FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

According to our latest survey of residential furniture manufacturers and distributors, new orders in May were down again, falling 3% compared to May 2018. The decline in orders in May was the fourth consecutive month of declining orders. Approximately 59% of the participants reported reduced orders.

Year-to-date, new orders remained 3% below the first five months of last year with 64% of the participants reporting reduced orders. Last year, new orders year-to-date through May were up 6% so maybe the decline this year is not quite as bad as it might seem.

Shipments were down 3% from May 2018, bringing year-to-date shipments down to a 1% increase so far this year. Backlogs in May were up 1% over April but down 2% from May 2018.

Receivable levels, up 5% over May 2018, seemed a bit out of line compared to shipments, but shipments in May were up 7% over April so this issue is hopefully one of timing. Inventories remained at high levels, up 12% over May 2018. Some of this could be tarrif related, but inventory levels need to be watched.

Factory and warehouse employee levels and payrolls were a bit high but not too much out of line. Due to a shortage of workers in many areas, we think overall wages are up plus high turnover and training costs are hurting some participants.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index "rebounded" in July after declining in June. Both the Present Situation Index and the Expecations Index increased significantly. The overall index came in at the highest point this year. Consumers were favorable towards current and prospective business and labor market conditions. Expectations regarding their financial outlook also improved.

The University of Michigan Consumer Sentiment Survey was not as positive but being somewhat unchanged was noted as positive. Much of the focus of their report centered around inflation expectations which were not expected to be an issue short-term.

Housing

Existing home sales fell in June after gains reported in May. Overall sales were down 1.7% from May (single-family sales off 1.5%). Regionally, sales were off from a year ago in all four regions of the country.

Lawrence Yun, NAR's chief economist, noted there was an imbalance for mid-to-lower priced homes with solid demand and insufficient supply, pushing prices up.

New single-family home sales in June were 4.5% ahead of June a year ago, with sales up in the South and West, but down 50% in the Northeast and 17.6% in the Midwest.

Housing starts were off slightly from May 2019 but were 6.2% ahead of June 2018. Starts were up in the Midwest and South, but were down in the Northeast and West.

Other

Gross domestic product rose 2.1% in the second quarter according to early estimates released by the Commerce Department. The report noted that the economy has slowed somewhat after the effects of tax cuts and government spending had given the economy a jolt.

Advance estimates for U.S. retail and food services for June 2019 showed an increase of 0.4% from the previous month and up 3.4% from June 2018. Sales at furniture and home furnishing stores were up 0.8% from June 2018 but down 0.8% year-to-date from the first half of 2018.

The Consumer Price Index increased 0.1% and increased 1.6% over the last 12 months. Increases noted in shelter, apparel and used cars and trucks were offset by declines in the energy index. The food index unchanged though food away from home increased but food at home declined.

Non-farm employment increased 224,000 after a disappointing 75,000 increase last month. Gains were reported for professional and business services, healthcare and in transportation and warehousing.

EXECUTIVE SUMMARY, CONT.

Thoughts

Once again, the latest survey continued to support what we had been hearing regarding slower business. And, we are not really hearing much encouragement for June-July results. We hear a few comments regarding some pickups here and there, but there certainly is no consistency, even when talking to folks selling the same categories.

We do need to keep in mind that we are comparing to pretty good numbers last year, so it is not like we are declining after prior year declines. But still the feeling is that business is soft. Even those doing well one month or quarter are not always able to put two periods back to back.

The very positive Consumer Confidence report was good new even though it does not seem to be bleeding over into furniture sales. It is interesting that the GDP report noted that consumer spending was holding up the economy while their feeling was that the economy in general is slowing, mainly due to slower business spending. So it does appear the strong consumer confidence is impacting the economy.

We have always said that the industry does not do well when confidence is down. And we always believed it performed better when there was strong confidence. We wonder why that is not working as well this time.

We hope to see some pickup after summer vacations, etc. We will need some before the political ads start and all the news goes to elections.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

For the fourth consecutive month, new orders in May were down compared to orders in May of 2018, according to our most recent survey of residential furniture manufacturers and distributors. New orders were down 3% versus May a year ago after falling 9% in April, 3% in March and 5% in February. Approximately 59% of the participants reported reduced orders comparing May 2019 to May 2018.

Year to date, new orders remained 3% below the first five months of 2018. Some 64% of the participants reported reduced orders for the first five months. But we should keep in mind that year to date orders in May of 2018 were 6% ahead of year to date 2017, so the comparison is to pretty strong results in 2018.

Shipments and Backlogs

Shipments were also off 3% versus May 2018. Shipments were down for 56% of the participants. Year to date, shipments were up 1% for the first five months, compared to a 3% year to date increase reported for 2018 versus 2017. Shipments were down for slightly less than one-half the participants, so the overall results were fairly even.

Backlogs in May were up 1% over April but were down 2% from May 2018. Last year at end of May, backlogs were 5% higher than May 2017.

Receivables and Inventories

Receivables were up 5% over May 2018, a bit out of line considering the 3% decline in shipments versus last year and the 1% increase year to date. But with shipments up 7% in May over April, this could be a timing issue so we will just monitor. We have not heard much complaining about slower than normal payments.

Inventories were up 4% from April 2019 and 12% higher than May 2018. This definitely seems out of line but in looking at the numbers, there were a good number of participants up significantly. We assume some of this may be tariff related, so hopefully this is just a timing issue.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees fell 1% from last month and were 2% below May 2018. This would be in line with the decline in orders and shipments.

But payrolls were up 1% from last year and remained 2% above last year to date. We think some of this probably relates to the shortage of workers in certain parts of the country, forcing higher wages to be paid.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

2019	MAY	APR	5 MONTHS
New Orders	2,473	2,293	11,672
Shipments	2,357	2,282	11,602
Backlog	2,232	2,201	

2018	MAY	APR	5 MONTHS
New Orders	2,540	2,509	11,975
Shipments	2,420	2,340	11,526
Backlog (R)	2,278	2,192	

MONTHLY RESULTS - JULY 2019

KEY MONTHLY INDICATORS (PERCENT CHANGE)	May 2019 From April 2019	May 2019 From May 2018	5 Months 2019 vs 5 Months 2018
New Orders	+8	-3	-3
Shipments	+7	-3	+1
Backlog	+1	-2	
Payrolls	+3	+1	+2
Employees	-1	-2	
Receivables	+2	+5	
Inventories	+4	+12	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2018				
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
March	-3	-1	+4	-1
April	-9	-2	–	-2
May	-3	-3	-2	-2

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® rebounded in July, following a decrease in June. The Index now stands at 135.7 (1985=100), up from 124.3 in June. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased from 164.3 to 170.9. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 97.6 last month to 112.2 this month.

"After a sharp decline in June, driven by an escalation in trade and tariff tensions, Consumer Confidence rebounded in July to its highest level this year," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers are once again optimistic about current and prospective business and labor market conditions. In addition, their expectations regarding their financial outlook also improved. These high levels of confidence should continue to support robust spending in the near-term despite slower growth in GDP."

Consumers' assessment of present-day conditions improved in July. Those claiming business conditions are "good" increased from 37.5 % to 40.1%, however, those saying business conditions are "bad" also increased slightly, from 10.6 % to 11.2%. Consumers' appraisal of the job market was also more favorable. Those saying jobs are "plentiful" increased from 44.0% to 46.2%, while those claiming jobs are "hard to get" declined from 15.8 % to 12.8%.

Consumers were more optimistic about the short-term outlook in July. The percentage of consumers expecting business conditions will be better six months from now increased from 19.1% to 24.0%, while those expecting business conditions will worsen declined from 12.6% to 8.7%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement increased from 20.5% to 24.7%, while the proportion expecting a decrease declined from 7.5 % to 6.3%.

The University of Michigan's consumer sentiment for the US came in at 98.4 in July 2019, little-changed from the previous month's 98.2 and slightly below market consensus of 98.5, a preliminary estimate showed.

The consumer expectations sub-index rose to 90.1 in July from the previous month's 89.3; while the gauge for current economic conditions decreased to 111.1 from 111.9. Inflation expectations for the year ahead eased to 2.6 percent in July from 2.7 percent in June; while the 5-year outlook climbed to 2.6 percent from 2.3 percent.

Consumer sentiment remained largely unchanged in early July from June, remaining at quite favorable levels since the start of 2017. Moreover, the variations in Sentiment Index have been remarkably small, ranging from 91.2 to 101.4 in the past 30 months. Perhaps the most interesting change in the July survey was in inflation expectations, with the year-ahead rate slightly lower and the longer term rate moving to the top of the narrow range it has traveled in the past few years.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.3% in June to 111.5 (2016=100), following no change in May, and a 0.1% increase in April.

"The U.S. LEI fell in June, the first decline since last December, primarily driven by weaknesses in new orders for manufacturing, housing permits, and unemployment insurance claims," said Ataman Ozyildirim, Director of Economic Research at The Conference Board. "For the first time since late 2007, the yield spread made a small negative contribution. As the US economy enters its eleventh year of expansion, the longest in US history, the LEI suggests growth is likely to remain slow in the second half of the year."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1% in June to 105.9 (2016=100), following a 0.2% increase in May, and no change in April.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.6% in June to 107.7 (2016=100), following a 0.2% decline in May and no change in April.

Gross Domestic Product

Gross domestic product (GDP), the broadest measure of goods and services produced in the economy, rose at a 2.1% annual rate in the second quarter, according to preliminary data released by the Commerce Department. That represents a significant deceleration from the 3.1% growth rate in the first quarter.

The report noted that the big swings in the quarterly data are almost certainly exaggerated. The larger trend shows that the economy has cooled since last year, when tax cuts and government spending gave growth a temporary jolt. But the strong job market and robust consumer spending are keeping the recovery on track, even as trade tensions and a slowing global economy are threatening to knock it off course.

Gross Domestic Product, Cont.

The biggest factor: consumer spending, which accounts for more than two-thirds of the American economy. Stock market violatility, a prolonged government shutdown and harsh winter weather all contributed to weak spending early in the year. But consumer spending roared back in the spring, rising at a 4.3% rate. Government spending, which picked up in the second quarter after being depressed by the shutdown, also helped lift growth.

Unfortunately, other parts of the economy look much weaker. Business investment declined and exports slumped as manufacturers, in particular, were battered by tariffs and slowing demand from overseas. If that continues, it could slow hiring or even lead to layoffs, which would hurt consumer spending as well.

"There's nothing that I can point to about the consumer and say I'm worried," said Ellen Zentner, chief United States economist for Morgan Stanley. "But how long can business investment remain this sluggish without spilling over into jobs and the consumer?"

The housing market continued its recent struggle. Residential fixed investment, which includes housing construction, declined for the sixth consecutive quarter.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales weakened in June, as total sales saw a small decline after a previous month of gains, according to the National Association of Realtors® (NAR). While two of the four major U.S. regions recorded minor sales jumps, the other two – the South and the West – experienced greater declines last month.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, dropped 1.7% from May to a seasonally adjusted annual rate of 5.27 million in June. Sales as a whole are down 2.2% from a year ago (5.39 million in June 2018).

Single-family home sales sat at a seasonally adjusted annual rate of 4.69 million in June, down from 4.76 million in May (down 1.5%) and down 1.7% from 4.77 million a year ago. The median existing single-family home price was $288,900 in June, up 4.5% from June 2018.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 580,000 units in June, down 3.3% from the prior month and down 6.5% from a year ago. The median existing condo price was $260,100 in June, which was up 2.8% from a year ago.

"Home sales are running at a pace similar to 2015 levels – even with exceptionally low mortgage rates, a record number of jobs and a record high net worth in the country," said Lawrence Yun, NAR's chief economist. Yun says the nation is in the midst of a housing shortage and much more inventory is needed. "Imbalance persists for mid-to-lower priced homes with solid demand and insufficient supply, which is consequently pushing up home prices," he said.

Yun said other factors could be contributing to the low number of sales. "Either a strong pent-up demand will show in the upcoming months, or there is a lack of confidence that is keeping buyers from this major expenditure. It's too soon to know how much of a pullback is related to the reduction in the homeowner tax incentive."

The median existing-home price for all housing types in June reached an all-time high of $285,700, up 4.3% from June 2018 ($273,800). June's price increase marks the 88th straight month of year-over-year gains.

Total housing inventory at the end of June increased to 1.93 million, up from 1.91 million existing-homes available for sale in May, but unchanged from the level of one year ago. Unsold inventory is at a 4.4-month supply at the current sales pace, up from the 4.3 month supply recorded in both May and June 2018.

Properties typically remained on the market for 27 days in June, up from 26 days in May and June of 2018. Fifty-six percent of homes sold in June were on the market for less than a month.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 3.80% in June, down from 4.07% in May. The average commitment rate across all of 2018 was 4.54%.

First-time buyers were responsible for 35% of sales in June, up from 32% the month prior and up from the 31% recorded in June 2018. 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

June existing-home sales numbers in the Northeast increased 1.5% to an annual rate of 680,000, a 4.2% decline from a year ago. The median price in the Northeast was $321,200, up 4.8% from June 2018.

In the Midwest, existing-home sales inched up 1.6% to an annual rate 1.25 million, but was 1.6% lower than June 2018. The median price in the Midwest was $230,400, a 6.7% jump up from a year ago.

Existing-home sales in the South fell 3.4% to an annual rate of 2.25 million in June, down 0.4% from a year ago. The median price in the South was $248,600, up 4.9% from one year ago.

Existing-home sales in the West fell 3.5% to an annual rate of 1.09 million in June, 5.2% below a year ago. The median price in the West was $410,400, up 2.3% from June 2018.

New Residential Sales

Sales of new single-family houses in June 2019 were at a seasonally adjusted annual rate of 646,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 7.0% above the revised May rate of 604,000 and was 4.5% above the June 2018 estimate of 618,000.

The median sales price of new houses sold in June 2019 was $310,400. The average sales price was $368,600.

The seasonally-adjusted estimate of new houses for sale at the end of June was 338,000. This represents a supply of 6.3 months at the current sales rate. Regionally compared to June 2018, the 4.5% overall change from last year, was very inconsistent. Sales were up 9.5% in the South and 19.4% in the West but fell 50.0% in the Northeast and 17.6% in the Midwest.

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 1,253,000. This was 0.9% below the revised May estimate of 1,265,000, but was 6.2% above the June 2018 rate of 1,180,000. Single-family housing starts in June were at a rate of 847,000; this was 3.5% above the revised May figure of 818,000, but down 0.8% from June 2018. Single-family starts compared to June 2018 were up 8.0% in the Midwest and 6.5% in the South, but were down 34.3% in the Northeast and 9.5% in the West.

Privately-owned housing completions in June were at a seasonally adjusted annual rate of 1,161,000. This was 4.8% below the revised May estimate of 1,220,000 and was 3.7% below the June 2018 rate of 1,205,000. Single-family housing completions in June were at a rate of 870,000; this was 1.8% below the revised May rate of 886,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau announced advance estimates of U.S. retail and food services sales for June 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $519.9 billion, an increase of 0.4% from the previous month, and 3.4% above June 2018. Total sales for the April 2019 through June 2019 period were up 3.4% from the same period a year ago.

Retail trade sales were up 0.4% from May 2019, and 3.3% above last year. Nonstore retailers were up 13.4% from June 2018, while health and personal care stores were up 5.5% from last year. Estimated sales for furniture and home furnishings stores, on an adjusted basis, were up 0.8% over June 2018. Year to date, sales at these stores were down 0.8% from 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, the same increase as in May, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.6% before seasonal adjustment.

Increases in the indexes for shelter, apparel, and used cars and trucks more than offset declines in energy indexes to result in the seasonally adjusted all items monthly increase in June. The energy index fell 2.3% as all of the major energy component indexes declined. The food index was unchanged as the index for food away from home rose but the index for food at home declined.

Consumer Prices, Cont.

The index for all items less food and energy rose 0.3 in June, its largest monthly increase since January 2018. Along with the indexes for shelter, used cars and trucks, and apparel, the indexes for household furnishings and operations, medical care, and motor vehicle insurance were among the indexes that increased in June. The indexes for recreation, airline fares, and personal care all declined in June.

The all items index increased 1.6% for the 12 months ending June, a smaller increase than the 1.8% rise for the period ending May. The index for all items less food and energy rose 2.1% over the last 12 months, and the food index increased 1.9%. The energy index, in contrast, declined 3.4% over the last 12 months.

Employment

Total nonfarm payroll employment increased by 224,000 in June, and the unemployment rate was little changed at 3.7%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in professional and business services, in health care, and in transportation and warehousing.

Both the unemployment rate, at 3.7%, and the number of unemployed persons, at 6.0 million, changed little in June. The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.4 million in June and accounted for 23.7% of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in June increased $4.9 billion or 2.0% to $246.0 billion, according to the U.S. Census Bureau announcement. This increase, up following two consecutive monthly decreases, followed a 2.3% May decrease. Excluding transportation, new orders increased 1.2%. Excluding defense, new orders increased 3.1%. Transportation equipment, also up following two consecutive monthly decreases, led the increase, 3.8% to $80.5 billion.

Shipments of manufactured durable goods in June, up two consecutive months, increased $3.5 billion or 1.4% to $258.2 billion. This followed a 0.5% May increase. Transporation equipment, also up two consecutive months, led the increase, 3.1% to $88.8 billion.

According to the full report, orders for furniture and related products were up 5.3% for May versus May 2018 while shipments were up 3.6%. Year to date, orders were up 3.4% with shipments up 3.7%. Obviously, according to our survey results, “related products” must be doing better than furniture sales.