FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

Well if we thought reporting the results of our survey of residential furniture manufacturers and distributors last month was a bit difficult, who knew what this month's report would mean. We wish we could get more current information, but it just takes us to the end of the second month to get the participant results.

So once again we will be brief with the results of the survey and only briefly mention the national results, as realistically all of this is old news. As we had heard, 2020 started off pretty well through February and even the first part of March. New orders in February were up 6% over February 2019 making year to date orders up 4% over last year. About two-thirds of the participants reported increased orders.

Shipments were up 4% over February 2019 after a 3% decline in January (January 2018 compared to a very strong January 2017). Year to date, shipments were about flat with last year with just over one-half of the participants reporting increases.

Backlogs increased 2% over January and were 10% higher the February 2019. That was a good thing as when things slowed in March, there were some backlogs to work down, even though there were some cancellations.

Receivable and inventory levels were both in pretty good shape as inventories had dropped 4% from January and were only 3% up from February 2019. Factory and warehouse employees and payrolls were both in line with the then current conditions. Factory and warehouse payrolls were up 2% year to date, again pretty much in line.

Nationally, most of the reports in March were beginning to reflect the effects of the coronavirus. Consumer confidence in April fell again after a decline in March. The 90-point drop in the Present Situation Index was the largest on record. The Conference Board's Leading Economic Index declined 6.7% in March, that being the largest decline in the 60-year history.

Existing-home sales fell in all four regions of the country though prices remained steady. New house sales were down 15.4% in March from February. Sales were down in all regions except the South where they were up 1.3%. Housing starts were down 22.3% from February. Retail sales in March were down 8.7% from February and 6.2% from March 2019. Sales at furniture and home furnishings stores were down 25% from March 2019 on an adjusted basis and down 4.3% year to date.

Consumer prices were down, driven primarily by a drop in the gasoline index. And the Advance estimate for GDP that just came out noted a decrease of 4.8% for the first quarter, obviously affected by the "stay-at-home" orders starting in March.

EXECUTIVE SUMMARY, CONT.

Thoughts

We have asked several people for possible comments on what to say in this issue of *Furniture Insights*. So far, the best comments that could be printed are "Good luck." Seriously, what do you say? It is really hard to make an overall statement. Some of you, in places when you could, have been able to work at least on a limited schedule based on backlogs or designer orders or limited retail by appointment. Other have developed some health care products whether furniture or masks. And many of you have applied for the Payroll Protection Program loans and have experienced all sorts of fun with that everchanging exercise and its various interpretations. Hopefully, with the second wave of funding, most of you who qualified have been able to get some relief through those funds or the other loan program, deferred payroll tax payments, or other options.

Some states are opening back up. We hope not too soon. We know everyone really wants to get back to work. We do think it is going to be a while before we hit "normal" again, whatever that may look like. While some think the economy will come back strong and quickly, we are not sure how "quickly" that will be. As accountants are usually on the conservative side, we would suggest you plan on a slower recovery. Preparing for less business and getting a lot more is much better than assuming business back to pre-March levels and it not happening.

We are sorry there will be no spring High Point Market, but we think that was a wise choice. We hope that by the time our May letter comes out and likely reveals weak March results, we will have a better idea of a go-forward plan. In the meantime, stay safe and careful.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

New orders were up 6% in February 2020 compared to February 2019 according to our latest survey of residential furniture manufacturers and distributors. This increase followed a 2% increase in January. Approximately 71% of the participants reported an increase in orders over February last year.

The 6% increase brought the year to date increase to 4% for the two months. Just over two-thirds of the participants reported increased orders year to date.

Shipments and Backlogs

For February, shipments were up 4% over February 2019 after reporting a 3% decline in January (though January 2018 shipments were up 14% over January 2017). Shipments were up for 61% of the participants.

Year to date, shipments were basically flat compared to the 2019. Shipments were up 5% last year compared to 2018 through February. Shipments were up for just over half the participants.

Backlogs increased 2% over January 2020 bringing backlogs up 10% over February 2019. January 2020 backlogs were up 7% over January 2019.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	FEB	JAN	2 MONTHS
New Orders	2,278	2,285	4,563
Shipments	2,219	2,251	4,470
Backlog	2,390	2,332	

	2019		
	FEB	JAN	2 MONTHS
New Orders	2,156	2,241	4,397
Shipments	2,134	2,321	4,455
Backlog (R)	2,180	2,158	

Receivables and Inventories

Receivable levels were down 1% from February 2019 and down 5% from January. The 1% decline considering year to date flat shipments was a good sign, especially to start at a good level before the virus pandemic set in. The 5% decline from January was normal as shipments in February are usually down from January.

Inventories were up 3% over February 2019, down from a 4% increase reported last month. Inventories in February were down 4% from January 2020, so it appears inventories were in pretty good shape going into the pandemic.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees were down 2% from January 2020. This decline put the number of employees about equal with February 2019. Factory and warehouse payrolls in February 2020 were about equal with February 2019. Payrolls were down 5% from January, a normal decline since the number of working days are fewer in February. Year to date, payrolls were up 2%.

MONTHLY RESULTS - APRIL 2020

KEY MONTHLY INDICATORS (PERCENT CHANGE)	February 2020 From January 2020	February 2020 From February 2019	2 Months 2020 vs 2 Months 2019
New Orders	-2	+6	+4
Shipments	-8	+4	–
Backlog	+2	+10	
Payrolls	-5	–	+2
Employees	–	-2	
Receivables	-5	-1	
Inventories	-4	+3	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2019				
February	+5	+3	-2	-1
March	+2	–	+1	-1
April	+15	+10	+6	-1
May	+5	+2	+5	–
June	+5	+2	+7	-1
July	+5	+6	+4	-2
August	+9	+5	+6	-2
September	+9	–	+14	-1
October	+7	+3	+14	-2
November	+3	+8	+9	-2
December	+7	–	+13	-1
2020				
January	+8	+14	+9	-2
February	+6	+4	+10	-2

DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* deteriorated further in April, following a sharp decline in March. The Index now stands at 86.9 (1985=100), down from 118.8 in March. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – also declined considerably, from 166.7 to 76.4. However, the Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – improved from 86.8 in March to 93.8 this month.

"Consumer confidence weakened significantly in April, driven by a severe deterioration in current conditions," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The 90-point drop in the Present Situation Index, the largest on record, reflects the sharp contraction in economic activity and surge in unemployment claims brought about by the COVID-19 crisis. Consumers' short-term expectations for the economy and labor market improved, likely prompted by the possibility that stay-at-home restrictions will loosen soon, along with a re-opening of the economy. However, consumers were less optimistic about their financial prospects and this could have repercussions for spending as the recovery takes hold. The uncertainty of the economic effects of COVID-19 will likely cause expectations to fluctuate in the months ahead."

Consumers' appraisal of current conditions declined considerably in April. Those claiming business conditions are "good" decreased from 39.2 percent to 20.8 percent, while those claiming business conditions are "bad" increased from 11.7 percent to 45.2 percent. Consumers' assessment of the job market also eroded significantly from last month. Those saying jobs are "plentiful" decreased from 43.3 percent to 20.0 percent. Those claiming jobs are "hard to get" increased from 13.8 percent to 33.6 percent.

Consumers, however, were somewhat optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months increased from 18.7 percent to 40.0 percent, however those expecting business conditions will worsen also increased, from 16.4 percent to 25.7 percent.

Consumers' outlook for the labor market was mixed. The proportion expecting more jobs rose from 16.9 percent to 41.0 percent, while those anticipating fewer jobs in the months ahead also increased, from 17.6 percent to 20.8 percent. Regarding their short-term income prospects, the percentage of consumers expecting an increase declined from 20.0 percent to 16.7 percent, while the proportion expecting a decrease rose from 10.1 percent to 18.5 percent.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 6.7% in March to 104.2 (2016 = 100), following a 0.2% decrease in February, and a 0.4% increase in January. "In March, the U.S. LEI registered the largest decline in its 60-year history," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The unprecedented and sudden deterioration was broad based, with the largest negative contributions coming from initial claims for unemployment insurance and stock prices. The sharp drop in the LEI reflects the sudden halting in business activity as a result of the global pandemic and suggests the U.S. economy will be facing a very deep contraction."

The Conference Board Coincident Economic Index® (CEI) for the U.S. decreased 0.9% in March to 106.6 (2016 = 100), following a 0.3% increase in February, and a 0.1% increase in January.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 1.2% in March to 110.2 (2016 = 100), following 0.3% increase in February, and a 0.1% decline in January.

Gross Domestic Product

Real gross domestic product (GDP) decreased at an annual rate of 4.8% in the first quarter of 2020, according to the "advance" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2019, real GDP increased 2.1%.

The decline in first quarter GDP was, in part, due to the response to the spread of COVID-19, as governments issued "stay-at-home" orders in March. This led to rapid changes in demand, as businesses and schools switched to remote work or canceled operations, and consumers canceled, restricted, or redirected their spending. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the first quarter of 2020 because the impacts are generally embedded in source data and cannot be separately identified.

The decrease in real GDP in the first quarter reflected negative contributions from personal consumption expenditures (PCE), nonresidential fixed investment, exports, and private inventory investment that were partly offset by positive contributions from residential fixed investment, federal government spending, and state and local government spending. Imports, which are a subtraction on the calculation of GDP, decreased. The decrease in PCE reflected decreases in services, led by health care, and goods, led by motor vehicles and parts. The decrease in nonresidential fixed investment primarily reflected a decrease in equipment, led by transportation equipment. The decrease in exports primarily reflected a decrease in services, led by travel.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, dropped 8.5% from February to a seasonally-adjusted annual rate of 5.27 million in March. Despite the decline, overall sales increased year-over-year for the ninth straight month, up 0.8% from a year ago (5.23 million in March 2019), according to the National Association of Realtors® (NAR).

Single-family home sales were at a seasonally-adjusted annual rate of 4.74 million in March, down from 5.16 million in February, and up 1.3% from a year ago. The median existing single-family home price was $282,500 in March, up 8.0% from March 2019.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 530,000 units in March, down 11.7% from February and down 3.6% from a year ago. The median existing condo price was $263,400 in March, an increase of 7.9% from a year ago.

"Unfortunately, we knew home sales would wane in March due to the coronavirus outbreak," said Lawrence Yun, NAR's chief economist. "More temporary interruptions to home sales should be expected in the next couple of months, though home prices will still likely rise."

While sales have declined, home prices are still solidly strong. The median existing-home price for all housing types in March was $280,600, up 8.0% from March 2019 ($259,700), as prices increased in every region. March's national price increase marks 97 straight months of year-over-year gains.

Total housing inventory at the end of March totaled 1.50 million units, up 2.7% from February, but down 10.2% from one year ago (1.67 million). Unsold inventory sits at a 3.4-month supply at the current sales pace, up from three months in February and down from the 3.8-month figure recorded in March 2019.

"Earlier in the year, we watched inventory gradually tick upward but with the current quarantine recommendations in place, fewer sellers are listing homes, which will limit buyer choices," Yun said. "Significantly more listings are needed and more will come on to the market once the economy steadily reopens."

Regional

March 2020 existing-home sales in the Northeast fell 7.1%, recording an annual rate of 650,000, a 3.0% decrease from a year ago. The median price in the Northeast was $300,400, up 8.3% from March 2019.Existing-home sales decreased 3.1% in the Midwest to an annual rate of 1.25 million, up 4.2% from a year ago. The median price in the Midwest was $219,700, a 9.7% increase from March 2019.Existing-home sales in the South dropped 9.1% to an annual rate of 2.29 million in March, up 0.9% from the same time one year ago. The median price in the South was $245,100, a 7.5% increase from a year ago. Existing-home sales in the West fell 13.6% to an annual rate of 1.08 million in March, 0.9% decline from a year ago. The median price in the West was $420,600, up 8.0% from March 2019.

New Residential Sales

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that sales of new single-family houses in March 2020 were at a seasonally adjusted annual rate of 627,000. This was 15.4% below the revised February rate of 741,000 and was 9.5% below the March 2019 estimate of 693,000.

The median sales price of new houses sold in March 2020 was $321,400. The average sales price was $375,300. The seasonally adjusted estimate of new houses for sale at the end of March was 333,000. This represents a supply of 6.4 months at the current sales rate. Compared to March 2019, sales were down 4.0% in the Northeast, 9.2% in the Midwest and 30.8% in the West. Sales were up 1.3% in the South.

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 March were at a seasonally adjusted annual rate of 1,216,000. This was 22.3% below the revised February estimate of 1,564,000 but was 1.4% above the March 2019 rate of 1,199,000. Single-family housing starts in March were at a rate of 856,000; this was 17.5% below the revised February figure of 1,037,000.

Compared to March 2019, single-family starts were down 8.8% in the Northeast, 5.4% in the South but were up 4.9% in the Midwest and 25.3% in the West. Privately-owned housing completions in March were at a seasonally adjusted annual rate of 1,227,000. This was 6.1% below the revised February estimate of 1,307,000 and was 9.0% below the March 2019 rate of 1,348,000. Single-family housing completions in March were at a rate of 863,000; this was 15.0% below the revised February rate of 1,015,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for March 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $483.1 billion, a decrease of 8.7% from the previous month, and 6.2% below March 2019. Total sales for the January 2020 through March 2020 period were up 1.1% from the same period a year ago.

Retail trade sales were down 6.2% from February 2020, and 3.8% below last year. Food and beverage stores were up 28.0% from March 2019, while clothing and clothing accessories stores were down 50.7% from last year.

Sales in March at furniture and home furnishings stores were down 25% from March 2019 on an adjusted basis. Year to date, sales at these stores were down 4.3% from the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.4% in March on a seasonally adjusted basis, the largest monthly decline since January 2015, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.5% before seasonal adjustment.

A sharp decline in the gasoline index was a major cause of the monthly decrease in the seasonally adjusted all items index, with decreases in the indexes for airline fares, lodging away from home, and apparel also contributing. The energy index fell 5.8% as the gasoline index decreased 10.5%. The food index rose in March, increasing 0.3% as the food at home index rose 0.5%.

The index for all items less food and energy fell 0.1% in March, its first monthly decline since January 2010. Along with the indexes for airline fares, lodging away from home, and apparel, the index for new vehicles declined in March. The index for shelter was unchanged, with increases in the indexes for rent and for owners' equivalent rent offsetting the aforementioned decline in the index for lodging away from home. Indexes that increased in March include medical care, used cars and trucks, motor vehicle insurance, and education.

The all items index increased 1.5% for the 12 months ending March, a notably smaller increase than the 2.3% increase for the period ending February. The index for all items less food and energy rose 2.1% over the last 12 months. The food index rose 1.9% over the last 12 months, while the energy index declined 5.7%.

Employment

Total nonfarm payroll employment fell by 701,000 in March, and the unemployment rate rose to 4.4%, according to the U.S. Bureau of Labor Statistics report. The changes in these measures reflect the effects of the coronavirus (COVID-19) and efforts to contain it. Employment in leisure and hospitality fell by 459,000, mainly in food services and drinking places. Notable declines also occurred in health care and social assistance, professional and business services, retail trade, and construction.

In March, the unemployment rate increased by 0.9 percentage point to 4.4%. This is the largest over-the-month increase in the rate since January 1975, when the increase was also 0.9 percentage point. The number of unemployed persons rose by 1.4 million to 7.1 million in March. The sharp increases in these measures reflect the effects of the coronavirus and efforts to contain it.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in March decreased $36.0 billion or 14.4% to $213.2 billion, according to the U.S. Census Bureau announcement. This decrease, down following three consecutive monthly increases, followed a 1.1% February increase. Excluding transportation, new orders decreased 0.2%. Excluding defense, new orders decreased 15.8%. Transportation equipment, down two of the last three months, led the decrease, at 41.0%.