

# Furnishings Digest Newsletter

December 2017

Reading Time

16 minutes



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*Celebrating 46 Years of Proprietary Furniture Research*



**Question of the Month:** How many furniture stores are there in the U.S.? Mattress shops? Bars? Make an honest guess. The answer is elsewhere in this Furnishings Digest.

**It's About Time!...** November was one of the best months at retail in many categories, according to the various sources available. Our informal check of furniture and mattress retailers found about 65% were pleased or found sales better than expected, and only 20% were really disappointed. We did not see any correlation relative to region or price point.

The National Retail Federation said that November retail sales were up 0.9% over October, led by a 10.5% gain for non-store retailing, which is 80%+ internet, the remainder primarily catalogs. Home furnishings sales were up 1.2% for the month over October and a whopping 8.6% year over year. That is for store and non-store retail sales of home furnishings, and certainly our best month this year. The reasons mentioned were high employment, great consumer confidence, good wage gains, a "strong consumer willingness to spend". Why now and not earlier in the year? Who knows? Maybe the hurricanes, floods and forest fires have helped.

The Federal Reserve seems confident in continued economic growth based on its actions, especially when it saw the number of Americans filing for unemployment benefits drop to a 44 year low.

Overall retail sales are running 5.8% above last year, with home furnishings +8.6% as mentioned earlier. Does it feel that strong to you? No, me neither.

**Black Friday to Cyber Monday: Judgement Days...** We now know that 174 million Americans shopped these important days, beating all expectations, helped by good weather, spending on average \$335. Of those shopping, one-third only shopped on-line, 40% shopped both on line and in stores, and just about 25% shopped stores only. According to the NRF, again, 60% of shoppers were motivated by sale prices. Only 60%? The discounting

BLACK FRIDAY  
★ through Cyber ★  
MONDAY SUPER SALE!

in November started early in the month and got modestly more severe over the critical post-Thanksgiving days. More retailers of all sorts are complaining that Americans are hooked on the “drug of sales”, especially in jewelry and apparel. I was shocked furniture and mattresses weren’t mentioned. Honestly, does anyone buy furniture or mattresses when they are not on sale? And maybe that is because they are always on sale.

From my perspective, November was encouraging. Maybe home furnishings are coming back onto the consumers’ wish lists. I was worried that we were forgotten this year. December so far has been ok for home furnishings, certainly better than last year, and maybe this will give us momentum as we roll into the New Year and tax return season.

Tax season? Now that is something to look forward to. Wonder what excuse the IRS will have for delaying the returns in 2018?

Steinhoff paid \$2.4 billion in a surprise purchase of giant retailer Mattress Firm last year, plus it assumed a billion or so in debt. Here a billion \$, there a billion \$, its goes so fast.



Now accounting irregularities are being cited for real concerns about the viability of the parent company, a global retail giant. Mattress Firm has some legal issues of its own, especially as it sues some former employees for defrauding it in some lease negotiations.

This is really serious business. Mattress Firm and its 3,800 stores, many acquired in the last four years in a vacuum cleaner like roll-up of various mattress shops all over the country, is the largest retail customer for a lot of vendors. You saw the anxiety when the long term engagement of Mattress Firm and Tempur-Pedic broke up. Everyone was atwitter. Now we hear this severe concern about the viability of the parent. What is next?

From our perspective, it is difficult to imagine Mattress Firm not surviving this, although with new ownership possible, which may lead to even more rearranging of the vendors. Stay tuned. The mattress sector is the soap opera of the home furnishings business. Our industry needs a healthy Mattress Firm.

If nothing else, this is a great reason to go to the Las Vegas market in January and see who is seen talking to whom. For once, the new mattress introductions might take second place relative to the speculation and gossip.

### Big CONGRATULATIONS to:



-**Bob Maricich** for being recognized by the AHFA with its prestigious Distinguished Service Award for 2017. Our industry has too few statesmen like Bob, who have spent the time and effort to truly work for our industry’s good.

-**Bill Wittenberg**, for becoming the AHFA’s new chairman. Bill has taken Klaussner to new heights in a broad cross section of furnishings, not just upholstery anymore. Of course, I still think of Bill and his years at Berkline.



-Standard Furniture, who has the product line of the decade so far with Magnolia, just saw the new magazine The Magnolia Journal win a big award from Advertising Age. The magazine’s first printing of 400,000 issues sold out quickly, and the base rate for advertising in 2018 expects 1.2 million issues, including a LOT of subscribers. And you thought magazines were failing, and



-Furniture Row for sponsoring Martin Truex and winning the 2017 NASCAR Monster Cup series in Toyota #78. Unfortunately, owner Barney Vissar was sidelined in Colorado with a heart attack, according to The Associated Press.



**Housing on Wheels...** About 22 million Americans live in manufactured homes, most often mobile homes. They have been growing 15% per year and exceeded 80,000 units in 2016. Some makers like Berkshire-Hathaway's Clayton Homes are putting in luxury features driving the homes up in price. Until this year, the largest growth markets have been rural areas and retirement villages. Eighty percent of all new homes that sell for under \$150,000 are mobile homes.

More than 4.7 million Americans, or 1.4% of the population, have registered for disaster aid from FEMA this year, 10X what was requested last year. (Washington Post) All told 2017 will mark a record for insurance losses in the U.S. Hurricanes, wildfires and floods will cost insurers about \$100 billion. (Kiplinger, 12/15/17) Who benefits? Mobile homes!

**Like Kissing your Sister...** What are the odds? Walmart and Amazon.com TIED for sales on the important 5 day Black Friday long weekend. Both sold to 97 million consumers or 53% of all shoppers –online and instore. By the way, furniture and mattresses was the 13th most popular category of shopping, and attracted 13% of shoppers. Glad we aren't superstitious.



**Interest-ed?...** Many larger retailers are offering their own credit cards that give you discounts when used. Less often mentioned is that these cards carry a 25%+ interest rate vs. an average of 16% on regular credit cards. Macy's reported that its credit cards accounted for 39% of its \$1.9 billion in profits last year; Kohl's said its credit cards made 35% of its profits. (NY Times)

**Retailing Disasters?...** Reading the headlines today sounds like instore retailing will collapse in the near future. BusinessWeek noted that just over a decade ago, the same was said of the airline industry. The waves of bankruptcies allowed restructuring (debts written off, labor contracts renegotiated, geographic connections rethought, etc.) and today many of the airlines are reporting record earnings. Maybe this is the future of the large retailers. We may not end up needing "a Walmart and a Target and a Macy's and a Sears and a Kmart" but maybe only two or three. "There's room for more than one winner (Amazon) in the industry".

**AMEX...** American Express is expanding its cards being used without requiring a signature beginning in April 2018. This should save time at the cash register.

### Kiplinger Says

- Americans' spending on home improvement will remain red-hot next year, as would-be home buyers opt to stay put instead of attempting to move when so few houses are for sale. A growing number of folks are deciding to remodel because they're not confident they can find a suitable home to buy if they sell. After growing by 10% annually in recent years and 15% this year, such spending will jump by another 15% in 2018...welcome news for home improvement stores and contractors alike. The present backlog of remodeling jobs will only get bigger.



Hot housing markets in the South and West will see the most remodeling and other home improvements. Homes for sale are especially scarce in cities there, while rising prices are giving owners more home equity to tap to finance upgrades. (11/9/17)



- The pace of job creation will slow next year after a healthy expansion this year...160,000 new jobs per month in 2018 after 172,000 in 2017. The already low unemployment rate of 4.1% will slip to 4% next year. (11/17/17)

- Millennials as a generation have been relatively slow to become homeowners. But they'll increasingly power the housing industry in the years to come. As folk born between the early 1980's and 2000 are deeper into their 20s and 30s, they'll steadily lift demand for housing. Millennials are now the largest generation, and a majority of them aspire to homeownership. Millions who are now renting or living with family say they want their own place once they can afford to buy.



Note that the ranks of young home buyers are already growing. About half of mortgages backed by the Federal government are going to first-time home buyers now, versus 45% in 2014. Prices will only keep rising as more young folks enter the market. (11/17/17)

- Faced with less red tape from Washington and improved sales prospects...Businesses large and small are heading into 2018 with renewed confidence. More and more firms are thinking about expanding and hiking capital spending.

The largest red flag: The ongoing shortage of skilled workers in many fields. Construction companies, especially, are feeling the pinch. Ditto, small manufacturers, many of whom are seeking skilled machinists and other computer-savvy workers. (12/1/17)

- Given that delinquencies among auto loan borrowers are on the rise...Lenders will get stingier with subprime borrowers...folks with credit scores below 620. One-fifth of new car loans go to borrowers considered to be subprime.

Past-due subprime loans are near financial-crisis levels for NONBANK lenders, who primarily make loans through car dealers. The 90-plus-day delinquency rate for subprime loans made by nonbank lenders currently stands at close to 10%. The equivalent rate for loans made by banks has stayed at 4% every year since 2012. (12/1/17)



- With the unemployment rate at a 17-year low and workers in demand... Washington is mulling ways to draw more people into the workforce. Look for initiatives to allow more paid family leave to ease the burden on women, on whom it often falls to care for kids and elderly relatives while having to work. Also, a push to dent opioid abuse, which makes many people unable to hold a job.

**Answer:** 50,307 furniture stores; 13,581 mattress stores; 74,099 bars according to infousa.com

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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.