FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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HIGHLIGHTS – EXECUTIVE SUMMARY

We have continued to talk with people using the term "choppy" when describing business in the residential furniture industry as it relates to manufacturers and distributors. According to our recent surveys, the term continues to make sense. June 2019 orders were down 6%. That was followed by a 6% increase reported in July. August results showed a 3% decline, followed by a 7% increase in September. Keeping with the choppy conditions, our survey indicated that October orders fell 8% from October 2018. Some 70% of the participants reported lower orders in October. We would note that the High Point Market was one week later than in 2018 with the October 2019 dates very near the end of the month so that may have some impact on timing of orders.

Year to date, new orders were 2% lower than the same period a year ago with 73% of the participants reporting lower order rates. Last year, orders were up 6% year to date.

Shipments in October were 6% higher than October 2018 with 58% reporting increased shipments. Year to date, shipments remained even with last year. Backlogs were basically even with September as well as even with last October. We would note that backlogs in October 2018 were 14% higher than October 2017 so backlogs have been reduced pretty substantially as business has slowed over 2019.

Receivables continue to be reasonable considering shipment levels. Inventories remained high, 11% higher than last year, down from 12% reported last month.

Factory and warehouse payrolls and the number of employees remained at reasonable levels considering current business conditions.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The December Conference Board Consumer Confidence Index was not available at press time, but even with all the impeachment news, as well as other national events, we do not believe confidence levels will change that much from the November results. The November indexes, while declining slightly, were still at overall high levels.

Housing

Existing-home sales slid slightly in November after gains in October. There were gains in the Northeast and Midwest, but there were declines in the South and West. Single-family sales were down slightly from October but were up 3.5% from a year ago. Sales, compared to a year ago, were up 3.8% in the Northeast, 1.5% in the Midwest, 3.7% in the South and 7.1% in the West.

Sales of new single-family houses were up 1.3% in November compared to October and up 16.9% from a year ago. Sales of the single-family houses compared to November 2018 were up 6.7% in the Northeast, 9.0% in the South and 47.9% in the West, while falling 1.4% in the Midwest.

Housing starts in November were up 3.7% from October and were up 13.6% from November 2018. Single unit starts were up 67.6% in the Northeast and 8.8% in the West. Starts fell 0.8% in the Midwest and 4.1% in the South.

Other

Advance estimates of U.S. retail and food services sales in November indicated that sales were up 0.2% from October and up 3.3% from November 2018. Sales for the November quarter were up 3.5% from the same period a year ago. Sales at furniture and home furnishings stores were up 1.9% from November 2018 and up 0.4% year to date.

The Consumer Price Index rose 0.3% in November after rising 0.4% in October. Over the last twelve months, the all items index increased 2.1%, higher than the 1.8% reported in October. Increases in shelter and energy indexes were major factors in the increase in the all items index. The food index rose 2.0% over the last twelve months.

Total nonfarm employment rose by 266,000 in November. The unemployment rate dropped slightly to 3.5%. Job gains were noted in health care and professional technical services. Employment rose in the manufacturing sector due to the return of workers from a strike.

The latest estimate for GDP growth in the third quarter showed growth of 2.1% up slightly from growth of 2.0% reported for the second quarter of 2019.

EXECUTIVE SUMMARY, CONT.

Thoughts

The ups and downs of monthly reporting by our participants continued in October, but conversations remain that business is just ok at best for many and off for others. The 2% decline in new orders through October pretty much sums up the 2019 conditions. And with over 70% of the participants reporting lower orders year to date, it is clearly reflecting the weaker overall results.

Overall, the economy continues to do reasonably well. We think the survey results may be affected by several things, but we would point out one not mentioned recently. We think deflation has something to do with the lower orders. The deflation we are describing now may not be coming necessarily from cheaper Asian produced products, but maybe by the impact that many believe that the millennial generation have not reached a mature buying age. Therefore, these consumers may be buying cheaper products and also buying through non-traditional sources, which is probably not reflected in our more traditional suppliers.

We continue to think the negativity of the upcoming elections keeps a damper on spending for our deferrable purchase items. But having just bought a new phone, once again our typical furniture purchase can be pushed off by the new latest and greatest gadget costs. Who would have thought a few years ago that the phones that phone service companies "threw in for free" if you just signed up for services, would now be coaxing people to not only buy more services, but would also talk some (not me) into paying over $1,000 for a phone (I know they are more than a phone, but really that is the main reason for buying one).

Now we multiply whatever cost by at least 4 (normal family size) and we wonder how many consumers can afford to buy furniture at all.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

Continuing the self described "choppy" business results, the results of our latest survey of residential furniture manufacturers and distributors seem to indicate more of the same. New orders for October 2019 were down 8% from October 2018 and down 15% from September 2019. Some 70% of our participants reported lower orders in October 2019 versus October 2018. We would note that the High Point Market was one week later in 2019 versus 2018, which may have had some impact on October orders.

Year to date, new orders were 2% lower than the same period in 2018. Last year, new orders year to date in October were up 6% from the previous year. Approximately 73% of the participants reported lower order rates compared to year to date last year.

Shipments and Backlogs

In October, shipments were actually up 2% over October 2018 with 58% of the participants reporting increased shipments in the month. Shipments were down 5% from September.

Year to date, shipments remained even with 2018. Last year through October, shipments were 3% ahead of the same period in 2017.

Backlogs remained basically even with September and were even with October 2018. Backlogs in October 2018 were 14% higher than October 2017. September 2019 backlogs were 5% higher than September 2018.

ESTIMATED BUSINESS ACTIVITY (MILLIONS OF DOLLARS)

	2019		
	OCT	SEP	10 MONTHS
New Orders	2,369	2,746	23,899
Shipments	2,320	2,510	23,585
Backlog	2,351	2,341	

	2018		
	OCT	SEP	10 MONTHS
New Orders	2,580	2,557	24,318
Shipments	2,285	2,359	23,548
Backlog	2,350	2,250	

Receivables and Inventories

Receivable levels were up 3% over October 2018, reasonably in line with the 2% increase in shipments in October shipments. Receivables were also up 3% over September even with a 5% decrease in shipments from September to October. This is likely timing so we really focus on October to October and year to date shipment and receivable comparisons.

Inventories were up 2% from September and 11% higher from October a year ago. The 11% increase compares to a 12% increase reported last month. We hope the inventories can be reduced over the new year as current business does not seem to support these higher levels of inventories.

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls were down 2% from October 2018 and down 4% from September 2019. Year to date, payrolls remained 1% higher than last year. This 1% increase is not out of line with shipments as well as realizing there has been pressure on wages due to shortage of employees in many areas.

The number of employees in October were down 2% from last October. Last month, the number was down 5% so timing may have an impact. But overall, the number of employees seem in line with conditions.

MONTHLY RESULTS – DECEMBER 2019

KEY MONTHLY INDICATORS (PERCENT CHANGE)	October 2019 From September 2019	October 2019 From October 2018	10 Months 2019 vs 10 Months 2018
New Orders	-15	-8	-2
Shipments	-5	+2	–
Backlog	–	–	
Payrolls	-4	-2	+1
Employees	+1	-2	
Receivables	+3	+3	
Inventories	+2	+11	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR

	New Orders	Shipments	Backlog	Employment
2018				
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
October	-8	+2	–	-2

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board Consumer Confidence Index® was not available at the time of release.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.1% in the third quarter of 2019, according to the "third" 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, exports, and state and local government spending 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 acceleration in real GDP in the third quarter reflected a smaller decrease in private inventory investment and upturns in exports and residential fixed investment that were partly offset by decelerations in PCE, federal government spending, and state and local government spending, and a larger decrease in nonresidential fixed investment.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. was unchanged in November, remaining at 111.6 (2016=100), following a 0.2% decline in both October and September.

"The U.S. LEI was unchanged in November after three consecutive monthly declines. Strength in residential construction, financial markets, and consumers' outlook offset weakness in manufacturing and labor markets," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "While the six-month growth rate of the LEI remains slightly negative, the Index suggests that economic growth is likely to stabilize around 2% in 2020."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.4% in November to 106.8 (2016=100), following a 0.1% decline in October and a 0.1% increase in September.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.5% in November to 108.7 (2016=100), following a 0.2% increase in October, and a 0.1% increase in September.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales fell in November, taking a small step back after October's gains, according to the National Association of Realtors® (NAR). The Northeast and Midwest both reported growth last month, while the South and West saw sales declines.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 1.7% from October to a seasonally-adjusted annual rate of 5.35 million in November. However, sales were up 2.7% from a year ago (5.21 million in November 2018). Lawrence Yun, NAR's chief economist, said the decline in sales for November is not a cause for worry. "Sales will be choppy when inventory levels are low, but the economy is otherwise performing very well with more than 2 million job gains in the past year," said Yun.

Single-family home sales were at a seasonally-adjusted annual rate of 4.79 million in November, down from 4.85 million in October, but up 3.5% from a year ago. The median existing single-family home price was $274,000 in November 2019, up 5.4% from November 2018.

Existing condominium and co-op sales were at a seasonally adjusted annual rate of 560,000 units in November, down 5.1% from October and 3.4% lower than a year ago. The median existing condo price was $248,200 in November, which is an increase of 4.5% from a year ago.

The median existing-home price for all housing types in October was $271,300, up 5.4% from November 2018 ($257,400), as prices rose in all regions. November's price increase marks 93 straight months of year-over-year gains.

Total housing inventory at the end of November totaled 1.64 million units, down approximately 7.3% from October and 5.7% from one year ago (1.74 million). Unsold inventory sits at a 3.7-month supply at the current sales pace, down from 3.9 months in October and from the 4.0-month figure recorded in November 2018. Unsold inventory totals have declined for five consecutive months, constraining home sales.

"The new home construction seems to be coming to the market, but we are still not seeing the amount of construction needed to solve the housing shortage," Yun said. "It is time for builders to be innovative and creative, possibly incorporating more factory-made modules to make houses affordable rather than building homes all on-site."

Properties typically remained on the market for 38 days in November, seasonally up from 36 days in October, but down from the 42 days in November 2018. Forty-five percent of homes sold in November 2019 were on the market for less than a month. First-time buyers were responsible for 32% of sales in November, essentially hovering at the 31% seen in October and 33% in November 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%.

A DEEPER DIVE – HOUSING, CONT.

Regional

Compared to last month, November sales increased in the Northeast and Midwest regions, while year-over-year sales are up in all regions except the Northeast. Median home prices in all regions increased from one year ago, with the West region showing the strongest price gain.

November 2019 existing-home sales in the Northeast grew 1.4% to an annual rate of 700,000, down 1.4% from a year ago. The median price in the Northeast was $301,700, up 3.9% from November 2018.

Existing-home sales increased at the strongest pace in the Midwest at 2.3% to an annual rate of 1.32 million, up 1.5% from a year ago. The median price in the Midwest was $209,700, a 5.9% jump from last November.

Existing-home sales in the South dropped 3.9% to an annual rate of 2.24 million in October, but were up 3.7% from a year ago. The median price in the South was $234,400, a 4.8% increase from this time last year.

Existing-home sales in the West declined 3.5% to an annual rate of 1.09 million in November, but were up 4.8% from a year ago. The median price in the West was $410,700, up 7.1% from November 2018.

New Residential Sales

Sales of new single-family houses in November 2019 were at a seasonally adjusted annual rate of 719,000, according to estimates released jointly by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development. This was 1.3% above the revised October rate of 710,000 and was 16.9% above the November 2018 estimate of 615,000.

The median sales price of new houses sold in November 2019 was $330,800. The average sales price was $388,200.

The seasonally-adjusted estimate of new houses for sale at the end of November was 323,000. This represents a supply of 5.4 months at the current sales rate. New privately-owned houses sold compared to a year ago in the Northeast were up 6.7%, 9.0% in the South and 47.9% in the West. Sales were down 1.4% 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 November were at a seasonally adjusted annual rate of 1,365,000. This was 3.2% above the revised October estimate of 1,323,000 and was 13.6% above the November 2018 rate of 1,202,000. Single-family housing starts in November were at a rate of 938,000; this was 2.4% above the revised October figure of 916,000. The November rate for units in buildings with five units or more was 404,000. Single unit starts compared to November 2018 were up 67.6% in the Northeast and 8.8% in the West, but fell 0.8% in the Midwest and 4.1% in the South.

Privately-owned housing completions in November were at a seasonally adjusted annual rate of 1,188,000. This was 6.6% below the revised October estimate of 1,272,000, but was 7.3% above the November 2018 rate of 1,107,000. Single-family housing completions in November were at a rate of 883,000; this was 3.6% below the revised October rate of 916,000.

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 November 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $528.0 billion, an increase of 0.2% from the previous month, and 3.3% above November 2018. Total sales for the September 2019 through November 2019 period were up 3.5% from the same period a year ago.

Retail trade sales were up 0.3% from October 2019, and 3.1% above last year. Nonstore retailers were up 11.5% from November 2018, and food services and drinking places were up 5.1% from last year. On an adjusted basis, sales at furniture and home furnishings stores were up 1.9% from November 2018. Year to date, sales at these stores were up 0.4% up from 0.1% reported last month.

A DEEPER DIVE – OTHER NATIONAL, CONT.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.3% in November on a seasonally adjusted basis, after rising 0.4% in October, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 2.1% before seasonal adjustment.

Increases in the shelter and energy indexes were major factors in the seasonally adjusted monthly increase of the all items index. Increases in the indexes for medical care, for recreation, and for food also contributed to the overall increase. The gasoline index rose 1.1% in November and the other major energy component indexes also increased. The food index rose 0.1%, with the indexes for both food at home and food away from home increasing over the month. The food index rose 2.0% over the last twelve months.

The index for all items less food and energy rose 0.2% in November, the same increase as in October. Along with the indexes for shelter, for medical care, and for recreation, the indexes for used cars and trucks and for apparel also rose in November. The new vehicles index fell in November, as did the index for airline fares.

Employment

Total nonfarm payroll employment rose by 266,000 in November, and the unemployment rate was little changed at 3.5%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in health care and in professional and technical services. Employment rose in manufacturing, reflecting the return of workers from a strike.

Both the unemployment rate, at 3.5%, and the number of unemployed persons, at 5.8 million, changed little in November.

The number of long-term unemployed (those jobless for 27 weeks or more), at 1.2 million, was essentially unchanged in November and accounted for 20.8% of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in November decreased $5.0 billion or 2.0% to $242.6 billion, according to the U.S. Census Bureau report. This decrease, down two of the last three months, followed a 0.2% October increase. Excluding transportation, new orders were virtually unchanged. Excluding defense, new orders increased 0.8%. Transportation equipment, also down two of the last three months, led the decrease.

Shipments of manufactured durable goods in November, up following four consecutive monthly decreases, increased $0.2 billion or 0.1% to $251.6 billion. This followed a 0.1% October decrease. Fabricated metal products, up three of the last four months, drove the increase, $0.3 billion or 1.0% to $34.1 billion.

For the furniture and related products category, the final report had shipments in October up 5.4% and orders up 5.6% over October 2018. Year to date, the report showed shipments up 4.1% and orders up 3.4%. Obviously, the related products and other than residential furniture are doing better than residential.