

Furnishings Digest Newsletter

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Reading Time

16 minutes



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Celebrating 45 Years of Proprietary Furniture Research



LAS VEGAS... With airports closed from Virginia northward keeping my partners and others from going west to the market, we braced for disappointing results. But we were wrong and very pleasantly surprised.

We cannot find any exhibitors so far that did not do well in Las Vegas, with many in the upholstery sector saying they had record markets. The mattress sector did extremely well, too, with even more variations being offered successfully.

Sometimes the mattress industry reminds me of Taco Bell. With only a handful of ingredients, they keep coming up with new variations. Maybe we are about to have "hybrid-hybrids" or like the HDTV's, have Ultra-4K hybrid mattresses.

We are aware of some very exciting new mattress features that are coming in the future so there is even more to get excited about and more innovations in mattress retailing methodology, too.

Maybe the prior week's *LifeStyle* Show at the RIO was beneficial to all this year by having 400+ large furniture retailers go to Las Vegas prior to massive storm Jonah

In any case, attendance was strong, order-writing and indications for furniture placements were exceptional, boding well for the remainder of 2016.

THEN AGAIN... Our contacts at both the vendor and retailer level say furniture sales slowed late in January into February. Yes, the 2,000+ point decline in the stock market's Dow Jones average is a worry and the never-ending Presidential politics is depressing, but the economy could be much worse.

By the way, does anyone remember voting for a candidate instead of the best of 2 poor choices for President? I'm trying to remember one.

The stock market is concerned about:

- Rising interest rates: The Federal Reserve has given rates one upward bump because the economy has been strengthening, not because it was getting weaker. A rate going up is a sign of higher demand for money, thus an improving economy.

- Lower oil prices: Higher oil prices scare the investment community because it removes spendable income from consumers who are 70% of U.S. GDP, and profits from many corporations and utilities who are enjoying lower energy costs. Lower oil prices are bad for the oil companies and oil related businesses and states. Does the current stock market distress imply that higher oil prices will mean a higher market?
- Strong U.S. dollar: The strong dollar is hurting many of our exports, including manufacturing, and will be a negative to economic growth.
- Weak GDP: Growth of 0.7% in the fourth quarter was dismal, no doubt, but we should see a rebound to almost 2% in the first quarter. The low rate was caused by inventory reductions and the related slowness in manufacturing.
- China: China's economic growth is closer to 6%/year than historic 9%, and as the globe's second largest economy, it has a growing influence.

But does it affect home furnishings?

So far housing remains a strong point in our economy along with employment, consumer confidence, and credit availability, the keys to the sales of home furnishings. New regulations and paperwork in the mortgage sector may be a temporary damper on home sales but only a short term concern, as the lenders adjust to the new paperwork.

Is a recession near?

We don't think so. A falling stock market has predicted 18 of the last 7 recessions. It is not seen as predicting a recession by most experts. The current recovery is just over 6 years old. Other recent recoveries started and lasted:

February, 1961	9 years	November, 1982	7 years
November, 1970	3 years	March, 1991	9 years
March, 1975	5 years	November, 2001	6 years
June, 1980	1 year		

We have had recessions in 1950, 1960, 1970, 1980, 1990, 2000, and 2010. See a trend? Given the lackluster rate of recovery so far (never reaching 3% growth), we believe this recovery has another two to four years to go, perhaps to 2020. One final comment, trying to make logical sense from the stock market will lead you to a long and miserable life. It is merely a reflection of its parts and how they are perceived at any moment in time.

Thoughts from Kiplinger:

- Russia now has 27 icebreakers in the Arctic (vs. our 1 with 2 in the planning stage) looking at Arctic mineral wealth (and new shipping lanes because of global warming - WWE). 9/25/15
- "Sleep deprived workers cost employers time and money"; about 11 days of productivity or \$2,300/year. Can cause injury, bad decisions, and less ethical behavior. 11/25/15
- Declining exports because of the strong dollar hurt Iowa, Louisiana, Mississippi, South Carolina and Texas most. 12/11/15
- The oldest "Baby Boomer" reaches 70 in 2016 and will have to take mandatory withdrawals from retirement accounts; GOP leaders dislike Ted Cruz as much as they do Donald Trump. 12/30/15

- 2016 will see a large increase in full-time jobs that cause wage and salary gains. Part-time jobs will stay about 27 million, about 18% of our workforce. 1/15/16
- Mortgage rates in 2016 will likely climb to 4.2% from today's 3.8%; Fashion designers will focus on comfort and "athleisure" apparel like yoga pants and luxe tracksuit tops. Women: pajama-type garments. Men: "crumpled suits and wrinkled shirts" – otherwise known as the Epperson look. 1/29/16

Trends from Kovel's:

- Expect growth in "Steampunk" 08/15
- Always in Style: Eames seating 09/15
- Antique Tennessee furniture 10/15
- George Nelson's 1950's furniture 11/15
- Wallace Nutting furniture 12/15
- Shaker Furniture Shines 01/16
- Scandinavian Furniture 02/16

Things to Think About

- Sears and Costco are reducing their generous return policies but a NYmag.com study says "The longer a store allows its customers to return something, the less likely they are to return it"; "short return periods force a decision soon after the purchase"; retailers lost \$280 million in returns in 2014 (sounds low to me! WWE) *The Week* 02/05/16
- CES: Expect Ultra 4K HDTV's in 55" and 65" for under \$600 and under \$1,000, respectively early in 2016; "The Panasonic and LG 4K OLED TV's are now the best HDTV's available. Watch them for a half hour and you will not accept others"; Hot at CES? Pet wearables (a FitPet?) and possible 8K Ultra HDTV's. *Twice* 01/11/16, 01/25/16
- Sleep...precious sleep: *Consumer Reports* (02/16) has its cover story on "Mattresses and sleeping pills, supplements and sound machines" with a long article, pages 22-39, inside. *Sharper Image* recently mailed a 52-page catalog with the "Science of Sleep" as its theme.
- It Stinks: Digital fragrances are being developed that will "embed in electronics, clothing, furniture, etc. to deliver a personal scent experience much as a headset delivers sound". *CosmeticDesign.com*.
- Could be worse: The growth in e-commerce and decline in consumers using traditional check-out lines with cash registers is giving impulse marketers a huge scare. Be glad you aren't selling gum, candy bars, Tic-Tac's and the *National Inquirer*. (*AdAge*, 11/09/15)
- IKANA: IKEA wants consumers to return its furniture when you replace it so they can recycle it (*Fast Company*, 01/28/16) creating a "circular" store. This, to us, re-enforces the perception of it selling disposable furniture. IKEA is also working with Alphabet to develop a refrigerator-sized 3-D printer that can produce furniture for you at home. (*Fast Company*, 12/15)
- Online? *Kiplinger.com* says some purchases should be made in person. "Quality and fit are easier to judge; large items are expensive to ship; and even costlier to return". *The Week*, 06/05/15
- Fat or Plump? The University of California (LA) says 54 million Americans are obese, and 29% of them are actually quite healthy. Would you believe 30% of "normal" weight people are metabolically unhealthy? (In other words, be happy. WWE) *Los Angeles Times* 02/06/16 The average American woman weighs 166.2 pounds today, the same as the average man did in 1960. The average man now weighs 195.5 pounds (*Washington Post/The Week*, 06/26/15)

- On sale? *Kiplinger.com* reported you should buy your furniture in January and July because the new furniture models arrive in February and August. Some retailers cut prices as much as 70% on February's President's Day weekend; Memorial Day is best for mattresses with sale prices up to 80% off. (See! Someone actually believes those ads! *WWE*) (*The Week*, 07/03/15)
- RTA without you MIT's "Self-Assembly Lab" has partnered with an Italian firm to create furniture that comes in a box and will assemble itself. (But can they do a bicycle at Christmas? *WWE*) (*The Week*, 05/08/15)
- Store closings? It turns out 2015 was a near record year for retail store closing at a time furniture stores were opening. In the first half of last year, more than 3,500 retailers and restaurants closed or nearly 20 million square feet, up 58% compared to 2014. Some of our largest retailers are closing some of their units like McDonald's, Sears, Macy's and others. *National Real Estate Investor*
- Ad Spending: The U.S. had \$182.6 billion in advertising spending in 2015, up 3.6% over 2014, and this is one-third of the \$552.7 billion spent worldwide. China was #2 with \$74.3 billion; Japan was #3, \$42.3 billion; Canada was #10 with \$10.2 billion. (*AdAge*, 12/07/15)

Please... Take a moment and enjoy the following table. It is extremely positive, especially when compared to the 2006-2013 period. We hope 2016 and 2017 can continue to be this strong.

Monthly Trends												Table 1.
% 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%	5.4%	5.1%	4.6%
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%	N/A
2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total consumption of furniture & bedding (a)	(0.2%)	2.8%	3.6%	3.3%	3.0%	1.8%	2.3%	2.5%	3.0%	1.9%	3.2%	6.6%
Furniture stores sales (a)	(1.7%)	2.0%	3.1%	7.4%	4.8%	1.8%	3.1%	(0.1%)	(0.4%)	2.0%	5.9%	20.7%
Mattress factory shipments (b)	0.0%	0.9%	12.7%	3.0%	4.5%	7.7%	8.9%	0.5%	16.0%	9.3%	2.5%	25.1%
Furniture factory shipments (c)	3.4%	(2.0%)	10.0%	12.0%	5.4%	4.2%	11.0%	6.0%	5.7%	7.4%	1.2%	5.5%

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

Yes, there is substantial ongoing interest in the home furnishings sector by longer-term investors and acquirers who see the strong population and housing trends. Call if you want more information.

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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.