FURNITURE INSIGHTS®

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HIGHLIGHTS – EXECUTIVE SUMMARY

We hate to say "more of the same" but our latest survey continued that theme. For the third time in four months, new orders were down compared to the same month a year ago. Orders in November 2019 were down 5% from November 2018. Last month, orders were down 6%. November 2018 orders were up 3% over November 2017. The "choppy" descriptions we have used before continued as, in spite of being down 5% overall, only a little more than one-half the participants reported lower orders. The decline in November brought the year to date totals down to a 2% decline compared to the same period a year ago. Orders year to date were down for 68% of the participants.

Shipments in November were down 3% versus November 2018 but again the results were uneven. Just under one-half of the participants reported lower shipments. Last year, November shipments were up 8% over November 2017. As a result of the November decline, shipments year to date were basically flat compared to a year ago. Interestingly, even though shipments in total were even with the same period a year ago, shipments were down for 62% of the participants.

Backlogs were up 1% over November 2018, down from a 2% increase reported last month and a 6% increase reported in September. Obviously, with the slower order rates, backlogs have been brought down significantly.

Receivable levels overall appear to be in good shape and as we have been doing planning with many of our clients back in November and December, we have not heard much about significant accounts that may need write offs or reserves. So that is good news.

Inventory levels are still too high at 7% above November 2018 but those higher levels continue to decline. October levels were 11% higher than October 2018. With so much inventory being imported, it is just hard to bring the levels down quickly, considering the long lead times, for both finished goods and certain raw materials.

Factory and warehouse payrolls and employment levels continue to be reasonably in line considering current conditions.

EXECUTIVE SUMMARY, CONT.

National

Consumer Confidence

The Conference Board Consumer Confidence Index increased in January to 131.6 from 128.2. Both the Present Situation Index and the Expectations Index increased. The December Index had increased moderately as well. The primary reasons for the increase are confidence in January were driven by a more positive assessment of the current job market and increased optimism about future job prospects. The report noted that the optimism in the labor market should continue to drive growth and prevent the economy from slowing in early 2020.

The University of Michigan Survey was unchanged in January as there was stability in current assessments as well as future economic prospects. The report noted the impeachment was barely mentioned, just by 1% of consumers. Those that did mention were less optimistic than other consumers. They did note positive changes following the Clinton impeachment trials (see deeper dive – National).

Housing

Existing-home sales in December increased 3.6% from November and were up 10.8% from a year ago. For the year 2019, sales were even with 2018 as sales in the South were up 2.2% and even in the Northeast but were down 1.8% in the West and 1.6% in the Midwest.

Single-family sales were up 10.6% from a year ago with the median existing-home prices increasing 8% from December 2018. It was noted that low inventories of existing homes remain a problem.

New house sales in December were down 0.4% from November but were up 23% from December 2018. Sales were up substantially in three regions with only the South down, at 1.2%.

Housing starts were up substantially – up 16.9% above November and 40.8% above December 2018. Single-family starts were up 11.2% over November. Single-family starts were up in all regions – 3.4% in the Northeast, 73.1% in the Midwest, 20.8% in the South and 36.6% in the West.

Other

Advance estimates for U.S. retail and food services sales for December were up 0.3% over November and 5.8% over December 2018. Total sales for the year were up 3.6%. Sales for furniture and home furnishings stores were up 3.2% over December 2018 and up only 0.7% for the year.

Gross Domestic Product (GDP) increased at 2.1% in the fourth quarter according to advance estimates from the Bureau of Economic Analysis. The increase reflected positive contributions from Personal Consumption Expenditures (PCE), federal and state and local government spending, residential fixed investments and exports, partially offset by negative contributions from private inventory investment and nonresidential fixed investment.

The Conference Board Leading Economic Index declined 0.3% in December after a 0.1% increase in November. The slight decline was based on negative contributions from rising unemployment insurance claims and a drop in housing permits. The report noted that financial conditions and consumers' outlook for the economy remain positive, which should support growth of about 2% through early 2020.

The Consumer Price Index rose 0.2% in December after rising 0.3% in November. The indexes for gasoline, shelter, and medical care all rose in December, accounting for most of the increase. The all items index increased 2.3% for the 12 months ended December.

Total nonfarm employment rose by 145,000 in December. The unemployment rate was unchanged at 3.5%. Notable gains occurred in retail

EXECUTIVE SUMMARY, CONT.

Thoughts

We could almost just copy over our thoughts from last month. More soft business for many in the survey but quite a mix in results. We do not see consistency in any one sector. In looking at the retail report; the furniture results are lagging (though not as bad as clothing and accessories down 0.6% for the year, electronics and appliance stores, down 2.2%). Food services and drinking places were up 4.4% and nonstore retailers were up 13.1%.

We continue to hear that internet sales are taking away from brick and mortar stores, yet we know that many of the furniture manufacturers and distributors are selling over the internet, so it is not like there is no furniture business being done through those outlets.

We continue to believe that negative news in the media is hurting furniture sales yet according to the University of Michigan survey, the impeachment issue doesn't seem to register.

We think the internet numbers affect the low sales at furniture stores. It's just hard to tell how much is buried in them. The same issue appears to affect clothing stores and other categories.

So admittedly, it is hard to tell what the retail statistics story tells us. Yet we do see from our survey that business overall is just not that strong for most.

Feel free to let us know your thoughts. Obviously, we talk to our clients, are happy to listen to other ideas as well. We will say that it's not all gloom and doom. Some are doing well, maybe not great but pretty decent. Others are off some but after several years of decent growth, not really all bad. But after these pretty good years, it just doesn't "feel" good to drift down a bit.

We are concerned about the effects of the corona virus. This could create significant disruption in supply chains. We hope the spread of the virus slows down soon.

trade and health care.

HIGHLIGHTS – MONTHLY RESULTS

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in November 2019 were down again – this time 5% below November 2018. This made orders down from the same month a year ago three of the last four months. The survey also reflected most of the conversations we had with people in November.

Interestingly though, orders were down for only 52% of the participants as there were some significant swings by some participants.

Year to date, new orders were down 2% through November. These results made a bit more sense as orders were down for 68% of the participants.

Shipments and Backlogs

Shipments were down 3% compared to November 2018 but again were pretty much evenly split among the participants. Just under one-half of the participants reported lower shipments.

Year to date, shipments were even with year to date 2018. We would point out that shipments were down for some 62% of the participants even though total shipments were basically flat.

Backlogs were 1% higher than last year levels down from a 2% increase reported last month and 6% reported in September. Backlogs did rise 2% over October, but with orders down for most, clearly many have been eating into backlogs.

Receivables and Inventories

Receivables were about even with November 2018 levels, a little high with shipments down 3% for the month compared to last year. But shipments year to date are even with last year so receivable levels appear to be in pretty good shape.

Inventories were up 7% over November 2018 and even with October levels. But the 7% is getting more in line considering that in October, inventories were 11% higher than October 2018.

Factory and Warehouse Employees and Payroll

Factory and warehouse employee numbers were down 3% from November 2018 but up 1% from October. We think most have continued to adjust the numbers of employees to fit more current business conditions.

Factory and warehouse payrolls were even with October and down 1% from last November. Year to date, factory and warehouse payrolls were up 1% over the same period a year ago, the same as reported last month.

ESTIMATED BUSINESS ACTIVITY (MILLIONS OF DOLLARS)

	2019		
	NOV	OCT	11 MONTHS
New Orders	2,523	2,369	26,422
Shipments	2,433	2,320	26,018
Backlog	2,407	2,351	

	2018		
	NOV	OCT	11 MONTHS
New Orders	2,645	2,580	26,963
Shipments	2,498	2,285	26,046
Backlog (R)	2,390	2,243	

MONTHLY RESULTS – JANUARY 2020

KEY MONTHLY INDICATORS (PERCENT CHANGE)			
	November 2019 From October 2019	November 2019 From November 2018	11 Months 2019 vs 11 Months 2018
New Orders	+7	-5	-2
Shipments	+5	-3	–
Backlog	+2	+1	
Payrolls	–	-1	+1
Employees	+1	-3	
Receivables	+2	–	
Inventories	–	+7	

PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR	New Orders	Shipments	Backlog	Employment
2018				
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
November	-5	-3	+1	-3

A DEEPER DIVE – NATIONAL

Consumer Confidence

The Conference Board *Consumer Confidence Index®* increased in January, following a moderate increase in December. The Index now stands at 131.6 (1985=100), up from 128.2 in December. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – increased from 170.5 to 175.3. The Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 100.0 last month to 102.5 this month.

"Consumer confidence increased in January, following a moderate advance in December, driven primarily by a more positive assessment of the current job market and increased optimism about future job prospects," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "Optimism about the labor market should continue to support confidence in the short-term and, as a result, consumers will continue driving growth and prevent the economy from slowing in early 2020."

Consumers' assessment of current conditions improved in January. Those claiming business conditions are "good" increased from 39.0% to 40.8%, while those claiming business conditions are "bad" decreased, from 11.0% to 10.4%. Consumers' appraisal of the job market also improved. Those saying jobs are "plentiful" increased from 46.5% to 49.0%, while those claiming jobs are "hard to get" declined, from 13.0% to 11.6%.

Consumers were also more optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months was virtually unchanged at 18.8%, while those expecting business conditions will worsen declined from 8.8% to 8.4%.

Consumers' outlook for the labor market was more upbeat. The proportion expecting more jobs in the months ahead increased from 15.5% to 17.2%, while those anticipating fewer jobs declined from 13.9% to 13.4%. Regarding their short-term income prospects, the percentage of consumers expecting an improvement declined from 22.7% to 22.0%, while the proportion expecting a decrease was virtually unchanged at 7.7%.

NATIONAL UPDATE

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.3% in December to 111.2 (2016=100), following a 0.1% increase in November, and a 0.2% decline in October.

"The U.S. LEI declined slightly in December, driven by large negative contributions from rising unemployment insurance claims and a drop in housing permits," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The LEI has not declined in four out of the last five months. Its six-month growth rate turned slightly more negative in the final quarter of 2019, with the manufacturing indicators pointing to continued weakness in the sector. However, financial conditions and consumers' outlook for the economy remain positive, which should support growth of about 2% through early 2020."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1% in December to 107.2 (2016=100), following a 0.3% increase in November, and a 0.1% decline in October.

The Conference Board Lagging Economic Index® (LAG) for the U.S. declined 0.1% in December to 108.8 (2016=100), following a 0.4% increase in November, and a 0.2% increase in October.

University of Michigan Surveys of Consumers

Surveys of Consumers chief economist, Richard Curtin said, "Consumer sentiment remained virtually unchanged in early January, differing by just 0.2 Index points from December. This stability extended to all components, both current assessments as well as future economic prospects. Impeachment was barely mentioned–just by 1% of consumers. While those that mentioned impeachment were also somewhat less optimistic than other consumers, the small numbers had a negligible impact on the overall level in consumer sentiment. It is of some interest to note that during the Clinton impeachment, sentiment similarly rose: the Sentiment Index rose from 100.5 in the December 1998 survey when the House voted for impeachment, to 108.1 in February 1999, when the Senate voted to clear Clinton. Importantly, the economic expansion lasted another two years, with the economy peaking in March 2001, setting the record for the longest expansion since the mid-1950s. The current expansion has established a new record length largely due to consumer spending. Consumers will continue to sustain the expansion due to ther favorable judgements about their current and prospective financial situation. Of course, whether that strength will last another two years is uncertain, given that the election season has only begun and features fundamental changes in taxes and spending programs that directly affect consumers."

A DEEPER DIVE – NATIONAL, CONT.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annual rate of 2.1% in the fourth quarter of 2019, according to the “advance” estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.1%.

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

Real GDP growth in the fourth quarter was the same as that in the third. In the fourth quarter, downturn in imports, an acceleration in government spending, and a smaller decrease in nonresidential investment were offset by a larger decrease in private inventory investment and a slowdown in PCE.

Real GDP increased 2.3% in 2019 (from the 2018 annual level to the 2019 annual level), compared with an increase of 2.9% in 2018.

The increase in real GDP in 2019 reflected positive contributions from PCE, nonresidential fixed investment, federal government spending, state and local government spending, and private inventory investment that were partly offset by negative contributions from residential fixed investment. Imports increased.

The deceleration in real GDP in 2019, compared to 2018, primarily reflected decelerations in nonresidential fixed investment and PCE and a downturn in exports, which were partly offset by accelerations in both state and local and federal government spending. Imports increased less in 2019 than in 2018.

A DEEPER DIVE – HOUSING

Existing-Home Sales

Existing-home sales grew in December, bouncing back after a slight fall in November, according to the National Association of Realtors® (NAR). Although the Midwest saw sales decline, the other three major U.S. regions reported meaningful growth last month.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 3.6% from November to a seasonally-adjusted annual rate of 5.54 million in December. Additionally, overall sales took a significant bounce, up 10.8% from a year ago (5.00 million in December 2018).

On a full-year basis, total existing-home sales ended at 5.34 million, the same level as in 2018, as sales in the South region (+2.2%) offset declines in the West (-1.8%) and Midwest (-1.6%), as the Northeast remained unchanged.

Single-family home sales were at a seasonally-adjusted annual rate of 4.92 million in December, up from 4.79 million in November, and up 10.6% from a year ago. The median existing single-family home price was $276,900 in December 2019, up 8.0% from December 2018.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 620,000 units in December, up 10.7% from November and 12.7% higher than a year ago. The median existing condo price was $255,400 in December, which was an increase of 6.0% from a year ago.

Lawrence Yun, NAR’s chief economist, said home sales fluctuated a great deal last year. “I view 2019 as a neutral year for housing in terms of sales,” Yun said. “Home sellers are positioned well, but prospective buyers aren’t as fortunate. Low inventory remains a problem, with first-time buyers affected the most.”

The median existing-home price for all housing types in December was $274,500, up 7.8% from December 2018 ($254,700), as prices rose in every region. November’s price increase marks 94 straight months of year-over-year gains. “Price appreciation has rapidly accelerated, and areas that are relatively unaffordable or declining in affordability are starting to experience slower job growth,” Yun said. “The hope is for price appreciation to slow in line with wage growth, which is about 3%.”

NAR’s *Home Affordability Index Ranking and Payroll Job Growth* report found that affordability rankings declined in 81 metro areas, 34 of which saw non-farm job growth fall faster in 2019 Q3 than the national rate over the previous five years.

A DEEPER DIVE – HOUSING, CONT.

Existing-Home Sales, Cont.

Total housing inventory at the end of December totaled 1.40 million units, down 14.6% from November and 8.5% from one year ago (1.53 million). Unsold inventory sits at a 3.0-month supply at the current sales pace, down from the 3.7-month figure recorded in both November and December 2018. Unsold inventory totals have dropped for seven consecutive months from year-ago levels, taking a toll on home sales.

Properties typically remained on the market for 41 days in December, seasonally up from 38 days in November, but down from 46 days in December 2018. Forty-three percent of homes sold in December 2019 were on the market for less than a month.

First-time buyers were responsible for 31% of sales in December, moderately down from the 32% seen in both November and in December 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%.

Yun said conditions for buying are favorable and will likely continue in 2020. "We saw the year come to a close with the economy churning out 2.3 million jobs, mortgage rates below 4% and housing starts ramp up to 1.6 million on an annual basis," he said. "If these factors are sustained in 2020, we will see a notable pickup in home sales in 2020."

Regional

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

During December 2019, existing-home sales in the Northeast grew 5.7% to an annual rate of 740,000, up 8.8% from a year ago. The median price in the Northeast was $304,400, up 7.4% from December 2018.

Existing-home sales decreased 1.5% in the Midwest to an annual rate of 1.30 million, which was up 9.2% from a year ago. The median price in the Midwest was $208,500, a 9.2% jump from last December.

Existing-home sales in the South grew 5.4% to an annual rate of 2.36 million in December, up 12.4% from a year ago. The median price in the South was $240,500, a 6.7% increase from this time last year.

Existing-home sales in the West rose 4.6% to an annual rate of 1.14 million in December, a 10.7% increase from a year ago. The median price in the West was $411,800, up 8.1% from December 2018.

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 December 2019 were at a seasonally adjusted annual rate of 694,000. This was 0.4% below the revised November rate of 697,000, but was 23.0% above the December 2018 estimate of 564,000.

An estimated 681,000 new homes were sold in 2019. This was 10.3% above the 2018 figure of 617,000.

The median sales price of new houses sold in December 2019 was $331,400. The average sales price was $384,500.

The seasonally-adjusted estimate of new houses for sale at the end of December was 327,000. This represents a supply of 5.7 months at the current sales rate. Regionally compared to December 2018, sales were up 11.1% in the Northeast, 16.9% in the Midwest and 99.2% in the West, while falling 1.2% in the South.

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 December were at a seasonally adjusted annual rate of 1,608,000. This was 16.9% above the revised November estimate of 1,375,000 and was 40.8% above the December 2018 rate of 1,142,000. Single-family housing starts in December were at a rate of 1,055,000; this was 11.2% above the revised November figure of 949,000.

Single-family starts in December 2019 compared to December 2018 were up 3.4% in the Northeast, 73.1% in the Midwest, 20.8% in the South and 36.6% in the West. An estimated 1,289,800 housing units were started in 2019. This was 3.2% above the 2018 figure of 1,249,900.

Privately-owned housing completions in December were at a seasonally adjusted annual rate of 1,277,000. This was 5.1% above the revised November estimate of 1,215,000 and was 19.6% above the December 2018 rate of 1,068,000. Single-family housing completions in December were at a rate of 912,000; this was 0.7% above the revised November rate of 906,000. An estimated 1,250,600 housing units were completed in 2019. This was 5.6% above the 2018 figure of 1,184,900.

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 December 2019, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $529.6 billion, an increase of 0.3% from the previous month, and 5.8% above December 2018. Total sales for the 12 months of 2019 were up 3.6% from 2018. Total sales for the October 2019 through December 2019 period were up 4.1% from the same period a year ago.

Retail trade sales were up 0.4% from November 2019, and 6.0% above last year. Nonstore retailers were up 19.2% from December 2018, and gasoline stations were up 11.3% from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 3.2% in December 2019 over December 2018 and finished the year up 0.7% over last year.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2% in December on a seasonally adjusted basis after rising 0.3% in November, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 2.3% before seasonal adjustment.

The indexes for gasoline, shelter, and medical care all rose in December, accounting for most of the increase in the seasonally adjusted all items index. The gasoline index increased 2.8% in December. Other major energy component indexes were mixed, and the energy index rose 1.4%. The food index rose 0.2% in December 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 0.1% in December after increasing 0.2% in November. Along with the indexes for shelter and medical care, the indexes for apparel, motor vehicle insurance, recreation, and new vehicles all increased in December. The indexes for used cars and trucks, household furnishings and operations, and airline fares were among those to decline.

The all items index increased 2.3% for the 12 months ending December, the largest 12-month increase since the period ending October 2018. The index for all items less food and energy also rose 2.3% over the last 12 months, the same increase as the periods ending October and November. The food index rose 1.8% over the last 12 months, while the energy index increased 3.4%.

Employment

Total nonfarm payroll employment rose by 145,000 in December, and the unemployment rate was unchanged at 3.5%, according to the U.S. Bureau of Labor Statistics report. Notable job gains occurred in retail trade and health care, while mining lost jobs.

In December, the unemployment rate held at 3.5%, and the number of unemployed persons was unchanged at 5.8 million. A year earlier, the jobless rate was 3.9%, and the number of unemployed persons was 6.3 million.

The number of long-term unemployed (those jobless for 27 weeks or more), at 1.2 million, was unchanged in December and accounted for 20.5% of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in December increased $5.7 billion or 2.4% to $245.5 billion, according to the U.S. Census Bureau report. This increase, up two of the last three months, followed a 3.1% November decrease. Excluding transportation, new orders decreased 0.1%. Excluding defense, new orders decreased 2.5%. Transportation equipment, up following three consecutive monthly decreases, drove the increase, at 7.6%.

Shipments of manufactured durable goods in December, down six consecutive months, decreased $0.5 billion or 0.2% to $250.4 billion. This followed a 0.1% November decrease. Transportation equipment, also down six consecutive months, led the decrease, at 0.4%.

According to the final report for furniture and related products, shipments in November compared to November 2018 were up 5.0% and orders were up 8.0%. Year to date in this category, shipments were up 4.2% and orders were up 3.9%. Again, this report includes many more items than residential furniture.