



FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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Ken Smith, CPA

HIGHLIGHTS – EXECUTIVE SUMMARY

Once again, our survey results need some explanations. According to our latest survey, new orders in April 2022 were down 20% from April 2021. Orders were down for approximately 70% of the participants. Due to the unusual growth in orders in 2020 and 2021, we compared April 2022 to April 2019 and found there to be a 4% increase in that comparison. Again, we expect most or all of that increase was a result of some of the price increases over the last year. Year to date, orders were down 21% as each month of 2022 has shown double-digit declines in orders. Compared to 2019, year-to-date orders were up 8%.

Shipments increased 13% over April 2021 as shipments were made from the large backlogs that have been carried. Year to date, shipments were up 6%. As shipment dollars exceeded order dollars, backlogs fell 5% from March. Backlogs were 9% ahead of April 2021 and were 275% higher than April 2019. So, even with the decline in orders, shipments should be ok for the next several months.

Receivable levels were a bit high, but we think that is likely timing as we know of no reason for them to be out of line. Inventories went up again increasing 6% from March and up 39% from April 2021. This level of increase seems to be somewhat out of line and we hope to see them start to trend down. We know that due to the shortages of both imported goods and raw materials during the pandemic, most are not wanting to get caught in short supply, so we expect overall inventories to be higher than historical levels.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

“Consumer confidence fell for a second consecutive month in June,” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “While the Present Situation Index was relatively unchanged, the Expectations Index continued its recent downward trajectory—falling to its lowest point in nearly a decade. Consumers’ grimmer outlook was driven by increasing concerns about inflation, in particular rising gas and food prices. Expectations have now fallen well below a reading of 80, suggesting weaker growth in the second half of 2022 as well as growing risk of recession by yearend.”

The whole report, covered in a deeper dive, indicated consumer spending will likely decline as the year progresses.

Housing

Existing-home sales retreated for the fourth consecutive month in May, according to the National Association of Realtors®. Month-over-month sales declined in three out of four major U.S. regions, while year-over-year sales slipped in all four regions.

Single-family home sales declined 3.6% in April and were down 7.7% from one year ago. The median existing single-family home price was \$414,200 in May, up 14.6% from May 2021. This was the first time the median price had ever been over \$400,000.

“Home sales have essentially returned to the levels seen in 2019 – prior to the pandemic – after two years of gangbuster performance,” said NAR Chief Economist Lawrence Yun.

Sales of new single-family houses in May 2022 were at a seasonally adjusted annual rate of 696,000, or 10.7% above the revised April rate but 5.9% below May 2021. The median sales price of new houses sold in May 2022 was \$449,000. Regionally, compared to May 2021, May 2022 sales were down 42.5% in the Northeast and 37.0% in the Midwest, while sales were up 1.5% in the South and 0.5% in the West.

Privately-owned housing starts in May were 14.4% below the April estimate of 1,810,000 and were 3.5% below the May 2021 rate of 1,605,000. Single-family housing starts in May were 9.2% below April. Single-family starts in May compared to May 2021 were down 5.3%; down 4.9% in the Northeast, 12.8% in the Midwest, 12.1% in the West, but about even in the South.

Other

Advance estimates of U.S. retail and food services sales for May 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were down 0.3% from the previous month, but 8.1% above May 2021. Total sales for the March 2022 through May 2022 period were up 7.7% from the same period a year ago. Retail trade sales were down 0.4% from April 2022, but up 6.9% above last year.

Sales at furniture and home furnishings stores in May were up 1.9% over May 2021. Sales at these stores were up 2.5% year to date through May 2022.

“The US LEI (Leading Economic Index) fell again in May, fueled by tumbling stock prices, a slowdown in housing construction, and gloomier consumer expectations,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “The index is still near a historic high, but the US LEI suggests weaker economic activity is likely in the near term—and tighter monetary policy is poised to dampen economic growth even further.”

The consumer price all-items index increased 8.6% for the 12 months ending May, the largest 12-month increase since the period ending December 1981. The all items less food and energy index rose 6.0% over the last 12 months.

Total nonfarm employment rose by 390,000 in May and the unemployment rate remained at 3.6%.

EXECUTIVE SUMMARY, CONT.

Thoughts

Interesting times are here for sure. I made a presentation mid-June for the AHFA Logistics conference and quoted five different comments by some major bankers and economists. Three said recession is coming (Actually Jamie Dimon with JP Morgan said not a storm but a hurricane) and two said not one expected. I guess, as usual, some three or four months after one starts, if it actually does, someone will tell us. In the meantime, it is pretty hard to plan.

The typical days of trying to project out the year are not here anymore. Usually, we try to compare to the prior couple of years and factor in a bit of growth or maybe even a slight decline, but when you start the year with four months of double-digit declines in orders, yet shipments are up 6% year to date and shipments up double digits the last two months, what's next? Backlog's still strong so that is good. But word is that retail is over-inventoried. Will those orders hold up?

Now, inflation is definitely a factor. The Federal Reserve has hit interest rates hard with more expected. But has the economy sputtered enough already?

We wish we had the answers, but we do not. So, all we can do is what we suggested at the conference. Take a look at where you are and plan for what you think could be a decline in business or even your worst case. Decide what you will need to look like if that happens. Then if it does, you have a plan. You don't have to put in place yet, just know what you would do. Hopefully you will not need it.

Here's to a great 4th of July week. Happy Birthday, America.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in April 2022 were 20% lower than orders in April 2021, the fourth straight month of double-digit declines. Again though, the comparisons are to the very strong months of 2021. Looking back, the April 2022 orders were 4% higher than April 2019. We imagine if units were able to be measured, those would likely have been down due to price increases. This will have to be considered for some time now as, while most price increases have slowed if not stopped, the price increases put in for especially the latter part of 2021 and into 2022 have clearly affected the dollar volume of orders. Approximately 70% of the participants reported lower volume of orders.

Year to date, new orders were down 21% with orders down for 82% of the reporting participants.

Shipments and Backlogs

Shipments were up 13% over April 2021 as shipments were catching up with the backlog of orders. Shipments were up for 85% of the participants. Year to date, shipments were up 6% over the first four months of 2021. Approximately 79% of the participants reported increased shipments for the year.

As shipments exceeded the dollar volume of new orders, backlogs fell 5% from March levels. April levels remained 9% higher than April 2021. April backlogs were approximately 275% higher than April 2019 levels, but also affected by price increases.

Receivables and Inventories

Receivable levels in April 2022 were 19% higher than April 2021, somewhat higher than the increase in shipments for the month. We assume this increase was timing as we have not heard of any changes to credit from most of the people we have talked with. Receivables were 5% higher than March 2022 even though shipments were down for the month-to-month comparisons. We will watch those as we go forward.

Inventories increased again, up 6% from March and up 39% from April 2021. We have noted before that most of the participants inventories are up significantly in the April-to-April comparison and most continued to show increases in the March to April comparison. There have been some rumors that warehouses are getting full, both here and abroad, though many of the upholstery inventories were up substantially as well.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees increased 1% in April compared to March and were up 5% from April 2021. Payrolls were down 6% from March but that was likely due partially to fewer working days in April versus March. Payrolls were up 23% over April last year due to more employees as well as increased pay as discussed before.



ESTIMATED BUSINESS ACTIVITY (MILLIONS)			
	2022		
	APR	MAR	4 MOS
New Orders	2,384	2,623	9,937
Shipments	3,240	3,470	11,580
Backlog	8,265	8,702	

	2021		
	APR	MAR	4 MOS
New Orders	2,994	3,523	12,501
Shipments	2,880	2,987	10,886
Backlog	7,583	7,222	

MONTHLY RESULTS – JUNE 2022

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	April 2022 from March 2022	April 2022 from April 2021	4 Mos 2022 vs 4 Mos 2021
New Orders	-8	-20	-21
Shipments	-8	+13	+6
Backlog	-5	+9	
Payrolls	-6	+23	+18
Employees	+1	+5	
Receivables	+5	+19	
Inventories	+6	+39	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2021				
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
April	-20	+13	+9	+5

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index*® decreased in June, following a decline in May. The Index fell to 98.7 (1985=100)—down 4.5 points from 103.2 in May—and now stands at its lowest level since February 2021. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—declined marginally to 147.1 from 147.4 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—decreased sharply to 66.4 from 73.7 and is at its lowest level since March 2013.

“Consumer confidence fell for a second consecutive month in June,” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “While the Present Situation Index was relatively unchanged, the Expectations Index continued its recent downward trajectory—falling to its lowest point in nearly a decade. Consumers' grimmer outlook was driven by increasing concerns about inflation, in particular rising gas and food prices. Expectations have now fallen well below a reading of 80, suggesting weaker growth in the second half of 2022 as well as growing risk of recession by yearend.”

“Purchasing intentions for cars, homes, and major appliances held relatively steady—but intentions have cooled since the start of the year and this trend is likely to continue as the Fed aggressively raises interest rates to tame inflation. Meanwhile, vacation plans softened further as rising prices took their toll. Looking ahead over the next six months, consumer spending and economic growth are likely to continue facing strong headwinds from further inflation and rate hikes.”

Gross Domestic Product

Real gross domestic product (GDP) decreased at an annual rate of 1.6% in the first quarter of 2022, according to the “third” estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2021, real GDP increased 6.9%.

The decrease in real GDP reflected decreases in exports, federal government spending, private inventory investment, and state and local government spending, while imports, which are a subtraction in the calculation of GDP, increased. Nonresidential fixed investment, PCE, and residential fixed investment increased.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.4% in May 2022 to 118.3 (2016 = 100), following a 0.4% decline in April 2022. The LEI is now down 0.4% over the six-month period from November 2021 to May 2022.

“The US LEI fell again in May, fueled by tumbling stock prices, a slowdown in housing construction, and gloomier consumer expectations,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “The index is still near a historic high, but the US LEI suggests weaker economic activity is likely in the near term—and tighter monetary policy is poised to dampen economic growth even further.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.2% in May 2022 to 108.8 (2016 = 100), following a 0.5% increase in April 2022. The CEI is up 1.3% over the six-month period from November 2021 to May 2022.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.8% in May 2022 to 112.9 (2016 = 100), following a 0.4% increase in April 2022. The LAG is up 3.7% over the six-month period from November 2021 to May 2022.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales retreated for the fourth consecutive month in May, according to the National Association of Realtors®. Month-over-month sales declined in three out of four major U.S. regions, while year-over-year sales slipped in all four regions.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 3.4% from April to a seasonally adjusted annual rate of 5.41 million in May. Year-over-year, sales declined 8.6% (5.92 million in May 2021).

Single-family home sales declined to a seasonally adjusted annual rate of 4.80 million in May, down 3.6% from 4.98 million in April and down 7.7% from one year ago. The median existing single-family home price was \$414,200 in May, up 14.6% from May 2021.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 610,000 units in May, down 1.6% from April and down 15.3% from one year ago. The median existing condo price was \$355,700 in May, an annual increase of 14.8%.

"Home sales have essentially returned to the levels seen in 2019 – prior to the pandemic – after two years of gangbuster performance," said NAR Chief Economist Lawrence Yun. "Also, the market movements of single-family and condominium sales are nearly equal, possibly implying that the preference towards suburban living over city life that had been present over the past two years is fading with a return to pre-pandemic conditions."

"Declining home purchases means more people are renting, and the resulting rent price escalation may spur more institutional investors to buy single-family homes and turn them into rental properties – placing additional financial strain on prospective first-time homebuyers," said NAR President Leslie Rouda Smith, a Realtor® from Plano, Texas, and a broker associate at Dave Perry-Miller Real Estate in Dallas. "To counter this trend, policymakers should consider incentivizing an inventory release to the market by temporarily lowering capital gains taxes for mom-and-pop investors to sell to first-time buyers."

Total housing inventory registered at the end of May was 1,160,000 units, an increase of 12.6% from April and a 4.1% decline from the previous year (1.21 million). Unsold inventory was at a 2.6-month supply at the current sales pace, up from 2.2 months in April and 2.5 months in May 2021.

"Further sales declines should be expected in the upcoming months given housing affordability challenges from the sharp rise in mortgage rates this year," Yun added. "Nonetheless, homes priced appropriately are selling quickly and inventory levels still need to rise substantially – almost doubling – to cool home price appreciation and provide more options for home buyers."

The median existing-home price for all housing types in May was \$407,600, up 14.8% from May 2021 (\$355,000), as prices increased in all regions. This marks 123 consecutive months of year-over-year increases, the longest-running streak on record. This was the first time the median sales price exceeded \$400,000.

Properties typically remained on the market for 16 days in May, down from 17 days in April and 17 days in May 2021. Eighty-eight percent of homes sold in May 2022 were on the market for less than a month.

First-time buyers were responsible for 27% of sales in May, down from 28% in April and down from 31% in May 2021. NAR's 2021 *Profile of Home Buyers and Sellers* reported that the annual share of first-time buyers was 34%.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage was 5.23% in May, up from 4.98% in April. The average commitment rate across all of 2021 was 2.96%.



A DEEPER DIVE – HOUSING, CONT.

Regional

Existing-home sales in the Northeast climbed 1.5% in May to an annual rate of 680,000, falling 9.3% from May 2021. The median price in the Northeast was \$409,700, a 6.7% rise from one year ago.

Existing-home sales in the Midwest dropped 5.3% from the previous month to an annual rate of 1,240,000 in May, slumping 7.5% from May 2021. The median price in the Midwest was \$294,500, up 9.5% from one year before.

Existing-home sales in the South declined 2.8% in May to an annual rate of 2,410,000, down 8.4% from the previous year. The median price in the South was \$375,000, a 20.6% jump from one year ago. For the ninth consecutive month, the South recorded the highest pace of price appreciation in comparison to the other three regions.

Existing-home sales in the West slid 5.3% compared to the month before to an annual rate of 1,080,000 in May, down 10.0% from this time last year. The median price in the West was \$633,800, an increase of 13.3% from May 2021.



New Residential Sales

Sales of new single-family houses in May 2022 were at a seasonally adjusted annual rate of 696,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 10.7% above the revised April rate of 629,000 but was 5.9% below the May 2021 estimate of 740,000.

The median sales price of new houses sold in May 2022 was \$449,000. The average sales price was \$511,400. The seasonally adjusted estimate of new houses for sale at the end of May was 444,000. This represents a supply of 7.7 months at the current sales.

Regionally, compared to May 2021, May 2022 sales were down 42.5% in the Northeast and 37.0% in the Midwest, while sales were up 1.5% in the South and 0.5% in the West.

Housing Starts

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced the new residential construction statistics for May 2022. Privately-owned housing starts in May were at a seasonally adjusted annual rate of 1,549,000. This was 14.4% below the revised April estimate of 1,810,000 and was 3.5% below the May 2021 rate of 1,605,000. Single-family housing starts in May were at a rate of 1,051,000; this was 9.2% below the revised April figure of 1,157,000.

Single family starts in May compared to May 2021 were down 5.3%, down 4.9% in the Northeast, 12.8% in the Midwest, 12.1% in the West, but about even in the South.

Housing Completions

Privately-owned housing completions in May were at a seasonally adjusted annual rate of 1,465,000. This was 9.1% above the revised April estimate of 1,343,000 and was 9.3% above the May 2021 rate of 1,340,000. Single-family housing completions in May were at a rate of 1,043,000; this was 2.8% above the revised April rate of 1,015,000 and 8.5% above May 2021.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 1.0% in May on a seasonally adjusted basis after rising 0.3% in April, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 8.6% before seasonal adjustment.

The increase was broad-based, with the indexes for shelter, gasoline, and food being the largest contributors. After declining in April, the energy index rose 3.9% over the month with the gasoline index rising 4.1% and the other major component indexes also increasing. The food index rose 1.2% in May as the food at home index increased 1.4%.

The index for all items less food and energy rose 0.6% in May, the same increase as in April. While almost all major components increased over the month, the largest contributors were the indexes for shelter, airline fares, used cars and trucks, and new vehicles. The indexes for medical care, household furnishings and operations, recreation, and apparel also increased in May.

The all-items index increased 8.6% for the 12 months ending May, the largest 12-month increase since the period ending December 1981. The all items less food and energy index rose 6.0% over the last 12 months. The energy index rose 34.6% over the last year, the largest 12-month increase since the period ending September 2005. The food index increased 10.1% for the 12-months ending May, the first increase of 10% or more since the period ending March 1981.

Retail Sales

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for May 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$672.9 billion, a decrease of 0.3% from the previous month, but 8.1% above May 2021. Total sales for the March 2022 through May 2022 period were up 7.7% from the same period a year ago.

Retail trade sales were down 0.4% from April 2022, but up 6.9% above last year. Gasoline stations were up 43.2% from May 2021, while food services and drinking places were up 17.5% from last year.

Sales at furniture and home furnishings stores in May were up 1.9% over May 2021. Sales at these stores were up 2.5% year to date through May.

Employment

Total nonfarm payroll employment rose by 390,000 in May, and the unemployment rate remained at 3.6%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in leisure and hospitality, in professional and business services, and in transportation and warehousing. Employment in retail trade declined.

In May, the unemployment rate was 3.6% for the third month in a row, and the number of unemployed persons was essentially unchanged at 6.0 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

New orders for manufactured durable goods in May increased 0.7%, the U.S. Census Bureau announced. This increase, up seven of the last eight months, followed a 0.4% April increase. Excluding transportation, new orders increased 0.7%. Excluding defense, new orders increased 0.6%. Transportation equipment, up two consecutive months, led the increase at 0.8%.

Shipments of manufactured durable goods in May, up twelve of the last thirteen months, increased 1.3%. This followed a 0.3% April increase. Transportation equipment, up seven of the last eight months, led the increase, at 2.1%.

According to the final report, new orders for furniture and related products were up 1.4% while shipments were up 6.2%.