



FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

May 2023



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HIGHLIGHTS – EXECUTIVE SUMMARY

New orders in March 2023 fell 14% from March 2022 levels according to our latest survey of furniture manufacturers and distributors, continuing the monthly declines from the previous year. New orders were down for 71% of the participants. Year-to-date, new orders were down 18% compared to the first quarter of 2022. Year to date orders were down for 78% of the participants.

Shipments were down 16% from last March and down 19% year to date. For the month, shipments were down 61% and down year to date for 56% of the participants. Several participants are continuing to ship from healthy backlogs while others have brought backlogs down to more normal levels and are shipping from current order rates, reversing the trends we had seen when orders were down, but shipments were up.

Once again, backlogs fell from 2022 levels, down 63% from March 2022 and down 6% from February. Some of the participants continue to have larger backlogs so overall backlog total dollars remain higher than pre-pandemic, but we would expect that much of that increase is likely due to price increases.

Receivable levels remain in line with the decrease in year-to-date sales, but we continue to hear that there is some slowdown in the quick payments that were received when there was a shortage of goods deliverable. Inventory levels declined again and were down 5% from March 2022.

Employment results seem in line and while the number of employees was down from last year, we think that is likely attrition from marginal employees hired when finding employees was so difficult and some were hired despite their experience or skills.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The *Consumer Confidence Index* declined in May as both the Present Situation Index and the Expectations Index fell. The Expectations Index was below 80 again, the level that is associated with a recession within the year. The report noted that May's decline reflected a particularly worsening in the outlook among consumers over 55 years of age. Plans to purchase homes in the next six months held steady but the report noted that plans to purchase autos and big-ticket appliances ticked up compared to April. Hopefully that includes furniture.

Housing

Total existing-home sales slid 3.4% from March to a seasonally adjusted annual rate of 4.28 million in April. Year-over-year, sales fell 23.2% from April 2022. All four regions of the country were down significant double digits from last year's April results.

Single-family home sales fell 3.5% in March and 22.4% from the previous year. The median existing single-family home price was \$393,300 in April, down 2.1% from April 2022.

Existing condominium and co-op sales were down 2.3% from March and 29.5% from one year ago. The median existing condo price was \$348,000 in April, an annual increase of 0.7%.

"Home sales are bouncing back and forth but remain above recent cyclical lows," said NAR Chief Economist Lawrence Yun. "The combination of job gains, limited inventory and fluctuating mortgage rates over the last several months have created an environment of push-pull housing demand."

Sales of new single-family houses in April 2023 were 4.1% above the revised March rate and 11.8% above the April 2022 estimate.

Compared to April 2022, sales in April were up 20.6% in the Midwest and 23.4% in the South, while declining 46.7% in the Northeast and 2.8% in the West.

Privately owned housing starts in April were 2.2% above the revised March estimate but were 22.3% below the April 2022 rate. Single-family housing starts in April were 1.6% above the revised March figure but down 28.1% from last April.

Single-family starts regionally compared to April 2022 were down 42.6% in the Midwest, 27.6% in the South and 29.2% in the West, offset by a 15.1% increase in the Northeast.

Other

Advance estimates of U.S. retail and food services sales for April 2023, were up 0.4% from the previous month, and up 1.6% above April 2022. Total sales for the February 2023 through April 2023 period were up 3.1% from the same period a year ago.

Retail trade sales were up 0.4% from March 2023, and up 0.5% above last year. On an adjusted basis, sales at furniture and home furnishings stores were down 6.4% from last year and down 1.6% year-to-date.

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4% in April on a seasonally adjusted basis, after increasing 0.1% in March. The index for shelter was the largest contributor to the monthly all-items increase, followed by increases in the index for used cars and trucks and the index for gasoline. The food index was unchanged in April, as it was in March.

The all-items index increased 4.9% for the 12 months ending April; this was the smallest 12-month increase since the period ending April 2021.

Real gross domestic product (GDP) increased at an annual rate of 1.3% in the first quarter of 2023, according to the "second" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.6%.

EXECUTIVE SUMMARY, CONT.

Thoughts

Current words to describe business are "slow" or "soft" or various other adjectives, none of which are very exciting. Many in the economic world, including quotes in this newsletter, say we are either in a recession or heading for one. Many in the industry will say we are right now. Large backlogs have kept many recording nice sales levels, but as new orders continue to be less than shipments, sales levels will soon decline as many have already seen.

The overall economy is definitely slower. The GDP for the quarter reflected that and the economic news seems to say recession is near, though many would say it is already here, especially at the lower end.

As we write this edition, we are waiting for Congress to pass the bills that will keep the country from defaulting on its debt. We hope political games can make the right decisions for all and not just a few. It is a shame we have to get down to the last minute to get these things ironed out, but that seems to be the way things are these days. We hope those that control such things will not just "kick the can down the road".

We hope Memorial Day sales can stimulate some business at retail, but we all know that summertime generally is not the strongest period for furniture business for all the obvious reasons. As employment levels remain strong, we hope the recession, if it is coming or has already, is one that is short-lived and not very deep or "mild" as some have described.

As we note in the details of this month's survey, comparisons to prior periods continue to be difficult. The mix of strong demand then lessening, along with fluctuating prices adds to the confusion.

We hope that Memorial Day was a good holiday to help us to remember those who have and are serving our country.

EXECUTIVE SUMMARY, CONT.

National, cont.

Other, cont.

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

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.6% in April 2023 to 107.5, following a decline of 1.2% in March. The LEI is down 4.4% over the six-month period between October 2022 and April 2023.

“The LEI for the US declined for the thirteenth consecutive month in April, signaling a worsening economic outlook,” said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. The Conference Board forecasts a contraction of economic activity starting in Q2 leading to a mild recession by mid-2023.”

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of furniture manufacturers and distributors, new orders in March 2023 were down 14% compared to March 2022, when they were down 26% from March 2021 (for reference, March 2021 orders were up 96% over March 2020, the beginning of the pandemic, and March 2020 orders were down 29% due to a short month of operations as the pandemic set in and shut most down). Considering all the things that have affected comparisons, like the raw material price increases, freight ups and downs, labor shortages and rate increases, the best comparisons are made by looking at your individual company results and making your own comparisons. Approximately 71% of the participants reported lower orders vs March a year ago.

Year to date, orders were down 18% for the quarter compared to the first quarter of 2022. Orders were down for 78% of the participants.

Shipments and Backlogs

Shipments were down 16% in March vs March 2022. Shipments were down for 61% of the participants. For the quarter, shipments were down 9% compared to the first quarter of 2022. Shipments were down for 56% of the participants year to date. As can be seen below, backlogs have continued to fall so shipments are starting to follow new order rates more closely.

Backlogs were down 63% from March 2022 and down 6% from February. While for many, backlogs are still higher than in previous times, most are beginning to follow traditional lead times more closely.

Receivables and Inventories

Receivable levels were down 22% from March a year ago, somewhat reflecting the decrease in shipments of 19% year to date. We continue to believe that receivables will need to be watched closely as sales at retail continue to slow for many, putting pressure on cash. Fortunately, most have taken advantage of the PPP money as well as the Employee Retention Credits, allowing most to build cash during all this time of the pandemic.

Inventory levels fell 3% from February and reported a 5% decline from March 2022. We expect that while, with business slowing, inventory levels will remain somewhat high as many are not taking chances on shortages, due to the problems created during the pandemic.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees fell 1% from February 2023 and were down 6% from last March 2022. We would expect most of this to be through attrition as most companies were hiring anyone they could find during the run up in business.



ESTIMATED BUSINESS ACTIVITY (MILLIONS)			
2023			
	MAR	FEB	3 MOS
New Orders	2,243	2,053	6,224
Shipments	2,898	2,444	7,745
Backlog (R)	3,180	3,383	
2022			
	MAR	FEB	3 MOS
New Orders	2,623	2,462	7,553
Shipments	3,470	2,614	8,473
Backlog	8,702	9,112	

MONTHLY RESULTS – MAY 2023

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Mar 2023 from Feb 2023	Mar 2023 from Mar 2022	3 Mos 2023 vs 3 Mos 2022
New Orders	+6	-14	-18
Shipments	+8	-16	-19
Backlog	-6	-63	
Payrolls	+12	-6	-3
Employees	-1	-6	
Receivables	-2	-22	
Inventories	-3	-5	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

New Orders Shipments Backlog Employment

2022

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

2023

January	-25	-3	-40	-4
February	-17	-6	-62	-5
March	-14	-16	-63	-6

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index*® fell in May to 102.3 (1985=100), down from an upwardly revised 103.7 in April. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—decreased to 148.6 (1985=100) from 151.8 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—decreased slightly to 71.5 (1985=100) from 71.7. The *Expectations Index* has now remained below 80—the level associated with a recession within the next year—every month since February 2022, except for a brief uptick in December 2022.

“Consumer confidence declined in May as consumers' view of current conditions became somewhat less upbeat while their expectations remained gloomy,” said Ataman Ozyildirim, Senior Director, Economics at The Conference Board. “Their assessment of current employment conditions saw the most significant deterioration, with the proportion of consumers reporting jobs are ‘plentiful’ falling 4 points from 47.5% in April to 43.5% in May. Consumers also became more downbeat about future business conditions, weighing on the expectations index. However, expectations for jobs and incomes over the next six months held relatively steady. While consumer confidence has fallen across all age and income categories over the past three months, May's decline reflects a particularly notable worsening in the outlook among consumers over 55 years of age.”

“Consumers' inflation expectations remain elevated, but stable. Consumers in May expected inflation to average 6.1% over the next 12 months—essentially unchanged from 6.2% in April, though down substantially from the peak of 7.9% reached last year. Nonetheless, consumers continued to view inflation as a major influence on their view of the US economy. Plans to purchase homes in the next six months held steady in May at around 5.6% but was still notably down from 6 to 7% in Q4 2022. Meanwhile, plans to purchase autos and big-ticket appliances ticked up somewhat compared to April.”

Present Situation

Consumers' assessment of current business conditions improved marginally in May.

- 19.6% of consumers said business conditions were “good,” up from 19.0% last month.
- 17.0% said business conditions were “bad,” down from 18.1%. Consumers' appraisal of the labor market deteriorated.
- 43.5% of consumers said jobs were “plentiful,” down from 47.5%.
- 12.5% of consumers said jobs were “hard to get,” up from 10.6% last month.

Expectations Six Months Hence

Consumers remained pessimistic about the short-term business conditions outlook in May.

- 12.9% of consumers expect business conditions to improve, down from 14.1%.
- Meanwhile, 20.6% expect business conditions to worsen, down a bit from 21.4%. Consumers' assessment about the short-term labor market outlook was slightly more favorable.

- 13.6% of consumers expect more jobs to be available, down from 14.3%.
- However, 20.2% anticipate fewer jobs, down from 21.3%.

Consumers' short-term income prospects was, on balance, slightly more favorable.

- 17.8% of consumers expect their incomes to increase, up slightly from 17.3% last month.
- 11.5% expect their incomes will decrease, same as last month.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.6% in April 2023 to 107.5 (2016=100), following a decline of 1.2% in March. The LEI is down 4.4% over the six-month period between October 2022 and April 2023—a steeper rate of decline than its 3.8% contraction over the previous six months (April–October 2022).

“The LEI for the US declined for the thirteenth consecutive month in April, signaling a worsening economic outlook,” said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. “Weaknesses among underlying components were widespread—but less so than in March's reading, which resulted in a smaller decline. Only stock prices and manufacturers' new orders for both capital and consumer goods improved in April. Importantly, the LEI continues to warn of an economic downturn this year. The Conference Board forecasts a contraction of economic activity starting in Q2 leading to a mild recession by mid-2023.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.3% in April 2023 to 110.2 (2016=100), after rising by 0.2% in March. The CEI is now up 0.7% over the six-month period between October 2022 and April 2023—down from the 0.9% 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. While recent trends in manufacturing activity and industrial production have been weak, employment and income growth remain positive.

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 1.3% in the first quarter of 2023, according to the "second" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.6%.

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

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales decreased in April, according to the National Association of REALTORS®. All four major U.S. regions registered month-over-month and year-over-year sales declines.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – slid 3.4% from March to a seasonally adjusted annual rate of 4.28 million in April. Year-over-year, sales slumped 23.2% (down from 5.57 million in April 2022).

Single-family home sales fell to a seasonally adjusted annual rate of 3.85 million in April, down 3.5% from 3.99 million in March and 22.4% from the previous year. The median existing single-family home price was \$393,300 in April, down 2.1% from April 2022.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 430,000 units in April, down 2.3% from March and 29.5% from one year ago. The median existing condo price was \$348,000 in April, an annual increase of 0.7%.

"Home sales are bouncing back and forth but remain above recent cyclical lows," said NAR Chief Economist Lawrence Yun. "The combination of job gains, limited inventory and fluctuating mortgage rates over the last several months have created an environment of push-pull housing demand."

Total housing inventory registered at the end of April was 1.04 million units, up 7.2% from March and 1.0% from one year ago (1.03 million). Unsold inventory was at a 2.9-month supply at the current sales pace, up from 2.6 months in March and 2.2 months in April 2022.

The median existing-home price for all housing types in April was \$388,800, a decline of 1.7% from April 2022 (\$395,500). Prices rose in the Northeast and Midwest but retreated in the South and West. The median existing-home price for all housing types in March was \$375,700, a decline of 0.9% from March 2022 (\$379,300). Prices climbed slightly in three regions but dropped in the West.

"Roughly half of the country is experiencing price gains," Yun noted. "Even in markets with lower prices, primarily the expensive West region, multiple-offer situations have returned in the spring buying season following the calmer winter market. Distressed and forced property sales are virtually nonexistent."

Properties typically remained on the market for 22 days in April, down from 29 days in March but up from 17 days in April 2022. Seventy-three percent of homes sold in April were on the market for less than a month.

First-time buyers were responsible for 29% of sales in April, up from 28% in both March 2023 and April 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 dropped 1.9% from March to an annual rate of 510,000 in April, down 23.9% from April 2022. The median price in the Northeast was \$422,700, up 2.8% from the previous year.

In the Midwest, existing-home sales declined 1.9% from one month ago to an annual rate of 1.02 million in April, dropping 21.5% from the prior year. The median price in the Midwest was \$287,300, up 1.8% from April 2022.

Existing-home sales in the South decreased 3.4% from March to an annual rate of 1.98 million in April, a 20.2% decline from one year ago. The median price in the South was \$357,900, down 0.6% from April 2022.

In the West, existing-home sales slipped 6.1% from the previous month to an annual rate of 770,000 in April, down 31.3% from the previous year. The median price in the West was \$578,200, down 8.0% from April 2022.



New Residential Sales

Sales of new single-family houses in April 2023 were at a seasonally adjusted annual rate of 683,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 4.1% above the revised March rate of 656,000 and was 11.8% above the April 2022 estimate of 611,000. The median sales price of new houses sold in April 2023 was \$420,800. The average sales price was \$501,000.

The seasonally adjusted estimate of new houses for sale at the end of April was 433,000. This represents a supply of 7.6 months at the current sales rate.

Compared to April 2022, sales in April were up 20.6% in the Midwest and 23.4% in the South, while declining 46.7% in the Northeast and 2.8% in the West.

Housing Starts

Privately-owned housing starts in April were at a seasonally adjusted annual rate of 1,401,000. This was 2.2% above the revised March estimate of 1,371,000 but was 22.3% below the April 2022 rate of 1,803,000. Single-family housing starts in April were at a rate of 846,000; this was 1.6% above the revised March figure of 833,000 but down 28.1% from last April.

Single family starts regionally compared to April 2022 were down 42.6% in the Midwest, 27.6% in the South and 29.2% in the West, offset by a 15.1% increase in the Northeast.

Housing Completions

Privately-owned housing completions in April were at a seasonally adjusted annual rate of 1,375,000. This was 10.4% below the revised March estimate of 1,534,000 but was 1.0% above the April 2022 rate of 1,361,000. Single-family housing completions in April were at a rate of 971,000; this was 6.5% below the revised March rate of 1,039,000 and 5.2% below April 2022. Single family completions were up 31.6% in the Northeast and 1.7% in the Midwest but declined 1.2% in the South and 24.2% in the West.

A DEEPER DIVE – OTHER NATIONAL

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4% in April on a seasonally adjusted basis, after increasing 0.1% in March, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 4.9% before seasonal adjustment.

The index for shelter was the largest contributor to the monthly all items increase, followed by increases in the index for used cars and trucks and the index for gasoline. The increase in the gasoline index more than offset declines in other energy component indexes, and the energy index rose 0.6% in April. The food index was unchanged in April, as it was in March. The index for food at home fell 0.2% over the month, while the index for food away from home rose 0.4%.

The index for all items less food and energy rose 0.4% in April, as it did in March. Indexes which increased in April include shelter, used cars and trucks, motor vehicle insurance, recreation, household furnishings and operations, and personal care. The index for airline fares and the index for new vehicles were among those that decreased over the month.

The all-items index increased 4.9% for the 12 months ending April; this was the smallest 12-month increase since the period ending April 2021. The all items less food and energy index rose 5.5% over the last 12 months. The energy index decreased 5.1% for the 12 months ending April, and the food index increased 7.7% over the last year.

Retail Sales

Advance estimates of U.S. retail and food services sales for April 2023, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$686.1 billion, up 0.4% from the previous month, and up 1.6% above April 2022. Total sales for the February 2023 through April 2023 period were up 3.1% from the same period a year ago.

Retail trade sales were up 0.4% from March 2023, and up 0.5% above last year. Non-store retailers were up 8.0% from last year, while food services and drinking places were up 9.4% from April 2022.

On an adjusted basis, sales at furniture and home furnishings stores were down 6.4% from last year and down 1.6% year-to-date.

Employment

Total nonfarm payroll employment rose by 253,000 in April, and the unemployment rate changed little at 3.4%, the U.S. Bureau of Labor Statistics reported. Employment continued to trend up in professional and business services, health care, leisure and hospitality, and social assistance.

Both the unemployment rate, at 3.4%, and the number of unemployed persons, at 5.7 million, changed little in April. The unemployment rate has ranged from 3.4% to 3.7% since March 2022.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in April, up two consecutive months, increased \$3.1 billion or 1.1% to \$283.0 billion, according to the U.S. Census Bureau. This followed a 3.3% March increase. Excluding transportation, new orders decreased 0.2%. Excluding defense, new orders decreased 0.6%. Transportation equipment, also up two consecutive months, drove the increase, \$3.5 billion or 3.7% to \$97.6 billion.

Shipments of manufactured durable goods in April, down two of the last three months, decreased \$2.0 billion or 0.7% to \$277.7 billion. This followed a 0.7% March increase. Transportation equipment, down three of the last four months, led the decrease, \$1.6 billion or 1.8% to \$87.5 billion.

From the final report for March 2023, shipments of furniture and related products increased 1.6% over March 2022 and were up 2.8% year to date. Orders in March were up 1.6% over March 2022 and up 4.3% year to date.