FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

June 2023

HIGHLIGHTS – EXECUTIVE SUMMARY

The contraction of business continued in April, despite having the April market. We realize that it generally takes a while for market orders to come through. Hopefully we may see some pick up in the May results. New orders fell 19% in the April-to-April comparison and dropped 16% from March 2023. Orders fell for 84% of the participants. Year to date, orders were also down 19% with over 80% of the participants reporting a decline in new orders.

Shipments also continued to fall as shipments were down 28% for the month compared to April 2022 and were down 14% year to date. For the month, shipments dropped for 88% of the participants while the year-to-date decline was for only 60% of the participants. With shipment dollars exceeding new order dollars, backlogs fell 8% from March and were down 64% from last April, when they were still at extremely high levels.

Receivable levels seem in line with the monthly shipments, declining 31% and inventories were 12% below last year after a 5% decline in March. It will take some time to determine what inventory levels need to be, due to the decline in business plus how much "protection" is needed in the future due to supply shortages.

Ken Smith, CPA

The number of factory and warehouse employees fell again. We continue to believe attrition is taking care of some of the decline as well as underperformers, but business needs to pick up soon to avoid more serious cuts.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** increased in June to 109.7, up from 102.5 in May. The ***Present Situation Index*** rose to 155.3 from 148.9 last month. The ***Expectations Index*** rose to 79.3 from 71.5 in May. Expectations have remained below 80—the level associated with a recession within the next year—every month since February 2022, with the exception of a brief uptick in December 2022.

"Consumer confidence improved in June to its highest level since January 2022, reflecting improved current conditions and a pop in expectations," **said Dana Peterson, Chief Economist at The Conference Board**. Nonetheless, the expectations gauge continued to signal consumers anticipating a recession at some point over the next 6 to 12 months."

"Meanwhile, on a six-month moving average basis, **plans to purchase autos and homes have slowed**, after picking up earlier in 2023. Meanwhile, **vacation plans within the next six months continued to flag**, led largely by declines in plans to travel domestically. This is an important indicator of desires to spend on services ahead, which may be a signal that post-pandemic 'revenge spending' on travel may have peaked and is likely to slow over the rest of this year."

Housing

Existing home sales were mixed among the four major U.S. regions, with the South and West showing improvements and the Northeast and Midwest declining. All four regions experienced year-over-year sales declines.

Total existing-home sales in May rose 0.2% from April. Year-over-year, sales dropped 20.4%. Single-family home sales were down 0.3% in April and 20.0% from the previous year. The median existing single-family home price was down 3.4% from May 2022.

Total housing inventory was up 3.8% from April but down 6.1% from one year ago. The median existing-home price for all housing types in May was $396,100, a decline of 3.1% from May 2022.

Other

Advance estimates of U.S. retail and food services sales for May 2023 on an adjusted basis were up 0.3 percent from April, and up 1.6 percent above May 2022. Total sales for the March 2023 through May 2023 period were up 1.7 percent from the same period a year ago. Retail trade sales were up 0.3 percent from April 2023, and up 0.7 percent above last year. Nonstore retailers were up 6.5 percent from last year, while food services and drinking places were up 8.0 percent from May 2022. The largest gain year to date was at food services and drinking places, up 12.9 percent.

On an adjusted basis, sales at furniture and home furnishings stores in May were down 6.4 percent from May 2022 but were up slightly from April. Year to date, sales at these stores were down 2.9 percent from the same period a year ago.

The Conference Board Leading Economic Index® (LEI) for the U.S. declined by 0.7 percent in May 2023, following a decline of 0.6 percent in April. The LEI is down 4.3 percent over the six-month period between November 2022 and May 2023. Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board said the decline continues to point to weaker economic activity ahead. Rising interest rates paired with persistent inflation will continue to further dampen economic activity.

EXECUTIVE SUMMARY, CONT.

Thoughts

There is some good news out there. In some recent talks with industry leaders, we are hearing that there may have been some uptick recently in at least some areas. We continue to hear that, at the retail level, some still have too much inventory and customers coming in is not as brisk as some might like it, but overall, there seems to be some positive feeling. Things have been so difficult to compare, and we know that summertime usually has some slowdowns, but comments like "business can be described as good, not great," make us believe that many have been surprised that business has not fallen off like some expected it to do.

The increase in consumer confidence should be helpful. While the report noted that domestic travel may be slowing, you would never tell it by the crowds at the beaches a couple of weeks ago on our family trip. While prices at restaurants have certainly increased rather substantially, we are starting to hear that prices are leveling out. Even comments we heard about not many material price increases at the manufacturing level were good to hear. And lead times seem to have come down for most, which should help consumer decisions about buying.

Oh, and in the consumer price index report, did you see that the price of eggs were down almost 14%. For some reason, that really struck me as important. Of course, we have not seen that in the breakfast prices yet, but still it seemed important.

Have a great 4th of July. Celebrate our U.S. Independence Day.

EXECUTIVE SUMMARY, CONT.

National, cont.

Other, cont.

The all-items index of the consumer price index increased 4.0 percent for the 12 months ending May, the smallest 12-month increase since March 2021. The all-items less food and energy index rose 5.3 percent over the last 12 months. The energy index decreased 11.7 percent for the 12 months ending May, and the food index increased 6.7 percent over the last year.

Total nonfarm payroll employment increased by 339,000 in May, but the unemployment rate rose by 0.3 percentage point to 3.7 percent.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

New orders in April were down 19 % compared to April 2022 according to our latest survey of residential furniture manufacturers and distributors. April 2022 new orders were down 20% from April of 2021. Orders in April 2023 were down for 84% of the participants. There was a large variation in the results of the individual participants with some only off just a few percentage points, while others were off significantly.

Year to date, new orders were 19% below the first four months of 2022. Approximately 81% of the participants reported lower orders in April compared to last year. Year to date new orders in April 2022 were off 21% compared to April 2021. The comparisons of April 2021 to April 2020 are not meaningful as most were shut down in April 2020.

Shipments and Backlogs

Shipments in April 2023 were down 28% compared to April 2022. April 2022 shipments were up 13% over April 2021. The decline in April shipments was pretty much across the board as shipments were down for some 88% of our participants.

Year to date, shipments were down 14% compared to the first four months of 2022. Shipments year to date in April 2022 were up 6% compared to the same period of 2021. Year to date, shipments were down for only 60% of the participants.

Backlogs fell 8% from March as once again shipments in dollars exceeded new orders. Backlogs were down 64% from April 2022 backlogs when backlogs were still at all time high levels. From what we hear, most backlogs are pretty much back to more normal levels with deliveries at more normal times.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2023		
	APR	**MAR**	**4 MOS**
New Orders	1,920	2,243	8,089
Shipments	2,317	2,898	10,006
Backlog (R)	2,935	3,180	
	2022		
	APR	**MAR**	**4 MOS**
New Orders	2,384	2,623	9,937
Shipments	3,240	3,470	11,580
Backlog	8,265	8,702	

Receivables and Inventories

Receivable levels were down in April approximately 31% from April 2022, in line with the monthly decline in shipments of 28%. Receivables were down more than the 14% decline in year-to-date shipments, but we suspect that is more of a timing issue since shipments have slowed more in recent months. Overall, these levels seem reasonable.

Inventories fell 2% from March and were down 12% from last year's April levels. It is a bit hard to tell where we are on inventories at this point. We know some may have a bit too much in warehouses that were caught up in shortages due to freight and Asian issues earlier on, but it is not easy to tell if all those issues have rolled through at this time.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees declined again in April, dropping 2%. The number was also down 9% from last April, 3% higher than reported last month, so it appears that cuts are being made. Again, we feel that most cuts are coming from attrition as well as some underperformers as we are not hearing of significant layoffs, but if the decline in business continues, we expect more severe cuts will have to happen.

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Apr 2023 from Mar 2023	Apr 2023 from Apr 2022	4 Mos 2023 vs 4 Mos 2022
New Orders	-16	-19	-19
Shipments	-20	-28	-14
Backlog	-8	-64	
Payrolls	-15	-15	-6
Employees	-2	-9	
Receivables	-7	-31	
Inventories	-2	-12	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2022				
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
April	-19	-28	-64	-9

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** increased in June to 109.7 (1985=100), up from 102.5 in May. The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—rose to 155.3 (1985=100) from 148.9 last month. The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—rose to 79.3 (1985=100) from 71.5 in May. Expectations have 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. However, June's reading was just a shade below 80 and up sharply from last month's print.

"Consumer confidence improved in June to its highest level since January 2022, reflecting improved current conditions and a pop in expectations," **said Dana Peterson, Chief Economist at The Conference Board**. "Greater confidence was most evident among consumers under age 35, and consumers earning incomes over $35,000. Nonetheless, the expectations gauge continued to signal consumers anticipating a recession at some point over the next 6 to 12 months."

"Assessments of the present situation rose in June on sunnier views of both business and employment conditions. Indeed, the spread between consumers saying jobs are 'plentiful' versus 'not so plentiful' widened, indicating upbeat feelings about a labor market that continues to outperform. Likewise, expectations for the next six months improved materially, reflecting greater confidence about future business conditions and job availability."

"While income expectations ticked down slightly in June, new questions included in this month's release found a **notably brighter outlook for consumers' family finances**: Around 30 percent expect their family's financial situation to be 'better' in the next six months, compared to less than 14 percent expecting it to be 'worse.' This might reflect consumers' belief that labor market conditions will remain favorable and that there will be **further declines in inflation ahead**. Indeed, the 12-month forward inflation expectations gauge fell to 6 percent in June, the lowest reading since December 2020."

"Although the Expectations Index remained a hair below the threshold signaling recession ahead, a new measure found considerably fewer consumers now expect a recession in the next 12 months compared to May. Meanwhile, on a six-month moving average basis, **plans to purchase autos and homes have slowed**, after picking up earlier in 2023. This may reflect rising costs to finance big-ticket items as the Fed continues to raise interest rates. Meanwhile, **vacation plans within the next six months continued to flag**, led largely by declines in plans to travel domestically. This is an important indicator of desires to spend on services ahead, which may be a signal that post-pandemic 'revenge spending' on travel may have peaked and is likely to slow over the rest of this year."

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined by 0.7 percent in May 2023 to 106.7 (2016=100), following a decline of 0.6 percent in April. The LEI is down 4.3 percent over the six-month period between November 2022 and May 2023—a steeper rate of decline than its 3.8 percent contraction over the previous six months from May to November 2022.

"The US LEI continued to fall in May as a result of deterioration in the gauges of consumer expectations for business conditions, ISM® New Orders Index, a negative yield spread, and worsening credit conditions," **said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board**. "The US Leading Index has declined in each of the last fourteen months and continues to point to weaker economic activity ahead. Rising interest rates paired with persistent inflation will continue to further dampen economic activity. While we revised our Q2 GDP forecast from negative to slight growth, we project that the US economy will contract over the Q3 2023 to Q1 2024 period. The recession likely will be due to continued tightness in monetary policy and lower government spending."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.2 percent in May 2023 to 110.2 (2016=100), after rising by 0.3 percent in April. The CEI is now up 0.8 percent over the six-month period between November 2022 and May 2023—down slightly from the 0.9 percent 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 data for industrial production have contributed negatively to coincident index, sales, employment, and income growth remained positive.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.1 percent in May 2023 to 118.4 (2016 = 100), reversing a decline of 0.1 percent in April. The LAG is up 0.6 percent over the six-month period from November 2022 to April 2023, much slower than its growth rate of 3.3 percent over the previous six months.

A DEEPER DIVE – NATIONAL, CONT.

Consumer Confidence, cont.

Present Situation

Consumers' assessment of current **business conditions** improved marginally in June.

- 23.7% of consumers said business conditions were "good," up from 19.7% last month
- 16.3% said business conditions were "bad," down from 16.7%

Consumers' appraisal of the **labor market** deteriorated.

- 46.8% of consumers said jobs were "plentiful," up from 43.3%
- 12.4% of consumers said jobs were "hard to get," slightly lower than 12.6% last month

Expectations Six Months Hence

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

- 14.2% of consumers expect business conditions to improve, up from 13.2%
- Meanwhile, 17.7% expect business conditions to worsen, down from 21.4%

Consumers' assessment about the **short-term labor market outlook** was slightly more favorable.

- 15.5% of consumers expect more jobs to be available, up from 13.8%
- Moreover, 16.0% anticipate fewer jobs, down from 21.1%

Consumers' **short-term income prospects** worsened in June.

- 16.9% of consumers expect their incomes to increase, down from 18.9% last month
- 11.9% expect their incomes will decrease, up from 11.4% in May

Gross Domestic Product

Not available at press time.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales decreased in April, according to the National Existing-home sales marginally increased in May, according to the National Association of REALTORS®. Sales were mixed among the four major U.S. regions, with the South and West posting improvements and the Northeast and Midwest experiencing pullbacks. All four regions experienced year-over-year sales declines.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – rose 0.2% from April to a seasonally adjusted annual rate of 4.30 million in May. Year-over-year, sales dropped 20.4% (down from 5.40 million in May 2022).

Single-family home sales dipped to a seasonally adjusted annual rate of 3.85 million in May, down 0.3% from 3.86 million in April and 20.0% from the previous year. The median existing single-family home price was $401,100 in May, down 3.4% from May 2022.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 450,000 units in May, up 4.7% from April but down 23.7% from one year ago. The median existing condo price was $353,000 in May, nearly identical to the prior year ($353,100).

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, cont.

"Mortgage rates heavily influence the direction of home sales," said NAR Chief Economist Lawrence Yun. "Relatively steady rates have led to several consecutive months of consistent home sales."

Total housing inventory registered at the end of May was 1.08 million units, up 3.8% from April but down 6.1% from one year ago. Unsold inventory was at a 3.0-month supply at the current sales pace, up from 2.9 months in April and 2.6 months in May 2022.

"Available inventory strongly impacts home sales, too," Yun added. "Newly constructed homes are selling at a pace reminiscent of pre-pandemic times because of abundant inventory in that sector. However, existing-home sales activity is down sizably due to the current supply being roughly half the level of 2019."

The median existing-home price for all housing types in May was $396,100, a decline of 3.1% from May 2022 ($408,600). Prices grew in the Northeast and Midwest but fell in the South and West.

Properties typically remained on the market for 18 days in May, down from 22 days in April but up from 16 days in May 2022. Seventy-four percent of homes sold in May were on the market for less than a month.

First-time buyers were responsible for 28% of sales in May, down from 29% in April but up from 27% in May 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.

Regional

Existing-home sales in the Northeast declined 2.0% from April to an annual rate of 500,000 in May, down 25.4% from May 2022. The median price in the Northeast was $439,000, up 2.5% from one year ago.

In the Midwest, existing-home sales dropped 2.9% from one month ago to an annual rate of 990,000 in May, decreasing 20.8% from the previous year. The median price in the Midwest was $298,000, up 1.1% from May 2022.

Existing-home sales in the South increased 1.5% from April to an annual rate of 2.02 million in May, sliding 16.5% from the prior year. The median price in the South was $361,400, down 2.7% from May 2022.

In the West, existing-home sales rose 2.6% from the previous month to an annual rate of 790,000 in May, down 25.5% from one year ago. The median price in the West was $596,500, down 5.7% from May 2022.

New Residential Sales

Sales of new single-family houses in May 2023 were at a seasonally adjusted annual rate of 763,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 12.2 percent above the revised April rate of 680,000 and was 20.0 percent above the May 2022 estimate of 636,000.

Compared to May 2022, sales of new houses were up 110.5 percent in the Northeast, 40 percent in the Midwest and 22 percent in the South while falling 0.6 percent in the West.

The median sales price of new houses sold in May 2023 was $416,300. The average sales price was $487,300. The seasonally adjusted estimate of new houses for sale at the end of May was 428,000. This represents a supply of 6.7 months at the current sales rate.

Housing Starts

Privately owned housing starts in May were at a seasonally adjusted annual rate of 1,631,000. This was 21.7 percent above the revised April estimate of 1,340,000 and was 5.7 percent above the May 2022 rate of 1,543,000. Single-family housing starts in May were at a rate of 997,000; this was 18.5 percent above the revised April figure of 841,000 but down 6.6% compared to May 2022.

Single family starts were up 12.7% in the Northeast and 5.7% in the Midwest but down 3.9% in the South and 24.5% in the West.

Housing Completions

Privately owned housing completions in May were at a seasonally adjusted annual rate of 1,518,000. This was 9.5 percent above the revised April estimate of 1,386,000 and was 5.0 percent above the May 2022 rate of 1,446,000. Single-family housing completions in May were at a rate of 1,009,000; this was 3.9 percent above the revised April rate of 971,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for May 2023, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $686.6 billion, up 0.3 percent from the previous month, and up 1.6 percent above May 2022. Total sales for the March 2023 through May 2023 period were up 1.7 percent from the same period a year ago. Retail trade sales were up 0.3 percent from April 2023, and up 0.7 percent above last year. Nonstore retailers were up 6.5 percent from last year, while food services and drinking places were up 8.0 percent from May 2022. The largest gain year to date was at food services and drinking places, up 12.9 percent.

On an adjusted basis, sales at furniture and home furnishings stores in May were down 6.4 percent from May 2022 but were up slightly from April. Year to date, sales at these stores were down 2.9 percent from the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1 percent in May on a seasonally adjusted basis, after increasing 0.4 percent in April, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 4.0 percent before seasonal adjustment.

The index for shelter was the largest contributor to the monthly all items increase, followed by an increase in the index for used cars and trucks. The food index increased 0.2 percent in May after being unchanged in the previous 2 months. The index for food at home rose 0.1 percent over the month while the index for food away from home rose 0.5 percent. The energy index, in contrast, declined 3.6 percent in May as the major energy component indexes fell.

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

The all-items index increased 4.0 percent for the 12 months ending May; this was the smallest 12-month increase since the period ending March 2021. The all items less food and energy index rose 5.3 percent over the last 12 months. The energy index decreased 11.7 percent for the 12 months ending May, and the food index increased 6.7 percent over the last year.

An interesting change was the index for meats, poultry, fish, and eggs decreased 1.2 percent in May, as the index for eggs fell 13.8 percent, the largest decrease in that index since January 1951.

Employment

Total nonfarm payroll employment increased by 339,000 in May, and the unemployment rate rose by 0.3 percentage point to 3.7 percent, the U.S. Bureau of Labor Statistics reported. Job gains occurred in professional and business services, government, health care, construction, transportation and warehousing, and social assistance.

The unemployment rate increased by 0.3 percentage point to 3.7 percent in May, and the number of unemployed persons rose by 440,000 to 6.1 million. The unemployment rate has ranged from 3.4 percent to 3.7 percent since March 2022.22.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in May, up three consecutive months, increased 1.7 percent to $288.2 billion, according to the U.S. Census Bureau announcement. This followed a 1.2 percent April increase. Excluding transportation, new orders increased 0.6 percent. Excluding defense, new orders increased 3.0 percent. Transportation equipment, also up three consecutive months, led the increase at 3.9 percent to $102.6 billion.

Shipments of manufactured durable goods in May, up two of the last three months, increased 1.7 percent to $282.7 billion. This followed a 0.6 percent April decrease. Transportation equipment, also up two of the last three months, led the increase at 4.6 percent to $91.8 billion.