Are Gasoline Prices a Factor in Home Furnishings Sales?

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Brod, Andrew (2007). Are Gasoline Prices a Factor in Home Furnishings Sales? *NHFA's Home Furnishings Retailer*. January 2007, 42-44

Article:

Six months ago it was hard to imagine energy prices ever falling again. In July, after months of steady increases, the price of a barrel of oil hit a record $78. But by November, oil and gasoline prices had fallen by more than 20 percent. The decline was brought on by various factors, including slower economic growth around the world and a general calming of fears in oil markets.

For retailers, the falling price of gasoline sounded like very good news. After all, gasoline is effectively an economic necessity to Americans, and the earlier price increases had presumably sucked spending away from other purchases. If more spent on gasoline meant less for hair gel and toothpaste, then less spent on gasoline could mean more spent on sofas and bedroom suites.

But not much happened in the wake of this fall's fuel-price decline. As of this writing, the outlook for holiday sales in the entire retail sector is for slower growth than in 2005. (But hey, some growth is better than none!)

Looking specifically at home furnishings, seasonally adjusted data indicate that U.S. home furnishings sales grew strongly in July, when gasoline prices were high, and in August, when they were only beginning to drop. This fall, furniture sales declined in October and were flat in November.

Employment data tells a similar story. Since 2002, when fuel prices started their upward trend, employment by furniture and home furnishings stores has risen about 10 percent, as compared to only about 1 percent throughout the entire retail sector. (Interestingly, employment at gasoline stations has fallen about 4 percent since 2002, continuing an existing trend toward greater automation in gasoline retail.)

In 2006, seasonally adjusted furniture retail employment peaked in the middle of the year, right about when fuel prices were at their record levels. Since the summer, the number of furniture retail jobs has fallen gradually but steadily. Of course, the unadjusted data shows that actual sales staffs have expanded since the summer, and did so sharply in November in time for the holiday buying season. But once you factor out the typical holiday effect, it's hard to argue that lower gasoline prices have done much for home furnishings retailers.

What's going on here? Why hasn't the expected effect been seen? There are a few related reasons. First of all, the fall's price decline, while significant, wasn't large when compared to past episodes. After the oil crisis of the late 1970s, for example, oil prices fell by 75 percent, and a drop that big certainly changed consumer behavior. But with prices inching back up in December, oil prices currently seem pretty solid in their $50 to $65 per barrel range. Some economists argue that purely on the basis of market fundamentals (that is, supply and demand), the true price of oil is about $50 per barrel. And that implies that large future price declines are unlikely.

Another reason has been American consumers' unwillingness to change their driving habits in the face of expensive gasoline. (To a large degree, of course, it's inability rather than unwillingness. Access to mass transit isn't universal and alternative technologies are still expensive.) Even after this fall's decline, gasoline prices are more than double their level back in early 2002, and yet there is little evidence that Americans are carpooling or taking fewer trips. In a sense, consumers have already gotten used to expensive gasoline.

Some economists believe that in order to significantly change driving and car-buying habits, gasoline prices would have to go much higher, perhaps well over $4 per gallon, and stay there for a number of years. The fact that SUV sales recovered in late 2006 after a slow first half of the year is an indication that such predictions are probably right.

The main reason that this fall's drop in gasoline prices didn't do more for furniture retailing is that there are so many other factors that shape furniture purchases. In most areas around the country, the end of the housing boom hasn't proven to be the disaster that some feared. Instead of bursting bubbles and falling home prices, most areas outside of the Northeast, California, and certain coastal markets are merely seeing slower price appreciation. But the traditional link between home buying and furniture purchases is still there, and so the end of the boom hasn't been great for furniture sales.

Then there's a general economic insecurity that many people feel right now. The more insecure people are, the less likely they are to buy durable goods like home furnishings. In part, economic insecurities are a result of the uncertain U.S. economy, in which the usual indicators don't always indicate what they did in the past. For example, the yield curve on U.S. government securities, which relates interest rates at different maturities, is now "inverted." Instead of the typical situation, in which long-term rates (say, for a 10-year T-bill) are higher than short-term rates (say, for a six-month CD), the situation since August has been the opposite.

An inverted yield curve is almost always a harbinger of a coming recession. The last time the yield curve inverted was in 2000, right before the 2001 recession. The current inversion isn't a good sign for the economy in 2007, but few forecasters believe we'll get a full-fledged recession. What the inversion mainly tells us is that investors are unsure about where the economy is going.

In theory, of course, the cost of getting out to stores is a factor in retail purchases. But the recent economic experience suggests that home furnishings retailers should be more concerned about rising interest rates, the end of the housing boom, and slower economic growth in 2007 than from the high price of gasoline.