



# FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

May 2019



## HIGHLIGHTS - EXECUTIVE SUMMARY

**A**s we somewhat expected, the results of our survey for March 2019 confirmed what we had been hearing. The survey of residential furniture manufacturers and distributors showed new orders in March 2019 down 3% from March 2018 following a 5% decline in February. This decline in orders brought the year to date results to a flat order rate for the full quarter. Only 42% of the participants posted increased orders year to date.

Shipments were 1% lower than March 2018 following a 3% decrease reported last month. So, after a fast start in January, year to date shipments only increased 3% for the quarter. Backlogs remained steady from February as the dollar amount of orders was about the same as the dollar amounts shipped. Backlogs remained 4% ahead of March 2018.

Receivable levels appear to be a bit out of line considering shipment levels, up 9%. Shipments in March were substantially higher than February so these results may just be a timing issue. Inventory levels were down 1% from February but remained 6% over March 2018, up from a 5% increase reported last month.

Factory and warehouse employee levels and payrolls appear to be in line with shipments.



**Ken Smith, CPA**

## EXECUTIVE SUMMARY, CONT.

### National

#### Consumer Confidence

The latest *Consumer Confidence* report showed even more improvement in May following an increase in April. Both the Present Situation and Expectations Indexes improved bringing the Index back to levels from last Fall – near 18-year highs. The prospects for business conditions, both now and in six months as well as job prospects were improved. Those expecting better income prospects was a bit more mixed but still good. The report indicated the consumers expect the economy to continue growing at a solid pace in the short term, and despite weak retail sales in April, the high levels of confidence suggest no significant pullback in consumer spending in the months ahead.

#### Housing

Existing-home sales were off just a bit in April, continuing what was reported in March. Total existing-home sales fell 0.4% in April with sales down 4.4% from a year ago. Single-family sales fell 1% in April from March and were down 4% from April a year ago. The existing-home sales were off slightly in the Northeast and South, with sales flat in the Midwest, while the West saw growth.

Lawrence Yun, NAR's chief economist said that he was not overly concerned with the dip in sales and expects moderate growth relatively soon.

New home sales in April were off 6.9% from March but up 7.0% over April 2018. Compared to last year, new house sales were up 3.6% in the Midwest, 5.1% in the South and 16.8% in the West, while falling 12.1% in the Northeast.

Housing starts in April were up 5.7% from March but were 2.5% below April 2018. Single-family starts were up 6.2% over March but down 4.3% from April 2018.

#### Other

The Conference Board's Leading Economic Index for the U.S. increased again in April. The report noted that even with favorable stock prices (until just recently) financial conditions and consumers' outlook, the economic growth is expected to moderate towards 2% by year end.

Advance estimates for U.S. retail and food services reported a decrease of 0.2% in April from March. Though the April results were 3.1% ahead of April 2018. Retail trade sales were also down 0.2% but 2.8% ahead of last year. Sales at furniture and home furnishings stores were down 3.0% from April 2018. Year to date, sales at these stores were down 1.4% from the same period a year ago.

The Consumer Price Index increased 0.5% in April after a 0.4% increase in March. The gasoline index accounted for over two-thirds of the increase rising 5.7%. The all items index increased 2.0% for the 12 months ending April, the largest increase since November 2018.

Nonfarm employment increased again in April, rising 263,000. This brought the unemployment rate down to 3.6%. This was reported as the lowest unemployment rate since December 1969. Most job gains occurred in professional and business services, construction, health care, and social assistance.

## EXECUTIVE SUMMARY, CONT.

### Thoughts

February and March orders and shipments clearly slowed for a majority of our participants. From conversations, business was not that much better in April though some did get some pick up at the High Point Market. Last month we noted that conversations reported not much pick up since market, but we have noted some late April improvement.

Lately, there does seem to be a bit more optimism with seemingly some pick up in May. Weather continues to affect a great deal of the country with flooding and tornados doing substantial damage in many parts. Clearly those issues are affecting business.

We think consumers are getting mixed messages over and above the normal political jargon (though if you listen to any of it, it clearly will affect you). The China trade talks have negatively affected the stock market causing concerns for consumers. Yet, they continue to hear good news from consumer confidence and employment data. So, confidence is strong, but it has not yet bled over to retail buying. We just keep thinking that business should be better than it is. Job creation and increased incomes should not only help with home buying (considering low mortgage rates) but also should help furniture sales.

Hopefully, Memorial Day sales were good for most and we can kick off summer with those sales.

## HIGHLIGHTS - MONTHLY RESULTS

### New Orders

The comments we heard in February and March about business being a bit slower were confirmed with our last two surveys of residential furniture manufacturers and distributors. The most recent survey results showed new orders in March down 3% from March 2018. This followed a 5% reduction reported for February 2019 versus February 2018. Only 42% of the participants reported increased orders for March, up from 37% reporting increases last month.

Year to date, new orders were basically flat compared to the first quarter of 2018. Orders were up for 42% of the participants.

### Shipments and Backlogs

Shipments in March were 1% lower than March 2018 compared to a 3% drop reported for February. Approximately 61% of the participants reported a decline in shipments for the month compared to the previous year.

Year to date, shipments remained 3% ahead of the first quarter of 2018. Approximately 55% of the participants reported increased shipments through March compared to the previous year.

Backlogs were even with February as the dollar amounts of orders were about the same as shipments. Backlogs were 4% higher than March 2018, down from a 7% increase reported in February.

### Receivables and Inventories

Receivable levels in March 2019 were up 9% over March 2018 and even with February. The 9% increase over last year is a bit high considering shipments were only up 3% year to date. Yet, the levels were flat compared to February, but shipments were up 17% from February to March. We assume these are timing issues. We will watch next month to see if back in line.

Inventory levels in March 2019 fell 1% from February and were up 6% over March 2018. The 6% increase over last year compared to a 5% increase reported last month. So, inventory levels continue to be a bit high and will need to be monitored.

### Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in March was about even with February and down 1% from March a year ago. This compared to a 2% reduction reported in February and January. Factory and warehouse payrolls were up 3% in March compared to March 2018. The payrolls were up 3% year to date, the same as reported last month.



### ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2019		
	MAR	FEB	3 MONTHS
<b>New Orders</b>	2,509	2,156	6,906
<b>Shipments</b>	2,508	2,134	6,963
<b>Backlog</b>	2,191	2,190	

	2018		
	MAR	FEB	3 MONTHS
<b>New Orders</b>	2,575	2,269	6,926
<b>Shipments</b>	2,546	2,192	6,766
<b>Backlog (R)</b>	2,106	2,077	

## MONTHLY RESULTS - MAY 2019

### KEY MONTHLY INDICATORS (PERCENT CHANGE)

	March 2019 From February 2019	March 2019 From March 2018	3 Months 2019 vs 3 Months 2018
New Orders	+16	-3	-
Shipments	+17	-1	+3
Backlog	-	+4	
Payrolls	+13	+3	+3
Employees	-	-1	
Receivables	-	+9	
Inventories	-1	+6	

### PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

#### New Orders Shipments Backlog Employment

#### 2018

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

#### 2019

January	+8	+14	+9	-2
February	-5	-3	+7	-2
March	-3	-1	+4	-1



## A DEEPER DIVE - NATIONAL

### Consumer Confidence

The Conference Board's *Consumer Confidence Index*® improved in May, following an increase in April. The Index now stands at 134.1 (1985=100), up from 129.2 in April. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased, from 169.0 to 175.2. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 102.7 last month to 106.6 this month.

"Consumer Confidence posted another gain in May and is now back to levels seen last Fall when the Index was hovering near 18-year highs," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The increase in the Present Situation Index was driven primarily by employment gains. Expectations regarding the short-term outlook for business conditions and employment improved, but consumers' sentiment regarding their income prospects was mixed. Consumers expect the economy to continue growing at a solid pace in the short-term, and despite weak retail sales in April, these high levels of confidence suggest no significant pullback in consumer spending in the months ahead."

Consumers' assessment of present-day conditions improved further in May. Those stating business conditions are "good" increased from 37.6% to 38.3%, while those saying business conditions are "bad" decreased from 11.3% to 10.2%. Consumers' assessment of the labor market was also more positive. The percentage of consumers stating jobs are "plentiful" increased from 46.5% to 47.2%, while those claiming jobs are "hard to get" declined from 13.3% to 10.9%.

Consumers expressed greater optimism about the short-term outlook in May. The percentage of consumers expecting business conditions will be better six months from now increased from 19.4% to 21.9%, while those expecting business conditions will worsen declined from 9.0% to 8.4%.

Consumers' outlook for the labor market was also more favorable. The proportion expecting more jobs in the months ahead increased from 16.7% to 19.2%, while those anticipating fewer jobs declined from 13.2% to 12.5%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement increased from 21.5% to 22.6%, however, the proportion expecting a decrease rose from 6.8% to 8.2%.

## A DEEPER DIVE – HOUSING

### Existing-Home Sales

Existing-home sales saw a minor decline in April, continuing March's drop in sales, according to the National Association of Realtors® (NAR). Two of the four major U.S. regions saw a slight dip in sales, while the West saw growth and the Midwest essentially bore no changes last month. Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 0.4% from March to a seasonally adjusted annual rate of 5.19 million in April. Total sales are down 4.4% from a year ago (5.43 million in April 2018).

Single-family home sales were at a seasonally adjusted annual rate of 4.62 million in April, down from 4.67 million in March and down 4.0% from 4.81 million a year ago. The median existing single-family home price was \$269,300 in April, up 3.7% from April 2018. Existing condominium and co-op sales were at a seasonally adjusted annual rate of 570,000 units in April, up 5.6% from the prior month and down 8.1% from a year ago. The median existing condo price was \$251,000 in April, which was up 3.4% from a year ago.

Lawrence Yun, NAR's chief economist, said he is not overly concerned about the 0.4% dip in sales and expects moderate growth very soon. "First, we are seeing historically low mortgage rates combined with a pent-up demand to buy, so buyers will look to take advantage of these conditions," he said. "Also, job creation is improving, causing wage growth to align with home price growth, which helps affordability and will help spur more home sales."

### NATIONAL UPDATE

#### Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2% in April to 112.1 (2016=100), following a 0.3% increase in March, and a 0.2% increase in February.

"The U.S. LEI rose in April, the third consecutive increase, with a majority of the leading indicators making positive contributions," said Ataman Ozyildirim, Director of Economic Research at The Conference Board. "Stock prices, financial conditions, and consumers' outlook on the economy buoyed the U.S. LEI, although the manufacturing sector showed continuing weakness. The Conference Board expects economic growth to moderate toward 2% by year end. The current expansion will enter its 11<sup>th</sup> year in July, becoming the longest expansion in U.S. history."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1% in April to 105.7 (2016=100), following a 0.1% increase in March, and a 0.1% decline in February.

The Conference Board Lagging Economic Index® (LAG) for the U.S. declined 0.1% in April to 107.2 (2016=100), following a 0.2% increase in March and a 0.3% increase in February.

## A DEEPER DIVE – HOUSING, CONT.

The median existing-home price for all housing types in April was \$267,300, up 3.6% from April 2018 (\$257,900). April's price increase marks the 86<sup>th</sup> straight month of year-over-year gains.

Total housing inventory at the end of April increased to 1.83 million, up from 1.67 million existing homes available for sale in March and a 1.7% increase from 1.80 million a year ago. Unsold inventory is at a 4.2-month supply at the current sales pace, up from 3.8 months in March and up from 4.0 months in April 2018.

"We see that the inventory totals have steadily improved, and will provide more choices for those looking to buy a home," Yun said. He notes that sellers have to realize that price growth has moderated. "When placing their home on the market, home sellers need to be very realistic and aware of the current conditions."

Properties remained on the market for an average of 24 days in April, down from 36 days in March and down from 26 days a year ago. Fifty-three percent of homes sold in April were on the market for less than a month.

Yun says that college student debt continues to hinder millennial homebuyers. "Given the record high job openings in the construction sector, some may want to take a gap year to work there and save, and thereby lessen the student debt burden." Not too sure about this advice.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 4.14% in April from 4.27% in March. The average commitment rate across all of 2018 was 4.54%.

First-time buyers were responsible for 32% of sales in April, down from the 33% reported last month and one 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%.

## Regional

April existing-home sales numbers in the Northeast decreased 4.5% to an annual rate of 640,000, 4.5% below a year ago. The median price in the Northeast was \$277,700, up 0.9% from April 2018.

In the Midwest, existing-home sales saw relatively no percentage change from the month prior, as the annual rate remained 1.17 million, which was 7.9% below April 2018 levels. The median price in the Midwest was \$210,500, an increase of 5.5% from a year ago.

Existing-home sales in the South modestly dropped 0.4% to an annual rate of 2.27 million in April, down 1.7% from a year ago. The median price in the South was \$236,800, up 4.4% from a year ago.

Existing-home sales in the West grew 1.8% to an annual rate of 1.11 million in April, 5.9% below a year ago. The median price in the West was \$395,100, up 1.3% from April 2018.

## New Residential Sales

Sales of new single-family houses in April 2019 were at a seasonally adjusted annual rate of 673,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 6.9% below the revised March rate of 723,000, but was 7.0% above the April 2018 estimate of 629,000.

The median sales price of new houses sold in April 2019 was \$342,200. The average sales price was \$393,700.

The seasonally-adjusted estimate of new houses for sale at the end of April was 332,000. This represents a supply of 5.9 months at the current sales rate. New home sales were up compared to April 2018 3.6% in the Midwest, 5.1% in the South and 16.8% in the West while falling 12.1% in the Northeast.

## 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 April were at a seasonally adjusted annual rate of 1,235,000. This was 5.7% above the revised March estimate of 1,168,000, but was 2.5% below the April 2018 rate of 1,267,000. Single-family housing starts in April were at a rate of 854,000; this was 6.2% above the revised March figure of 804,000 and 4.3% below April 2018. The April rate for units in buildings with five units or more was 359,000.

Comparing April 2019 to April 2018, single-family starts were up 20.7% in the Northeast, 15.4% in the Midwest and 2.3% in the West. Starts were down 13.9% in the South.

Privately-owned housing completions in April were at a seasonally adjusted annual rate of 1,312,000. This was 1.4% below the revised March estimate of 1,331,000, but was 5.5% above the April 2018 rate of 1,244,000. Single-family housing completions in April were at a rate of 918,000; this was 4.1% below the revised March rate of 957,000.

## A DEEPER DIVE – OTHER NATIONAL

### Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for April 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$513.4 billion, a decrease of 0.2% from the previous month, but 3.1% above April 2018. Total sales for the February 2019 through April 2019 period were up 3.0% from the same period a year ago.

Retail trade sales were down 0.2% from March 2019, but 2.8% above last year. Nonstore retailers were up 9.0% from April 2018, while sporting goods, hobby, musical instrument, and bookstores were down 8.5% from last year.

Sales in April at furniture and home furnishings stores, on an adjusted basis, were down 3.0% from April 2018. Year to date, sales at these stores were down 1.4% from the same period a year ago.

### Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in April on a seasonally adjusted basis after rising 0.4% in March, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all items index increased 2.0% before seasonal adjustment.

The gasoline index continued to increase, rising 5.7% and accounting for over two-thirds of the seasonally adjusted all items monthly increase. The index for energy rose 2.9%, although the index for natural gas declined and the index for electricity was unchanged. The food index fell in April, its first monthly decline since June 2017.

The index for all items less food and energy increased 0.1% for the third consecutive month. The indexes for shelter, medical care, education, and new vehicles all rose in April. The indexes for used cars and trucks, apparel, and household furnishings and operations were among those that declined over the month.

The all items index increased 2.0% for the 12 months ending April, the largest 12-month increase since the period ending November 2018. The index for all items less food and energy rose 2.1% over the last 12 months, and the food index rose 1.8%. The energy index increased 1.7% over the past year after posting 12-month declines the past 4 months.

### Employment

Total nonfarm payroll employment increased by 263,000 in April, and the unemployment rate declined to 3.6%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in professional and business services, construction, health care, and social assistance.

The unemployment rate declined by 0.2 percentage point to 3.6% in April, the lowest rate since December 1969. Over the month, the number of unemployed persons decreased by 387,000 to 5.8 million.

In April, the number of persons unemployed less than 5 weeks declined by 222,000 to 1.9 million. The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.2 million in April and accounted for 21.1% of the unemployed.

### Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in April decreased \$5.4 billion or 2.1% to \$248.4 billion, according to the U.S. Census Bureau announcement. This decrease, down two of the last three months, followed a 1.7% March increase. Excluding transportation, new orders were virtually unchanged. Excluding defense, new orders decreased 2.5%. Transportation equipment, also down two of the last three months, drove the decrease, \$5.4 billion or 5.9%.

Shipments of manufactured durable goods in April, down three of the last four months, decreased \$4.0 billion or 1.6% to \$253.3 billion. This followed a 0.5% March decrease. Transportation equipment, down four consecutive months, led the decrease, \$3.7 billion or 4.1%.

According to this report, new orders for furniture and related products were up 2.2% in March versus March 2018 and up 2.5% year to date. Shipments in March were up 2.8% over March 2018 and up 3.4% year to date.