FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

New orders in June 2018 were up 5% over June 2017, according to our recent survey of residential furniture manufacturers and distributors. The 5% increase followed a 5% increase reported last month and 15% reported in April. Both the months of May and June had just around one-half the participants reporting increased orders.

Year to date, new orders were up 6% with some 63% of the participants reporting increased orders. These results seem to mirror conversations with people, some of whom feel pretty good about business conditions and others not so happy.

Shipments were up 2% over June 2017 and remained 3% up year to date. Shipments were up 7% last June when compared to June 2016 so the 2%, while not all that great, was compared to a strong result last year. Shipments year to date were up for 63% of the participants, compared to 65% last year.

Backlogs were 7% higher than last June, up from a 5% increase reported in May, but they did fall slightly from May to June.

Receivable levels were up 5% over last year which appeared a bit high considering shipment levels. Since receivables have seemed in line for the last few months, we think this month's results may just be timing.

Inventory levels fell 1% from May and were up only 4% from last year. It appears that inventories are much more in line after appearing a bit high during the first few months of the year.

Both the number of factory and warehouse employees and their payrolls seem very much in line with current business conditions.

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EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

Once again the two surveys showed opposite results for August. The Conference Board's Index increased in August following a slight increase in July. The Index improved to 133.4 from 127.9 in July. This was the highest level since October 2000 when it was 135.8. The Expectations Index improved after declining in July and June suggesting solid economic growth for the remainder of 2018, according to the report. The outlook for improved business conditions and income were both more positive. The outlook for jobs was a bit mixed but still solid.

The University of Michigan Surveys of Consumers showed that consumer sentiment slipped to its lowest level since last September. The decline seemed to be concentrated among households in the bottom third of income distribution. The "dominating weakness reflected much less favorable assessments of buying conditions, mainly due to less favorable perceptions of market prices." Conditions for household durables was the lowest in several years.

Housing

Existing-home sales fell again for the fourth straight month in July to the slowest pace in over two years. Total existing-home sales were 1.5% below July a year ago and have fallen on an annual basis for five straight months. Single-family home sales were down 1.2% from last year. The report continued the theme that low inventories continue to drive pricing up. That along with rising interest rates is making would-be buyers postpone their searches until prices ease off.

New single-family home sales were also off in July versus June 1.7%, but were up 12.8% compared to July 2017. Sales were up from last year nicely in the Midwest, South and West, but were off significantly in the Northeast. Housing starts were up in July over June but were 1.7% lower than July 2017. Single-family starts were up 18.1% in the Midwest and 3.1% in the West, but were off 2.9% in the Northeast and off slightly in the South.

Other

The second quarter (second estimate) results of Gross Domestic Product indicated that the economy grew at an annual rate of 4.2%, up from 2.2% reported for the first quarter. The increase was attributed to positive contributions from Personal Consumption Expenditures, nonresidential fixed investment, exports, federal government spending and state and local spending, that were partially offset by negative contributions from private inventory investment and residential fixed investment.

The Conference Board's Leading Economic Index (LEI) for the U.S. increased 0.6% in July following increases in June and May. The report indicated that the strengths among the components of the leading index were very widespread. The Coincident Index also increased for the third straight month.

The advance estimates for U.S. retail and food services sales for July 2018 reported an increase of 6.4% above July 2017. Sales for the May 2018 through July 2018 were up 6.3% over last year. Sales at furniture and home furnishings stores were up 3.5% in July over July 2017. Year to date, sales at these stores were up 5.0% over last year.

The Consumer Price Index increased 0.2% in July. Over the last twelve months, the all items index rose 2.9%. The index for shelter rose 0.3% in July accounting for 60% of the all items index. For the twelve months, the energy index rose 12.1%. Total nonfarm payroll employment rose by 157,000 in July. The unemployment rate dropped back down to 3.9%. The number of unemployed declined by 284,000 to 6.3 million.

EXECUTIVE SUMMARY, CONT.

Thoughts

The June results finished off the second quarter with pretty good results as orders year to date were up 6% and shipments up 3%. Backlogs also appeared to be fairly strong. But not everyone is enjoying the same success. We would feel better if all or at least a larger percentage were seeing improvements.

As we have said before, we realize that many of our participants are like the industry in general. There are so many product categories and as an industry we are very fragmented. Also, customer bases are very different among all players so we know to be at the top in growth, you have to have hot selling products, being sold to the customers who are also hot and know how to sell YOUR products and they need to be in areas of the country that also like and can afford your products. Sounds pretty easy to me, but apparently it is not, or everyone's growth would be the same.

It's interesting how the two consumer confidence surveys continue to be both strong but diverse in their current directions. The Michigan survey gives us a bit of why, with confidence so high, the furniture industry is not benefitting as much as we think it should.

We also think that the housing situation continues to be a drag on our business. It appears that we have the perfect storm of low inventories, driving prices up, along with higher mortgage rates. Add to that, new homes are more expensive due to higher material costs. So it appears that buyers have decided to wait. We will have to see how that works out.

We hope you have a safe Labor Day weekend and the Labor Day sales bring good business for all.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in June 2018 were up 5% over June 2017 new orders. This 5% increase followed a 5% increase also reported for May and a 15% increase reported in April. New orders were up for only 51% of the participants in spite of the 5% increase. The 51% that reported increases was about the same as reported last month.

Year to date, new orders remained 6% ahead of the first half of last year with some 63% reporting increased orders year to date. This percentage was about the same as reported last month.

Shipments and Backlogs

Shipments in June were up 2% over June 2017, about the same as reported last month. Last year, shipments in June were up 7% over June 2016 so the comparison this year is against a good month last year. Shipments were up for slightly less than one-half of the participants. Last month, shipments were up for 58% of the participants.

Year to date, shipments were up 3% over the first six months of 2017, the same as reported last month. Last year, first half shipments were up 5% over the first half of 2016. Year to date, shipments were up for some 63% of the participants; compared to 65% last year.

Backlogs fell 1% in June from May, but were 7% higher than June 2017. Last month, backlogs were 5% higher than the previous year.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2018		
	JUN	MAY	6 MONTHS
New Orders	2,537	2,540	14,512
Shipments	2,656	2,420	14,182
Backlog (R)	2,143	2,262	

	2017		
	JUN	MAY	6 MONTHS
New Orders	2,416	2,410	13,746
Shipments	2,617	2,363	13,834
Backlog (R)	2,003	2,204	

Receivables and Inventories

Receivable levels were 5% higher than last year with shipments only up 2%. Year to date, shipments were up 3% so receivables appear a bit out of line. Since those levels have been in line for the most part, the results were likely timing issues.

Inventory levels fell 1% from May and were 4% higher than June 2017. In May, inventories were 6% higher than May 2017, so inventory levels seem to have come back in line with current business from earlier in the year.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was even with May 2018 and down 1% from June 2017. These results continue to make sense due to no significant swings in business.

Factory and warehouse payrolls were up 1% from June 2017 and up 2% year to date. Again, these results seem to be in line with expectations considering current business levels.

MONTHLY RESULTS, CON'T.

KEY MONTHLY INDICATORS (PERCENT CHANGE)	June 2018 From May 2018	June 2018 From June 2017	6 Months 2018 vs 6 Months 2017
New Orders	–	+5	+6
Shipments	+6	+2	+3
Backlog	-1	+7	
Payrolls	+5	+1	+2
Employees	–	-1	
Receivables	+7	+5	
Inventories	-1	+4	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2017				
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
April	+15	+10	+6	-1
May	+5	+2	+5	–
June	+5	+2	+7	-1

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® increased in August, following a modest increase in July. The Index now stands at 133.4 (1985=100), up from 127.9 in July. The Present Situation Index improved from 166.1 to 172.2, while the Expectations Index increased from 102.4 last month to 107.6 this month.

"Consumer confidence increased to its highest level since October 2000 (Index, 135.8) following a modest improvement in July," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current business and labor market conditions improved further. Expectations, which had declined in June and July, bounced back in August and continue to suggest solid economic growth for the remainder of 2018. Overall, these historically high confidence levels should continue to support healthy consumer spending in the near-term."

Consumers' appraisal of current conditions improved further in August. Those stating business conditions are "good" increased from 38.1% to 40.3%, while those saying business conditions are "bad" declined from 10.3% to 9.1%. Consumers' appraisal of the labor market was also more favorable. Those claiming jobs are "plentiful" was virtually unchanged at 42.7%, while those claiming jobs are "hard to get" declined from 14.8% to 12.7%.

Consumers' optimism about the short-term outlook bounced back in August. The percentage of consumers anticipating business conditions will improve over the next six months increased from 22.9% to 24.3%, but those expecting business conditions will worsen marginally rose, from 10.3% to 10.5%.

Consumers' outlook for the labor market was mixed. The proportion expecting more jobs in the months ahead decreased from 22.6% to 21.7%, while those anticipating fewer jobs also decreased, from 15.2% to 14.1%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement rose from 20.4% to 25.5%, while the proportion expecting a decrease declined, from 9.4% to 7.0%.

University of Michigan Surveys of Consumers

Consumer sentiment slipped to its lowest level since last September, with the decline concentrated among households in the bottom third of the income distribution. The dominating weakness reflected much less favorable assessments of buying conditions, mainly due to less favorable perceptions of market prices. Buying conditions for large household durables sank to the lowest level in nearly four years. When asked to explain their views, consumers voiced the least favorable views on pricing for household durables in nearly ten years, since October 2008.

Vehicle buying conditions were viewed less favorably in August than anytime in the last four years, with vehicle prices being judged less favorably than anytime since the close of 1984. Home buying conditions were viewed less favorably in early August than anytime in the past ten years, with home prices judged less favorably than anytime since 2006. These are extraordinary shifts in price perceptions given that consumers anticipate an inflation rate in the year ahead of 2.9% in early August, unchanged from last month. The data suggest that consumers have become much more sensitive to even relatively low inflation rates than in past decades.

As is usual at this stage in the business cycle, some price resistance has been neutralized by rising wages, although the falloff in favorable price perceptions has been much larger than ever before recorded. Overall, the data indicate that consumers have little tolerance for overshooting inflation targets, and to the benefit of the Fed, interest rates now play a more decisive role in purchase decisions.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6% in July to 110.7 (2016 = 100), following a 0.5% increase in June, and a 0.1% increase in May.

"The U.S. LEI increased in July, suggesting the U.S. economy will continue expanding at a solid pace for the remainder of this year," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The strengths among the components of the leading index were very widespread, with unemployment claims, the financial components, and the ISM® New Orders Index making the largest positive contributions."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in July to 104.2 (2016 = 100), following a 0.3% increase in June, and a 0.1% increase in May.

The Conference Board Lagging Economic Index® (LAG) for the U.S. declined 0.2% in July to 105.2 (2016 = 100), following a 0.2% increase in June and a 0.5% increase in May.

A DEEPER DIVE – NATIONAL, CON'T.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 4.2% in the second quarter of 2018, according to the "second" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 2.2%. The GDP estimate released 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 4.1%. With this second estimate for the second quarter, the general picture of economic growth remains the same; the revision primarily reflected upward revisions to nonresidential fixed investment and private inventory investment that were partly offset by a downward revision to personal consumption expenditures (PCE). Imports which are a subtraction in the calculation of GDP, were revised down.

The acceleration in real GDP growth in the second quarter reflected accelerations in PCE, exports, federal government spending, and state and local government spending, as well as a smaller decrease in residential fixed investment. These movements were partly offset by a downturn in private inventory investment and a deceleration in nonresidential fixed investment. Imports decreased after increasing in the first quarter.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for July 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $507.5 billion, an increase of 0.5% from the previous month, and 6.4% above July 2017. Total sales for the May 2018 through July 2018 period were up 6.3% from the same period a year ago.

Retail trade sales were up 0.4% from June 2018, and 6.0% above last year. Gasoline Stations were up 22.2% from July 2017, while Nonstore Retailers were up 8.7% from last year.

Sales at furniture and home furnishings stores were up 3.5% in July over July 2017. Year to date, sales at these stores were up 5.0% over the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in July on a seasonally adjusted basis after rising 0.1% in June, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index rose 2.9% before seasonal adjustment.

The index for shelter rose 0.3% in July and accounted for nearly 60% of the seasonally adjusted monthly increase in the all items index. The food index rose slightly in July, with major grocery store food group indexes mixed. The energy index fell 0.5%, as all the major component indexes declined.

The index for all items less food and energy rose 0.2% in July, the same increase as in May and June. Along with the shelter index, the indexes for used cars and trucks, airline fares, new vehicles, household furnishings and operations, and recreation all increased. The indexes for medical care and for apparel both declined in July.

The all items index rose 2.9% for the 12 months ending July, the same increase as for the period ending June. The index for all items less food and energy rose 2.4% for the 12 months ending July; this was the largest 12-month increase since the period ending September 2008. The food index increased 1.4% over the last 12 months, and the energy index rose 12.1%.

Employment

Total nonfarm payroll employment increased by 157,000 in July, and the unemployment rate edged down to 3.9%, according to the U.S. Bureau of Labor Statistics report. Employment increased in professional and business services, in manufacturing, and in health care and social assistance.

In July, the unemployment rate edged down by 0.1 percentage point to 3.9%, following an increase in June. The number of unemployed persons declined by 284,000 to 6.3 million in July. Both measures were down over the year, by 0.4 percentage point and 676,000, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.4 million in July and accounted for 22.7% of the unemployed.

A DEEPER DIVE – NATIONAL, CON'T.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in July decreased $4.3 billion or 1.7% to $246.9 billion, according to the U.S. Census Bureau. This decrease, down three of the last four months, followed a 0.7% June increase. Excluding transportation, new orders increased 0.2%. Excluding defense, new orders decreased 1.0%. Transportation equipment, also down three of the last four months, drove the decrease, $4.6 billion or 5.3% to $82.8 billion.

Shipments of manufactured durable goods in July, down following two consecutive monthly increases, decreased $0.5 billion or 0.2% to $250.8 billion. This followed a 1.6% June increase. Transportation equipment, down three of the last four months, drove the decrease, $1.6 billion or 1.9% to $83.9 billion.

According to the final report for June, new orders for furniture and related products were up 5.8% over June 2017, while up year to date 2.8%. Shipments were up 3.2% over June 2016 and up 4.0% year to date.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales subsided for the fourth straight month in July to their slowest pace in over two years, according to the National Association of Realtors®. The West was the only major region with an increase in sales last month.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 0.7% to a seasonally adjusted annual rate of 5.34 million in July from 5.38 million in June. With last month's decline, sales are now 1.5% below a year ago and have fallen on an annual basis for five straight months.

Single-family home sales declined 0.2% to a seasonally adjusted annual rate of 4.75 million in July from 4.76 million in June, and were 1.2% below the 4.81 million sales pace a year ago. The median existing single-family home price was $272,300 in July, up 4.6% from July 2017.

Existing condominium and co-op sales fell 4.8% to a seasonally adjusted annual rate of 590,000 units in July and were 3.3% below a year ago. The median existing condo price was $248,100 in July, which was 3.2% above a year ago.

Lawrence Yun, NAR chief economist, says the continuous solid gains in home prices have now steadily reduced demand. "Led by a notable decrease in closings in the Northeast, existing home sales trailed off again last month, sliding to their slowest pace since February 2016 at 5.21 million," he said. "Too many would-be buyers are either being priced out, or are deciding to postpone their search until more homes in their price range come onto the market."

The median existing-home price for all housing types in July was $269,600, up 4.5% from July 2017 ($258,100). July's price increase marks the 77th straight month of year-over-year gains.

Total housing inventory at the end of July decreased 0.5% to 1.92 million existing homes available for sale (unchanged from a year ago). Unsold inventory is at a 4.3-month supply at the current sales pace (also unchanged from a year ago).

Properties typically stayed on the market for 27 days in July, up from 26 days in June but down from 30 days ago. Fifty-five percent of homes sold in July were on the market for less than a month.

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 July were at a seasonally adjusted annual rate of 1,168,000. This was 0.9% above the revised June estimate of 1,158,000, but were 1.4% below the July 2017 rate of 1,185,000. Single-family housing starts in July were at a rate of 862,000; this was 0.9% above the revised June figure of 854,000. The July rate for units in buildings with five units or more was 303,000.

Single-family starts comparing July 2018 to July 2017 were up 18.1% in the Midwest and 3.1% in the West but were off 2.9% in the Northeast and 0.4% in the South.

Privately-owned housing completions in July were at a seasonally adjusted annual rate of 1,188,000. This was 1.7% below the revised June estimate of 1,209,000, and was 0.8% below the July 2017 rate of 1,197,000. Single-family housing completions in July were at a rate of 814,000; this was 5.2% below the revised June rate of 859,000. The July rate for units in buildings with five units or more was 371,000.

A DEEPER DIVE – HOUSING, CON'T.

Existing-Home Sales, Con't.

"Listings continue to go under contract in under month, which highlights the feedback from Realtors® that buyers are swiftly snatching up moderately-priced properties," said Yun. "Existing supply is still not at a healthy level, and new home construction is not keeping up to meet demand."

"In addition to the steady climb in home prices over the past year, it's evident that the quick run-up in mortgage rates earlier this spring has had somewhat of a cooling effect on home sales," said Yun. "This weakening in affordability has put the most pressure on would-be first-time buyers in recent months, who continue to represent only around a third of sales despite a very healthy economy and labor market."

First-time buyers were 32% of sales in July, which is up from 31% last month but down from 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

July existing-home sales in the Northeast dropped 8.3% to an annual rate of 660,000, and were 1.5% below a year ago. The median price in the Northeast was $309,700, which was up 6.8% from July 2017.

In the Midwest, existing-home sales declined 1.6% to an annual rate of 1.25 million in July, and were 0.8% below a year ago. The median price in the Midwest was $210,500, up 2.5% from a year ago.

Existing-home sales in the South decreased 0.4% to an annual rate of 2.24 million in July, and were 0.4% lower than a year ago. The median price in the South was $233,400, up 2.7% from a year ago.

Existing-home sales in the West rose 4.4% to an annual rate of 1.19 million in July, but were still 4.0% below a year ago. The median price in the West was $392,700, up 5.1% from July 2017.

New Residential Sales

Sales of new single-family houses in July 2018 were at a seasonally adjusted annual rate of 627,000, according to estimates released jointly by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. This was 1.7% below the revised June rate of 638,000, but was 12.8% above the July 2017 estimate of 556,000.

The median sales price of new houses sold in July 2018 was $328,700. The average sales price was $394,300.

The seasonally-adjusted estimate of new houses for sale at the end of July was 309,000. This represents a supply of 5.9 months at the current sales rate.

Compared to July 2017, sales in July 2018 were up 18.2% in the Midwest, 17.2% in the South and 18.5% in the West. Sales were down 48.8% in the Northeast compared to the previous year.