

Furnishings Digest Newsletter

August 2016

Reading Time

14 minutes



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Celebrating 45 Years of Proprietary Furniture Research



HOW'S BUSINESS?

Not good, unfortunately. The first quarter was essentially flat. The June quarter was OK with some decent gains. Even the July 4th holiday was fine but afterwards, it seems all consumers were afraid to leave their air-conditioned homes.

Early August was no better but since the 15th, some traffic has reappeared; after all, home sales have been good.

Some Thoughts:

1. The summer doldrums are real. The kids were out of school and everyone had things they wanted to do. Didn't you?
2. The stretch between July 4th and Labor Day is the longest in our calendar without big promotional weekends. Who has taught American consumers to wait until the BIG weekends for the best deals? Who spends their advertising dollars only on the BIG weekends? American retailers, that's who.
3. August final numbers will disappoint. The month will get little bounce from Labor Day which is the 5th this year vs. the 7th last year. Some years an early Labor Day can be a help, but not 2016.
4. September only has four weekends, too, but both October and December have five. Start planning Halloween promotions now. "Is your home so scary to show off?", "Home full of decorating ghosts and goblins?" Plus, it is a fun weekend to promote and bring in families with treats for all.
5. Yes, the elections have driven up ad rates on TV and taken down availability. It is yet another reason to hate politicians.
6. Big \$\$\$ will be spent over Labor Day on everything that goes into the home! The last six months have been good for home sales. Even JCP is back in appliances to participate.
7. The saving grace for all big-ticket durables this year may be the many new sources for consumer credit. The banks now have fierce competition by a number of private equity funded lenders who LOVE the high interest rates and controllable level of risk. Stores should be having fewer credit turn downs than ever.
8. Don't be fooled by all the talk about the size and impact of the Millennials, now 19-37. Yes, there are a lot of them (83 million), but both Generation X and the older baby-Boomers (76 million, aged 52-70) have more spendable income and are much more likely to own a home. Don't overlook the obvious.



Getting Approved is Easy
Bad Credit?
No Credit?
No Problem.



9. Historically, 55% of furniture and mattress sales occur in the second half of the calendar year AND July and August are almost always soft. September, October and November are the best bets every year. December can be excellent if you plan for it.
10. 2017 has every indication of being our best year. It will benefit from the solid housing gains of 2016, plus, low interest rates, decent income gains, better employment opportunities and higher levels of household formations.



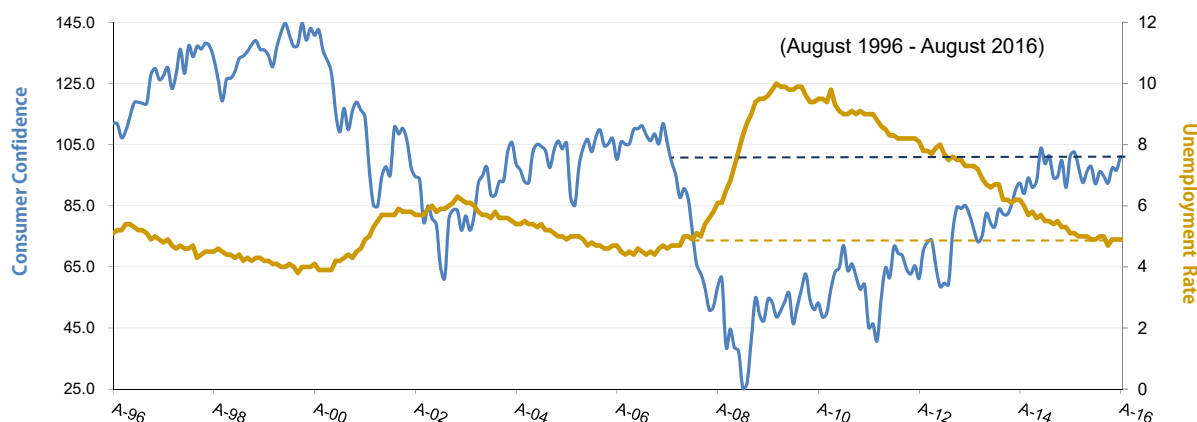
THE BIG PICTURE

This 6 year painfully slow...record slow... economic recovery just cannot get out of first gear. To me, it feels like laying on your back waiting for a broken leg to heal, and it has been just as painful. (I am an expert on broken legs).

But, being so slow and incremental, it is easy to overlook where we are in this recovery relative to where we have been. It also makes it more sustainable overtime. **Table 1** shows that unemployment and consumer confidence levels are now back to 2007 levels. Pre-recession!

Consumer Confidence vs. Unemployment

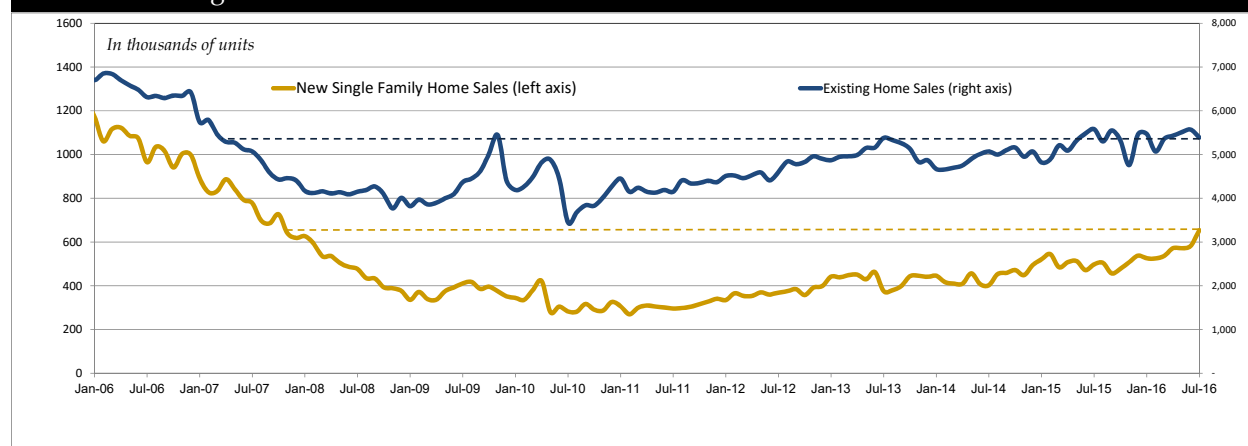
Table 1.



And talk about sloth slow, please look at the housing numbers on **Table 2**. New home sales were last at today's level in very early 2008, and existing home sales have reached January 2007 levels. Again, pre-recession.

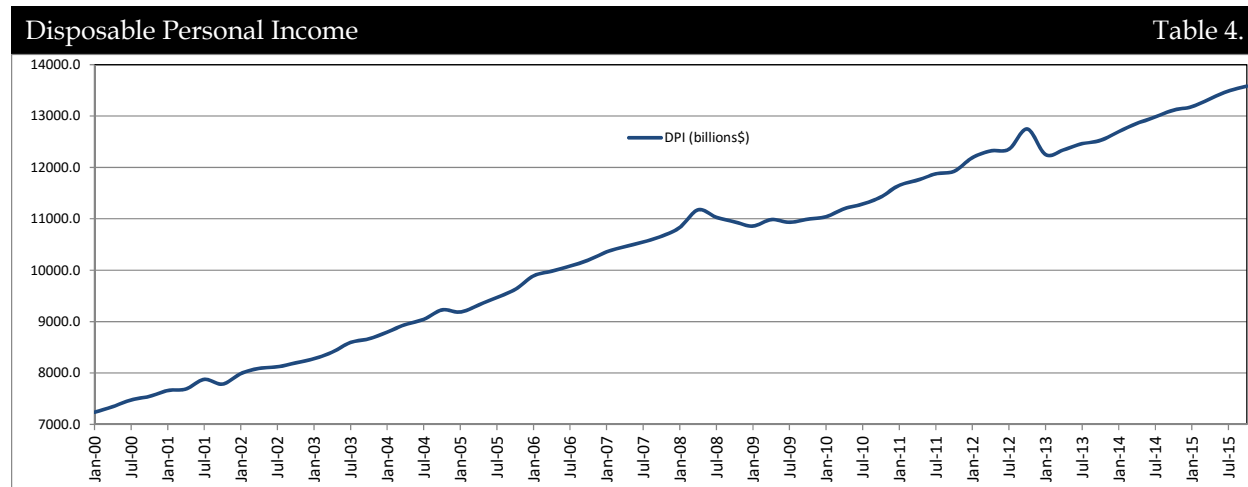
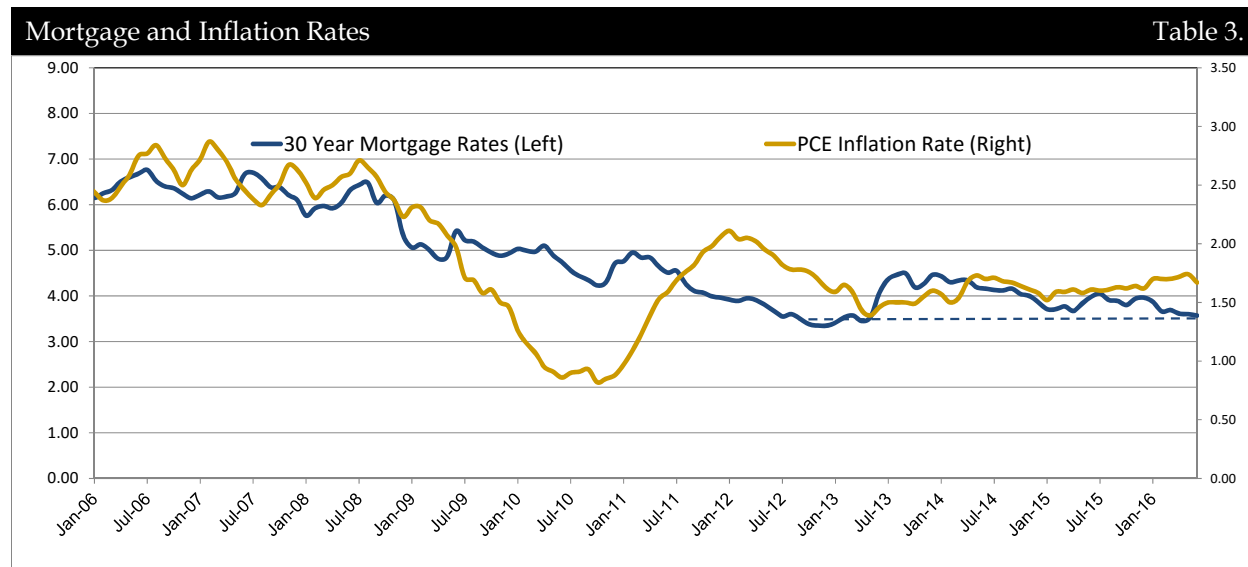
New vs. Existing Home Sales

Table 2.



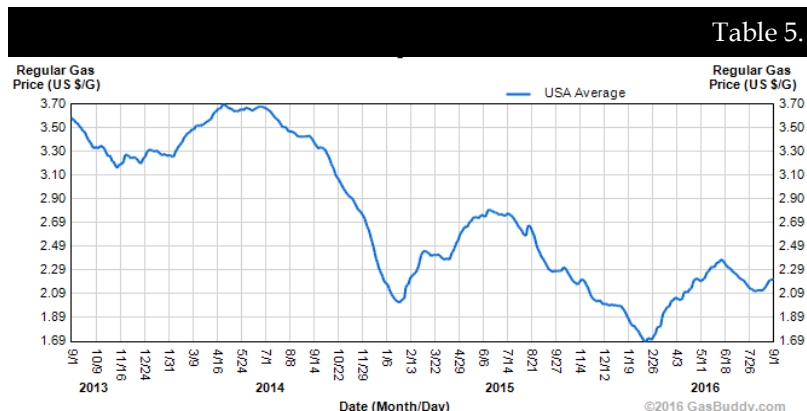
Thought BREXIT didn't affect you? The confusion it created drove mortgage rates back to their lowest levels in decades, where they were in late 2012 (Table 3). How long do you think 3.5%, 30 year mortgage rates will last? Even low inflation can't keep rates this low much longer. Go buy a home, if you can.

Incomes are getting better, about +2.6% this year, plus better paying job opportunities are growing. Finding skilled labor remains a challenge and that will drive wage rates higher (Table 4).



Gas prices are helping as well. Around Richmond, gas is about \$1.80/gallon. Remember the spring of 2014? Some predicted \$5.00/gallon! Those are now pumping it, hopefully.

Most of these factors are likely to have a larger impact on 2017 than 2016 at this point, but it is a reason to be encouraged, without a doubt.



RECENT AND SOON

The August Las Vegas market was typically hot, but the big draw, the mattress makers, are learning to not bring out 100% of their new offerings in January, leaving some gems for August. Even so, the winter market will remain the most popular, but an expanding gift mix might level it out.

Nationwide Marketing Group invited me to speak to its August “PrimeTime” Learning Academy. Over 900 retail entities and 4,000+ people at the Gaylord Opryland Hotel in Nashville were very upbeat with BIG plans for 2017. Of the 180 vendors with displays, about 40 were service providers, offering new credit programs, truck routing, advertising and display and IT services. I learned a lot and today’s technologies are allowing logistics and controls not imaginable only a decade ago. The real strength of Nationwide was its 80+ courses offered to retail members, teaching more topics than you could think possible.

If the attitudes and enthusiasm we experienced in Nashville can carry into the upcoming High Point market, it should be great. As stated earlier, we have high hopes for 2017 and that is the purpose of the October market. Please join me there. My program for the HFA will be Sunday morning at 9 a.m. as usual. And I will be speaking to the A.H.F.A.’s annual meeting November 3-5 on Kiawah Island at The Sanctuary.

Our new economic forecast will be prepared just after the mid-September update from the University of Michigan’s R.S.Q.E is released. We are also working on a report on logistics, based upon our June presentation to the joint A.H.F.A. and Furniture/Today conference.

WHO TOLD YOU?

Housing is now one of the few strong growth areas in this lethargic economy. Home building remains a domestic trade (I haven’t seen many imported homes...yet) and the demand continues to exceed the supply and will for at least the coming decade. The interest from stock market investors in the public companies is very real, and outside corporations and private equity are looking for acquisitions that can benefit from the coming housing growth. Look for more public offerings and acquisitions soon.

Surprised by the Steinhoff acquisition of Mattress Firm (that should be completed in a few weeks)? Steinhoff made an excellent presentation to investors and copies are available. The \$3.6 billion total enterprise value is clearly the largest transaction ever in home furnishings.

FINAL SARCASTIC NOTE:

Our nation’s founders made it so we are all free to vote for the candidate of our choice. Maybe these days it should be reworded so we vote for the candidate we dislike the least.

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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 or call (804) 644-1200.