FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

Our latest survey of residential furniture manufacturers and distributors seemed to reflect what we had been hearing as we continue with this Coronavirus pandemic. New orders in May 2020 were down 8% from May 2019 after a 61% decline reported in April. New orders in May were up 166% over April. Somewhat a surprise was the fact that some 19% of the participants actually recorded an increase in May orders over May 2019.

The May, April and March results offset the fairly good results of January and February resulted in a decline in year to date orders of 18%.

In May, shipments were down 31% after a 50% decline reported for April. The lower shipments was expected as a result of the decline in orders the last three months. A few participants reported increased shipments over May 2019. Year to date shipments were down 18%.

Backlogs increased 20% over April and were 13% higher than May 2019 due to orders exceeding shipments.

Receivable levels were 25% lower than last year and, considering shipments down 31%, seemed at least reasonably in line. We will need to keep an eye on receivables in the next few months as we see what happens as stores are reopened as well as how the recovery works for many retailers.

Inventories fell 10% from April and were 6% below May 2019. From what we heard, several case goods companies who had significant inventories in their warehouses, were able to take advantage of retailers who needed inventory quickly.

Factory and warehouse employees and payrolls varied significantly as the effects of the Payroll Protection Program kicked in for many companies. It will take a while for these results to get back to something near normal.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

Consumer Confidence declined in July primarily due to a decline in the Expectations Index. The overall index fell to 92.6 from 98.3 in June. The decline in the Expectations Index was caused by large declines experienced in Michigan, Florida, Texas, and California. The report blamed these declines on the resurgence of the COVID-19 in those states. The report noted that consumers were less optimistic about short-term prospects. “Such uncertainty about the short-term future does not bode well for the recovery, nor for consumer spending.”

Housing

Existing home sales rebounded in June rising 20.7% from May but were still down 11.3% from June 2019 results. Single family sales were up 19.9% over May but down 9.9% from June 2019. All four regions reported increases over May although each of the regions reported declines from June a year ago.

New home sales increased 13.8% over May 2020 and were 6.9% ahead of June 2019. New home sales were up in all regions except for the South where they were down only 1.8%.

Housing starts in June were up 17.3% over May 2020 but were down 4% from June 2019. Starts were down in the South and West, flat in the Midwest but up 53.2% in the Northeast.

Other

Retail sales in June were up 7.5% over May and were 1.1% above June 2019. Retail trade sales were up 6.4% over May and up 5% over June 2019. Nonstore retailers were up 23.5% over June 2019 and building materials and garden equipment and supplies dealers were up 17.3% over last year. Stay at home folks clearly led those categories.

The report on the Leading Economic Indicators, while showing a 2% increase in June, noted that “Together with the resurgence of new COVID-19 cases across much of the nation, the LEI suggests that the U.S. economy will remain in the recession territory in the near term.”

Sales at furniture and home furnishings stores were up 32.5% over May but were down 3.5% from June 2019. Year to date, sales at these stores were down 16.4%.

The consumer price index increased 0.6% in June after a 0.1% decline in May. The primary reason for the increase in June was due to an increase in the gasoline index.

Total nonfarm employment rose 4.8 million following so many layoffs in March, April and May. The unemployment rate dropped to 11.1%.

EXECUTIVE SUMMARY, CONT.

Thoughts

The May results of our survey continued to show positive trends for continued improvement. From what we have heard, June and July business has continued to improve with some saying that business has been better, volume wise, than last year. Of course, many folks in our industry tend to be afraid to get too excited, thinking that this “bubble” will end soon, just a matter of time.

The reality is that some of that thought is probably true. We realize that with business basically shutting down for at least a couple of months, there would be a surge from normal business stopping then starting up again with a spurt.

Both the Leading Economic Index and Consumer Confidence reports indicated that in the short term, economic recovery may be slow. In fact, the term “recession territory” in the near term was used. So we know that plans need to be considered for moving through the possible slower times ahead.

The Payroll Protection Program, while fraught with all sorts of issues, did allow many in the industry to try to keep employees together. It also helped cover other costs such as rent, including things like showroom rent. So we hope that most of you were able to take advantage and will be able to get most or all of the loans forgiven.

We should hear the next government plans in the next few days. As we always have heard the words, “I am from the government and I am here to help you” are not words we want to hear or believe, we do think that some of the efforts have been helpful.

We keep reminding ourselves that we have not been through times like these in almost all of our lifetimes. So we do not have a map for what to do. We wish all of you the best in working your way through what we hope will be a short time until we get back to something closer to normal.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

As we pretty much expected, the results of our survey of residential furniture manufacturers and distributors were much better for May than we saw in April. New orders were down only 8% from May 2019, versus the 61% decline we reported for the April vs April results. New orders increased 166% from April 2020. Surprisingly about 19% of the participants reported an increase in orders over May 2019.

Year to date, new orders through May were down 18%. Less than 10% of the participants reported increased orders year to date. Our feel is that June results will continue to show improvement.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	MAY	APR	5 MONTHS
New Orders	2,285	884	9,525
Shipments	1,636	1,130	9,468
Backlog	2,480	1,841	

	2019		
	MAY	APR	5 MONTHS
New Orders	2,473	2,293	11,672
Shipments	2,357	2,282	11,602
Backlog (R)	2,202	2,101	

Shipments and Backlogs

Shipments in May were down 31% from May 2019 as would be expected as orders in March and April fell off so much. Only a few participants reported increased shipments though shipments were up 47% over April.

The decline in shipments for the month brought the year to date totals to a decline of 18% in shipments vs the first five months of last year.

Backlogs increased 20% in May from April as new orders exceeded shipments quite a bit. Backlogs were up 13% over May a year ago.

Receivables and Inventories

Receivable levels fell 25% from last year, somewhat in line with the 31% decline in May vs May 2019 shipments. Receivable levels were actually down 2% from April in spite of the 47% increase in shipments. We will need to watch receivable levels over the next couple of months as stores are able to get totally reopened, at least we hope they are.

Inventory levels fell 10% from April as some of the case goods companies that had inventory in warehouses were able to begin shipping rather quickly. Inventories at the end of May were 6% below May of last year. While we would normally say these levels are well out of where they should be, no one could have expected what we have been through.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees actually increased in May vs April, rising 6%, but were still 10% below May a year ago. Both of these results seem in line with what we were hearing.

Factory and warehouse payrolls were up 83% from April after many were rehired especially due to the Payroll Protection Program put in by the federal government. Payrolls were still down some 34% from May a year ago. It will take a while for these payroll and employee results to become more meaningful.

MONTHLY RESULTS - JULY 2020

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	May 2020 From April 2020	May 2020 From May 2019	5 Months 2020 vs 5 Months 2019
New Orders	+166	-8	-18
Shipments	+47	-31	-18
Backlog	+20	+13	
Payrolls	+83	-34	-20
Employees	+6	-10	
Receivables	-2	-25	
Inventories	-6	-10	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2019				
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
May	-8	-31	+13	-10

DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* decreased in July, after increasing in June. The Index now stands at 92.6 (1985=100), down from 98.3 in June. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – improved from 86.7 to 94.2. However, the Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – decreased from 106.1 in June to 91.5 this month.

"Consumer Confidence declined in July following a large gain in June," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index improved, but the Expectations Index retreated. Large declines were experienced in Michigan, Florida, Texas and California, no doubt a result of the resurgence of COVID-19. Looking ahead, consumers have grown less optimistic about the short-term outlook for the economy and labor market and remain subdued about their financial prospects. Such uncertainty about the short-term future does not bode well for the recovery, nor for consumer spending."

Consumers' assessment of present-day conditions improved in July. The percentage of consumers claiming business conditions are "good" was relatively unchanged at 17.3%, while those claiming business conditions are "bad" decreased from 42.5% to 39.1%. Consumers' appraisal of the job market was more favorable. The percentage of consumers saying jobs are "plentiful" increased from 20.5% to 21.3%, while those claiming jobs are "hard to get" decreased from 23.3% to 20.0%.

Consumers, however, were less optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months declined from 42.4% to 31.6%, while those expecting business conditions will worsen increased from 15.2% to 19.3%. Consumers' outlook for the labor market was also less favorable. Regarding their short-term income prospects, the percentage of consumers expecting an increase was relatively unchanged at 15.1%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 2.0% in June to 102.0 (2016 = 100), following a 3.2% increase in May, and a 6.3% decrease in April. "The June increase in the LEI reflects improvements brought about by the incremental reopening of the economy, with labor market conditions and stock prices in particular contributing positively," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "However, broader financial conditions and the consumers' outlook on business conditions still point to a weak economic outlook. Together with a resurgence of new COVID-19 cases across much of the nation, the LEI suggests that the US economy will remain in recession territory in the near term."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 2.5% in June to 96.7 (2016 = 100), following a 1.6% increase in May and an 11.8% decrease in April.

The Conference Board Lagging Economic Index® (LAG) for the U.S. decreased 2.5% in June to 110.8 (2016 = 100), following a 1.2% decrease in May, and a 3.1% increase in April.

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.

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A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales rebounded at a record pace in June, showing strong signs of a market turnaround after three straight months of sales declines caused by the ongoing pandemic, according to the National Association of Realtors®. Each of the four major regions achieved month-over-month growth, with the West experiencing the greatest sales recovery.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, jumped 20.7% from May to a seasonally-adjusted annual rate of 4.72 million in June. Sales overall, however, dipped year-over-year, down 11.3% from a year ago (5.32 million in June 2019).

Single-family home sales were at a seasonally-adjusted annual rate of 4.28 million in June, up 19.9% from 3.57 million in May, and down 9.9% from one year ago. The median existing single-family home price was $298,600 in June, up 3.5% from June 2019.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 440,000 units in June, up 29.4% from May and down 22.8% from a year ago. The median existing condo price was $262,700 in June, an increase of 1.4% from a year ago.

"The sales recovery is strong, as buyers were eager to purchase homes and properties that they had been eyeing during the shutdown," said Lawrence Yun, NAR's chief economist. "This revitalization looks to be sustainable for many months ahead as long as mortgage rates remain low and job gains continue."

The median existing-home price for all housing types in June was $295,300, up 3.5% from June 2019 ($285,400), as prices rose in every region. June's national price increase marks 100 straight months of year-over-year gains.

Total housing inventory at the end of June totaled 1.57 million units, up 1.3% from May, but still down 18.2% from one year ago (1.92 million). Unsold inventory was at a 4.0-month supply at the current sales pace, down from both 4.8 months in May and from the 4.3-month figure recorded in June 2019.

Yun explains that significantly low inventory was a problem even before the pandemic and says such circumstances can lead to inflated costs.

"Home prices rose during the lockdown and could rise even further due to heavy buyer competition and a significant shortage of supply."

Properties typically remained on the market for 24 days in June, seasonally down from 26 days in May, and down from 27 days in June 2019. Sixty-two percent of homes sold in June 2020 were on the market for less than a month.

First-time buyers were responsible for 35% of sales in June, up from 34% in May 2020 and about equal to 35% in June 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%.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 3.16% in June, down from 3.23% in May. The average commitment rate across all of 2019 was 3.94%.

Regional

In a complete reversal of the month prior, sales for June increased in every region. Median home prices grew in each of the four major regions from one year ago.

June 2020 existing-home sales in the Northeast rose 4.3%, recording an annual rate of 490,000, a 27.9% decrease from a year ago. The median price in the Northeast was $332,900, up 3.6% from June 2019.

Existing-home sales increased 11.1% in the Midwest to an annual rate of 1,100,000 in June, down 13.4% from a year ago. The median price in the Midwest was $236,900, a 3.2% increase from June 2019.

Existing-home sales in the South jumped 26.0% to an annual rate of 2.18 million in June, down 4.0% from the same time one year ago. The median price in the South was $258,500, a 4.4% increase from a year ago.

Existing-home sales in the West ascended 31.9% to an annual rate of 950,000 in June, a 13.6% decline from a year ago. The median price in the West was $432,600, up 5.4% from June 2019.

A DEEPER DIVE – HOUSING, CONT.

New Residential Sales

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced that sales of new single-family houses in June 2020 were at a seasonally adjusted annual rate of 776,000. This was 13.8% above the revised May rate of 682,000 and was 6.9% above the June 2019 estimate of 726,000.

Single family new homes sales in June 2020 compared to June 2019, were up 111.5% in the Northeast, 33.3% in the Midwest and 4.1% in the West while falling 1.8% in the South. The seasonally-adjusted estimate of new houses for sale at the end of June was 307,000. This represents a supply of 4.7 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 June were at a seasonally adjusted annual rate of 1,186,000. This was 17.3% above the revised May estimate of 1,011,000, but was 4.0% below the June 2019 rate of 1,235,000. Single-family housing starts in June were at a rate of 831,000; this was 17.2% above the revised May figure of 709,000.

Single family starts in June 2020 compared to June 2019 were down 7.9% in the South and 9.9% in the West, but were up 53.2% in the Northeast and flat in the Midwest.

Housing Completions

Privately-owned housing completions in June were at a seasonally adjusted annual rate of 1,225,000. This was 4.3% above the revised May estimate of 1,174,000 and was 5.1% above the June 2019 rate of 1,166,000. Single-family housing completions in June were at a rate of 910,000; this was 9.6% above the revised May rate of 830,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for June 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $524.3 billion, an increase of 7.5% from the previous month, and 1.1% above June 2019. Total sales for the April 2020 through June 2020 period were down 8.1% from the same period a year ago.

Retail trade sales were up 6.4% from May 2020, and 5.0% above last year. Nonstore retailers were up 23.5% from June 2019, while building material and garden equipment and supplies dealers were up 17.3% from last year. Sales at furniture and home furnishings stores in June 2020 were down 3.5% from June 2019 but were up 32.5% from May. Year to date, sales at these stores were down 16.4%.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.6% in June on a seasonally adjusted basis after falling 0.1% in May, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 0.6% before seasonal adjustment.

The gasoline index rose sharply in June after recent declines and accounted for over half of the monthly increase in the seasonally adjusted all items index. The energy index increased 5.1% in June as the gasoline index rose 12.3%. The food index also rose in June, increasing 0.6% as the index for food at home continued to rise.

The index for all items less food and energy rose 0.2% in June, its first monthly increase since February. The index for motor vehicle insurance increased sharply in June after recent declines. The indexes for apparel, shelter, and medical care also increased in June, while the indexes for used cars and trucks, recreation, and communication all declined. The all items index increased 0.6% for the 12 months ending June; this compares to a 0.1% increase for the 12 months ending May. The index for all items less food and energy increased 1.2% over the last 12 months. The food index increased 4.5% over the last 12 months, with the index for food at home rising 5.6%. Despite increasing in June, the energy index fell 12.6% over the last 12 months.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Employment

Total nonfarm payroll employment rose by 4.8 million in June, and the unemployment rate declined to 11.1%, according to the U.S. Bureau of Labor Statistics report. These improvements in the labor market reflected the continued 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 June, employment in leisure and hospitality rose sharply. Notable job gains also occurred in retail trade, education and health services, other services, manufacturing, and professional and business services.

The unemployment rate declined by 2.2 percentage points to 11.1% in June, and the number of unemployed persons fell by 3.2 million to 17.8 million. Although unemployment fell in May and June, the jobless rate and the number of unemployed are up by 7.6 percentage points and 12.0 million, respectively, since February.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in June increased $14.0 billion or 7.3% to $206.9 billion, according to the U.S. Census Bureau announcement. This increase, up two consecutive months, followed a 15.1% May increase. Excluding transportation, new orders increased 3.3%. Excluding defense, new orders increased 9.2%. Transportation equipment, also up two consecutive months, led the increase, $9.2 billion or 20.0% to $55.3 billion.

Shipments of manufactured durable goods in June, up two consecutive months, increased $29.4 billion or 14.9% to $227.1 billion. This followed a 4.2% May increase. Transportation equipment, also up two consecutive months, led the increase, $24.2 billion or 51.9% to $70.9 billion.

According to this report, shipments of furniture and related products in May 2020 were down 7% from May 2019 and down 3% year to date. Orders were off 8% from May 2019 and down 2.5% year to date.