



FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

November 2022



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HIGHLIGHTS – EXECUTIVE SUMMARY

The results of our survey for September 2022 continued to reflect the slowdown of business overall. Approximately 91% of our participants reported lower new orders for September as well as year-to-date compared to last year. New orders were down 26% for the month versus September 2021 (September 2021 orders were down 20% from September 2020). For the nine months ending September 2022, new orders were down 29% from 2021 (New orders were down 21% in the 2021 to 2020 comparison).

The good news was that shipments continued to hold up due to the large backlogs that had built up. Shipments were up 5% over September 2021 with 71% reporting positive increases. Year-to-date shipments were up 6% compared to 2021 when they were up 30% over the first nine months of 2020. So, the smaller percentage increase in 2022 is really a nice increase.

Backlogs were down 40% from September 2021 and fell 6% from August. Yet the total backlogs remain, for many, at fairly high levels. This should help weather the storm of recessions or whatever it's called for some time.

The other stats were still in good shape especially receivables, though inventories remain too high.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board's Consumer Confidence Index decreased again in November with both the indexes of the Present Situation and Expectations falling. "Consumer confidence declined again in November, most likely prompted by the recent rise in gas prices," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index moderated further and continues to suggest the economy has lost momentum as the year winds down. Consumers' expectations regarding the short-term outlook remained gloomy. Indeed, the Expectations Index is below a reading of 80, which suggests the likelihood of a recession remains elevated.

Housing

Existing-home sales fell for the ninth straight month in October, according to the National Association of REALTORS®. All four major U.S. regions registered month-over-month and year-over-year declines.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – decreased 5.9% from September. Year-over-year, sales dropped by 28.4% (down from 6.19 million in October 2021).

Single-family home sales declined 6.4% in September and 28.2% from one year ago. The median existing single-family home price was \$384,900 in October, up 6.2% from October 2021.

Sales of new single-family houses in October 2022 were 7.5% above September but were 5.8% below the October 2021 estimate.

Compared to October 2021, sales were up 59.4% in the Northeast but down 26.5% in the Midwest, 0.3% in the South and 22.8% in the West for an overall 5.8% decline.

The seasonally adjusted estimate of new houses for sale at the end of October was 470,000, a supply of 8.9 months at the current sales rate.

Other

Advance estimates of U.S. retail and food services sales for October 2022 were up 1.3% from the previous month, and 8.3% above October 2021. Total sales for the August 2022 through October 2022 period were up 8.9% from the same period a year ago.

Retail trade sales were up 1.2% from September 2022, and up 7.5% above last year. Gasoline stations were up 17.8% from October 2021, while food services and drinking places were up 14.1% from last year.

Sales at furniture and home furnishings stores were up 0.4% from October 2021 and up 1.6% year to date. But remember that sales at these stores in October 2021 were up 11.9% over sales in October 2020 and up 29.1% over year-to-date 2020 sales. The year-to-date sales increase of 2021 over 2020 was the 5th highest of all categories.

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4% in October on a seasonally adjusted basis, the same increase as in September. Over the last 12 months, the all-items index increased 7.7% before seasonal adjustment.

The index for shelter contributed over half of the monthly all items increase, with the indexes for gasoline and food also increasing. The food index increased 0.6% over the month with the food at home index rising 0.4%.

Total nonfarm payroll employment increased by 261,000 in October, and the unemployment rate rose to 3.7%. Notable job gains occurred in health care, professional and technical services, and manufacturing.

The Conference Board Leading Indicators report noted that real GDP growth will be 1.8% year over year in 2022, and a recession is likely to start around year-end and last through mid-2023.

EXECUTIVE SUMMARY, CONT.

Thoughts

We are hearing various thoughts on the current state of business. Some are still seeing declines, however one might measure them, while others seemed to have maybe "bottomed out." That is, they felt the slowdown in orders that was somewhat expected then beginning May-June-July began to see further declines. Since then, some feel that there is maybe a new level of business that seems to be somewhat flat or increasing slightly.

Clearly, inflation is bothering the consumer at almost all levels, especially at the lower end and the uncertainty of the stock market is affecting the middle and upper middle.

The midterm elections did not move the needle in Washington as much as many hoped or feared, depending on which side you are on. We won't get into politics, but it truly is amazing how some of the voters elect certain candidates.

We did hear that Black Friday sales seemed to be good for most all of retail and some reports that included furniture.

At market, one client suggested that he reads our newsletter pretty much every month but lately he basically has no clue what we are saying lately. I explained that that is sometimes the way I feel when writing it. So, for that we apologize. It's just hard to make sense of comparisons to periods of shutdowns, rising prices at unheard of levels, crazy increases in business that were not sustainable and now likely reduction of prices as certain costs have come down. We just hope that the margins gained during these times are not given back in the interest of chasing volume. Another subject for another day.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our most recent survey of residential furniture manufacturers and distributors, the decline in orders continued again in September. New orders fell 26% compared to September 2021. The September 2021 orders were down 20% from September 2020. As we have noted before, even comparing to 2019 is not very realistic in a given month with all the price increases that have been instituted especially up to September 2022. In September, new orders were down for 91% of the participants.

Year to date, new orders were down 29% from 2021 when they were down 21% from 2020. Year to date, 2022 orders were down 6% from year-to-date 2019. Again, with the price increases, that comparison is hard to really read other than probably not a good result.

Shipments and Backlogs

Shipments continued to be positive working off the big backlogs that were built. Shipments in September were up 5% over September 2021 though down a bit from August. Shipments were up in September for 71% of the participants. Last year, September shipments were up 4% over September 2020.

Year to date, shipments were up 6% over 2021. Year to date shipments were up for 70% of the participants. Year to date 2021 shipments for the nine months were up 30% over 2020. But remember business was basically shut down for a good two months in 2020. Shipment dollars were up 24% year to date over the first nine months of 2019, again including effects of price increases.

Backlogs fell again in September dropping 40% from September 2021 and another 6% from August. We hope most participants have now cleaned up their backlogs so that they know what their real situation will be over the next couple of months.

Receivables and Inventories

Receivable levels continue to be in line, up 4% over September 2021 and in line with the 5% increase in shipments and 6% year to date.

Inventories continue to be an issue, up 42% from September 2021, though at least dropping 2% from August levels. It will take a while to get them back in line and rebalanced as we are concerned as to what kind of products are included in the some of these inventories.

Factory and Warehouse Employees and Payroll

The levels of employees remained fairly stable as it has for several months through September. Payrolls continued to climb up 11% from last September and up 15% year to date. Again, that year to date increase includes a few more employees in some earlier months and significant wage increases as well as some volume increases.



ESTIMATED BUSINESS ACTIVITY (MILLIONS)			
	2022		
	SEP	AUG	9 MOS
New Orders	2,328	2,027	20,191
Shipments	2,859	2,918	26,340
Backlog	5,120	5,428	
	2021		
	SEP	AUG	9 MOS
New Orders	3,166	3,094	28,453
Shipments	2,735	2,677	24,943
Backlog	8,552	8,352	

MONTHLY RESULTS – NOVEMBER 2022

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Sep 2022 from Aug 2022	Sep 2022 from Sep 2021	9 Mos 2022 vs 9 Mos 2021
New Orders	+10	-26	-29
Shipments	-8	+5	+6
Backlog	-6	-40	
Payrolls	+4	+11	+15
Employees	-1	—	
Receivables	-4	+4	
Inventories	-2	+42	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2021				
September	-20	+4	+56	+5
October	-18	-2	+52	+5
November	—	+3	+50	+5
December	-6	-2	+46	+5
2022				
January	-12	-3	+43	+24
February	-20	—	+35	+4
March	-26	+19	+20	+4
April	-20	+13	+9	+5
May	-41	+10	-4	+3
June	-39	+10	-17	+2
July	-37	-6	-25	+1
August	-34	+9	-35	+1
September	-26	+5	-40	—

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® decreased in November after also losing ground in October. The Index now stands at 100.2 (1985=100), down from 102.2 in October. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—decreased to 137.4 from 138.7 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—declined to 75.4 from 77.9.

"Consumer confidence declined again in November, most likely prompted by the recent rise in gas prices," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index moderated further and continues to suggest the economy has lost momentum as the year winds down. Consumers' expectations regarding the short-term outlook remained gloomy. Indeed, the Expectations Index is below a reading of 80, which suggests the likelihood of a recession remains elevated."

"Inflation expectations increased to their highest level since July, with both gas and food prices as the main culprits. Intentions to purchase homes, automobiles, and big-ticket appliances all cooled. The combination of inflation and interest rate hikes will continue to pose challenges to confidence and economic growth into early 2023."

Present Situation

Consumers' assessment of current business conditions was mixed in November.

- 18.2% of consumers said business conditions were "good," up from 17.7%.
- On the other hand, more consumers, 26.7%, said business conditions were "bad," up from 24.0%.

Consumers' appraisal of the labor market was somewhat more favorable.

- 45.8% of consumers said jobs were "plentiful," up from 44.8%.
- 13.0% of consumers said jobs were "hard to get," unchanged from last month.

Expectations Six Months Hence

Consumers remain pessimistic about the short-term business conditions outlook in November.

- 19.9% of consumers expect business conditions to improve, up slightly from 19.6%.
- 22.7% expect business conditions to worsen, down from 24.3%.

Consumers were more downbeat about the short-term labor market outlook.

- 18.6% of consumers expect more jobs to be available, down from 19.5%.
- 21.4% anticipate fewer jobs, up from 20.8%.

Consumers were also more pessimistic about their short-term income prospects.

- 17.2% of consumers expect their incomes to increase, down from 19.6%.
- 16.6% expect their incomes will decrease, up from 15.2%.

Gross Domestic Product – Not yet available at time of release

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.8% in October 2022 to 114.9 (2016=100), following a decline of 0.5% in September. The LEI is now down 3.2% over the six-month period between April and October 2022, a reversal from its 0.5% growth over the previous six months.

"The US LEI fell for an eighth consecutive month, suggesting the economy is possibly in a recession," said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. "The downturn in the LEI reflects consumers' worsening outlook amid high inflation and rising interest rates, as well as declining prospects for housing construction and manufacturing. The Conference Board forecasts real GDP growth will be 1.8% year-over-year in 2022, and a recession is likely to start around yearend and last through mid-2023."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.2% in October 2022 to 109.3 (2016=100), after an increase of 0.1% in September. The CEI rose by 1.1% over the six-month period from April to October 2022, faster than its growth of 0.9% over the previous six-month period.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.1% in October 2022 to 116.3 (2016 = 100), following a 0.8% increase in September. The LAG is up 3.7% over the six-month period from April to October 2022, faster than its growth of 3.1% over the previous six-month period.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales retreated for the ninth straight month in October, according to the National Association of REALTORS®. All four major U.S. regions registered month-over-month and year-over-year declines.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – decreased 5.9% from September to a seasonally adjusted annual rate of 4.43 million in October. Year-over-year, sales dropped by 28.4% (down from 6.19 million in October 2021).

Single-family home sales declined to a seasonally adjusted annual rate of 3.95 million in October, down 6.4% from 4.22 million in September and 28.2% from one year ago. The median existing single-family home price was \$384,900 in October, up 6.2% from October 2021.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 480,000 units in October, down 2.0% from September and 30.4% from the previous year. The median existing condo price was \$331,000 in October, an annual increase of 10.1%.

"More potential homebuyers were squeezed out from qualifying for a mortgage in October as mortgage rates climbed higher," said NAR Chief Economist Lawrence Yun. "The impact is greater in expensive areas of the country and in markets that witnessed significant home price gains in recent years."

Total housing inventory registered at the end of October was 1.22 million units, which was down 0.8% from both September and one year ago (1.23 million). Unsold inventory sits at a 3.3-month supply at the current sales pace, up from 3.1 months in September and 2.4 months in October 2021.

"Inventory levels are still tight, which is why some homes for sale are still receiving multiple offers," Yun added. "In October, 24% of homes received over the asking price. Conversely, homes sitting on the market for more than 120 days saw prices reduced by an average of 15.8%."

The median existing-home price for all housing types in October was \$379,100, a gain of 6.6% from October 2021 (\$355,700), as prices rose in all regions. This marks 128 consecutive months of year-over-year increases, the longest-running streak on record.

Properties typically remained on the market for 21 days in October, up from 19 days in September and 18 days in October 2021. Sixty-four percent of homes sold in October 2022 were on the market for less than a month.

First-time buyers were responsible for 28% of sales in October, down from 29% in both September 2022 and October 2021. NAR's 2022 *Profile of Home Buyers and Sellers* – released earlier this month – found that the annual share of first-time buyers was 26%, the lowest since NAR began tracking the data.

According to Freddie Mac, the 30-year, conventional, fixed-rate mortgage was 6.90% in October, up from 6.11% in September. The average commitment rate across all of 2021 was 2.96%.



A DEEPER DIVE – HOUSING, CONT.

Regional

Existing-home sales in the Northeast were down 6.6% from September to an annual rate of 570,000 in October, a decline of 23.0% from October 2021. The median price in the Northeast was \$408,700, an increase of 8.0% from the previous year.

Existing-home sales in the Midwest fell 5.3% from the previous month to an annual rate of 1,080,000 in October, falling 25.5% from the prior year. The median price in the Midwest was \$274,500, up 5.9% from October 2021.

In the South, existing-home sales declined 4.8% in October from September to an annual rate of 1,980,000, a 27.2% decrease from this time last year. The median price in the South was \$346,300, an increase of 8.0% from one year ago.

Existing-home sales in the West dropped 9.1% from September to an annual rate of 800,000 in October, down 37.5% from one year ago. The median price in the West was \$588,400, a 5.3% increase from October 2021.



New Residential Sales

Sales of new single-family houses in October 2022 were at a seasonally adjusted annual rate of 632,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 7.5% above the revised September rate of 588,000, but was 5.8% below the October 2021 estimate of 671,000.

Compared to October 2021, sales were up 59.4% in the Northeast but down 26.5% in the Midwest, 0.3% in the South and 22.8% in the West for the overall 5.8% decline.

The seasonally adjusted estimate of new houses for sale at the end of October was 470,000. This represents a supply of 8.9 months at the current sales rate.

Housing Starts

Privately-owned housing starts in October were at a seasonally adjusted annual rate of 1,425,000. This was 4.2% below the revised September estimate of 1,488,000 and was 8.8% below the October 2021 rate of 1,563,000. Single-family housing starts in October were at a rate of 855,000; this was 6.1% below the revised September figure of 911,000.

Single family starts were down 8.8% from October 2021 with starts down 1.9% in the Northeast, 14.6% in the Midwest, 16.8% in the South and 36.4% in the West.

Housing Completions

Privately-owned housing completions in October were at a seasonally adjusted annual rate of 1,339,000. This was 6.4% below the revised September estimate of 1,431,000, but was 6.6% above the October 2021 rate of 1,256,000. Single-family housing completions in October were at a rate of 961,000; this was 8.3% below the revised September rate of 1,048,000. For single unit completions, all were up in all regions except the West.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4% in October on a seasonally adjusted basis, the same increase as in September, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 7.7% before seasonal adjustment.

The index for shelter contributed over half of the monthly all items increase, with the indexes for gasoline and food also increasing. The energy index increased 1.8% over the month as the gasoline index and the electricity index rose, but the natural gas index decreased. The food index increased 0.6% over the month with the food at home index rising 0.4%.

The index for all items less food and energy rose 0.3% in October, after rising 0.6% in September. The indexes for shelter, motor vehicle insurance, recreation, new vehicles, and personal care were among those that increased over the month. Indexes which declined in October included the used cars and trucks, medical care, apparel, and airline fares indexes.

The all-items index increased 7.7% for the 12 months ending October, this was the smallest 12-month increase since the period ending January 2022. The all items less food and energy index rose 6.3% over the last 12 months. The energy index increased 17.6% for the 12 months ending October, and the food index increased 10.9% over the last year; all of these increases were smaller than for the period ending September.

Retail Sales

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for October 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$694.5 billion, up 1.3% from the previous month, and 8.3% above October 2021. Total sales for the August 2022 through October 2022 period were up 8.9% from the same period a year ago.

Retail trade sales were up 1.2% from September 2022, and up 7.5% above last year. Gasoline stations were up 17.8% from October 2021, while food services and drinking places were up 14.1% from last year.

Sales at furniture and home furnishings stores were up 0.4% from October 2021 and up 1.6% year to date. But remember that sales at these stores in October 2021 were up 11.9% over sales in October 2020 and up 29.1% over year-to-date 2020 sales. The year-to-date sales increase of 2021 over 2020 was the 5th highest of all categories.

Employment

Total nonfarm payroll employment increased by 261,000 in October, and the unemployment rate rose to 3.7%, the U.S. Bureau of Labor Statistics reported. Notable job gains occurred in health care, professional and technical services, and manufacturing.

The unemployment rate increased by 0.2 percentage point to 3.7% in October, and the number of unemployed persons rose by 306,000 to 6.1 million. The unemployment rate has been in a narrow range of 3.5% to 3.7% since March.

Durable Goods Orders and Factory Shipments

The U.S. Census Bureau reported new orders for manufactured durable goods in October, up seven of the last eight months, increased 1.0%. This followed a 0.3% September increase. Excluding transportation, new orders increased 0.5%. Excluding defense, new orders increased 0.8%. Transportation equipment, up six of the last seven months, led the increase, \$2.0 billion or 2.1% to \$97.8 billion.

Shipments of manufactured durable goods in October, up seventeen of the last eighteen months, increased \$1.1 billion or 0.4% to \$275.4 billion. This followed a 0.3% September increase. Machinery, up nineteen of the last twenty months, led the increase, \$0.5 billion or 1.3% to \$38.9 billion.

New orders for furniture and related products in September increased 0.1% and were up 1.8% year to date. Shipments of these products, which include products other than residential furniture, increased 5.5% in September versus September 2021 and 6.2% year to date.