FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

August 2019

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HIGHLIGHTS - EXECUTIVE SUMMARY

New orders in June fell for the 5th consecutive month according to our latest survey of residential furniture manufacturers and distributors. New orders in June were 6% below June 2018 with 64% of the participants reporting lower order levels. June 2018 orders were up 5% over June 2017.

Year-to-date, new orders fell to 3% lower than same period in 2018 with 70% reporting lower orders year to date. The 2018 year to date orders were up 6% over year to date 2017.

Shipments in June 2019 were down 4% from June 2018. Year to date, shipments were about even with the same period last year. Last year, shipments through June were up 3%. For the year to date 2019, some 58% of the participants were reporting lower shipments. Backlogs in June were down 5% from last year, 3% lower than reported last month.

Receivable levels seemed to be back in line considering the above shipment levels with participants reporting receivable levels about even with last June and up 1% from May.

Factory and warehouse employee levels were down 3% from last year but payrolls year to date remained 2% above last year for the first six months.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index declined slightly in August with the Present Situation Index improving while the Expectations Index fell slightly. The Present Situation Index reached its highest level in 19 years. Consumers were favorable towards current business conditions and while still favorable towards future conditions, were not as favorable as last month. The report indicated that "While other parts of the economy may show some weakening, consumers have remained confident and willing to spend. However, if recent escalations in trade and tariff tensions persist, it could dampen consumers' optimism regarding the short-term economic outlook."

Housing

Existing-home sales improved in July after sales were down slightly last month. Sales were down in the Northeast, but up in all other regions. The report indicated that the supply of affordable housing is severely low, pushing prices up.

New residential sales in July were 12.8% below the June rate but were 4.3% ahead of July 2018. New sales were up substantially in the Northeast and up somewhat in the South and West but down in the Midwest when compared to last year. There was an estimated 6.4 month supply of new houses.

Housing starts in July were down 4% from June but were up 0.6% over July 2018. Single-family starts were up 1.3% over June and up 1.9% over June 2018. Starts were up in the South and West but down in the Northeast and Midwest.

Other

Advance estimates for U.S. retail and food services for July 2019 were up 0.7% from June and up 3.4% from July 2018. Sales at furniture and home furnishings stores in July were basically even with July 2018 and down 0.5% year to date (down from an 0.8% decline reported last month).

The Consumer Price Index increased 0.3% in July after a 0.1% increase in June. Over the last twelve months, the index increased 1.8%, up from 1.6% reported last month. The increase was primarily influenced by increases in gasoline and electricity increases.

Non-farm payroll employment rose by 164,000 in July while the unemployment rate remained at 3.7%. Gains were reported in professional and technical services, health care, social assistance and financial activities.

EXECUTIVE SUMMARY, CONT.

Thoughts

We hate to sound like we are repeating ourselves, but for the most part, most of the residential furniture business from the domestic manufacturers and distributors has been sluggish at best. While 2018 was a decent growth year that followed several years of increased business, five straight months of declining incoming business is a concern. Shipments were slower as well but only buoyed by eating into backlogs.

The Consumer Confidence report may say that "consumers have remained confident and willing to spend," but it doesn't appear that they are spending on furniture. We read the analysis from Home Furnishings Business that said married couples with children six years old and under spend more annually than any other segment according to their research. The problem with that is that the segment is the smallest of all the categories in terms of numbers of consumers.

Also wondering recently if I need a new phone and hearing what the price of the new phones are, it made me try to remember how long ago it was that they gave us phones for the monthly service fees. Think that along with many other gadgets might reduce the dollars available for new furniture?

In our talks with others in the industry, we continue to wonder, with all the normal factors that seem to help furniture sales, why business is not better? Maybe it really is that consumers are spending, but instead are choosing the gadgets and other tech items that seem more exciting and provide instant gratification. These purchases also do not require any remodeling or painting, etc. that sometimes accompany furniture purchases.

Happy Labor Day!

HIGHLIGHTS - MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in June 2019 were 6% below orders in June 2018. This marked the fifth month in a row that orders fell below the same month from a year ago. Some 64% of the participants reported lower orders versus the prior year. Last year, June 2018 new orders were 5% ahead of June 2017.

June's 6% decline followed a 3% decline in May and a 9% decline in April. Year to date new orders through June were 3% below 2018 year to date. Year to date, new orders were down for some 70% of the participants. Last year, through June, orders were up 6% over the previous year.

Shipments and Backlogs

Shipments in June were 4% lower than June 2018, with some 67% of the participants reporting lower shipments. Year to date shipments through June were about even with year to date shipments through June 2018. Last year, through June, shipments were up 3%. Even though the year to date shipments were about even, still some 58% reported lower shipments compared to the previous year.

With orders in dollars below shipments in June, backlogs fell once again. Through June, backlogs were down 5% compared to June 2018, down from a 2% decline reported last month.

Receivables and Inventories

Receivable levels in June were even with June 2018, in line with shipments. Receivable levels were up 1% over May 2019, also in line with the 2% increase in shipments from May to June. It was good to see these levels back in line after some major swings in the last few months.

Inventory levels on the other hand are a bit of a concern. Inventories were up in June some 9% over June 2018. Inventories were down 3% from May so it appears these levels are being worked down, but with orders off 3% and shipments flat, we should see inventory levels declining further in the next few months.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in June fell 1% from May and was 3% lower than June 2018. May to May comparisons showed a 2% decline. These lower levels appear to be in line with the current business conditions.

On the other hand, payrolls were flat compared to June 2018 and remained up 2% year to date. As we have noted, many of the companies have had to give raises or pay more for experienced hires due to the shortage of workers in some areas.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2019		
	JUN	MAY	6 MONTHS
New Orders	2,384	2,473	14,056
Shipments	2,550	2,357	14,152
Backlog (R)	2,044	2,232	

	2018		
	JUN	MAY	6 MONTHS
New Orders	2,537	2,540	14,512
Shipments	2,656	2,420	14,182
Backlog (R)	2,143	2,262	

MONTHLY RESULTS - AUGUST 2019

KEY MONTHLY INDICATORS (PERCENT CHANGE)	June 2019 From May 2019	June 2019 From June 2018	6 Months 2019 vs 6 Months 2018
New Orders	-3	-6	-3
Shipments	+2	-4	–
Backlog	-2	-5	
Payrolls	+3	–	+2
Employees	-1	-3	
Receivables	+1	–	
Inventories	-3	+9	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2018				
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
April	-9	-2	–	-2
May	-3	-3	-2	-2
June	-6	-4	-5	-3

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index*® declined marginally in August, following July's rebound. The Index now stands at 135.1 (1985=100), down from 135.8 in July. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased from 170.9 to 177.2. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – declined from 112.4 last month to 107.0 this month.

"Consumer confidence was relatively unchanged in August, following July's increase," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions improved further, and the Present Situation Index is now at its highest level in nearly 19 years. Expectations cooled moderately, but overall remain strong. While other parts of the economy may show some weakening, consumers have remained confident and willing to spend. However, if the recent escalation in trade and tariff tensions persists, it could potentially dampen consumers' optimism regarding the short-term economic outlook."

Consumers' assessment of current-day conditions improved in August. The percentage of consumers claiming business conditions are "good" increased from 39.9% to 42.0%, while those saying business conditions are "bad" decreased from 11.2% to 9.8%. Consumers' appraisal of the job market was also more favorable. Those saying jobs are "plentiful" increased from 45.6% to 51.2%, while those claiming jobs are "hard to get" declined from 12.5% to 11.8%.

Consumers were moderately less optimistic about the short-term outlook in August. The percentage of consumers expecting business conditions will be better six months from now decreased from 24.0% to 21.9%, while those expecting business conditions will worsen increased from 8.4% to 10.0%.

Consumers' outlook for the labor market was also slightly less positive. The proportion expecting more jobs in the months ahead decreased marginally from 19.9% to 19.7%, while those anticipating fewer jobs increased from 11.1% to 13.6%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement decreased from 24.9% to 23.8%, however, the proportion expecting a decrease declined, from 6.6% to 5.8%.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.0% in the second quarter of 2019, according to the "second" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 3.1%.

The GDP estimate released today is based on more complete source data than were available for the "advance" estimate issued last month. In the advance estimate, the increase in real GDP was 2.1%. The revision primarily reflected downward revisions to state and local government spending, exports, private inventory investment, and residential investment that were partly offset by an upward revision to personal consumption expenditures (PCE). Imports which are a subtraction in the calculation of GDP, were unrevised.

The deceleration in real GDP in the second quarter primarily reflected downturns in inventory investment, exports, and nonresidential fixed investment. These downturns were partly offset by accelerations in PCE and federal government spending.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.5% in July to 112.2 (2016=100), following a 0.1% decline in June, and a 0.1% decline in May.

"The U.S. LEI increased in July, following back-to-back modest declines. Housing permits, unemployment insurance claims, stock prices and the Leading Credit Index were the major drivers of the improvement," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "However, the manufacturing sector continues exhibiting signs of weakness and the yield spread was negative for a second consecutive month. While the LEI suggests the US economy will continue to expand in the second half of 2019, it is likely to do so at a moderate pace."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in July to 106.2 (2016=100), following a 0.2% increase in June, and a 0.1% increase in May.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.6% in July to 108.5 (2016=100), following a 0.5% increase in June, and a 0.1% decline in May.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales strengthened in July, a positive reversal after total sales were down slightly in the previous month, according to the National Association of Realtors® (NAR). Although Northeast transactions declined, the other three major U.S. regions recorded sales increases, including significant growth in the West last month.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 2.5% from June to a seasonally adjusted annual rate of 5.42 million in July. Overall sales were up 0.6% from a year ago.

Single-family home sales sat at a seasonally adjusted annual rate of 4.84 million in July, up from 4.71 million in June and up 1.0% from a year ago. The median existing single-family home price was $284,000 in July 2019, up 4.5% from July 2018.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 580,000 units in July, about equal to the rate from the prior month and down 3.3% from a year ago. The median existing condo price was $254,300 in July, which was up 2.5% from a year ago.

"Falling mortgage rates are improving housing affordability and nudging buyers into the market," said Lawrence Yun, NAR's chief economist. However, he added that the supply of affordable housing is severely low. "The shortage of lower-priced homes have markedly pushed up home prices."

Home price appreciation has been much stronger in the lower-price tier compared to homes sold in the upper-price tier, based on the analysis of proprietary deed records data from Black Knight, Inc. and Realtors Property Resource®.

Of the same homes that were sold in 2018 that were purchased in 2012 in 13 large metro areas (repeat sales transactions), the lower half of the market had increased by more than 100% in 2018 in metro areas like Atlanta-Sandy-Springs-Roswell, Ga. (165%), Denver-Aurora-Lakewood, Colo. (103%), Miami-Fort-Lauderdale, Fla. (119%) and Tampa-St. Petersburg-Clearwater, Fla. (125%). The median home price for homes purchased in the upper half of the market in these same metro areas in 2012 increased at a much slower pace when sold in 2018.

"Clearly, the inventory of moderately-priced homes is inadequate and more home building is needed," said Yun. "Some new apartments could be converted into condominiums thereby helping with the supply, especially in light of new federal rules permitting a wider use of Federal Housing Administration (FHA) mortgages to buy condo properties."

The median existing-home price for all housing types in July was $280,800, up 4.3% from July 2018 ($269,300). July's price increase marks the 89th straight month of year-over-year gains.

Total housing inventory at the end of July decreased to 1.89 million, down from 1.92 million existing-homes available for sale in June, and a 1.6% decrease from 1.92 million one year ago. Unsold inventory is at a 4.2-month supply at the current sales pace, down from the 4.4 month-supply recorded in June and down from the 4.3-month supply recorded in July of 2018.

Properties typically remained on the market for 29 days in July, up from 27 days in June and up from 27 days in July of 2018. Fifty-one percent of homes sold in July were on the market for less than a month.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 3.77% in July, down from 3.80% in June. The average commitment rate across all of 2018 was 4.54%.

First-time buyers were responsible for 32% of sales in July, down from 35% the month prior and about equal to the 32% recorded in July 2018. 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

July existing-home sales in the Northeast decreased 2.9% to an annual rate of 660,000, a 4.3% decline from a year ago. The median price in the Northeast was $305,800, down 1.0% from July 2018.

In the Midwest, existing-home sales edged up 1.6% to an annual rate of 1.27 million, which was a 0.8% increase from July 2018. The median price in the Midwest was $226,300, an 8.1% surge from a year ago.

Existing-home sales in the South increased 1.8% to an annual rate of 2.31 million in July, up 2.7% from a year ago. The median price in the South was $245,100, up 5.2% from one year ago.

Existing-home sales in the West shot up 8.3% to an annual rate of 1.18 million in July, just 0.8% below a year ago. The median price in the West was $408,000, up 3.7% from July 2018.

A DEEPER DIVE – HOUSING, CONT.

New Residential Sales

Sales of new single-family houses in July 2019 were at a seasonally adjusted annual rate of 635,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 12.8% below the revised June rate of 728,000, but was 4.3% above the July 2018 estimate of 609,000.

The median sales price of new houses sold in July 2019 was $312,800. The average sales price was $388,000.

The seasonally-adjusted estimate of new houses for sale at the end of July was 337,000. This represents a supply of 6.4 months at the current sales rate. Regionally comparing July 2019 to July 2018, sales were up 56% in the Northeast, 3.2% in the South and 8.4% in the West. Sales were down 18.8% from last year in the Midwest.

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 July were at a seasonally adjusted annual rate of 1,191,000. This was 4.0% below the revised June estimate of 1,241,000, but was 0.6% above the July 2018 rate of 1,184,000. Single-family housing starts in July were at a rate of 876,000; this was 1.3% above the revised June figure of 865,000. The July rate for units in buildings with five units or more was 303,000.

Single-family starts, comparing July 2019 to July 2018, were up 1.9% but regionally were mixed. Starts were up 1.3% in the South and 12.9% in the West while starts were down 10.6% in the Northeast and down 6.7% in the Midwest.

Privately-owned housing completions in July were at a seasonally adjusted annual rate of 1,250,000. This was 7.2% above the revised June estimate of 1,166,000 and was 6.3% above the July 2018 rate of 1,176,000. Single-family housing completions in July were at a rate of 918,000; this was 4.3% above the revised June rate of 880,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates from the U.S. Census Bureau of retail and food services sales for July 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $523.5 billion, an increase of 0.7% from the previous month, and 3.4% above July 2018. Total sales for the May 2019 through July 2019 period were up 3.3% from the same period a year ago.

Retail trade sales were up 0.6% from June 2019, and 3.4% above last year. Nonstore retailers were up 16.0% from July 2018, miscellaneous stores were up 6.0% from last year. Sales at furniture and home furnishings stores in July were basically even with July 2018 sales. Year to date, sales at these stores were down 0.5%, down from a drop of 0.8% reported through June.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in July on a seasonally adjusted basis after rising 0.1% in June, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.8% before seasonal adjustment.

Increases in the indexes for gasoline and shelter were the major factors in the seasonally adjusted all items monthly increase. The energy index rose in July as the gasoline and electricity indexes increased, though the natural gas index declined. The index for food was unchanged for the second month in a row, as a decline in the food at home index was offset by an increase in the food away from home index.

The index for all items less food and energy rose 0.3% in July, the same increase as in June. The July rise was broad-based, with increases in the indexes for shelter, medical care, airline fares, household furnishings and operations, apparel, and personal care all contributing to the increase. The index for new vehicles was one of the few to decline in July.

The all items index increased 1.8% for the 12 months ending July, a larger increase than the 1.6% rise for the period ending June. The index for all items less food and energy rose 2.2% over the last 12 months, slightly more than the 2.1% increase for the period ending June. The food index rose 1.8% over the last year while the energy index declined 2.0%.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Employment

Total nonfarm payroll employment rose by 164,000 in July, and the unemployment rate was little unchanged at 3.7%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in professional and technical services, health care, social assistance, and financial activities.

The unemployment rate held at 3.7% in July, and the number of unemployed persons was little changed at 6.1 million. In July, the number of persons unemployed less than 5 weeks increased by 240,000 to 2.2 million, while the number of long-term unemployed (those jobless for 27 weeks or more) declined by 248,000 to 1.2 million. The long-term unemployed accounted for 19.2% of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in July increased $5.0 billion or 2.1% to $250.4 billion, according to the U.S. Census Bureau advance report. This increase, up two consecutive months, followed a 1.8% June increase. Excluding transportation, new orders decreased 0.4%. Excluding defense, new orders increased 1.4%. Transportation equipment, also up two consecutive months, drove the increase, $5.7 billion or 7.0% to $86.3 billion.

Shipments of manufactured durable goods in July, down following two consecutive monthly increases, decreased $2.9 billion or 1.1% to $254.0 billion. This followed a 1.0% June increase. Transportation equipment, also down following two consecutive monthly increases, led the decrease, $1.8 billion or 2.1% to $86.4 billion.

According to the final report for furniture and related products, new orders for June 2019 versus June 2018 were up 2.4% with shipments up 5.2%. Year to date, orders were up 3.2% with shipments up 3.9%.