FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

October 2019

HIGHLIGHTS - EXECUTIVE SUMMARY

The nice pick up in orders in July did not continue into August as new orders fell 3% compared to August 2018, according to our latest survey of residential furniture manufacturers and distributors. Some 67% of the participants reported a decline in orders. The August results left year to date orders down 2% from last year with 73% reporting lower orders year to date. We would note that August 2018 orders were up 9% over August 2017 and year to date orders in 2018 were up 6% over 2017.

Ken Smith, CPA

Shipments in August were down 6% compared to August 2018. The 13% increase over July was normal due to the July vacation week causing shipments to be lower in July. The decrease in August was felt by most as 70% of the participants reported a decline in shipments. The August decline pushed year to date shipments into a decline of 1% compared to the same period a year ago. Shipments year to date were down for 64% of the participants. Year to date last year shipments were up 3% over 2017.

Backlogs in August remained at about the same levels as July but were up 3% over August 2018. In July, backlogs were up 1% over July 2018.

Receivable levels got back in line, declining 1% from August 2018, in line with the year to date decline in shipments of 1% and only rising 3% from July in spite of the 13% increase in shipments from July.

Inventory levels increased again, rising 5% from July and 14% over August 2018. Clearly, inventory levels are a concern for now and will need to be watched closely as most of what we have heard recently, orders have not picked up significantly in September and October. Factory and warehouse payrolls and employment remained in pretty good shape with year to date payrolls only up 1%. The number of factory and warehouse employees was 4% lower than August 2018.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index decreased very slightly in October. The Present Situation Index actually increased but the Expectations Index declined. Consumers saying business conditions were good increased and those saying business conditions were bad decreased. The assessment of the job market was mixed.

Consumers were less optimistic about the short-term outlook as those expecting business conditions to improve over the next six months declined. The outlook for the labor market also declined slightly though the outlook for short-term income prospects improved.

The report noted that "However, confidence levels remain high and there are no indications that consumers will curtail their holiday spending."

Housing

Existing-home sales in September fell 2.2% from August after two months of increases. Despite the decrease from August, sales were still up 3.9% from September 2018. While each of the four regions reported a decline from August, all regions except the Midwest were up quite nicely from a year ago (the Midwest was about even versus September 2018).

Sales of new single-family houses were down from August but were 15.5% ahead of September 2018. Compared to September 2018, sales of new single-family houses were up very nicely in all regions except the Midwest where they were down 17.3%.

Housing starts were also off in September compared to August but remained 1.6% ahead of September 2018. Starts were up in the Northeast and South but fell in the Midwest and West compared to September 2018.

Other

Advance estimates for U.S. retail and food services sales in September indicated a slight decrease from August but a 4.1% increase over September 2018. Sales were up 3.4% year to date. Sales at furniture and home furnishings stores were up 1.1% from September a year ago but remained slightly in the negative year to date, off 0.2%.

The Consumer Price Index for all Urban Consumers in September was basically unchanged after an increase of 0.1% in August. Over the last 12 months, the all items index increased 1.7%. For the 12 months, the all items less food and energy rose 2.4%. The food index increased 1.8% over last year while the energy index decreased 4.8%.

Non-farm payroll employment in September rose by 136,000. The unemployment rate dropped 2 points to 3.5% in September, the lowest rate since December 1969. Employment in health care and in professional and business services continued to trend up.

Gross Domestic Product increased at an annual rate of 1.9% in the third quarter, according to the advance estimate released by the Bureau of Economic Analysis. The increase reflected positive contributions from personal consumption expenditures, federal government spending, residential fixed investment, state and local government spending and exports.

EXECUTIVE SUMMARY, CONT.

Thoughts

With overall business in the industry seeming a bit slow and continued use of the term we called "choppy", we did not expect too much at the High Point Market. We have always said the "Mood" of market is usually good due to seeing old friends and great product shown the way it is supposed to be shown. Really, what is there not to be in a good mood about.

Yet, we heard not only good moods at market, but also a feeling of good business either being written (we know not as much is "written" anymore) or strong commitments. We know all of that can change when people got back home, but we were surprised by the positive comments we got really all the way to Wednesday morning.

Weather for the most part was good (maybe a little chilly in the early hours and a touch of needed rain). While some thought traffic was off, others thought traffic was good to up. We felt that overall it was either up or maybe flat for most. Anyone who did not come, missed a great opportunity to see some really nice product, with lots of color and just a feel-good market.

We asked most of the people we talked with the question of, if the overall economy is, for the most part good, why is the furniture business not better than it is? For the most part, the people tended to agree with our philosophy that it relates to bad news by the media.

Consumer confidence remains high in spite of the negative news. We still think that more positive results from housing will help the furniture business. The worries about a recession continue to be out there. Our theory for now is as follows. Most say that it takes four to six months for the economy to realize we are in a recession. So maybe the furniture industry is in a recession and by the time we figure it out, the recession will be over. Let's hope that theory is right, though that is just what it is – our positive hope.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

After finally having good results for new orders in July, the results of our recent survey of residential furniture manufacturers and distributors was disappointing. New orders were 3% below August 2018 making orders down six of the last seven months. New orders were down for some 67% of the participants for the month.

Year to date, new orders remained down 2% from the same period a year ago. Some 73% of the participants reported lower orders for 2019 year to date versus a year ago.

We should note that August 2018 orders were up 9% over August and year to date through August 2018, orders were up 6%.

Shipments and Backlogs

Shipments were off 6% in August compared to August 2018. The increase of 13% from July likely relates to the vacation shut down in July for most participants. Shipments were down for 70% of the participants in August.

Year to date, shipments were only off 1% from the same period a year ago. Some 64% of the participants reported a decline in shipments.

With shipments and orders relatively the same, backlogs were pretty much flat compared to July. Backlogs were 3% higher than August a year ago.

Receivables and Inventories

Receivable levels were up 3% from July, but with the increased shipments compared to July, this result seemed very much in line. The 1% decline from last August was in line with year to date shipments, so after some concern noted last month, it appears receivables are back in line.

Inventories are a different matter. Hopefully due to timing, but inventories increased 5% over July and were 14% over August 2018. We will definitely have to keep an eye on inventories as current business does not warrant such an increase.

Factory and Warehouse Employees and Payroll

It appears that adjustments were made in these areas. The number of factory and warehouse employees fell 1% from July and were 4% lower than last year. In July to July 2018 comparison, the number of employees was flat.

Payrolls increased over July, again normal due to fewer work weeks in July. Year to date, payrolls were up 1% over last year down from a 2% increase reported last month.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2019		
	AUG	JUL	8 MONTHS
New Orders	2,372	2,356	18,784
Shipments	2,354	2,249	18,755
Backlog (R)	2,180	2,177	

	2018		
	AUG	JUL	8 MONTHS
New Orders	2,446	2,223	19,181
Shipments	2,495	2,227	18,904
Backlog (R)	2,110	2,159	

MONTHLY RESULTS - OCTOBER 2019

KEY MONTHLY INDICATORS (PERCENT CHANGE)	August 2019 From July 2019	August 2019 From August 2018	8 Months 2019 vs 8 Months 2018
New Orders	+1	-3	-2
Shipments	+13	-6	-1
Backlog	–	+3	
Payrolls	+15	-3	+1
Employees	-1	-4	
Receivables	+3	-1	
Inventories	+5	+14	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2018				
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
July	+6	+1	+1	–
August	-3	-6	+3	-4

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* decreased marginally in October, following a decline in September. The Index now stands at 125.9 (1985=100), down from 126.3 in September. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased from 170.6 to 172.3. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – declined from 96.8 last month to 94.9 this month.

"Consumer confidence was relatively flat in October, following a decrease in September," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index improved, but Expectations weakened slightly as consumers expressed some concerns about business conditions and job prospects. However, confidence levels remain high and there are no indications that consumers will curtail their holiday spending."

Consumers' assessment of current conditions improved somewhat in October. Those claiming business conditions are "good" increased from 37.4% to 39.2%, while those saying business conditions are "bad" decreased from 12.2% to 11.2%. Consumers' assessment of the job market was mixed. Those saying jobs are "plentiful" increased from 44.5% to 46.9%, while those claiming jobs are "hard to get" increased slightly from 11.0% to 11.8%.

Consumers were less optimistic about the short-term outlook in October. The percentage of consumers expecting business conditions will improve over the next six months decreased from 20.0% to 18.6%, while those expecting business conditions will worsen decreased from 13.3% to 11.6%.

Consumers' outlook for the labor market was also less upbeat. The proportion expecting more jobs in the months ahead decreased from 17.6% to 16.9%, while those anticipating fewer jobs increased from 15.4% to 17.8%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement increased from 19.7% to 21.1%, while the proportion expecting a decrease held steady at 6.5%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.1% in September to 111.9 (2016=100), following a 0.2% decline in August, and a 0.4% increase in July.

"The U.S. LEI declined in September because of weaknesses in the manufacturing sector and the interest rate spread which were only partially offset by rising stock prices and a positive contribution from the Leading Credit Index," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The LEI reflects uncertainty in the outlook and falling business expectations, brought on by the downturn in the industrial sector and trade disputes. Looking ahead, the LEI is consistent with an economy that is still growing, albeit more slowly, through the end of the year and into 2020."

The Conference Board Coincident Economic Index® (CEI) for the U.S. was unchanged in September, remaining at 106.4 (2016=100), following a 0.3% increase in August, and no change in July.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1% in September to 108.3 (2016=100), following a 0.4% decline in August, and a 0.7% increase in July.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales receded in September following two consecutive months of increases, according to the National Association of Realtors® (NAR). Each of the four major regions witnessed sales drop off last month, with the Midwest absorbing the brunt of those declines.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 2.2% from August to a seasonally adjusted annual rate of 5.38 million in September. Despite the decline, overall sales were up 3.9% from a year ago (5.18 million in September 2018).

Single-family home sales sat at a seasonally adjusted annual rate of 4.78 million in September, down from 4.91 million in August, but up 3.9% from a year ago. The median existing single-family home price was $275,100 in September 2019, up 6.1% from September 2018.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 600,000 units in September, 1.7% above the previous month and 3.4% higher than a year ago. The median existing condo price was $248,600 in September, which was an increase of 4.5% from a year ago.

Lawrence Yun, NAR's chief economist, said that despite historically low mortgage rates, sales have not commensurately increased, in part due to a low level of new housing options. "We must continue to beat the drum for more inventory," said Yun, who has called for additional home construction for over a year. "Home prices are rising too rapidly because of the housing shortage, and this lack of inventory is preventing home sales growth potential."

A DEEPER DIVE – HOUSING, CONT.

The median existing-home price for all housing types in September was $272,100, up 5.9% from September 2018 ($256,900), as prices rose in all regions. September's price increase marks 91 straight months of year-over-year gains.

Total housing inventory at the end of September sat at 1.83 million, approximately equal to the amount of existing-homes available for sale in August, but a 2.7% decrease from 1.88 million one year ago. Unsold inventory is at a 4.1-month supply at the current sales pace, up from 4.0 months in August and down from the 4.4-month figure recorded in September 2018.

Properties typically remained on the market for 32 days in September, up from 31 days in August and even with September 2018. Forty-nine percent of homes sold in September 2019 were on the market for less than a month.

First-time buyers were responsible for 33% of sales in September, up from 31% in August and 32% recorded in September 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%.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 3.61% in September, down from 3.62% in August. The average commitment rate across all of 2018 was 4.54%.

Regional

As noted, existing-home sales in September dropped in every region compared to the month prior. Compared to last year, September sales increased in three of the four major regions, while neither growing nor declining in the Midwest. Median home prices in every region increased from one year ago.

September existing-home sales in the Northeast fell 2.8% to an annual rate of 690,000, a 1.5% rise from a year ago. The median price in the Northeast was $301,100, up 5.2% from September 2018.

In the Midwest, existing-home sales dropped 3.1% to an annual rate of 1.27 million, which was nearly equal to August 2018. The median price in the Midwest was $213,500, a 7.2% jump from a year ago.

Existing-home sales in the South decreased 2.1% to an annual rate of 2.28 million in September, up 6.0% from a year ago. The median price in the South was $237,300, up 6.3% from one year ago.

Existing-home sales in the West declined 0.9% to an annual rate of 1.14 million in September, 5.6% above a year ago. The median price in the West was $403,600, up 4.5% from September 2018.

New Residential Sales

Sales of new single-family houses in September 2019 were at a seasonally adjusted annual rate of 701,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 0.7% below the revised August rate of 706,000, but was 15.5% above the September 2018 estimate of 607,000. The median sales price of new houses sold in September 2019 was $299,400. The average sales price was $362,700. The seasonally-adjusted estimate of new houses for sale at the end of September was 321,000. This represents a supply of 5.5 months at the current sales rate.

Regionally compared to September 2018, sales of new single-family houses were up 29.6% in the Northeast, 24.0% in the South and 11.5% in the West, but were down 17.3% 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 September were at a seasonally adjusted annual rate of 1,256,000. This was 9.4% below the revised August estimate of 1,386,000, but was 1.6% above the September 2018 rate of 1,236,000. Single-family housing starts in September were at a rate of 918,000; this was 0.3% above the revised August figure of 915,000. Compared to September 2018, single-family starts were up 4.3%. Regionally compared to last year, starts were up 3.4% in the Northeast and 17.4% in the South, but were down 5.4% in the Midwest and 14.3% in the West.

Privately-owned housing completions in September were at a seasonally adjusted annual rate of 1,139,000. This was 9.7% below the revised August estimate of 1,262,000 and was 1.0% below the September 2018 rate of 1,150,000. Single-family housing completions in September were at a rate of 852,000; this was 8.6% below the revised August rate of 932,000. Compared to September 2018, completions were up 1.8%.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for September 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $525.6 billion, a decrease of 0.3% from the previous month, but 4.1% above September 2018. Total sales for the July 2019 through September 2019 period were up 4.0% from the same period a year ago. The July 2019 to August 2019 percent change was revised from up 0.4% to up 0.6%.

Retail trade sales were down 0.3% from August 2019, but 4.0% above last year. Nonstore retailers were up 12.9% from September 2018, and miscellaneous stores were up 9.3% from last year. Sales at furniture and home furnishings stores were up 1.1% over last year in September and up 0.6% from August. Year to date, sales at these stores were down 0.2% for the nine months.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in September on a seasonally adjusted basis after rising 0.1% in August, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.7% before seasonal adjustment.

Increases in the indexes for shelter and food were offset by declines in the indexes for energy and used cars and trucks to result in the seasonally adjusted all items index being flat. The energy index fell 1.4% as the gasoline index declined 2.4%. The food index increased 0.1% in September after being unchanged in each of the prior 3 months.

The index for all items less food and energy rose 0.1% in September after increasing 0.3% in each of the last 3 months. Along with the shelter index, the indexes for medical care, household furnishings and operations, and motor vehicle insurance all rose in September. The indexes for used cars and trucks, apparel, new vehicles, and communications all declined.

The all items index increased 1.7% for the 12 months ending September, the same increase as for the 12-months ending August. The index for all items less food and energy rose 2.4% over the last 12 months, also the same increase as the period ending August. The food index increased 1.8% over the last year, while the energy index decreased 4.8%.

Employment

The unemployment rate declined to 3.5% in September, and total nonfarm payroll employment rose by 136,000, as reported by the U.S. Bureau of Labor Statistics. Employment in health care and in professional and business services continued to trend up.

In September, the unemployment rate declined by 0.2 percentage point to 3.5%. The last time the rate was this low was in December 1969, when it also was 3.5%. Over the month, the number of unemployed persons decreased by 275,000 to 5.8 million.

In September, the number of persons unemployed for less than 5 weeks fell by 339,000 to 1.9 million. The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.3 million and accounted for 22.7% of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in September decreased $2.8 billion or 1.1% to $248.2 billion, according to the U.S. Census Bureau announcement. This decrease, down following three consecutive monthly increases, followed a 0.3% August increase. Excluding transportation, new orders decreased 0.3%. Excluding defense, new orders decreased 1.2%. Transportation equipment, also down following three consecutive monthly increases, led the decrease at 2.7%.

Shipments of manufactured durable goods in September, down three consecutive months, decreased $1.0 billion or 0.4% to $252.5 billion. This followed a 0.1% August decrease. Transportation equipment, also down three consecutive months, drove the decrease at 1.2%.

According to the full report, orders for furniture and related products in August 2019 were up 2.5% over August 2018 and shipments were up 1.8%. Year to date through August, orders were up 3.6% and shipments increased 3.9%. We assume furniture other than residential and "other related products" were selling at a better pace than residential.