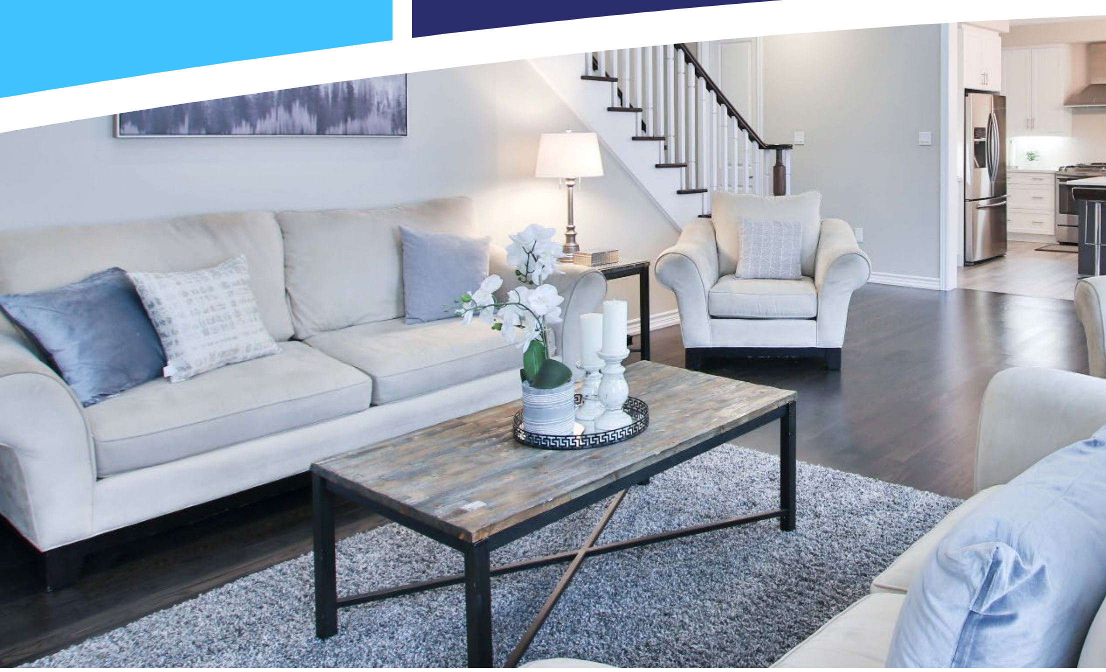
FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

December 2020



Ken Smith, CPA

HIGHLIGHTS – EXECUTIVE SUMMARY

According to our latest survey of residential furniture manufacturers and distributors, good business continued through October. New orders in October increased over the same period from a year ago for the fifth straight month, increasing 40% over October 2019. This 40% increase followed a 43% increase reported in September, 51% in August, 39% in July and a 30% increase in June after a three-month period of significant declines when the pandemic started. Some 77% of the participants reported increased orders in October. The increase in October brought the year to date increase to 14%, up from 11% reported last month. For the 10 months ended October, orders were up for 59% of the participants. We have continued to hear strong order performance from many we have talked to recently, though we are hearing that the size of the increases has slowed.

Shipments were up 8% over October 2019 after a 4% increase in September. It appears that imported goods are starting to flow as well as shortages of raw materials for domestic manufacturers has started to diminish, though prices of certain materials seem to be rising due to the shortages. Year to date, shipments remained 8% below the pace of the same period last year.

Backlogs continued to rise as orders once again surpassed shipments. Backlogs at the end of October were 141% higher than October 2019, again causing issues at the retail level. The backlogs are having trouble working down as, again, the flow of goods from primarily Asia has been slow to catch up, as well as the lack of workers in the domestic manufacturing sector.

Receivable levels continued to appear to be in line and conversations with manufacturers and distributors indicate that customers are continuing to pay on time for the most part.

Inventory levels remained 10% below last year's levels, as they have not been able to catch up with the order rates due to the supply issues.

The number of factory and warehouse employees remained 5% below last year. Most of the manufacturers we have talked to indicate that finding people is their main issue. The recent stimulus bill that passed included an increase in unemployment benefits. While good for the unemployed, it does not help in recruiting employees.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index® declined in December, after decreasing in November. The Index now stands at 88.6 (1985=100), down from 92.9 in November. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased sharply from 105.9 to 90.3. However, the Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – increased from 84.3 in November to 87.5 this month.

"Consumers' assessment of current conditions deteriorated sharply in December, as the resurgence of COVID-19 remains a drag on confidence," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "As a result, consumers' vacation intentions, which had notably improved in October, have retreated. On the flip side, as consumers continue to hunker down at home, intentions to purchase appliances have risen. Overall, it appears that growth has weakened further in Q4, and consumers do not foresee the economy gaining any significant momentum in early 2021."

Housing

Existing home sales fell in November after rising for five straight months. Each of the regions fell from October levels but all four regions sold significantly more than November a year ago. Total existing home sales were up 25.8% over November 2019 with single family sales up 25.6%. All four regions reported similar results.

The median sales price for all housing types rose 14.6% and all four regions experienced similar growth in prices. Housing inventory fell 9.9% from October and was down 22% from a year ago.

New residential sales experienced similar results with sales down 11.0% from October but up 20.8% over November 2019. New residential sales were up significantly in all regions except the Midwest where they were down 24.4%. Housing starts in November were up 12% over November 2019. Single family starts were up 27.1% over November 2019.

Other

U.S. retail and food services sales for November 2020 were down 1.1% from the previous month, but 4.1% above November 2019. Total sales for the September 2020 through November 2020 period were up 5.2% from the same period a year ago. Retail trade sales were down 0.8% from October 2020, but 7.1% above last year. Nonstore retailers were up 29.2% from November 2019, while food services and drinking places were down 17.2% from last year.

Sales at furniture and home furnishings stores in November were up 3.65% over November 2019. Year to date, sales at these stores were down 6.4% from the same period a year ago, as they continue the rebound from the significant decreases during the early months of the pandemic.

Consumer prices increased 0.2% in November as the all items index was broad based with no component accounting for the slight increase. The index for home furnishings increased for the month.

The Conference Board Leading Economic Index increased again in November, up 0.6% but the report indicated its pace of improvement has been decelerating in recent months, suggesting a significant moderation in growth as the US economy heads into 2021.

Total nonfarm payroll employment rose by 245,000 in November, and the unemployment rate edged down to 6.7%. The number of unemployed persons, at 10.7 million, continued to trend down in November but was 4.9 million higher than in February.

EXECUTIVE SUMMARY, CONT.

Thoughts

As we write this, we realize that 2020 is almost over. Most of us know better than to wish our lives away, but we have never seen so many people wishing for a year to end. Unfortunately, remnants of troubles from 2020 will still be with us as we start 2021, but there is hope for the new year with the creation of the vaccine to help us mitigate and hopefully eliminate the virus that has caused this pandemic.

Consumer confidence has been declining, but that seems to be more on the macro level. Travel and entertainment declines are part of the reason. But as we have said before, the decline in these areas has put more money in consumer's pockets and they seem to be spending it on their homes, including furniture.

The significant gains in our surveys of residential furniture manufacturers and distributors over the past few months has really been great for a group of folks that really needed a boost in sales. We do expect that significant growth to slow somewhat in the next few months but most whom we have talked with seem to believe results will stay positive at least through the first part of the year.

We all hope that the vaccine will allow folks to get back to some sense of normalcy, but time will tell. Several surveys seem to indicate that many people are afraid of the vaccine and will not take it due to concerns over the long-term impact. So, the virus may stay with us for some time in some fashion. But let's hope that enough people do decide to get the vaccine and that it works long term to put this one behind us.

Happy New Year from all of us at Smith Leonard. Here's to a much better 2021 for all of us for our own sanity's sake.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

New orders were up 40% in October 2020 compared to October 2019, according to our latest survey of residential furniture manufacturers and distributors. This increase followed a 43% increase in September, a 51% increase in August, 39% in July and 30% in June. We had expected the October orders to remain strong as conversations at Market remained very positive. New orders were up for some 77% of the participants, down from 91% reporting increases in September.

With the large increase in October, year to date, new orders increased 14%, up from 11% reported last month. Year to date orders were up for 59% of the participants up slightly from last month.

Shipments and Backlogs

Shipments in October were up 8% over last October after increasing 4% in September and 3% in August. It appears that shipments are finally starting to pick up and some of the imported goods are starting to ship. Clearly, imported goods have had their share of issues due to shutdowns and other issues, especially in Asia. Shipments in October were up for 61% of the participants.

Year to date, shipments were down 8% through October, down from 10% reporting declines in shipments last month. As with last month, some 22% of the participants reported increased shipments year to date.

Backlogs climbed once again as new orders were higher than shipments. Backlogs were 141% higher than October 2019. As we noted previously, it is clear that the buildup in backlogs is creating issues for retailers who need product and want it quickly to meet the demands of consumers. But from what we have seen, lack of product at retail is not just with furniture.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	OCT	**SEP**	**10 MOS**
New Orders	3,310	3,937	27,159
Shipments	2,516	2,620	21,735
Backlog	5,658	5,220	
	2019		
	OCT	**SEP**	**10 MOS**
New Orders	2,369	2,746	23,899
Shipments	2,320	2,510	23,585
Backlog (R)	2,351	2,341	

Receivables and Inventories

Receivable levels were down 2% in October compared to October 2019. Those results apparently reflect a mix between the increase in shipments in October at 8% and the 8% decline in shipments year to date. In talking with people recently, it seems that most companies are in pretty good shape with their receivables remaining either current or just past due. Most are watching these levels very carefully.

Inventories were up 2% from September but down 10% from October 2019. The decline from last year is likely related to a combination of an attempt to lower levels when the pandemic set in, then the scramble to ship as much as possible out of inventory when customers came back to the table with strong demand.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees increased 2% in October compared to September but remained 5% below October 2019. We continue to hear that companies are having a hard time getting new employees. While we realize that many unemployed are hurting, the new stimulus package that increases the unemployment benefits again, may make it difficult to attract lower level employees.

Factory and warehouse payrolls were up 1% over last year but down 13% year to date. During the early part of the pandemic, many folks were laid off at least until the PPP money was borrowed.

MONTHLY RESULTS – DECEMBER 2020

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	October 2020 From September 2020	October 2020 From October 2019	10 Months 2020 vs 10 Months 2019
New Orders	-17	+40	+14
Shipments	-3	+8	-8
Backlog	+8	+141	
Payrolls	-2	+1	-13
Employees	+2	-5	
Receivables	+4	-2	
Inventories	+2	-10	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2019				
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
October	+40	+8	+141	-5

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® declined in December, after decreasing in November. The Index now stands at 88.6 (1985=100), down from 92.9 in November. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased sharply from 105.9 to 90.3. However, the Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – increased from 84.3 in November to 87.5 this month.

"Consumers' assessment of current conditions deteriorated sharply in December, as the resurgence of COVID-19 remains a drag on confidence," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "As a result, consumers' vacation intentions, which had notably improved in October, have retreated. On the flip side, as consumers continue to hunker down at home, intentions to purchase appliances have risen. Overall, it appears that growth has weakened further in Q4, and consumers do not foresee the economy gaining any significant momentum in early 2021."

Consumers' assessment of current conditions declined in December. The percentage of consumers claiming business conditions are "good" decreased from 18.8% to 16.0%, while those claiming business conditions are "bad" increased from 34.9% to 39.5%. Consumers' assessment of the labor market was also less favorable. The percentage of consumers saying jobs are "plentiful" declined from 26.3% to 21.8%, while those claiming jobs are "hard to get" rose from 19.4% to 22.0%.

Consumers, however, were moderately more optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months increased from 26.5% to 29.0%, while those expecting business conditions will worsen decreased from 22.5% to 21.9%. Consumers' outlook regarding the job market also improved. The proportion expecting more jobs in the months ahead increased from 25.0% to 27.5%, however those anticipating fewer jobs increased marginally from 21.6% to 22.2%. Regarding their short-term income prospects, the percentage of consumers expecting an increase rose marginally from 16.0% to 16.8%, while the proportion expecting a decrease declined marginally from 14.5% to 14.3%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6% in November to 109.1 (2016 = 100), following a 0.8% increase in October and a 0.7% increase in September.

"The US LEI continued rising in November, but its pace of improvement has been decelerating in recent months, suggesting a significant moderation in growth as the US economy heads into 2021," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Initial claims for unemployment insurance, new orders for manufacturing, residential construction permits, and stock prices made the largest positive contributions to the LEI. However, falling average working hours in manufacturing and consumers' worsening outlook underscore the downside risks to growth from a second wave of COVID-19 and high unemployment."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in November to 103.2 (2016 = 100), following a 0.6% increase in October and a 0.5% increase in September.

The Conference Board Lagging Economic Index® (LAG) for the U.S. decreased 0.4% in November to 106.9 (2016 = 100), following a 0.3% increase in October and a 0.4% decrease in September.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales fell in November, snapping a five-month streak of month-over-month gains, according to the National Association of Realtors®. All major regions either took a step back or held steady in terms of their respective month-over-month status, but each of the four areas experienced significant year-over-year growth.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 2.5% from October to a seasonally-adjusted annual rate of 6.69 million in November. However, sales in total rose year-over-year, up 25.8% from a year ago (5.32 million in November 2019).

Single-family home sales were at a seasonally adjusted annual rate of 5.98 million in November, down 2.4% from 6.13 million in October, and up 25.6% from one year ago. The median existing single-family home price was $315,500 in November, up 15.1% from November 2019.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 710,000 units in November, down 2.7% from October and up 26.8% from one year ago. The median existing condo price was $271,400 in November, an increase of 9.5% from a year ago.

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

"Home sales in November took a marginal step back, but sales for all of 2020 are already on pace to surpass last year's levels," said Lawrence Yun, NAR's chief economist. "Given the COVID-19 pandemic, it's amazing that the housing sector is outperforming expectations."

Yun notes that job recoveries have stalled in the past few months, and fast-rising coronavirus cases along with stricter lockdowns have weakened consumer confidence.

"Circumstances are far from being back to the pre-pandemic normal," he said. "However, the latest stimulus package and with the vaccine distribution underway, and a very strong demand for homeownership still prevalent, robust growth is forthcoming for 2021."

The median existing-home price for all housing types in November was $310,800, up 14.6% from November 2019 ($271,300), as prices increased in every region. November's national price increase marks 105 straight months of year-over-year gains.

Total housing inventory at the end of November totaled 1.28 million units, down 9.9% from October and down 22% from one year ago (1.64 million). Unsold inventory sits at an all-time low 2.3-month supply at the current sales pace, down from 2.5 months in October and down from the 3.7-month figure recorded in November 2019.

Properties typically remained on the market for 21 days in November, seasonally even with October and down from 38 days in November 2019. Seventy-three percent of homes sold in November 2020 were on the market for less than a month.

"The positive momentum that home sellers are seeing will carry on well into the new year," Yun predicted, citing low mortgage rates and remote-work flexibilities."

"Housing affordability, which had greatly benefitted from falling mortgage rates, are now being challenged due to record-high home prices," Yun said. "That could place strain on some potential consumers, particularly first-time buyers."

First-time buyers were responsible for 32% of sales in November, equal to the percentage seen in both October 2020 and November 2019. NAR's 2020 Profile of Home Buyers and Sellers – released last month – revealed that the annual share of first-time buyers was 31%.

Regional

Median home prices increased at double-digit rates in each of the four major regions from one year ago.

November 2020 saw existing-home sales in the Northeast drop 2.2%, recording an annual rate of 880,000, a 25.7% increase from a year ago. The median price in the Northeast was $354,100, up 17.4% from November 2019.

Existing-home sales fell 2.5% in the Midwest to an annual rate of 1,590,000 in November, but up 24.2% from a year ago. The median price in the Midwest was $239,100, a 14.6% increase from November 2019.

Existing-home sales in the South decreased 3.8% to an annual rate of 2.82 million in November, but up 25.9% from the same time one year ago. The median price in the South was $270,000, a 15.0% increase from a year ago.

Existing-home sales in the West were unchanged from last month, recording an annual rate of 1,400,000 in November, a 27.3% increase from a year ago. The median price in the West was $467,600, up 13.8% from November 2019.

New Residential Sales

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced that sales of new single-family houses in November 2020 were at a seasonally adjusted annual rate of 841,000. This was 11.0% below the revised October rate of 945,000, but was 20.8% above the November 2019 estimate of 696,000.

The median sales price of new houses sold in November 2020 was $335,300. The average sales price was $390,100.

Compared to November 2019, sales of privately owned houses were up 18.2% in the Northeast, 30.5% in the South and 19.8% in the West, while falling 24.4% in the Midwest.

A DEEPER DIVE – HOUSING, CONT.

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 November were at a seasonally adjusted annual rate of 1,547,000. This was 1.2% above the revised October estimate of 1,528,000 and was 12.8% above the November 2019 rate of 1,371,000. Single-family housing starts in November were at a rate of 1,186,000; this was 0.4% above the revised October figure of 1,181,000 and was 27.1% above November 2019 starts.

Single family starts compared to November 2019 were up 27.4% in the Northeast, 24.5% in the Midwest, 29.4% in the South and 15.3% in the West.

Housing Completions

Privately-owned housing completions in November were at a seasonally adjusted annual rate of 1,163,000. This was 12.1% below the revised October estimate of 1,323,000 and was 4.8% below the November 2019 rate of 1,222,000. Single-family housing completions in November were at a rate of 874,000; this was 0.6% below the revised October rate of 879,000 and 4.5% below November 2019.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

According to the U. S. Census Bureau, advance estimates of U.S. retail and food services sales for November 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $546.5 billion, a decrease of 1.1% from the previous month, but 4.1% above November 2019. Total sales for the September 2020 through November 2020 period were up 5.2% from the same period a year ago.

Retail trade sales were down 0.8% from October 2020, but 7.1% above last year. Nonstore retailers were up 29.2% from November 2019, while food services and drinking places were down 17.2% from last year.

Sales at furniture and home furnishings stores in November were up 3.65% over November 2019. Year to date, sales at these stores were down 6.4% from the same period a year ago, continuing to rebound from the significant decreases during the early months of the pandemic.

Consumer Prices

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

The seasonally adjusted increase in the all items index was broad-based, with no component accounting for more than a quarter of the increase. The food index declined in November, as a decrease in the food at home index more than offset a small increase in the food away from home index. The index for energy rose in November, as increases in indexes for natural gas and electricity more than offset a decline in the index for gasoline.

The index for all items less food and energy increased 0.2% in November after being unchanged the prior month. The indexes for lodging away from home, household furnishings and operations, recreation, apparel, airline fares, and motor vehicle insurance all increased in November. The indexes for used cars and trucks, medical care, and new vehicles all declined over the month.

The index for all items less food and energy rose 1.6% over the last 12 months, also the same increase as the period ending October. The food index rose 3.7% over the last 12 months, while the energy index fell 9.4%.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Employment

Total nonfarm payroll employment rose by 245,000 in November, and the unemployment rate edged down to 6.7%, according to 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. However, the pace of improvement in the labor market has moderated in recent months. In November, notable job gains occurred in transportation and warehousing, professional and business services, and health care. Employment declined in government and retail trade.

In November, the unemployment rate edged down to 6.7%. The rate is down by 8.0 percentage points from its high in April but is 3.2 percentage points higher than it was in February. The number of unemployed persons, at 10.7 million, continued to trend down in November but was 4.9 million higher than in February.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in November increased $2.2 billion or 0.9% to $244.2 billion, the U.S. Census Bureau announced. This increase, up seven consecutive months, followed a 1.8% October increase. Excluding transportation, new orders increased 0.4%. Excluding defense, new orders increased 0.7%. Transportation equipment, up six of the last seven months, led the increase, $1.5 billion or 1.9% to $78.8 billion.

Shipments of manufactured durable goods in November, up six of the last seven months, increased $0.7 billion or 0.3% to $250.1 billion. This followed a 1.5% October increase. Primary metals, up seven consecutive months, led the increase, $0.3 billion or 1.8% to $19.2 billion.

According to the final report, orders for furniture and related products were down 1.0% in October compared to October 2019 and down 1.4% year to date. Shipments in October were down 0.5% from October 2019 and down 1.7% year to date. Keep in mind this report includes all furniture (including office, hospitality, etc.) and “related” products.