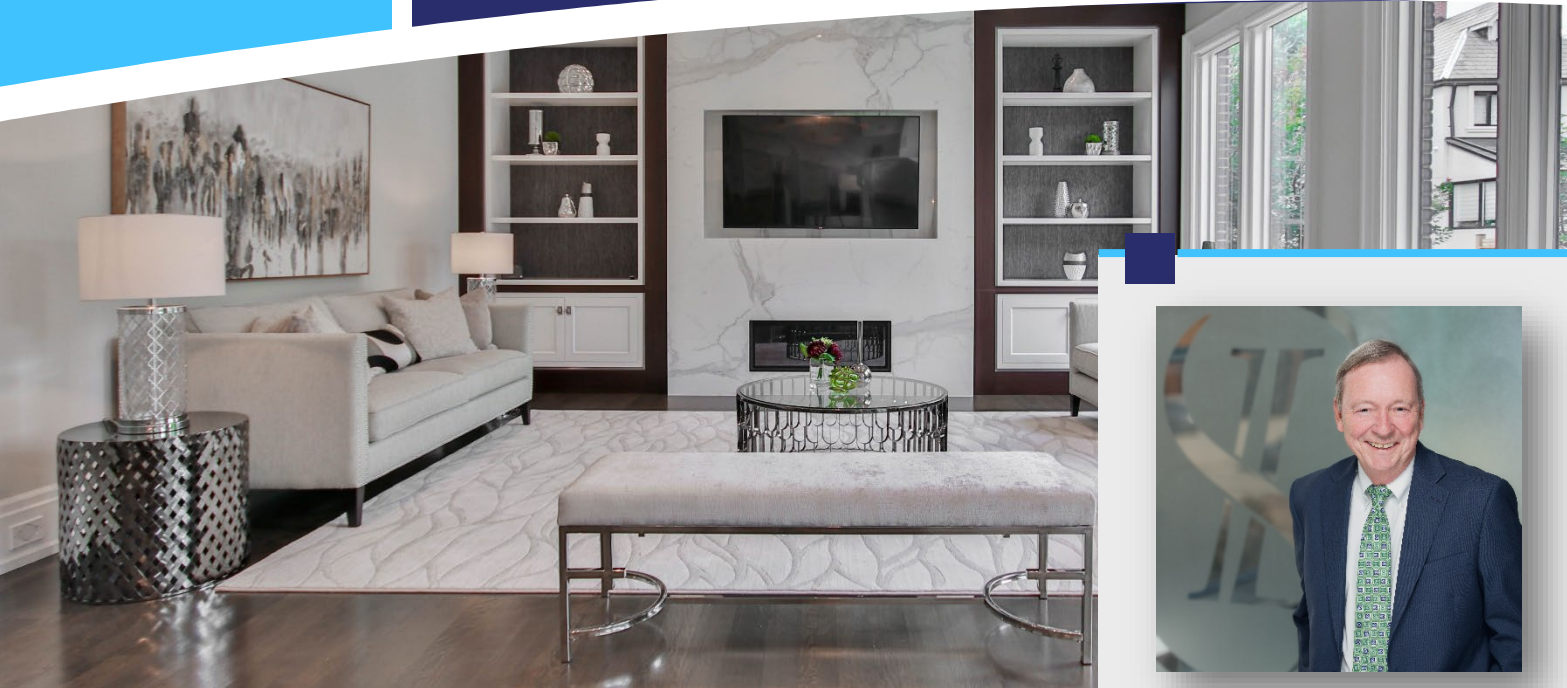




# FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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## HIGHLIGHTS – EXECUTIVE SUMMARY

**A**s we have noted before, the comparisons of the key indicators from our survey of residential furniture manufacturers and distributors are somewhat difficult to make meaningful comments, since we are comparing to a period of time not seen before in any of our lifetimes. But we will continue to provide the results with the best comments we can.

Continuing to show very strong current business, new orders were up 47% in May 2021 over May 2020. The May 2020 results were just the beginning of a somewhat comeback. Year to date, the results remained very strong with orders up 67% over the first five months of 2020. Orders were up for 97% of the participants year to date.

We did compare the 2021 year to date results with that of our 2019 survey. This comparison showed new orders up 36% over the first 5 months of 2019. These results show that business really has continued to be positive since the beginning of the comeback from the basic shutdown of the economy in the March/April 2020 time frame.

Shipments were up 64% in May 2021 compared to May 2020 and up 43% year to date. Shipments were up for 97% of the participants year to date. Compared to the first five months of 2019, shipments were up 17% in 2021. Again, showing that business really has been good since the shutdown.

New orders continued to exceed shipments, so backlogs increased again in May, up 3% from April and reaching an increase of 214% over May 2020. There have been continued issues with lack of labor and acquiring raw materials, primarily foam for upholstery, as well as other raw material shortages. Also, issues with imports due to labor and other problems in countries where factories are not back up and running are keeping companies from being able to get backlogs down. Adding to those are problems with freight, whether it be lack of containers, port delays, or even trucking issues in the states. We see that the whole industry is just not able to keep up with the current demands for goods at the retail level.

Receivable levels remain in good shape, as with backlogs as they are, slow payers are not getting their goods in line to be made or shipped, so most companies are seeing their receivable ageings in good shape. Inventory levels continue to rise with demand, though if inventory items were available, one could justify even higher levels.

## EXECUTIVE SUMMARY, CONT.

### National

#### Consumer Confidence

The Conference Board's Consumer Confidence Index report was about even in July with that of June. Lynn Franco, Senior Director of Economic Indicators at The Conference Board said "Consumers' appraisal of present-day conditions held steady, suggesting economic growth in Q3 is off to a strong start. Consumers' optimism about the short-term outlook didn't waver, and they continued to expect that business conditions, jobs, and personal financial prospects will improve. Short-term inflation expectations eased slightly but remained elevated. Spending intentions picked up in July, with a larger percentage of consumers saying they planned to purchase homes, automobiles, and major appliances in the coming months. Thus, consumer spending should continue to support robust economic growth in the second half of 2021."

#### Housing

Existing-home sales were up in June over May. Three of the four regions were up slightly with the fourth flat. In the year over year comparison, total existing-home sales in June were up 22.9% over June last year. Single family sales were up 19.3% from a year ago. Single family prices were up 24.4% over last year while condo and co-op sales were up 19.1%.

"Supply has modestly improved in recent months due to more housing starts and existing homeowners listing their homes, all of which has resulted in an uptick in sales," said Lawrence Yun, NAR's chief economist. At a broad level, home prices are in no danger of a decline due to tight inventory conditions, but I do expect prices to appreciate at a slower pace by the end of the year," Yun said. "Ideally, the costs for a home would rise roughly in line with income growth, which is likely to happen in 2022 as more listings and new construction become available."

Sales of new single-family houses in June were 6.6% below the May rate and were 19.4% below the June 2020 rate. This decrease was likely due to the pent up demand to close on new homes likely pushing up sales more in 2020. Sales were down in all regions except the Midwest where they were up 7%.

Housing starts were up from May 6.3% and up 29.1% over last year. Completions were down slightly from May but were 6.5% above June 2020.

#### Other

U.S. retail and food services sales for June 2021 were up 0.6% from May and 18% above June 2020. Retail trade sales were up 0.3% from May 2021 and up 15.6% above last year. Clothing and clothing accessories stores were up 47.1% from June 2020 and food services and drinking places were up 40.2%. Sales at furniture and home furnishings stores in June 2021 were up 17.1% over June 2020 and up 43.0% year to date.

The consumer price index increased 0.9% in June after a 0.6% increase in May. The 0.9% increase was the largest since June 2008 when the index was up 1.0%. For the last 12 months, the all-items index increased 5.4%, the largest 12 month increase since a 5.4% increase for the period ended August 2008. The index for used cars and trucks was up 10.6% in June. The index for all items less food and energy was up 4.5% over the last 12 months, the largest 12 month increase since the period ended November 1991.

Total nonfarm payroll employment rose by 850,000 in June. The unemployment rate stayed at 5.9%. The Conference Board Leading Economic Index increased 0.7% in June following a 1.2% increase in May and a 1.3% increase in April. The report noted that the positive results indicated that strong economic growth will continue in the near term with a forecast of real GDP growth of 6.6% for 2021.

## EXECUTIVE SUMMARY, CONT.

### Thoughts

The industry continues to experience a strange duality of success with orders flowing in but also being mired in backlogs as product is not flowing out with various delays and supply issues. Manufacturers continue to have labor problems. We traveled through Hickory, NC in the last couple of days, and signs for help were everywhere, many of which were clearly advertising their increased hourly rates. But materials have also been a problem. The foam issues seem to be easing some, but there are issues with wood, plywood, metal, and some fabrics, among other things.

For importers, certain problems continue and some are very real issues. COVID has hit several countries very hard. Most recently, several facilities in Vietnam have been shut down for periods of time including several furniture facilities. In addition, container shortages, extreme price increases for containers (if you can get one), and continued issues at the ports create significant issues for importers.

For all, there are trucking and freight issues here in the U.S. Significant pricing issues persist, and prices have had to go up through regular price increases as well as surcharges for items such as freight that hopefully will level off again at some point. We're intrigued that the consumer price index report noted that indexes for several items were up substantially, but household furnishings and a couple of other indexes were among the few component indexes that decreased. But there is a lot of talk about inflation in general with the fears that it could cause a slowdown in the economy. As with all other economic news, we struggle to determine media hype from reality.

We wish you good luck in swimming in these uncertain waters and a great rest of the summer!

## HIGHLIGHTS – MONTHLY RESULTS

### New Orders

The results of our latest survey continue to show year over year strong growth as the comparisons are starting to reflect the beginnings of business coming back beginning in May 2020. The survey of residential furniture manufacturers and distributors showed new orders in May 2021 up 47% over May 2020 orders. Some 91% of the participants reported increased orders, with most up in the triple digits percentage wise.

Year to date, new orders were up 67% over the first five months of 2020. Going back to more normal times, we compared the new orders year to date for 2021 to that of 2019. That comparison showed that new orders were up approximately 36% over that period, the same as we reported last month for the April year to date results. So, these results really seem to show that business has been as good as it seems.

### Shipments and Backlogs

Shipments in May 2021 were up 64% over May 2020 as companies continued to ramp back up and start to ship from backlogs. This increase brought the year-to-date results to an increase of 43%. The year-to-date results showed an increase of 17% over year-to-date 2019 results.

Backlogs continued to rise, up 214% over May 2020 results. Backlogs rose 3% from April. Most manufactures are showing delivery dates of about 3 months to as much as 6 months from what we have heard. Distributors are having the same issues as many of the Asian companies have been shutdown or slowed due to the COVID as well.

### Receivables and Inventories

Receivable levels were up 50% over May 2020, in line with the increases in shipments. With the backlogs as they are, most credit departments are making sure customers are current with older orders before taking any new orders.

Inventories were up 8% from April and up 40% over last May. These increases seem to be very much in line with current orders, if not maybe still a little low, but there are issues in acquiring raw materials, as well as container shipments being held up, among other reasons.

### Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in May was about equal to that of April and were up 7% over last year. This comparison is a bit tougher to do as so many companies who got Paycheck Protection Program monies kept employees on the payroll last year in order to have the loans forgiven due to the rules relating to forgiveness.

Factory and warehouse payrolls were up 52% as would be expected as people were brought back on board at something closer to normal capacity. Year to date, payrolls were up 27%, again a tough comparison to make.



### ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2021		
	MAY	APR	5 MOS
New Orders	3,359	2,994	15,860
Shipments	2,689	2,880	13,575
Backlog	7,787	7,583	

	2020		
	MAY	APR	5 MOS
New Orders	2,285	884	9,525
Shipments	1,636	1,130	9,468
Backlog	2,480	1,841	

## MONTHLY RESULTS – JULY 2021

### KEY MONTHLY INDICATORS (PERCENT CHANGE)

	May 2021 from April 2021	May 2021 from May 2020	5 Months 2021 vs 5 Months 2020
<b>New Orders</b>	+7	+47	+67
<b>Shipments</b>	+5	+64	+43
<b>Backlog</b>	+3	+214	
<b>Payrolls</b>	+5	+52	+27
<b>Employees</b>	-	+7	
<b>Receivables</b>	+7	+50	
<b>Inventories</b>	+8	+40	

### PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
<b>2020</b>				
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
<b>2021</b>				
January	+27	+7	+177	-3
February	+34	+18	+184	-2
March	+96	+34	+251	-
April	+134	+196	+266	+14
May	+47	+64	+214	+7



## A DEEPER DIVE – NATIONAL

### Consumer Confidence

The Conference Board Consumer Confidence Index® was relatively unchanged in July, following gains in each of the prior five months. The Index now stands at 129.1 (1985=100), up from 128.9 in June. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—rose from 159.6 to 160.3. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—was virtually unchanged at 108.4, compared to 108.5 last month.

“Consumer confidence was flat in July but remains at its highest level since February 2020 (132.6),” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “Consumers' appraisal of present-day conditions held steady, suggesting economic growth in Q3 is off to a strong start. Consumers' optimism about the short-term outlook didn't waver, and they continued to expect that business conditions, jobs, and personal financial prospects will improve. Short-term inflation expectations eased slightly but remained elevated. Spending intentions picked up in July, with a larger percentage of consumers saying they planned to purchase homes, automobiles, and major appliances in the coming months. Thus, consumer spending should continue to support robust economic growth in the second half of 2021.”

### Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 6.5% in the second quarter of 2021, according to the “advance” 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.

## A DEEPER DIVE – HOUSING

### Existing-Home Sales

Existing-home sales increased in June, snapping four consecutive months of declines, according to the National Association of Realtors®. Three of the four major U.S. regions registered small month-over-month gains, while the fourth remained flat. However, all four areas notched double-digit year-over-year gains.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, grew 1.4% from May to a seasonally adjusted annual rate of 5.86 million in June. Sales climbed year-over-year, up 22.9% from a year ago (4.77 million in June 2020).

Single-family home sales increased to a seasonally adjusted annual rate of 5.14 million in June, up 1.4% from 5.07 million in May and up 19.3% from one year ago. The median existing single-family home price was \$370,600 in June, up 24.4% from June 2020.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 720,000 units in June, up from 710,000 in May and up 56.5% from one year ago. The median existing condo price was \$311,600 in June, an annual increase of 19.1%.

“Supply has modestly improved in recent months due to more housing starts and existing homeowners listing their homes, all of which has resulted in an uptick in sales,” said Lawrence Yun, NAR's chief economist. “Home sales continue to run at a pace above the rate seen before the pandemic.”

## NATIONAL UPDATE

### Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.7% in June to 115.1 (2016 = 100), following a 1.2% increase in May and a 1.3% increase in April.

“June's gain in the U.S. LEI was broad-based and, despite negative contributions from housing permits and average workweek, suggests that strong economic growth will continue in the near term,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “While month-over-month growth slowed somewhat in June, the LEI's overall upward trend—which started with the end of the pandemic-induced recession in April 2020—accelerated further in Q2. The Conference Board still forecasts year-over-year real GDP growth of 6.6% for 2021 and a healthy 3.8% for 2022.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.4% in June to 105.5 (2016 = 100), following a 0.5% increase in May and a 0.1% increase in April.

The Conference Board Lagging Economic Index® (LAG) for the U.S. was unchanged in May at 105.8 (2016 = 100), following a 0.6% increase in May and 3.0% increase in April.

## A DEEPER DIVE – HOUSING, CONT.

### Existing-Home Sales, Cont.

Total housing inventory at the end of June amounted to 1.25 million units, up 3.3% from May's inventory and down 18.8% from one year ago (1.54 million). Unsold inventory had a 2.6-month supply at the current sales pace, modestly up from May's 2.5-month supply but down from 3.9 months in June 2020.

The median existing home price for all housing types in June was \$363,300, up 23.4% from June 2020 (\$294,400), as every region recorded price jumps. This marks 112 straight months of year-over-year gains.

"At a broad level, home prices are in no danger of a decline due to tight inventory conditions, but I do expect prices to appreciate at a slower pace by the end of the year," Yun said. "Ideally, the costs for a home would rise roughly in line with income growth, which is likely to happen in 2022 as more listings and new construction become available."

Properties typically remained on the market for 17 days in June, unchanged from May and down from 24 days in June 2020. Eighty-nine percent of homes sold in June 2021 were on the market for less than a month.

First-time buyers accounted for 31% of sales in June, also even with May but down from 35% in June 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%.

### Regional

Existing-home sales in the Northeast increased 2.8% in June, recording an annual rate of 740,000, a 45.1% rise from a year ago. The median price in the Northeast was \$412,800, up 23.6% from June 2020.

Existing-home sales in the Midwest rose 3.1% to an annual rate of 1,330,000 in June, an 18.8% increase from a year ago. The median price in the Midwest was \$278,700, an 18.5% increase from June 2020.

Existing-home sales in the South were unchanged from May, posting an annual rate of 2,590,000 in June, up 19.4% from the same time one year ago. The median price in the South was \$311,600, a 21.4% climb from one year ago.

Existing-home sales in the West rose 1.7%, registering an annual rate of 1,200,000 in June, a 23.7% jump from a year ago. The median price in the West was \$507,000, up 17.6% from June 2020.



### New Residential Sales

Sales of new single-family houses in June 2021 were at a seasonally adjusted annual rate of 676,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 6.6% below the revised May rate of 724,000 and was 19.4% below the June 2020 estimate of 839,000.

The median sales price of new houses sold in June 2021 was \$361,800. The average sales price was \$428,700. The seasonally adjusted estimate of new houses for sale at the end of June was 353,000. This represents a supply of 6.3 months at the current sales rate.

Regionally, sales in June 2021 vs June 2020 were down 40.4% in the Northeast, 24.8% in the South and 12.7% in the West, while sales were up 7.0% in the Midwest.

### 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 June were at a seasonally adjusted annual rate of 1,643,000. This was 6.3% above the revised May estimate of 1,546,000 and was 29.1% above the June 2020 rate of 1,273,000. Single-family housing starts in June were at a rate of 1,160,000; this was 6.3% above the revised May figure of 1,091,000. Single family starts compared to June 2020 were up 6.5% in the Northeast, 37.4% in the South and 34.5% in the West, while starts were off 0.7% in the Midwest.

### Housing Completions

Privately-owned housing completions in June were at a seasonally adjusted annual rate of 1,324,000. This was 1.4% below the revised May estimate of 1,343,000, but was 6.5% above the June 2020 rate of 1,243,000. Single-family housing completions in June were at a rate of 902,000; this was 6.1% below the revised May rate of 961,000 and 2.7% below June 2020.

## A DEEPER DIVE – OTHER NATIONAL

### Retail Sales

Advance estimates of U.S. retail and food services sales for June 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$621.3 billion, an increase of 0.6% from the previous month, and 18.0% above June 2020, according to the report from the U.S. Census Bureau. Total sales for the April 2021 through June 2021 period were up 31.5% from the same period a year ago. The April 2021 to May 2021 percent change was revised from down 1.3% to down 1.7%.

Retail trade sales were up 0.3% from May 2021, and up 15.6% above last year. Clothing and clothing accessories stores were up 47.1% from June 2020, while food services and drinking places were up 40.2% from last year.

Sales at furniture and home furnishings stores in June 2021 were up 17.1% over June 2020 and were up 43.0% year to date. This increase was the third highest among all the categories, only trailing clothing and clothing accessories and sporting goods, hobby, musical instruments and bookstores.

### Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.9% in June on a seasonally adjusted basis after rising 0.6% in May, according to the U. S. Bureau of Labor Statistics. This was the largest 1-month change since June 2008 when the index rose 1.0%. Over the last 12 months, the all-items index increased 5.4% before seasonal adjustment; this was the largest 12-month increase since a 5.4-percent increase for the period ending August 2008.

The index for used cars and trucks continued to rise sharply, increasing 10.5% in June. This increase accounted for more than one-third of the seasonally adjusted all items increase. The food index increased 0.8% in June, a larger increase than the 0.4% increase reported for May. The energy index increased 1.5% in June, with the gasoline index rising 2.5% over the month.

The index for all items less food and energy rose 0.9% in June after increasing 0.7% in May. Many of the same indexes continued to increase, including used cars and trucks, new vehicles, airline fares, and apparel. The index for medical care and the index for household furnishings and operations were among the few major component indexes which decreased in June. (We are not sure where that data comes from.)

The all items index rose 5.4% for the 12 months ending June; it has been trending up every month since January, when the 12-month change was 1.4%. The index for all items less food and energy rose 4.5% over the last 12-months, the largest 12-month increase since the period ending November 1991. The energy index rose 24.5% over the last 12-months, and the food index increased 2.4%.

### Employment

Total nonfarm payroll employment rose by 850,000 in June, and the unemployment rate was little changed at 5.9%, according to the U.S. Bureau of Labor Statistics. Notable job gains occurred in leisure and hospitality, public and private education, professional and business services, retail trade, and other services.

Both the unemployment rate, at 5.9%, and the number of unemployed persons, at 9.5 million, were little changed in June. 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).

### Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in June increased \$2.1 billion or 0.8% to \$257.6 billion, according to the U.S. Census Bureau. This increase, up thirteen of the last fourteen months, followed a 3.2% May increase. Excluding transportation, new orders increased 0.3%. Excluding defense, new orders increased 1.0%. Transportation equipment, up two consecutive months, led the increase at 2.1%.

Shipments of manufactured durable goods in June, up three of the last four months, increased \$2.5 billion or 1.0%. This followed a 0.4% May increase. Transportation equipment, up following two consecutive monthly decreases, led the increase at 1.1%.

