FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

Our latest survey of residential furniture manufacturers and distributors continued to show pretty much what we had been hearing in conversations and at premarket and the High Point Market. New orders in September were up 43% over September 2019 orders. This followed a 51% increase reported in August, 39% increase in July and a 30% increase in June. Orders were up for 91% of the participants for the month.

The September increase brought year to date orders up to an 11% increase over the same period last year. Some 56% of the participants are now reporting increased orders year to date after the significant declines reported in March and April.

Shipments were up 4% in September over September a year ago after a 3% increase reported last month. Some 59% reported increased September shipments. Year to date, shipments were down 10% compared to the first nine months of 2019. But there were 22% of the participants that reported an increase in year to date shipments, so hopefully folks are beginning to catch up.

But with orders so much higher than shipments, backlogs continued to grow, up 123% over last September. Last month, backlogs were 102% higher than August 2019, so large backlogs are clearly an issue. The large backlogs are creating issues at retail, but as discussed below, the shortage of workers to help to catch up, is clearly a part of the problem.

Receivable levels continue to be in good shape and all reports are that payments are pretty much timely for the most part. Inventories were drained when companies shut down early on and have not been able to catch up since most are shipping as fast as they can produce or import.

The number of factory and warehouse employees was down 5% in September vs September 2019 and payrolls were down 3%. The good news is the number of employees was up 2% from August, but that does not seem to be growing fast enough.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®* declined in November, after remaining relatively flat in October. The Index now stands at 96.1 (1985=100), down from 101.4 (an upward revision) in October. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased slightly from 106.2 to 105.9. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – declined from 98.2 in October to 89.5 this month.

"Consumer confidence declined in November, after remaining virtually flat in October," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers' assessment of present-day conditions held steady, though consumers noted a moderation in business conditions, suggesting growth has slowed in Q4. Heading into 2021, consumers do not foresee the economy, nor the labor market, gaining strength. In addition, the resurgence of COVID-19 is further increasing uncertainty and exacerbating concerns about the outlook."

Housing

Existing home sales continued to rise for the 5th straight month. All four regions experienced month to month growth and significant year over year growth. Single family sales in October were up 4.1% from September and up 26.7% from October a year ago. The NAR predicted that 2021 sales would rise 10% over 2020 so that should bode well for furniture sales.

The median existing home price for all housing types was up 15.5% from October 2019, marking 105 straight monthly price increases. Total housing inventory was down 2.7% from September and down 19.8% from October 2019, continuing to drive prices up.

The new home sales report was not available at press time.

Housing starts were up 14.2% above October 2019. Single family starts were up 29.4% with all four regions up 28 to 41% compared to October 2019.

Other

Retail sales in October were up 0.3% from September and up 5.7% from October 2019. Retail trade sales were up 8.5% from last year and non-store retailers were up 29.1% from last October. Sales at furniture and home furnishings stores were up 5.2% from October 2019, but were down 7.2% year to date due to the declines in March and April.

Consumer prices were unchanged as the different components were both up and down very small amounts. Over the past 12 months, the all items index increased 1.2%.

The Conference Board Leading Economic index increased again in October but the report indicated that growth would likely be moderating and probably not likely to exceed 2.2% at an annual rate.

Nonfarm employment rose by 638,000 in October with the unemployment rate dropping to 6.9% and the number of unemployed persons dropping by 1.5 million to 11.1 million. Both of those measures are nearly twice the February levels of 3.5% unemployment and 5.8 million unemployed.

EXECUTIVE SUMMARY, CONT.

Thoughts

We have had four months in a row of great order rates compared to the same month of the previous year. We thought there would be pent-up demand, but who knew it would last this long. But as we have said before, we believe the good business is no longer pent up demand but driven by consumers being home more, having more money to spend and spending it at home.

From what we continue to hear, orders have continued very strong in October and November, though maybe not quite at the same levels. It seems that, assuming this potential "second wave" of the pandemic does not shut everything down, business should stay pretty strong into 2021.

Unfortunately getting goods delivered to customers has become the major issue. Not only is there a shortage of domestic employees and certain raw materials, but also freight has become a major issue, with both shortages of containers as well as with domestic carriers, as there are also driver shortages. All of this has caused backlogs to grow to uncomfortable levels.

Not that it matters, but consumers are also finding the same issues when it comes to other goods such as appliances. When you are quoted 6-week delivery for a washing machine and you finally receive it in about 15 weeks, the frustration is there as well. In the old days at the high end, you were told you might get your high-end case goods in three months. But as long as you delivered when you said you would, it was ok. That all changed when delivery times were shortened even in lower price goods. But it looks like consumers might need to be told realistic times for deliveries in hopes that they are not disappointed and still look forward to getting their products.

But let us be thankful for the good business while it lasts. Happy Thanksgiving to all from us.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

New orders were up 43% in September 2020 vs September 2019 according to our latest survey of residential furniture manufacturers and distributors. August orders were up 51% over August 2019, July orders were up 39% and June orders were up 30% compared to the same month a year ago. The September increase was in line with expectations based on what we were hearing. Some 91% of the participants reported an increase in orders for September.

Year to date, new orders were 11% higher than the first nine months of 2019. For the year to date, some 56% of the participants are now reporting increased orders up from 34% reporting increases last month.

Shipments and Backlogs

Shipments in September were up 4% over September 2019 after a 3% increase reported last month. Shipments were up in September for 59% of the participants. Year to date, shipments were down 10% compared to the same period a year ago. But 22% of the participants reported increased shipments year to date, so that was a good sign for some.

As expected, with orders up significantly over shipments, backlogs climbed to an increase of 123% over last September. Clearly backlogs are up more than they need to be to satisfy retail needs, but no one was expecting the orders to continue to grow this fast. Getting workers is still a problem and even the freight carriers are overloaded.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	SEP	AUG	9 MOS
New Orders	3,937	3,582	23,849
Shipments	2,620	2.425	19,219
Backlog	5,220	4,424	

	2019		
	SEP	AUG	9 MOS
New Orders	2,746	2,372	21,530
Shipments	2,510	2,354	21,265
Backlog (R)	2,341	2,180	

Receivables and Inventories

Receivable levels were down 3% from September a year ago. Shipments were up 4 but with the year to date shipments down 10% that decline makes some sense. Most of the people we have talked to say that payments are pretty much being paid timely.

Inventories were up 1% from August but were down 9% from September 2019. Inventories have been depleted due to shutdowns of plants both foreign and domestic early on and production has just not been able to catch back up especially with orders coming in as fast as they are.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees increased 2% from August but were 5% below September 2019 levels. Finding employees has been the major problem for most domestic producers and continues to be.

Factory and warehouse payrolls were up 13% from August but were 3% below last year, in line with the reduced number of employees. Year to date, payrolls were down 15% from last year, down from 17% reported last month.

MONTHLY RESULTS – NOVEMBER 2020

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	September 2020 From August 2020	September 2020 From September 2019	9 Months 2020 vs 9 Months 2019
New Orders	+12	+43	+11
Shipments	+9	+4	-10
Backlog	+18	+123	
Payrolls	+13	-3	-15
Employees	+2	-5	
Receivables	+5	-3	
Inventories	+1	-9	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2019				
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
September	+43	+4	+123	-5

A DEEPER DIVE – NATIONAL

Consumer Confidence

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"Consumer confidence declined in November, after remaining virtually flat in October," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers' assessment of present-day conditions held steady, though consumers noted a moderation in business conditions, suggesting growth has slowed in Q4. Heading into 2021, consumers do not foresee the economy, nor the labor market, gaining strength. In addition, the resurgence of COVID-19 is further increasing uncertainty and exacerbating concerns about the outlook."

Consumers' appraisal of current conditions was relatively unchanged in November. The percentage of consumers claiming business conditions are "good" declined from 18.6% to 17.6%, but those claiming business conditions are "bad" also decreased, from 34.4% to 33.5%. Consumers' assessment of the labor market was unchanged. The percentage of consumers saying jobs are "plentiful" held steady at 26.7%, while those claiming jobs are "hard to get" was virtually unchanged at 19.5%.

Consumers, however, have grown less optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months decreased from 36.0% to 27.4%, while those expecting business conditions will worsen increased from 15.9% to 19.8%. Consumers' optimism regarding the job market also weakened. Regarding their short-term income prospects, the percentage of consumers expecting an increase was virtually unchanged at 17.6%, while the proportion expecting a decrease declined from 14.2% to 13.3%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.7% in October to 108.2 (2016 = 100), following a 0.7% increase in September and a 1.6% increase in August.

"The US LEI rose again in October, with widespread improvements despite weakness from housing permits and consumers' outlook on economic conditions. However, the leading index has been decelerating in recent months, which suggests growth will moderate significantly in the final months of 2020, slowing down from the unusually rapid pace in Q3," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Furthermore, downside risks to growth from a second wave of COVID-19 and high unemployment persist. While The Conference Board projects the US economy will expand in Q4, the pace of growth is unlikely to exceed 2.2% (annual rate)."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.5% in October to 102.7 (2016 = 100), following a 0.4% increase in September and a 0.9% increase in August.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1% in October to 107.1 (2016 = 100), following a 0.3% decrease in September and a 0.2% decrease in August.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales continued to trend upward in October, marking five consecutive months of month-over-month gains, according to the National Association of Realtors®. All four major regions reported both month-over-month and year-over-year growth, with the Midwest experiencing the greatest monthly increases.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 4.3% from September to a seasonally-adjusted annual rate of 6.85 million in October. Overall, sales rose year-over-year, up 26.6% from a year ago (5.41 million in October 2019).

Single-family home sales were at a seasonally-adjusted annual rate of 6.12 million in October, up 4.1% from 5.88 million in September, and up 26.7% from one year ago. The median existing single-family home price was $317,700 in October, up 16.0% from October 2019.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 730,000 units in October, up 5.8% from September and up 25.9% from one year ago. The median existing condo price was $273,600 in October, an increase of 10.3% from a year ago.

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

“Considering that we remain in a period of stubbornly high unemployment relative to pre-pandemic levels, the housing sector has performed remarkably well this year," said Lawrence Yun, NAR's chief economist.

While coronavirus-induced shutdowns hindered virtually all markets, Yun says the housing industry has mounted an impressive rebound.

“The surge in sales in recent months has now offset the spring market losses,” he said. “With news that a COVID-19 vaccine will soon be available, and with mortgage rates projected to hover around 3% in 2021, I expect the market’s growth to continue into 2021.” Yun forecasts existing-home sales to rise by 10% to 6 million in 2021.

The median existing-home price for all housing types in October was $313,000, up 15.5% from October 2019, as prices increased in every region. October's national price increase marks 104 straight months of year-over-year gains.

Total housing inventory at the end of October totaled 1.42 million units, down 2.7% from September and down 19.8% from one year ago. Unsold inventory was at an all-time low 2.5-month supply at the current sales pace, down from 2.7 months in September and down from the 3.9-month figure recorded in October 2019.

“Homebuilders’ confidence has soared even though the actual production has not,” Yun said. “All measures, such as reduction to lumber tariffs and expansion of vocational training, need to be considered to significantly boost supply and construct new housing.”

Yun’s call for an increase in newly built homes comes on the heels of NAR’s quarterly Metropolitan Median Area Prices and Affordability report, which found that single-family existing-home prices rose in all of the 181 metropolitan areas NAR tracks. Sixty-five percent of those metros show double-digit price increases. Yun says replenishing the short supply of homes would help decelerate rising costs and improve market affordability.

Properties typically remained on the market for 21 days in October, seasonally even with September and down from 36 days in October 2019. Seventy-two percent of homes sold in October 2020 were on the market for less than a month.

First-time buyers were responsible for 32% of sales in October, up from the 31% in both September 2020 and October 2019. NAR’s 2020 Profile of Home Buyers and Sellers revealed that the annual share of first-time buyers was 31%.

Regional

September 2020 existing-home sales in the Northeast rose 4.7%, recording an annual rate of 900,000, a 30.4% increase from a year ago. The median price in the Northeast was $356,500, up 20.2% from October 2019.

Existing-home sales jumped 8.6% in the Midwest to an annual rate of 1,640,000 in October, up 28.1% from a year ago. The median price in the Midwest was $243,500, a 16.7% increase from October 2019.

Existing-home sales in the South increased 3.2% to an annual rate of 2.91 million in October, up 26.5% from the same time one year ago. The median price in the South was $272,500, a 15.7% increase from a year ago.

Existing-home sales in the West inched up 1.4% to an annual rate of 1,400,000 in October, an 22.8% increase from a year ago. The median price in the West was $467,800, up 15.1% from October 2019.

New Residential Sales

The report was not available at press time.

Housing Starts

Privately-owned housing starts in October were at a seasonally adjusted annual rate of 1,530,000. This was 4.9% above the revised September estimate of 1,459,000 and was 14.2% above the October 2019 rate of 1,340,000. Single-family housing starts in October were at a rate of 1,179,000; this was 6.4% above the revised September figure of 1,108,000 and up 29.4% over October 2019.

Comparing October 2020 to October 2019, single family starts were up 41% in the Northeast, 33.6% in the Midwest, 28.2% in the South and 28.1% in the West.

A DEEPER DIVE – HOUSING, CONT.

Housing Completions

Privately-owned housing completions in October were at a seasonally adjusted annual rate of 1,343,000. This was 4.5% below the revised September estimate of 1,406,000, but was 5.4% above the October 2019 rate of 1,274,000. Single-family housing completions in October were at a rate of 883,000; this was 3.4% below the revised September rate of 914,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for October 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $553.3 billion, an increase of 0.3% from the previous month, and 5.7% above October 2019. Total sales for the August 2020 through October 2020 period were up 5.1% from the same period a year ago.

Retail trade sales were up 0.3% from September 2020, and 8.5% above last year. Nonstore retailers were up 29.1% from October 2019, while building material and garden equipment and supplies dealers were up 19.5% from last year. Sales at furniture and home furnishings stores were up 5.2% from October 2019. Year to date, sales at these stores were down 7.2%, down from an 8.8% decrease reported for year to date last month.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in October on a seasonally adjusted basis after rising 0.2% in September, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 1.2% before seasonal adjustment.

Component indexes were mixed, with many offsetting increases and decreases. The food index rose 0.2%, with the food away from home index increasing by 0.3% and a smaller 0.1% rise in the food at home index. The energy index rose 0.1% in October as the index for electricity increased 1.2%.

The index for all items less food and energy was unchanged in October following an increase of 0.2% in September. The index for shelter increased 0.1% in October, which was offset by a 0.4% decrease in the index for medical care. The indexes for airline fares, recreation, and new vehicles were among those to rise, while the indexes for motor vehicle insurance, apparel, and household furnishings and operations declined. The all items index rose 1.2% for the 12 months ending October, a slightly smaller increase than the 1.4% rise for the 12-month period ending September.

Employment

Total nonfarm payroll employment rose by 638,000 in October, and the unemployment rate declined to 6.9%, 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 October, notable job gains occurred in leisure and hospitality, professional and business services, retail trade, and construction. Employment in government declined.

In October, the unemployment rate declined by 1.0 percentage point to 6.9%, and the number of unemployed persons fell by 1.5 million to 11.1 million. Both measures have declined for 6 consecutive months but are nearly twice their February levels (3.5% and 5.8 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 September 2020 for furniture and related products were up 2% with September 2019 and down 1.5% year to date. Shipments in this category were basically even for the month of September vs last September and down 2% year to date.