FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

The results of our monthly survey of residential furniture manufacturers and distributors once again requires explanation. At first glance, the September 2021 results would be alarming, but one has to look beyond the first glance. New orders in September 2021 were down 20% from September 2020. But the look beyond showed that September 2020 orders were up 43%. So we looked to compare 2021 to 2019 and found that September 2021 orders were up 15% over 2019. Therefore, after looking through the numbers, September continued the streak of very nice results. Year to date, new orders were up 21% over 2020 and up 32% over the first nine months of 2019.

Shipments were only up 4% over last September, but year to date shipments were 30% higher than the same period a year ago. Shipments were up for 91% of the participants. Most of the participant's shipments have been delayed by lack of workers to manufacture, supply chain issues for domestic manufacturers, as well as supply chain for imports, whether lack of goods or freight issues.

With that, backlogs continued to grow, up 56% over September 2020, which were up 123% over September 2019. These high backlogs are worrisome for most, but consumers seem to hear the same story over and over so they appear, while frustrated, to be getting used to delays.

Receivable and inventory levels seem ok, even with inventories a bit high. Today, the idea seems to be more worry about having inventory to sell, versus control of inventory.

The number of factory and warehouse employees continues to be an issue or rather the lack of those employees. This seems to be true whether warehouse or manufacturing.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

Due to the holidays, the Conference Board's Consumer Confidence Index was not available at press time. But we would expect no major improvement as the October University of Michigan preliminary report showed continuing declines in confidence, with inflation keeping confidence down along with news out of Washington.

Housing

Existing-home sales continued to be strong. As with furniture sales, it is hard to just compare to last year as last fall housing was booming. According to the report from NAR, existing-home sales remain resilient, despite low inventory and increasing affordability challenges. Inflationary pressures, such as fast-rising rents and increasing consumer prices, have some prospective buyers seeking the protection of a fixed, consistent mortgage payment.

While sales were down from last year in all four regions, once again the comparisons to last year were distorted by 15% plus growth reported in all regions last year.

October housing starts were down slightly from September but up 0.4% over last October. Single family starts though were down 10.6%.

Other

The advance report on retail and food services continued very positive with sales up 16.3% over October 2020. While some reports noted that sales at furniture and home furnishings stores were among the lowest increases shown from September to October, they failed to note that sales increased 11.9% over last October and were up 29.1% year to date, the fifth-highest of all 14 categories. One of the ones that was higher was gasoline stations and we know that was likely not all volume increases.

The Consumer Price Index was among the notable "bad news" reports, again with energy being a major factor but most all categories showed increases. This is one of the areas affecting consumer confidence for sure.

The employment situation was a brighter spot in that nonfarm payroll employment increased 531,000 in October bringing the unemployment rate down to 4.6%. Also, the number of unemployed continued to trend down.

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.9% in October to 118.3 following a 0.1% increase in September and a 0.7% increase in August.

The report indicated the sharp rise in the index in October suggested that the current economic expansion will continue into 2022 and may even gain some momentum in the final months of this year.

Real gross domestic product (GDP) increased at an annual rate of 2.1% in the third quarter of 2021, according to the "second" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 6.7%. The changes in GDP have been affected by the impact of COVID-19 (including Government support) which according to the report cannot be quantified.

EXECUTIVE SUMMARY, CONT.

Thoughts

Once again, the results of our survey, as well as most of our conversations, seem to need explanations. As we talk with folks, it seems that business seems to slow a bit but then when we look at the numbers, it seems that business continues to be pretty good overall. As with our survey, not everyone is up the same or even up every given month, but overall the results continue to be good for most.

Supply chain challenges continue through this issue of FI. There is some feeling that container prices may be easing somewhat, but once Asia opens back up, who knows if that demand creates the continued high prices. Some of the shortages of materials seem to be easing off. Labor shortages continue, but that seems to be everywhere. For example, try to find a place to eat lunch on Mondays. So many are closed so they can give their employees at least one day off as they just do not have enough employees.

With all the issues we seem to be facing including all the political stuff, we still have so much to be thankful for. All I have talked to say that they wouldn't trade these current issues for 2008 issues. In addition, with all the political stuff and differences of opinion, what other country would you rather live in. So let's all take a moment this weekend (if you don't get this in time for Thanksgiving) to be thankful for all we have.

We wish you a wonderful and healthy Thanksgiving season.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in September fell 20% when compared to September 2020 orders. But that result, once again has to be explained as maybe not as bad as one would think on the surface. September 2020 orders were up 43% over September 2019. Compared to September 2019, September 2021 orders were up 15%. So when doing the comparison, the September results were still strong. Some 81% of the participants reported an increase in orders for the month.

Year to date, new orders were up 21% over the first nine months of 2020. Compared to the first nine months of 2019. 2021 orders were up 32%. For the 2021 comparison to 2020 year to date, 79% of the participants reported increased orders.

Shipments and Backlogs

Shipments were up 4% in September 2021 compared to September 2020 when they were up 4% over September 2019. Only about 53% of the participants reported increased shipments for the month. Year to date, shipments were up 30% over the first nine months of 2020. Shipments were up for some 91% of the participants year to date.

Backlogs increased 2% over August and were up 56% over September 2020. Remember that backlogs in September 2020 were up 123% over September 2019, so backlogs continue to be significantly higher than they should be.

Receivables and Inventories

Receivable levels were up 7% over September 2020. These levels do not track as they once did as many of the customers, especially designers as well as custom orders, make deposits on orders. Many companies throughout the year record these deposits in receivables, making actual receivable balances understated. With backlogs so large, this can distort the receivable levels. Overall though based on our conversations, receivables seem to be in good shape.

Inventory levels were up 34% over last September and while appearing to be a bit high, most have decided that having inventory in hand has been a good thing, so we would not worry too much at this time about inventories.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees increased 5% over September 2020, the sixth straight increase posted. While still a shortage for most, at least is has been good to see some growth.

Factory and warehouse payrolls were up 34% over September 2020. This was likely a combination of the increase in the number of employees as well as increased pay for workers, some bonuses paid to workers to stay, as well as signing bonuses.

Year to date, these payrolls were up 22%.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

2021	SEP	AUG	9 MOS
New Orders	3,166	3,094	28,453
Shipments	2,735	2,677	24,943
Backlog (R)	8,552	8,352	

2020	SEP	AUG	9 MOS
New Orders	3,937	3,582	23,590
Shipments	2,620	2,425	19,219
Backlog	5,482	4,165	

MONTHLY RESULTS – NOVEMBER 2021

KEY MONTHLY INDICATORS (PERCENT CHANGE)	September 2021 from August 2021	September 2021 from September 2020	9 Mos 2021 vs 9 Mos 2020
New Orders	+4	-20	+21
Shipments	+4	+4	+30
Backlog	+2	+56	
Payrolls	+9	+12	+22
Employees	+1	+5	
Receivables	-7	+7	
Inventories	-5	+34	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2020				
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
September	-20	+4	+56	+5

A DEEPER DIVE – NATIONAL

Consumer Confidence

Due to the holidays, the Conference Board's Consumer Confidence Index was not available at press time. But we would expect no major improvement as the October University of Michigan preliminary report showed continuing declines in confidence, with inflation keeping confidence down along with news out of Washington.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.1% in the third quarter of 2021, according to the "second" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 6.7%.

The increase in real GDP in the third quarter reflected increases in private inventory investment, PCE, state and local government spending, and nonresidential fixed investment that were partly offset by decreases in residential fixed investment, federal government spending, and exports. Imports, which are a subtraction in the calculation of GDP, increased.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales increased in October, marking two straight months of growth, according to the National Association of Realtors®. Two of the four major U.S. regions saw month-over-month sales climb, one region reported a drop and the fourth area held steady in October. On a year-over-year basis, each region witnessed sales decrease.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums, and co-ops, rose 0.8% from September to a seasonally adjusted annual rate of 6.34 million in October. Sales fell 5.8% from a year ago (6.73 million in October 2020).

Single-family home sales rose to a seasonally adjusted annual rate of 5.66 million in October, up 1.3% from 5.59 million in September and down 5.8% from one year ago. The median existing single-family home price was $360,800 in October, up 13.5% from October 2020.

"Home sales remain resilient, despite low inventory and increasing affordability challenges," said Lawrence Yun, NAR's chief economist. "Inflationary pressures, such as fast-rising rents and increasing consumer prices, may have some prospective buyers seeking the protection of a fixed, consistent mortgage payment."

Total housing inventory at the end of October amounted to 1.25 million units, down 0.8% from September and down 12.0% from one year ago (1.42 million). Unsold inventory was at a 2.4-month supply at the current sales pace, equal to September's supply, and down from 2.5 months in October 2020.

The median existing-home price for all housing types in October was $353,900, up 13.1% from October 2020 ($313,000), as prices climbed in each region. This marks 116 straight months of year-over-year increases, the longest-running streak on record.

"Among some of the workforce, there is an ongoing trend of flexibility to work anywhere, and this has contributed to an increase in sales in some parts of the country," said Yun. "Record-high stock markets and all-time high home prices have worked to significantly raise total consumer wealth and, when coupled with extended remote work flexibility, elevated housing demand in vacation regions."

Properties typically remained on the market for 18 days in October, up from 17 days in September and down from 21 days in October 2020. Eighty-two percent of homes sold in October 2021 were on the market for less than a month.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.9% in October to 118.3 (2016 = 100), following a 0.1% increase in September and a 0.7% increase in August. "The U.S. LEI rose sharply in October suggesting the current economic expansion will continue into 2022 and may even gain some momentum in the final months of this year," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Gains were widespread among the leading indicators, with only the average workweek and consumers' outlook making negative contributions. "However, rising prices and supply chain bottlenecks pose challenges to growth and are not expected to dissipate until well into 2022.

Despite these headwinds, The Conference Board forecasts growth to remain strong in the fourth quarter at around 5.0% (annualized rate), before moderating to a still historically robust rate of 2.6% in Q1 2022."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.5% in October to 106.3 (2016=100), after remaining unchanged in September and a 0.1% increase in August.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.4% in October to 107.4 (2016 = 100), following a 1.0% increase in September and a 0.3% decline in August.

A DEEPER DIVE – HOUSING, CONT.

Regional

We need to remember that in October 2020, existing-home sales regionally were up 15% or more over October 2019 as sales were really coming back strong. So the decreases below comparing to last year are not all bad.

Existing-home sales in the Northeast fell 2.6% in October, at an annual rate of 750,000, a 13.8% decline from October 2020. The median price in the Northeast was $379,100, up 6.4% from one year ago.

Existing-home sales in the Midwest rose 4.2% to an annual rate of 1,500,000 in October, a 6.3% decrease from a year ago. The median price in the Midwest was $259,800, a 7.8% jump from October 2020.

Existing-home sales in the South increased 0.4% in October, showing an annual rate of 2,780,000, a 3.5% drop from one year ago. The median price in the South was $315,500, a 16.1% climb from one year prior.

Existing-home sales in the West neither rose nor fell from the prior month's level, registering an annual rate of 1,310,000 in October, down 5.1% from one year ago. The median price in the West was $507,200, up 7.7% from October 2020.

New Residential Sales

The report on new residential house sales was not available at press time.

Housing Starts

Privately-owned housing starts in October were at a seasonally adjusted annual rate of 1,520,000. This was 0.7% below the revised September estimate of 1,530,000 but was 0.4% above the October 2020 rate of 1,514,000. Single-family housing starts in October were at a rate of 1,039,000; this was 3.9% below the revised September figure of 1,081,000. Compared to October 2020, single family starts were down 10.6%.

Regionally, comparing starts in October 2021 to October 2020, single family starts were down 19.0% in the Midwest, 8.7% in the South and 12.6% in the West while starts were about flat with October 2020 in the Northeast.

Housing Completions

Privately-owned housing completions in October were at a seasonally adjusted annual rate of 1,242,000. This was virtually unchanged from the revised September estimate of 1,242,000 but was 8.4% below the October 2020 rate of 1,356,000. Single-family housing completions in October were at a rate of 929,000; this was 1.7% below the revised September rate of 945,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates of U.S. retail and food services sales for October 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $638.2 billion, an increase of 1.7% from the previous month, and 16.3% above October 2020. Total sales for the August 2021 through October 2021 period were up 15.4% from the same period a year ago.

Retail trade sales were up 1.9% from September 2021, and up 14.8% above last year. Gasoline stations were up 46.8% from October 2020, while food services and drinking places were up 29.3% from last year.

Sales at furniture and home furnishings stores were up 11.9% over October 2020 after increasing 5.2% over October 2019. Year to date, sales at these stores were up 29.1% over the same period in 2020. The year to date increase was the 5th highest of all the categories, following gasoline stations at 34.6%, Clothing and clothing accessories at 53.6% and just slightly behind food services and drinking places and sporting goods, hobby, musical instruments and book stores as one category.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.9% in October on a seasonally adjusted basis after rising 0.4% in September, according to the U.S. Bureau of Labor Statistics latest report. Over the last 12 months, the all-items index increased 6.2% before seasonal adjustment.

The monthly all items seasonally adjusted increase was broad-based, with increases in the indexes for energy, shelter, food, used cars and trucks, and new vehicles among the larger contributors. The energy index rose 4.8% over the month, as the gasoline index increased 6.1% and the other major energy component indexes also rose. The food index increased 0.9% as the index for food at home rose 1.0%.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Consumer Prices, Cont.

The index for all items less food and energy rose 0.6% in October after increasing 0.2% in September. Most component indexes increased over the month. Along with shelter, used cars and trucks, and new vehicles, the indexes for medical care, for household furnishing and operations, and for recreation all increased in October. The indexes for airline fares and for alcoholic beverages were among the few to decline over the month.

The all items index rose 6.2% for the 12 months ending October, the largest 12-month increase since the period ending November 1990. The index for all items less food and energy rose 4.6% over the last 12 months, the largest 12-month increase since the period ending August 1991. The energy index rose 30.0% over the last 12 months, and the food index increased 5.3%.

Employment

Total nonfarm payroll employment rose by 531,000 in October, and the unemployment rate edged down by 0.2 percentage point to 4.6%, the U.S. Bureau of Labor Statistics reported. Job growth was widespread, with notable job gains in leisure and hospitality, in professional and business services, in manufacturing, and in transportation and warehousing. Employment in public education declined over the month.

The number of unemployed persons, at 7.4 million, continued to trend down. 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).

In October, the number of long-term unemployed (those jobless for 27 weeks or more) decreased by 357,000 to 2.3 million but was 1.2 million higher than in February 2020. The long-term unemployed accounted for 31.6% of the total unemployed in October.