

Furnishings Digest Newsletter

January 2016

Reading Time

16 minutes



Jerry Epperson
Managing Director
Celebrating 44 Years of Proprietary Furniture Research



GET READY FOR LAS VEGAS!

A NEW YEAR?... Yes, I know it is 2016 but I hated to see 2015 end. It was our best year in over a decade across the board by product line, region of the country and price point. December completed 18 months of strong, consistent growth – something missing from 2008 to mid-2014.

Even the first quarter's severe winter weather last year didn't slow down our momentum while in 2014 it stopped it. So far this winter, most of the country has been blessed weather-wise compared to either the winter of 2013-2014 or 2014-2015.

REAL ESTATE: This weather is not just helping store traffic; it is helping the real estate market. December through March are not the most important months for home sales but it would be nice to have more normal home turnover than during recent severe winters.

Housing activity in 2015 was strong, with one exception; existing home sales have lagged due to a lack of inventory available for sale.

These numbers (**Table 1**) are very promising for 2016. Permits precede the starts, which, of course, precede the completions and the completions precede the home sales. Based on permits alone, we are in for another strong housing year. By the way, the median price for a new home in November was \$305,000 vs. \$302,700 a year ago.

Nov. Housing Stats	Table 1.
Year/Year	November
Housing Permits	19.5%
Housing Starts	16.5%
Single Family	14.6%
Multi-Family	21.3%
Housing Completions	9.2%
New Single Family Home Sales	9.1%
Existing Home Sales	(3.8%)
Existing Home Inventory	(1.9%)

Source:

U.S. Dept. of Commerce & N.A.R.

Existing home sales are lagging, unfortunately and were down 3.8% in November. The truth is that we need a six month inventory of homes to sell for the housing market to be healthy and balanced according to the experts. We have not had a six month supply since early in 2013 and it runs about 4.8 months now. The median existing home sold in November was \$220,300 up 7.3% from \$205,300 a year ago. Hopefully, as existing home prices continue to rise, more will come onto the market.

Complicating this is a low vacancy rate among rental properties, about 7.1%, down from over 11.0% in the recession. Rents continue to rise with the median rent being over \$800/month vs. \$700 during the recession (and \$475 in 2000).

This is why there has been a boom in multi-family construction. In November, permits for multi-family construction with 5 or more units grew to a seasonally adjusted rate of 539,000 vs. 388,000 in November, 2014, a 38.9% increase. Wow.

More household formations thanks to the 83 million Millennials and a shortage of available rental properties has equal more new single and multi-home construction and hopefully, more existing homes for sale. This is a major reason to be excited about 2016 and 2017.

CONSUMER CONFIDENCE... Just as important as housing turnover is consumer confidence which most economists explain is proxy for employment. The government reports unemployment is 5.0% and the broader unemployment category is finally near 10.0%, which is good compared to the 16% it reached a few years ago. Job availability is good enough that more people are changing jobs and in many areas, workers are hard to find.

Put more accurately, we have reached a point where there are shortages among certain job descriptions, and this is driving up wages for the first time in a decade.

Just ask the domestic upholstery manufacturers and you will learn that there is a shortage of qualified sewers and upholsterers and difficulty getting young people to consider working in our factories.

For 2016, employment and, as a proxy, consumer confidence is high and will go higher.

CREDIT... The remaining necessity for home furnishings to have a great year is credit availability and, to be honest, credit options for furniture and mattress consumers have never been better. Thanks to low interest rates, lots of underutilized loan capacity, and today's technology, consumers almost always have the ability to finance the purchase. First round credit, second/third chance credit, lease/rental and other options help our retailers close more sales than ever before.

2015-2016... All this means that we could see 2016 show gains as high as 6%, with essentially no price inflation, after a 4.1% gain in furniture and mattress expenditures in 2015. Our forecast for 2016 is currently +5.4% but it could be revised upward if a few things go our way. Enjoy **Table 2**.

Monthly Trends												Table 2.
% 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%	5.0%	4.6%	N/A
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%	6.8%
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%	N/A	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 Associati (c) "Furniture Insights" a monthly publication by Smith Leonard

PERFECT?... Is this recovery finally getting strong? No, the growth in GDP remains anemic and the job creation mix remains sub-par. With the strong dollar, our exports are more expensive to foreign buyers and, in many cases, imports are even less expensive to us. That is not healthy for our U.S. manufacturing base which continues to struggle. Low oil prices have enhanced consumer spendable incomes, no doubt, but this has been a mixed blessing for the oil-producing states. (I just paid \$1.55/gallon for regular)

Government regulation and government imposed expenses on businesses, large and small, have been unbearable.

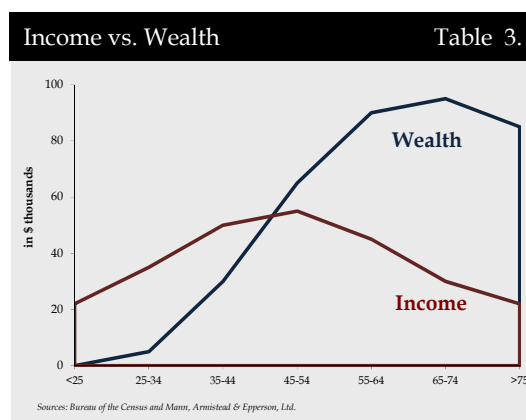
SO HERE IS THE TRUTH... Home furnishings sales have been improving because the economic factors we need to succeed have finally come our way – and this should continue for 2016 and 2017. This particular mix may not be as favorable for other sectors but we should be thankful for this mix of housing turnover, household formations, consumer confidence/employment, and credit availability.

More detail will be available in our upcoming 2016-2019 Home Furnishings Forecast.

THE MILLENNIALS?... The Millennials are getting all the attention these days in almost every publication, even ours. Yes, at ages 19-37 they are moving into their higher income/higher spending periods and will have a huge impact over the coming decades.

In the early-1970's, the Baby Boomers were getting the same recognition. They were 20 to 35 or so and their growing impact was obvious.

But then, retailers began to notice that while they clearly had the population growth, they did not have the income.



Focus on the Millennials at your own peril. The older age groups have the income and wealth (Table 3) but not the same population growth.

POLITICAL EXAGGERATION... Every politician seems to be mentioning the “decline in our middle class” and how they will focus on bringing them back. Actually there is little the politicians can do.

Our “middle class” today is Generation X, the 50 million individuals (38-52) squeezed between the 76 million older Baby Boomers (53-71) and the 83 million Millennials (19-37).

Simply put, as the Millennials grow into the 35-54 age group, the U.S. will see a miraculous recovery in the middle class. Just wait and see!

LAS VEGAS... We expect a record Las Vegas market. The mattress sector is hot – and more exciting things are coming (some we cannot discuss). Motion and stationary upholstered furniture manufacturers are expanding to meet the demand. More people changing homes means increasing bedroom sales, higher birth rates help infant and children's furniture, and 4K Ultra HDTV sales are exceeding expectations – the average sizes are now 55” and 65”, so you have to get new cabinetry. The last four big weekends have shown double-digit sales gains at retail so you have to go to Las Vegas or you will be left behind. And don't miss Leonard Eisen's new patented collection at Lifestyle (if you like the looks of the new Lexus!).

My partners, Jimm Mann (jimm@maeltd.com) and Howard Armistead (wha@maeltd.com) will be in Las Vegas. Send them a note if you want to visit and discuss opportunities in our industry.

THANK YOU MORAN FAMILY - *Mann, Armistead & Epperson* was approached by the Moran family about selling or recapitalizing their extremely successful mattress manufacturing operation, Corsicana Bedding. We were honored to assist and recently Corsicana was recapitalized by the management team and a highly respected private equity group, Long Point Capital. We are very proud of this transaction.



with its owners and management
have completed a
recapitalization in partnership
with an investment group led by



The undersigned served as financial
advisor to *Corsicana Bedding, Inc.*
in this transaction.

MANN, ARMISTEAD & EPPERSON, LTD.
INVESTMENT BANKERS and ADVISORS

Mann, Armistead & Epperson, Ltd.
119 Shockoe Slip
Richmond, VA 23219
1-804-644-1200
www.maeltd.com

Wallace "Jerry" W. Epperson, Jr., C.F.A.
Managing Director

Jin S. Ko
Financial Analyst

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.