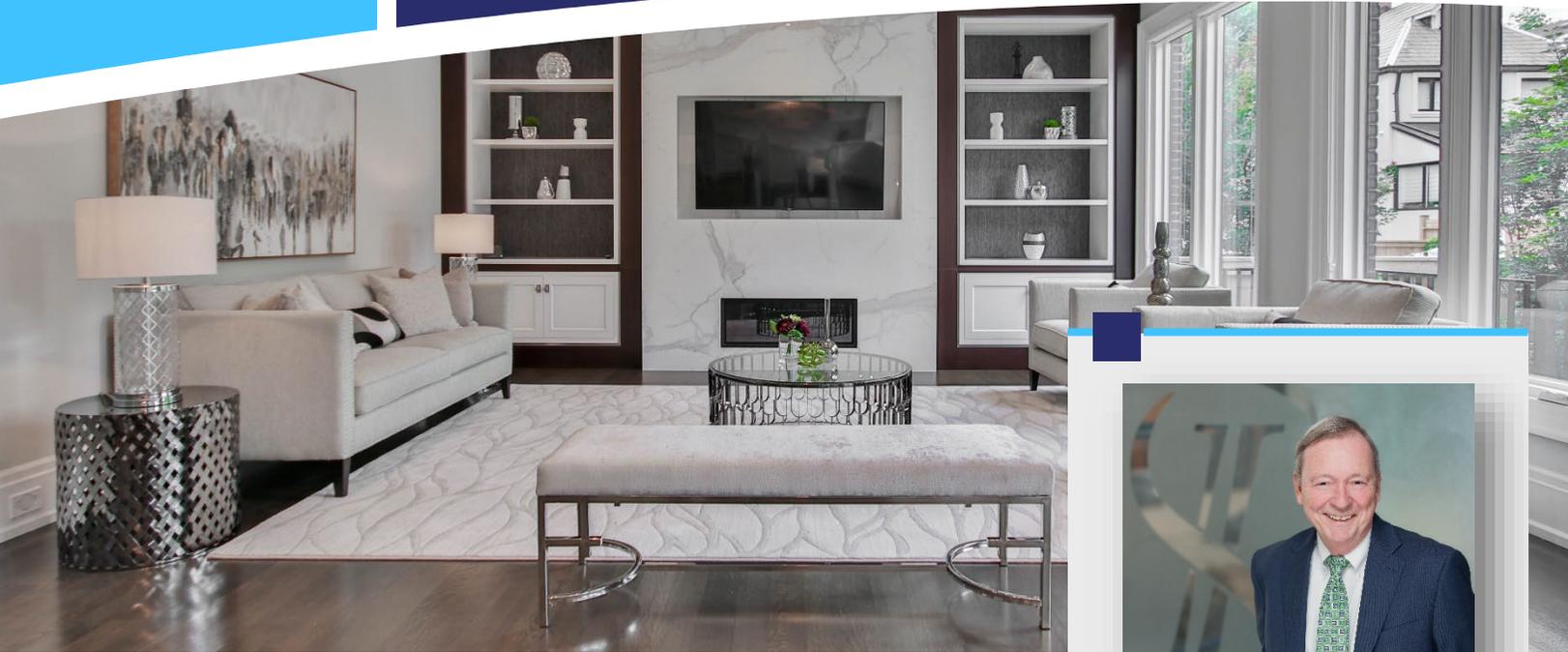




# FURNITURE INSIGHTS<sup>®</sup>

Smith Leonard PLLC's Industry Newsletter

June 2021



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## HIGHLIGHTS – EXECUTIVE SUMMARY

**A**s we noted last month, the results of our survey of residential furniture manufacturers and distributors will be difficult to make much sense of due to the pandemic that began in March of 2020. March, April, and most of May results in 2020 were a mixture of complete and or partial shutdowns, or while some employees were put back on payroll due to the government assistance programs, there was little productive activity at most places. At least until we started to see some things come back in May.

We have provided some comparisons to the same periods from 2019 which continue to show that business has really not only picked back up from last year, but is also showing very positive results compared to 2019. New orders were up 239% over April 2020 and were up 73% over the first four months of 2020. Comparing to April 2019 results, April 2021 orders were up 30% and were up 36% for the four months ended April.

Shipments were up 196% in April versus April 2020 and up 39% year to date. Shipments in April 2021 were up 26% over April 2019 and up 18% year to date. Backlogs were up 266% over April 2020 and up 5% from March 2021. Backlogs are clearly too high as new orders continue to exceed shipments. While catching up somewhat, it will likely be a while before backlogs get back to more reasonable levels. Supply of materials, especially foam in the upholstery world, as well as labor shortages, are hurting upholstery manufacturers. Supply of finished goods imports have also slowed due to the COVID effects on sourcing countries, either shut down or just significantly behind in production. We will discuss pricing more in our Thoughts section.

Receivable levels continue to be in good shape for most. Most of what we hear is that up to now, receivable aging's are very clean. We think compared to the April time period last year, most had begun to receive Paycheck Protection Program (PPP) funds and were able to use those to not only pay the employees but also to help with cash flow as businesses began to go back to work.

Inventory levels also appear in line and if anything, probably could be higher except for shortages of materials as well as serious container flow issues.

Employment results are really not all that meaningful for the April time period.

## EXECUTIVE SUMMARY, CONT.

### National

#### Consumer Confidence

The Conference Board Consumer Confidence Index® improved further in June, following gains in each of the previous four months. The Index now stands at 127.3 (1985=100), up from 120.0 (an upward revision) in May. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—rose from 148.7 to 157.7. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—improved to 107.0, up from 100.9 last month. The Index is now at the highest level since the start of the pandemic.

#### Housing

Single-family home sales dropped to a seasonally-adjusted annual rate of 5.08 million in May, down 1.0% from 5.13 million in April, and up 39.2% from one year ago. The median existing single-family home price was \$356,600 in May, up 24.4% from May 2020.

"Home sales fell moderately in May and are now approaching pre-pandemic activity," said Lawrence Yun, NAR's chief economist. "Lack of inventory continues to be the overwhelming factor holding back home sales, but falling affordability is simply squeezing some first-time buyers out of the market."

Sales in May were down compared to April in all regions except the Midwest, where they were up slightly. But all four regions reported significant increases over May 2020.

Sales of new single-family houses in May 2021 were at a seasonally adjusted annual rate of 769,000, which was 5.9% below the revised April rate but was 9.2% above the May 2020 estimate. New privately-owned house sales were up from May 2020 by 57.6% in the Northeast, 28.4% in the Midwest, 3.1% in the South and 6.7% in the West.

Housing starts continued to improve compared to last May. With lumber for use in housing prices starting to fall, we may see some pick up in starts soon.

#### Other

U.S. retail and food services sales for May 2021 decreased 1.3% from the previous month, but were 28.1% above May 2020.

Retail trade sales were down 1.7% from April 2021, but up 24.4% above last year. Food services and drinking places were up 70.6% from last year. Sales at furniture and home furnishings stores in May 2021 were up 66.7% over May 2020 and up 49.5% year to date. Comparing sales at these stores for the first four months of 2021 vs. the first four months of 2019, sales were up 14.7%.

The consumer price index increased 0.6% in May and was up 5% for the preceding 12 months. The index 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 3.8% over the last 12-months, the largest 12-month increase since the period ending June 1992. The energy index rose 28.5% over the last 12-months, and the food index increased 2.2%.

Total nonfarm payroll employment rose by 559,000 in May, and the unemployment rate declined by 0.3 percentage point to 5.8%. Notable job gains occurred in leisure and hospitality, in public and private education, and in health care and social assistance.

The Conference Board Leading Economic Index increased by 1.3% in May to 114.5 (2016 = 100), following a 1.3% increase in April and a 1.4% increase in March. The Conference Board now forecasts real GDP growth in Q2 could reach 9% (annualized), with year-over-year economic growth reaching 6.6% for 2021.

## EXECUTIVE SUMMARY, CONT.

### Thoughts

The June High Point Furniture Market seemed to be very successful for most. Many people commented that there were few tire kickers here, as most were writing orders. Some of the larger dealers that did a fair amount of business at Premarket did not come back, but those that did seemed to come to do business. If you sold to the design trade, you were busy.

The most prevalent discussions at market, other than about business being written, was what to do about pricing. Upholstery exhibitors were troubled by having 12 to 25 plus week deliveries in conjunction with prices of most materials going up. For example, how do you price goods for sale today that won't be made for say 15 to 20 weeks? On the case goods side, the same pricing issues were there as well, with some price increases in finished goods, but also crazy container increases, even if you can get one. When some prices of materials are going up 4 to 6 times, wholesale prices have to follow suit.

We believe that one good thing that may be coming from these price increases and shortages is that many dealers are learning that they actually can sell goods at higher prices, even when they didn't think they could. This proves again that the average consumer has no idea what a piece of furniture should cost to begin with.

How long will this great business last? We wish we knew, but it feels like it may last longer than we thought early on. For sure shipments will continue to grow as backlogs are worked down, but it feels like orders will continue to improve as consumers seem to really be into upfitting and redesigning the spaces they live in.

## HIGHLIGHTS – MONTHLY RESULTS

### New Orders

As we noted last month, the comparisons of the March to May results of 2021 to those of the same period of 2020 are really not meaningful other than to recognize that the residential furniture manufacturers and distributors have rebounded quite successfully. We will report those results for your information and for participants to be able to measure how they are stacking up against the industry. Most likely the comparisons of April 2021 to April 2020 will be the most difficult to compare since the March and April shutdowns of 2020 were very different for many people. So here goes.

New orders in April 2021 were up 239% over April 2020. As would be expected, all of the participants reported increased orders for the month. Year to date, new orders increased 73% over the first four months of 2020. But for a better comparison, we compared April 2021 results to that of April 2019. Those results were really impressive. For the month of April 2021, new orders were up 30% over April 2019. For the four months ended April, new orders were up 36% over the first four months of 2019.



### Shipments and Backlogs

Similar results were reported for shipments. In April, shipments were up 196% over April 2020 and were up 39% year to date. As with orders, all of our participants reported increases. Compared to April 2019, shipments were up 26% and up 18% year to date.

Backlogs remained at unbelievable levels, up 266% over April 2020. Backlogs were up 5% from March levels, in spite of shipping cranking up again.

### Receivables and Inventories

Receivable levels were up 35% over April 2020. From our conversations, most everyone we talk with say their receivables are about as clean as ever as it relates to past due invoices. We continue to believe that the PPP really helped dealers have the funds to continue to buy products.

Inventories were up 21% from last April, very much in line with what we would expect with the new level of orders. Had materials been more available, inventories would likely have been higher.

### Factory and Warehouse Employees and Payroll

Again, these results are not that comparable, but here they are. The number of factory and warehouse employees was up 14% over April 2020. But we are not sure what the April 2020 results included as many had shut down, some furloughed employees, others had brought them back due to the PPP program, so these results are just that.

Payrolls were up 170%, again, not a meaningful comparison.

#### ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2021		
	APR	MAR	4 MOS
New Orders	2,994	3,523	12,501
Shipments	2,880	2,987	10,886
Backlog (R)	7,583	7,222	

	2020		
	APR	MAR	4 MOS
New Orders	884	1,793	7,240
Shipments	1,130	2,232	7,832
Backlog (R)	1,841	2,001	

## MONTHLY RESULTS – JUNE 2021

### KEY MONTHLY INDICATORS (PERCENT CHANGE)

	April 2021 From March 2021	April 2021 From April 2020	4 Months 2021 vs 4 Months 2020
<b>New Orders</b>	-17	+239	+73
<b>Shipments</b>	-14	+196	+39
<b>Backlog</b>	+5	+266	
<b>Payrolls</b>	-6	+170	+22
<b>Employees</b>	-1	+14	
<b>Receivables</b>	-	+35	
<b>Inventories</b>	+4	+21	

### PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

#### New Orders   Shipments   Backlog   Employment

#### 2020

<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	-
<b>April</b>	+239	+196	+266	+14

## A DEEPER DIVE – NATIONAL

### Consumer Confidence

The Conference Board Consumer Confidence Index® improved further in June, following gains in each of the previous four months. The Index now stands at 127.3 (1985=100), up from 120.0 (an upward revision) in May. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—rose from 148.7 to 157.7. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—improved to 107.0, up from 100.9 last month.

“Consumer confidence increased in June and is currently at its highest level since the onset of the pandemic's first surge in March 2020,” said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. “Consumers' assessment of current conditions improved again, suggesting economic growth has strengthened further in Q2. Consumers' short-term optimism rebounded, buoyed by expectations that business conditions and their own financial prospects will continue improving in the months ahead. While short-term inflation expectations increased, this had little impact on consumers' confidence or purchasing intentions. In fact, the proportion of consumers planning to purchase homes, automobiles, and major appliances all rose—a sign that consumer spending will continue to support economic growth in the short-term. Vacation intentions also rose, reflecting a continued increase in spending on services.”

Consumers' appraisal of current business conditions improved in June. 24.5% of consumers said business conditions are “good”, up from 19.9%. 19.5% of consumers claimed business conditions are “bad”, down from 20.6%.

Consumers' assessment of the labor market also improved. 54.4% of consumers said jobs are “plentiful”, up from 48.5%. 10.9% of consumers claimed jobs are “hard to get”, down from 11.6%.

Consumers' optimism about the short-term business conditions outlook rebounded in June. 33.3% of consumers expect business conditions will improve, up from 31.0%. Just 10.6% expect business conditions to worsen, down from 14.4%.

Consumers were mixed about the short-term labor market outlook. 25.7% of consumers expect more jobs to be available in the months ahead, down from 27.7%. Conversely, 16.0% anticipate fewer jobs, down from 17.5%.

Consumers were more upbeat about their short-term financial prospects. 18.6% of consumers expect their incomes to increase, up from 16.2%. Only 8.5% expect their incomes will decrease, down from 9.3%.

### 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 “third” estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 4.3%.

The “third” estimate of GDP released late June is based on more complete source data than were available for the “second” estimate issued last month. In the second estimate, the increase in real GDP was also 6.4%. Upward revisions to nonresidential fixed investment, private inventory investment, and exports were offset by an upward revision to imports, which are a subtraction in the calculation of GDP.

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 increased.

#### NATIONAL UPDATE

##### Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 1.3% in May to 114.5 (2016 = 100), following a 1.3% increase in April and a 1.4% increase in March.

“After another large improvement in May, the U.S. LEI now stands above its previous peak reached in January 2020 (112.0), suggesting that strong economic growth will continue in the near term,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “Strengths among the leading indicators were widespread, with initial claims for unemployment insurance making the largest positive contribution to the index; housing permits made this month's only negative contribution. The Conference Board now forecasts real GDP growth in Q2 could reach 9% (annualized), with year-over-year economic growth reaching 6.6% for 2021.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.4% in May to 105.1 (2016 = 100), following a 0.3% increase in April and a 1.3% increase in March.

The Conference Board Lagging Economic Index® (LAG) for the U.S. decreased by 2.2% in May to 103.0 (2016 = 100), following a 3.0% increase in April and 4.2% decrease in March.

## A DEEPER DIVE – HOUSING

### Existing-Home Sales

Existing-home sales decreased for a fourth straight month in May, according to the National Association of Realtors®. Only one major U.S. region recorded a month-over-month increase, while the other three regions saw sales decline. However, each of the four areas again registered double-digit year-over-year gains.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, dropped 0.9% from April to a seasonally-adjusted annual rate of 5.80 million in May. Sales in total climbed year-over-year, up 44.6% from a year ago (4.01 million in May 2020).

Single-family home sales dropped to a seasonally-adjusted annual rate of 5.08 million in May, down 1.0% from 5.13 million in April, and up 39.2% from one year ago. The median existing single-family home price was \$356,600 in May, up 24.4% from May 2020.

Existing condominium and co-op sales were recorded at a seasonally-adjusted annual rate of 720,000 units in May, unchanged from April but up 100.0% from one year ago. The median existing condo price was \$306,000 in May, an annual increase of 21.5%.

"Home sales fell moderately in May and are now approaching pre-pandemic activity," said Lawrence Yun, NAR's chief economist. "Lack of inventory continues to be the overwhelming factor holding back home sales, but falling affordability is simply squeezing some first-time buyers out of the market."

"The market's outlook, however, is encouraging," Yun continued. "Supply is expected to improve, which will give buyers more options and help tamp down record-high asking prices for existing homes."

The median existing-home price for all housing types in May was \$350,300, up 23.6% from May 2020 (\$283,500), as every region registered price increases. This is a record high and marks 111 straight months of year-over-year gains since March 2012.

Total housing inventory at the end of May amounted to 1.23 million units, up 7.0% from April's inventory and down 20.6% from one year ago (1.55 million). Unsold inventory sits at a 2.5-month supply at the present sales pace, marginally up from April's 2.4-month supply but down from 4.6-months in May 2020.

Properties typically remained on the market for 17 days in May, unchanged from April and down from 26 days in May 2020. Eighty-nine percent of the homes sold in May 2021 were on the market for less than a month.

First-time buyers were responsible for 31% of sales in May, also even with April but down from 34% in May 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%.

A new study released by NAR – the 2021 Vacation Home Counties Report – found that from January to April 2021, the share of vacation home sales to total existing-home sales rose to 6.7%. Vacation home sales jumped 57.2% year-over-year compared to the 20% year-over-year growth in total existing-home sales.

"The appeal of vacation homes has certainly grown during the pandemic, especially among employees permitted to work from home," Yun said. "As businesses decide new guidelines for remote workers, even allowing permanent remote options in some cases, look for vacation homes to remain a popular option."

### Regional

For the second straight month, only the Midwest experienced higher sales from the prior month.

Existing-home sales in the Northeast decreased 1.4% in May, but the annual rate of 720,000 was a 46.9% jump from a year ago. The median price in the Northeast was \$384,300, up 17.1% from May 2020.

Existing-home sales in the Midwest rose 1.6% to an annual rate of 1,310,000 in May, a 27.2% increase from a year ago. The median price in the Midwest was \$268,500, an 18.1% increase from May 2020.

Existing-home sales in the South declined 0.4%, posting an annual rate of 2,590,000 in May, up 47.2% from the same time one year ago. The median price in the South was \$299,400, a 22.6% jump from one year ago.

Existing-home sales in the West fell 4.1%, recording an annual rate of 1,180,000 in May, a 61.6% climb from a year ago. The median price in the West was \$505,600, up 24.3% from May 2020.



## A DEEPER DIVE – HOUSING, CONT.

### New Residential Sales

Sales of new single-family houses in May 2021 were at a seasonally adjusted annual rate of 769,000, 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 April rate of 817,000 but was 9.2% above the May 2020 estimate of 704,000.

The median sales price of new houses sold in May 2021 was \$374,400. The average sales price was \$430,600.

New privately-owned house sales were up from May 2020 by 57.6% in the Northeast, 28.4% in the Midwest, 3.1% in the South and 6.7% in the West.

### Housing Starts

Privately-owned housing starts in May were at a seasonally adjusted annual rate of 1,572,000. This was 3.6% above the revised April estimate of 1,517,000 and was 50.3% above the May 2020 rate of 1,046,000. Single-family housing starts in May were at a rate of 1,098,000; this was 4.2% above the revised April figure of 1,054,000. The May rate for units in buildings with five units or more was 465,000.

Single family starts in May compared to May 2020 were up 50.3% with starts up 80.0% in Northeast, 70.7% in the Midwest, 46.7% in the South and 40.3% in the West.

### Housing Completions

Privately-owned housing completions in May were at a seasonally adjusted annual rate of 1,368,000. This was 4.1% below the revised April estimate of 1,426,000, but was 16.1% above the May 2020 rate of 1,178,000. Single-family housing completions in May were at a rate of 978,000; this was 2.6% below the revised April rate of 1,004,000.



## 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 May 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$620.2 billion, a decrease of 1.3% from the previous month, but 28.1% above May 2020. Total sales for the March 2021 through May 2021 period were up 36.2% from the same period a year ago.

Retail trade sales were down 1.7% from April 2021, but up 24.4% above last year. Clothing and clothing accessories stores were up 200.3% from May 2020, while food services and drinking places were up 70.6% from last year.

Sales at furniture and home furnishings stores in May 2021 were up 66.7% over May 2020 and up 49.5% year to date. Comparing sales at these stores for the first four months of 2021 vs. the first four months of 2019, sales were up 14.7%.

### Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.6% in May on a seasonally adjusted basis after rising 0.8% in April, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 5.0% before seasonal adjustment; this was the largest 12-month increase since a 5.4% increase for the period ending August 2008.

The index for used cars and trucks continued to rise sharply, increasing 7.3% in May. This increase accounted for about one-third of the seasonally adjusted all items increase. The food index increased 0.4% in May, the same increase as in April. The energy index was unchanged in May, with a decline in the gasoline index again offsetting increases in the electricity and natural gas indexes.

The index for all items less food and energy rose 0.7% in May after increasing 0.9% in April. Many of the same indexes continued to increase, including used cars and trucks, household furnishings and operations, new vehicles, airline fares, and apparel. The index for medical care fell slightly, one of the few major component indexes to decline in May.

The all items index rose 5.0% for the 12 months ending May; 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 3.8% over the last 12-months, the largest 12-month increase since the period ending June 1992. The energy index rose 28.5% over the last 12-months, and the food index increased 2.2%.

## A DEEPER DIVE – OTHER NATIONAL, CONT.

### Employment

Total nonfarm payroll employment rose by 559,000 in May, and the unemployment rate declined by 0.3 percentage point to 5.8%, according to the U.S. Bureau of Labor Statistics. Notable job gains occurred in leisure and hospitality, in public and private education, and in health care and social assistance.

In May, the unemployment rate declined by 0.3 percentage point to 5.8%, and the number of unemployed persons fell by 496,000 to 9.3 million. 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).

Among the unemployed, the number of persons on temporary layoff declined by 291,000 to 1.8 million in May. This measure is down considerably from the recent high of 18.0 million in April 2020 but is 1.1 million higher than in February 2020. The number of permanent job losers decreased by 295,000 to 3.2 million in May but was 1.9 million higher than in February 2020.

### Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in May increased 2.3% to \$253.3 billion, according to the U.S. Census Bureau. This increase, up twelve of the last thirteen months, followed a 0.8% April decrease. Excluding transportation, new orders increased 0.3%. Excluding defense, new orders increased 1.7%. Transportation equipment, up following two consecutive monthly decreases, led the increase, at 7.6% to \$74.2 billion.

Shipments of manufactured durable goods in May, up two of the last three months, increased 0.4% to \$248.3 billion. This followed a virtually unchanged April decrease. Machinery, up seven of the last eight months, led the increase, 1.1% to \$35.1 billion.

According to the final report, shipments of furniture and related products in April 2021 increased 10.6% from April 2020 but were down 1.4% year to date. Orders were up 14.2% from April 2020 for this category and up 0.9% year to date. Clearly this category includes several things other than residential furniture.

