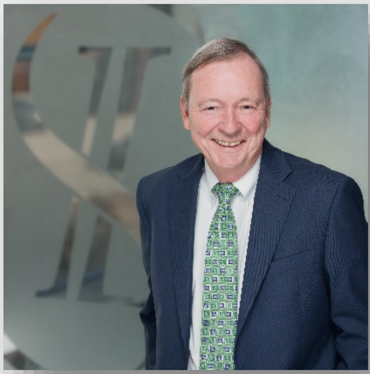
FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

May 2020



Ken Smith, CPA

HIGHLIGHTS - EXECUTIVE SUMMARY

As we suspected last month, the results for March would not be very pretty and the actual results were not. New orders for March were down 29% from March 2019 and 23% from February. February orders were up 6% over last year. Orders in March were down for 87% of the participants versus increased orders in February for 71% of the participants.

Year to date, new orders declined 8% and were down for 69% of the participants. At the end of February, orders year to date were up 4% and up for about 67% of the participants.

Shipments fell 11% in March from March 2019 with 68% reporting a decline in shipments. The March decline brought year to date shipments to a 4% decline for the year with 59% reporting declining shipments.

The decline in shipments was not as severe as the decline in orders as participants were working off backlogs so shipments were sustained in some cases, though backlogs also were down due to cancellations as well.

Backlogs fell 16% from February to March and were down 8% from March last year.

Receivable levels seemed pretty much in line at least with year to date shipments. The decline in orders and shipments that occurred so quickly did not allow for adjustments to inventory levels as inventory levels remained steady with February.

Factory and warehouse payrolls declined 13% from last March, but these comparisons for the next couple of months will be difficult as treatment of lay offs, furloughs and Payroll Protection Program effects will likely be considered differently for many.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

Nationally, it was interesting to see that the May Consumer Confidence Index held steady after the big drops in April and March. The Present Situation Index fell slightly but the Expectations Index improved. There were concerns over financial prospects, as we might expect as well as concerns over inflation. The report noted that "while the decline appears to have stopped for the moment, the uneven path to recovery and potential second wave are likely to keep a cloud of uncertainty hanging over consumers heads".

Leading Indicators

The Conference Board Leading Economic Index declined 4.4% in April after a 7.4% decline in March, the March decline being the largest in the 60-year history. Pretty much everything in April was down except the stock market and interest rate spread.

Housing

Existing-home sales fell again in April with sales down 17.8% from March and were down 17.2% from April 2019. Single-family sales were down similar percentages while prices were up 7.1% from last year. April's decline from March was the largest month over month decline since July 2010 (-22.5%).

Regionally, sales were down in all four regions in April, compared to April 2019. Sales were down 18.2% in the Northeast, 8.3% in the Midwest, 16.8% in the South and 27.0% in the West. Prices continue to rise significantly in all regions.

Sales of new houses were also down from last year, dropping 6.2% from April 2019. New house sales were up 26.5% in the Midwest and 4.7% in the South while falling 26.5% in the Northeast and 33.5% in the West.

Housing starts in April were 30.2% below March 2020 and 29.7% below April 2019. Starts were down significantly in all four regions of the country.

Other

Advance reports for retail sales in April noted a 16.4% drop from March and a decline of 21.6% from April 2019. Clothing and clothing accessory stores were off 89.3% from April 2019 while nonstore retailers were up 21.6%. Sales at furniture and home furnishings stores in April were down 66.5% from April 2019.

Consumer prices were down 0.8% in April, the largest monthly decline since December 2008. The decline in the gasoline index was the major contributor to the decline. Also declining were the indexes for apparel, airlines and lodging away from home. Food indexes rose as food at home posting its largest increase since February 1974.

Nonfarm employment fell by 20.5 million in April and the unemployment rate rose to 14.7%. This 10.3% increase in the unemployment rate was the largest month over month increase in the history of the series, dating back to 1948.

The Gross Domestic Product decreased at an annual rate of 5.0% in the first quarter according to the second estimate after a 2.1% increase in the fourth quarter of 2019.

EXECUTIVE SUMMARY, CONT.

Thoughts

As we noted last month, it is hard to really know what to say about the economy, the furniture industry and most anything else in this environment. As can be seen in the details, there were records broken in some of the national news or if not records, new marks set from many years ago. As we write this month's edition, we are starting to open up the economy state by state, but there are so many differences of opinion as to how and how fast to do it.

We do not have April results yet, but we did a straw pole with a small number of manufacturers and distributors early this month. We did not weight it but just as what percentage orders were down in April. The results showed over a 70% decline in orders with expectations for May in the 50% decline range.

Obviously, none of us have seen anything like we are going through at least since the Depression. The Federal Government Programs have certainly helped individual families as well as companies through the PPP and other programs, but there are many folks still in pretty bad financial conditions, as well as other effects of stay at home. And unfortunately, as usual, politics starts to rear its ugly head as well, as there are so many different medical and popular opinions. For every 25 points one side can raise, there are another 25 on the other side. But we believe we will get through all of this and hopefully soon. It appears consumers believe we will, so let's get things opened back up and see what happens.

Best of luck to all of you in the industry. You have come through struggles before. We know you can do it again. This climb should not take as long as it did in 2008 and thereafter.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

With March 2020 results being the first month showing effects of the COVID-19 virus, we finally saw some of the first poor results of the pandemic. New orders in March were down 29% from March 2019 and down 23% from February 2020. New orders in March were down for 87% of the participants. This followed a 6% increase reported for February when orders were up for 71% of the participants.

Year to date, the March results dropped from a 4% increase for the first two months to an 8% decline through March versus March 2019. For the first quarter, new orders were down for 69% of the participants versus about 68% reporting increases in the first two months.

Shipments and Backlogs

Shipments in March were down 11% from March 2019 after a 4% increase reported last month. Some 68% of the participants reported decreased shipments comparing March to March.

Year to date, shipments were down 4% from the first quarter of last year as some 59% of the participants reported a decline in year to date shipments after being about even for the first two months.

Backlogs fell 16% from February and were down 8% from March 2019 as shipments far exceeded new orders. Fortunately, many had good backlogs to ship from.

Receivables and Inventories

Receivable levels in March were down 5% from March 2019, in line with the decline in year to date shipments, though a bit off from the 11% decline in March to March shipments.

Inventory levels were almost even with February 2020 and up 1% over March 2019. February inventory levels were up 3% over February 2019 levels. We expect that the late March shutdowns did not allow for adjustments to inventory levels.

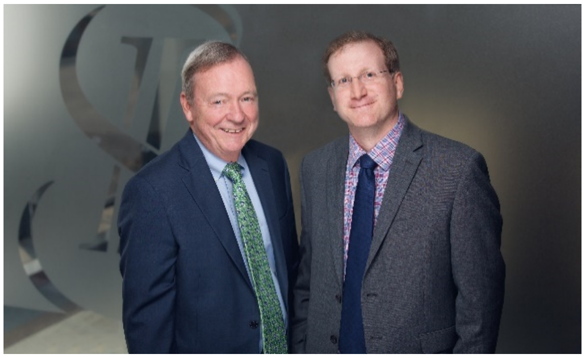
Factory and Warehouse Employees and Payroll

These comparisons for the next few months will be difficult due to layoffs, furloughs, Payroll Protection Program effects, etc., as by April, some were still paying people from the PPP funds, while others were not. Payrolls were down 13% from March a year ago bringing the year to date results down to a reduction of 3% for the first quarter.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	MAR	FEB	3 MONTHS
New Orders	1,793	2,278	6,356
Shipments	2,232	2,219	6,702
Backlog	2,001	2,390	

	2019		
	MAR	FEB	3 MONTHS
New Orders	2,509	2,156	6,906
Shipments	2,508	2,134	6,963
Backlog (R)	2,181	2,180	



MONTHLY RESULTS - MAY 2020

KEY MONTHLY INDICATORS (PERCENT CHANGE)	March 2020 From February 2020	March 2020 From March 2019	3 Months 2020 vs 3 Months 2019
New Orders	-23	-29	-8
Shipments	+1	-11	-4
Backlog	-16	-8	
Payrolls	-2	-13	-3
Employees	-3	-4	
Receivables	-4	-5	
Inventories	–	+1	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2019				
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
March	-29	-11	-8	-4

DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* held steady in May, following a sharp decline in April. The Index now stands at 86.6 (1985=100), up from 85.7 in April. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – declined from 73.0 to 71.1. However, the Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – improved from 94.3 in April to 96.9 this month.

"Following two months of rapid decline, the free-fall in Confidence stopped in May," says Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The severe and widespread impact of COVID-19 has been mostly reflected in the Present Situation Index, which has plummeted nearly 100 points since the onset of the pandemic. Short-term expectations moderately increased as the gradual re-opening of the economy helped improve consumers' spirits. However, consumers remain concerned about their financial prospects. In addition, inflation expectations continue to climb, which could lead to a sense of diminished purchasing power and curtail spending. While the decline in confidence appears to have stopped for the moment, the uneven path to recovery and potential second wave are likely to keep a cloud of uncertainty hanging over consumers' heads."

Consumers' assessment of current conditions declined further in May. The percentage of consumers claiming business conditions are "good" decreased from 19.9% to 16.3%, while those claiming business conditions are "bad" increased from 45.3% to 52.1%. Consumers' appraisal of the job market was mixed. The percentage of consumers saying jobs are "plentiful" decreased from 18.8% to 17.4%, however those claiming jobs are "hard to get" decreased from 34.5% to 27.8%.

Consumers, however, were moderately more optimistic about the short-term outlook. Those expecting business conditions will improve over the next six months increased from 39.8% to 43.3%, while those expecting business conditions will worsen decreased, from 25.1% to 21.4%.

Consumers' outlook for the labor market was mixed. The proportion expecting more jobs in the months ahead declined from 41.2% to 39.3%, however those anticipating fewer jobs in the months ahead also decreased, from 21.2% to 20.2%. Regarding their short-term income prospects, the percentage of consumers expecting an increase declined from 17.2% to 14.0%, however the proportion expecting a decrease declined from 18.4% to 15.0%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 4.4% in April to 98.8 (2016 = 100), following a 7.4% decline in March, and a 0.2% decline in February. "In April, the U.S. LEI continued on a downward trajectory, after posting the largest decline in its 60-year history in March," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The erosion has been very widespread, except for stock prices and the interest rate spread which partially reflect the rapid and large response of the Federal Reserve to offset the pandemic's impact and support financial conditions. The sharp declines in the LEI and CEI suggest that the U.S. economy is now in recession territory."

"Business conditions may recover for some sectors and industries over the next few months," added Bart van Ark, Chief Economist at The Conference Board, "But, the breadth and depth of the decline in the LEI suggests that an imminent re-opening of some sectors does not imply a fast rebound for the economy at large."

The Conference Board Coincident Economic Index® (CEI) for the U.S. declined 8.9% in April to 96.6 (2016 = 100), following a 1.5% decline in March and a 0.3% increase in February.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 4.1% in April to 115.3 (2016 = 100), following 1.7% increase in March, and a 0.4% increase in February.

Gross Domestic Product

Real gross domestic product (GDP) decreased at an annual rate of 5.0% in the first quarter of 2020, according to the "second" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.1%. In the advance estimate, the decrease in real GDP was 4.8%. With the second estimate, a downward revision to private inventory investment was partly offset by upward revisions to personal consumption expenditures (PCE) and nonresidential fixed investment.

The decline in first quarter GDP reflected 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 PCE, private inventory investment, nonresidential fixed investment, and exports 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 in the calculation of GDP, decreased.

DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product, Cont.

The decrease in PCE reflected a decrease in services, led by health care as well as food services and accommodations. The decrease in private inventory investment was mainly in nondurable goods manufacturing, led by petroleum and coal products. 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

Existing-home sales dropped in April, continuing what is now a two-month skid in sales brought on by the coronavirus pandemic, according to the National Association of Realtors® (NAR). Each of the four major regions experienced a decline in month-over-month and year-over-year sales, with the West seeing the greatest dip in both categories.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, dropped 17.8% from March to a seasonally-adjusted annual rate of 4.33 million in April. Overall, sales decreased year-over-year, down 17.2% from a year ago (5.23 million in April 2019).

Single-family home sales were at a seasonally-adjusted annual rate of 3.94 million in April, down 16.9% from 4.74 million in March, and down 15.5% from one year ago. The median existing single-family home price was $288,700 in April, up 7.3% from April 2019.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 390,000 units in April, down 26.4% from March and down 31.6% from a year ago. The median existing condo price was $267,200 in April, an increase of 7.1% from a year ago.

"The economic lockdowns – occurring from mid-March through April in most states – have temporarily disrupted home sales," said Lawrence Yun, NAR's chief economist. "But the listings that are on the market are still attracting buyers and boosting home prices."

April's decline in existing-home sales is the largest month-over-month drop since July 2010 (-22.5%).

The median existing-home price for all housing types in April was $286,800, up 7.4% from April 2019 ($267,000), as prices increased in every region. April's national price increase marks 98 straight months of year-over-year gains.

"Record-low mortgage rates are likely to remain in place for the rest of the year and will be the key factor driving housing demand as state economies steadily reopen," Yun said. "Still, more listings and increased home construction will be needed to tame price growth."

Total housing inventory at the end of April totaled 1.47 million units, down 1.3% from March, and down 19.7% from one year ago (1.83 million). Unsold inventory was at a 4.1-month supply at the current sales pace, up from 3.4-months in March and down from the 4.2-month figure recorded in April 2019.

Properties typically remained on the market for 27 days in April, seasonally down from 29 days in March, but up from 24 days in April 2019. Fifty-six percent of homes sold in April 2020 were on the market for less than a month.

First-time buyers were responsible for 36% of sales in April, up from 34% in March 2020 and 32% in April 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%.

Realtor.com®'s Market Hotness Index, measuring time-on-the-market data and listing views per property, revealed that the hottest metro areas in April were Colorado Springs, Colo.; Fort Wayne, Ind.; Topeka, Kan.; Pueblo, Colo.; and Columbus, Ohio.

According to Freddie Mac, the rate for a 30-year, conventional, fixed-rate mortgage decreased to 3.31% in April, down from 3.45% in March. The average commitment rate across all of 2019 was 3.94%.

"There appears to be a shift in preference for single-family homes over condominium dwellings," Yun said. "This trend could be long-lasting as remote work and larger housing needs will become widely prevalent even after we emerge from this pandemic."

A DEEPER DIVE – HOUSING, CONT.

Regional

As was the case for the month prior, April sales decreased in every region from the previous month's levels. Median home prices in each region grew from one year ago, with the Northeast and Midwest regions showing the strongest price gains.

April 2020 existing-home sales in the Northeast fell 16.9%, recording an annual rate of 540,000, an 18.2% decrease from a year ago. The median price in the Northeast was $312,500, up 8.7% from April 2019.

Existing-home sales decreased 12.0% in the Midwest to an annual rate of 1.10 million, down 8.3% from a year ago. The median price in the Midwest was $229,200, a 9.3% increase from April 2019.

Existing-home sales in the South dropped 17.9% to an annual rate of 1.88 million in April, down 16.8% from the same time one year ago. The median price in the South was $249,400, a 6.4% increase from a year ago.

Existing-home sales in the West fell 25.0% to an annual rate of 810,000 in April, a 27.0% decline from a year ago. The median price in the West was $419,300, up 6.1% from April 2019.

New Residential Sales

Sales of new single-family houses in April 2020 were at a seasonally adjusted annual rate of 623,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 0.6% above the revised March rate of 619,000, but was 6.2% below the April 2019 estimate of 664,000.

Compared to April 2019, sales were up 26.5% in the Midwest and 4.7% in the South. Sales were down 26.5% in the Northeast and 33.5% in the West. The seasonally adjusted estimate of new houses for sale at the end of April was 325,000. This represents a supply of 6.3 months at the current sales rate.

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 April were at a seasonally adjusted annual rate of 891,000. This was 30.2% below the revised March estimate of 1,276,000 and was 29.7% below the April 2019 rate of 1,267,000. Single-family housing starts in April were at a rate of 650,000; this was 25.4% below the revised March figure of 871,000.

Single family starts, comparing April 2020 to April 2019 were down 72.7% in the Northeast, 17.6% in the Midwest, 13.3% in the South and 37.3% in the West. The seasonally adjusted estimate of new houses for sale at the end of April was 325,000. This represents a supply of 6.3 months at the current sales rate.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The Census Bureau released the following statement regarding its monthly report. "Due to recent events surrounding COVID-19, many businesses are operating on a limited capacity or have ceased operations completely. The Census Bureau has monitored response and data quality and determined estimates in this release meet publication standards."

The actual report noted that advance estimates of U.S. retail and food services sales for April 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $403.9 billion, a decrease of 16.4% from the previous month, and 21.6% below April 2019. Total sales for the February 2020 through April 2020 period were down 7.7% from the same period a year ago. Retail trade sales were down 15.1% from March 2020, and 17.8% below last year. Clothing and clothing accessories stores were down 89.3% from April 2019, while nonstore retailers were up 21.6% from last year.

Sales at furniture and home furnishings stores in April were down 66.5% from April 2019. Sales at these stores were down 18.5% for the four months ended April 2020 versus the same period a year ago.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.8% in April on a seasonally adjusted basis, the largest monthly decline since December 2008, according to the U.S. Bureau of Labor Statistics release. Over the last 12 months, the all items index increased 0.3% before seasonal adjustment. A 20.6% decline in the gasoline index was the largest contributor to the monthly decrease in the seasonally adjusted all items index, but the indexes for apparel, motor vehicle insurance, airline fares, and lodging away from home all fell sharply as well. In contrast, food indexes rose in April, with the index for food at home posting its largest monthly increase since February 1974. The energy index declined mostly due to the decrease in the gasoline index, though some energy component indexes rose.

The index for all items less food and energy fell 0.4% in April, the largest monthly decline in the history of the series, which dates to 1957. Along with the indexes mentioned above, the indexes for used cars and trucks and recreation also declined. The indexes for rent, owners' equivalent rent, medical care, and household furnishings and operations all increased in April. The all items index increased 0.3% for the 12 months ending April, the smallest 12-month increase since October 2015. The index for all items less food and energy increased 1.4% over the last 12 months, its smallest increase since April 2011. The energy index fell 17.7% over the last year. In contrast, the food index rose 3.5% over the last 12 months, its largest 12-month increase since February 2012.

Employment

Total nonfarm payroll employment fell by 20.5 million in April, and the unemployment rate rose to 14.7%, according to the U.S. Bureau of Labor Statistics report. The changes in these measures reflect the effects of the coronavirus (COVID-19) pandemic and efforts to contain it. Employment fell sharply in all major industry sectors, with particularly heavy job losses in leisure and hospitality.

In April, the unemployment rate increased by 10.3 percentage points to 14.7%. This is the highest rate and the largest over-the-month increase in the history of the series (seasonally adjusted data are available back to January 1948). The number of unemployed persons rose by 15.9 million to 23.1 million in April. The sharp increases in these measures reflect the effects of the coronavirus pandemic and efforts to contain it.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in April decreased $35.4 billion or 17.2% to $170.0 billion, according to the advance report by the U.S. Census Bureau. This decrease, down three of the last four months, followed a 16.6% March decrease. Excluding transportation, new orders decreased 7.4%. Excluding defense, new orders decreased 16.2%. Transportation equipment, also down three of the last four months, led the decrease, $23.9 billion or 47.3%.

Shipments of manufactured durable goods in April, down three of the last four months, decreased $41.5 billion or 17.7% to $192.3 billion. This followed a 5.5% March decrease. Transportation equipment, also down three of the last four months, led the decrease, $31.4 billion or 42.7% to $42.1 billion.

According to the final report for March 2020, new orders for furniture and related products increased 2.4% while shipments were up 0.6%. Year to date, orders for these products were up 4.4% while shipments were up 3.9%. Clearly these results were not indicative of the residential furniture sector.