



FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

December 2021



HIGHLIGHTS – EXECUTIVE SUMMARY

Due to the Holidays, we were unable to obtain some of our participants' data for our monthly statistics, so rather than present incomplete information, we will not be reporting on the October results. However, we will report what we have been hearing.

Based on our recent conversations up to the Holidays, it seems that business has continued to be good for most in the residential side of the furniture world of manufacturers and distributors. Comparisons continue to be an issue as 2020 results were so abnormally high versus 2019, making 2021 comparisons to 2020 appear to be down in some cases, where in fact they remain well above the 2019 results.

We are finding that also true in the national reports such as retail, as the reports will say that retail is slowing for whatever month, they may be down from last year, but the reports do not compare to 2019, which generally remains a strong comparison.

As an example of what we are referring to, last month we reported that September 2021 orders were down 20% from September 2020, but as we looked, September 2020 orders were up 43% over September 2019. Compared to September 2019, September 2021 orders were actually up 15%.

With backlogs at all-time highs, all increases in orders continue to push backlogs up, putting more pressure on increasing higher shipments. With all the issues with supply chain, logistics, trucking, people shortages, issues at ports and on and on, it has been difficult to make a big dent in the backlogs. And just about everyone we have heard from are having some or all of these issues.

On the other hand, nationally, the results in the economy as a whole continue to be positive for the most part in spite of some of the factors that are worrisome, such as inflation pressures, COVID and issues coming out (or not coming out) of Washington.



Ken Smith, CPA

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

"Consumer confidence improved further in December, following a very modest gain in November," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index dipped slightly but remains very high, suggesting the economy has maintained its momentum in the final month of 2021. Expectations about short-term growth prospects improved, setting the stage for continued growth in early 2022. The proportion of consumers planning to purchase homes, automobiles, major appliances, and vacations over the next six months all increased."

"Meanwhile, concerns about inflation declined after hitting a 13-year high last month as did concerns about COVID-19, despite reports of continued price increases and the emergence of the Omicron variant. Looking ahead to 2022, both confidence and consumer spending will continue to face headwinds from rising prices and an expected winter surge of the pandemic."

Housing

Existing home sales rose in November for the third consecutive month with three of the four regions showing growth and the other about even. As with other reports, the comparisons to November 2021 to 2020 showed a decline of single family homes of 2%, yet November 2020 single family sales were up over 25% over November 2019.

The report indicated that many home buyers were trying to buy and lock in mortgage rates as expectations are that the rates will likely increase in the coming months.

New residential sales were up over October 2021 but were 14% below November 2020. But again, November 2020 sales were up almost 21% over November 2019.

Housing starts were up 8.3% in November versus November 2020 so housing results in general were very positive overall.

Other

November retail and food services sales were up 18.2% over November 2020, led by gasoline sales up 52.3% over last year and food services and drinking establishments up 37.4%. Sales at furniture and home furnishings stores were up 16.3% over November 2020 and up 28.2% year to date over the same period of 2020.

One of the bad news items was the consumer price index. The all items index rose 6.8% for the 12 months ending November, the largest 12-month increase since the period ending June 1982. The index for all items less food and energy rose 4.9% over the last 12 months, while the energy index rose 33.3% over the last year, and the food index increased 6.1%. These changes are the largest 12-month increases in at least 13 years in the respective series.

Total nonfarm payroll employment rose by 210,000 in November, and the unemployment rate fell by 0.4 percentage point to 4.2%. Notable job gains occurred in professional and business services, transportation and warehousing, construction, and manufacturing. Employment in retail trade declined over the month.

The Conference Board's Leading Economic Index increased 1.1% after a 0.9% increase reported last month. The report indicated "The U.S. LEI rose sharply again in November, suggesting the current economic expansion will continue into the first half of 2022, with "inflation and continuing supply chain disruptions, as well as a resurgence of COVID-19, posing risks to GDP growth in 2022.

Real gross domestic product (GDP) increased at an annual rate of 2.3% in the third quarter of 2021, according to the "third" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 6.7%.



HIGHLIGHTS – MONTHLY RESULTS

****Not reporting for October 2021 at this time**

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index*® increased again in December, after an upward revision in November. The Index now stands at 115.8 (1985=100), up from 111.9 (an upward revision) in November. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—was relatively flat at 144.1, down from 144.4 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—rose to 96.9 from 90.2.

"Consumer confidence improved further in December, following a very modest gain in November," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index dipped slightly but remains very high, suggesting the economy has maintained its momentum in the final month of 2021. Expectations about short-term growth prospects improved, setting the stage for continued growth in early 2022. The proportion of consumers planning to purchase homes, automobiles, major appliances, and vacations over the next six months all increased."

"Meanwhile, concerns about inflation declined after hitting a 13-year high last month as did concerns about COVID-19, despite reports of continued price increases and the emergence of the Omicron variant. Looking ahead to 2022, both confidence and consumer spending will continue to face headwinds from rising prices and an expected winter surge of the pandemic."

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.3% in the third quarter of 2021, according to the "third" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 6.7%.

The "third" estimate of GDP released 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 2.1%. The update primarily reflects upward revisions to personal consumption expenditures (PCE) and private inventory investment that were partly offset by a downward revision to exports. Imports, which are a subtraction in the calculation of GDP, were revised down.

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 exports, residential fixed investment, and federal government spending. Imports increased.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales rose in November, denoting three consecutive months of increases, 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 except the South.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, grew 1.9% from October to a seasonally adjusted annual rate of 6.46 million in November. Sales fell 2.0% from a year ago (6.59 million in November 2020).

Single-family home sales rose to a seasonally adjusted annual rate of 5.75 million in November, up 1.6% from 5.66 million in October and down 2.2% from one year ago. The median existing single-family home price was \$362,600 in November, up 14.9% from November 2020.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 710,000 units in November, up 4.4% from 680,000 in October and equal to one year ago. The median existing condo price was \$283,200 in November, an annual increase of 4.4%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 1.1% in November to 119.9 (2016 = 100), following a 0.9% increase in October and a 0.3% increase in September. "The U.S. LEI sharply again in November, suggesting the current economic expansion will continue into the first half of 2022," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "Inflation and continuing supply chain disruptions, as well as a resurgence of COVID-19, pose risks to GDP growth in 2022. Still, the economic impact of these risks may be contained. The Conference Board forecasts real GDP growth to strengthen in Q4 2021 to about 6.5% (annualized rate), before moderating to a still healthy rate of 2.2% in Q1 2022."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.3% in November to 106.7 (2016 = 100), following a 0.5% increase in October and no change in September.

The Conference Board Lagging Economic Index® (LAG) for the U.S. decreased by 0.1% in November to 107.2 (2016 = 100), following a 0.5% increase in October and a 0.9% increase in September.

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, cont.

“Determined buyers were able to land housing before mortgage rates rise further in the coming months,” said Lawrence Yun, NAR’s chief economist. “Locking in a constant and firm mortgage payment motivated many consumers who grew weary of escalating rents over the last year. Mortgage rates are projected to jump in 2022, however, I don’t expect the imminent increase to be overly dramatic.” Yun forecasts the 30-year fixed mortgage rate to average at 3.7% by year-end of 2022.

Total housing inventory at the end of November amounted to 1.11 million units, down 9.8% from October and down 13.3% from one year ago. Unsold inventory sits at a 2.1-month supply at the current sales pace, a decline from both the prior month and from one year ago.

The median existing-home price for all housing types in November was \$353,900, up 13.9% from November 2020 (\$310,800), as prices increased in each region, with the highest pace of appreciation in the South region. This marks 117 straight months of year-over-year increases, the longest-running streak on record. “Supply-chain disruptions for building new homes and labor shortages have hindered bringing more inventory to the market,” said Yun. “Therefore, housing prices continue to march higher due to the near record-low supply levels.”

Properties typically remained on the market for 18 days in November, equal to October and down from 21 days in November 2020. Eighty-three percent of homes sold in November 2021 were on the market for less than a month.

Regional

Existing-home sales in the Northeast were flat compared to the prior month, and recorded an annual rate of 760,000, which was an 11.6% decrease from November 2020. The median price in the Northeast was \$372,500, up 4.7% from one year ago.

Existing-home sales in the Midwest ticked up 0.7% to an annual rate of 1,520,000 in November, a 0.7% drop from a year ago. The median price in the Midwest was \$260,100, a 9.0% jump from November 2020.

Existing-home sales in the South grew 2.9% in November, registering an annual rate of 2,850,000, a rise of 1.1% from one year ago. The median price in the South was \$318,900, an 18.4% surge from one year prior.

Existing-home sales in the West increased 2.3%, reaching an annual rate of 1,330,000 in November, down 3.6% from one year ago. The median price in the West was \$507,200, up 8.4% from November 2020.

On the regional basis, we should remember that November 2020 sales were up double digits from November 2019 so the small decreases compared to November 2020 would still show significant increases for November 2021 vs November 2019.



New Residential Sales

Sales of new single-family houses in November 2021 were at a seasonally adjusted annual rate of 744,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 12.4% above the revised October rate of 662,000 but was 14.0% below the November 2020 estimate of 865,000.

The comparison to November 2020 was mixed with sales up 8.8% in the Northeast and 14.2% in the West but down 44.8% in the Midwest and 21.2% in the South. Sales in November 2020 were up 20.8% over November 2019 so the drop was not really as significant as it would seem.

The median sales price of new houses sold in November 2021 was \$416,900. The average sales price was \$481,700. The seasonally-adjusted estimate of new houses for sale at the end of November was 402,000. This represents a supply of 6.5 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 November were at a seasonally adjusted annual rate of 1,679,000. This was 11.8% above the revised October estimate of 1,502,000 and was 8.3% above the November 2020 rate of 1,551,000. Single-family housing starts in November were at a rate of 1,173,000; this was 11.3% above the revised October figure of 1,054,000.

Single-family starts in November 2021 compared to November 2020 were down 0.8%. Regionally single-family starts were down 7.0% in the Northeast, 3.7% in the Midwest and 12.9% in the West. Single-family starts were up 6.4% in the South. But November 2020 starts were up substantially over November 2019 starts

A DEEPER DIVE – HOUSING, CONT.

Housing Completions

Privately-owned housing completions in November were at a seasonally adjusted annual rate of 1,282,000. This was 4.1% above the revised October estimate of 1,231,000 and was 3.1% above the November 2020 rate of 1,244,000. Single-family housing completions in November were at a rate of 910,000; this was 0.1% below the revised October rate of 911,000. Single family completions were down 0.3% in November compared to November 2020 with all regions down slightly except the West.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The census bureau announced that advance estimates of U.S. retail and food services sales for November 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$639.8 billion, an increase of 0.3% from the previous month, and 18.2% above November 2020. Total sales for the September 2021 through November 2021 period were up 16.2% from the same period a year ago.

Retail trade sales were up 0.2% from October 2021, and up 16.1% above last year. Gasoline stations were up 52.3% from November 2020, while food services and drinking places were up 37.4% from last year.

Sales at furniture and home furnishings stores in November 2021 were up 16.3% over November 2020 and about even with October 2021. Year to date, sales at these stores were up 28.2%, again among the leaders of the retail categories along with gasoline stations, clothing and clothing accessories, and food services and drinking places.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.8% in November on a seasonally adjusted basis after rising 0.9% in October, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 6.8% before seasonal adjustment.

The indexes for gasoline, shelter, food, used cars and trucks, and new vehicles were among the larger contributors. The energy index rose 3.5% in November as the gasoline index increased 6.1% and the other major energy component indexes also rose. The food index increased 0.7% as the index for food at home rose 0.8%. The index for all items less food and energy rose 0.5% in November following a 0.6-percent increase in October. Along with shelter, used cars and trucks, and new vehicles, the indexes for household furnishings and operations, apparel, and airline fares were among those that increased. The indexes for motor vehicle insurance, recreation, and communication all declined in November.

The all items index rose 6.8% for the 12 months ending November, the largest 12-month increase since the period ending June 1982. The index for all items less food and energy rose 4.9% over the last 12 months, while the energy index rose 33.3% over the last year, and the food index increased 6.1%. These changes are the largest 12-month increases in at least 13 years in the respective series.

Employment

Total nonfarm payroll employment rose by 210,000 in November, and the unemployment rate fell by 0.4 percentage point to 4.2%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in professional and business services, transportation and warehousing, construction, and manufacturing. Employment in retail trade declined over the month.

The number of unemployed persons fell by 542,000 to 6.9 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 November increased \$6.5 billion or 2.5% to \$268.3 billion, the U.S. Census Bureau announced. This increase, up six of the last seven months, followed a 0.1% October increase. Excluding transportation, new orders increased 0.8%. Excluding defense, new orders increased 2.0%. Transportation equipment, up following two consecutive monthly decreases, led the increase, \$5.0 billion or 6.5% to \$82.1 billion.

Shipments of manufactured durable goods in November, up six of the last seven months, increased \$1.8 billion or 0.7% to \$263.6 billion. This followed a 1.7% October increase. Transportation equipment, up two consecutive months, led the increase, \$0.7 billion or 1.0% to \$76.4 billion.