

# Furnishings Digest Newsletter

OCTOBER 2016

Reading Time

19 minutes



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Managing Director

*Celebrating 45 Years of Proprietary Furniture Research*



## AUTUMN Home Furnishings Overview

Come See Us at these upcoming events:

- Sunday, October 23<sup>rd</sup>, High Point, NC- 9:00AM, the N.A.H.F.A Retail Resource Center, first floor, Plaza Suites building.
- Saturday, November 5<sup>th</sup>, speaking to the A.H.F.A annual meeting at Kiawah Island, S.C. Contact the A.H.F.A for details.
- Tuesday, November 15<sup>th</sup>, speaking to the “Furniture Industry Outlook and M&A Update”, sponsored by McGuire, Woods and Smith Leonard, in Winston-Salem, N.C.

My partners Howard Armistead ([wha@maeltd.com](mailto:wha@maeltd.com)) and Jimm Mann ([jmm@maeltd.com](mailto:jmm@maeltd.com)) will be at the market as well. Please contact them to discuss valuations, mergers, acquisitions, or our other services.

## CURRENT BUSINESS

Business this year has lacked any consistency. In a very general sense, the second quarter was better than either the first or the third, the West Coast has been stronger than the Midwest or East Coast, upholstery and accessories/décor have been outselling casegoods, and middle has been modestly stronger than the lower-priced sector.

This should have been a better year. The elements we need to do well are positive, including consumer confidence, but foot traffic continues to decline and we (and most retail) have taught American consumers to wait for big holidays, not just for price but for selection.

Even so, inventories are not out of line, thank heavens, as we travel to High Point. The outlook for 2017, which we will discuss, is very good and that is why we gather for the autumn market. See you there!

## THE CURRENT ECONOMY

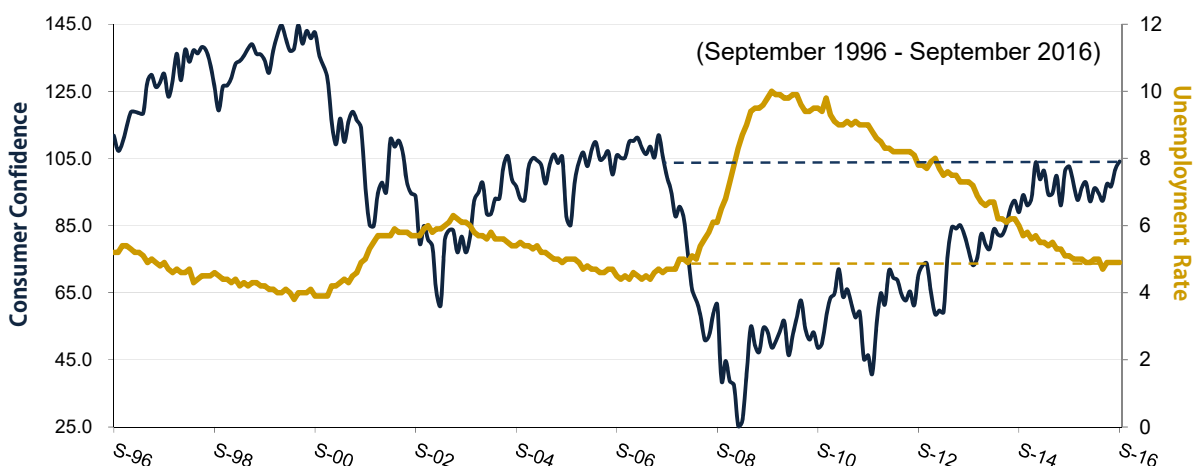
After averaging 1.0% GDP growth in the first half of 2016, the September quarter will be reported soon and is expected to be about +3.0%, WOW! A turnaround! Did you see your business improve to that degree in July, August and September? Except for a robust Labor Day, the quarter was weak for home furnishing sales. The 3.0% is because of some adjustments for inventories, oil exploration and other items, not really a strengthening in the overall economy. The fourth quarter's GDP will likely fall back to less than 2.0% for a full year GDP growth of 1.5% which stinks. (Do you think this “better” 3.0% quarter being announced right before the election is a coincidence?)

Our new, complex 5 year economic model will be released the last week in October and will show a slowdown coming. There is a probability that 2017 will be the strongest year for home furnishings sales this decade.

Here is a concern: our economy is making minimum gains with the Federal Reserve keeping interest rates as low as they go. What can they do if we slip into a recession? What firepower is left?

National Consumer Confidence Index & Unemployment

Table 1.

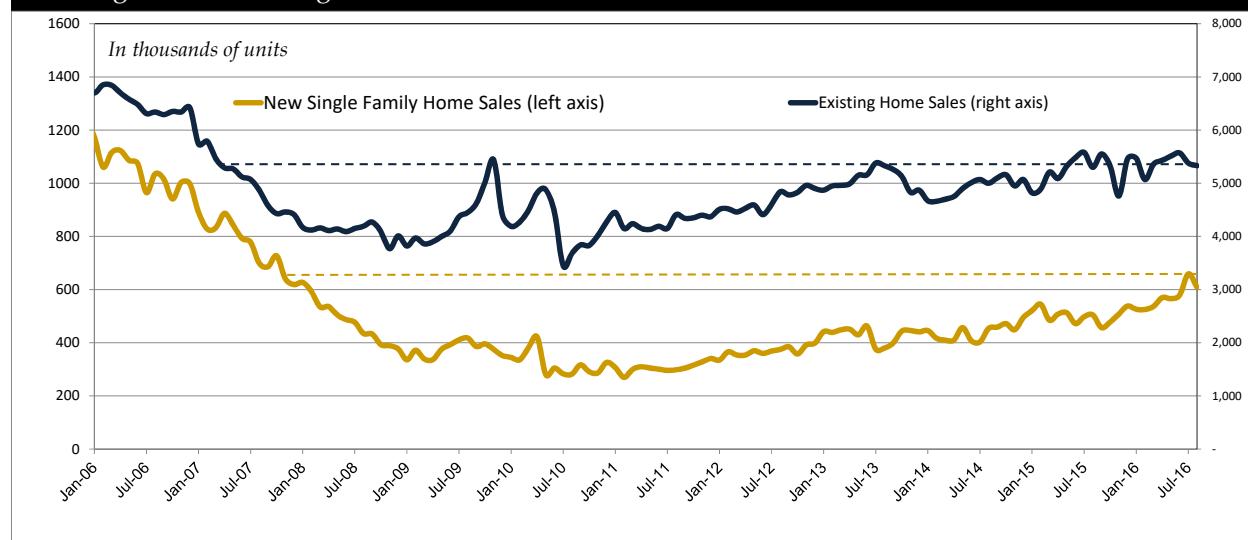


Source: The Conference Board & Dept. of Labor Statistics

Consumer confidence and unemployment, (Table 1) and both new and existing home sales (Table 2) are both back to pre-recession levels but the economy does not seem to have the same faith in the future as we did before 2008-2009. In my opinion, the devastation in banking, housing and other sectors made most Americans delay plans – marriage, having kids, moving, starting a business, buying a home, retiring, etc. – for 3 to 5 years, some even longer. Those youngest and oldest were most affected.

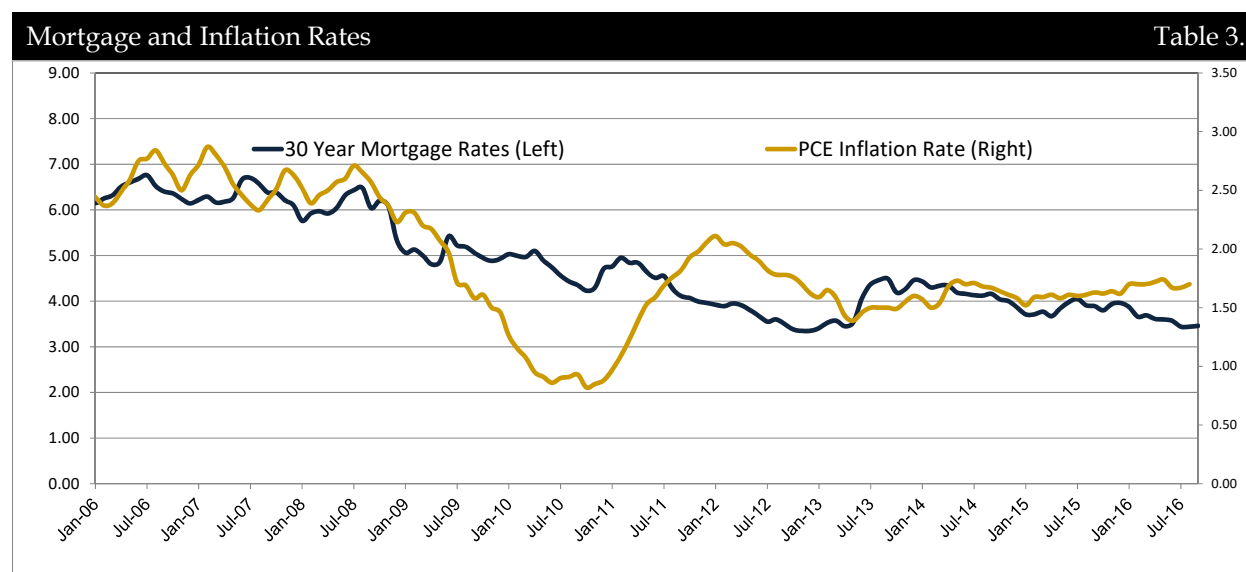
Housing Starts & Existing Homes Sales

Table 2.



Source: U.S. Bureau of the Census

The best news today is inflation is low thanks to energy and food prices, and mortgage rates and other interest rates are as low as they have been (Table 3). This will change in December when the Fed raises rates.

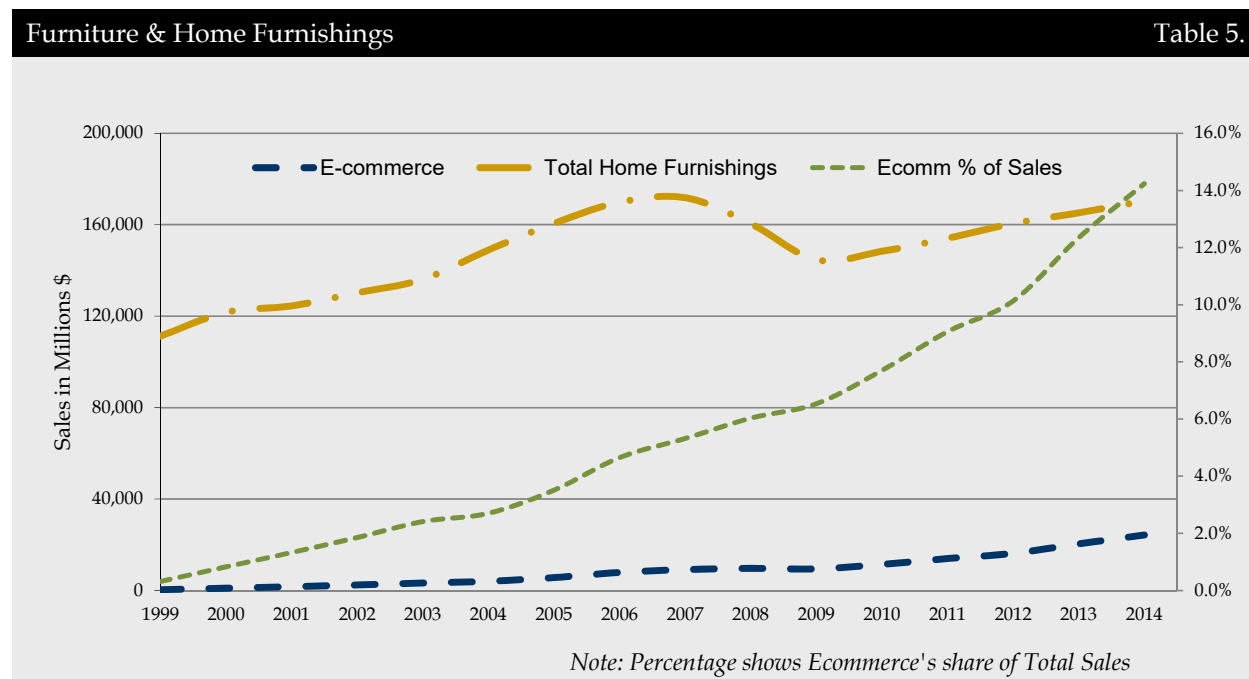


The overall stock market is looking good too, as global investors put their investments here as a safe haven with a safe currency. It is also clear they are not investing in our industry! Our stocks have been clobbered in the last year as our results have weakened and investors fear higher interest rates.

| Public Company Comps                       |        | Table 4.            |                     |                      |
|--|--------|---------------------|---------------------|----------------------|
| Company Name                               | Ticker | Stock Price 9/30/15 | Stock Price 9/30/16 | Stock Price % Change |
| <b>Retailers</b>                           |        |                     |                     |                      |
| Williams-Sonoma Inc.                       | WSM    | \$76.35             | \$51.08             | (33.1%)              |
| Restoration Hardware Holdings, Inc.        | RH     | \$93.31             | \$34.58             | (62.9%)              |
| Rent-A-Center, Inc.                        | RCII   | \$24.25             | \$12.64             | (47.9%)              |
| Aaron's, Inc.                              | AAN    | \$36.11             | \$25.42             | (29.6%)              |
| Pier 1 Imports, Inc.                       | PIR    | \$6.90              | \$4.24              | (38.6%)              |
| Leon's Furniure Ltd.                       | LNF    | \$10.29             | \$12.37             | 20.2%                |
| hhgregg, Inc.                              | HGG    | \$4.87              | \$1.84              | (62.2%)              |
| Conns Inc.                                 | CONN   | \$24.04             | \$10.32             | (57.1%)              |
| Haverty Furniture Companies Inc.           | HVT    | \$23.48             | \$20.04             | (14.7%)              |
| Mattress Firm Holding Corp.                | MFRM   | \$41.76             | \$64.02             | 53.3%                |
| easyhome Ltd.                              | GSY    | \$11.72             | \$19.28             | 64.5%                |
| <b>Vendors</b>                             |        |                     |                     |                      |
| Ethan Allen Interiors Inc.                 | ETH    | \$26.41             | \$31.27             | 18.4%                |
| La-Z-Boy Incorporated                      | LZB    | \$26.56             | \$24.56             | (7.5%)               |
| Hooker Furniture Corp.                     | HOFT   | \$23.54             | \$24.49             | 4.0%                 |
| Flexsteel Industries Inc.                  | FLXS   | \$31.25             | \$51.72             | 65.5%                |
| Bassett Furniture Industries, Incorporated | BSET   | \$27.85             | \$23.25             | (16.5%)              |
| Stanley Furniture Company, Inc.            | STLY   | \$2.93              | \$1.78              | (39.2%)              |
| <b>Mattress Companies</b>                  |        |                     |                     |                      |
| Tempur Sealy International Inc.            | TPX    | \$71.43             | \$56.74             | (20.6%)              |
| Select Comfort Corporation                 | SCSS   | \$21.88             | \$21.60             | (1.3%)               |

## DEFINING INTERNET RETAILING

There has been so much bull... um, speculation about the size and importance of the internet, the government released a data series on “non-store” retailing from 1999 to 2014 (Table 5). In 1999, ecommerce was only 6.0% of all non-store home furnishings retailing (catalogs, infomercials, QVC, HSN, mail, etc.) which totaled \$5.8 billion in 1999 (ecommerce was \$350 million). In 2014, ecommerce was 88.2% of all non-store home furnishings retailing which had grown to \$27.5 billion (\$24.3 was ecommerce). Some of the confusion comes from the definition of “home furnishings”. To be comparable, the series includes not just furniture and mattresses but clocks, lamps, decorative items, wall décor, floor coverings, window dressings and home décor. The internet is selling 14.2% of home furnishings. Fully assembled furniture and mattresses are perhaps 10% sold on the internet in 2016, and other more portable categories can go as high as 22%.



By the way, other consumer categories have seen greater e-commerce penetration by ecommerce. Our logistical issues remain a challenge. Buying on the internet has its advantages, no question, like selection, open 24 hours/day, and not having to travel to shop but no one selling full sized furniture is making much money. Will the novelty wear off or will the need for profits come first? Stay Tuned.

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### About the Furnishings Digest Newsletter

Driven by founding partner Jerry Epperson’s respected insight and long-term commitment to the furniture and mattress industries, Mann, Armistead & Epperson, Ltd. publishes the monthly Furnishings Digest Newsletter in addition to various manufacturing, retail, distribution, strategy and demographic reports that are available for purchase individually or by annual subscription. For more information, please email [research@maeltd.com](mailto:research@maeltd.com) or call (804) 644-1200.