FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

March 2018

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HIGHLIGHTS - EXECUTIVE SUMMARY

New orders in January 2018 increased 2% over orders in January 2017, according to our latest survey of residential furniture manufacturers and distributors. These results followed a 9% decline in orders reported last month in the December 2017 to December 2016 comparison. (The December 2016 to December 2015 comparison showed an 11% increase so the 9% decline was not as bad as it may have seemed.) Orders were flat comparing January 2017 to January 2016. Some 55% of the participants reported increased orders in the January 2018 results.

Shipments in January 2018 were basically even with January 2017. The split between participants reporting increases or decreases was about even. With the dollar amount of orders exceeding the dollars shipped, backlogs increased 1% but were down 1% from January 2017.

Receivable levels were in line compared to January 2017, but did not decline as much as shipments when comparing to December. We believe that comparison is probably a timing issue. We will see how that issue plays out next month.

Inventories were 8% higher than last January and up 5% from December. Inventory levels appeared in line through November but have remained a bit high as orders and shipments fell off. We will need to watch those levels over the next few months until we see when business will pick back up.

The number of factory and warehouse employees remained flat compared to both January 2017 and December 2017. Factory and warehouse payrolls fell 8% from December but we believe that was probably due to the fact that December likely included vacation and holiday pay.

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EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index decreased slightly in March. The Index dropped to 127.7 from 130.0 in February. The Present Situation Index decreased from 161.2 to 159.9 while the Expectations Index declined from 109.2 in February to 106.2 in March.

The report did indicate that overall expectations remain quite favorable and suggested further strong growth in the months ahead.

On the other hand, the University of Michigan Surveys of Consumers report said that consumer sentiment rose in early March to its highest level since 2004, up to 102.0 from 99.7 in February. This was led by large increases in current conditions to 122.8 from 114.9 while the Index of Consumer Expectations fell slightly from 90.0 to 88.6.

The Expectations Index fell primarily due to top third income households concerns over lower income expectations and inflation concerns. This data suggested that a "relative lull in consumption in the 1st quarter may persist for another quarter."

Housing

After two months of declines, existing-home sales increased in February, in spite of low inventories and higher prices. There were nice gains in the South and West that offset losses in the Midwest and Northeast. Sales grew 3.0% for the month over January and were 1.1% higher than a year ago.

New single-family home sales fell slightly from January but were 0.5% ahead of last February. Sales were up in the Northeast, South and West but fell in the Midwest.

Housing starts fell in February 7.0% from January and were 4.0% below February 2017. Starts were up in the South and West but declined in the Northeast and Midwest, likely affected somewhat by weather.

Other

The Conference Board's Leading Economic Index increased 0.6% in February after increasing 0.8% in January and 0.7% in December. The report stated "the LEI points to robust economic growth throughout 2018."

The advance reports on retail and food services sales indicated a slight decline in February from January, but sales were up 4.0% from February 2017. Sales at furniture and home furnishings stores were up 3.3% over February 2017. Sales were up 4.9% for the first two months of the year compared to the same period a year ago.

The Consumer Price Index for all Urban Consumers (CPI-U) increased 0.2% in February after rising 0.5% in January. Over the last 12 months, the all items index rose 2.2%. Once again, much of the increase was attributed to the volatile energy index.

Non-farm employment increased by 313,000 in February, the unemployment rate remained at 4.1%.

EXECUTIVE SUMMARY, CONT.

Thoughts

The results for January orders and shipments were a bit more stable, but during the winter months, we continue to see weather playing a role in both manufacturer and distribution orders as well as retail. Many retailers in the winter months have had shopping days reduced by the weather.

Consumer confidence remains high though at a conference this week on the economic outlook for the U.S., it was noted that the high confidence levels has not resulted necessarily in higher consumer spending – as we have seen in furniture sales.

Even with the high consumer confidence, the University of Michigan report cautioned that the "relative lull in consumption" may continue into the second quarter.

The results we are hearing continue to be mixed and we are sure that the unstable stock markets are not helping matters especially at the upper end.

Hopefully spring is finally about to get here as we think most people are more than ready for it. We hope that we can get a couple of good weeks in before the April Market so that people will feel better about what their needs may be when they get here.

Safe travels to High Point. We hope you all will come.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

New orders in January 2018 were 2% higher than orders in January 2017 and just slightly ahead of orders in December 2017, according to the results of our latest survey of residential furniture manufacturers and distributors. This increase followed a somewhat disappointing decline in orders in the December to December comparison of a decline of 9%. Considering the December 2016 orders were up 11% over December 2015, the decline was not all bad but still represented negative results. January 2017 orders were flat compared to January 2016.

New orders in January were up for approximately 55% of our participants. This followed December results of some 63% of the participants reporting declines in orders.

Shipments and Backlogs

Shipments in January were basically even with January 2017 shipments. December 2017 shipments were down 7% from December 2016. The split between participants reporting increases and decreases in shipments was about the same with almost half the participants reporting increases and half reporting a decline in shipments.

Backlogs were up 1% in January over December as the dollar amount of orders was slightly higher than December. Backlogs were down 1% from January 2017. In December, backlogs were down 4% from December 2016.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2018	2017
	JAN	DEC
New Orders	2,082	2,072
Shipments	2,033	2,327
Backlog (R)	1,998	1,965

	2017	2016
	JAN	DEC
New Orders	2,035	2,278
Shipments	2,043	2,516
Backlog (R)	2,028	2,039

Receivables and Inventories

Receivable levels were up 1% in January over January 2017. This was in line with the shipments being about equal. Receivables only fell 2% from December in spite of the 13% decline in shipments from December, but we imagine that was a timing issue that will probably come back next month.

Inventories increased 5% from December and were 8% higher than January 2017 levels. In December 2017, inventories were 6% higher than December 2016. As we noted before, business had been somewhat moving along at about a 5% increase in orders and shipments until the drop in December, so we imagine it may take a bit of time for those levels to even out with new orders and shipments.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in January 2018 was flat compared to December 2017 levels. The number was also even with January 2017. Both of these comparisons were the same as reported last month.

Factory and warehouse payrolls were down 1% from January 2017 and down 8% from December 2017. That decline was likely due to vacation and holiday pay paid in December so overall the factory and warehouse comparisons seem in line.

MONTHLY RESULTS, CON'T.

KEY MONTHLY INDICATORS (PERCENT CHANGE)	Jan 2018 From Dec 2017	Jan 2018 From Jan 2017
New Orders	–	+2
Shipments	-13	–
Backlog	+1	-1
Payrolls	-8	-1
Employees	–	–
Receivables	-2	+1
Inventories	+5	+8

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2017				
January	–	+2	–	-2
February	+4	+3	+1	-2
March	+12	+6	+8	-2
April	+7	+2	+11	-2
May	+8	+7	+11	-2
June	+6	+7	+6	-1
July	+11	+10	+8	-3
August	+1	+5	+6	-3
September	-10	+4	-4	-2
October	+8	+8	-2	-1
November	+11	+4	+1	-3
December	-9	-7	-4	–
2018				
January	+2	–	-1	–

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® decreased in March, following an increase in February. The Index now stands at 127.7 (1985 = 100), down from 130.0 in February. The Present Situation Index decreased from 161.2 to 159.9, while the Expectations Index declined from 109.2 last month to 106.2 this month.

“Consumer confidence declined moderately in March after reaching an 18-year high in February,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “Consumers’ assessment of current conditions declined slightly, with business conditions the primary reason for the moderation. Consumers’ short-term expectations also declined, including their outlook for the stock market, but overall expectations remain quite favorable. Despite the modest retreat in confidence, index levels remain historically high and suggest further strong growth in the months ahead.”

Consumers' assessment of current conditions eased in March. The percentage saying business conditions are “good” increased from 36.5% to 37.9%, however those claiming business conditions are “bad” also increased, from 11.3% to 13.4%. Consumers’ assessment of the labor market was marginally more favorable. Those claiming jobs are “plentiful” increased from 39.1% to 39.9%, while those claiming jobs are “hard to get” decreased from 15.1% to 14.9%.

Consumers were moderately less optimistic about the short-term outlook in March. The percentage of consumers anticipating business conditions will improve over the next six months decreased from 25.0% to 23.0%, while those expecting business conditions will worsen increased from 9.4% to 9.8%.

Consumers’ outlook for the job market was also less positive. The proportion expecting more jobs in the months ahead decreased from 22.4% to 19.1%, while those anticipating fewer jobs increased from 12.4% to 12.6%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement decreased from 23.5% to 22.0%, however, the proportion expecting a decrease also declined, from 8.6% to 7.2%.

University of Michigan Surveys of Consumers

The University of Michigan Surveys of Consumers indicated another rise in the Index of Consumer Sentiment, with the index rising in March to 102.0 from 99.7. The index of current conditions rose to 122.8 from 114.9 while the index of consumer expectations fell slightly to 88.6 from 90.0.

Surveys of Consumers chief economist, Richard Curtin, report noted that “Consumer sentiment rose in early March to its highest level since 2004 due to a new all-time record favorable assessment of current economic conditions. All of the gain in the Sentiment Index was among households with incomes in the bottom third (+15.7), while the economic assessments of those with incomes in the top third posted a significant monthly decline (-7.3). The decline among upper income consumers was focused on the outlook for the economy and their personal finances. Consumers continued to adjust their expectations in reaction to new economic policies. In early March, favorable mentions of the tax reform legislation were offset by unfavorable references to the tariffs on steel and aluminum-each was spontaneously cited by one-in-five consumers. Importantly, near term inflation expectations jumped to their highest level in several years, and interest rates were expected to increase by the largest proportion since 2004. These trends have prompted consumers to more favorably cite buying as well as borrowing in advance of those expected increases. While income gains are still anticipated, the March survey found that the size of the expected income increase returned to the lows recorded in the past year. Among the top-third income households, income expectations fell more and inflation expectations rose more; as these households account for more than half of all consumption expenditures, the data suggest that the relative lull in consumption in the 1st quarter may persist for another quarter.

A DEEPER DIVE – NATIONAL, CON'T.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.9% in the fourth quarter of 2017, according to the "third" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 3.2%.

The GDP estimate is based on more complete source data than were available for the "second" estimate issued last month. In the second estimate, the increase in real GDP was 2.5%. With this third estimate for the fourth quarter, the general picture of economic growth remains the same; personal consumption expenditures (PCE) and private inventory investment were revised up.

A DEEPER DIVE - HOUSING

Existing-Home Sales

Despite consistently low inventory levels and faster price growth, existing-home sales bounced back in February after two straight months of declines, according to the National Association of Realtors®. Sizeable sales increases in the South and West offset declines in the Northeast and Midwest.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, grew 3.0% to a seasonally adjusted annual rate of 5.54 million in February from 5.38 million in January. After last month's increase, sales were 1.1% above a year ago.

Single-family home sales declined 4.2% to a seasonally adjusted annual rate of 4.96 million in February from 4.76 million in January, and were 1.8% above the 4.87 million pace a year ago. The median existing single-family home price was $243,400 in February, up 5.9% from February 2017.

Existing condominium and co-op sales declined 6.5% to a seasonally adjusted annual rate of 580,000 units in February, and were 4.9% below a year ago. The median existing condo price was $227,300 in February, which was 5.7% above a year ago.

Lawrence Yun, NAR chief economist, says sales were uneven across the country in February but did increase nicely overall. "A big jump in existing sales in the South and West last month helped the housing market recover from a two-month sales slump," he said. "The very healthy U.S. economy and labor market are creating a sizeable interest in buying a home in early 2018. However, even as seasonal inventory gains helped boost sales last month, home prices – especially in the West – shot up considerably. Affordability continues to be a pressing issue because new and existing housing supply is still severely subpar."

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6% in February to 108.7 (2016 = 100), following a 0.8% increase in January, and a 0.7% increase in December.

"The U.S. LEI rose again, despite a sharp downturn in stock markets and weakness in housing construction in February," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The LEI points to robust economic growth throughout 2018. Its six-month growth rate has not been this high since the first quarter of 2011. While the Federal Reserve is on track to continue raising its benchmark rate for the rest of the year, the recent weakness in residential construction and stock prices – important leading indicators – should be monitored closely."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3% in February to 103.3 (2016 = 100), following a 0.1% increase in January, and a 0.2% increase in December.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.4% in February to 104.3 (2016 = 100), following a 0.1% increase in January and a 0.6% increase in December.

A DEEPER DIVE – HOUSING, CON'T.

Existing-Home Sales, Con't.

Added Yun, "The unseasonably cold weather to start the year muted pending sales in the Northeast and Midwest in January and ultimately led to their sales retreat last month. Looking ahead, several markets in the Northeast will likely see even more temporary disruptions from the large winter storms that have occurred in March."

The median existing-home price for all housing types in February was $241,700, up 5.9% from February 2017 ($228,200). February's price increase marks the 72nd straight month of year-over-year gains.

Total housing inventory at the end of February rose 4.6% to 1.59 million existing homes available for sale, but was still 8.1% lower than a year ago (1.73 million) and has fallen year-over-year for 33 consecutive months. Unsold inventory is at a 3.4-month supply at the current sales pace (3.8 months a year ago).

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage moved higher for the fifth straight month to 4.33% in February (highest since 4.34% in April 2014) from 4.03% in January. The average commitment rate for all of 2017 was 3.99%.

"Mortgage rates are at their highest level in nearly four years, at a time when home prices are still climbing at double the pace of wage growth," said Yun. "Homes for sale are going under contract a week faster than a year ago, which is quite remarkable given weakening affordability conditions and extremely tight supply. To fully satisfy demand, most markets right now need a substantial increase in new listings."

Regional

February existing-home sales in the Northeast fell 12.3% to an annual rate of 640,000, and were 7.2% below a year ago. The median price in the Northeast was $258,900, which was 3.6% above February 2017.

In the Midwest, existing-home sales dipped 2.4% to an annual rate of 1.22 million in February (unchanged from a year ago). The median price in the Midwest was $179,400, up 4.5% from a year ago.

Existing-home sales in the South jumped 6.6% to an annual rate of 2.41 million in February, and were 3.4% above a year ago. The median price in the South was $215,700, up 5.4% from a year ago.

Existing-home sales in the West surged 11.4% to an annual rate of 1.27 million in February, and were 2.4% above a year ago. The median price in the West was $370,600, up 9.6% from February 2017.

New Residential Sales

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced that sales of new single-family houses in February 2018 were at a seasonally adjusted annual rate of 618,000, according to the latest estimates. This was 0.6% below the revised January rate of 622,000, but was 0.5% above the February 2017 estimate of 615,000.

The median sales price of new houses sold in February 2018 was $326,800. The average sales price was $376,700.

The seasonably-adjusted estimate of new houses for sale at the end of February was 305,000. This represents a supply of 5.9 months at the current sales rate.

Compared to February 2017, sales were up 8.8% in the Northeast, 0.6% in the South and 3.1% in the West. Sales fell 8.1% in the Midwest.

HOUSING UPDATE

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 February were at a seasonally adjusted annual rate of 1,236,000. This was 7.0% below the revised January estimate of 1,329,000 and was 4.0% below the February 2017 rate of 1,288,000. Single-family housing starts in February were at a rate of 902,000; this was 2.9% above the revised January figure of 877,000 and also 2.9% above February 2017. Compared to February 2017, single unit starts were up 8.7% in the South and 24.6% in the West while falling 4.5% in the Northeast and 36.8% in the Midwest.

A DEEPER DIVE

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for February 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $492.0 billion, a decrease of 0.1% from the previous month, but 4.0% above February 2017. Total sales for the December 2017 through February 2018 period were up 4.3% from the same period a year ago.

Retail trade sales were down 0.1% from January 2018, but 4.2% above last year. Nonstore Retailers were up 10.1% from February 2017, while Gasoline Stations were up 7.9% from last year.

Sales at furniture and home furnishings stores were up 3.3% over February 2017 on an adjusted basis. For the two first months of the year, sales were up 4.9% year to date, sales at these stores had the second highest growth of all categories, following only Building Materials and Garden Equipment and Supplies Dealers.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in February on a seasonally adjusted basis after rising 0.5% in January, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index rose 2.2% before seasonal adjustment.

The indexes for shelter, apparel, and motor vehicle insurance all rose and contributed to the 1-month seasonally adjusted increase in the all items index. The food index was unchanged in February, as a decline in the index for food at home offset an increase in the food away from home index. The energy index increased slightly, with its component indexes mixed.

The index for all items less food and energy increased 0.2% in February following a 0.3% increase in January. Along with shelter, apparel, and motor vehicle insurance, the indexes for household furnishings and operations, education, personal care, and airline fares also increased in February. In contrast, the indexes for communication, new vehicles, medical care, and used cars and trucks declined over the month.

The all items index rose 2.2% for the 12 months ending February, a slightly larger increase than the 2.1% rise for the 12 months ending January. The index for all items less food and energy rose 1.8% over the past year, while the energy index increased 7.7% and the food index advanced 1.4%.

Employment

Total nonfarm payroll employment increased by 313,000 in February, and the unemployment rate was unchanged at 4.1%, according to the report from the U.S. Bureau of Labor Statistics. Employment rose in construction, retail trade, professional and business services, manufacturing, financial activities, and mining.

In February, the unemployment rate was 4.1% for the fifth consecutive month, and the number of unemployed persons was essentially unchanged at 6.7 million.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.4 million in February and accounted for 20.7% of the unemployed. Over the year, the number of long-term unemployed was down by 369,000.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in February increased $7.4 billion or 3.1% to $247.7 billion, according to the report of the U.S. Census Bureau. This increase, up three of the last four months, followed a 3.5% January decrease. Excluding transportation, new orders increased 1.2%. Excluding defense, new orders increased 2.5%. Transportation equipment, also up three of the last four months, led the increase, 7.1% to $83.5 billion.

Shipments of manufactured durable goods in February, up nine of the last ten months, increased $2.2 billion or 0.9% to $249.7 billion. This followed a 0.5% January increase. Machinery, up six of the last seven months, led the increase, $0.6 billion or 1.8%.

According to the final report for January, new orders were up 1.1% for furniture and related products. Shipments for the month were up 1.6%.