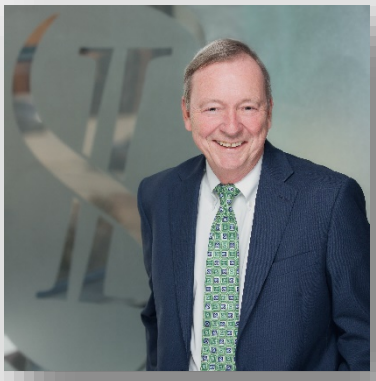
FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

September 2019



Ken Smith, CPA

HIGHLIGHTS - EXECUTIVE SUMMARY

According to our latest survey of residential furniture manufacturers and distributors, the string of lower orders finally ended in July 2019. The July orders were up 6% over July 2018, following five months of reporting declines in new orders. Once again, the good news was not for all participants as only 53% of the participants reported increased orders for July compared to last year. The increase in July reduced the year to date orders decrease to a 2% decline, down from 3% reported last month. Orders were down year to date for 67% of the participants.

Shipments in July 2019 were 1% higher than July 2018 also ending a string of five months of declining shipments compared to the previous year. Shipments were down 12% from June, but that result was somewhat normal due to the shut down for week of July 4th when most take a week off.

Backlogs were up 7% from June bringing the comparison to July 2018 to a 1% increase after being down 5% last month.

Receivable levels were reasonable though a bit out of line, but we think that will probably get back in line in August as the vacation period can have some impact. Inventories remain a bit too high at an 8% increase over last year. But that increase continues to fall over the last few months, so it appears to be moving in the right direction.

Factory and warehouse employee levels and payroll continue in line when considering the shortage of workers and premiums being paid to get people.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index decreased from 134.2 to 125.1 in September after a slight decline in August. Both the Present Situation Index and the Expectations Index fell in September. The report noted that consumers were less positive in their assessment of current conditions due to concerns over trade and tariff tensions. The report did note that the pattern of uncertainty and volatility has persisted most of the year and appears that confidence may be plateauing. Pretty much each of the factors tended to show some decline in confidence, including declines in thoughts on labor markets as well as the outlook for income prospects.

The University of Michigan Survey of Consumers had a small increase in confidence but its indexes had fallen much further last month versus the slight decline in the Conference Board's index. This report also mentioned concerns over tariffs but also noted concerns over higher inflation and unemployment. The report noted "While a recession is not anticipated in the year ahead, neither is a resurgence in personal consumption."

Housing

Existing-home sales increased again in August with three of the four regions posting gains (the West declined 3.4% in single-family homes). Overall sales were up 2.6% from a year ago. Single-family home sales were up 2.9% from a year ago. The median existing-home price was $278,200, up 4.7% from August 2018. The August price increase marked the 90th straight month of year over year increases.

New residential sales were up 18.0% over August 2018. Sales were flat in the Northeast and down slightly in the Midwest, but were up 24.9% in the South and 17.9% in the West.

Housing starts were up 6.6% over August last year with starts up in the Midwest, South and West. Starts were down in the Northeast 1.7%.

Other

Advance estimates for U.S. retail and food services in August were up 0.4% from July and up 4.1% over August 2018. Year to date, sales were up 3.3% for all retail and food services. Sales at furniture and home furnishings stores were essentially even with both July 2019 and August 2018. Year to date, sales at these stores were down 0.5%.

The Consumer Price Index for all Urban Consumers increased 0.1% in August after a 0.3% increase in July. Over the last twelve months, the all items index increased 1.7%. Indexes for shelter and medical care were major factors in the increase, outweighing the decrease in energy index. The energy index fell 1.9% as the gasoline index fell 3.5%.

Non-farm payroll employment increased by 130,000 in August with the unemployment rate remaining at 3.7%. Job increases were noted in health care and financial activities, while losses were noted in mining.

EXECUTIVE SUMMARY, CONT.

Thoughts

After several months (five to be exact) of lower orders compared to the same month a year ago, the July results for orders created a good change of scenery. We have continued to use the term choppy as a description for business conditions and we continue to hear terms like that when talking to people. But as we noted in the report, while orders were up nicely compared to last year, orders were up for only 53% of the participants in the month. And orders were down 2% year to date with 67% of the participants reporting lower orders. So "choppy" may still be a good word.

The two Consumer Confidence reports, while different for the month, have definitely begun to show some declines in confidence over the last two months. Tariff and trade talks, possible inflation and, of course, the political news for presidential candidates, as well as anti and pro Trump conversations, do not put most people in a great confidence mode.

We have talked before about how consumers are spending on "gadgets" mostly through monthly payment plans or service fees. So when confidence drops, it leaves even less for our products. Let's hope that the Michigan report, that describes slower but positive growth that will avoid a recession, is on target.

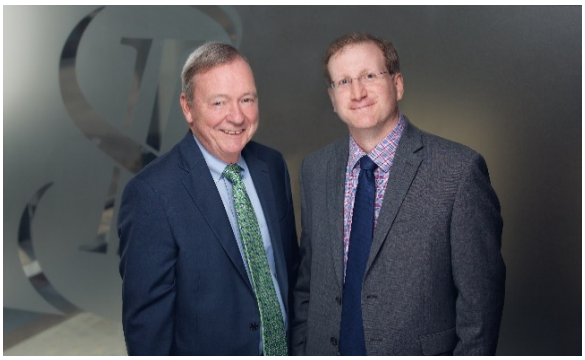
We look forward to seeing everyone at the High Point Market. As usual, good friends and great looking product shown in the best possible way all tend to turn the mood of market to a good one. If you have any thoughts you would like to share with us, please do so at ksmith@smith-leonard.com. At Smith Leonard, we are doing some great work in Transaction Advisory Services with both buy- and sell-side due diligence. If you think you may sell in the future, now is the time to get your house in order. Or we can help to make sure what you are looking at buying is what you may actually be getting. Certainly, if we can help with other tax or accounting matters, please let us know that as well.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

After five months of declining orders, the results of our monthly survey of residential furniture manufacturers and distributors finally showed positive results for July. In July, new orders were up 6% over July 2018 with some 53% of the participants reporting increased orders. This compared to June results of a 6% decline in orders and some 64% reporting lower orders. Last year, new orders in July were up 5% over July 2017 so the increase in July 2019 compared to decent results last year.

The increase in July reduced the year to date orders to a decline of 2% compared to a 3% decrease reported through June. Still, new orders year to date were down for 67% of the participants, about the same as reported last month.



Shipments and Backlogs

Shipments in July increased 1% over July 2018 and declined 12% from June. That decrease is somewhat typical due to the July vacation week shutdown for most. Even with the overall increase, shipments were down for 56% of the participants. In 2018, July shipments were up 6%.

Year to date, shipments were pretty much flat. Some 55% of the participants reported decline in shipments. Last year, through July, shipments were up 3%.

Backlogs were up 7% in July over June 2019 and up 1% from last year. The 1% increase over last year was much improved in July as our June report noted a decline of 5% from June 2018.

Receivables and Inventories

Receivable levels were up 4% over July 2018, a bit higher than expected with the 1% increase in shipments, but July data is sometimes confusing due to the holiday. We will watch the August results to see if back in line.

Inventories were up 8% over July 2018. While July inventories increased 2% over June, the 8% increase over last year is lower than the 9% reported in the June 2019 to June 2018 comparison.

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls in July were 2% higher than July 2018 and remained 2% higher year to date. While slightly out of line compared to current orders and shipping levels, we believe part of that increase relates to the tight labor markets in many areas. The decline from June again relates to the vacation week for many.

The number of factory and warehouse employees was flat compared to July 2018 and was in line with current business conditions.

ESTIMATED BUSINESS ACTIVITY (MILLIONS)

	2019		
	JUL	JUN	7 MONTHS
New Orders	2,356	2,384	16,412
Shipments	2,249	2,550	16,401
Backlog (R)	2,177	2,044	

	2018		
	JUL	JUN	7 MONTHS
New Orders	2,223	2,537	16,735
Shipments	2,227	2,656	16,409
Backlog (R)	2,155	2,159	

MONTHLY RESULTS - SEPTEMBER 2019

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	July 2019 From June 2019	July 2019 From July 2018	7 Months 2019 vs 7 Months 2018
New Orders	-1	+6	-2
Shipments	-12	+1	–
Backlog	+7	+1	
Payrolls	-16	+2	+2
Employees	-3	–	
Receivables	-2	+4	
Inventories	+2	+8	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR				
	New Orders	Shipments	Backlog	Employment
2018				
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
June	-6	-4	-5	-3
July	+6	+1	+1	–

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index*® decreased in September, following a slight decline in August. The Index now stands at 125.1 (1985=100), down from 134.2 in August. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased from 176.0 to 169.0. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – declined from 106.4 last month to 95.8 this month.

"Consumer confidence declined in September, following a moderate decrease in August," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Consumers were less positive in their assessment of current conditions and their expectations regarding the short-term outlook also weakened. The escalation in trade and tariff tensions in late August appears to have rattled consumers. However, this pattern of uncertainty and volatility has persisted for much of the year and it appears confidence is plateauing. While confidence could continue hovering around current levels for months to come, at some point this continued uncertainty will begin to diminish consumers' confidence in the expansion."

Consumers' appraisal of current-day conditions was somewhat less favorable in September. Those claiming business conditions are "good" decreased from 40.9% to 37.3%, while those saying business conditions are "bad" increased from 9.9% to 12.7%. Consumers' assessment of the job market was also less favorable. Those saying jobs are "plentiful" decreased from 50.3% to 44.8%, while those claiming jobs are "hard to get" declined slightly from 12.0% to 11.6%.

Consumers were less optimistic about the short-term outlook in September. The percentage of consumers expecting business conditions will be better six months from now decreased from 21.6% to 19.0%, while those expecting business conditions will worsen increased from 10.2% to 14.3%.

Consumers' outlook for the labor market was also less upbeat. The proportion expecting more jobs in the months ahead decreased from 19.9% to 17.5%, while those anticipating fewer jobs increased from 13.7% to 15.7%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement decreased from 24.7% to 19.0%, however, the proportion expecting a decrease also declined, from 6.3% to 5.6%.

University of Michigan Surveys of Consumers

The University of Michigan's consumer sentiment for the U.S. rose to 92 in September 2019 from 89.8 in the previous month and above market consensus of 90.9, a preliminary estimate showed.

The consumer expectations sub-index increased to 82.4 in September from the previous month's 79.9; and the gauge for current economic conditions rose to 106.9 from 105.3.

Inflation expectations for the year ahead picked up to a four-month high of 2.8% in September from 2.7% in August; while the 5-year outlook declined to 2.3% from 2.6%.

"Consumer sentiment posted a small rebound from the sharp August decline, marking the third lowest level since Trump's election. While the uptick was across both current and expected economic conditions, the early September rebound was not widespread across age or income subgroups as it only fell among consumers under age 45 and among households with incomes in the top third---these two groups account for about half of all spending. The data do indicate that consumers anticipate that the Fed will cut interest rates next week, with net declines in interest rates more frequently expected at present than anytime since the depths of the Great Recession in February 2009. Concerns about the impact of tariffs on the domestic economy also rose in early September, with 38% of all consumers making spontaneous references to the negative impact of tariffs, the highest percentage since March 2018. Those who negatively mentioned tariffs also held more negative views on the overall outlook for the economy as well as anticipated higher inflation and unemployment in the year ahead. While a recession is not anticipated in the year ahead, neither is a resurgence in personal consumption. The outlook for consumption is for a slower but positive growth, keeping the expansion going for another year," Surveys of Consumers Chief Economist, Richard Curtin, said.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. was unchanged in August, remaining at 112.1 (2016=100), following a 0.4% increase in July, and no change in June.

"The U.S. LEI remained unchanged in August, following a large increase in July. Housing permits and the Leading Credit Index offset the weakness in the index from the manufacturing sector and the interest rate spread," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The recent trends in the LEI are consistent with a slow but still expanding economy, which has been primarily driven by strong consumer spending and robust job growth."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3% in August to 106.4 (2016=100), following no change in July, and a 0.3% increase in June.

The Conference Board Lagging Economic Index® (LAG) for the U.S. declined 0.3% in August to 108.2 (2016=100), following a 0.6% increase in July, and a 0.5% increase in June.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales inched up in August, marking two consecutive months of growth, according to the National Association of Realtors® (NAR). Three of the four major regions reported a rise in sales, while the West recorded a decline last month.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 1.3% from July to a seasonally adjusted annual rate of 5.49 million in August. Overall sales were up 2.6% from a year ago (5.35 million in August 2018).

Single-family home sales were at a seasonally adjusted annual rate of 4.90 million in August, up from 4.84 million in July and up 2.9% from a year ago. The median existing single-family home price was $280,700 in August 2019, up 4.7% from August 2018.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 590,000 units in August, 1.7% above the rate from the previous month and about equal to a year ago. The median existing condo price was $257,600 in August, which was up 5.2% from a year ago.

Lawrence Yun, NAR's chief economist, attributed the increase in sales to falling mortgage rates. "As expected, buyers are finding it hard to resist the current rates," he said. "The desire to take advantage of these promising conditions is leading more buyers to the market."

The median existing-home price for all housing types in August was $278,200, up 4.7% from August 2018 ($265,600). August's price increase marks the 90th straight month of year-over-year gains.

"Sales are up, but inventory numbers remain low and are thereby pushing up home prices," said Yun. "Homebuilders need to ramp up new housing, as the failure to increase construction will put home prices in danger of increasing at a faster pace than income."

Total housing inventory at the end of August decreased to 1.86 million, down from 1.90 million existing-homes available for sale in July, and marking a 2.6% decrease from 1.91 million one year ago. Unsold inventory is at a 4.1-month supply at the current sales pace, down from 4.2 months in July and from the 4.3-month figure recorded in August 2018.

Properties typically remained on the market for 31 days in August, up from 29 days in July and in August of 2018. Forty-nine percent of homes sold in August 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 3.62% in August, down from 3.77% in July. The average commitment rate across all of 2018 was 4.54%.

Regional

August existing-home sales in the Northeast increased 7.6% to an annual rate of 710,000, a 1.4% rise from a year ago. The median price in the Northeast was $303,500, down 0.3% from August 2018.

In the Midwest, existing-home sales grew 3.1% to an annual rate of 1.31 million, which was a 2.3% increase from August 2018. The median price in the Midwest was $220,000, a 6.6% jump from a year ago.

Existing-home sales in the South increased 0.9% to an annual rate of 2.33 million in August, up 3.6% from a year ago. The median price in the South was $240,300, up 5.4% from one year ago.

Existing-home sales in the West declined 3.4% to an annual rate of 1.14 million in August, 1.8% above a year ago. The median price in the West was $415,900, up 5.7% from August 2018.

New Residential Sales

Sales of new single-family houses in August 2019 were at a seasonally adjusted annual rate of 713,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 7.1% above the revised July rate of 666,000 and was 18.0% above the August 2018 estimate of 604,000.

Sales were flat in the Northeast and down 7.2% in the Midwest, but were up 24.9% in the South and 17.9% in the West.

The median sales price of new houses sold in August 2019 was $328,400. The average sales price was $404,200.

The seasonally-adjusted estimate of new houses for sale at the end of August was 326,000. This represents a supply of 5.5 months at the current sales rate.

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 August were at a seasonally adjusted annual rate of 1,364,000. This was 12.3% above the revised July estimate of 1,215,000 and was 6.6% above the August 2018 rate of 1,279,000. Single-family housing starts in August were at a rate of 919,000; this was 4.4% above the revised July figure of 880,000. The August rate for units in buildings with five units or more was 424,000.

Single-family starts were up 8.7% in the Midwest, 3.6% in the South and 5.3% in the West compared to August a year ago. Starts were down 1.7% in the Northeast.

Privately-owned housing completions in August were at a seasonally adjusted annual rate of 1,294,000. This was 2.4% above the revised July estimate of 1,264,000 and was 5.0% above the August 2018 rate of 1,232,000. Single-family housing completions in August were at a rate of 945,000; this was 3.7% above the revised July rate of 911,000. The August rate for units in buildings with five units or more was 338,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

Advance estimates from the U.S. Census Bureau of U.S. retail and food services sales for August 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $526.1 billion, an increase of 0.4% from the previous month, and 4.1% above August 2018. Total sales for the June 2019 through August 2019 period were up 3.7% from the same period a year ago.

Retail trade sales were up 0.6% from June 2019, and 4.6% above last year. Nonstore retailers were up 16.0% from August 2018, and motor vehicles and parts dealers were up 6.8% from last year. Sales at furniture and home furnishings stores were essentially even with both July and August 2018. Sales at these stores year to date were down 0.5%.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1% in August on a seasonally adjusted basis after rising 0.3% in July, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.7% before seasonal adjustment.

Increases in the indexes for shelter and medical care were the major factors in the seasonally adjusted all items monthly increase, outweighing a decline in the energy index. The energy index fell 1.9% in August as the gasoline index declined 3.5%. The food index was unchanged for the third month in a row.

The index for all items less food and energy rose 0.3% in August, the same increase as in June and July. Along with the indexes for medical care and shelter, the indexes for recreation, used cars and trucks, and airline fares were among the indexes that increased in August. The indexes for new vehicles and household furnishings and operations declined over the month.

The all items index increased 1.7% for the 12 months ending August; the 12-month increase has remained in the range of 1.5 to 2.0% since the period ending December 2018. The index for all items less food and energy rose 2.4% over the last 12 months, its largest 12-month increase since July 2018. The food index rose 1.7% over the last year while the energy index declined 4.4%.

Employment

Total nonfarm payroll employment rose by 130,000 in August, and the unemployment rate was unchanged at 3.7%, according to the U.S. Bureau of Labor Statistics report. Employment in federal government rose, largely reflecting the hiring of temporary workers for the 2020 Census. Notable job gains also occurred in health care and financial activities, while mining lost jobs.

In August, the unemployment rate was 3.7% for the third month in a row, and the number of unemployed persons was essentially unchanged at 6.0 million. The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.2 million in August and accounted for 20.6% of the unemployed.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in August increased $0.5 billion or 0.2% to $250.7 billion, according to the U.S. Census Bureau announcement. This increase, up three consecutive months, followed a 2.0% July increase. Excluding transportation, new orders increased 0.5%. Excluding defense, new orders decreased 0.6%. Fabricated metal products, up four of the last five months, led the increase, $0.4 billion or 1.3% to $34.4 billion.

Shipments of manufactured durable goods in August, up three of the last four months, increased $0.3 billion or 0.1% to $254.2 billion. This followed a 1.2% July decrease. Machinery, up four of the last five months, drove the increase, $0.5 billion or 1.6% to $33.4 billion.

According to the final report for July, new orders increased 6.3% in the July 2019 to July 2018 comparison with orders up 3.8% year to date. Shipments in this category for July were 8.1% higher than July 2018 and were up 4.5% year to date.