Home Accents

US market sees 2.3% growth in 2016, economists predict strong 2017

Some economists are predicting quite a strong 2017 with growth in the low 3% range, the first time that that growth rate will be achieved since the Great Recession. Others are remaining more cautious, in the 2.2% to 2.4% range, but still stepping up from 2016.

According to analysts, USA is seven years into the post recession recovery, which has been unlike any other, possibly because of the severity of the crash and the underlying issues that have made it harder to recover from than past serious downturns. The added layer of the 2016 presidential election – the general nervousness before and surprise at the eventual outcome – has brought an extra complication. It is estimated that the Home Accents Universe to be $64.75 billion at retail in 2016, an increase of 2.3% over 2015. This has been pretty clearly a slower year than 2015, which posted industry growth of 4.4% and parallels the generalised slowdown this year seen across the US economy. The growth in 2016 is largely triggered by consumer spending, which has been buoyed by continuing low gas prices, reduced debt loads and improvements in earnings. Retail sales showed unusually strong results in both September and October 2016, the US Department of Commerce reported. Retail sales were up 0.8% from September, which was revised upward to a 1.0% increase from a previously reported 0.6% rise. The combined September and October sales gain was the largest two-month rise since early 2014.

Furniture and home furnishings store sales dipped 0.9% from September, but were up 1.7% over October 2015. For the combined months of August through October, furniture and home furnishings sales increased 0.3% over the May-July period, and 2.6% over the August-October period a year ago. Holiday sales were forecast to be up in the 3% to 4% range, so that is likely to give the retail sales figures a boost for the last months of the year.

Real median household incomes continue to go up, but remain lower than the pre-recession peak in 2007 and 2.4% below their all-time high in 1999, it was reported in the residential furniture outlook. Some economists are predicting quite a strong 2017 with growth in the low 3% range, the first time that that growth rate will be achieved since the Great Recession. Others are remaining more cautious, in the 2.2% to 2.4% range, but still stepping up from 2016. This improvement can be credited to low unemployment, strong consumer spending figures and some long-awaited move in wage growth. Inflation is also likely to rise at a higher clip over the next two years, according to a Wall Street Journal post-presidential election survey of 57 economists.

Higher interest rates also seem likely, which has the potential to slow down home sales somewhat, but the increases are likely to be incremental, so not enough to bring things to a halt. "Overall, survey respondents to the survey see about a one in five chance of a recession in the next 12 months," the Wall Street Journal reported. "Those odds have declined slightly over the past three months, but are up from

14% a year ago." But a greater percentage think that recession is not likely until late 2018 or 2019. In an interesting shift, the international impact on the US economy – which had been the leading cause of keeping domestic growth on the low side, has now been overshadowed by the potential realities of the new President. "Over the past year, forecasters consistently fretted that a severe slowdown in international growth was the biggest risk to the US," the report noted." Not anymore. In the post-election survey, 65% of economists said the factors likeliest to knock the economy off course were potential White House missteps." The imposition of new tariffs would lead to higher import prices, something the import-heavy home furnishings industry could feel keenly. Housing data has continued to be lukewarm, both in terms of new construction and existing home sales. Spending on new private residential construction was weak in 2016, driven by the ongoing decline in new single-family construction spending, which dropped in August for the sixth consecutive month.

Retail Channels see slight acceleration

Online retail sales growth has accelerated slightly in the past year to just over 14 percent. There is a forecast that US online retail sales will approach $440 billion in 2017 and $562 billion by 2020, with online market share reaching 21% by the end of the decade. Online retail sales would approach $400 billion this year and continue to grow at a low double-digit rate (year over year) compared to approximately 2% to 3% for store-based sales. In fact, online retail sales growth has accelerated slightly in the past year to just over 14%, defying an expectation that its growth trajectory would soon slow.

While this study shows the direct-to-consumer channel as growing at a rate of 3.6%, this is the online- and catalog-only operations – ones that do not have a brick-and-mortar presence (such as Wayfair, Amazon and Hayneedle). While this is the fastestgrowing channel in the 2016 report, this figure does not account for online sales at lifestyle stores such as Pottery Barn or Restoration Hardware, or at discount department stores such as Wal-Mart or Target. So the actual amount of home furnishings being sold online is quite a bit more significant than this data may suggest. The other channel that's somewhat under-measured by this report is the interior designer. While growing at a rate of 3.1% for the year, making it the second-strongest in 2016, it does not include the (essentially unmeasurable) data on business that interior designers drive through other retail channels – lighting specialists and furniture stores for example.

Lifestyle stores (Ikea, Crate & Barrel, etc.) and traditional furniture stores (Rooms to Go, Art Van, Havertys, etc.), both outperformed the industry as a whole, growing at rates of 2.8% and 2.6% respectively. The only other channel that took a bit more market share in 2016 by outpacing the overall growth rate of 2.3% were the floor covering stores.

"Retail competition won't come from the big box down the street or major e-Commerce players," said Rod Sides, vice chairman, Deloitte LLP and retail and distribution sector leader stated in the company's recent holiday sales forecast. "It's likely to be the small and mid-sized retailers that focus on niche products and experiences. This group has been collectively stealing share from large, traditional retailers to the tune of $200 billion in annual sales over the last five years. The retailers that compete on differentiated products and experiences should be better positioned to outperform those who try to compete on low-price, value and convenience, or continue to rely on conventional sales events and promotions." Clearly, there are still plenty of opportunities. But with almost $65 billion (and growing) on the line, retailers have to stay on top of their game to regain their traction in this evolving retail space.

Decorative Accessories represent the largest category

With sales projected to reach $22.75 billion in 2016, decorative accessories represent the largest category, by a significant margin. This number equals 35% of all of the accents sold for the year, and represents a 2% growth over 2015, meaning that it underperformed the universe as a whole. This category's substantial size is driven by the number and types of products that are counted as "decorative accessories". This broad scope of product also makes it the hardest category to measure,

because these sorts of products are sold at so many types of non-traditional home furnishings retailers – including drug stores, groceries, clothing boutiques, wine shops and myriad others. But though this category is difficult to quantify, it's clear that this category is the key sales driver for many of the home accent/gift specialty stores, which are the largest purveyors of these products, totaling a projected $7.36 billion in sales for 2016. But with only 1.4% growth for the year, this channel lagged the category and the universe as a whole.

The hot spots for decorative accessories sales in 2016 look to be direct-to-consumer and interior designers – which at 3.2% and 3.0% projected growth respectively – were by far the two strongest channels. Accessories are a relatively easy purchase to make sight unseen, so the onlineand catalog-only retailers have an advantage here over other categories that are much more "touch-and-feel" sensitive. The only other channel tracking above the category average was lifestyle stores, which are projected to grow at 2.3% for the year.

Accent Furniture outpaced

For the first time in 10 years, accent furniture is not the strongest category in the Home Accents Universe. But while this longtime powerhouse may be down, it's far from out, as it still posted a projected 2.6% growth rate in 2016, placing it above the industry average in this flatter year across the board. This year's slower growth rate comes on the heels of a 4.9% growth in 2015, and puts the category at $17 billion in projected 2016 sales at retail – or 26% of the Home Accents Universe. This category is sold most at traditional furniture stores, where accent furniture sales are projected to grow by 2.6% to hit $5.55 billion. Consumers continue to seek more eclectic living spaces – accent furniture pieces rather than suites of furniture for bedrooms, for example. For 2016, the highest growth rate (4.2%) came from the direct to consumer channel. Online or catalog-only sales of accent furniture will reach a projected $884 million for the year. Other channels that outpaced the category overall were interior designers at 3%, as well as lifestyle stores and home accent/gift stores at 2.7% each. Interior designers sold about $1.65 billion of accent furniture, while lifestyles stores sold $2.3 billion. Discount department stores grew less quickly at only 2.3% but still reflect almost $3 billion in annual sales, so remain an important force in this important category.

Wall Decor regains market share

In 2016, this category, which includes mirrors, is projected to grow at a rate of 2.4%, slightly outpacing the industry overall. This growth takes the category to a projected $7.38 billion for the year, or 12% of the overall industry. The largest channels for wall décor distribution are discount department stores ($1.92

billion) and direct-to-consumer ($1.29 billion). But the discounters faced a challenging year in this category, only growing at a rate of 1.2%, while the direct-to-consumer channel picked up a signifcant amount of market share by growing at a projected rate of 4.4%. The other big gainers for the year were the lifestyle stores, which grew at a strong pace of 3.9% for the year, pushing their sales toward $800 million for the year. Wall décor has been challenged by the advent and continuing popularity of the "open floor plan" in many new homes and renovations. With less wall space and fewer distinct rooms, there are simply fewer places to put these pieces. But the category has been buoyed by the technology and design advancements, including the availability of hand-embellishment, mixed materials and new printing and manufacturing techniques that are bringing exciting new dimensions into what had for so long been a "framed underglass" business. Mirrors are also performing strongly – better than the category as a whole – so those two factors helped wall décor outpace the overall industry for the first time in a number of years.

Impressive growth for lamps

As with other categories, the strongest growth rate came at the direct-to-consumer level, reaching $429 million, or nearly 7% of the lamps sold. Furniture stores and interior designers were also strong channels in 2016 at 3.1% and 3.0% growth respectively. In terms of sheer volume, the discount department store and home improvement center/warehouse club channels are driving the significant bulk of the sales. More than 50% of the lamp dollars spent in this country are done so in those two channels of distribution.

But the discounters continue to lose market share here at the expense of the channels mentioned above, as well as to the lifestyle stores. Lamps are an inherently functional item, so the demand for them remains consistent, but the growing emphasis on well-merchandised vignettes at the lifestyle store and furniture store levels, as well as interior designer interest in the category, are helping to fuel the growth for this strong category. Another often overlooked aspect to lamps is the aging American population and their growing need for more layers of light. This biological factor is a unique one to the lighting categories and could be a factor for strong growth over the next couple of decades, regardless of how the economy or industry overall are performing.

Area Rugs become strongest category

This year has been another strong one for area rugs, with 4.1% growth making this the strongest category, growth-wise in the Home Accents Universe. Probably the biggest reason for the strength of rugs is the movement toward hard doors throughout homes. Once only the domain of kitchens and baths and certainly only on the main living level-hardwood, tile, concrete, laminate andother hard oors are making their way to every area of the home. So the possibilities for rugs continue to grow. New constructions and materials are also making rugs very easy to clean, maintain and live with.

The strongest growth channels for this category were direct-to-consumer, interior designers, lifestyle stores and furniture stores, all of which outperformed the category as a whole. The soft spots, in addition to the discounters, were home improvement centers, department stores and the floor covering store channel which continues to struggle. Furniture stores are finding innovative ways to merchandise and sell rugs, many interior designers use them as a baseline to begin a design project, and rugs sell really well online. The future looks bright for rugs to continue their position at the top of the growth chart.

Permanent Botanicals projected to grow

They are the smallest segment of the Home Accents Universe, representing a projected 3% market share or $2.14 billion in sales for 2016. With a growth rate of only 1% for the year, this is also a category that is underperforming the industry and was the slowest growing category overall. This category, for the purposes of this report, includes sales of artifcial Christmas trees and single floral/botanical stems. Because of that, and though these two areas don't account for much of the business in the furniture store, home accent specialists and other sweet spots for home furnishings, the largest channel of distribution for permanent botanicals are the craft and fabric stores. Led by Hobby Lobby, Michaels and AC Moore, permanent botanicals are the only category where the craft store channel has strong representation in the entire Universe accounting.

In all, sales at those stores are projected to reach $773 million in 2016. The other key drivers, channel-wise, are the discounters and home improvement stores, with sales of $366 million and $325 million, respectively. More directly related to home furnishings are the sales of permanent botanicals through furniture stores, interior designers, lifestyle stores and home accent/gift specialists. Of those, only interior designers outperformed the category as a whole, a further indication of the challenges this category faces. ■

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