FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

We knew that the good business in late 2020 and 2021 would not continue. No one we talked to thought it would last as long as it did. Yet everyone hated to see the good times end, as it has been a long time (if ever) that business was that good. But no matter who we talked with; it was always a discussion of it's just a matter of time until the slowdown starts.

As the slowdown happened, the results have been a bit harsh as to how slow it has become. Maybe it does not feel so bad for some since backlogs were built so high, production and shipping have been able to keep things moving, but it is beginning to feel not so good as backlogs have declined significantly for so many. The survey results continue to be difficult to describe as the comparisons are really not that meaningful on an overall basis. Company to company may be somewhat easier, but with price increases and changes in business, freight rates, etc., it is hard to determine other than to say that when orders are off 25 to 30%, it just doesn't feel very good.

Thank goodness for the large backlogs that were built, as production and shipping have been able to continue for most. Many think that this coming recession (if not already in one) will be short-lived. The living off backlogs has allowed many to weather the storm, but as we have heard from some, portions of the backlogs have turned out not to be so solid, especially in the lower-end products where custom is not as important. The results of our survey show year-to-date orders down 29% and shipments up 5%.

Receivable levels seem in line but are going to take some managing as dealers are slowing down, making them need some leeway from time to time, which most have not been getting.

With inventories typically a big percentage of working capital, the large build-up we have seen in inventories, is going to have to be dealt with. Plus, as freight costs are coming down as well as some raw materials, there are going to have to be some price concessions, even though some of the items in inventory had higher costs associated with them.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board's Consumer Confidence Index increased in December after two monthly declines. The Index increased to 108.3 from 101.4. The Present Situation Index increased to 147.2 from 138.3 and the Expectations Index increased to 82.4 from 76.7. The report noted that the Expectations Index near 80 is associated with a recession.

Lynn Franco, Senior Director of Economic Indicators at The Conference Board said "The Present Situation and Expectations Indexes improved due to consumers' more favorable view regarding the economy and jobs. Inflation expectations retreated in December to their lowest level since September 2021, with recent declines in gas prices a major impetus. Vacation intentions improved but plans to purchase homes and big-ticket appliances cooled further. This shift in consumers' preference from big-ticket items to services will continue in 2023, as will headwinds from inflation and interest rate hikes."

Housing

Existing-home sales declined for the tenth month in a row in November with all four major U.S. regions recording month-over-month and year-over-year declines. Year-over-year, sales dropped by 35.4%. The results for single-family sales were similar to the overall results.

NAR Chief Economist Lawrence Yun on the poor results said "The principal factor was the rapid increase in mortgage rates, which hurt housing affordability and reduced incentives for homeowners to list their homes. Plus, available housing inventory remains near historic lows."

Sales of new single-family houses in November 2022 were 5.8% above the revised October rate but were 15.3% below the November 2021 estimate.

Privately-owned housing starts in November were 0.5% below the revised October estimate and were 16.4% below the November 2021 rate. Single-family housing starts in November were 4.1% below the revised October results.

Regionally compared to November 2021, single-family starts were down 3.2% in the Northeast, 16.7% in the Midwest, 33.6% in the South, and 35.7% in the West.

Other

Advance estimates of U.S. retail and food services sales for November 2022 were down 0.6% from the previous month, but up 6.5% above November 2021. Total sales for the September 2022 through November 2022 period were up 7.7% from the same period a year ago.

Retail trade sales were down 0.8% from October 2022, but up 5.4% above last year. Gasoline stations were up 16.2% from November 2021, while food services and drinking places were up 14.1% from last year.

Sales at furniture and home furnishings stores were down 3.2% from November 2021. Sales at these stores were 1% ahead of last year through November.

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in November on a seasonally adjusted basis, after increasing 0.4% in October. Over the last 12 months, the all-items index increased 7.1%. The index for shelter was by far the largest contributor to the monthly all-items increase, more than offsetting decreases in energy indexes.

The all-items index increased 7.1% for the 12 months ending November; this was the smallest 12-month increase since the period ending December 2021. The all-items less food and energy index rose 6.0% over the last 12 months. The energy index increased 13.1% for the 12 months ending November, and the food index increased 10.6% over the last year; all of these increases were smaller than for the period ending October.

EXECUTIVE SUMMARY, CONT.

Thoughts

So many news reports about so many subjects. Some are real news; others are just opinions about what someone thinks is happening. But we feel that these are concerning times. Economists are saying a recession is coming, most saying early 2023. Many are also saying it should be over by the end of the second or third quarter.

What we are hearing and seeing from our surveys is that the residential furniture industry is probably already in a recession that likely began during the third quarter of 2022. As we noted, the participants in our survey have been able to somewhat weather the storm due to the large backlogs that were built up, allowing continued production and shipping of product. But many have reduced backlogs to pre-pandemic levels and for some, orders are not keeping up with production needs. We realize no one wants to think about people cuts as hard as they have been to find, but it is at least time to give that some thought.

We do know that the reports on consumer confidence and leading economic indicators seem to indicate that demand for big-ticket items has slipped. With that in mind, it is time for most to make some plans for slower business in the new year, at least for some time. We wish we could tell you how much and how long, but that is for each company to decide.

On those negative thoughts, we will wish you a Happy and Healthy New Year that helps each of you to make the best of whatever business comes your way.

EXECUTIVE SUMMARY, CONT.

National, cont.

Other, cont.

Total nonfarm payroll employment increased by 263,000 in November, and the unemployment rate was unchanged at 3.7%. Notable job gains occurred in leisure and hospitality, health care, and government. Employment declined in retail trade and in transportation and warehousing.

The Leading economic indicators report noted "The US LEI fell sharply in November, continuing the slide it's been on for most of 2022 after peaking in February," said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. "Only stock prices contributed positively to the US LEI in November. Labor market, manufacturing, and housing indicators all weakened—reflecting serious headwinds to economic growth. Interest rate spread and manufacturing new orders components were essentially unchanged in November, confirming a lack of economic growth momentum in the near term."

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, 88% of the participants reported a decline in new orders in October 2022, resulting in a 30% decline from October 2021. October 2021 orders were down 18% from 2020, but 2020 October orders were up 40% over 2019. As we have said in the past, comparisons in today's environment are very difficult to make sense of, other than to say, business seems to have slowed more than expected from the fast days of late 2020 and all of 2021.

Year to date, new orders were down 29% from 2021 when orders were up 16% over 2020. Some 91% of the participants reported lower year to date orders versus year to date 2021.

Shipments and Backlogs

Shipments in October were up 2% over October 2021. Approximately 64% of the participants reported increased shipments versus last year. Year to date, shipments remained ahead by 5% versus the same period last year with about 70% of the participants reporting increased shipments year to date.

Backlogs in October fell 8% from September and are now down 47% from October a year ago as shipments are being made from backlogs and new orders are not keeping up.

Receivables and Inventories

Receivable levels were up 6% compared to last year, mostly in line with year to date shipment increases of 5%. We are concerned with receivable levels as some of the dealers are seeing a big slow down at retail. Holding orders when a customer is a bit behind will take some efforts on the part of credit managers to decide who to let ride a bit.

Inventories were flat with September but up 47% from October a year ago. Again, even this is hard to tell as inventories were so low during the pandemic they needed to be built back up. The question is with business slowing, how much inventory is really needed. Inventory is such a major part of working capital; it can easily put a strain on finances.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees remained fairly steady in October. Payrolls were higher due to the same factors discussed before, being higher wages and paying more to get people. Overall, until shipping settles down after working down backlogs, payrolls and employees should be ok. When cuts are needed if this slowdown continues, some cuts at the bottom may not hurt that bad, even when it has been so hard to find good employees.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2022		
	OCT	SEP	10 MOS
New Orders	1,922	2,328	22,451
Shipments	2,510	2,859	29,154
Backlog	4,675	5,120	

	2021		
	OCT	SEP	10 MOS
New Orders	2,730	3,166	31,845
Shipments	2,461	2,735	27,366
Backlog	8,821	8,552	

MONTHLY RESULTS – DECEMBER 2022

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Oct 2022 from Sep 2022	Oct 2022 from Oct 2021	10 Mos 2022 vs 10 Mos 2021
New Orders	-6	-30	-29
Shipments	-5	+2	+5
Backlog	-8	-47	
Payrolls	-5	+7	+14
Employees	+1	-1	
Receivables	–	+6	
Inventories	–	+47	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2021				
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	–
October	-30	+2	-47	-1

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* increased in December following back-to-back monthly declines. The Index now stands at 108.3 (1985=100), up sharply from 101.4 in November. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—increased to 147.2 from 138.3 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—improved to 82.4 from 76.7. However, Expectations are still lingering around 80—a level associated with recession.

"Consumer confidence bounced back in December, reversing consecutive declines in October and November to reach its highest level since April 2022," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation and Expectations Indexes improved due to consumers' more favorable view regarding the economy and jobs. Inflation expectations retreated in December to their lowest level since September 2021, with recent declines in gas prices a major impetus. Vacation intentions improved but plans to purchase homes and big-ticket appliances cooled further. This shift in consumers' preference from big-ticket items to services will continue in 2023, as will headwinds from inflation and interest rate hikes."

"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 improved in December.

- 19.0% of consumers said business conditions were "good," up from 17.8%.
- 20.1% said business conditions were "bad," down from 23.6%.

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

- 47.8% of consumers said jobs were "plentiful," up from 45.2%.
- 12.0% of consumers said jobs were "hard to get," down from 13.7%.

Expectations Six Months Hence

Consumers were less pessimistic about the short-term business conditions outlook in December.

- 20.4% of consumers expect business conditions to improve, up from 19.8%.
- 20.3% expect business conditions to worsen, down from 21.0%.

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

- 19.5% of consumers expect more jobs to be available, up from 18.5%.
- 18.3% anticipate fewer jobs, down from 21.2%.

Consumers were mixed about their short-term income prospects.

- 16.7% of consumers expect their incomes to increase, down slightly from 17.1%.
- However, 13.3% expect their incomes will decrease, down from 15.8%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 1.0% in November 2022 to 113.5 (2016=100), following a decline of 0.9% in October. The LEI is now down 3.7% over the six-month period between May and November 2022—a much steeper rate of decline than its 0.8% contraction over the previous six-month period, between November 2021 and May 2022.

"The US LEI fell sharply in November, continuing the slide it's been on for most of 2022 after peaking in February," said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. "Only stock prices contributed positively to the US LEI in November. Labor market, manufacturing, and housing indicators all weakened—reflecting serious headwinds to economic growth. Interest rate spread and manufacturing new orders components were essentially unchanged in November, confirming a lack of economic growth momentum in the near term."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.1% in November 2022 to 109.4 (2016=100), after an increase of 0.2% in October. The CEI rose by 1.2% over the six-month period from May to November 2022, faster than its growth of 0.7% over the previous six-month period. CEI components—payroll employment, personal income less transfer payments, manufacturing trade and sales, and industrial production—are included among the data used to determine recessions in the US. Only the industrial production index contributed negatively to the CEI in November.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.2% in November 2022 to 116.4.

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 3.2% in the third quarter of 2022, according to the "third" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP decreased 0.6%.

The "third" estimate of GDP released is based on more complete source data than were available for the "second" estimate issued last month. In the second estimate, the increase in real GDP was 2.9%. The updated estimates primarily reflected upward revisions to consumer spending and nonresidential fixed investment that were partly offset by a downward revision to private inventory investment.

The increase in real GDP for the third quarter reflected increases in exports, consumer spending, nonresidential fixed investment, state and local government spending, and federal government spending, that were partly offset by decreases in residential fixed investment and private inventory investment. Imports decreased.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales declined for the tenth month in a row in November, according to the National Association of REALTORS®. All four major U.S. regions recorded month-over-month and year-over-year declines.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops – waned 7.7% from October to a seasonally adjusted annual rate of 4.09 million in November. Year-over-year, sales fell by 35.4% (down from 6.33 million in November 2021).

Single-family home sales declined to a seasonally adjusted annual rate of 3.65 million in November, down 7.6% from 3.95 million in October and 35.2% from one year ago. The median existing single-family home price was $376,700 in November, up 3.2% from November 2021.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 440,000 units in November, down 8.3% from October and 37.1% from the previous year. The median existing condo price was $321,600 in November, an annual increase of 5.8%.

"In essence, the residential real estate market was frozen in November, resembling the sales activity seen during the COVID-19 economic lockdowns in 2020," said NAR Chief Economist Lawrence Yun. "The principal factor was the rapid increase in mortgage rates, which hurt housing affordability and reduced incentives for homeowners to list their homes. Plus, available housing inventory remains near historic lows."

Total housing inventory registered at the end of November was 1.14 million units, which was down 6.6% from October, but up 2.7% from one year ago (1.11 million). Unsold inventory was at a 3.3-month supply at the current sales pace, which was identical to October, but up from 2.1 months in November 2021.

The median existing-home price for all housing types in November was $370,700, an increase of 3.5% from November 2021 ($358,200), as prices rose in all regions. This marks 129 consecutive months of year-over-year increases, the longest-running streak on record.

Properties typically remained on the market for 24 days in November, up from 21 days in October and 18 days in November 2021. Sixty-one percent of homes sold in November 2022 were on the market for less than a month.

First-time buyers were responsible for 28% of sales in November, which was unchanged from October, but up from 26% in November 2021. NAR's 2022 Profile of Home Buyers and Sellers – released last 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 fixed-rate mortgage averaged 6.31% as of December 15. That is down from 6.33% last week, but up from 3.12% one year ago.

A DEEPER DIVE – HOUSING, CONT.

Regional

Existing-home sales in the Northeast decreased 7.0% from October to an annual rate of 530,000 in November, down 28.4% from November 2021. The median price in the Northeast was $394,700, an increase of 3.5% from the prior year.

Existing-home sales in the Midwest retreated 5.6% from the previous month to an annual rate of 1.02 million in November, falling 30.6% from one year ago. The median price in the Midwest was $268,600, up 3.9% from November 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 fell 12.5% from October to an annual rate of 700,000 in November, down 45.7% from one year ago. The median price in the West was $569,800, a 2.0% increase from November 2021.

New Residential Sales

Sales of new single-family houses in November 2022 were at a seasonally adjusted annual rate of 640,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 5.8% above the revised October rate of 605,000 but was 15.3% below the November 2021 estimate of 756,000.

The median sales price of new houses sold in November 2022 was $471,200. The average sales price was $543,600.

The seasonally adjusted estimate of new houses for sale at the end of November was 461,000. This represents a supply of 8.6 months at the current sales rate.

Compared to November 2021, sales of new privately owned houses were down overall but there were mixed results regionally. Sales were down in the South 15.0% and in the West 26.6% but sales were up in the Northeast 26.5% and up 3.6% in the Midwest.

Housing Starts

According to the U.S. Census Bureau, privately-owned housing starts in November were at a seasonally adjusted annual rate of 1,427,000. This was 0.5% below the revised October estimate of 1,434,000 and was 16.4% below the November 2021 rate of 1,706,000. Single-family housing starts in November were at a rate of 828,000; this was 4.1% below the revised October figure of 863,000.

Regionally compared to November 2021, single family starts were down 3.2% in the Northeast, 16.7% in the Midwest, 33.6% in the South and 35.7% in the West.

Housing Completions

Privately-owned housing completions in November were at a seasonally adjusted annual rate of 1,490,000. This was 10.8% above the revised October estimate of 1,345,000 and was 6.0% above the November 2021 rate of 1,406,000. Single-family housing completions in November were at a rate of 1,047,000; this was 9.5% above the revised October rate of 956,000 and 9.9% above November 2021.

Regionally compared to November 2021, single family completions were up 11.5% in the Northeast, up 20.2% in the South while down 6.0% in the Midwest and 4.1% in the West.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in November on a seasonally adjusted basis, after increasing 0.4% in October, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 7.1% before seasonal adjustment. The index for shelter was by far the largest contributor to the monthly all items increase, more than offsetting decreases in energy indexes. The food index increased 0.5% over the month with the food at home index also rising 0.5%. The energy index decreased 1.6% over the month as the gasoline index, the natural gas index, and the electricity index all declined.

The index for all items less food and energy rose 0.2% in November, after rising 0.3% in October. The indexes for shelter, communication, recreation, motor vehicle insurance, education, and apparel were among those that increased over the month. Indexes which declined in November include the used cars and trucks, medical care, and airline fares indexes.

The all items index increased 7.1% for the 12 months ending November; this was the smallest 12- month increase since the period ending December 2021. The all items less food and energy index rose 6.0% over the last 12 months. The energy index increased 13.1% for the 12 months ending November, and the food index increased 10.6% over the last year; all of these increases were smaller than for the period ending October.

Retail Sales

According to the U.S. Census Bureau, advance estimates of U.S. retail and food services sales for November 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $689.4 billion, down 0.6% from the previous month, but up 6.5% above November 2021. Total sales for the September 2022 through November 2022 period were up 7.7% from the same period a year ago.

Retail trade sales were down 0.8% from October 2022, but up 5.4% above last year. Gasoline stations were up 16.2% from November 2021, while food services and drinking places were up 14.1% from last year.

Sales at furniture and home furnishings stores were down 3.2% from November 2021. Sales at these stores were 1% ahead of last year through November.

Employment

Total nonfarm payroll employment increased by 263,000 in November, and the unemployment rate was unchanged at 3.7%, the U.S. Bureau of Labor Statistics reported. Notable job gains occurred in leisure and hospitality, health care, and government. Employment declined in retail trade and in transportation and warehousing.

The unemployment rate was unchanged at 3.7% in November and has been in a narrow range of 3.5% to 3.7% since March. The number of unemployed persons was essentially unchanged at 6.0 million in November.

Durable Goods Orders and Factory Shipments

According to the advanced report from the US Census Bureau, New orders for manufactured durable goods in November, down following three consecutive monthly increases, decreased $5.8 billion or 2.1%. This followed a 0.7% October increase.

Excluding transportation, new orders increased 0.2%. Excluding defense, new orders decreased 2.6%. Transportation equipment, down following three consecutive monthly increases, drove the decrease, of 6.3%.

Shipments of manufactured durable goods in November, up eighteen of the last nineteen months, increased 0.2% to $275.9 billion. This followed a 0.4% October increase. Transportation equipment, up thirteen of the last fourteen months, drove the increase at 0.8% to $91.8 billion.

According to the final report for October, shipments of furniture and related products increased 5.6% over October 2021 and were up 6.6% year to date. New orders were up 5.7% over last October and up 2.2% year to date. Clearly the order results include a lot more products than residential furniture.