FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

July 2023

HIGHLIGHTS – EXECUTIVE SUMMARY

As we expected, the results of our survey for May continued to indicate slow business for the most part. While orders in May were up 15% over May 2022, a good portion of that increase appeared to be caused by certain larger retailers making large commitments for certain parts for the rest of the year. But 64% of the participants did post increases in orders so that was a good sign. Still, year to date, new orders were down 13% with 78% of the participants reporting a decline in year-to-date orders.

Shipments were down 18% from May 2022 and down 15% year-to-date. The year-to-date numbers were a bit more mixed as 63% reported a decrease in year-to-date shipments. Backlogs fell slightly from April and were down 61% from last year. Backlogs seem to be back to more normal levels now considering the built-in price increases and new order rates.

Ken Smith, CPA

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** rose again in July to 117.0, up from 110.1 in June. The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—improved to 160.0 from 155.3 last month. The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—improved to 88.3 from 80.0 in June. Importantly, Expectations climbed well above 80—the level that historically signals a recession within the next year. Despite rising interest rates, consumers are more upbeat, likely reflecting lower inflation and a tight labor market. It was interesting to us that the report said that "although consumers are less convinced of a recession ahead, we (The Conference Board) still anticipate one likely before yearend."

The report noted, "greater confidence was evident across all age groups, and among both consumers earning incomes less than $50,000 and those making more than $100,000."

On the other hand, the Leading Economic Index® (LEI) for the U.S. declined by 0.7% in June 2023 following a decline of 0.6% in May. The LEI is down 4.2% over the six-month period between December 2022 and June 2023—a steeper rate of decline than its 3.8% contraction over the previous six months (June to December 2022).

The report indicated that the Leading Index has been in decline for fifteen months—the longest streak of consecutive decreases since 2007-08, during the runup to the Great Recession. Taken together, June's data suggests economic activity will continue to decelerate in the months ahead. They forecast that the US economy is likely to be in recession from Q3 2023 to Q1 2024.

Housing

Existing-home sales slipped in June, with sales mixed in the four major U.S. regions, with the Northeast experiencing gains, the Midwest holding steady, and the South and West posting decreases. All four regions recorded year-over-year sales declines.

Single-family home sales declined 3.4% from 3.85 million in May and 18.8% from the previous year. The median existing single-family home price was $416,000 in June, down 1.2% from June 2022.

Sales of new single-family houses in June 2023 were at a seasonally adjusted annual rate of 697,000. This was 2.5% below the revised May rate of 715,000, but was 23.8% above the June 2022 estimate of 563,000.

The median sales price of new houses sold in June 2023 was $415,400. The average sales price was $494,700. The seasonally adjusted estimate of new houses for sale at the end of June was 432,000. This represents a supply of 7.4 months at the current sales rate.

Gross Domestic Product

Real GDP increased at an annual rate of 2.4% in the second quarter of 2023, according to the "advance" estimate. In the first quarter, real GDP increased 2.0%.

The increase in real GDP reflected increases in, among other things, consumer spending. The increase in consumer spending reflected increases in both services and goods. Imports, which are a subtraction in the calculation of GDP, decreased.

EXECUTIVE SUMMARY, CONT.

Thoughts

To us, it seems difficult for the overall economy to really know what the expectations should be. Consumer confidence is up, though that report still mentions recession in spite of the employment numbers being really good. The second quarter GDP report was positive and back in a more normal range, yet the Leading Economic Indicators report predicts we are in a recession beginning third quarter through first quarter 2024. The consumer price index keeps retreating in spite of gas prices rising, though we wonder what the real situation is when the price of a $10 item goes up 8% creating 8% inflation. Then if inflation tames to 3%, doesn't that really mean the $10 item went to $10.80 and then at 3% the item would be $11.12.

Anyway, we are not economists, so we leave it up to you to know what all this means to your business. As we have hammered the point so many times, this is not one industry but a whole bunch of different industries rolled into one. Each of you, in effect, has your own. It is great where the total industry is rising, but when the tables turn as they seem to have done recently, you have to look at your own results in comparison to what our numbers say, then take a realistic look at why you are better or worse, and why.

Let's hope that if it is a recession, it is one that we hardly notice as we hope to return to more normal times soon.

EXECUTIVE SUMMARY, CONT.

National, cont.

Other

Advance estimates of retail and food services sales for June 2023, were up 0.2% from the previous month, and up 1.5% above June 2022. Total sales for the April 2023 through June 2023 period were up 1.6% from the same period a year ago. Retail trade sales were up 0.2% from May 2023, and up 0.5% above last year. Non-store retailers were up 9.4% from last year, while food services and drinking places were up 8.4% from June 2022.

Sales at furniture and home furnishings stores in June were up 1.4% over May but down 4.6% compared to June 2022. Sales at these stores were down 3.2% year to date.

The Consumer Price Index for All Urban Consumers rose 0.2% in June, after increasing 0.1% in May. Over the last 12 months, the all-items index increased 3.0% before seasonal adjustment.

The index for shelter was the largest contributor to the monthly all items increase, accounting for over 70% of the increase, with the index for motor vehicle insurance also contributing. The food index increased 0.1% in June. The index for food at home was unchanged over the month while the index for food away from home rose 0.4% in June. The energy index rose 0.6% in June as the major energy component indexes were mixed.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in May 2023 were up 15% over May 2022. New orders were up for some 64% of the participants. From some questions we asked, it seems that some large dealers placed some large orders to be shipped over a period of time, so this may cause some reduction in the June numbers.

Year to date, orders were still down some 13% from the same period a year ago. Orders year to date were down for approximately 78% of the participants.

Shipments and Backlogs

Shipments fell once again in May, off 18% from May 2022. Shipments were down for 71% of the participants. Year to date, shipments were down 15% from the same period last year. Some 63% of the participants reported a decline in shipments year to date versus last year.

Backlogs were down slightly in May as shipment dollars were slightly more than the dollar amount of new orders. Backlogs were down some 61% from last year, similar to the 64% decline reported last month.

Receivables and Inventories

Receivables increased 2% in May over April as shipments were also up over April. The difference is probably some timing issues. From May of 2022, receivables were down 30% with shipments only off 18%. Again, we believe that is likely a timing issue.

Inventories were down 23% from last year and down 5% from April. The 23% decline from last year compared to a 12% decline reported last month. From what we are hearing, and considering price increases, it appears that inventory levels at the manufacturers and distributors are at least somewhat in line with current business conditions.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was down 9% from last May, similar to that reported last month, the number of employees did fall 1% from April. Payrolls were down 13% from last May and 8% year to date. Once again, it appears that the declines in payrolls and numbers of employees is being handled through attrition.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2023		
	MAY	APR	5 MOS
New Orders	2,289	1,920	10,378
Shipments	2,433	2,317	12,439
Backlog (R)	2,876	2,935	
	2022		
	MAY	APR	5 MOS
New Orders	1,982	2,384	11,919
Shipments	2,969	3,240	14,549
Backlog	7,476	8,265	

KEY MONTHLY INDICATORS (PERCENT CHANGE)	May 2023 from Apr 2023	May 2023 from May 2022	5 Mos 2023 vs 5 Mos 2022
New Orders	+24	+15	-13
Shipments	+13	-18	-15
Backlog	-2	-61	
Payrolls	+4	-13	-8
Employees	-1	-9	
Receivables	+2	-30	
Inventories	-5	-23	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2022				
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
May	+15	-18	-61	-9

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board ***Consumer Confidence Index***® rose again in July to 117.0 (1985=100), up from 110.1 in June. The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—improved to 160.0 (1985=100) from 155.3 last month. The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—improved to 88.3 (1985=100) from 80.0 in June. Importantly, Expectations climbed well above 80—the level that historically signals a recession within the next year. Despite rising interest rates, consumers are more upbeat, likely reflecting lower inflation and a tight labor market. Although consumers are less convinced of a recession ahead, we still anticipate one likely before yearend.

"Consumer confidence rose in July 2023 to its highest level since July 2021, reflecting pops in both current conditions and expectations," **said Dana Peterson, Chief Economist at The Conference Board.** "Headline confidence appears to have broken out of the sideways trend that prevailed for much of the last year. Greater confidence was evident across all age groups, and among both consumers earning incomes less than $50,000 and those making more than $100,000."

Present Situation

Consumers' assessment of current **business conditions** was slightly less optimistic in July.

- 21.9% of consumers said business conditions were "good," down from 23.4% last month.
- 15.2% said business conditions were "bad," essentially unchanged from 15.3%.

However, consumers' appraisal of the **labor market** improved.

- 46.8% of consumers said jobs were "plentiful," up from 43.3%.
- 9.7% of consumers said jobs were "hard to get," much lower than 12.6% last month.

Expectations Six Months Hence

Consumers were more optimistic about the **short-term business conditions outlook** in July.

- 17.1% of consumers expect business conditions to improve, up from 14.6%.
- Meanwhile, 14.0% expect business conditions to worsen, down from 17.7% in June.

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

- 16.4% of consumers expect more jobs to be available, up from 15.4%.
- Moreover, 14.8% anticipate fewer jobs, down from 16.7%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined by 0.7% in June 2023 to 106.1 (2016=100), following a decline of 0.6% in May. The LEI is down 4.2% over the six-month period between December 2022 and June 2023—a steeper rate of decline than its 3.8% contraction over the previous six months (June to December 2022).

"The US LEI fell again in June, fueled by gloomier consumer expectations, weaker new orders, an increased number of initial claims for unemployment, and a reduction in housing construction," said **Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board.** "The Leading Index has been in decline for fifteen months—the longest streak of consecutive decreases since 2007-08, during the runup to the Great Recession. Taken together, June's data suggests economic activity will continue to decelerate in the months ahead. We forecast that the US economy is likely to be in recession from Q3 2023 to Q1 2024. Elevated prices, tighter monetary policy, harder-to-get credit, and reduced government spending are poised to dampen economic growth further."

The Conference Board Coincident Economic Index® (CEI) for the U.S. remained unchanged in June 2023 at 110.0 (2016=100), after rising by 0.2% in May. The CEI is now up 0.6% over the six-month period between December 2022 and June 2023—down from the 1.1% 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. For the past two months, industrial production has contributed negatively to the coincident index, offsetting gains from employment, sales, and income growth components.

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.4% in the second quarter of 2023, according to the "advance" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 2.0%.

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

The increase in consumer spending reflected increases in both services and goods. Within services, the leading contributors to the increase were housing and utilities, health care, financial services and insurance, and transportation services. Within goods, the increase was led by recreational goods and vehicles as well as gasoline and other energy goods. The increase in nonresidential fixed investment reflected increases in equipment, structures, and intellectual property products. The increase in state and local spending reflected increases in compensation of state and local government employees and gross investment in structures. The increase in private inventory investment reflected increases in both farm and nonfarm inventories.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales slipped in June, according to the National Association of REALTORS®. Sales varied among the four major U.S. regions, with the Northeast experiencing gains, the Midwest holding steady, and the South and West posting decreases. All four regions recorded year-over-year sales declines.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – receded 3.3% from May to a seasonally adjusted annual rate of 4.16 million in June. Year-over-year, sales fell 18.9% (down from 5.13 million in June 2022).

Single-family home sales decreased to a seasonally adjusted annual rate of 3.72 million in June, down 3.4% from 3.85 million in May and 18.8% from the previous year. The median existing single-family home price was $416,000 in June, down 1.2% from June 2022.

Existing condominium and co-op sales recorded a seasonally adjusted annual rate of 440,000 units in June, down 2.2% from May and 20.0% from one year ago. The median existing condo price was $361,600 in June, up 1.9% from the previous year ($354,800).

"The first half of the year was a downer for sure with sales lower by 23%," said NAR Chief Economist Lawrence Yun. "Fewer Americans were on the move despite the usual life-changing circumstances. The pent-up demand will surely be realized soon, especially if mortgage rates and inventory move favorably."

Total housing inventory registered at the end of June was 1.08 million units, identical to May but down 13.6% from one year ago (1.25 million). Unsold inventory sits at a 3.1-month supply at the current sales pace, up from 3.0 months in May and 2.9 months in June 2022.

"There are simply not enough homes for sale," Yun added. "The market can easily absorb a doubling of inventory."

The median existing-home price for all housing types in June was $410,200, the second-highest price of all time and down 0.9% from the record-high of $413,800 in June 2022. The monthly median price surpassed $400,000 for the third time, joining June 2022 and May 2022 ($408,600). Prices rose in the Northeast and Midwest but waned in the South and West.

"Home sales fell but home prices have held firm in most parts of the country," Yun said. "The national median home price in June was slightly less than the record high of nearly $414,000 in June of last year. Limited supply is still leading to multiple-offer situations, with one-third of homes getting sold above the list price in the latest month."

Properties typically remained on the market for 18 days in June, identical to May but up from 14 days in June 2022. Seventy-six percent of homes sold in June were on the market for less than a month.

First-time buyers were responsible for 27% of sales in June, down from 28% in May and 30% in June 2022. NAR's 2022 ***Profile of Home Buyers and Sellers*** – released in November 2024 – 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 grew 2.0% from May to an annual rate of 510,000 in June, down 21.5% from June 2022. The median price in the Northeast was $475,300, up 4.9% from the prior year.

In the Midwest, existing-home sales were unchanged from one month ago at an annual rate of 990,000 in June, slumping 19.5% from one year ago. The median price in the Midwest was $311,800, up 2.1% from June 2022.

Existing-home sales in the South faded 5.4% from May to an annual rate of 1.91 million in June, a decrease of 16.2% from the previous year. The median price in the South was $366,600, down 1.2% from June 2022.

In the West, existing-home sales declined 5.1% from the previous month to an annual rate of 750,000 in June, down 22.7% from one year ago. The median price in the West was $606,500, down 3.4% from June 2022.

New Residential Sales

Sales of new single-family houses in June 2023 were at a seasonally adjusted annual rate of 697,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 2.5% below the revised May rate of 715,000 but was 23.8% above the June 2022 estimate of 563,000.

The median sales price of new houses sold in June 2023 was $415,400. The average sales price was $494,700. The seasonally adjusted estimate of new houses for sale at the end of June was 432,000. This represents a supply of 7.4 months at the current sales rate.

Compared to June 2022, sales of privately owned houses were up 141.2% in the Northeast, down 13.1% in the Midwest, and up 21.4% in the South and up 34.9% in the West.

Housing Starts

Privately-owned housing starts in June were at a seasonally adjusted annual rate of 1,434,000. This was 8.0% below the revised May estimate of 1,559,000 and was 8.1% below the June 2022 rate of 1,561,000. Single-family housing starts in June were at a rate of 935,000; this was 7.0% below the revised May figure of 1,005,000.

Compared to June 2022, single family starts were down 7.4% overall and down 25.2% in the Northeast, 21.0% in the Midwest, 3.2% in the South and 6.6% in the West.

Housing Completions

Privately-owned housing completions in June were at a seasonally adjusted annual rate of 1,468,000. This was 3.3% below the revised May estimate of 1,518,000 but was 5.5% above the June 2022 rate of 1,392,000. Single-family housing completions in June were at a rate of 986,000; this was 2.8% below the revised May rate of 1,014,000. buildings with five units or more was 476,000.

Single family completions were down 2.3% from last June, led by a decline of 11.3% in the Midwest and 5.8% in the West.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for June 2023, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $689.5 billion, up 0.2% from the previous month, and up 1.5% above June 2022. Total sales for the April 2023 through June 2023 period were up 1.6% from the same period a year ago. Retail trade sales were up 0.2% from May 2023, and up 0.5% above last year. Non-store retailers were up 9.4% from last year, while food services and drinking places were up 8.4% from June 2022.

Sales at furniture and home furnishings stores in June were up 1.4% over May but down 4.6% compared to June 2022. Sales at these stores were down 3.2% year to date.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2% in June on a seasonally adjusted basis, after increasing 0.1% in May, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 3.0% before seasonal adjustment.

The index for shelter was the largest contributor to the monthly all items increase, accounting for over 70% of the increase, with the index for motor vehicle insurance also contributing.

The food index increased 0.1% in June after increasing 0.2% the previous month. The index for food at home was unchanged over the month while the index for food away from home rose 0.4% in June. The energy index rose 0.6% in June as the major energy component indexes were mixed.

The index for all items less food and energy rose 0.2% in June, the smallest 1-month increase in that index since August 2021. Indexes which increased in June include shelter, motor vehicle insurance, apparel, recreation, and personal care. The indexes for airline fares, communication, used cars and trucks, and household furnishings and operations were among those that decreased over the month.

The all-items index increased 3.0% for the 12 months ending June; this was the smallest 12-month increase since the period ending March 2021. The all items less food and energy index rose 4.8% over the last 12 months. The energy index decreased 16.7% for the 12 months ending June, and the food index increased 5.7% over the last year.

Employment

Total nonfarm payroll employment increased by 209,000 in June, and the unemployment rate changed little at 3.6%, according to the U.S. Bureau of Labor Statistics report. Employment continued to trend up in government, health care, social assistance, and construction.

Both the unemployment rate, at 3.6%, and the number of unemployed persons, at 6.0 million, changed little in June. The unemployment rate has ranged from 3.4% to 3.7% since March 2022.

The number of long-term unemployed (those jobless for 27 weeks or more), at 1.1 million, changed little in June and accounted for 18.5% of the total unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in June, up four consecutive months, increased 4.7% to $302.5 billion, the U.S. Census Bureau announced. This followed a 2.0% May increase. Excluding transportation, new orders increased 0.6%. Excluding defense, new orders increased 6.2%. Transportation equipment, also up four consecutive months, led the increase, $12.4 billion or 12.1% to $115.3 billion.

Shipments of manufactured durable goods in June, up three of the last four months, increased 0.3% to $284.2 billion. This followed a 2.0% May increase. Fabricated metal products, up four of the last five months, led the increase, $0.4 billion or 1.2% to $35.8 billion.