FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

We will change it up a little this month given the changing state of the world in late February and certainly in March. We will report on the results of our survey like normal but comments about the national news in January and February will be left to the rest of our report if you are interested.

Quickly, January 2020 orders were up 2% over January 2019. While on the surface that may not seem all that great, a very high performance in January 2019 helps to tell a bigger part of the story. January 2019 orders were up 8% over January 2018, so the 2% increase was not all that bad. Just over one-half of the participants reported increased orders. Shipments in January were down 3% from January 2019, but January 2019 shipments were up 14% over January 2018, making the small decline this January seem not so bad. Just over one-half of the participants reported increased shipments so those that reported declining shipments in some cases were off quite a bit.

Receivable levels were in reasonable ranges. Inventories, while still a bit high, seem to have leveled off at these higher levels. The number of factory and warehouse employees also seem pretty much in line with current business conditions.

Thoughts

Well, many of us have been in the stay-at-home mode for a week or so due to Guilford County, NC shutting down. Now the NC governor has issued the same or similar rules. We, as a Public Accounting Firm, are a protected industry (still gotta get those tax returns and audits done) but have restricted most employees to working from home. I cannot imagine being able to do this years ago when we didn't have the technology we have today.

When there were questions about whether to have the April market, we talked with a few folks who decided they were not going to show in April but were putting together plans to go out to customers with their own technology. Now that Market has been pushed back to June with questions about that being able to happen, we think that plan is still a good one. While much of the country has been hit with the virus, there are still parts that are open. So, it's a good idea to focus on those folks. Also, using technology to keep your products in front of all your customers cannot hurt to let them know you are thinking about them.

EXECUTIVE SUMMARY, CONT.

Thoughts, Cont.

The various stimulus packages put out by the government last week will certainly help many people. Be sure to work with your bankers and accountants to allow you to take advantage of many of these opportunities. Some are not totally flushed out yet, but we think in our reading and our talks with others, many of the details will be figured out in a couple of weeks. Be sure to get on your bankers and accountants lists as soon as possible. They still don't know to a tee all the details, but they will get there. If not, find someone who can at least help. We know the devil is in the details, so we are just going to have to figure those out as we muddle through this.

For our industry, this virus and related issues came at a not so good time. Business in general had seemed to be improving along with the economy.

In the meantime, stay safe. Support your local establishments that remain open. Stay away from crowds. And as they say, wash your hands, don't hoard. Share some good jokes and keep some humor going. We all need that.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in January 2020 were 2% higher than orders in January 2019. Slightly over one-half of the participants reported increased orders for the month. While the 2% increase was not all that exciting, we should remember that January 2019 orders were 8% higher than January 2018 orders so the 2% increase was really pretty good.

Orders were about even with December 2019 orders. December orders were up 4% over December 2018.

Shipments and Backlogs

Shipments in January were down 3% from January 2019, but January 2019 shipments were up 14% over January 2018, so not a bad month after all. As with orders, just over one-half of the participants reported increased shipments, so that means a good number of the participants' shipments were down fairly significantly.

Backlogs in January were slightly above December levels as orders were just slightly ahead of shipments. Backlogs were 7% ahead of January 2019 up from a 2% increase reported last month.

Receivables and Inventories

Receivable levels in January were 4% lower than January 2019, pretty much in line with the 3% decline in shipments. Receivables were 1% higher than December in spite of a 5% decline in shipments from December but this may be the result of timing. Overall, though, these levels seem reasonable.

Inventories were 4% higher than January 2019 and up 2% from December levels. December 2019 levels were 6% higher than December 2018 so while overall the inventory levels are still a bit high, these levels appear to be fairly level.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020	2019
	JAN	DEC
New Orders	2,285	2,290
Shipments	2,251	2,373
Backlog (R)	2,332	2,322

	2019	2018
	JAN	DEC
New Orders	2,241	2,208
Shipments	2,321	2,320
Backlog (R)	2,180	2,308

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls were 3% higher than January 2019 and 5% higher than December 2019. The increase over December is sometimes difficult to compare due to timing of the vacation pay and companies taking some or more time off over the holidays.

The number of factory and warehouse employees in January 2020 was about even with December 2019 and were down 2% from January 2019. Last month, the number of employees was down 3% from December 2018.

MONTHLY RESULTS - MARCH 2020

KEY MONTHLY INDICATORS (PERCENT CHANGE)		
	Jan 2020 From Dec 2019	Jan 2020 From Jan 2019
New Orders	–	+2
Shipments	-5	-3
Backlog	–	+7
Payrolls	+5	+3
Employees	–	-2
Receivables	+1	-4
Inventories	+2	+4

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2019				
January	+8	+14	+9	-2
February	-5	-3	+7	-2
March	-3	-1	+4	-1
April	-9	-2	–	-2
May	-3	-3	-2	-2
June	-6	-4	-5	-3
July	+6	+1	+1	–
August	-3	-6	+3	-4
September	+7	+6	+5	-5
October	-8	+2	–	-2
November	-5	-3	+1	-3
December	+4	+2	+2	-3
2020				
January	+2	-3	+7	-2

A DEEPER DIVE - NATIONAL

Consumer Confidence

Note: Clearly this survey was done early on in March and is not reflective of a survey that would have been taken in late March. But we felt it was important to report the data as we had it, regardless.

The Conference Board *Consumer Confidence Index®* declined sharply in March, following an increase in February. The Index now stands at 120.0 (1985=100), down from 132.6 in February. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased from 169.3 to 167.7. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – declined from 108.1 last month to 88.2 this month.

"Consumer confidence declined sharply in March due to a deterioration in the short-term outlook," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index remained relatively strong, reflective of an economy that was on solid footing, and prior to the recent surge in unemployment claims. However, the intensification of COVID-19 and extreme volatility in the financial markets have increased uncertainty about the outlook for the economy and jobs. March's decline in confidence is more in line with a severe contraction – rather than a temporary shock – and further declines are sure to follow."

Consumers' assessment of current conditions was less favorable in March. The percentage of consumers claiming business conditions are "good" was relatively unchanged at 39.6%, while those claiming business conditions are "bad" increased, from 10.8% to 11.4%. Consumers' assessment of the job market also moderated from last month. Those saying jobs are "plentiful" decreased from 46.5% to 44.9%, while those claiming jobs are "hard to get" was unchanged at 13.9%.

Consumers were significantly less optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months decreased from 20.6% to 18.2%, while those expecting business conditions will worsen increased from 7.2% to 14.9%.

Consumers' outlook for the labor market was also less positive. The proportion expecting more jobs declined from 16.6% to 15.5%, while those anticipating fewer jobs in the months ahead increased, from 12.0% to 17.1%. Regarding their short-term income prospects, the percentage of consumers expecting an increase declined from 22.7% to 20.7%, while the proportion expecting a decrease rose from 6.1% to 8.8%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. edged up 0.1% in February to 112.1 (2016 = 100), following a 0.7% increase in January, and a 0.3% decline in December. "The U.S. LEI rose slightly in February, but it doesn't reflect the impact of the COVID-19 pandemic which began to hit the U.S. economy in full by early March. The slight gain in February came only from half of the LEI components. In particular, the recovery in manufacturing, which looked promising until February, will now be short-lived because of the disruption in global supply chains and falling demand," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Declines in stock prices, consumers' outlook on economic conditions, manufacturing new orders, average workweek in manufacturing, and rising unemployment claims will begin to negatively impact the economy. As a result, the economy may already be entering into a period of contraction."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3% in February to 107.6 (2016 = 100), following a 0.1% increase in January, and no change in December.

Gross Domestic Product

For the year, real GDP increased 2.3% in 2019 (from the 2018 annual level to the 2019 annual level), compared with an increase of 2.9% in 2018.

The increase in real GDP in 2019 reflected positive contributions from PCE, nonresidential fixed investment, federal government spending, state and local government spending, and private inventory investment that were partly offset by a negative contribution from residential fixed investment. Imports increased.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales climbed substantially in February after a slight decline in January, according to the National Association of Realtors® (NAR). Of the four major regions, only the Northeast reported a drop in sales, while other areas saw increases, including sizable sales gains in the West. Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 6.5% from January to a seasonally-adjusted annual rate of 5.77 million in February. Additionally, for the eighth straight month, overall sales greatly increased year-over-year, up 7.2% from a year ago (5.38 million in February 2019).

Single-family home sales were at a seasonally-adjusted annual rate of 5.17 million in February, up from 4.82 million in January, and up 7.3% from a year ago. The median existing single-family home price was $272,400 in February, up 8.1% from February 2019.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 600,000 units in February, about even with January's sales, but 7.1% higher than a year ago. The median existing condo price was $249,900 in February, an increase of 7.0% from a year ago.

"February's sales of over 5 million homes were the strongest since February 2007," said Lawrence Yun, NAR's chief economist. "I would attribute that to the incredibly low mortgage rates and the steady release of a sizable pent-up housing demand that was built over recent years."

The median existing-home price for all housing types in February was $270,100, up 8.0% from February 2019 ($250,100), as prices rose in every region. February's price increase marks 96 straight months of year-over-year gains.

Yun noted that February's home sales were encouraging but not reflective of the current turmoil in the stock market or the significant hit the economy is expected to take because of the coronavirus and corresponding social quarantines. "These figures show that housing was on a positive trajectory, but the coronavirus has undoubtedly slowed buyer traffic, and it is difficult to predict what short-term effects the pandemic will have on future sales," Yun said.

Total housing inventory at the end of February totaled 1.47 million units, up 5.0% from January, but down 9.8% from one year ago (1.63 million). Unsold inventory sits at a 3.1-month supply at the current sales pace, equal to the supply recorded in January and down from the 3.6-month figure recorded in February 2019.

Properties typically remained on the market for 36 days in February, seasonally down from 43 days in January, and down from 44 days in February 2019. Forty-seven percent of homes sold in February 2020 were on the market for less than a month.

First-time buyers were responsible for 32% of sales in February, equal to the percentages seen in both January 2020 and in February 2019. NAR's 2019 Profile of Home Buyers and Sellers – released in late 2019 – revealed that the annual share of first-time buyers was 33%.

"For the past couple of months, we have seen the number of buyers grow as more people enter the market," Yun said. "Once the social-distancing and quarantine measures are relaxed, we should see this temporary pause evaporate, and will have potential buyers return with the same enthusiasm."

While offering a definitive forecast is extremely difficult in light of this national and global emergency, Yun says home prices will hold on well. "Unlike the stock market, home prices are not expected to drop because of the on-going housing shortage and due to homes getting delisted during this time of crisis," he said.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 3.47% in February, down from 3.62% in January. The average commitment rate across all of 2019 was 3.94%.

Regional

Compared to the month prior, February sales increased in the Midwest, the South and the West, while year-over-year sales are up in each of the four regions. Median home prices in all regions increased from one year ago, with the Northeast and South regions showing the strongest price gains.

February 2020 existing-home sales in the Northeast fell 4.1%, recording an annual rate of 700,000, a 2.9% increase from a year ago. The median price in the Northeast was $295,400, up 8.2% from February 2019.

A DEEPER DIVE – HOUSING, CONT.

Regional, Cont.

Existing-home sales increased 0.8% in the Midwest to an annual rate of 1.29 million, up 4.0% from a year ago. The median price in the Midwest was $203,700, a 7.9% increase from February 2019.

Existing-home sales in the South climbed 7.2% to an annual rate of 2.52 million in February, up 8.2% from the same time one year ago. The median price in the South was $238,000, an 8.2% increase from a year ago.

Existing-home sales in the West surged 18.9% to an annual rate of 1.26 million in February, an 11.5% increase from a year ago. The median price in the West was $410,100, up 8.1% from February 2019.

New Residential Sales

Sales of new single-family houses in February 2020 were at a seasonally adjusted annual rate of 765,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 4.4% below the revised January rate of 800,000 but was 14.3% above the February 2019 estimate of 669,000.

The median sales price of new houses sold in February 2020 was $345,900. The average sales price was $403,800. The seasonally adjusted estimate of new houses for sale at the end of February was 319,000. This represents a supply of 5.0 months at the current sales rate.

Regionally, sales were up 47.1% in the Northeast, 15.6% in the Midwest, 6.3% in the South and 24.7% in the West.

Housing Starts

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced that privately-owned housing starts in February were at a seasonally adjusted annual rate of 1,599,000. This was 1.5% below the revised January estimate of 1,624,000 but was 39.2% above the February 2019 rate of 1,149,000. Single-family housing starts in February were at a rate of 1,072,000; this was 6.7% above the revised January figure of 1,005,000.

Single family starts were up 35.4% over February 2018 with starts up 54.5% in the Northeast, 32.1% in the Midwest, 32.5% in the South and 37.8% in the West.

Privately-owned housing completions in February were at a seasonally adjusted annual rate of 1,316,000. This was 0.2% below the revised January estimate of 1,319,000 and was 1.2% below the February 2019 rate of 1,332,000. Single-family housing completions in February were at a rate of 1,027,000; this was 14.1% above the revised January rate of 900,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for February 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $528.1 billion, a decrease of 0.5% from the previous month, but 4.3% above February 2019. Total sales for the December 2019 through February 2020 period were up 4.9% from the same period a year ago.

Retail trade sales were down 0.5% from January 2020, but 4.2% above last year. Non-store retailers were up 7.5% from February 2019, and food services and drinking places were up 5.2% from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 3.8% in February vs February 2019. On a not adjusted basis, sales at these stores were up 6.8% for the two months vs last year same two months.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in February on a seasonally adjusted basis, the same increase as in January, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 2.3% before seasonal adjustment.

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A DEEPER DIVE – OTHER NATIONAL, CONT.

Consumer Prices, Cont.

Increases in the indexes for shelter and for food were the main causes of the increase in the seasonally adjusted all items index, more than offsetting a decline in the energy index. The food index increased 0.4% over the month, with the food at home index rising 0.5%, its largest monthly increase since May 2014. The index for energy fell 2.0% in February, with all its major component indexes declining.

The index for all items less food and energy rose 0.2% in February, the same increase as in January. Along with the index for shelter, the indexes for apparel, personal care, used cars and trucks, education, and medical care were among those that increased in February. The indexes for recreation and airline fares declined over the month.

Employment

Total nonfarm payroll employment rose by 273,000 in February, and the unemployment rate was little changed at 3.5%, according to the U.S. Bureau of Labor Statistics. Notable job gains occurred in health care and social assistance, food services and drinking places, government, construction, professional and technical services, and financial activities.

Both the unemployment rate, at 3.5%, and the number of unemployed persons, at 5.8 million, changed little in February. The unemployment rate has been either 3.5% or 3.6% for the past 6 months. Clearly, these situations will change drastically over the next few months.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in February increased $2.9 billion or 1.2% to $249.4 billion, according to the U.S. Census Bureau. This increase, up four of the last five months, followed a 0.1% January increase. Excluding transportation, new orders decreased 0.6%. Excluding defense, new orders increased 0.1%. Transportation equipment, up two of the last three months, drove the increase, $3.8 billion or 4.6% to $87.0 billion.

Shipments of manufactured durable goods in February, up following seven consecutive monthly decreases, increased $2.1 billion or 0.8%. This followed a 0.1% January decrease. Transportation equipment, also up following seven consecutive monthly decreases, drove the increase, $2.4 billion or 2.9%.

According to the final report, orders for furniture and related products were up 4.8% and shipments were up 5.5% in January 2020 compared to January 2019. Obviously, this includes much more than residential furniture.