FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

As can be seen in the details in the back section of the newsletter, the numbers continue to be difficult to analyze. Clearly, business has slowed and, call it a recession or not, most we talk with believe the industry is in the grasp of one. The continued impact of cancellations and cleanup of backlogs really has made the results of new orders difficult. Year to date, net new orders were down 29% while for the same period a year ago, orders were up 29%.

Shipments continue to help as backlogs are worked down but many we have talked with are concerned that they have worked the levels down to a point, that they may not be able to count on backlogs too much longer. There are many out there that still have multiple-week delivery times, but more and more at market we heard of getting deliveries back in the 12-to-14-week time frames. As business continues to slow, shorter lead times will become an issue. While one can say that a 10-to-12-week delivery is more normal, that is the case when orders are coming in at a normal rate, but this is not true for all.

Inventories continue to be high which is an issue. In many cases, we are hearing that some of this issue relates not to having too much inventory but not the right mix of saleable product. This is somewhat true at the wholesale and retail levels.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board's Consumer Confidence Index decreased in October after back-to-back monthly gains. The Index fell to 102.5, down from 107.8 in September. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—declined sharply to 138.9 from 150.2 last month. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—declined to 78.1 from 79.5.

"Consumer confidence retreated in October, after advancing in August and September," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index fell sharply, suggesting economic growth slowed to start Q4. Consumers' expectations regarding the short-term outlook remained dismal. The Expectations Index is still lingering below a reading of 80—a level associated with recession—suggesting recession risks appear to be rising."

"Notably, concerns about inflation picked up again, with both gas and food prices serving as main drivers. Vacation intentions cooled; however, intentions to purchase homes, automobiles, and big-ticket appliances all rose. Looking ahead, inflationary pressures will continue to pose strong headwinds to consumer confidence and spending, which could result in a challenging holiday season for retailers."

Housing

Existing-home sales descended in September, the eighth month in a row of declines. Three out of the four major U.S. regions were down month-over-month, while the West held steady. On a year-over-year basis, sales dropped in all regions.

Single-family home sales declined 0.9% from 4.26 million in August and down 23.0% from the previous year. The median existing single-family home price was $391,000 in September, up 8.1% from September 2021.

"The housing sector continues to undergo an adjustment due to the continuous rise in interest rates, which eclipsed 6% for 30-year fixed mortgages in September and are now approaching 7%," said NAR Chief Economist Lawrence Yun. "Expensive regions of the country are especially feeling the pinch and seeing larger declines in sales."

New privately owned houses sold in September were down 17.8% overall but varied between regions with sales up in the Northeast and Midwest and sales down in the South and West.

EXECUTIVE SUMMARY, CONT.

Thoughts

We felt very positive after the time we spent at the High Point Market. The "Buzz" was described by many as being as close to normal as it has been since the pandemic started. While not true for all, there was a significant amount of optimism among both exhibitors and buyers. Apparently, some of the lower-end folks were not as optimistic as others, but overall, the market seemed good. Many noted that retailers were looking for fresh ideas that could be bought in reasonable time frames versus having to buy what they thought they could get delivered the fastest. While sometimes it was a very good idea when good stock was available, sometimes that led to buying goods that may not have been as saleable at retail.

While the positive GDP news was good and helped with some of the negative recession talks, much of the news reports were not as positive as the components of the good news were not as positive overall. Higher interest rates are still a drag on much of the spending of consumers. Whether the economy is in a recession or not, clearly parts of the economy are. We think the same is true for furniture. Not all segments are recovering as fast as others.

We hope you had a good market. We also hope that over the next few months we are able to make more sense of the results of our surveys, but with all the changes in pricing especially freight and container costs, it may be a while.

Other

Real gross domestic product (GDP) increased at an annual rate of 2.6% in the third quarter of 2022, according to the "advance" estimate released. In the second quarter, real GDP decreased 0.6%. Reading the details, the report showed considerable variations in the causes of the increase, with numerous factors offsetting increases. See details later in the report.

Advance estimates of U.S. retail and food services sales for September 2022, were virtually unchanged from the previous month, but 8.2% above September 2021. Total sales for the July 2022 through September 2022 period were up 9.2% from the same period a year ago.

Sales at furniture and home furnishings stores were up 0.9% over September 2021 and up 2% year to date through September. Keep in mind that sales at these stores year-to-date were up 32% over the first 9 months of 2020.

The Consumer Price Index (CPI-U) rose 0.4% in September on a seasonally adjusted basis after rising 0.1% in August. Over the last 12 months, the all-items index increased 8.2%. Increases in the shelter, food, and medical care indexes were the largest of many contributors to the monthly seasonally adjusted all items increase.

Total nonfarm payroll employment increased by 263,000 in September, and the unemployment rate edged down to 3.5%. Notable job gains occurred in leisure and hospitality and in health care.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our most recent survey of residential furniture manufacturers and distributors, net new orders were again down substantially in August 2022 compared to August 2021, down 34%, while August 2021 orders were down 14% vs August 2020. Orders were down for 84% of the participants.

Year to date, orders were down 29% from the first 8 months of 2021, but year to date orders in August 2021, were up 29% over the first 8 months of 2020. Remember that 2020 year to date included two months where the industry was basically shut down. So as has been the case, the numbers are difficult to compare. Some 91% of the participants new orders were down year to date. But remember that these new orders are net of cancellations and are also likely affected by some clean up of backlogs since backlogs are usually not part of the accounting systems.

Shipments and Backlogs

Shipments were up 9% over August 2021 and up for 72% of the participants. Year to date, shipments remained up 6% over the first 8 months of 2021, when shipments were up 34% over the first 8 months of 2020. Year to date, shipments were up for 70% of the participants.

Once again, as shipments dollars exceeded net new orders, backlogs fell again down 35% from last year and down 11% from July. Hopefully, many participants are focusing on backlogs as getting a good handle on them is really important as we go through this recession or slow down and depend on backlogs to keep business going from a shipping perspective.

Receivables and Inventories

Receivable levels continue to be in line, increasing 3% over last year and up 3% from last month. Hopefully all are keeping customer's balances from getting aged out as business slows a bit at retail.

Inventories remain high, up 37% from last August up from 29% reported last month. We realize it is hard to cut off the supply chain especially when both products and materials have been hard to get, but hopefully these levels will drift down some as business continues to get back in line with whatever the new normal will be.

Factory and Warehouse Employees and Payroll

These levels remain just what they are. Finding good people has been difficult. Paying and retaining good people is another issue. But as we discussed a lot with clients, most likely wages are not going down. There may be some softening as time goes along but the higher wages are likely here to stay.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2022		
	AUG	JUL	8 MOS
New Orders	2,027	1,850	17,863
Shipments	2,918	2,549	23,481
Backlog	5,428	6,091	

	2021		
	AUG	JUL	8 MOS
New Orders	3,094	2,917	25,287
Shipments	2,677	2,611	22,208
Backlog	8,352	8,077	

MONTHLY RESULTS – OCTOBER 2022

KEY MONTHLY INDICATORS (PERCENT CHANGE)	Aug 2022 from Jul 2022	Aug 2022 from Aug 2021	8 Mos 2022 vs 8 Mos 2021
New Orders	+1	-34	-29
Shipments	+28	+9	+6
Backlog	-11	-35	
Payrolls	+11	+4	+14
Employees	–	+1	
Receivables	+3	+3	
Inventories	+3	+37	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2021				
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
June	-39	+10	-17	+2
July	-37	-6	-25	+1
August	-34	+9	-35	+1

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® decreased in October after back-to-back monthly gains. The Index now stands at 102.5 (1985=100), down from 107.8 in September. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—declined sharply to 138.9 from 150.2 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—declined to 78.1 from 79.5.

"Consumer confidence retreated in October, after advancing in August and September," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index fell sharply, suggesting economic growth slowed to start Q4. Consumers' expectations regarding the short-term outlook remained dismal. The Expectations Index is still lingering below a reading of 80—a level associated with recession—suggesting recession risks appear to be rising."

"Notably, concerns about inflation—which had been receding since July—picked up again, with both gas and food prices serving as main drivers. Vacation intentions cooled; however, intentions to purchase homes, automobiles, and big-ticket appliances all rose. Looking ahead, inflationary pressures will continue to pose strong headwinds to consumer confidence and spending, which could result in a challenging holiday season for retailers. And, given inventories are already in place, if demand falls short, it may result in steep discounting which would reduce retailers' profit margins."

Present Situation

Consumers' assessment of current business conditions was less favorable in October.

- 17.5% of consumers said business conditions were "good," down from 20.7%.
- 24.0% of consumers said business conditions were "bad," up from 20.9%.

Consumers' appraisal of the labor market was also less upbeat.

- 45.2% of consumers said jobs were "plentiful," down from 49.2%.
- 12.7% of consumers said jobs were "hard to get," up from 11.1%.

Expectations Six Months Hence

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

- 19.2% of consumers expect business conditions to improve, up from 18.6%.
- However, 23.3% expect business conditions to worsen, up from 21.9%.

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

- 17.4% of consumers expect more jobs to be available, up from 15.1%.
- 19.3% anticipate fewer jobs, down from 21.1%.

Consumers were ambivalent about their short-term financial prospects.

- 18.9% of consumers expect their incomes to increase, up from 18.3%.
- However, 15.1% expect their incomes will decrease, up from 13.8%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.4% in September 2022 to 115.9 (2016=100), after remaining unchanged in August. The LEI is down 2.8% over the six-month period between March and September 2022, a reversal from its 1.4% growth over the previous six months.

"The US LEI fell again in September and its persistent downward trajectory in recent months suggests a recession is increasingly likely before year end," said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. "The six-month growth rate of the LEI fell deeper into negative territory in September, and weaknesses among the leading indicators were widespread. Amid high inflation, slowing labor markets, rising interest rates, and tighter credit conditions, The Conference Board forecasts real GDP growth will be 1.5% year-over-year in 2022, before slowing further in the first half of next year."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.2% in September 2022 to 108.9 (2016=100), after increasing by 0.1% in August. The CEI rose by 0.9% over the six-month period from March to September 2022, slower than its growth of 1.4% over the previous six-month period.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.6% in September 2022 to 116.2 (2016 = 100), following a 0.8% increase in August. The LAG is up 4.1% over the six-month period from March to September 2022, faster than its growth of 2.7% over the previous six-month period.

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.6% in the third quarter of 2022, according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP decreased 0.6%.

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

The increase in exports reflected increases in both goods and services. Within exports of goods, the leading contributors to the increase were industrial supplies and materials (notably petroleum and products as well as other nondurable goods), and nonautomotive capital goods. Within exports of services, the increase was led by travel and "other" business services (mainly financial services). Within consumer spending, an increase in services (led by health care and "other" services) was partly offset by a decrease in goods (led by motor vehicles and parts as well as food and beverages). Within nonresidential fixed investment, increases in equipment and intellectual property products were partly offset by a decrease in structures. The increase in federal government spending was led by defense spending. The increase in state and local government spending primarily reflected an increase in compensation of state and local government employees.

Within residential fixed investment, the leading contributors to the decrease were new single-family construction and brokers' commissions. The decrease in private inventory investment primarily reflected a decrease in retail trade (led by "other" retailers). Within imports, a decrease in imports of goods (notably consumer goods) was partly offset by an increase in imports of services (mainly travel).

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales descended in September, the eighth month in a row of declines, according to the National Association of REALTORS®. Three out of the four major U.S. regions notched month-over-month sales contractions, while the West held steady. On a year-over-year basis, sales dropped in all regions.

Single-family home sales declined to a seasonally adjusted annual rate of 4.22 million in September, down 0.9% from 4.26 million in August and down 23.0% from the previous year. The median existing single-family home price was $391,000 in September, up 8.1% from September 2021.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 490,000 units in September, down 5.8% from August and 30.0% from one year ago. The median existing condo price was $331,700 in September, an annual increase of 9.8%.

"The housing sector continues to undergo an adjustment due to the continuous rise in interest rates, which eclipsed 6% for 30-year fixed mortgages in September and are now approaching 7%," said NAR Chief Economist Lawrence Yun. "Expensive regions of the country are especially feeling the pinch and seeing larger declines in sales."

Total housing inventory registered at the end of September was 1.25 million units, which was down 2.3% from August and 0.8% from the previous year. Unsold inventory is at a 3.2-month supply at the current sales pace – unchanged from August and up from 2.4 months in September 2021.

"Despite weaker sales, multiple offers are still occurring with more than a quarter of homes selling above list price due to limited inventory," Yun added. "The current lack of supply underscores the vast contrast with the previous major market downturn from 2008 to 2010, when inventory levels were four times higher than they are today."

The median existing-home price for all housing types in September was $384,800, an 8.4% jump from September 2021 ($355,100), as prices climbed in all regions. This marks 127 consecutive months of year-over-year increases, the longest-running streak on record. It was the third month in a row, however, that the median sales price faded after reaching a record high of $413,800 in June, the usual seasonal trend of prices trailing off after peaking in the early summer.

Properties typically remained on the market for 19 days in September, up from 16 days in August and 17 days in September 2021. Seventy percent of homes sold in September 2022 were on the market for less than a month.

A DEEPER DIVE – HOUSING, CONT.

Regional

Existing-home sales in the Northeast dropped 1.6% from August to an annual rate of 610,000 in September, retreating 18.7% from September 2021. The median price in the Northeast was $418,500, an increase of 8.3% from one year ago.

Existing-home sales in the Midwest slid 1.7% from the previous month to an annual rate of 1,140,000 in September, falling 19.7% from September 2021. The median price in the Midwest was $281,500, up 6.9% from the prior year.

In the South, existing-home sales fell 1.9% in September from August to an annual rate of 2,080,000, a decline of 23.8% from this time last year. The median price in the South was $351,700, an increase of 11.8% from September 2021.

Existing-home sales in the West were identical to last month at an annual rate of 880,000 in September, but down 31.3% from one year ago. The median price in the West was $595,400, a 7.1% increase from September 2021.

New Residential Sales

Sales of new single-family houses in September 2022 were at a seasonally adjusted annual rate of 603,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 10.9% below the revised August rate of 677,000 and was 17.6% below the September 2021 estimate of 732,000.

The seasonally-adjusted estimate of new houses for sale at the end of September was 462,000. This represents a supply of 9.2 months at the current sales rate.

Compared to September 2021, sales were up 25.8% in the Northeast and 10.8% in the Midwest but were off 19.3% in the South and 30.4% in the West.

Housing Starts

Privately-owned housing starts in September were at a seasonally adjusted annual rate of 1,439,000. This was 8.1% below the revised August estimate of 1,566,000 and was 7.7% below the September 2021 rate of 1,559,000. Single-family housing starts in September were at a rate of 892,000; this was 4.7% below the revised August figure of 936,000 and 18.5% below the September 2021 rate.

Single family starts compared to September 2021 were down 15.9% in the Northeast, 15.2% in the Midwest, 1.45% in the South and 30.1% in the West.

Housing Completions

Privately-owned housing completions in September were at a seasonally adjusted annual rate of 1,427,000. This was 6.1% above the revised August estimate of 1,345,000 and was 15.7% above the September 2021 rate of 1,233,000. Single-family housing completions in September were at a rate of 1,049,000; this was 3.2% above the revised August rate of 1,016,000 and were 11.1% above September 2021. Regionally compared to September 2021, single family starts were down 24.1% in the Northeast but up 15.9% in the Midwest, 17.2% in the South and 1.4% in the West.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4% in September on a seasonally adjusted basis after rising 0.1% in August, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all items index increased 8.2% before seasonal adjustment.

Increases in the shelter, food, and medical care indexes were the largest of many contributors to the monthly seasonally adjusted all items increase. These increases were partly offset by a 4.9% decline in the gasoline index. The food index continued to rise, increasing 0.8% over the month as the food at home index rose 0.7%. The energy index fell 2.1% over the month as the gasoline index declined, but the natural gas and electricity indexes increased.

The index for all items less food and energy rose 0.6% in September, as it did in August. The indexes for shelter, medical care, motor vehicle insurance, new vehicles, household furnishings and operations, and education were among those that increased over the month. There were some indexes that declined in September, including those for used cars and trucks, apparel, and communication.

The all items index increased 8.2% for the 12 months ending September, a slightly smaller figure than the 8.3% increase for the period ending August. The all items less food and energy index rose 6.6% over the last 12 months. The energy index increased 19.8% for the 12 months ending September, a smaller increase than the 23.8% increase for the period ending August. The food index increased 11.2% over the last year.

Retail Sales

Advance estimates of U.S. retail and food services sales for September 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $684.0 billion, virtually unchanged from the previous month, but 8.2% above September 2021. Total sales for the July 2022 through September 2022 period were up 9.2% from the same period a year ago.

Retail trade sales were down 0.1% from August 2022, but up 7.8% above last year. Gasoline stations were up 20.6% from September 2021, while nonstore retailers were up 11.6% from last year.

Sales at furniture and home furnishings stores were up 0.9% over September 2021 and up 2% year to date through September. Keep in mind that sales at these stores year to date were up 32% over the first 9 months of 2020.

Employment

Total nonfarm payroll employment increased by 263,000 in September, and the unemployment rate edged down to 3.5%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in leisure and hospitality and in health care.

The unemployment rate edged down to 3.5% in September, returning to its July level. The number of unemployed persons edged down to 5.8 million in September.

The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.1 million in September. The long-term unemployed accounted for 18.5% of all unemployed persons.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in August, down two consecutive months, decreased 0.2% to $272.7 billion, according to the U.S. Census Bureau. This decrease followed a 0.1% July decrease. Excluding transportation, new orders increased 0.2%. Excluding defense, new orders decreased 0.9%. Transportation equipment, also down two consecutive months, drove the decrease.

Shipments of manufactured durable goods in August, up fifteen of the last sixteen months, increased 0.7% to $272.1 billion. This followed a 0.2% July increase. Transportation equipment, up ten of the last eleven months, led the increase, 1.9% to $88.0 billion.

According to the final report, shipments of furniture and related products in August were up 8.4% over August 2021 shipments and up 6.7% year to date. New orders were up 4.1% over last August with year to date orders up 1.9%.