FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

Our latest survey of residential furniture manufacturers and distributors revealed some disappointing results for December 2017 with new orders dropping 9% from new orders in December 2016. While we had heard some talk of business slowing down, this drop was a bit more than we had expected. The decline followed increases in October of 8% and 11% in November.

One thing that probably affected the significant decline was that December 2016 orders were 11% higher than December 2015, so we were comparing to a very strong month in 2016.

For the year 2017, new orders were up 4% over 2016 when they were up 3% over 2015. Orders were up for the year for some 66% of the participants.

Shipments in December were down 7% from December 2016, but shipments in December 2016 were 15% ahead of December 2015 so the decline was maybe not quite as poor as it may seem.

For the year 2017, shipments were up 4% over 2016 when they were up 3% over 2015. For the year, shipment increases were reported for 71% of the participants.

Backlogs fell 10% in December from November as shipments in dollars exceeded order dollars.

In spite of the slow finish in December, 2017 was what we would say was a decent year. While there were a few participants up low double digits, the participants in general were fairly close together.

Receivable levels in December were very much in line in spite of the lower shipment levels. Inventories were not able to be adjusted fast enough as inventories were 6% higher than December 2016 and 3% higher than November. But considering shipment and order increases of 4% for the year, the 6% increase over last year was not all that much out of line.

Factory and warehouse payrolls were only up 1% for the year and the number of factory and warehouse payrolls remained flat with last year.

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EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index increased again in February following a small increase in January. The Index improved to 130.8, its highest level since 2000 (132.6) with labor force being the main driver.

Consumers' assessment of business conditions was also more positive as well as the short-term outlook. The outlook for short-term income prospects was a bit more mixed with both the positive percent and negative percent increasing.

The University of Michigan Survey of Consumers report noted that sentiment in early February was at the second highest level since 2004. It mentioned that the gyrations of the stock market did not seem to offset rising incomes, employment growth and favorable perceptions of tax reforms.

Housing

Existing-home sales fell for the second consecutive month with their largest annual decline in over three years. January sales were down 3.2% from last month. The decline put sales 4.8% below a year ago January sales.

The report blamed the decline on the lack of homes for sale as well as rising prices. Sales were down in all four regions of the country.

New single-family sales in January were down 7.8% from December sales and down 1% for January 2017. Sales were up in the Midwest and West but declined in the Northeast and South compared to January 2017.

As a bit of an offset to existing-home sales, housing starts were up 9.7% from December starts and up 7.3% from January 2017. Single-family starts were also up for the month and from January 2017. Single-family starts were up 11.9% in the Northeast, 2.0% in the South and 38% in the West, while declining 12.4% in the Midwest.

Other

The Conference Board's Leading Economic Index increased 1.0% in January after increases in the prior two months. This report did not reflect the volatility in the stock market. The report noted "The leading indicators reflect an economy with widespread strengths coming from financial conditions, manufacturing, residential construction and labor markets."

The advance reports on retail and food services sales was another positive showing adjusted sales up 3.6% over January 2017. Retail trade sales were 3.9% higher than January 2017. Sales at furniture and home furnishings stores were up 4.7% over January 2017 on an adjusted basis and up 6.6% unadjusted.

The Consumer Price Index for all Urban Consumers (CPI-U) increased 0.5% in January. Over the last 12 months, the all items index increased 2.1%. The energy index increased 3.0% in January with gas price index increases offsetting declines in other energy indexes.

The unemployment rate held at 4.1% in January adding 200,000 jobs. Employment was up in construction, food services and drinking places, health care and manufacturing.

EXECUTIVE SUMMARY, CONT.

Thoughts

The results for December orders and shipments were somewhat disappointing but probably not all that unexpected. The order comparison was affected by the strong results in December 2016. As we noted last month, weather issues probably also affected the December results.

The national retail results continue to show decent growth and both consumer confidence reports were very positive. The Conference Board's Index being highest since 2000 was very encouraging.

We expect the continued volatility of the stock market to have some effect, but it is almost as if, in general, consumers seem to be somewhat used to these issues.

We have heard that January started somewhat slow but seemed to pick up some and on into February. We have said it over and over, but from a national economic standpoint, there is no major reason for business not to continue to be pretty decent until something causes the economy in general to slow.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, December 2017 results were rather disappointing. While we had heard that business had slowed somewhat, we were surprised to see the new orders fall 9% from December a year ago. The decline in orders in December was only the second month all year with a decrease in new orders compared to the same month a year before. It followed increases of 8% in October and 11% in November. Approximately 63% of the participants reported declines in orders compared to December 2016. It should be noted that orders in December 2016 were 11% higher than December 2015 orders.

For the year 2017, new orders increased 4% over 2016, down from our year to date numbers of 5% reported last month. For the year, some 66% of the participants reported increased orders.

Shipments and Backlogs

Shipments in December fell 7% from December 2016. Some 60% of the participants reported declines in shipments for the month. December 2016 shipments were 15% higher than December 2015.

For the year, shipments increased 4% over 2016. Approximately 71% of the participants reported increased shipments for the year, up slightly from last month.

Backlogs in December fell 10% from November as shipment dollars exceeded orders by over 10%. At the end of December, backlogs were 4% lower than backlogs at the end of 2016.

Receivables and Inventories

Receivable levels in December were only 1% lower than December 2016 in spite of the 7% decline in shipments. They were 2% lower than November with shipments flat versus November. With the holidays, we suspect the change in receivable levels is likely just a timing issue as they have been in good shape all year.

Inventories were 6% higher than December 2016, up from a 2% increase reported last month. Inventory levels increased 3% from November. We suspect with orders being up most of the year, the large decline in orders did not allow adjustments fast enough to inventories.

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls were down 8% from December 2016 but up 3% from November. We suspect the increase over November likely related to holiday pay and any year end bonuses.

The number of factory and warehouse employees remained flat with November and was also even with the number in December 2016.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2017		
	DEC	NOV	12 MONTHS
New Orders	2,072	2,557	27,482
Shipments	2,327	2,304	27,515
Backlog (R)	1,965	2,210	

	2016		
	DEC	NOV	12 MONTHS
New Orders	2,278	2,296	26,437
Shipments	2,516	2,215	26,433
Backlog (R)	2,039	2,205	

MONTHLY RESULTS, CON'T.

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Dec 2017 From Nov 2017	Dec 2017 From Dec 2016	12 Months 2017 vs 12 Months 2016
New Orders	-19	-9	+4
Shipments	–	-7	+4
Backlog	-10	-4	
Payrolls	+3	-8	+1
Employees	–	–	
Receivables	-2	-1	
Inventories	+3	+6	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2016				
December	+11	+15	+1	-1
2017				
January	–	+2	–	-2
February	+4	+3	+1	-2
March	+12	+6	+8	-2
April	+7	+2	+11	-2
May	+8	+7	+11	-2
June	+6	+7	+6	-1
July	+11	+10	+8	-3
August	+1	+5	+6	-3
September	-10	+4	-4	-2
October	+8	+8	-2	-1
November	+11	+4	+1	-3
December	-9	-7	-4	–

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® increased in February, following a modest increase in January. The Index now stands at 130.8 (1985 = 100), up from 124.3 in January. The Present Situation Index increased from 154.7 to 162.4, while the Expectations Index improved from 104.0 last month to 109.7 this month.

"Consumer confidence improved to its highest level since 2000 (Nov. 2000, 132.6) after a modest increase in January," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions was more favorable this month, with the labor force the main driver. Despite the recent stock market volatility, consumers expressed greater optimism about short-term prospects for business and labor market conditions, as well as their financial prospects. Overall, consumers remain quite confident that the economy will continue expanding at a strong pace in the months ahead."

Consumers' assessment of business conditions was moderately more positive than in January. The percentage saying business conditions are "good" increased slightly from 35.0% to 35.8%, while those saying business conditions are "bad" decreased from 13.0% to 10.8%. Consumers' assessment of the labor market was considerably more favorable. Those claiming jobs are "plentiful" increased from 37.2% to 39.4%, while those claiming jobs are "hard to get" decreased from 16.3% to 14.7%.

Consumers were also more optimistic about the short-term outlook in February. The percentage of consumers anticipating business conditions will improve over the next six months increased from 21.5% to 25.8%, while those expecting business conditions will worsen decreased from 9.8% to 9.4%.

Consumers' outlook for the job market was also more positive. The proportion expecting more jobs in the months ahead increased from 18.7% to 21.6%, while those anticipating fewer jobs declined from 12.5% to 11.9%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement increased from 20.6% to 23.8%, however, the proportion expecting a decrease also rose, from 7.9% to 8.6%.

University of Michigan Surveys of Consumers

Surveys of Consumers chief economist, Richard Curtin, report noted that "Consumer sentiment rose in early February to its second highest level since 2004 despite lower and much more volatile stock prices. Even among households in the top third of the income distribution, the Sentiment index rose to 112.8, the highest level since the prior peak of 114.2 was repeatedly recorded in 2007, 2004, and 2000. Stock market gyrations were dominated by rising incomes, employment growth, and by net favorable perceptions of the tax reforms.

Indeed, when asked to identify any recent economic news they had heard, negative references to stock prices were spontaneously cited by just 6% of all consumers. In contrast, favorable references to government policies were cited by 35% in February, unchanged from January, and the highest level recorded in more than a half century. In addition, the largest proportion of households reported an improved financial situation since 2000, and expected larger income gains during the year ahead.

To be sure, higher interest rates during the year ahead were expected by the highest proportion of consumers since August 2005. Consumers also anticipated a slightly higher inflation rate, although the year-ahead inflation rate has remained relatively low and unchanged for the past three months.

Purchase plans have been transformed from the attraction of deeply discounted prices and interest rates that outweighed economic uncertainty, to being based on a sense of greater income and job security as the fewest consumers in decades mentioned the favorable impact of low prices and interest rates. Overall, the data signal an expected gain of 2.9% in real personal consumption expenditures during 2018."

A DEEPER DIVE – NATIONAL, CON'T.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.5% in the fourth quarter of 2017, according to the "second" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 3.2%.

The GDP estimate is based on more complete source data than were available for the "advance" estimate issued last month. In the advance estimate, the increase in real GDP was 2.6%. With this second estimate for the fourth quarter, the general picture of economic growth remains the same.

The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), exports, nonresidential fixed investment, residential fixed investment, state and local government spending, and federal government spending that were partly offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the calculation of GDP, increased.

The deceleration in real GDP growth in the fourth quarter reflected a downturn in private inventory investment that was partly offset by accelerations in PCE, exports, state and local government spending, nonresidential fixed investment, and federal government spending, and an upturn in residential fixed investment. Imports, which are a subtraction in the calculation of GDP, turned up.

A DEEPER DIVE - HOUSING

Existing-Home Sales

Existing-home sales slumped for the second consecutive month in January and experienced their largest decline on an annual basis in over three years, according to the National Association of Realtors®. All major regions saw monthly and annual sales declines last month.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, sank 3.2% in January to a seasonally adjusted annual rate of 5.38 million from a downwardly revised 5.56 million in December 2017. After last month's decline, sales were 4.8% below a year ago (largest annual decline since August 2014 at 5.5%) and at their slowest pace since last September (5.37 million).

Single-family home sales declined 3.8% to a seasonally adjusted annual rate of 4.76 million in January from 4.95 million in December, and were 4.8% below the 5.00 million pace a year ago. The median existing single-family home price was $241,700 in January, up 5.7% from January 2017.

Existing condominium and co-op sales rose 1.6% to a seasonally adjusted annual rate of 620,000 units in January, but were still 4.6% below a year ago. The median existing condo price was $231,600 in January, which was 7.1% above a year ago.

Lawrence Yun, NAR chief economist, says January's retreat in closings highlights the housing market's glaring inventory shortage to start 2018. "The utter lack of sufficient housing supply and its influence on higher home prices muted overall sales activity in much of the U.S. last month," he said. "While the good news is that Realtors® in most areas are saying buyer traffic is even stronger than the beginning of last year, sales failed to follow course and far lagged last January's pace. It's very clear that too many markets right now are becoming less affordable and desperately need more new listings to calm the speedy price growth."

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 1.0% in January to 108.1 (2016 = 100), following a 0.6% increase in December, and a 0.4% increase in November.

"The U.S. LEI accelerated further in January and continues to point to robust economic growth in the first half of 2018. While the recent stock market volatility will not be reflected in the U.S. LEI until next month, consumers' and business' outlook on the economy had been improving for several months and should not be greatly impacted," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The leading indicators reflect an economy with widespread strengths coming from financial conditions, manufacturing, residential construction, and labor markets."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1% in January to 103.0 (2016 = 100), following a 0.3% increase in December, and a 0.2% increase in November.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1% in January to 104.0 (2016 = 100), following a 0.7% increase in December, and a 0.1% increase in November.

A DEEPER DIVE – HOUSING, CON'T.

Existing-Home Sales, Con't.

The median existing-home price for all housing types in January was $240,500, up 5.8% from January 2017 ($227,300). January's price increase marks the 71st straight month of year-over-year gains.

Total housing inventory at the end of January rose 4.1% to 1.52 million existing homes available for sale, but was still 9.5% lower than a year ago (1.68 million) and has fallen year-over-year for 32 consecutive months. Unsold inventory is at a 3.4-month supply at the current sales pace (3.6 months a year ago).

"Another month of solid price gains underlines this ongoing trend of strong demand and weak supply. The underproduction of single-family homes over the last decade has played a predominant role in the current inventory crisis that is weighing on affordability," said Yun. "However, there's hope that the tide is finally turning. There was a nice jump in new home construction in January and homebuilder confidence is high. These two factors will hopefully lay the foundation for the building industry to meaningfully ramp up production as this year progresses."

First-time buyers were 29% of sales in January, which is down from 32% in December 2017 and 33% a year ago. NAR's *2017 Profile of Home Buyers and Sellers* – released in late 2017 – revealed that the annual share of first-time buyers was 34%.

Regional

January existing-home sales in the Northeast declined 1.4% to an annual rate of 730,000, and were 7.6% below a year ago. The median price in the Northeast was $269,100, which was 6.8% above January 2017.

In the Midwest, existing-home sales dipped 6.0% to an annual rate of 1.25 million in January, and were 3.8% below a year ago. The median price in the Midwest was $188,000, up 8.7% from a year ago.

Existing-home sales in the South decreased 1.3% to an annual rate of 2.26 million in January, and were 1.7% lower than a year ago. The median price in the South was $208,200, up 4.3% from a year ago.

Existing-home sales in the West fell 5.0% to an annual rate of 1.14 million in January, and were 9.5% below a year ago. The median price in the West was $362,600, up 8.8% from January 2017.

New Residential Sales

Sales of new single-family houses in January 2018 were at a seasonally adjusted annual rate of 593,000, according to estimates released jointly by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. This was 7.8% below the revised December rate of 643,000, and was 1.0% below the January 2017 estimate of 599,000.

The median sales price of new houses sold in January 2018 was $323,000. The average sales price was $382,700.

The seasonably-adjusted estimate of new houses for sale at the end of January was 301,000. This represents a supply of 6.1 months at the current sales rate.

New single-family houses sold in January 2018 versus January 2017 were mixed by region. Sales were up 2.7% in the Midwest and 33.1% in the West, but were offset by sales in the South down 10.9% and down 44.2% in the Northeast.

HOUSING UPDATE

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 January were at a seasonally adjusted annual rate of 1,326,000. This was 9.7% above the revised December estimate of 1,209,000, and was 7.3% above the January 2017 rate of 1,236,000. Single-family housing starts in January were at a rate of 877,000; this was 3.7% above the revised December figure of 846,000. The January rate for units in buildings with five units or more was 431,000.

Single-family starts in January 2018 compared to January 2017 were up 11.9% in the Northeast, 2.0% in the South and 38% in the West, but down 12.4% in the Midwest.

A DEEPER DIVE – HOUSING, CON'T.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for January 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $492.0 billion, a decrease of 0.3% from the previous month, but 3.6% above January 2017. Total sales for the November 2017 through January 2018 period were up 4.9% from the same period a year ago.

Retail trade sales were down 0.3% from December 2017, but 3.9% above last year. Nonstore Retailers were up 10.2% from January 2017, while Gasoline Stations were up 9.0% from last year.

Sales at furniture and home furnishings stores were up 4.7% in January over January 2017 on an adjusted basis and 6.6% unadjusted.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.5% in January on a seasonally adjusted basis, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index rose 2.1% before seasonal adjustment.

The seasonally adjusted increase in the all items index was broad-based, with increases in the indexes for gasoline, shelter, apparel, medical care, and food all contributing. The energy index rose 3.0% in January, with the increase in the gasoline index more than offsetting declines in other energy component indexes. The food index rose 0.2% with the indexes for food at home and food away from home both rising.

The index for all items less food and energy increased 0.3% in January. Along with shelter, apparel, and medical care, the indexes for motor vehicle insurance, personal care, and used cars and trucks also rose in January. The indexes for airline fares and new vehicles were among those that declined over the month.

The all items index rose 2.1% for the 12 months ending January, the same increase as for the 12 months ending December. The index for all items less food and energy rose 1.8% over the past year, while the energy index increased 5.5% and the food index advanced 1.7%.

Employment

Total nonfarm payroll employment increased by 200,000 in January, and the unemployment rate was unchanged at 4.1%, according to the report from the U.S. Bureau of Labor Statistics. Employment continued to trend up in construction, food services and drinking places, health care, and manufacturing.

In January, the unemployment rate was 4.1% for the fourth consecutive month. The number of unemployed persons, at 6.7 million, changed little over the month.

The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.4 million in January and accounted for 21.5% of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in January decreased $9.2 billion or 3.7%, according to the report of the U.S. Census Bureau. This decrease, down following two consecutive monthly increases, followed a 2.6% December increase. Excluding transportation, new orders decreased 0.3%. Excluding defense, new orders decreased 2.7%. Transportation equipment, also down following two consecutive monthly increases, led the decrease, 8.6% or 10.0%.

Shipments of manufactured durable goods in January, up eight of the last nine months, increased $0.6 billion or 0.2%. This followed a 0.5% December increase. Transportation equipment, up two of the last three months, led the increase, $0.4 billion or 0.5%.

According to the final report for December for the furniture and related products category, both new orders and shipments were up 2.0% in 2017 versus 2016. Both orders and shipments were also up 2.0% year to date.