FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

According to our recent survey of residential furniture manufacturers and distributors, new orders in May 2018 were 5% higher than orders in May 2017. The 5% increase followed a 15% increase reported last month for April results. We noted last month that some of that increase may have been related to the earlier High Point Market dates as well as maybe more than usual order writing at Market, but the 5% increase in May seems to indicate that both months were pretty good in total.

May 2017 orders were 8% over May 2016 so the 5% increase also compared to good results last year. With that said, increased orders were reported by only one half of the participants in May 2018. Year to date, new orders remained 6%, ahead of the same period last year. Some 63% of the participants reported higher orders year to date.

Shipments in May were 2% higher than May 2017 when they were 7% higher than May 2016. Shipments were up for 58% of the participants. Year to date, shipments were up 3% over 2017. Last year, 2017 shipments were 4% higher than the same period for 2016. Shipments for the period were higher for 63% of the participants, about the same as last month.

Backlogs were up 3% from April as the dollar amount of new orders were higher than shipments. Backlogs were 5% higher than May 2017 levels, down slightly from 6% reported last month. Backlogs were actually down slightly from the previous year in both January and February, so it was good to see them a bit healthier.

Receivable levels appear to be in good shape considering shipment levels. Inventories were 6% higher than May 2017 but this increase has been falling and those levels seem to be getting more in line with current business conditions.

Both factory and warehouse employees and payroll levels seem 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 reports on changes in consumer confidence were in opposite directions. But this month, both reports indicated little change either way with the Confidence Board's index improving slightly but the Michigan report showing a slight decline.

The Conference Board report indicated that while economic growth is still strong, expectations do not see growth accelerating. The expectations for short term income prospects were also mixed.

The Michigan report indicated that in spite of expectations of higher inflation and higher interest rates ahead, consumer have kept their confidence of high levels due to favorable job and income prospects. Potential tariffs were also mentioned by a growing number of households.

Housing

Existing-home sales fell for the third straight month in June as declines in the South and West offset gains in the Northeast and Midwest. The ongoing shortage of homes available for sale continued to drive up prices. Total sales fell 0.6% as did single-family home sales. Total sales were 2.2% below a year ago while single-family sales were down 2.3% from a year ago.

New single-family home sales in June 2018 were down 5.3% from May but were up 2.4% from June 2017. Sales were up in the Northeast, Midwest and South, but fell 15.0% in the West.

Privately-owned housing starts in June were 12.3% below May starts and were 4.2% below June 2017. Single-family starts in June were 0.2% below June 2017. Sales were up slightly in all regions except the Midwest.

Privately-owned housing completions were even with May though single-family completions in June were 2.3% lower than May. Single-family completions were up 4.8% in the South and 22.8% in the West, but fell 16.4% in the Northeast and 10.2% in the Midwest.

Other

The Conference Board's Leading Economic Index (LEI) for the U.S. increased 0.5% in June following no change in May and a 0.4% increase in April. The report noted that the growth in most indicators does not suggest any considerable growth slowdown in the short-term.

The advance estimates for U.S. Retail and Food Services for June 2018 showed an increase of 0.5% from May and a 6.6% increase above June 2017. Sales for the April 2018 through June 2018 period were up 5.9% over the same period a year ago.

Sales at furniture and home furnishings stores in June 2018 were up 4.8% over June 2017. Year to date, sales at these stores were up 5.3% over the same period a year ago.

The Consumer Price Index increased 0.1% in June after a 0.2% increase in May. The all items index rose 2.9% for the twelve months ending in June. This was the largest 12 month increase since the period ending February 2012. Increases in shelter, gasoline and food all rose to lead the overall increase.

Total nonfarm payroll employment increased by 213,000 in June but the unemployment rate increased to 4.0%. The number of unemployed increased by 499,000 to 6.6 million.

EXECUTIVE SUMMARY, CONT.

Thoughts

While the first quarter results were a bit weak with orders up only 3% and shipments up 1%, the second quarter so far has been much better with orders now up 6% and shipments up 3% over the first five months of last year. Certainly not all participants have enjoyed the increase but many are having pretty decent results.

The government reports for sales of furniture and home furnishings stores continue to show fairly nice increases, but those encompass several channels so it all depends on who your customers are.

Consumer confidence continues to be very favorable in spite of concerns over tariffs, inflation and higher interest rates. But confidence has been buoyed by continued economic growth overall.

Housing remains a drag on businesses as inventories remain low. But the employment data continues to be strong with many people now getting better jobs and most, who want a job, are able to find employment, even if not what they might like.

According to the advance estimate, the Gross National Product increased 4.1% in the second quarter, which is the strongest quarter in some time. Most do not believe that rate of growth will continue, but anticipate it will move back to the 3% range.

Continue to be safe for the rest of the summer and hopefully find some time to relax and have a bit of fun.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

In May 2018, new orders were up 5% over May 2017, according to our latest survey of residential furniture manufacturers and distributors. This increase followed a 15% increase reported in April and a 2% increase in March over March 2017. We noted last month that the 15% increase in orders was possibly due to earlier High Point Market dates as well as comments of better order writing at Market.

Approximately one-half of our participants reported increased orders in May so the 5% increase was not felt by all. In April, some 79% of the participants reported increased orders.

Year to date, new orders remained 6% ahead of the same period a year ago. New orders were up year to date for 63% of the participants, down from 68% in April but up from 56% in March.

Shipments and Backlogs

Shipments in May were up 2% higher than May 2017. May 2017 shipments were 7% higher than May 2016 so the 2% in 2018 is comparing to a good previous year number. Shipments were up for 58% of the participants.

Year to date, shipments remained 3% ahead of the same period a year ago when May year to date shipments were up 4%. Year to date shipments were higher for 63% of the participants up slightly from the percentage from last month.

Backlogs grew 3% in May from April as new orders exceeded shipments in dollars. Backlogs were up 5% from May 2017, down slightly from 6% reported last month.

Receivables and Inventories

Receivable levels in May were up only 1% over May 2017 and were even with April in spite of the 6% increase in shipments. The 1% increase was well in line with the 2% increase in shipments for the month.

Inventories in May were even with April 2018 levels and up 6% over May 2017. This increase compared to a 7% increase reported last month. In March, inventories were up 9%, so once again inventory levels seem to be getting back in line compared to current business conditions.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in May 2018 was actually down 1% from April 2018 and even with May 2017. April levels were flat with March.

Factory and warehouse payrolls were up 3% from May 2017, down from a 4% increase reported last month. Year to date, these payrolls were 2% higher than the same period a year ago.

Both the number of factory and warehouse employees and their payrolls appear to be in line with current business conditions.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2018		
	MAY	APR	5 MONTHS
New Orders	2,540	2,509	11,975
Shipments	2,420	2,340	11,526
Backlog (R)	2,262	2,187	

	2017		
	MAY	APR	5 MONTHS
New Orders	2,410	2,182	11,330
Shipments	2,363	2,119	11,217
Backlog (R)	2,163	2,116	

MONTHLY RESULTS, CON'T.

KEY MONTHLY INDICATORS (PERCENT CHANGE)	May 2018 From Apr 2018	May 2018 From May 2017	5 Months 2018 vs 5 Months 2017
New Orders	+2	+5	+6
Shipments	+6	+2	+3
Backlog	+3	+5	
Payrolls	+2	+3	+2
Employees	-1	–	
Receivables	–	+1	
Inventories	–	+6	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2017				
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
May	+5	+2	+5	–

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® increased marginally in July, following a modest decline in June. The Index now stands at 127.4 (1985=100), up from 127.1 in June. The Present Situation Index improved from 161.7 to 165.9, while the Expectations Index declined from 104.0 last month to 101.7 this month.

“Consumer confidence gained marginal ground in July, after a modest decline in June,” said Lynn Franco, Director of Economic Indicators at The Conference Board. “Consumers’ assessment of present-day conditions improved, suggesting that economic growth is still strong. However, while expectations continue to reflect optimism in the short-term economic outlook, back-to-back declines suggest consumers do not foresee growth accelerating.”

Consumers’ assessment of current conditions improved further in July. Those stating business conditions are “good” increased from 37.2 percent to 38.0 percent, while those saying business conditions are “bad” declined from 11.5 percent to 10.1 percent. Consumers’ assessment of the labor market was also more favorable. Those claiming jobs are “plentiful” increased from 40.4 percent to 43.1 percent, while those claiming jobs are “hard to get” was virtually unchanged at 15.0 percent.

Consumers’ optimism about the short-term outlook waned again in July. The percentage of consumers anticipating business conditions will improve over the next six months increased from 20.7 percent to 23.1 percent, but those expecting business conditions will worsen also rose, from 9.3 percent to 10.8 percent.

Regarding their short-term income prospects, the percentage of consumers expecting an improvement rose from 19.7 percent to 20.8 percent, but the proportion expecting a decrease also rose, from 7.9 percent to 9.2 percent.

University of Michigan Surveys of Consumers

Consumer sentiment posted a trivial 0.3 point one-month decline, remaining a half of an Index-point or less from the average in the prior twelve months (97.7) or since the start of 2017 (97.4). Despite the expectation of higher inflation and higher interest rates during the year ahead, consumers have kept their confidence at high levels due to favorable job and income prospects. This mix of positive and negative expectations is similar to past expansions, and, as in the past, it will prevail as long as increases in inflation and interest rate hikes remain modest. What is unique about the current situation is the potential impact of tariffs on the domestic economy. Concerns about tariffs greatly accelerated in the July survey. Across all households, 35% spontaneously mentioned that the tariffs would have a negative economic impact in July, up from 21% in June and 15% in May. Consumers who had negative concerns about the tariffs voiced a much more pessimistic economic outlook, had inflation expectations that were 0.6 percentage points higher than those who hadn't mentioned tariffs, and were more likely to anticipate that the unemployment rate would rise during the year ahead.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.5% in June to 109.8 (2016 = 100), following no change in May, and a 0.4% increase in April.

“The U.S. LEI increased in June, pointing to continuing solid growth in the U.S. economy,” said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. “The widespread growth in leading indicators, with the exception of housing permits which declined once again, does not suggest any considerable growth slowdown in the short-term.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3% in June to 103.9 (2016 = 100), following a 0.1% increase in May, and a 0.2% increase in April.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3% in June to 105.4 (2016 = 100), following a 0.5% increase in May, and a 0.4% decrease in April.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 4.1% in the second quarter of 2018, according to the “advance” estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 2.2%. The increase in real GDP in the second quarter reflected positive contributions from personal consumption expenditures (PCE), exports, nonresidential fixed investment, federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

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 June 2018, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $506.8 billion, an increase of 0.5% from the previous month, and 6.6% above June 2017. Total sales for the April 2018 through June 2018 period were up 5.9% from the same period a year ago.

Retail trade sales were up 0.3% from May 2018, and 6.4% above last year. Gasoline Stations were up 21.6% from June 2017, while Nonstore Retailers were up 10.2% from last year.

Sales at furniture and home furnishings stores in June were up 4.8% over June 2017. Year to date, sales at these stores were up 5.3% over the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1% in June on a seasonally adjusted basis after rising 0.2% in May, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index rose 2.9% before seasonal adjustment.

The indexes for shelter, gasoline, and food all rose to lead to the seasonally adjusted increase in the all items index. The food index increased 0.2% in June, with the indexes for food at home and food away from home both rising 0.2%. Despite a 0.5% increase in the gasoline index, the energy index declined 0.3%, with the indexes for electricity and natural gas both falling.

The index for all items less food and energy rose 0.2% in June. The shelter index rose 0.1%, and the indexes for medical care, used cars and trucks, new vehicles, and recreation all increased. The indexes for apparel, airline fares, and household furnishings and operations all declined in June.

The all items index rose 2.9% for the 12 months ending June; this was the largest 12-month increase since the period ending February 2012. The index for all items less food and energy rose 2.3% for the 12 months ending June. The food index increased 1.4%, and the energy index rose 12.0%, its largest 12-month increase since the period ending February 2017.

Employment

Total nonfarm payroll employment increased by 213,000 in June, and the unemployment rate rose to 4.0%, according to the latest report from the U.S. Bureau of Labor Statistics. Job growth occurred in professional and business services, manufacturing, and health care, while retail trade lost jobs.

The unemployment rate rose by 0.2 percentage point to 4.0% in June, and the number of unemployed persons increased by 499,000 to 6.6 million. A year earlier, the jobless rate was 4.3%, and the number of unemployed persons was 7.0 million.

The number of long-term unemployed (those jobless for 27 weeks or more) increased by 289,000 in June to 1.5 million. These individuals accounted for 23.0% of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in June increased $2.5 billion or 1.0% according to the U.S. Census Bureau. This increase, up following two consecutive monthly decreases, followed a 0.3% May decrease. Excluding transportation, new orders increased 0.4 %. Excluding defense, new orders increased 1.5%. Transportation equipment, also up following two consecutive monthly decreases, led the increase, $1.9 billion or 2.2 %

Shipments of manufactured durable goods in June, up ten of the last 11 months, increased $4.1 billion or 1.7%. This followed a 0.2% May increase. Transportation equipment, also up seven of the last eight months, led the increase, $3.1 billion or 3.8%.

According to the final report, new orders for furniture and related products were up 5.7% over May 2017 and shipments were up 2.1%. Year to date, orders were up 2.1% and shipments were up 6.0%.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales decreased for the third straight month in June, as declines in the South and West exceeded sales gains in the Northeast and Midwest, according to the National Association of Realtors®. The ongoing supply and demand imbalance helped push June's median sales price to a new all-time high.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 0.6% to a seasonally adjusted annual rate of 5.38 million in June from a downwardly revised 5.41 million in May. With last month's decline, sales are now 2.2% below a year ago.

Single-family home sales declined 0.6% to a seasonally adjusted annual rate of 4.76 million in June from 4.79 million in May, and were 2.3% below the 4.87 million sales pace a year ago. The median existing single-family home price was $279,300 in June, up 5.2% from June 2017.

Existing condominium and co-op sales were at a seasonally adjusted annual rate of 620,000 units in June (unchanged from last month), and were 1.6% below a year ago. The median existing condo price was $258,100 in June, which was 4.9% above a year ago.

Lawrence Yun, NAR chief economist, says closings inched backwards in June and fell on an annual basis for the fourth straight month. "There continues to be a mismatch since the spring between the growing level of homebuyer demand in most of the country in relation to the actual pace of home sales, which are declining," he said. "The root cause is without a doubt the severe housing shortage that is not releasing its grip on the nation's housing market. What is for sale in most areas is going under contract very fast and in many cases, has multiple offers. This dynamic is keeping home price growth elevated, pricing out would-be buyers and ultimately slowing sales."

The median existing-home price for all housing types in June was $276,900, surpassing last month as the new all-time high and up 5.2% from June 2017 ($263,300). June's price increase marks the 76th straight month of year-over-year gains.

Total housing inventory at the end of June climbed 4.3% to 1.95 million existing homes available for sale, and was 0.5% above a year ago (1.94 million) – the first year-over-year increase since June 2015. Unsold inventory is at a 4.3-month supply at the current sales pace (4.2 months a year ago).

Properties typically stayed on the market for 26 days in June, unchanged from the last three months and down from 28 days a year ago. Fifty-eight percent of homes sold in June were on the market for less than a month.

"It's important to note that despite the modest year-over-year rise in inventory, the current level is far from what's needed to satisfy demand levels," added Yun. "Furthermore, it remains to be seen if this modest increase will stick, given the fact that the robust economy is bringing more interested buyers into the market, and new home construction is failing to keep up."

Realtor.com®'s Market Hotness Index, measuring time-on-the-market data and listings views per property, revealed that the hottest metro areas in June were Midland, Texas; Columbus, Ohio; Boston-Cambridge-Newton, Mass; Fort Wayne, Ind; and Boise City, Idaho.

First-time buyers were 31% of sales in June, which is unchanged from last month and 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 June were at a seasonally adjusted annual rate of 1,173,000. This was 12.3% below the revised May estimate of 1,337,000 and was 4.2% below the June 2017 rate of 1,225,000. Single-family housing starts in June were at a rate of 858,000; this was 9.1% below the revised May figure of 944,000 and 0.2% below June 2017. The June rate for units in buildings with five units or more was 304,000.

Single-family starts in June 2018 compared to June 2017 were down 17.0% in the Midwest but were up 6.3% in the Northeast, 3.1% in the South and 1.4% in the West.

Privately-owned housing completions in June were at a seasonally adjusted annual rate of 1,261,000. This was the same as the revised May estimate of 1,261,000, but was 2.2% above the June 2017 rate of 1,234,000. Single-family housing completions in June were at a rate of 862,000; this was 2.3% below the revised May rate of 882,000, but 5.3% above June 2017. The June rate for units in buildings with five units or more was 393,000.

Single housing units completed were down 16.4% in the Northeast and down 10.2% in the Midwest, but were up 4.5% in the South and 22.8% in the West.

A DEEPER DIVE – HOUSING, CON'T.

Regional

June existing-home sales in the Northeast jumped 5.9% to an annual rate of 720,000, but were still 4.0% below a year ago. The median price in the Northeast was $305,900, which was up 3.3% from June 2017.

In the Midwest, existing-home sales edged up 0.8% to an annual rate of 1.27 million in June, but were 3.1% below a year ago. The median price in the Midwest was $218,800, up 3.5% from a year ago.

Existing-home sales in the South decreased 2.2% to an annual rate of 2.25 million in June, but were still 0.4% higher than a year ago. The median price in the South was $237,500, up 2.7% from a year ago.

Existing-home sales in the West declined 2.6% to an annual rate of 1.14 million in June, and were 5.0% below a year ago. The median price in the West was $417,400, up 10.2% from June 2017.

New Residential Sales

Sales of new single-family houses in June 2018 were at a seasonally adjusted annual rate of 631,000, according to estimates released jointly by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. This was 5.3% below the revised May rate of 666,000, but was 2.4% above the June 2017 estimate of 616,000.

The median sales price of new houses sold in June 2018 was $302,100. The average sales price was $363,300.

The seasonally-adjusted estimate of new houses for sale at the end of June was 301,000. This represents a supply of 5.7 months at the current sales rate.

Compared to June 2017, new home sales were up 20.9% in the Northeast, 7.6% in the Midwest and 8.1% in the South, but were off 15.0% in the West.