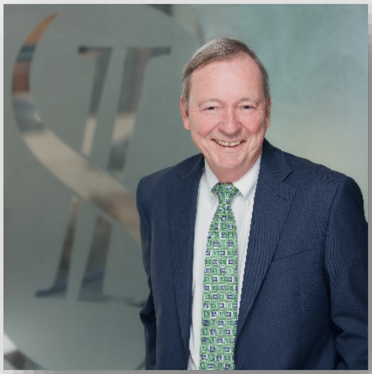
FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

October 2021



Ken Smith, CPA

HIGHLIGHTS – EXECUTIVE SUMMARY

Once again, as has been the case since the beginning of the pandemic, the raw numbers have to be explained. The results of our survey of residential furniture manufacturers and distributors showed some interesting comparisons. For instance, new orders in August were down 14% from August 2020. At first glance, alarm bells rang, but then we looked to see what August 2020 results showed. Oh, a 51% increase over August 2019. So, then we looked at August 2021 compared to August 2019 and we saw that orders were up 30% over that period. Year to date, new orders were up 29% and up 35% over the same period of 2019. Based on those results, we turned off the alarm.

So, the story continues as each comparison these days, requires a "but see" comparison, as we see with shipments. Shipments were up 10% in August versus August 2020 and up 34% year to date. Shipments were up 14% over August 2019. August 2021 shipments were up for some 91% of the participants.

It is hard to think of backlogs as a big problem, but they have become a major issue for most. Backlogs rose again in August, up 3% as orders in dollars exceeded shipments once again. Backlogs were up 81% over August 2020 when they were up 102% over August 2019.

Receivable levels continue to make sense compared to shipments, and in conversations, it appears that most dealers have been able to stay pretty current. Of course, they must, as to get product, they need to stay current. Inventory levels were up 43% over last August. The issue now is more of what the inventory is versus how much in dollars one has. For instance, it doesn't matter if you have the fabric in stock, if you don't have twine for the 8-way hand tied. While that may seem far-fetched, we heard that story.

As for factory and warehouse employees, that is just one more of the stories of need. According to the survey, the number of factory and warehouse employees was up 6% over last August, but that, according to most, was not nearly enough. The need for workers is up and down the line as suppliers of materials to manufacturers need people as well. And truck drivers are needed as well as dock workers. The shortage of workers in the country is a major issue.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

Consumer confidence improved in October, reversing a three-month downward trend as concerns about the spread of the Delta variant eased," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "While short-term inflation concerns rose to a 13-year high, the impact on confidence was muted. The proportion of consumers planning to purchase homes, automobiles, and major appliances all increased in October—a sign that consumer spending will continue to support economic growth through the final months of 2021. Likewise, nearly half of respondents (47.6%) said they intend to take a vacation within the next six months—the highest level since February 2020, a reflection of the ongoing resurgence in consumers' willingness to travel and spend on in-person services."

Housing

Existing-home sales were up in September after falling last month, but compared to September 2020, sales were down. Regionally, all four regions were up versus August, but all but the South were down from last year. The South was even with last year. Single-family home sales were down slightly more as condo and co-op sales were up slightly.

New residential sales in September were up from August but down from September last year. Compared to last year, sales were down in all regions except the Northeast.

Housing starts were down slightly from August but up 7.45% over last September. Single family starts though were down 2.3%.

Other

The advance report on retail and food services sales was positive again with sales up over September 2020 13.9% and up 14.9% for the quarter end September 2021. Sales at furniture and home furnishings stores were up 13.4% and up 32% for the year to date. The year to date was pretty much even with Gasoline stations and Sporting goods, hobby, musical instruments and books stores, though trailing Clothing and clothing accessories which were up 58.2% year to date.

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4% in September on a seasonally adjusted basis after rising 0.3% in August. Over the last 12 months, the all-items index increased 5.4% before seasonal adjustment. It would be interesting to know what an index would show for just the residential furniture industry but my bet is that it would be considerably more than the overall 5.4% increase.

Non-farm employment rose by 194,000 in September and the unemployment rate fell by 0.4% to 4.8%.

"The U.S. Leading Economic Index (LEI) rose again in September, though at a slower rate, suggesting the economy remains on a more moderate growth trajectory compared to the first half of the year," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The Delta variant, rising inflation fears, and supply chain disruptions are all creating headwinds for the US economy. Despite the LEI's slower growth in recent months, the strengths among the components remain widespread. The Conference Board continues to forecast strong growth ahead: 5.7% year-over-year for 2021 and 3.8% for 2022."

EXECUTIVE SUMMARY, CONT.

Thoughts

We just finished off another High Point Market and we would say that overall, the results were positive, especially since there was some trepidation coming in. The mood seemed very good in spite of all the delivery issues. Most seemed to have an attitude of focusing on making the best of a market season that is admittedly challenging.Orders were written, lots of designers were here, the big folks came early, and it was business as usual, though maybe not by the numbers all would have wanted. Noticeably absent but expected was the lack of the typical international vistor representation.

One company had asked me to speak about what was going on outside their company, so I did an unscientific survey of folks attempting to cover several issues they asked me to talk about. What we came up with was, at first, we had the issues with COVID, then lack of employees both domestic and foreign, and then the foam shortages. Then when foam was available, there were not enough employees to fill the need for cutting foam for cushions. Then prices started rising for other materials. Freight? Oh, that caused issues from lack of truckers, boats, containers, dock workers, container prices, and the list just went on and on. There were even issues with ability to get twine and cotton. Then to top off the list, several Asian countries had a run of COVID and basically shut the whole country down. Imports from those countries just shut down.

So much of the conversation was pretty easy. When can you ship? The answer was 12, 20, 30, 40 weeks or more. Pretty much all those numbers were used as well as in between. The other question that we asked of most everyone was, if we had told you two years ago that business in the industry would be this good, how many would have realized that there would be this many problems. But we always came back to it is a lot better than 2008 when we didn't know who would survive.

There were questions as to how much longer this good business will last. The answers we got were probably through 2021, some said through 2022, some through 2023 while others said it will fall off quickly. If anyone figures it out, please let us know. We will be happy to share.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

Our survey results again produced some interesting comparisons. The survey of our residential manufacturers and distributor participants indicated that new orders were down 14% in August 2021 compared to August 2020. But that comparison is misleading, as August 2020 new orders were up 51% over August 2019 as business continued to open back up from the shutdowns in March, April and early May. Comparing August 2021 to August 2019 resulted in orders being up 30%. Orders in August 2021 were down for some 55% of the participants when comparing to August 2020.

Year to date, new orders were up 29% over the same period of 2020. The 2021 year to date results were 35% ahead of 2019 year to date. Orders were up year to date over 2020 for 82% of the participants.

Shipments and Backlogs

Shipments in August 2021 were up 10% over August 2020 and were up for 71% of the participants as companies continued to bring workers back and were able to get materials and imports moving. Shipments in August 2021 were up 14% over August 2019.

Year to date shipments were up 34% through August. Shipments were up for some 91% of the participants.

While shipments were up nicely over August 2020, backlogs continued to grow, up 3% over July. August backlogs were up 81% over August 2020. August 2020 backlogs were up 102% over August 2019. Clearly, this continues to be a significant problem for the industry. Unfortunately, as we discussed in the "Thoughts" section, its seems that everything that can go wrong is not helping the situation. The wait times are definitely a problem and a point of frustration, up and down the lines.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2021		
	AUG	**JUL**	**8 MOS**
New Orders	3,094	2,917	25,287
Shipments	2,677	2,611	22,208
Backlog (R)	8,352	8,077	

	2020		
	AUG	**JUL**	**8 MOS**
New Orders	3,582	3,263	19,678
Shipments	2,425	2,250	16,599
Backlog	4,603	3,446	

Receivables and Inventories

Receivable levels were up 21% over August 2020, a little high compared to the 10% increase for the month in shipments but compared to the 34% increase in year to date shipments, are very much in line. Customers are keeping their invoices up to date, as those that are falling behind, fall further behind in getting their orders.

Inventories were up 43% over August 2020, down from a 51% increase reported last month. As we have noted before, the key to the game today is having inventory. Unfortunately, the key is having the right inventory and that is not always the case these days.

Factory and Warehouse Employees and Payroll

The number of factory employees was even with July and up 6% over last year. The problem is that the number needs to be significantly higher both in manufacturing and to a degree in warehouses. This issue is really causing problems as even if materials are available, many times it's the lack of employees that is keeping product from being shipped. Factory and warehouse payroll were up 16% over August 2020 and are up 24% year to date. The increases are a combination of a few more people and rising wage rates as the competition in and out of the industry is causing employment costs to rise.

MONTHLY RESULTS – OCTOBER 2021

KEY MONTHLY INDICATORS (PERCENT CHANGE)	August 2021 from July 2021	August 2021 from August 2020	8 Mos 2021 vs 8 Mos 2020
New Orders	+7	-14	-29
Shipments	+3	+10	+34
Backlog	+3	+81	
Payrolls	+15	+16	+24
Employees	–	+6	
Receivables	-2	+21	
Inventories	-5	+43	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2020				
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
August	-14	+10	+81	+6

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* increased in October, following declines in the previous three months. The Index now stands at 113.8 (1985=100), up from 109.8 in September. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—rose to 147.4 from 144.3 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—improved to 91.3 from 86.7.

"Consumer confidence improved in October, reversing a three-month downward trend as concerns about the spread of the Delta variant eased," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "While short-term inflation concerns rose to a 13-year high, the impact on confidence was muted. The proportion of consumers planning to purchase homes, automobiles, and major appliances all increased in October—a sign that consumer spending will continue to support economic growth through the final months of 2021. Likewise, nearly half of respondents (47.6%) said they intend to take a vacation within the next six months—the highest level since February 2020, a reflection of the ongoing resurgence in consumers' willingness to travel and spend on in-person services."

Present Situation

Consumers' appraisal of current business conditions was mixed in October. 18.6% of consumers said business conditions are "good," down from 19.1%. On the other hand, 24.9% of consumers said business conditions are "bad," down from 25.3%.

Consumers' assessment of the labor market was moderately more favorable. 55.6% of consumers said jobs are "plentiful," down from 56.5%. Conversely, 10.6% of consumers said jobs are "hard to get," down from 13.0%.

Expectations Six Month Hence

Consumers' optimism about the short-term business conditions outlook was mixed in October. 24.3% of consumers expect business conditions will improve, up from 21.7%. On the other hand, 21.1% expect business conditions to worsen, up from 17.6%.

Consumers were more optimistic about the short-term labor market outlook. 25.4% of consumers expect more jobs to be available in the months ahead, up from 21.3%. 8.3% anticipate fewer jobs, down from 19.9%.

Consumers were more positive about their short-term financial prospects. 18.7% of consumers expect their incomes to increase, up from 16.9%. 11.3% expect their incomes will decrease, virtually unchanged from 11.4%.

Gross Domestic Product – Not yet available at time of release.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.2% in September to 117.5 (2016 = 100), following a 0.8% increase in August and a 0.9% increase in July.

"The U.S. LEI rose again in September, though at a slower rate, suggesting the economy remains on a more moderate growth trajectory compared to the first half of the year," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The Delta variant, rising inflation fears, and supply chain disruptions are all creating headwinds for the U.S. economy. Despite the LEI's slower growth in recent months, the strengths among the components remain widespread. The Conference Board continues to forecast strong growth ahead: 5.7% year-over-year for 2021 and 3.8% for 2022."

The Conference Board Coincident Economic Index® (CEI) for the U.S. remained unchanged in September at 105.8 (2016 = 100), following a 0.1% increase in August and a 0.6% increase in July.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.3% in September to 106.5 (2016 = 100), following a 0.1% increase in August and a 0.4% increase in July.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales rebounded in September after seeing sales wane the previous month, according to the National Association of Realtors®. Each of the four major U.S. regions witnessed increases on a month-over-month basis. From a year-over-year timeframe, one region held steady while the three others each reported a decline in sales.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 7.0% from August to a seasonally adjusted annual rate of 6.29 million in September. However, sales decreased 2.3% from a year ago (6.44 million in September 2020).

Single-family home sales increased to a seasonally adjusted annual rate of 5.59 million in September, up 7.7% from 5.19 million in August and down 3.1% from one year ago. The median existing single-family home price was $359,700 in September, up 13.8% from September 2020.

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 700,000 units in September, up 1.4% from 690,000 in August and up 4.5% from one year ago. The median existing condo price was $297,900 in September, an annual increase of 9.3%.

"Some improvement in supply during prior months helped nudge up sales in September," said Lawrence Yun, NAR's chief economist. "Housing demand remains strong as buyers likely want to secure a home before mortgage rates increase even further next year."

Total housing inventory at the end of September amounted to 1.27 million units, down 0.8% from August and down 13.0% from one year ago (1.46 million). Unsold inventory sits at a 2.4-month supply at the present sales pace, down 7.7% from August and down from 2.7 months in September 2020.

The median existing-home price for all housing types in September was $352,800, up 13.3% from September 2020 ($311,500), as prices rose in each region. This marks 115 straight months of year-over-year increases.

Properties typically remained on the market for 17 days in September, unchanged from August and down from 21 days in September 2020. Eighty-six percent of homes sold in September 2021 were on the market for less than a month.

Regional

Existing-home sales in the Northeast grew 5.5% in September, posting an annual rate of 770,000, an 8.3% decrease from September 2020. The median price in the Northeast was $387,200, up 9.2% from one year ago.

Existing-home sales in the Midwest rose 5.1% to an annual rate of 1,440,000 in September, a 2.7% drop from a year ago. The median price in the Midwest was $265,300, a 9.1% increase from September 2020.

Existing-home sales in the South jumped 8.6% in September, recording an annual rate of 2,770,000, unchanged from one year ago. The median price in the South was $307,500, a 14.8% rise from one year ago.

Existing-home sales in the West climbed 6.5%, registering an annual rate of 1,310,000 in September, down 3.0% from one year ago. The median price in the West was $506,300, up 8.3% from September 2020.

New Residential Sales

Sales of new single-family houses in September 2021 were at a seasonally adjusted annual rate of 800,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 14.0% above the revised August rate of 702,000 but was 17.6% below the September 2020 estimate of 971,000.

Regionally, comparing September 2021 to September 2020, sales were down 34.0% in the Midwest, 11.7% in the South and 27.6% in the West, but were up 7.9% in the Northeast.

The median sales price of new houses sold in September 2021 was $408,800. The average sales price was $451,700. The seasonally-adjusted estimate of new houses for sale at the end of September was 379,000. This represents a supply of 5.7 months at the current sales rate.

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 September were at a seasonally adjusted annual rate of 1,555,000. This was 1.6% below the revised August estimate of 1,580,000 but was 7.4% above the September 2020 rate. Single-family housing starts in September were at a rate of 1,080,000; this was virtually unchanged from the revised August results but was down 2.3% from September 2020.

Regionally, comparing September 2021 to September 2020, single family starts were down 2.9% in the Northeast, 2.0% in the South, 7.5% in the West but were up 4.79% in the Midwest.

Housing Completions

Privately-owned housing completions in September were at a seasonally adjusted annual rate of 1,240,000. This was 4.6% below the revised August estimate of 1,300,000 and was 13.0% below the September 2020 rate of 1,426,000. Single-family housing completions in September were at a rate of 953,000; this was virtually unchanged from the revised August rate of 953,000.

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 September 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $625.4 billion, an increase of 0.7% from the previous month, and 13.9% above September 2020. Total sales for the July 2021 through September 2021 period were up 14.9% from the same period a year ago. The July 2021 to August 2021 percent change was revised from up 0.7% to up 0.9%. Retail trade sales were up 0.8% from August 2021, and up 12.2% above last year. Gasoline stations were up 38.2% from September 2020, while food services and drinking places were up 29.5% from last year.

Sales at furniture and home furnishings stores were up 13.4% over September 2020 and up 32% year to date. The year to date increase was in fourth place following Clothing and clothing accessories stores (58.2%) Gasoline stations (33%) and Sporting goods, hobby, musical instruments and book stores (32.9%).

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4% in September on a seasonally adjusted basis after rising 0.3% in August, 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 food and shelter rose in September and together contributed more than half of the monthly all items seasonally adjusted increase. The index for food rose 0.9%, with the index for food at home increasing 1.2%. The energy index increased 1.3%, with the gasoline index rising 1.2%.

The index for all items less food and energy rose 0.2% in September, after increasing 0.1% in August. Along with the index for shelter, the indexes for new vehicles, household furnishings and operations, and motor vehicle insurance also rose in September. The indexes for airline fares, apparel, and used cars and trucks all declined over the month.

The all-items index rose 5.4% for the 12 months ending September, compared to a 5.3-percent rise for the period ending August. The index for all items less food and energy rose 4.0% over the last 12 months, the same increase as the period ending August. The energy index rose 24.8% over the last 12 months, and the food index increased 4.6% over that period.

Employment

Total nonfarm payroll employment rose by 194,000 in September, and the unemployment rate fell by 0.4 percentage point to 4.8%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in leisure and hospitality, in professional and business services, in retail trade, and in transportation and warehousing. Employment in public education declined over the month.

The number of unemployed persons fell by 710,000 to 7.7 million. 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).

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in September decreased $1.0 billion or 0.4% to $261.3 billion, according to the U.S. Census Bureau. This decrease, down following four consecutive monthly increases, followed a 1.3% August increase. Excluding transportation, new orders increased 0.4%. Excluding defense, new orders decreased 2.0%. Transportation equipment, down two of the last three months, drove the decrease, at 2.3%.

Shipments of manufactured durable goods in September, up four of the last five months, increased $1.1 billion or 0.4% to $257.0 billion. This followed a 0.5% August decrease. Machinery, up eleven of the last twelve months, led the increase, $0.6 billion or 1.7% to $37.3 billion.

In the final report, orders for furniture and related products in August were up 2.9% over August 2020 and up 3.6% year to date. Shipments were up 1.2% for the month comparison and up 0.1% year to date.

Once again, this category is for all furniture and related products.