FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

October 2023

HIGHLIGHTS – EXECUTIVE SUMMARY

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The latest survey of residential furniture manufacturers and distributors reflected similar results as we have seen recently, with new orders in August 2023 up 29% over August 2022, but August 2022 orders were down 34% from August 2021. Orders in August 2021 were down 14% from August 2020. As you probably recall, new orders from June 2020 up until later that year were at historically high levels as demand was at unheard-of levels. The August increase brought order levels year to date back to just about even with the same period of 2022. Year-to-date August 2022 orders were down 29% after being up 29% in the same period for 2021. If that isn't confusing, do not even try to think about the impact of price increases and later decreases in freight costs as well as other factors.

Shipments in August were down 17% from August 2022 and down 18% year to date, after a 6% increase year to date in 2022 versus 2021. Shipment results are also confusing as backlogs have been built up so high, then as orders began to slow, shipments could be maintained by shipping from the large backlogs. The shipments comparisons will remain difficult for a while as many have brought their backlogs down to historical levels.

Backlogs fell again, down 51% from August 2022. It appears that most are now getting the backlogs back to more normal levels.

Receivable and inventory levels also appear in line, with inventories down 32%. Factory and warehouse payrolls continued to decline in August as would be expected based on the declining overall business.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** declined moderately in October to 102.6, down from an upwardly revised 104.3 in September. The ***Present Situation Index*** declined to 143.1 from 146.2. The ***Expectations Index*** fell slightly to 75.6 in October, after declining to 76.4 in September. The Expectations index is still below 80—the level that historically signals a recession within the next year. Consumer fears of an impending recession remain elevated, consistent with the short and shallow economic contraction we anticipate for the first half of 2024.

Dana Peterson, Chief Economist at The Conference Board said, "Write-in responses showed that consumers continued to be preoccupied with rising prices in general, and for grocery and gasoline prices in particular. Consumers also expressed concerns about the political situation and higher interest rates. Worries around war/conflicts also rose, amid the recent turmoil in the Middle East."

The Conference Board Leading Economic Index® (LEI) for the U.S. declined by 0.7% in September 2023 to 104.6, following a decline of 0.5% in August. The LEI is down 3.4% over the six-month period between March and September 2023, an improvement from its 4.6% contraction over the previous six months (September 2022 to March 2023).

Housing

Existing home sales in September fell again in the South, Midwest and West but increased from August in the Northeast. All regions continued below last September sales. Single-family home sales were down 1.9% from August and 15.8% from the prior year. The median existing single-family home price was $399,200 in September, up 2.5% from September 2022.

Sales of new single-family houses in September 2023 were at a seasonally adjusted annual rate of 759,000 or 12.3% above the revised August rate and were 33.9% above the September 2022 estimate.

The median sales price of new houses sold in September 2023 was $418,800. The average sales price was $503,900. The seasonally adjusted estimate of new houses for sale at the end of September was 435,000, representing a 6.9 month supply at the current sales rate.

Compared to September 2022, new residential sales were up 63.3% in the Northeast, 4.7% in the Midwest, 53.3% in the West, and 29.9% in the South.

Comparing September 2023 to September 2022, single-family starts were up 8.6% overall. Regionally, single-family starts were down 21.7% in the Northeast and 1.6% in the Midwest, while up 4.7% in the West and 16.0% in the South.

Other

Advance estimates of U.S. retail and food services sales for September 2023, were up 0.7% from the previous month, and up 3.8% above September 2022. Total sales for the July 2023 through September 2023 period were up 3.1% from the same period a year ago.

Retail trade sales were up 0.7% from August 2023, and up 3.0% above last year. Non-store retailers were up 8.4% from last year, while food services and drinking places were up 9.2% from September 2022.

Sales at furniture and home furnishings stores were down 5.9% from September 2022. On an unadjusted basis, sales at these stores were down 4.4% year to date.

The Consumer Price Index (CPI-U) rose 0.4% in September after increasing 0.6% in August. Over the last 12 months, the all-items index increased 3.7% before seasonal adjustment. The index for shelter was the largest contributor to the monthly all-items increase, accounting for over half of the increase. An increase in the gasoline index was also a major contributor to the all-items monthly rise.

EXECUTIVE SUMMARY, CONT.

Thoughts

Overall, the residential furniture business is probably sluggish at best. And there seems to be many reasons. While the overall economy seemed to grow at a strong pace in the third quarter, some of those measurements do not really reflect what consumers are seeing and doing. Yes, they are still spending but the rising costs of living clearly have an impact on furniture spending. Add to that the rising mortgage interest rates, there are just not enough dollars left in consumer budgets to pay for deferrable purchases.

The leading economic indicators have declined for over a year and a half. Nine of the indexes ten components have either declined or were flat in September. The Conference Board forecasts that the trends are such that a shallow recession is expected in the first half of 2024. If that is true, the residential side of the business may face more turbulence as many would say certain parts, if not most parts, are already in somewhat of a recession in 2023.

On the other hand, we thought the October High Point market was well attended and once again, the "mood" of market was very good. Great new product was shown. Even though many echoed the thoughts that attendees loved our product and were very happy with our showing, the only problem was the "they must have forgotten their pens." But that great product will sell eventually as consumers come back to the stores or their designers suggest they just have to have some of the new product. People came and some will buy. We hope whatever this "slow down" ends soon, but think one needs to be prepared to ride it out a bit longer than most probably think.

EXECUTIVE SUMMARY, CONT.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in August 2023 were up 29% over August 2022. Unfortunately the comparison is not quite as rosy as it may seem as new orders in August 2022 were down 34% from August 2021 and August 2021 orders were down 14% from August 2020. So as has been the case for over a couple of years, the comparisons can be misleading without context. Add to that the impact of price increases and lately price decreases, primarily for foreign freight charges, and the comparisons become even more murky. The orders increases were reported for some 72% of the participants.

Year to date, new orders were about even for the first eight months of the year in 2023 versus 2022. Year to date new orders were down 29% in 2022 compared to 2021, when they were up 29% from 2020. The comparability issues were the same for the first 8 months, but just at different levels throughout the periods. For 2023 year to date, new orders were up for about 40% of the participants.

Shipments and Backlogs

Shipments in 2023 continued to lag behind last year as 2022 results continue to show the impact of shipping from the high levels of backlogs built up in 2020 and 2021. Shipments in August were down 17% from August 2022. Shipments were up 34% over July, primarily because of the normal July shutdowns for vacations. Shipments in August were down for some 72% of the participants.

Year to date, shipments were down 18% from 2022, when they were up 6% over 2021. Shipments in 2021 were up 34% year to date over 2020 but remember that 2020 companies were shut down for 2 to 3 months due to the pandemic.

Backlogs continued to fall, down 51% from last year. The dollar amount of backlogs is probably higher than piece counts, again due to price increases built in much of the new backlogs, even considering freight declines.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2023		
	AUG	JUL	8 MOS
New Orders	2,615	2,321	17,856
Shipments	2,422	2,024	19,362
Backlog (R*)	2,684	3,017	

(R* Affected by change in participants)

	2022		
	AUG	JUL	8 MOS
New Orders	2,027	1,850	17,863
Shipments	2,918	2,549	23,481
Backlog	5,428	6,091	

Receivables and Inventories

Receivable levels were down 30% from October 2022. With year to date and even monthly sales down in the 17 to 18% range, the decline in receivables appears out of line, but we believe that many of our participants in the upholstery business, tend to report their receivables net of customer deposits. As backlogs have been declining, the amount of customer deposits has also declined, which would make the change in net receivables appear to be higher. As backlogs continue to get back to normal levels, we think the receivable results should get back in line.

Inventory levels fell again in August, down 2% from July and down 32% from last August. It appears that inventories are much more in line with current business levels after the large buildups over the last couple of years.

Factory and Warehouse Employees and Payroll

Factory and warehouse labor results continue to seem in line with current business conditions as the number of employees was down 8% from August 2022, while about even with July. Payrolls were down 11% from last August and down 8% year to date, even considering the wage increases given over the last couple of years.

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Aug 2023 from Jul 2023	Aug 2023 from Aug 2022	8 Mos 2023 vs 8 Mos 2022
New Orders	+14	+29	–
Shipments	+34	-17	-18
Backlog	-6	-51	
Payrolls	+19	-11	-8
Employees	–	-8	
Receivables	+11	-30	
Inventories	-2	-32	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2022				
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
July	+28	-21	-54	-8
August	+29	-17	-51	-8

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board ***Consumer Confidence Index***® declined moderately in October to 102.6 (1985=100), down from an upwardly revised 104.3 in September. The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—declined to 143.1 (1985=100) from 146.2. The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—fell slightly to 75.6 (1985=100) in October, after declining to 76.4 in September. The Expectations index is still below 80—the level that historically signals a recession within the next year. Consumer fears of an impending recession remain elevated, consistent with the short and shallow economic contraction we anticipate for the first half of 2024.

"Consumer confidence fell again in October 2023, marking three consecutive months of decline," said **Dana Peterson, Chief Economist at The Conference Board.** "October's retreat reflected pullbacks in both the *Present Situation* and *Expectations Index*. Write-in responses showed that consumers continued to be preoccupied with rising prices in general, and for grocery and gasoline prices in particular. Consumers also expressed concerns about the political situation and higher interest rates. Worries around war/conflicts also rose, amid the recent turmoil in the Middle East. The decline in consumer confidence was evident across householders aged 35 and up, and not limited to any one income group."

Peterson added: "Assessments of the present situation were driven by less optimistic views on the state of business conditions, but consumers' rating of current job availability held steady. Fewer consumers said that **business conditions** were good, and more said they were bad. Regarding the **employment situation**, slightly fewer consumers said that jobs were 'plentiful' compared to September, but the number saying jobs were 'hard to get' also declined. However, when asked to assess their **current family financial conditions** (a measure not included in calculating the *Present Situation Index*), those responding 'good' rose, and those citing 'bad' were little changed. This suggests consumer finances remain buoyant in the face of elevated inflation."

"Expectations for the next six months stayed below the recession threshold of 80, reflecting a decline in confidence about **future business conditions**, **job availability**, and **incomes**. The continued skepticism about the future is notable given US consumers—at least through the third quarter of this year—continued to spend heavily on both goods and services. Expectations that interest rates will rise in the year ahead ticked up in October, and the outlook for stock prices weakened slightly. Furthermore, **average 12-month inflation expectations** increased in October to 5.9%, after holding steady at 5.7% for the past three months. The measure of **expected family financial situation, six months hence** (not included in calculating the *Expectations Index*) continued to fall."

"More than two-thirds of consumers still said **recession** is 'somewhat' or 'very likely' in October. The fluctuating soundings likely reflect ongoing uncertainty given mixed **buying plans**. On a six-month moving average basis, plans to purchase autos and appliances rose while plans to buy homes—in line with rising interest rates—continued to trend downward."

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined by 0.7% in September 2023 to 104.6 (2016=100), following a decline of 0.5% in August. The LEI is down 3.4% over the six-month period between March and September 2023, an improvement from its 4.6% contraction over the previous six months (September 2022 to March 2023).

"The LEI for the US fell again in September, marking a year and a half of consecutive monthly declines since April 2022," said **Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board.** "In September, negative or flat contributions from nine of the index's ten components more than offset fewer initial claims for unemployment insurance. Although the six-month growth rate in the LEI is somewhat less negative, and the recession signal did not sound, it still signals risk of economic weakness ahead. So far, the US economy has shown considerable resilience despite pressures from rising interest rates and high inflation. Nonetheless, The Conference Board forecasts that this trend will not be sustained for much longer, and a shallow recession is likely in the first half of 2024."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.3% in September 2023 to 110.9 (2016=100), after a 0.1% increase in August. The CEI is now up 1.1% over the six-month period between March and September 2023, compared to 0.4% growth 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. All four components of the index advanced in September, with personal income less transfer payments and employees on nonagricultural payrolls being the strongest contributors, followed by industrial production, and manufacturing and trade sales. Over the past six months, the CEI has improved, confirming that current economic activity remains positive.

The Conference Board Lagging Economic Index® (LAG) for the U.S. improved by 0.2% in September 2023 to 118.5 (2016 = 100), but it remains unchanged from last month.

A DEEPER DIVE – NATIONAL, CONT.

Consumer Confidence, Cont.

Present Situation

Consumers' assessment of current **business conditions** was more pessimistic in October.

- 19.1% of consumers said business conditions were "good," down from 21.0% in September.
- 18.3% said business conditions were "bad," up from 15.9%.

Consumers' appraisal of the **labor market** held steady in October.

- 39.4% of consumers said jobs were "plentiful," down slightly from 39.7% in September.
- However, 13.1% of consumers said jobs were "hard to get," down from 14.2%.

Expectations Six Months Hence

Consumers were, on balance, more pessimistic about the **short-term business conditions outlook** in October.

- 16.5% of consumers expect business conditions to improve, up from 15.3% in September.
- However, 20.2% expect business conditions to worsen, up from 18.7%.

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

- 16.0% of consumers expect more jobs to be available, down from 16.2% in September.
- 19.0% anticipate fewer jobs, up slightly from 18.9%.

Consumers' assessment of their **short-term income prospects** slipped in October.

- 15.6% of consumers expect their incomes to increase, down from 17.9% in September.
- 13.0% expect their incomes to decrease, down from 14.1%.

Consumers' assessment of their **Family's Current Financial Situation** improved slightly in October.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 4.9% in the third quarter of 2023, according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 2.1%.

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

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales faded in September, according to the National Association of REALTORS®. Among the four major U.S. regions, sales rose in the Northeast but receded in the Midwest, South and West. 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 – waned 2.0% from August to a seasonally adjusted annual rate of 3.96 million in September. Year-over-year, sales dropped 15.4% (down from 4.68 million in September 2022).

Single-family home sales slipped to a seasonally adjusted annual rate of 3.53 million in September, down 1.9% from 3.6 million in August and 15.8% from the prior year. The median existing single-family home price was $399,200 in September, up 2.5% from September 2022.

Existing condominium and co-op sales recorded a seasonally adjusted annual rate of 430,000 units in September, down 2.3% from August and 12.2% from one year ago. The median existing condo price was $353,800 in September, up 6.8% from the prior year ($331,300).

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

"As has been the case throughout this year, limited inventory and low housing affordability continue to hamper home sales," said NAR Chief Economist Lawrence Yun. "The Federal Reserve simply cannot keep raising interest rates in light of softening inflation and weakening job gains."

Total housing inventory registered at the end of September was 1.13 million units, up 2.7% from August but down 8.1% from one year ago (1.23 million). Unsold inventory was at a 3.4-month supply at the current sales pace, up from 3.3 months in August and 3.2 months in September 2022.

The median existing-home price for all housing types in September was $394,300, an increase of 2.8% from September 2022 ($383,500). All four U.S. regions posted price increases.

"For the third straight month, home prices are up from a year ago, confirming the pressing need for more housing supply," Yun said.

Regional

Existing-home sales in the Northeast rose 4.2% from August to an annual rate of 500,000 in September, down 16.7% from September 2022. The median price in the Northeast was $439,900, up 5.2% from the prior year.

In the Midwest, existing-home sales declined by 4.1% from the previous month to an annual rate of 930,000 in September, down 18.4% from one year ago. The median price in the Midwest was $293,300, up 4.7% from September 2022.

Existing-home sales in the South dipped 1.1% from August to an annual rate of 1.82 million in September, a decrease of 11.7% from the previous year. The median price in the South was $360,500, up 3.1% from September 2022.

In the West, existing-home sales trailed off 5.3% from the previous month to an annual rate of 710,000 in September, down 19.3% from one year ago. The median price in the West was $606,100, up 1.8% from September 2022.

New Residential Sales

Sales of new single-family houses in September 2023 were at a seasonally adjusted annual rate of 759,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 12.3% above the revised August rate of 676,000 and is 33.9% above the September 2022 estimate of 567,000.

The median sales price of new houses sold in September 2023 was $418,800. The average sales price was $503,900. The seasonally-adjusted estimate of new houses for sale at the end of September was 435,000. This represents a supply of 6.9 months at the current sales rate.

Compared to September 2022, new residential sales on a seasonally-adjusted basis were up 63.3% in the Northeast, 4.7% in the Midwest, 53.3% in the West, and 29.9% in the South.

Housing Starts

Privately-owned housing starts in September were at a seasonally adjusted annual rate of 1,358,000. This is 7.0% above the revised August estimate of 1,269,000, but is 7.2% below the September 2022 rate of 1,463,000. Single-family housing starts in September were at a rate of 963,000; this is 3.2% above the revised August figure of 933,000.

Comparing September 2023 to September 2022, single-family starts were up 8.6% overall. Regionally, single-family starts were down 21.7% in the Northeast and 1.6% in the Midwest, while being up 4.7% in the West and 16.0% in the South.

Housing Completions

Privately-owned housing completions in September were at a seasonally adjusted annual rate of 1,453,000. This is 6.6% above the revised August estimate of 1,363,000 and is 1.0% above the September 2022 rate of 1,438,000. Single-family housing completions in September were at a rate of 998,000; this is 5.3% above the revised August rate of 948,000.

Comparing September 2023 to September 2022, single-family completions were down 4.6% overall. Regionally, single-family completions were down 11.7% in the West and 21.9% in the Midwest, while being up 7.5% in the Northeast and 1.1% in the South.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for September 2023, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $704.9 billion, up 0.7% from the previous month, and up 3.8% above September 2022. Total sales for the July 2023 through September 2023 period were up 3.1% from the same period a year ago.

Retail trade sales were up 0.7% from August 2023, and up 3.0% above last year. Non-store retailers were up 8.4% from last year, while food services and drinking places were up 9.2% from September 2022.

Sales on an adjusted basis at furniture and home furnishings stores were down 5.9% from September 2022. On an unadjusted basis, sales at these stores were down 4.4% year to date.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4% in September on a seasonally adjusted basis, after increasing 0.6% in August, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all-items index increased 3.7% before seasonal adjustment.

The index for shelter was the largest contributor to the monthly all-items increase, accounting for over half of the increase. An increase in the gasoline index was also a major contributor to the all-items monthly rise. While the major energy component indexes were mixed in September, the energy index rose 1.5% over the month. The food index increased 0.2% in September, as it did in the previous two months. The index for food at home increased 0.1% over the month while the index for food away from home rose 0.4%.

The index for all-items less food and energy rose 0.3% in September, the same increase as in August. Indexes which increased in September include rent, owners' equivalent rent, lodging away from home, motor vehicle insurance, recreation, personal care, and new vehicles. The indexes for used cars and trucks and for apparel were among those that decreased over the month.

The all-items index increased 3.7% for the 12 months ending September, the same increase as the 12 months ending in August. The all-items less food and energy index rose 4.1% over the last 12 months. The energy index decreased 0.5% for the 12 months ending September, and the food index increased 3.7% over the last year.

Employment

Total nonfarm payroll employment increased by 336,000 in September, and the unemployment rate was unchanged at 3.8%, according to the U.S. Bureau of Labor Statistics report. Job gains occurred in leisure and hospitality, government, healthcare, professional, scientific and technical services, and social assistance.

The unemployment rate (3.8%) and number of unemployed persons (6.4 million) were materially unchanged in September compared to August.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in September, up following two consecutive monthly decreases, increased $13.2 billion or 4.7% to $297.2 billion, per the U.S. Census Bureau. This followed a 0.1% August decrease. Excluding transportation, new orders increased 0.5%. Excluding defense, new orders increased 5.8%. Transportation equipment, also up following two consecutive monthly decreases, led the increase, $12.3 billion or 12.7% to $109.2 billion.

Shipments of manufactured durable goods in September, down two of the last three months, decreased $0.8 billion or 0.3% to $283.7 billion. This followed a 0.5% August increase. Transportation equipment, down three of the last four months, drove the decrease, $1.0 billion or 1.1% to $91.4 billion.

According to the final report, monthly shipments of furniture and related products in August 2023 were down 2.4% compared to August 2022. Year to date August 2023, shipments of these products were up 0.4%. New orders were down 4.0% in August 2023 compared to August 2022. Year to date August 2023, new orders through August 2023 were up 0.1%.