



FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

June 2019



HIGHLIGHTS - EXECUTIVE SUMMARY

We have continued to hear about business being slower and our survey results backed up those conversations for April. New orders in April were down 9% from April 2018 as only 36% of the participants reported increased orders in April. Since the April 2019 High Point Market was one week earlier in 2019 versus 2018, we do not believe the timing of market had much to do with April results.

Year to date, new orders were 3% lower than the same period a year ago, down from flat reported for the first quarter. Year to date, new orders were down for 64% of the participants.

Shipments were down 2% from April 2018, down for 55% of participants. Year to date, shipments were up 2%, but only 48% reported increased year to date shipments. Backlogs remained even with March as dollar amounts of orders and shipments were about the same.

Receivable levels were 3% higher than April 2018 somewhat in line with year to date shipments even though not in line with the month to month comparison. Inventory levels remained high compared to current business levels. These need watching if order levels remain down.

Factory and warehouse employee and payroll levels seem to be in line with the number of employees down 1% from March and 2% from last year. It appears adjustments are being made at least with the number of employees.



Ken Smith, CPA

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

After two months of increasing consumer confidence, the June Conference Board Consumer Confidence Index declined. Both the Present Situation and Expectations Indexes fell to the lowest level since September 2017. The Present Situation Index decline was based on less favorable assessments of business and labor market conditions. The Expectations Index fell based on short-term outlooks for income, business and labor market conditions. The report noted that trade and tariff issues early in the month appear to have shaken consumers confidence.

Housing

Existing-home sales had a slight comeback in May, increasing for the first time in two months. Total existing-home sales increased 2.5% from April but were 1.1% below May 2018. Single-family sales in May were up 2.6% over April but were down 0.8% from May 2018. Existing-home sales in the Northeast were about equal to a year ago and up 1.3% in the South. Sales from a year ago were down 3.9% in the Midwest and 3.4% in the West.

Lawrence Yun, NAR's chief economist, said that the increase shows that consumers were taking advantage of favorable conditions, primarily from falling mortgage rates.

New single-family houses in May were 7.8% below the April rate and were 3.7% below May 2018. New house sales were up in the Midwest and South but were off significantly in the Northeast and West compared to a year ago.

Housing starts in May were down 0.9% from April and 4.7% below May 2018. Single-family starts were down 12.5% from a year ago with all regions down except for the South which was up slightly.

Other

Advance estimates for U.S. retail and food services sales for May 2019 reported a 0.5% increase over April and 3.2% above May 2018. Sales at furniture and home furnishings stores were down 0.5% from May 2018. Year to date, sales at these stores were down 0.3%.

The Consumer Price Index for all Urban Consumers increased 0.1% in May after a 0.3% increase in April. Over the last 12 months, the all items index increased 1.8%. The index less food and energy increased 0.1% for the fourth straight month. The food index increased 0.3% after an April decline. The energy index fell 0.6% in May with the gas index down 0.5%.

Nonfarm employment results for May were disappointing, only up 75,000, while the unemployment rate stayed at 3.6%. Employment was noted as continuing up in professional and business services and in health care.

EXECUTIVE SUMMARY, CONT.

Thoughts

The April results unfortunately continued the string of declining orders. The weak results were pretty much in line with what we heard both during and after market. The not so good news is that we are not hearing much excitement even into June.

We continue to hear mixed results in conversations and our surveys seem to prove what we hear. Not everyone is down but clearly the majority are. Even so, some that are down are not down that much so that is why we continue to call the current business conditions "choppy" or even worse for some.

Overall retail is not that great either though according to the government reports. Furniture and home furnishings stores are lagging behind. Housing results, while up and down month to month, existing and new house sales were both below 2018 levels so if our historical thinking of furniture sales follow housing, one would think we might see some weaker results in furniture sales.

Consumer confidence remains high. We continue to hear that trade and tariff talks bother consumers, even though we know all furniture is not impacted – but consumers apparently do not understand that. Plus, normal political rhetoric on both sides does not give folks a lot of comfort. What did we do when we did not have news 24/7 and so many ways to get it?

Summer is here so let's hang on till the normal last half pick up, even though it likely won't start before September with vacations, etc. We hope you all have a great summer, both in your business and personally.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

Following two months of declining new orders, the results of our survey of residential furniture manufacturers and distributors continued the downward trend. New orders in April were 9% lower than April 2018. Only 36% of the participants reported increased orders for April versus April 2018. We wondered if part of the decline was market date related, but the April 2019 market was actually a week earlier than the April 2018 market, so we do not believe the decline was market related.

Year to date, new orders were down 3% (from flat through March). Similar to the monthly results, new orders were down for 64% of the participants.

Shipments and Backlogs

Shipments in April 2019 were down 2% from April 2018. Shipments were down for 55% of the participants. Shipments in April in dollars were about the same as orders.

Year to date, shipments were up 2% compared to a 3% increase reported last month. But only 48% of the participants reported increased shipments year to date.

With dollar amounts of orders and shipments close to the same, backlogs remained about the same as in March. Backlogs were also about even with last year April results.

Receivables and Inventories

Receivable levels were 3% higher in April 2019 than April 2018. Receivable levels were 3% lower than March, also out of line with the decrease in shipments of 11% for the same period. The increase over April 2018 was a bit out of line, but not all that out of line with the year to date shipment increase, so overall, receivables may still be in decent shape.

Inventories were 8% higher in April 2019 versus 2018, up from 6% reported last month. While only 55% of the participants reported increased inventories, several large participants reported significant increases over last year. But inventories were only up 1% over March so the poor results of April orders made the increase in inventories over last year seem even worse. Clearly, inventory levels need watching especially if this slowdown in orders continues.

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls were flat with April 2018 and were 2% ahead of last year's first four months year to date. The 2% increase was in line with the 2% year to date increase in shipments.

The number of factory and warehouse employees was down 2% from April a year ago. The number of employees was also down 1% from March so it appears that adjustments were starting to be made based on the slowdown in orders.



ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2019		
	APR	MAR	4 MONTHS
New Orders	2,293	2,509	9,199
Shipments	2,282	2,508	9,245
Backlog	2,201	2,191	

	2018		
	APR	MAR	4 MONTHS
New Orders	2,509	2,575	9,435
Shipments	2,340	2,546	9,106
Backlog (R)	2,192	2,023	

MONTHLY RESULTS - JUNE 2019

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	April 2019 From March 2019	April 2019 From April 2018	4 Months 2019 vs 4 Months 2018
New Orders	-11	-9	-3
Shipments	-11	-2	+2
Backlog	-	-	
Payrolls	-11	-	+2
Employees	-1	-2	
Receivables	-3	+3	
Inventories	+1	+8	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

New Orders Shipments Backlog Employment

2018

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
March	-3	-1	+4	-1
April	-9	-2	-	-2

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index*® declined in June, following an increase in May. The Index now stands at 121.5 (1985=100), down from 131.3 in May. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased from 170.7 to 162.6. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – decreased from 105.0 last month to 94.1 this month.

"After two consecutive months of improvement, Consumer Confidence declined in June and to its lowest level since September 2017 (Index, 120.6)," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The decrease in the Present Situation Index was driven by a less favorable assessment of business and labor market conditions. Consumers' expectations regarding the short-term outlook also retreated. The escalation in trade and tariff tensions earlier this month appears to have shaken consumers' confidence. Although the Index remains at a high level, continued uncertainty could result in further volatility in the Index and, at some point, could even begin to diminish consumers' confidence in the expansion."

Consumers' appraisal of current-day conditions declined in June. Those claiming business conditions are "good" decreased from 38.4% to 36.7%, however, those saying business conditions are "bad" also decreased, from 11.7% to 10.9%. Consumers' assessment of the labor market was also somewhat less upbeat. Those saying jobs are "plentiful" decreased from 45.3% to 44.0%, while those claiming jobs are "hard to get" rose from 11.8% to 16.4%.

Consumers were less optimistic about the short-term outlook in June. The percentage of consumers expecting business conditions will be better six months from now decreased from 21.4% to 18.1%, while those expecting business conditions will worsen rose from 8.8% to 13.1%.

Consumers' outlook for the labor market was also less favorable. The proportion expecting more jobs in the months ahead decreased from 18.4% to 17.3%, while those anticipating fewer jobs increased from 13.0% to 14.8%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement decreased from 22.2% to 19.1%, while the proportion expecting a decrease inched up from 7.8% to 8.0%.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 3.1% in the first quarter of 2019, according to the "third" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2018, real GDP increased 2.2%.

In the second estimate, the increase in real GDP was also 3.1%. Upward revisions to nonresidential fixed investment, exports, state and local government spending, and residential fixed investment were offset by downward revisions to personal consumption expenditures (PCE) and inventory investment and an upward revision to imports.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. was unchanged in May, remaining at 111.8 (2016=100), following a 0.1% increase in April, and a 0.2% increase in March.

"The U.S. LEI was unchanged in May, following three consecutive increases," said Ataman Ozyildirim, Director of Economic Research at The Conference Board. "Positive contributions from financial conditions and consumers' outlook offset the weakness in stock prices and the manufacturing sector. The yield spread's contribution to the LEI was neither positive nor negative. While the economic expansion is now entering its eleventh year, the longest in U.S. history, the LEI clearly points to a moderation in growth towards 2% by year end."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2% in May to 105.9 (2016=100), following a 0.1% increase in April, and a 0.1% increase in March.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2% in May to 107.0 (2016=100), following a 0.1% decline in April, and a 0.2% increase in March.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales rebounded in May, recording an increase in sales for the first time in two months, according to the National Association of Realtors® (NAR). Each of the four major U.S. regions saw a growth in sales, with the Northeast experiencing the biggest surge last month.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, jumped 2.5% from April to a seasonally adjusted annual rate of 5.34 million in May. Total sales, however, are down 1.1% from a year ago (5.40 million in May 2018).

Single-family home sales sat at a seasonally adjusted annual rate of 4.75 million in May, up from 4.63 million in April and down 0.8% from 4.79 million a year ago. The median existing single-family home price was \$280,200 in May, up 4.6% from May 2018.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 590,000 units in May, up 1.7% from the prior month and down 3.3% from a year ago. The median existing condo price was \$257,100 in May, which was up 5.4% from a year ago.

Lawrence Yun, NAR's chief economist, said the 2.5% jump shows that consumers are eager to take advantage of the favorable conditions. "The purchasing power to buy a home has been bolstered by falling mortgage rates, and buyers are responding."

The median existing-home price for all housing types in May was \$277,700, up 4.8% from May 2018 (\$265,100). May's price increase marks the 87th straight month of year-over-year gains.

Total housing inventory at the end of May increased to 1.92 million, up from 1.83 million existing homes available for sale in April and a 2.7% increase from 1.87 million a year ago. Unsold inventory is at a 4.3-month supply at the current sales pace, up from both the 4.2 month supply in April and from 4.2 months in May 2018.

Though inventory is up, the months' supply numbers remain near historic lows, which has a direct effect on price, according to Yun. "Solid demand along with inadequate inventory of affordable homes have pushed the median home price to a new record high," he said.

Properties remained on the market for an average of 26 days in May, up from 24 days in April and equal to the 26 days in May of 2018. Fifty-three percent of homes sold in May were on the market for less than a month.

Given that housing and properties have been selling so quickly, Yun continues his call for new construction. "More new homes need to be built," he said. "Otherwise, we risk worsening the housing shortage, and an increasingly number of middle-class families will be unable to achieve homeownership."

Regional

May existing-home sales numbers in the Northeast increased 4.7% to an annual rate of 670,000, about equal to a year ago. The median price in the Northeast was \$304,100, up 6.6% from May 2018.

In the Midwest, existing-home sales jumped 3.4% to an annual rate 1.22 million, which was 3.9% below May 2018 levels. The median price in the Midwest was \$220,500, an increase of 5.6% from a year ago.

Existing-home sales in the South grew 1.8% to an annual rate of 2.32 million in May, up 1.3% from a year ago. The median price in the South was \$241,400, up 3.6% from a year ago.

Existing-home sales in the West grew 1.8% to an annual rate of 1.13 million in May, 3.4% below a year ago. The median price in the West was \$409,100, up 4.1% from May 2018.

New Residential Sales

Sales of new single-family houses in May 2019 were at a seasonally adjusted annual rate of 626,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 7.8% below the revised April rate of 679,000 and was 3.7% below the May 2018 estimate of 650,000.

The median sales price of new houses sold in May 2019 was \$308,000. The average sales price was \$377,200.

The seasonally-adjusted estimate of new houses for sale at the end of May was 333,000. This represents a supply of 6.4 months at the current sales rate. New home sales were up 2.4% in the Midwest and 1.3% in the South, but were off 15.2% in the Northeast and 17.2% in the West compared to May a year ago.

A DEEPER DIVE – HOUSING, CONT

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 1,269,000. This was 0.9% below the revised April estimate of 1,281,000 and was 4.7% below the May 2018 rate of 1,332,000. Single-family housing starts in May were at a rate of 820,000; this was 6.4% below the revised April figure of 876,000. Compared to May 2018, single-family housing starts were down 12.5% in May 2019. Single-family starts were up in the South 8.1% but down 32.4% in the Northeast, 33.1% in the Midwest and 0.6% in the West.

Privately-owned housing completions in May were at a seasonally adjusted annual rate of 1,213,000. This was 9.5% below the revised April estimate of 1,340,000 and was 2.8% below the May 2018 rate of 1,248,000. Single-family housing completions in May were at a rate of 890,000; this was 5.0% below the revised April rate of 937,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau reported estimates of U.S. retail and food services sales for May 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$519.0 billion, an increase of 0.5% from the previous month, and 3.2% above May 2018. Total sales for the March 2019 through May 2019 period were up 3.6% from the same period a year ago.

Retail trade sales were up 0.5% from April 2019, and 3.1% above last year. Nonstore retailers were up 11.4% from May 2018, while sporting goods, hobby, musical instrument, and bookstores were down 4.2% from last year. Sales at furniture and home furnishings stores, on an adjusted basis, were down 0.5% from May 2018. Year to date, sales at these stores were off 0.3% from the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1% in May on a seasonally adjusted basis after rising 0.3% in April, the U.S. Bureau of Labor Statistics reported. Over the last 12 months, the all items index increased 1.8% before seasonal adjustment.

The food index rose 0.3% in May after declining in April, with the food index accounting for nearly half of the May seasonally adjusted all items monthly increase. The energy index fell 0.6% in May, with the gasoline index falling 0.5% and the indexes for electricity and natural gas also declining in May. The index for all items less food and energy increased 0.1% for the fourth consecutive month. The indexes for shelter, medical care, airline fares, education, household furnishings and operations, and new vehicles all rose in May. The indexes for used cars and trucks, recreation, and motor vehicle insurance were among those that declined over the month. The all items index increased 1.8% for the 12 months ending May. The index for all items less food and energy rose 2.0% over the last 12 months, and the food index also rose 2.0%. The energy index decreased 0.5% over the past year.

Employment

Total nonfarm payroll employment edged up in May, and the unemployment rate remained at 3.6%, according to the U.S. Bureau of Labor Statistics report. Employment continued to trend up in professional and business services and in health care. The unemployment rate remained at 3.6% in May, and the number of unemployed persons was little changed at 5.9 million. In May, the number of persons unemployed less than 5 weeks increased by 243,000 to 2.1 million, following a decline in April. The number of long-term unemployed (those jobless for 27 weeks or more), at 1.3 million, changed little over the month and accounted for 22.4% of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in May decreased \$3.3 billion or 1.3%, according to the U.S. Census Bureau announcement. This decrease, down three of the last four months, followed a 2.8% April decrease. Excluding transportation, new orders increased 0.3%. Excluding defense, new orders decreased 0.6%. Transportation equipment, also down three of the last four months, drove the decrease, \$3.9 billion or 4.6%.

Shipments of manufactured durable goods in May, up following two consecutive monthly decreases, increased \$0.9 billion or 0.4%. This followed a 1.6% April decrease. Machinery, up four of the last five months, led the increase, \$0.4 billion or 1.1% to \$33.4 billion.

According to the final report, shipments of furniture and related products in April 2019 were 5.0% higher than April 2018 and orders were 6.4% higher than April a year ago. Year to date, shipments were up 3.7% and orders were up 3.4%. (It must have been “related products.”)