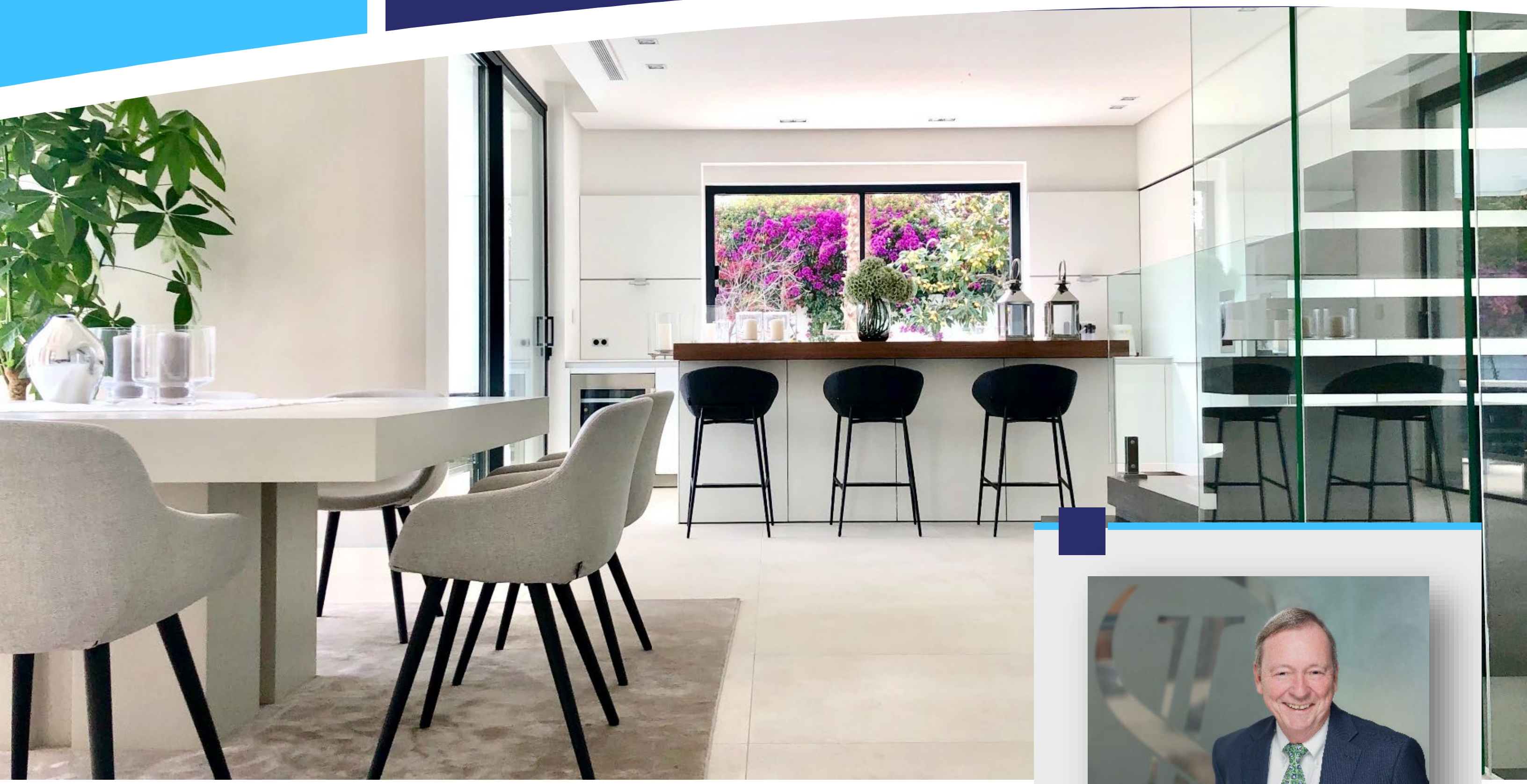
# FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

**February 2022**



**Ken Smith, CPA**

First, let us say that all of the results below were from a time before the aggression by Russia into Ukraine. Our thoughts and prayers go out to all of the folks involved in this issue and we hope it is over soon with as little damage and loss of life as possible.

## HIGHLIGHTS – EXECUTIVE SUMMARY

Once again, the results of our survey requires some explanation. On the surface, the results were beginning to show some slowdown in business which has been somewhat expected. December new orders were down 6% from December 2020. But looking back, December 2020 new orders were up 27% over December 2019. So, December 2021 new orders were up 19% over December 2019, continuing the string of good business for the industry. For the year, new orders were up 14% over 2020 when they were up 15% over 2019. The results for the year showed that 77% of the participants had increased orders for the year.

Shipments in December fell 2% from last December when they were up 5% from December 2019. December 2021 shipments were up 2% over December 2019. Supply chain, lack of workers, freight, among other things, continue to keep shipments from catching up. The increased orders coupled with shipments not able to keep up, meant backlogs continued to grow, with December backlogs up 46% over last December when they were up 168% over December 2019.

Receivable and inventory levels seem to be in good shape. From what we see, most customers are keeping current in order to get product when it is available. Inventories continue to grow with materials as well as imported finished goods. The number of factory and warehouse employees is up from last year but nowhere near what is needed. As expected, payrolls are up due to some more people but also due to increased wages in order to attract and keep people.

## EXECUTIVE SUMMARY, CONT.

### National

#### Consumer Confidence

The Conference Board *Consumer Confidence Index®* fell slightly in February, after a decrease in January. The Index now stands at 110.5 (1985=100), down from 111.1 in January. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—improved to 145.1 from 144.5 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—declined to 87.5 from 88.8.

Lynn Franco, Senior Director of Economic Indicators at The Conference Board said "Consumer confidence was down slightly for a second consecutive month in February. The Present Situation Index improved a touch, suggesting the economy continued to expand in Q1 but did not gain momentum. Expectations about short-term growth prospects weakened further, pointing to a likely moderation in growth over the first half of 2022. Meanwhile, the proportion of consumers planning to purchase homes, automobiles, major appliances, and vacations over the next six months all fell. Despite this reversal, consumers remain relatively confident about short-term growth prospects. While they do not expect the economy to pick up steam in the near future, they also do not foresee conditions worsening."

#### Housing

Existing-home sales improved in January compared to December with all four regions showing increases but the comparison to January 2021 was mixed in the regions. Single family sales were only down 2.6% from last year. The demand is still there with people expecting mortgage rates to increase. But inventories of homes is still very low. "The inventory of homes on the market remains woefully depleted, and in fact is currently at an all-time low," Lawrence Yun, NAR's chief economist said.

Sales of new single-family houses in January 2022 fell 4.5% below the revised December rate and were 19.3% below the January 2021 estimate.

Compared to January 2021, sales were down 46.8% in the Northeast, 37.1% in the Midwest, and 23.8% in the South but up 5.3% in the West.

Privately-owned housing starts in January were 4.1% below the revised December estimate but were 0.8% above the January 2021 rate. Compared to January 2021 single family starts were down 2.4% overall with starts down 38.0% in the Northeast, 11.7% in the Midwest, 2.2% in the South but up 13.9% in the West.

#### Other

Advance estimates of U.S. retail and food services sales for January 2022 increased 3.8% from the previous month, and were 13.0% above January 2021. Total sales for the November 2021 through January 2022 period were up 16.1% from the same period a year ago.

Retail trade sales were up 4.4% from December 2021, and up 11.4% above last year. Gasoline stations were up 33.4% from January 2021, while food services and drinking places were up 27.0% from last year. On an adjusted basis, sales at furniture and home furnishings stores were up 2.7% over January 2021. January 2021 sales at these stores were up 11.7% over January 2020.

As for consumer prices, the all-items index rose 7.5% for the 12 months ending January, the largest 12-month increase since the period ending February 1982. The all items less food and energy index rose 6.0%, the largest 12-month change since the period ending August 1982. Increases in the indexes for food, electricity, and shelter were the largest contributors to the seasonally adjusted all items increase.

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.3% in January, following a 0.7% increase in December and a 0.8% increase in November. The report noted that the LEI posted a small decline as the Omicron wave, rising prices, and supply chain disruptions took their toll. initial claims for unemployment insurance, consumers' outlook and declines in stock prices, and the average work week in manufacturing all contributed to the decline—the first since February 2021.

## EXECUTIVE SUMMARY, CONT.

### Thoughts

Business has continued to be very good for most in the industry. While new order writing has tended to show some slower growth, that is probably good for most. Many have looked for more capacity but finding people to work there is a different story, so backlogs remain a significant issue. Also prices have continued to have to be raised, but it appears that retail customers are accepting the increases, reluctantly of course, but realizing that the needs are real. And retail customers, who do not know what furniture should cost, hear that prices are up but realize, most everything is going up.

The Russia/Ukraine issue will create more problems around the world as most any sanctions that will have meaningful results will have negative results on the U.S. as well as other countries. We will not attempt to get into all of that other than to say that the pandemic has caused enough issues, and serious fighting in Ukraine will have some serious effects of the world economy and the U.S. We can only hope that it is short lived.

In the meantime, we are expecting the April market in High Point to look the most like normal in quite some time. We think most folks are going to be looking for new ideas and products and hopefully finding that more and more products are becoming available as backlogs are working down. But consumers that are still buying like to see new products even with long wait times, as they are becoming used to those wait for many other needs, such as appliances, vehicles, and many other items.

## HIGHLIGHTS – MONTHLY RESULTS

### New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in December 2021 fell 6% from orders in December 2020. But that decline compared to December 2020 results, where they were up 27% over December 2019. So compared to December 2019, December 2021 orders were up 19%. In addition, as would be expected, the numbers among the participants were very mixed with slightly over one-half of the participants reporting an increase in orders over last year in spite of an overall decline in orders.

Year to date, orders were 14% above the year 2020, when they were up 15% over 2019. Compared to all of 2019. New orders in 2021 were up 31%. As we have noted before, comparisons between all three years are not easy to draw conclusions other than to say that from a new order standpoint, business since 2019, while interrupted in early March 2020 for a couple of months, has really been good for the industry. For the year, some 77% of all participants reported increases in orders.

**ESTIMATED BUSINESS ACTIVITY (MILLIONS)**

| 2021 | DEC | NOV | 12 MOS |
|---|---|---|---|
| New Orders | 2,718 | 2,963 | 37,526 |
| Shipments | 2,418 | 2,584 | 32,168 |
| Backlog | 9,103 | 8,802 | |

| 2020 | DEC | NOV | 12 MOS |
|---|---|---|---|
| New Orders | 2,907 | 2,952 | 33,018 |
| Shipments | 2,480 | 2,518 | 26,733 |
| Backlog | 6,222 | 5,853 | |

### Shipments and Backlogs

Shipments in December fell 2% from last December when they were up 5% from December 2019. December 2021 shipments were up 2% over December 2019. All the same supply chain issues and labor issues continue to impact shipments. Shipments were actually up for about two thirds of the participants but some of the ones that were off, were off significantly.

For the year, shipments were up 20% over 2020. Last year, shipments were down 6% for the year due primarily to the shutdowns early in the year. Some 87% of the participants reported increased shipments for the year.

With the dollar amount of orders still higher than dollar shipments, backlogs rose again, but only 1%. Compared to last year, backlogs were up 46% which doesn't seem all that bad until you realize that last December, backlogs were up 168% over December 2019.

### Receivables and Inventories

Receivables were down 2% from last December in line with the decrease in shipments for the month and down 9% from November. Shipments were down 12% in December vs November so again in line.

Inventories were up 4% from November and up 25% from last December up from 24% reported last month. Inventories appear in line with increases in orders, etc., assuming they include the right product. Many have bought a lot of product just to have either materials or finished products to have things to sell. As business finally slows somewhat (when we are not sure), we hope that some warehouses and plants do not have what will become discontinued products in the end.

### Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees remained level with November and 5% above last December. These numbers clearly reflect the shortage of workers for most, which has a lot to do with shipments lagging orders.

Payrolls were up 7% over last December, reflecting some of the pay increases offered to keep people. Year to date, payrolls were up 20%, reflecting a combination of higher wages and more work due to higher volumes.

## MONTHLY RESULTS – FEBRUARY 2022

| KEY MONTHLY INDICATORS (PERCENT CHANGE) | December 2021 from November 2021 | December 2021 from December 2020 | 12 Mos 2021 vs 12 Mos 2020 |
|---|---|---|---|
| **New Orders** | -13 | -6 | +14 |
| **Shipments** | -12 | -2 | +20 |
| **Backlog** | +1 | +46 | |
| **Payrolls** | -6 | +7 | +20 |
| **Employees** | – | +5 | |
| **Receivables** | -9 | -2 | |
| **Inventories** | +4 | +25 | |

**PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR**

| | New Orders | Shipments | Backlog | Employment |
|---|---|---|---|---|
| **2020** | | | | |
| December | +27 | +5 | +168 | -3 |
| **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 |

# A DEEPER DIVE – NATIONAL

## Consumer Confidence

The Conference Board *Consumer Confidence Index®* fell slightly in February, after a decrease in January. The Index now stands at 110.5 (1985=100), down from 111.1 in January. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—improved to 145.1 from 144.5 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—declined to 87.5 from 88.8.

"Consumer confidence was down slightly for a second consecutive month in February," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index improved a touch, suggesting the economy continued to expand in Q1 but did not gain momentum. Expectations about short-term growth prospects weakened further, pointing to a likely moderation in growth over the first half of 2022. Meanwhile, the proportion of consumers planning to purchase homes, automobiles, major appliances, and vacations over the next six months all fell. Concerns about inflation rose again in February, after posting back-to-back declines. Despite this reversal, consumers remain relatively confident about short-term growth prospects. While they do not expect the economy to pick up steam in the near future, they also do not foresee conditions worsening. Nevertheless, confidence and consumer spending will continue to face headwinds from rising prices in the coming months."

### Present Situation

Consumers' appraisal of current business conditions was mixed in February.

- 18.7% of consumers said business conditions were "good," down from 20.0%
- However, 24.7% of consumers said business conditions were "bad," down from 27.4%

Consumers' assessment of the labor market was also mixed.

- 53.8% of consumers said jobs were "plentiful," down from 55.0% but still a historically strong reading
- However, 11.8% 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 eased in February.

- 23.4% of consumers expect business conditions will improve, slightly down from 23.6%
- However, 18.1% expect business conditions to worsen, down from 19.7%

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

- 21.3% of consumers expect more jobs to be available in the months ahead, down from 22.1%
- 17.9% anticipate fewer jobs, up from 16.6%

## NATIONAL UPDATE

### Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.3% in January to 119.6 (2016 = 100), following a 0.7% increase in December and a 0.8% increase in November.

"The U.S. LEI posted a small decline in January, as the Omicron wave, rising prices, and supply chain disruptions took their toll," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Initial claims for unemployment insurance, consumers' outlook and declines in stock prices, and the average work week in manufacturing all contributed to the decline—the first since February 2021."

Despite this month's decline and a deceleration in the LEI's six-month growth rate, widespread strengths among the leading indicators still point to continued, albeit slower, economic growth into the spring. However, labor shortages, inflation, and the potential of new COVID-19 variants pose risks to growth in the near term. The Conference Board forecasts GDP growth for Q1 to slow somewhat from the very rapid pace of Q4 2021. Still, the U.S. economy is projected to expand by a robust 3.5% year-over-year in 2022—well above the pre-pandemic growth rate, which averaged around 2%.

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.5% in January to 107.9 (2016 = 100), following a 0.2% increase in both December and November.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.7% in January to 110.2 (2016 = 100), following a 0.4% increase in December and a 0.1% increase in November.

# A DEEPER DIVE – NATIONAL, CONT.

## Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 7.0% in the fourth quarter of 2021, according to the "second" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.3%.

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

The increase in private inventory investment was led by retail and wholesale trade industries. Within retail, inventory investment by motor vehicle dealers was the leading contributor. The increase in exports reflected increases in both goods and services. The increase in exports of services was led by travel. The increase in PCE primarily reflected an increase in services, led by health care, financial services and insurance, and transportation.

The decrease in federal government spending primarily reflected a decrease in defense spending on intermediate goods and services. The increase in imports primarily reflected an increase in goods (led by non-food and non-automotive consumer goods, as well as capital goods).

# A DEEPER DIVE – HOUSING

## Existing-Home Sales

Existing-home sales rose in January, making a notable move upward following a previous month where sales declined, according to the National Association of Realtors®. On a month-over-month basis, each of the four major U.S. regions experienced an increase in sales in January. However, year-over-year, activity was mixed as two regions reported sagging sales, another watched sales increase and a fourth region remained flat.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, climbed 6.7% from December to a seasonally adjusted annual rate of 6.50 million in January. Year-over-year, sales fell 2.3%.

Single-family home sales jumped to a seasonally adjusted annual rate of 5.76 million in January, up 6.5% from 5.41 million in December and down 2.4% from one year ago. The median existing single-family home price was $357,100 in January, up 15.9% from January 2021.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 740,000 units in January, up 8.8% from 680,000 in December and down 1.3% from one year ago. The median existing condo price was $297,800 in January, an annual increase of 10.8%.

"Buyers were likely anticipating further rate increases and locking-in at the low rates, and investors added to overall demand with all-cash offers," said Lawrence Yun, NAR's chief economist. "Consequently, housing prices continue to move solidly higher."

Total housing inventory at the end of January amounted to 860,000 units, down 2.3% from December and down 16.5% from one year ago (1.03 million). Unsold inventory was at a 1.6-month supply at the current sales pace, down from 1.7 months in December and from 1.9 months in January 2021.

"The inventory of homes on the market remains woefully depleted, and in fact is currently at an all-time low," Yun said.

According to Yun, homes priced at $500,000 and below are disappearing, while supply has risen at the higher price range. He noted that such increases will continue to shift the mix of buyers toward high-income consumers.

"There are more listings at the upper end – homes priced above $500,000 – compared to a year ago, which should lead to less hurried decisions by some buyers," Yun added. "Clearly, more supply is needed at the lower-end of the market in order to achieve more equitable distribution of housing wealth."

The median existing-home price for all housing types in January was $350,300, up 15.4% from January 2021, as prices rose in each region. This marks 119 consecutive months of year-over-year increases, the longest-running streak on record.

Properties typically remained on the market for 19 days in January, equal to days on market for December, and down from 21 days in January 2021. Seventy-nine percent of homes sold in January 2022 were on the market for less than a month.

## A DEEPER DIVE – HOUSING, CONT.

### Regional

Existing-home sales in the Northeast grew 6.8% in January, posting an annual rate of 780,000, an 8.2% decline from January 2021. The median price in the Northeast was $382,800, up 6.0% from one year ago.

Existing-home sales in the Midwest rose 4.1% from the prior month to an annual rate of 1,510,000 in January, equal to the level seen from a year ago. The median price in the Midwest was $245,900, a 7.8% rise from January 2021.

Existing-home sales in the South jumped 9.3% in January from the prior month, reporting an annual rate of 2,940,000, a gain of 0.3% from one year ago. The median price in the South was $312,400, an 18.7% surge from one year prior. For the fifth straight month, the South witnessed the highest pace of appreciation.

"The migration to the Southern states is clearly getting reflected in higher home sales and fast rising home prices compared to other regions," Yun said.

Existing-home sales in the West increased 4.1% from the previous month, registering an annual rate of 1,270,000 in January, down 6.6% from one year ago. The median price in the West was $505,800, up 8.8% from January 2021.

### New Residential Sales

Sales of new single-family houses in January 2022 were at a seasonally adjusted annual rate of 801,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 4.5% below the revised December rate of 839,000 and was 19.3% below the January 2021 estimate of 993,000.

The median sales price of new houses sold in January 2022 was $423,300. The average sales price was $496,900. The seasonally adjusted estimate of new houses for sale at the end of January was 406,000. This represents a supply of 6.1 months at the current sales rate.

Compared to January 2021, single family sales were down 19.3%, with sales down 46.8% in the Northeast, 37.1% in the Midwest, and 23.8% in the South but up 5.3% in the West.

### 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 January were at a seasonally adjusted annual rate of 1,638,000. This was 4.1% below the revised December estimate of 1,708,000 but was 0.8% above the January 2021 rate of 1,625,000. Single-family housing starts in January were at a rate of 1,116,000; this was 5.6% below the revised December figure of 1,182,000.

Compared to January 2021 single family starts were down 2.4% overall with starts down 38.0% in the Northeast, 11.7% in the Midwest, 2.2% in the South but up 13.9% in the West.

### Housing Completions

Privately-owned housing completions in January were at a seasonally adjusted annual rate of 1,246,000. This was 5.2% below the revised December estimate and was 6.2% below the January 2021 rate. Single-family housing completions in January were at a rate of 927,000; this was 7.3% below the revised December rate.

## A DEEPER DIVE – OTHER NATIONAL

### Retail Sales

According to the U.S. Census Bureau, advance estimates of U.S. retail and food services sales for January 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $649.8 billion, an increase of 3.8% from the previous month, and 13.0% above January 2021. Total sales for the November 2021 through January 2022 period were up 16.1% from the same period a year ago.

Retail trade sales were up 4.4% from December 2021, and up 11.4% above last year. Gasoline stations were up 33.4% from January 2021, while food services and drinking places were up 27.0% from last year. On an adjusted basis, sales at furniture and home furnishings stores were up 2.7% over January 2021.

## A DEEPER DIVE – OTHER NATIONAL, CONT.

### Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.6% in January on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 7.5% before seasonal adjustment.

Increases in the indexes for food, electricity, and shelter were the largest contributors to the seasonally adjusted all items increase. The food index rose 0.9% in January following a 0.5% increase in December. The energy index also increased 0.9% over the month, with an increase in the electricity index being partially offset by declines in the gasoline index and the natural gas index.

The index for all items less food and energy rose 0.6% in January, the same increase as in December. This was the seventh time in the last 10 months it has increased at least 0.5%. Along with the index for shelter, the indexes for household furnishings and operations, used cars and trucks, medical care, and apparel were among many indexes that increased over the month.

The all items index rose 7.5% for the 12 months ending January, the largest 12-month increase since the period ending February 1982. The all items less food and energy index rose 6.0%, the largest 12-month change since the period ending August 1982. The energy index rose 27.0% over the last year, and the food index increased 7.0%.

### Employment

Total nonfarm payroll employment rose by 467,000 in January, and the unemployment rate was little changed at 4.0%, according to the U.S. Bureau of Labor Statistics report. Employment growth continued in leisure and hospitality, in professional and business services, in retail trade, and in transportation and warehousing.

Both the unemployment rate, at 4.0%, and the number of unemployed persons, at 6.5 million, changed little in January. Over the year, the unemployment rate is down by 2.4 percentage points, and the number of unemployed persons declined by 3.7 million.

### Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in January increased $4.3 billion or 1.6% to $277.5 according to the U.S. Census Bureau. This increase, up eight of the last nine months, followed a 1.2% December increase. Excluding transportation, new orders increased 0.7%. Excluding defense, new orders increased 1.6%. Transportation equipment, up three consecutive months, led the increase, at 3.4%.

Shipments of manufactured durable goods in January, up eight of the last nine months, increased $3.1 billion or 1.2% to $270.4 billion. This followed a 1.3% December increase. Machinery, up ten of the last eleven months, led the increase, at 2.7% to $38.9 billion.

According to the final report, orders for furniture and related products were up 12% in December 2021 vs December 2020 and up 3.5% for the year. Shipments were down 0.5% for the month and down 0.5% for the year. As we have noted, this category includes lots of items that are not related to residential furniture.