

Furniture Insights®

Monthly Results

New Orders

According to our recent survey of residential furniture manufacturers and distributors, new orders were up 8 percent in September 2014 compared to September 2013 and up 12 percent over August. New orders were up for just over 60 percent of our participants, the same percentage as August and down slightly from July. Obviously, most of those with increases reported fairly significant increases.

Year-to-date, new orders remained 5 percent ahead of 2013. Last year, we reported that new orders were 6 percent ahead of 2012 so the increase in September was good considering the comparable period a year ago. Year-to-date, new orders were up for almost 72 percent of our participants, up from 69 percent for the last two months.

Shipments and Backlogs

Shipments in September 2014 were 6 percent higher than September 2013 and up 5 percent over August 2014. Shipments were up for approximately 2/3 of the participants, down from 74 percent reported last month.

Year-to-date, shipments remained 6 percent higher than the same period a year ago, when they were 4 percent higher than year-to-date 2012. Approximately 2/3 percent of the participants reported increases, down slightly from 69 percent last month.



Backlogs were up 4 percent from last month and up 3 percent over September 2013. Last month, backlogs were 3 percent higher than August 2013 as well.

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A Monthly Newsletter

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Receivables and Inventories

Receivable levels in September 2014 were about even with August levels in spite of the 5 percent increase in shipments. Receivables were 4 percent higher than September 2013 and very much in line with the 6 percent increase in shipments. From what we are hearing, receivables seem to be in pretty good shape.

Inventories rose 2 percent from August resulting in an 8 percent increase in September 2014 from September 2013. Inventories were up 6 percent last month. While not totally out of line with current business, they have been a bit higher in recent months.

Factory and Warehouse Employees and Payrolls

Factory and warehouse payrolls were 6 percent higher than September 2013, up from a 1 percent increase reported last month. Year-to-date, these payrolls remained 5 percent higher than the same period a year ago so the monthly numbers may be affected by some timing issues. Certainly, the 5 percent year-to-date increase seems in line with current business conditions.

The number of factory and warehouse employees was up 2 percent over September 2013 and fell 1 percent from August. In August, the number of employees was up 4 percent over August 2013.

National

Consumer Confidence

The Conference Board Consumer Confidence Index®, which had rebounded in October, declined in November. The Index now stands at 88.7 (1985=100), down from 94.1 in October. The Present Situation Index declined from 94.4 to 91.3,

while the Expectations Index decreased sharply to 87.0 from 93.8 in October.

Lynn Franco, Director of Economic Indicators at The Conference Board said: "Consumer confidence retreated in November, primarily due to reduced optimism in the short-term outlook. Consumers were somewhat less positive about current business conditions and the present state of the job market; moreover, their optimism in the short-term outlook in both areas has waned. However, income expectations were virtually unchanged and gas prices remain low, which should help boost holiday sales."

Consumers' assessment of present-day conditions was moderately less favorable in November than in October. The proportion saying business conditions are "good" decreased from 24.7 percent to 24.0 percent, while those claiming business conditions are "bad" increased from 21.3 percent to 22.4 percent. Consumers' assessment of the job market was slightly less favorable, with the proportion stating jobs are "plentiful" falling from 16.5 percent to 16.0 percent, and those claiming jobs are "hard to get" increasing marginally from 29.0 percent to 29.2 percent.

The percentage of consumers expecting business conditions to improve over the next six months decreased from 19.4 percent to 17.6 percent, while those expecting business conditions to worsen rose from 8.9 percent to 10.7 percent. Consumers' outlook for the labor market was also less optimistic. Those anticipating more jobs in the months ahead decreased from 16.0 percent to 15.0 percent, while those anticipating fewer jobs rose from 14.1 percent to 16.4 percent. The proportion of consumers expecting growth in their incomes edged down from 16.7 percent to 16.3 percent, while the

proportion expecting a drop in income was virtually unchanged at 11.4 percent compared to 11.3 percent in October.

Thomson Reuters/University of Michigan Surveys of Consumers

The results were very different according to the Thomson Reuters/University of Michigan Surveys of Consumers. The survey indicated that consumer confidence posted its fourth consecutive monthly gain in November, rising to its highest level since July 2007. The November gain was due to improved personal finances as well as a more favorable outlook for employment. Importantly, consumers expressed much more favorable buying plans for durables and vehicles in the most recent survey. Favorable views toward purchases of large household durables were at their highest level since 2007, and favorable vehicle buying attitudes were the most favorable since 2005. Importantly, the gains in buying plans were due to large gains among younger and lower income households. These gains arrived just in time to boost holiday spending, and indicate that total consumer expenditures can be expected to increase by 2.9 percent in 2015.

Surveys of Consumers chief economist, Richard Curtin said: "In the past few years, renewed consumer optimism has been repeatedly thwarted by partisan bickering. The debt ceiling debacle, the fiscal cliff, and the government shutdown have repeatedly soured economic optimism. The renewed confidence consumers have expressed must be nurtured, not again held hostage to partisan differences. Based on recent data, consumer spending is poised to make 2015 the best year for the economy since 2005. To accomplish this outcome, the President and Congress must dial back

the rhetoric and expand their common ground in promoting the continuation of robust gains in jobs and wages in the year ahead."

When consumers were asked about recent economic developments, job gains dominated all other news items, and when specifically asked, they anticipated the jobless rate to post additional declines during the year ahead. The job gains were attributed to a stronger pace of economic growth. Moreover, consumers voiced the most favorable long-term outlook for the economy since the last cyclical peak recorded in the January 2007 survey.

For the third consecutive month, consumers expected the largest income increases in six years. An annual gain of 1.1 percent was expected by all households, the largest anticipated increase since November 2008. Householders under the age of 45 expected the largest gains (4.2 percent), and even households in the bottom third of the income distribution anticipated twice as large a gain as in last month's survey (0.8 percent, up from 0.4 percent in October).

Gross Domestic Product (GDP)

Real gross domestic product – the value of the production of goods and services in the United States, adjusted for price changes – increased at an annual rate of 3.9 percent in the third quarter of 2014, according to the "second" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 4.6 percent.

The GDP estimate released is based on more complete source data than were available for the "advance" estimate issued last month. In the advance estimate, the increase in real GDP was 3.5 percent. With the second estimate for the third quarter,

private inventory investment decreased less than previously estimated, and both personal consumption expenditures (PCE) and nonresidential fixed investment increased more. In contrast, exports increased less than previously estimated.

The increase in real GDP in the third quarter reflected positive contributions from PCE, nonresidential fixed investment, federal government spending, exports, residential fixed investment, and state and local government spending that were partly offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the calculation of GDP, decreased.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.9 percent in October to 105.2 (2004=100), following a 0.7 percent increase in September, and no change in August.

“The LEI rose sharply in October, with all components gaining over the previous six months,” said Ataman Ozyildirim, Economist at The Conference Board. “Despite a negative contribution from stock prices in October, and minimal contributions from new orders for consumer goods and average workweek in manufacturing, the LEI suggests the U.S. expansion continues to be strong.”

“The upward trend in the LEI points to continued economic growth through the holiday season and into early 2015,” said Ken Goldstein, Economist at The Conference Board. “This is consistent with our outlook for relatively good, but not great, consumer demand over the near term. Going forward, there are continued concerns about slow business investment and lackluster income growth.”

Housing

Existing-Home Sales

Existing-home sales rose in October for the second straight month and are now above year-over-year levels for the first time in a year, 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 1.5 percent to a seasonally adjusted annual rate of 5.26 million in October from an upwardly-revised 5.18 million in September. Sales are at their highest annual pace since September 2013 (also 5.26 million) and are now above year-over-year levels (2.5 percent from last October) for the first time since last October.

Single-family home sales increased 1.3 percent to a seasonally adjusted annual rate of 4.63 million in October from 4.57 million in September, and were 2.9 percent above the 4.50 million pace a year ago. The median existing single-family home price was \$208,700 in October, up 5.6 percent from October 2013.

Lawrence Yun, NAR chief economist, says the housing market this year has been a tale of two halves. “Sales activity in October reached its highest annual pace of the year as buyers continue to be encouraged by interest rates at lows not seen since last summer, improving levels of inventory and stabilizing price growth,” he said. “Furthermore, the job market has shown continued strength in the past six months. This bodes well for solid demand to close out the year and the likelihood of additional months of year-over-year sales increases.”

The median existing-home price for all housing types in October was \$208,300, which was 5.5 percent above October

2013. This marks the 32nd consecutive month of year-over-year price gains.

Total housing inventory at the end of October fell 2.6 percent to 2.22 million existing homes available for sale, which represents a 5.1-month supply at the current sales pace – the lowest since March (also 5.1 months). Unsold inventory is now 5.2 percent higher than a year ago, when there were 2.11 million existing homes available for sale.

“The growth in housing supply this year will likely prevent the drastic sales slowdown and coinciding spike in home prices we saw last winter due to low inventory,” says Yun. “However, more housing starts are needed to increase supply, meet current demand and keep price growth in check.”

Regional

Regionally, October existing-home sales in the Northeast climbed 2.9 percent to an annual rate of 710,000, and were 4.4 percent above a year ago. The median price in the Northeast was \$246,900, which was 1.2 percent above a year ago.

In the Midwest, existing-home sales jumped 5.1 percent to an annual level of 1.24 million in October, and were 2.5 percent higher than October 2013. The median price in the Midwest was \$164,100, up 6.8 percent from a year ago.

Existing-home sales in the South increased 2.8 percent to an annual rate of 2.17 million in October, and were 5.3 percent above October 2013. The median price in the South was \$178,000, up 5.1 percent from a year ago.

Existing-home sales in the West declined 5.0 percent to an annual rate of 1.14 million in October, and remain 3.4 percent below a year ago. The median price in the West was \$296,800, which was 5.0 percent above October 2013.

New Residential Sales

Sales of new single-family houses in October 2014 were at a seasonally adjusted annual rate of 458,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 0.7 percent above the revised September rate of 455,000 and was 1.8 percent above the October 2013 estimate of 450,000.

The median sales price of new houses sold in October 2014 was \$305,000; the average sales price was \$401,100. The seasonally adjusted estimate of new houses for sale at the end of October was 212,000. This represents a supply of 5.6 months at the current sales rate.

Compared to October 2013, new house sales were up 27.9 percent in the West, but were down 6.3 percent in the Northeast, down 2.9 percent in the Midwest and down 4.5 percent in the South.

Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing starts in October were at a seasonally adjusted annual rate of 1,009,000. This was 2.8 percent below the revised September estimate of 1,038,000, but was 7.8 percent above the October 2013 rate of 936,000.

Single-family housing starts in October were at a rate of 696,000; this was 4.2 percent above the revised September figure of 668,000. Single-family starts compared to October 2013 were up 31.9 percent in the South and up 16.9 percent in the West. Starts were down 21.9 percent in the Northeast and down 7.8 percent in the Midwest.

Retail Sales

The U.S. Census Bureau announced recently that advance estimates of U.S. retail and food services sales for October, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$444.5 billion, an increase of 0.3 percent from the previous month, and 4.1 percent above October 2013. Total sales for the August through October 2014 period were up 4.5 percent from the same period a year ago.

Retail trade sales were up 0.3 percent from September 2014, and 3.8 percent above last year. Nonstore retailers were up 9.1 percent from October 2013 and auto and other motor vehicle dealers were up 8.3 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 1.4 percent over October 2013 and up 2.8 percent for the ten months ended October.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in October on a seasonally adjusted basis, according to a recent report by the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 1.7 percent before seasonal adjustment.

Gasoline and other energy indexes declined, offsetting increases in shelter and an array of other indexes to leave the seasonally adjusted all items index unchanged. The gasoline index fell for the fourth month in a row, declining 3.0 percent, and the indexes for natural gas and fuel oil also decreased. The food index rose slightly in October, with major grocery store food groups mixed.

The index for all items less food and energy increased 0.2 percent in October. Besides the shelter index, airline fares,

household furnishings and operations, medical care, recreation, personal care, tobacco, and new vehicles were among the indexes that increased. The indexes for used cars and trucks and for apparel declined in October.

The all items index increased 1.7 percent over the last 12 months, the same increase as for the 12 months ending September. The index for all items less food and energy increased 1.8 percent over the span, and the food index rose 3.1 percent. In contrast, the energy index declined 1.6 percent over the last 12 months.

Employment

Total nonfarm payroll employment rose by 214,000 in October, and the unemployment rate edged down to 5.8 percent, according to the report from the U.S. Bureau of Labor Statistics. Employment increased in food services and drinking places, retail trade, and health care.

Both the unemployment rate (5.8 percent) and the number of unemployed persons (9.0 million) edged down in October. Since the beginning of the year, the unemployment rate and the number of unemployed persons have declined by 0.8 percentage point and 1.2 million, respectively.

Durable Goods Orders and Factory Shipments

According to the U.S. Census Bureau, new orders for manufactured durable goods in October increased \$1.0 billion or 0.4 percent to \$243.8 billion. This increase, up following two consecutive monthly decreases, followed a 0.9 percent September decrease. Excluding transportation, new orders decreased 0.9



percent. Excluding defense, new orders decreased 0.6 percent.

Transportation equipment, also up following two consecutive monthly decreases, drove the increase, \$2.5 billion or 3.4 percent to \$76.3 billion.

Shipments of manufactured durable goods in October, up four of the last five months, increased \$0.3 billion or 0.1 percent to \$246.5 billion. This followed a 0.3 percent September increase.

Transportation equipment, also up four of the last five months, drove the increase, \$0.4 billion or 0.5 percent to \$72.9 billion.

According to the full report, new orders for furniture and related products were up in September 2014 9.4 percent over September 2013. Shipments were up 5.6 percent. Year-to-date, orders in this category were up 3.5 percent.



Executive Summary

In line with much of what we had heard prior to market, business had been good (not great) for most manufacturers and distributors. The results of our survey seemed to bear that out as new orders were 8 percent higher than September 2013 and 12 percent higher than August.

Year-to-date, new orders were 5 percent higher than the same period a year ago – the same as reported last month. In 2013, year-to-date, new orders were 6 percent higher than 2012 so the comparison to 2013 is off some pretty good numbers. New orders were up for approximately 72 percent of our participants.

Shipments were up 6 percent over last September and up 6 percent year-to-date. Approximately, 2/3 of the participants reported increased shipments, year-to-date, down from 69 percent last month.

Backlogs held at a 3 percent increase over last year's levels and were up 4 percent over last month.

Receivable levels remained in good shape, in comparison to shipment levels, up only 4 percent over last year with shipments up 6 percent. Inventories, up 8 percent over last September, appear a bit high but certainly not way out of line.

Factory and warehouse payrolls were up 6 percent over last year but 5 percent year-to-date, so certainly in line with current business conditions. Factory and warehouse employees were up only 2 percent, so very much in line.

On a national front, we got very mixed signals from the two consumer confidence reports. The Conference Board's report

came out and was very concerning as the overall index dropped to 88.7 from 94.1. The Present Situation Index dropped to 91.3 from 94.4 while the Expectations Index decreased to 87.0 from 93.8.

This report noted that there was reduced optimism in the short term outlook and that consumers were less positive about current business conditions and the job market.

On the other hand, the Thomson Reuters/University of Michigan Surveys of Consumers was very positive with its index of consumer sentiment increasing to 88.8 from 86.9 and the current conditions index improving to 102.7 from 98.3.

Favorable views toward purchases of household durables and vehicles were noted. According to Richard Curtin, the Survey's chief economist, "Based on recent data, consumers spending is poised to make 2015 the best year for the economy since 2005." He did note that we need cooperation between the White House and Congress – which we all know.

The second estimate of GDP growth showed a 3.9 percent growth in the third quarter. In addition, the Conference Board's Leading Economic Index increased 0.9 percent after a 0.7 percent increase in September. Their report stated "This is consistent with our outlook for relatively good, but not great, consumer demand over the near term."

Housing continued to improve for both existing and new home sales in most areas of the country, especially if you look at the two combined.

Retail sales improved, while not up substantially for furniture and home furnishings stores, still positive. Inflation remained in check especially with falling energy prices.



The employment picture continues to improve though maybe not as much as we would like, but at least improving.

The October market seemed very good and it appears that the weeks that have followed have proved that the market was a good one. While we know that some of the growth by certain companies may have come at the expense of others, most those we talk to feel that overall business is pretty good.

After reviewing the results of our survey and all of the national reports, other than the Conference Board's Consumer Confidence survey, it seems that we can be relatively optimistic about moving into 2015. Hopefully, the Conference Board report was a result of a bad day to call consumers. The University of Michigan report was clearly optimistic (see our synopsis). We know how important consumer confidence is to our industry, so for now we will choose to believe that report.

Hopefully, all had a great Thanksgiving with plenty to eat and much to share and be thankful for.

Estimated Business Activity (Millions of Dollars)						
	2014			2013		
	September	August	9 Months	September	August	9 Months
New Orders	2,276	2,024	18,407	2,117	1,936	17,517
Shipments	2,073	1,966	18,281	1,961	1,855	17,297
Backlog (R)	2,119	2,030		2,057	1,901	

Key Monthly Indicators			
	September 2014 From August 2014 Percent Change	September 2014 From September 2013 Percent Change	9 Months 2014 Versus 9 Months 2013 Percent Change
New Orders	+12	+8	+5
Shipments	+5	+6	+6
Backlog	+4	+3	
Payrolls	+8	+6	+5
Employees	-1	+2	
Receivables	—	+4	
Inventories	+2	+8	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2013				
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
July	+4	+11	+5	+6
August	+5	+6	+3	+4
September	+8	+6	+3	+2