

# Economic roundup 2014 FALL

In addition to keeping our readers and viewers in the loop on a daily and weekly basis, twice a year, Furniture/Today provides our audience with a comprehensive report that examines key drivers in the home furnishings sector including housing, consumer confidence, retail sales, consumer spending, imports and more.

We are gratified that Lane, a leading designer and manufacturer of home furnishings, has chosen to sponsor this report.

I want to take this opportunity to thank Lane for its support and encourage you to use this important information to help grow your business.



Editor in Chief  
Furniture/Today

## THE ECONOMY: Gains momentum heading into the 4th quarter

BY STEPHANIE NICKELL

Unemployment has continued to improve this year as companies ramp up hiring efforts. The average unemployment rate stands at 5.9% for September, lower than the August rate of 6.1%.

The economy picked up in the second quarter of this year and grew at a 4.6% annual rate, according to the latest data from the U.S. Bureau of Economic Analysis (BEA).

Per the BEA, the real GDP increase in

the second quarter primarily reflects, “Upturns in exports, in private inventory investment, accelerations in nonresidential fixed investment and in personal consumption expenditures. Also, upturns in state and local government spending and in residential fixed investment that were partly offset by an acceleration in imports.”

Household furniture imports were up 10%, from \$9.7 billion the first six months of 2013 to \$10.7 billion the same period this year. Household furniture exports grew 5%,

from \$1.1 billion in the first six months of last year to \$1.2 billion during the same time period this year.

The housing market has had some ups and downs this year, with new home sales increasing 18% in August, while sales of existing homes lagged, at a 2% decrease in the same month. Thirty-year fixed mortgage rates have hovered between 4% and 4.5% all year. Freddie Mac predicts those rates will rise to 5% by the end of next year.

The prime rate, used by banks to price short-term business loans, remains steady at 3.25%; but is expected to hit 3.75% by the end of next year.

Most Wall Street economists predict the Federal Reserve will wait until the summer of 2015 before raising interest rates.

### The economy

	Q1 2014	Q2 2014
Real gross domestic product	-2.1%	4.6%
Percentage change from preceding period		

Source: Bureau of Economic Analysis

	July 2014	Aug. 2014
Consumer price index		
U.S. city average, all items less food and energy	1.9%	1.7%
Percentage change from year-earlier period		

Source: Bureau of Labor Statistics

	Aug. 2014	Sept. 2014
Unemployment		
Seasonally adjusted	6.1%	5.9%

Source: Bureau of Labor Statistics

	July 2014	Aug. 2014
Real disposable income		
Percentage change from preceding period	0.1%	0.3%
Based on chained 2009 \$'s		

Source: Bureau of Economic Analysis

	July 2014	Aug. 2014
Prime interest rate		
Average 6-month commercial loan	3.25%	3.25%

Source: Federal Reserve

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# CONSUMER DEBT:

## Total debt declining, wages flat

BY STEPHANIE NICKELL

Total debt held by consumers decreased slightly in the second quarter of 2014, from \$11.7 trillion in the first quarter of this year to \$11.6 trillion. The second quarter debt balance saw a decline of 8%, compared with its peak of \$12.7 trillion in the third quarter of 2008, according to the latest data from the Federal Reserve.

Mortgage loans, which make up the largest portion of consumer debt, comprised 69% of total debt in the second quarter of this year. That's down five percentage points from the same period in 2008, when mortgage loans accounted for 74% of consumers' debt.

Credit card debt comprised 6% of household debt last quarter, that's down from 7% in the same quarter of 2008.

Consumers are paying down debt and going back to work, which results in increased optimism. In August, consumer confidence stood at an index of 92.4, up from 90.3 in July. However, in September the index fell to 86, showing signs that consumers are feeling the pinch due to a lag in wage growth.

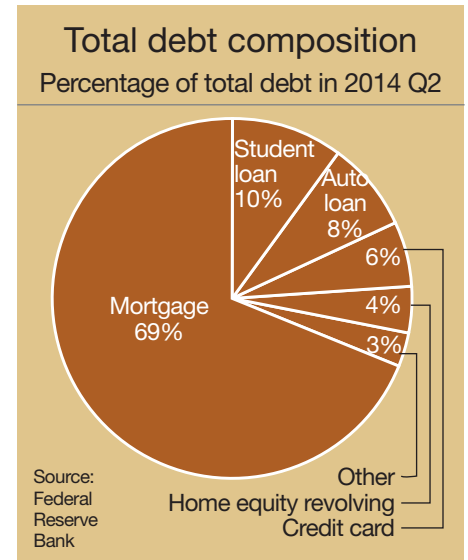
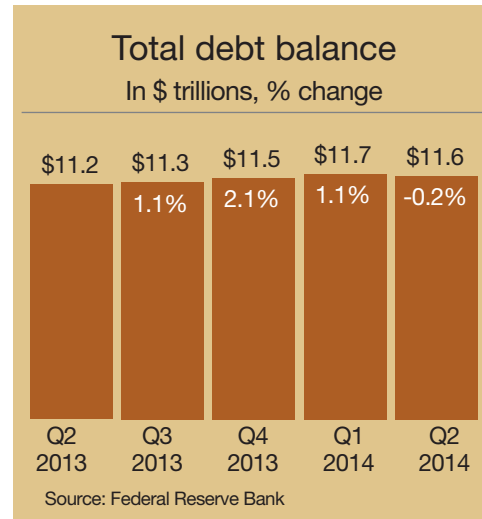
Lynn Franco, director of economic indicators at The Conference Board says, "Consumer confidence retreated in September after four consecutive months of improvement. Looking ahead, consumers were less confident about the short-term outlook for the economy and labor market, and somewhat mixed regarding their future earnings potential."

The median household income barely ticked up in 2013, from \$51,758 in 2012 to

\$51,939, a 0.3% increase. That slight gain still leaves wages 8% below the 2007 level of \$56,436.

Economists say the lower wages are in part to blame on a slow job recovery. The large pool of unemployed workers has made it easier for companies to attract and retain workers without having to pay more.

Bernard Baumohl, economist with The Economic Outlook Group says, "The stark reality remains that Americans are still not seeing much purchasing power, and unless we see a more meaningful acceleration in incomes the next few months to offset higher inflation, a slowdown in consumer spending is inevitable."



**National average FICO scores\***

Year	FICO Score	% change
April 2008	690	
2009	687	-0.4%
2010	687	0.0%
2011	688	0.1%
2012	690	0.3%
2013	691	0.1%
2014	692	0.1%

\*FICO is a type of credit score that lenders use to assess an applicant's credit risk and whether to extend a loan.

Source: Fair Isaac Corp.

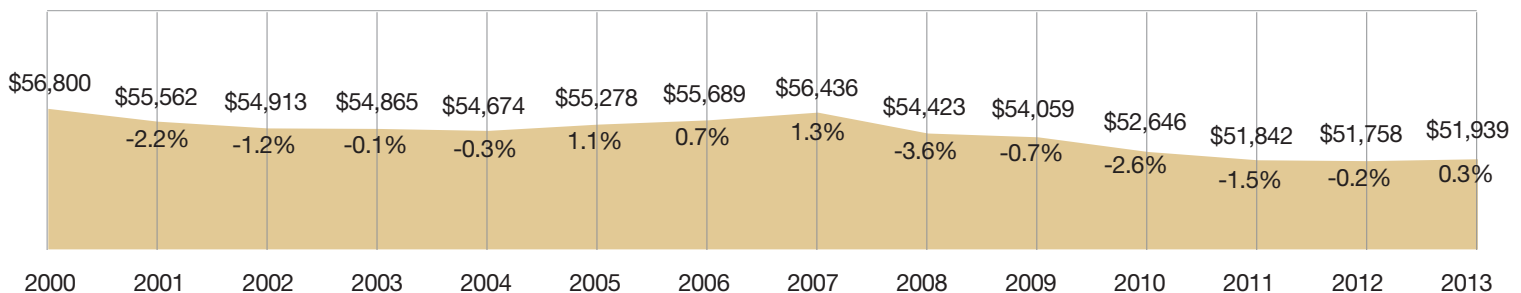
**U.S. household income by race and ethnicity**  
Median, in 2013 \$s, adjusted for inflation

Race/Ethnicity	Year	Median Income (\$)	% change
Asian-American	2003	\$70,547	
	2013	\$67,065	-4.9%
White		\$57,795	
		\$55,257	-4.4%
Hispanic		\$41,793	
		\$40,963	-2.0%
African-American		\$37,547	
		\$34,598	-7.9%

Source: U.S. Census Bureau

### U.S. household income

Median, in 2013 \$s, adjusted for inflation, % change



Source: U.S. Census Bureau

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# HOUSING:

## New home sales rise 18% in August

BY STEPHANIE NICKELL

New home sales saw double-digit gains in August, at an 18% increase compared with the prior month, according to the latest data from the U.S. Census Bureau.

In August new home sales were at an annual rate of 504,000, compared with July's rate of 427,000. The August numbers reflect a 33% hike above the same month last year, at a rate of 379,000.

Regionally, the West had the greatest month over month increase in new home sales for August, with a 50% climb. New home sales in the Northeast had the second biggest jump, increasing 29% in August and in the South sales rose 8%. In the Midwest, new home sales remained flat between July and August of this year.

That news is tempered by the fact that new home sales are the smallest piece of the housing market pie, accounting for only 10% of housing sales.

Existing home sales, which slipped 1.8% in August, account for 90% of the housing market, according to the National Association of Realtors.

Lawrence Yun, NAR chief economist says, "There was a marked decline in all-cash sales from investors. On the positive side, first-time buyers have a better chance of purchasing a home now that bidding wars are receding and supply constraints have significantly eased in many parts of the country."

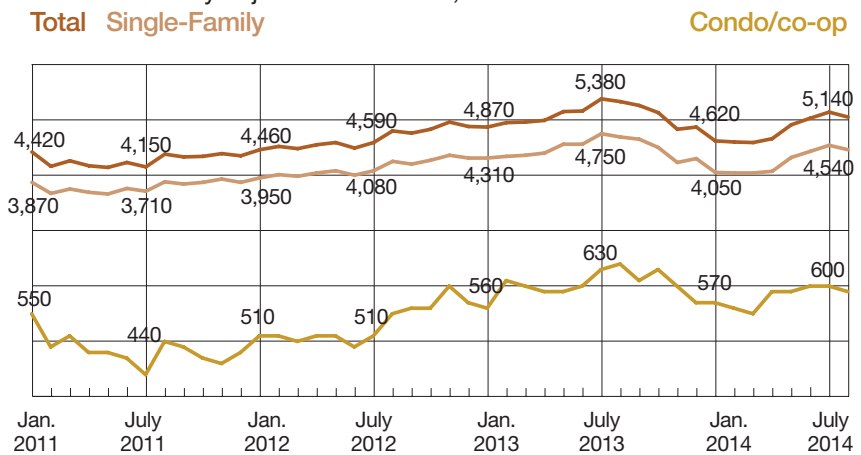
All eyes are on the housing market in the next couple of months as the Federal Reserve concludes its bond-buying program in October. The program is credited with helping to keep mortgage rates near historic lows.

Thirty-year fixed mortgage rates have been consistently low for the last several years, and many economists are predicting a rise next year. Freddie Mac economists forecast 30-year fixed mortgage rates will hit 5% by the fourth quarter of next year.

The furniture industry will be watching closely as new home owners are a significant buyer of new furniture. Almost three-fourths of new homeowners answering Furniture/Today and Apartment Therapy's 2014 Consumer Survey say they shop for furniture and accessories all the time.

### Existing home sales

Seasonally adjusted annual rate, unit numbers in thousands



### Housing activity, single-family

Seasonally adjusted annual rate, unit numbers in thousands

	United States	Northeast	Midwest	South	West
<b>Permits</b>					
Aug. '14	998	107	156	514	221
Change from July '14	-5.6%	-11.6%	-12.4%	-0.6%	-8.3%
Change from Aug. '13	5.3%	-13.0%	0.0%	17.9%	-5.2%
<b>Starts</b>					
Aug. '14	956	121	157	474	204
Change from July '14	-14.4%	-12.9%	-10.3%	-10.9%	-24.7%
Change from Aug. '13	8.0%	24.7%	4.7%	7.5%	3.6%
<b>New home sales</b>					
Aug. '14	504	31	58	262	153
Change from July '14	18.0%	29.2%	0.0%	7.8%	50.0%
Change from Aug. '13	33.0%	-3.1%	0.0%	27.2%	84.3%

August '14 numbers are preliminary  
Source: U.S. Census Bureau and National Assn. of Realtors

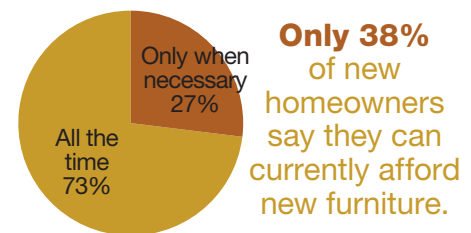
### Mortgage rates

National average rate for week ending

	Sept. 26, 2013	Sept. 25, 2014
30-Year Fixed Rate	4.32%	4.20%
15-Year Fixed Rate	3.37%	3.36%
5/1-Year ARM	3.07%	3.08%
1-Year ARM	2.63%	2.43%

Source: Freddie Mac

### New homeowners shop for furniture and accessories



Source: Furniture/Today and Apartment Therapy Consumer Survey, 2014

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# TODAY'S SHOPPER:

## Shopping and buying both in-store and online

BY STEPHANIE NICKELL

The hottest products on a furniture sales floor are bedding, motion sofas and decorative accessories, including area rugs and lamps. Each category gained one percentage point of share this year and now comprises a larger portion of sales, according to furniture stores answering Furniture/Today's 2014 Furniture Store Performance Report.

Furniture retailers are also finding success with decorative accessories as consumers continue to buy accents to freshen the home in a less expensive way since the recession. Accessories now account for a combined 5% of sales and 5% of selling space. Last year, accessories commanded 4% of sales and only 3% of the sales floor. Much of the gain can be attributed to area rugs, which have been on the ascent. Area rugs alone account for 2% of sales.

Furniture store sales were \$4.4 billion in July, a 6.1% increase from June when sales

were \$4.2 billion, according to the latest data from the U.S. Census Bureau.

Online furniture sales have continued to rise since 2010, according to comScore. Internet furniture sales totaled \$9.2 billion last year and accounted for 3.9% of 2013 total online non-travel retail sales.

Furniture/Today's consumer data reveals that eight out of 10 consumers have purchased home furnishings online.

Today's shopper can access product information at the touch of a finger and at any hour of the day or night. Smartphones and tablets have changed the way shoppers consume information and perform daily activities.

As of June 2014, smartphone ownership hit 172 million; while tablet ownership reached 93 million, a year over year increase of 22% and 36%, respectively. That's according to the latest data from comScore.

According to a recent study from Forrester Research and the National Retail Fed-

eration, retailers reported on average, 42% of their marketing emails are now opened on smartphones, and an additional 17% on tablets. Two-thirds already have optimized email for mobile devices, with more expected to do so in the coming months.

### Furniture store sales

In \$ millions, not seasonally adjusted

2014	% change
Feb. \$4,077	
Mar. \$4,589	12.6%
Apr. \$4,160	-9.3%
May \$4,610	10.8%
Jun. \$4,178	-9.4%
Jul. <sup>P</sup> \$4,432	6.1%

Source: U.S. Census Bureau

### Retail cost of regular gasoline

Price per gallon, U.S. average in 2014

\$3.692	\$3.611	\$3.487
	-2.2%	-3.4%
June	July	August

Source: U.S. Energy Information Administration

**80% of overall consumers**  
have purchased home furnishings online.

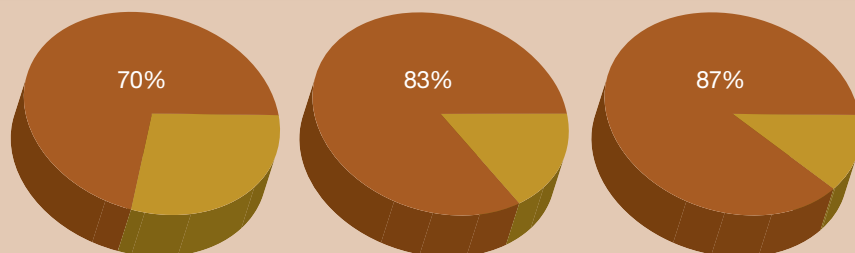
### Online buyers by household income

Bought home furnishings online

Under \$50,000

\$50,000 - \$99,999

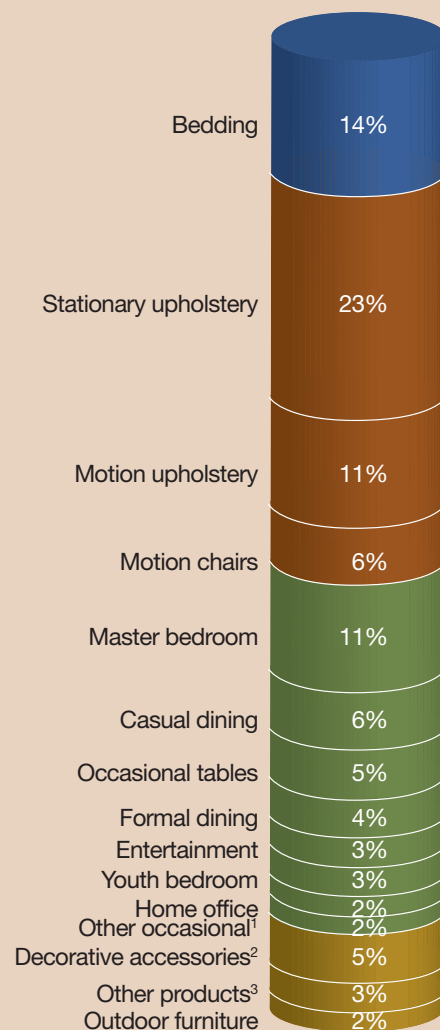
\$100,000 or more



Source: Furniture/Today and Apartment Therapy 2014 Decorating Survey

### The furniture store sales floor

Share of sales



<sup>1</sup> Includes curios, accent chests, pedestals, benches, screens, game tables, etc.

<sup>2</sup> Includes area rugs, lamps, wall décor and other decorative accessories, such as statues, clocks, candles, figurines, etc.

<sup>3</sup> Includes consumer electronics, major appliances, floor coverings, home textiles, sleep accessories, infant furniture, housewares and fabric protectants, among others.

Source: Furniture/Today's Furniture Store Performance Report, 2014

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# AFFLUENT CUSTOMERS:

## Saving more and wanting quality when they buy

BY DANA FRENCH

Affluent households, defined as those with incomes of \$100,000 or more, are cautiously spending after witnessing stock portfolios and home values tank during the Recession. Economists estimate affluents account for 40% of overall consumer spending.

According to Ipsos' 2014 Affluent Barometer, affluents are choosing to invest more in retirement accounts, checking and savings accounts and college savings funds, rather than buy goods.

Across the board, retail spending and personal consumption has slowed. Last year, total furniture and bedding sales reached \$94.5 billion, up only 1.7% from 2012 sales of \$92.9 billion. For 2014, total spending will be up an estimated 2% or so.

One-third of affluents have been buying furniture less often since the Recession, according to Furniture/Today's 2014 survey among readers of Apartment Therapy, the New York-based online decorating source.

Even so, affluents have plenty of money to spend. Our own consumer data shows that eight out of 10 affluents continuously shop for furniture and decorative accessories.

Forty-one percent of affluents will next update their living room, per Furniture/Today data. Another 21% will decorate the master bedroom next. Seventeen percent of affluents plan to hire an interior designer to help.

Affluents will buy if they really want something. According to Ipsos, the product characteristics affluents most associate with luxury are quality, excellent design, excellent reputation, uniqueness and long-lasting. Fur-

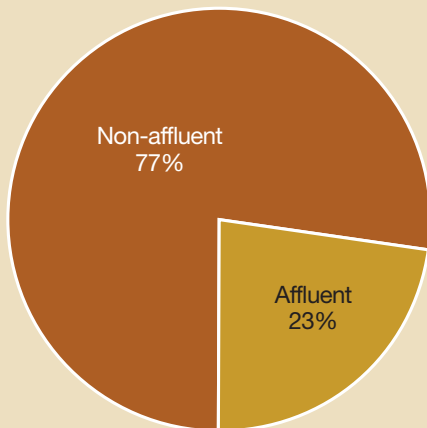
niture/Today's consumer data concurs. Eight out of 10 affluents say it's important the furniture within their home is of high quality.

Overall, 23% of U.S. households have incomes of \$100,000 or more, based on 2014 data from the U.S. Census. That amounts to 27.6 million affluent households.

Affluent households span all generations. Sixteen percent are under 35; 22% are between ages 35 and 44; 27% are ages 45 to 54; 22% are between 55 and 64; and 13% are 65 or older.

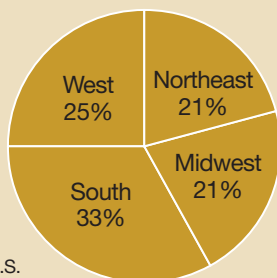
Fifty-five percent of affluent households have incomes between \$100,000 and \$149,999; 23% are between \$150,000 and \$199,999; and 22% have incomes \$200,000 or more. More than half are two-earner households and 84% own their home.

Affluent households in the U.S., 2013



Affluent households by region

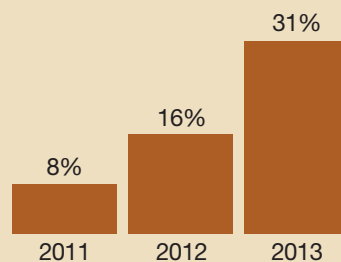
Percentage of affluent households



Source: U.S. Census Bureau

Affluent perception of the U.S. economy

Percentage reporting the past year was good



Source: Ipsos Affluent Barometer

**17% of affluents will hire an interior designer.**

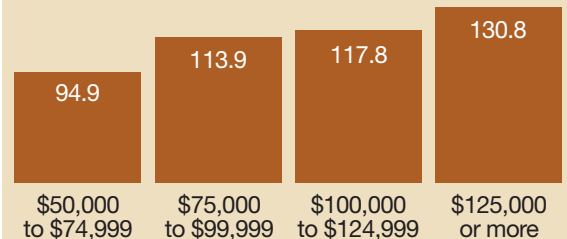
Consumer Confidence by household income

The Consumer Confidence Survey reflects prevailing business conditions and likely developments for the months ahead. It details consumer attitudes and buying intentions.

The survey is based on a representative sample of 5,000 U.S. households.

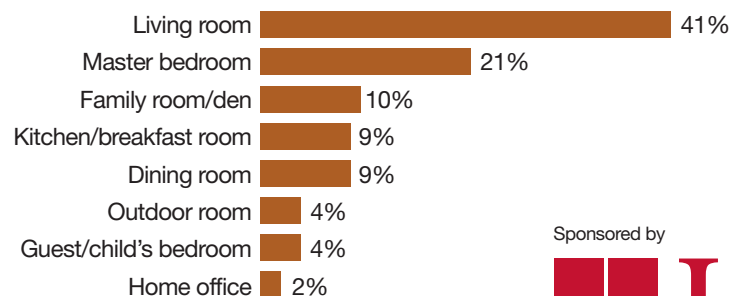
U.S. Average

In September 2014, seasonally adjusted



Source: The Conference Board

Rooms affluents will update next



Source: Furniture/Today and Apartment Therapy Consumer Surveys, 2014 and 2013

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