FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

While we noted last month that orders were expected to slow somewhat, and they did by slowing from increases of 40% plus to a 17% increase in the November to November comparison, December's order rate trended back up again. December 2020 orders were up 27% over December 2019. Some 84% of our participants reported increased orders for the month. The increase in December brought total orders for the year to an increase of 15% over 2019. Back in April, who would have believed that we would have seen these results for the year.

With that good news, there was a little not as good news. Shipments in December were only up 5% over December 2019. The good news was that some 74% of the participants reported increased shipments. It is just that the amount of the increased shipments was not up as much as needed. The increase in December resulted in a decrease in shipments for the year of 6%. Approximately 78% of the participants reported declines in shipments for the year.

As expected with orders increasing more than shipments, backlogs grew again. Backlogs at the end of December were 168% higher than December a year ago. As we discuss in more detail in the full report as to why, these levels of backlogs are too high. In the old days, a big backlog was great, but then somebody realized that the end customers wanted it NOW, so the industry brought them down. Now customers are not happy with the wait and some are looking at other places to get product faster. This will or is leading to some cancellations.

Receivable levels remain in good shape for the most part. We think PPP loans helped with cash flow for most retailers. Inventories were still down from last year levels but did grow in December. The real problem with inventories is the ability to grow them with the scarcity of materials as well as the issues with flowing imported goods.

The number of factory and warehouse employees continues to be an issue especially with the domestic manufacturers, as all we hear is shortage of employees and that seems to be true no matter what section of the country you are in.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index® improved again in February after an increase also in January. The index now stands at 91.3 up from 88.9 last month. The Present Situation Index improved from 85.5 to 92.0 but the Expectations Index declined slightly from 91.2 to 90.8.

"After three months of consecutive declines in the Present Situation Index, consumers' assessment of current conditions improved in February," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "This course reversal suggests economic growth has not slowed further. While the Expectations Index fell marginally in February, consumers remain cautiously optimistic, on the whole, about the outlook for the coming months. Notably, vacation intentions—particularly, plans to travel outside the U.S. and via air—saw an uptick this month, and are poised to improve further as vaccination efforts expand."

Consumers saw an increase in current business conditions with a decrease in those thinking conditions are bad. Both the jobs indicators also improved.

As for Expectations, consumers were somewhat less optimistic about business conditions improving over the next six months. The same outlook was true regarding jobs with expectations for more jobs available declining but those expecting fewer jobs also declined. Expectations for incomes were also mixed with plans for increases declining, but thoughts of decreases also declined.

Housing

Existing home sales rose again in January, the second consecutive month of month over month growth. All four regions again reported double digit year-over-year growth. Month over month growth was up in the Midwest and the South while down slightly in the Northeast and West. Single family sales were up 23.0% over January 2020.

The median existing home price was up again in January and up 14.8% over January 2020 marking the 107th straight month of year over year price increases. Total housing inventory was down 1.9% from December and down 25.7% from a year ago.

New homes sales were up 19% over January 2020 but the results were mixed with sales up in the Midwest and South but down in the Northeast and West.

Housing starts were actually down 6% from December and even down 2.3% from January 2020. We suspect weather may have been some of the cause of these declines.

Other

U.S. retail and food service sales were up 5.3% from December and up 7.4% from January 2020. Retail trade sales were up 5.1% from December and 10.8% over January 2020. Sales and furniture and home furnishings stores were up 11.7% over January 2020.

The Consumer Price Index increased 0.3% in January and increased 1.4% over the last 12 months. The gasoline index accounted for almost all of the January price increase. For the last twelve months, the food index increased 3.8% and despite rising in the recent months, the energy index declined 3.6% over the last year.

Non-farm payroll employment rose by 49,000 in January after declining in December. The unemployment rate fell by 0.4% to 6.3%. The Conference Board's Leading Economic Index increased 0.5% in December following increases of 0.4% and 0.9% in each of the prior two months. Atman Ozyildirim, Senior Director of Economic Research at The Conference Board, said "While the pace of increase in the U.S. LEI has slowed since mid-2020, January's gains were broad-based and suggest economic growth should improve gradually over the first half of 2021."

EXECUTIVE SUMMARY, CONT.

Thoughts

As we noted earlier, the increase in orders was a bit higher than we expected. Most of our contacts had indicated that incoming orders were still strong, but the December orders were somewhat a surprise. It could be that our conversations have been more recent so the lower order rates may hit January/February timing.

That said, the increased orders were across a variety of companies so that was good. There is still the problem of getting those orders produced or otherwise out the door to customers. Another issue is that prices are going up whether raw materials, imported finished goods, or freight. Actually, for the most part, it is all three. This is creating problems for orders that were priced weeks ago that will now cost more to produce or otherwise get to the customer.

These have been very good times for most, but almost too good. Big backlogs used to give comfort but now those backlogs have become a problem. So with prices going up and time of delivery pushing out, it will take some working together to deal with these issues. The industry as competitive as it is, generally comes together. These times seem to be the best time to work better together. No one likes price increases but there are times that they have to go up and this seems to be one of those times. It has been tough enough on manufacturers, distributors, and dealers alike. But we need for all to be able to survive.

The economic news continues to be in a mostly good place, with hopes this will continue well into 2021. Let's hope that those expectations continue to provide for continued good business for the industry as well.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in December 2020 were up 27% over December 2019, following six months of significant double digit growth in orders. The 27% increase was even higher than November's 17% increase, which had been the first month that orders had slowed somewhat. We had heard that orders had begun to slow somewhat from the 40 plus % increases so November's lower increase was no surprise. While the 27% increase was somewhat slower, it was higher than we expected based on our conversations. Some 84% of our participants reported increased orders compared to last December.

The December increase brought the year to date increase in orders up to a 15% increase for the year. So, for the year, we had 78% of the participants reporting an increase in orders over 2019. Pretty amazing considering the declines in April and May.

Shipments and Backlogs

Shipments were up 5% over December 2019, again lagging behind new orders. Shipments were down 2% from November but that was likely due to the shutdown that many had over the holidays. Shipments continue to be a problem as imported goods are being held up by lack of containers, as well as goods to go on containers and shipping and dock issues. For domestic, it is a combination of lack of employees as well as lack of materials as some of those materials are also imported, such as fabrics, hardware, etc. Shipments were up for 74% of the participants in December.

For the year, shipments were down 6%. Shipments for the year were down for some 78% of the participants.

Backlogs grew again in December and were 168% higher than December 2019. Clearly this level of backlogs is too high. We are hearing more and more about cancellations of orders, but if there is any good news, it is that most companies are in the same boat. For that matter, it is not just furniture where there are backlogs. The same apparently is true for appliances, cabinets, and even lumber for homes.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2020		
	DEC	NOV	12 MOS
New Orders	2,907	2,952	33,018
Shipments	2,480	2,518	26,733
Backlog	6,222	5,853	

	2019		
	DEC	NOV	12 MOS
New Orders	2,290	2,523	28,712
Shipments	2,373	2,433	28,391
Backlog	2,322	2,407	

Receivables and Inventories

Receivables were down 4% from December 2019 somewhat in line with the yearly decline in shipments though a bit out of like with December shipments compared to December 2019 shipments. In our talks, it seems that customers are keeping current with not as many as normal late payments. We continue to think that the PPP money that many received has been helpful in helping customers stay current so they can flow goods.

Inventories were down 3% from last December but up 6% from November so we hope that is a good thing. Hopefully, this will allow shipments to start catching up with orders and get the backlogs down some.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees continues to be an issue, down 3% from last December the same as reported last month. It has really been difficult for domestic manufacturers to get people as so many of the unemployed folks in hospitality jobs such as hotels and travel related jobs, are not trained. It takes a lot of time to get people trained and many are not looking to start new careers, i.e. starting one.

Payrolls were up 5% from last year and up 4% from November, a combination of some increases in order to get people, as well as working some overtime to try to keep up with backlogs.

MONTHLY RESULTS – FEBRUARY 2021

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	December 2020 From November 2020	December 2020 From December 2019	12 Months 2020 vs 12 Months 2019
New Orders	-2	+27	+15
Shipments	-2	+5	-6
Backlog	+3	+168	
Payrolls	+4	+5	-11
Employees	–	-3	
Receivables	-9	-4	
Inventories	+6	-3	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2019				
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
December	+27	+5	+168	-3

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® improved again in February, after increasing in January. The Index now stands at 91.3 (1985=100), up from 88.9 in January. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—climbed from 85.5 to 92.0. However, the Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—fell marginally, from 91.2 last month to 90.8 in February.

"After three months of consecutive declines in the Present Situation Index, consumers' assessment of current conditions improved in February," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "This course reversal suggests economic growth has not slowed further. While the Expectations Index fell marginally in February, consumers remain cautiously optimistic, on the whole, about the outlook for the coming months. Notably, vacation intentions—particularly, plans to travel outside the U.S. and via air—saw an uptick this month, and are poised to improve further as vaccination efforts expand."

Consumers' assessment of current conditions improved in February. The percentage of consumers claiming business conditions are "good" increased from 15.8% to 16.5%, while the proportion claiming business conditions are "bad" fell from 42.4% to 39.9%. Consumers' assessment of the labor market also improved. The percentage of consumers saying jobs are "plentiful" increased from 20.0% to 21.9%, while those claiming jobs are "hard to get" declined from 22.5% to 21.2%.

Consumers, however, were marginally less optimistic about the short-term outlook in February. The percentage of consumers expecting business conditions will improve over the next six months fell from 34.1% to 31.0%; however, the proportion expecting business conditions will worsen also declined, from 19.0% to 17.7%. Likewise, consumers' outlook regarding the job market was somewhat mixed. The proportion expecting more jobs in the months ahead decreased from 30.4% to 26.1%; however, those anticipating fewer jobs also declined, from 22.1% to 20.6%. Regarding short-term income prospects, 15.2% of consumers expect their incomes to increase in the next six months, down slightly from 15.8% in January. Conversely, 13.2% expect their incomes to decrease, down from 15.5% last month.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.5% in January to 110.3 (2016 = 100), following a 0.4% increase in December and a 0.9% increase in November."

"While the pace of increase in the U.S. LEI has slowed since mid-2020, January's gains were broad-based and suggest economic growth should improve gradually over the first half of 2021," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "As the vaccination campaign against COVID-19 accelerates, labor markets and overall growth are likely to continue improving through the rest of this year as well. The Conference Board now expects the U.S. economy to expand by 4.4% in 2021, after a 3.5% contraction in 2020."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in January to 103.3 (2016 = 100), following a 0.1% increase in December and no change in November.

The Conference Board Lagging Economic Index® (LAG) for the U.S. decreased 0.6% in January to 106.2 (2016 = 100), following a 0.5% increase in December and no change in November.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 4.1% in the fourth quarter of 2020, according to the "second" 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, 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 (mainly transportation 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 was more than accounted for by an increase in manufacturing that was partly offset by a decrease in retail trade.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales rose in January, marking two consecutive months of growth, according to the National Association of Realtors®. From a month-over-month perspective, buying activity varied in the major regions. Year-over-year, all four areas recorded double-digit gains in January.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums, and co-ops, increased 0.6% from December to a seasonally-adjusted annual rate of 6.69 million in January. Sales in total climbed year-over-year, up 23.7% from a year ago (5.41 million in January 2020).

Single-family home sales rose at a seasonally-adjusted annual rate of 5.93 million in January, up 0.2% from 5.92 million in December, and up 23.0% from one year ago. The median existing single-family home price was $308,300 in January, up 14.8% from January 2020.

Existing condominium and co-op sales were recorded at a seasonally-adjusted annual rate of 760,000 units in January, up 4.1% from December and up 28.8% from one year ago. The median existing condo price was $269,600 in January, an increase of 8.6% from a year ago.

“Home sales continue to ascend in the first month of the year, as buyers quickly snatched up virtually every new listing coming on the market," said Lawrence Yun, NAR's chief economist. "Sales easily could have been even 20% higher if there had been more inventory and more choices."

The median existing-home price for all housing types in January was $303,900, up 14.1% from January 2020 ($266,300), as prices increased in every region. January's national price jump marks 107 straight months of year-over-year gains.

Whereas much of the economy has suffered due to COVID-19, the housing sector has been one of the few bright spots, according to Yun. In NAR's latest quarterly report, released last week, home prices in every tracked U.S. metro area increased during the fourth quarter of 2020.

"Home sales are continuing to play a part in propping up the economy," Yun said. "With additional stimulus likely to pass and several vaccines now available, the housing outlook looks solid for this year."

Yun says he expects more jobs to return, which will spur homebuying in the coming months. He predicts existing-home sales will reach at least 6.5 million in 2021, even as he says mortgage rates are likely to inch higher due to the rising budget deficit and higher inflation.

Total housing inventory at the end of January amounted to 1.04 million units, down 1.9% from December and down 25.7% from one year ago (1.40 million). Unsold inventory was at a 1.9-month supply at the current sales pace, equal to December's supply and down from the 3.1-month amount recorded in January 2020.

Properties typically remained on the market for 21 days in January, seasonally even with December and down from 43 days in January 2020. Seventy-one percent of the homes sold in January 2021 were on the market for less than a month.

First-time buyers were responsible for 33% of sales in January, up from 31% in December 2020 and from 32% in January 2020. NAR's 2020 Profile of Home Buyers and Sellers – revealed that the annual share of first-time buyers was 31%.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage was 2.74% in January, up from 2.68% in December. The average commitment rate across all of 2020 was 3.11%.

Regional

Compared to one year prior, median home prices rose at double-digit rates in each of the four major regions.

January 2021 saw existing-home sales in the Northeast fall 2.2%, recording an annual rate of 870,000, a 24.3% increase from a year ago. The median price in the Northeast was $361,400, up 15.8% from January 2020.

Existing-home sales in the Midwest inched up 1.9% to an annual rate of 1,570,000 in January, a 22.7% jump from a year ago. The median price in the Midwest was $227,800, a 14.7% increase from January 2020.

Existing-home sales in the South grew 3.2%, posting an annual rate of 2,940,000 in January, up 25.1% from the same time one year ago. The median price in the South was $263,300, a 14.6% climb from a year ago.

Existing-home sales in the West fell 4.4% from the month prior, recording an annual rate of 1,310,000 in January, a 21.3% increase from a year ago. The median price in the West was $461,800, up 16.1% from January 2020.

A DEEPER DIVE – HOUSING, CONT.

New Residential Sales

Sales of new single-family houses in January 2021 were at a seasonally adjusted annual rate of 923,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 4.3% above the revised December rate of 885,000 and was 19.3% above the January 2020 estimate of 774,000. The median sales price of new houses sold in January 2021 was $346,400. The average sales price was $408,800.

The seasonally adjusted estimate of new houses for sale at the end of January was 307,000. This represents a supply of 4.0 months at the current sales rate.

Sales by region were mixed compared to January 2020. Sales in the Midwest were up 10.3% and up 40.4% in the South. Sales were down 8.8% in the Northeast and 6.3% in the West compared to January 2020.

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 January were at a seasonally adjusted annual rate of 1,580,000. This was 6.0% below the revised December estimate of 1,680,000 and was 2.3% below the January 2020 rate of 1,617,000. Single-family housing starts in January were at a rate of 1,162,000; this was 12.2% below the revised December figure of 1,323,000 but 17.5% above January 2020. Compared to January 2020, single family housing starts in January 2021 were up 24.6% in the Northeast, 18.0% in the Midwest, 24.2% in the South and 2.6% in the West.

Housing Completions

Privately-owned housing completions in January were at a seasonally adjusted annual rate of 1,336,000. This was 2.3% below the revised December estimate of 1,368,000 but was 2.4% above the January 2020 rate of 1,305,000. Single-family housing completions in January were at a rate of 1,036,000; this was 10.0% above the revised December rate of 942,000 and 14.3% above January 2020. Single family completions compared to January 2020 were up 19.0% in the Midwest and 27.2% in the South but down 16.7% in the Northeast and 3.4% in the West.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for January 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $568.2 billion, an increase of 5.3% from the previous month, and 7.4% above January 2020. Total sales for the November 2020 through January 2021 period were up 4.6% from the same period a year ago.

Retail trade sales were up 5.1% from December 2020, and 10.8% above last year. Nonstore retailers were up 28.7% from January 2020, while sporting goods, hobby, musical instrument, and bookstores were up 22.5% from last year.

On an adjusted basis, sales at furniture and home furnishings stores in January were up 11.7% over January 2020. Year to date, sales at these stores on an unadjusted basis were up 9.3% after the dismal set up for all of last year caused by the shut down by the pandemic.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in January on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.4% before seasonal adjustment.

The gasoline index continued to increase, rising 7.4% in January and accounting for most of the seasonally adjusted increase in the all items index. Although the indexes for electricity and natural gas declined, the energy index rose 3.5% over the month. The food index rose slightly in January, increasing 0.1% as an advance in the index for food away from home more than offset a decline in the index for food at home.

The index for all items less food and energy was unchanged in January. The indexes for apparel, medical care, shelter, and motor vehicle insurance all increased over the month. The indexes for recreation, used cars and trucks, airline fares, and new vehicles all declined in January. The all-items index rose 1.4% for the 12 months ending January, the same increase as for the period ending in December. The index for all items less food and energy also rose 1.4% over the last 12 months, a smaller increase than the 1.6-percent rise for the 12 months ending December. The food index rose 3.8% over the last 12 months. In contrast to these increases, and despite rising in recent months, the energy index declined 3.6% over the last year.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Employment

The unemployment rate fell by 0.4 percentage point to 6.3% in January, while nonfarm payroll employment changed little (+49,000), according to the U.S. Bureau of Labor Statistics report. The labor market continued to reflect the impact of the coronavirus (COVID-19) pandemic and efforts to contain it. In January, notable job gains in professional and business services and in both public and private education were offset by losses in leisure and hospitality, in retail trade, in health care, and in transportation and warehousing.

In January, the unemployment rate fell by 0.4 percentage point to 6.3%, and the number of unemployed persons decreased to 10.1 million. Although both measures are much lower than their April 2020 highs, they remain well above their pre-pandemic levels in February 2020 (3.5% and 5.7 million, respectively).

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in January increased $8.5 billion or 3.4% to $256.6 billion, according to the report from the U.S. Census Bureau. This increase, up nine consecutive months, followed a 1.2% December increase. Excluding transportation, new orders increased 1.4%. Excluding defense, new orders increased 2.3%. Transportation, up eight of the last nine months, led the increase, $6.1 billion or 7.8% to $85.1 billion.

Shipments of manufactured durable goods in January, up eight of the last nine months, increased $5.1 billion or 2.0% to $260.6 billion. This followed a 2.1% December increase. Machinery, also up eight of the last nine months, led the increase, $1.1 billion or 3.6%.

According to the final report for 2020, new orders for furniture and related products were down 2.0% in December and down 1.4% for the year, while shipments were up 1.1% in December versus December 2019 but down 1.5% for the year.