FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

April 2018

HIGHLIGHTS - EXECUTIVE SUMMARY

Ken Smith, CPA

New orders in February 2018 were 5% higher than orders in February 2017, according to our latest survey of residential furniture manufacturers and distributors. February 2017 orders were 4% higher than February 2016. Orders in February were up for one-half of the participants so most of those that had increased orders were up nicely.

The February increase brought year to date orders to an increase of 4%. Year to date, last year through February orders were 2% higher than the previous year. Approximately 64% of the participants reported increased orders year to date.

Shipments were up 3% over February a year ago and up 1% year to date. Last year for the two months, shipments were up 3% over the previous year. Approximately 52% of the participants were up year to date.

Backlogs increased 2% over January as order dollars exceeded shipment dollars. Backlogs were 2% lower than February 2017.

Receivable levels were in good shape considering shipment results but inventories appear out of line with an increase of 10% over last year in spite of a 2% decline from last month. Inventories will need to be watched if business does not pick up.

Both factory and warehouse payrolls and employee levels appear to be in line with current business conditions.

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EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index increased slightly in April following slight decrease in March. The Index increased to 128.7 from 127.0 in March. The Present Situation Index increased to 159.6 from 158.1 while the Expectations Index improved to 108.1 from 106.2 last month.

The report indicated “Overall, confidence levels remain strong and suggest that the economy will continue expanding at a solid pace in the months ahead.”

As was the case last month, the University of Michigan Surveys of consumers had a different result. Their Index of Consumer Sentiment fell from 101.4 to 97.8 with both the current conditions and expectations indexes falling. The report noted that confidence remains relatively high but dropped mainly due to concerns about the potential impact of Trump’s trade policies on the domestic economy.

Housing

Existing-home sales grew for the second consecutive month in March, but remained curtailed due to low inventory levels and higher prices. Single-family home sales rose 0.6% but were 1% below March 2017.

Regionally, sales increased 6.3% in the Northeast and 5.7% in the Midwest. Sales declined 0.4% in the South and 3.1% in the West. Interestingly, sales in the Northeast and Midwest were still below a year ago while sales in the South and West were up from a year ago.

Sales of new single-family houses in March were 4.0 above February sales and were up 8.8% above March 2017. Regionally compared to March 2017, sales were up 10.4% in the South and 24.7% in the West, while sales declined 52.5% in the Northeast and 2.4% in the Midwest.

Privately-owned housing starts in March were up 1.9% from February and up 10.9% from March 2017. Starts were up in the Midwest and West while falling in the South and Northeast.

Other

The Conference Board’s Leading Economic Index (LEI) for the U.S. increased 0.3% to 109.0 in March following an increase of 0.7% in February and 0.8% in January. The report stated, “The U.S. LEI increased in March, and while the monthly gain is slower than in previous months, its six month growth rate increased further and points to solid growth in the U.S. economy for the rest of the year.”

The advance reports on retail and food services for March 2018 indicated a 0.6% increase over February and 4.5% above March 2017. Sales at furniture and home furnishings stores were up 3.9% over March 2017 and up 4.9% year to date.

The Consumer Price Index for all Urban Consumers (CPI-U) decreased 0.1% in March after a 0.2% increase in February. For the last 12 months, the all items index rose 2.4%. The primary reasons for the increase were due to a 7.0% increase in the energy index and the food index increased 1.3%.

Non-farm payroll employment edged up 103,000 in March. The unemployment rate remained at 4.1%.

EXECUTIVE SUMMARY, CONT.

Thoughts

In March, weather continued to have negative impacts on industry retail sales but the increase in orders for manufacturers and distributors for the two months has been steady. Even April weather has not been spring-like for much of the nation.

We were pleasantly surprised at the mood of folks attending the April High Point Market. All of the exhibitors we talked to were very pleased with their results. In addition, the parking lots were full as well as the buses, especially those moving us around the downtown area. Except for one evening, the weather was great and as usual, the major players were here as well as other dealers and designers.

We heard several folks saying it was one of the best markets in years. One veteran told us it was his best market ever and he has been coming many years so he knows history.

With consumer confidence still strong and the economy continuing to improve, we think business should remain steady for some time. The stock market needs to settle down some as it seems to move quickly on any small tidbit of news. We think that uncertainty along with so much negative news everywhere from the media keeps people a bit uncertain.

Yet business overall, while not always great, has been fairly steady. While not every week or month, overall the industry continues to improve. But as we noted at market, this industry does not have one business model. This market really proved that to us.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

According to our recent survey of residential furniture manufacturers and distributors, new orders in February were up 5% over February 2017. The 5% increase followed a 2% increase reported in January. February 2017 new orders were 4% higher than February 2016. Orders were up for one-half of the participants down from 55% reporting increases last month.

Year to date, new orders for the first two months were up 4% over the first two months of last year. Last year, the first two months were up 2% over the previous year. Year to date, new orders were up for some 64% of the participants.

Shipments and Backlogs

Shipments in February 2018 were up 3% over February 2017 when they were also up 3% over the previous year. Some 64% of the participants reported increased shipments for the month. Year to date, after being flat in January versus January 2017, shipments were up 3%. Approximately 52% of the participants reported increased shipments year to date.

Backlogs increased 2% from January as dollar orders exceeded shipment dollars. Backlogs were down 2% from February 2017.

Receivables and Inventories

Receivable levels in February 2018 were flat with February 2017. This result was reasonable considering the 1% year to date increase in shipments. Overall, receivable levels continue to make sense in light of shipments.

Inventories fell 2% from January but were up 10% over February 2017. Inventory levels were up 8% in January compared to January 2017. Inventory levels have been high for 3 months now and will need to be watched and probably reduced unless business picks up soon.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees fell 1% from January and were 1% lower than February 2017. Factory and warehouse payrolls were even with February 2017. Year to date, factory and warehouse payrolls were 1% lower than the first two months of last year. Overall, both of these levels seem to be in line with current business conditions.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2018		
	FEB	JAN	2 MONTHS
New Orders	2,269	2,082	4,351
Shipments	2,192	2,033	4,225
Backlog (R)	2,046	1,998	

	2017		
	FEB	JAN	2 MONTHS
New Orders	2,168	2,035	4,203
Shipments	2,139	2,043	4,182
Backlog (R)	2,005	1,976	

MONTHLY RESULTS, CON'T.

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	Feb 2018 From Jan 2018	Feb 2018 From Feb 2017	2 Months 2018 vs 2 Months 2017
New Orders	+7	+5	+4
Shipments	+2	+3	+1
Backlog	+2	-2	
Payrolls	+2	–	-1
Employees	-1	-1	
Receivables	-3	–	
Inventories	-2	+10	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2017				
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	–
February	+5	+3	-2	-1

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® increased in April, following a decline in March. The Index now stands at 128.7 (1985 = 100), up from 127.0 in March. The Present Situation Index increased from 158.1 to 159.6, while the Expectations Index improved from 106.2 last month to 108.1 this month.

"Consumer confidence increased moderately in April after a decline in March," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions improved somewhat, with consumers rating both business and labor market conditions quite favorably. Consumers' short-term expectations also improved, with the percent of consumers expecting their incomes to decline over the coming months reaching its lowest level since December 2000 (6.0%). Overall, confidence levels remain strong and suggest that the economy will continue expanding at a solid pace in the months ahead."

Consumers' appraisal of current conditions improved modestly in April. The percentage saying business conditions are "good" decreased from 37.6% to 35.2%, however those claiming business conditions are "bad" also decreased, from 13.3% to 11.3%. Consumers' assessment of the labor market was also mixed. The percentage of consumers claiming jobs are "plentiful" declined from 39.5% to 38.1%, while those claiming jobs are "hard to get" also declined, from 15.7% to 15.2%.

Consumers were moderately more positive about the short-term outlook in April. The percentage of consumers anticipating business conditions will improve over the next six months increased from 23.2% to 24.5%, while those expecting business conditions will worsen decreased from 10.2% to 9.7%.

Consumers' outlook for the labor market was also more positive. The proportion expecting more jobs in the months ahead increased from 18.9% to 19.5%, while those anticipating fewer jobs remained at 12.5%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement was virtually unchanged at 23.1%, while the proportion expecting a decrease declined from 7.2% to 6.8%.

University of Michigan Surveys of Consumers

The University of Michigan Surveys of Consumers was slightly negative in April. Surveys of Consumers chief economist, Richard Curtin said, "Consumer sentiment slipped in early April, largely reversing the gains recorded in the prior two months. The small decline was widely shared by all age and income subgroups and across all regions of the country. Importantly, confidence still remains relatively high, despite the recent losses that were mainly due to concerns about the potential impact of Trump's trade policies on the domestic economy.

Uncertainty surrounding the evolving trade policy has caused many small (and at times inconsistent) changes in expectations. Spontaneous references to trade policies were made by 29% of all consumers in early April, with nearly all the mentions negative (27% out of 29%). The Expectations Index was just 64.2 among those who made negative comments about trade policies, while among those who made no mention of trade policies, the Expectations Index was 93.9, a substantial difference. Consumers who negatively mentioned trade policies also anticipated that the year-ahead inflation rate would be 0.4 percentage points higher than among those who did not spontaneously mention Trump's trade policies; there was a differential of 0.2 percentage points for long term inflation expectations. There were other factors responsible for the small overall April decline, the most important was the expectation of rising interest rates, which slightly slowed the anticipated pace of growth in the economy. Overall, the data are consistent with a growth rate of 2.7% in consumption from mid-2018 to mid-2019."

Gross Domestic Product

Durable goods manufacturing; construction; and professional, scientific, and technical services were the leading contributors to the increase in U.S. economic growth in the fourth quarter of 2017. According to gross domestic product (GDP) by industry statistics released by the Bureau of Analysis, 16 of 22 industry groups contributed to the overall 2.9% increase in real GDP in the fourth quarter. Durable goods manufacturing; construction; and professional, scientific, and technical services were the leading contributors to the increase in U.S. economic growth in the fourth quarter of 2017. According to gross domestic product (GDP) by industry statistics released by the Bureau of Analysis, 16 of 22 industry groups contributed to the overall 2.9% increase in real GDP in the fourth quarter.

A DEEPER DIVE – NATIONAL, CON'T.

Gross Domestic Product, Con't.

For the durable goods manufacturing industry group, real value added—a measure of an industry's contribution to GDP—increased 7.2% in the fourth quarter, after increasing 7.5% in the third quarter. The fourth quarter growth primarily reflected increases in motor vehicles, bodies and trailers, and parts; computer and electronic products; and fabricated metal products.

Construction increased 8.5%, after decreasing 1.2%. This was the largest increase since the first quarter of 2016.

Professional, scientific, and technical services increased 4.2%, after increasing 2.7%. The fourth quarter growth primarily reflected an increase in miscellaneous professional, scientific, and technical services, which includes accounting and tax preparation services, and scientific research and development services.

Real GDP increased 2.3% in 2017 (that is, from the 2016 annual level to the 2017 annual level). The private goods- and services-producing sectors, as well as the government sector, contributed to the increase. Growth was widespread, with 20 of 22 industry groups contributing to the increase. Real estate and rental and leasing, health care and social assistance, and durable goods manufacturing were the leading contributors to the increase in real GDP.

For the real estate and rental and leasing industry, real value added increased 1.8% in 2017, after increasing 2.4% in 2016. This was the eighth consecutive annual increase.

Health care and social assistance increased 3.0%, after increasing 2.4%, primarily reflecting an increase in ambulatory health care services.

Durable goods manufacturing, which includes computer and electronic products, machinery, and fabricated metal products, increased 3.4%, after decreasing 0.2%. This was the largest increase in durable goods manufacturing since 2011.

A DEEPER DIVE - HOUSING

Existing-Home Sales

Existing-home sales grew for the second consecutive month in March, but lagging inventory levels and affordability constraints kept sales activity below year ago levels, according to the National Association of Realtors®.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 1.1% to a seasonally adjusted annual rate of 5.60 million in March from 5.54 million in February. Despite last month's increase, sales were still 1.2% below a year ago.

Single-family home sales inched forward (0.6%) to a seasonally adjusted annual rate of 4.99 million in March from 4.96 million in February, but were 1.0% below the 5.04 million sales pace a year ago. The median existing single-family home price was $252,100 in March, up 5.9% from March 2017.

Existing condominium and co-op sales increased 5.2% to a seasonally adjusted annual rate of 610,000 units in March, but were 3.2% below a year ago. The median existing condo price was $236,100 in March, which was 4.8% above a year ago.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3% in March to 109.0 (2016 = 100), following a 0.7% increase in February, and a 0.8% increase in January.

"The U.S. LEI increased in March, and while the monthly gain is slower than in previous months, its six-month growth rate increased further and points to continued solid growth in the U.S. economy for the rest of the year," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The strengths among the components of the leading index have been very widespread over the last six months. However, labor market components made negative contributions in March and bear watching in the near future."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in March to 103.4 (2016 = 100), following a 0.4% increase in February, and a 0.1% decline in January.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1% in March to 104.5 (2016 = 100), following a 0.3% increase in February and a 0.3% increase in January.

A DEEPER DIVE – HOUSING, CON'T.

Existing-Home Sales, Con't.

Lawrence Yun, NAR chief economist, says closing in March eked forward despite challenging market conditions in most of the country. "Robust gains last month in the Northeast and Midwest – a reversal from the weather-impacted declines seen in February – helped overall sales activity rise to its strongest pace since last November at 5.72 million," said Yun. "The unwelcoming news is that while the healthy economy is generating sustained interest in buying a home this spring, sales are lagging year ago levels because supply is woefully low and home prices keep climbing above what some would-be buyers can afford."

The median existing-home price for all housing types in March was $250,400, up 5.8% from March 2017 ($236,600). March's price increase marks the 73rd straight month of year-over-year gains.

"Although the strong job market and recent tax cuts are boosting the incomes of many households, speedy price growth is squeezing overall affordability in several markets – especially those out West," said Yun.

Total housing inventory at the end of March climbed 5.7% to 1.67 million existing homes available for sale, but was still 7.2% lower than a year ago (1.80 million) and has fallen year-over-year for 34 consecutive months. Unsold inventory is at a 3.6-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 increased for the sixth straight month to 4.44% in March (highest since 4.46% in December 2013) from 4.33% in February. The average commitment rate for all of 2017 was 3.99%.

Properties typically stayed on the market for 30 days in March, which is down from 37 days in February and 34 days a year ago. Fifty percent of homes sold in March were on the market for less than a month.

"Realtors® throughout the country are seeing the seasonal ramp-up in buyer demand this spring but without the commensurate increase in new listings coming onto the market," said Yun. "As a result, competition is swift and homes are going under contract in roughly a month, which is four days faster than last year and a remarkable 17 days faster than March 2016."

First-time buyers were 30% of sales in March, which is up from 29% last month but down from 32% a year ago. NAR's 2017 Profile of Home Buyers and Sellers – released in late 2017 – revealed that the annual share of first-time buyers was 34%.

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 March were at a seasonally adjusted annual rate of 1,319,000. This was 1.9% above the revised February estimate of 1,295,000 and was 10.9% above the March 2017 rate of 1,189,000. Single-family housing starts in March were at a rate of 867,000; this was 3.7% below the revised February figure of 900,000. The March rate for units in buildings with five units or more was 439,000.

Regionally, single-unit starts comparing March 2018 to March 2017 were down 10.8% in the Northeast and 6.7% in the South while starts were up 39.0% in the Midwest and up 21.3% in the West.

Regional

March existing-home sales in the Northeast jumped 6.3% to an annual rate of 680,000, but were 9.3% below a year ago. The median price in the Northeast was $270,600, which was 3.3% above March 2017. In the Midwest, existing-home sales increased 5.7% to an annual rate of 1.29 million in March, but were 1.5% below a year ago. The median price in the Midwest was $192,200, up 5.1% from a year ago. Existing-home sales in the South decreased 0.4% to an annual rate of 2.40 million in March, but were 0.4% above a year ago. The median price in the South was $222,400, up 5.7% from a year ago. Existing-home sales in the West declined 3.1% to an annual rate of 1.23 million in March, but were still 0.8% above a year ago. The median price in the West was $377,100, up 7.9% from March 2017.

New Residential Sales

Sales of new single-family houses in March 2018 were at a seasonally adjusted annual rate of 694,000, according to estimates released jointly by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. This was 4.0% above the revised February rate of 667,000, and was 8.8% above the March 2017 estimate of 638,000.

The median sales price of new houses sold in March 2018 was $337,200. The average sales price was $369,900.

Regionally, sales of new privately-owned houses comparing March 2018 to March 2017 were down 52.5% in the Northeast and 2.4% in the Midwest, while sales were up from last year 10.4% in the South and 24.7% in the West.

A DEEPER DIVE – HOUSING, CON'T.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for March 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $494.6 billion, an increase of 0.6% from the previous month, and 4.5% above March 2017. Total sales for the January 2018 through March 2018 period were up 4.1% from the same period a year ago.

Retail trade sales were up 0.6% from February 2018, and 4.7% above last year. Gasoline Stations were up 9.7% from March 2017, while Nonstore Retailers were up 9.7% from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 3.9% over March 2017 sales. Year to date, sales at these stores are up 4.9%.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.1% in March on a seasonally adjusted basis after rising 0.2% in February, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index rose 2.4% before seasonal adjustment.

A decline in the gasoline index more than outweighed increases in the indexes for shelter, medical care, and food to result in the slight seasonally adjusted decline in the all items index. The energy index fell sharply due mainly to the 4.9-percent decrease in the gasoline index. The index for food rose 0.1% over the month, with the indexes for food at home and food away from home both increasing.

The index for all items less food and energy increased 0.2% in March, the same increase as in February. Along with shelter and medical care, the indexes for personal care, motor vehicle insurance, and airline fares all rose. The indexes for apparel, for communication, and for used cars and trucks all declined over the month.

The all items index rose 2.4% for the 12 months ending March, the largest 12-month increase since the period ending March 2017 and higher than the 1.6-percent average annual rate over the past 10 years. The index for all items less food and energy rose 2.1%, its largest 12-month increase since the period ending February 2017. The energy index increased 7.0% over the past 12 months, and the food index advanced 1.3%.

Employment

Total nonfarm payroll employment edged up by 103,000 in March, and the unemployment rate was unchanged at 4.1%, according to the report from the U.S. Bureau of Labor Statistics. Employment increased in manufacturing, health care, and mining.

In March, the unemployment rate was 4.1% for the sixth consecutive month, and the number of unemployed persons, at 6.6 million, changed little.

At 1.3 million, the number of long-term unemployed (those jobless for 27 weeks or more) was little changed in March and accounted for 20.3% of the unemployed. Over the year, the number of long-term unemployed was down by 338,000.

Durable Goods Orders and Factory Shipments

The U.S. Census Bureau reported new orders for manufactured durable goods in March increased $6.4 billion or 2.6% to $254.9 billion. This increase, up four of the last five months, followed a 3.5% February increase. Excluding transportation, new orders were virtually unchanged. Excluding defense, new orders increased 2.8%. Transportation equipment, also up four of the last five months, drove the increase, $6.4 billion or 7.6%.

Shipments of manufactured durable goods in March, up ten of the last eleven months, increased $0.7 billion or 0.3% to $250.0 billion. This followed a 0.7% February increase. Transportation equipment, up four of the last five months, drove the increase, $1.5 billion or 1.8%.

According to the final report, new orders for furniture and related products increased 0.15% and shipments increased 3.8% in February. Year to date, new orders were down 0.2% and shipments were up 2.8%.