FURNITURE INSIGHTS®
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HIGHLIGHTS – EXECUTIVE SUMMARY

Since each month lately has been full of explanations, in trying to compare to last year and 2019, etc., we have added a new twist to this month's explanations. We saw new orders drop by 39% from June 2021. Since June 2021, new orders were only up 7% over June 2020, we dug a little deeper into the specifics of the participants' results and after some questions, we began to realize something that had started last month, continued in a larger way this month. Cancellations. We also believe that among all the craziness of the flock of new orders over the past two years, we think that some backlogs needed to be reviewed and cleaned up. That also affected the new orders as we ask for new orders to be reported as net of cancellations.

With that said, we have determined that it is probably better to focus more on year-to-date results, even though we know that those results are likely confusing. Year to date, new orders were down 27%. Year-to-date 2021 comparisons were up 51% versus 2020, so even that adds to the confusion since June 2020 was just coming out of pandemic closings. It appears that even though we knew business was expected to slow down, these adjustments make it hard to draw specific conclusions.

On the other hand, shipments are much easier to follow. Shipments in June 2022 compared to June 2021 were up 10% and up 7% year to date. Shipments year to date were up for 76% of the participants. With net orders down and shipments up, backlogs fell 10% from May and were down 17% from June 2021.

Receivables look to be in good shape when considering shipment levels and inventories stayed probably too high with an increase of 31%, but down from 41% last month. Factory and warehouse employment and wages continued the same trends as previously reported.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

A bit surprising, The Conference Board *Consumer Confidence Index®* increased in August, following three consecutive monthly declines. The Index improved to 103.2 (1985=100), up from 95.3 in July. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—improved to 145.4 from 139.7 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—increased to 75.1 from 65.6.

The report said, "Meanwhile, purchasing intentions increased after a July pullback, and vacation intentions reached an 8-month high. Looking ahead, August's improvement in confidence may help support spending, but inflation and additional rate hikes still pose risks to economic growth in the short term."

Housing

"We're witnessing a housing recession in terms of declining home sales and home building," said Lawrence Yun, the National Association of Realtors Chief Economist. "However, it's not a recession in home prices. Inventory remains tight and prices continue to rise nationally with nearly 40% of homes still commanding the full list price." Existing-home sales fell 5.9% and sales fell in all regions of the country.

New residential sales were also down from June as well as significantly down from July 2021. All regions of the country were down significantly.

Other

Advance estimates of U.S. retail and food services sales for July 2022 were virtually unchanged from the previous month, but 10.3% above July 2021. Total sales for the May 2022 through July 2022 period were up 9.2% from the same period a year ago. Retail trade sales were virtually unchanged from June 2022, but up 10.1% above last year. Gasoline stations were up 39.9% from July 2021, while nonstore retailers were up 20.2% from last year. Sales at furniture and home furnishings stores were about flat with June and were up 2.1% over July 2021.

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in July on a seasonally adjusted basis after rising 1.3% in June. Over the last 12 months, the all-items index increased 8.5% before seasonal adjustment.

The gasoline index fell 7.7% in July and offset increases in the food and shelter indexes, resulting in the all-items index being unchanged over the month. Inflation remains a big issue for consumers.

Real gross domestic product (GDP) decreased at an annual rate of 0.6% in the second quarter of 2022, after decreasing 1.6% in the first quarter.

The Conference Board's report on the Leading Economic Indicators suggested that the risk of a mild recession may be in store for us.

The gross domestic product decreased at an annual rate of 0.6% in the second quarter. In the first quarter, real GDP decreased 1.6%. There are differences of opinion as to whether the theory of two consecutive declines means we are in a recession.

EXECUTIVE SUMMARY, CONT.

Thoughts

Are we headed for a recession or not, or are we already in one? Who knows as economists continue to disagree if we are in one or not, or even if we will have one. No matter, business has slowed, not only in general but definitely in the furniture business. The cancellation of orders has shown up in a pretty big way in our survey, especially for those selling at the lower and middle price points. When cancellations exceed new orders, that is not a good sign.

Yet shipments remain strong which is what leads to cash. We think some companies that still have good backlogs may be able to weather the storm if the "recession," assuming there is one, does not last too long.

Employment remains strong which usually does not lead to a recession. The interesting thing about employment is that there are so many people getting jobs, yet so many businesses cannot find help.

We were a bit surprised at the increase in confidence, but maybe the decline in gas prices helped consumers to feel better even though still very high.

The Russia-Ukraine deal is still a problem, in a large way due to so many factors. While not quite as much in the news, still there are so many issues relating to supplies and others. We wish we could see an end to it, but we obviously do not know what that might be.

Happy Labor Day. We hope all the sales are good and that all may enjoy that last good long weekend of the summer.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

As we discussed in the Executive Summary, the results of our survey of residential furniture manufacturers and distributors for new orders has been skewed due to what we believe to be, cancellations as well as cleanup of backlogs. The results of the latest survey showed that orders in June were down 39% from June 2021. June 2021 orders were up 8% over June 2020 and June 2020 orders were up 30% over 2019. Comparing 2022 to 2019, we see a decline of 13.3% but, again with price increases put in place over the last couple of years, even that comparison is difficult. For the month, almost all of the participants reported a decline in orders compared to June 2021.

As we said earlier, the year-to-date comparison is probably the closest to something to look at as some of the cancellations have also been reported in earlier months. Year to date, orders were down 27% compared to June 2021, when they were up 51% over June 2020. Approximately 91% of the participants were down in this comparison.

Shipments and Backlogs

Shipments should be a good number to consider as those are actual transactions. For June 2022, shipments were up 10% over June 2021. Shipments in 2021 were up 42% over June 2020, but that comparison is also skewed as June 2020 was just coming out of the shutdowns for COVID. June 2022 shipments were up over last year for 73% of the participants.

Year to date, shipments were up 7% over last year. Some 76% of the participants reported increased shipments for the six-month period ended June.

Backlogs fell 10% from May and were down 17% from June 2021. Again, these numbers for the last few months have been skewed as some participants have reported negative new orders as discussed above.

Receivables and Inventories

Receivable levels increased 11% over June 2021, in line with the 10% increase in shipments and reasonable with the 7% increase in shipments year to date.

Inventories were flat with May 2022 and remained 31% higher than June 2021. We would hope to see these levels start to decline over the next few months.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in June were even with May and up 2% from last June. Payrolls were even with May but up 12% over last year, reflecting most likely pay increases along with the increase in employees. Year to date, payrolls were up 17%.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2022		
	JUN	MAY	6 MOS
New Orders	2,067	1,982	13,986
Shipments	3,465	2,969	18,014
Backlog	6,584	7,476	
	2021		
	JUN	MAY	6 MOS
New Orders	3,416	3,359	19,276
Shipments	3,244	2,689	16,819
Backlog	7,981	7,787	

MONTHLY RESULTS – AUGUST 2022

KEY MONTHLY INDICATORS (PERCENT CHANGE)	June 2022 from May 2022	June 2022 from June 2021	6 Mos 2022 vs 6 Mos 2021
New Orders	-7	-39	-27
Shipments	+7	+10	+7
Backlog	-10	-17	
Payrolls	–	+12	+17
Employees	–	+2	
Receivables	+5	+11	
Inventories	–	+31	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2021				
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
May	-41	+10	-4	+3
June	-39	+10	-17	+2

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* increased in August, following three consecutive monthly declines. The Index now stands at 103.2 (1985=100), up from 95.3 in July. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—improved to 145.4 from 139.7 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—increased to 75.1 from 65.6.

"Consumer confidence increased in August after falling for three straight months," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index recorded a gain for the first time since March. The Expectations Index likewise improved from July's 9-year low, but remains below a reading of 80, suggesting recession risks continue. Concerns about inflation continued their retreat but remained elevated."

"Meanwhile, purchasing intentions increased after a July pullback, and vacation intentions reached an 8-month high. Looking ahead, August's improvement in confidence may help support spending, but inflation and additional rate hikes still pose risks to economic growth in the short term."

Present Situation

Consumers' appraisal of current business conditions was more favorable in August.

- 19.2% of consumers said business conditions were "good," up from 16.3%.
- 23.2% of consumers said business conditions were "bad," down from 24.2%.

Consumers' assessment of the labor market was mixed.

- 48.0% of consumers said jobs were "plentiful," down from 49.2%.
- However, 11.4% of consumers said jobs were "hard to get," down from 12.4%.

Expectations Six Months Hence

Consumers were more positive about the short-term business conditions outlook in August.

- 17.5% of consumers expect business conditions will improve, up from 13.7%.
- 22.3% expect business conditions to worsen, down from 26.2%.

Consumers were more optimistic 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 more positive about their short-term financial prospects.

- 15.8% of consumers expect their incomes to increase, up from 15.3%.
- 14.5% expect their incomes will decrease, down from 15.5%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.4% in July 2022 to 116.6 (2016=100), after declining by 0.7% in June. The LEI was down by 1.6% over the six-month period from January to July 2022, a reversal from its 1.6% growth over the previous six months.

"The US LEI declined for a fifth consecutive month in July, suggesting recession risks are rising in the near term," said Ataman Ozyildirim, Senior Director, Economics, The Conference Board. "Consumer pessimism and equity market volatility as well as slowing labor markets, housing construction, and manufacturing new orders suggest that economic weakness will intensify and spread more broadly throughout the US economy. The Conference Board projects the US economy will not expand in the third quarter and could tip into a short but mild recession by the end of the year or early 2023."

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) decreased at an annual rate of 0.6% in the second quarter of 2022, according to the "second" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP decreased 1.6%.

The decrease in real GDP reflected decreases in private inventory investment, residential fixed investment, federal government spending, and state and local government spending, that were partly offset by increases in exports and consumer spending. Imports, which are a subtraction in the calculation of GDP, increased. The decrease in private inventory investment was led by a decrease in retail trade (mainly "other" general merchandise stores).

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales sagged for the sixth straight month in July, according to the National Association of Realtors®. All four major U.S. regions recorded month-over-month and year-over-year sales declines.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums and co-ops, slipped 5.9% from June to a seasonally adjusted annual rate of 4.81 million in July. Year-over-year, sales fell 20.2% (6.03 million in July 2021).

Single-family home sales declined to a seasonally adjusted annual rate of 4.31 million in July, down 5.5% from 4.56 million in June and down 19.0% from one year ago. The median existing single-family home price was $410,600 in July, up 10.6% from July 2021.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 500,000 units in July, down 9.1% from June and down 29.6% from one year ago. The median existing condo price was $345,000 in July, an annual increase of 9.9%.

"The ongoing sales decline reflects the impact of the mortgage rate peak of 6% in early June," said NAR Chief Economist Lawrence Yun. "Home sales may soon stabilize since mortgage rates have fallen to near 5%, thereby giving an additional boost of purchasing power to home buyers."

Total housing inventory registered at the end of July was 1,310,000 units, an increase of 4.8% from June and unchanged from the previous year. Unsold inventory is at a 3.3-month supply at the current sales pace, up from 2.9 months in June and 2.6 months in July 2021.

The median existing home price for all housing types in July was $403,800, up 10.8% from July 2021 ($364,600), as prices increased in all regions. This marks 125 consecutive months of year-over-year increases, the longest-running streak on record.

"We're witnessing a housing recession in terms of declining home sales and home building," Yun added. "However, it's not a recession in home prices. Inventory remains tight and prices continue to rise nationally with nearly 40% of homes still commanding the full list price."

Properties typically remained on the market for 14 days in July, the same as in June and down from 17 days in July 2021. The 14 days on market are the fewest since NAR began tracking it in May 2011. Eighty-two percent of homes sold in July 2022 were on the market for less than a month.

First-time buyers were responsible for 29% of sales in July, down from 30% in June and also in July 2021. NAR's 2021 Profile of Home Buyers and Sellers – released in late 2021 – reported that the annual share of first-time buyers was 34%.

A DEEPER DIVE – HOUSING, CONT.

Regional

Existing-home sales in the Northeast slid to an annual rate of 620,000 in July, down 7.5% from June and 16.2% from July 2021. The median price in the Northeast was $444,000, an increase of 8.1% from the previous year.

Existing-home sales in the Midwest declined 3.3% from the prior month to an annual rate of 1,190,000 in July, dropping 14.4% from July 2021. The median price in the Midwest was $293,300, up 7.0% from the previous year.

Existing-home sales in the South fell 5.3% in July to an annual rate of 2,130,000, down 19.6% from one year ago. The median price in the South was $365,200, an increase of 14.7% from July 2021.

Existing-home sales in the West dropped 9.4% compared to last month to an annual rate of 870,000 in July, down 30.4% from this time last year. The median price in the West was $614,900, an 8.1% jump from July 2021.

"The action is in the pricey West region which experienced the sharpest sales decline combined with a sizable inventory increase," Yun said. "It's likely some Western markets will see prices decline, and that will be welcome news for buyers who watched rapid price jumps during the past two years."

New Residential Sales

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced that sales of new single-family houses in July 2022 were at a seasonally adjusted annual rate of 511,000. This was 12.6% below the revised June rate of 585,000 and was 29.6% below the July 2021 estimate of 726,000. The July 2019 rate was 635,000.

Comparing July 2022 to July 2021, sales were down 37.0% in the Northeast, 22.9% in the Midwest, 20.8% in the South and 50.3% in the West.

Housing Starts

Privately-owned housing starts in July were at a seasonally adjusted annual rate of 1,446,000. This was 9.6% below the revised June estimate of 1,599,000 and was 8.1% below the July 2021 rate of 1,573,000. Single-family housing starts in July were at a rate of 916,000; this was 10.1 below the revised June figure of 1,019,000.

The July 2022 to July 2021 comparisons for single family starts reflected a decline of 18.5% with starts down 27.8% in the Midwest, 24.2% in the South and 4.8% in the West, but up 79.1% in the Northeast, but that figure was misleading as the numbers in both July's were low.

Housing Completions

Privately-owned housing completions in July were at a seasonally adjusted annual rate of 1,424,000. This was 1.1% above the revised June estimate of 1,409,000 and was 3.5% above the July 2021 rate of 1,376,000. Single-family housing completions in July were at a rate of 1,009,000; this was 0.8% below the revised June rate of 1,017,000.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in July on a seasonally adjusted basis after rising 1.3% in June, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all-items index increased 8.5% before seasonal adjustment.

The gasoline index fell 7.7% in July and offset increases in the food and shelter indexes, resulting in the all-items index being unchanged over the month. The energy index fell 4.6% over the month as the indexes for gasoline and natural gas declined, but the index for electricity increased. The food index continued to rise, increasing 1.1% over the month as the food at home index rose 1.3%.

The index for all items less food and energy rose 0.3% in July, a smaller increase than in April, May, or June. The indexes for shelter, medical care, motor vehicle insurance, household furnishings and operations, new vehicles, and recreation were among those that increased over the month. There were some indexes that declined in July, including those for airline fares, used cars and trucks, communication, and apparel.

The all-items index increased 8.5% for the 12 months ending July, a smaller figure than the 9.1-percent increase for the period ending June. The all items less food and energy index rose 5.9% over the last 12 months. The energy index increased 32.9% for the 12 months ending. July, a smaller increase than the 41.6-percent increase for the period ending June. The food index increased 10.9% over the last year, the largest 12-month increase since the period ending May 1979.

Retail Sales

Advance estimates of U.S. retail and food services sales for July 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $682.8 billion, virtually unchanged from the previous month, but 10.3% above July 2021. Total sales for the May 2022 through July 2022 period were up 9.2% from the same period a year ago. Retail trade sales were virtually unchanged from June 2022, but up 10.1% above last year. Gasoline stations were up 39.9% from July 2021, while nonstore retailers were up 20.2% from last year.

Sales at furniture and home furnishings stores were about flat with June and were up 2.1% over July 2021.

Employment

Total nonfarm payroll employment rose by 528,000 in July, and the unemployment rate edged down to 3.5%, according to the U.S. Bureau of Labor Statistics report. Job growth was widespread, led by gains in leisure and hospitality, professional and business services, and health care. Both total nonfarm employment and the unemployment rate have returned to their February 2020 pre-pandemic levels.

In July, the unemployment rate edged down to 3.5%, and the number of unemployed persons edged down to 5.7 million. These measures have returned to their levels in February 2020, prior to the coronavirus (COVID-19) pandemic.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in July decreased less than $0.1 billion or virtually unchanged, the U.S. Census Bureau announced. This decrease, down following four consecutive monthly increases, followed a 2.2% June increase. Excluding transportation, new orders increased 0.3%. Excluding defense, new orders increased 1.2%. Transportation equipment, down following three consecutive monthly increases, drove the decrease, $0.6 billion or 0.7%.

Shipments of manufactured durable goods in July, up fourteen of the last fifteen months, increased $1.0 billion or 0.4%. This followed a 0.3% June increase. Transportation equipment, up nine of the last ten months, drove the increase at 1.1%.

For the month of June 2022, orders for furniture and related products were up 4.8% from last June and up 1.9% year to date. Shipments in this category were up 6.3% for the month and up 6.4% year to date.