FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

As we noted last month, the results of our surveys have been somewhat difficult to compare due to all the changes that really began in March 2020. So we will comment mostly on what the results show. There are many factors that we cannot tell from the numbers themselves and the related impacts.

As we expected, orders in March were down, some 26% compared to March 2021 according to our most recent survey. March 2021 orders were not comparable to March 2020. Comparing March 2022 to March 2019, orders were up about 5%, some of which probably reflects price increases that were made throughout 2021 and into 2022.

Year-to-date orders were down 21%. Orders were down for 79% of the participants for both the monthly and year-to-date comparisons.

Shipments were up 19% over March a year ago and finally began to reduce backlogs. Shipments were up 4% year to date. Some 76% of the participants reported increased shipments year to date, a good thing as shipments drive eventual cash. As shipments exceeded orders, backlogs fell 4%. Backlogs were still 20% ahead of last year when they were very high at that time.

Receivable levels continue to appear to be in good shape as most receivable ageings are in very good shape. Inventory levels continue to rise, along with the growth in business as well as a hedge against shortages. But they are probably high enough, considering expectations for business to slow as the economy and consumer confidence declines.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board's Consumer Confidence report was not available at the time of issuing this report.

The University of Michigan Surveys of Consumers noted that consumer sentiment dropped 9.4% from April reversing gains recording in April. The declines were broad-based across current conditions as well as expectations. Consumer assessments of their current financial situation relative to a year ago were at the lowest reading since 2013. Buying conditions for durables reached their lowest reading since the question began appearing on the monthly surveys in 1978, again primarily due to high prices.

Housing

Existing-home sales fell for the third straight month with sales by regions mixed. Sales rose in the Northeast and Midwest while falling in the South and West. Sales were down compared to last year in all four regions.

"Higher home prices and sharply higher mortgage rates have reduced buyer activity," said Lawrence Yun, NAR's chief economist. "It looks like more declines are imminent in the upcoming months, and we'll likely return to the pre-pandemic home sales activity after the remarkable surge over the past two years."

New residential sales also fell 16.6% from March and were down 26% from last April. Single-family starts also fell from March.

Other

Advance estimates of U.S. retail and food services sales for April 2022 increased 0.9% from the previous month and were 8.2% above April 2021. Total sales for February 2022 through April 2022 period were up 10.8% from the same period a year ago.

Retail trade sales were up 0.7% from March 2022 and up 6.7% above last year. Gasoline stations were up 36.9% from April 2021, while food services and drinking places were up 19.8% from last year. We would bet gas prices being up, not necessarily gallons, caused most of the gas station increase.

Sales at furniture and home furnishings stores were up 0.8% over April 2021 and up 2.3% year to date. Sales in April 2021 were up almost 20% over sales in 2019 so the smaller increase was still a good month.

EXECUTIVE SUMMARY, CONT.

Thoughts

It continues to be difficult to deal with the results of our survey as well as the national reports. For example, the report on retail sales for April for furniture and home furnishings stores showed an 0.8% increase in sales for the month. But sales in April 2021 were up 20% over sales in 2019. But if you do not look back at the data, the national report looks rather weak. We have the same issue with some of our survey results.

Now the question is, where are we now. The shutdowns in Asia due to the COVID issues there have cut back production and shipments from there to the U.S. allowing U.S. ports to begin to catch up on clearing the ships and warehouses here. That is helping with the flow of goods here to catch up some of the backlogs, but that is just as the economy here is slowing. Inflations, gas prices, declines in the stock market, increased mortgage rates, and rents, along with other issues are beginning to make consumers think before spending on durable goods.

We, along with most, have been expecting business to slow from the last two years of great business but we wonder how all of the national issues will slow business more than we expected. Most are fortunate to have substantial backlogs to help get through this period and provide better service to customers, but if this should turn into a real recession, how long will the backlogs last?

We will leave the Russia/Ukraine issues out of this discussion, but we also know that there is significant impact on much more than just the war. Not that the war is not more than enough to worry about.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in March 2022 were 26% below March 2021 orders. March 2021 orders were significantly higher that March 2020 due to the start of the pandemic and were 40% higher than March 2019. Comparing March 2022 to March 2019, orders were about 5% higher in March 2022. As we have said before, comparisons will take some time before they really become meaningful. We also realize that much of increases in orders for some time will be reflective of price increases. Again, those will be difficult as many of the price increases have phased in over time.

Year to date, new orders were down 21% for the first 3 months compared to the same period a year ago. Compared to the first quarter of 2019, orders were up about 9%.

For the monthly comparison, orders were down for 79% of the participants with the same percentage reporting year to date orders being down.

Shipments and Backlogs

Shipments finally began to reduce backlogs as shipments were up 19% over March 2021. For the month, shipments were up for 79% of the participants. Year to date, shipments were up 4% over the first quarter of 2021. Some 76% of the participants reported increased orders year to date. The increases in shipments are starting to reflect the changes in supply chain issues, whether lack of raw materials or in imports due to some better flow of goods.

Backlogs fell 4% as shipments exceeded orders. Backlogs remained 20% ahead of March 2021, down from a 35% increase reported last month. Again, comparisons to March 2020 are really not meaningful.

Receivables and Inventories

Receivables were 14% higher than March 2021 and 11% higher than February 2022. Both increases were reasonable compared to shipment levels. Again, most that we talk to say their receivable ageing's are about as clean as ever as due to the high demands, suppliers are not shipping if there are old outstanding invoices.

Inventories continued to grow, up 6% from February and up 35% from March 2021. We would think that inventories are probably about as high as they need to go. We know that many have decided to carry excess inventories so as to not be faced with shortages as in the past, but it just seems that maybe they have or should have reached a peak as orders are beginning to slow with the economy.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was about even with February and were up 4% over March a year ago. Payrolls continued to rise, up 11% from February due somewhat to more workdays but were up 32% over March last year. Year to date, payrolls were up 16%, reflecting some of the pay increases that have been given in order to keep or hire new employees.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2022		
	MAR	FEB	3 MOS
New Orders	2,623	2,462	7,553
Shipments	3,470	2,614	8,362
Backlog	8,702	9,112	

	2021		
	MAR	FEB	3 MOS
New Orders	3,523	3,062	9,507
Shipments	2,987	2,627	8,006
Backlog	7,222	6,788	

MONTHLY RESULTS – MAY 2022

KEY MONTHLY INDICATORS (PERCENT CHANGE)	March 2022 from February 2022	March 2022 from March 2021	3 Mos 2022 vs 3 Mos 2021
New Orders	+8	-26	-21
Shipments	+19	+19	+4
Backlog	-4	+20	
Payrolls	+11	+32	+16
Employees	–	+4	
Receivables	+11	+14	
Inventories	+6	+35	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2021				
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
February	-20	–	+35	+4
March	-26	+19	+20	+4

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board's Consumer confidence report was not available at press time, but the University of Michigan report is below.

University of Michigan Surveys of Consumers

Surveys of Consumers Director Joanne Hsu, said "Consumer sentiment declined by 9.4% from April, reversing gains realized that month. These declines were broad based--for current economic conditions as well as consumer expectations, and visible across income, age, education, geography, and political affiliation--continuing the general downward trend in sentiment over the past year. Consumers' assessment of their current financial situation relative to a year ago is at its lowest reading since 2013, with 36% of consumers attributing their negative assessment to inflation. Buying conditions for durables reached its lowest reading since the question began appearing on the monthly surveys in 1978, again primarily due to high prices.

The median expected year-ahead inflation rate was 5.4%, little changed over the last three months, and up from 4.6% in May 2021. The mean was considerably higher at 7.4%, reflecting substantial variation in price changes across types of goods and services, and in household spending patterns. At the same time, long term inflation expectations remain well-anchored with a median of 3.0%, settling within the 2.9 to 3.1% range seen over the last 10 months.

Gross Domestic Product

Real gross domestic product (GDP) decreased at an annual rate of 1.5% in the first quarter of 2022, according to the "second" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 6.9%. The decrease in real GDP reflected decreases in private inventory investment, exports, federal government spending, and state and local government spending, while imports, which are a subtraction in the calculation of GDP, increased. Personal consumption expenditures (PCE), nonresidential fixed investment, and residential fixed investment increased.

The decrease in private inventory investment was led by decreases in wholesale trade (mainly motor vehicles) as well as mining, utilities, and construction (notably, utilities). Within exports, widespread decreases in nondurable goods were partly offset by an increase in "other" business services (mainly financial services). The decrease in federal government spending primarily reflected a decrease in defense spending on intermediate goods and services. The increase in imports was led by increases in durable goods (notably, nonfood and nonautomotive consumer goods).

The increase in PCE reflected widespread increases in services (led by housing and utilities). Within goods, an increase in durable goods (led by motor vehicles and parts) was offset by a decrease in nondurable goods (led by gasoline and other energy goods). The increase in nonresidential fixed investment reflected increases in equipment and intellectual property products.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.3% in April to 119.2 (2016 = 100), following a 0.1% increase in March. The LEI is now up 0.9% over the six-month period from October 2021 to April 2022.

"The US LEI declined in April largely due to weak consumer expectations and a drop in residential building permits," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Overall, the US LEI was essentially flat in recent months which is in line with a moderate growth outlook in the near-term. A range of downside risks—including inflation, rising interest rates, supply chain disruptions, and pandemic-related shutdowns, particularly in China—continue to weigh on the outlook. Nevertheless, we project the US economy should resume expanding in Q2 following Q1's contraction in real GDP. Despite downgrades to previous forecasts, The Conference Board still projects 2.3% year-over-year US GDP growth in 2022."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.4% in April to 108.8 (2016 = 100), following a 0.3% increase in March. The CEI increased by 1.6% in the six-month period from October 2021 to April 2022.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.4% in April to 111.6 (2016 = 100), following a 0.7% increase in March. The LAG increased by 2.6% in the six-month period from October 2021 to April 2022.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales recorded a third straight month of declines, slipping slightly in April, according to the National Association of Realtors®. Month-over-month sales were split amongst the four major U.S. regions, with two areas posting gains and the other two experiencing declines in April. Year-over-year sales struggled, as each of the four regions reported dips.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums and co-ops, slid 2.4% from March to a seasonally adjusted annual rate of 5.61 million in April. Year-over-year, sales dropped 5.9% (5.96 million in April 2021).

Single-family home sales decreased to a seasonally adjusted annual rate of 4.99 million in April, down 2.5% from 5.12 million in March and down 4.8% from one year ago. The median existing single-family home price was $397,600 in April, up 14.8% from April 2021.

"Higher home prices and sharply higher mortgage rates have reduced buyer activity," said Lawrence Yun, NAR's chief economist. "It looks like more declines are imminent in the upcoming months, and we'll likely return to the pre-pandemic home sales activity after the remarkable surge over the past two years."

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 620,000 units in April, down 1.6% from March and down 13.9% from one year ago. The median existing condo price was $340,000 in April, an annual increase of 13.1%.

"Higher home prices and sharply higher mortgage rates have reduced buyer activity," said Lawrence Yun, NAR's chief economist. "It looks like more declines are imminent in the upcoming months, and we'll likely return to the pre-pandemic home sales activity after the remarkable surge over the past two years."

Total housing inventory at the end of April amounted to 1,030,000 units, up 10.8% from March and down 10.4% from one year ago (1.15 million). Unsold inventory sits at a 2.2-month supply at the current sales pace, up from 1.9 months in March and down from 2.3 months in April 2021.

"Housing supply has started to improve, albeit at an extremely sluggish pace," said Yun. He also noted the rare state of the current marketplace. "The market is quite unusual as sales are coming down, but listed homes are still selling swiftly, and home prices are much higher than a year ago," said Yun. "Moreover, an increasing number of buyers with short tenure expectations could opt for 5-year adjustable-rate mortgages, thereby assuring fixed payments over five years because of the rate reset," he added.

The median existing-home price for all housing types in April was $391,200, up 14.8% from April 2021, as prices increased in each region. This marks 122 consecutive months of year-over-year increases, the longest-running streak on record.

Properties typically remained on the market for 17 days in April, equal to both the number of days in March 2022 and in April 2021. Eighty-eight percent of homes sold in April 2022 were on the market for less than a month.

First-time buyers were responsible for 28% of sales in April, down from 30% in March and from 31% in April 2021.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage was 4.98% in April, up from 4.17% in March. The average commitment rate across all of 2021 was 2.96%.

A DEEPER DIVE – HOUSING, CONT.

Regional

Existing-home sales in the Northeast rose 1.5% in April, reaching an annual rate of 670,000, a 10.7% drop from April 2021. The median price in the Northeast was $412,100, up 8.1% from one year ago.

Existing-home sales in the Midwest grew 3.1% from the prior month to an annual rate of 1,310,000 in April, a 1.5% slide from April 2021. The median price in the Midwest was $282,000, an 8.7% increase from one year ago.

Existing-home sales in the South fell 4.6% in April, posting an annual rate of 2,490,000, which represents a decrease of 5.7% from one year ago. The median price in the South was $352,100, a 22.2% climb from one year prior. For the eighth consecutive month, the South recorded the highest pace of price appreciation in comparison to the other three regions. Additionally, the South is the only region to report year-over-year double-digit price gains.

Existing-home sales in the West dipped 5.8% compared to the previous month, registering an annual rate of 1,140,000 in April, down 8.1% from one year ago. The median price in the West was $523,000, up 4.3% from April 2021.

New Residential Sales

The U. S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced sales of new single-family houses in April 2022 were at a seasonally adjusted annual rate of 591,000. This was 16.6% below the revised March rate of 709,000 and was 26.9% below the April 2021 estimate of 809,000.

Sales were down in April compared to April 2021 25.5% in the Midwest, 36.6% in the South, and 12.4% in the West, while sales increased 17.1% in the Northeast.

The median sales price of new houses sold in April 2022 was $450,600. The average sales price was $570,300. The seasonally-adjusted estimate of new houses for sale at the end of April was 444,000. This represents a supply of 9.0 months at the current sales rate.

Housing Starts

According to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development report, privately-owned housing starts in April were at a seasonally adjusted annual rate of 1,724,000. This was 0.2% below the revised March estimate of 1,728,000 but was 14.6% above the April 2021 rate of 1,505,000. Single-family housing starts in April were at a rate of 1,100,000; this was 7.3% below the revised March figure of 1,187,000.

Compared to April 2021, single family starts were up 3.7% with sales up 3.1% in the South, 15.6% in the West, while down 16.7% in the Northeast and 3.4% in the Midwest.

Housing Completions

Privately-owned housing completions in April were at a seasonally adjusted annual rate of 1,295,000. This was 5.1% below the revised March estimate of 1,365,000 and was 8.6% below the April 2021 rate of 1,417,000. Single-family housing completions in April were at a rate of 1,001,000; this was 4.9% below the revised March rate of 1,053,000.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in April on a seasonally adjusted basis after rising 1.2% in March, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 8.3% before seasonal adjustment.

Increases in the indexes for shelter, food, airline fares, and new vehicles were the largest contributors to the seasonally adjusted all items increase. The food index rose 0.9% over the month as the food at home index rose 1.0%. The energy index declined in April after rising in recent months. The index for gasoline fell 6.1% over the month, offsetting increases in the indexes for natural gas and electricity.

The index for all items less food and energy rose 0.6% in April following a 0.3% advance in March. Along with indexes for shelter, airline fares, and new vehicles, the indexes for medical care, recreation, and household furnishings and operations all increased in April.

The indexes for apparel, communication, and used cars and trucks all declined over the month.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for April 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $677.7 billion, an increase of 0.9% from the previous month, and 8.2% above April 2021. Total sales for the February 2022 through April 2022 period were up 10.8% from the same period a year ago. The February 2022 to March 2022 percent change was revised from up 0.7% to up 1.4%.

Retail trade sales were up 0.7% from March 2022, and up 6.7% above last year. Gasoline stations were up 36.9% from April 2021, while food services and drinking places were up 19.8% from last year. We would bet gas prices being up, not gallons, caused most of the gas station increase.

Sales at furniture and home furnishings stores were up 0.8% over April 2021 and up 2.3% year to date. But keep in mind that sales in 2021 were up almost 20% over sales in 2019 so the smaller increase was still a good month.

Employment

Total nonfarm payroll employment increased by 428,000 in April, and the unemployment rate was unchanged at 3.6%, according to the U.S. Bureau of Labor Statistics report. Job growth was widespread, led by gains in leisure and hospitality, in manufacturing, and in transportation and warehousing.

The unemployment rate remained at 3.6% in April, and the number of unemployed persons was essentially unchanged at 5.9 million. 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.

Durable Goods Orders and Factory Shipments

The U.S. Census Bureau announced that new orders for manufactured durable goods in April increased 0.4%. This increase, up six of the last seven months, followed a 0.6% March increase. Excluding transportation, new orders increased 0.3%. Excluding defense, new orders increased 0.3%. Transportation equipment, up following two consecutive monthly decreases, led the increase, at 0.6%.

Shipments of manufactured durable goods in April, up eleven of the last twelve months, increased $0.3 billion or 0.1% to $264.3 billion. This followed a 1.4% March increase. Primary metals, up four of the last five months, led the increase, $0.2 billion or 0.9% to $20.9 billion.

In the final report for furniture and related products, new orders in March 2022 were up 2.1% over March 2021 and up 1.7% year to date. Shipments in this category for March were up 7.4% over March 2021 and up 6.0% year to date.