

Furnishings Digest Newsletter

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Reading Time

16 minutes



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Celebrating 45 Years of Proprietary Furniture Research



As you will learn from this *Furnishings Digest*, we are increasingly positive on the outlook for our autumn selling season. Historically, our industry does 55% of its retail sales in the second half of the year, partly because new homeowners like to move in the late spring and summer.

This should be a very upbeat Las Vegas market (July 31st to August 4th) because retail sales have improved since the first quarter, incomes are rising at an increased rate, employment is up, and housing is as strong as it can be with a shortage of homes for sale – new and existing – in many markets. Builders are complaining they cannot get the labor to build new homes. We are seriously underbuilt in housing, and this is keeping aspiring young people in rental properties or at home with their parents instead of in new homes buying lots and lots of new furnishings.

One topic at this upcoming summer Las Vegas market will likely be that more large furnishings retailers may be ignoring MAP (minimum advertised pricing) over the important July 4th holiday weekend. It has been evident in several categories but felt most often in branded mattresses. Yes, they advertise the correct price but the price in the store might be much lower.

Yes, this has been done in the past honoring the MAP price but giving away \$100 gift cards, free pillows, extreme payment terms or other incentives. We sense that this holiday, the gloves will be off to make the sale among some of the largest retailers.

From the advertising budgets we have seen, spending to promote this holiday will be at a post-recession high.

Good luck and enjoy your July 4th!

High Point

We have delayed comments about the April High Point market on purpose. The traffic pattern this spring market was odd. Saturday was busy but not as strong as last year's High Point markets. Sunday was stronger across the board and Monday was much stronger than last year.

To us, attendance felt slightly off but the retailers and exhibitors were generally upbeat, more so than expected after the lackluster March quarter.

After a strong, consistent 2015 and with much better weather than the last three winters, expectations were high for the strongest first quarter since pre-recession times. But no, it was at best flat with the weather-impacted March 2015 quarter. Nuts.

Why? We have excuses galore but only one real reason. The weak stock market late in 2015, the odd, extremely confrontational presidential candidate run-offs, the strong U.S. dollar with its impact on some U.S. manufacturing are all mentioned. The only solid reason we can find is a pause in additional consumer credit. This follows a strong year in 2015 for housing, vehicle and most credit-related durables, including furniture, mattresses, jewelry and travel.

Thankfully, early April home furnishings sales improved, helping the High Point market.

Some High Point observations:

- Sometimes we forget the purpose for the spring market is to buy for the important autumn selling season. Again, we do 55% or more of our annual sales in the second half of the year.
- After some inventory shortages mid-year 2015, there were concerns about excess retail inventories impacting the market. We found little evidence of it.
- The sudden reappearance of solid wood furniture from Ashley, Vaughan-Bassett and several others should not be a surprise. "Amish" furniture -- which covers several sources, religious and otherwise, has been growing retail exposure steadily. There are some free standing "Amish" furniture stores, too. While there are exceptions, most of the Ohio, Indiana, Michigan and Pennsylvania based manufacturers are small and often undercapitalized. The product is usually well made and not inexpensive, but retailers tell us that delivery times are often long and sometimes unreliable. This has created a market opportunity. In addition, the demand for the cleaner, simpler typical solid-wood styles seems appealing to young couples.
- The "high-end" or premium end of our industry seems to be doing better after suffering over the last decade. In many cities these retailers are often the survivors, with many of their local competitors now long gone. We believe some of this is the increasing reach of the design community and the stronger stock market, the higher quantity of existing home sales and the strength of larger new single family homes. In many markets, housing sales have recovered to the degree that contractors are spec-building large homes again. Since much of this furniture is custom, assistance is needed by almost all consumers. It was a pleasure to see many of the high-end showrooms doing well.

Monthly Trends												Table 1.
% Change y/y	2016											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	3.3%	5.0%	3.1%	3.9%	2.4%							
Furniture stores sales (a)	1.1%	8.5%	6.0%	4.0%	(0.7%)							
Mattress factory shipments (b)	N/A	N/A	0.2%	N/A	N/A							
Furniture factory shipments (c)	(1.5%)	2.5%	3.7%	N/A	N/A							
% Change y/y	2015											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	9.5%	4.2%	3.5%	3.4%	5.0%	5.9%	5.7%	5.3%	5.5%	5.3%	4.2%	3.0%
Furniture stores sales (a)	7.6%	3.1%	5.1%	4.9%	4.8%	6.5%	6.9%	3.3%	7.2%	6.9%	5.6%	5.6%
Mattress factory shipments (b)	12.0%	8.3%	3.2%	4.7%	5.0%	12.2%	6.0%	3.3%	13.6%	0.7%	6.5%	N/A
Furniture factory shipments (c)	10.0%	12.0%	3.3%	5.0%	5.4%	6.0%	7.4%	8.0%	3.2%	7.4%	4.5%	4.5%

Sources:

(a) U.S. Department of Commerce (data restated in 2013) (b) International Sleep Products Association (c) "Furniture Insights" a monthly publication by Smith Leonard

- We are also pleased to see lots of creativity in the accessory, wall and décor sector. We credit new internet competition – these are the categories the internet can market and deliver most efficiently – and new options like Ashley's massive accessory program. The market appears to be responding with merchandise not available at these two sources to help retailers.
- Motion and recliners remain hot with step-ups to better fabrics and leathers, power and other features adding to its popularity. This reminds us of the mattress sector which has learned to offer new and improved features regularly to give retailers more to promote, and to create a higher sales ticket.
- Everything – all furniture – is being offered in a smaller scale that is being well received. This is working at all quality/price levels. Truly fine and creative styling does not need to be large in scale. Paul Maitland-Smith was teaching us this 30 years ago, and it is true today. Smaller furniture makes rooms appear larger, too.
- Outdoor furnishings are year-round products now, not due to seasonal changes, but because more of these furnishings are attractive and comfortable enough to be used indoors. If you haven't shopped the category recently, a lot has changed.

Even in the energy-related states we have seen stronger home furnishing sales in the second quarter. Almost everywhere appears a bit more upbeat.

This has been reinforced by our informal survey that says the follow-up orders from the spring market commitments have been gaining momentum, pointing to a consensus confidence that the second half will be much stronger than the first.

The indicators for the remainder of the year are positive but we will have the usual summer doldrums. Bet on it.

Missing Persons Report from High Point:

Did anyone see Louis Phillippe? I found Waldo, but not Louis.

Public Furniture Company Latest Quarter				Table 2.			
	Q Ended	Sales	Net Income		Q Ended	Sales	Net Income
Furniture Manufacturers				Bedding Companies			
Bassett Furniture Industries	2016-02-27	3.2%	(45.7%)	Mattress Firm	2016-05-05	(3.3%)	Profit
Culp	2016-05-01	(2.0%)	(26.7%)	Select Comfort	2016-04-02	0.9%	(55.0%)
Ethan Allen Interiors	2016-03-31	10.0%	308.0%	Tempur Sealy International	2016-03-31	(2.5%)	41.0%
Flexsteel Industries	2016-03-31	2.3%	(0.2%)	Foreign Companies			
Hooker Furniture	2016-05-01	99.9%	(28.0%)	Ekornes	2016-03-31	5.9%	48.5%
La-Z-Boy	2016-04-30	11.2%	12.0%	HTL International Holdings	2015-12-31	(4.4%)	Profit
Stanley Furniture	2016-04-02	(20.4%)	Loss	Leon's Furniture	2015-12-31	1.5%	0.9%
Furniture Retailers				Natuzzi	2015-12-31	(5.0%)	(15.4%)
Aarons	2016-03-31	6.7%	0.9%	Kasen	2016-12-31	(8.7%)	Profit
Conns	2016-03-31	(2.0%)	N/A	Man Wah	2016-12-31	2.9%	36.8%
Haverty	2016-03-31	1.7%	(23.7%)	Samson Holding	2016-12-31	0.9%	Loss
Pier 1 Imports	2016-02-27	(1.4%)	(36.7%)				
Restoration Hardware	2016-04-30	7.8%	59.4%				

Notes:

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

Sources:

PitchBook as of June 29, 2016

Can we talk?

- Brexit – Brexit will likely keep inflation and interest rates low, and make the strong U.S. dollar stronger. It will likely increase the already deep bonds between the U.K. and the U.S. It will also keep the Fed from raising interest rates this year. For the global investment community, it will be yet another point of anxiety, not over Britain, but who might exit next. Longer term, more international investments will likely flow to the U.S., seeking stability and safety.
- Department Stores – So far the growing internet has impacted full line department stores more than any other retailer. Not Walmart or Target, but Macy's, Sears, Penney and so forth. So far in 2016, total retail is up about 2% with internet sales +10%. Expect them to counter using personal tech, entertainment events, more youthful products (guess why?). NDP says impulse sales are 45% of instore sales vs. 23% online. Department stores will also seek more exclusive merchandise and expand in categories that are credit related and not easily sold online, like full sized furniture.
- Women's issues – Statistics show, women earned \$0.81 for every dollar earned by a man in 2015, not good, but better than \$0.64 on the dollar in 1980. The difference? Women are getting most of the college degrees and are moving up in responsibility in offices everywhere. Remember, too, women outnumber men, live a lot longer and make about 70% of all buying decisions.
- Than heavens you don't sell office furniture, today, one of the largest competitors among office furniture suppliers is refurbished/rebuilt furniture. It is affordable, can be customized and comes with warranties.
- Will Smith says – Yes, that Will Smith, says today's technology and communications can kill a food, movie or song instantly with bad reviews. He says, "If people don't want it, you're not going to be able to sell it." Furnishings are vulnerable to this as well.
- I have always wanted to speak Mandarin but a good friend told me not to try. Learning basic Mandarin and speaking it slowly will make you sound like an elementary school child so it is better to not try to speak. The same is true in today's social media. Know what you are doing before you make the effort and embarrass yourself.
- Years ago I was taught that if you cannot say something nice, don't say anything at all. As a result, the current Presidential race has left me speechless.

Advertising (*AdAge* 3/27/16) - Most of us see advertising as a constant. In reality, it swings up and down. For example, ad spending for the 200 largest national advertisers rose 9.0% or more in 2003 and 2004, then leveled out in 2005-2008, then it dropped severely in 2009 by 10.2%, bouncing back 8.8% in 2010. Gains since have averaged +3.0% or so, not very exciting. In other words, it has reflected our overall economy. In our industry for 2015, Mattress Firm spent \$318.4 million, up 3.8%; Wayfair \$264.1 million, +47.3%; and Rooms to Go \$240.2 million, +5.7%. Tempur-Sealy spent \$222.2 million, +6.3 % while Select Comfort was \$180.8 million, +14.1%.

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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.