FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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Ken Smith, CPA

HIGHLIGHTS – EXECUTIVE SUMMARY

According to our latest survey of residential furniture manufacturers and distributors, new orders in January 2021 continued the rapid increases compared to the previous year. New orders were up 27% compared to January a year ago, the same percent increase as last month. This marked the 8th straight month that orders were higher than the previous year. While not normally any big deal, these increases have all been in the higher double digits. Of course, starting in a couple of months, we will go through even greater comparisons when we compare March and especially April and likely May.

Shipments were only up 7% as shipments are continually hampered by shortages of supplies, primarily foam, and people for upholstery companies and various shipping and freight issues for case goods folks, as well as people and other supply issues for many of the domestic manufacturers. Some 77% of the participants reported increased orders for the month and some are experiencing very large double digit growth.

Once again orders exceeded shipments, so backlogs increased again. We have discussed these issues before, but these levels of backlogs are really hard to deal with. Customers do not want to wait this long especially once they got excited about placing an order. Pricing continues to be an issue as well, as costs are going up before goods can be delivered or even made in some cases.

The good news is that receivable levels seem to be in line. We continue to think that the PPP loan forgiveness program has allowed people the funds to make it through the tough times, then as orders have picked up, the dealers have been able to keep up their payments.

Inventories remain too low but that issue has been hard to change with the needs for raw materials and all the freight and import issues we have discussed before.

The lack of factory and warehouse workers remains an issue. Some blame lack of trained employees and some blame some of the government funds being passed out which doesn't incentivize some to want to work.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index® surged in March to its highest reading in a year, after a modest increase in February. The Index now stands at 109.7 (1985=100), up from 90.4 in February. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—climbed from 89.6 to 110.0. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—also improved, from 90.9 last month to 109.6 in March.

"Consumer Confidence increased to its highest level since the onset of the pandemic in March 2020," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. He noted that the improvement in current conditions and the short term outlook indicated that economic growth is likely to strengthen further in the coming months. Consumers outlook for business conditions improved significantly. The short term outlook also improved significantly with expectations for the job market improving. The outlook for incomes did not show as much confidence but was slightly improved.

Housing

Existing-home sales declined in February, following two prior months of gains. Single-family home sales decreased to a seasonally-adjusted annual rate of 5.52 million in February, down 6.6% from 5.91 million in January, and up 8.0% from one year ago. The median existing single-family home price was $317,100 in February, up 16.2% from February 2020. Sales in all four regions compared to February a year ago were up strong double digits in each of the regions.

"I still expect this year's sales to be ahead of last year's, and with more COVID-19 vaccinations being distributed and available to larger shares of the population, the nation is on the cusp of returning to a sense of normalcy," Lawrence Yun, NAR's chief economist said. "Many Americans have been saving money and there's a strong possibility that once the country fully reopens, those reserves will be unleashed on the economy."

Sales of new single-family houses in February 2021 were at a seasonally adjusted annual rate of 775,000. This was 18.2% below the revised January rate of 948,000, but was 8.2% above the February 2020 estimate. Sales compared to last year were up in the Midwest and South but declined in the Northeast and West.

Regionally, single family housing starts were up 19.4% in the Northeast and 38.4% in the West but were down 19.7% in the Midwest and 11.0% in the South.

Other

Retail and food services in February sales showed a decrease of 3.0% from the previous month but were 6.3% above February 2020. Retail trade sales were up 9.5% above last year. Nonstore retailers were up 25.9% from February 2020.

Sales at furniture and home furnishings stores, on an adjusted basis, were up 8.9% over February 2020. Year to date, sales at these stores were up 7.7%.

Consumer Prices Index increased 0.4% in February on a seasonally adjusted basis after rising 0.3% in January. The gasoline index continued to increase, rising 6.4% in February and accounting for over half of the seasonally adjusted increase in the all items index. The food index rose 0.2% in February, with the index for food at home and the index for food away from home both rising.

Total nonfarm payroll employment rose by 379,000 in February, and the unemployment rate was little changed at 6.2%.

The Conference Board Leading Economic Index (LEI) for the U.S. increased 0.2% in February to 110.5, following a 0.5% increase in January and a 0.4% increase in December. The report indicated that the economic growth should continue well into this year.

EXECUTIVE SUMMARY, CONT.

Thoughts

Our repeated conversations with industry contacts keep yielding the same issues and challenges: The need for people, raw materials, and imported finished goods. Shortages of integral materials to make foam, some lumber issues due to the increase in housing and upfits to homes, and other materials continue to have a negative impact. Glue for case goods is even in short supply. If those hurdles can be cleared and goods can actually be made either domestically or overseas, getting the goods delivered has been a big issue.

Price increases have really impacted business due to the considerable backlogs many are facing. In most cases, orders are placed based on current price lists, but by the time the goods can be made and shipped, the prices have gone up. It is hard for the manufacturers to absorb those increases, yet it is hard for the retailer to do the same and they certainly have issues with going back to customers trying to raise prices after the goods were ordered.

Most people we talk with say they can never remember business being this good, yet most admit they would have never imagined the challenges that have emerged in the midst of such positive growth.

We do expect business to slow a bit over the next few months. As travel and vacations start to resume, we imagine some of the purchasing power will dry up. We think it will still be positive but just not as robust. Hopefully, this will allow folks to take a breath and catch up somewhat. In the meantime, enjoy the good business as best you can.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

New orders rose again in January 2021 according to our latest survey of residential furniture manufacturers and distributors. January 2021 orders were up 27% over January 2020 following a 27% increase reported in December 2020 compared to December 2019. January results were the 8th month in a row of participants reporting higher orders than the previous year period, all of which have been high double digit growth percentages. New orders in January were up for some 77% of the participants, slightly lower than reporting last month. The January 2021 increase compared to a 2% increase when comparing January 2020 to January 2019. New orders in January 2021 were actually down 2% from December 2020.

Shipments and Backlogs

Shipments in January were 7% higher than January 2020 shipments, but were down 5% from December 2020. Shipments were up in January for some 65% of the participants compared to January 2020.

With orders exceeding shipments again in January, backlogs continued to grow. Backlogs in January were 2% higher than December 2020 and up 177% from January 2020. Backlogs continue to grow due to lack of ability to get raw material (mostly foam) for upholstery suppliers and issues with imported goods not flowing like they normally would be due to all sorts of issues.

Receivables and Inventories

Receivable levels continue to appear to be in line with a 3% increase in January vs January 2020 vs the 7% increase in shipments from last year. In our talks, we think the PPP government loans have helped dealers and customers to keep their bills fairly current.

Inventories were up 7% from December and were 4% higher than a year ago. Inventories continue to be too low but lack of ability to get goods is keeping inventories down.

Factory and Warehouse Employees and Payroll

Interestingly, the number of factory and warehouse employees was down versus January a year ago – down 3% but they were up 1% from December 2020. It continues to be a problem to find workers, especially trained ones. And even when you can find workers, training them is very costly and time consuming.

Payrolls were flat compared to last year but down 1% from December. These results continue to reflect the lack of ability to get employees in many cases.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2021	2020
	JAN	DEC
New Orders	2,902	2,907
Shipments	2,408	2,480
Backlog	6,469	6,222

	2020	2019
	JAN	DEC
New Orders	2,285	2,290
Shipments	2,251	2,373
Backlog (R)	2,332	2,322

MONTHLY RESULTS – MARCH 2021

KEY MONTHLY INDICATORS (PERCENT CHANGE)	Jan 2021 From Dec 2020	Jan 2021 From Jan 2020
New Orders	-2	+27
Shipments	-5	+7
Backlog	+2	+177
Payrolls	-1	–
Employees	+1	-3
Receivables	+5	+3
Inventories	+7	+4

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
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
2021				
January	+27	+7	+177	-3

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® surged in March to its highest reading in a year, after a modest increase in February. The Index now stands at 109.7 (1985=100), up from 90.4 in February. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—climbed from 89.6 to 110.0. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—also improved, from 90.9 last month to 109.6 in March.

"Consumer Confidence increased to its highest level since the onset of the pandemic in March 2020," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions and their short-term outlook improved significantly, an indication that economic growth is likely to strengthen further in the coming months. Consumers' renewed optimism boosted their purchasing intentions for homes, autos and several big-ticket items. However, concerns of inflation in the short-term rose, most likely due to rising prices at the pump, and may temper spending intentions in the months ahead."

Consumers' assessment of current conditions improved significantly in March. The percentage of consumers claiming business conditions are "good" increased from 16.1% to 18.5%, while the proportion claiming business conditions are "bad" fell from 39.7% to 30.5%. Consumers' assessment of the labor market also improved. The percentage of consumers saying jobs are "plentiful" increased from 21.6% to 26.3%, while those claiming jobs are "hard to get" declined from 22.4% to 18.5%.

Consumers' optimism about the short-term outlook improved considerably. The percentage of consumers expecting business conditions will improve over the next six months rose from 30.7% to 40.8%, while the proportion expecting business conditions will worsen declined from 17.7% to 11.0%. Consumers' outlook regarding the job market was also more favorable. The proportion expecting more jobs in the months ahead increased from 27.4% to 36.1%, while those anticipating fewer jobs declined from 21.3% to 13.4%. Regarding short-term income prospects, 15.5% of consumers expect their incomes to increase in the next six months, up modestly from 14.8% in February. However, 13.3% expect their incomes to decrease, up slightly from 12.9% last month.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 4.3% in the fourth quarter of 2020, according to the "third" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 33.4% following the decline during the second quarter due to the Pandemic.

The "third" estimate of GDP was based on more complete source data than were available for the "second" estimate issued last month. In the second estimate, the increase in real GDP was 4.1%. The upward revision primarily reflected an upward revision to private inventory investment that was partly offset by a downward revision to nonresidential fixed investment.

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 as well as federal government spending (reflecting fewer fees paid to administer the Paycheck Protection Program loans). Imports, which are a subtraction in the calculation of GDP, increased.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2% in February to 110.5 (2016 = 100), following a 0.5% increase in January and a 0.4% increase in December.

"The U.S. LEI continued rising in February, suggesting economic growth should continue well into this year," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Indeed, the acceleration of the vaccination campaign and a new round of large fiscal supports are not yet fully reflected in the LEI. With those developments, The Conference Board now expects the pace of growth to improve even further this year, with the U.S. economy expanding by 5.5% in 2021." "Despite widespread improvements among the leading indicators, some measures—including weekly hours in manufacturing, permits for residential housing, and consumers' outlook for business and economic conditions—showed signs of weakness. Bad weather and assorted supply-chain disruptions may have impacted these particular leading indicators in February, and the effects may prove transitory."

The Conference Board Coincident Economic Index® (CEI) for the U.S. decreased 0.1% in February to 103.0 (2016 = 100), following a 0.2% increase in January and a 0.1% decrease in December.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2% in February to 104.5 (2016 = 100), following a 2.3% decrease in January and 0.4% increase in December.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales declined in February, following two prior months of gains, according to the National Association of Realtors®. Month-over-month, only one major region saw an increase in February, but all four U.S. regions recorded year-over-year gains.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 6.6% from January to a seasonally-adjusted annual rate of 6.22 million in February. Sales in total climbed year-over-year, up 9.1% from a year ago (5.70 million in February 2020).

Single-family home sales decreased to a seasonally-adjusted annual rate of 5.52 million in February, down 6.6% from 5.91 million in January, and up 8.0% from one year ago. The median existing single-family home price was $317,100 in February, up 16.2% from February 2020.

Existing condominium and co-op sales were recorded at a seasonally-adjusted annual rate of 700,000 units in February, down 6.7% from January and up 18.6% from one year ago. The median existing condo price was $280,500 in February, an increase of 12.3% from a year ago.

Despite the drop in home sales for February – which I would attribute to historically-low inventory – the market is still outperforming pre-pandemic levels," said Lawrence Yun, NAR’s chief economist. He cautioned of a possible slowdown in growth in the coming months as higher prices and rising mortgage rates will cut into home affordability.

"I still expect this year’s sales to be ahead of last year's, and with more COVID-19 vaccinations being distributed and available to larger shares of the population, the nation is on the cusp of returning to a sense of normalcy," Yun said. "Many Americans have been saving money and there's a strong possibility that once the country fully reopens, those reserves will be unleashed on the economy."

The median existing-home price for all housing types in February was $313,000, up 15.8% from February 2020 ($270,400), as prices rose in every region. February's national price jump marks 108 straight months of year-over-year gains. NAR's 2021 Home Buyers and Sellers Generational Trends Report, released last week, highlights some of the effects of these price leaps, including buyers’ struggles with saving enough money for a down payment.

"Home affordability is weakening," Yun said. "Various stimulus packages are expected, and they will indeed help, but an increase in inventory is the best way to address surging home costs.”

Total housing inventory at the end of February amounted to 1.03 million units, equal to January’s inventory and down 29.5% from one year ago (1.46 million). Unsold inventory was at a 2.0-month supply at the current sales pace, slightly up from January’s 1.9-month supply and down from the 3.1-month amount recorded in February 2020.

Properties typically remained on the market for 20 days in February, down from both 21 days in January and from 36 days in February 2020. Seventy-four percent of the homes sold in February 2021 were on the market for less than a month.

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

Regional

Compared to one year ago, median home prices increased in each of the four major regions.

February 2021 existing-home sales in the Northeast fell 11.5% from January, recording an annual rate of 770,000, a 13.2% increase from a year ago. The median price in the Northeast was $356,000, up 20.5% from February 2020.

Existing-home sales in the Midwest dropped 14.4% to an annual rate of 1,310,000 in February, a 2.3% rise from a year ago. The median price in the Midwest was $231,800, a 14.2% climb from February 2020.

Existing-home sales in the South decreased 6.1%, to an annual rate of 2,770,000 in February, up 9.9% from the same time one year ago. The median price in the South was $271,200, a 13.6% increase from a year ago.

Existing-home sales in the West rose 4.6% from the month prior, recording an annual rate of 1,370,000 in February, a 12.3% jump from a year ago. The median price in the West was $493,300, up 20.6% from February 2020.

A DEEPER DIVE – HOUSING, CONT.

New Residential Sales

Sales of new single-family houses in February 2021 were at a seasonally adjusted annual rate of 775,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 18.2% below the revised January rate of 948,000 but was 8.2% above the February 2020 estimate of 716,000.

The median sales price of new houses sold in February 2021 was $349,400. The average sales price was $416,000. The seasonally adjusted estimate of new houses for sale at the end of February was 312,000. This represents a supply of 4.8 months at the current sales rate.

Comparing February 2021 with February 2020, sales were down 11.6% in the Northeast and 8.1% in the West, while sales increased 4.9% in the Midwest and 20.2% in the South.

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 February were at a seasonally adjusted annual rate of 1,421,000 or 10.3% below the revised January estimate of 1,584,000 and was 9.3% below the February 2020 rate of 1,567,000. Single-family housing starts in February were at a rate of 1,040,000; this was 8.5% below the revised January figure of 1,136,000 but 0.6% above February 2020.

Regionally single family housing starts were up 19.4% in the Northeast, and 38.4% in the West but were down 19.7% in the Midwest and 11.0% in the South.

Housing Completions

Privately-owned housing completions in February were at a seasonally adjusted annual rate of 1,362,000. This was 2.9% above the revised January estimate of 1,324,000 and was 5.0% above the February 2020 rate of 1,297,000. Single-family housing completions in February were at a rate of 1,042,000; this was 2.8% above the revised January rate of 1,014,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for February 2021 adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $561.7 billion, a decrease of 3.0% from the previous month, and 6.3% above February 2020. Total sales for the December 2020 through February 2021 period were up 6.0% from the same period a year ago.

Retail trade sales were down 3.1% from January 2021, and up 9.5% above last year. Nonstore retailers were up 25.9% from February 2020, while food services and drinking places were down 17.0% from last year.

Sales at furniture and home furnishings stores, on an adjusted basis, were up 8.9% over February 2020. Year to date, sales at these stores were up 7.7%.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4% in February on a seasonally adjusted basis after rising 0.3% in January, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.7% before seasonal adjustment.

The gasoline index continued to increase, rising 6.4% in February and accounting for over half of the seasonally adjusted increase in the all items index. The electricity and natural gas indexes also increased, and the energy index rose 3.9% over the month. The food index rose 0.2% in February, with the index for food at home and the index for food away from home both rising.

The index for all items less food and energy rose 0.1% in February. The indexes for shelter, recreation, medical care, and motor vehicle insurance all increased over the month. The indexes for airline fares, used cars and trucks, and apparel all declined in February.

The all items index rose 1.7% for the 12 months ending February, a larger increase than the 1.4-percent reported for the period ending January. The index for all items less food and energy rose 1.3% over the last 12 months, a smaller increase than the 1.4-percent rise for the 12 months ending January. The food index rose 3.6% over the last 12 months, while the energy index increased 2.4% over that period.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Employment

Total nonfarm payroll employment rose by 379,000 in February, and the unemployment rate was little changed at 6.2%, according to the U.S. Bureau of Labor Statistics report. The labor market continued to reflect the impact of the coronavirus (COVID-19) pandemic.

In February, most of the job gains occurred in leisure and hospitality, with smaller gains in temporary help services, health care and social assistance, retail trade, and manufacturing. Employment declined in state and local government education, construction, and mining.

Both the unemployment rate, at 6.2%, and the number of unemployed persons, at 10.0 million, changed little in February. 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 February decreased $2.9 billion or 1.1% according to the U.S. Census Bureau. This decrease, down following nine consecutive monthly increases, followed a 3.5% January increase. Excluding transportation, new orders decreased 0.9%. Excluding defense, new orders decreased 0.7%. Transportation, down following five consecutive monthly increases, led the decrease, $1.3 billion or 1.6%.

Shipments of manufactured durable goods in February, down following five consecutive monthly increases, decreased $9.1 billion or 3.5%. This followed a 1.7% January increase. Transportation equipment, also down following five consecutive monthly increases, led the decrease, $7.0 billion or 8.2%.

In the final report, orders for furniture and related products were down from January a year ago, by 3.1%. Shipments were down 4.9% comparing the same periods.