

Furnishings Digest Newsletter

August 2017

Reading Time

18 minutes

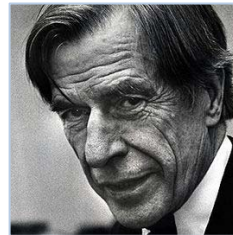


Jerry Epperson
Managing Director

Celebrating 47 Years of Proprietary Furniture Research



I probably spend more time reading about our economy, looking for clues and nuances that can predict the furniture and mattress industries' future than almost anyone who works in these sectors. One observation is that the written analysis by professionals is dramatically better than the supposed economic mavens on any television or radio broadcast. First, they are not limited to 90 second summaries; second, this is what they do for a living, full time; and finally, they have training and experience. Economics on cable TV news channels has the same value as letters written on an Etch-A-Sketch.



"The only function of Economic Forecasting is to make astrology look respectable."
(John Kenneth Galbraith)

Economic Sociology and Political Economy community

Here are tips to the wise:

1. Always look at the motivation (often the employer) of the speaker when it comes to economic topics. Someone who is gloomy and is working for an investment firm might be pushing gold futures, for example, or an economist in the employ of a corporation is not likely to bad-mouth his/her/its employer. Not always true, but often.
2. When it comes to TV news, beware when the talking heads start getting opinions and insight from other talking heads that have no background or education on the subject. This is happening more and more. If you want insight and opinion, it is better to hear from someone knowledgeable about the topic; and
3. TV news is a business with a goal of selling advertising and gaining a larger share of the viewing audience. Yes, this is obvious, but if you tell me the cable news network you watch most often, I can tell you who you are supporting in politics and how you stand on the issues, because of where you are getting your input. Doubt me? After a major speech, listen to the discussion on NBC, MSNBC, or CNN then turn to Fox, One World News, or Newsmax. The exact same quotes from the speech will be discussed in disgust while on another network they get praise. Which is "fake news"? It depends on who you believe. In my old person's opinion, the TRUTH lies somewhere between the two extremes and there is no media you can go to find the honest, unbiased truth any more. Even our religions have economic and political views they promote. Doubt me? I work in statistics every day. You tell me what point you want to prove about the economy or about the furniture industry and I will be able to provide you some stats that prove it or disprove it, either way. My challenge has always been to let the statistics and information direct me, not just personal opinion.

Wow, what caused this sudden and lengthy tirade about economics? We have been taught that the economy is the major factor in the health of our business, aren't we? The economy appears to be gaining momentum slowly, but furniture and mattress sales do not appear to reflect this, if you discuss industry sales with a broad cross section of our retailers. Retail sales of furniture and mattresses have been extremely challenging this year. If you have been doing well, knock on some solid wood and say a prayer of gratitude. There are regional differences, as always, and you might be doing a better job than others elsewhere. In any case, congratulations.

Can we handle the TRUTH?

There are many good things to say about home furnishings, but one negative is that we are selling a DEFERABLE PURCHASE. When a consumer's vehicle has transmission or engine trouble, they have to make a repair or replace decision. The same is true with appliances, HVAC, and other big ticket durables. Most serious medical issues must be addressed as soon as possible. Unfortunately, there is not much that can prioritize the decision to purchase new furniture. The drawer sticks? The mirror is cracked? A chair leg is broken? A recliner doesn't? And our style changes, while important, have seldom dictated a dramatic change in a home's décor. Wouldn't that be nice if it did?

There are a lot of reasons that we can think of that do encourage the consumer to buy new furniture and mattresses (**Table 1**).

Remember Why People Buy New Furniture				Table 1.
Change Homes	Marry	Natural Disaster	Fire	Inheritances
Bonus	Remodel Home	Move in Together	Health Related Issues	Relative Moves In
Child Leaves Home	Promotion	Add a Room	Graduate College	New Technology
Want to Entertain	Working at Home	Tax Refunds	Have a Child	First Apartment
Keep up with "Jones"	New Electronics	Change Color Scheme	Buy Vacation home	Gain Weight
Divorce	Worn out/ Ugly	Comfort	New Pets/ Dog	Children Ruin Stuff

So, what about the ECONOMY, stupid?

The bottom line on this is:

- the economy represents the overall health of our nation and can indicate trends that are important;
- the economy's various elements have historically indicated strength or weakness in furniture and mattress sales BUT there is no direct causal factor, largely because our merchandise remains a deferrable purchase; and
- thus the various economic factors can show the creation of demand for furniture, but not when the consumer will fulfill that demand.

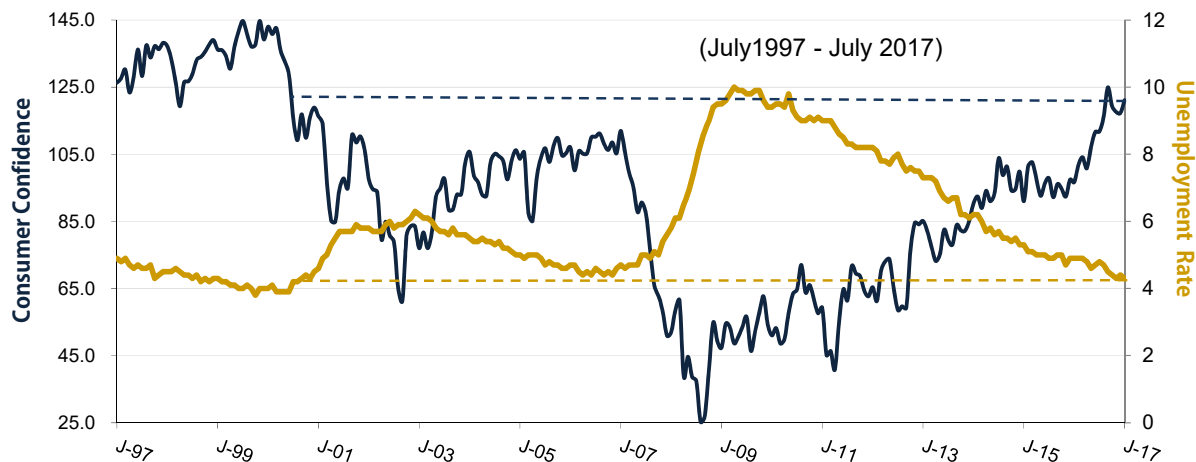
I believe this is where we are today. The overall economy is plodding forward, although at a historically modest pace, growing 2.6% in the quarter ended in June, up from a barely perceptible 1.2% pace in the March quarter. Most expect the current (September) quarter to come in about 2.0% or so, driven in part by a pleasant upward trend in employment. Most agree GDP growth of 3.2% or so would be considered healthy, sustainable, and not inflationary, thus the most desirable target.

And while almost all retail has proven disappointing, at least we are not trending downward at the pace of the auto industry. Sales this year will be less than 17 million units after reaching 17.5 million in 2016, and vehicle sales have declined for 7 months in a row, as of July. We believe that any deferred demand for new vehicles has been fulfilled after several record years of sales.

HOUSING? In 2011, housing starts were under 600,000 and in June, 2017 were at an annual rate of 1,215,000 homes. Single family homes grew from just over 400,000 units in 2011 to an annualized rate of 849,000 in June, and multi-family housing, so important to our young Millennials, grew from about 140,000 units in 2011 to an annualized rate in June of 366,000 (**Table 3**). Do you feel your business reflects this magnitude of change? Probably not.

National Consumer Confidence Index & Unemployment

Table 2.



Source: The Conference Board & Dept. of Labor Statistics

Other economic news is also positive. Fewer Americans are being laid off from their employment now than seen in the last 50 years, when the stats were first collected in 1967 according to the Wall Street Journal. At this time, consumer confidence, unemployment, and housing all appear fine. The factors you watch carefully for pending doom (inflation and interest rates) remain at healthy, sustainable levels.

Is there a Quick Fix? NO

But I would rather have deferred demand that will be met in the coming months and years than to have fulfilled consumer demand and have to wait out another entire economic cycle like the auto industry is probably doomed to do.

To address this and the issue of deferred demand, we created **Table 3** looking at consumer durables as a whole over the last 5 years. After all, the recovery in home furnishings was slow to get started after the 2008-2009 recession.

Consumer Spending and Housing

Table 3.

		2011	2016	Change
All Consumer Expenditures		\$10,689.3	\$12,820.7	19.9%
All Durable Goods Expenditures		3,596.4	4,121.4	14.6%
	Rank Among Durables	2011	2016	Change
Furniture and Mattresses	4	\$89.1	\$114.0	27.9%
New Motor Vehicles	3	207.9	273.4	31.5%
Used Motor Vehicles	1	96.0	136.4	42.1%
Major Household Appliances	7	37.5	42.1	12.3%
Televisions	8	36.6	39.3	7.4%
Personal Computers	5	48.5	60.5	24.7%
Jewelry and Watches	6	69.4	85.4	23.1%
Telephones	2	13.7	18.1	32.1%
Housing (000 units)		2011	2016	Change
Housing Starts		550.0	1,215.0	120.9%
single-family		410.0	849.0	107.1%
multi-family		140.0	366.0	161.4%
Existing Home Sales		4,300.0	5,520.0	28.4%

Sources: U.S. Department of Commerce, National Association of Realtors

Since 2011 (Table 3):

- all consumer expenditures have risen 19.9%, but durables spending has only risen 14.6%;
- some of the “hot” categories, like computers and televisions, have seen prices DECLINE to such a degree that the dollar gains have been muted;
- the leading durable expenditures since 2011 have been used cars, telephones (no surprise there) and new cars (which have peaked);
- furniture and mattress sales over this period have gained 27.9%, including some deflation in wood furniture prices, which is very close to the gain in EXISTING HOME SALES, +28.4%. Maybe there is a lesson to be learned.

But There Is HOPE

1. The New York Times has reported that one of the largest lenders for student loans, National Collegiate Student Loan Trust, may have been negligent in its record keeping and procedures which could result in some of this debt being uncollectable. Yes, uncollectable. First, I hope this NEVER happens to furniture and mattress consumer loans, and second, there is \$1.3 trillion in student loan debt. Can you imagine the boost to the Millennials if they had a portion of their student loan debt removed?? Currently, it is speculated that \$5 billion in loans from the NCSLT might be uncollectable, maybe more. And the rest of the lenders will be under more scrutiny. Stay tuned.

2. The mattress industry is the most FORTUNATE segment of our industry, thanks to ongoing research showing the importance of sleep to productivity, health and related issues. Researchers at the University of Leeds in the U.K. recently did a study on sleep and found that, among other things, that people who sleep less are more likely to beare you ready?.....heavier. In scientific lingo: LESS SLEEP = BIGGER BELLY. People averaging 9 hours had smaller waistlines than those who slept less.

Watch out Weight-Watchers, Slim-Fast, Nutra-System and all the thousands who greedily feed off the overweight and obese! Here comes the MATTRESS INDUSTRY! Look for mattresses that reduce waistlines and belly fat soon. Think of the naming opportunities. “Sleep Slim”, “Skinny Sleepmaster”, “Less Posterior-Pedic”, “Slimrest”, and so many more. Plus, they are gluten-free. Now if mattresses could only solve balding.

They LOVE us.....they really LOVE us!

The financial community continues to seek investments in the home furnishings sector. There is a record amount of money needing to be invested, and we are a play on both the Millennials and the positive outlook for housing activity. Call us to learn more. This is what we do for a living!

A Thought To Remember

“Furniture demand never changes; it is the consumers’ ability to buy that changes”

- Paul Broyhill



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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.