FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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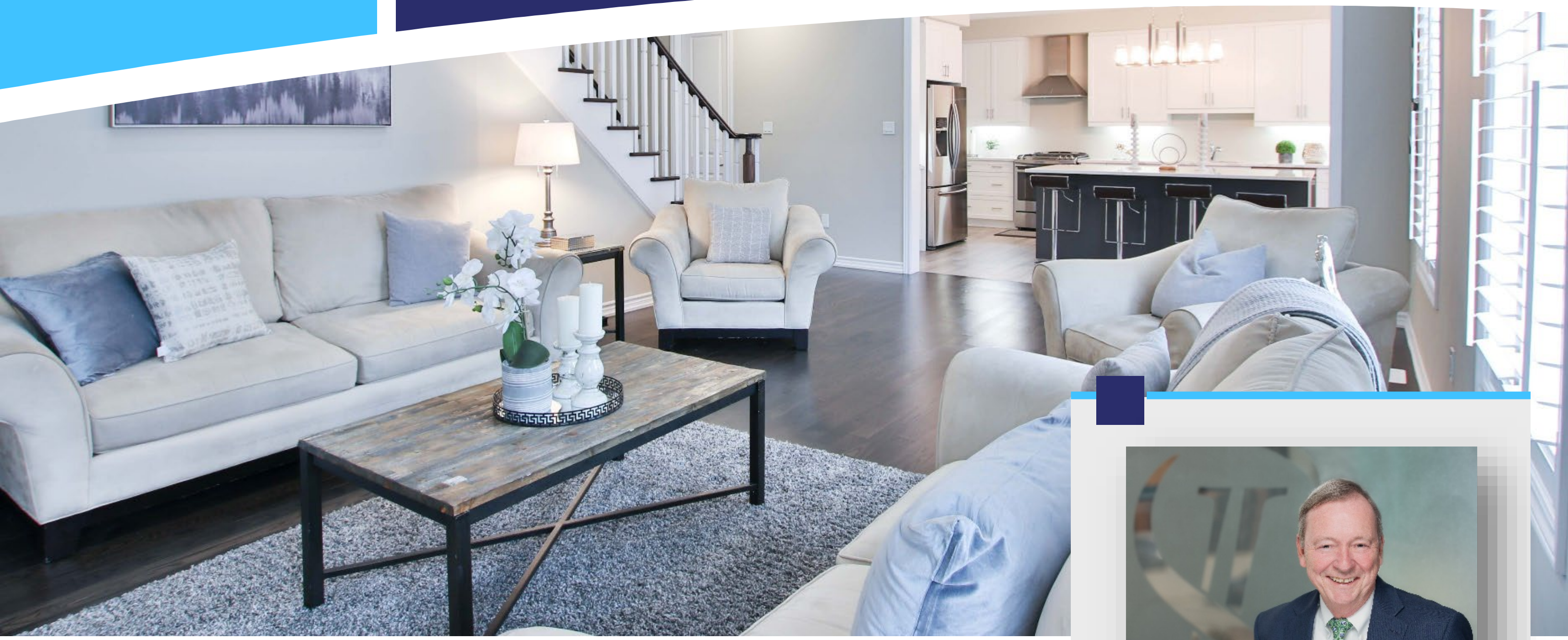

Ken Smith, CPA

HIGHLIGHTS – EXECUTIVE SUMMARY

As we noted last month, the increase in new orders was expected to slow and in our November survey, they did. New orders were up a respectable 17% in November compared to November 2019. This increase followed increases of 30% in June, 39% in July, 51% in August, 43% in September and 40% in October. About three quarters of the participants reported increased orders for the month, similar to last month. Year to date, new orders remained up 14% over the first 11 months of 2019 after the significant declines as the pandemic took effect. Year to date, some 66% of the participants are now reporting increased orders.

Shipments continue to lag behind with only a 3% increase in shipments vs. last November. Year to date, shipments were 7% behind last year, down from 8% reported last month. The flow of imported goods remains a problem. According to a survey of several industry leaders by Furniture Today of their priorities for this year, working on the flow of goods and logistics seems to be high of almost all of their lists of issues to tackle.

Backlogs continued to grow in November to levels certainly not remembered in my years of following our statistics. We hear of some custom upholstery companies quoting as many as 20 weeks for delivery. We have heard that backlogs are slowly coming down, but that is a slow process due to lack of trained people as well as the issues discussed regarding flow on goods especially from Asia.

Receivable levels continue to be in pretty good shape and based on some of our conversations, most are watching them carefully and not shipping if customers are behind. We think some of the PPP federal money may have helped many of the dealers to stay current.

Inventory levels are low from where they need to be but case goods have been hard to come by for imported goods and there has also been some shortages of raw materials for upholstery suppliers.

The number of factory and warehouse employees was down 3% in November as well as payrolls. We understand domestic manufacturers are doing all they can to hire people, but even when they do, the cost of training is really hurting productivity and is costly.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index® improved moderately in January, after decreasing in December. The Index now stands at 89.3 (1985=100), up from 87.1 in December. However, the Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased from 87.2 to 84.4. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – increased from 87.0 in December to 92.5 this month.

According to the report, consumers' expectations for the economy and jobs advanced further, suggesting that consumers foresee conditions improving but the COVID 19 situation still has consumers concerned. The report also indicated that a growing percent of consumers expect to buy a home in the next six months so it is expected that home sales will continue on into 2021. The outlook for short term income prospects was mixed.

Housing

Existing-home sales rose in December, with home sales in 2020 reaching their highest level since 2006. The results were mixed by region on a month to month basis but each of the four regions experienced double-digit year over year growth. Single family home sales were up 22.8% over December 2019.

The median price for existing home sales was up 12.9% over December 2019. Housing inventory was down 16.4% from November and down 23% from December 2019. This represented a 1.9 month supply at the current sales pace.

New residential sales were up nicely at 15.2% above December 2019. Compared to December 2019, sales were up significantly in all regions except the Northeast.

Single family housing starts were 27.9% higher than December 2019 with high double-digit growth in all four regions.

Other

Retail and food service sales for December decreased 0.7% from November but were 2.9% ahead of December 2019. This result was mixed as food service sales were lower, while retail trade sales were up 6.3% over December 2019. Sales at furniture and home furnishings stores were up 3.1% over December 2019. For the year, after the disaster of March to May sales, sales at these stores were only down 5.4%.

Consumer prices increased 0.4% in December and were up 1.4% over the last 12 months. The seasonally adjusted increase was driven by an 8.4% increase in the gasoline index which represented more than 60% of the overall increase. The index for all items less food and energy rose 1.6% over the last 12 months.

Nonfarm employment declined by 140,000 in December due to the increase in the Coronavirus cases. The unemployment rate stayed at 6.7%.

The Conference Board Leading Economic Index increased again in December, up 0.3% 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.

For the year, real GDP decreased 3.5% in 2020 after a 2.2% increase in 2019.

EXECUTIVE SUMMARY, CONT.

Thoughts

The good results for new orders continued through November, though the increase in orders did slide somewhat. We had expected that slowdown in the increase based on conversations, so it was no surprise. We expect somewhat similar results in the December survey. That being said, the consensus with most folks we talk to is that we should continue this good ride on into 2021.

One of the major concerns that we are hearing is that some dealers are starting to hear about cancellations due to the long lead times.

On the good side, most of the economic data that we think drives furniture sales is still good. Consumer confidence picked back up a bit. Housing continues to be very strong in spite of the higher prices. Interest rates continue to be in a good place. We have seen the consumer price index tick up and with the new rules coming out on drilling, we are already seeing spikes in gas prices.

Still leisure travel remains down and spending on the fun things remains low. This continues to leave more money in Consumers' pockets and purchases for the home seems to be the place that many are spending their extra money on.

The cost of furniture is going up whether for imports or for domestic materials. With demand this strong, we hope that at retail and wholesale, the industry does not give up margins just to chase sales. We realize the industry thrives on low prices in too many cases, but it makes no sense to try to enjoy all these increased sales at low margins. This is the time to make some margins back; not crazy but good solid margins which have eroded in the last number of years.

Again, stay safe. Get your vaccines if you believe in them.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

New orders were up 17% in November compared to November 2019 according to our latest survey of residential furniture manufacturers and distributors. This increase followed five months of significant increases beginning with June's 30% increase, 39% in July, 51% in August, 43% in September and 40% in October. From conversations we had, we expected the increases to begin to slow and the November results proved that to be in line. About three quarters of the participants reported increases in orders over last November, in line with October results.

The November increase left the year to date increase at 14%. For the 11 months ended November, some 66% of the participants reported increased year to date orders, up from 59% reporting increases last month.

Shipments and Backlogs

Shipments were up 3% over November last year and only up 2% from October. About one-half of the participants reported increased shipments vs. last November. The 3% increase followed an 8% increase reported last month. Supply chain issues continue to be blamed for most of the issues, especially in the case goods business.

Year to date, shipments were down 7% from the same period a year ago (down from 8% last month). Some 78% of the participants continue to report lower shipments than last year. Much of the lower shipment issues continue to be blamed on lack of ability to flow imported goods caused by factory issues in Asia, container and other logistics issues, etc.

Backlogs grew slightly again bringing backlog levels to being 148% higher than last year, up from 141% reported last month. We understand that there has been substantial effort made since November in bringing these levels down some but between lack of labor for domestic goods and the issues noted for imported goods, the levels remain extremely high.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	NOV	**OCT**	**11 MOS**
New Orders	2,952	3,310	30,111
Shipments	2,518	2,516	24,253
Backlog	5,853	5,658	

	2019		
	NOV	OCT	11 MOS
New Orders	2,523	2,369	26,422
Shipments	2,433	2,320	26,018
Backlog	2,407	2,351	

Receivables and Inventories

Receivables were 1% higher than November 2019 and seem to be in line with shipment levels. Most we talk to have been able to keep the levels down since product is so hard to get. If dealers are not paying, they are not getting shipped. And in the custom area, many dealers and designers are making deposits on orders to help faster shipments.

Inventories were up 2% from October but still down 7% from last year. With orders coming in so fast, it is really hard to build inventories.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees remains an issue with the number being down 3% from last November when they should probably be up at least that much. As a result, payrolls were also down 3% from last November. Year to date, payrolls were down 12% vs. 15% reported last month.

MONTHLY RESULTS – JANUARY 2021

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	November 2020 From October 2020	November 2020 From November 2019	11 Months 2020 vs 11 Months 2019
New Orders	-11	+17	+14
Shipments	+2	+3	-7
Backlog	+3	+148	
Payrolls	-3	-3	-12
Employees	+2	-3	
Receivables	+5	+1	
Inventories	+2	-7	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2019				
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
November	+17	+3	+148	-3

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® improved moderately in January, after decreasing in December. The Index now stands at 89.3 (1985=100), up from 87.1 in December. However, the Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased from 87.2 to 84.4. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – increased from 87.0 in December to 92.5 this month.

"Consumers' appraisal of present-day conditions weakened further in January, with COVID-19 still the major suppressor," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers' expectations for the economy and jobs, however, advanced further, suggesting that consumers foresee conditions improving in the not-too-distant future. In addition, the percent of consumers who said they intend to purchase a home in the next six months improved, suggesting that the pace of home sales should remain robust in early 2021."

Consumers' appraisal of current conditions weakened further in January. The percentage of consumers claiming business conditions are "good" increased from 15.4% to 15.8%, but those claiming business conditions are "bad" also increased, from 39.7% to 42.8%. Consumers' assessment of the labor market was also less favorable. The percentage of consumers saying jobs are "plentiful" declined from 21.0% to 20.6%, while those claiming jobs are "hard to get" rose from 22.9% to 23.8%.

Consumers, however, have continued to grow more optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months increased from 29.5% to 33.7%, while those expecting business conditions will worsen decreased from 22.0% to 18.1%. Consumers' outlook regarding the job market also improved. The proportion expecting more jobs in the months ahead increased from 28.0% to 31.3%, while those anticipating fewer jobs decreased from 22.2% to 21.4%. Regarding their short-term income prospects, the percentage of consumers expecting an increase declined from 15.7% to 14.4%, however the proportion expecting a decrease also declined from 14.6% to 14.2%.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 4.0% in the fourth quarter of 2020, according to the "advance" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 33.4%. The increase in real GDP reflected increases in exports, nonresidential fixed investment, personal consumption expenditures (PCE), residential fixed investment, and private inventory investment that were partly offset by decreases in state and local government spending and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The increase in exports primarily reflected an increase in goods (led by industrial supplies and materials). The increase in nonresidential fixed investment reflected increases in all components, led by equipment. The increase in PCE was more than accounted for by spending on services (led by health care); spending on goods decreased (led by food and beverages). The increase in residential fixed investment primarily reflected investment in new single-family housing. The increase in private inventory investment primarily reflected increases in manufacturing and in wholesale trade that were partly offset by a decrease in retail trade.

Real GDP decreased 3.5% in 2020 (from the 2019 annual level to the 2020 annual level), compared with an increase of 2.2% in 2019. The decrease in real GDP in 2020 reflected decreases in PCE, exports, private inventory investment, nonresidential fixed investment, and state and local government that were partly offset by increases in federal government spending and residential fixed investment. Imports decreased.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3% in December to 109.5 (2016 = 100), following a 0.7% increase in November and a 0.9% increase in October. "The US LEI's slowing pace of increase in December suggests that US economic growth continues to moderate in the first quarter of 2021."

"Improvements in the US LEI were very broad-based among the leading indicators, except for rising initial claims for unemployment insurance and a mixed consumer outlook on business and economic conditions," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "While the resurgence of COVID-19 and weak labor markets remain barriers to growth, The Conference Board expects the economy to expand by at least 2.0% (annual rate) in Q1 and then gain momentum throughout the year."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3% in December to 103.3 (2016 = 100), following a 0.1% increase in November and a 0.6% increase in October.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1% in December to 107.6 (2016 = 100), following a 0.1% increase in November and a 0.2% increase in October.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales rose in December, with home sales in 2020 reaching their highest level since 2006, according to the National Association of Realtors®. Activity in the major regions was mixed on a month-over-month basis, but each of the four areas recorded double-digit year-over-year growth in December.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 0.7% from November to a seasonally-adjusted annual rate of 6.76 million in December. Sales in total rose year-over-year, up 22.2% from a year ago (5.53 million in December 2019).

Single-family home sales rose at a seasonally-adjusted annual rate of 6.03 million in December, up 0.7% from 5.99 million in November, and up 22.8% from one year ago. The median existing single-family home price was $314,300 in December, up 13.5% from December 2019.

"Home sales rose in December, and for 2020 as a whole, we saw sales perform at their highest levels since 2006, despite the pandemic," said Lawrence Yun, NAR's chief economist. "What's even better is that this momentum is likely to carry into the new year, with more buyers expected to enter the market."

Yun predicts a continuation of the strong activity that's currently taking place in the housing market and in the overall economy.

"Although mortgage rates are projected to increase, they will continue to hover near record lows at around 3%," Yun said. "Moreover, expect economic conditions to improve with additional stimulus forthcoming and vaccine distribution already underway."

The median existing-home price for all housing types in December was $309,800, up 12.9% from December 2019 ($274,500), as prices increased in every region. December's national price increase marks 106 straight months of year-over-year gains.

Total housing inventory at the end of December totaled 1.07 million units, down 16.4% from November and down 23% from one year ago (1.39 million). Unsold inventory was at an all-time low 1.9-month supply at the current sales pace, down from 2.3 months in November and down from the 3.0-month figure recorded in December 2019.

Regional

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

December 2020 saw existing-home sales in the Northeast climb 4.5%, recording an annual rate of 930,000, a 27.4% increase from a year ago. The median price in the Northeast was $362,100, up 19.0% from December 2019.

Existing-home sales in the Midwest were unchanged, recording an annual rate of 1,590,000 in December, but up 26.2% from a year ago. The median price in the Midwest was $235,700, a 13.7% increase from December 2019.

Existing-home sales in the South increased 1.1% to an annual rate of 2,860,000 in December, up 20.7% from the same time one year ago. The median price in the South was $268,100, an 11.3% increase from a year ago.

Existing-home sales in the West fell 1.4% from the month prior, recording an annual rate of 1,380,000 in December, a 17.9% increase from a year ago. The median price in the West was $467,900, up 14.2% from December 2019.

New Residential Sales

Sales of new single-family houses in December 2020 were at a seasonally adjusted annual rate of 842,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 1.6% above the revised November rate of 829,000 and was 15.2% above the December 2019 estimate of 731,000.

An estimated 811,000 new homes were sold in 2020. This was 18.8% above the 2019 figure of 683,000.

For the December 2020 to 2019 comparison, sales were up 13.3% in the Midwest, 21.7% in the South and 10.4% in the West, while falling 20.5% in the Northeast.

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 December were at a seasonally adjusted annual rate of 1,669,000. This was 5.8% above the revised November estimate of 1,578,000 and was 5.2% above the December 2019 rate of 1,587,000. Single-family housing starts in December were at a rate of 1,338,000; this was 12.0% above the revised November figure of 1,195,000. An estimated 1,380,300 housing units were started in 2020. This was 7.0% above the 2019 figure of 1,290,000.

Single family starts in December 2020 were 27.8% higher than December 2019. The December comparison by region showed a 19.7% increase in the Northeast, 38.4% increase in the Midwest, 22.9% increase in the South and a 34.6% increase in the West.

Housing Completions

Privately-owned housing completions in December were at a seasonally adjusted annual rate of 1,417,000. This was 15.9% above the revised November estimate of 1,223,000 and was 8.0% above the December 2019 rate of 1,312,000. Single-family housing completions in December were at a rate of 984,000; this was 10.2% above the revised November rate.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for December 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $540.9 billion, a decrease of 0.7% from the previous month, but 2.9% above December 2019. Total sales for the 12 months of 2020 were up 0.6% from 2019. Total sales for the October 2020 through December 2020 period were up 4.0% from the same period a year ago.

Retail trade sales were down 0.3% from November 2020, but 6.3% above last year. Nonstore retailers were up 19.2% from December 2019, while food services and drinking places were down 21.2% from last year.

Sales at furniture and home furnishings stores were up in December 3.1% over December 2019. Year to date, sales at these stores were down 5.4% for the year after significant decreases in March, April and May.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4 % in December on a seasonally adjusted basis after rising 0.2% in November, 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 seasonally adjusted increase in the all items index was driven by an 8.4-percent increase in the gasoline index, which accounted for more than 60% of the overall increase. The other components of the energy index were mixed, resulting in an increase of 4.0% for the month. The food index rose in December, as both the food at home and the food away from home indexes increased 0.4%.

The index for all items less food and energy increased 0.1% in December after rising 0.2% in the previous month. The indexes for apparel, motor vehicle insurance, new vehicles, personal care, and household furnishings and operations all rose in December. The indexes for used cars and trucks, recreation, and medical care were among those to decline over the month.

The all items index rose 1.4% for the 12 months ending December, a slightly larger increase than the 1.2-percent rise reported for the period ending November. The index for all items less food and energy rose 1.6% over the last 12 months, as it did in the periods ending October and November. The food index rose 3.9% over the last 12 months, while the energy index fell 7.0%.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Employment

Total nonfarm payroll employment declined by 140,000 in December, and the unemployment rate was unchanged at 6.7%, according to the U.S. Bureau of Labor Statistics report. The decline in payroll employment reflects the recent increase in coronavirus (COVID-19) cases and efforts to contain the pandemic. In December, job losses in leisure and hospitality and in private education were partially offset by gains in professional and business services, retail trade, and construction.

In December, both the unemployment rate, at 6.7%, and the number of unemployed persons, at 10.7 million, were unchanged. Although both measures are much lower than their April highs, they are nearly twice their pre-pandemic levels in February (3.5% and 5.7 million, respectively).

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in December increased $0.4 billion or 0.2% to $245.3 billion, according to the U.S. Census Bureau. This increase, up eight consecutive months, followed a 1.2% November increase. Excluding transportation, new orders increased 0.7%. Excluding defense, new orders increased 0.5%. Machinery, also up eight consecutive months, drove the increase, $0.8 billion or 2.4%.

Shipments of manufactured durable goods in December, up seven of the last eight months, increased $3.5 billion or 1.4% to $253.8 billion. This followed a 0.4% November increase. Transportation equipment, also up seven of the last eight months, led the increase, $2.2 billion or 2.7%.

The final report for November indicated that new orders for furniture and related products were down 2.1% from November 2019 and orders were down 1.4% year to date. Shipments in this category were down 2.7% from November a year ago and down 1.8% year to date. Remember that this category is a very broad category including contract, hospitality and other related products.