FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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Ken Smith, CPA

HIGHLIGHTS - EXECUTIVE SUMMARY

According to our latest survey of residential furniture manufacturers and distributors, new orders in October 2018 increased 7% over new orders reported in October 2017. While last month's 9% increase compared to a 10% decrease in the previous year, the October results compared to an 8% increase reported for October 2017 versus October 2016. The 7% increase for October followed increases of 9% in the last two months as well as 5% increases in the previous three months.

Year to date, new orders remained 6% ahead of the same period a year ago. Some 68% of the participants have reported increased orders year to date.

Shipments in October were 3% higher than October 2017 shipments. Shipments remain 3% ahead of last year through October. Some 66% of the participants reported increased shipments year to date.

Backlogs increased 5% again in October, the same increase as reported in September. Backlogs were 14% ahead of October 2017, the same level as reported last month. With orders exceeding shipments through the 10-month period and backlogs this high, we would expect shipments to make up some ground in the last two months of the year.

Receivable levels increased 6%, which compared to the 3% increase in shipments seemed a little high. In addition, inventory levels increased 9% over October 2017. Again, this increase appeared a little high compared to current order rates. We will continue to monitor both receivables and inventory levels though we believe that the increases could be a result of timing differences.

The number of factory and warehouse employees as well as payrolls continue to be in line with expectations based on current business levels.

Smith Leonard PLLC
Kenneth D. Smith, CPA | Mark S. Laferriere, CPA
www.smith-leonard.com

4035 Premier Drive, Suite 300
High Point, North Carolina 27265
(336) 883-0181

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board's Consumer Confidence Index decreased in December, following a modest decline in November. The Present Situation Index declined slightly while the Expectations Index fell more dramatically (from 112.3 last month to 99.1 this month). The report indicated that expectations regarding job prospects and business conditions weakened but still suggest the economy will continue to expand at a solid pace in the short-term.

Once again, the University of Michigan report was slightly different. Their Index of Consumer Sentiment increased slightly with the Current Economic Conditions Index increasing while the Index of Expectations declined. The report did state that "consumer confidence remained in December at the same record favorable levels as it has throughout the year."

Housing

Total existing-home sales increased again in November, according to the National Association of Realtors®. Three of the four major regions reported gains in sales activity in November. Single-family homes sales were up in November as well, but were still 6.7% below November 2017. Single-family home sales increased in all regions except for the West where they declined 6.3% from October and were 15.4% below a year ago. The report indicated that rising inventory levels are taming the home price appreciation.

New single-family house sales were unavailable at press time due to government shut down.

Privately-owned housing starts increased 3% above the revised October estimate but were 3.6% below the November 2017 rate. Single-family starts were down 13.1% from November 2017. Single-family starts were down in all regions of the country except for the Northeast where they increased 8.1%.

Other

The "third" estimate from the Bureau of Economic Analysis reported that real gross domestic product increased at an annual rate of 3.4% in the third quarter of 2018. In the second quarter, real GDP increased 4.2%. The third estimate was down slightly from the second estimate of 3.5% with the deceleration reflecting a downturn in exports, non-residential fixed investment and personal consumption expenditures.

The Conference Board's Leading Economic Index (LEI) for the U.S. increased 0.2% in November following a 0.3% decline in October and a 0.6% increase in September. Ataman Ozyildirim, Director of Economic Research and Global Research Chair at the Conference Board said, "Despite the recent volatility in stock prices, the strengths among the leading indicators have been widespread. Solid GDP growth at about 2.8% should continue in early 2019, but the leading economic indicators suggest economy is likely to moderate further in the second half of 2019."

The advance estimates for U.S. retail and food services sales for November indicated an increase of 0.2% from the previous month and 4.2% above November 2017. Total sales for the September 2018 to November 2018 period were up 4.3% from the same period a year ago. Sales at furniture and home furnishings stores were up 1.2% from October and up 1.7% from November 2017. Year to date, sales at these stores were up 4.1%.

The Consumer Price Index for all urban consumers was unchanged in November on an adjusted basis after rising 0.3% in October. Over the last 12 months, the all items index increased 2.2% before seasonal adjustment. This compared to a 2.5% increase reported in October. The energy index increased 3.1% for the 12 months ending November. The food index rose 1.4% over the last 12 months.

EXECUTIVE SUMMARY, CONT.

Thoughts

In recent conversations, we have heard that business has slowed somewhat, but our latest survey continued to show positive results. The last five months have produced nice increases in new orders. We would expect some slower growth based on these conversations in November and possibly December. Consumer confidence has remained at high levels in spite of the declines in the stock market. It appears that consumers are not paying as much attention to the market swings as they are other factors, such as the holiday season and good economic and job reports, etc.

Every time we think we have a feel for whether tariffs will increase or not, more news comes out to change the direction of our thinking. We wish we knew how better to advise so that people could make better plans, but we just don't have a strong feeling which way the winds will blow these tariffs.

With all that said, most of what we read continues to believe that the first half of 2019 will continue with a strong economy, even if maybe not quite as strong as it has been. So, here's our wishes to you for a very strong and prosperous new year. We hope you had a great holiday season and that 2019 is a great year for all of you.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

New orders in October 2018 were 7% higher than October 2017 orders, according to our latest survey of residential furniture manufacturers and distributors. This increase followed 9% increases in the last two months, as well as three previous months of 5% increases over a year ago. New orders in October 2017 were 8% higher than October 2016. Last month only 56% of the participants reported increased monthly orders, but increases in October were reported by some 67% of the participants.

Year to date, new orders remained 6% ahead of the first ten months of last year. Some 68% of the participants reported increased year to date new orders.

Shipments and Backlogs

Shipments in October 2018 were 3% higher than October 2017. Increased shipments were reported by some 64% of the participants up from just over one-half reporting increases last month.

Year to date, shipments remained 3% above the same period a year ago. Some 66% of the participants reported increased shipments year to date.

Backlogs increased 5% from September to October. Backlogs were 14% ahead of last October. The 14% increase was equal to the increase reported in September. With this increase, we would expect shipments to increase fairly significantly over the next couple of months.

Receivables and Inventories

Receivable levels were 6% higher than October 2017 and even with September 2018. With shipments up 3% for the month and 3% year to date, the 6% increase is a bit out of line. We imagine, this is just a timing issue but will continue to monitor these levels

Inventory levels increased 2% from September and were 9% higher than October 2017. The 9% increase compared to a 5% increase reported last month. Inventory levels appear a bit high compared to the increase in orders of 6%, but again, this could be just a timing issue.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was even with September 2018 and was down 2% from October 2017. The number of employees has been down in the 1 to 2% range all year.

Factory and warehouse payrolls fell 4% from September but were 4% higher than October 2017. Year to date, factory in warehouse payrolls were up 2% compared to the same period a year ago, the same as reported last month.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2018		
	OCT	SEP	10 MONTHS
New Orders	2,580	2,557	24,318
Shipments	2,285	2,359	23,548
Backlog	2,350	2,250	

	2017		
	OCT	SEP	10 MONTHS
New Orders	2,411	2,343	22,853
Shipments	2,210	2,365	22,884
Backlog (R)	2,061	1,860	

MONTHLY RESULTS - DECEMBER 2018

KEY MONTHLY INDICATORS (PERCENT CHANGE)	October 2018 From September 2018	October 2018 From October 2017	10 Months 2018 vs 10 Months 2017
New Orders	+1	+7	+6
Shipments	-2	+3	+3
Backlog	+5	+14	
Payrolls	-4	+4	+2
Employees	–	-2	
Receivables	–	+6	
Inventories	+2	+9	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2017				
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
October	+7	+3	+14	-2

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index*® decreased in December, following a modest decline in November. The Index now stands at 128.1 (1985=100), down from 136.4 in November. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – declined slightly, from 172.7 to 171.6. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – decreased from 112.3 last month to 99.1 this month.

"Consumer Confidence decreased in December, following a moderate decline in November," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Expectations regarding job prospects and business conditions weakened, but still suggest that the economy will continue expanding at a solid pace in the short-term. While consumers are ending 2018 on a strong note, back-to-back declines in Expectations are reflective of an increasing concern that the pace of economic growth will begin moderating in the first half of 2019."

Consumers' assessment of current conditions declined slightly in December. The percentage of consumers saying business conditions are "good" decreased from 42.0% to 37.2%, while those claiming business conditions are "bad" increased from 10.7% to 11.3%. Consumers' assessment of the labor market was mixed. Those claiming jobs are "plentiful" decreased marginally from 46.8% to 46.2%, while those claiming jobs are "hard to get" declined from 12.6% to 11.6%.

Consumers' optimism about the short-term future fell in December. The percentage of consumers expecting business conditions will improve over the next six months decreased from 21.9% to 18.3%, while those expecting business conditions will worsen increased, from 8.3% to 9.7%.

Consumers' outlook for the labor market was also less favorable. The proportion expecting more jobs in the months ahead decreased from 22.7% to 16.6%, while those anticipating fewer jobs increased, from 11.2% to 14.4%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement declined from 23.2% to 22.4%, while the proportion expecting a decrease rose, from 7.2% to 7.7%.

University of Michigan Surveys of Consumers

Surveys of Consumers Chief Economist, Richard Curtin, said "Consumer confidence remained in December at the same record favorable levels as it has throughout the year. The Sentiment Index averaged 98.4 in 2018, the best year since 107.6 in 2000. Over the past half century, sentiment was higher in only two other time periods: 1964-65 and 1997-2000. These periods correspond to the two longest prior expansions since the mid 1800's. If the current expansion lasts past mid-2019, as is likely based on current data, it will become the longest expansion ever recorded.

While the plunge in stock prices has recently garnered the most attention in the national press, consumers have focused more on their concerns about income and job prospects. Consumers reported more negative than positive news about job prospects for the first time in two years, with the shift widespread across socioeconomic subgroups. When asked about prospects for the national unemployment rate, 30% expected increases, up from last month's 22% and the highest percentage in two years. Importantly, this still meant that 70% anticipated no increase in unemployment in the year ahead. Surprisingly, even in the last week of the survey, falling stock prices were reported by just 12% as a primary concern about recent economic developments. This may reflect their initial dismissal as another indication of the heightened volatility of stock prices, and not signal an emerging downtrend. While next month's data may reflect increased concerns, it has been news of changing job and income prospects that have been of the greatest concern to consumers."

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2% in November to 111.8 (2016 = 100), following a 0.3% decline in October, and a 0.6% increase in September.

"The LEI increased slightly in November, but its overall pace of improvement has slowed in the last two months," said Ataman Ozyildirim, Director of Economic Research at The Conference Board. "Despite the recent volatility in stock prices, the strengths among the leading indicators have been widespread. Solid GDP growth at about 2.8% should continue in early 2019, but the LEI suggests the economy is likely to moderate further in the second half of 2019."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in November to 104.9 (2016 = 100), following a 0.1% increase in October, and a 0.2% increase in September.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.4% in November to 106.0 (2016 = 100), following a 0.5% increase in October and a 0.2% decline in September.

A DEEPER DIVE – NATIONAL, CON'T.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 3.4% in the third quarter of 2018, according to the "third" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 4.2%.

In the second estimate, the increase in real GDP was 3.5%. With this third estimate for the third quarter, personal consumption expenditures (PCE) and exports were revised down, and private inventory investment was revised up; the general picture of economic growth remains the same.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for November 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $513.5 billion, an increase of 0.2% from the previous month, and 4.2% above November 2017. Total sales for the September 2018 through November 2018 period were up 4.3% from the same period a year ago.

Retail trade sales were up 0.3% from October 2018, and 4.0% above last year. Nonstore Retailers were up 10.8% from November 2017, while Gasoline Stations were up 8.2% from last year.

Sales at furniture and home furnishings stores were up 1.2% from October and up 1.7% from November 2017. Year to date, sales at these stores were up 4.1%.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in November on a seasonally adjusted basis after rising 0.3% in October, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 2.2% before seasonal adjustment.

The gasoline index declined 4.2% in November, offsetting increases in an array of indexes including shelter and used cars and trucks. Other major energy component indexes were mixed, with the index for fuel oil falling but the indexes for electricity and natural gas rising. The food index rose in November, with the indexes for food at home and food away from home both increasing.

The all items less food and energy index increased 0.2% in November. Along with the indexes for shelter and used cars and trucks, the indexes for medical care, recreation, and water and sewer and trash collection also increased. The indexes for wireless telephone services, airline fares, and motor vehicle insurance declined in November.

The all items index increased 2.2% for the 12 months ending November, compared to a 2.5% increase for the period ending October. The all items less food and energy index rose 2.2% in November. The energy index increased 3.1% for the 12 months ending November; this was its smallest 12-month increase since the period ending June 2017. The food index rose 1.4% over the last 12 months.

Employment

Total nonfarm payroll employment increased by 155,000 in November, and the unemployment rate remained unchanged at 3.7%, according to the U.S. Bureau of Labor Statistics report. Job gains occurred in health care, in manufacturing, and in transportation and warehousing.

In November, the unemployment rate was 3.7% for the third month in a row, and the number of unemployed persons was little changed at 6.0 million. Over the year, the unemployment rate and the number of unemployed persons declined by 0.4 percentage point and 641,000, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) declined by 120,000 to 1.3 million in November. These individuals accounted for 20.8% of the unemployed.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales increased in November, according to the National Association of Realtors® (NAR), marking two consecutive months of increases. 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 1.9% from October to a seasonally adjusted rate of 5.32 million in November. Sales were down 7.0% from a year ago.

Single-family home sales were at a seasonally adjusted annual rate of 4.71 million in November. That was up from 4.62 million in October, but 6.7% below the 5.05 million sales pace from a year ago. The median existing single-family home price was $260,500 in November, up 5.0% from November 2017.

Existing condominium and co-op sales were at a seasonally adjusted annual rate of 610,000 units in November, up 1.7% from last month but down 9.0% from a year ago. The median existing condo price was $236,400 in November, which was down 1.3% from a year ago.

Lawrence Yun, NAR's chief economist, says two consecutive months of increases is a welcomed sign for the market. "The market conditions in November were mixed, with good signs of stabilizing home sales compared to recent months, though down significantly from one year ago. Rising inventory is clearly taming home price appreciation."

The median existing-home price for all housing types in November was $257,700, up 4.2% from November 2017 ($247,200). November's price increase marks the 81st straight month of year-over-year gains.

Total housing inventory at the end of November decreased to 1.74 million, down from 1.85 million existing homes available for sale in October. This represents an increase from 1.67 million a year ago, however. Unsold inventory is at a 3.9-month supply at the current sales pace, down from 4.3 last month and up from 3.5 months a year ago.

"A marked shift is occurring in the West region, with much lower sales and very soft price growth," said Yun. "It is also the West region where consumers have expressed the weakest sentiment about home buying, largely due to lack of affordable housing inventory."

Properties typically stayed on the market for 42 days in November, up from 36 days in October and 40 days a year ago. Forty-three percent of homes sold in November were on the market for less than a month.

"It is not surprising to see homes remain on the market a little longer," said NAR President John Smaby, a second-generation Realtor® from Edina, Minnesota and broker at Edina Realty. "Buyers can often negotiate a more favorable price in those circumstances, especially when paired with a motivated seller and the aid of a Realtor® familiar with their local market."

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased to 4.87% in November from 4.83% in October. The average commitment rate for all of 2017 was 3.99%.

First-time buyers were responsible for 33% of sales in November, up from last month and a year ago (31% and 29%, respectively). NAR's 2018 Profile of Home Buyers and Sellers – released in late 2018 – revealed that the annual share of first-time buyers was 33%.

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 November were at a seasonally adjusted annual rate of 1,256,000. This was 3.2% above the revised October estimate of 1,217,000, but was 3.6% below the November 2017 rate of 1,303,000. Single-family housing starts in November were at a rate of 824,000; this was 4.6% below the revised October figure of 864,000. Single-family housing starts were down 13.1% from November 2017. For the November to November comparison, single-family starts were down 13.0% in the Midwest, 11.3% in the South and 22.7% in the West while starts increased 8.1% in the Northeast.

Privately-owned housing completions in November were at a seasonally adjusted annual rate of 1,099,000. This was 0.4% above the revised October estimate of 1,095,000, but was 3.9% below the November 2017 rate of 1,144,000. Single-family housing completions in November were at a rate of 772,000; this was 5.4% below the revised October rate of 816,000.

A DEEPER DIVE – HOUSING, CON'T.

Regional

November existing-home sales in the Northeast increased 7.2% to an annual rate of 740,000, 2.6% below a year ago. The median price in the Northeast was $291,400, which was up 6.5% from November 2017.

In the Midwest, existing-home sales rose 5.5% from last month to an annual rate of 1.34 million in November, down 4.3% overall from a year ago. The median price in the Midwest was $199,100, up 2.6% from last year.

Existing-home sales in the South grew 2.3% to an annual rate of 2.20 million in November, down 5.6% from last year. The median price in the South was $223,600, up 3.2% from a year ago.

Existing-home sales in the West declined 6.3% to an annual rate of 1.04 million in November, 15.4% below a year ago. The median price in the West was $380,600, up 1.8% from November 2017.

DURABLE GOODS ORDERS AND FACTORY SHIPMENTS

New orders for manufactured durable goods in November increased $1.9 billion or 0.8% to $250.8 billion, according to the report of the U.S. Census Bureau. This increase, up following two consecutive monthly decreases, followed a 4.3% October decrease. Excluding transportation, new orders decreased 0.3%. Excluding defense, new orders decreased 0.1%. Transportation equipment, up three of the last four months, drove the increase, $2.5 billion or 2.9%.

Shipments of manufactured durable goods in November, up three of the last four months, increased $1.8 billion or 0.7% to $256.7 billion. This followed a 0.4% October decrease. Transportation equipment, also up three of the last four months, led the increase, $1.8 billion or 2.0% to $89.5 billion.

According to the final report, new orders for furniture and related products were up 2.7% in October compared to October 2017 and up 3.2% year to date. Shipments were up 3.4% over October 2017 and up 3.1% year to date.