FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

The results of our final survey for 2022 of residential furniture manufacturers and distributors continued the latest trends of declines in orders from the very high order rates of 2020 and 2021. New orders in December 2022 were down 31% from December 2021 and down 33% for the year, following 14% and 15% increases reported in the prior two years.

The good news in the report is that shipments were up 3% over last December and were up 5% year to date, after increasing 20% in 2021 over 2020. For the year, shipments were up for 94% of the participants. The increase in shipments came from reducing backlogs as they were down 43% from last December. Backlogs are still healthy (maybe too much for some), but some companies are beginning to not feel as comfortable as some backlogs are down to normal levels and some even below.

Receivable levels continue in good shape with those levels in line with monthly shipment levels as well as year-to-date. Inventory levels remain too high for most, but with orders trending down, it is not easy to bring inventories down quickly.

The factory and warehouse number of employees and payrolls remained in line with previous months reflecting the shortage of employees as well as increased wages for most in order to attract people to the industry.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board's Consumer Confidence Index decreased in February for the second consecutive month. The Index now stands at 102.9, down from 106.0 in January. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—increased to 152.8 from 151.1 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—fell further to 69.7 from a downwardly revised 76.0 in January. Notably, the Expectations Index has now fallen well below 80—the level which often signals a recession within the next year. It has been below this level for 11 of the last 12 months.

"Consumer confidence declined again in February. The decrease reflected large drops in confidence for households aged 35 to 54 and for households earning $35,000 or more," said Ataman Ozyildirim, Senior Director, Economics at The Conference Board.

Housing

Existing-home sales fell for the twelfth straight month in January. Month-over-month sales were mixed among the four major U.S. regions, as the South and West registered increases, while the East and Midwest experienced declines. All regions recorded year-over-year declines.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums, and co-ops – slid 0.7% from December 2022 to a seasonally adjusted annual rate of 4.00 million in January. Year-over-year, sales retreated 36.9% (down from 6.34 million in January 2022).

Single-family home sales declined to a seasonally adjusted annual rate of 3.59 million in January, down 0.8% from 3.62 million in December and 36.1% from one year ago. The median existing single-family home price was $363,100 in January, up 0.7% from January 2022.

"Home sales are bottoming out," said NAR Chief Economist Lawrence Yun. "Prices vary depending on a market's affordability, with lower-priced regions witnessing modest growth and more expensive regions experiencing declines."

Other

Advance estimates of U.S. retail and food services sales for January 2023 were up 3.0% from the previous month, and up 6.4% above January 2022. Total sales for the period November 2022 through January 2023 were up 6.1% from the same period a year ago.

Retail trade sales were up 2.3% from December 2022, and up 3.9% above last year. Food services and drinking places were up 25.2% from January 2022, while general merchandise stores were up 4.5% from last year. Sales on an adjusted basis at furniture and home furnishings stores were up 3.8%. Sales at these stores for January were up 4.5% on an unadjusted basis.

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.5% in January on a seasonally adjusted basis, after increasing 0.1% in December. Over the last 12 months, the all-items index increased 6.4% before seasonal adjustment. The index for shelter was by far the largest contributor to the monthly all-items increase, accounting for nearly half of the monthly all items increase, with the indexes for food, gasoline, and natural gas also contributing.

The all-items index increased 6.4% for the 12 months ending January; this was the smallest 12-month increase since the period ending October 2021. The all-items-less-food-and-energy index rose 5.6% over the last 12 months, its smallest 12-month increase since December 2021. The energy index increased 8.7% for the 12 months ending January, and the food index increased 10.1% over the last year.

EXECUTIVE SUMMARY, CONT.

Thoughts

In recent conversations, business appears to continue to slow for most and those that are not feeling the slow down yet, are not really that comfortable that incoming orders are steady. In addition, pricing pressures are building as freight costs have come down as well as some material costs. We hope that all will continue to try to keep the better margins even if reductions in freight, etc. are given.

We hate to keep beating the same drum, but there is no reason to give in to the pressures to get prices down, due to lower consumer demand. It was proven during the last couple of years, that furniture can be sold to consumers at reasonable prices, especially since they proved that they do not know what a piece should cost. So, wholesalers, manufacturers, and retailers should not give up the reasonable margins that they were able to obtain in the last couple of years.

A final thought on our survey results. The comparisons have been difficult during these times when price increases were given for all the various reasons. When wholesale prices have gone up for many in the 25 to 30% ranges, it has been difficult to determine what the real increases in business have been. Now some price concessions are being given especially freight reductions as well as other material cost declines, so we will just continue to tell participants to compare their results with an eye on the impact of their own units sold.

We hope the bad weather out West and, in the North, does not affect business too much. The good weather in the South should help business here. Best of luck to all.

EXECUTIVE SUMMARY, CONT.

National, cont.

Other, cont.

The Conference Board Leading Economic Index® (LEI) for the U.S. fell by 0.3% in January 2023 to 110.3, following a decline of 0.8% in December. The LEI is now down 3.6% over the six-month period between July 2022 and January 2023—a steeper rate of decline than its 2.4% contraction over the previous six-month period (January–July 2022).

"The US LEI remained on a downward trajectory, but its rate of decline moderated slightly in January," said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. "Among the leading indicators, deteriorating manufacturing new orders, consumers' expectations of business conditions, and credit conditions more than offset strengths in labor markets and stock prices to drive the index lower in the month. The contribution of the yield spread component of the LEI also turned negative in the last two months, which is often a signal of recession to come. While the LEI continues to signal a recession in the near term, indicators related to the labor market—including employment and personal income—remain robust so far. Nonetheless, The Conference Board still expects high inflation, rising interest rates, and contracting consumer spending to tip the US economy into recession in 2023."

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders fell 31% in December compared to December 2021, completing a full year of 2022 monthly comparisons of double-digit declines in new orders. New orders were down compared to December 2021 for some 88% of the participants.

For the year 2022, new orders were down 33% compared to 2021 when orders were up 14% over 2020. In 2020, new orders for the year were up 15% over 2019 even when basically shut down for 2 to 3 months in most areas of the country. For the year 2022, new orders were down for 94% of the participants.

Shipments and Backlogs

Shipments in December 2022 were up 3% over December 2021. Shipments were up for some 56% of the participants as shipments were up in spite of the decline in orders as backlogs continued to keep shipments positive.

Year to date, shipments were up 5% over 2021, when they were up 20% over 2020. For 2022, shipments year to date were up for 70% of the participants.

As shipments continued to exceed new orders, backlogs fell again in December, down 9% from November. Backlogs were down 43% from December 2021, when they were up 46% from December 2020. December 2020 was when backlogs really went up in big numbers as orders were really coming in for most anything dealers could sell.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2022		
	DEC	NOV	12 MOS
New Orders	1,880	1,937	24,958
Shipments	2,478	2,545	34,177
Backlog	3,869	4,254	
	2021		
	DEC	NOV	12 MOS
New Orders	2,718	2,963	37,526
Shipments	2,418	2,584	32,426
Backlog	9,103	8,802	

Receivables and Inventories

Receivable levels fell 5% from November, in line with the drop in shipments. Receivables were up 3% from last December, the same as the increase in shipments in December to December. With shipments year to date up 5% over the prior year, the increase in receivables remain very much in line.

Inventories continue to be the other story. Inventories fell 2% in December from November but remained up 36% from last December. As most participants are working hard to get inventories down, the decline in order rates is making it hard to reduce inventories as most would like.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees remained steady with November levels, though they were down 2% from last December. The results for the individual participants were quite mixed as the number with declines in employees was about even with those still showing increases.

MONTHLY RESULTS – FEBRUARY 2023

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Dec 2022 from Nov 2022	Dec 2022 from Dec 2021	12 Mos 2022 vs 12 Mos 2021
New Orders	-3	-31	-33
Shipments	-5	+3	+5
Backlog	-9	-43	
Payrolls	-8	+1	+12
Employees	–	-2	
Receivables	-5	+3	
Inventories	-2	+36	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2021				
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
December	-31	+3	-43	-2

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* decreased in February for the second consecutive month. The Index now stands at 102.9 (1985=100), down from 106.0 in January (a downward revision). The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—increased to 152.8 (1985=100) from 151.1 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—fell further to 69.7 (1985=100) from a downwardly revised 76.0 in January. Notably, the Expectations Index has now fallen well below 80—the level which often signals a recession within the next year. It has been below this level for 11 of the last 12 months.

"Consumer confidence declined again in February. The decrease reflected large drops in confidence for households aged 35 to 54 and for households earning $35,000 or more," said Ataman Ozyildirim, Senior Director, Economics at The Conference Board.

"While consumers' view of current business conditions worsened in February, the Present Situation Index still ticked up slightly based on a more favorable view of the availability of jobs. In fact, the proportion of consumers saying jobs are 'plentiful' climbed to 52.0%—back to levels seen in the spring of last year. However, the outlook appears considerably more pessimistic when looking ahead. Expectations for where jobs, incomes, and business conditions are headed over the next six months all fell sharply in February."

"And, while 12-month inflation expectations improved—falling to 6.3% from 6.7% last month—consumers may be showing early signs of pulling back spending in the face of high prices and rising interest rates. Fewer consumers are planning to purchase homes or autos and they also appear to be scaling back plans to buy major appliances. Vacation intentions also declined in February."

Present Situation

Consumers' assessment of current business conditions worsened in February.

- 17.8% of consumers said business conditions were "good," down from 19.9%.
- 17.7% said business conditions were "bad," down from 19.0%.

Consumers' appraisal of the labor market was more favorable.

- 52.0% of consumers said jobs were "plentiful," up from 48.1%.
- 10.5% of consumers said jobs were "hard to get," down from 11.1%.

Expectations Six Months Hence

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

- 14.2% of consumers expect business conditions to improve, down from 18.4%.
- Meanwhile, 21.9% expect business conditions to worsen, down from 22.6%.

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

- 14.5% of consumers expect more jobs to be available, down from 17.7%.
- Yet, 20.3% anticipate fewer jobs, down from 21.4%.

Consumers' short-term income prospects became considerably less upbeat.

- 13.4% of consumers expect their incomes to increase, down from 17.4% last month.
- 11.6% expect their incomes will decrease, down from 13.4% last month.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. fell by 0.3% in January 2023 to 110.3 (2016=100), following a decline of 0.8% in December. The LEI is now down 3.6% over the six-month period between July 2022 and January 2023—a steeper rate of decline than its 2.4% contraction over the previous six-month period (January–July 2022).

"The US LEI remained on a downward trajectory, but its rate of decline moderated slightly in January," said Ataman Ozyildirim, Senior Director of Economics, at The Conference Board.

"Among the leading indicators, deteriorating manufacturing new orders, consumers' expectations of business conditions, and credit conditions more than offset strengths in labor markets and stock prices to drive the index lower in the month. The contribution of the yield spread component of the LEI also turned negative in the last two months, which is often a signal of recession to come. While the LEI continues to signal recession in the near term, indicators related to the labor market—including employment and personal income—remain robust so far. Nonetheless, The Conference Board still expects high inflation, rising interest rates, and contracting consumer spending to tip the US economy into recession in 2023."

The Conference Board Coincident Economic Index® (CEI) increased by 0.2% in January 2023 to 109.5 (2016=100), after no change in December. The CEI is now up 0.7% over the six-month period between July 2022 and January 2023—close to the 0.6% growth it recorded over the previous six months.

The CEI's component indicators — 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. Three of these four CEI components improved in January, with only industrial production being virtually unchanged.

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.7% in the fourth quarter of 2022, according to the "second" estimate released by the Bureau of Economic Analysis. In the advance estimate, the increase in real GDP was 2.9%. In the third quarter, real GDP increased 3.2%.

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

The increase in private inventory investment was led by manufacturing (mainly petroleum and coal products) as well as mining, utilities, and construction industries (led by utilities). The increase in consumer spending reflected an increase in services that was partly offset by a decrease in goods. Within goods, the leading contributor to the decrease was "other" durable goods (mainly jewelry). Within nonresidential fixed investment, increases in intellectual property products (mainly software) and structures were partly offset by a decrease in equipment. The increase in state and local government spending primarily reflected an increase in compensation of state and local government employees.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales fell for the twelfth straight month in January, according to the National Association of Realtors®. Month-over-month sales were mixed among the four major U.S. regions, as the South and West registered increases, while the East and Midwest experienced declines. All regions recorded year-over-year declines.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops – slid 0.7% from December 2022 to a seasonally adjusted annual rate of 4.00 million in January. Year-over-year, sales retreated 36.9% (down from 6.34 million in January 2022).

Single-family home sales declined to a seasonally adjusted annual rate of 3.59 million in January, down 0.8% from 3.62 million in December and 36.1% from one year ago. The median existing single-family home price was $363,100 in January, up 0.7% from January 2022.

“Home sales are bottoming out,” said NAR Chief Economist Lawrence Yun. “Prices vary depending on a market’s affordability, with lower-priced regions witnessing modest growth and more expensive regions experiencing declines.”

Total housing inventory registered at the end of January was 980,000 units, up 2.1% from December and 15.3% from one year ago (850,000). Unsold inventory was at a 2.9-month supply at the current sales pace, unchanged from December but up from 1.6 months in January 2022.

“Inventory remains low, but buyers are beginning to have better negotiating power,” Yun added. “Homes sitting on the market for more than 60 days can be purchased for around 10% less than the original list price.”

The median existing-home price for all housing types in January was $359,000, an increase of 1.3% from January 2022 ($354,300), as prices climbed in three out of four U.S. regions while falling in the West. This marks 131 consecutive months of year-over-year increases, the longest-running streak on record.

Properties typically remained on the market for 33 days in January, up from 26 days in December and 19 days in January 2022. Fifty-four percent of homes sold in January were on the market for less than a month.

First-time buyers were responsible for 31% of sales in January, identical to December but up from 27% in January 2022. NAR’s *2022 Profile of Home Buyers and Sellers* – released in November 2022 – 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 Northeast retracted 3.8% from December to an annual rate of 500,000 in January, down 35.9% from January 2022. The median price in the Northeast was $383,000, up 0.3% from the previous year.

In the Midwest, existing-home sales slid 5.0% from the previous month to an annual rate of 960,000 in January, declining 33.3% from one year ago. The median price in the Midwest was $252,300, up 2.7% from January 2022.

Existing-home sales in the South rose 1.1% in January from December to an annual rate of 1.82 million, a 36.6% decrease from the prior year. The median price in the South was $332,500, an increase of 3.4% from one year ago.

In the West, existing-home sales elevated 2.9% in January to an annual rate of 720,000, down 42.4% from the previous year. The median price in the West was $525,200, down 4.6% from January 2022.

New Residential Sales

Sales of new single-family houses in January 2023 were at a seasonally adjusted annual rate of 670,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 7.2% above the revised December rate of 625,000 but was 19.4% below the January 2022 estimate of 831,000. Sales were down in all four regions of the country led by a 46% decline in the West and the South only down 2.2%.

The median sales price of new houses sold in January 2023 was $427,500. The average sales price was $474,400.

The seasonally-adjusted estimate of new houses for sale at the end of January was 439,000. This represents a supply of 7.9 months at the current sales rate.

Housing Starts

Privately-owned housing starts in January 2023 were at a seasonally adjusted annual rate of 1,309,000. This was 4.5% below the revised December estimate of 1,371,000 and was 21.4% below the January 2022 rate of 1,666,000. Single-family housing starts in January were at a rate of 841,000; this was 4.3% below the revised December figure of 879,000.

Compared to January 2022 single family housing starts were down 27.3% with starts off 22.9% in the Northeast, 30.3% in the Midwest, 16.9% in the South and 56.2% in the West.

Housing Completions

Privately-owned housing completions in January were at a seasonally adjusted annual rate of 1,406,000. This was 1.0% above the revised December estimate of 1,392,000 and was 12.8% above the January 2022 rate of 1,247,000. Single-family housing completions in January were at a rate of 1,040,000; this was 4.4% above the revised December rate of 996,000.

Compared to January 2022, single family completions were up 11.9% with regional completions up 17.6% in the Northeast,12.8% in the Midwest, 13.2% in the South and 7.6% in the West.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.5% in January on a seasonally adjusted basis, after increasing 0.1% in December, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 6.4% before seasonal adjustment. The index for shelter was by far the largest contributor to the monthly all items increase, accounting for nearly half of the monthly all items increase, with the indexes for food, gasoline, and natural gas also contributing.

The food index increased 0.5% over the month with the food at home index rising 0.4%. The energy index increased 2.0% over the month as all major energy component indexes rose over the month.

The index for all items less food and energy rose 0.4% in January. Categories which increased in January include the shelter, motor vehicle insurance, recreation, apparel, and household furnishings and operations indexes. The indexes for used cars and trucks, medical care, and airline fares were among those that decreased over the month.

The all-items index increased 6.4% for the 12 months ending January; this was the smallest 12-month increase since the period ending October 2021. The all items less food and energy index rose 5.6% over the last 12 months, its smallest 12-month increase since December 2021. The energy index increased 8.7% for the 12 months ending January, and the food index increased 10.1% over the last year.

Retail Sales

Advance estimates, from the U.S. Census Bureau, of U.S. retail and food services sales for January 2023, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $697.0 billion, up 3.0% from the previous month, and up 6.4% above January 2022. Total sales for the November 2022 through January 2023 period were up 6.1% from the same period a year ago.

Retail trade sales were up 2.3% from December 2022, and up 3.9% above last year. Food services and drinking places were up 25.2% from January 2022, while general merchandise stores were up 4.5% from last year.

Sales on an adjusted basis at furniture and home furnishings stores were up 3.8%. Sales at these stores for January were up 4.5% on an unadjusted basis.

Employment

Total nonfarm payroll employment rose by 517,000 in January, and the unemployment rate changed little at 3.4%, according to the U.S. Bureau of Labor Statistics report. Job growth was widespread, led by gains in leisure and hospitality, professional and business services, and health care. Employment also increased in government, partially reflecting the return of workers from a strike.

Both the unemployment rate, at 3.4%, and the number of unemployed persons, at 5.7 million, changed little in January. The unemployment rate has shown little net movement since early 2022.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in December, up four of the last five months, increased 5.6% to $286.9 billion, 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, 16.7%.