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 were hearing in our discussions with those in the industry. Probably the biggest surprise was that new orders in June were 30% ahead of June 2019. We had heard from many that June orders had really started to come in better than expected but the increase over June last year was more than we would have thought. New orders were up for 73% of the participants. In May, new orders were down 8% from May 2019.

Year to date, new orders were down 16% from the same period last year after an 18% decline reported last month. Some 81% of the participants reported a decline in orders year to date.

Shipments in June were down 7% from June 2019 which was pretty much in line with the decline in orders reported in May. The results were pretty much split though, as about one-half of the participants reported increases and the other one-half reported a decline.

Year to date, shipments were down 21% with 94% of the participants reporting a decrease in shipments. Backlogs were up 21% over May as the dollar amount of orders exceeded the dollar amount of shipments.

Receivable levels were in line with year to date shipments. The month to month comparisons may be difficult for a while as there will likely be timing issues for a while until things settle down.

Inventories were down 13% from June 2019 and down 5% from May 2020. Participants continue to adjust these levels to current conditions as it is difficult for manufacturers to bring down inventories quickly when business had been so good and also difficult for importers to adjust quickly as well. Then to be able to anticipate how long the improvement will last.

The number of factory and warehouse employees and their payrolls seems in line considering the effects of the payroll protection program from the government as well as the fast-changing business conditions. Many are now complaining with business so good; the problem has been lack of ability to bring people back, as well as hire new people.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Consumer Confidence Index declined again in August falling to 84.8 from 91.7 in July and 98.3 in June. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased sharply from 95.9 to 84.2. The Expectations Index –based on consumers' short-term outlook for income, business, and labor market conditions – declined from 88.9 in July to 85.2 this month.

According to the report "The Present Situation Index decreased sharply, with consumers stating that both business and employment conditions had deteriorated over the past month. Consumers' optimism about the short-term outlook, and their financial prospects, also declined and continues on a downward path. Consumer spending has rebounded in recent months but increasing concerns amongst consumers about the economic outlook and their financial well-being will likely cause spending to cool in the months ahead."

Housing

Existing home sales continued a strong upward trajectory in July, with two straight months of significant sales gains. All four regions had significant month over month increases, and all regions except for the Northeast had significant gains over July 2019, which was really good news. Single family sales in July were up 23.9% over June 2020 sales and were up 9.8% over July 2019. Housing inventory was down 2.6% from June and down 21.1% from a year ago. The median existing home price was up again in all regions and marked the 101st straight month of price increases in year over year gains.

New house sales were also up quite nicely with sales up 13.9% over June and 36.3% above July 2019. New house sales were up considerably in all four regions of the country compared to July 2019 sales. Housing starts were also up nicely, up 22.6% from June and up 23.4% over July 2019. Housing starts were up nicely in all regions except for a 6.8% decline in the West.

Other

Retail sales increased 1.2% in July from June and were 2.7% ahead of July 2019. Total sales for the May to July period were down 0.2% from the same period a year ago. On an adjusted basis, sales at furniture and home furnishings stores were down 1.9% from July 2019 and down 13.5% year to date from the same period last year. The decline year to date last month was 16.4%.

The leading economic indicators report showed another increase, up 1.4% in July following a 3.0% increase reported last month and a 3.1% increase in May. Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board said "Despite the recent gains in the LEI, which remain fairly broad-based, the initial post-pandemic recovery appears to be losing steam. The LEI suggests that the pace of economic growth will weaken substantially during the final months of 2020."

The consumer price index increased 0.6% in July, the same as the increase posted in June. Over the last 12 months, the index increased 1.0%. The energy index increased 2.5% led by a 5.6% increase in gasoline index. This increase was partially offset by a 0.4% decline in the food index, with the index for food at home declining 1.1%. The food index increased 4.1% over the last twelve months. Despite the increase in the energy index last month, the energy index fell 11.2% over the last 12 months.

Total non-farm employment increase 1.8 million in July while the unemployment rate dropped to 10.2%. The number of unemployed persons fell by 1.4 million to 16.3 million. This number was up 10.6 million since February.

EXECUTIVE SUMMARY, CONT.

Thoughts

We have continued to hear that business has been better than expected as we came out of the months of March, April, and part of May, though there have been some recent rumors that not everyone is doing as well as others. We know there had to be pent up demand out there as those who had been planning to buy came back in a hurry once the stores opened and/or chose also buy online, either through a store or online retailer. Being at home more certainly made some of us notice things that could be improved!

When it will end, or slow down, is anyone's guess. Maybe it has for some already but for many, business has remained strong. We applaud the retailers who have figured out new ways to get to customers and meet their needs. We know that many of them have had issues with not having inventory and some of the suppliers have not had sufficient finished goods to help. But for those who had inventory or could turn custom made in a relative hurry, it has been some good times.

We hear that premarket may be more like market than ever before. But also realize that the High Point Market will likely also be like never before, but not necessarily in a good way. We know foreign travel will likely cut back significantly along with reduced domestic. We hope the Governor will be more aggressive with his next decision about opening things up and in a way that will more fully support the business community in general.

We should get some feel for the impact social distancing and masks, etc. will have at premarket. Hopefully, we can use it as a test case for the best way to handle the October market.

We wish we had more words of wisdom, but these uncharted waters make it hard. We will still have to work through all the negative political stuff for a couple more months unfortunately. We hope and pray to hear good news on a vaccine, as well as good meds for treatment of the virus.

Stay safe and healthy.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

New orders in June 2020 increased 30% from June 2019, according to our latest survey of residential furniture manufacturers and distributors. While maybe higher than we expected, we did expect good order results for June based on our conversations with people who had said that once things at least partially opened back up, orders were very strong. Compared to June 2019, new orders in June 2020 were up for some 73% of the participants.

Year to date, new orders were down 16% compared to the same period a year ago. The year to date results were pretty much across the board as some 81% of the participants reported decreased year to date orders.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	JUN	MAY	6 MONTHS
New Orders	3,088	2,285	11,813
Shipments	2,359	1,636	11,125
Backlog (R)	3,001	2,480	

	2019		
	JUN	MAY	6 MONTHS
New Orders	2,384	2,473	14,056
Shipments	2,550	2,357	14,152
Backlog (R)	2,044	2,232	

Shipments and Backlogs

Shipments in June were down 7% from June 2019 after a decline of 31% reported for May. It was interesting that the results were pretty much split for the month as about one-half reported increases and the other half reported declines. It was just that some of the ones with a decline in shipments had greater dollar declines.

Year to date, shipments were down 21%, down from 18% reported last month. Shipments were down for almost all participants, with 94% reporting declines in shipments.

Backlogs increased 21% over May results as the dollar amount of new orders exceeded shipments. Backlogs were up 32% over June 2019 with the large increase in orders over last year.

Receivables and Inventories

Receivable levels are a bit hard to measure at this point. Receivables were down 22% from last year, somewhat in line with the year to date shipments. But comparing month to month may take a while to see real correlations as timing can affect these numbers when we have the big swings in shipments.

Inventories were down 13% from June 2019 and down 5% from May 2020. As with receivables, the numbers are in line with current business but just not able to be adjusted quickly in both domestic companies as well as distributors.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was down 8% from last June, down from 10% reported last month. This number was about even with the number in May 2020.

Factory and warehouse payrolls were up 27% from May 2020 levels as companies continued to bring employees back to work. The payrolls were down 15% from last year and down 20% year to date, the same as reported last month.

MONTHLY RESULTS - AUGUST 2020

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	June 2020 From May 2020	June 2020 From June 2019	6 Months 2020 vs 6 Months 2019
New Orders	+54	+30	-16
Shipments	+46	-7	-21
Backlog	+21	+32	
Payrolls	+27	-15	-20
Employees	–	-8	
Receivables	+16	-22	
Inventories	-5	-13	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2019				
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
June	+30	-7	+32	-8

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® decreased in August, after declining in July. The Index now stands at 84.8 (1985=100), down from 91.7 in July. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased sharply from 95.9 to 84.2. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – declined from 88.9 in July to 85.2 this month.

"Consumer Confidence declined in August for the second consecutive month," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index decreased sharply, with consumers stating that both business and employment conditions had deteriorated over the past month. Consumers' optimism about the short-term outlook, and their financial prospects, also declined and continues on a downward path. Consumer spending has rebounded in recent months but increasing concerns amongst consumers about the economic outlook and their financial well-being will likely cause spending to cool in the months ahead."

Consumers' assessment of present-day conditions receded in August. The percentage of consumers claiming business conditions are "good" declined from 17.5% to 16.4%, while those claiming business conditions are "bad" increased from 38.9% to 43.6%. Consumers' appraisal of the job market was also less favorable. The percentage of consumers saying jobs are "plentiful" declined from 22.3% to 21.5%, while those claiming jobs are "hard to get" increased from 20.1% to 25.2%.

Consumers were also more pessimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months declined from 31.6% to 29.9%, while those expecting business conditions will worsen increased slightly from 20.2% to 20.5%. Consumers' outlook for the labor market was also less positive. The proportion expecting more jobs in the months ahead declined from 29.6% to 29.1%, while those anticipating fewer jobs increased from 21.3% to 21.9%. Regarding their short-term income prospects, the percentage of consumers expecting an increase declined from 14.8% to 12.7%, while the proportion expecting a decrease rose from 15.8% to 16.6%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 1.4% in July to 104.4 (2016 = 100), following a 3.0% increase in June and a 3.1% increase in May. "The US LEI increased for the third consecutive month in July, albeit at a slower pace than the sharp increases in the previous two months," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Despite the recent gains in the LEI, which remain fairly broad-based, the initial post-pandemic recovery appears to be losing steam. The LEI suggests that the pace of economic growth will weaken substantially during the final months of 2020."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 1.2% in July to 99.2 (2016 = 100), following a 2.9% increase in June and a 2.4% increase in May.

The Conference Board Lagging Economic Index® (LAG) for the U.S. decreased 1.0% in July to 109.2 (2016 = 100), following a 2.3% decline in both June and in May.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales continued on a strong, upward trajectory in July, marking two consecutive months of significant sales gains, according to the National Association of Realtors®. Each of the four major regions attained double-digit, month-over-month increases, while the Northeast was the only region to show a year-over-year decline.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, jumped 24.7% from June to a seasonally-adjusted annual rate of 5.86 million in July. The previous record monthly increase in sales was 20.7% in June of this year. Sales as a whole rose year-over-year, up 8.7% from a year ago (5.39 million in July 2019).

Single-family home sales were at a seasonally-adjusted annual rate of 5.28 million in July, up 23.9% from 4.26 million in June, and up 9.8% from one year ago. The median existing single-family home price was $307,800 in July, up 8.5% from July 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 housing market is well past the recovery phase and is now booming with higher home sales compared to the pre-pandemic days," said Lawrence Yun, NAR's chief economist. "With the sizable shift in remote work, current homeowners are looking for larger homes and this will lead to a secondary level of demand even into 2021."

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

The median existing-home price for all housing types in July was $304,100, up 8.5% from July 2019, as prices rose in every region. July's national price increase marks 101 straight months of year-over-year gains. For the first time ever, national median home prices breached the $300,000 level.

Total housing inventory at the end of July totaled 1.50 million units, down 2.6% from June and 21.1% from one year ago. Unsold inventory was at a 3.1-month supply at the current sales pace, down from 3.9 months in June and down from the 4.2-month figure recorded in July 2019.Yun noted these dire inventory totals have a substantial effect on sales. "The number of new listings is increasing, but they are quickly taken out of the market from heavy buyer competition," he said. "More homes need to be built."

Properties typically remained on the market for 22 days in July, seasonally down from 24 days in June and from 29 days in July 2019. Sixty-eight percent of homes sold in July 2020 were on the market for less than a month.

First-time buyers were responsible for 34% of sales in July, down from 35% in June 2020 and up from 32% in July 2019. NAR's 2019 Profile of Home Buyers and Sellers – revealed that the annual share of first-time buyers was 33%.

According to Freddie Mac, the rate for a 30-year, conventional, fixed-rate mortgage decreased to 3.02% in July, down from 3.16% in June. The average commitment rate across all of 2019 was 3.94%.

"Luxury homes in the suburbs are attracting buyers after having lagged the broader market for the past couple of years," Yun said. "Single-family homes are continuing to outperform condominium units, suggesting a preference shift for a larger home, including an extra room for a home office."

Regional

For the second consecutive month, sales for July increased in every region and median home prices grew in each of the four major regions from one year ago. July 2020 existing-home sales in the Northeast increased 30.6%, an annual rate of 640,000, although a 5.9% decrease from a year ago. The median price in the Northeast was $317,800, up 4.0% from July 2019.

Existing-home sales increased 27.5% in the Midwest to an annual rate of 1,390,000 in July, up 10.3% from a year ago. The median price in the Midwest was $244,500, an 8.0% increase from July 2019.

Existing-home sales in the South were up 19.4% to an annual rate of 2.59 million in July, up 12.6% from the same time one year ago. The median price in the South was $268,500, a 9.9% increase from a year ago.

Existing-home sales in the West were up 30.5% to an annual rate of 1,240,000 in July, a 7.8% increase from a year ago. The median price in the West was $453,800, up 11.3% from July 2019.

New Residential Sales

Sales of new single-family houses in July 2020 were at a seasonally adjusted annual rate of 901,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 13.9% above the revised June rate of 791,000 and was 36.3% above the July 2019 estimate of 661,000.

The median sales price of new houses sold in July 2020 was $330,600. The average sales price was $391,300. The seasonally-adjusted estimate of new houses for sale at the end of July was 299,000. This represents a supply of 4.0 months at the current sales rate.

Compared to July 2019, sales in July 2020 were up 25.0% in the Northeast, 81.4% in the Midwest, 27.6% in the South and 40.8% in the West.

Housing Starts

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced that privately-owned housing starts in July were at a seasonally adjusted annual rate of 1,496,000. This was 22.6% above the revised June estimate of 1,220,000 and was 23.4% above the July 2019 rate of 1,212,000. Single-family housing starts in July were at a rate of 940,000; this was 8.2% above the revised June figure of 869,000.

Compared to July 2019, July 2020 starts of single-family units were up 23.3% in the Northeast, 6.5% in the Midwest, and 12.3% in the South. Starts were down 6.8% in the West.

A DEEPER DIVE – HOUSING, CONT.

Housing Completions

Privately-owned housing completions in July were at a seasonally adjusted annual rate of 1,280,000. This was 3.6% above the revised June estimate of 1,236,000 and was 1.7% above the July 2019 rate of 1,258,000. Single-family housing completions in July were at a rate of 909,000; this was 1.8% below the revised June rate of 926,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for July 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $536.0 billion, an increase of 1.2% from the previous month, and 2.7% above July 2019. Total sales for the May 2020 through July 2020 period were down 0.2% from the same period a year ago. Retail trade sales were up 0.8% from June 2020, and 5.8% above last year. Nonstore retailers were up 24.7% from July 2019, while food and beverage stores were up 11.1% from last year. On an adjusted basis, sales at furniture and home furnishings stores were down 1.9% from July 2019 and down 13.5% year to date compared to a drop of 16.4% reported last month.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.6% in July on a seasonally adjusted basis, the same increase as in June, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.0% before seasonal adjustment.

The gasoline index continued to rise in July after increasing sharply in June and accounted for about one quarter of the monthly increase in the seasonally adjusted all items index. The energy index increased 2.5% in July as the gasoline index rose 5.6%. This was partially offset by the food index, which decreased 0.4% in July, with the index for food at home declining 1.1%. The index for all items less food and energy rose 0.6% in July, its largest increase since January 1991. The index for motor vehicle insurance increased sharply in July, as it did the previous month. The indexes for shelter, communication, used cars and trucks, and medical care also increased in July, while the index for recreation declined.

The all items index increased 1.0% for the 12 months ending July, a larger increase than the 0.6% rise for the period ending June. The index for all items less food and energy increased 1.6% over the last 12 months. The food index increased 4.1% over the last 12 months, with the index for food at home rising 4.6%. Despite increasing in July, the energy index fell 11.2% over the last 12 months.

Employment

Total nonfarm payroll employment rose by 1.8 million in July, and the unemployment rate fell to 10.2%, 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 due to the coronavirus (COVID-19) pandemic and efforts to contain it. In July, notable job gains occurred in leisure and hospitality, government, retail trade, professional and business services, other services, and health care.

In July, the unemployment rate declined by 0.9 percentage point to 10.2%, and the number of unemployed persons fell by 1.4 million to 16.3 million. Despite declines over the past 3 months, these measures are up by 6.7 percentage points and 10.6 million, respectively, since February.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in July increased $23.2 billion or 11.2% to $230.7 billion, according to the U.S. Census Bureau announcement. This increase, up three consecutive months, followed a 7.7% June increase. Excluding transportation, new orders increased 2.4%. Excluding defense, new orders increased 9.9%. Transportation equipment, also up three consecutive months, led the increase, $19.6 billion or 35.6%.

Shipments of manufactured durable goods in July, up three consecutive months, increased $16.6 billion or 7.3% to $244.0 billion. This followed a 15.2% June increase. Transportation equipment, also up three consecutive months, led the increase, $12.6 billion or 17.8% to $83.2 billion. According to the final report, shipments for furniture and related products were down in June from June 2019, 1.2% and down 2.6% year to date. Orders in June were down 3.1% from June 2019 and down 2.6% year to date.