

Furnishings Digest Newsletter

November 2016

Reading Time

15 minutes



Jerry Epperson
Managing Director

Celebrating 45 Years of Proprietary Furniture Research



HOW'S BIZ?

All year we have read that consumers were going to wait until after the election to spend. Why? No one ever explained that. Unfortunately, furnishings sales post-election had not improved until the Thanksgiving/Black Friday week, which thankfully was strong nationally.

In my opinion, the ads, circulars and social media promotions were the best ever. I have kept some of the newspaper circulars – Rooms to Go and The Dump specifically – because the color and detail were so much better than in the past. These all play a role in driving consumers to the stores.



After excellent double digit sales gains on Labor Day and Black Friday week, the lack of vigor between holidays becomes even more frustrating. We have had “weekends only” concept stores since the 1990’s; maybe we will begin to see “holidays only” stores next which might make sense in a virtual market without real estate.

Upholstery, especially motion, home office and mattresses seemed to fare better last week.

HIGH POINT

The High Point market last month was memorable for 4 consistent days, lots of exciting merchandise for next spring, retailers looking for answers on how to reach young consumers, and a clear enthusiasm for 2017.

Attendance was flat to down slightly, but several showrooms stayed very busy. Retailers love items that have a story and features to sell like the power recliners or the adjustable beds. Everything seems to be getting electric/electronic outlets as we become a population that never relaxes without the smart phone, tablet/laptop and/or the HDTV multi-media experience – not just in the family room, but in bedrooms, kitchens and, in some cases, the bathrooms. (Yes, the bathrooms, perhaps replacing reading materials).

It appears that at some point, almost every retailer has to visit Ashley, clearly the big draw in both High Point and Las Vegas in terms of attendance.

Décor, accessories, outdoor and the high end all have a major role in the High Point market today versus years past.

THE ELECTION

What can anyone say that has not been said too often? Win or lose, everyone seems to have had a problem accepting the results that were so different from what our media, pollsters, and pundits all saw as an inevitable outcome. Clearly, the media misread the public and, like the pollsters, did not recognize many elements in our population. Both may have trust issues in the future.

Personally, I don't know when or why the media went from reporting the news to believing that we care what they believe as individuals. Why should we care what these talking heads' opinions are? Just give us the facts, the news, then shut up. (Yes, I appreciate that this is what you want to say to me, too).

Just before the election, we finished our highly detailed new economic forecast for the furniture and mattress sector through 2020. One concern was how the model would change depending on who was elected. Recognizing this need, the University of Michigan updated its R.S.Q.E. national forecast on November 17th, after the election, as shown here.

FORECAST RESULTS	2016		2017		2018	
	SEPT.	NOV.	SEPT.	NOV.	SEPT.	NOV.
Real GDP (4th Qtr/4th Qtr)	1.9%	1.9%	2.4%	2.3%	2.1%	2.0%
Unemployment Rate	4.9%	4.9%	4.8%	4.7%	4.6%	4.6%
Inflation (Core CPI)	2.2%	2.2%	1.9%	1.8%	2.1%	2.1%
Vehicle Sales (Mils.)	17.2	17.4	17.1	17.3	17.0	17.2
Housing Starts (000)	1,186	1,159	1,260	1,248	1,314	1,330
Existing Home Sales (Mils.)	4.85	4.79	4.91	4.85	4.99	4.97
30 yr. Mtge. Rate	3.6%	3.6%	3.9%	3.9%	4.3%	4.3%
Real Disposable Income	2.7%	2.6%	2.6%	2.5%	2.6%	2.6%

Source: University of Michigan Research Seminar in Quantitative Economics
(September 16, 2016 and November 17, 2016)

See much difference? No, we don't either. Quoting this model, *"The lack of a political history for President-elect Trump implies that there is greater than usual uncertainty associated with the path of fiscal policy over our forecast horizon. We currently anticipate changes to the Affordable Care Act that will slow the growth of the transfers and subsidies associated with it. We also anticipate lower personal and corporate federal tax rates. We are cautiously optimistic that incoming policymakers will avoid any major disruptions to international trade"*.

The U.S. economy is so massive that change comes slowly, both good and bad. This is why new presidents seldom make much progress in their first two years.

MATTRESS MACK

No one has ever accused Jim McIngvale, co-founder with his wife Linda of Houston's Gallery Furniture, of not being passionate about the furniture industry. By sitting in the front of his showroom, "Mattress Mack" sees and hears everything that is going on in his massive store.

At the excellent A.H.F.A. annual meeting earlier this month, Jim gave a wonderful presentation with insight into his business and his heavy commitment to his community. He used so many great sayings and thoughts, I could barely write fast enough. I would like to share some here. By the way, his presentation was titled "No One Said it Would Be Fun, Easy or Fair".



To gain share in his market, he used *"disruptive innovation"* and offered same day delivery, a novelty in the Houston market. As he says, *"to be in the furniture industry, you need a high tolerance for risk and to understand survival is not mandatory"*. Gallery sponsors infomercials in the Houston market about strokes and mental illness and uses the motto *"God, Duty, Honor, and Country"*. Its core competency is delivering furniture but its business is *"delighting customers"*, using *"top of mind awareness"* and offering *"free delivery"*.

in 48 states". "What you learn after you know it all is what counts". The biggest threat to any business is "that's the way we've always done it". "Work is salvation, the secret to life". "Innovate or evaporate". "Grateful for everything, entitled to nothing". "Change brings opportunity". "Do something even if it is wrong". "The problem with retail is the 13 holiday weekends". "Read all the reviews on Facebook – and elsewhere". "We are working in virtual reality".



Gallery Furniture turns its inventory 20 times and has sales of \$1,200 per square foot. Eighty percent of its merchandise offerings are made in America which Jim sees as a populist trend. He wants to create jobs for Americans, and believes 100 million Americans are out of work.

This was an inspiring talk.

LOSING SLEEP?

Would the headline, "Is Sleep Replaceable?", get your attention? The November Mental Floss tells of a Hungarian soldier who went more than 20 years without sleeping after a bullet pierced his frontal lobe. Thai Ngoc of Vietnam hasn't slept since suffering a strange fever in 1973.

Scientists at UCLA are working on a nasal spray containing orexin-A that will combat the symptoms of sleep deprivation. So far, it appears to work great on monkeys so tests on Eppersons are probably next.

There is probably sleep loss among some of the recognized brands of mattresses. In September, South African-based Steinhoff International (\$27.4 billion in assets and \$14.5 billion in global revenues according to the 10/24/16 BusinessWeek) paid more than \$3 billion for Mattress Firm which controls about 25% of the U.S. mattress market.

**BLACK FRIDAY
ALL MATTRESSES
ON SALE!**

In its "Thanksgiving Sale" flyer, Mattress Firm showed sale prices on 16 mattresses plus pillows, adjustable foundations and other related products. Of these 16, 6 were for its proprietary "Hampton & Rhodes" mattresses and two others offered Hampton & Rhodes or Posturepedic and Beautyrest or Hampton & Rhodes for the same price. Elsewhere, Sealy had 2 placements, Beautyrest had 4, and Tempur-Pedic had 2. Of course, "ALL MATTRESSES ON SALE!" is shown in bold print.

We have been told that elsewhere, Steinhoff mattress stores promote primarily their own captive brands. Is that expected here?

There is always excitement in Mattressland.

KIPLINGER OBSERVATIONS

- "A powerful tailwind propelling consumer spending: Rising household wealth which hit a record \$89.1 trillion at mid-year". (9/16/16)
- Canada's economy should rebound to 2% or better in 2017 from 1.3% in 2016, slowed by wildfires in Alberta and oil. (10/21/16)
- A way to GDP growth is increased worker productivity which has been stagnant lately. (10/28/16)
- "The Electoral College math still leaves Hillary Clinton the likely winner". (oops!) (11/4/16)
- By year-end 2017, the bank prime rate will be 4.25% from 3.5% now. (11/18/16)
- "Won't slap stiff tariffs on goods from China and Mexico which would invite retaliatory action". "There won't be enough workers to support an economy growing at 4%" thanks to the retiring of Baby Boomers (11/23/16)

Public Furniture Company Latest Quarter				Table 1.			
	Q Ended	Sales	Net Income		Q Ended	Sales	Net Income
Furniture Manufacturers				Bedding Companies			
Bassett Furniture Industries	31-Aug-16	(5.7%)	(2.4%)	Mattress Firm	31-Jul-16	39.9%	Loss
Culp	31-Jul-16	4.8%	40.9%	Select Comfort	30-Sep-16	(1.6%)	(19.2%)
Ethan Allen Interiors	30-Sep-16	1.5%	(12.3%)	Tempur Sealy International	30-Sep-16	(5.4%)	93.5%
Flexsteel Industries	30-Sep-16	(11.4%)	(17.5%)				
Hooker Furniture	31-Jul-16	108.4%	15.5%	Foreign Companies			
La-Z-Boy	31-Jul-16	(11.0%)	(34.1%)	Ekornes	30-Jun-16	(7.4%)	12.6%
Stanley Furniture	30-Sep-16	(19.8%)	Loss	HTL International Holdings	30-Jun-16	20.8%	Loss
				Leon's Furniture	30-Jun-16	(1.4%)	(36.2%)
Furniture Retailers				Markor	30-Jun-16	21.8%	2.2%
Aaron's	30-Sep-16	0.2%	21.8%	Man Wah	31-Mar-16	8.6%	36.5%
Conns	31-Jul-16	0.7%	Loss	Natuzzi	30-Sep-16	(11.6%)	Loss
Haverty Furniture Companies	30-Sep-16	0.8%	(3.8%)	Samson Holding	30-Jun-16	2.2%	(32.1%)
Pier 1 Imports	31-Aug-16	(6.7%)	Loss				
Restoration Hardware	31-Jul-16	2.1%	(66.6%)				

Notes:

"Profit" is shown without a % for companies that showed a net loss a year ago
Man Wah & Samson are compared on a 6 month basis

Sources:

PitchBook as of November 29, 2016

RANDOM (but valuable) THOUGHTS

- e-Marketer says Amazon will do 25% of all online sales this November and December. Total retail? \$884 billion; online sales? \$95 billion (TWICE, 11/21)
- Major appliance sales are up 2.1% so far in 2016 (through October). (TWICE, 10/10)
- All of us know Ron Wanek is our industry's most handsome, kind, intelligent person. Did I mention that Forbes (October 25, 2016) says he is worth \$2.1 billion?
- "We're running, not walking, through the finish line of President Obama's presidency", a quote from the head of the EPA, pushing even more new regulations. (BusinessWeek, 11/28, page 24)
- A currency crisis and falling wages will likely make Russia "broadly competitive" with China. "Russia has started exporting upholstery products to Scandinavia". (BusinessWeek, 11/28, page 15)



Mann, Armistead & Epperson, Ltd.
119 Shockoe Slip
Richmond, VA 23219
1-804-644-1200
www.maeltd.com

Wallace "Jerry" W. Epperson, Jr., C.F.A.
Managing Director

Jin S. Ko
Financial Analyst

About the Furnishings Digest Newsletter

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