FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

According to our latest survey of residential manufacturers and distributors, the new orders continued to flow in at very strong rates. New orders in February were up 34% over February 2020, marking the 9th straight month of large double-digit percentage increases. New orders were up for 94% of the participants so it appears that most companies are enjoying the good written business. The February results will likely be the last of the real comparisons as in March we will compare to the beginning of the COVID shutdown period. It will likely be June or later before we start seeing meaningful comparisons and even then, the surge in orders that we have seen since June, will probably make even more difficult comparisons.

There was some good news finally with shipments in that they were up 18% over February 2020 and were now up 13% year to date. Finally, we will start to see all these new orders start to convert to real dollars. Shipments were up for 81% of the participants in February.

Once again though, new orders exceeded shipments, so backlogs grew again, up 5% over January and a whopping 184% over February 2020. Who would have thought that we would ever complain that backlogs could be too high, but in many cases, there is fear that orders may start being cancelled, if not already. The one thing that is probably helping with customer patience is that the same thing is happening with many other products such as appliances, glass and other household products.

Receivable levels continue to be in good shape for the most part and we are seeing that with clients when we complete the audits. Inventory levels are building as they should with orders up, so the 15% increase over last year levels is really not a concern.

The number of factory and warehouse employees remains too low for the need, but getting workers has become a major issue for so many. There are still too many people that see no need to work when they can get as much or almost as much from government programs and not have to work. This issue is hitting so many industries.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index® rose sharply again in April, following a substantial gain in March. The Index now stands at 121.7 (1985=100), up from 109.0 in March. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—soared from 110.1 to 139.6. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—rose moderately, from 108.3 last month to 109.8 in April.

The report indicated that the economic recovery has continued into the second quarter. The index in April was at the highest level since February 2020, back when we had no idea what was coming in March. The University of Michigan report was also very favorable. See the full report in the Deeper Dive Section.

Housing

Existing-home sales in March fell 3.7% from sales in February as sales in all regions declined. Sales were up 12.3% from March 2020. The median existing home sales price rose by a record breaking annual pace of 17.2% to $329,100. All four regions of the country posted double-digit growth from last year. As of the end of March, housing inventory rose slightly from February but was down 28.2% from March 2020. Properties typically sold in 18 days, a record low.

"Consumers are facing much higher home prices, rising mortgage rates, and falling affordability, however, buyers are still actively in the market," said Lawrence Yun, NAR's chief economist. He noted "The sales for March would have been measurably higher, had there been more inventory. Days-on-market are swift, multiple offers are prevalent, and buyer confidence is rising."

Sales of new single-family houses in March 2021 were at a seasonally adjusted annual rate of 1,021,000. This was 20.7% above the revised February rate of 846,000 and was 66.8% above the March 2020 estimate. New home sales were up from March 2020 by 108.7% in the Northeast, 78.4% in the Midwest, 90.1% in the South but down 2% in the West.

Housing starts were up 19.4% above the February estimate and 37.0% above March 2020. Single family starts were up 40.7% over March 2020 with single family starts up 55.2% in the Northeast, 98.3% in the Midwest, 38.6% in the South and 13.5% in the West.

Other

Retail and food services sales for March 2021 were up 9.8% from February and 27.7% from March 2020, the start of the pandemic. Retail trade sales were up 9.4% and up 26.9% from March 2021. Food services and drinking places were up 36.0% from last year.

Sales at furniture and home furnishings stores were up 46.8% from March 2020 and up 20.4% year to date. Obviously, March 2020 marked the start of the COVID-19 epidemic.

The consumer price index increased 0.6% in March after a 0.4% increase in February. The March 1-month increase was the largest rise since a 0.6% increase in August 2012. The gasoline index was up 9.1% and accounted for about one-half of the overall increase. One might think that the furniture industry cost increases would have accounted for the other half, but that was not mentioned in the report, at least not specifically.

Total nonfarm payroll employment rose by 916,000 in March, and the unemployment rate edged down to 6.0%. Job growth was widespread in March, led by gains in leisure and hospitality, public and private education, and construction.

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 1.3% in March to 111.6 (2016 = 100), following a 0.1% decrease in February and a 0.5% increase in January. The improvement in the U.S. LEI, with all ten components contributing positively, suggests economic momentum is increasing in the near term, according to the report.

EXECUTIVE SUMMARY, CONT.

Thoughts

We have had several conversations with industry executives that almost always end up with frustrations of how good business is in terms of orders coming and yet how difficult it is to either not be able to get foam or workers, or deal with significant price increases when prices were quoted before the material cost increases came into effect. Or orders are great but cannot get product out of Asia. Or the cost of containers, if you can get them, have quadrupled or more.

It seems that no one would have thought that, for once, business in the furniture industry could be this good with consumer demand this high, yet so many problems have developed to make it hard to appreciate how good business is.

It will be interesting to see how business develops over the summer as restrictions are released and consumers are free to travel and move about more. Will the focus on the home change, or will we see this focus remain for the next year or two or more?

As we finish this edition, all we hear from premarket is that business is brisk with attitudes very good. There appear to be lots of people here in High Point with lots of excitement over product.

Stay safe and get vaccinated if that is your choice. Hopefully, we can all get a little bit closer to normal (whatever that may be) every day that goes by.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, February 2021 new orders were 34% higher than February 2020 orders continuing the string of strong double-digit growth in new orders, now up 9 months in a row. January's new orders were up 27%. New orders were up for 94% of the participants.

For the first two months of the year, new orders were up 31% over the same two months of 2020. Year to date, new orders were up for 88% of the participants. We are not sure what we will see for the next two months as March 2020 was when we first saw the drop off of business due to the onset of the pandemic. So, the next few months will likely show some drastic variations, which will take a while for the numbers to get sorted out.

Shipments and Backlogs

Shipments in February 2021 were up 18% compared to February 2020, as shipments finally started showing some gains from the major increases in orders. Shipments were up for some 81% of the participants in February.

For the two months ended February, shipments were now up 13% over last year. Shipments year to date were up for 66% of the participants. So finally, there will be cash coming in for March and April instead of just paper orders.

Backlogs increased again, moving up 5% from January and reaching an increase of 184% over last year. The backlog levels continue to create problems at retail as customers are not happy having to wait on product. Part of the backlog issue has been created in both upholstery and case goods. The lack of availability of foam for upholstery has been the primary cause as well as the lack of labor supply. Case goods have been affected by factory issues in Asia as well as all sorts of issues with the flow of goods on the water.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2021		
	FEB	JAN	2 MOS
New Orders	3,062	2,902	5,964
Shipments	2,627	2,408	5,035
Backlog	6,788	6,469	

	2020		
	FEB	JAN	2 MOS
New Orders	2,278	2,285	4,563
Shipments	2,219	2,251	4,470
Backlog	2,390	2,332	

Receivables and Inventories

As would be expected with the increase in shipments, receivable levels increased from February of last year. Receivables were up 9% over last year and up 1% from January. February shipments were up 2% from January and up 18% over February 2020 so it appears that receivables are in good shape.

Inventories increased 4% from January and were up 15% from last year. This increase is certainly in line with the increase in orders and would probably be even higher if the flow of goods were better and more employees could be found for the manufacturers.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was down 2% from February 2020 but up 1% from January. The number of employees was down 3% in January from January 2020.

Factory and warehouse payrolls were up 3% from last February and up 2% year to date. Much of that increase was due to some pay increases as well as some extra hours.

MONTHLY RESULTS – APRIL 2021

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	February 2021 From January 2020	February 2021 From February 2020	2 Months 2021 vs 2 Months 2020
New Orders	-6	+34	+31
Shipments	+2	+18	+13
Backlog	+5	+184	
Payrolls	-2	+3	+2
Employees	+1	-2	
Receivables	+1	+9	
Inventories	+4	+15	

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
December	+27	+5	+168	-3
2021				
January	+27	+7	+177	-3
February	+34	+18	+184	-2

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® rose sharply again in April, following a substantial gain in March. The Index now stands at 121.7 (1985=100), up from 109.0 in March. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—soared from 110.1 to 139.6. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—rose moderately, from 108.3 last month to 109.8 in April.

"Consumer confidence has rebounded sharply over the last two months and is now at its highest level since February 2020," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions improved significantly in April, suggesting the economic recovery strengthened further in early Q2. Consumers' optimism about the short-term outlook held steady this month. Consumers were more upbeat about their income prospects, perhaps due to the improving job market and the recent round of stimulus checks. Short-term inflation expectations held steady in April but remain elevated. Vacation intentions posted a healthy increase, likely boosted by the accelerating vaccine rollout and further loosening of pandemic restrictions."

Consumers' appraisal of current conditions improved significantly in April. The percentage of consumers claiming business conditions are "good" increased from 18.3% to 23.3%, while the proportion claiming business conditions are "bad" fell from 30.1% to 24.8%. Consumers' assessment of the labor market also improved. The percentage of consumers saying jobs are "plentiful" increased from 26.5% to 37.9%, while those claiming jobs are "hard to get" declined from 18.5% to 13.2%.

Consumers' optimism about the short-term outlook improved moderately. The percentage of consumers expecting business conditions to improve over the next six months rose marginally, from 40.3% to 40.5%, while the proportion expecting business conditions to worsen stood relatively unchanged at 11.9%. Consumers' outlook regarding the job market was slightly less upbeat. The proportion expecting more jobs in the months ahead fell from 35.9% to 34.5%, while those anticipating fewer jobs rose from 14.4% to 15.5%. Regarding short-term income prospects, 17.9% of consumers expect their incomes to increase in the next six months, up from 15.4% in March. Those expecting their incomes to decrease fell to 10.9%, down from 12.6%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 1.3% in March to 111.6 (2016 = 100), following a 0.1% decrease in February and a 0.5% increase in January."

"The U.S. LEI rose sharply in March, which more than offset February's slightly negative revised figure," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The improvement in the U.S. LEI, with all ten components contributing positively, suggests economic momentum is increasing in the near term. The widespread gains among the leading indicators are supported by an accelerating vaccination campaign, gradual lifting of mobility restrictions, as well as current and expected fiscal stimulus. The recent trend in the U.S. LEI is consistent with the economy picking up in the coming months, and The Conference Board now projects year-over-year growth could reach 6.0% in 2021."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.6% in March to 104.0 (2016 = 100), following a 0.1% decrease in February and a 0.5% increase in January.

The Conference Board Lagging Economic Index® (LAG) for the U.S. decreased 0.5% in March to 105.1 (2016 = 100), following a 1.6% increase in February and 2.7% decrease in January.

University of Michigan Surveys of Consumers

Surveys of Consumers chief economist, Richard Curtin said, "Consumers in early April reported surging economic growth and strong job gains due to record stimulus spending, low interest rates, and the positive impact of vaccinations. The Sentiment Index rose to its best level in a year on the strength of recent gains in current economic conditions, while future economic prospects remained unchanged from March. This is opposite of the usual pattern over the past fifty years, when recoveries were paced by larger and earlier gains in expectations. The strength in current economic conditions reflects much larger than usual stimulus payments during the past year, and much larger than usual economic gains due to comparisons with last year's shutdowns. Other factors suppressed the pace of expected gains, including persistent concerns with vaccine safety as well as a surge in year-ahead inflation expectations to 3.7%, the highest level in nearly a decade. Fortunately, this surge in inflation expectations was still well anchored by much lower inflation expectations over the next five years (2.7%).

Perhaps more importantly, half of all consumers expected declines in unemployment, the highest level ever recorded. When asked to explain their buying plans, references to high prices have receded and have been offset by greater confidence in their future job and income prospects. Following the pandemic reversal in trends, in the April survey references to net prices and net income prospects were exactly equal as they had been toward the end of the longest expansion that ended at the start of 2020. Overall, the data support an ongoing surge in consumer spending, but given persistent uncertainty about the course of COVID-19 and inflation, cautious drawdowns of savings can be anticipated. This shift has increased the reliance of the recovery in consumer spending on actual gains in job and incomes."

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 6.4% in the first quarter of 2021, according to the "advance" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2020, real GDP increased 4.3%.

The increase in real GDP in the first quarter reflected increases in personal consumption expenditures (PCE), nonresidential fixed investment, federal government spending, residential fixed investment, and state and local government spending that were partly offset by decreases in private inventory investment and exports. Imports, which are a subtraction in the calculation of GDP, increased.

The increase in PCE reflected increases in durable goods (led by motor vehicles and parts), nondurable goods (led by food and beverages) and services (led by food services and accommodations). The increase in nonresidential fixed investment reflected increases in equipment (led by information processing equipment) and intellectual property products (led by software). The increase in federal government spending primarily reflected an increase in payments made to banks for processing and administering the Paycheck Protection Program loan applications as well as purchases of COVID-19 vaccines for distribution to the public. The decrease in private inventory investment primarily reflected a decrease in retail trade inventories.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales fell in March, marking two consecutive months of declines, according to the National Association of Realtors®. The month of March saw record-high home prices and gains. While each of the four major U.S. regions experienced month-over-month drops, all four areas reported year-over-year gains in home sales.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 3.7% from February to a seasonally-adjusted annual rate of 6.01 million in March. Sales overall rose year-over-year, up 12.3% from a year ago (5.35 million in March 2020).

Single-family home sales decreased to a seasonally-adjusted annual rate of 5.30 million in March, down 4.3% from 5.54 million in February, and up 10.4% from one year ago. The median existing single-family home price was $334,500 in March, up 18.4% from March 2020.

Existing condominium and co-op sales were recorded at a seasonally-adjusted annual rate of 710,000 units in March, up 1.4% from February and up 29.1% from one year ago. The median existing condo price was $289,000 in March, an increase of 9.6% from a year ago.

"Consumers are facing much higher home prices, rising mortgage rates, and falling affordability, however, buyers are still actively in the market," said Lawrence Yun, NAR's chief economist. "The sales for March would have been measurably higher, had there been more inventory," he added. "Days-on-market are swift, multiple offers are prevalent, and buyer confidence is rising." Yun said although mortgage rates have risen a tick, they are still at a favorable level and the economic outlook is promising. "At least half of the adult population has received a COVID-19 vaccination, according to reports, and recent housing starts and job creation data show encouraging dynamics of more supply and strong demand in the housing sector."

The median existing-home price for all housing types in March was $329,100, up 17.2% from March 2020 ($280,700), as prices increased in every region. March's national price jump marks 109 straight months of year-over-year gains. Realtor.com®'s Market Hotness Index, measuring time-on-the-market data and listing views per property, revealed that the hottest metro areas in March were Manchester, N.H.; Concord, N.H.; Vallejo, Calif.; Burlington, N.C.; and Springfield, Ohio. According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage was 3.08% in March, up from 2.81% in February. The average commitment rate across all of 2020 was 3.11%.

Total housing inventory at the end of March amounted to 1.07 million units, up 3.9% from February's inventory and down 28.2% from one year ago (1.49 million). Unsold inventory sits at a 2.1-month supply at the current sales pace, marginally up from February's 2.0-month supply and down from the 3.3-month supply recorded in March 2020.

Properties typically remained on the market for 18 days in March, down from 20 days in February and from 29 days in March 2020. Eighty-three percent of the homes sold in March 2021 were on the market for less than a month. First-time buyers were responsible for 32% of sales in March, up from 31% in February and down from 34% in March 2020.

A DEEPER DIVE – HOUSING, CONT.

Regional

In comparison to one year ago, median home prices rose in each of the four major regions.

March 2021 saw existing-home sales in the Northeast slip 1.3%, recording an annual rate of 760,000, a 16.9% jump from a year ago. The median price in the Northeast was $364,800, up 21.4% from March 2020.

Existing-home sales in the Midwest declined 2.3% to an annual rate of 1,280,000 in March, a 0.8% rise from a year ago. The median price in the Midwest was $248,200, a 13.5% increase from March 2020.

Existing-home sales in the South dropped 2.9%, recording an annual rate of 2,700,000 in March, up 15.9% from the same time one year ago. The median price in the South was $283,900, a 15.6% climb from a year ago.

Existing-home sales in the West fell 8.0% from the month prior, posting an annual rate of 1,270,000 in March, a 15.5% rise from a year ago. The median price in the West was $493,300, up 16.8% from March 2020.

New Residential Sales

Sales of new single-family houses in March 2021 were at a seasonally adjusted annual rate of 1,021,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 20.7% above the revised February rate of 846,000 and was 66.8% above the March 2020 estimate of 612,000.

The median sales price of new houses sold in March 2021 was $330,800. The average sales price was $397,800.

The seasonally-adjusted estimate of new houses for sale at the end of March was 307,000. This represents a supply of 3.6 months at the current sales rate.

Compared to March 2020, sales in March 2021 were up 108.7% in the Northeast, 78.4% in the Midwest, 90.1% in the South but were down 2.0% in the West.

Housing Starts

Privately-owned housing starts in March were at a seasonally adjusted annual rate of 1,739,000. This was 19.4% above the revised February estimate of 1,457,000 and was 37.0% above the March 2020 rate of 1,269,000. Single-family housing starts in March were at a rate of 1,238,000; this was 15.3% above the revised February figure of 1,074,000.

Compared to March 2020, new single family housing starts were up 40.7% in March 2021. Single family starts compared to a year ago were up 55.2% in the Northeast, 98.3% in the Midwest, 38.6% in the South and 13.5% in the West.

Housing Completions

Privately-owned housing completions in March were at a seasonally adjusted annual rate of 1,580,000. This was 16.6% above the revised February estimate of 1,355,000 and was 23.4% above the March 2020 rate of 1,280,000. Single-family housing completions in March were at a rate of 1,099,000; this was 5.3% above the revised February rate of 1,044,000.

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 March 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $619.1 billion, an increase of 9.8% from the previous month, and 27.7% above March 2020. Total sales for the January 2021 through March 2021 period were up 14.3% from the same period a year ago.

Retail trade sales were up 9.4% from February 2021, and up 26.9% above last year. Motor vehicle and parts dealers were up 71.1% from March 2020, while food services and drinking places were up 36.0% from last year.

Sales at furniture and home furnishings stores were up 46.8% from March 2020 and up 20.4% year to date. Obviously, March 2020 marked the start of the COVID-19 epidemic.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.6% in March on a seasonally adjusted basis after rising 0.4% in February, according to the U.S. Bureau of Labor Statistics report. The March 1-month increase was the largest rise since a 0.6% increase in August 2012. Over the last 12 months, the all items index increased 2.6% before seasonal adjustment.

The gasoline index continued to increase, rising 9.1% in March and accounting for nearly half of the seasonally adjusted increase in the all items index. The natural gas index also rose, contributing to a 5.0% increase in the energy index over the month. The food index rose 0.1% in March, with the food at home index and the food away from home index both also rising 0.1%.

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 index for all items less food and energy rose 0.3% in March. The shelter index increased in March as did the motor vehicle insurance index, the recreation index, and the household furnishings and operations index. Indexes which decreased over the month include apparel and education.

Employment

Total nonfarm payroll employment rose by 916,000 in March, and the unemployment rate edged down to 6.0%, the U.S. Bureau of Labor Statistics reported. These improvements in the labor market reflect the continued resumption of economic activity that had been curtailed due to the coronavirus (COVID-19) pandemic. Job growth was widespread in March, led by gains in leisure and hospitality, public and private education, and construction.

The unemployment rate edged down to 6.0% in March. The rate is down considerably from its recent high in April 2020 but is 2.5 percentage points higher than its pre-pandemic level in February 2020. The number of unemployed persons, at 9.7 million, continued to trend down in March but is 4.0 million higher than in February 2020.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in March increased 0.5% to $256.3 billion, according to the U.S. Census Bureau. This increase, up ten of the last eleven months, followed a 0.9% February decrease. Excluding transportation, new orders increased 1.6%. Excluding defense, new orders increased 0.5%. Fabricated metal products, up six of the last seven months, led the increase, $1.2 billion or 3.6%.

Shipments of manufactured durable goods in March, up six of the last seven months, increased 2.5% to $257.0 billion. This followed a 3.6% February decrease. Transportation equipment, also up six of the last seven months, led the increase, $3.7 billion or 4.8% to $82.1 billion.

According to the final report, orders for furniture and related products were down 3.5% in February vs February 2020 and down 2.6% year to date. Shipments for these products were down 4.0% for February vs last year and down 4.8% year to date.