FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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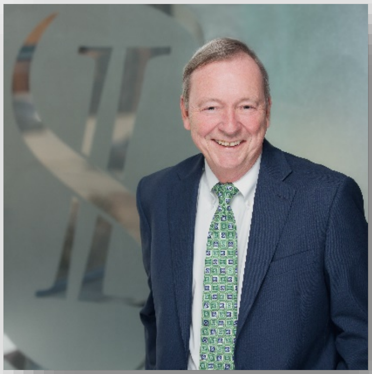

Ken Smith, CPA

HIGHLIGHTS – EXECUTIVE SUMMARY

As we have noted in the last few months, the results of our survey of residential furniture manufacturers and distributors need to be considered with commentary. For the first time since June 2020, new orders in July 2021 were down compared to the same month of 2020. New orders were down 11% compared to July 2020. But the commentary to that is that July 2021 orders were up 24% compared to July 2019. July 2020 was really just the start of the comeback from the worst of business created by the pandemic, as orders were up 39% over July 2019.

Interesting fact though is that over one half of the participants reported increased orders from last year, some up significant double digits. On the other hand, some of the declines in orders were down significant double digits. So, the results in July 2021 really related to how fast companies were coming back from the start of the COVID shutdowns.

Year to date through July, orders were up 39%. Orders were up for some 91% of the participants.

Shipments were up 21% over July 2020 as there was plenty of backlog that could be shipped. The increase in shipments for the month put year to date shipments up 39%. Over 90% of the participants reported the increases in shipments both for the month and year to date. Shipments were down 19% from June 2021, but we believe that was related to vacation weeks for most.

Backlogs inched up slightly and were 108% higher than July 2020, as the lack of materials and labor as well as all the freight issues would not allow companies to ship more and cut into the backlogs.

Receivable levels continue to make sense compared to shipments year to date. The change from June to July appeared to be a timing issue as shipments were down 19% with receivables down 2%.

Inventories were up 51% over last year, but last year inventories were down 10% so some of that is timing and the rest is participants knowing that having inventory now is critical. The issue now is, do you have all of the "right" inventory that you need.

The employee and wage levels for factory and warehouse personnel are in as good a shape as they can be considering the shortage of workers.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

Lynn Franco, Senior Director of Economic Indicators at The Conference Board said “Consumer confidence dropped in September as the spread of the Delta variant continued to dampen optimism. Concerns about the state of the economy and short-term growth prospects deepened, while spending intentions for homes, autos, and major appliances all retreated again. Short-term inflation concerns eased somewhat but remain elevated. Consumer confidence is still high by historical levels—enough to support further growth in the near-term—but the Index has now fallen 19.6 points from the recent peak of 128.9 reached in June. These back-to-back declines suggest consumers have grown more cautious and are likely to curtail spending going forward.”

Housing

Existing home sales in August fell 2% from July 2021 and were 1.5% below August 2020. But August 2020 sales were up 10.5% over August 2019, so the August 2021 sales were up 8.3% over August 2019. As we have noted with the furniture survey, comparisons to last year will be difficult for some time due to the pandemic fluctuations. All four regions reported a decrease from August 2020, but all four regions showed an increase in sales over August 2019.

"Sales slipped a bit in August as prices rose nationwide," said Lawrence Yun, NAR's chief economist. "Although there was a decline in home purchases, potential buyers are out and about searching, but much more measured about their financial limits, and simply waiting for more inventory."

Total housing inventory at the end of August totaled 1.29 million units, down 1.5% from July's supply and down 13.4% from one year ago. The median existing-home price for all housing types in August was $356,700, up 14.9% from August 2020, as prices increased in each region. This marks 114 straight months of year-over-year gains.

Sales of new residential homes in August were slightly above July sales but were down 24.3% from August 2020. Sales were just slightly above 2019 in 2021.

Housing starts were up nicely in August, up 3.9% from July 2021 and up 17.4% over August 2020. Single family starts in August were up 5.2% over August 2020, up in the Northeast and South but down in the Midwest and West.

EXECUTIVE SUMMARY, CONT.

Thoughts

The “Whack a Mole” world we seem to be living in continues. Most of the folks we talk with seem to feel that is a good description. If one thing gets fixed, something else comes along as an issue.

We won’t get into all the intricacies of those issues as most of you are living with them every day. In most stories we read today, the issues at the ports for the most part are a real mess and the backlog is so big, it is questionable how soon it can be fixed.

The cost of materials keeps going up and is really becoming a problem for people quoting prices for future delivery. One non-furniture client reported they are taking orders for their products but not quoting prices until closer to time to make the product. Could custom order furniture pull that off? Or imported case good suites? Maybe not, but it is an interesting concept to consider.

Labor seems to be getting a bit better but so many people that left the workforce have decided not to come back, even with unemployment payments being cut. But most we talk with are getting more people in the door to interview. The next concern is retaining the talent once found.

While confidence is down some, most feel that the economy should continue to be positive into 2022. The new COVID variant has spooked some people and vaccinations are still an issue, depending on which side you are on. The stock market is also becoming unpredictable, unfortunately right here coming into High Point Market time. Let’s hope we can get the COVID issue settled down as we get closer to 2022.

We hope to see all of you here in High Point in October.

Other

U.S. retail and food services sales for August 2021 were up 0.7% from the previous month, and 15.1% above August 2020. Total sales for the June 2021 through August 2021 period were up 16.3% from the same period a year ago. Retail trade sales were up 0.8% from July 2021, and up 13.1% above last year. Clothing and clothing accessories stores were up 38.8% from August 2020, while gasoline stations were up 35.7% from last year.

Sales at furniture and home furnishings stores in August were up 15.6% over August a year ago. Sales at these stores were up 35.2% year to date over the same period a year ago.

The Consumer Price Index for All Urban Consumers increased 0.3% in August on a seasonally adjusted basis after rising 0.5% in July. Over the last 12 months, the all-items index increased 5.3% before seasonal adjustment. The indexes for gasoline, household furnishings and operations, food, and shelter all rose in August and contributed to the monthly all items seasonally adjusted increase. The energy index increased 2.0%, mainly due to a 2.8% increase in the gasoline index. The index for food rose 0.4%, with the indexes for food at home and food away from home both increasing 0.4%. The index for all items less food and energy rose 0.1% in August, its smallest increase since February 2021.

Total nonfarm payroll employment rose by 235,000 in August, and the unemployment rate declined by 0.2 percentage point to 5.2%.

EXECUTIVE SUMMARY, CONT.

Other, Cont.

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.9% in August following a 0.8% increase in July and a 0.6% increase in June. Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board said "While the Delta variant—alongside rising inflation fears—could create headwinds for labor markets and the consumer spending outlook in the near term, the trend in the LEI is consistent with robust economic growth in the remainder of the year. Real GDP growth for 2021 is expected to reach nearly 6.0% year-over-year, before easing to a still-robust 4.0% for 2022."

HIGHLIGHTS – MONTHLY RESULTS

New Orders

The results of our latest survey of residential furniture manufacturers and distributors continue to need explanations as the COVID issues continue to affect our daily lives and business as well. For the first time since June of 2020, new orders were down from the same month in the previous year. Orders were down 11% from July 2020. But those results were very mixed among the participants as over half the participants still reported increases, some in the significant double digits. But on the negative side, some of those declines in orders were down in significant double digits as well. Even with the overall decline in orders for July 2021 from July 2020, orders were still up 24% over July 2019.

Year to date, new orders were up 39% from the same period a year ago. Orders year to date were up for 91% of the participants.

Shipments and Backlogs

Shipments were up 21% in July vs July 2020. Shipments in July were down from June but that would be expected due to the shutdowns for vacations for most of the participants. Shipments were up for 70% of the participants for the month. Shipments were also up 21% compared to July 2019 as July 2020 shipments were about the same as July 2019.

Year to date shipments were up 39% over the first 7 months of 2020. Shipments were up for 91% of the participants year to date.

Backlogs were up slightly from June but 108% higher than July 2020. We realize that backlogs are too high, but they are being held back due to shortage of materials and labor as well as all sorts of freight issues.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2021		
	JUL	JUN	7 MOS
New Orders	2,917	3,416	22,193
Shipments	2,712	3,244	19,531
Backlog	8,077	7,981	

	2020		
	JUL	JUN	7 MOS
New Orders	3,263	3,088	15,966
Shipments	2,250	2,359	14,011
Backlog	3,883	3,001	

Receivables and Inventories

Receivables were up 36% over July 2020. This seems in line with the year-to-date shipments increase of 39%. Receivables only declined 2% from June while shipments were down 19% but we think most of that difference was timing. We continue to hear that receivables are in good shape for the most part so as best we can tell, most retail customers are able to stay current.

Inventories are up 51% from last year. While that could seem a little out of line, we think most have found that, right now, you need to have inventory if you can get it. Inventories were only up 5% from June. Also, in July 2020, inventories were down 10% from the previous year so some of the large increase, may just be timing.

Factory and Warehouse Employees and Payroll

The comparisons of these two items is still a bit difficult as in July 2020, companies were just trying to build employment back up. The 12% decrease in payrolls from June to July probably related to vacation pay for many who shutdown the week of the 4th of July. The 20% increase in payrolls over last July would also make sense, so overall, other than not being able to hire enough employees, (which just happens to be a big problem for manufacturers), the areas appear in good shape.

MONTHLY RESULTS – SEPTEMBER 2021

KEY MONTHLY INDICATORS (PERCENT CHANGE)	July 2021 from June 2021	July 2021 from July 2020	7 Mos 2021 vs 7 Mos 2020
New Orders	-18	-11	+39
Shipments	-19	+21	+39
Backlog	+1	+108	
Payrolls	-12	+20	+26
Employees	–	+7	
Receivables	-2	+36	
Inventories	+5	+51	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2020				
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
July	-11	+21	+108	+20

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index*® declined again in September, following decreases in both July and August. The Index now stands at 109.3 (1985=100), down from 115.2 in August. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—fell to 143.4 from 148.9 last month. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 86.6 from 92.8.

"Consumer confidence dropped in September as the spread of the Delta variant continued to dampen optimism," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Concerns about the state of the economy and short-term growth prospects deepened, while spending intentions for homes, autos, and major appliances all retreated again. Short-term inflation concerns eased somewhat but remain elevated. Consumer confidence is still high by historical levels—enough to support further growth in the near-term—but the Index has now fallen 19.6 points from the recent peak of 128.9 reached in June. These back-to-back declines suggest consumers have grown more cautious and are likely to curtail spending going forward.

Present Situation

Consumers' appraisal of current business conditions declined in September. 19.3% of consumers said business conditions are "good," down from 20.2%. 25.4% of consumers said business conditions are "bad," up from 24.1%.

Consumers' assessment of the labor market was mixed. 55.9% of consumers said jobs are "plentiful," up from 55.6%. Conversely, 13.4% of consumers said jobs are "hard to get," up from 11.2%.

Expectations Six Month Hence

Consumers' optimism about the short-term business conditions outlook eroded further in September. 21.5% of consumers expect business conditions will improve, down from 23.4%. 17.6% expect business conditions to worsen, up from 17.4% Consumers were also less optimistic about the short-term labor market outlook. 21.5% of consumers expect more jobs to be available in the months ahead, down from 23.1%. 20.3% anticipate fewer jobs, up from 18.0%.

Consumers were slightly less positive about their short-term financial prospects. 17.3% of consumers expect their incomes to increase, down from 18.2%. 11.5% expect their incomes will decrease, up from 9.9%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.9% in August to 117.1 (2016 = 100), following a 0.8% increase in July and a 0.6% increase in June. "The U.S. LEI rose sharply in August and remains on a rapidly rising trajectory," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "While the Delta variant—alongside rising inflation fears—could create headwinds for labor markets and the consumer spending outlook in the near term, the trend in the LEI is consistent with robust economic growth in the remainder of the year. Real GDP growth for 2021 is expected to reach nearly 6.0% year-over-year, before easing to a still-robust 4.0% for 2022."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.2% in August to 105.9 (2016 = 100), following a 0.6% increase in July and a 0.5% increase in June.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.1% in August to 106.3 (2016 = 100), following a 0.5% increase in July and a 0.1% decrease in June.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 6.7% in the second quarter of 2021, according to the "third" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 6.3%. In the second estimate, the increase in real GDP was 6.6%. Upward revisions to personal consumption expenditures (PCE), exports, and private inventory investment were partly offset by an upward revision to imports, which are a subtraction in the calculation of GDP.

The increase in real GDP in the second quarter reflected increases in 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 retreated in August, breaking two straight months of increases, according to the National Association of Realtors®. Each of the four major U.S. regions experienced declines on both a month-over-month and a year-over-year perspective.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 2.0% from July to a seasonally adjusted annual rate of 5.88 million in August. Year-over-year, sales dropped 1.5% from a year ago (5.97 million in August 2020).

Single-family home sales decreased to a seasonally adjusted annual rate of 5.19 million in August, down 1.9% from 5.29 million in July and down 2.8% from one year ago. The median existing single-family home price was $363,800 in August, up 15.6% from August 2020.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 690,000 units in August, down 2.8% from 710,000 in July but up 9.5% from one year ago. The median existing condo price was $302,800 in August, an annual increase of 10.8%.

"Sales slipped a bit in August as prices rose nationwide," said Lawrence Yun, NAR's chief economist. "Although there was a decline in home purchases, potential buyers are out and about searching, but much more measured about their financial limits, and simply waiting for more inventory."

Total housing inventory at the end of August totaled 1.29 million units, down 1.5% from July's supply and down 13.4% from one year ago (1.49 million). Unsold inventory sits at a 2.6-month supply at the current sales pace, unchanged from July but down from 3.0 months in August 2020."

The median existing-home price for all housing types in August was $356,700, up 14.9% from August 2020 ($310,400), as prices increased in each region. This marks 114 straight months of year-over-year gains.

"High home prices make for an unbalanced market, but prices would normalize with more supply," Yun said.

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

First-time buyers accounted for 29% of sales in August, down from 30% in July and 33% in August 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 slid 1.4% in August, recording an annual rate of 730,000, a 2.7 decline from August 2020. The median price in the Northeast was $407,800, up 16.8% from one year ago.

Existing-home sales in the Midwest fell 1.4% to an annual rate of 1,370,000 in August, a 2.1% decline from a year ago. The median price in the Midwest was $272,200, a 10.5% jump from August 2020.

Existing-home sales in the South slipped 3.0% in August, registering an annual rate of 2,550,000, down 0.8% from the same time one year ago. The median price in the South was $303,200, a 12.8% climb from one year ago.

Existing-home sales in the West decreased 0.8%, posting an annual rate of 1,230,000 in August, down 1.6% from one year ago. The median price in the West was $507,900, up 11.4% from August 2020.

New Residential Sales

Sales of new single-family houses in August 2021 were at a seasonally adjusted annual rate of 740,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 1.5% above the revised July rate of 729,000 but was 24.3% below the August 2020 estimate of 977,000.

The median sales price of new houses sold in August 2021 was $390,900. The average sales price was $443,200. The seasonally adjusted estimate of new houses for sale at the end of August was 378,000. This represents a supply of 6.1 months at the current sales rate.

Regionally comparing August 2021 to August 2020, sales were down 37.0% in the Northeast, 46.9% in the Midwest, 23.0% in the South and 16.3% in the West.

A DEEPER DIVE – HOUSING, CONT.

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 August were at a seasonally adjusted annual rate of 1,615,000. This was 3.9% above the revised July estimate of 1,554,000 and was 17.4% above the August 2020 rate of 1,376,000. Single-family housing starts in August were at a rate of 1,076,000; this was 2.8% below the revised July figure of 1,107,000 but was 5.2% above August 2020. Single family starts compared to August 2020 were up 8.5% in the Northeast and 29.2% in the South but were down 20.3% in the Midwest and 20.5% in the West.

Housing Completions

Privately-owned housing completions in August were at a seasonally adjusted annual rate of 1,330,000. This was 4.5% below the revised July estimate of 1,392,000 but was 9.4% above the August 2020 rate of 1,216,000. Single-family housing completions in August were at a rate of 971,000; this was 2.8% above the revised July rate of 945,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau reported advance estimates of U.S. retail and food services sales for August 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $618.7 billion, an increase of 0.7% from the previous month, and 15.1% above August 2020. Total sales for the June 2021 through August 2021 period were up 16.3% from the same period a year ago.

Retail trade sales were up 0.8% from July 2021, and up 13.1% above last year. Clothing and clothing accessories stores were up 38.8% from August 2020, while gasoline stations were up 35.7% from last year.

Sales at furniture and home furnishings stores in August were up 15.6% over August a year ago. Sales at these stores were up 35.2% year to date over the same period a year ago. This category increase was the 3rd highest year to date only behind clothing and clothing accessories and sporting goods, hobby, musical instrument and books categories.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in August on a seasonally adjusted basis after rising 0.5% in July, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all-items index increased 5.3% before seasonal adjustment.

The indexes for gasoline, household furnishings and operations, food, and shelter all rose in August and contributed to the monthly all items seasonally adjusted increase. The energy index increased 2.0%, mainly due to a 2.8% increase in the gasoline index. The index for food rose 0.4%, with the indexes for food at home and food away from home both increasing 0.4%.

The index for all items less food and energy rose 0.1% in August, its smallest increase since February 2021. Along with the indexes for household operations and shelter, the indexes for new vehicles, recreation, and medical care also rose in August. The indexes for airline fares, used cars and trucks, and motor vehicle insurance all declined over the month.

The all-items index rose 5.3% for the 12 months ending August, a smaller increase than the 5.4% rise for the period ending July. The index for all items less food and energy rose 4.0% over the last 12 months, also a smaller increase than the period ending July. The energy index rose 25.0% over the last 12 months, and the food index increased 3.7%; both were larger than the increases for the 12-month period ending July.

Employment

Total nonfarm payroll employment rose by 235,000 in August, and the unemployment rate declined by 0.2 percentage point to 5.2%, according to the U.S. Bureau of Labor Statistics. So far this year, monthly job growth has averaged 586,000. In August, notable job gains occurred in professional and business services, transportation and warehousing, private education, manufacturing, and other services. Employment in retail trade declined over the month.

The number of unemployed persons edged down to 8.4 million, following a large decrease in July. Both measures are down considerably from their highs at the end of the February-April 2020 recession. However, they remain above their levels prior to the coronavirus (COVID-19) pandemic (3.5% and 5.7 million, respectively, in February 2020).

The number of long-term unemployed (those jobless for 27 weeks or more) decreased by 246,000 in August to 3.2 million but was 2.1 million higher than in February 2020. These long-term unemployed accounted for 37.4% of the total unemployed in August. The number of persons jobless less than 5 weeks, at 2.1 million, was little changed.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in August increased $4.6 billion or 1.8% to $263.5 billion, according to the U.S. Census Bureau. This increase, up fifteen of the last sixteen months, followed a 0.5% July increase. Excluding transportation, new orders increased 0.2%. Excluding defense, new orders increased 2.4%. Transportation equipment, up three of the last four months, led the increase, at 5.5% to $80.8 billion.

Shipments of manufactured durable goods in August, down following three consecutive monthly increases, decreased $1.2 billion or 0.5%. This followed a 2.0% July increase. Transportation equipment, down following two consecutive monthly increases, drove the decrease, $2.0 billion or 2.7%.

According to the final report, new orders in July 2021 compared to July 2020 for furniture and related products increased 4.5% for the month and were up 3.7% year to date. Shipments for the month were down 2.0% and about even for the year to date.