



FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

The July results of our latest survey of residential furniture manufacturers and distributors continued to show more and more improvements. The survey reflected a 39% increase in new orders over July 2019 following a 30% increase reported in June. Some 88% of the participants reported increased orders over the same month last year. We pretty much expected another good month and based on conversations, we expect increases to continue to be reported for August and September.

With the large increase in orders for the month, the year to date results are now about even with orders for the same period a year ago, although those results were very mixed. Only 28% of the participants reported increased orders year to date. We would note that the July year to date numbers are affected by an issue where last month a few larger participants were unable to report due to virus issues but were back in the survey through July.

Shipments were basically flat with July 2019 with 56% of the participants reporting increased shipments. Year to date, shipments were now down 14% compared to 21% reporting lower shipments last month. Some 94% of the participants reported lower shipments year to date.

With new orders exceeding shipments, backlogs grew to an increase of 69% over July 2019. The increase in backlogs is worrisome as the needs at retail are now. We realize the manufacturers and distributors are doing all they can to catch up. But it will take some time as we think most have been surprised by the length of the “recovery.”

Receivable levels seem to make sense based on year to date shipments. Inventories are just what they are as they were too high before the virus based on the conditions at the time, but it is probably a good thing they were, as having inventory to either ship or produce has been a good thing the last few months.

The level of factory and warehouse personnel is in a state of flux and continues to be. Most everyone we talk to in most any industry, is complaining about the lack of employees. Through July, much of it in our industry was caused by the added federal unemployment compensation payments, making it more profitable to stay home and do nothing versus working, but that ended at the end of July so hopefully, things have gotten somewhat better. Although, that is not really what we are hearing from most.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

“Consumer Confidence increased sharply in September, after back-to-back monthly declines, but remains below pre-pandemic levels,” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “A more favorable view of current business and labor market conditions, coupled with renewed optimism about the short-term outlook, helped spur this month’s rebound in confidence. Consumers also expressed greater optimism about their short-term financial prospects, which may help keep spending from slowing further in the months ahead.”

The University of Michigan Surveys of consumers also reported improvement in consumer sentiment, reaching the top of the range since April.

Housing

Existing home sales continued to rise, with single-family home sales up 1.7% in August from July and up 11.0% from August 2019. Single family prices were up 11.7% from August 2019. All four regions of the country reported nice increases over August a year ago. Housing inventory was down again and was down 18.6% from a year ago. This situation is causing concern as the demand is described as robust but supply is not, so this will likely harm ownership opportunities.

New single-family house sales in August were up 4.8% over July 2020 and up 43.2% above August 2019. Compared to August 2019, sales were up major double digits in all regions of the country.

Housing starts were down 5.1% from July but single-family starts were up 12.1% over August of last year. Single family starts were up in all regions except the Northeast where they were down 6.6%. New home sales are going to be affected by rising costs to build as lumber costs are up considerably and are even more affected by wildfires in the West.

Other

Retail sales were up 0.6% in August from July and were up 2.6% from August 2019. Sales for the June 2020 to August period were up 2.4% over the same period a year ago. Sales at furniture and home furnishings stores were up 3.8% from August 2019. Year to date, sales at these stores were down 11.3% (July’s year to date sales were down 16.4%).

The Conference Board Leading Economic Index increased 1.2% in August following a 2% increase in July and a 3.1% increase in June. This report indicated that the rebound in the summer may be slowing for the final part of 2020. The report said that in spite of the improvement in August, the LEI remains in “recession territory”.

The consumer price index increased 0.4% in August after a 0.6% increase in July. Over the last 12 months, the index has increased 1.3%. The increase was noted as broad based with the index for used autos and trucks leading the way. Household furnishings was also listed as a cause.

Non-farm employment increased 1.4 million in August after a 1.8 million increase last month. The unemployment rate decreased to 8.4%. The number of unemployed persons fell by 2.8 million to 13.6 million.

EXECUTIVE SUMMARY, CONT.

Thoughts

Six months ago, who would have believed that backlogs would be out the roof and lead times for manufactured goods would be similar to those of years ago. The last couple of months increases over 2019 levels has shown that there really was pent up demand out there. But most believe staying at home caused many people to take notice of their furniture and make decisions to go out and buy whether they had planned to or not before the pandemic.

The good news is that business has remained strong for most even through September and most are expecting October to continue. Reports from many retailers continue to note that business at retail remains very good.

Of course, any time business gets good, something happens to make material prices go up including imported goods as well. Price increases are here and likely will need to continue as most of the parts and pieces are going up.

Most all reports from premarket were very positive. We know attendance by all reports was considerably higher than ever before and orders were written along with commitments. It will be interesting to see what the fall market brings. Some said they may not come back, but if business holds up, we suspect many will need to come even if here at premarket.

The bad news is that the election will not be over until after market, so we have three weeks to listen to all the bad news and bad things about every candidate. Hopefully, we are getting used to that and pay less and less attention. The University of Michigan survey about the presidential race was interesting, in that they are calling it even and that survey has been mostly dead on in recent elections.

In the meantime, let’s all try to make the best of the current business that you can. We know in this business, it doesn’t always just keep going up so enjoy it while you can.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in July were up 39% over July 2019 orders, continuing to reflect the good order rates we had been hearing about. This 39% increase followed a 30% increase reported for June 2020 over June 2019. The July results reflected increased orders over last year by some 88% of our participants, up from 73% reporting increased order rates last month.

Year to date, new orders were flat compared to year to date 2019, but that was not for everyone, as only 28% of the participants reported increased orders year to date. This followed 81% reporting a decrease in orders last month. We would note that the year to date numbers compared to last month are affected by a change in participants. We had a few participants that were unable to participate last month due to the virus that were able to come back this month and get caught up, having some impact on the year to date results.

Shipments and Backlogs

Shipments in July were flat compared to July 2019. Some 56% of the participants reported increased shipments for the month as companies were getting back into full production and starting to catch up a bit with orders.

Year to date, shipments remained 14% below the same period a year ago, down from 21% reporting lower shipments last month. Shipments were down for 94% of the participants year to date.

As would be expected, backlogs ballooned as orders significantly exceeded the level of shipments. Backlogs were up 69% over July 2019 as almost all participants reported increased backlogs. Backlog levels are beginning to reach levels that are, for most, too high. For the last many years, it would have been hard for most to say those words, but it appears that we may have reached that point.

Receivables and Inventories

Receivable levels were down 15% from July 2019. While not in line with shipments being flat, the decrease was in line with the year to date shipment levels. July comparisons were probably not normal this year since many companies chose not to shut down completely for the July 4th holiday. We will continue to watch those levels.

Inventories were down 10% compared to July 2019 reflecting the lower levels of shipments as well as the effects of the pandemic. Hopefully, we will get the business levels stabilized again sometime so that we can really tell when back in line or not. Those that had finished goods inventories were able to improve their revenues as many retailers needed inventory to sell and had trouble even getting replacements for store samples.

Factory and Warehouse Employees and Payroll

As we would have expected the results for factory and warehouse employee levels and payrolls were not necessarily reflective of conditions as the number of employees and the payrolls were down 7% compared to July 2019.

Payrolls were down 18% somewhat in line with the reduced shipments and also reflective of the impact of the increase in unemployment benefits from the federal government. Those payments tended to be as much or more than current pay levels so many folks chose not to go back to work until they were cut off from those benefits at the end of July.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	JUL	JUN	7 MONTHS
New Orders	3,263	3,088	16,330
Shipments	2,250	2,359	14,174
Backlog (R)	3,733	3,001	

	2019		
	JUL	JUN	7 MONTHS
New Orders	2,356	2,384	16,412
Shipments	2,249	2,550	16,401
Backlog (R)	2,177	2,044	



MONTHLY RESULTS - SEPTEMBER 2020

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	July 2020 From June 2020	July 2020 From July 2019	7 Months 2020 vs 7 Months 2019
New Orders	-3	+39	-
Shipments	-9	-	-14
Backlog	+24	+69	
Payrolls	-8	-7	-18
Employees	+1	-7	
Receivables	+1	-15	
Inventories	+3	-10	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

New Orders Shipments Backlog Employment

2019

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
July	+39	-	+69	-7

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® increased in September, after declining in August. The Index now stands at 101.8 (1985=100), up from 86.3 in August. The Present Situation Index – based on consumers’ assessment of current business and labor market conditions – increased from 85.8 to 98.5. The Expectations Index – based on consumers’ short-term outlook for income, business, and labor market conditions – increased from 86.6 in August to 104.0 this month.

“Consumer Confidence increased sharply in September, after back-to-back monthly declines, but remains below pre-pandemic levels,” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “A more favorable view of current business and labor market conditions, coupled with renewed optimism about the short-term outlook, helped spur this month’s rebound in confidence. Consumers also expressed greater optimism about their short-term financial prospects, which may help keep spending from slowing further in the months ahead.”

Consumers’ appraisal of current conditions rebounded in September. The percentage of consumers claiming business conditions are “good” increased from 16.0% to 18.3%, while those claiming business conditions are “bad” decreased from 43.3% to 37.4%. Consumers’ assessment of the labor market also improved. The percentage of consumers saying jobs are “plentiful” increased from 21.4% to 22.9%, while those claiming jobs are “hard to get” decreased from 23.6% to 20.0%.

Consumers were also more optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months increased from 29.8% to 37.1%, while those expecting business conditions will worsen decreased from 20.7% to 15.8%. Regarding their short-term income prospects, the percentage of consumers expecting an increase improved from 13.0% to 17.5%, while the proportion expecting a decrease declined from 16.0% to 12.6%.

University of Michigan Surveys of Consumers

Surveys of Consumers chief economist, Richard Curtin said “Consumer sentiment improved in early September, reaching the top of the range it has traveled since April. While the recent gain was consistent with an unchanged flat trend, the data indicated that the election has begun to have an impact on expectations about future economic prospects. The Michigan surveys have traditionally asked consumers which candidate they thought would win the election, not whom they favored or how they intended to vote. The data from July to September indicate a virtual tie. This question has been asked since Carter ran against Ford in 1976, and in every presidential election, consumers correctly chose the winner, save one: when Trump ran against Clinton in 2016, two-thirds of consumers expected a Clinton victory. Over the next several months, there are two factors that could cause volatile shifts and steep losses in consumer confidence: how the election is decided and the delays in obtaining vaccinations. While the end of the recession will depend on these non-economic factors, the hardships endured by consumers can only be offset by renewed federal relief payments.”

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 1.2% in August to 106.5 (2016 = 100), following a 2.0% increase in July and a 3.1% increase in June.

“While the US LEI increased again in August, the slowing pace of improvement suggests that this summer’s economic rebound may be losing steam heading into the final stretch of 2020,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “Despite the improvement, the LEI remains in recession territory, still 4.7% below its February level. Weakening in new orders for capital goods, residential construction, consumers’ outlook, and financial conditions point to increasing downside risks to the economic recovery. Looking ahead to 2021, the LEI suggests that the US economy will start the new year under substantially weakened economic conditions.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.6% in August to 100.8 (2016 = 100), following a 1.2% increase in July and a 3.9% increase in June.

The Conference Board Lagging Economic Index® (LAG) for the U.S. decreased 0.6% in August to 107.6 (2016 = 100), following a 0.6% decrease in July and a 3.5% decrease in June.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales continued to climb in August, marking three consecutive months of positive sales gains, according to the National Association of Realtors®. Each of the four major regions experienced both month-over-month and year-over-year growth, with the Northeast seeing the greatest improvement from the prior month.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 2.4% from July to a seasonally-adjusted annual rate of 6.00 million in August. Sales as a whole rose year-over-year, up 10.5% from a year ago (5.43 million in August 2019).

Single-family home sales were at a seasonally-adjusted annual rate of 5.37 million in August, up 1.7% from 5.28 million in July, and up 11.0% from one year ago. The median existing single-family home price was \$315,000 in August, up 11.7% from August 2019.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 630,000 units in August, up 8.6% from July and up 6.8% from one year ago. The median existing condo price was \$273,300 in August, an increase of 7.8% from a year ago.

“Home sales continue to amaze, and there are plenty of buyers in the pipeline ready to enter the market,” said Lawrence Yun, NAR’s chief economist. “Further gains in sales are likely for the remainder of the year, with mortgage rates hovering around 3% and with continued job recovery.”

The median existing-home price for all housing types in August was \$310,600, up 11.4% from August 2019 (\$278,800), as prices rose in every region. August’s national price increase marks 102 straight months of year-over-year gains.

Total housing inventory at the end of August totaled 1.49 million units, down 0.7% from July and down 18.6% from one year ago (1.83 million). Unsold inventory was at a 3.0-month supply at the current sales pace, down from 3.1 months in July and down from the 4.0-month figure recorded in August 2019.

Scarce inventory has been problematic for the past few years, according to Yun, an issue he says has worsened in the past month due to the dramatic surge in lumber prices and the dearth of lumber resulting from California wildfires.

“Over recent months, we have seen lumber prices surge dramatically,” Yun said. “This has already led to an increase in the cost of multifamily housing and an even higher increase for single-family homes.”

“Housing demand is robust but supply is not, and this imbalance will inevitably harm affordability and hinder ownership opportunities,” he said. “To assure broad gains in homeownership, more new homes need to be constructed.”

Properties typically remained on the market for 22 days in August, seasonally equal to the number of days in July and down from 31 days in August 2019. Sixty-nine percent of homes sold in August 2020 were on the market for less than a month.

First-time buyers were responsible for 33% of sales in August, down from 34% in July 2020, but up from 31% in August 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

For three straight months, home sales have climbed in every region compared to the previous month. Median home prices grew at double-digit rates in each of the four major regions from one year ago.

August 2020 saw existing-home sales in the Northeast jump 13.8%, recording an annual rate of 740,000, a 5.7% increase from a year ago. The median price in the Northeast was \$349,500, up 10.4% from August 2019.

Existing-home sales increased 1.4% in the Midwest to an annual rate of 1,410,000 in August, up 9.3% from a year ago. The median price in the Midwest was \$246,300, a 10.7% increase from August 2019.

Existing-home sales in the South rose 0.8% to an annual rate of 2.60 million in August, up 13.0% from the same time one year ago. The median price in the South was \$269,200, a 12.3% increase from a year ago.

Existing-home sales in the West inched up 0.8% to an annual rate of 1,250,000 in August, a 9.6% increase from a year ago. The median price in the West was \$456,100, up 11.8% from August 2019.

A DEEPER DIVE – HOUSING, CONT.

New Residential Sales

Sales of new single-family houses in August 2020 were at a seasonally adjusted annual rate of 1,011,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 4.8% above the revised July rate of 965,000 and was 43.2% above the August 2019 estimate of 706,000.

The median sales price of new houses sold in August 2020 was \$312,800. The average sales price was \$369,000.

The seasonally-adjusted estimate of new houses for sale at the end of August was 282,000. This represents a supply of 3.3 months at the current sales rate.

Comparing August 2020 sales to that of August 2019, sales were up 27.3% in the Northeast, 54.7% in the Midwest, 50% in the South and 26.5% 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 August were at a seasonally adjusted annual rate of 1,416,000. This was 5.1% below the revised July estimate of 1,492,000, but was 2.8% above the August 2019 rate of 1,377,000. Single-family housing starts in August were at a rate of 1,021,000; this was 4.1% above the revised July figure of 981,000.

Single family starts, comparing August to August 2019, were up 12.1%. Regionally, single family starts were up 23.7% in the Midwest, 9.6% in the South and 15.8% in the West while starts were off 6.6% in the Northeast.

Housing Completions

Privately-owned housing completions in August were at a seasonally adjusted annual rate of 1,233,000. This was 7.5% below the revised July estimate of 1,333,000 and was 2.4% below the August 2019 rate of 1,263,000. Single-family housing completions in August were at a rate of 912,000; this was 4.4% below the revised July rate of 954,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for August 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$537.5 billion, an increase of 0.6% from the previous month, and 2.6% above August 2019. Total sales for the June 2020 through August 2020 period were up 2.4% from the same period a year ago.

Retail trade sales were up 0.1% from July 2020, and 5.1% above last year. Nonstore retailers were up 22.4% from August 2019.

Sales at furniture and home furnishings stores in August 2020 compared to August 2019 were up 3.8%. Year to date sales at these stores were down 11.3%. The year to date decline was down from a decline of 16.4% report through July.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4% in August on a seasonally adjusted basis after rising 0.6% in July, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.3% before seasonal adjustment.

The monthly increase in the seasonally adjusted all items index was broad-based; a sharp rise in the used cars and trucks index was the largest factor, but the indexes for gasoline, shelter, recreation, and household furnishings and operations also contributed. The energy index rose 0.9% in August as the gasoline index rose 2.0%. The food index rose 0.1% in August after falling in July; an increase in the food away from home index more than offset a slight decline in the food at home index.

The index for all items less food and energy rose 0.4% in August after increasing 0.6% in July. The sharp rise in the index for used cars and trucks accounted for over 40% of the increase; the indexes for shelter, recreation, household furnishings and operations, apparel, motor vehicle insurance, and airline fares also rose. The indexes for education and personal care were among the few to decline.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Consumer Prices, Cont.

The all items index increased 1.3% for the 12 months ending August; this figure has been rising since the period ending May 2020, when the 12-month increase was 0.1%. The index for all items less food and energy increased 1.7% 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 recent monthly increases, the energy index fell 9.0% over the last 12 months.

Employment

Total nonfarm payroll employment rose by 1.4 million in August, and the unemployment rate fell to 8.4%, according to the report from the U.S. Bureau of Labor Statistics. These improvements in the labor market reflect the continued resumption of economic activity that had been curtailed due to the coronavirus (COVID-19) pandemic and efforts to contain it. In August, an increase in government employment largely reflected temporary hiring for the 2020 Census. Notable job gains also occurred in retail trade, in professional and business services, in leisure and hospitality, and in education and health services.

In August, the unemployment rate declined by 1.8 percentage points to 8.4%, and the number of unemployed persons fell by 2.8 million to 13.6 million. Both measures have declined for 4 consecutive months but are higher than in February, by 4.9 percentage points and 7.8 million, respectively.

Durable Goods Orders and Factory Shipments

According to the U.S. Census Bureau, new orders for manufactured durable goods in August increased \$1.0 billion or 0.4% to \$232.8 billion. This increase, up four consecutive months, followed an 11.7% July increase. Excluding transportation, new orders increased 0.4%. Excluding defense, new orders increased 0.7%. Machinery, also up four consecutive months, led the increase, \$0.5 billion or 1.5% to \$31.2 billion.

Shipments of manufactured durable goods in August, down following three consecutive monthly increases, decreased \$0.7 billion or 0.3%. This followed a 7.6% July increase. Transportation equipment, also down following three consecutive monthly increases, drove the decrease, \$1.4 billion or 1.7%.

According to the final report, shipments of furniture and related products in July were down 0.5% and orders were down 1%. Year to date in this industry group, shipments were down 2.2% while orders were down 2.3%. Clearly this industry group includes a number of items not covered in the residential furniture category.