# FURNITURE INSIGHTS®

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## HIGHLIGHTS – EXECUTIVE SUMMARY

Once again, the results of our latest survey of residential furniture manufacturers and distributors were not very pretty, yet somewhat in line with expectations. For the month of November 2022, net new orders were off 35% compared to November 2021, in line with recent results for much of the year. But most of the recent comparisons have been to prior year results that were not that strong compared to 2020 results. When 97% of the participants report a decline in orders for the month, we think it's safe to say that business is definitely off. Year to date, orders were down 34%, off for 94% of the participants.

Shipments were up only 1% over November 2021. Year to date, shipments remained up 6% over last year when they were up 23% over the prior year. With shipment dollars exceeding new orders, backlogs fell again, down 9% from October. Backlogs were now down 52% from a year ago when they were down 50% from November 2020.

We are continuing to hear from more that backlogs are getting to a point where long lead times are gone for many. This will eventually become an issue for many if new orders continue to slide, as shipments will begin to slow down.

Receivable and employee levels continue to appear to be in good shape. Inventories are too high, though some are intentional now as believers in just in time were hurt more than others so many are now carrying some excess for protection. Even so, overall inventories are too high, and coupled with retail inventories being too high; it will take some time to bring them down to more reasonable levels.

## EXECUTIVE SUMMARY, CONT.

### National

#### Consumer Confidence

The Conference Board's Consumer Confidence Index decreased in January following an upwardly revised increase in December 2022. The Index now stands at 107.1 (1985=100), down from 109.0 in December. The Present Situation Index increased to 150.9 (1985=100) from 147.4 last month. The Expectations Index fell to 77.8 (1985=100) from 83.4 partially reversing its December gain. The Expectations Index is below 80 which often signals a recession within the next year.

"Consumer confidence declined in January, but it remains above the level seen last July, lowest in 2022," said Ataman Ozyildirim, Senior Director, Economics at The Conference Board. "Consumer confidence fell the most for households earning less than $15,000 and for households aged under 35."

The Expectations Index retreated in January reflecting their concerns about the economy over the next six months. Consumers were less upbeat about the short-term outlook for jobs. They also expect business conditions to worsen in the near term. Meanwhile, purchasing plans for autos and appliances held steady, but fewer consumers are planning to buy a home. Consumers' expectations for inflation ticked up slightly from 6.6% to 6.8% over the next 12 months, but inflation expectations are still down from its peak of 7.9% last seen in June.

#### Housing

Existing-home sales fell for the eleventh consecutive month in December, with three of the four major U.S. regions recording month-over-month drops, while sales in the West were unchanged. All regions experienced year-over-year declines in the 30-plus percent range. The median existing single-family home price was $372,700 in December, up 2.0% from December 2021.

Sales of new single-family houses in December 2022 were at a seasonally adjusted annual rate of 616,000, or 2.3% above the revised November rate of 602,000, but were 26.6% below the December 2021 estimate of 839,000. An estimated 644,000 new homes were sold in 2022. This was 16.4% below the 2021 figure of 771,000.

Privately-owned housing starts in December were at a seasonally adjusted annual rate of 1,382,000 or 1.4% below the revised November estimate and 21.8% below the December 2021 rate. Single-family housing starts in December were at a rate of 909,000 or 11.3% above the revised November. An estimated 1,553,300 housing units were started in 2022. This was 3.0% below the 2021 figure of 1,601,000.

#### Other

Advance estimates of U.S. retail and food services sales for December 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were down 1.1% from the previous month, but up 6.0% above December 2021. Total sales for the 12 months of 2022 were up 9.2% from 2021. Total sales for the October 2022 through December 2022 period were up 6.7% from the same period a year ago.

Retail trade sales were down 1.2% from November 2022, but up 5.2% above last year. Non-store retailers were up 13.7% from December 2021, while food services and drinking places were up 12.1% from last year. Sales at furniture and home furnishings stores were up 0.3% from December 2021 and up 1% for the year. Sales for the year 2021 versus 2020 were up 26.4% so the 1% increase in 2022 was not too bad considering the comparison.

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.1% in December on a seasonally adjusted basis, after increasing 0.1% in November. Over the last 12 months, the all-items index increased 6.5% before seasonal adjustment.

The index for gasoline was by far the largest contributor to the monthly all-items decrease, more than offsetting increases in shelter indexes. The food index increased 0.3% over the month. The energy index decreased 4.5% over the month as the gasoline index declined. The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 1.0% in December 2022 following a decline of 1.1% in November. The LEI is now down 4.2% over the six-month period between June and December 2022.

## EXECUTIVE SUMMARY, CONT.

### Thoughts

The current survey results continue to be difficult to make complete sense of since so many individual companies are in different places themselves. That, along with the other variables we have discussed before, continues to make "reading the tea leaves" hard to do.

There continue to be discussions as to recession or not. Many feel we are already in one and others say not yet, and even some say, probably will not be. We think in today's environment, it is not only an industry-by-industry debate but probably more of a company-to-company debate. Some companies are likely in a recession right now. Others are starting to feel it, while others are concerned but due to the large backlogs that they had, are not really feeling it. It will likely be some time before whoever decides these things can make a call as to what and when we have. Very seldom has business been so good for so long, to then drop off this fast. But inflation was rising so fast due to the demands, it started affecting more than just the cost of raw materials. Gas prices soared. Then freight and wages; then food down to eggs. Just a lot of things seemed to get out of control all at once. So, while it will take some time to sort it all out, we are hopeful that this bump that we are in turns into the so-called soft landing and things can take off smoothly again.

In the meantime, we continue to suggest that plans be made for several what-if scenarios so that as they play out whichever way, you have somewhat of a plan in place to deal with whatever comes your way.

## EXECUTIVE SUMMARY, CONT.

### National, cont.

#### Other, cont.

“The US LEI fell sharply again in December—continuing to signal recession for the US economy in the near term,” said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. “There was widespread weakness among leading indicators in December, indicating deteriorating conditions for labor markets, manufacturing, housing construction, and financial markets in the months ahead. Overall economic activity is likely to turn negative in the coming quarters before picking up again in the final quarter of 2023.”

Real gross domestic product (GDP) increased at an annual rate of 2.9% in the fourth quarter of 2022, according to the "advance" estimate. In the third quarter, real GDP increased 3.2%. The increase in real GDP reflected increases in private inventory investment, consumer spending, federal government spending, state and local government spending, and nonresidential fixed investment that were partly offset by decreases in residential fixed investment and exports. Imports, which are a subtraction in the calculation of GDP, decreased.

## HIGHLIGHTS – MONTHLY RESULTS

### New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in November 2022 were 35% lower than they were in November 2021. November 2021 orders were flat compared to November 2020, when they were up 17% over 2019. Approximately 97% of the participants reported lower orders in November 2022 compared to November 2021. Considering the price increases that have been passed along, one can only surmise that the number of units, if they could be measured, would likely be down even more.

Year to date, new orders were down 34% compared to the same period a year ago. These results were revised this month as we determined that there were some errors in participant reporting previously, so the year-to-date results have been revised slightly. New orders for the total period were down for some 94% of the participants, so clearly the results are pretty much industry wide.

### Shipments and Backlogs

Shipments in November were up 1% over November 2021. Shipments in November were down for only 45% of the participants as many were able to continue to work to bring backlogs down. Year to date, shipments were up 6% over the same period a year ago. Only 31% of the participants reported a decline in shipments year to date compared to November 2021.

As shipments exceeded new orders recorded, backlogs fell 9% from October resulting in another significant decline in overall backlogs. At the end of November, backlogs were down 52% from November 2021. While still higher than normal levels, we are hearing that many have returned their backlogs to more normal levels.

**ESTIMATED BUSINESS ACTIVITY (MILLIONS)**

| | 2022 | | |
|---|---|---|---|
| | NOV | OCT | (R) 11 MOS |
| New Orders | 1,937 | 1,922 | 23,078 |
| Shipments | 2,545 | 2,510 | 31,699 |
| Backlog | 4,254 | 4,675 | |
| | **2021** | | |
| | NOV | OCT | 11 MOS |
| New Orders | 2,963 | 2,730 | 34,808 |
| Shipments | 2,584 | 2,461 | 29,950 |
| Backlog | 8,802 | 8,595 | |

### Receivables and Inventories

Receivable levels were up 2% over November 2021 levels, in line with the November-to-November sales increase of only 1%. We continue to see in our client results than most receivable ageing’s remain in pretty good shape and are relatively clean.

Inventory levels remain an issue, up 47% over November 2021 levels. While working those levels down some, with orders falling, it has been difficult to bring inventories down as quickly as most would like, especially considering that most dealers are somewhat over inventoried.

### Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in November was about even with October 2022 but was down 2% from November 2021. We might expect those numbers to continue to fall if only through attrition, but with business continuing to appear to slow, we would expect some cuts need to be made especially when shipments and manufacturing begin or continue to line up with incoming orders.

# MONTHLY RESULTS – JANUARY 2023

| KEY MONTHLY INDICATORS (PERCENT CHANGE) | Nov 2022 from Oct 2022 | Nov 2022 from Nov 2021 | 11 Mos 2022 vs 11 Mos 2021 |
|---|---|---|---|
| **New Orders** | +1 | -35 | -34 |
| **Shipments** | +1 | +1 | +6 |
| **Backlog** | -9 | -52 | |
| **Payrolls** | -1 | +4 | +13 |
| **Employees** | – | -2 | |
| **Receivables** | -7 | +2 | |
| **Inventories** | -1 | +47 | |

**PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR**

| | New Orders | Shipments | Backlog | Employment |
|---|---|---|---|---|
| **2021** | | | | |
| 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 |
| November | -35 | +1 | -52 | -2 |

# A DEEPER DIVE – NATIONAL

## Consumer Confidence

The Conference Board *Consumer Confidence Index*® decreased in January following an upwardly revised increase in December 2022. The Index now stands at 107.1 (1985=100), down from 109.0 in December (an upward revision). The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—increased to 150.9 (1985=100) from 147.4 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 77.8 (1985=100) from 83.4 partially reversing its December gain. The Expectations Index is below 80 which often signals a recession within the next year. Both present situation and expectations indexes were revised up slightly in December.

"Consumer confidence declined in January, but it remains above the level seen last July, lowest in 2022," said Ataman Ozyildirim, Senior Director, Economics at The Conference Board. "Consumer confidence fell the most for households earning less than $15,000 and for households aged under 35."

"Consumers' assessment of present economic and labor market conditions improved at the start of 2023. However, the Expectations Index retreated in January reflecting their concerns about the economy over the next six months. Consumers were less upbeat about the short-term outlook for jobs. They also expect business conditions to worsen in the near term. Despite that, consumers expect their incomes to remain relatively stable in the months ahead. Meanwhile, purchasing plans for autos and appliances held steady, but fewer consumers are planning to buy a home—new or existing. Consumers' expectations for inflation ticked up slightly from 6.6% to 6.8% over the next 12 months, but inflation expectations are still down from its peak of 7.9% last seen in June."

### Present Situation

Consumers' assessment of current business conditions improved in January.

- 20.2% of consumers said business conditions were "good," up from 19.2%.
- 19.2% said business conditions were "bad," down from 19.7%.

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

- 48.2% of consumers said jobs were "plentiful," up from 46.4%.
- 11.3% of consumers said jobs were "hard to get," down from 11.9%.

### Expectations Six Months Hence

Consumers became more pessimistic about the short-term business conditions outlook in January.

- 18.6% of consumers expect business conditions to improve, down from 20.9%.
- 21.6% expect business conditions to worsen, up from 19.9%.

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

- 17.9% of consumers expect more jobs to be available, down from 20.0%.
- 20.1% anticipate fewer jobs, up from 18.7%.

Consumers' short-term income prospects held steady.

- 17.2% of consumers expect their incomes to increase, compared to 17.3% last month.
- 13.4% expect their incomes will decrease, similar to 13.3% last month.

## NATIONAL UPDATE

### Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 1.0% in December 2022 to 110.5 (2016=100), following a decline of 1.1% in November. The LEI is now down 4.2% over the six-month period between June and December 2022—a much steeper rate of decline than its 1.9% contraction over the previous six-month period (December 2021–June 2022).

"The US LEI fell sharply again in December—continuing to signal recession for the US economy in the near term," said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. "There was widespread weakness among leading indicators in December, indicating deteriorating conditions for labor markets, manufacturing, housing construction, and financial markets in the months ahead. Meanwhile, the coincident economic index (CEI) has not weakened in the same fashion as the LEI because labor market related indicators (employment and personal income) remain robust. Nonetheless, industrial production— also a component of the CEI—fell for the third straight month. Overall economic activity is likely to turn negative in the coming quarters before picking up again in the final quarter of 2023."

The Conference Board Coincident Economic Index® (CEI) increased by 0.1% in December 2022 to 109.6 (2016=100). The CEI rose by 1.4% over the six-month period from June to December 2022, faster than its growth of 0.4% over the previous six months. The CEI's component indicators– payroll employment, personal income, 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 December.

## A DEEPER DIVE – NATIONAL, CONT.

### Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.9% in the fourth quarter of 2022, according to the "advance" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 3.2%.

The increase in real GDP reflected increases in private inventory investment, consumer spending, federal government spending, state and local government spending, and nonresidential fixed investment that were partly offset by decreases in residential fixed investment and exports. Imports, which are a subtraction in the calculation of GDP, decreased.

The increase in private inventory investment was led by manufacturing (mainly petroleum and coal products as well as chemicals) as well as mining, utilities, and construction industries (led by utilities). The increase in consumer spending reflected increases in both services and goods. Within goods, the leading contributor was motor vehicles and parts.

Compared to the third quarter, the deceleration in real GDP in the fourth quarter primarily reflected a downturn in exports and decelerations in nonresidential fixed investment, state and local government spending, and consumer spending. These movements were partly offset by an upturn in private inventory investment, an acceleration in federal government spending, and a smaller decrease in residential fixed investment. Imports decreased less in the fourth quarter than in the third quarter.

## A DEEPER DIVE – HOUSING

### Existing-Home Sales

Existing-home sales retreated for the eleventh consecutive month in December, according to the National Association of Realtors®. Three of the four major U.S. regions recorded month-over-month drops, while sales in the West were unchanged. All regions experienced year-over-year declines.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – decreased 1.5% from November to a seasonally adjusted annual rate of 4.02 million in December. Year-over-year, sales sagged 34.0% (down from 6.09 million in December 2021).

Single-family home sales declined to a seasonally adjusted annual rate of 3.60 million in December, down 1.1% from 3.64 million in November and 33.5% from the previous year. The median existing single-family home price was $372,700 in December, up 2.0% from December 2021.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 420,000 units in December, down 4.5% from November and 38.2% from one year ago. The median existing condo price was $317,200 in December, an annual increase of 3.3%.

“December was another difficult month for buyers, who continue to face limited inventory and high mortgage rates,” said NAR Chief Economist Lawrence Yun. “However, expect sales to pick up again soon since mortgage rates have markedly declined after peaking late last year.”

Total housing inventory registered at the end of December was 970,000 units, which was down 13.4% from November but up 10.2% from one year ago (880,000). Unsold inventory sits at a 2.9-month supply at the current sales pace, down from 3.3 months in November but up from 1.7 months in December 2021.

The median existing-home price for all housing types in December was $366,900, an increase of 2.3% from December 2021 ($358,800), as prices rose in all regions. This marks 130 consecutive months of year-over-year increases, the longest-running streak on record.

“Home prices nationwide are still positive, though mildly,” Yun added. “Markets in roughly half of the country are likely to offer potential buyers discounted prices compared to last year.”

Properties typically remained on the market for 26 days in December, up from 24 days in November and 19 days in December 2021. Fifty-seven percent of homes sold in December 2022 were on the market for less than a month. First-time buyers were responsible for 31% of sales in December, up from 28% in November and 30% in December 2021. NAR’s [2022 Profile of Home Buyers and Sellers] – found that the annual share of first-time buyers was 26%, the lowest since NAR began tracking the data.

## A DEEPER DIVE – HOUSING, CONT.

### Regional

Existing-home sales in the Midwest fell 1.0% from the previous month to an annual rate of 1.01 million in December, falling 30.3% from one year ago. The median price in the Midwest was $262,000, up 2.9% from December 2021.

In the South, existing-home sales slipped 2.2% in December from November to an annual rate of 1.80 million, a 33.1% decrease from the previous year. The median price in the South was $337,900, an increase of 3.5% from this time last year.

At an annual rate of 690,000, existing-home sales in the West were unchanged from November but down 43.4% from one year ago. The median price in the West was $557,900, an increase of $200, or less than a tenth of a percent from December 2021.

### New Residential Sales

Sales of new single-family houses in December 2022 were at a seasonally adjusted annual rate of 616,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 2.3% above the revised November rate of 602,000, but was 26.6% below the December 2021 estimate of 839,000.

An estimated 644,000 new homes were sold in 2022. This was 16.4% below the 2021 figure of 771,000.

The median sales price of new houses sold in December 2022 was $442,100. The average sales price was $528,400.

The seasonally adjusted estimate of new houses for sale at the end of December was 461,000. This represents a supply of 9.0 months at the current sales rate.

### Housing Starts

Privately-owned housing starts in December were at a seasonally adjusted annual rate of 1,382,000. This is 1.4% below the revised November estimate of 1,401,000 and was 21.8% below the December 2021 rate of 1,768,000. Single-family housing starts in December were at a rate of 909,000; this was 11.3% above the revised November figure of 817,000. The December rate for units in buildings with five units or more was 463,000.

An estimated 1,553,300 housing units were started in 2022. This was 3.0% below the 2021 figure of 1,601,000.

### Housing Completions

Privately-owned housing completions in December were at a seasonally adjusted annual rate of 1,411,000. This was 8.4% below the revised November estimate of 1,540,000 but was 6.4% above the December 2021 rate of 1,326,000. Single-family housing completions in December were at a rate of 1,005,000; this was 8.0% below the revised November rate of 1,092,000. The December rate for units in buildings with five units or more was 385,000.

An estimated 1,392,300 housing units were completed in 2022. This was 3.8% above the 2021 figure of 1,341,000.

# A DEEPER DIVE – OTHER NATIONAL

## Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.1% in December on a seasonally adjusted basis, after increasing 0.1% in November, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all-items index increased 6.5% before seasonal adjustment.

The index for gasoline was by far the largest contributor to the monthly all items decrease, more than offsetting increases in shelter indexes. The food index increased 0.3% over the month with the food at home index rising 0.2%. The energy index decreased 4.5% over the month as the gasoline index declined; other major energy component indexes increased over the month.

The index for all items less food and energy rose 0.3% in December, after rising 0.2% in November. Indexes which increased in December include the shelter, household furnishings and operations, motor vehicle insurance, recreation, and apparel indexes. The indexes for used cars and trucks, and airline fares were among those that decreased over the month.

The all-items index increased 6.5% for the 12 months ending December; this was the smallest 12-month increase since the period ending October 2021. The all items less food and energy index rose 5.7% over the last 12 months. The energy index increased 7.3% for the 12 months ending December, and the food index increased 10.4% over the last year; all of these increases were smaller than for the 12-month period ending November.

## Retail Sales

Advance estimates of U.S. retail and food services sales for December 2022, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $677.1 billion, down 1.1% from the previous month, but up 6.0% above December 2021. Total sales for the 12 months of 2022 were up 9.2% from 2021. Total sales for the October 2022 through December 2022 period were up 6.7% from the same period a year ago.

Retail trade sales were down 1.2% from November 2022, but up 5.2% above last year. Non-store retailers were up 13.7% from December 2021, while food services and drinking places were up 12.1% from last year.

Sales at furniture and home furnishings stores were up 0.3% from December 2021 and up 1% for the year. Sales for the year 2021 versus 2020 were up 26.4% so the 1% increase in 2022 was not too bad considering the comparison.

## Employment

Total nonfarm payroll employment increased by 223,000 in December, and the unemployment rate edged down to 3.5%, the U.S. Bureau of Labor Statistics reported. Notable job gains occurred in leisure and hospitality, health care, construction, and social assistance.

The unemployment rate edged down to 3.5% in December and has remained in a narrow range of 3.5% to 3.7% since March. The number of unemployed persons edged down to 5.7 million in December.

## Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in December, up four of the last five months, increased $15.3 billion or 5.6%, according to the U.S. Census Bureau. This followed a 1.7% November decrease. Excluding transportation, new orders decreased 0.1%. Excluding defense, new orders increased 6.3%. Transportation equipment, also up four of the last five months, drove the increase, $15.5 billion or 16.7%.

Shipments of manufactured durable goods in December, up 19 of the last 20 months, increased $1.4 billion or 0.5%. This followed a 0.4% November increase. Transportation equipment, up fourteen of the last fifteen months, drove the increase, $1.5 billion or 1.7%.

According to the final report for November, shipments were up 8.4% compared to November 2021 shipments and up 6.7% year to date. Orders in November vs November 2021 were up 3.8% and up 2.3% year to date.