FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

We had heard at the High Point Market that business seemed to have picked up a bit. We also heard that order writing at Market was one of the best in a while. That said, we did not expect that our monthly survey of residential furniture manufacturers and distributors would show a 15% increase in new orders in April 2018 versus April 2017. Market being a week earlier in April 2018 versus 2017 had some impact in that orders not written at Market had more time to be placed, but, for either reason, the results for April were very good.

Some 79% of the participants reported increased orders in April over April 2017. That was up from only 42% reporting increases in March.

Year to date, with the April increase, new orders were up 6% over last year. New orders year to date were up for 68% of the participants in April, up from 56% reporting increases last month.

Shipments were up 10% in April 2018 versus April 2017. April 2017 were up 2% over April 2016. March 2018 shipments were only up 2% over March 2017. Shipments were up for 68% of the participants, up from 42% last month.

Year to date, shipments were up 3% through April, up from 1% reported last month. Shipments were up year to date for 61% of the participants, up from 50% last month.

Backlogs were up 6% from March and 6% from April 2017 as new orders exceeded shipments in dollars. Backlogs had been down slightly in three of the last four months.

Inventories were up 7% from April 2017, down from 9% reported last month. After being a bit high the last few months, inventory levels appear to be falling a bit more in line.

Both factory and warehouse employees and payrolls appear to be very much in line with current business conditions.

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EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

As has been the case several times recently, the two different reports on consumer confidence have shown slightly different results although both reports indicate the confidence remains at high levels. The Conference Board Consumer Confidence Index decreased in June following an increase in May. The Index was 126.4, down from 128.8. The Present Situation Index was relatively flat, 161.1 versus 161.2 last month, while the Expectations Index declined to 103.2 from 107.2 last month.

The report indicated that "Consumers' assessment of present-day conditions was relatively unchanged, suggesting that the level of economic growth remains strong. While expectations remain high by historical standards, the modest curtailment in optimism suggests that consumers do not foresee the economy gaining much momentum in the months ahead."

The University of Michigan Surveys of Consumers indicated a slight increase in sentiment due to more favorable assessments of their current financial situation and more favorable view of current buying conditions for household durables. The Expectations Index did decline to the lowest level since the beginning of the year. The decline appeared to be based on concerns for future income growth as compared to the risk of higher inflation.

Housing

Existing-home sales fell for the second straight month in May with only the Northeast seeing a slight uptick. Total existing home sales fell 0.4% in May and were 3.0% below a year ago. Single-family home sales fell 0.6% in May and were 3.0% below a year ago. The median existing single-family home price was $267,500 in May, up 5.2% from May 2017. The decline in sales was blamed again on "incredibly low supply" coupled with higher prices and higher mortgage rates.

On the other hand, new home sales in June were up 6.7% over May 2018 and up 14.1% over June 2017. Sales were up 40.3% in the Midwest and also up in the South and West, while declining 16.3% in the Northeast. Housing starts were also up nicely in June, up 5.0% over May 2018 and up 20.3% over June 2017. Single-family starts were up double digits plus in all four regions of the country.

Other

The Conference Board's Leading Economic Index (LEI) for the U.S. was up again in May to 109.5. This index has increased every month this year. The improvements in a majority of its components offset declines in leading indicators of labor markets and residential construction.

The advance estimates for U.S. Retail and Food Services for May 2018 indicated a 0.8% increase from April and were up 5.9% from May 2017. Total sales from March 2018 to May 2018 were up 5.2% from the same period a year ago.

Sales at furniture and home furnishings stores in May were up 3.5% from May 2017. Sales at these stores were up 5.2% for the first five months of the year compared to the same period a year ago.

The Consumer Price Index increased 0.2% in May after rising 0.2% in April. The all items index rose 2.8% for the 12 months ending May, up from 2.5% for the 12 months ending April. The gasoline index increased 1.7% leading to a 0.9% increase in the energy index. The medical care index increased 0.2%.

The nonfarm payroll employment increased by 223,000 in May after a 164,000 increase in April. The unemployment rate dropped to 3.8% and the number of unemployed persons declined by 772,000.

EXECUTIVE SUMMARY, CONT.

Thoughts

While the first quarter of 2018 was nothing to get too excited about, our survey results for April were very good overall and good for most of the participants. These results brought year to date orders up nicely and resulting shipments improved.

Overall business in May and June, based on our conversations, has not continued as strong. We heard Memorial Day sales were fairly strong (normally a good weekend due to the holiday sales), but since then, in most cases, business has been slower.

Consumer confidence remains very high which is good. The political situation with potential tariffs and related stock market jitters keep consumers a bit concerned over future developments. Also, the ugly word inflation causes concerns among consumers as well.

Housing is not helping. While housing starts are improving and new home sales have continued to pick up, existing home sales are struggling with low inventories, higher prices and higher interest rates. We need people to be moving in these summer months to generate furniture sales.

Of course, for the furniture industry, we have to remember it is summertime – a time for vacations and spending money and time for other things. So we do need to keep in mind that this is generally just a slower time for the furniture business. We hope you have a great and safe summer with some fun in the sun.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in April were up 15% over April 2017. We have not reported that large an increase percentage wise in recent memory. We felt like business had picked up some going into the High Point Market, but did not expect that kind of result.

One factor that likely had an impact was that the Market was one week earlier this year, leaving more time for Market orders to come in before month end. In addition, we did hear that there was more order writing this Market than usual.

Some 79% of the participants reported increased orders for April after only 42% reported increases in March. That 79% was one of the highest in recent memory as well. Plus there were several participants that were off only ½ to 1%. So definitely April was a good month for orders.

With the large April increase, year to date, new orders were up 6% over the same few months of 2017. New orders were up for 68% of the participants up from 56% reporting year to date increases last month.

Shipments and Backlogs

Shipments in April were up 10% over April 2017 when they were only up 2% over April 2016. March 2018 shipments were also only up 2% over March 2017. Shipments were up for 68% of the participants in April versus only 42% reporting increased shipments in March.

Year to date, shipments were up 3% over the same period a year ago. In the first quarter, shipments were only up 1% over the first quarter of 2017. Year to date, shipments were up for some 61% of the participants, up from only one half reporting increases in March.

With the nice increase in orders, backlogs grew

6% over March and were 6% higher than April 2017. Backlogs were down slightly from December to February and only up 1% in March versus March 2017, so it was a bit nice to see backlogs back up a bit.

Receivables and Inventories

Receivable levels dropped 7% from last April. We believe we either had some issues with the reports or it is clearly a timing issue.

Inventories were even with March 2018 but were 7% above April 2018. March inventory levels were 9% higher than March 2017 so it appears that inventory levels are starting to get back in line.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in April remained even with March 2018 but were down 1% compared to April 2017. March employee levels were also down 1% from March 2017.

Factory and warehouse payrolls were up 4% from April 2017 somewhat in line with the 10% increase in shipments. Payrolls were down 9% from March but that was likely due to more working days in March than in April.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2018		
	APR	MAR	4 MONTHS
New Orders	2,509	2,575	9,435
Shipments	2,340	2,546	9,106
Backlog (R)	2,187	2,055	

	2017		
	APR	MAR	4 MONTHS
New Orders	2,182	2,535	8,920
Shipments	2,119	2,553	8,854
Backlog (R)	2,063	2,002	

MONTHLY RESULTS, CON'T.

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	Apr 2018 From Mar 2018	Apr 2018 From Apr 2017	4 Months 2018 vs 4 Months 2017
New Orders	-5	+15	+6
Shipments	-11	+10	+3
Backlog	+6	+6	
Payrolls	-9	+4	+1
Employees	–	-1	
Receivables	-7	-7	
Inventories	–	+7	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2017				
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
March	+2	–	+1	-1
April	+15	+10	+6	-1

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index decreased in June, following an increase in May. The Index now stands at 126.4 (1985 = 100), down from 128.8 in May. The Present Situation Index was relatively flat, 161.1 versus 161.2 last month, while the Expectations Index declined from 107.2 last month to 103.2 this month.

"Consumer confidence declined in June after improving in May," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of present-day conditions was relatively unchanged, suggesting that the level of economic growth remains strong. While expectations remain high by historical standards, the modest curtailment in optimism suggests that consumers do not foresee the economy gaining much momentum in the months ahead."

Consumers' appraisal of current conditions was relatively unchanged in June. The percentage stating business conditions are "good" decreased from 38.6% to 36.0%, while those saying business conditions are "bad" also decreased, from 12.6% to 11.7%. Consumers' assessment of the labor market was also mixed. The percentage of consumers claiming jobs are "plentiful" decreased from 42.1% to 40.0%, but those claiming jobs are "hard to get" also decreased, from 15.6% to 14.9%.

Consumers' optimism about the short-term outlook eased in June. The percentage of consumers anticipating business conditions will improve over the next six months decreased from 23.3% to 21.4%, while those expecting business conditions will worsen rose from 7.8% to 9.8%. Consumers' outlook for the labor market, however, was slightly more favorable. The proportion expecting more jobs in the months ahead increased marginally, from 19.7% to 20.0%, while those anticipating fewer jobs decreased, from 13.1% to 12.6%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement declined, from 21.4% to 18.8%, while the proportion expecting a decrease rose from 8.0% to 8.7%.

University of Michigan Surveys of Consumers

According to the preliminary results, The University of Michigan Surveys of Consumers chief economist, Richard Curtin noted, "Consumer sentiment rose slightly in early June due to consumers' more favorable assessments of their current financial situation and more favorable views of current buying conditions for household durables. The Expectations Index, in contrast, declined to its lowest level since the start of the year due to less favorable prospects for the overall economy. The sharpest divide was between the record number of households who mentioned recent income gains and the highest expected year-ahead inflation rate since 2015. At some point in every economic expansion, favorable income and job prospects act to offset higher inflation and interest rate expectations. Only when inflation and interest rates are expected to persistently exceed income and job prospects will consumers begin to curtail their discretionary spending. Indeed, greater certainty about future income and job prospects have become the main drivers of more favorable purchase plans."

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.0% in the first quarter of 2018, according to the "third" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 2.9%. In the second estimate, the increase in real GDP was 2.2%. With this third estimate for the first quarter, the general picture of economic growth remains the same; private inventory investment and personal consumption expenditures (PCE) were revised down. The increase in real GDP in the first quarter reflected positive contributions from nonresidential fixed investment, PCE, exports, federal government spending, and state and local government spending that were partly offset by negative contributions from residential fixed investment and private inventory investment. Imports, which are a subtraction in the calculation of GDP, increased.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2% in May to 109.5 (2016 = 100), following a 0.4% increase in April, and a 0.4% increase in March.

"While May's increase in the U.S. LEI was slower than in recent months, the improvements in a majority of its components offset the declines in leading indicators of labor markets and residential construction," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The U.S. LEI still points to solid growth but the current trend, which is moderating, indicates that economic activity is not likely to accelerate."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in May to 103.7 (2016 = 100), following a 0.2% increase in April, and a 0.3% increase in March.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.5% in May to 105.2 (2016 = 100), following a 0.4% increase in April, and a 0.2% decrease in March.

A DEEPER DIVE – NATIONAL, CON'T.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for May 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $502.0 billion, an increase of 0.8% from the previous month, and 5.9% above May 2017. Total sales for the March 2018 through May 2018 period were up 5.2% from the same period a year ago.

Retail trade sales were up 0.8% from April 2018, and 6.0% above last year. Gasoline Stations were up 17.7% from May 2017, while Nonstore Retailers were up 9.1% from last year.

Sales at furniture and home furnishings stores in May were up 3.5% from May 2017 and up 5.2% for the first five months of the year.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in May on a seasonally adjusted basis after rising 0.2% in April, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index rose 2.8% before seasonal adjustment.

The indexes for gasoline and shelter were the largest factors in the seasonally adjusted increase in the all items index, as they were in April. The gasoline index increased 1.7%, more than offsetting declines in some of the other energy component indexes and led to a 0.9% rise in the energy index. The medical care index rose 0.2%. The food index was unchanged over the month.

The index for all items less food and energy rose 0.2% in May. The shelter index rose 0.3% in May. The indexes for new vehicles, education and communication, and tobacco increased in May, while the indexes for household furnishings and operations, and used cars and trucks fell. The indexes for apparel, recreation, and personal care were unchanged.

Employment

Total nonfarm payroll employment increased by 223,000 in May, and the unemployment rate edged down to 3.8%, according to the report from the U.S. Bureau of Labor Statistics. Employment continued to trend up in several industries, including retail trade, health care, and construction.

The unemployment rate edged down to 3.8% in May, and the number of unemployed persons declined to 6.1 million. Over the year, the unemployment rate was down by 0.5 percentage point, and the number of unemployed persons declined by 772,000.

The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.2 million in May and accounted for 19.4% of the unemployed. Over the past 12 months, the number of long-term unemployed has declined by 476,000.

Manufacturing employment continued to expand over the month (+18,000). Durable goods accounted for most of the change, including an increase of 6,000 jobs in machinery. Manufacturing employment has risen by 259,000 over the year, with about three-fourths of the growth in durable goods industries.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in May decreased $1.4 billion or 0.6% to $248.8 billion, according to the report from the U.S. Census Bureau. This decrease, down two consecutive months, followed a 1.0% April decrease. Excluding transportation, new orders decreased 0.3%. Excluding defense, new orders decreased 1.5%. Transportation equipment, also down following two consecutive months, led the decrease, $0.9 billion or 1.0% to $86.1 billion.

Shipments of manufactured durable goods in May, down following nine consecutive monthly increases, decreased $0.2 billion or 0.1% to $246.9 billion. This followed a virtually unchanged April increase. Transportation equipment, down two consecutive months, drove the decrease, $0.5 billion or 0.6% to $82.1 billion.

According to the final report, both new orders and shipments were up 5% for the category of furniture and related products.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales fell back for the second straight month in May, as only the Northeast region saw an uptick in activity, 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, decreased 0.4% to a seasonally adjusted annual rate of 5.43 million in May from downwardly revised 5.45 million in April. With last month's decline, sales are now 3.0% below a year ago and have fallen year-over-year for three straight months.

Single-family home sales declined 0.6% to a seasonally adjusted annual rate of 4.81 million in May from 4.84 million in April, and were 3.0% below the 4.96 million sales pace a year ago. The median existing single-family home price was $267,500 in May, up 5.2% from May 2017.

Existing condominium and co-op sales increased 1.6% to a seasonally adjusted annual rate of 620,000 units in May, but were still 3.1% below a year ago. The median existing condo price was $244,100 in May, which was 2.5% above a year ago.

Lawrence Yun, NAR chief economist, says a solid economy and job market should be generating a much stronger sales pace than what has been seen so far this year. "Closings were down in a majority of the country last month and declined on an annual basis in each major region," he said. "Incredibly low supply continues to be the primary impediment to more sales, but there's no question the combination of higher prices and mortgage rates are pinching the budgets of prospective buyers, and ultimately keeping some from reaching the market."

The median existing-home price for all housing types in May was $264,800, an all-time high and up 4.9% from May 2017 ($252,500). May's price increase marks the 75th straight month of year-over-year gains.

Total housing inventory at the end of May climbed 2.8% to 1.85 million existing homes available for sale, but was still 6.1% lower than a year ago (1.97 million) and has fallen year-over-year for 36 consecutive months. Unsold inventory is at a 4.1-month supply at the current sales pace (4.2 months a year ago).

Properties typically stayed on the market for 26 days in May, unchanged from April and down from 27 days a year ago. Fifty-eight percent of homes sold in May were on the market for less than a month.

"Inventory coming onto the market during this year's spring buying season – as evidenced again by last month's weak reading – was not even close to being enough to satisfy demand," added Yun. "That is why home prices keep outpacing incomes and listings are going under contract in less than a month – and much faster – in many parts of the country."

First-time buyers were 31% of sales in May, which is down from 33% both last month and 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 May were at a seasonally adjusted annual rate of 1,350,000. This was 5.0% above the revised April estimate of 1,286,000 and was 20.3% above the May 2017 rate of 1,122,000. Single-family housing starts in May were at a rate of 936,000; this was 3.9% above the revised April figure of 901,000. The May rate for units in buildings with five units or more was 404,000.

Single-family starts in May 2018 compared to May 2017 were up 18.6% in the Northeast, 12.2% in the Midwest, 22.6% in the South and 13.7% in the West.

Privately-owned housing completions in May were at a seasonally adjusted annual rate of 1,291,000. This was 1.9% above the revised April estimate of 1,267,000 and was 10.4% above the May 2017 rate of 1,169,000. Single-family housing completions in May were at a rate of 890,000; this was 11.0% above the revised April rate of 802,000. The May rate for units in buildings with five units or more was 389,000.

A DEEPER DIVE – HOUSING, CON'T.

Regional

May existing-home sales in the Northeast increased 4.6% to an annual rate of 680,000, but were 11.7% below a year ago. The median price in the Northeast was $275,900, which was down 1.8% from May 2017.

In the Midwest, existing-home sales declined 2.3% to an annual rate of 1.26 million in May, and were now 2.3% below a year ago. The median price in the Midwest was $209,900, up 4.2% from a year ago.

Existing-home sales in the South inched backward 0.4% to an annual rate of 2.32 million in May, and were unchanged from a year ago. The median price in the South was $233,100, up 4.5% from a year ago.

Existing-home sales in the West decreased 0.8% to an annual rate of 1.17 million in May, and were 4.1% below a year ago. The median price in the West was $395,800, up 7.2% from May 2017.

New Residential Sales

Sales of new single-family houses in May 2018 were at a seasonally adjusted annual rate of 689,000, according to estimates released jointly by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. This was 6.7% above the revised April rate of 646,000 and was 14.1% above the May 2017 estimate of 604,000.

The median sales price of new houses sold in May 2018 was $313,000. The average sales price was $368,500.

The seasonally-adjusted estimate of new houses for sale at the end of May was 299,000. This represents a supply of 5.2 months at the current sales rate.

New home sales were up 40.3% in the Midwest, 19.2% in the South, 0.6% in the West, but were off 16.3% in the Northeast.