the revised January estimate of 1,657,000 and was 22.3% above the February 2021 rate of 1,447,000. Single-family housing starts in February were at a rate of 1,215,000; this was 5.7% above the revised January figure of 1,150,000.

Single family starts compared to February last year were up 13.7% with starts up 17.4% in the Northeast, 39.8% in the Midwest, and 18.4% in the South, but down 5.1% in the West.

Housing Completions

Privately owned housing completions in February were at a seasonally adjusted annual rate of 1,309,000. This was 5.9% above the revised January estimate of 1,236,000 but was 2.8% (below the February 2021 rate of 1,347,000). Single-family housing completions in February were at a rate of 1,034,000; this was 12.1% above the revised January rate of 922,000. Single-family completions were down in all regions except the South.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.8% in February on a seasonally adjusted basis after rising 0.6% in January, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 7.9% before seasonal adjustment.

Increases in the indexes for gasoline, shelter, and food were the largest contributors to the seasonally adjusted all items increase. The gasoline index rose 6.6% in February and accounted for almost a third of the all-items monthly increase; other energy component indexes were mixed. The food index rose 1.0% as the food at home index rose 1.4%; both were the largest monthly increases since April 2020.

The index for all items less food and energy rose 0.5% in February following a 0.6% increase the prior month. The shelter index was by far the biggest factor in the increase, with a broad set of indexes also contributing, including those for recreation, household furnishings and operations, motor vehicle insurance, personal care, and airline fares.

The all-items index rose 7.9% for the 12 months ending February. The 12-month increase has been steadily rising and is now the largest since the period ending January 1982. The all items less food and energy index rose 6.4%, the largest 12-month change since the period ending August 1982. The energy index rose 25.6% over the last year, and the food index increased 7.9%, the largest 12-month increase since the period ending July 1981.

Retail Sales

Advance estimates of U.S. retail and food services sales for February 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $658.1 billion, an increase of 0.3% from the previous month, and 17.6% above February 2021. Total sales for the December 2021 through February 2022 period were up 16.0% from the same period a year ago.

Retail trade sales were virtually unchanged from January 2022, but up 15.9% above last year. Gasoline stations were up 36.4% from February 2021, while food services and drinking places were up 33.0% from last year.

Sales at furniture and home furnishings stores were up 7.4% over February 2021 and up 4.4% year to date on an adjusted basis.

Employment

Total nonfarm payroll employment rose by 678,000 in February, and the unemployment rate edged down to 3.8%, according to the U.S. Bureau of Labor Statistics report. Job growth was widespread, led by gains in leisure and hospitality, professional and business services, health care, and construction.

In February, the unemployment rate edged down to 3.8%, and the number of unemployed persons edged down to 6.3 million. In February 2020, prior to the coronavirus (COVID-19) pandemic, the unemployment rate was 3.5%, and the number of unemployed persons was 5.7 million.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in February decreased $6.0 billion or 2.2% to $271.5 billion, according to the U.S. Census Bureau announcement. This decrease, down following four consecutive monthly increases, followed a 1.6% January increase. Excluding transportation, new orders decreased 0.6%. Excluding defense, new orders decreased 2.7%. Transportation equipment, down following three consecutive monthly increases, led the decrease, $4.9 billion or 5.6% to $82.6 billion.

Shipments of manufactured durable goods in February, down following five consecutive monthly increases, decreased $0.1 billion or virtually unchanged to $270.6 billion. This followed a 1.3% January increase. Machinery, down following three consecutive monthly increases, drove the decrease, $0.5 billion or 1.4% to $38.5 billion.

In the final report for January, new orders for furniture and related products were flat compared to January 2021 while shipments were up 4.3% over January 2021.