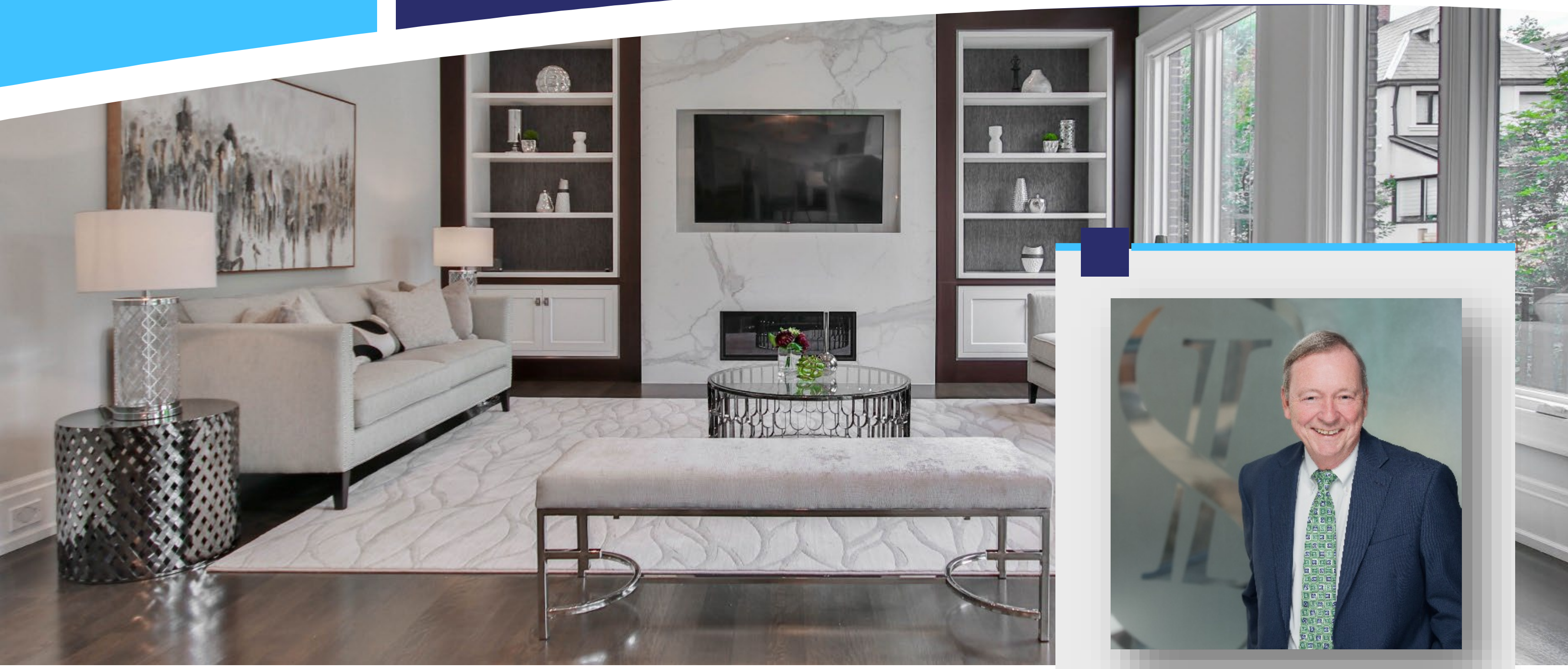
FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

August 2021



Ken Smith, CPA

HIGHLIGHTS – EXECUTIVE SUMMARY

Last year when we reported that June 2020 orders were up 30% over June 2019, we began to see businesses start back up again in late May and into June. We noted that it may be tough to beat some of those kinds of results at some time in 2021. Well after 12 consecutive months of reporting large double-digit growth in orders, beginning in June of 2020, we are finally going to report 2021 orders compared to one of those double-digit months of growth.

We had thought that we would probably see some declines starting in June which would not be bad, but might "feel" not so good, but the results were positive instead. New orders were actually up 7% in June 2021 over the 30% increase reported in the comparisons of June 2020 vs June 2019. The results were not up for all, but some 66% of the participants reported increases over June 2020.

Year to date, new orders were up 51% over the first half of 2020 and up for 94% of the participants. For comparison, new orders in the first 6 months of 2021 were up 37% over the first 6 months of 2019. We continue to think that the comparisons to 2020 for the rest of this year will be tough to beat.

With backlogs so high, shipments would be expected to show some nice results and they did, with a 38% increase over June 2020. Keep in mind that many of the companies were just getting started back up in June of last year. Shipments in June 2020 were down 7% from 2019. Year to date, in 2021, shipments were up 42% over the same period a year ago. Backlogs remained at extremely high levels, up 153% over June 2020 and were up 3% from May as June orders in dollars were more than the shipment dollars.

Most of the issues with shortages of materials, labor and imported finished goods continued to exist. While some shortages got better, others cropped up. As we write this, COVID cases are on the rise again and some countries have either shut down or have severely restricted production and shipping.

Our other indicators, receivables and inventories, seem in line, though it is hard to tell regarding inventories as it all depends on what is being held that cannot be shipped. Employees and payrolls are still reflective of shortages domestically as well as in other countries.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®* declined in August, following a decrease in July (a downward revision). The Index now stands at 113.8 (1985=100), down from 125.1 in July. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—fell to 147.3 from 157.2 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 91.4 from 103.8.

"Consumer confidence retreated in August to its lowest level since February 2021 (95.2)," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Concerns about the Delta variant—and, to a lesser degree, rising gas and food prices—resulted in a less favorable view of current economic conditions and short-term growth prospects. Spending intentions for homes, autos, and major appliances all cooled somewhat; however, the percentage of consumers intending to take a vacation in the next six months continued to climb. While the resurgence of COVID-19 and inflation concerns have dampened confidence, it is too soon to conclude this decline will result in consumers significantly curtailing their spending in the months ahead.

Consumers' optimism about the short-term business conditions outlook deteriorated in August as 22.9% of consumers expect business conditions will improve, down from 30.9%. The short term labor market also declined as job availability fell. Prospects for increases in income also fell.

Housing

Existing home sales grew again in July vs June and were up overall compared to July a year ago. The report indicated that inventories are picking up so that should "lessen the intensity of multiple offers". It was noted that much of the recent sales growth has been in the upper-end markets while growth is lower in the mid to low tier markets due to fewer starter homes being built. The median home prices continued to rise, up for the 113th straight month, up double digits in all four regions of the country.

Sales of new single-family houses in July were up slightly over June but were 27% lower than July 2020. Sales were down double digits in all four regions. Single family housing starts in July were 4.5% below June but were up 11.7% over July 2020.

Other

U. S. retail and food services sales in July were down slightly from June but were 15.8% ahead of July 2020. Retail trade sales were down 1.5% from June but were up 13.3% over July 2020. Clothing and clothing accessories led the way, up 43.3% over July last year. Sales at furniture and home furnishings stores were up 15.6% over July 2020 and up 38.5% year to date.

The consumer price index increased 0.5% in July after rising 0.9% in June. Over the last 12 months, the all items index increased 5.4%. The index for all items less food and energy rose 4.3% over the last twelve months while the energy index rose 23.8%. The index for food increased 3.4% for the 12 month period. Along with shelter and new vehicles, the indexes for recreation, medical care and personal care increased.

Total nonfarm payroll employment rose by 943,000 in July and the unemployment rate declined to 5.4%. The number of long-term unemployed fell by 560,000 to 3.4 million, 2.3 million higher than February 2020.

The Conference Board Leading Economic Index increased 0.9% in July after increasing 0.5% in June and 1.2% in May. In the second estimate, Gross Domestic Product increased 6.6%.

EXECUTIVE SUMMARY, CONT.

Thoughts

As I reread last month's thoughts, I suppose we could just day "ditto". But we would need to add that the issues with COVID cases on the rise has become an even bigger issue. Several of the Asian countries have seen significantly more cases, with Vietnam hit very hard. Ho Chi Minh City has significantly tightened their restriction, which has yielded significant reductions in production.

Freight issues are a major problem, with container shortages continuing, causing significant price increases, if you can even get them. Some are blaming some of the large retailers for tying up containers. Labor issues continue. We have read articles about how many are just not looking for jobs. Reasons include not only government stimulus and increases in unemployment checks, but also some have taken the opportunity to start their own small businesses. Some have decided to just retire, and some point to cost of daycare, making it better to just stay home. Others have pointed to the fear of contracting COVID-19.

Expectations are for the overall economy to continue to expand, although at a slower rate, but still expectations are for over 4% into 2022. We would think that the furniture business should continue its expansion as well, with shipments continuing to grow as backlogs are brought down. This would indicate that volume does not appear to be the issue. Profitability may be the problem as costs are going up faster than price increases can be put in place. It is hard to anticipate three months out, when products will be made, based on price lists being put out today.

These issues are significant and tough to deal with when business "feels" really good. But we would say, that as difficult as these times are, they are a lot better than 2008 when new orders were hard to find. Let's hope by October market and the upcoming fall season that COVID cases are trending downwards.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

As we had noted before, the results of our monthly survey of residential furniture manufacturers and distributors have shown significant swings when comparing to the previous year's monthly results. Comparing March, April, and May 2021 results to the same periods of 2020, which were the hardest hit months of the COVID pandemic, showed significant increases in orders due to so many dealers being pretty much shut down in 2020. We had said that those large increases would start to slow as business had really come back strong in June 2020, so it was going to be hard to continue the large increase comparisons. So, we now come to June 2021 comparisons to June 2020, when orders were up 30% over June 2019. June 2021 new orders were up 7% over June 2020. New orders were up over the previous June for 66% of the participants.

Year to date, new orders were up 51% over the first half of 2020, down from 67% reported last month. For year to date, new orders were up for 94% of the participants.

Shipments and Backlogs

As many companies were taking orders but not back up to full production or getting imports back up through May, shipments had lagged all the new orders, so in June, shipments began to pick up increasing 38% over June 2020. Shipments in June were up over June 2020 for 81% of the participants.

Year to date, shipments were up 42% over the same period a year ago. Some 91% of the participants reported increased year to date shipments through June.

Backlogs continued to increase as orders in dollars exceed the dollar value of shipments. Backlogs were 153% higher in June than in June 2020.

Receivables and Inventories

Receivable levels were up 40% over June of 2020, in line with the 38% increase in shipments for the month and 42% increase year to date. Receivable levels continue to be in good shape and from conversations, ageings continue to look good as dealers are paying to make sure their orders do not get held up.

Inventories were up 48% in June, increasing 3% over July levels. While inventory levels have increased, some of the manufacturers are saying that they have built up product to keep plants busy but are not able to always ship due to foam and other shortages. The foam issue seems to be getting better but other materials such as those with steel involved, are still causing issues.

Factory and Warehouse Employees and Payroll

Hiring enough employees for the levels of business continues to be a major issue. The number of factory and warehouse employees was up 8% over June 2020. Payrolls were up 27% in June over June 2020 and up 27% year to date over last year's first half. Again, those comparisons are hard due to the Paycheck Protection Program supported by Washington last year.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

2021	JUN	MAY	6 MOS
New Orders	3,416	3,359	19,276
Shipments	3,244	2,689	16,819
Backlog	7,981	7,787	

2020	JUN	MAY	6 MOS
New Orders	3,088	2,285	12,731
Shipments	2,359	1,636	11,811
Backlog	3,154	2,480	

MONTHLY RESULTS – AUGUST 2021

KEY MONTHLY INDICATORS (PERCENT CHANGE)	June 2021 from May 2021	June 2021 from June 2020	6 Mos 2021 vs 6 Mos 2020
New Orders	+8	+7	+51
Shipments	+20	+38	+42
Backlog	+3	+153	
Payrolls	+8	+27	+27
Employees	+1	+8	
Receivables	+4	+40	
Inventories	+3	+48	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2020				
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
March	+96	+34	+251	–
April	+134	+196	+266	+14
May	+47	+64	+214	+7
June	+7	+38	+153	+8

A DEEPER DIVE – NATIONAL

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"Consumer confidence retreated in August to its lowest level since February 2021 (95.2)," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Concerns about the Delta variant—and, to a lesser degree, rising gas and food prices—resulted in a less favorable view of current economic conditions and short-term growth prospects. Spending intentions for homes, autos, and major appliances all cooled somewhat; however, the percentage of consumers intending to take a vacation in the next six months continued to climb. While the resurgence of COVID-19 and inflation concerns have dampened confidence, it is too soon to conclude this decline will result in consumers significantly curtailing their spending in the months ahead.

Consumers' optimism about the short-term business conditions outlook deteriorated in August as 22.9% of consumers expect business conditions will improve, down from 30.9%. Also 17.8% expect business conditions to worsen, up from 11.9%.

Consumers were somewhat less optimistic about the short-term labor market outlook as 23.0% of consumers expect more jobs to be available in the months ahead, down from 25.5%. Also 18.6% anticipate fewer jobs, up from 17.8%.

Consumers were less upbeat about their short-term financial prospects. 17.9% of consumers expect their incomes to increase, down from 20.0% and 10.1% expect their incomes will decrease, up from 8.8%.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 6.6% in the second quarter of 2021, according to the "second" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 6.3%. The increase in real GDP in the second quarter reflected increases in personal consumption expenditures (PCE), nonresidential fixed investment, exports, and state and local government spending that were partly offset by decreases in private inventory investment, residential fixed investment, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The increase in PCE reflected increases in services (led by food services and accommodations) and goods (led by "other" nondurable goods, notably pharmaceutical products, as well as clothing and footwear). The increase in nonresidential fixed investment reflected increases in intellectual property products (led by research and development as well as software) and equipment (led by transportation equipment).

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.9% in July to 116.0 (2016 = 100), following a 0.5% increase in June and a 1.2% increase in May.

"The U.S. LEI registered another large gain in July, with all components contributing positively," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The Leading Index's overall upward trend, which started with the end of the pandemic-induced recession in April 2020, is consistent with strong economic growth in the second half of the year. While the Delta variant and/or rising inflation fears could create headwinds for the US economy in the near term, we expect real GDP growth for 2021 to reach 6.0% year-over-year, before easing to a still robust 4.0% growth rate for 2022."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.6% in July to 105.6 (2016 = 100), following a 0.4% increase in June and a 0.1% increase in May.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.6% in May to 106.5 (2016 = 100), after being unchanged in June and increasing 0.8% in May.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales rose in July, marking two consecutive months of increases, according to the National Association of Realtors®. Three of the four major U.S. regions recorded modest month-over-month gains, and the fourth remained level. Figures varied from a year-over-year perspective as two regions saw gains, one witnessed a decline and one was unchanged.

Total existing-home sales completed transactions that include single-family homes, townhomes, condominiums and co-ops, grew 2.0% from June to a seasonally adjusted annual rate of 5.99 million in July. Sales inched up year-over-year, increasing 1.5% from a year ago (5.90 million in July 2020).

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

Single-family home sales increased to a seasonally adjusted annual rate of 5.28 million in July, up 2.7% from 5.14 million in June and down 0.8% from one year ago. The median existing single-family home price was $367,000 in July, up 18.6% from July 2020.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 710,000 units in July, down from 730,000 in June and up 22.4% from one year ago. The median existing condo price was $307,100 in July, an annual increase of 14.1%.

"We see inventory beginning to tick up, which will lessen the intensity of multiple offers," said Lawrence Yun, NAR's chief economist. "Much of the home sales growth is still occurring in the upper-end markets, while the mid- to lower-tier areas aren't seeing as much growth because there are still too few starter homes available."

Total housing inventory at the end of July totaled 1.32 million units, up 7.3% from June's supply and down 12.0% from one year ago (1.50 million). Unsold inventory sits at a 2.6-month supply at the present sales pace, up slightly from the 2.5-month figure recorded in June but down from 3.1 months in July 2020."

The median existing-home price for all housing types in July was $359,900, up 17.8% from July 2020 ($305,600), as each region saw prices climb. This marks 113 straight months of year-over-year gains.

"Although we shouldn't expect to see home prices drop in the coming months, there is a chance that they will level off as inventory continues to gradually improve," said Yun.

"In the meantime, some prospective buyers who are priced out are raising the demand for rental homes and thereby pushing up the rental rates," he added.

Properties typically remained on the market for 17 days in July, unchanged from June and down from 22 days in July 2020. Eighty-nine percent of homes sold in July 2021 were on the market for less than a month.

First-time buyers accounted for 30% of sales in July, down from 31% in June and down from 34% in July 2020.

Regional

Existing-home sales in the Northeast remained steady in July, registering an annual rate of 740,000 for the second straight month, a 12.1% rise from July 2020. The median price in the Northeast was $411,200, up 23.6% from one year ago.

Existing-home sales in the Midwest rose 3.8% to an annual rate of 1,380,000 in July, a 1.4% decline from a year ago. The median price in the Midwest was $275,300, a 13.1% increase from July 2020.

Existing-home sales in the South rose 1.2% in July, recording an annual rate of 2,630,000, up 1.2% from the same time one year ago. The median price in the South was $305,200, a 14.4% jump from one year ago.

Existing-home sales in the West grew 3.3%, posting an annual rate of 1,240,000 in July, equal to the level of a year ago. The median price in the West was $508,300, up 12.5% from July 2020.

New Residential Sales

Sales of new single-family houses in July 2021 were at a seasonally adjusted annual rate of 708,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 1.0% above the revised June rate of 701,000, but was 27.2% below the July 2020 estimate of 972,000.

The median sales price of new houses sold in July 2021 was $390,500. The average sales price was $446,000. The seasonally-adjusted estimate of new houses for sale at the end of July was 367,000. This represents a supply of 6.2 months at the current sales rate.

Regionally comparing July 2021 to July 2020, sales were down 47.6% in the Northeast, 44.1% in the Midwest, 28.4% in the South and 11.9% in the West.

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 July were at a seasonally adjusted annual rate of 1,534,000. This was 7.0% below the revised June estimate of 1,650,000, but was 2.5% above the July 2020 rate of 1,497,000. Single-family housing starts in July were at a rate of 1,111,000; this was 4.5% below the revised June figure of 1,163,000 but 11.7% above July of 2020. Compared to July of 2020, single family starts were down 34.7% in the Northeast, but up 5.9% in the Midwest, 17.7% in the South and 14.8% in the West.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau advance estimates of U.S. retail and food services sales for July 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $617.7 billion, a decrease of 1.1% from the previous month, but 15.8% above July 2020. Total sales for the May 2021 through July 2021 period were up 20.6% from the same period a year ago.

Retail trade sales were down 1.5% from June 2021, but up 13.3% above last year. Clothing and clothing accessories stores were up 43.4% from July 2020, while food services and drinking places were up 38.4% from last year.

Sales at furniture and home furnishings stores in July, on an adjusted basis, were up 15.6% over July 2020 and up 38.5% over the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.5% in July on a seasonally adjusted basis after rising 0.9% in June, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 5.4% before seasonal adjustment.

The indexes for shelter, food, energy, and new vehicles all increased in July and contributed to the monthly all items seasonally adjusted increase. The food index increased 0.7% in July as five of the major grocery store food group indexes rose, and the food away from home index increased 0.8%. The energy index rose 1.6% in July, as the gasoline index increased 2.4% and other energy component indexes also rose.

The index for all items less food and energy rose 0.3% in July after increasing 0.9% in June. Along with shelter and new vehicles, the indexes for recreation, for medical care, and for personal care increased in July. The index for used cars also increased in July, but the 0.2-percent advance was much smaller than in recent months.

The all-items index rose 5.4% for the 12 months ending July, the same increase as the period ending June. The index for all items less food and energy rose 4.3% over the last 12 months, while the energy index rose 23.8%. The food index increased 3.4% for the 12 months ending July, compared to a 2.4-percent rise for the period ending June.

Employment

Total nonfarm payroll employment rose by 943,000 in July, and the unemployment rate declined by 0.5 percentage point to 5.4%, the U.S. Bureau of Labor Statistics reported. Notable job gains occurred in leisure and hospitality, in local government education, and in professional and business services.

The number of long-term unemployed (those jobless for 27 weeks or more) decreased by 560,000 in July to 3.4 million but was 2.3 million higher than in February 2020. These long-term unemployed accounted for 39.3% of the total unemployed in July.

The unemployment rate declined by 0.5 percentage point to 5.4% in July, and the number of unemployed persons fell by 782,000 to 8.7 million. These measures are down considerably from their highs at the end of the February-April 2020 recession. However, they remain well above their levels prior to the coronavirus (COVID-19) pandemic (3.5% and 5.7 million, respectively, in February 2020).

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in July decreased 0.1% to $257.2 billion, according to the U.S. Census Bureau. This decrease, down following two consecutive monthly increases, followed a 0.8% June increase. Excluding transportation, new orders increased 0.7%. Excluding defense, new orders decreased 1.2%. Transportation equipment, also down following two consecutive monthly increases, drove the decrease at 2.2%.

Shipments of manufactured durable goods in July, up four of the last five months, increased 2.2% to $257.8 billion. This followed a 1.6% June increase. Transportation equipment, up two consecutive months, led the increase, $3.4 billion or 4.6% to $75.9 billion.

In the final report for June, new orders for furniture and related products were up 4.1% over June 2020 and up 3.5% year to date. Shipments were up 0.8% over June a year ago and up 0.4% year to date.