

Furniture Insights®

Monthly Results

New Orders

In June 2014, new orders increased 5 percent over June 2013, according to our latest survey of residential furniture manufacturers and distributors. New orders fell 8 percent from May as is somewhat typical as we move into summer and holidays.

New orders increased for 65 percent of our participants, up from 53 percent reported in May and down from 77 percent reported in April. As we have noted before, April and May can have some large swings depending on the timing of Market.

Year-to-date, new orders remained 5 percent ahead of the first half of 2013. Approximately 60 percent of our participants reported increased orders for the first half of the year – the same percent as we reported last year.

Shipments and Backlogs

Shipments were 4 percent higher in June 2014 versus June 2013 and up slightly from May. Shipments were up for approximately 70 percent of our participants, up from 61 percent reported last month.

For the first half of the year, shipments were up 6 percent over the prior year, the same as we reported for the first 5 months. Shipments were up for 68 percent of our participants year-to-date, about the same as reported last month.



Backlogs in June 2014 were down 6 percent from May as shipments exceeded orders for the month. They remain 10 percent higher than June 2013, but that increase was down from 13 percent reported last month.

Furniture Insights®

A Monthly Newsletter

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Receivables and Inventories

Receivable levels were up 5 percent over June 2013, and up 1 percent over May levels. Both of these increases seem very much in line with shipments levels for the month, as well as year-to-date. The last couple of months have seemed out of line, but we had hoped there were some timing issues. This report seems to indicate that receivables are back in line.

Inventory levels were up 9 percent over June 2013 after increasing 1 percent from May. Last month, inventories were up 7 percent over May 2013. The 9 percent increase seems a bit high with orders up 5 percent and shipments up 6 percent, but the June results may be timing due to preparation for the July 4th shutdown. We will continue to monitor.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees increased 6 percent over June 2013, but was even with May levels. The number of employees was up 5 percent comparing May over May. Overall, the increase seems to make sense.

Factory and warehouse payrolls were up 2 percent over June 2013 and up 3 percent from May, but the year-to-date increase in payrolls was up 5 percent. This was down from 6 percent reported last month and seems in line with current conditions.

National

Consumer Confidence

The Conference Board Consumer Confidence Index®, which had increased in July, improved further in August. The Index now stands at 92.4 (1985=100), up from 90.3 in July. The Present Situation Index increased to 94.6 from 87.9, while

the Expectations Index edged down to 90.9 from 91.9 in July.

Lynn Franco, Director of Economic Indicators at The Conference Board said: “Consumer confidence increased for the fourth consecutive month as improving business conditions and robust job growth helped boost consumers’ spirits. Looking ahead, consumers were marginally less optimistic about the short-term outlook compared to July, primarily due to concerns about their earnings. Overall, however, they remain quite positive about the short-term outlooks for the economy and labor market.”

Consumers’ appraisal of current conditions continued to improve through August. Those saying business conditions are “good” edged up to 23.9 percent from 23.3 percent, while those claiming business conditions are “bad” declined to 21.5 percent from 22.8 percent. Consumers’ assessment of the job market was also more positive. Those stating jobs are “plentiful” increased to 18.2 percent from 15.6 percent, while those claiming jobs are “hard to get” declined marginally to 30.6 percent from 30.9 percent.

Consumers were slightly less optimistic in August about the short-term outlook. The percentage of consumers expecting business conditions to improve over the next six months held steady at 20.4 percent, while those expecting business conditions to worsen fell to 10.2 percent from 12.1 percent. Consumers, however, were somewhat mixed about the outlook for the labor market. Those anticipating more jobs in the months ahead fell to 17.0 percent from 18.7 percent, although those anticipating fewer jobs also declined to 15.8 percent from 16.6 percent. Fewer consumers expect their incomes to grow, 15.5 percent in August versus 17.7 percent in July, while

those expecting a drop in their incomes rose marginally to 11.9 percent from 11.1 percent.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.9 percent in July to 103.3 (2004=100), following a 0.6 percent increase in June, and a 0.6 percent increase in May.

“The LEI improved sharply in July, suggesting that the economy is gaining traction and growth should continue at a strong pace for the remainder of the year,” said Ataman Ozyildirim, Economist at The Conference Board. “Although housing has been one of the weakest components this year, the sharp gain in building permits helped boost the LEI in July. Financial markets and labor market conditions have also supported recent gains, but business spending indicators remain soft and their contribution marginal.”

“The pace of economic activity remained reasonably strong in July,” said Ken Goldstein, Economist at The Conference Board. “Although retail sales were a little disappointing, hiring and industrial activity improved. July’s increase in the LEI, coupled with its accelerating growth trend, points to stronger economic growth over the coming months.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in July to 109.6 (2004 = 100), following a 0.3 percent increase in June, and a 0.2 percent increase in May.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2 percent in July to 124.6 (2004 = 100), following a 0.5 percent increase in June, and a 0.4 percent increase in May.

Housing

Existing-Home Sales

Existing-home sales increased in July to their highest annual pace of the year, and the ongoing decline in distressed sales reached an important milestone, according to the National Association of Realtors® (NAR).

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 2.4 percent to a seasonally adjusted annual rate of 5.15 million in July from a slight downwardly-revised 5.03 million in June. Sales are at the highest pace of 2014 and have risen four consecutive months, but remain 4.3 percent below the 5.38 million-unit level from last July, which was the peak of 2013.

Single-family home sales increased 2.7 percent to a seasonally adjusted annual rate of 4.55 million in July from 4.43 million in June, but remain 4.2 percent below the 4.75 million pace a year ago. The median existing single-family home price was \$223,900 in July, up 5.1 percent from July 2013.

Lawrence Yun, NAR chief economist, says sales momentum is slowly building behind stronger job growth and improving inventory conditions. “The number of houses for sale is higher than a year ago and tamer price increases are giving prospective buyers less hesitation about entering the market,” he said. “More people are buying homes compared to earlier in the year and this trend should continue with interest rates remaining low and apartment rents on the rise.”

Yun does warn that affordability is likely to decline in upcoming years. “Although interest rates have fallen in recent months, median family incomes are still lagging behind price gains, and

mortgage rates will inevitably rise with the upcoming changes in monetary policy,” he said.

The median existing-home price for all housing types in July was \$222,900, which was 4.9 percent above July 2013. This marks the 29th consecutive month of year-over-year price gains.

Total housing inventory at the end of July rose 3.5 percent to 2.37 million existing homes available for sale, which represents a 5.5-month supply at the current sales pace. Unsold inventory is 5.8 percent higher than a year ago, when there were 2.24 million existing homes available for sale.

Distressed homes – foreclosures and short sales – accounted for 9 percent of July sales, down from 15 percent a year ago and the first time they were in the single-digits since NAR started tracking the category in October 2008. Six percent of July sales were foreclosures and 3 percent were short sales. Foreclosures sold for an average discount of 20 percent below market value in July, while short sales were discounted 14 percent.

Yun says the deepest housing wounds suffered during the Great Recession are beginning to fully heal. “To put it in perspective, distressed sales represented an average of 36 percent of sales during all of 2009,” he said. “Fast-forward to today and rising home values are helping owners recover equity and strong job creation are assisting those who may have fallen behind on their mortgage due to unemployment or underemployment.”

Regional

Regionally, July existing-home sales in the Northeast stayed at an annual rate of 640,000 for the second consecutive month and were now 9.9 percent below a year ago. The median price in the

Northeast was \$273,600, an increase of 2.4 percent from July 2013.

In the Midwest, existing-home sales increased 1.7 percent to an annual level of 1.22 million in July, but remain 4.7 percent below July 2013. The median price in the Midwest was \$175,200, up 4.1 percent from a year ago.

Existing-home sales in the South rose 3.4 percent to an annual rate of 2.12 million in July, and were now up slightly (0.5 percent) from July 2013. The median price in the South was \$192,000, up 5.0 percent from a year ago.

Existing-home sales in the West climbed 2.6 percent to an annual rate of 1.17 million in July, but remain 8.6 percent below a year ago. The median price in the West was \$304,100, which was 6.3 percent above July 2013.

New Residential Sales

Sales of new single-family houses in July 2014 were at a seasonally adjusted annual rate of 412,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 2.4 percent below the revised June rate of 422,000, but was 12.3 percent below the July 2013 estimate of 367,000.

The median sales price of new houses sold in July 2014 was \$269,800; the average sales price was \$339,100. The seasonally adjusted estimate of new houses for sale at the end of July was 205,000. This represents a supply of 6.0 months at the current sales rate.

Comparing July 2014 to July 2013 new houses sold, sales were up 33.2 percent in the South, but were down 43.8 percent in the Northeast, 1.9 percent in the Midwest and 3.3 percent in the West.

Housing Starts

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in July were at a seasonally adjusted annual rate of 1,093,000. This was 15.7 percent above the revised June estimate of 945,000 and was 21.7 percent above the July 2013 rate of 898,000.

Single-family housing starts in July were at a rate of 656,000; this was 8.3 percent above the revised June figure of 606,000. The July rate for units in buildings with five units or more was 423,000.

Comparing July 2014 to July 2013, single-family starts were up 4.8 percent in the Midwest, 10.6 percent in the South and 17.5 percent in the West, while starts were flat in the Northeast.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for July, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$439.8 billion, virtually unchanged from the previous month, and 3.7 percent above July 2013. Total sales for the May through July 2014 period were up 4.2 percent from the same period a year ago.

Retail trade sales were virtually unchanged from June 2014, and 3.4 percent above last year. Health and personal care stores were up 7.3 percent from July 2013 and auto and other motor vehicle dealers were up 6.4 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were virtually unchanged from June, but were up 2.5 percent from July 2013. Year-

to-date, sales at these stores were up 2.9 percent.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in July on a seasonally adjusted basis, according to the report issued by the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 2.0 percent before seasonal adjustment.

The all items index posted its smallest seasonally adjusted increase since February; the indexes for shelter and food rose, but were partially offset by declines in the energy index and the index for airline fares. The food index rose 0.4 percent in July, with the food at home index also rising 0.4 percent after being unchanged in June. The decrease in the energy index was its first since March and featured declines in the indexes of all the major energy components.

The index for all items less food and energy increased 0.1 percent in July, the same increase as in June. Along with the shelter index, the indexes for medical care, new vehicles, personal care, and apparel all increased in July. Along with the index for airline fares, the indexes for recreation, for used cars and trucks, for household furnishings and operations, and for tobacco all declined in July.

The all items index increased 2.0 percent over the last 12 months, a slight decline from the 2.1 percent figure for the 12 months ending June. The index for all items less food and energy rose 1.9 percent over the last 12 months, the same figure as for the 12 months ending June. The energy index has increased 2.6 percent, and the food index has risen 2.5 percent over the span.

Employment

Total nonfarm payroll employment increased by 209,000 in July, and the unemployment rate was little changed at 6.2 percent, according to the U.S. Bureau of Labor Statistics. Job gains occurred in professional and business services, manufacturing, retail trade, and construction.

Both the unemployment rate (6.2 percent) and the number of unemployed persons (9.7 million) changed little in July. Over the past 12 months, the unemployment rate and the number of unemployed persons have declined by 1.1 percentage points and 1.7 million, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 3.2 million in July. These individuals accounted for 32.9 percent of the unemployed. Over the past 12 months, the number of long-term unemployed has declined by 1.1 million.

Durable Goods Orders and Factory Shipments

According to the U.S. Census Bureau, new orders for manufactured durable goods in July increased \$55.3 billion or 22.6 percent to \$300.1 billion. This increase, up five of the last six months, was at the highest level since the series was first published on a NAICS basis in 1992, and followed a 2.7 percent June increase. Excluding transportation, new orders decreased 0.8 percent. Excluding defense, new orders increased 24.9 percent.

Transportation equipment, also up five of the last six months, drove the increase, \$56.6 billion or 74.2 percent to \$133.0 billion.

Shipments of manufactured durable goods in July, up five of the last six months, increased \$8.0 billion or 3.3

percent to \$248.9 billion. This was at the highest level since the series was first published on a NAICS basis and followed a 1.2 percent June increase.

Transportation equipment, up two consecutive months, led the increase, \$5.6 billion or 7.9 percent to \$76.3 billion.

According to the full report for manufacturers' shipments and orders, shipments for furniture and related products were up 1.1 percent over June 2013 and up 1.7 percent year-to-date. Orders in the category were up 3.1 percent versus June 2014 and up 2.6 percent year-to-date.



Executive Summary

New orders in June 2014 increased 5 percent over June 2013, according to our recent survey of residential furniture manufacturers and distributors, up from a 3 percent increase reported in May. New orders were up for approximately 65 percent of our participants in June versus June 2013.

Year-to-date, new orders remained 5 percent ahead of last year's first half of the year. Some 60 percent of our participants reported increased orders year-to-date, the same percent as reported last month. We think that the variations that occur due to different market dates, have pretty much washed their way through so the year-to-date results should be pretty much on target.

Shipments in June were 4 percent higher than June 2013, with some 70 percent of the participants reporting increased shipments in June over June comparisons up from 61 percent reporting last month. Year-to-date, shipments were up 6 percent with 68 percent of the participants reporting increased shipments, about the same as last month.

Backlogs were down 6 percent from May as shipments exceeded orders. Backlogs were 10 percent higher than June 2013, down from 13 percent reported last month.

Receivable levels have returned to somewhat normal levels showing a 5 percent increase over last June and up 1 percent from May, both very much in line with current shipment increases. We had been concerned over the last couple of months but had attributed the issues to

timing. It appears this may have been a correct assumption.

Inventories were up 9 percent over last year in June which appears a bit high. We believe some of this may relate to timing and preparation for the July 4th holiday.

Factory and warehouse payrolls and employee levels continue to be in reasonable shape compared to current business conditions.

We would note that looking at the results, we continue to see fairly wide variations among participants with a number showing double digit growth. We, except for a few, are not seeing as many double digit declines and see a number in the off 5 percent or less year-to-date.

Nationally

On the national front, consumer confidence continues to improve, up another 2.1 points to 92.4, with improving business conditions and "robust" job growth leading the way. In spite of this, retail sales do not seem to be growing as fast as we might expect.

Housing continues to improve and housing starts results were very encouraging. Housing starts in July were up 15.7 percent over June and 21.7 percent over July 2013. Housing construction creates jobs, not only for contractors but also for all the suppliers, real estate professionals and others.

Inflation remains in check and even gas prices have dropped. Interest rates remain low, as well as mortgage rates.

We are also hearing that commercial furniture business continues to improve as construction and refurbishments in that sector have picked up.

So overall, the economic picture seems good for business. There is still much negative news in the media. We even had a

feel good story in college football about a player saving his nephew from a pool – that turned out to be a lie.

We do see that the upholstery business seems better than case goods, but overall we are pleased to see the consistent improvement in orders and shipments, with the other key indicators pretty much in line.

Estimated Business Activity (Millions of Dollars)						
	2014			2013		
	June	May	6 Months	June	May	6 Months
New Orders	1,990	2,069	12,177	1,902	2,013	11,617
Shipments	2,306	2,102	12,358	2,213	1,995	11,712
Backlog (R)	1,895	2,026		1,722	2,033	

Key Monthly Indicators			
	June 2014 From May 2014 Percent Change	June 2014 From June 2013 Percent Change	6 Months 2014 Versus 6 Months 2013 Percent Change
New Orders	-8	+5	+5
Shipments	+1	+4	+6
Backlog	-6	+10	
Payrolls	+3	+2	+5
Employees	—	+6	
Receivables	+1	+5	
Inventories	+1	+9	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2013				
June	+9	+8	+10	+3
July	+13	+9	+9	+2
August	+9	+3	+17	+2
September	+4	+11	+14	+3
October	+5	+9	+11	+4
November	+10	+10	+13	+3
December	+5	+4	+14	+4
2014				
January	+2	+3	+15	+5
February	-2	-2	+14	+5
March	+9	+10	+14	+5
April	+13	+12	+13	+5
May	+3	+5	+13	+5
June	+5	+4	+10	+6