FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

November 2023

HIGHLIGHTS – EXECUTIVE SUMMARY

Once again, the results of our survey require taking more history into account. New orders in September were up 13% over September 2022. But September 2022 orders were down 26%. As with the previous surveys, comparisons to 2021 and 2020 are even more difficult. Year to date, new orders for the first nine months were up about 1%.

Shipments were down 20% in September 2023 from 2022 and down 18% for the year to date. The September 2022 shipments were up 5% over 2021 and up 6% year to date. The shipment comparisons are difficult to deal with percent changes as 2020 shipments were up significantly, setting the bar very high. Overall though, shipments in dollars are ahead for the year over order dollars. All of this means that shipments have continued to pull from the backlogs. Plus, the increase in shipments in 2022 was also so large due to the extremely high backlogs, the comparisons of 23 to 22 are not what we would normally expect. Hopefully all of that is confusing enough.

Backlogs actually increased a bit over August but were down 43% from September 2022. It appears that backlogs are getting to something closer to pre-pandemic levels, if one can determine how much price increases are included in the numbers.

The other stats are at least somewhat in line with expectations as you can see from the full report.

Ken Smith, CPA

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board ***Consumer Confidence Index®*** increased in November to 102.0, up from a downwardly revised 99.1 in October. The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—ticked down slightly to 138.2, from 138.6. The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—rose to 77.8 in November, up from its downwardly revised reading of 72.7 in October.

The report indicated that "Despite this month's improvement, the Expectations Index remained below 80 for a third consecutive month—a level that historically signals a recession within the next year. While consumer fears of an impending recession abated slightly, around two-thirds of consumers surveyed in November still perceive a recession to be "somewhat" or "very likely" to occur over the next 12 months. This is consistent with the short and shallow recession we anticipate in the first half of 2024."

Housing

The housing results were somewhat mixed as total existing home and single family homes were down 14.6% from October 2022. Single family sales in October 2022 were down 28.2% from October 2021. While new residential single family sales were up 17.7% from a year ago, the volume of sales of both existing and new sales was off significantly. The overall decline was blamed primarily on lower inventories of homes for sale as well as the highest mortgage rates in a generation.

Other

Advance estimates of U.S. retail and food services sales for October 2023, were $705.0 billion, down 0.1% from the previous month, and up 2.5% above October 2022. Total sales for the August 2023 through October 2023 period were up 3.1% from the same period a year ago.

Retail trade sales were down 0.2% from September 2023, and up 1.6% above last year. Gasoline stations were down 7.5% from last year (primarily due to drops in gas prices), while nonstore retailers were up 7.6% from October 2022.

Sales at furniture and home furnishings stores were down 11.8% for the month, bringing year to date sales to a reduction of 5.2%.

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in October on a seasonally adjusted basis, after increasing 0.4% in September. Over the last 12 months, the all-items index increased 3.2% before seasonal adjustment.

The index for shelter continued to rise in October, offsetting a decline in the gasoline index. The energy index fell 2.5% over the month as a 5.0% decline in the gasoline index more than offset increases in other energy component indexes. The food index increased 0.3% in October, after rising 0.2% in September.

The all items less food and energy index rose 4.0% over the last 12 months, its smallest 12-month change since the period ending in September 2021. The energy index decreased 4.5% for the 12 months.

Real gross domestic product (GDP) increased at an annual rate of 5.2% in the third quarter of 2023, according to the "second" estimate released by the Bureau of Economic Analysis.

The increase in real GDP reflected increases in consumer spending, private inventory investment, exports, state and local government spending, federal government spending, residential fixed investment, and nonresidential fixed investment. Imports increased.

EXECUTIVE SUMMARY, CONT.

Thoughts

In spite of the difficulty of making sense of the results of our surveys, we think the current business levels in residential furniture are back from the unprecedented heights we saw post the start of Covid pandemic. Everyone is not in the same place, as some still have some backlogs to work down for a part of 2024 shipments, but most seem back to more normal delivery times.

Incoming business seems slower, and some would call it spotty, giving you the feeling from time to time that business is starting to level out to more normal levels, then it slows down again. All the national economic news, for the most part, continues to say that we are still going to have at least a mild recession, if there is such a thing. Some of you have said your company is already in one.

We need to get the economy a bit more stable and get interest rates back down some. We just heard a report that said that used car prices are up 30% from pre pandemic levels and that the average car payment today is over $700 a month. That will surely not leave many dollars for furniture purchases. High mortgage rates are also hurting home buyers along with the shortage of inventory. The Conference Board projects that real GDP will respond by just 0.8% in 2024. With all of this, we would suggest that it may be a while before we see the furniture business back to more "normal" levels.

EXECUTIVE SUMMARY, CONT.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders were up 13% in September 2023 compared to orders in September 2022. Once again, while appearing to be a positive, we need to remember that in September 2022, new orders were down 26% compared to September 2021. The September 2021 and 2020 comparisons were also difficult since 2020 was such an abnormally high growth period. For the September 2023 increase, some 72% of the participants reported increased orders.

Year to date, new orders were up 1% over 2022, when they were down 29% compared to 2021. New orders year to date were actually down for some 63% of the participants in 2023.

Shipments and Backlogs

Shipments in September 2023 were down 20% compared to September 2022 when they were up 5% over the preceding September. Year to date, shipments were down 18% compared to 9 months of 2022 with some 78% of the participants reporting lower shipments than 2022. In 2022, year to date shipments were up 26%. Shipments have clearly not followed orders since the pandemic as backlogs were built to unprecedented levels for most and many of 2022 and 2023 shipments have been made from large carryover backlogs.

Receivables and Inventories

Receivable levels were down 26% compared to September 2022, so somewhat in line with year-to-date shipments and monthly shipments. We would expect these levels to get back in line in the next few months. Inventory levels continued to fall, dropping 2% from August and 26% below last year levels.

Factory and Warehouse Employees and Payroll

Factory and warehouse employees were about even with August and down 7% year to date. The payrolls for these employees were down 7% from last year and down 8% year to date. The payrolls seem in line with the number of employees.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2023		
	SEP	**AUG**	**9 MOS**
New Orders	2,632	2,615	20,488
Shipments	2,273	2,422	21,635
Backlog (R*)	2,790	2,684	

(R* Affected by change in participants)

	2022		
	SEP	**AUG**	**9 MOS**
New Orders	2,328	2,027	20,191
Shipments	2,859	2,918	26,340
Backlog	5,120	5,428	

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Sep 2023 from Aug 2023	Sep 2023 from Sep 2022	9 Mos 2023 vs 9 Mos 2022
New Orders	+8	+13	+1
Shipments	-12	-20	-18
Backlog	+3	-45	
Payrolls	+6	-7	-8
Employees	–	-7	
Receivables	+1	-26	
Inventories	-2	-31	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2022				
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
September	+13	-20	-45	-7

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board ***Consumer Confidence Index***® increased in November to 102.0 (1985=100), up from a downwardly revised 99.1 in October. The ***Present Situation Index***—based on consumers' assessment of current business and labor market conditions—ticked down slightly to 138.2 (1985=100), from 138.6. The ***Expectations Index***—based on consumers' short-term outlook for income, business, and labor market conditions—rose to 77.8 (1985=100) in November, up from its downwardly revised reading of 72.7 in October.

The report indicated that "Despite this month's improvement, the Expectations Index remained below 80 for a third consecutive month—a level that historically signals a recession within the next year. While consumer fears of an impending recession abated slightly—to the lowest levels seen this year—around two-thirds of consumers surveyed in November still perceive a recession to be "somewhat" or "very likely" to occur over the next 12 months. This is consistent with the short and shallow recession we anticipate in the first half of 2024."

"Consumer confidence increased in November, following three consecutive months of decline," said **Dana Peterson, Chief Economist at The Conference Board.** "This improvement reflected a recovery in the *Expectations Index*, while the *Present Situation Index* was largely unchanged. November's increase in consumer confidence was concentrated primarily among householders aged 55 and up; by contrast, confidence among householders aged 35-54 declined slightly. General improvements were seen across the spectrum of income groups surveyed in November.

"Consumer expectations for the next six months recovered in November, reflecting improved confidence about **future business conditions**, **job availability**, and **incomes**. Compared to last month, expectations that interest rates will rise in the year ahead ticked down, but consumers' outlook for stock prices continued to weaken in November. Meanwhile, **average 12-month inflation expectations** receded back to 5.7% after a one-month uptick to 5.9%. Consumers' views of their **expected family financial situation, six months hence** (not included in calculating the *Expectations Index*) recovered in November, after ticking down for the past two months. **Buying plans** for autos, homes, and big-ticket appliances trended downward on a six-month basis—perhaps reflecting the impact of elevated interest rates."

Present Situation

Consumers' assessment of current **business conditions** was, on balance, slightly more positive in November.

- 19.8% of consumers said business conditions were "good," up from 18.3% in October.
- However, 19.5% said business conditions were "bad," up from 18.8%.

Consumers' appraisal of the **labor market** was mixed in November.

- 39.3% of consumers said jobs were "plentiful," up slightly from 37.9% in October.
- However, 15.4% of consumers said jobs were "hard to get," up from 14.1%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. fell by 0.8% in October 2023 to 103.9 (2016=100), following a decline of 0.7% in September. The LEI contracted by 3.3% over the six-month period between April and October 2023, a smaller decrease than its 4.5% contraction over the previous six months (October 2022 to April 2023).

"The US LEI trajectory remained negative, and its six- and twelve-month growth rates also held in negative territory in October," said **Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board.** "Among the leading indicators, deteriorating consumers' expectations for business conditions, lower ISM® Index of New Orders, falling equities, and tighter credit conditions drove the index's most recent decline. After a pause in September, the LEI resumed signaling recession in the near term. The Conference Board expects elevated inflation, high interest rates, and contracting consumer spending—due to depleting pandemic saving and mandatory student loan repayments—to tip the US economy into a very short recession. We forecast that real GDP will expand by just 0.8% in 2024."

The Conference Board Coincident Economic Index® (CEI) for the U.S. was unchanged in October 2023 at 110.8 (2016=100), but the index is below its September's level after a downward revision. The CEI is now up 0.9% over the six-month period between April and October 2023, compared to 0.4% growth over the previous six months. The CEI's component indicators—payroll employment, personal income less transfer payments, manufacturing and trade sales, and industrial production—are included among the data used to determine recessions in the US. Three out of four components of the index advanced in October, with personal income less transfer payments being the strongest contributor, followed by manufacturing and trade sales and employees on nonagricultural payroll. Industrial production was the only negative contributor in the month.

The **Conference Board Lagging Economic Index®** (LAG) for the U.S. improved by 0.1% in October 2023 to 118.6 (2016 = 100), following the same rate of increase as in September. The LAG is up slightly by 0.3% over the six-month period from April to October 2023, down three-fold from its 0.9% growth over the previous six months.

A DEEPER DIVE – NATIONAL, CONT.

Consumer Confidence, Cont.

Expectations Six Months Hence

Consumers were less pessimistic about the **short-term business conditions outlook** in November.

- 17.3% of consumers expect business conditions to improve, up from 15.5% in October.
- 19.5% expect business conditions to worsen, down from 20.9%.

Consumers' assessment of the **short-term labor market outlook** was slightly more optimistic in November.

- 16.1% of consumers expect more jobs to be available, up from 15.3% in October.
- 19.6% anticipate fewer jobs, down slightly from 19.7%.

Consumers' assessment of their **short-term income prospects** improved in November.

- 17.2% of consumers expect their incomes to increase, up from 15.6% in October.
- 12.1% expect their incomes to decrease, down from 13.4%.

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 5.2% in the third quarter of 2023, according to the "second" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 2.1%.

The GDP estimate released today 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 4.9%.

The increase in **real GDP** reflected increases in consumer spending, private inventory investment, exports, state and local government spending, federal government spending, residential fixed investment, and nonresidential fixed investment. Imports increased.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales dropped in October, according to the National Association of REALTORS®. Among the four major U.S. regions, sales slid in the Northeast, South and West but were unchanged in the Midwest. All four regions experienced year-over-year sales declines.

Total existing-home sales – completed transactions that include single-family homes, townhomes, condominiums and co-ops – fell 4.1% from September to a seasonally adjusted annual rate of 3.79 million in October. Year-over-year, sales tumbled 14.6%.

Single-family home sales declined to a seasonally adjusted annual rate of 3.38 million in October, down 4.2% from 3.53 million in September and 14.6% from the previous year. The median existing single-family home price was $396,100 in October, up 3.0% from October 2022.

Existing condominium and co-op sales recorded a seasonally adjusted annual rate of 410,000 units in October, down 2.4% from September and 14.6% from one year ago. The median existing condo price was $356,000 in October, up 7.6% from the prior year.

"Prospective home buyers experienced another difficult month due to the persistent lack of housing inventory and the highest mortgage rates in a generation," said NAR Chief Economist Lawrence Yun. "Multiple offers, however, are still occurring, especially on starter and mid-priced homes, even as price concessions are happening in the upper end of the market."

Total housing inventory registered at the end of October was 1.15 million units, up 1.8% from September but down 5.7% from one year ago (1.22 million). Unsold inventory was at a 3.6-month supply at the current sales pace, up from 3.4 months in September and 3.3 months in October 2022.

The median existing-home price for all housing types in October was $391,800, an increase of 3.4% from October 2022 ($378,800). All four U.S. regions registered price increases.

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

"While circumstances for buyers remain tight, home sellers have done well as prices continue to rise year-over-year, including a new all-time high for the month of October," Yun said. "In fact, a typical homeowner has accumulated more than $100,000 in housing wealth over the past three years."

First-time buyers were responsible for 28% of sales in October, up from 27% in September and identical to October 2022. NAR's 2023 *Profile of Home Buyers and Sellers* – released earlier this month – found that the annual share of first-time buyers was 32%.

According to Freddie Mac, the mortgage rate averaged 7.44% as of November 16. That's down from 7.50% the previous week but up from 6.61% one year ago.

"Fortunately, mortgage rates have fallen for the third straight week, stirring up buying interest," Yun added. "Though limited now, expect housing inventory to improve after this winter and heading into the spring. More inventory will result in more home sales."

Regional

Existing-home sales in the Northeast dipped 4.0% from September to an annual rate of 480,000 in October, down 15.8% from October 2022. The median price in the Northeast was $439,200, up 7.5% from the previous year.

At an annual rate of 930,000 in October, existing-home sales in the Midwest were unchanged from the prior month but down 13.9% from one year ago. The median price in the Midwest was $285,100, up 4.2% from October 2022.

Existing-home sales in the South fell 7.1% from September to an annual rate of 1.69 million in October, a decline of 14.6% from the previous year. The median price in the South was $357,700, up 3.5% from last year.

In the West, existing-home sales decreased 1.4% from the prior month to an annual rate of 690,000 in October, down 14.8% from one year ago. The median price in the West was $602,200, up 2.3% from October 2022.

New Residential Sales

Sales of new single-family houses in October 2023 were at a seasonally adjusted annual rate of 679,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 5.6% below the revised September rate of 719,000 but was 17.7% above the October 2022 estimate of 577,000.

The median sales price of new houses sold in October 2023 was $409,300. The average sales price was $487,000.

The seasonally-adjusted estimate of new houses for sale at the end of October was 439,000. This represents a supply of 7.8 months at the current sales rate.

Sales were up in all four regions of the country with sales up 19.2% in the South and 18.9% in the West.

Housing Starts

Privately-owned housing starts in October were at a seasonally adjusted annual rate of 1,372,000. This was 1.9% above the revised September estimate of 1,346,000 but was 4.2% below the October 2022 rate of 1,432,000. Single-family housing starts in October were at a rate of 970,000; this was 0.2% above the revised September figure of 968,000.

Compared to October 2022, single family starts were up 13.1% with starts up 9.8% in the Northeast, 9.1% in the South and 46.0% in the West, while down 11.5% in the Midwest.

Housing Completions

Privately-owned housing completions in October were at a seasonally adjusted annual rate of 1,410,000. This was 4.6% below the revised September estimate of 1,478,000 but was 4.6% above the October 2022 rate of 1,348,000. Single-family housing completions in October were at a rate of 993,000; this was 0.9% below the revised September rate of 1,002,000. The October rate for units in buildings with five units or more was 408,000.

Compared to October 2022, single family completions were up 2.0% with completions up 16.7% in the Northeast and 8.9% in the South while dropping 29.0% in the Midwest and 1.9% in the West.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for October 2023, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $705.0 billion, down 0.1% from the previous month, and up 2.5% above October 2022. Total sales for the August 2023 through October 2023 period were up 3.1% from the same period a year ago. The August 2023 to September 2023 percent change was revised from up 0.7% to up 0.9%.

Retail trade sales were down 0.2% from September 2023, and up 1.6% above last year. Gasoline stations were down 7.5% from last year (primarily due to drops in gas prices), while nonstore retailers were up 7.6% from October 2022.

Sales at furniture and home furnishings stores were down 11.8% for the month, bringing year to date sales to a decline of 5.2%.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in October on a seasonally adjusted basis, after increasing 0.4% in September, 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 continued to rise in October, offsetting a decline in the gasoline index and resulting in the seasonally adjusted index being unchanged over the month. The energy index fell 2.5% over the month as a 5.0% decline in the gasoline index more than offset increases in other energy component indexes. The food index increased 0.3% in October, after rising 0.2% in September. The index for food at home increased 0.3% over the month while the index for food away from home rose 0.4%.

The index for all items less food and energy rose 0.2% in October, after rising 0.3% in September. Indexes which increased in October include rent, owners' equivalent rent, motor vehicle insurance, medical care, recreation, and personal care. The indexes for lodging away from home, used cars and trucks, communication, and airline fares were among those that decreased over the month.

The all items index rose 3.2% for the 12 months ending October, a smaller increase than the 3.7% increase for the 12 months ending September. The all items less food and energy index rose 4.0% over the last 12 months, its smallest 12-month change since the period ending in September 2021. The energy index decreased 4.5% for the 12 months ending October, and the food index increased 3.3% over the last year.

Employment

Total nonfarm payroll employment increased by 150,000 in October, and the unemployment rate changed little at 3.9%, according to the U.S. Bureau of Labor Statistics report. Job gains occurred in health care, government, and social assistance. Employment declined in manufacturing due to strike activity.

Both the unemployment rate, at 3.9%, and the number of unemployed persons, at 6.5 million, changed little in October. However, since their recent lows in April, these measures are up by 0.5 percentage point and 849,000, respectively.

In October, the number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.3 million. The long-term unemployed accounted for 19.8% of all unemployed persons.

Durable Goods Orders and Factory Shipments

Durable Goods Orders in the U. S. declined by 5.4%, or $16 billion, to $279.4 billion in October, the Census Bureau reported. This reading followed the 4.6% increase recorded in September and came in worse than the market expectation for a contraction of 3.1%.

"Excluding transportation, new orders were virtually unchanged," the press release read. "Excluding defense, new orders decreased 6.7%. Transportation equipment, also down three of the last four months, drove the decrease, $16.0 billion, or 14.8%, to $92.1 billion."