FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

Based on recent conversations, we had expected to see a bit of a slowdown in new orders in the last couple of months of the year. The results of our latest survey of residential furniture manufacturers and distributors indicated a 3% increase in new orders in November compared to November 2017. This increase followed a 7% increase reported in October and 9% increases in September and August. While the 3% increase in November appeared in line with recent conversations, we looked at the results for last year's survey and noted that new orders in November 2017 were up 11% over November 2016. So, sometimes, I think we are guilty of comparing to prior-year results without realizing that the prior-year results would have a significant impact on current year comparisons to the prior year.

New orders for the month were up for some 47% of the participants in November. Year to date, new orders remained 6% ahead of last year. In November 2017, year to date new orders were 5% ahead of the previous year. Approximately 68% of the participants reported increased orders for the year, the same as last month.

Shipments were 8% higher than November 2017 compared to a 4% increase reported in the November 2017 comparison to November 2016. We had noted that we expected shipments to start catching up some since backlog seemed to be high. Some 62% of the participants reported increased shipments for the month compared to the previous year. Year to date, shipments remained 3% ahead of last year with 68% reporting increases. Last year, year to date shipments through November were up 5%. Backlogs increased 1% in November as the dollar value of orders was higher than the dollar value of shipments. Backlogs were 9% higher than last year compared to double-digit increases reported the last couple of months.

Receivable levels increased 7% over November 2017 and were pretty much in line with the changes in shipments. Inventories were flat compared to October levels and up 7% over November 2017. Inventory and receivable levels appeared pretty much in line with current business.

Factory and warehouse payrolls and the number of factory and warehouse employees continue to be in line with the current business conditions. The number of employees was down a bit from last year, but the total payrolls were up over the last year.

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EXECUTIVE SUMMARY, CONT.

National

Note: *A number of the national reports are not available at this time due to the federal government shutdown. While employees have returned to business, the reports are still not available. We hope to include these reports in next month's publication.*

Consumer Confidence

The Conference Board *Consumer Confidence Index®* decreased in January following a decline in December. The Present Situation Index declined only marginally, but the Expectations Index declined sharply as financial market volatility and government shutdown appears to have impacted consumers. The report noted that shock events such as the government shutdown tend to have sharp but temporary, impacts on consumer confidence. The report noted that the month's decline was more the result of a temporary shock than a precursor to a significant slowdown.

The University of Michigan Surveys of Consumers Index also reported a decline. This report was a bit more negative on future prospects. The major factors noted in the decline in confidence were the government shutdown and instabilities in financial markets, but also mentioned was the impact of tariffs, the global slowdown and the lack of clarity about monetary policies.

Housing

After two consecutive months of increases, existing-home sales declined in the month of December. None of the four major U.S. regions saw gains in sales activity in December. The decline was blamed to a degree on higher interest rates in 2018. With mortgage rates dropping slightly, the report indicated that they expect some revival in home sales.

No results for new home sales or housing starts were available at press time.

Other

The Conference Board's Leading Economic Index (LEI) for the U.S. declined 0.1% in December following a 0.2% increase in November and a 0.3% decline in October. The report indicated that the LEI declined slightly in December and the recent moderation in the leading index suggests that the U.S. economic growth rate may slow down this year. The leading index suggests that the economy could decelerate towards 2% growth by the end of 2019.

The Consumer Price Index for all urban consumers declined 0.1% in December on the seasonally adjusted basis after being unchanged in November. Over the last 12 months, the all items index increased 1.9% before seasonal adjustment. The index for all items less food and energy rose 2.2% over the last 12 months, the same increase as the 12 months ending in November. The food index rose 1.6% over the past year, while the energy index declined 0.3%.

Total non-farm payroll employment increased by 312,000 in December, but the unemployment rate rose to 3.9%. Job gains occurred in health care, food services and drinking places, construction, manufacturing, and retail trade.

EXECUTIVE SUMMARY, CONT.

Thoughts

The somewhat slower increase in orders in November was a little misleading. While we had heard business seemed a little slower for some, the comparison to November 2017 was a tough one as November 2017 orders were up 11% over November 2016. So, a 3% increase over the 2017 results was not all bad.

The lower Consumer Confidence reports were not surprising as they both noted that the government shutdown and stock market volatility had a major impact on lowering confidence. The existing-home sales results were a bit of a concern.

Overall, though, with orders up 6% year to date and shipments expected to follow, 2018 does appear to be a pretty decent year. Certainly, not for all, but with almost 70% reporting increases in orders, at least many had a nice year.

We will see what happens regarding the next potential shutdown. We also expect the severe weather to have some negative impact on many. Hopefully, the tariff issue will be settled. Most expect the 10% to remain, but there is still hope the 25% will not go into effect.

Stay warm for those of you affected by the brutal cold. Those of you in warm climates, go out and buy stuff.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in November were 3% higher than new orders in November 2017. This increase followed a 7% increase in October and 9% increases in September and August. The smaller percentage increase seemed in line with conversations we had during November and December about business being a little slower. But when looking at the results for November 2017, new orders were up 11% over November 2016 so the smaller increase was really not that bad.

New orders were up for some 47% of the participants in November 2018 compared to November 2017.

Year to date, new orders remained 6% ahead of the same period of last year. In November 2017, year to date new orders were 5% ahead of the previous year. Approximately 68% of the participants reported increased orders for the year, the same as last month.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

2018	NOV	OCT	11 MONTHS
New Orders	2,645	2,580	26,963
Shipments	2,498	2,285	26,046
Backlog	2,420	2,350	

2017	NOV	OCT	11 MONTHS
New Orders	2,557	2,411	25,410
Shipments	2,304	2,210	25,188
Backlog (R)	2,220	2,087	

Shipments and Backlogs

Shipments in November 2018 were 8% higher than November 2017 levels. This compared to a 4% increase reported for the November 2017 comparison to November 2016. We had noted that we expect shipments to start catching up with orders since orders had exceeded shipments for several months. Some 62% of the participants reported increased shipments for the month compared to the previous year.

Year to date, shipments remained 3% ahead of last year with 68% reporting increased year to date shipments. Last year, year to date shipments through November were up 5%.

Backlogs still increased 1% as the dollar value of orders was higher than shipment dollars. Backlogs were only 9% higher than last year compared to double digit increases reported the last couple of months.

Receivables and Inventories

Receivable levels increased 7% over November 2017, in line with the monthly increase in shipments of 8%. They did increase 5% over October levels in spite of only a 1% increase in shipments for that period, but overall appear in line.

Inventories were flat compared to October levels and up 7% over November 2017. Last month inventories were up 9% over the previous year. This month's increase appears to be more in line with somewhat slower business.

Factory and Warehouse Employees and Payroll

Factory and payrolls were 5% higher than November 2017, up from a 4% increase reported last month. Year to date, payrolls were 3% higher than the same period a year ago, up from 2% reported last month.

The number of factory and warehouse employees was flat compared to October and down 2% from November 2017. The 2% decrease was the same as reported last month.

MONTHLY RESULTS - JANUARY 2019

KEY MONTHLY INDICATORS (PERCENT CHANGE)	November 2018 From October 2018	November 2018 From November 2017	11 Months 2018 vs 11 Months 2017
New Orders	+3	+3	+6
Shipments	+1	+8	+3
Backlog	+1	+9	
Payrolls	-2	+5	+3
Employees	–	-2	
Receivables	+5	+7	
Inventories	–	+7	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2017				
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
November	+3	+8	+9	-2

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board's *Consumer Confidence Index®* decreased in January, following a decline in December. The Index now stands at 120.2 (1985=100), down from 126.6 in December. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – declined marginally, from 169.9 to 169.6. The Expectations Index – based on consumers' short-term outlook for income, jobs and business declined sharply.

"Consumer Confidence declined in January, following a decrease in December," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index was virtually unchanged, suggesting economic conditions remain favorable. Expectations, however, declined sharply as financial market volatility and the government shutdown appear to have impacted consumers. Shock events such as government shutdowns (i.e., 2013) tend to have sharp, but temporary, impacts on consumer confidence. Thus, it appears that this month's decline is more the result of a temporary shock than a precursor to a significant slowdown in the coming months."

Consumers' appraisal of current conditions was little changed in January. The percentage of consumers claiming business conditions are "good" was virtually unchanged at 37.4%, while those saying business conditions are "bad" decreased from 11.6% to 11.1%. Consumers' assessment of the labor market was mixed. Those stating jobs are "plentiful" increased from 45.5% to 46.6%, while those claiming jobs are "hard to get" also increased, from 12.2% to 12.9%.

Consumers' optimism about the short-term future was more pessimistic in January. The percentage of consumers expecting business conditions will improve over the next six months decreased from 18.1% to 16.0%, while those expecting business conditions will worsen increased from 10.6% to 14.8%.

Consumers' outlook for the labor market was also less favorable. The proportion expecting more jobs in the months ahead decreased from 16.6% to 14.7%, while those anticipating fewer jobs increased, from 14.6% to 16.5%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement declined from 22.4% to 18.2%, but the proportion expecting a decrease also declined, from 7.6% to 7.1%.

University of Michigan Surveys of Consumers

Surveys of Consumers Chief Economist, Richard Curtin, said "Consumer sentiment declined in early January to its lowest level since Trump was elected. The decline was primarily focused on prospects for the domestic economy, with the year-ahead outlook for the national economy judged the worst since mid-2014. The loss was due to a host of issues including the partial government shutdown, the impact of tariffs, instabilities in financial markets, the global slowdown and the lack of clarity about monetary policies. Aside from the direct economic impact from these various issues on the economy, the indirect effect meant that half of all consumers believed that these events would have a negative impact on Trump's ability to focus on economic growth. While the January falloff in optimism is certainly consistent with a slowdown in the pace of growth, it does not yet indicate the start of a sustained downturn in economic activity. It is the strength in personal finances that will continue to support consumption expenditures at favorable levels in 2019. Nonetheless, consumers now sense a need to buttress their precautionary savings, which is typically done by reducing their discretionary spending. Evolving job and wage prospects, which were slightly weaker in early January, are critical to extending the current expansion."

Gross Domestic Product

Not available at press time.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.1% in December to 111.7 (2016=100), following a 0.2% increase in November, and a 0.3% decline in October.

"The U.S. LEI declined slightly in December and the recent moderation in the LEI suggests that the U.S. economic growth rate may slow down this year," said Ataman Ozyildirim, Director of Economic Research at The Conference Board. "While the effects of the government shutdown are not yet reflected here, the LEI suggests that the economy could decelerate towards 2% growth by the end of 2019."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in December to 105.1 (2016=100), following a 0.2% increase in November, and a 0.2% increase in October.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.5% in December to 106.7 (2016=100), following a 0.5% increase in November and a 0.6% increase in October.

A DEEPER DIVE – NATIONAL, CONT.

Retail Sales

Not available at press time.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.1% in December on a seasonally adjusted basis after being unchanged in November, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 1.9% before seasonal adjustment.

The seasonally adjusted decline in the all items index was caused by a sharp decrease in the gasoline index, which fell 7.5% in December. This decline more than offset increases in several indexes including shelter, food, and other energy components. The energy index fell 3.5%, as the gasoline and fuel oil indexes fell, but the indexes for natural gas and for electricity increased. The food index increased 0.4% in December.

The index for all items less food and energy index increased 0.2% in December, the same increase as in October and November. Along with the index for shelter, the indexes for recreation, medical care, and household furnishings and operations all increased in December, while the indexes for airline fares, used cars and trucks, and motor vehicle insurance all declined.

The all items index increased 1.9% for the 12 months ending December; this was the first time the 12-month change has been under 2.0% since August 2017. The index for all items less food and energy rose 2.2% over the last 12 months, the same increase as for the 12 months ending November. The food index rose 1.6% increase over the past year, while the energy index declined 0.3%.

Employment

Total nonfarm payroll employment increased by 312,000 in December, and the unemployment rate rose to 3.9%, according to the U.S. Bureau of Labor Statistics report. Job gains occurred in health care, food services and drinking places, construction, manufacturing, and retail trade.

The unemployment rate rose by 0.2 percentage point to 3.9% in December, and the number of unemployed persons increased by 276,000 to 6.3 million. A year earlier, the jobless rate was 4.1%, and the number of unemployed persons was 6.6 million.

In December, the number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.3 million and accounted for 20.5% of the unemployed. Over the year, the number of long-term unemployed was down by 205,000.

A DEEPER DIVE – HOUSING

Existing-Home Sales

After two consecutive months of increases, existing-home sales declined in the month of December, according to the National Association of Realtors® (NAR). None of the four major U.S. regions saw a gain in sales active last month.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 6.4% from November to a seasonally adjusted rate of 4.99 million in December. Sales were down 10.3% from a year ago (5.56 million in December 2017).

Single-family home sales sit at a seasonally adjusted annual rate of 4.45 million in December, down from 4.71 million in November, and 10.1% below the 4.95 million sales pace from a year ago. The median existing single-family home price was $255,200 in December, up 2.9% from December 2017. Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 540,000 units in December, down 12.9% from last month and down 11.5% from a year ago. The median existing condo price was $240,600 in December, which was up 2.3% from a year ago.

Lawrence Yun, NAR's chief economist, says current housing numbers are partly a result of higher interest rates during much of 2018. "The housing market is obviously very sensitive to mortgage rates. Softer sales in December reflected consumer search processes and contract signing activity in previous months when mortgage rates were higher than today. Now, with mortgage rates lower, some revival in home sales is expected going into spring."

A DEEPER DIVE – HOUSING, CONT.

The median existing-home price for all housing types in December was $253,600, up 2.9% from December 2017 ($246,500). December's price increase marks the 82nd straight month of year-over-year gains.

Total housing inventory at the end of December decreased to 1.55 million, down from 1.74 million existing homes available for sale in November, but represents an increase from 1.46 million a year ago. Unsold inventory is at a 3.7-month supply at the current sales pace, down from 3.9 last month and up from 3.2 months a year ago.

Properties typically stayed on the market for 46 days in December, up from 42 days in November and 40 days a year ago. Thirty-nine percent of homes sold in December were on the market for less than a month.

"Several consecutive months of rising inventory is a positive development for consumers and could lead to slower home price appreciation," says Yun. "But there is still a lack of adequate inventory on the lower-priced points and too many in upper-priced points."

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 4.64% in December from 4.87% in November. The average commitment rate for all of 2017 was 3.99%.

"The partial shutdown of the federal government has not had a significant effect on December closings, but the uncertainty of a shutdown has the potential to harm the market," said NAR President John Smaby, a second-generation Realtor® from Edina, Minnesota and broker at Edina Realty. "Once the government is fully reopened, I am hopeful that housing transactions will increase."

First-time buyers were responsible for 32% of sales in December, down from last month (33%), but the same as a year ago. 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 Starts

Not available at press time.

Regional

December existing-home sales in the Northeast decreased 6.8% to an annual rate of 690,000, 6.8% below a year ago. The median price in the Northeast was $283,400, which was up 8.2% from December 2017.

In the Midwest, existing-home sales fell 11.2% from last month to an annual rate of 1.19 million in December, down 10.5% overall from a year ago. The median price in the Midwest was $191,300, unchanged from last year.

Existing-home sales in the South dropped 5.4% to an annual rate of 2.09 million in December, down 8.7% from last year. The median price in the South was $224,300, up 2.5% from a year ago.

Existing-home sales in the West dipped 1.9% to an annual rate of 1.02 million in December, 15% below a year ago. The median price in the West was $374,400, up 0.2% from December 2017.

DURABLE GOODS ORDERS AND FACTORY SHIPMENTS

Not available at press time.