# FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

**February 2019**

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## HIGHLIGHTS - EXECUTIVE SUMMARY

We had continued to hear from folks that business in November and December had been a bit slower and the 3% increase in orders in November seemed to prove those comments. Yet, according to our latest survey of residential furniture manufacturers and distributors, new orders in December were up 7% over December 2017. That said though, only 45% of the participants reported increased orders in December compared to December a year ago. So it was a month of very good results for some but not so great for all.

December's increase in orders was the 12th straight month of positive comparison to the previous year. This led to an increase of 6% in new orders for the year, up from a 4% increase reported last year. Shipments were basically even with December 2017. Some 63% of the participants reported increased orders for the year. For all of 2018, shipments were up 3% over the 2017 year. For the year, 66% of the participants reported increased shipments.

With new orders exceeding shipments for the year, backlogs grew 13% higher than December 2017 levels.

Receivable levels increased 7% in December, somewhat higher than the 3% increase in shipments for the year as well as the flat December to December results. We imagine this is a timing issue due to the holidays but we will monitor.

Inventories were up 6% at the end of December, pretty much in line with order rates. Inventories fell 1% from November to December as they were getting a little high considering current business levels.

The factory and warehouse payrolls and the number of factory and warehouse employees remained in line with current business conditions.



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# EXECUTIVE SUMMARY, CONT.

## National

***Note:*** *Some of the normal national reports were not available due to the government shutdown.*

### Consumer Confidence

After the Conference Board *Consumer Confidence Index®* falling for December and January, the Index rebounded in February with the Present Situation Index increasing as well as the Expectations Index. Lynn Franco, Senior Director of Economic Indicators at the Conference Board noted that "both business and labor market conditions were favorable. Expectations, which had been negatively impacted in recent months by financial market volatility and the government shutdown, recovered in February. However, according to the Conference Board's economic forecasts, the pace of expansion is expected to moderate in 2019." The Index now stands at 131.4 (1985=100), up from 121.7 in January. The Present Situation Index – based consumers' assessment of current business and labor market conditions – improved, from 170.2 to 173.5. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 89.4 last month to 103.4 this month.

The University of Michigan Surveys of Consumers early report was also positive. Chief Economist, Richard Curtin said, "The early February gains reflect the end of the partial government shutdown as well as a more fundamental shift in consumer expectations due to the Fed's pause in raising interest rates." This report suggested a 2019 GDP gain of 2.2%.

### Housing

Existing home sales had a minor drop in January after a decline in December as well. Only the Northeast region reported an increase in sales activity. Single-family sales were down slightly from November but were down 8.4% from January 2018. Single-family home prices were up 3.1% from January 2018. The report indicated that sales are "likely to have reached a cyclical low."

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

### Other

The Conference Board's Leading Economic Index (LEI) declined 0.1% in January following no change in December and a 0.1% increase in November. In January, the strength in financial components were offset by weaknesses in the labor market components.

Advances estimates for retail and food services sales for December 2018 as adjusted were down 1.2% from November but 2.3% ahead of December 2017. Total sales for the year were up 5.0% from 2017. Sales at furniture and home furnishings stores were down 0.2% from December 2017 but were up 3.5% for the year. Note that motor vehicle dealer sales were up 3.1% for the year.

The Consumer Price Index was unchanged in January. Over the last 12 months, the all items index increased 1.6%. The energy index declined in January, offsetting increases in indexes for all items less food and energy. The 12 months increase was the smallest increase since the period ended June 2017.

Non-farm payroll employment increased by 304,000 in January but the unemployment rate rose to 4.0%. Employment was up in several industries including leisure and hospitality, construction, healthcare, and transportation and warehousing.

#### EXECUTIVE SUMMARY, CONT.

## Thoughts

The increase in new orders was a bit surprising for December based on our conversations. With only 45% reporting increases, the increase was driven by some large increases. We wonder if maybe the tariff issues had something to do with the pickup in orders in December. For the year, the results were pretty good posting a 6% gain in orders following a 4% increase last year.

Both consumer confidence reports were positive after recent declines. Both these reports and the Economic Indicators reports noted that the economy growth is slowing and is expected to taper off in 2019. The initial GDP report for the fourth quarter of 2018 was showing growth at 2.6% down from 3.4% in the 3rd quarter. But the 2 plus percent they project for 2019 is not all bad. Growing at the very fast rates over long periods makes it difficult to find workers with the right skillsets.

The delay in tariffs (till when) is helpful but makes it hard to plan what to do. We would like to think that sometime soon there is a timetable. Lots of production has been moved around with a lot of trouble and some more adjusting may be needed. It would be nice to know if and when more adjustments may be needed.

# HIGHLIGHTS - MONTHLY RESULTS

## New Orders

New orders were 7% higher in December 2018 than December 2017 orders, according to our latest survey of residential furniture manufacturers and distributors. December orders were down 17% from November as with the holiday shutdown affects incoming orders. The increase in orders in December compared to the previous year same month, was the 12th straight month with increases.

The December results were not great for everyone as only 45% of the participants reported increased orders for the month. We had noted last month that for some, business had slowed down a bit and the results of this survey did indicate that business was not "better" for all.

Year to date, new orders finished off the year 6% ahead of 2017. In 2017, new orders for the year were up 4% over 2016. For 2018, 63% of our participants reported increased orders for the year.

**ESTIMATED BUSINESS ACTIVITY (MILLIONS)**

| 2018 | DEC | NOV | 12 MONTHS |
|---|---|---|---|
| New Orders | 2,208 | 2,645 | 29,171 |
| Shipments | 2,320 | 2,498 | 28,366 |
| Backlog (R) | 2,308 | 2,420 | |

| 2017 | DEC | NOV | 12 MONTHS |
|---|---|---|---|
| New Orders | 2,072 | 2,557 | 27,482 |
| Shipments | 2,327 | 2,304 | 27,515 |
| Backlog (R) | 2,042 | 2,290 | |

## Shipments and Backlogs

Shipments in December 2018 were basically flat when compared to December 2017. Compared to November, shipments were off 19%, again a normal drop-off due to the vacation week. Shipments in December versus December 2017 were up for 55% of our participants, down from 62% last month.

For the year 2018, shipments increased 3% and were up for 66% of the participants. In 2017, shipments were up 5% over the year 2016.

Backlogs ended the year 13% higher than at December 2017 as orders exceeded shipments both in dollars and percentage increases.

## Receivables and Inventories

At the end of December 2018, receivable levels were 7% higher than the end of 2017, even though shipments were flat for December alone and up 3% year to date. Receivables only fell 3% from November while shipments were down 19% from November. We think this was probably a timing issue and expect them to fall more in line, but we will need to watch.

Inventory levels were 6% higher than December 2017 and down 1% from November 2018. Considering orders were up 6%, we would think that inventories remain in fairly good shape.

## Factory and Warehouse Employees and Payroll

The number of employees stayed about the same from November to December. Factory and warehouse payrolls were down 1% from December 2017 but year to date payrolls were up 2%, very much in line with the 3% increase in shipments.

# MONTHLY RESULTS - FEBRUARY 2019

**KEY MONTHLY INDICATORS (PERCENT CHANGE)**

| | December 2018 From November 2018 | December 2018 From December 2017 | 12 Months 2018 vs 12 Months 2017 |
|---|---|---|---|
| **New Orders** | -17 | +7 | +6 |
| **Shipments** | -19 | – | +3 |
| **Backlog** | -5 | +13 | |
| **Payrolls** | -4 | -1 | +2 |
| **Employees** | – | -1 | |
| **Receivables** | -3 | +7 | |
| **Inventories** | -1 | +6 | |

**PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR**

| | New Orders | Shipments | Backlog | Employment |
|---|---|---|---|---|
| **2017** | | | | |
| **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 |
| **December** | +7 | – | +13 | -1 |

# A DEEPER DIVE - NATIONAL

## Consumer Confidence

The Conference Board's *Consumer Confidence Index®* increased in February, following a decline in January. The Index now stands at 131.4 (1985=100), up from 121.7 in January. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – improved, from 170.2 to 173.5. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 89.4 last month to 103.4 this month.

"Consumer Confidence rebounded in February, following three months of consecutive declines," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index improved, as consumers continue to view both business and labor market conditions favorably. Expectations, which had been negatively impacted in recent months by financial market volatility and the government shutdown, recovered in February. Looking ahead, consumers expect the economy to continue expanding. However, according to The Conference Board's economic forecasts, the pace of expansion is expected to moderate in 2019."

Consumers' appraisal of current conditions improved moderately in February. Those stating business conditions are "good" increased from 36.4% to 41.2%, while those saying business conditions are "bad" was unchanged at 10.8%. Consumer's assessment of the labor market was mixed. Those stating jobs are "plentiful" decreased slightly from 46.7% to 46.1%, while those claiming jobs are "hard to get" also decreased, from 12.6% to 11.8%.

Consumers' optimism about the short-term future rebounded in February. The percentage of consumers expecting business conditions will improve over the next six months increased from 16.3% to 19.7%, while those expecting business conditions will worsen decreased from 13.8% to 8.9%.

Consumers' outlook for the labor market was also more favorable. The proportion expecting more jobs in the months ahead increased from 15.3% to 18.5%, while those anticipating fewer jobs declined, from 16.2% to 12.2%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement rose from 17.7% to 20.0%, but the proportion expecting a decrease also increased, from 6.8% to 8.5%.

## University of Michigan Surveys of Consumers

Surveys of Consumers Chief Economist, Richard Curtin, said "The early February gains reflect the end of the partial government shutdown as well as a more fundamental shift in consumer expectations due to the Fed's pause in raising interest rates. The lingering impact of the shutdown was responsible for some of the negative economic evaluations, and, at the time that these interviews were conducted, uncertainty about whether a second shutdown would occur continued to have a slight depressing impact on confidence. Although the majority of consumers expected some additional rate hikes during the year ahead, that proportion has shrunk to the smallest level in the past two years. Perhaps more importantly, consumers' long term inflation expectations fell to the lowest level recorded in the past half century. While nominal income expectations remained at modest levels, consumers more frequently expected gains in their inflation-adjusted incomes in early February than at any other time in more than fifteen years. The data indicate that personal consumption expenditures will remain the strongest sector in the national economy in 2019--up by 2.7% compared with a GDP gain of 2.2%. The data suggest that the Fed will find it even harder to justify another rate hike given the record low inflation expectations; the data will also add to the debate about the evolving relationship between unemployment and inflation as consumers now anticipate lower inflation and higher unemployment."

### NATIONAL UPDATE

## Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.1% in January (according to preliminary estimates) to 111.3 (2016=100), following no change in December, and a 0.1% increase in November.

"Based on preliminary data, the U.S. LEI declined very slightly in January and December's decline was revised up to no change," said Ataman Ozyildirim, Director of Economic Research at The Conference Board. "In January, the strengths in the financial components were offset by the weaknesses in the labor market components. The U.S. LEI has now been flat essentially since October 2018. The Conference Board forecasts that U.S. GDP growth will likely decelerate to about 2% by the end of 2019."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1% in January to 105.5 (2016=100), following a 0.2% increase in December, and a 0.2% increase in November.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.5% in January to 106.7 (2016=100), following a 0.3% increase in December and a 0.5% increase in November.

# A DEEPER DIVE – NATIONAL, CONT.

## Gross Domestic Product

Real gross domestic product (GDP increased at an annual rate of 2.6% in the fourth quarter of 2018, according to the "initial" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 3.4%.

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

The deceleration in real GDP growth in the fourth quarter reflected decelerations in private inventory investment, PCE, and federal government spending and a downturn in state and local government spending. These movements were partly offset by an upturn in exports and an acceleration in nonresidential fixed investment. Imports increased less in the fourth quarter than in the third quarter.

# A DEEPER DIVE – HOUSING

## Existing-Home Sales

Existing-home sales experienced a minor drop for the third consecutive month in January, according to the National Association of Realtors® (NAR). Of the four major U.S. regions, only the Northeast saw an uptick in sales activity last month.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 1.2% from December to a seasonally adjusted rate of 4.94 million in January. Sales were down 8.5% from a year ago (5.40 million in January 2018).

Single-family home sales were at a seasonally adjusted annual rate of 4.37 million in January, down from 4.45 million in December and 8.4% below the 4.77 million sales pace from a year ago. The median existing single-family home price was $249,400 in January, up 3.1% from January 2018. Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 570,000 units in January, up 3.6% from last month and down 9.5% from a year ago. The median existing condo price was $233,000 in January, which was up 0.1% from a year ago.

Lawrence Yun, NAR's chief economist, says last month's home sales of 4.94 million were the lowest since November 2015, but that he does not expect the numbers to decline further going forward. "Existing home sales in January were weak compared to historical norms; however, they are likely to have reached a cyclical low. Moderating home prices combined with gains in household income will boost housing affordability, bringing more buyers to the market in the coming months."

The median existing-home price for all housing types in January was $247,500, up 2.8% from January 2018 ($240,800). January's price increase marks the 83rd straight month of year-over-year gains.

Yun notes that this median home price growth is the slowest since February 2012, and is cautious that the figures do not yet tell the full story for the month of January. "Lower mortgage rates from December 2018 had little impact on January sales, however, the lower rates will inevitably lead to more home sales."

Total housing inventory at the end of January increased to 1.59 million, up from 1.53 million existing homes available for sale in December, and represents an increase from 1.52 million a year ago. Unsold inventory is at a 3.9-month supply at the current sales pace, up from 3.7 months in December and from 3.4 months in January 2018.

Properties remained on the market for an average of 49 days in January, up from 46 days in December and 42 days a year ago. Thirty-eight percent of homes sold in January were on the market for less than a month.

While total inventory grew (on a year-over-year basis) for the sixth straight month. Yun says the market is still suffering from an inventory shortage. "In particular, the lower end of the market is experiencing a greater shortage, and more home construction is needed," says Yun. "Taking steps to lower construction costs would be a tremendous help. Local zoning ordinances should also be reformed, while the housing permitting process must be expedited; these simple acts would immediately increase homeownership opportunities and boost local economies."

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 4.46% in January from 4.64% in December. The average commitment rate for all of 2018 was 4.54%.

# A DEEPER DIVE – HOUSING, CONT.

## Regional

January existing-home sales in the Northeast increased 2.9% to an annual rate of 700,000, 1.4% below a year ago. The median price in the Northeast was $270,000, which was up 0.4% from January 2018.

In the Midwest, existing-home sales fell 2.5% from last month to an annual rate of 1.16 million in January, down 7.9% overall from a year ago. The median price in the Midwest was $189,700, which was up 1.4% from last year.

Existing-home sales in the South dropped 1.0% to an annual rate of 2.08 million in January, down 8.4% from last year. The median price in the South was $214,800, up 2.5% from a year ago.

Existing-home sales in the West dipped 2.9% to an annual rate of 1.00 million in January, 13.8% below a year ago. The median price in the West was $374,600, up 2.9% from January 2018.

## Housing Starts and New Home Sales

*Not available at press time.*

# A DEEPER DIVE – OTHER NATIONAL

## Retail Sales

The U.S. Census Bureau announced the advance estimates of U.S. retail and food services sales for December 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $505.8 billion, a decrease of 1.2% from the previous month, but 2.3% above December 2017. Total sales for the 12 months of 2018 were up 5.0% from 2017. Total sales for the October 2018 through December 2018 period were up 3.7% from the same period a year ago.

Retail trade sales were down 1.3% from November 2018, but 2.1% above last year. Clothing and clothing accessories stores were up 4.7% from December 2017, while food services and drinking places were up 4.0% from last year.

Sales at furniture and home furnishings stores were off 1.3% from November 2018 and off only 0.2% from December 2017. Year to date, sales at these stores were up 3.5% for the year. Note that motor vehicle dealers were up 3.1% for the year.

## Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in January on a seasonally adjusted basis, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 1.6% before seasonal adjustment.

The energy index declined for the third consecutive month, offsetting increases in the indexes for all items less food and energy and for food. All the major energy component indexes declined in January, with the gasoline index falling 5.5%. The food index increased 0.2%, with the index for food at home rising 0.1% and the food away from home index increasing 0.3%.

The index for all items less food and energy increased 0.2% in January for the fifth consecutive month. The indexes for shelter, apparel, medical care, recreation, and household furnishings were among the indexes that rose in January, while the indexes for airline fares and for motor vehicle insurance declined.

The all items index increased 1.6% for the 12 months ending January, the smallest increase since the period ending June 2017. 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 November and December 2018. The food index rose 1.6% over the past year, while the energy index declined 4.8%.

# A DEEPER DIVE – OTHER NATIONAL, CONT.

## Employment

Total nonfarm payroll employment increased by 304,000 in January, and the unemployment rate edged up 4.0%, according to the U.S. Bureau of Labor Statistics report. Job gains occurred in several industries, including leisure and hospitality, construction, health care, and transportation and warehousing.

Both the unemployment rate, at 4.0%, and the number of unemployed persons, at 6.5 million, edged up in January. The impact of the partial federal government shutdown contributed to the uptick in these measures. Among the unemployed, the number who reported being on temporary layoff increased by 175,000. This figure includes furloughed federal employees who were classified as unemployed on temporary layoff under the definitions used in the household survey.

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.

## Durable Goods Orders and Factory Shipments

The U.S. Census Bureau announced that the December advance report on manufacturers' shipments, inventories and orders with new orders for manufactured durable goods in December increasing $3.0 billion or 1.2% to $254.4 billion. This increase, up two consecutive months, followed a 1.0% November increase. Excluding transportation, new orders increased 0.1%. Excluding defense, new orders increased 1.8%. Transportation equipment, up four of the last five months, led the increase, $2.8 billion or 3.3% to $90.2 billion.

Shipments of manufactured durable goods in December, up four of the last five months, increased $2.1 billion or 0.8% to $259.7 billion. This followed a 1.0% November increase. Transportation equipment, also up four of the last five months, led the increase, $1.4 billion or 1.5% to $91.4 billion.