FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS - EXECUTIVE SUMMARY

The results of our surveys of residential furniture manufacturers and distributors have been interesting all year. We started the year off with strong orders in January, which followed a nice year of growth in 2018, but then February started a string of reduced orders compared to the previous years for five straight months. We then saw a pickup in July only to see orders drop 3% in August. Now we get the September results, which showed a 7% increase over September 2018. And remember that September 2018 orders were 9% higher than September 2017.

Still proving that the term choppy when describing orders continue to be a fair term to use even with orders up 7%, orders were only up for 64% of the participants in the month. The September results brought year to date orders to a 1% decline compared to last year. Some 70% of the participants reported a decline in orders year to date.

Shipments in September were up 6% over September 2018. But, only 55% of the participants reported increased shipments. The increase in September pulled the year to date shipments up from the negative to at least even with last year. Still some 58% reported lower shipments year to date.

Backlogs increased as the dollar amount of new orders exceeded the dollars shipped. Backlogs were up 7% over August and 5% higher than September a year ago.

Receivable levels remained in line, about even with last year and in line with shipments year to date. Inventories remained high but dropped to a 12% increase over September 2018, down from a 14% increase reported last month.

Factory and warehouse payrolls and employment remained in line with current business conditions with the number of employees down 5% from last year.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index declined slightly in November after slight declines for the last three months. The Present Situation Index declined but the Expectations Index actually increased. The report noted that economic growth for the fourth quarter of 2019 will likely remain weak and that growth in 2020 is likely to remain around 2%.

Consumers were moderately optimistic about the short-term outlook. Those expecting business conditions to improve over the next six months declined slightly and the labor market outlook was mixed, but the short-term income prospects were favorable.

The report also noted that, “Overall confidence levels are still high and should support solid spending during the holiday season.”

Housing

Existing-home sales rebounded slightly in October after falling in September. Overall sales were up 4.6% from a year ago. Single-family sales were down slightly but remained 5.4% ahead of October a year ago. Sales were up nicely from a year ago in all regions – up a range of 5.7% to 7.8%, although compared to September, sales were down slightly in the Northeast and West.

Sales of new single-family houses were down slightly in October compared to September but up 31.6% from October 2018. All four regions were up significantly from last year. But October 2018 sales were down 12% from October 2017 so the comparisons of 2019 to 2018 was to some weak numbers for 2018.

Housing starts in October were up 3.8% above September 2019 and 8.5% above October 2018. Single-family starts were down slightly in the Midwest and West and down significantly in the Northeast. Starts were up 25.8% in the South.

Other

Advance estimates of U.S. retail and food services sales for October increased 0.3% from September and were 3.1% above October 2018. Sales at furniture and home furnishings stores were up 0.9% over October 2018. Sales at these stores were up 0.1% year to date.

The Consumer Price Index rose 0.4% in October after being unchanged in September. Over the last twelve months, the all items index increased 1.8%. The primary reason for the October increase was that the energy index increased 2.7% after recent monthly declines.

Total nonfarm employment rose by 128,000 in October. The unemployment rate was not changed at 3.6%. Employment gains were noted in food services and drinking places, social assistance and financial activities.

The latest estimate for GDP growth in the third quarter showed growth of 1.9% after growing at a 2.0% rate in the second quarter.

EXECUTIVE SUMMARY, CONT.

Thoughts

The September results were better than we expected overall, but certainly not for all. Even with the September increase, the year to date decrease of 1% in new orders seems to reflect the kind of year it has been. We continue to think that the overall economy is good and all the economic factors that support the industry are in good shape. In fact, retail overall has performed at a better pace.

But we almost always go back to the fact that most furniture purchases are deferable. Most of our furniture at home does not have to be replaced immediately, so usually housing moves are the reason to buy on a more immediate needs basis. So with overall housing results decent but not great, that leaves consumers more in the need for replacement items which can be deferred.

Why then are they deferred. Just listen to the news and hear how bad things supposedly are. We know the stock market and overall economy is in pretty good shape, but if those positives are even mentioned, they are followed by “it won’t last” and bad things are coming. Those along with all the presidential race information, just makes people a bit nervous.

That said, even if 2019 continues at the 2018 pace, we have had several years in a row of decent growth so all is not bad. It is just not as good as we all want it to be. So really it is a time to look for new ideas and products to help you with market share. Those ideas then convert to retailers and designers being able to show consumers more things they “have to have” or “want to have” enough to make them want to buy.

So let’s be thankful for the business we all have. Happy Thanksgiving to all.

HIGHLIGHTS - MONTHLY RESULTS

New Orders

According to our recent survey of residential furniture manufacturers and distributors, new orders increased nicely in September, up 7% over September 2018. September 2018 orders were up 9% over September 2017 so the comparison to September 2018 was to very good results. The last three months have been interesting though as July orders were up 6% over July 2018, then August orders fell 3% from August 2018. The September results left us at new orders being down 1% year to date.

For September, new orders increased over last September for 64% of the participants. But new orders year to date were down for 70% of the participants. Through August, new orders, year to date, were down 2%. Once again, the results for the month continued the "choppy" business conditions that have been described through a great part of this year.

Shipments and Backlogs

Shipments in September were up 6% over September 2018 but only 55% of the participants reported increased shipments for the month. Shipments in September were up 7% over August. The increase in September brought year to date shipments back to even with last year. Still some 58% of the participants reported decreased shipments compared to last year.

As with orders, the choppy order rates have affected shipments, so participants continue to be up and down with no consistency to the business conditions.

With orders in dollars exceeding shipment dollars, backlogs increased 7% over August. Backlogs were 5% higher than September a year ago. August backlogs were 3% higher than August 2018.

ESTIMATED BUSINESS ACTIVITY (MILLIONS OF DOLLARS)

	2019		
	SEP	AUG	9 MONTHS
New Orders	2,746	2,372	21,530
Shipments	2,510	2,354	21,265
Backlog (R)	2,341	2,180	

	2018		
	SEP	AUG	9 MONTHS
New Orders	2,557	2,446	21,738
Shipments	2,359	2,495	21,263
Backlog (R)	2,231	2,033	

Receivables and Inventories

Receivable levels in September were even with September 2018. With shipments up 6% over last year, we would have expected some increase, but with year to date shipments flat, the receivable levels make sense. It was good to see them back in line after a couple of months of unusual increases reported.

Inventories were 12% higher than September a year ago and even with August levels. In August, inventories were 14% higher than August 2018 so at least the inventories have leveled off, in spite of appearing to be a bit high based on current business conditions.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees in September was about equal to that of August. The number in September was 5% lower than September 2018, down from a 4% decrease noted last month.

Factory and warehouse payrolls were down 1% from September 2018. Year to date, it appears that the personnel situation is pretty much in line considering current business conditions.

MONTHLY RESULTS - NOVEMBER 2019

KEY MONTHLY INDICATORS (PERCENT CHANGE)

	September 2019 From August 2019	September 2019 From September 2018	9 Months 2019 vs 9 Months 2018
New Orders	+18	+7	-1
Shipments	+7	+6	–
Backlog	+7	+5	
Payrolls	+7	-1	+1
Employees	–	-5	
Receivables	+2	–	
Inventories	–	+12	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2018				
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	–
August	-3	-6	+3	-4
September	+7	+6	+5	-5

A DEEPER DIVE - NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* decreased in November, following a slight decline in October. The Index now stands at 125.5 (1985=100), down from 126.1 in October. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased from 173.5 to 166.9. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 94.5 last month to 97.9 this month.

"Consumer confidence declined for a fourth consecutive month, driven by a softening in consumers' assessment of current business and employment conditions," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The decline in the Present Situation Index suggests that economic growth in the final quarter of 2019 will remain weak. However, consumers' short-term expectations improved modestly, and growth in early 2020 is likely to remain at around 2%. Overall, confidence levels are still high and should support solid spending during this holiday season."

Consumers' appraisal of current-day conditions was less favorable in November. The percentage of consumers claiming business conditions are "good" rose slightly from 39.7% to 40.2%, but those claiming business conditions are "bad" also increased, from 11.0% to 13.8%. Consumers' assessment of the job market was less favorable than last month. Those saying jobs are "plentiful" decreased from 47.7% to 44.8%, while those claiming jobs are "hard to get" increased from 11.6% to 12.7%.

Consumers were moderately more optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months decreased slightly from 18.7% to 17.2%, while those expecting business conditions will worsen increased slightly, from 11.5% to 12.1%.

Consumers' outlook for the labor market was mixed. The proportion expecting more jobs in the months ahead decreased from 16.9% to 15.7%, but those anticipating fewer jobs also decreased, from 18.0% to 13.2%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement edged up from 21.4% to 21.8%, while the proportion expecting a decrease declined from 6.9% to 6.2%.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 1.9% in the third quarter of 2019, according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 2.0%.

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

The deceleration in real GDP in the third quarter reflected decelerations in PCE, federal government spending, and state and local government spending, and a larger decrease in nonresidential fixed investment. These movements were partly offset by a smaller decrease in private inventory investment, and upturns in exports and in residential fixed investment.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.1% in October to 111.7 (2016=100), following a 0.2% decline in both September and August.

"The U.S. LEI declined for a third consecutive month, and its six-month growth rate turned negative for the first time since May 2016. The decline was driven by weaknesses in new orders for manufacturing, average weekly hours, and unemployment insurance claims," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The major difference this month is the softening in the labor market, whereas conditions in manufacturing remain weak and show no signs of improvement yet. Taken together, the LEI suggests that the economy will end the year on a weak note, at just below 2% growth."

The Conference Board Coincident Economic Index® (CEI) for the U.S. was unchanged in October, remaining at 106.5 (2016=100), following a 0.1% increase in September, and a 0.3% increase in August.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1% in October to 108.1 (2016=100), following a 0.1% increase in September, and a 0.6% decline in August.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales rose in October, a slight recovery from the declines seen in September, according to the National Association of Realtors® (NAR). The four major U.S. regions were split last month, with the Midwest and the South seeing growth, and the Northeast and the West both reporting a drop in sales.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 1.9% from September to a seasonally adjusted annual rate of 5.46 million in October. Despite lingering regional variances, overall sales were up 4.6% from a year ago (5.22 million in October 2018).

Single-family home sales were at a seasonally-adjusted annual rate of 4.87 million in October, down from 4.77 million in September, but up 5.4% from a year ago. The median existing single-family home price was $273,600 in October 2019, up 6.2% from October 2018.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 590,000 units in October, about even with the previous month and 1.7% lower than a year ago. The median existing condo price was $248,500 in October, which was an increase of 5.6% from a year ago.

Lawrence Yun, NAR's chief economist, said this sales increase is encouraging and he expects added growth in the coming months. "Historically-low interest rates, continuing job expansion, higher weekly earnings and low mortgage rates are undoubtedly contributing to these higher numbers," said Yun. "We will likely continue to see sales climb as long as potential buyers are presented with an adequate supply of inventory."

The median existing-home price for all housing types in October was $270,900, up 6.2% from October 2018 ($255,100), as prices rose in all regions. October's price increase marks 92 straight months of year-over-year gains.

Total housing inventory at the end of October sat at 1.77 million units, down approximately 2.7% from September and 4.3% from one year ago (1.85 million). Unsold inventory sits at a 3.9-month supply at the current sales pace, down from 4.1 months in September and from the 4.3-month figure recorded in October 2018.

"The issuance of more housing permits is a very positive sign and a good step toward more inventory," said Yun, citing the latest data for housing starts. "In order to better counter and even slow the increase in housing prices, home builders will have to bring additional homes on the market."

Properties typically remained on the market for 36 days in October, up from 32 days in September and consistent with October 2018 numbers. Forty-six percent of homes sold in October 2019 were on the market for less than a month.

First-time buyers were responsible for 31% of sales in October, down from 33% in September and identical to the 31% recorded in October 2018. NAR's 2019 Profile of Home Buyers and Sellers – released in late 2019 – revealed that the annual share of first-time buyers was 33%.

Mortgage rates were trending downward since July through September, but rose slightly in October. According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased to 3.69% in October, up from 3.61% in September. The average commitment rate across all of 2018 was 4.54%.

Regional

Compared to last month, October sales increased in the Midwest and South regions, but sales were up in all regions from a year ago. Median home prices in all regions increased from one year ago, with the West region showing the strongest price gain.

October 2019 existing-home sales in the Northeast fell 1.4% to an annual rate of 690,000, with no change from a year ago. The median price in the Northeast was $296,700, up 5.7% from October 2018.

In the Midwest, existing-home sales increased 1.6% to an annual rate of 1.29 million, up 2.4% from a year ago. The median price in the Midwest was $209,900, a 6.7% jump from a year ago.

Existing-home sales in the South increased 4.4% to an annual rate of 2.35 million in October, up 7.8% from a year ago. The median price in the South was $234,900, up 6.0% increase from this time last year.

Existing-home sales in the West declined 0.9% to an annual rate of 1.13 million in October but were 3.7% above a year ago. The median price in the West was $410,700, up 7.8% from October 2018.

A DEEPER DIVE – HOUSING, CONT.

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 October 2019 were at a seasonally adjusted annual rate of 733,000. This was 0.7% below the revised September rate of 738,000, but was 31.6% above the October 2018 estimate of 557,000. The median sales price of new houses sold in October 2019 was $316,700. The average sales price was $383,300. The seasonally-adjusted estimate of new houses for sale at the end of October was 322,000. This represents a supply of 5.3 months at the current sales rate.

Compared to October 2018, new home sales were up 17.4% in the Northeast, 17.2% in the Midwest, 40.5% in the South and 21.9% in the West. Sales in October 2018 were down 12% from October 2017.

Housing Starts

According to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development, privately-owned housing starts in October were at a seasonally adjusted annual rate of 1,314,000. This was 3.8% above the revised September estimate of 1,266,000 and was 8.5% above the October 2018 rate of 1,211,000. Single-family housing starts in October were at a rate of 936,000; this was 2.0% above the revised September figure of 918,000 and 8.2% above October 2018. While overall single-family starts increased from October 2018, starts were actually down slightly in the Midwest and West and down significantly in the Northeast. Single-family starts were up 25.8% in the South.

Privately-owned housing completions in October were at a seasonally adjusted annual rate of 1,256,000. This was 10.3% above the revised September estimate of 1,139,000 and was 12.4% above the October 2018 rate of 1,117,000. Single-family housing completions in October were at a rate of 897,000; this was 4.5% above the revised September rate of 858,000.

A DEEPER DIVE – OTHER NATIONAL

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for October 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $526.5 billion, an increase of 0.3% from the previous month, and 3.1% above October 2018. Total sales for the August 2019 through October 2019 period were up 3.8% from the same period a year ago.

Retail trade sales were up 0.3% from September 2019, and 2.9% above last year. Nonstore retailers were up 14.3% from October 2018, and gasoline stations were down 5.0% from last year. For the three month period August to October compared to the same period a year ago, sales were up 1.4%. On an adjusted basis, sales at furniture and home furnishings stores were up 0.9% over October 2018. Sales at these stores were up 0.1% year to date.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4% in October on a seasonally adjusted basis after being unchanged in September, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.8% before seasonal adjustment.

The energy index increased 2.7% in October after recent monthly declines and accounted for more than half of the increase in the seasonally adjusted all items index; increases in the indexes for medical care, for recreation, and for food also contributed. The gasoline index rose 3.7% in October and the other major energy component indexes also increased. The food index rose 0.2%, with the indexes for both food at home and food away from home increasing over the month.

The index for all items less food and energy rose 0.2% in October after increasing 0.1% in September. Along with the indexes for medical care and for recreation, the indexes for used cars and trucks, for shelter, and for personal care all rose in October, though the increase in the shelter index was the smallest since October 2013. The apparel index fell in October, as did the indexes for household furnishings and operations, for new vehicles, and for airline fares.

The all items index increased 1.8% for the 12 months ending October, a slightly larger rise than the 1.7% increase for the period ending September. The index for all items less food and energy rose 2.3% over the last 12 months. The food index rose 2.1% over the last 12 months, while the energy index declined 4.2% over the last year despite increasing in October.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Employment

Total nonfarm payroll employment rose by 128,000 in October, and the unemployment rate was little changed at 3.6%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in food services and drinking places, social assistance, and financial activities. Within manufacturing, employment in motor vehicles and parts decreased due to strike activity. Federal government employment was down, reflecting a drop in the number of temporary jobs for the 2020 Census.

Both the unemployment rate, at 3.6%, and the number of unemployed persons, at 5.9 million, changed little in October.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.3 million in October and accounted for 21.5% of the unemployed.