



# FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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## HIGHLIGHTS – EXECUTIVE SUMMARY

**T**his report along with the next couple of month's reports, will definitely be a little different from our normal narratives and comments. As with most of the national news, the next couple of month's furniture related results will not be very easy to make many comparisons. Where possible, at least for the furniture manufacturers and distributors, we will likely attempt to compare to the same month of 2019. With business as it has been since March of 2020, it may take some time before comparisons get back to normal.

According to our latest survey of residential furniture manufacturers and distributors, new orders in March 2021 were up 96% over March 2020. Since the pandemic really began to be felt in March 2020, part of the increase was due to many businesses being shut down for a while in March. So we compared March 2021 to March 2019 and saw that orders were up 40% in that comparison. Our perception that business has really been good showed up in those results.

Shipments were up 34%. While still not up with orders, at least shipments seem to be catching up somewhat. Last month, shipments were up 18% over February last year. As orders once again exceeded shipments in dollars, backlogs continued to grow, increasing 6% over February 2021 and up 251% over March 2020.

Receivable levels continue to be in good shape. We think most are keeping current in order to stay on the list of "good" customers with a better chance of getting shipments. And as we have said before, the Paycheck Protection Program money has really helped many dealers with their cash flow. Inventories continue to climb as material purchases are improving and imported goods are coming back slowly.

The employment situation is really difficult for most, especially where there are pockets of a number of manufacturers in the same area, such as the Piedmont of NC and sections of Mississippi. Payrolls in March were 10% higher than March 2020 but again the effect of the pandemic last year skews the results.

## EXECUTIVE SUMMARY, CONT.

### National

#### Consumer Confidence

The Conference Board Consumer Confidence Index® held steady in May, following a gain in April. The Index now stands at 117.2 (1985=100), down from 117.5 in April. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—increased from 131.9 to 144.3. However, the Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 99.1 in May, down from 107.9 last month.

The report indicated that economic growth remains robust in Q2, but overall optimism retreated due to lower expectations for growth and a softer labor market, concerns over income expectations and rising inflation.

The University of Michigan preliminary report noted a drop in confidence due to higher inflation and lower income expectations.

#### Housing

Existing home sales compared to the previous month fell for the third straight month in all four regions. Yet, all four regions posted significant double-digit growth over April 2020, up 33.9%. Single family home sales reported similar results. The median single family home price increased 20.3% over April 2020.

Low inventories remained an issue, but expectations were that more inventory may come as people are more willing to open up their homes for showings as more vaccinations are given. More inventory was noted as being needed to reduce the price pressures that are driving the price increases. Properties typically sold in 17 days.

Sales of new single-family houses in April 2021 were at a seasonally adjusted annual rate of 863,000. This was 5.9% below the revised March rate of 917,000, but was 48.3% above the April 2020 estimate of 582,000. Again, comparisons to April 2020 were somewhat meaningless but were up substantially in all four regions.

Housing starts were 9.5% below March 2021 but up substantially over April 2020 as would be expected.

#### Other

Retail sales in April were about even with March but up substantially over April 2020 – up 51.2%. Sales at furniture and home furnishings stores were up 196.4% over April 2020 and up 45.3% year to date. To give an idea of how drastic some of the comparisons were, clothing and clothing accessory stores were up 726.8% from April 2020, as most were shut down in April.

The consumer price index increased 0.8% in April after a 0.6% increase in March. The all-items index increased 4.2% in the last twelve months, the largest 12 month increase since a 4.9% increase for the period ended September 2008. The index for used cars and trucks rose 10.0% in April. This was the largest increase since the series began in 1953. The index for all items less food and energy rose 0.9% in April, the largest increase since April 1982.

Total nonfarm payroll employment rose by a disappointing 266,000 in April leaving the unemployment rate at 6.1%. Gains were noted in leisure and hospitality, other services and local government education.

The Conference Board Leading Economic Index increased 1.6% in April after a 1.3% increase in March. The report indicated that the economy's upward trend should continue and growth could even accelerate in the near term.

## EXECUTIVE SUMMARY, CONT.

### Thoughts

Our survey finally starts reflecting the lack of comparability to the prior year due to the pandemic. It will likely be some time before reasonable comparisons can be made again. But overall, orders have been really good for most in the industry. We did some comparisons of March 2021 to March 2019 and those results were very favorable.

As we have had discussions with industry contacts, it seems that for once the industry has performed at or above most others for maybe one of the first times in recent history. Yet all of a sudden, so many issues have come up to cause serious problems. Cost increases from materials, lack of foam, lack of people in manufacturing, cost increases on imported product, bad product flow due to COVID in other countries and soaring freight costs have dampened some of the jubilation of good order writing.

But most have agreed that it is a much better problem to have than lack of orders. Yet it has been very frustrating for most to not really feel that they are reaping the benefits of this increased business. Add to that the issues with how to set pricing when taking an order, when shipping is delayed by many months and costs continue to rise.

Then what to do about the High Point Market? Some have chosen not to show but to focus on catching up on their customer shipments. Others feel the need to show. Who would have thought such demand for the industry products could cause such headaches? We hope this short-term pain will result in long-term gains and profit realization down the road.

## HIGHLIGHTS – MONTHLY RESULTS

### New Orders

As we noted in the executive summary, the comparisons of 2021 results to the same periods of 2020 are something that we have not had to deal with before. Some really may not that meaningful, in and of themselves, other than to say that we are glad the March to May periods last year are in the past. We certainly hope never to be dealt with again.

New orders in March were up 96% over March 2020 when the pandemic really took over and businesses were shut down. We looked back to March 2019 for a better comparison and found that orders in March 2021 were up 40% over March 2019, so when we say business is really good, we think that speaks to just how good business has been.

Year to date, the first three months of 2021 were up 50% over the same period 2020. Compared to the first three months of 2019, new orders in 2021 were up 38%.

### Shipments and Backlogs

Shipments in March 2021 were up 34% over March 2020. As has been the case, shipments have not been able to keep up with the increase in orders, as discussed before due to foam and labor shortages, container and shipping issues etc. Shipments in March 2021 were 19% ahead of March 2019.

Year to date, shipments were up 19% over same period of 2020. Shipments were up 15% over the same period of 2019.

Once again, new orders exceeded shipments in dollars, so backlogs continued to climb. Backlogs were up 6% over February 2021 and up a whopping 251% over March 2020. The March backlogs were up 229% over March 2019.

### Receivables and Inventories

Receivables were up 11% over March 2020, very much in line with shipment levels. Most of the people we have talked with are doing a good job of watching their receivables closely and keeping them clean. Also considering the difficulty many are having just getting orders delivered, most are making sure they are current with vendors in order to make sure they can get product.

Inventories were down slightly from February as shipments were continuing to increase. Inventories were up 14% over last March, down from 15% reported last month.

### Factory and Warehouse Employees and Payroll

Payrolls were up 10% from March 2020 but real effects of the pandemic will not be felt until we get the April results. Some of that will also be impacted by those who received PPP money. The number of employees was about even with last year. Again, at this point, not really meaningful comparisons.



#### ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2021		
	MAR	FEB	3 MOS
New Orders	3,523	3,062	9,507
Shipments	2,987	2,627	8,006
Backlog (R)	7,222	6,788	

  

	2020		
	MAR	FEB	3 MOS
New Orders	1,793	2,278	6,356
Shipments	2,232	2,219	6,702
Backlog (R)	2,057	2,496	

## MONTHLY RESULTS – MAY 2021

### KEY MONTHLY INDICATORS (PERCENT CHANGE)

	March 2021 From February 2021	March 2021 From March 2020	3 Months 2021 vs 3 Months 2020
<b>New Orders</b>	+21	+96	+50
<b>Shipments</b>	+13	+34	+19
<b>Backlog</b>	+6	+251	
<b>Payrolls</b>	+3	+10	+4
<b>Employees</b>	-1	-	
<b>Receivables</b>	-3	+11	
<b>Inventories</b>	-2	+14	

### PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

#### New Orders   Shipments   Backlog   Employment

#### 2020

<b>March</b>	-29	-11	-8	-4
<b>April</b>	-61	-50	-12	-15
<b>May</b>	-8	-31	+13	-10
<b>June</b>	+30	-7	+32	-8
<b>July</b>	+39	-	+69	-7
<b>August</b>	+51	+3	+102	-7
<b>September</b>	+43	+4	+123	-5
<b>October</b>	+40	+8	+141	-5
<b>November</b>	+17	+3	+148	-3
<b>December</b>	+27	+5	+168	-3

#### 2021

<b>January</b>	+27	+7	+177	-3
<b>February</b>	+34	+18	+184	-2
<b>March</b>	+96	+34	+251	-

## A DEEPER DIVE – NATIONAL

### Consumer Confidence

The Conference Board Consumer Confidence Index® held steady in May, following a gain in April. The Index now stands at 117.2 (1985=100), down marginally from 117.5 in April. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—increased from 131.9 to 144.3. However, the Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 99.1 in May, down from 107.9 last month.

“After rebounding sharply in recent months, U.S. consumer confidence was essentially unchanged in May,” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “Consumers' assessment of present-day conditions improved, suggesting economic growth remains robust in Q2. However, consumers' short-term optimism retreated, prompted by expectations of decelerating growth and softening labor market conditions in the months ahead. Consumers were also less upbeat this month about their income prospects—a reflection, perhaps, of both rising inflation expectations and a waning of further government support until expanded Child Tax Credit payments begin reaching parents in July. Overall, consumers remain optimistic, and confidence should remain resilient in the short term, as vaccination rates climb, COVID-19 cases decline further, and the economy fully reopens.”

Consumers' appraisal of current conditions improved in May. The percentage of consumers claiming business conditions are “good” fell from 19.4% to 18.7%, but the proportion claiming business conditions are “bad” also declined, from 24.5% to 21.8%. Consumers' assessment of the labor market improved. The percentage of consumers saying jobs are “plentiful” climbed from 36.3% to 46.8%, while those claiming jobs are “hard to get” declined from 14.7% to 12.2%.

Consumers' optimism about the short-term outlook waned in May. The percentage of consumers expecting business conditions to improve over the next six months fell from 33.1% to 30.3%, while the proportion expecting business conditions to worsen rose from 12.1% to 14.8%. Consumers were also less upbeat about the job market. The proportion expecting more jobs in the months ahead fell from 31.7% to 27.2%, while those anticipating fewer jobs rose from 14.4% last month to 17.3% in May. Regarding short-term income prospects, 14.5% of consumers expect their incomes to increase in the next six months, down from 17.4% in April. The proportion expecting their incomes to decrease also fell, from 10.5% in April to 9.3% in May.

### University of Michigan Surveys of Consumers

From the preliminary report, Surveys of Consumers chief economist, Richard Curtin said “Consumer confidence in early May tumbled due to higher inflation—the highest expected year-ahead inflation rate as well as the highest long term inflation rate in the past decade. Rising inflation also meant that real income expectations were the weakest in five years. The average of net price mentions for buying conditions for homes, vehicles, and household durables were more negative than any time since the end of the last inflationary era in 1980. Importantly, consumer spending will still advance despite higher prices due to pent-up demand and record saving balances. This combination of persistent demand in the face of rising prices creates the potential for an inflationary psychology, fostering buy-in-advance rationales and cost-of-living increases in wages. At present, these rationales remain relatively uncommon, and the power of corrective economic policies is now relatively potent. Policy commitments to establish full employment while allowing inflation to meaningfully rise have never been attempted with the additional micro goals of equity and fairness across population subgroups. Shifting policy language and even minor rate increases could douse inflationary psychology. Indeed, such a policy would be consistent with consumer expectations since two-thirds expect a rate hike in the year ahead. It should be no surprise that consumers anticipate a booming economy over the next year or so, including rapid job gains as well as increases in the inflation rate and interest rates. Indeed, consumers think these economic prospects are the natural result of stimulating an economic boom from last year's shutdown.

#### NATIONAL UPDATE

##### Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 1.6% in April to 113.3 (2016 = 100), following a 1.3% increase in March and a 0.1% decline in February.”

“With April's large monthly gain to start the second quarter, the U.S. LEI has now recovered fully from its COVID-19 contraction—surpassing the index's previous peak, reached at the very onset of the global pandemic in January 2020,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “While employment and production have not recovered to their pre-pandemic levels yet, the U.S. LEI suggests the economy's upward trend should continue and growth may even accelerate in the near term. The Conference Board now forecasts real GDP could grow around 8 to 9% (annualized) in the second quarter, with year-over-year economic growth reaching 6.4% for 2021.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.3% in April to 104.1 (2016 = 100), following a 0.9% increase in March and a 0.7% decrease in February.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 1.8% in April to 104.7 (2016 = 100), following a 3.7% decrease in March and 2.5% increase in February.

## A DEEPER DIVE – HOUSING

### Existing-Home Sales

Existing-home sales waned in April, marking three straight months of declines, according to the National Association of Realtors®. All but one of the four major U.S. regions witnessed month-over-month drops in home sales, but each registered double-digit year-over-year gains for April.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, slipped 2.7% from March to a seasonally adjusted annual rate of 5.85 million in April. Sales overall jumped year-over-year, up 33.9% from a year ago (4.37 million in April 2020).

Single-family home sales dropped to a seasonally adjusted annual rate of 5.13 million in April, down 3.2% from 5.30 million in March, and up 28.9% from one year ago. The median existing single-family home price was \$347,400 in April, up 20.3% from April 2020.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 720,000 units in April, up 1.4% from March and up 84.6% from one year ago. The median existing condo price was \$300,400 in April, an increase of 12.6% from a year ago.

"Home sales were down again in April from the prior month, as housing supply continues to fall short of demand," said Lawrence Yun, NAR's chief economist. "We'll see more inventory come to the market later this year as further COVID-19 vaccinations are administered, and potential home sellers become more comfortable listing and showing their homes. The falling number of homeowners in mortgage forbearance will also bring about more inventory."

"Despite the decline, housing demand is still strong compared to one year ago, evidenced by home sales from this January to April, which are up 20% compared to 2020," Yun continued. "The additional supply projected for the market should cool down the torrid pace of price appreciation later in the year."

The median existing-home price for all housing types in April was \$341,600, up 19.1% from April 2020 (\$286,800), as every region recorded price increases. This is a record high and marks 110 straight months of year-over-year gains.

Total housing inventory at the end of April amounted to 1.16 million units, up 10.5% from March's inventory and down 20.5% from one year ago (1.46 million). Unsold inventory sits at a 2.4-month supply at the current sales pace, slightly up from March's 2.1-month supply and down from the 4.0-month supply recorded in April 2020. These numbers continue to represent near-record lows. NAR first began tracking the single-family home supply in 1982.

Properties typically remained on the market for 17 days in April, down from 18 days in March and from 27 days in April 2020. Eighty-eight percent of the homes sold in April 2021 were on the market for less than a month.

First-time buyers were responsible for 31% of sales in April, down from 32% in March and 36% in April 2020. NAR's 2020 Profile of Home Buyers and Sellers – released in late 2020 – revealed that the annual share of first-time buyers was 31%.

"First-time buyers in particular are having trouble securing that first home for a multitude of reasons, including not enough affordable properties, competition with cash buyers and properties leaving the market at such a rapid pace," Yun said.

### Regional

Only the Midwest experienced higher sales from the prior month, but each of the four major U.S. regions recorded year-over-year increases.

Existing-home sales in the Northeast fell 3.9% from March, but the annual rate of 730,000 represents a 30.4% leap from a year ago. The median price in the Northeast was \$381,100, up 22.0% from April 2020.

Existing-home sales in the Midwest grew 0.8% to an annual rate of 1,290,000 in April, a 13.2% increase from a year ago. The median price in the Midwest was \$259,300, a 13.5% rise from April 2020.

Existing-home sales in the South decreased 3.7%, recording an annual rate of 2,600,000 in April, up 39.0% from the same time one year ago. The median price in the South was \$289,600, a 15.8% jump from one year ago.

Existing-home sales in the West declined 3.1% from the month prior, posting an annual rate of 1,230,000 in April, a 53.8% surge from a year ago. The median price in the West was \$501,200, up 19.9% from April 2020.



## A DEEPER DIVE – HOUSING, CONT.

### New Residential Sales

Sales of new single-family houses in April 2021 were at a seasonally adjusted annual rate of 863,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 5.9% below the revised March rate of 917,000, but was 48.3% above the April 2020 estimate of 582,000.

The seasonally-adjusted estimate of new houses for sale at the end of April was 316,000. This represents a supply of 4.4 months at the current sales rate.

Compared to April 2020, new home sales were up 100.0% in the Northeast, 46.7% in the Midwest, 61.2% in the South, and 11.6% in the West.

### Housing Starts

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced privately-owned housing starts in April were at a seasonally adjusted annual rate of 1,569,000. This was 9.5% below the revised March estimate of 1,733,000 but was 67.3% above the April 2020 rate of 938,000. Single-family housing starts in April were at a rate of 1,087,000; this was 13.4% below the revised March figure of 1,255,000.

Single family starts comparing April 2021 to April 2020 were up 58.7% with starts up 247.8 in the Northeast, 44.7% in the Midwest, 43.6% in the South and 81.5% in the West.

### Housing Completions

Privately-owned housing completions in April were at a seasonally adjusted annual rate of 1,449,000. This was 4.4% below the revised March estimate of 1,515,000, but was 21.7% above the April 2020 rate of 1,191,000. Single-family housing completions in April were at a rate of 1,045,000; this was 0.1% above the revised March 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 April 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$619.9 billion, virtually unchanged from the previous month, and 51.2% above April 2020. Total sales for the February 2021 through April 2021 period were up 27.1% from the same period a year ago. Obviously, all of these numbers were affected by the start of the pandemic as were the furniture sales below.

Retail trade sales were down 0.3% from March 2021, but up 46.1% above last year. Clothing and clothing accessories stores were up 726.8% from April 2020, while food services and drinking places were up 116.8% from last year.

Sales at furniture and home furnishings stores were up 196.4% from April 2020 and up 45.3% year to date.

### Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.8% in April on a seasonally adjusted basis after rising 0.6% in March, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 4.2% before seasonal adjustment. This was the largest 12-month increase since a 4.9% increase for the period ending September 2008.

The index for used cars and trucks rose 10.0% in April. This was the largest 1-month increase since the series began in 1953, and it accounted for over a third of the seasonally adjusted all items increase. The food index increased in April, rising 0.4% as the indexes for food at home and food away from home both increased. The energy index decreased slightly, as a decline in the index for gasoline in April more than offset increases in the indexes for electricity and natural gas.

The index for all items less food and energy rose 0.9% in April, its largest monthly increase since April 1982. Nearly all major component indexes increased in April. Along with the index for used cars and trucks, the indexes for shelter, airline fares, recreation, motor vehicle insurance, and household furnishings and operations were among the indexes with a large impact on the overall increase.

The all items index rose 4.2% for the 12 months ending April, a larger increase than the 2.6% increase for the period ending March. Similarly, the index for all items less food and energy rose 3.0% over the last 12 months, a larger increase than the 1.6% rise over the 12 month period ending in March. The energy index rose 25.1% over the last 12-months, and the food index increased 2.4%.

## A DEEPER DIVE – OTHER NATIONAL, CONT.

### Employment

Total nonfarm payroll employment rose by 266,000 in April, and the unemployment rate was little changed at 6.1%, according to the U.S. Bureau of Labor Statistics report. Notable job gains in leisure and hospitality, other services, and local government education were partially offset by employment declines in temporary help services and in couriers and messengers.

Both the unemployment rate, at 6.1%, and the number of unemployed persons, at 9.8 million, were little changed in April. These measures are down considerably from their recent highs in April 2020 but remain well above their levels prior to the coronavirus (COVID-19) pandemic (3.5% and 5.7 million, respectively, in February 2020).

In April, 18.3% of employed persons teleworked because of the coronavirus pandemic, down from 21.0% in the prior month. These data refer to employed persons who teleworked or worked at home for pay at some point in the last 4 weeks specifically because of the pandemic.

### Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in April decreased \$3.2 billion or 1.3% to \$246.2 billion, according to the U.S. Census Bureau. This decrease, down following eleven consecutive monthly increases, followed a 1.3% March increase. Excluding transportation, new orders increased 1.0%. Excluding defense, new orders were virtually unchanged. Transportation equipment, down two consecutive months, drove the decrease, \$4.9 billion or 6.7% to \$68.9 billion.

Shipments of manufactured durable goods in April, up eleven of the last twelve months, increased \$1.4 billion or 0.6% to \$248.7 billion. This followed a 2.7% March increase. Primary metals, also up eleven of the last twelve months, led the increase, \$0.6 billion or 2.7% to \$21.6 billion.

In the full report for March, furniture and related products orders were up 2.9% March over March while shipments were up 2.6%. Year to date for these products, orders were down 0.7% and shipments were down 2.3%.

