FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

According to our latest survey of residential furniture manufacturers and distributors, new orders in August 2018 increased 9% over new orders reported in August 2017. Last year, August 2017 orders were up only 1% over August 2016 orders. The 9% increase in August followed three consecutive months of 5% increases reported. Approximately 70% of the participants reported increased orders in August.

Year to date, new orders remained 6% over the same period a year ago. August 2017 year to date orders were also 6% ahead of the same 2016 period so the comparisons are to pretty good numbers. Some 71% of the participants reported increased year to date orders.

Shipments in August increased 5% over August 2017 and were up 3% year to date. Last year through August, shipments were up 5% over the same period in 2016.

Backlogs in August fell 4% from July as shipments in dollars exceeded orders. Backlogs were 6% higher than August 2017 up from a 4% increase reported last month.

Receivable levels were up 7% over last year but that was not too far out of line with the 5% increase in shipments. Inventories were flat with July and up 4% from August 2017. So overall, pretty much in line with current conditions.

The number of factory and warehouse employees held steady with July and were down 2% from last year. Factory and warehouse payrolls were also in line with current business.

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EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

While the two surveys were a bit different this month, both survey indexes remained at highs not experienced since the early 2000's. The Conference Board *Consumer Confidence Index®* increased again in October topping out at 137.9 up from 135.3. Both the Present Situation and Expectations Indexes improved to levels not seen since September 2000. The report noted that all of the conditions in the report were in the positive.

The University of Michigan Surveys of Consumer Sentiment Index fell slightly from 100.1 to 98.6 but remained higher so far in 2018 than any prior year since 2000. The report indicated that the growth in real personal consumption can be expected to average 2.6% during late 2018 and into the first half of 2019, though increases in home and vehicle prices, rising interest rates and decreases in the pace of growth of inflation-adjusted incomes have dimmed prospects for home and vehicle sales.

Housing

Total existing-home sales fell 3.4% from August after remaining flat last month. Single-family home sales were also down and were 4% below a year ago September sales.

Regionally, sales were down in all regions except for the Midwest where they were even.

Sales of new single-family houses in September were 5.5% below the revised August estimate and 13.2% below the September 2017 estimate. Regionally, sales were down substantially in the Northeast and in the South and West. Sales were up slightly in the Midwest.

Privately-owned housing starts in September were 5.3% below the revised August estimate but were 3.7% above the September 2017 rate. Single-family starts were up in all regions of the country with the exception of a decrease of 25.3% in the Northeast.

Other

Real gross domestic product increased at an annual rate of 3.5% in the third quarter of 2018, according to the advance estimate by the Bureau of Economic Analysis. This followed a real GDP increase of 4.2% in the second quarter.

The Conference Board's Leading Economic Index (LEI) for the U.S. increased 0.5% in September, following a 0.4% increase in August and a 0.7% increase in July. The Director and Global Research Chair at The Conference Board, Ataman Ozyildirim, said "Economic growth could exceed 3.5% in the second half of 2018, but unless the momentum in housing, orders and stock prices accelerates, that pace is unlikely to be sustained in 2019.

The advance estimates for U.S. retail and food services sales for September 2018, increased 0.1% from the previous month and 4.7% above September 2017. Sales for the July 2018 through September 2018 were at 5.9% from the same period a year ago. Sales at furniture and home furnishings stores were up 1.1% in September over August and up 4.3% over September 2017. Year to date, sales at these stores were up 4.6%.

The Consumer Price Index for all urban consumers increased 0.1% in September on a seasonally adjusted basis after rising 0.2% in August. Over the last 12 months, the all items index rose 2.3% before seasonal adjustment. The shelter index continued to rise and accounted for over one-half of the seasonally adjusted monthly increase in the all items index. The energy index declined 0.5% in September after rising in August.

The unemployment rate declined to 3.7% in September and total non-farm payroll employment increased by 134,000.

EXECUTIVE SUMMARY, CONT.

Thoughts

The August results of our survey were again very positive. The results have shown relatively steady growth throughout the last several months. While some conversations have discussed how business has slowed somewhat in the later part of the summer, the results of the survey have not shown that. It was also nice to see that such a large percentage of our participants enjoyed some nice increases.

We just finished what we would call a pretty good High Point Furniture Market. The attendance appeared to be down somewhat according to most folks we talked to. That, for the most part, was blamed on the hurricane issues that decided to roll through town and parts of the South leading up to and including Thursday at market. Much of the conversation at market related to the weather and tariffs. The consensus of the folks we talked to, seem to believe that the 10% would definitely stick at least in the near-term. And that the 25% tariff would probably come into effect at the first of the year.

As with what seems to happen most of the time in the industry, there is a lot of talk about who will have to do what, but for the most part, the industry finds a way to figure out how to deal with these kinds of issues. Most people we talk to privately agree that the industry could use some inflation in prices to begin with. We have said that for a long time. Unfortunately, we were not thinking caused by tariffs, but instead with better profits.

Hopefully, those in the path of both recent storms will be able to recover soon.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

New orders in August 2018 were up 9% higher than August 2017 orders, according to our latest survey of residential furniture manufacturers and distributors. This increase followed three straight months of 5% increases over the same period a year ago. August 2017 orders were only up 1% over August 2016. New orders increased for 70% of the participants, up from 57% reporting increases last month.

Year to date, new orders remained 6% ahead of the first eight months of 2017. Year to date, new orders increased for some 71% of the participants.

Shipments and Backlogs

Shipments in August were 5% higher than August 2017. Shipments in August 2017 were 5% higher than August 2016 shipments. Some 68% of the participants reported increased shipments over August 2017, up slightly from last month. The increase in shipments over July was likely the result of the loss of shipments during the normal July 4th week shut down by most companies.

Year to date, shipments remained 3% ahead of last year, when shipments were 5% higher than the first eight months of 2016. Some 61% of the participants reported increased shipments for the period.

Backlogs decreased 4% from July as shipments in dollars exceeded new orders. Backlogs in August were 6% higher than August 2017 backlogs up from a 4% increase reported last month.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2018		
	AUG	**JUL**	**8 MONTHS**
New Orders	2,446	2,223	19,181
Shipments	2,495	2,227	18,904
Backlog	2,062	2,139	

	2017		
	AUG	**JUL**	**8 MONTHS**
New Orders	2,238	2,115	18,099
Shipments	2,376	2,101	18,311
Backlog (R)	1,942	2,054	

Receivables and Inventories

Receivable levels were 7% higher than August 2017 and 8% higher than July 2018. The 8% increase over July levels was very much in line with the increase in shipments.

Inventories in August 2018 were even with July 2018 levels and up 4% from August 2017. The 4% increase over last year was the same percentage increase as reported last month. Inventory levels appear to be in good shape.

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls were up 3% from last year, the same as we reported last month. Payrolls were up 19% over July as would be expected with the holiday week in July.

Overall, it appears that the level of factory and warehouse payrolls and numbers of employees remain in good shape considering current business conditions.

MONTHLY RESULTS - OCTOBER 2018

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	August 2018 From July 2018	August 2018 From August 2017	8 Months 2018 vs 8 Months 2017
New Orders	+10	+9	+6
Shipments	+23	+5	+3
Backlog	-4	+6	
Payrolls	+19	+3	+2
Employees	–	-2	
Receivables	+8	+7	
Inventories	–	+4	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2017				
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
August	+9	+5	+6	-2

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index*® increased in October, following a modest improvement in September. The Index now stands at 137.9 (1985=100), up from 135.3 in September. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – improved from 169.4 to 172.8. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 112.5 last month to 114.6 this month.

"Consumer Confidence increased in October, following a modest gain in September, and remains at levels last seen in the fall of 2000 (September 2000, 142.5)," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers' assessment of present-day conditions remains quite positive, primarily due to strong employment growth. The Expectations Index posted another gain in October, suggesting that consumers do not foresee the economy losing steam anytime soon. Rather, they expect the strong pace of growth to carry over into early 2019."

Consumers' assessment of current conditions improved in October. The percentage of consumers saying business conditions are "good" increased from 39.9% to 40.5%, while those claiming business conditions are "bad" decreased from 9.6% to 9.2%. Consumers' assessment of the labor market was also more favorable. Those claiming jobs are "plentiful" increased from 44.1% to 45.9%, while those claiming jobs are "hard to get" decreased from 14.1% to 13.2%.

Consumers' optimism about the short-term future increased further in October. The percentage of consumers expecting business conditions will improve over the next six months increased from 25.8% to 26.3%, while those expecting business conditions will worsen declined, from 8.3% to 7.4%.

Regarding their short-term income prospects, the percentage of consumers expecting an improvement rose from 22.5% to 24.7%, but the proportion expecting a decrease increased from 7.6% to 8.5%.

University of Michigan Surveys of Consumers

Surveys of Consumers chief economist, Richard Curtin reported that the Index of Consumer Sentiment fell slightly in October to 98.6 from 100.1 with both the Current Economic Conditions Index and the Index of Consumer Expectations falling slightly. The report noted "The Consumer Sentiment Index has been higher thus far in 2018 (98.5) than in any prior year since 2000, which was the last year of the longest expansion since the mid-1980's. Importantly, stock price declines, rising inflation and interest rates, and the negative mid-term election campaigns, have not acted to undermine consumer confidence. Needless to say, consumers are not immune to these negative factors. The data only indicate that the tipping point toward escalating pessimism has not been reached. This resilience was primarily due to the prevailing belief that the economy would produce robust job growth during the year ahead, even if overall wage growth remained dismal. Consumers now place a higher value on job security compared with wage growth due to job losses in the Great Recession as well as the aging of the labor force. Consumers' reports have become more volatile and have exceeded actual job growth in recent years, whereas before 1980 consumers regularly underestimated the strength in the labor market. This may reflect the heightened attention accorded to every waver in job news in the current environment, while before 1980, job growth was the accepted norm and consumers were more sensitive to real wage growth. The pace of growth in real personal consumption can be expected to average 2.6% during late 2018 and into the first half of 2019. Increases in home and vehicle prices, rising interest rates, and decreases in the pace of growth in inflation-adjusted incomes have especially dimmed prospects for home and vehicle sales."

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.5% in September to 111.8 (2016 = 100), following a 0.4% increase in August, and a 0.7% increase in July.

"The US LEI improved further in September, suggesting the US business cycle remains on a strong growth trajectory heading into 2019. However, the LEI's growth has slowed somewhat in recent months, suggesting the economy may be facing capacity constraints and increasingly tight labor markets," said Ataman Ozyildirim, Director and Global Research Chair at The Conference Board. "Economic growth could exceed 3.5% in the second half of 2018, but, unless the momentum in housing, orders and stock prices accelerates, that pace is unlikely to be sustained in 2019."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1% in September to 104.4 (2016 = 100), following a 0.3% increase in August, and a 0.1% increase in July.

The Conference Board Lagging Economic Index® (LAG) for the U.S. declined 0.1% in September to 105.3 (2016 = 100), following a 0.2% increase in August and a 0.2% decline in July.

A DEEPER DIVE – NATIONAL, CON'T.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 3.5% in the third quarter of 2018, according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 4.2%. The Bureau emphasized that the third-quarter advance estimate released is based on source data that are incomplete or subject to further revision by the source agency.

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

The deceleration in real GDP growth in the third quarter reflected a downturn in exports and a deceleration in nonresidential fixed investment. Imports increased in the third quarter after decreasing in the second. These movements were partly offset by an upturn in private inventory investment.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for September 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 4.7% above September 2017. Total sales for the July 2018 through September 2018 period were up 5.9% from the same period a year ago.

Retail trade sales were up 0.4% from August 2018, and 4.4% above last year. Gasoline Stations were up 11.4% from September 2017, while Nonstore Retailers were also up 11.4% from last year. Sales at furniture and home furnishings stores were up in September 1.1% over August on an adjusted basis and up 4.3% over September 2017. Year to date, sales at these stores were up 4.6% outpacing year to date auto and other vehicle dealer sales percentage wise.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1% in September on a seasonally adjusted basis after rising 0.2% in August, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index rose 2.3% before seasonal adjustment.

The shelter index continued to rise and accounted for over half of the seasonally adjusted monthly increase in the all items index. The energy index declined 0.5% in September after rising in August. The food index was unchanged in September, as an increase in the index for food away from home offset a decline in the food at home index. The index for all items less food and energy rose 0.1% in September, the same increase as in August. The shelter index increased 0.2%, and the indexes for apparel, motor vehicle insurance, recreation, and airline fares also rose. The medical care index increased as well, though its components were mixed. The index for used cars and trucks, which fell sharply, and the new vehicles index were among the indexes that declined in September.

The all items index rose 2.3% for the 12 months ending September, a smaller increase than the 2.7% increase for the 12 months ending August. The energy index rose 4.8% over the last year, a notably smaller increase than the 10.2% increase for the 12-month period ending August. The index for all items less food and energy rose 2.2% for the 12 months ending September and the food index increased 1.4%; these were both the same rate of increase as for the 12 months ending August.

Employment

The unemployment rate declined to 3.7% in September, and total nonfarm payroll employment increased by 134,000, according to the U.S. Bureau of Labor Statistics report. Job gains occurred in professional and business services, in health care, and in transportation and warehousing.

The unemployment rate declined by 0.2 percentage point to 3.7% in September, and the number of unemployed persons decreased by 270,000 to 6.0 million. Over the year, the unemployment rate and the number of unemployed persons declined by 0.5 percentage point and 795,000, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.4 million over the month; these individuals accounted for 22.9% of the unemployed.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales declined in September after a month of stagnation in August, 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, fell 3.4% from August to a seasonally adjusted rate of 5.15 million in September. Sales were down 4.1% from a year ago (5.37 million in September 2017).

Single-family home sales were at a seasonally adjusted annual rate of 4.58 million in September, down from 4.74 million in August, and were 4.0% below the 4.77 million sales pace from a year ago. The median existing single-family home price was $260,500 in September, up 4.6% from September 2017.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 570,000 units in September, down 3.4% from last month and 5.0% from a year ago. The median existing condo price was $239,200 in September, which was 1.5% from a year ago.

Lawrence Yun, NAR chief economist, says rising interest rates have led to a decline in sales across all regions of the country. "This is the lowest existing home sales level since November 2015," he said. "A decade's high mortgage rates are preventing consumers from making quick decisions on home purchases. All the while, affordable home listings remain low, continuing to spur underperforming sales activity across the country."

The median existing-home price for all housing types in September was $258,100, up 4.2% from September 2017 ($247,600). September's price increase marks the 79th straight month of year-over-year gains.

Total housing inventory at the end of September decreased from 1.91 million in August to 1.88 million existing homes available for sale, and was up from 1.86 million a year ago. Unsold inventory is at a 4.4-month supply at the current sales pace, up from 4.3 last month and 4.2 months a year ago.

Properties typically stayed on the market for 32 days in September, up from 29 days in August but down from 34 days a year ago. Forty-seven percent of homes sold in September were on the market for less than a month.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased to 4.63% in September from 4.55% in August. The average commitment rate for all of 2017 was 3.99%.

"Rising interest rates coupled with increasing home prices are keeping first-time buyers out of the market, but consistent job gains could allow more Americans to enter the market with a steady and measurable rise in inventory," says Yun.

First-time buyers were responsible for 32% of sales in September, up from last month (31%) and a year ago (29%). 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 September were at a seasonally adjusted annual rate of 1,201,000. This was 5.3% below the revised August estimate of 1,268,000, but was 3.7% above the September 2017 rate of 1,158,000. Single-family housing starts in September were at a rate of 871,000; this was 0.9% below the revised August figure of 879,000. The September rate for units in buildings with five units or more was 324,000.

Single-family starts were up 4.8% over September 2017 with starts up 3.2% in the Midwest, 7.6% in the South and 10.9% in the West offset by a decrease of 25.3% in the Northeast.

Privately-owned housing completions in September were at a seasonally adjusted annual rate of 1,162,000. This was 4.1% below the revised August estimate of 1,212,000, but was 7.0% above the September 2017 rate of 1,086,000. Single-family housing completions in September were at a rate of 844,000; this was 8.7% below the revised August rate of 924,000. The September rate for units in buildings with five units or more was 312,000.

A DEEPER DIVE – HOUSING, CON'T.

Regional

September existing-home sales in the Northeast decreased 2.9% to an annual rate of 680,000, 5.6% below a year ago. The median price in the Northeast was $286,200, which was up 4.1% from September 2017.

In the Midwest, existing-home sales remained the same as last month at an annual rate of 1.28 million in September, but were still down 1.5% from a year ago. The median price in the Midwest was $200,200, up 1.9% from last year.

Existing-home sales in the South decreased 5.4% to an annual rate of 2.11 million in September, down from 2.12 million a year ago. The median price in the South was $223,900, up 3.0% from a year ago.

Existing-home sales in the West fell 3.6% to an annual rate of 1.08 million in September, 12.2% below a year ago. The median price in the West was $388,500, up 4.1% from September 2017.

New Residential Sales

Sales of new single-family houses in September 2018 were at a seasonally adjusted annual rate of 553,000, according to estimates released jointly by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. This was 5.5% below the revised August rate of 585,000 and was 13.2% below the September 2017 estimate of 637,000.

The median sales price of new houses sold in September 2018 was $320,000. The average sales price was $377,200.

The seasonally-adjusted estimate of new houses for sale at the end of September was 327,000. This represents a supply of 7.1 months at the current sales rate.

Regionally, new house sales were down 51.3% in the Northeast, 11.4% in the South and 15.8% in the West. Sales were up 4.1% in the Midwest.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in September increased $2.0 billion or 0.8% to $262.1 billion, according to the report of the U.S. Census Bureau. This increase, up three of the last four months, followed a 4.6% August increase. Excluding transportation, new orders increased 0.1%. Excluding defense, new orders increased 0.6%. Transportation equipment, also up three of the last four months, led the increase, $1.8 billion or 1.9% to $97.4 billion.

Shipments of manufactured durable goods in September, up four of the last five months, increased $3.3 billion or 1.3% to $256.8 billion. This followed a 0.9% August increase. Transportation equipment, up three of the last four months, led the increase, $2.9 billion or 3.3% to $89.4 billion.

According to the final report, year to date shipments of furniture and related products were up 3.8% while orders were up 2.8%.