FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

After hearing about how sluggish business was in the first quarter, our survey of residential furniture manufacturers and distributors for March pretty much confirmed that the quarter was a bit weak. New orders for March were 2% higher than March in 2017. Only 42% of the participants reported increased orders.

Year to date, new orders were up 3%. Not terrible but certainly not strong. Only 56% of the participants reported growth in orders for the quarter.

Shipments in March 2018 were flat compared to March 2017 and up only 1% for the quarter. About one-half of the participants showed growth in shipments for the quarter.

Backlogs were up 1% from March 2017 and even with February as orders, in dollars, were just slightly higher than shipments.

Receivable levels remained in good shape and inventory levels fell 2% from February – a good thing. Inventories still were 9% higher than March 2017, seemingly too high for current business conditions.

Factory and warehouse payrolls and the number of employees remained in line for current conditions.

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EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index improved slightly in April following a slight decrease in March. Both the Present Situation Index and the Expectations Index improved. The report indicated consumers' assessment of current conditions increased to a 17-year high suggesting that the level of economic growth in Q2 is likely to have improved from Q1.

The only real negative indicated that the percentage of consumers expecting an improvement in short term income prospects declined while those expecting a decrease rose from 7.9% to 8.2%.

The University of Michigan Surveys of Consumers reported slightly different results noting that their index declined slightly but has remained in a narrow range since the election. The concern noted in this report is that inflation may be exceeding income increases.

Housing

Existing-home sales fell slightly in April both on a monthly and annualized basis. All four regions of the country saw no gain in sales actively last month.

The negative for existing-home sales remains a very low supply of homes on the market, coupled with higher selling prices as the lack of inventory is driving up pricing. Add to that, increasing mortgage rates and you end up with slower sales. Three of the four regions reported lower sales than last year with only the South reporting a slight increase.

Sales of new single-family houses in April fell slightly from March but sales were up 11.4% from April 2017. Compared to April 2017, sales of these houses were up 5.3% in the Northeast, 26.4% in the Midwest, 6.0% in the South and 18.9% in the West.

Single-family housing starts also fell from March but were up 10.5% over April 2017. Starts were up in all regions except the Midwest where they fell 15.2%.

Other

The Conference Board's Leading Economic Index (LEI) for the U.S. increased 0.4% after increases of 0.3% in March, 0.7 in February and 0.8 in January. The growth has moderated somewhat in the last six months. The report indicated that growth is unlikely to strongly accelerate but that growth should continue in the second half of 2018.

The advance report for April showed monthly sales for retail and food servicer increasing of 0.3% from March and 4.7% over April 2017. Sales for February through April were up 4.6% from the same period a year ago.

Sales at furniture and home furnishings stores were up 6.1% from April 2017. Year to date, sales at these stores were up 5.3%.

The Consumer Price Index increased 0.2% in April after falling 0.1% in March. For the last twelve months, the all items index has increased 2.5%. The indexes for gasoline and shelter led the way with the food index also increasing.

Non-farm payroll employment increased by 164,000 in April after a 103,000 increase in March. The unemployment rate edged down to 3.9% following 6 months at 4.1%.

EXECUTIVE SUMMARY, CONT.

Thoughts

After most of our conversations during the first quarter, we were concerned over what appeared to be sluggish and uneven business in the industry. The final results of our survey for the quarter proved most of that to be true. Yet, the High Point Market seemed to end on a very good note and it seems that business has gotten a bit better.

The April economic data was very positive for the most part and May seems to be following along. The one part of the economy that is causing some issues is finding employees. This has been an issue for especially manufacturers but is also apparently true for many others. We had a meeting with some business leaders here in High Point recently and the conversation was the same for trucking companies, warehouse workers and even helpers at early education facilities. This has become a pretty major problem so it may be good that business is not so robust.

Overall consumer confidence remains strong which we believe is the key to good furniture business. Interestingly it continues strong in spite of crazy fluctuations in the stock market (for what real reasons, we wish we knew), rising prices in some items and increasing interest rates. We hope that this confidence can remain as according to the national reports, retail furniture did well through April 2018.

We realize that all businesses are not "national" and just like with our survey, all companies did not accomplish average. Let's hope that the economy continues to improve as the reports indicate so that we can return to higher percentages of participants showing improvements.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

The results of our recent survey of residential furniture manufacturers and distributors in March 2018 was quite mixed based on participant reporting. While new orders in total were up 2% compared to March 2017, there certainly was not an increase across the board. Only 42% of the participants reported increased orders. There were quite a few who reported double digit increases but most reported declines.

Year to date, new orders were up 3% over the first three months of 2017, falling from a 4% increase reported last month. For the year to date results, some 56% of the participants reported increased orders down from 64% reporting increases last month.

Shipments and Backlogs

Shipments in March 2018 were basically flat with March 2017. As with new orders, shipment increases were reported by only 42% of the participants. Shipments in February were up 3% over shipments in February 2017.

Year to date, shipments were up 1% over the first three months of 2017. In February, year to date shipments were also up 1%. One-half of the participants in March reported increased shipments year to date.

Backlogs in March were fairly even with February with the dollar amount of orders only slightly ahead of shipments in dollars. Backlogs were up 1% from March 2017 after a decline of 2% reported last month.

Receivables and Inventories

Receivable levels were down 2% from February even though shipments were up but that was likely due to March having more working days to collect.

Inventories fell 2% from February and were up 9% over March 2017. In February, inventory levels were up 10% over February 2017, so with business relatively flat for most, the decline in inventories was a good thing since levels seem high for current business conditions.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees fell 1% from February and were 1% lower than March 2017. Factory and warehouse payrolls were up 1% from last year. The larger increase in payrolls from February was likely due to more working days in March.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2018		
	MAR	FEB	3 MONTHS
New Orders	2,575	2,269	6,926
Shipments	2,546	2,192	6,766
Backlog (R)	2,055	2,046	

	2017		
	MAR	FEB	3 MONTHS
New Orders	2,535	2,168	6,738
Shipments	2,553	2,139	6,735
Backlog (R)	2,035	2,053	

MONTHLY RESULTS, CON'T.

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	Mar 2018 From Feb 2018	Mar 2018 From Mar 2017	3 Months 2018 vs 3 Months 2017
New Orders	+13	+2	+3
Shipments	+15	–	+1
Backlog	–	+1	
Payrolls	+12	+1	–
Employees	-1	-1	
Receivables	-2	-3	
Inventories	-2	+9	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2017				
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	–
2018				
January	+2	–	-1	–
February	+5	+3	-2	-1
March	+2	–	+1	-1

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® increased in May, following a modest decline in April (after a downward revision). The Index now stands at 128.0 (1985 = 100), up from 125.6 in April. The Present Situation Index increased from 157.5 to 161.7, while the Expectations Index improved from 104.3 last month to 105.6 this month.

"Consumer confidence increased in May after a modest decline in April," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions increased to a 17-year high (March 2001, 167.5), suggesting that the level of economic growth in Q2 is likely to have improved from Q1. Consumers' short-term expectations improved modestly, suggesting that the pace of growth over the coming months is not likely to gain any significant momentum. Overall, confidence levels remain at historically strong levels and should continue to support solid consumer spending in the near-term."

Consumers' assessment of current conditions improved in May. Those claiming business conditions are "good" increased from 34.8% to 38.4%, while those claiming business conditions are "bad" decreased from 12.3% to 12.0%. Consumers' assessment of the labor market was somewhat mixed. The percentage of consumers stating jobs are "plentiful" improved from 38.2% to 42.4%, while those claiming jobs are "hard to get" also increased, from 15.5% to 15.8%.

Consumers were modestly more positive about the short-term outlook in May. The percentage of consumers anticipating business conditions will improve over the next six months decreased from 23.6% to 23.1%, while those expecting business conditions will worsen also decreased, from 9.8% to 8.3%.

Consumers' outlook for the labor market was mixed. The proportion expecting more jobs in the months ahead increased from 18.6% to 19.7%, while those anticipating fewer jobs also increased, from 13.2% to 13.9%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement declined, from 21.8% to 21.3%, while the proportion expecting a decrease rose from 7.9% to 8.2%.

University of Michigan Surveys of Consumers

The University of Michigan Surveys of Consumers reported slightly different results. Surveys of Consumers chief economist, Richard Curtin said, "Consumer sentiment slipped by less than an Index-point from last month. Since Trump's election, the Sentiment Index has meandered in a tight eight-point range from 93.4 to 101.4, with the small month-to-month variations indicating no emerging trend. Consumers have remained focused on expected gains in jobs and incomes as well as anticipated increases in incomes. The May survey, however, found that consumers anticipated smaller income gains than a month or year ago, even though they anticipate the unemployment rate to stabilize at its current eighteen year low. Importantly, references to discounted prices for durables, vehicles, and homes fell to decade lows. Coupled with higher interest rates, it is likely that the pace of growth in personal consumption will remain at about 2.6% during the year ahead."

When asked to explain how their personal finances had changed, the proportion that spontaneously cited higher prices worsening their financial situation has shown a close correspondence with actual trends in the year-over-year change in the CPI. That close relationship ended about a decade ago, and in the past year or so, as the CPI has risen, complaints about inflation have fallen. While the reasons underlying the current divergence are unclear, it nonetheless signals a change in how consumers judge the impact of inflation on their personal finances. It may also suggest a change in their behavioral reaction to inflation.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.4% in April to 109.4 (2016 = 100), following a 0.4% increase in March, and a 0.7% increase in February.

"April's increase and continued uptrend in the U.S. LEI suggest solid growth should continue in the second half of 2018. However, the LEI's six-month growth rate has recently moderated somewhat, suggesting growth is unlikely to strongly accelerate," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "In April, stock prices and housing permits were the only negative contributors, whereas the labor market components, which made negative contributions in March, improved."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3% in April to 103.5 (2016 = 100), following a 0.2% increase in March, and a 0.2% increase in February.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3% in April to 104.7 (2016 = 100), following a 0.1% decrease in March, and a 0.3% increase in February.

A DEEPER DIVE – NATIONAL, CON'T.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for April 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $497.6 billion, an increase of 0.3% from the previous month, and 4.7% above April 2017. Total sales for the February 2018 through April 2018 period were up 4.6% from the same period a year ago.

Retail trade sales were up 0.4% from March 2018, and 4.8% above last year. Gasoline Stations were up 11.7% from April 2017, while Nonstore Retailers were up 9.6% from last year.

Sales at furniture and home furnishings stores were up 6.1% on an adjusted basis from April 2017. Year to date, sales at these stores were up 5.3%. For retail store categories, sales in this group were the highest other than gasoline stations and miscellaneous store retailers.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in April on a seasonally adjusted basis after falling 0.1% in March, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index rose 2.5% before seasonal adjustment.

The indexes for gasoline and shelter were the largest factors in the seasonally adjusted increase in the all items index, although the food index increased as well. The gasoline index increased 3.0%, more than offsetting declines in other energy component indexes and led to a 1.4-percent rise in the energy index. The food index rose 0.3%, with the food at home index rising 0.3% and the index for food away from home increasing 0.2%.

The index for all items less food and energy rose 0.1% in April. The shelter index rose 0.3%, with other indexes mixed. The indexes for household furnishings and operations, personal care, tobacco, medical care, and apparel all increased in April, while those for used cars and trucks, new vehicles, recreation, and airline fares all declined.

The all items index rose 2.5% for the 12 months ending April; this figure has been mostly trending upward since it was 1.6% for the period ending June 2017. The index for all items less food and energy rose 2.1% for the 12 months ending April. The food index increased 1.4%, and the energy index rose 7.9%.

Employment

Total nonfarm payroll employment increased by 164,000 in April, and the unemployment rate edged down to 3.9%, according to the report from the U.S. Bureau of Labor Statistics. Job gains occurred in professional and business services, manufacturing, health care, and mining.

In April, the unemployment rate edged down to 3.9%, following 6 months at 4.1%. The number of unemployed persons, at 6.3 million, also edged down over the month.

The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.3 million in April and accounted for 20.0% of the unemployed. Over the year, the number of long-term unemployed was down by 340,000.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in April decreased $4.2 billion or 1.7% to $248.5 billion, according to the report from the U.S. Census Bureau. This decrease, down following two consecutive monthly increases, followed a 2.7% March increase. Excluding transportation, new orders increased 0.9%. Excluding defense, new orders decreased 1.9%. Transportation equipment, also down following two consecutive monthly increases, drove the decrease, $5.6 billion or 6.1% to $87.1 billion.

Shipments of manufactured durable goods in April, down following eight consecutive monthly increases, decreased $0.1 billion or 0.1% to $246.7 billion. This followed a 0.7% March increase. Transportation equipment, down following three consecutive monthly increases, drove the decrease, $1.8 billion or 2.1% to $82.8 billion.

According to the final report for March, shipments for furniture and related products increased 2.0% while new orders were up 0.6%. Year to date, shipments were up 3.1% while orders were up 0.2%.

A DEEPER DIVE – HOUSING

Existing-Home Sales

After moving upward for two straight months, existing-home sales retreated in April on both a monthly and annualized basis, according to the National Association of Realtors®. All four major regions saw no gain in sales activity last month.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 2.5% to a seasonally adjusted annual rate of 5.46 million in April from 5.60 million in March. With last month's decline, sales are now 1.4% below a year ago and have fallen year-over-year for two straight months.

Single-family home sales declined 3.0% to a seasonally adjusted annual rate of 4.84 million in April from 4.99 million in March, and were 1.6% below the 4.92 million sales pace a year ago. The median existing single-family home price was $259,900 in April, up 5.5% from April 2017.

Existing condominium and co-op sales increased 1.6% to a seasonally adjusted annual rate of 620,000 units in April (unchanged from a year ago). The median existing condo price was $242,500 in April, which was 3.4% above a year ago.

Lawrence Yun, NAR chief economist, says this spring's staggeringly low inventory levels caused existing sales to slump in April. "The root cause of the underperforming sales activity in much of the country so far this year continues to be the utter lack of available listings on the market to meet the strong demand for buying a home," he said. "Realtors® say the healthy economy and job market are keeping buyers in the market for now even as they face rising mortgage rates. However, inventory shortages are even worse than in recent years, and home prices keep climbing above what many home shoppers are able to afford."

The median existing-home price for all housing types in April was $257,900, up 5.3% from April 2017 ($245,000). April's price increase marks the 74th straight month of year-over-year gains.

Total housing inventory at the end of April increased 9.8% to 1.80 million existing homes available for sale, but was still 6.3% lower than a year ago (1.92 million) and has fallen year-over-year for 35 consecutive months. Unsold inventory is at a 4.0-month supply at the current sales pace (4.2 months a year ago).

Properties typically stayed on the market for 26 days in April, which is down from 30 days in February and 29 days a year ago. Fifty-seven percent of homes sold in April were on the market for less than a month.

"What is available for sale is going under contract at a rapid pace," said Yun. "Since NAR began tracking this data in May 2011, the median days a listing was on the market was at an all-time low in April, and the share of homes sold in less than a month was at an all-time high."

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased for the seventh straight month to 4.47% in April (highest since 4.49% in September 2013) from 4.44% in March. The average commitment rate for all of 2017 was 3.99%.

"With mortgage rates and home prices continuing to climb, an increase in housing supply is absolutely crucial to keeping affordability conditions from further deterioration," said Yun. "The current pace of price appreciation far above incomes is not sustainable in the long run."

First-time buyers were 33% of sales in April (highest since last July), which is up from 30% last month but down from 34% 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%.

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 April were at a seasonally adjusted annual rate of 1,287,000. This was 3.7% below the revised March estimate of 1,336,000, but was 10.5% above the April 2017 rate of 1,165,000. Single-family housing starts in April were at a rate of 894,000; this was 0.1% above the revised March figure of 893,000. The April rate for units in buildings with five units or more was 374,000.

Single family starts were up 7.2% from a year ago with starts up 19.1% in the Northeast, 13.3% in the South and 4.4% in the West. Starts were off 15.2% in the Midwest.

Privately-owned housing completions in April were at a seasonally adjusted annual rate of 1,257,000. This was 2.8% above the revised March estimate of 1,223,000 and was 14.8% above the April 2017 rate of 1,095,000. Single-family housing completions in April were at a rate of 820,000; this was 4.0% below the revised March rate of 854,000. The April rate for units in buildings with five units or more was 425,000.

Single-family completions were up 5.5% from April 2017 and up 3.2% in the Midwest and 28.9% in the West while flat in the South and down 15.0% in the Northeast.

A DEEPER DIVE – HOUSING, CON'T.

Regional

April existing-home sales in the Northeast fell 4.4% to an annual rate of 650,000, and were 11.0% below a year ago. The median price in the Northeast was $275,200, which was 2.8% above April 2017.

In the Midwest, existing-home sales were at annual rate of 1.29 million in April (unchanged from March), and were 3.0% below a year ago. The median price in the Midwest was $202,100, up 4.6% from a year ago.

Existing-home sales in the South decreased 2.9% to an annual rate of 2.33 million in April, but were 2.2% above a year ago. The median price in the South was $227,600, up 3.9% from a year ago.

Existing-home sales in the West declined 3.3% to an annual rate of 1.19 million in April, and were 0.8% below a year ago. The median price in the West was $382,100, up 6.2% from April 2017.

New Residential Sales

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced that sales of new single-family houses in April 2018 were at a seasonally adjusted annual rate of 662,000. This was 1.5% below the revised March rate of 672,000, but was 11.6% above the April 2017 estimate of 593,000.

The median sales price of new houses sold in April 2018 was $312,400. The average sales price was $407,300.

The seasonally-adjusted estimate of new houses for sale at the end of April was 300,000. This represents a supply of 5.4 months at the current sales rate.

New privately-owned houses sold in April compared to April 2017 were up 5.3% in the Northeast, 26.4% in the Midwest, 6.0% in the South and 18.9% in the West.