

The Furnishings Digest

First Quarter 2022
Volume 29, Issue #1

The latest news, views, and announcements

IN THIS ISSUE

Reading Time : 18 min

I Was Wrong

I Can Admit It

2022 Complications

Too Full
Pandemic
Inflation
Asia
Labor Force
Housing
The Economy



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This will not be a pleasant Furnishings Digest to write or read. Late last year I was prepared to discuss how things were getting better for home furnishings week by week. I cannot say that now. In fact, I believe we are in for three challenging quarters in 2022 with continuing troubles you are already tired of reading about. These are sizeable problems that are not in anyone's control, not even the various governments involved. Perhaps especially not the various governments control. I can make an argument that these massive issues will not be approaching normalcy until mid-2023, but I hope things will be better later this year.

I was WRONG earlier this year when I wrote that inventories were lean at retail as they dug up everything they had and suffered through delayed or canceled deliveries. Just the opposite, our retailers too often have distribution centers that are full to the rafters. Sadly, too often it is merchandise that is out of date, not desirable for various reasons, in off quantities, some dated or damaged, and truthfully, much is furniture retailers bought thinking nothing else was available and would not be available soon. Let's face it, some furniture will not sell, even if deeply discounted. It is a dog that won't hunt.

This has caused **complication #1**: When shipments arrive, where can the retailers put it?

Imagine the horror if many delayed orders suddenly arrived at many of our *retailers who have no place to keep it*? We are hearing that many of our retailers already have trailers and containers sitting around as well as more still being held for delayed delivery. Those demurrage charges add up, too.

So, on one hand we need the correct merchandise so we can begin to program our promotions. We used to take getting our products on time (remember “just in time” deliveries?) and begin to purchase our various media options for granted. No one could imagine the disruptions that could occur when starting and stopping our economy, scaring our workforce and consumer base with a possibly fatal disease, and the complete collapse of our complicated logistical system. We are seeing too many on/off changes by manufacturers, importers, different nations, various ports here and abroad, trucking firms, rail systems and delivery options to be able to say with confidence that all will be better soon.

If it makes you feel better, the largest of our retailers and their vendors are as equally challenged as the rest of the industry.

Please note that both wood furniture and metal and other furniture are MORE dependent upon imports and the global port challenges than upholstered furniture and mattresses which have a larger domestic capacity. That may not be stated correctly because components in both of these product categories are often imported and used in our domestic production.

All Household Furniture Imports by Significant Countries

Table 1.

USD \$ (millions)									
Country	1Q20	2Q20	3Q20	1Q21	2Q21	3Q21	1Q% Δ	2Q% Δ	3Q% Δ
China	2,353.2	2,516.2	2,967.2	3,344.5	3,500.1	3,341.4	42.1%	39.1%	12.6%
Vietnam	1,835.0	1,431.1	2,375.3	2,731.5	2,902.9	2,949.2	48.9%	102.8%	24.2%
Mexico	441.6	273.2	462.1	532.6	637.1	731.9	20.6%	133.2%	58.4%
Canada	406.1	324.2	397.3	396.5	458.5	448.4	-2.4%	41.4%	12.9%
Indonesia	350.0	276.0	304.4	345.7	450.8	356.8	-1.2%	63.4%	17.2%
Italy	227.5	142.0	263.5	270.5	353.6	342.0	18.9%	149.0%	29.8%
Malaysia	405.8	223.5	520.1	474.4	492.0	294.5	16.9%	120.1%	-43.4%
Taiwan	162.7	154.4	198.2	206.3	236.5	236.9	26.8%	53.2%	19.5%
India	139.5	66.5	115.3	178.4	184.5	187.4	27.9%	177.6%	62.6%
Thailand	114.6	104.2	174.3	152.4	178.7	166.2	33.1%	71.5%	-4.7%

Wood Furniture Imports by Significant Countries

Table 2.

USD \$ (millions)

Country	1Q20	2Q20	3Q20	1Q21	2Q21	3Q21	1Q%Δ	2Q%Δ	3Q%Δ
Vietnam	1,087.3	894.0	1,429.9	1,600.8	1,650.5	1,726.0	47.2%	84.6%	20.7%
China	486.2	468.6	639.5	693.7	647.6	637.0	42.7%	38.2%	-0.4%
Mexico	156.8	118.9	181.5	203.9	235.5	269.1	30.1%	98.0%	48.2%
Malaysia	306.9	178.0	399.5	408.7	418.3	251.3	33.2%	135.0%	-37.1%
Canada	200.4	168.4	201.1	209.4	230.3	224.1	4.5%	36.8%	11.4%
Indonesia	189.6	148.6	169.0	214.7	280.0	217.8	13.3%	88.5%	28.9%
Italy	120.9	76.3	157.8	154.9	197.2	186.3	28.1%	158.4%	18.1%
India	95.4	43.2	77.5	119.8	120.8	120.6	25.5%	179.8%	55.7%
Poland	58.8	28.1	64.4	70.3	91.8	85.3	19.6%	226.3%	32.5%
Thailand	40.3	38.4	63.0	63.8	82.2	80.2	58.2%	114.1%	27.3%

Upholstered Furniture Imports by Significant Countries

Table 3.

USD \$ (millions)

Country	1Q20	2Q20	3Q20	1Q21	2Q21	3Q21	1Q%Δ	2Q%Δ	3Q%Δ
China	645.4	681.3	924.8	954.3	1,010.7	1,077.8	47.9%	48.4%	16.5%
Vietnam	487.6	315.0	635.0	831.8	931.3	925.8	70.6%	195.7%	45.8%
Mexico	121.2	56.4	127.1	152.6	188.3	219.4	25.9%	233.9%	72.6%
Italy	57.0	32.9	57.0	69.3	98.1	93.1	21.6%	198.1%	63.3%
Canada	65.3	42.8	50.5	62.8	71.1	61.0	-3.8%	66.3%	20.8%
Cambodia	25.7	11.6	27.6	43.9	51.4	40.6	70.7%	341.2%	47.3%
Thailand	13.9	16.9	21.8	31.2	38.3	33.9	123.9%	126.2%	55.8%
Malaysia	32.6	18.1	42.0	50.4	52.9	29.4	54.6%	191.9%	-29.9%
Indonesia	21.9	16.1	17.8	21.9	29.6	22.8	0.2%	83.4%	27.8%

Metal & Other Furniture Imports by Significant Countries

Table 4.

USD \$ (millions)

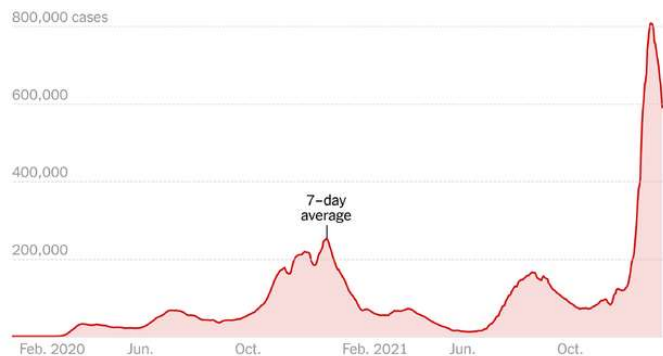
Country	1Q20	2Q20	3Q20	1Q21	2Q21	3Q21	1Q%Δ	2Q%Δ	3Q%Δ
China	1,219.1	1,363.6	1,403.1	1,695.6	1,840.9	1,624.7	39.1%	35.0%	15.8%
Vietnam	158.3	152.7	196.9	286.0	310.3	288.4	80.7%	103.2%	46.5%
Mexico	135.1	82.5	119.7	128.7	147.6	160.0	-4.7%	78.9%	33.7%
Canada	135.1	107.3	139.1	115.8	144.4	151.2	-14.3%	34.6%	8.7%
Taiwan	116.7	106.7	141.6	132.6	151.3	134.5	13.6%	41.8%	-5.0%
Italy	44.1	25.9	41.3	35.3	48.9	55.1	-20.0%	88.8%	33.3%
Thailand	32.2	27.1	49.1	57.4	58.2	50.6	78.3%	114.8%	2.9%
India	37.6	19.7	32.9	48.0	50.7	47.5	27.7%	157.4%	44.3%
Indonesia	32.0	28.3	20.0	34.2	51.5	28.9	7.2%	81.9%	44.0%
Germany	15.7	14.4	17.6	15.1	20.3	24.7	-3.5%	40.8%	40.1%
United Kingd	10.3	8.9	13.5	11.8	15.5	18.7	14.3%	73.9%	38.8%

Mattress Imports by Significant Countries

Table 5.

USD \$ (millions)									
Country	1Q20	2Q20	3Q20	1Q21	2Q21	3Q21	1Q%Δ	2Q%Δ	3Q%Δ
Indonesia	106.4	82.9	98.2	74.8	89.7	87.4	-29.8%	8.3%	-11.0%
Mexico	28.2	15.5	33.7	47.4	65.8	83.4	67.9%	325.2%	147.7%
Taiwan	4.8	7.6	7.4	23.9	29.2	44.3	396.7%	284.1%	500.1%
Kosovo	0.0	0.0	0.0	12.6	28.1	21.6	N/M	N/M	N/M
Spain	0.2	0.1	0.1	6.0	13.4	14.9	3926.7%	19042.9%	21228.6%
Canada	5.5	5.8	6.6	8.5	12.7	12.2	55.2%	120.3%	84.5%
Bulgaria	0.0	0.0	0.5	4.5	8.7	11.9	N/M	N/M	2270.0%
India	0.1	0.1	0.1	0.7	3.5	10.4	536.4%	5700.0%	14700.0%
Vietnam	101.5	68.4	115.1	13.0	10.8	8.9	-87.2%	-84.2%	-92.3%
Turkey	30.1	24.5	30.4	12.1	9.7	8.7	-60.0%	-60.2%	-71.4%
Slovenia	0.1	0.0	0.2	3.3	3.3	8.2	2400.0%	N/M	4010.0%
Italy	5.5	6.7	7.6	10.9	9.4	7.6	100.0%	41.1%	0.3%
Philippines	0.7	1.0	2.3	4.1	6.1	6.3	460.3%	490.4%	172.2%

Complication #2 is the ongoing pandemic now being experienced worldwide described most often as the Omicron variant. Did you notice how it was reported in South Africa one day and a week later it was appearing in 34 nations and many states here? I CALL FOUL! This is beyond logic and anyone's common sense. This variant had clearly been growing globally and was just exposed not long ago. We have been kept in the dark until it was too prevalent to hide. What else is being hidden?



Daily reported coronavirus cases in the United States, seven-day average. The New York Times

Latest: Coronavirus death toll, infections and vaccinations

374,184,422

Confirmed Covid-19 cases

<p style="font-weight: bold; text-align: center;">5,662,134</p> <p style="text-align: center;">total deaths worldwide</p>	<p style="font-weight: bold; text-align: center;">10,055,590,366</p> <p style="text-align: center;">vaccine doses administered</p>
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	Cases	Deaths
United States	74,291,859	884,140
India	41,092,522	494,091
Brazil	25,256,198	626,870
France	19,178,020	131,576
United Kingdom	16,582,263	156,222

Sources: Johns Hopkins University, WHO, Our World in Data, health authorities Last Updated: 31 Jan, 05:34AM SCMP

In my opinion, this has seriously undermined our consumers' trust in our nation's leaders and is causing our customers to stay close to home and avoid people as much as practical. This is especially true of our senior population, parents of young children and anyone with a health issue. I just did not attend an important family funeral because of concerns about this new spread of COVID.

Further, who is right about using masks, getting the booster shot, and other issues? There is no serious guidance and is not just keeping buyers out our stores but keeping workers from working in our factories, truck drivers and railway workers from doing their vital work and so much more!



And looking at the public numbers, the ecommerce retailers are being impacted as well at least on a year-to-year basis. Is this Omicron wave slowing as we all hope or is another variant just over the horizon? Do you trust the people who are supposed to keep us informed?

Inflation is **complication #3**. The Fed is acknowledging what we have all known for a year! This is not just a temporary response to the pandemic. Once inflation gets into labor compensation, it is almost impossible to stop. Some of you remember the inflation of the 1970's and 1980's. We lived through a 20% prime rate in a recession in 1982.

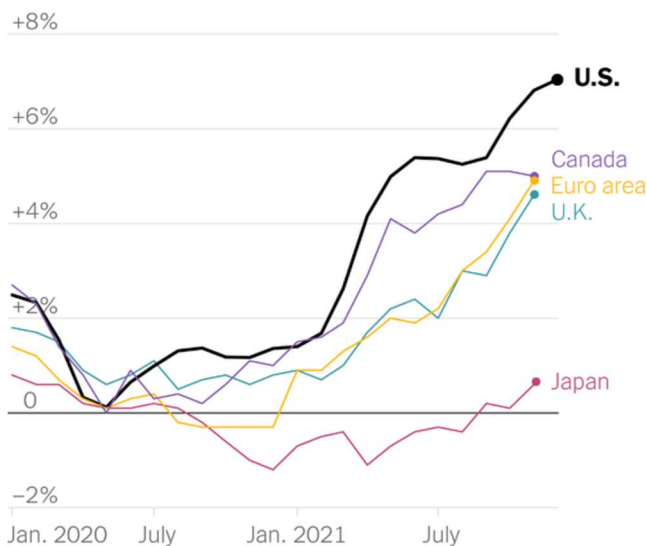
Can you remember what it did to mortgage rates? Consumer financing availability? And no consumer was able to keep up with inflation so we all lost spending power. Can you see something similar occurring?

Price increases are NOT stopping, they are just being passed on and on until they come full circle back to you again.

And how can we stop increases in wages when we still cannot find sufficient labor? I hoped we were seeing

Inflation since the start of the pandemic

Consumer Price Index



some reduction in freight rates and container availability late last year, after all it was reported in the Asian press. Wrong. Things have gotten worse in 2022 in terms of getting freight from anywhere into our stores. The largest of the retail "Big Boys" like Amazon, Walmart, COSTCO, and others are leasing their own large 10,000 to 12,000 TEU capacity ships that can come into a dozen U.S. ports like Houston (a favorite of Walmart and COSTCO) or Everett, Washington for COSTCO. There are only a few ports that can engage the newer 16,000 to 20,000 TEU "Super Carriers" and most of these are overloaded like Long Beach, Los Angeles, New York/New Jersey, Norfolk, and Miami.

Inflation was just reported at 7%, a 40 year high! And these government numbers exclude food and gas so you can imagine what that number would be!

Another **complication** is Asia. China alone is responsible for almost 23% of all global trade as of 2020. But it is in a world of hurt because of the Omicron variant. Right now, entire segments of major cities are shut down as the COVID cases are appearing. Zhejiang, Beijing, Shanghai, Tianjin, Heilongjiang, Hebei, Henan, and Xinjiang all have districts or neighborhoods shut down. Ports like Tianjin, Ningbo, Qingdao, and others have mandatory quarantines and testing.

But all this may be a lesser concern than the Chinese (Lunar) New Year that starts now. Many cities have been in anticipation of this remarkable event that ceases production for weeks and then takes weeks for efficiencies to be restored, if enough workers return.



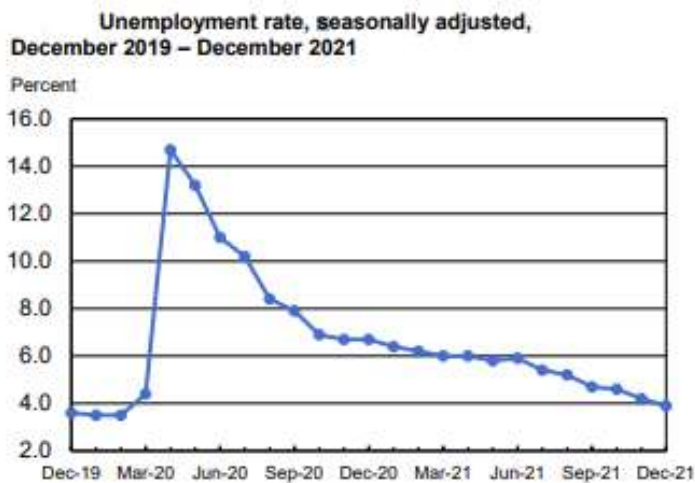
And this is not restricted to China. Today our largest wood furniture source is Vietnam which like Malaysia has been off then on for months, never recovering fully. Indonesia, Cambodia, Thailand and other Asian nations all have their problems but everyone shares the shortage of containers and the obscenely high shipping costs that have been commonplace. Once thought to be greatly exaggerated, they have been recognized as factual. And this has not mentioned the back-up of ships in ports around the world.

We thought the port issues were improving from news articles in the Asian press in November and early December but now we see no confirmation of improvement. If anything, it has gotten worse. In our opinion, too many factors are at work across many industries and nations to expect this to be resolved in 2022. Nuts.

Another **universal complication** is our lower participation rate in our labor force. The last of the accelerated consumer incentives ran out four weeks ago, the Child Tax Credit. Unofficially we are hearing of more job applicants showing up, but not enough to fill the need.

It is interesting that we are raising our interest rates to help control inflation and keep growth in check while China is lowering rates to spur faster growth and to offset the COVID problems.

While it is true that the generous government support in 2020 and 2021 did encourage consumer savings and spending, I thought those incentives were now in the past until yesterday when a talking head (not an expert or a politician, just another generic news reader) opined it is clear Americans need another round



of government incentives to keep our economy growing and to somewhat offset the Fed's higher interest rates (now expected in March), the collapsing stock market and the ongoing problems with the pandemic.

Unemployment is officially at 3.9%, or full employment by most standards but that is a percent of those Americans actively seeking employment, not those available for working. In just the last six months we have witnessed over 9% of our labor force decide they didn't want to work anymore! I never knew I had a choice, did you?

This is unexplored turf in terms of our labor force. There is no competent way to forecast if and when these new people of leisure will consider working again. Businesses in general have been aggressively raising starting wages, adding some modest benefits and a few sign-on bonuses while our state politicians in 19 states plus DC are stepping up the minimum wages. All this SHOULD help bring back workers but who can tell? Plus, this is a seasonal issue: decades ago, Broyhill shut down its factories around Lenoir for a week when a certain crop came in. In parts of Virginia and North Carolina, some factories would brace for labor shortages on the early days of hunting season in the fall. (Some offices all but close for March Madness in college basketball, too).

Barring another government give away near term, I want to believe workers will continue to return to work as the compensation becomes more attractive, slowly reducing the labor shortage.

Housing, in our opinion, should not be a **complication** in 2022 or 2023. First, the demand is so strong that we are seeing huge numbers. In December we experienced 6.12 million existing home sales and all agree it would have been much larger if we had a larger inventory of homes for sale.

-we have a clear shortage of homes being built after America went more than a decade underbuilding new homes, forcing young people to live with parents or others.

-in some areas the lack of home-related raw materials has restricted new home deliveries. Without the bathroom vanities from Vietnam, for example, some homes cannot get an occupancy permit.

-authorities report that ample mortgage funds are available and the consumer base is more mortgage worthy than it has been since the 1990's.

-while higher interest rates are likely, we believe the rates and terms will be very attractive for at least two more years.

Is the economy a concern? Always, but hiring is strong, interest rates are reasonable, loans are available, consumers have been spending but consumer confidence has weakened primarily due to COVID concerns. Retail generally is stale but we cannot compare spending to this time in 2020 or 2021. One side effect of the last two years spending spree has been an explosion in RETURNS. According to the NRF, in 2020 all retail experienced a record 10.6% in returns! Wow. Who has the margins to let this occur?

But that is not the worst! Online retailers had returns, including fraud, of 20.8% in 2021 while stocking stores had a horrible return rate of 16.6%. All is clearly out of control. Outright theft, less police protection, more fear of being sued by the criminal, fraud and shrinkage all play a role. Are furniture and mattresses at less risk? Not really.

Fourth quarter GDP was an amazing 6.9% but an inventory surge accounted for about half of the gain. And inflation in the quarter was 7% the highest in 40 years. All combined there are issues that deserve attention but economic growth of 3% to 4% should be achievable.

NET-NET

2022 SHOULD HAVE ECONOMIC GROWTH THAT WILL BE BELOW LAST YEAR BUT AT A HEALTHY SUSTAINABLE LEVEL. DRIVEN BY HOME SALES AND STRONG GROWTH IN THE 35 TO 55 AGE GROUP, HOME FURNISHINGS SALES SHOULD GROW 4% THIS YEAR.

Housing Stats	Table 6.
	Dec Year/Year
Housing Permits	6.5%
Housing Starts	2.5%
Single Family	(10.9%)
Multi-Family	56.0%
Housing Completions	(6.6%)
New Single Family Home Sales	(14.0%)
Existing Home Sales	(7.1%)
Existing Home Inventory	(14.2%)

Source:

U.S. Census Bureau & National Association of Realtors

Monthly Numbers

Table 7.

% Change y/y	2021											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	27.9%	21.4%	45.5%	77.3%	30.5%	13.3%	9.2%	12.9%	11.8%	13.8%	13.7%	11.1%
Furniture stores sales (a)	12.8%	5.8%	53.8%	204.9%	65.3%	20.2%	16.6%	13.8%	11.9%	12.1%	19.0%	11.3%
Mattress factory shipments (b,d)	N/A	N/A	18.9%	N/A	N/A	57.3%	N/A	N/A	13.5%	N/A	N/A	N/A
Furniture factory shipments (c)	7.0%	18.4%	33.8%	154.9%	64.4%	37.5%	16.0%	10.4%	4.4%	(2.2%)	2.6%	N/A

Sources:


(a) U.S. Department of Commerce (b) International Sleep Products Assoc. (c) "Furniture Insights" a monthly publication by Smith Leonard (d) quarterly shipments

About Mann, Armistead & Epperson, Ltd.


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- Corporate finance and strategic advisory services, such as advising on capital formation, balance sheet and bank debt restructurings, valuations and other specialized professional services.
- Furnishings industry research and extensive expertise accumulated in over five decades.




W. S. Badcock Corporation
 has been acquired by
 Franchise Group, Inc.



FRG
 FRANCHISE
 GROUP, INC.

The undersigned acted as financial advisor to W. S. Badcock Corporation in this transaction.

MANN, ARMISTEAD & EPPERSON, LTD.
 INVESTMENT BANKERS and ADVISORS



Symbol Mattress
 formerly known as
 Eastern Sleep Products Company, Inc., and
 Therford Leasing, LLC,
 has sold all of its stock and membership interests
 to
 Corsicana Bedding, LLC



CORRICANA
 MATTRESS COMPANY

The undersigned acted as financial advisor to Eastern Sleep Products Company, Inc., and Therford Leasing, LLC in this transaction.

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Mor
 furniture for less


has sold a majority ownership interest to
 Healthcare Co., Ltd.
 A public company registered on the Shanghai Stock Exchange
 d/b/a




MLILY

The undersigned acted as financial advisor to More Furniture For Less, Inc. in this transaction.

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 INVESTMENT BANKERS and ADVISORS



Rent-A-Center, Inc.
 has acquired substantially all of the assets of
 C/C Financial Corp.
 d/b/a
 Merchants Preferred



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About the Furnishings Digest Newsletter

Driven by founding partner Jerry Epperson's respected insight and long-term commitment to the furniture and mattress industries, Mann, Armistead & Epperson, Ltd. publishes the Furnishings Digest Newsletter. For more information, please email research@maeltld.com or call (804) 644-1200.