# FURNITURE INSIGHTS®

Smith Leonard PLLC's Industry Newsletter

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## HIGHLIGHTS – EXECUTIVE SUMMARY

After two months of declining orders, December new orders ticked up 4% according to our latest survey of residential furniture manufacturers and distributors. Orders were down 8% in October and 5% in November, so it was nice to see the negative trend reversed. Unfortunately, only 58% of the participants reported increases.

So, for the year, orders were down 2%, and that result was much more consistent among the participants as some 71% of the participants reported lower orders for all of 2019.

Shipments were up 2% in December with 52% of the participants reporting increased shipments for the month. For the year, shipments were just slightly ahead of 2018 but were down for 62% of the participants.

Backlogs fell 4% from November as shipments in dollars exceeded new orders. Backlogs were 2% higher than December 2018.

Receivable levels remained in good shape, down 4% from December 2018 even with shipments up 2%. Inventories remain a bit high considering current order and shipment levels, but the increased levels have been declining for several months.

The results for factory and warehouse payrolls and number of employees continue pretty much in line with expectations. Payrolls for the year were up slightly even with shipments flat, but we think most of that relates to those, who are still manufacturing, giving some raises in order to get and/or keep employees.

# EXECUTIVE SUMMARY, CONT.

## National

### Consumer Confidence

The Conference Board Consumer Confidence Index improved slightly in February, following an increase in January. The increase resulted from a mixed report as the Present Situation Index decreased while the Expectations Index increased. The report noted that while the Present Situation Index declined, consumers continue to view current conditions quite favorably. There was a slight decline in the feeling that business conditions were good.

For the short-term expectations, the report noted that "Consumers' short-term expectations improved, and when coupled with solid employment growth, should be enough to continue to support spending and economic growth in the near term." The outlook for labor markets was mixed as well as for short-term income prospects.

### Housing

Existing-home sales declined in January, continuing a fluctuating pattern of monthly increases and decreases. Single-family home sales were down 1.2% from December but up 9.7% from a year ago. Regionally, sales increased in the Midwest and the South from December. Sales were up significantly in all four regions compared to January a year ago, up from 5.2% to 7.4%.

New house sales in January were up 18.6% from January a year ago and up 7.9% over December 2019. In December, sales were up in all regions except the South where they were down 2.4%.

Housing starts in January were 3.6% below December starts but were 21.4% above the January 2019 rate. Single-family starts were down 5.9% from December but were 4.6% ahead of January 2019. Single-family starts were up in the Midwest and West but were down in the Northeast and South.

### Other

Advance estimates for U.S. retail and food services sales for December were up 0.3% in January 2020 from December 2019 sales and up 4.4% over January 2019. For the three months ended January 2020, sales were also up 4.4% from the same period a year ago. Sales for furniture and home furnishings stores in January were up 0.6% from December and 1.8% over January 2019.

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

The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), federal government spending, exports, residential fixed investment, and state and local government spending 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.

The Conference Board Leading Economic Index increased 0.8% in January following a 0.3% decline in December. The increase in January was driven by a drop in initial unemployment insurance claims, increasing housing permits, consumers outlook on the economy and financial indicators. The report continued to suggest that the economy should continue to grow at about a 2% rate into early 2020. It did mention that the manufacturing sector may be impacted by the Coronavirus.

### EXECUTIVE SUMMARY, CONT.

#### Thoughts

The ups and downs of business continued in the December results of our survey. The 2% decline in orders for the year and a very slight increase in shipments, resulted in a rather weak year overall. The results were mixed by companies as well as on a month to month basis as can be seen in the chart of monthly results.

We read the Berkshire Hathaway annual report which stated that their Home Furnishings group revenues were down 1.3%. With that strong group of companies represented; it seemed to indicate that the weakness in the industry was felt at retail as well.

The Coronavirus situation is not helping us start 2020 in a very positive way. All the concerns over travel, sourcing and general bad news will not be good if this epidemic isn't slowed soon. Consumer confidence has remained high, but that study was done before the news finally scared the stock market folks into realizing this is more than a virus, but a serious problem for business in getting materials, parts and labor. That includes even getting products shipped.

This morning someone asked what will happen to consumers if they find that they will not be able to buy a new iPhone every year. I suggested that maybe they could use some of that savings to buy some furniture.

Seriously, we hope that this whole issue can be controlled soon. The disruption in business will be very serious the longer it lingers on. With the negative news from this year's election coming up, that will be enough to create problems in the industry, without the virus issues.

Despite all of this, most of the economic news indicates that the economy should remain in a decent growth mode for most of 2020. But again, the virus scare has not yet been reflected in much of the economic data. Let's hope we can get through all of this soon, so we can have a chance to enjoy the "good" economy, maybe a bit better than the industry did in 2019.

# EXECUTIVE SUMMARY, CONT.

The Consumer Price Index rose 0.1% in January after a 0.2% increase in December. Over the last 12 months, the index increased 2.5%. The index for shelter accounted for most of the increase. The increase was enough to offset a 1.6% decline in the gasoline index. The index to all items less food and energy increased 0.2% in January. Indexes for shelter, medical care, apparel, recreation, education and airline fares increased in January while indexes for used cars and trucks, prescription drugs and household furnishings declined.

Total nonfarm employment rose by 225,000 in January and the unemployment rate remained at 3.6%. Notable job gains occurred in construction, healthcare and in transportation and warehousing.

# HIGHLIGHTS – MONTHLY RESULTS

## New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in December 2019 increased 4% over orders in December 2018 after two months of declining orders. While orders in July and September were up nicely, orders in August, October and November were down compared to the same month a year ago.

While orders were up 4%, orders were up for only 58% of the participants so once again there was no consistency to the overall business.

Year to date, orders were down 2% for the year compared to all of 2018. There was consistency in the yearly numbers, unfortunately in the wrong direction. Orders for the year were down for 71% of the participants, up slightly from last month's results.

## Shipments and Backlogs

Shipments in December were up 2% over December 2018, but that was not consistent among the participants either. Shipments were up for 52% of the participants.

For the year, shipments were just slightly ahead of 2018 but basically flat. And overall, the picture was not even that good as 62% of the participants reported lower shipments for 2019 versus 2018.

Backlogs were up 2% over December 2018. Backlogs did fall 4% from November due to the shipments exceeding orders.

## Receivables and Inventories

Receivable levels were down 4% from December 2018 in spite of the 2% increase in shipments in December. The 4% decline was also good in that shipments for the year were flat versus last year.

Inventories were about even with November levels but were still 6% higher than December 2018. But this 6% increase was down from 7% reported last month and double digits a couple of months ago. So while still a bit high for current conditions, maybe not all that bad.

## Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees was even with November levels but was down 3% from December 2018.

Factory and warehouse payrolls were down 3% from November and even with December 2018. The holiday pay usually has some impact on December comparisons as well as work and vacation schedules.

**ESTIMATED BUSINESS ACTIVITY (MILLIONS OF DOLLARS)**

| | 2019 | | |
|---|---|---|---|
| | DEC | NOV | 12 MONTHS |
| New Orders | 2,290 | 2,523 | 28,712 |
| Shipments | 2,373 | 2,433 | 28,391 |
| Backlog | 2,322 | 2,407 | |

| | 2018 | | |
|---|---|---|---|
| | DEC | NOV | 12 MONTHS |
| New Orders | 2,208 | 2,645 | 29,171 |
| Shipments | 2,320 | 2,498 | 28,366 |
| Backlog (R) | 2,278 | 2,390 | |

Year to date, factory and warehouse payrolls were up 1% again, we believe partially due to pay raises that many companies, especially manufacturers have given raises in order to keep people.

# MONTHLY RESULTS – FEBRUARY 2020

| KEY MONTHLY INDICATORS (PERCENT CHANGE) | | | |
|---|---|---|---|
| | December 2019 From November 2019 | December 2019 From December 2018 | 12 Months 2019 vs 12 Months 2018 |
| **New Orders** | -9 | +4 | -2 |
| **Shipments** | -2 | +2 | – |
| **Backlog** | -4 | +2 | |
| **Payrolls** | -3 | – | +1 |
| **Employees** | – | -3 | |
| **Receivables** | -5 | -4 | |
| **Inventories** | – | +6 | |

| PERCENT INCREASE/DECREASE COMPARED TO PRIOR YEAR | | | | |
|---|---|---|---|---|
| | New Orders | Shipments | Backlog | Employment |
| **2018** | | | | |
| **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 |
| **December** | +4 | +2 | +2 | -3 |

# A DEEPER DIVE – NATIONAL

## Consumer Confidence

The Conference Board *Consumer Confidence Index*® improved slightly in February, following an increase in January. The Index now stands at 130.7 (1985=100), up from 130.4 in January. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased from 173.9 to 165.1. However, the Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – increased from 101.4 last month to 107.8 this month.

"Consumer confidence improved slightly in February, following an increase in January," said Lynn Franco, Senior Director of Economic Indicators. "Despite the decline in the Present Situation Index, consumers continue to view current conditions quite favorably. Consumers' short-term expectations improved, and when coupled with solid employment growth, should be enough to continue to support spending and economic growth in the near term."

Consumers' assessment of current conditions was less favorable in February. Those claiming business conditions are "good" declined from 40.0% to 38.6%, while those claiming business conditions are "bad" increased, from 10.4% to 11.9%. Consumers' assessment of the job market also moderated from last month. Those saying jobs are "plentiful" decreased from 47.2% to 44.6%, while those claiming jobs are "hard to get" increased from 11.9% to 14.8%.

Consumers were more optimistic about the short-term outlook. The percentage of consumers expecting business conditions will improve over the next six months increased from 18.4% to 20.4%, while those expecting business conditions will worsen declined, from 8.6% to 7.4%.

Consumers' outlook for the labor market was mixed. The proportion expecting more jobs declined slightly from 16.5% to 16.2%, but those anticipating fewer jobs in the months ahead also decreased, from 12.9% to 11.1%. Regarding their short-term income prospects, the percentage of consumers expecting an increase rose from 21.6% to 22.0%, while the proportion expecting a decrease declined from 8.0% to 6.7%.

## 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 "second" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.1%.

In the advance estimate, the increase in real GDP was also 2.1%. In the second estimate, an upward revision to private inventory investment was offset by a downward revision to nonresidential fixed investment.

### NATIONAL UPDATE

#### Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.8% in January to 112.1 (2016=100), following a 0.3% decline in December, and a 0.1% increase in November.

"The strong pickup in the January U.S. LEI was driven by a sharp drop in initial unemployment insurance claims, increasing housing permits, consumers' outlook on the economy and financial indicators," said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. "The LEI's six-month growth rate has returned to positive territory, suggesting that the current economic expansion – at about 2% – will continue through early 2020. While weakness in manufacturing appears to show signs of softening, the COVID-19 outbreak may impact manufacturing supply chains in the U.S. in the coming months."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1% in January to 107.3 (2016=100), following no change in December, and a 0.4% increase in November.

The Conference Board Lagging Economic Index® (LAG) for the U.S. was unchanged in January at 108.7 (2016=100), following a 0.1% decline in December, and a 0.3% increase in November.

# A DEEPER DIVE – HOUSING

## Existing-Home Sales

Existing-home sales declined in January, continuing a fluctuating pattern of monthly increases and declines, according to the National Association of Realtors® (NAR). Significant declines in the West region dragged down nationwide numbers, with the other three major U.S. regions reporting marginal – or no – changes last month.

Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 1.3% from December to a seasonally adjusted annual rate of 5.46 million in January. However, for the second straight month, overall sales substantially increased year-over-year, up 9.6% from a year ago (4.98 million in January 2019).

# A DEEPER DIVE – HOUSING, CONT.

Single-family home sales were at a seasonally adjusted annual rate of 4.85 million in January, down 1.2% from 4.91 million in December, but up 9.7% from a year ago. The median existing single-family home price was $268,600 in January 2020, up 6.9% from January 2019.

Existing condominium and co-op sales were recorded at a seasonally adjusted annual rate of 610,000 units in January, down 1.6% from December but 8.9% higher than a year ago. The median existing condo price was $248,100 in January, an increase of 5.7% from a year ago.

Lawrence Yun, NAR's chief economist, finds the outlook for 2020 home sales promising despite the drop in January. "Existing-home sales are off to a strong start at 5.46 million." Yun said. "The trend line for housing starts is increasing and showing steady improvement, which should ultimately lead to more home sales."

The median existing-home price for all housing types in January was $266,300, up 6.8% from January 2019 ($249,400), as prices increased in every region. January's price increase marks 95 straight months of year-over-year gains. "Mortgage rates have helped with affordability, but it is supply conditions that are driving price growth," Yun said.

Total housing inventory at the end of January totaled 1.42 million units, up 2.2% from December, but down 10.7% from one year ago (1.59 million). The housing inventory level for January is the lowest level since 1999. Unsold inventory was at a 3.1-month supply at the current sales pace, up from the 3.0-month figure recorded in December and down from the 3.8-month figure recorded in January 2019.

Properties typically remained on the market for 43 days in January, seasonally up from 41 days in December, but down from 49 days in January 2019. Forty-two percent of homes sold in January 2020 were on the market for less than a month.

First-time buyers were responsible for 32% of sales in January, up from 31% in December and up from 29% in January 2019. NAR's 2019 Profile of Home Buyers and Sellers – released in late 2019 – revealed that the annual share of first-time buyers was 33%.

"It is good to see first-time buyers slowly stepping into the market," Yun said.

"The rise in the homeownership rate among the younger adults, under 35, and minority households means an increasing number of Americans can build wealth by owning real estate. Still, in order to further expand opportunities, significantly more inventory and home construction are needed at the affordable price points."

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased to 3.62% in January, down from 3.72% in December. One year ago, the commitment rate was 4.46%.

## Regional

Compared to last month, January sales increased in the Midwest and the South, 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 Northeast region showing the strongest price gain.

January 2020 existing-home sales in the Northeast saw no movement, recording an annual rate of 730,000, which was up 7.4% from a year ago. The median price in the Northeast was $312,100, up 11.5% from January 2019.

Existing-home sales increased 2.4% in the Midwest to an annual rate of 1.29 million, which was up 8.4% from a year ago. The median price in the Midwest was $200,000, a 5.4% increase from last January.

Existing-home sales in the South grew 0.4% to an annual rate of 2.38 million in January, up 11.7% from a year ago. The median price in the South was $229,900, a 6.3% increase from this time last year.

Existing-home sales in the West fell 9.4% to an annual rate of 1.06 million in January, an 8.2% increase from a year ago. The median price in the West was $393,800, up 5.2% from January 2019.

## 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 January 2020 were at a seasonally adjusted annual rate of 764,000. This was 7.9% above the December rate of 708,000 and was 18.6% above the January 2019 estimate of 644,000.

The median sales price of new houses sold in January 2020 was $348,200. The average sales price was $402,300.

The seasonally adjusted estimate of new houses for sale at the end of January was 324,000. This represents a supply of 5.1 months at the current sales rate. New house sales in January 2020, compared to January 2019, were up 46.7% in the Northeast, 47.8% in the Midwest and 49.1% in the West, while the South was down 2.4%.

# 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 January were at a seasonally adjusted annual rate of 1,567,000. This was 3.6% below the revised December estimate of 1,626,000 but was 21.4% above the January 2019 rate of 1,291,000. Single-family housing starts in January were at a rate of 1,010,000; this was 5.9% below the revised December figure of 1,073,000, but 4.6% ahead of January 2019.

Single-family starts were up 17.7% in the Midwest and 24.7% in the West but fell 15.4% in the Northeast and 3.7% in the South.

Privately-owned housing completions in January were at a seasonally adjusted annual rate of 1,280,000. This was 3.3% below the revised December estimate of 1,323,000 but was 1.5% above the January 2019 rate of 1,261,000. Single-family housing completions in January were at a rate of 877,000; this was 3.5% below the revised December rate of 909,000 and 4.9% below January 2019.

# 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 January 2020, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $529.8 billion, an increase of 0.3% from the previous month, and 4.4% above January 2019. Total sales for the November 2019 through January 2020 period were up 4.4% from the same period a year ago.

Retail trade sales were up 0.1% from December 2019, and 4.0% above last year. Gasoline stations were up 10.4% from January 2019, and nonstore retailers were up 8.4% from last year.

Sales at furniture and home furnishings stores were up 0.6% from December and 1.8% from January 2019, on an adjusted basis (up 2.0% from last year unadjusted).

## Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in January on a seasonally adjusted basis, after rising 0.2% in December, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 2.5% before seasonal adjustment.

The index for shelter accounted for the largest part of the increase in the seasonally adjusted all items index, with the indexes for food and for medical care services also rising. These increases more than offset a decrease in the gasoline index, which fell 1.6% in January. The energy index declined 0.7%, and the major energy component indexes were mixed. The index for food rose 0.2% in January 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 January after increasing 0.1% in December. Along with the indexes for shelter and medical care, the indexes for apparel, recreation, education, and airline fares all increased in January. The indexes for used cars and trucks, prescription drugs, motor vehicle insurance, and household furnishings and operations were among those to decline.

The all items index increased 2.5% for the 12 months ending January, 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 12-month increase as reported in the previous 3 months. The food index rose 1.8% over the last 12 months, while the energy index increased 6.2% over that period.

## Employment

Total nonfarm payroll employment rose by 225,000 in January, 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 construction, in health care, and in transportation and warehousing.

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

The number of long-term unemployed (those jobless for 27 weeks or more), at 1.2 million, was unchanged in January. These individuals accounted for 19.9% of the unemployed.