FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

As we have seen recently, the results of our survey of residential furniture manufacturers and distributors have continued to need some explanation. In November, new orders were basically flat with November 2020, making one think that things were slowing down. But when we look deeper, November 2020 orders were up 17% over November 2019 so that would indicate that incoming business remains at strong levels. In fact, some 68% of the participants reported increased orders for the month. Year to date, orders were up 16% over the same period last year when they were up 14% over the first 11 months of 2019.

Shipments were up 3% over November 2020 and up 23% year to date. Last year at this time, shipments were down 7% due to the early month shutdowns. Supply chain, labor, freight, and import issues continue to slow the ability to ship. As order dollars exceeded shipment dollars again, backlogs increased 2% over October and were up 50% over November 2020. November 2020 backlogs were up 148% over November 2019 so backlogs just keep getting worse.

Receivable and inventory levels seem in order except for some issues with customer deposits netted against receivables causing them to look low, but with backlogs so large, these deposits continue to grow as a percent causing some participants to report negative receivable levels.

Factory and warehouse employees continue to be a serious issue, as they are in most all industries. Payrolls were up quite a bit year to date, but that would make sense as last year was affected by the shut down early in the year. Payrolls are affected also by increased wage rates as companies are having to pay more for people to either get them or keep them.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

Conference Board *Consumer Confidence Index®* declined in January, after an increase in December. The Index now stands at 113.8 down from 115.2 in December. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—improved to 148.2 from 144.8 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—declined to 90.8 from 95.4.

Lynn Franco, Senior Director of Economic Indicators at The Conference Board said "The Present Situation Index improved, suggesting the economy entered the new year on solid footing. However, expectations about short-term growth prospects weakened, pointing to a likely moderation in growth during the first quarter of 2022. Nevertheless, the proportion of consumers planning to purchase homes, automobiles, and major appliances over the next six months all increased."

Housing

Existing-home sales fell overall in December 2021 compared to November 2021 and December 2020, but the December 2020 sales were up substantially over December 2019 so the decline was really not very much. Overall, the sales for the year were up 8.5% with all regions of the country up for the year.

Once again, the report indicated that sales were likely to level off into 2022 due partially to higher mortgage rates and that price increases would likely fall back into more normal increases of 3 to 5%.

New residential sales were down December to December but mixed among the regions. Overall, sales were down for the year 7.3% causing more pricing pressure for existing-home sales.

Housing starts were up slightly in December and up 15.6% for the year but were down 10.6% from December 2020. Starts were down in all four regions.

Other

U.S. retail and food services sales for December 2021 were down 1.9% from November, but 16.9% above December 2020. December 2020 sales were up 2.9% over December 2019. Total sales for the 12 months of 2021 were up 19.3% from 2020 when they were up 0.6% over 2019 after a shutdown in early 2020.

Retail trade sales were down 2.1% from November 2021, but up 14.4% above last year. Gasoline stations were up 41.0% from December 2020, while food services and drinking places were up 41.3% from last year. Sales in December at furniture and home furnishings stores were up 11.1% over December 2020. Year to date, sales at these stores were up 26.4% over 2020.

On a negative note, the Consumer Price Index increased 0.5% in December after rising 0.8% in November. Over the last 12 months, the all items index increased 7.0%.

Increases in the indexes for shelter and for used cars and trucks were the largest contributors to the all items increase. The energy index declined in December, ending a long series of increases falling 0.4% as the indexes for gasoline and natural gas both decreased.

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.8% in December, following a 0.7% increase in November and a 0.7% increase in October. The report said "The U.S. LEI ended 2021 on a rising trajectory, suggesting the economy will continue to expand well into the spring. For the first quarter, headwinds from the Omicron variant, labor shortages, and inflationary pressures—as well as the Federal Reserve's expected interest rate hikes—may moderate economic growth. "

Real gross domestic product (GDP) increased at an annual rate of 6.9% in the fourth quarter of 2021, according to the "advance" estimate. In the third quarter, real GDP increased 2.3%.

EXECUTIVE SUMMARY, CONT.

Thoughts

As we have stated the last several months, comparisons are difficult currently. We believe it may be 2024 before we get back to normal comparisons given the uncertainty of the pandemic. While there has been some easing of supplies in some cases, there continue to be numerous issues with supply chain dynamics, labor shortages, and freight challenges, both domestic and international. Some container prices seem to have eased but that may change again when Chinese New Year ends and other countries open back up from COVID shutdowns.

Another factor in our comparisons is price increases. Wholesale prices to customers have increased significantly, as have prices of raw material and imports. We are seeing significant double-digit price indexes for LIFO calculations (not to get technical, but this means prices this year compared to prices last year end). Since we use dollars for our comparisons, it is clear that the percent dollar increases are not the same as percent of pieces sold.

In spite of all the negative issues in the news, most economic reports appear to be favorable for good conditions into 2022.

Now as we hit winter months and weather becomes an issue at all levels, we will all look for spring with hopes of a significant slowdown in COVID cases, etc. and good weather to get us out of the winter doldrums. We know many of you love cold weather as you would not live in cold climates if not, but some of us just do not. Me included.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in November were about equal to orders in November 2020. With orders in November 2020 up 17% over November 2019, the order levels in November 2021 continued to be very strong. Even with orders flat compared to last year, some 68% of the participants reported increased orders for the month.

Year to date, orders were up 16% over the same period last year. November 2020 year to date orders were up 14% over 2019 so once again, orders for 2021 have continued at very strong levels, even as many of us felt we would start seeing more slowing than we have. Year to date, 77% of the participants reported increased orders over last year.

Shipments and Backlogs

Shipments in November were up 3% over November 2020, the same increase as reported last year for the November 2020 comparison to 2019. Shipments in November were up compared to November 2020 for some 74% of the participants. There continues to be so many factors that are keeping shipments down as issues with supply chain, workers, imports and freight, continue to suppress shipment levels.

Year to date, shipments were up 23% over the first 11 months of 2020. Shipments were up for 87% of the participants year to date, a good result for most.

Backlogs were up 2% over October as once again, new orders in dollars exceeded dollars of shipments. November backlogs were 50% higher than November 2020 when they were up 148% over November 2019.

Receivables and Inventories

Receivable levels were actually down 2% from October and down 2% from last November. Some of this relates to a number of participants receiving deposits on new orders and not grossing receivable levels up in their reporting to us. With backlogs up so much, these deposits just sit there until orders can be fulfilled.

Inventories were up 24% over November 2020. While in line with shipments, the percent is inflated a bit as last year, inventories were down 7% from November 2019 when inventories had been depleted due to inability to buy product.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees were up 5% over November last year and up 1% from October. Payrolls were up 17% from last year and up 21% year to date as companies have increased not only the number of employees but also increased wages in an effort to keep employees as well as attract new ones. This category continues to be an issue for most everyone we talk with, in or out of the furniture industry. Also, the increase year to date is somewhat misleading as payrolls were down 12% year to date last year through November due to the shutdowns in early 2020.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2021		
	NOV	OCT	11 MOS
New Orders	2,963	2,730	34,808
Shipments	2,584	2,461	29,950
Backlog (R)	8,802	8,595	

	2020		
	NOV	OCT	11 MOS
New Orders	2,952	3,310	30,111
Shipments	2,518	2,516	24,253
Backlog	5,853	5,658	

MONTHLY RESULTS – JANUARY 2022

KEY MONTHLY INDICATORS (PERCENT CHANGE)	November 2021 from October 2021	November 2021 from November 2020	11 Mos 2021 vs 11 Mos 2020
New Orders	+9	–	+16
Shipments	+5	+3	+23
Backlog	+2	+50	
Payrolls	–	+17	+21
Employees	+1	+5	
Receivables	-2	-2	
Inventories	-1	+24	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2020				
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
October	-18	-2	+52	+5
November	–	+3	+50	+5

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* declined in January, after an increase in December. The Index now stands at 113.8 (1985=100), down from 115.2 in December. The *Present Situation Index*—based on consumers' assessment of current business and labor market conditions—improved to 148.2 from 144.8 last month. The *Expectations Index*—based on consumers' short-term outlook for income, business, and labor market conditions—declined to 90.8 from 95.4.

"Consumer confidence moderated in January, following gains in the final three months of 2021," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index improved, suggesting the economy entered the new year on solid footing. However, expectations about short-term growth prospects weakened, pointing to a likely moderation in growth during the first quarter of 2022. Nevertheless, the proportion of consumers planning to purchase homes, automobiles, and major appliances over the next six months all increased." "Meanwhile, concerns about inflation declined for the second straight month, but remain elevated after hitting a 13-year high in November 2021. Concerns about the pandemic increased slightly, amid the ongoing Omicron surge. Looking ahead, both confidence and consumer spending may continue to be challenged by rising prices and the ongoing pandemic."

Present Situation

Consumers' appraisal of current business conditions was more favorable in January.

- 21.1% of consumers said business conditions were "good," up from 19.4%
- 25.6% of consumers said business conditions were "bad," down from 27.1%

Consumers' assessment of the labor market was mixed.

- 55.1% of consumers said jobs were "plentiful," down from 55.9%; still a historically strong reading
- 11.3% of consumers said jobs are "hard to get," down from 11.7%

Expectations Six Months Hence

Consumers' optimism about the short-term business conditions outlook declined in January.

- 23.8% of consumers expect business conditions will improve, down from 25.4%
- 19.0% expect business conditions to worsen, up from 18.6%

Consumers were also less optimistic about the short-term labor market outlook.

- 22.7% of consumers expect more jobs to be available in the months ahead, down from 24.2%
- 15.7% anticipate fewer jobs, up from 14.7%

Consumers were slightly less positive about their short-term financial prospects.

- 16.7% of consumers expect their incomes to increase, down from 17.5%
- 12.4% expect their incomes will decrease, up from 11.2%

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.8% in December to 120.8 (2016 = 100), following a 0.7% increase in November and a 0.7% increase in October.

"The U.S. LEI ended 2021 on a rising trajectory, suggesting the economy will continue to expand well into the spring," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "For the first quarter, headwinds from the Omicron variant, labor shortages, and inflationary pressures—as well as the Federal Reserve's expected interest rate hikes—may moderate economic growth. The Conference Board forecasts GDP growth for Q1 2022 to slow to a relatively healthy 2.2% (annualized). Still, for all of 2022, we forecast the US economy will expand by a robust 3.5%—well above the pre-pandemic trend growth."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased by 0.2% in December to 107.4 (2016 = 100), following a 0.1% increase in November and a 0.5% increase in October.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased by 0.2% in December to 109.4 (2016 = 100), following a 0.1% increase in November and a 0.3% increase in October.

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 6.9% in the fourth quarter of 2021, according to the "advance" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.3%.

The increase in real GDP primarily reflected increases in private inventory investment, exports, personal consumption expenditures (PCE), and nonresidential fixed investment that were partly offset by decreases in both federal and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The increase in private inventory investment was led by retail and wholesale trade industries. Within retail, inventory investment by motor vehicle dealers was the leading contributor. The increase in exports reflected increases in both goods and services. The increase in exports of goods was widespread, and the leading contributors were consumer goods, industrial supplies and materials, and foods, feeds, and beverages. The increase in exports of services was led by travel. The increase in PCE primarily reflected an increase in services, led by health care, recreation, and transportation. The increase in nonresidential fixed investment primarily reflected an increase in intellectual property products that was partly offset by a decrease in structures.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales declined in December, snapping a streak of three straight months of gains, according to the National Association of Realtors®. Each of the four major U.S. regions had sales fall in December from both a month-over-month and a year-over-year basis. Despite the drop, overall sales for 2021 increased 8.5%.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, dropped 4.6% from November to a seasonally adjusted annual rate of 6.18 million in December. From a year-over-year perspective, sales declined 7.1% (6.65 million in December 2020). But sales in December 2020 were up 22.2% over December 2019 so the decline in 2021 was really not that much.

Single-family home sales dropped to a seasonally adjusted annual rate of 5.52 million in December, down 4.3% from 5.77 million in November and down 6.8% from one year ago. The median existing single-family home price was $364,300 in December, up 16.1% from December 2020.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 660,000 units in December, down 7.0% from 710,000 in November and down 9.6% from one year ago. The median existing condo price was $305,100 in December, an annual increase of 11.9%.

"December saw sales retreat, but the pullback was more a sign of supply constraints than an indication of a weakened demand for housing," said Lawrence Yun, NAR's chief economist. "Sales for the entire year finished strong, reaching the highest annual level since 2006."

Yun, however, does expect existing-home sales to slow slightly in the coming months due to higher mortgage rates, but noted that recent employment gains and stricter underwriting standards ensure home sales are in no danger of crashing. He forecasts rates to remain below 4% by year-end and wages to hold firm due to a tight labor market.

"This year, consumers should prepare to endure some increases in mortgage rates," Yun cautioned. "I also expect home prices to grow more moderately by 3% to 5% in 2022, and then similarly in 2023 as more supply reaches the market."

Total housing inventory at the end of December amounted to 910,000 units, down 18.0% from November and down 14.2% from one year ago (1.06 million). Unsold inventory sits at a 1.8-month supply at the present sales pace, down from 2.1 months in November and from 1.9 months in December 2020.

The median existing-home price for all housing types in December was $358,000, up 15.8% from December 2020 ($309,200), as prices rose in each region. The South witnessed the highest pace of appreciation. This marks 118 straight months of year-over-year increases, the longest-running streak on record.

Properties typically remained on the market for 19 days in December, one day more than the 18 days seen in November, and down from 21 days in December 2020. Seventy-nine percent of homes sold in December 2021 were on the market for less than a month.

A DEEPER DIVE – HOUSING, CONT.

Regional

Existing-home sales in the Northeast fell 1.3% in December, registering an annual rate of 750,000, a 15.7% decrease from December 2020. The median price in the Northeast was $384,600, up 6.3% from one year ago.

Existing-home sales in the Midwest slid 1.3% to an annual rate of 1,500,000 in December, a 2.6% decline from a year ago. The median price in the Midwest was $256,900, a 10.0% climb from December 2020.

Existing-home sales in the South retreated 6.3% in December, posting an annual rate of 2,700,000, a drop of 5.3% from one year ago. The median price in the South was $323,000, a 20.2% increase from one year prior.

Existing-home sales in the West decreased 6.8%, reporting an annual rate of 1,230,000 in December, down 10.2% from one year ago. The median price in the West was $507,100, up 8.4% from December 2020.

New Residential Sales

Sales of new single-family houses in December 2021 were at a seasonally adjusted annual rate of 811,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 11.9% above the revised November rate of 725,000, but was 14.0% below the December 2020 estimate of 943,000. For December 2021 vs 2020, sales of new homes were down 34.1% in the Northeast and 23.2% in the Midwest, but were up 2.1% in the South and 34.8% in the West.

An estimated 762,000 new homes were sold in 2021. This was 7.3% below the 2020 figure of 822,000.

The median sales price of new houses sold in December 2021 was $377,700. The average sales price was $457,300. The seasonally-adjusted estimate of new houses for sale at the end of December was 403,000. This represents a supply of 6.0 months at the current sales rate.

Housing Starts

Privately-owned housing starts in December were at a seasonally adjusted annual rate of 1,702,000. This was 1.4% above the revised November estimate of 1,678,000 and was 2.5% above the December 2020 rate of 1,661,000 according to the U. S. Census Bureau report. Single-family housing starts in December were at a rate of 1,172,000; this was 2.3% below the revised November figure of 1,199,000. An estimated 1,595,100 housing units were started in 2021. This was 15.6% above the 2020 figure of 1,379,600.

Compared to December 2020, December 2021 single family starts were down 10.9%, down 16.7% in the Northeast, 9.1% in the Midwest, 4.9% in the South and 23.4% in the West.

Housing Completions

Privately-owned housing completions in December were at a seasonally adjusted annual rate of 1,295,000. This was 8.7% below the revised November estimate of 1,418,000 and was 6.6% below the December 2020 rate of 1,386,000. Single-family housing completions in December were at a rate of 990,000; this was 3.9% above the revised November rate of 953,000. Single family completions were up in all regions except the Midwest.

An estimated 1,337,800 housing units were completed in 2021. This was 4.0% above the 2020 figure of 1,286,900.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for December 2021, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $626.8 billion, a decrease of 1.9% from the previous month, but 16.9% above December 2020. December 2020 sales were up 2.9% over December 2019. Total sales for the 12 months of 2021 were up 19.3% from 2020 when they were up 0.6% over 2019 after a shutdown in early 2020. Total sales for the October 2021 through December 2021 period were up 17.1% from the same period a year ago.

Retail trade sales were down 2.1% from November 2021, but up 14.4% above last year. Gasoline stations were up 41.0% from December 2020, while food services and drinking places were up 41.3% from last year.

On an adjusted basis, sales in December at furniture and home furnishings stores were up 11.1% over December 2020. Year to date, sales at these stores were up 26.4% over 2020.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.5% in December on a seasonally adjusted basis after rising 0.8% in November, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 7.0% before seasonal adjustment.

Increases in the indexes for shelter and for used cars and trucks were the largest contributors to the seasonally adjusted all items increase. The food index also contributed, although it increased less than in recent months, rising 0.5% in December. The energy index declined in December, ending a long series of increases; it fell 0.4% as the indexes for gasoline and natural gas both decreased.

The index for all items less food and energy rose 0.6% in December following a 0.5% increase in November. This was the sixth time in the last 9 months it has increased at least 0.5%. Along with the indexes for shelter and for used cars and trucks, the indexes for household furnishings and operations, apparel, new vehicles, and medical care all increased in December. As in November, the indexes for motor vehicle insurance and recreation were among the few to decline over the month.

The all items index rose 7.0% for the 12 months ending December, the largest 12-month increase since the period ending June 1982. The all items less food and energy index rose 5.5%, the largest 12-month change since the period ending February 1991. The energy index rose 29.3% over the last year, and the food index increased 6.3%.

Employment

Total nonfarm payroll employment rose by 199,000 in December, and the unemployment rate declined to 3.9%, according to the U.S. Bureau of Labor Statistics. Employment continued to trend up in leisure and hospitality, in professional and business services, in manufacturing, in construction, and in transportation and warehousing.

The unemployment rate declined by 0.3 percentage point to 3.9% in December, and the number of unemployed persons decreased by 483,000 to 6.3 million. Over the year, these measures were down by 2.8 percentage points and 4.5 million, respectively. In February 2020, prior to the coronavirus (COVID-19) pandemic, the unemployment rate was 3.5%, and unemployed persons numbered 5.7 million.

Durable Goods Orders and Factory Shipments – Not available at press time.