FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

September 2023

HIGHLIGHTS – EXECUTIVE SUMMARY

Our latest survey showed that new orders in July 2023 were up 28% over July 2022, but once again we have to look deeper to understand what that means. July 2022 new orders were down 37% from July 2021 when they were down 11% from July 2020. But July 2020 orders were way up. Follow that? As we have said, comparisons today are difficult. Just read the quarterly reports from the public companies and then compare their results back for the same periods to the last few years.

Year to date, new orders were down 4% from last year when they were down 29% from 2021. For July 2023, new orders year to date were down for 63% of the participants.

Shipments were down 21% in July versus July 2022. See the Highlights section below for the comparisons to previous years. Backlogs continued to return closer to more normal levels, though a few remained higher. Inventories increased a bit from June levels but were 28% below last July. The number of factory and warehouse employees as well as payrolls continued to drop as would be expected.

Ken Smith, CPA

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** declined again in September to 103.0, down from an upwardly revised 108.7 in August. The ***Present Situation Index*** rose slightly to 147.1 from 146.7. The ***Expectations Index*** declined to 73.7 in September, after falling to 83.3 in August. Expectations fell back below 80—the level that historically signals a recession within the next year. Consumer fears of an impending recession also ticked back up, consistent with what they 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 groceries and gasoline in particular. Consumers also expressed concerns about the political situation and higher interest rates."

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 slipped again in August with the four regions reporting sales improved in the Midwest, unchanged in the Northeast, and slipped in the South and West. 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 – slid 0.7% from July. Year-over-year, sales fell 15.3%.

Single-family home sales fell 1.4% from 3.65 million in July and 15.3% from the previous year. The median existing single-family home price was $413,500 in August, up 3.7% from August 2022. All four U.S. regions posted price increases.

Sales of new single-family houses in August 2023 were at a seasonally adjusted annual rate of 675,000, which was 8.7% below the revised July rate of 739,000, but was 5.8% above the August 2022 estimate of 638,000.

Privately-owned housing starts in August were at a seasonally adjusted annual rate of 1,283,000 and was 11.3% below the revised July estimate and was 14.8% below the August 2022 rate. Single-family housing starts in August were 4.3% below the revised July figure.

Comparing August 2023 to August 2022, single-family starts were up 2.4%. Regionally starts were down 10.0% in the Northeast, 15.1% in the Midwest, 12.8% in the West but were up 14.6% in the South.

EXECUTIVE SUMMARY, CONT.

Thoughts

If we forget the difficulty in comparisons, it appears that business overall has slowed for most all producers and distributors. While the lower end has been slower due to the continued pressure of overall cost of living increases, the higher end seems to also be affected lately. With the overall economy slowing down, the political rhetoric from the Presidential race as well as others, and overall consumer confidence falling, there is little wonder that business overall would be hurting.

The signs of a recession continue to seem like we are heading into one in spite of thinking a couple of months ago that we might dodge one. In fact, one might think that we are probably there now. There is so much negativity in the news, much of it deserved lately, that it is hard to make yourself feel like spending much money until some of this is sorted out, no matter what income level you have. The stock markets seem to lead us to that belief as well.

Some comments we have heard from a few in the retail sector is that the fourth quarter may be a little better and 2024 may be more normal, but we are wondering if that might be a bit optimistic. We do think that later on in 2024, we may return to more normal levels of the economy, but remember, it has always appeared that furniture business has felt the pinch early and is sometimes the last to come out of slow periods, if for no other reason than it being a more deferrable purchase than most durable goods.

Other

Advance estimates of U.S. retail and food services sales for August 2023 were up 0.6% from the previous month, and up 2.5% above August 2022. Total sales for the June 2023 through August 2023 period were up 2.2% from the same period a year ago.

Retail trade sales were up 0.6% from July 2023, and up 1.6% above last year. Gasoline stations were down 10.3% from last year, while food services and drinking places were up 8.5% from August 2022.

Sales on an adjusted basis at furniture and home furnishings stores were down 7.2% from August 2022. On an unadjusted basis, sales at these stores were down 4.3% year to date.

The Consumer Price Index (CPI-U) rose 0.6% in August after increasing 0.2% in July. Over the last 12 months, the all-items index increased 3.7% before seasonal adjustment. The all items less food and energy index rose 4.3% over the last 12 months. The energy index decreased 3.6% for the 12 months ending August, and the food index increased 4.3% over the last year.

EXECUTIVE SUMMARY, CONT.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

In July 2023, new orders were up 28% over July 2022 according to our latest survey of residential furniture manufacturers and distributors. New orders were up for some 71% of the participants. But as in many cases, one must look at what something is being compared to as we have seen over the last couple of years. The July 2022 new orders were down 37% compared to July 2021 so the 28% increase in July 2023 is not as good as it might seem.

Year to date new orders were down 4% compared to the same period last year. Year to date orders in 2022 were down 29% from 2021, but once again, one must look at the previous year when orders were up 39% in 2021 over 2020, when part of 2020 was shut down due to Covid. As we have noted before, these comparisons are further affected by the price increases seen from 2020 up through much of 2022. Year to date new orders were down for 63% of the participants.

Shipments and Backlogs

Shipments in July 2023 were down 21% from July 2022 when they were down 6% from July 2021. Shipments in July 2023 were down for 75% of the participants. Again, remember that shipments in July 2021 were up 21% from July 2020.

Year to date shipments were down 18% compared to last year when they were up 5% over 2021. The shipments in 2021 were up 39% over 2020. Year to date shipments were down for some 70% of the participants. Shipment results have been largely affected by the amount of backlogs that companies built up over the pandemic period.

Backlogs actually increased a bit in July as the dollar amount of orders exceeded the dollar amount of shipments, but that may have been affected by short shipping in July due to most taking vacation over the 4th of July. Backlogs were down 54% from July 2022. From many we have heard from, backlogs are back to more normal levels other than maybe some of the higher end manufacturers.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2023		
	JUL	JUN	7 MOS
New Orders	2,321	2,542	15,241
Shipments	2,024	2,477	16,940
Backlog (R)	3,017	2,916	
	2022		
	JUL	JUN	7 MOS
New Orders	1,820	2,067	15,836
Shipments	2,549	3,465	20,563
Backlog	6,091	6,584	

Receivables and Inventories

Receivable levels were down 34% from July 2022, a bit more than the decline in shipments. Some of this difference likely is affected by some participants who report their receivables net of deposits, so if their backlogs remain high, their receivable levels may be understated compared to shipment volumes. Receivables were down 6% from June with shipments down 17%. Again, this difference may relate to timing.

Inventory levels were up 3% over June but were 28% below July 2022. The dollar amount of inventories seems to be more in line with current business levels. Since business has been so different in the last few years, there is still the question of do the inventories have the right amount of the right items.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees continued to drop a bit, down 1% from June but down 8% compared to June a year ago. Payrolls were down 14% from June, likely affected by the July shutdowns and down 10% from last year. Year to date, payrolls were down 8% from a year ago.

FURNITURE INSIGHTS®

MONTHLY RESULTS – SEPTEMBER 2023

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Jul 2023 from Jun 2023	Jul 2023 from Jul 2022	7 Mos 2023 vs 7 Mos 2022
New Orders	-10	+28	-4
Shipments	-17	-21	-18
Backlog	+3	-54	
Payrolls	-14	-10	-8
Employees	-1	-8	
Receivables	-6	-34	
Inventories	+3	-28	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2022				
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
July	+28	-21	-54	-8

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board ***Consumer Confidence Index***® declined again in September to 103.0 (1985=100), down from an upwardly revised 108.7 in August. The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—rose slightly to 147.1 (1985=100) from 146.7. The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—declined to 73.7 (1985=100) in September, after falling to 83.3 in August. Expectations fell back below 80—the level that historically signals a recession within the next year. Consumer fears of an impending recession also ticked back up, consistent with the short and shallow economic contraction we anticipate for the first half of 2024.

"Consumer confidence fell again in September 2023, marking two consecutive months of decline," said **Dana Peterson, Chief Economist at The Conference Board.** "September's disappointing headline number reflected another decline in the *Expectations Index*, as the *Present Situation Index* was little changed. Write-in responses showed that consumers continued to be preoccupied with rising prices in general, and for groceries and gasoline in particular. Consumers also expressed concerns about the political situation and higher interest rates. The decline in consumer confidence was evident across all age groups, and notably among consumers with household incomes of $50,000 or more."

Peterson added: "Assessments of the present situation were little changed overall, due to divergent views on the state of business conditions and job availability. Fewer consumers said that **business conditions** were good, but fewer also said they were bad. Regarding the **employment situation**, slightly more consumers said that jobs were "plentiful," but also slightly more said that jobs were "hard to get." 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 again, and those citing 'bad' conditions rose, signaling rising concerns about current family finances."

"Expectations for the next six months tumbled back below the recession threshold of 80, reflecting less confidence about **future business conditions**, **job availability**, and **incomes**. Consumers may be hearing more bad news about corporate earnings, while job openings are narrowing, and interest rates continue to rise—making big-ticket items more expensive. Expectations for interest rates declined in September after surging in the prior month, but the outlook for stock prices continued to fall. Notably, **average 12-month inflation expectations** have held steady over the past three months despite ongoing complaints about higher prices. Still, the measure of **expected family financial situation, six months hence** (not included in the *Expectations Index*) worsened further."

"The proportion of consumers saying **recession** is 'somewhat' or 'very likely' rose in September after dropping in August. The fluctuating soundings likely reflect ongoing uncertainty given mixed **buying plans**. On a six-month moving average basis, plans to purchase autos were flat but remained at an elevated level, while plans to purchase appliances continued to trend upward. But plans to buy homes—more 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 0.4% in August 2023 to 105.4 (2016=100), following a decline of 0.3% in July. The LEI is down 3.8% over the six-month period between February and August 2023—little changed from its 3.9% contraction over the previous six months.

"With August's decline, the US Leading Economic Index has now fallen for nearly a year and a half straight, indicating the economy is heading into a challenging growth period and possible recession over the next year," said **Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board.** "The leading index continued to be negatively impacted in August by weak new orders, deteriorating consumer expectations of business conditions, high interest rates, and tight credit conditions. All these factors suggest that going forward economic activity probably will decelerate and experience a brief but mild contraction. The Conference Board forecasts real GDP will grow by 2.2% in 2023, and then fall to 0.8% in 2024."

The Conference Board Coincident Economic Index® (CEI) for the U.S. improved by 0.2% in August 2023 to 110.6 (2016=100), after a 0.3% increase in July. The CEI is now up 0.8% over the six-month period between February and August 2023—an acceleration from its 0.5% 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 contributed positively to the index, with personal income less transfer payments and industrial production being the strongest contributors, followed by manufacturing and trade sales and employees on nonagricultural payrolls. Indeed, over the past six months, the CEI has improved signaling that the current environment remains satisfactory for now.

The Conference Board Lagging Economic Index® (LAG) improved by 0.2% in August 2023 to 118.5, after a 0.1% increase in July. (2016 = 100). The LAG is up slightly by 0.1% over the six-month period from February and August 2023, down dramatically from its 2.0% growth over the previous six months.

A DEEPER DIVE – NATIONAL, CONT.

Consumer Confidence, Cont.

Present Situation

Consumers' assessment of current **business conditions** slightly less pessimistic in September.

- While 20.9% of consumers said business conditions were "good," down from 21.5% in August,
- 16.4% said business conditions were "bad," down from 17.3%.

Consumers' appraisal of the **labor market** was slightly more positive in September.

- 40.9% of consumers said jobs were "plentiful," up from 39.9% in August.
- But 13.6% of consumers said jobs were "hard to get," up from 13.2% last month.

Expectations Six Months Hence

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

- 16.2% of consumers expect business conditions to improve, down from 17.2% in July.
- Meanwhile, 18.4% expect business conditions to worsen, up from 17.3%.

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

- 15.5% of consumers expect more jobs to be available, down from 17.5% in August.
- 18.9% anticipate fewer jobs, up from 18.0%.

Consumers' assessment of their **short-term income prospects** was more pessimistic in September.

- 16.3% of consumers expect their incomes to increase, down from 18.7% in August.
- Moreover, 14.4% expect their incomes will decrease, up from 11.9% last month.

Consumers' assessment of their **Family's Current Financial Situation** turned more negative in September.

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 "third" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 2.2% (revised).

The increase in **real GDP** reflected increases in nonresidential fixed investment, consumer spending, and state and local government spending that were partly offset by a decrease in exports. Imports decreased.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales slipped again in August, according to the National Association of REALTORS®. Among the four major U.S. regions, sales improved in the Midwest, were unchanged in the Northeast, and slipped in the South and West. 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 – slid 0.7% from July to a seasonally adjusted annual rate of 4.04 million in August. Year-over-year, sales fell 15.3% (down from 4.77 million in August 2022).

Single-family home sales fell to a seasonally adjusted annual rate of 3.60 million in August, down 1.4% from 3.65 million in July and 15.3% from the previous year. The median existing single-family home price was $413,500 in August, up 3.7% from August 2022.

Existing condominium and co-op sales recorded a seasonally adjusted annual rate of 440,000 units in August, up 4.8% from July but down 15.4% from one year ago. The median existing condo price was $354,600 in August, up 6.2% from the prior year.

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

"Home sales have been stable for several months, neither rising nor falling in any meaningful way," said NAR Chief Economist Lawrence Yun. "Mortgage rate changes will have a big impact over the short run, while job gains will have a steady, positive impact over the long run. The South had a lighter decline in sales from a year ago due to greater regional job growth since coming out of the pandemic lockdown."

Total housing inventory at the end of August was 1.1 million units, down 0.9% from July and 14.1% from one year ago. Unsold inventory was at a 3.3-month supply at the current sales pace, the same as July and up from 3.2 months in August 2022.

The median existing-home price for all housing types in August was $407,100, an increase of 3.9% from August 2022. All four U.S. regions posted price increases.

"Home prices continue to march higher despite lower home sales," Yun said. "Supply needs to essentially double to moderate home price gains."

Regional

At an annual rate of 480,000 in August, existing-home sales in the Northeast were unchanged from July but down 22.6% from August 2022. The median price in the Northeast was $465,700, up 5.8% from one year ago.

In the Midwest, existing-home sales increased by 1.0% from the previous month to an annual rate of 970,000 in August, down 16.4% from the prior year. The median price in the Midwest was $305,300, up 6.8% from August 2022.

Existing-home sales in the South fell 1.1% from July to an annual rate of 1.84 million in August, a decrease of 12.4% from one year ago. The median price in the South was $366,100, up 3.2% from August 2022.

In the West, existing-home sales dropped 2.6% from the previous month to an annual rate of 750,000 in August, down 15.7% from the prior year. The median price in the West was $609,300, up 1.0% from August 2022.

New Residential Sales

Sales of new single-family houses in August 2023 were at a seasonally adjusted annual rate of 675,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 8.7% below the revised July rate of 739,000, but was 5.8% above the August 2022 estimate of 638,000.

The median sales price of new houses sold in August 2023 was $430,300. The average sales price was $514,000. The seasonally-adjusted estimate of new houses for sale at the end of August was 436,000. This represents a supply of 7.8 months at the current sales rate.

Compared to August 2022, new residential sales were up 18.5% in the Northeast, 24.2% in the Midwest and 44.1% in the West but were down 9.2% in the South.

Housing Starts

Privately-owned housing starts in August were at a seasonally adjusted annual rate of 1,283,000. This was 11.3% below the revised July estimate of 1,447,000 and was 14.8% below the August 2022 rate of 1,505,000. Single-family housing starts in August were at a rate of 941,000; this was 4.3% below the revised July figure of 983,000.

Comparing August 2023 to August 2022, single family starts were up 2.4%. Regionally starts were down 10.0% in the Northeast, 15.1% in the Midwest, 12.8% in the West but were up 14.6% in the South.

Housing Completions

Privately-owned housing completions in August were at a seasonally adjusted annual rate of 1,406,000. This was 5.3% above the revised July estimate of 1,335,000 and was 3.8% above the August 2022 rate of 1,355,000. Single-family housing completions in August were at a rate of 961,000; this was 6.6% below the revised July rate of 1,029,000.

Single family completions were down 5.8% compared to August 2022, down 43.1% in the Northeast and 24.3% in the West. Single family completions were up 5.3% in the Midwest and 4.4% in the South compared to August a year ago.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for August 2023, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $697.6 billion, up 0.6% from the previous month, and up 2.5% above August 2022. Total sales for the June 2023 through August 2023 period were up 2.2% from the same period a year ago.

Retail trade sales were up 0.6% from July 2023, and up 1.6% above last year. Gasoline stations were down 10.3% from last year, while food services and drinking places were up 8.5% from August 2022.

Sales on an adjusted basis at furniture and home furnishings stores were down 7.2% from August 2022. On an unadjusted basis, sales at these stores were down 4.3% year to date.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.6% in August on a seasonally adjusted basis, after increasing 0.2% in July, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 3.7% before seasonal adjustment.

The index for gasoline was the largest contributor to the monthly all items increase, accounting for over half of the increase. Also contributing to the August monthly increase was continued advancement in the shelter index, which rose for the 40th consecutive month. The energy index rose 5.6% in August as all the major energy component indexes increased. The food index increased 0.2% in August, as it did in July. The index for food at home increased 0.2% over the month while the index for food away from home rose 0.3% in August.

The index for all items less food and energy rose 0.3% in August, following a 0.2% increase in July. Indexes which increased in August include rent, owners' equivalent rent, motor vehicle insurance, medical care, and personal care. The indexes for lodging away from home, used cars and trucks, and recreation were among those that decreased over the month.

The all-items index increased 3.7% for the 12 months ending August, a larger increase than the 3.2% increase for the 12 months ending in July. The all items less food and energy index rose 4.3% over the last 12 months. The energy index decreased 3.6% for the 12 months ending August, and the food index increased 4.3% over the last year.

Employment

Total nonfarm payroll employment increased by 187,000 in August, and the unemployment rate rose to 3.8%, according to the U.S. Bureau of Labor Statistics report. Employment continued to trend up in health care, leisure and hospitality, social assistance, and construction. Employment in transportation and warehousing declined.

The unemployment rate rose by 0.3 percentage point to 3.8% in August, and the number of unemployed persons increased by 514,000 to 6.4 million. Both measures are little different from a year earlier, when the unemployment rate was 3.7% and the number of unemployed persons was 6.0 million.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in August, up five of the last six months, increased 0.2% to $284.7 billion, according to the U.S. Census Bureau. This followed a 5.6% July decrease. Excluding transportation, new orders increased 0.4%. Excluding defense, new orders decreased 0.7%. Machinery, up four of the last five months, led the increase, $0.2 billion or 0.5% to $37.8 billion.

Shipments of manufactured durable goods in August, up three of the last four months, increased 0.5% to $284.6 billion. This followed a 0.1% July decrease. Transportation equipment, up following two consecutive monthly decreases, led the increase, 0.9% to $92.5 billion.

According to the final report, shipments of furniture and related products in July 2023 were down 0.8%. Year to date to July, shipments of these products were up 1.0%. New orders were down 4.0% in July compared to July 2022. Year to date, new orders through July were up 0.9%.