FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

If you are interested in the details, please read the full summary on orders and shipments later in the body of the newsletter, but suffice it to say, comparison percentages are difficult to deal with these days. When 2022 is compared to 2021, it is clear business has not only slowed as we expected after the fantastic growth we had in 2020 and 2021 but also the slowdown in the economy as a whole has clearly affected the levels of business today. We continue to hear more. Add to that confusion and realize that price increases during 2020 and 2021 and even some in 2022, make comparisons difficult, to say the least. Oh, and now container freight costs are dropping even though domestic freight is rising.

Obviously, we are in some turbulent times. Are we in a recession for the whole economy? While some indicators continue to say we are not, it sure is beginning to feel like we are.

Backlogs continue to fall as shipments exceed new orders. Cancellations and clean-up are also affecting backlogs. While backlogs are still higher than normal, it appears that many have begun to catch up, so not everyone has much longer to depend on backlogs to bolster shipments. But the good news is, there is still a good number that still have excess backlogs that should help weather some of the economic storms we are in.

Inventories continue to be a source of concern. With inventories at wholesale, as well as at retail, very high, and hearing that many overseas producers are also too high, we are concerned that there will be significant discounting in order to reduce inventories. We hope if this happens, it will not be due to price reductions but only to inventory clearance. It has taken too long to get furniture prices up to 2022 levels. We hope that those efforts will not go away due to this slowdown and imbalance of inventories.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board's Consumer Confidence Index improved again in September, increasing to 108.0 from 103.6. Both the Present Situation and Expectations Indexes increased. "Consumer confidence improved in September for the second consecutive month supported in particular by jobs, wages, and declining gas prices," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Concerns about inflation dissipated further in September—prompted largely by declining prices at the gas pump—and are now at their lowest level since the start of the year. Looking ahead, the improvement in confidence may bode well for consumer spending in the final months of 2022, but inflation and interest-rate hikes remain strong headwinds to growth in the short term."

Housing

Existing-home sales slipped for the seventh straight month and were down in August compared to a year ago in all four regions of the country. Single-family home sales decreased to a seasonally adjusted annual rate of 4.28 million in August, down 0.9% from 4.32 million in July and down 19.2% from the previous year. The median existing single-family home price was $396,300 in August, up 7.6% from August 2021.

"In a sense, we're seeing a return to normalcy with the homebuying process as it relates to home inspections and appraisal contingencies, as those crazy bidding wars have essentially stopped," said NAR President Leslie Rouda Smith, a REALTOR® from Plano, Texas.

The Fed raising interest rates also causes mortgage rates to increase which also slows the rate of home buying.

Sales of new single-family houses in August 2022 increased 28.8% above the revised July rate of 532,000, but were 0.1% below the August 2021 estimate of 686,000.

The seasonally adjusted estimate of new houses for sale at the end of August was 461,000. This represents a supply of 8.1 months at the current sales rate.

Other

Advanced estimates for U.S. retail and food services sales for August 2022 were up slightly from July on an adjusted basis and were up 9.1% from August 2021. Year to date, sales were up 10.3%. Both the monthly and year-to-date results were significantly influenced by sales at gasoline stations and food services and drinking places. Sales at furniture and home furnishings stores were flat compared to last August and up 1.4% year to date.

The Consumer Price Index increased slightly from July but remained up 8.3% for the 12-month trailing period. As we noted in the consumer confidence comments, consumers are giving a lot of weight to gas prices going down, even though still too high, versus paying attention to how high prices are overall.

The Conference Board report on the Leading Economic Indicators noted another decline. It stated, "Economic activity will continue slowing more broadly throughout the US economy and is likely to contract."

The good news from the reports was that the Employment Situation continues to be positive with good job growth. That of course overshadows the ability to find good people to hire.

EXECUTIVE SUMMARY, CONT.

Thoughts

As we noted, trying to make sense of the changes in the results is very difficult. As we talk with folks, most are using different methods of comparison, from adjusting order and shipment rates for price increases to comparing unit sales. We all know that unit sales on an overall basis are next to impossible, but any given company or division may be able to do so.

We decided to talk with some folks about what is happening now since July seems like a long time ago. Most of the comments we have received are that the drop in volumes seems to be leveling out some with some even noting some, albeit small growth. Is it due to the end of the summer doldrums, as we used to see, or just giving us hope? We will see as the year progresses.

There is some good news in that raw material prices seem to have leveled off with some reporting declines. Ocean Freight has dropped significantly though domestic freight is still an issue. The shortage of drivers and higher gas prices continue to make domestic deliveries an issue.

The fall High Point Furniture Market is coming on fast. Activity here is really starting to show. While most admit they have too much in their warehouses, one still has to look at new products and by the time most can be delivered, we hope some warehouse space has been opened up due to sales of merchandise. Once again, we hope that big sell-offs of inventory are done with a discount to move inventory versus price reductions. It has been too hard to get needed price increases, so we would encourage folks to be careful with how inventory is moved.

We hope all of you can stay safe with this hurricane bearing down on the Southeast Coast.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our most recent survey of residential furniture manufacturers and distributors, new orders fell 37% in July 2022 compared to July 2021, when they were off 11% from July 2020. Yet July 2020 new orders were up 39% over July 2019. As has been the case, comparisons for some time now have been and will be difficult to deal with. For the month, only 12% of our participants showed increased orders.

Year-to-date, net new orders were down 29% from the first seven months of 2021. Year-to-date 2021 orders were up 39% over July 2020 when they were even with July 2019. But you have to remember that we were basically shut down two plus months in the year-to-date 2020 comparison. New orders were only up for 9% of our participants year-to-date in 2022. Confusing? Yes.

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 in July 2022 were down slightly from July 2021 when they were up 21% over July 2020. Shipments were up for 53% of the participants in July 2022. Year to date, shipments were up 5% over the same period a year ago down from 6% reported last month. Year-to-date shipments were up for some 72% of our participants.

Backlogs in July fell 7% from June 2022 and were down 25% from July a year ago. As we have noted before, the fall in backlogs relates not only to shipments exceeding new orders, but also are affected by cancellations and in our opinion, some cleanup of the backlog numbers after the crazy order rates over the last couple of years.

Receivables and Inventories

Receivable levels dropped 4% from July 2021 in line with the monthly decline in shipments but likely also affected by timing. It is difficult to tell from the shipment percentages, but what we are seeing, tells us that over all receivable levels are in good shape.

Inventories on the other hand continue to be high, up 29% from last year. While there is an expectation that inventories needed to increase, at this time, it seems they are too high with reports of significant bulging warehouses at manufacturers and distributors, as well as retailers. We expect inventories need to come down.

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls in July were down from June with the normal drop due to the July 4 shutdowns for most. Year to date, payrolls were up 16% due to a bit higher employment and higher wage rates needed to attract new employees. Overall, the number of employees was only up 1%.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2022		
	JUL	JUN	7 MOS
New Orders	1,850	2,067	15,836
Shipments	2,549	3,465	20,563
Backlog	6,091	6,584	

	2021		
	JUL	JUN	7 MOS
New Orders	2,917	3,416	22,193
Shipments	2,712	3,244	19,531
Backlog	8,077	7,981	

MONTHLY RESULTS – SEPTEMBER 2022

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	July 2022 from June 2022	July 2022 from July 2021	7 Mos 2022 vs 7 Mos 2021
New Orders	-4	-37	-29
Shipments	-26	-6	+5
Backlog	-7	-25	
Payrolls	-17	+9	+16
Employees	-1	+1	
Receivables	-10	-4	
Inventories	+4	+29	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2021				
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
July	-37	-6	-25	+1

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* increased in September for the second consecutive month. The Index now stands at 108.0 (1985=100), up from 103.6 in August. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—rose to 149.6 from 145.3 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—increased to 80.3 from 75.8.

"Consumer confidence improved in September for the second consecutive month supported in particular by jobs, wages, and declining gas prices," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index rose again, after declining from April through July. The Expectations Index also improved from summer lows, but recession risks nonetheless persist. Concerns about inflation dissipated further in September—prompted largely by declining prices at the gas pump—and are now at their lowest level since the start of the year."

"Meanwhile, purchasing intentions were mixed, with intentions to buy automobiles and big-ticket appliances up, while home purchasing intentions fell. The latter no doubt reflects rising mortgage rates and a cooling housing market. Looking ahead, the improvement in confidence may bode well for consumer spending in the final months of 2022, but inflation and interest-rate hikes remain strong headwinds to growth in the short term."

Present Situation

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

- 20.8% of consumers said business conditions were "good," up from 19.0%.
- 21.2% of consumers said business conditions were "bad," down from 22.6%.

Consumers' assessment of the labor market improved.

- 49.4% of consumers said jobs were "plentiful," up from 47.6%.
- 11.4% of consumers said jobs were "hard to get," down slightly from 11.6%.

Expectations Six Months Hence

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

- 19.3% of consumers expect business conditions to improve, up from 17.3%.
- 21.0% expect business conditions to worsen, down from 21.7%.

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.

- 17.5% of consumers expect more jobs to be available, up from 17.1%.
- 17.7% anticipate fewer jobs, down from 19.6%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.3% in August 2022 to 116.2 (2016=100), after declining by 0.5% in July. The LEI fell 2.7% over the six-month period between February and August 2022, a reversal from its 1.7% growth over the previous six months.

"The US LEI declined for a sixth consecutive month potentially signaling a recession," Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. "Among the index's components, only initial unemployment claims and the yield spread contributed positively over the last six months—and the contribution of the yield spread has narrowed recently."

"Furthermore, labor market strength is expected to continue moderating in the months ahead. Indeed, the average workweek in manufacturing contracted in four of the last six months—a notable sign, as firms reduce hours before reducing their workforce. Economic activity will continue slowing more broadly throughout the US economy and is likely to contract. A major driver of this slowdown has been the Federal Reserve's rapid tightening of monetary policy to counter inflationary pressures. The Conference Board projects a recession in the coming quarters."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.1% in August 2022 to 108.7 (2016=100), after increasing by 0.5% in July. The CEI rose by 0.6% over the six-month period from February to August 2022, slower than its growth of 1.5% over the previous six-month period.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.7% in August 2022 to 115.4 (2016 = 100), following a 0.4% increase in July. The LAG is up 4.4% over the six-month period from February to August 2022, faster than its growth of 2.5% over the previous six-month period.

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

The GDP report was not available at press time.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales experienced a slight dip in August, marking the seventh consecutive month of declines, according to the National Association of REALTORS®. Month-over-month sales varied across the four major U.S. regions as two regions recorded increases, one was unchanged and the other posted a drop. On a year-over-year basis, however, sales fell in all regions.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums and co-ops, notched a minor contraction of 0.4% from July to a seasonally adjusted annual rate of 4.80 million in August. Year-over-year, sales faded by 19.9% (5.99 million in August 2021).

Single-family home sales decreased to a seasonally adjusted annual rate of 4.28 million in August, down 0.9% from 4.32 million in July and down 19.2% from the previous year. The median existing single-family home price was $396,300 in August, up 7.6% from August 2021.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 520,000 units in August, up 4.0% from July and down 24.6% from one year ago. The median existing condo price was $333,700 in August, an annual increase of 7.8%.

"In a sense, we're seeing a return to normalcy with the homebuying process as it relates to home inspections and appraisal contingencies, as those crazy bidding wars have essentially stopped," said NAR President Leslie Rouda Smith, a REALTOR® from Plano, Texas.

"The housing sector is the most sensitive to and experiences the most immediate impacts from the Federal Reserve's interest rate policy changes," said NAR Chief Economist Lawrence Yun. "The softness in home sales reflects this year's escalating mortgage rates. Nonetheless, homeowners are doing well with near nonexistent distressed property sales and home prices still higher than a year ago."

Total housing inventory registered at the end of August was 1,280,000 units, a decrease of 1.5% from July and unchanged from the previous year. Unsold inventory sits at a 3.2-month supply at the current sales pace – identical to July and up from 2.6 months in August 2021.

"Inventory will remain tight in the coming months and even for the next couple of years," Yun added. "Some homeowners are unwilling to trade up or trade down after locking in historically-low mortgage rates in recent years, increasing the need for more new-home construction to boost supply."

The median existing-home price for all housing types in August was $389,500, a 7.7% jump from August 2021 ($361,500), as prices ascended in all regions. This marks 126 consecutive months of year-over-year increases, the longest-running streak on record. However, it was the second month in a row that the median sales price retracted after reaching a record high of $413,800 in June, the usual seasonal trend of prices declining after peaking in the early summer.

Properties typically remained on the market for 16 days in August, up from 14 days in July and down from 17 days in August 2021. Eighty-one percent of homes sold in August 2022 were on the market for less than a month.

A DEEPER DIVE – HOUSING, CONT.

Regional

Existing-home sales in the Northeast grew 1.6% from July to an annual rate of 630,000 in August, down 13.7% from August 2021. The median price in the Northeast was $413,200, an increase of 1.5% from the previous year.

Existing-home sales in the Midwest fell 3.3% from the prior month to an annual rate of 1,160,000 in August, retreating 15.9% from August 2021. The median price in the Midwest was $287,900, up 6.6% from the previous year.

At an annual rate of 2,130,000 in August, existing-home sales in the South were identical to July but down 19.3% from one year ago. The median price in the South was $356,000, an increase of 12.4% from August 2021.

Existing-home sales in the West expanded 1.1% compared to last month to an annual rate of 880,000 in August, down 29.0% from this time last year. The median price in the West was $602,900, a 7.1% increase from August 2021.

New Residential Sales

Sales of new single-family houses in August 2022 were at a seasonally adjusted annual rate of 685,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 28.8% above the revised July rate of 532,000 but was 0.1% below the August 2021 estimate of 686,000.

The median sales price of new houses sold in August 2022 was $436,800. The average sales price was $521,800. The seasonally adjusted estimate of new houses for sale at the end of August was 461,000. This represents a supply of 8.1 months at the current sales rate.

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 August were at a seasonally adjusted annual rate of 1,575,000. This was 12.2% above the revised July estimate of 1,404,000 but was 0.1% below the August 2021 rate of 1,576,000. Single-family housing starts in August were at a rate of 935,000; this was 3.4% above the revised July figure of 904,000.

Housing Completions

Privately-owned housing completions in August were at a seasonally adjusted annual rate of 1,342,000. This was 5.4% below the revised July estimate of 1,419,000 but was 3.1% above the August 2021 rate of 1,302,000. Single-family housing completions in August were at a rate of 1,017,000; this was 0.4% above the revised July rate of 1,013,000.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in August on a seasonally adjusted basis after being unchanged in July, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 8.3% before seasonal adjustment.

Increases in the shelter, food, and medical care indexes were the largest of many contributors to the broad-based monthly all items increase. These increases were mostly offset by a 10.6% 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 5.0% over the month as the gasoline index declined, but the electricity and natural gas indexes increased.

The index for all items less food and energy rose 0.6% in August, a larger increase than in July. The indexes for shelter, medical care, household furnishings and operations, new vehicles, motor vehicle insurance, and education were among those that increased over the month. There were some indexes that declined in August, including those for airline fares, communication, and used cars and trucks.

The all-items index increased 8.3% for the 12 months ending August, a smaller figure than the 8.5% increase for the period ending July. The all items less food and energy index rose 6.3% over the last 12 months. The energy index increased 23.8% for the 12 months ending August, a smaller increase than the 32.9% increase for the period ending July. The food index increased 11.4% 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 August 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $683.3 billion, an increase of 0.3% from the previous month, and 9.1% above August 2021. Total sales for the June 2022 through August 2022 period were up 9.3% from the same period a year ago.

Retail trade sales were up 0.2% from July 2022, and up 8.9% above last year. Gasoline stations were up 29.3% from August 2021, while non-store retailers were up 11.2% from last year.

Sales at furniture and home furnishing stores were up slightly in August compared to August a year ago. For the 8 months of 2022, sales were up 1.4% over the same period a year ago.

The overall retail sales report was influenced by the large increase in gasoline stations and food services and drinking places.

Employment

Total nonfarm payroll employment increased by 315,000 in August, and the unemployment rate rose to 3.7%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in professional and business services, health care, and retail trade.

In August, the unemployment rate rose by 0.2% to 3.7%, and the number of unemployed persons increased by 344,000 to 6.0 million. In July, these measures had returned to their levels in February 2020, prior to the coronavirus pandemic.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in August, down two consecutive months, decreased $0.6 billion or 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, $1.0 billion or 1.1%.

Shipments of manufactured durable goods in August, up fifteen of the last sixteen months, increased $2.0 billion or 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, $1.7 billion or 1.9%.

Shipments of furniture and related products were up 6.5% in July over July 2021 and up 6.4% year to date. Orders were up 4.0% in July over last year and up 1.7% year to date. Obviously, this is a much broader category than just residential furniture.