# FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

**August 2023**

## HIGHLIGHTS – EXECUTIVE SUMMARY

Once again, the results of our recent survey of residential furniture manufacturers and distributors require explanation more than just a comparison. New orders in June 2023 were up 23% over June 2022, which at first glance, sounds like things were picking up. But looking back to June 2022, that survey indicated that new orders were actually down some 39% from June 2021. We will give more comparison in the full report, but suffice it to say, the June results were not as rosy as the results might appear. Year to date, new orders were down 8% compared to the same period in 2022. Some 71% of the participants were down year to date.

Shipments in June 2023 were down 28% from June 2022 when they were up 10% over June 2021. Again, the comparisons need more explanation. See the Highlights – Monthly Results section for a more in-depth discussion. For the month, shipments were down for 74% of the participants. Year to date, shipments were down 17% with just over 70% of the participants reporting lower shipments.

**Ken Smith, CPA**

Backlogs were up slightly as orders in June were slightly higher than shipments in dollars but were down 58% from June 2022, compared to a decrease of 61% reported last month.

Receivable levels were down significantly, slightly lower than the decrease in shipments. Inventory levels dropped again in June and were down 26% compared to last year. The number of factory and warehouse employees fell again as well as payrolls.

# EXECUTIVE SUMMARY, CONT.

## National

### Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** declined in August to 106.1, from a downwardly revised 114.0 in July. The ***Present Situation Index*** fell to 144.8 from 153.0. The ***Expectations Index*** declined to 80.2 in August, from 88.0 in July. Expectations were slightly above 80—the level that historically signals a recession within the next year. "Write-in responses showed that consumers were once again preoccupied with rising prices in general, and for groceries and gasoline in particular. The pullback in consumer confidence was evident across all age groups."

"The proportion of consumers saying **recession** is 'somewhat' or 'very likely' ticked down again in August but remain elevated at 69.0%. These soundings likely reflect ongoing uncertainty given mixed **buying plans**. On a six-month moving average basis, plans to purchase autos and appliances continued to trend upward but plans to buy homes—more in line with rising interest rates—continued to trend downward."

**The Conference Board Leading Economic Index®** (LEI) for the U.S. declined by 0.4% in July 2023, following a decline of 0.7% in June. The LEI is down 4.0% over the six-month period between January and July 2023. The report indicated that the outlook "remains highly uncertain. The leading index continues to suggest that economic activity is likely to decelerate and descend into mild contraction in the months ahead. The Conference Board now forecasts a short and shallow recession in the Q4 2023 to Q1 2024 timespan."

### Housing

Existing-home sales fell 2.2% in July 2023 compared to June 2023 and were down 16.6% in year-over-year sales. Among the four major U.S. regions, sales grew in the West but faded in the Northeast, Midwest and South. All four regions were down in year-over-year sales.

Single-family home sales in July fell 1.9% from June and 16.3% from the previous year. The median existing single-family home price for all housing types in July was $406,700, an increase of 1.9% from July 2022.

"Two factors are driving current sales activity – inventory availability and mortgage rates," said NAR Chief Economist Lawrence Yun. "Unfortunately, both have been unfavorable to buyers." Unsold inventory was at a 3.3-month supply at the current sales pace, up from 3.1 months in June and 3.2 months in July 2022.

Sales of new single-family houses in July 2023 were 4.4% above the revised June rate of 684,000 and were 31.5% above the July 2022 estimate.

The median sales price of new houses sold in July 2023 was $436,700. The average sales price was $513,000. The seasonally adjusted estimate of new houses for sale at the end of July was 437,000. This represents a supply of 7.3 months at the current sales rate.

Sales were up substantially in all four regions of the country compared to last year.

Privately owned single-family housing starts in July were 6.7% above the revised June estimate. Starts were up in three regions but offset by a decline in the Northeast.

## EXECUTIVE SUMMARY, CONT.

### Thoughts

We were trying to determine what should be said about the current survey and tie in what we are currently hearing about business in general, then try to put that together with what the near-term future might look like. We hear things like, retail seems to be doing ok and have good (maybe not high) expectations for the rest of the year. We also think that 2024 could be our next base year since we tried using 2019, but that has not worked very well on an overall basis due to fluctuations in pricing.

But when we look out to see ahead, we say, well that depends on, can we keep inflation under control and maybe even get a little back, especially with fuel prices and some food prices. Then we say, what will happen in the political world with the Presidential races and what about the economic problems in China? Will the expected recession have a soft landing or have we already had it? What is happening in the banking world, especially for the furniture world? The list goes on and on.

As we continue to say, the industry is not one industry but a whole bunch of individual companies under one large umbrella. Each has its own niche and its own financing needs, its own style of management and sell to different parts of the industry through different channels at different price points.

But the folks in the industry, as a whole, figure a way to work through the murky waters. Not all, as evidenced by some of the closings lately, but when it is all said and done, we are not sure that the failures were all indicative of a bad industry. We do believe that we will get back to the typical industry ways of the more normal ups and a few downs. There probably will be more failures as there always have been, but people still need furniture. As we always say, you don't have to sell all the furniture in the world. You just have to sell your share at margins you need. You just have to figure out what your share has to be.

## EXECUTIVE SUMMARY, CONT.

### National, cont.

#### Other

Advance estimates of U.S. retail and food services sales for July 2023, were up 0.7% from the previous month, and up 3.2% above July 2022. Total sales for the May 2023 through July 2023 period were up 2.3% from the same period a year ago. Retail trade sales were up 0.6% from June 2023, and up 2.0% above last year.

Sales at furniture and home furnishing stores in July 2023 were down 6.3% from July 2022. Sales at these stores were down 3.8% year to date. But remember that sales at these stores were up 15.6% in July 2021 over July 2020 and about even in 2022 with 2021.

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2% in July on a seasonally adjusted basis, the same increase as in June. The index for shelter was by far the largest contributor to the monthly all-items increase, accounting for over 90% of the increase. The food index increased 0.2% in July after increasing 0.1% the previous month.

The all-items index increased 3.2% for the 12 months ending July, slightly more than the 3.0% increase for the 12 months ending in June. The all items less food and energy index rose 4.7% over the last 12 months. The energy index decreased 12.5% for the 12 months ending July, and the food index increased 4.9% over the last year.

## HIGHLIGHTS – MONTHLY RESULTS

### New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders increased 23% in June 2023 over June 2022. That increase though requires some explanation as while the increase looks good at first glance, you have to look behind the pure percentage. In June 2022, new orders were down 39%, apparently affected by some significant cancellations that had started somewhat in May but were apparently substantial in some cases. June 2021 orders were only up 7%. But adding to that confusion, June 2020 orders were up 30% over June 2019 as the first real business boom after the pandemic shutdowns.

Year to date, orders were down 8% versus the first six months of 2022. For the six months, orders were down for over 70% of the participants. Year to date 2022 orders were down 27% from the first six months of 2021, but new orders in the first six months of 2021 were up 51% over the pandemic affected 2020. Confusing? We know.

### Shipments and Backlogs

Shipments in June 2023 were down 28% compared to June 2022, when shipments were up 10% over June 2021. June 2021 shipments were up some 38% over June 2020 when people were just getting back to work to be able to ship.

Year to date shipments were down 17% following a 7% increase in 2022 compared to 2021. Year to date, shipments were down for over 70% of the participants.

Backlogs increased slightly, as the dollar amount of orders exceeded the dollar amount of shipments but were down 58% from June last year. June 2022 backlogs were down 17% from June 2021.

### Receivables and Inventories

Receivable levels were down 36% from June 2022, slightly lower than the 28% decline in shipments. Receivables were up 1% from May, in line with the 1% increase in shipments from May to June.

Inventories continued to fall, down 4% from May and down 26% from June of last year. It appears that inventories for many are getting back in line with current business conditions.

### Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees fell 1% from May and was down 9% compared to last year. Payrolls were down 17% from June 2022 and were down 9% year to date. We would expect payrolls to continue to decline.

**ESTIMATED BUSINESS ACTIVITY (MILLIONS)**

| | 2023 | | |
|---|---|---|---|
| | JUN | MAY | 6 MOS |
| New Orders | 2,542 | 2,289 | 12,920 |
| Shipments | 2,477 | 2,433 | 14,916 |
| Backlog | 2,916 | 2,876 | |
| | **2022** | | |
| | JUN | MAY | 6 MOS |
| New Orders | 2,067 | 1,982 | 13,986 |
| Shipments | 3,465 | 2,969 | 18,014 |
| Backlog | 6,584 | 7,476 | |

| KEY MONTHLY INDICATORS (PERCENT CHANGE) | | | |
|---|---|---|---|
| | Jun 2023 from May 2023 | Jun 2023 from Jun 2022 | 6 Mos 2023 vs 6 Mos 2022 |
| **New Orders** | -7 | +23 | -8 |
| **Shipments** | +1 | -28 | -17 |
| **Backlog** | +1 | -58 | |
| **Payrolls** | -5 | -17 | -9 |
| **Employees** | -1 | -9 | |
| **Receivables** | +1 | -36 | |
| **Inventories** | -4 | -26 | |

| PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR | | | | |
|---|---|---|---|---|
| | New Orders | Shipments | Backlog | Employment |
| **2022** | | | | |
| 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 |
| June | +23 | -28 | -58 | -9 |

# A DEEPER DIVE – NATIONAL

## Consumer Confidence

The Conference Board ***Consumer Confidence Index***® declined in August to 106.1 (1985=100), from a downwardly revised 114.0 in July. The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—fell to 144.8 (1985=100) from 153.0. The ***Expectations Index***— based on consumers' short-term outlook for income, business, and labor market conditions—declined to 80.2 (1985=100) in August, reversing July's sharp uptick to 88.0. Expectations were a hair above 80—the level that historically signals a recession within the next year. Although consumer fears of an impending recession continued to recede, we still anticipate one is likely before year end.

"Consumer confidence fell in August 2023, erasing back-to-back increases in June and July," said **Dana Peterson, Chief Economist at The Conference Board.** "August's disappointing headline number reflected dips in both the current conditions and expectations indexes. Write-in responses showed that consumers were once again preoccupied with rising prices in general, and for groceries and gasoline in particular. The pullback in consumer confidence was evident across all age groups—and most notable among consumers with household incomes of $100,000 or more, as well as those earning less than $50,000. Confidence held relatively steady for consumers with incomes between $50,000 and $99,999."

Peterson added: "Assessments of the present situation dipped in August on receding optimism around **employment conditions**: fewer consumers said jobs are "plentiful" and more said jobs are "hard to get." Hard data confirm that employment gains have slowed, overall wage increases are less generous compared to a year ago, and the average number of weeks of unemployment is ticking upward. **Business conditions** in August were little changed from July, but still somewhat lower than in June. When asked about **current family financial conditions** (a measure not included in calculating the Present Situation Index), the share of respondents citing a "good" situation fell, and those citing "bad" conditions rose, signaling concerns about family finances presently."

"The proportion of consumers saying **recession** is 'somewhat' or 'very likely' ticked down again in August but remain elevated at 69.0%. These soundings likely reflect ongoing uncertainty given mixed **buying plans**. On a six-month moving average basis, plans to purchase autos and appliances continued to trend upward but plans to buy homes—more in line with rising interest rates—continued to trend downward. The dip in overall confidence notwithstanding, consumer plans to go on vacation, especially abroad, leapt upward in the month and slightly exceeded August 2022 readings, suggesting a continued penchant for spending on services."

# NATIONAL UPDATE

## Leading Economic Indicators

**The Conference Board Leading Economic Index®** (LEI) for the U.S. declined by 0.4% in July 2023 to 105.8 (2016=100), following a decline of 0.7% in June. The LEI is down 4.0% over the six-month period between January and July 2023—a slight deterioration from its 3.7% contraction over the previous six months (July 2022 to January 2023).

"The U.S. LEI—which tracks where the economy is heading—fell for the sixteenth consecutive month in July, signaling the outlook remains highly uncertain" said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "On the other hand, the coincident index (CEI)—which tracks where economic activity stands right now—has continued to grow slowly but inconsistently, with three of the past six months not changing and the rest increasing. As such, the CEI is signaling that we are currently still in a favorable growth environment. However, in July, weak new orders, high interest rates, a dip in consumer perceptions of the outlook for business conditions, and decreasing hours worked in manufacturing fueled the leading indicator's 0.4% decline. The leading index continues to suggest that economic activity is likely to decelerate and descend into mild contraction in the months ahead. The Conference Board now forecasts a short and shallow recession in the Q4 2023 to Q1 2024 timespan."

The Conference Board Coincident Economic Index® (CEI) for the U.S. improved by 0.4% in July 2023 to 110.5 (2016=100), after no change in June. The CEI is now up 0.7% over the six-month period between January and July 2023—down slightly from the 0.9% growth rate 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 U.S. Industrial production erased some of the losses reported in June and May and made the strongest positive contribution to July's coincident index, followed by income, employment, and sales.

The Conference Board Lagging Economic Index® (LAG) for the U.S. was unchanged in both July and June of 2023, at 118.3 (2016 = 100).

## A DEEPER DIVE – NATIONAL, CONT.

### Consumer Confidence, Cont.

#### Present Situation

Consumers' assessment of current **business conditions** was slightly less positive in August.

- 20.7% of consumers said business conditions were "good," unchanged from July.
- 17.2% said business conditions were "bad," up from 16.2%.

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

- 40.3% of consumers said jobs were "plentiful," down from 43.7% in July.
- 14.1% of consumers said jobs were "hard to get," up from 11.3%.

#### Expectations Six Months Hence

Consumers were less optimistic about the **short-term business conditions outlook** in August.

- 16.2% of consumers expect business conditions to improve, down from 17.2% in July.
- Meanwhile, 16.8% expect business conditions to worsen, up from 14.5%.

Consumers' assessment of the **short-term labor market outlook** was less favorable in August.

- 16.7% of consumers expect more jobs to be available, down slightly from 16.6% in July.
- 18.0% anticipate fewer jobs, up from 15.6%.

### Gross Domestic Product

**Real gross domestic product** (GDP) increased at an annual rate of 2.1% in the second quarter of 2023, according to the "second" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 2.0%.

The GDP second quarter estimate is based on more complete source data than were available for the "advance" estimate issued last month. In the advance estimate, the increase in real GDP was 2.4%. The updated estimates primarily reflected downward revisions to private inventory investment and nonresidential fixed investment that were partly offset by an upward revision to state and local government spending.

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

## A DEEPER DIVE – HOUSING

### Existing-Home Sales

Existing-home sales receded in July, according to the National Association of Realtors®. Among the four major U.S. regions, sales grew in the West but faded in the Northeast, Midwest and South. All four regions registered year-over-year sales declines.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops –fell 2.2% from June to a seasonally adjusted annual rate of 4.07 million in July. Year-over-year, sales slumped 16.6% (down from 4.88 million in July 2022).

Single-family home sales slid to a seasonally adjusted annual rate of 3.65 million in July, down 1.9% from 3.72 million in June and 16.3% from the previous year. The median existing single-family home price was $412,300 in July, up 1.6% from July 2022.

Existing condominium and co-op sales recorded a seasonally adjusted annual rate of 420,000 units in July, down 4.5% from June and 19.2% from one year ago. The median existing condo price was $357,600 in July, up 4.5% from the previous year ($342,200).

# A DEEPER DIVE – HOUSING, CONT.

## Existing-Home Sales, Cont.

"Two factors are driving current sales activity – inventory availability and mortgage rates," said NAR Chief Economist Lawrence Yun. "Unfortunately, both have been unfavorable to buyers."

Total housing inventory registered at the end of July was 1.11 million units, up 3.7% from June but down 14.6% from one year ago (1.3 million). Unsold inventory was at a 3.3-month supply at the current sales pace, up from 3.1 months in June and 3.2 months in July 2022.

The median existing-home price for all housing types in July was $406,700, an increase of 1.9% from July 2022 ($399,000). Prices rose in the Northeast, Midwest and South but were unchanged in the West.

"Most homeowners continue to enjoy large wealth gains from recent years with little concern about home price declines," Yun said. "However, many renters are concerned as they're facing growing affordability challenges because of high interest rates."

According to the REALTORS® Confidence Index, properties typically remained on the market for 20 days in July, up from 18 days in June and 14 days in July 2022. Seventy-four percent of homes sold in July were on the market for less than a 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 30% of sales in July, up from 27% in June and 29% in July 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 dropped 5.9% from June to an annual rate of 480,000 in July, down 23.8% from July 2022. The median price in the Northeast was $467,500, up 5.5% from one year ago.

In the Midwest, existing-home sales decreased by 3.0% from the prior month to an annual rate of 960,000 in July, dropping 20.0% from the previous year. The median price in the Midwest was $304,600, up 3.9% from July 2022.

Existing-home sales in the South fell 2.6% from June to an annual rate of 1.86 million in July, a decrease of 14.3% from one year ago. The median price in the South was $366,200, up 1.7% from July 2022.

In the West, existing-home sales increased 2.7% from the previous month to an annual rate of 770,000 in July, down 12.5% from the prior year. The median price in the West was $610,500, unchanged from July 2022.

## New Residential Sales

Sales of new single-family houses in July 2023 were at a seasonally adjusted annual rate of 714,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 4.4% above the revised June rate of 684,000 and was 31.5% above the July 2022 estimate of 543,000.

The median sales price of new houses sold in July 2023 was $436,700. The average sales price was $513,000. The seasonally adjusted estimate of new houses for sale at the end of July was 437,000. This represents a supply of 7.3 months at the current sales rate.

Compared to July 2022, new residential sales were up 43.5% in the Northeast, 58.5% in the Midwest; 17.5% in the South and 60.2% in the West.

## Housing Starts

Privately-owned housing starts in July were at a seasonally adjusted annual rate of 1,452,000. This was 3.9% above the revised June estimate of 1,398,000 and was 5.9% above the July 2022 rate of 1,371,000. Single-family housing starts in July were at a rate of 983,000; this was 6.7% above the revised June figure of 921,000.

Single family starts in July compared to July 2022 were up 20.0% in the Midwest, 6.1% in the South and 23.6% in the West, offset by a decline of 21.9% in the Northeast.

## A DEEPER DIVE – HOUSING, CONT.

### Housing Completions

Privately-owned housing completions in July were at a seasonally adjusted annual rate of 1,321,000. This was 11.8% below the revised June estimate of 1,498,000 and was 5.4% below the July 2022 rate of 1,396,000. Single-family housing completions in July were at a rate of 1,018,000; this was 1.3% above the revised June rate of 1,005,000.

## A DEEPER DIVE – OTHER NATIONAL

### Retail Sales

According to the U.S. Census Bureau, advance estimates of U.S. retail and food services sales for July 2023, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $696.4 billion, up 0.7% from the previous month, and up 3.2% above July 2022. Total sales for the May 2023 through July 2023 period were up 2.3% from the same period a year ago. Retail trade sales were up 0.6% from June 2023, and up 2.0% above last year. Nonstore retailers were up 10.3% from last year, while food services and drinking places were up 11.9% from July 2022.

Sales at furniture and home furnishing stores in July 2023 were down 6.3% from July 2022. Sales at these stores were down 3.8% year to date.

### Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2% in July on a seasonally adjusted basis, the same increase as in June, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 3.2% before seasonal adjustment. The index for shelter was by far the largest contributor to the monthly all items increase, accounting for over 90% of the increase, with the index for motor vehicle insurance also contributing. The food index increased 0.2% in July after increasing 0.1% the previous month. The index for food at home increased 0.3% over the month while the index for food away from home rose 0.2% in July. The energy index rose 0.1% in July as the major energy component indexes were mixed.

The index for all items less food and energy rose 0.2% in July, as it did in June. Indexes which increased in June include shelter, motor vehicle insurance, education, and recreation. The indexes for airline fares, used cars and trucks, medical care, and communication were among those that decreased over the month.

The all-items index increased 3.2% for the 12 months ending July, slightly more than the 3.0% increase for the 12 months ending in June. The all items less food and energy index rose 4.7% over the last 12 months. The energy index decreased 12.5% for the 12 months ending July, and the food index increased 4.9% over the last year.

### Employment

Total nonfarm payroll employment rose by 187,000 in July, and the unemployment rate changed little at 3.5%, according to the U.S. Bureau of Labor Statistics. Job gains occurred in health care, social assistance, financial activities, and wholesale trade.

Both the unemployment rate, at 3.5%, and the number of unemployed persons, at 5.8 million, changed little in July. The unemployment rate has ranged from 3.4% to 3.7% since March 2022.

### Durable Goods Orders and Factory Shipments

The U.S. Census Bureau announced that new orders for manufactured durable goods in July, down following four consecutive monthly increases, decreased 5.2% to $285.9 billion. This followed a 4.4% June increase. Excluding transportation, new orders increased 0.5%. Excluding defense, new orders decreased 5.4%. Transportation equipment, also down following four consecutive monthly increases, drove the decrease at 14.3% to $98.7 billion.

Shipments of manufactured durable goods in July, up four of the last five months, increased $0.1 billion or virtually unchanged to $283.6 billion. This followed a virtually unchanged June increase. Machinery, up six of the last seven months, drove the increase, $0.1 billion or 0.3% to $37.9 billion.