FURNITURE INSIGHTS®

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HIGHLIGHTS - EXECUTIVE SUMMARY

We noted last month the recent conversations had indicated some slowdown in business. The January results showing an 8% increase did not seem to prove this out. Apparently, the news was a bit early as the February results fell in line with expectations, with orders falling 5% in February from February 2018.

This decline reduced year to date new orders to an increase of 1% over the first two months of last year. Last year's first two month orders were up 4% over the previous year. Approximately 56% of the participants reported a decline in orders for the first two months of 2019.

Shipments fell 3% from February 2018 after a 14% increase last month. This decline reduced year to date shipments to a 5% increase. About one-half of the participants reported year to date increased shipments.

Backlogs dropped from a 9% increase reported last month to a 7% increase in February. Backlogs were about even with January levels as orders and shipments in dollars were about the same.

Receivable levels remained in line with year to date shipments although with the decrease in shipments for the month, we might have thought they would go down some. We will watch next month.

Inventory levels fell 3% from January. With the slowdown in business talked about, this decrease made sense. Inventory levels remained 5% ahead of last year at this time.

Factory and warehouse employees were down 2% from last February, the same as reported last month. Payrolls were up 3% over last year's first two months. Some of that may be reflecting raises given by many last year trying to keep and attract employees.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®* improved in April after decreasing in March. Both Present Situation and Expectations Indexes improved. The percentage of consumers short-term outlook improved as well as the outlook for short-term income prospects. Lynn Franco, Senior Director of Economic Indicators, said that while confidence was still not at the level of last Fall, the strong conditions indicated in the survey should continue to support consumers spending in the near term.

The preliminary report from the University of Michigan Surveys reported a continued "sideways shuffle" in early April, reporting a small decline. But the levels over the last 30 months were higher than any such period since 1997 to 2000, the final phase of the 10-year expansion. It noted that rising nominal incomes and low inflation were producing strong gains in inflation adjusted incomes. But it also noted that vehicle and home buying have not benefitted from low prices as consumers have complained about rising vehicle and home prices.

Housing

Existing-home sales in March fell both for total sales as well as for single-family homes. Sales fell from February as well as from last year March sales. Single-family sales were off 4.7% from a year ago. Regionally, sales were down from a year ago, 1.5% in the Northeast, 8.6% in the Midwest, 2.1% in the South and 10.7% in the West. The median price was up in all regions from 2.4% to 4.6%.

For better news, new home sales in March were up 4.5% from February and were up 3.0% over March 2018. Sales were up in the Midwest and South but decreased 20.0% in the Northeast and 4.3% in the West.

Housing starts in March were off slightly from February but down 14.2% from March 2018. Single-family starts were off 11% with all regions except the South reporting declining starts from March a year ago.

Other

The Conference Board's Leading Economic Index for the U.S. (LEI) improved again in March, increasing 0.4%. The report noted that despite the relatively large gain in March, the trend seems to indicate the growth in the U.S. economy is likely to decelerate towards the long-term potential of about 2% by year end.

Surprisingly, the advance estimate of Gross Domestic Product reported a growth rate of 3.2% for the first quarter up 2.2% in the fourth quarter of 2018. Most of the factors improved except for a decrease in residential investment.

Advance reports for U.S. retail and food services for March indicated an increase of 1.6% from February and a 3.6% increase over March 2018. Sales at furniture and home furnishings stores on an adjusted basis were up 1.7% over February and 1.1% over March 2018. On an unadjusted basis, sales were down 0.9% year to date.

The Consumer Price Index increased 0.4% in March after a 0.2% increase in February. The all items index increased 1.9% for the 12 months ending March up from 1.5% in February. The all items less food and energy rose 2.0% over the same period. The gasoline index increased sharply as we have seen.

Non farm employment rebounded from a disappointing February, with March results indicating an increase of 196,000. Most job gains occurred in health care and professional and technical services.

EXECUTIVE SUMMARY, CONT.

Thoughts

Well, the recent conversations of slower business finally showed up in our survey results for February. And in spite of a very good market from a feel-good standpoint, orders have not picked up that much since Market, according to informal talks with clients and others. In fact, a few mentioned words like very slow or worse.

A couple of people we talked to indicated that they had noticed some improvement recently.

I also spoke with a multi-bag sales guy yesterday morning who said his recent road trip was very good and business seemed to have picked up at the retailers he called on just last week.

Consumer confidence remains at very good levels, according to the surveys. And the stock market has continued to perform. Housing though, continues to be held back some due to higher prices.

So overall, most people we talk to do not understand why the furniture business is not better than it is.

We know that weather in many parts of the country has been pretty bad. That along with all the negative news on TV, is keeping people from spending on furniture products, at least the larger ticket items. Hopefully as it appears Spring has finally sprung in some parts, consumers will feel better about their spending.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

After hearing for a couple of months that business was slowing, our recent survey of residential furniture manufacturers and distributors began to indicate a slowdown had occurred. February 2019 orders were 5% below February 2018 orders, according to the survey. Only 37% of the participants reported increased orders for the month. This was down from about one-half of the participants reporting last month.

Year to date, new orders were up 1% after the first two months of the year. Some 44% of the participants reported increased orders for the two months.

Shipments and Backlogs

Shipments in February were 3% lower than shipments in February 2018. Shipments in February were 14% below January but part of that was due to two fewer shipping days in February versus January. Almost 60% of the participants reported lower shipments in February versus February 2018.

Year to date, shipments were up 5% over the first two months of last year. The 3% decline in February followed the strong 14% increase reported last month.

Backlogs were about even with January as orders were about even in dollars with shipments. Backlogs in February were 7% higher than February 2018, down from 9% reported last month.

Receivables and Inventories

Receivable levels were 5% higher than February 2018, but down 9% from January. Shipments were down 14% from January so the 9% decline was reasonable. The 5% increase over last February was in line with year to date shipments.

Inventories fell 3% from January resulting in inventories being 5% higher than February 2018. But the February levels remained 5% ahead of last year, the same as was reported last month.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in February was even with January levels but were down 2% from February 2018, the same as reported last month. Factory and warehouse payrolls fell 3% from January, likely due to fewer days in the month. Year to date, factory and warehouse payrolls were 3% higher than last year, down from 6% reported last month.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2019		
	FEB	JAN	2 MONTHS
New Orders	2,156	2,241	4,397
Shipments	2,134	2,321	4,455
Backlog	2,190	2,180	

	2018		
	FEB	JAN	2 MONTHS
New Orders	2,269	2,082	4,351
Shipments	2,192	2,033	4,225
Backlog (R)	2,046	1,988	

MONTHLY RESULTS - APRIL 2019

KEY MONTHLY INDICATORS (PERCENT CHANGE)	February 2019 From January 2019	February 2019 From February 2018	2 Months 2019 vs 2 Months 2018
New Orders	-6	-5	+1
Shipments	-14	-3	+5
Backlog	–	+7	
Payrolls	-3	–	+3
Employees	–	-2	
Receivables	-9	+5	
Inventories	-3	+5	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2018				
February	+5	+3	-2	-1
March	+2	–	+1	-1
April	+15	+10	+6	-1
May	+5	+2	+5	–
June	+5	+2	+7	-1
July	+5	+6	+4	-2
August	+9	+5	+6	-2
September	+9	–	+14	-1
October	+7	+3	+14	-2
November	+3	+8	+9	-2
December	+7	–	+13	-1
2019				
January	+8	+14	+9	-2
February	-5	-3	+7	-2

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board's *Consumer Confidence Index®* improved in April, after decreasing in March. The Index now stands at 129.2 (1985=100), up from 124.2 in March. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased, from 163.0 to 168.3. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 98.3 last month to 103.0 this month.

"Consumer Confidence partially rebounded in April, following March's decline, but still remains below levels seen last Fall," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index, which had decreased sharply last month, improved in April, as did consumers' short-term outlook. Overall, consumers expect the economy to continue growing at a solid pace into the summer months. These strong confidence levels should continue to support consumer spending in the near-term."

Consumers' assessment of current conditions improved in April. Those stating business conditions are "good" increased from 34.7% to 37.3%, while those saying business conditions are "bad" decreased from 12.4% to 11.7%. Consumers' assessment of the labor market was also more upbeat. Those stating jobs are "plentiful" increased from 42.5% to 46.8%, while those claiming jobs are "hard to get" decreased from 13.8% to 13.3%.

Consumers' short-term outlook also improved in April. The percentage of consumers expecting business conditions will be better six months from now increased from 17.2% to 19.9%, while those expecting business conditions will worsen declined from 10.0% to 9.1%.

Regarding their short-term income prospects, the percentage of consumers expecting an improvement was virtually unchanged at 21.5%, while the proportion expecting a decrease declined, from 7.4% to 7.0%.

University of Michigan Surveys of Consumers

Surveys of Consumers Chief Economist, Richard Curtin, said "Consumer confidence continued its sideways shuffle in early April, posting an insignificant decline following the small gain recorded last month. Overall, the level of the Sentiment Index during the past 30 months was higher than any other time since 1997 to 2000, the final phase of the record 10-year expansion; a record that will be soon overtaken by the current expansion. Interestingly, the impact of the tax reform legislation on consumer confidence has all but disappeared. Spontaneous references to the tax reform program were on balance favorable in January 2018 (22% favorable minus 6% unfavorable). Since then, however, unaided references declined sharply so that by early April the net balance was zero (4% favorable minus 4% unfavorable). The data does not imply that consumers were pleased or displeased with the reforms, especially the limitations on state and local tax deductions. The data does suggest that consumers thought that its stimulative impact on the overall economy has now run its course. What has been of increasing importance to consumers are rising nominal incomes, and low inflation, producing strong gains in inflation adjusted incomes. Unfortunately, vehicle and home buying have not benefitted from low prices, but consumers have increasingly voiced complaints about rising vehicle and home prices, and slight declines in unit sales of both markets are anticipated in 2019."

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.4% in March to 111.9 (2016=100), following a 0.1% increase in February, and no change in January.

"The U.S. LEI picked up in March with labor markets, consumers' outlook, and financial conditions making the largest contributions," said Ataman Ozyildirim, Director of Economic Research at The Conference Board. "Despite the relatively large gain in March, the trend in the U.S. LEI continues to moderate, suggesting that growth in the U.S. economy is likely to decelerate toward its long term potential of about 2% by year end."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1% in March to 105.8 (2016=100), following a 0.1% increase in February, and no change in January.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1% in March at 107.0 (2016=100), following no change in February, and a 0.6% increase in January.

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 3.2% in the first quarter of 2019, according to the "advance" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2018, real GDP increased 2.2%.

The increase in real GDP in the first quarter reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, exports, state and local government spending, and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased. These contributions were partly offset by a decrease in residential investment.

The acceleration in real GDP growth in the first quarter reflected an upturn in state and local government spending, accelerations in private inventory investment and in exports, and a smaller decrease in residential investment. These movements were partly offset by decelerations in PCE and nonresidential fixed investment, and a downturn in federal government spending. Imports, which are a subtraction in the calculation of GDP, turned down.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales retreated in March, following February's surge of sales, according to the National Association of Realtors® (NAR). Each of the four major U.S. regions saw a drop-off in sales, with the Midwest enduring the largest decline last month.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 4.9% from February to a seasonally adjusted annual rate of 5.21 million in March. Sales as a whole are down 5.4% from a year ago (5.51 million in March 2018).

Single-family home sales sit at a seasonally adjusted annual rate of 4.67 million in March, down from 4.91 million in February and down 4.7% from 4.90 million a year ago. The median existing single-family home price was $261,100 in March, up 3.8% from March 2018.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 540,000 units in March, down 5.3% from last month and down 11.5% from a year ago. The median existing condo price was $244,400 in March, which was up 3.6% from a year ago.

Lawrence Yun, NAR's chief economist, anticipated waning in the numbers for March. "It is not surprising to see a retreat after a powerful surge in sales in the prior month. Still, current sales activity is underperforming in relation to the strength in the jobs markets. The impact of lower mortgage rates has not yet been fully realized."

The median existing-home price for all housing types in March was $259,400, up 3.8% from March 2018 ($249,800). March's price increase marks the 85th straight month of year-over-year gains.

Total housing inventory at the end of March increased to 1.68 million, up from 1.63 million existing homes available for sale in February and a 2.4% increase from 1.64 million a year ago. Unsold inventory is at a 3.9-month supply at the current sales pace, up from 3.6 months in February and up from 3.6 months in March 2018.

"Further increases in inventory are highly desirable to keep home prices in check," says Yun. "The sustained steady gains in home sales can occur when home price appreciation grows at roughly the same pace as wage growth."

Properties remained on the market for an average of 36 days in March, down from 44 days in February but up from 30 days a year ago. Forty-seven percent of homes sold in March were on the market for less than a month.

Yun says tax policy changes will likely add further complications to the housing sector. "The lower-end market is hot while the upper-end market is not. The expensive home market will experience challenges due to the curtailment of tax deductions of mortgage interest payments and property taxes."

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 4.27% in March from 4.37% in February. The average commitment rate across all of 2018 was 4.54%.

First-time buyers were responsible for 33% of sales in March, up from last month and a year ago (32% and 30%). NAR's 2018 *Profile of Home Buyers and Sellers* – released in late 2018 – revealed that the annual share of first-time buyers was 33%.

A DEEPER DIVE – HOUSING, CONT.

Regional

March existing-home sales numbers in the Northeast decreased 2.9% to an annual rate of 670,000, 1.5% below a year ago. The median price in the Northeast was $277,500, which was up 2.5% from March 2018.

In the Midwest, existing-home sales declined 7.9% from last month to an annual rate of 1.17 million, 8.6% below March 2018 levels. The median price in the Midwest was $200,500, which was up 4.6% from last year.

Existing-home sales in the South dropped 3.4% to an annual rate of 2.28 million in March, down 2.1% from last year. The median price in the South was $227,400, up 2.4% from a year ago.

Existing-home sales in the West fell 6.0% to an annual rate of 1.09 million in March, 10.7% below a year ago. The median price in the West was $389,300, up 3.1% from March 2018.

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 1,139,000. This was 0.3% below the revised February estimate of 1,142,000 and was 14.2% below the March 2018 rate of 1,327,000. Single-family housing starts in March were at a rate of 785,000; this was 0.4% below the revised February figure of 788,000.

Comparing March 2019 to March 2018, single-family starts were off 11.0%, with starts off 6.6% in the Northeast, 41.4 in the Midwest and 21.6% in the West. Starts were up 3.9% in the South.

Privately-owned housing completions in March were at a seasonally adjusted annual rate of 1,313,000. This was 1.9% below the revised February estimate of 1,338,000, but was 6.8% above the March 2018 rate of 1,229,000. Single-family housing completions in March were at a rate of 938,000; this was 11.9% above the revised February rate of 838,000. The March rate for units in buildings with five units or more was 364,000.

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 March 2019 were at a seasonally adjusted annual rate of 692,000. This was 4.5% above the revised February rate of 662,000 and was 3.0% above the March 2018 estimate of 672,000.

The median sales price of new houses sold in March 2019 was $302,700. The average sales price was $376,000. The seasonally-adjusted estimate of new houses for sale at the end of March was 344,000. This represents a supply of 6.0 months at the current sales rate.

Sales by region were varied. Sales were up 1.2% in the Midwest and 9.3% in the South. But sales decreased 20.0% in the Northeast and 4.3% in the West.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates by the U.S. Census Bureau of U.S. retail and food services sales for March 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $514.1 billion, an increase of 1.6% from the previous month, and 3.6% above March 2018. Total sales for the January 2019 through March 2019 period were up 2.9% from the same period a year ago.

Retail trade sales were up 1.7% from February 2019, and 3.5% above last year. Nonstore retailers were up 11.6% from March 2018, while sporting goods, hobby, musical instrument, and book stores were down 9.7% from last year.

Sales in March at furniture and home furnishings stores, on an adjusted basis, were up 1.7% over February and 1.1% over March 2018. On a non-adjusted basis, sales were down 1%. Year to date, sales at these stores were down 0.9%.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4% in March on a seasonally adjusted basis after rising 0.2% in February, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all items index increased 1.9% before seasonal adjustment.

The energy index increased 3.5% in March, accounting for about 60% of the seasonally adjusted all items monthly increase. The gasoline index increased sharply, and the electricity index also rose, although the natural gas index declined. The food index also increased in March, with the indexes for food at home and food away from home both continuing to rise.

The index for all items less food and energy increased 0.1% in March, the same increase as in February. The indexes for shelter, medical care, new vehicles, recreation, education, and tobacco were among those that increased in March, while the indexes for apparel, used cars and trucks, and airline fares all declined.

The all items index increased 1.9% for the 12 months ending March, a larger increase than the 1.5% rise for the period ending February. The index for all items less food and energy rose 2.0% over the last 12 months. The food index rose 2.1% over the past year, its largest 12-month increase since the period ending March 2015, while the energy index declined 0.4% over the past year.

Employment

Total nonfarm payroll employment increased by 196,000 in March, and the unemployment rate was unchanged at 3.8%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in health care and in professional and technical services.

The unemployment rate remained at 3.8% in March, and the number of unemployed persons was essentially unchanged at 6.2 million.

In March, the number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.3 million and accounted for 21.1% of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in March increased 2.7% to $258.5 billion, according to the U.S. Census Bureau. This increase, up four of the last five months, followed, at 1.1% February decrease. Excluding transportation, new orders increased 0.4%. Excluding defense, new orders increased 2.3%. Transportation equipment, also up four of the last five months, led the increase, 7.0%.

Shipments of manufactured durable goods in March, up four of the last five months, increased 0.3%. This followed a 0.3% February increase. Transportation equipment, up following two consecutive monthly decreases, drove the increase, 1.1%.

The full report for February indicated that furniture and related products orders were up 1.6% over February 2018 and up 2.8% year to date while shipments were up 0.8% over February last year and 2.3% year to date.