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 September 2018 increased 9% over new orders reported in September 2017. While this increase at first appears substantial, it should be remembered that September 2017 new orders were down 10% when compared to September 2016 so the increase was really not that impressive. That said, a 9% increase in September followed a 9% increase reported in August and followed three consecutive months of 5% increases. Only 56% of the participants reported increased orders in September.

Year to date, new orders remain 6% over the same period a year ago. Last year, new orders year to date were 4% higher than September 2016. Some 76% of the participants reported year to date increases.

Shipments in September were even with September 2017 results. Shipments remained 3% ahead of 2017 year to date. Approximately 63% of the participants reported increased shipments year to date. Last year, 2017 year to date shipments were 5% ahead of the same period of 2016

Backlogs increased 5% from August to September due to dollar orders exceeding the increase in dollar shipments. September backlogs were 14% higher than September 2017 up from a 6% increase reported last month.

Receivable levels were up 5% over September 2017 up slightly from the 3% increase in shipments year to date. Receivables are also up 1% from August 2018 in spite of a decline of 6% in shipments from August to September.

Inventories were up 5% from September 2017 and up 2% from August 2018. Overall, inventory levels appear in line with current business conditions.

The number of factory and warehouse employees continued to hold relatively steady compared to August and were down slightly from September 2017. Overall the factory warehouse payrolls seem to be in line with current conditions.

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EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

Both surveys showed a slight decline in confidence in November, but both levels of consumer confidence remained at very high levels. The Conference Board's report noted that the Present Situation Index improved slightly while the Expectation Index declined. For the Present Situation Index, the increase was driven by job growth while the decline in the Expectation Index related primarily to a less optimistic view of future business conditions and personal income prospects.

The University of Michigan Surveys of Consumer Sentiment Index fell slightly as well after the election. Their report noted that the drop related more to income than political party as the sentiment rose for those with incomes in the bottom third but fell more by those in the top third of income distribution.

Housing

Total existing-home sales increased in October after six straight months of declines. Single family sales were up but remained 5.3% below the sales from a year ago. Existing home sales rose in all regions of the country except in the Midwest, though all regions remained below a year ago.

Sales of new single-family houses were 8.9% below the revised September rate and were 12.0% below October 2017. Sales were down double digits in the Northeast, Midwest, and South and down 1.3% in the West.

Privately-owned housing starts in October were 1.5% above September's estimate, but remained 2.9% below October 2017. Single family starts compared to last October were up nicely in the Northeast and West but were down in the Midwest (11.8%) and the South (10.1%).

Other

Real gross domestic product increased at an annual rate of 3.5% in the third quarter of 2018, according to the "second" estimate from the Bureau of Economic Analysis. The second quarter estimate for GDP growth was at 4.2%.

The Conference Board's Leading Economic Index (LEI) for the U.S. increased 0.1% in October following a 0.6% increase in September and a 0.5% increase in August. Ataman Ozyildirim, Director of Economic Research and Global Research Chair at the Conference Board said, "The index still points to robust economic growth in early 2019, but the rapid pace of growth may already have peaked. While near term economic growth should remain strong, longer-term growth is likely to moderate to about 2.5% by mid to late 2019."

The advance estimates for U.S. retail and food services sales for October 2018 as adjusted, reported an increase of 0.8% from the previous month, and 4.6% above October 2017. Total sales for August 2018 through October 2018 were up 5% from the same period a year ago. Sales at furniture and home furnishings stores in October were 1.2% ahead of October 2017. Year to date, sales at these stores were up 4.3% for the first 10 months compared to 2017.

The Consumer Price Index for all urban consumers increased 0.3% in October after rising 0.1% in September. Over the last 12 months, the all items index rose 2.5% before seasonal adjustment. Most of the increase in October was blamed on the increase in the gasoline index. The all items index rose 2.5% for the 12 months ending October, up slightly from the increase reported last month.

Total nonfarm payroll employment rose 250,000 in October. The unemployment rate remained unchanged at 3.7%.

EXECUTIVE SUMMARY, CONT.

Thoughts

The results of our September survey were positive but maybe not quite as positive as they appeared considering the comparison to a very weak September 2017. We mentioned last month that recent conversations indicated that business seemed to slow somewhat in October. At least through September, the increase in orders at 6% was positive. And with approximately 76% of our participants reporting increased orders, the improvements have been favorable for most.

After being asked by one of the participants what we were hearing more recently than the August results that we had reported last month, we conducted an informal survey of several companies, and the consensus was that business of late clearly felt slower than earlier in the year. One comment was made that retailers were having issues with getting advertising slots, either not available or cost prohibitive due to the election ads. There were certainly plenty (too many) in our neck of the woods.

The tariff issues continue to be a topic of conversation even though the 10% tariff Issue seems to have been dealt with one way or another. Many hope that the 25% level may be dealt with at the upcoming G20 Conference.

The tariff issues are a major issue for not only the furniture industry, but it also seems to be affecting many others. Certainly stock market conditions have been impacted as well, given the that time period between the end of October through Thanksgiving was not very favorable for the stock market in general.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

New orders in September 2018 were 9% higher than September 2017 orders, according to our latest survey of residential furniture manufacturers and distributors. This increase followed last month's 9% increase. as well as three straight months of 5% increases over the same period a year ago. While the 9% increase was a bit surprising, upon further analysis it is less impressive when compared to a 10% decline when assessing September 2017 to September 2016. The monthly gains were not across the board as only some 56% of the participants reported increased monthly orders compared to 70% reporting increases last month.

Year to date, new orders remain 6% ahead of the first nine months of 2017 and increased for some 76% of our participants, up from 71% reporting increases last month.

Shipments and Backlogs

Shipments in September 2018 were basically flat with those of September 2017. Half of the participants reported increased shipments.

Year to date, shipments remained 3% ahead of last year's first nine months. Approximately 63% of the participants reported increased shipments year to date, up slightly from last month. Last year at this time, shipments were up 5% year to date.

Due to new orders exceeding the value of shipments, backlogs increased 5% from August to September 2018 and were up 14% over September 2017. Backlogs in August 2018 were 6% higher than August 2017.

Receivables and Inventories

Receivable levels increased 5% over September 2017, up slightly from the year to date increase of 3% in shipments. Receivable levels increased 1% over August 2018 in spite of the decline in shipments from August to September.

Inventory levels increased 2% from August and were 5% higher than September 2017. In August, inventories were 4% higher than August 2017. Overall, it appears that inventory levels are in good shape especially considering the increase in orders.

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls were up 2% from September 2017 and up 5% from August 2018. Year to date, factory warehouse payrolls are up 2% over 2017.

The number of factory and warehouse employees fell 1% from September 2017 but increased 1% from August 2018 levels.

Overall, it appears that the factory and warehouse employee situation is in line with current conditions.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2018		
	SEP	AUG	9 MONTHS
New Orders	2,557	2,446	21,738
Shipments	2,359	2,495	21,263
Backlog	2,250	2,062	

	2017		
	SEP	AUG	9 MONTHS
New Orders	2,343	2,238	20,442
Shipments	2,365	2,376	20,674
Backlog (R)	1,973	1,995	

MONTHLY RESULTS - OCTOBER 2018

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	September 2018 From August 2018	September 2018 From September 2017	9 Months 2018 vs 9 Months 2017
New Orders	+5	+9	+6
Shipments	- 6	–	+3
Backlog	+5	+14	–
Payrolls	+5	+2	+2
Employees	+1	- 1	–
Receivables	+1	+5	–
Inventories	+2	+5	–

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2017				
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
September	+9	–	+14	-1

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* declined in November, following an improvement in October. The Index now stands at 135.7 (1985=100), down from 137.9 in October. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – improved slightly, from 171.9 to 172.7. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – decreased from 115.1 last month to 111.0 this month.

"Despite a small decline in November, Consumer Confidence remains at historically strong levels," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions increased slightly, with job growth the main driver of improvement. Expectations, on the other hand, weakened somewhat in November, primarily due to a less optimistic view of future business conditions and personal income prospects. Overall, consumers are still quite confident that economic growth will continue at a solid pace into early 2019. However, if expectations soften further in the coming months, the pace of growth is likely to begin moderating."

Consumers' assessment of current conditions improved slightly in November. Those saying business conditions are "good" rose marginally from 41.0% to 41.2%, while those claiming business conditions are "bad" increased from 9.4% to 10.9%. Consumers' assessment of the labor market was more favorable. Those claiming jobs are "plentiful" increased from 45.4% to 46.6%, while those claiming jobs are "hard to get" decreased from 13.4% to 12.2%.

Consumers' optimism about the short-term future declined in November. The percentage of consumers expecting business conditions will improve over the next six months decreased from 26.3% to 22.5%, while those expecting business conditions will worsen increased, from 7.2% to 8.8%.

Regarding their short-term income prospects, the percentage of consumers expecting an improvement declined from 24.7% to 21.5%, but the proportion expecting a decrease also declined, from 8.2% to 7.8%.

University of Michigan Surveys of Consumers

Richard Curtin, Chief Economist for the Surveys of Consumers, reported that the Index of Consumer Sentiment fell slightly in November to 97.5 from 98.6 with both the Current Economic Conditions Index and the Index of Consumer Expectations falling slightly.

Curtin noted, "Consumer sentiment has remained largely unchanged at very favorable levels during 2018, with the November reading nearly at the center of the eleven month range from 95.7 to 101.4. Although the data recorded a decline of 2.8 Index points following the election, the drop was related more to income than political party: among those with incomes in the bottom third, the Sentiment Index rose by 10.4 points and fell by 6.6 points among those in the top third of the income distribution. In contrast, the Sentiment Index remained unchanged among Democrats and Republicans prior to and following the election.

Consumers' interest rate expectations have always traced the outlines of economic cycles. As expansions lengthen, the number of consumers who expect interest rate increases gradually increases. After some threshold is reached, however, consumers in large numbers abruptly anticipate future declines in interest rates. Sales declines are then accelerated not only by falling job and income prospects but also from the expectation of falling interest rates in the future. While there is no reason to anticipate a sudden change in interest rate expectations in the next few months, it is still an important task for the Fed to avoid hitting the threshold that causes widespread postponement of purchases."

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.1 percent in October to 112.1 (2016 = 100), following a 0.6 percent increase in September, and a 0.5 percent increase in August.

"The US LEI increased slightly in October, and the pace of improvement slowed for the first time since May," said Ataman Ozyildirim, Director of Economic Research and Global Research Chair at The Conference Board. "The index still points to robust economic growth in early 2019, but the rapid pace of growth may already have peaked. While near term economic growth should remain strong, longer term growth is likely to moderate to about 2.5 percent by mid to late 2019."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in October to 104.7 (2016 = 100), following a 0.1 percent increase in September, and a 0.3 percent increase in August.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.4 percent in October to 105.5 (2016 = 100), following a 0.2 percent decline in September and a 0.3 percent increase in August.

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 "second" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 4.2%.

The GDP estimate released today 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 also 3.5%. With this second estimate for the third quarter, the general picture of economic growth remains the same; upward revisions to nonresidential fixed investment and private inventory investment were offset by downward revisions to personal consumption expenditures (PCE) and state and local government spending.

The increase in real GDP in the third quarter reflected positive contributions from PCE, private inventory investment, nonresidential fixed investment, federal government spending, and state and local government spending 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 primarily reflected a downturn in exports and decelerations in nonresidential fixed investment and in PCE. 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 October 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $511.5 billion, an increase of 0.8% from the previous month, and 4.6% above October 2017. Total sales for the August 2018 through October 2018 period were up 5% from the same period a year ago.

Retail trade sales were up 0.9% from September 2018, and 4.3% above last year. Gasoline Stations were up 16.2% from October 2017, while Nonstore Retailers were also up 12.1% from last year. Sales at furniture and home furnishings stores in October were 1.2% ahead of October 2017. Year to date, sales at these stores were up 4.3% over the first ten months of 2017.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in October on a seasonally adjusted basis after rising 0.1% in September, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index rose 2.5% before seasonal adjustment.

An increase in the gasoline index was responsible for over one-third of the seasonally adjusted increase in the all items index; advances in the indexes for shelter, used cars and trucks, and electricity also contributed. The increases in the gasoline and electricity indexes led to a 2.4% rise in the energy index. The food index, in contrast, declined slightly in October.

The index for all items less food and energy rose 0.2% in October following a 0.1% increase in September. Along with the indexes for shelter and for used cars and trucks, the indexes for medical care, household furnishings and operations, motor vehicle insurance, and tobacco all increased in October. The indexes for communication, new vehicles, and recreation all declined.

The all items index rose 2.5% for the 12 months ending October, a larger increase than the 2.3% increase for the 12 months ending September. The index for all items less food and energy rose 2.1% for the 12 months ending October. The energy index increased 8.9%, while the food index increased more modestly, advancing 1.2% over the last 12 months.

Employment

The unemployment rate was unchanged at 3.7% in October, and total nonfarm payroll employment rose by 250,000, according to the U.S. Bureau of Labor Statistics report. Job gains occurred in health care, manufacturing, construction, transportation, and warehousing.

The unemployment rate remained at 3.7% in October, and the number of unemployed persons was little changed at 6.1 million. Over the year, the unemployment rate and the number of unemployed persons declined by 0.4 percentage point and 449,000, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.4 million over October, with these individuals accounting for 22.5% of the unemployed.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales increased in October after six straight months of decreases, according to the National Association of Realtors® (NAR). Three of four major U.S. regions saw gains in sales activity last month.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 1.4% from September to a seasonally adjusted rate of 5.22 million in October. Sales were down 5.1% from a year ago (5.5 million in October 2017).

Single-family home sales were at a seasonally adjusted annual rate of 4.62 million in October, up from 4.58 million in September, and were 5.3% below the 4.88 million sales pace from a year ago. The median existing single-family home price was $257,900 in October, up 4.3% from October 2017.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 600,000 units in October, up 5.3% from last month but down 3.2% from a year ago. The median existing condo price was $236,200 in October, which was down 0.2% from a year ago.

Lawrence Yun, NAR's chief economist, says increasing housing inventory has brought more buyers to the market. "After six consecutive months of decline, buyers are finally stepping back into the housing market," he said. "Gains in the Northeast, South and West – a reversal from last month's steep decline or plateau in all regions – helped overall sales activity rise for the first time since March 2018."

The median existing-home price for all housing types in October was $255,400, up 3.8% from October 2017 ($246,000). October's price increase marks the 80th straight month of year-over-year gains.

Total housing inventory at the end of October decreased from 1.88 million in September to 1.85 million existing homes available for sale, but that represents an increase from 1.80 million a year ago. Unsold inventory is at a 4.3-month supply at the current sales pace, down from 4.4 last month and up from 3.9 months a year ago.

Properties typically stayed on the market for 33 days in October, up from 32 days in September but down from 34 days a year ago. 46% of homes sold in October were on the market for less than a month.

"As more inventory enters the market and we head into the winter season, home price growth has begun to slow more meaningfully," said Yun. "This allows for much more manageable, less frenzied buying conditions."

"Rising interest rates and increasing home prices continue to suppress the rate of first-time homebuyers. Home sales could further decline before stabilizing. The Federal Reserve should, therefore, re-evaluate its monetary policy of tightening credit, especially in light of softening inflationary pressures, to help ease the financial burden on potential first-time buyers and assure a slump in the market causes no lasting damage to the economy," says Yun.

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 October were at a seasonally adjusted annual rate of 1,228,000. This was 1.5% above the revised September estimate of 1,210,000, but was 2.9% below the October 2017 rate of 1,265,000. Single-family housing starts in October were at a rate of 865,000; this was 1.8% below the revised September figure of 881,000. The October rate for units in buildings with five units or more was 343,000.

Single-family starts were down 2.6% from October 2017. Single-family starts in October 2018 compared to October 2017 were up 9.4% in the Northeast and 17.6% in the West, but down 11.8% in the Midwest and 10.1% in the South.

Privately-owned housing completions in October were at a seasonally adjusted annual rate of 1,111,000. This was 3.3% below the revised September estimate of 1,149,000 and was 6.5% below the October 2017 rate of 1,188,000. Single-family housing completions in October were at a rate of 832,000; this was 1.2% below the revised September rate of 842,000.

A DEEPER DIVE – HOUSING, CON'T.

Regional

October existing-home sales in the Northeast increased 1.5% to an annual rate of 690,000, 6.8% below a year ago. The median price in the Northeast was $280,900, which was up 3.0% from October 2017.

In the Midwest, existing-home sales declined 0.8% from last month to an annual rate of 1.27 million in October, down 3.1% overall from a year ago. The median price in the Midwest was $197,000, up 2.4% from last year.

Existing-home sales in the South rose 1.9% to an annual rate of 2.15 million in October, down 2.3% from last year. The median price in the South was $221,600, up 3.8% from a year ago.

Existing-home sales in the West grew 2.8% to an annual rate of 1.11 million in October, 11.2% below a year ago. The median price in the West was $382,900, up 1.9% from October 2017.

New Residential Sales

Sales of new single-family houses in October 2018 were at a seasonally adjusted annual rate of 544,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 8.9% below the revised September rate of 597,000 and was 12.0% below the October 2017 estimate of 618,000. Regionally, compared to October 2017, sales were down 46.3% in the Northeast, 16.7% in the Midwest, 11.6% in the South and 1.3% in the West. The median sales price of new houses sold in October 2018 was $309,700. The average sales price was $395,000.

DURABLE GOODS ORDERS AND FACTORY SHIPMENTS

New orders for manufactured durable goods in October decreased $11.5 billion or 4.4% to $248.5 billion, according to the report of the U.S. Census Bureau. This decrease, down three of the last four months, followed a 0.1% September decrease. Excluding transportation, new orders increased 0.1%. Excluding defense, new orders decreased 1.2%. Transportation equipment, down following two consecutive monthly increases, drove the decrease, $11.7 billion or 12.2% to $84.7 billion.

Shipments of manufactured durable goods in October, down following two consecutive monthly increases, decreased $1.4 billion or 0.6% to $254.5 billion. This followed a 1.0% September increase. Transportation equipment, also down following two consecutive monthly increases, drove the decrease, $1.6 billion or 1.8% to $87.6 billion.

According to the full report, new orders for furniture and related products in September 2018 were up 5.5% and up 3.2% year to date. Shipments in September were down 1.3% from September 2017 but remained 3.0% ahead of the first nine months of 2017.