FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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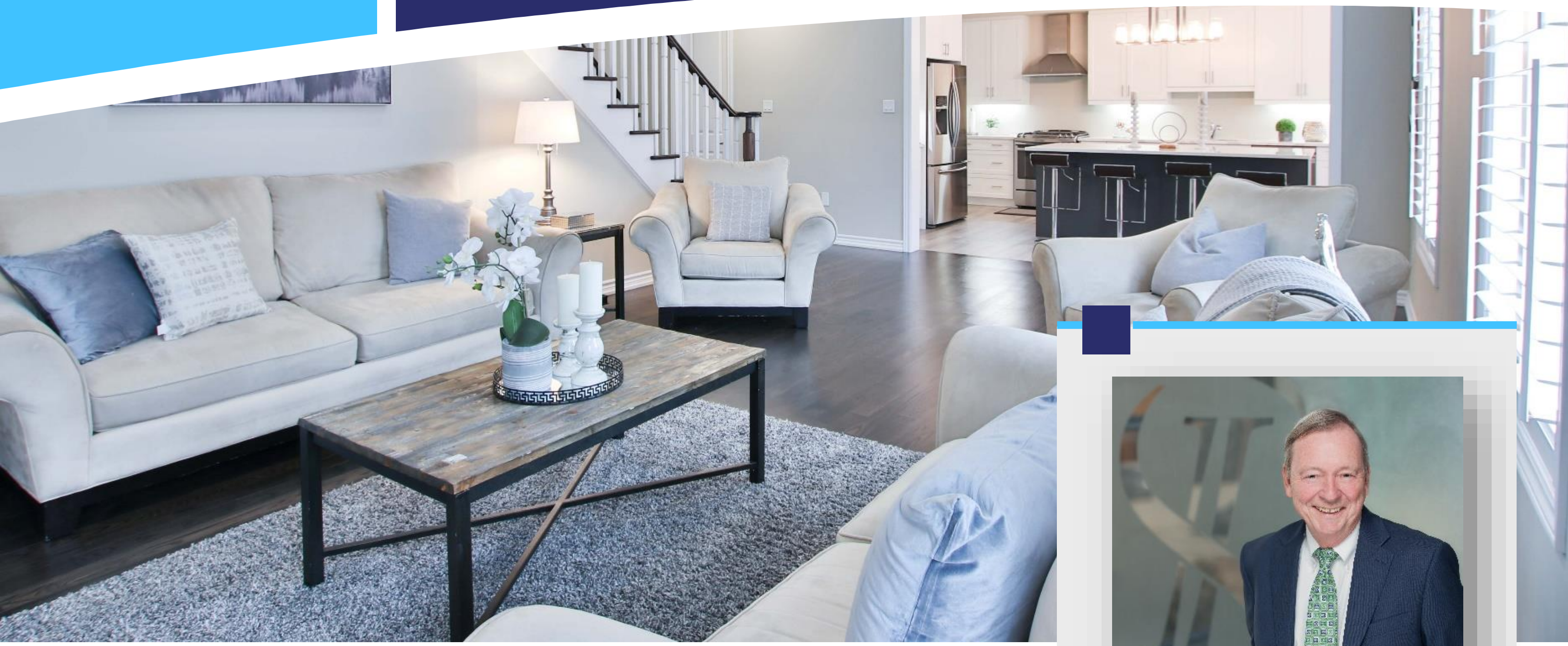

Ken Smith, CPA

HIGHLIGHTS - EXECUTIVE SUMMARY

The August results of our latest survey continued to reflect what we had been hearing in our conversations with clients and other executives in the industry. The demand for product, from especially June through August, as well as into September and October, has continued to be very strong with orders significantly higher than the same months of 2019.

August orders were a whooping 51% higher than August 2019 orders, following a 39% increase reported for July and 30% in June. Orders were up for some 88% of the participants, about the same as last month.

The August increase finally brought the year to date order results into a positive, compared to the same period a year ago, with orders now up 6%. That was a little misleading though as only 34% of the participants are in the positive for the year to date. But many of the rest are not that far off and we would expect more to reach positive territory after the September results are in.

Shipments were up 3% over August 2019 as participants are having a hard time either ramping up domestic production or importers are having trouble ramping up production overseas as well as getting containers to flow. Year to date, shipments remain 11% below last year, but down from a 14% decline reported last month. Shipments year to date were down for 85% of the participants.

Backlogs were up again in August rising 19% from July to a 102% increase over August 2019. As we said before, backlogs are getting into a territory that is not good and we continue to hear that they have grown even more since August.

Amazingly, receivable levels remain in apparent good shape considering shipment levels and inventories held steady in August as shipments are still lagging behind due to lack of inventories or at least the right kind.

The number of factory and warehouse employees continues to be an issue, or rather the lack of finding factory and warehouse employees. We are hearing that especially in NC and VA but also hear that from some others as well. The government programs hurt hiring and even with those cut back, it has been hard to find enough people who were already scarce, to fill the need for more workers due to the increased demand.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

"Consumer confidence declined slightly in October, following a sharp improvement in September," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions improved while expectations declined, driven primarily by a softening in the short-term outlook for jobs. There is little to suggest that consumers foresee the economy gaining momentum in the final months of 2020, especially with COVID-19 cases on the rise and unemployment still high."

But we thought the University of Michigan Survey's of Consumers report gave some different insight into how consumers are behaving. University of Michigan Surveys of Consumers Director Richard Curtin said in their report "The University of Michigan surveys have always recognized two independent dimensions of consumer sentiment: the degree of optimism expressed by consumers and the degree of uncertainty surrounding their economic expectations. While the two dimensions are highly correlated, they are not always identical. In the current situation, the surveys have recorded rising optimism and a rising level of economic uncertainty."

Housing

Existing-home sales grew for the fourth consecutive month in September, according to the National Association of Realtors®. Each of the four major regions witnessed month-over-month and year-over-year growth, with the Northeast seeing the highest climb in both categories.

The median existing single-family home price was $316,200 in September, up 15.2% from September 2019. Total housing inventory at the end of September was down 1.3% from August and down 19.2% from one year ago. Unsold inventory was at a 2.7-month supply at the current sales pace, down from 3.0 months in August and down from the 4.0-month figure recorded in September 2019.

New home sales were down 3.5% in September compared to August 2020 but were 32.1% ahead of September 2019. New homes sales were up substantially from last September in all regions except the Northeast where they were down 5.9%.

Single-family housing starts were 22.3% above September 2019 overall. Regionally single family starts compared to September 2019 were up 16.7% in the Northeast, 13.7% in the Midwest, 24.0% in the South and 24.4% in the West.

Other

Retail sales were up 1.9% from August and 5.4% over September 2019. Sales at furniture and home furnishings stores were up 4.6% over September 2019 but remained down year to date, at an 8.8% decline.

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.7% in September to 107.2 (2016 = 100), following a 1.4% increase in August and a 2.0% increase in July.

"The US LEI increased in September, driven primarily by declining unemployment claims and rising housing permits. However, the decelerating pace of improvement suggests the US economy could be losing momentum heading into the final quarter of 2020," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The US economy is projected to expand in Q4, but at a substantially slower rate of 1.5% (annual rate) according to The Conference Board's GDP forecast. Furthermore, downside risks to the recovery may be increasing amid rising new cases of COVID-19 and continued labor market weakness."

EXECUTIVE SUMMARY, CONT.

Thoughts

Who would have thought that we would be dealing with the effects of the virus some eight to nine months later when most of us thought we would be through with it in probably 90 days when the news first broke? But even more hard to believe is that the residential furniture business would be growing this fast when so many other businesses are struggling or worse yet, failing.

After three difficult months of significant negative growth in orders compared to 2019 results by month, our survey has shown three straight months of very significant increases in orders and from all of our conversations, we expect our survey to continue to show significant growth in September and October and even into November.

The High Point October Market was certainly different. As expected, attendance was off significantly. The stretched-out days seemed to have accomplished the objective of keeping large crowds down. And as difficult as it was to only see a smaller number of customers each day, it appears that most buyers that made the effort to come, were very serious, wrote orders and did little tire kicking. The main objective seemed to be getting orders to exhibitors in hopes of getting product sooner than later.

In addition, premarket was totally different than ever before with many exhibitors showing that had not done so before. So overall, other than some boredom on the part of some of the exhibitors, the market seemed to be good. We also heard that many buyers were just so glad to get back to having a market after missing April all together.

There is a lot of concern over what impact the results of the election will have on business. I guess we will find that out in the next few weeks after all the ballots are counted. Let's hope that folks remain civil no matter who wins. Enough said on that.

EXECUTIVE SUMMARY, CONT.

Other, Cont.

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in September on a seasonally adjusted basis after rising 0.4% in August. The index for all items less food and energy rose 0.2% in September after larger increases in July and August. The all items index rose 1.4% for the 12 months ending September, a slightly larger increase than the 1.3-percent rise for the 12-month period ending August.

Total nonfarm payroll employment rose by 661,000 in September, and the unemployment rate declined to 7.9%. In September, the unemployment rate declined by 0.5 percentage point to 7.9%, and the number of unemployed persons fell by 1.0 million to 12.6 million. Both measures have declined for five consecutive months but are higher than in February 2020 by 4.4 percentage points and 6.8 million, respectively.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	AUG	JUL	8 MOS
New Orders	3,582	3,263	19,912
Shipments	2.425	2,250	16,599
Backlog	4,424	3,733	
	2019		
	AUG	JUL	8 MOS
New Orders	2,372	2,356	18,784
Shipments	2,354	2,249	18,755
Backlog (R)	2,180	2,177	

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in August were 51% higher than new orders in August of 2019. The 51% increase followed increases of 39% reported in July and 30% in June compared to the same month the previous year. The increase, while a bit higher than we expected, was not really out of line from most of the conversations we had been hearing. Increased new order levels were reported by approximately 88% of the participants.

With the increased orders for the month of August, year to date new orders were 6% higher than the same period in 2019. August 2019 year to date new orders were down 2% from the previous year. The year to date increase was not across the board as only 34% of the participants have reported increased year to date orders.

Shipments and Backlogs

Shipments in August were up 3% over August 2019 when they were off 6% from the previous year. Shipments in August 2020 improved over the prior year for some 59% of the participants. The increase in shipments though has not caught up with the order levels.

Year to date, shipments were down 11% from the same period last year, down from 14% reported last month. Shipments were down for some 84% of the participants as production has not been able to catch up with orders, due to the difficulty in bringing back workers and well as getting imports shipped from primarily Asia.

Backlogs continued to rise as orders exceeded shipments once again, rising 19% over July levels. Compared to August 2019, backlogs were reported to be up 102%. Compared to August 2019, backlogs were up for every single participant. Clearly, they are reaching levels that are too high but from what we hear, they have continued to rise after August.

Receivables and Inventories

Receivable levels were down 6% from August 2019 comparing very favorably to the decline in year to date shipments of 11%. Receivables were up 13% from July levels but that compared favorably with the 18% increase in shipments from July.

Inventory levels were up 1% from July and 10% from August 2019. July inventories were also down 10% from July 2019. The decline in inventories related to shipments going out faster than inventory could be made or brought into warehouses. Once again, those with finished goods in stock were able to ship as fast as they could due to need for inventory at the retail level.

Factory and Warehouse Employees and Payroll

As we discussed last month, the number of Factory and Warehouse employees was still not reflective of current conditions as especially the manufacturing companies we not able to on board employees as quickly as they would have liked to as it was hard to get many employees back to work after taking government subsidies for several months. The number of employees rose 1% from July but were still down 7% from last year August levels. Factory and warehouse payrolls were up 15% from July but some of that related to the July shutdown for some. They remained 8% below August 2019, similar to the decline in employees.

MONTHLY RESULTS - OCTOBER 2020

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	August 2020 From July 2020	August 2020 From August 2019	8 Months 2020 vs 8 Months 2019
New Orders	+10	+51	+6
Shipments	+18	+3	-11
Backlog	+19	+102	
Payrolls	+15	-8	-17
Employees	+1	-7	
Receivables	+13	-6	
Inventories	+1	-10	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2019				
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
August	+51	+3	+102	-7

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* declined slightly in October, after increasing sharply in September. The Index now stands at 100.9 (1985=100), down from 101.3 in September. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased from 98.9 to 104.6. However, the Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – decreased from 102.9 in September to 98.4 this month.

"Consumer confidence declined slightly in October, following a sharp improvement in September," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions improved while expectations declined, driven primarily by a softening in the short-term outlook for jobs. There is little to suggest that consumers foresee the economy gaining momentum in the final months of 2020, especially with COVID-19 cases on the rise and unemployment still high."

Consumers' assessment of current conditions improved further in October. The percentage of consumers claiming business conditions are "good" was virtually unchanged, going from 17.6% to 17.5%, but those claiming business conditions are "bad" decreased from 37.0% to 33.9%. Consumers' assessment of the labor market was more favorable. The percentage of consumers saying jobs are "plentiful" increased from 23.6% to 26.5%, while those claiming jobs are "hard to get" decreased slightly from 20.3% to 19.9%.

Consumers, however, are now less optimistic about the short-term outlook than a month ago. The percentage of consumers expecting business conditions will improve over the next six months decreased slightly from 36.7% to 36.3%, while those expecting business conditions will worsen increased from 15.8% to 17.0%. Consumers' optimism regarding the job market was mixed. The proportion expecting more jobs in the months ahead increased slightly from 32.9% to 33.2%, but those anticipating fewer jobs also increased, from 16.1% to 20.2%. Regarding their short-term income prospects, the percentage of consumers expecting an increase improved from 17.3% to 18.4%, but the proportion expecting a decrease also increased, from 13.0% to 14.2%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.7% in September to 107.2 (2016 = 100), following a 1.4% increase in August and a 2.0% increase in July.

"The US LEI increased in September, driven primarily by declining unemployment claims and rising housing permits. However, the decelerating pace of improvement suggests the US economy could be losing momentum heading into the final quarter of 2020," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The US economy is projected to expand in Q4, but at a substantially slower rate of 1.5% (annual rate) according to The Conference Board's GDP forecast. Furthermore, downside risks to the recovery may be increasing amid rising new cases of COVID-19 and continued labor market weakness."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in September to 101.7 (2016 = 100), following a 0.8% increase in August and a 1.6% increase in July.

The Conference Board Lagging Economic Index® (LAG) for the U.S. decreased 0.1% in September to 107.6 (2016 = 100), following a 0.1% decrease in August and a 1.0% decrease in July.

University of Michigan Surveys of Consumers

Surveys of Consumers chief economist, Richard Curtin said "The University of Michigan surveys have always recognized two independent dimensions of consumer sentiment: the degree of optimism expressed by consumers and the degree of uncertainty surrounding their economic expectations. While the two dimensions are highly correlated, they are not always identical. In the current situation, the surveys have recorded rising optimism and a rising level of economic uncertainty. Rather than describing consumers as being partially or somewhat optimistic or pessimistic, the best description of the current mix is that consumers are discontent. There are several reasons to anticipate that same sense of discontent will prevail well into 2021. The reasons include the potential for a contested Presidential election as well as contested House and Senate elections, an ongoing resurgence in covid infections along with renewed regulations about social isolation, distancing, and masks, the absence of effective relief and stimulus funds amid widening economic inequality, and an ongoing realignment of expectations based on partisan rather than economic factors."

A DEEPER DIVE - NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 33.1% in the third quarter of 2020, according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP decreased 31.4%. The increase in third quarter GDP reflected continued efforts to reopen businesses and resume activities that were postponed or restricted due to COVID-19. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the third quarter of 2020 because the impacts are generally embedded in source data and cannot be separately identified.

The increase in real GDP reflected increases in personal consumption expenditures (PCE), private inventory investment, exports, nonresidential fixed investment, and residential fixed investment that were partly offset by decreases in federal government spending (reflecting fewer fees paid to administer the Paycheck Protection Program loans) and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The increase in PCE reflected increases in services (led by health care as well as food services and accommodations) and goods (led by motor vehicles and parts as well as clothing and footwear). The increase in private inventory investment primarily reflected an increase in retail trade (led by motor vehicle dealers). The increase in exports primarily reflected an increase in goods (led by automotive vehicles, engines, and parts as well as capital goods). The increase in nonresidential fixed investment primarily reflected an increase in equipment (led by transportation equipment). The increase in residential fixed investment primarily reflected an increase in brokers' commissions and other ownership transfer costs.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales grew for the fourth consecutive month in September, according to the National Association of Realtors®. Each of the four major regions witnessed month-over-month and year-over-year growth, with the Northeast seeing the highest climb in both categories.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 9.4% from August to a seasonally-adjusted annual rate of 6.54 million in September. Overall sales rose year-over-year, up 20.9% from a year ago (5.41 million in September 2019).

Single-family home sales were at a seasonally-adjusted annual rate of 5.87 million in September, up 9.7% from 5.35 million in August, and up 21.8% from one year ago. The median existing single-family home price was $316,200 in September, up 15.2% from September 2019.

"Home sales traditionally taper off toward the end of the year, but in September they surged beyond what we normally see during this season," said Lawrence Yun, NAR's chief economist. "I would attribute this jump to record-low interest rates and an abundance of buyers in the marketplace, including buyers of vacation homes given the greater flexibility to work from home."

The median existing-home price for all housing types in September was $311,800, up 14.8% from September 2019, as prices rose in every region. September's national price increase marks 103 straight months of year-over-year gain.

Total housing inventory at the end of September totaled 1.47 million units, down 1.3% from August and down 19.2% from one year ago (1.82 million). Unsold inventory was at a 2.7-month supply at the current sales pace, down from 3.0 months in August and down from the 4.0-month figure recorded in September 2019.

"There is no shortage of hopeful, potential buyers, but inventory is historically low," Yun said. "To their credit, we have seen some homebuilders move to ramp up supply, but a need for even more production still exists."

Sales in vacation destination counties have seen a strong acceleration since July, with a 34% year-over-year gain in September.

"The uncertainty about when the pandemic will end coupled with the ability to work from home appears to have boosted sales in summer resort regions, including Lake Tahoe, mid-Atlantic beaches (Rehoboth Beach, Myrtle Beach), and the Jersey shore areas," Yun said.

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

Properties typically remained on the market for 21 days in September – an all-time low – seasonally down from 22 days in August and down from 32 days in September 2019. Seventy-one percent of homes sold in September 2020 were on the market for less than a month.

First-time buyers were responsible for 31% of sales in September, down from the 33% in both August 2020 and September 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 four straight months, home sales have grown in every region compared to the previous month. Median home prices increased at double-digit rates in each of the four major regions from one year ago.

September 2020 saw existing-home sales in the Northeast jump 16.2%, recording an annual rate of 860,000, a 22.9% increase from a year ago. The median price in the Northeast was $354,600, up 17.8% from September 2019.

Existing-home sales in the South increased 8.5% to an annual rate of 2.80 million in September, up 22.3% from the same time one year ago. The median price in the South was $266,900, a 13.0% increase from a year ago.

Existing-home sales in the West rose 9.6% to an annual rate of 1,370,000 in September, an 18.1% increase from a year ago. The median price in the West was $470,800, up 17.1% from September 2019.

New Residential Sales

Sales of new single-family houses in September 2020 were at a seasonally adjusted annual rate of 959,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 3.5% below the revised August rate of 994,000 but was 32.1% above the September 2019 estimate of 726,000. The median sales price of new houses sold in September 2020 was $326,800. The average sales price was $405,400.

Regionally compared to September 2019, sales were up 34.8% in the Midwest, 27.4% in the South and 49.7% in the West, while sales were down 5.9% in the Northeast.

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 September were at a seasonally adjusted annual rate of 1,415,000. This was 1.9% above the revised August estimate of 1,388,000 and was 11.1% above the September 2019 rate of 1,274,000. Single-family housing starts in September were at a rate of 1,108,000; this was 8.5% above the revised August figure of 1,021,000.

Single family starts were 22.3% above September 2019 overall. Regionally single family starts compared to September 2019 were up 16.7% in the Northeast, 13.7% in the Midwest, 24.0% in the South and 24.4% in the West.

Housing Completions

Privately-owned housing completions in September were at a seasonally adjusted annual rate of 1,413,000. This was 15.3% above the revised August estimate of 1,226,000 and was 25.8% above the September 2019 rate of 1,123,000. Single-family housing completions in September were at a rate of 921,000; this was 2.1% above the revised August rate of 902,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for September 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $549.3 billion, an increase of 1.9% from the previous month, and 5.4% above September 2019. Total sales for the July 2020 through September 2020 period were up 3.6% from the same period a year ago. Retail trade sales were up 1.9% from August 2020, and 8.2% above last year. Nonstore retailers were up 23.8% from September 2019, while building material and garden equipment and supplies dealers were up 19.1% from last year.

Sales in September 2020 at furniture and home furnishings stores were up 4.6% over September 2019. Year to date, sales at these stores were down 8.8% from the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in September on a seasonally adjusted basis after rising 0.4% in August, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 1.4% before seasonal adjustment.

The index for used cars and trucks continued to rise sharply and accounted for most of the monthly increase in the seasonally adjusted all items index. The food index was unchanged, with an increase in the food away from home index offsetting a decline in the food at home index. The energy index rose 0.8% in September as the index for natural gas increased 4.2%.

The index for all items less food and energy rose 0.2% in September after larger increases in July and August. The index for used cars and trucks rose 6.7% in September, its largest monthly increase since February 1969. The indexes for shelter, new vehicles, and recreation also increased in September. The indexes for motor vehicle insurance, airline fares, and apparel were among those to decline over the month.

The all items index rose 1.4% for the 12 months ending September, a slightly larger increase than the 1.3-percent rise for the 12-month period ending August. The index for all items less food and energy rose 1.7% over the last 12 months, the same increase as the period ending August. The food index increased 3.9% over the last 12 months, while the energy index declined 7.7%.

Employment

Total nonfarm payroll employment rose by 661,000 in September, and the unemployment rate declined to 7.9%, according to the U.S. Bureau of Labor Statistics report. 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 September, notable job gains occurred in leisure and hospitality, in retail trade, in health care and social assistance, and in professional and business services. Employment in government declined over the month, mainly in state and local government education.

In September, the unemployment rate declined by 0.5 percentage point to 7.9%, and the number of unemployed persons fell by 1.0 million to 12.6 million. Both measures have declined for 5 consecutive months but are higher than in February 2020 by 4.4 percentage points and 6.8 million, respectively.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in September increased $4.3 billion or 1.9% to $237.1 billion, according to the advance report by the U.S. Census Bureau. This increase, up five consecutive months, followed a 0.4% August increase. Excluding transportation, new orders increased 0.8%. Excluding defense, new orders increased 3.4%. Transportation equipment, up four of the last five months, led the increase, at 4.1% to $76.8 billion.

Shipments of manufactured durable goods in September, up four of the last five months, increased $0.7 billion or 0.3% to $245.0 billion. This followed a 0.3% August decrease. Transportation equipment, also up four of the last five months, led the increase, at 0.5% to $82.0 billion.

According to the final report, new orders in August 2020 for furniture and related products were basically flat with August 2019 and down 2% year to date. Shipments in this category were down 1.4% for the month of August vs last August and down 2% year to date.