



# FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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**Ken Smith, CPA**

## HIGHLIGHTS - EXECUTIVE SUMMARY

**A**s we expected, the results of our latest survey of residential furniture manufacturers and distributors for April 2020 were not very pretty. In fact, they were downright ugly. New orders in April 2020 were down 61% from April 2019 and down 52% from March. As the COVID-19 virus pandemic hit, March orders were down 29% from March 2019. As expected, every one of our participants reported a significant decline in orders.

The April results brought the year to date orders to a decline of 21% after an 8% decline reported through March.

Shipments were down 50% from April 2019 and March 2020. In March, shipments were down 11% from March 2019. The April results pulled year to date shipments down to a 15% decline. Since shipments were not off as much as orders, it meant that there was some shipping from backlogs, so backlogs in April dropped 8% from March. Backlogs were down 12% from April 2019.

Receivables were down 21% from April 2019, not in line with the 50% decline in shipments for the month, but not too bad considering year to date shipments were off 15%. But receivables will be a problem most likely over the next couple of months as so many retail stores have been closed.

Inventories were down 4% as everything happened so quickly it was not possible to adjust. But we think from what we are hearing, business has come back quickly enough that having inventory has been a plus.

The shut down of factories and warehouses reduced payrolls by 63%. The number of these employees was down 13% from March but this factor will be hard to follow over the next few months due to the effects of the Payroll Protection Program from the federal government providing funds to allow companies to bring back employees even though business might not have justified.

## EXECUTIVE SUMMARY, CONT.

### National

#### Consumer Confidence

Consumer Confidence Index rose in June after a steady May and big drops in March and April. The overall Index was at 98.1, up from 85.9. The Present Situation Index improved to 86.2 from 68.4. The Expectations Index improved to 106.0 from 97.6 last month. The report indicated that while consumers are less pessimistic about the short-term outlook, they do not foresee a significant pickup in economic activity.

#### Leading Indicators

The Conference Board Leading Economic Index increased 2.8% in May after a 6.1% decline in April and a 7.5% decline in March. Most of the gain was related to the decline in unemployment claims. This report indicated that the breadth and depth of the decline in the LEI in April and May suggests the economy at large will remain in recession territory in the near term.

#### Housing

Existing-home sales fell again in May, the third consecutive decline, falling 9.7% from April and down 26.6% from a year ago. Single-family home sales were off 9.4% from April and down 24.8% from a year ago.

Regionally, sales compared to May 2019, were down 29.9% in the Northeast, 20.2% in the Midwest, 25.1% in the South and 35.1% in the West. Median home prices grew in three of the four regions, but falling slightly in the West.

New house sales were up 16.6% in May compared to April and actually up 16.6% from May 2019. Sales were up 45.5% in the Northeast, 28% in the Midwest, 6.3% in the South and 31.0% in the West compared to May 2019.

Housing starts in May were up 4.3% from April but down 23.2% from May 2019. Single-family starts in May compared to May 2019 were down 20% or more in all regions except the West where they were off 3.8%.

#### Other

Advance reports for retail sales in May noted an increase of 17.7% over April but were 6.1% below May 2019. Nonstore retailers were up 30.8% from May 2019 while building material and garden equipment and supplies dealers were up 16.4%. Furniture and home furnishings stores were down 22% from May 2019 and down 18.1% year to date. For the March to May 2020 period, sales were down in the furniture and home furnishings stores 33.2% from the sale period a year ago.

Consumer prices fell 0.1% in May after an 0.8% decline in April. Over the last 12 months, prices increased 0.1% in the all items index. The gasoline index declined 3.5% in May while the food index increased 0.7%.

Nonfarm employment rose by 2.5 million in May after the 20.5 million decrease in April. The unemployment rate dropped to 13.3% from 14.7% last month.

The third estimate of the Gross Domestic Product for the first quarter of 2020 stayed at a 5.0% decline.

## EXECUTIVE SUMMARY, CONT.

### Thoughts

The April results of our survey were not that far off from the straw poll we took last month, as orders were down 61% from April last year. We expect a significant decline again in the May results but not as severe as in April.

On the better news front, from our conversations, most have felt that business has come back somewhat better than expected. While not necessarily back to normal, at least they seem to be back to levels that can be dealt with. The overall concern has been “will it continue” or is this just catching up the pent-up demand.

On the not so good front, the virus issues are not going away. Unfortunately, the number of cases has started to rise again as states opened up. While some of this increase is attributable to more testing, the number of hospitalizations has also increased. We are certainly not experts in this area, but we think that hospitalization increase cannot be a good thing.

We are concerned for many of the small retailers and those that serve those dealers. As we are seeing in other industries, such as restaurants, some owners who are older, are just saying “I quit,” choosing not to spend retirement money to keep the boat floating.

Most folks have been through some bad times before and have some idea of what to do. At least the banks for the most part are not as difficult as they were in 2008 and 2009.

We hope many of you have been helped by the Payroll Protection Program money. We keep working with clients as the rules keep changing for forgiveness but hopefully most can work for a high percentage of forgiveness.

## HIGHLIGHTS – MONTHLY RESULTS

### New Orders

As expected, the results of our latest survey of residential furniture manufacturers and distributors were not very pretty. The survey showed that new orders in April were down 61% from April 2019 and down 52% from March. March 2020 orders were down 29% from March 2019. As expected, all participants reported a decline in orders for the month.

The April results brought year to date orders to a drop in orders of 21% for the year. Through March, orders were down 8% due to the drop off of orders in March.

### Shipments and Backlogs

Shipments in April were down 50% from April 2019. In March, shipments were off 11% from March 2019. April 2020 shipments were also off 50% from March 2020.

The decline in April brought year to date shipments to a drop of 15% in shipments for 2020. March year to date shipments were down 4%.

The decline in orders, and shipments exceeding orders, brought backlogs down 8% from March. Backlogs were down 12% from April 2019.

### Receivables and Inventories

Receivable levels dropped 21% from April 2019 and 19% from March. With shipments down 50% from each of those periods, obviously receivables are going to be a problem with so many stores being closed for a while and store sales down.

Inventories were down 4% from April 2019 and March 2020. With everything coming to a halt so quickly, folks have not been able to adjust. It will likely be a while until these levels are back in line.

### Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees fell 13% from March 2020 and were down 15% from April 2019. Payrolls fell 63% from both April 2019 and March 2020 as most plants and warehouses were initially shut down. This decline brought year to date payrolls down 17%. It will be difficult to measure payrolls and employees for a while due to the PPP loans and the effect on these numbers.

#### ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	MAR	FEB	3 MONTHS
<b>New Orders</b>	884	1,793	7,240
<b>Shipments</b>	1,130	2,232	7,832
<b>Backlog</b>	1,841	2,001	

	2019		
	MAR	FEB	3 MONTHS
<b>New Orders</b>	2,293	2,509	9,199
<b>Shipments</b>	2,282	2,508	9,245
<b>Backlog (R)</b>	2,100	2,089	



## MONTHLY RESULTS - JUNE 2020

### KEY MONTHLY INDICATORS (PERCENT CHANGE)

	April 2020 From March 2020	April 2020 From April 2019	4 Months 2020 vs 4 Months 2019
New Orders	-52	-61	-21
Shipments	-50	-50	-15
Backlog	-8	-12	
Payrolls	-63	-63	-17
Employees	-13	-15	
Receivables	-19	-21	
Inventories	-4	-4	

### PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

#### New Orders Shipments Backlog Employment

#### 2019

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
February	+6	+4	+10	-2
March	-29	-11	-8	-4
April	-61	-50	-12	-15

## DEEPER DIVE - NATIONAL

### Consumer Confidence

The Conference Board *Consumer Confidence Index*® increased in June, after virtually no change in May. The Index now stands at 98.1 (1985=100), up from 85.9 in May. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – improved from 68.4 to 86.2. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 97.6 in May to 106.0 this month.

“Consumer Confidence partially rebounded in June but remains well below pre-pandemic levels,” says Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “The re-opening of the economy and relative improvement in unemployment claims helped improve consumers' assessment of current conditions, but the Present Situation Index suggests that economic conditions remain weak. Looking ahead, consumers are less pessimistic about the short-term outlook, but do not foresee a significant pickup in economic activity. Faced with an uncertain and uneven path to recovery, and a potential COVID-19 resurgence, it's too soon to say that consumers have turned the corner and are ready to begin spending at pre-pandemic levels.”

Consumers' appraisal of current conditions improved in June. The percentage of consumers claiming business conditions are “good” rose from 16.4% to 17.4%, while those claiming business conditions are “bad” decreased from 51.2% to 43.2%. Consumers' assessment of the job market was also more favorable. The percentage of consumers saying jobs are “plentiful” increased from 16.5% to 20.8%, however those claiming jobs are “hard to get” decreased from 29.2% to 23.8%.

Consumers' short-term outlook was less pessimistic in June. The percentage of consumers expecting business conditions will improve over the next six months was virtually unchanged at 42.6%, while those expecting business conditions will worsen decreased from 20.5% to 15.3%. Consumers' outlook for the labor market was mixed. The proportion expecting more jobs in the months ahead declined from 39.5% to 38.4%, however those anticipating fewer jobs in the months ahead also decreased, from 19.9% to 14.2%. Regarding their short-term income prospects, the percentage of consumers expecting an increase improved from 14.6% to 15.1%, while the proportion expecting a decrease declined from 15.4% to 14.4%.

### 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 “third” estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.1%.

In the second estimate, the decrease in real GDP was also 5.0%. With the third estimate, an upward revision to nonresidential fixed investment was offset by downward revisions to private inventory investment, personal consumption expenditures (PCE) and exports.

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, exports and nonresidential fixed 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 in the calculation of GDP, decreased.

### NATIONAL UPDATE

#### Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 2.8% in May to 99.8 (2016 = 100), following a 6.1% decline in April, and a 7.5% decline in March. “In May, the U.S. LEI showed a partial recovery from its sharp decline over the previous three months, as economic activity began to pick up again,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “The relative improvement in unemployment insurance claims is responsible for about two-thirds of the gain in the index. The improvements in labor markets, housing permits, and stock prices also buoyed the LEI, but new orders in manufacturing, consumers' outlook on the economy, and the Leading Credit Index™ still point to weak economic conditions. The breadth and depth of the decline in the LEI between February and April suggest the economy at large will remain in recession territory in the near term.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 1.1% in May to 95.3 (2016 = 100), following a 10.4% decline in April and a 2.2% decline in March.

The Conference Board Lagging Economic Index® (LAG) for the U.S. declined 1.9% in May to 111.4 (2016 = 100), following a 1.7% increase in April, and a 2.4% increase in March.

## 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 manufacturing, led by petroleum and coal products. The decrease in exports primarily reflected a decrease in services, led by travel. The decrease in nonresidential fixed investment primarily reflected a decrease in equipment, led by transportation equipment.

## A DEEPER DIVE – HOUSING

### Existing-Home Sales

Existing-home sales fell in May, marking a three-month decline in sales as a result of the coronavirus outbreak, according to the National Association of Realtors® (NAR). Each of the four major regions witnessed dips in month-over-month and year-over-year sales, with the Northeast experiencing the greatest month-over-month drop.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, slumped 9.7% from April to a seasonally-adjusted annual rate of 3.91 million in May. Overall, sales fell year-over-year, down 26.6% from a year ago (5.33 million in May 2019).

Single-family home sales were at a seasonally-adjusted annual rate of 3.57 million in May, down 9.4% from 3.94 million in April, and down 24.8% from one year ago. The median existing single-family home price was \$287,700 in May, up 2.4% from May 2019.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 340,000 units in May, down 12.8% from April and down 41.4% from a year ago. The median existing condo price was \$252,300 in May, a decrease of 1.6% from a year ago.

“Sales completed in May reflect contract signings in March and April – during the strictest times of the pandemic lockdown and hence the cyclical low point,” said Lawrence Yun, NAR’s chief economist. “Home sales will surely rise in the upcoming months with the economy reopening, and could even surpass one-year-ago figures in the second half of the year.”

The median existing-home price for all housing types in May was \$284,600, up 2.3% from May 2019 (\$278,200), as prices increased in every region. May’s national price increase marks 99 straight months of year-over-year gains.

Total housing inventory at the end of May totaled 1.55 million units, up 6.2% from April, and down 18.8% from one year ago (1.91 million). Unsold inventory was at a 4.8-month supply at the current sales pace, up from 4.0 months in April and up from the 4.3-month figure recorded in May 2019.

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



### Regional

As was the case for the month prior, sales for May decreased in every region from the previous month’s levels. Median home prices grew in three of the four major regions from one year ago, falling marginally in the West.

May 2020 existing-home sales in the Northeast fell 13.0%, recording an annual rate of 470,000, a 29.9% decrease from a year ago. The median price in the Northeast was \$327,900, up 7.8% from May 2019.

Existing-home sales decreased 10.0% in the Midwest to an annual rate of 990,000 in May, down 20.2% from a year ago. The median price in the Midwest was \$227,400, a 3.0% increase from May 2019.

Existing-home sales in the South dropped 8.0% to an annual rate of 1.73 million in May, down 25.1% from the same time one year ago. The median price in the South was \$247,400, a 2.1% increase from a year ago.

Existing-home sales in the West fell 11.1% to an annual rate of 720,000 in May, a 35.1% decline from a year ago. The median price in the West was \$408,400, down 0.2% from May 2019.

## A DEEPER DIVE – HOUSING, CONT.

### New Residential Sales

Sales of new single-family houses in May 2020 were at a seasonally adjusted annual rate of 676,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 16.6% above the revised April rate of 580,000 and was 12.7% above the May 2019 estimate of 600,000.

For the May to May comparison, sales were up 45.5% in the Northeast, 2.8% in the Midwest, 6.3% in the South and 31.0% in the West.

The median sales price of new houses sold in May 2020 was \$317,900. The average sales price was \$368,800. The seasonally-adjusted estimate of new houses for sale at the end of May was 318,000. This represents a supply of 5.6 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 May were at a seasonally adjusted annual rate of 974,000. This was 4.3% above the revised April estimate of 934,000, but was 23.2% below the May 2019 rate of 1,268,000.

Single-family housing starts in May were at a rate of 675,000; this was 0.1% above the revised April figure of 674,000, but down 17.8% from May 2019. Single-family starts compared to May 2019 were down 29.4% in the Northeast, 24.3% in the Midwest, 20.3% in the South and 3.8% in the West.

Privately-owned housing completions in May were at a seasonally adjusted annual rate of 1,115,000. This was 7.3% below the revised April estimate of 1,203,000 and was 9.3% below the May 2019 rate of 1,230,000. Single-family housing completions in May were at a rate of 791,000; this was 9.8% below the revised April rate of 877,000.



## A DEEPER DIVE – OTHER NATIONAL

### Retail Sales

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for May 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$485.5 billion, an increase of 17.7% from the previous month, but 6.1% below May 2019. Total sales for the March 2020 through May 2020 period were down 10.5% from the same period a year ago.

Retail trade sales were up 16.8% from April 2020, but 1.4% below last year. Nonstore retailers were up 30.8% from May 2019, while building material and garden equipment and supplies dealers were up 16.4% from last year.

On an adjusted basis, sales at furniture and home furnishings stores in May were down 22% from May 2019 and down 18.1% for the five months ended May. For the March to May 2020 period, sales were down 33.2% from the same period a year ago.

### Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.1% in May on a seasonally adjusted basis after falling 0.8% in April, according to the U.S. Bureau of Labor Statistics release. Over the last 12 months, the all items index increased 0.1% before seasonal adjustment.

Declines in the indexes for motor vehicle insurance, energy, and apparel more than offset increases in food and shelter indexes to result in the monthly decrease in the seasonally adjusted all items index. The gasoline index declined 3.5% in May, leading to a 1.8% decline in the energy index. The food index, in contrast, increased 0.7% in May as the index for food at home rose 1.0%.

The index for all items less food and energy fell 0.1% in May, its third consecutive monthly decline. This is the first time this index has ever declined in three consecutive months. Along with motor vehicle insurance and apparel, the indexes for airline fares and used cars and trucks declined in May. The indexes for shelter, recreation, medical care, household furnishings and operations, and new vehicles all increased.

The all items index increased 0.1% for the 12 months ending May. The index for all items less food and energy increased 1.2% over the last 12 months; this compares to a 2.4% increase a few months ago (the period ending February). The energy index fell 18.9% over the last year. The food index increased 4.0% over the last 12 months, with the index for food at home rising 4.8%.

## A DEEPER DIVE – OTHER NATIONAL, CONT.

### Employment

Total nonfarm payroll employment rose by 2.5 million in May, and the unemployment rate declined to 13.3%, according to the U.S. Bureau of Labor Statistics report. These improvements in the labor market reflected a limited resumption of economic activity that had been curtailed in March and April due to the coronavirus (COVID-19) pandemic and efforts to contain it. In May, employment rose sharply in leisure and hospitality, construction, education and health services, and retail trade. By contrast, employment in government continued to decline sharply.

The unemployment rate declined by 1.4 percentage points to 13.3% in May, and the number of unemployed persons fell by 2.1 million to 21.0 million. Reflecting the effects of the coronavirus pandemic and efforts to contain it, the unemployment rate and the number of unemployed persons are up by 9.8 percentage points and 15.2 million, respectively, since February.

In May, the number of unemployed persons who were jobless less than 5 weeks decreased by 10.4 million to 3.9 million. These individuals made up 18.5% of the unemployed. The number of unemployed persons who were jobless 5 to 14 weeks rose by 7.8 million to 14.8 million, accounting for about 70.8% of the unemployed. The number of long-term unemployed (those jobless for 27 weeks or more), at 1.2 million, increased by 225,000 over the month and represented 5.6% of the unemployed.

### Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in May increased \$26.6 billion or 15.8% to \$194.4 billion, according to the U.S. Census Bureau. This increase, up following two consecutive monthly decreases, followed an 18.1% April decrease. Excluding transportation, new orders increased 4.0%. Excluding defense, new orders increased 15.5%. Transportation equipment, also up following two consecutive monthly decreases, led the increase, \$20.9 billion or 80.7% to \$46.9 billion.

Shipments of manufactured durable goods in May, up following two consecutive monthly decreases, increased \$8.4 billion or 4.4% to \$198.5 billion. This followed an 18.6% April decrease. Transportation equipment, also up following two consecutive monthly decreases, led the increase, \$5.0 billion or 12.1% to \$46.5 billion.

According to this report, orders for furniture and related products in April were 10.3% below April 2019 and down 0.5% year to date. Shipments were down 9.2% in April versus April 2019 and even year to date. Again, this report includes much more than residential furniture.

