FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

New orders in July 2018 were up 5% over July 2017, according to our recent survey of residential furniture manufacturers and distributors. The 5% increase was a good one considering July 2017 orders were 11% higher than July 2016. This July increase marked the third straight month that orders were up 5% over the same month a year ago. Orders were up for 57% of the participants.

Year to date, new orders remained 6% ahead of last year. For the seven months, orders were up for 68% of the participants. As we have discussed recently, the rising tide has not lifted all boats as the industry is so diverse in product categories and price ranges that not everyone grows at the same pace.

Shipments were up 6% over July 2017 when they were up 10% over July 2016. So again, a pretty good month. Shipments fell in July from June but that is normal due to most companies shutting down a week in July for the 4th of July holiday. Year to date, shipments were up 3% over the same period a year ago. Last year in July, year to date shipments were up 5% over the prior year.

Backlogs were flat with June but up 4% over July 2017.

Receivable levels fell back in line with a 5% increase over last year, in line with the 6% increase in shipments. Inventories were up 3% over June and 4% over July 2017. Both increases seemed to be in line with current business levels.

Factory and warehouse payrolls were up 3% for the month and 2% year to date. The decline from June was normal due to the vacation week.

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EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

For the first time in a couple of months, both consumer confidence surveys moved in the same direction. The Conference Board Consumer Confidence Index increased again in September after a large increase in August. The September Index was at 138.4, up from 134.7 in August. The report indicated that the current level was approaching an 18-year high when the Index reached an all time high of 144.7. The assessment of current conditions was "extremely favorable" while the Expectations Index "surged" in September. Lynn Franco, Director of Economic Indicators at The Conference Board, said "These historically high confidence levels should continue to support healthy consumer spending, and should be welcome news for retailers as they begin gearing up for the holiday season."

The University of Michigan Surveys of Consumers report indicated another increase in September reaching 100.8. The second highest level since 2004. The report noted widespread gains among all major socioeconomic subgroups. The increases came from favorable prospects for jobs and income. There were concerns among nearly one-third of the consumers about the negative impact of tariffs.

Housing

Existing-home sales remained steady in August after four straight months of declines. Total existing-home sales were even with July but down 1.5% from a year ago. Single-family home sales were also even with July but were down 1% from a year ago. Sales gains in the Northeast and Midwest were offset by a slight decline in the South and a 5.9% decline in the West for August to July comparisons.

New house sales were up 3.5% over July and up 12.7% over last August. Sales were up in all regions from last year except the Northeast.

Housing starts were 9.2% ahead of July and were 9.4% ahead of August 2017. Single-family starts were down 0.2% from August 2017. Starts were down in the Northeast and South but up in the West and flat in the Midwest.

Other

The third estimate for Gross Domestic Product was not available at the time of writing.

The Conference Board's Leading Economic Index (LEI) for the U.S. increased 0.4% in August following a 0.7% increase in July and a 0.5% increase in June. Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board, said "The leading indicators are consistent with a solid growth scenario in the second half of 2018 and at this stage of a maturing business cycle in the U.S., it doesn't get much better than this."

The advance estimates for U.S. retail and food services sales for August 2018 indicated a 0.1% increase in sales over July and a 6.6% increase over August 2017. Sales for the June to August 2018 period were up 6.5% over the same period a year ago. Sales at furniture and home furnishings stores were up 3.54% over August 2017 and up 5.0% for the first eight months of the year.

The Consumer Price Index increased 0.2% in August, the same as in July. Over the last 12 months, the all items index rose 2.7% before seasonal adjustment. The indexes for shelter and energy were the main contributors to the increase.

Total nonfarm employment increased by 201,000 in August. The unemployment rate was unchanged at 3.9%.

EXECUTIVE SUMMARY, CONT.

Thoughts

The July results were again positive with new orders up 5% and shipments up 6% over July 2017. Year to date, orders remained ahead by 6% over last year. Shipments remained 3% ahead of last year. Some 68% of the participants reported an increase in new orders year to date. So, as we have noted before, not everyone is enjoying better business but at least many have.

When looking at most all the national economic news that we think that affects the industry, business should be pretty good. Consumer Confidence is the strongest it has been for years and we know that confidence is the key for buyers to purchase larger ticket items. But housing remains a bit sluggish due primarily to the lack of inventory as well as higher prices, so that is having some impact.

The looming tariff issues continue to be worrisome. Some folks do not think it is a big deal at the 10% levels, considering also the drop in the value of the currency, but others are not so sure.

Most we talk to and read believe that if the tariffs come into effect, the tariffs will be temporary, and people will just have to adjust for the time being. But should they be in effect long term and even higher, prices will have to go up. For people to say they will not accept any price increases, well that just doesn't make sense. If you want a good supplier of any product, they have to make a reasonable profit, or they won't be there. Hopefully, if it comes into effect, it will be temporary.

We hope you are all about to be ready for the High Point Market and hope to see many of you there.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

New orders in July 2018 were 5% higher than July 2017 orders, according to our latest survey of residential furniture manufacturers and distributors. This was the third straight month that orders increased 5% over the same period a year ago. The 5% July increase also compared to a July 2017 increase of 11% over July 2016. New orders increased for 57% of the participants, up from 51% reporting increases last month.

Year to date, new orders remained 6% ahead of the first seven months of 2017. Year to date, orders were up for some 68% of the participants, up slightly from last month.

Shipments and Backlogs

Shipments were up 6% in July compared to July 2017. Shipments in July 2017 were up 10% over July 2016, so the 6% increase was very good. Shipments increased for 66% of the participants, a much better showing than in June when slightly less than one half of participants reported increased shipments even with shipments up 2% for the month.

Shipments were down 18% in July from June 2018. That decline is normal considering most are shut down a week for the July 4th holiday.

Year to date, shipments were up 3% over last year, when they were up 5% over the previous year. Shipments were up for some 68% of the participants up slightly from last month.

Backlogs were basically flat with June but up 4% from July 2017. Backlogs were 7% higher in the June to June comparison.

Receivables and Inventories

July 2018 receivable levels were up 5% over July 2017, very much in line with both the 6% increase in shipments for the month as well as the 3% increase in year to date shipments. This monthly increase was more in line than last month.

Inventories increased 3% from June and were 4% higher than July 2017. Both of these results seemed in line with current business conditions.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in July 2018 were even with the number in June 2018 and were up 2% from July 2017. Factory and warehouse payrolls were up 3% over July 2017 and up 2% year to date.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2018		
	JUL	JUN	7 MONTHS
New Orders	2,223	2,537	16,735
Shipments	2,227	2,656	16,409
Backlog (R)	2,139	2,143	

	2017		
	JUL	JUN	7 MONTHS
New Orders	2,115	2,416	15,861
Shipments	2,101	2,617	15,935
Backlog (R)	2,054	1,975	

MONTHLY RESULTS, CON'T.

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	July 2018 From June 2018	July 2018 From July 2017	7 Months 2018 vs 7 Months 2017
New Orders	-12	+5	+6
Shipments	-18	+6	+3
Backlog	–	+4	
Payrolls	-17	+3	+2
Employees	–	-2	
Receivables	-6	+5	
Inventories	+3	+4	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2017				
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
July	+5	+6	+4	-2

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® increased in September, following a large improvement in August. The Index now stands at 138.4 (1985=100), up from 134.7 in August. The Present Situation Index improved marginally from 172.8 to 173.1, while the Expectations Index surged from 109.3 last month to 115.3 this month.

"After a considerable improvement in August, Consumer Confidence increased further in September and hovers at an 18-year high," said Lynn Franco, Director of Economic Indicators at The Conference Board. "The September reading is not far from the all-time high of 144.7 reached in 2000. Consumers' assessment of the current conditions remains extremely favorable, bolstered by a strong economy and robust job growth. The Expectations Index surged in September, suggesting solid economic growth exceeding 3.0% for the remainder of the year. These historically high confidence levels should continue to support healthy consumer spending, and should be welcome news for retailers as they begin gearing up for the holiday season."

Consumers' assessment of current conditions held steady in September. Those stating business conditions are "good" increased from 40.5% to 41.4%, while those saying business conditions are "bad" declined marginally from 9.3% to 9.1%. Consumers' assessment of the labor market was somewhat more favorable. Those claiming jobs are "plentiful" increased from 42.3% to 45.7%, but those claiming jobs are "hard to get" increased from 12.1% to 13.2%.

Consumers' optimism about the short-term outlook improved considerably in September. The percentage of consumers anticipating business conditions will improve over the next six months increased from 24.4% to 27.6%, while those expecting business conditions will worsen declined, from 9.9% to 8.0%. Consumers' outlook for the labor market was also more upbeat. The proportion expecting more jobs in the months ahead increased from 21.5% to 22.5%, while those anticipating fewer jobs decreased from 13.2% to 11.0%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement declined from 25.4% to 22.6%, but the proportion expecting a decrease declined marginally, from 6.9% to 6.5%.

University of Michigan Surveys of Consumers

Surveys of Consumers chief economist, Richard Curtin said "Consumer sentiment posted a robust rise in early September, reaching 100.8, the second highest level since 2004-only behind the March 2018 reading of 101.4. Importantly, the gains were widespread across all major socioeconomic subgroups. The Expectations Index reached its highest level since July 2004, largely due to more favorable prospects for jobs and incomes. Despite a lessening of expected gains in nominal incomes in September, inflation expectations also declined, acting to offset concerns about declining living standards. Consumers anticipated continued growth in the economy that would produce more jobs and an even lower unemployment rate during the year ahead. While consumers were somewhat more likely to anticipate that the economic expansion would continue uninterrupted over the next five years, nearly as many expected another downturn sometime in the next five years. The largest problem cited on the economic horizon involved the anticipated negative impact from tariffs. Concerns about the negative impact of tariffs on the domestic economy were spontaneously mentioned by nearly one-third of all consumers in the past three months, up from one-in-five in the prior four months."

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.4% in August to 111.2 (2016 = 100), following a 0.7% increase in July, and a 0.5% increase in June. The leading economic index is now well above its previous peak (March 2006, 102.4).

"The leading indicators are consistent with a solid growth scenario in the second half of 2018 and at this stage of a maturing business cycle in the U.S., it doesn't get much better than this," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The U.S. LEI's growth trend has moderated since the start of the year. Industrial companies that are more sensitive to the business cycle should be on the lookout for a possible moderation in economic growth in 2019. The strengths among the LEI's components were very widespread, further supporting an outlook of above 3.0% growth for the remainder of 2018."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in August to 104.3 (2016 = 100), following a 0.2% increase in July, and a 0.3% increase in June.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2% in August to 105.4 (2016 = 100), following a 0.2% decline in July and a 0.2% increase in June.

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 August 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $509.0 billion, an increase of 0.1% from the previous month, and 6.6% above August 2017. Total sales for the June 2018 through August 2018 period were up 6.5% from the same period a year ago.

Retail trade sales were up 0.1% from July 2018, and 6.2% above last year. Gasoline Stations were up 20.3% from August 2017, while Nonstore Retailers were up 10.4% from last year.

Sales at furniture and home furnishings stores were up 3.54% in August 2017 on an adjusted basis and up 5.0% year to date for the first eight months.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in August on a seasonally adjusted basis, the same increase as in July, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index rose 2.7% before seasonal adjustment.

Increases in the indexes for shelter and energy were the main contributors to the seasonally adjusted monthly increase in the all items index. The energy index increased 1.9% in August; a 3.0% increase in the gasoline index was the largest factor, but the other energy component indexes also rose. The shelter index increased 0.3% in August, the same increase as in July. The food index rose only slightly in August, with the index for food at home unchanged.

The index for all items less food and energy rose 0.1% in August, the smallest monthly increase since April. Along with the shelter index, the indexes for airline fares and used cars and trucks were among those that increased in August. An array of indexes declined, including apparel, medical care, communication, recreation, and personal care.

The all items index rose 2.7% for the 12 months ending August, a smaller increase than the 2.9% increase for the 12 months ending July. The index for all items less food and energy rose 2.2% for the 12 months ending August and the energy index increased 10.2%; these were both smaller increases than for the 12 months ending July. The food index increased 1.4% over the last 12 months, the same increase as for the period ending July.

Employment

Total nonfarm payroll employment increased by 201,000 in August, and the unemployment rate was unchanged at 3.9%, according to the U.S. Bureau of Labor Statistics report. Job gains occurred in professional and business services, health care, wholesale trade, transportation and warehousing, and mining.

The unemployment rate remained at 3.9% in August, and the number of unemployed persons, at 6.2 million, changed little.

The number of long-term unemployed (those jobless for 27 weeks or more) was little changed in August at 1.3 million and accounted for 21.5% of the unemployed. Over the year, the number of long-term unemployed has declined by 403,000.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales remained steady in August after four straight months of decline, according to the National Association of Realtors®. Sales gains in the Northeast and Midwest canceled out downturns in the South and West.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, did not change from July and remained at a seasonally adjusted annual rate of 5.34 million in August. Sales were down 1.5% from a year ago (5.42 million in August 2017).

Single-family home sales were at a seasonally adjusted annual rate of 4.75 million in August, unchanged from July, and were 1.0% below the 4.8 million sales pace a year ago. The median existing single-family home price was $267,300 in August, up 4.9% from August 2017.

Existing condominium and co-op sales were at a seasonally adjusted annual rate of 590,000 units in August (unchanged from last month), and were down 4.8% from a year ago. The median existing condo price was $244,500 in August, which was 2.0% from a year ago.

Lawrence Yun, NAR chief economist, says the decline in existing home sales appears to have hit a plateau with robust regional sales. "Strong gains in the Northeast and a moderate uptick in the Midwest helped to balance out any losses in the South and West, halting months of downward momentum," he said. "With inventory stabilizing and modestly rising, buyers appear ready to step back into the market."

The median existing-home price for all housing types in August was $264,800, up 4.6% from August 2017 ($253,100). August's price increase marks the 78th straight month of year-over-year gains.

Total housing inventory at the end of August also remained unchanged from July at 1.92 million existing homes available for sale, and was up from 1.87 million a year ago. Unsold inventory was at a 4.3-month supply at the current sales pace, consistent from last month and up from 4.1 months a year ago.

Properties typically stayed on the market for 29 days in August, up from 27 days in July but down from 30 days a year ago. Fifty-two percent of homes sold in August were on the market for less than a month.

"While inventory continues to show modest year over year gains, it is still far from a healthy level and new home construction is not keeping up to satisfy demand," said Yun. "Homes continue to fly off the shelves with a majority of properties selling within a month, indicating that more inventory – especially moderately priced, entry-level homes – would propel sales."

Realtor.com®'s Market Hotness Index, measuring time-on-the-market data and listings views per property, revealed that the hottest metro areas in August were Midland, Texas; Fort Wayne, Ind.; San Francisco-Oakland-Hayward, Calif.; Columbus, Ohio; and Boise City, Idaho.

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 August were at a seasonally adjusted annual rate of 1,282,000. This was 9.2% above the revised July estimate of 1,174,000 and was 9.4% above the August 2017 rate of 1,172,000. Single-family housing starts in August were at a rate of 876,000; this was 1.9% above the revised July figure of 860,000. The August rate for units in buildings with five units or more was 392,000.

Single-family starts were down 0.2% from August 2017. These starts were down 11.8% in the Northeast and 1.7% in the South while starts were up 6.6% in the West and flat in the Midwest.

Privately-owned housing completions in August were at a seasonally adjusted annual rate of 1,213,000. This was 2.5% above the revised July estimate of 1,183,000 and was 11.2% above the August 2017 rate of 1,091,000. Single-family housing completions in August were at a rate of 923,000; this was 11.6% above the revised July rate of 827,000.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased to 4.55% in August from 4.53% in July. The average commitment rate for all of 2017 was 3.99%.

"Rising interest rates along with high home prices and lack of inventory continues to push entry-level and first time home buyers out of the market," said Yun. "Realtors® continue to report that the demand is there – that current renters want to become homeowners – but there simply are not enough properties available in their price range."

First-time buyers were 31% of sales in August, down from last month (32%) but the same as 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%.

A DEEPER DIVE – HOUSING, CON'T.

Regional

August existing-home sales in the Northeast increased 7.6% to an annual rate of 710,000, but were still 2.7% below a year ago. The median price in the Northeast was $292,800, which was up 2.6% from August 2017.

In the Midwest, existing-home sales rose 2.4% to an annual rate of 1.28 million in August, but were still down 0.8% from a year ago. The median price in the Midwest was $208,500, up 3.4% from last year.

Existing-home sales in the South decreased 0.4% to an annual rate of 2.23 million in August, up from 2.19 million a year ago. The median price in the South was $227,900, up 3.2% from a year ago.

Existing-home sales in the West dropped 5.9% to an annual rate of 1.12 million in August, 7.4% below a year ago. The median price in the West was $392,900, up 4.8% from August 2017.

New Residential Sales

Sales of new single-family houses in August 2018 were at a seasonally adjusted annual rate of 629,000, according to estimates released jointly by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. This was 3.5% above the revised July rate of 608,000 and was 12.7% above the August 2017 estimate of 558,000.

The median sales price of new houses sold in August 2018 was $320,200. The average sales price was $388,400.

The seasonally-adjusted estimate of new houses for sale at the end of August was 318,000. This represents a supply of 6.1 months at the current sales rate.

New house sales were up 13.2% in the Midwest, 11.5% in the South and 19.1% in the West but were down 2.9% in the Northeast.