

# Furniture Insights®

## Monthly Results

### New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders increased 4 percent in July 2014 compared to July 2013 after posting a 5 percent increase in June. New orders increased for some 64 percent of our participants about the same as we reported in June. There was quite a spread in percentage increases versus decreases this month.

Year-to-date, new orders remained 5 percent ahead of the same period a year ago. Last year at this time, new orders were up 6 percent so the current year increase is up from good results last year.

Approximately 69 percent of the participants reported increased orders versus the first seven months of 2013.

### Shipments and Backlogs

Shipments in July were up 11 percent over July 2013 following a 4 percent increase reported last month. Shipments were down 11 percent from June 2014, but a decline from June to July is normal considering many participants shut down for the 4<sup>th</sup> of July holidays. Approximately two thirds of the participants reported increased shipments.

Year-to-date, shipments were up 6 percent over the same period in 2013. Shipments were up year-to-date for almost 72 percent of the participants, up from about 68 percent reported last month.



Backlogs were up 5 percent over last year down from a 10 percent increase reported last month. That appeared to result from the large increase in shipments.

## Furniture Insights®

A Monthly Newsletter

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**Receivables and Inventories**

Receivable levels were up 7 percent over July 2013, in line with the year-to-date increase in shipments of 6 percent and very much in line with the 11 percent increase in shipments for the month compared to last year.

Inventories were up 3 percent over June and 9 percent over July 2013. This appears a bit high but may be a timing issue. We will need to watch inventory levels next month to see if a trend is developing.

**Factory and Warehouse Employees and Payrolls**

The number of factory and warehouse employees was up 6 percent over July 2013, the same as reported last month. As expected, the number of these employees was even with June. This increase continues to be in line with expectations.

Factory and warehouse payrolls were 7 percent higher than July 2013, up from 2 percent reported last month, but still in line with current business, as well as with the number of employees. Year-to-date, factory and warehouse payrolls were up 6 percent, again in line with the number of employees.

**National****Consumer Confidence**

The Conference Board Consumer Confidence Index®, which had increased in August, declined in September. The Index now stands at 86.0 (1985=100), down from 93.4 in August. The Present Situation Index decreased to 89.4 from 93.9, while the Expectations Index dropped to 83.7 from 93.1 in August.

Lynn Franco, Director of Economic Indicators at The Conference Board said: "Consumer confidence retreated in

September after four consecutive months of improvement. A less positive assessment of the current job market, most likely due to the recent softening in growth, was the sole reason for the decline in consumers' assessment of present-day conditions. 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. All told, consumers expect economic growth to ease in the months ahead."

Consumers assessed current conditions less favorably in September compared to a month ago. Their view of business conditions was virtually unchanged: those saying business conditions are "good" fell minutely, from 23.5 to 23.4 percent, while those claiming business conditions are "bad" held constant at 21.3 percent. Consumers' appraisal of the job market declined more appreciably, with the proportion stating jobs are "plentiful" falling from 17.6 percent to 15.1 percent. Those claiming jobs are "hard to get" was barely changed, at 30.1 percent versus 30.0 percent in August.

**Thomson Reuters/University of Michigan Surveys of Consumers**

According to the Surveys of Consumers Thomson Reuters/University of Michigan, consumer confidence posted a healthy September gain due to more favorable prospects for the domestic economy as well as more favorable personal income expectations. The September reading, the second highest in the last seven years, points toward renewed strength in consumer spending. While the September rebound brought confidence back to its highest levels since the Great Recession, confidence has repeatedly failed to move

above this level. The improved income expectations recorded in September have the potential to reinvigorate personal financial optimism that is the key driving force of behind large discretionary expenditures, especially those involving debt. Needless to say, it will take repeated and cumulative gains to reverse the impact of stagnant incomes on spending.

Surveys of Consumers chief economist, Richard Curtin said: “The defining aspect of the current recovery has been that optimism about future prospects has not improved in advance of actual economic gains. Typically, optimism generates increased spending which helps to improve current economic conditions. Surprisingly, an improved economy has not sparked renewed optimism, at least until recently. The renewal of income growth is particularly important for sparking increased consumer spending in the year ahead. Moreover, given the anticipated changes in monetary policy, strong income gains will be needed to bolster spending given the diminished positive role of household wealth.”

The recent survey recorded widespread reports that the economy had improved and the economy was expected to continue to post gains in the year ahead. The creation of jobs is the most important aspect of a strengthening economy for consumers. On this count, consumers expected modest growth in jobs in the year ahead. The unemployment rate, however, was expected to remain largely unchanged rather than to post substantial improvement.

More households expected income gains in the year ahead in the recent survey than any time in the last six years—since September of 2008. Just as importantly, the median increase of 1.1 percent expected by all households was

the highest since late 2008. While still meager, this improvement, along with a decline in the expected inflation rate, meant that more households expected their income gains to keep pace or exceed the rate of inflation.

### **Gross Domestic Product (GDP)**

Real gross domestic product – the output of goods and services produced by labor and property located in the United States – increased at an annual rate of 4.6 percent in the second quarter of 2014, according to the “third” estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP decreased 2.1 percent.

The increase in real GDP in the second quarter primarily reflected positive contributions from personal consumption expenditures (PCE), exports, private inventory investment, nonresidential fixed investment, state and local government spending, and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

Real GDP increased 4.6 percent in the second quarter, after decreasing 2.1 percent in the first. This upturn in the percent change in real GDP primarily reflected upturns in exports and in private inventory investment, accelerations in nonresidential fixed investment and in PCE, and upturns in state and local government spending and in residential fixed investment that were partly offset by an acceleration in imports.

### **Leading Economic Indicators**

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2 percent in August to 103.8 (2004=100), following a 1.1 percent increase in July, and a 0.7 percent increase in June.

“The LEI continued to rise in August, although at a slower rate than in July,” said Ataman Ozyildirim, Economist at The Conference Board. “The LEI’s six-month growth trend has been held back slightly by lackluster contributions from housing permits and new orders for nondefense capital orders. Despite concerns about investment picking up, the economy should continue expanding at a moderate pace for the remainder of the year.”

“The leading indicators point to an economy that is continuing to gain traction, but most likely won’t repeat its stellar second quarter performance in the second half,” said Ken Goldstein, Economist at The Conference Board. “Meanwhile, the CEI, a measure of current economic activity, continued to expand through August, amid improving personal income, employment and retail sales. However, industrial production registered a slight decrease for the first time in seven months.”

## **Housing**

### **Existing-Home Sales**

After four consecutive months of gains, existing-home sales slipped in August as investors paying in cash retreated from the market, according to the National Association of Realtors® (NAR). Sales increases in the Northeast and Midwest were outweighed by declines in the South and West.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, decreased 1.8 percent to a seasonally adjusted annual rate of 5.05 million in August from a slight downwardly-revised 5.14 million in July. Sales are at the second-highest pace of 2014, but remain 5.3 percent below the

5.33 million-unit level from last August, which was also the second-highest sales level of 2013.

Single-family home sales slipped 1.8 percent to a seasonally adjusted annual rate of 4.46 million in August from 4.54 million in July, and were now 4.9 percent below the 4.69 million pace a year ago. The median existing single-family home price was \$220,600 in August, up 5.2 percent from August 2013.

Lawrence Yun, NAR chief economist, says sales activity remains stronger than earlier in the year, but fell last month as investors stepped away. “There was a marked decline in all-cash sales from investors,” he said. “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.”

Yun adds, “As long as solid job growth continues, wages should eventually pick up to steadily improve purchasing power and help fully release the pent-up demand for buying.”

The median existing-home price for all housing types in August was \$219,800, which was 4.8 percent above August 2013. This marks the 30<sup>th</sup> consecutive month of year-over-year price gains.

Total housing inventory at the end of August declined 1.7 percent to 2.31 million existing homes available for sale, which represents a 5.5-month supply at the current sales pace. However, unsold inventory is 4.5 percent higher than a year ago, when there were 2.21 million existing homes available for sale.

The percent share of first-time buyers remained unchanged in August from July at 29 percent. First-time buyers have represented less than 30 percent of all buyers in 16 of the past 17 months.

Distressed homes – foreclosures and short sales – represented 8 percent of August sales, remaining in the single-digits for the second straight month and down from 12 percent a year ago. Six percent of August sales were foreclosures and 2 percent were short sales.

### **Regional**

Regionally, August existing-home sales in the Northeast jumped 4.7 percent to an annual rate of 670,000, but remain 4.3 percent below a year ago. The median price in the Northeast was \$265,800, which was 0.8 percent lower than a year ago.

In the Midwest, existing-home sales increased 2.5 percent to an annual level of 1.24 million in August, but remain 3.9 percent below August 2013. The median price in the Midwest was \$173,800, up 5.9 percent from a year ago.

Existing-home sales in the South declined 4.2 percent to an annual rate of 2.03 million in August, and were down 4.2 percent from August 2013. The median price in the South was \$186,700, up 4.7 percent from a year ago.

Existing-home sales in the West fell 5.1 percent to an annual rate of 1.11 million in August, and were 9.8 percent below a year ago. The median price in the West was \$301,900, which was 5.4 percent above August 2013.

### **New Residential Sales**

Sales of new single-family houses in August 2014 were at a seasonally adjusted annual rate of 504,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 18.0 percent above the revised July rate of 427,000 and was 33.0 percent

above the August 2013 estimate of 379,000.

The median sales price of new houses sold in August 2014 was \$275,600; the average sales price was \$347,900. The seasonally adjusted estimate of new houses for sale at the end of August was 203,000. This represents a supply of 4.8 months at the current sales rate.

Comparing August 2014 to August 2013, new home sales increased 27.2 percent in the South and 84.3 percent in the West; sales were flat in the Midwest and fell 3.1 percent in the Northeast.

### **Housing Starts**

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in August were at a seasonally adjusted annual rate of 956,000. This was 14.4 percent below the revised July estimate of 1,117,000, but was 8.0 percent above the August 2013 rate of 885,000.

Single-family house starts in August were at a rate of 643,000; this was 2.4 percent below the revised July figure of 659,000. Regionally, single-family starts were up 12.0 percent over August 2013 in the South, but were down from August 2013 by 1.8 percent in the Northeast, 8.6 percent in the Midwest and 1.4 percent in the West.

### **Retail Sales**

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for August, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$444.4 billion, an increase of 0.6 percent from the previous month, and 5.0 percent above August 2013. Total sales for the June through August 2014



period were up 4.5 percent from the same period a year ago.

Retail trade sales were up 0.6 percent from July 2014, and 4.8 percent above last year. Auto and other motor vehicle dealers were up 9.5 percent from August 2013 and health and personal care stores were up 8.1 percent from last year.

Sales on an adjusted basis at furniture and home furnishings stores were up 3.0 percent in August 2014 versus August 2013 and up 0.7 percent over July. Year-to-date, sales at these stores were up 2.6 percent over the same period a year ago.

### **Consumer Prices**

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.2 percent in August 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 1.7 percent before seasonal adjustment.

The seasonally adjusted decline in the all items index was the first since April 2013. The indexes for food and shelter rose, but the increases were more than offset by declines in energy indexes, especially gasoline. The energy index fell 2.6 percent, with the gasoline index declining 4.1 percent and the indexes for natural gas and fuel oil also decreasing.

The index for all items less food and energy was unchanged in August; this was the first month since October 2010 that the index did not increase. While the shelter index increased and the indexes for new vehicles and for alcoholic beverages also rose, these advances were offset by declines in several indexes, including airline fares, recreation, household furnishings and operations, apparel, and used cars and trucks.

The all items index increased 1.7 percent over the last 12 months, a decline

from the 2.0 percent figure for the 12 months ending July, and the smallest 12-month change since March. The index for all items less food and energy also rose 1.7 percent over the last 12 months. The food index has risen 2.7 percent over the span, while the energy index has increased 0.4 percent.

### **Employment**

Total nonfarm payroll employment increased by 142,000 in August, and the unemployment rate was little changed at 6.1 percent, according to the U.S. Bureau of Labor Statistics. Job gains occurred in professional and business services and in health care.

In August, both the unemployment rate (6.1 percent) and the number of unemployed persons (9.6 million) changed little. Over the year, the unemployment rate and the number of unemployed persons were down by 1.1 percentage points and 1.7 million, respectively.

Total nonfarm payroll employment increased by 142,000 in August, compared with an average monthly gain of 212,000 over the prior 12 months. In August, job growth occurred in professional and business services and in health care.

Professional and business services added 47,000 jobs in August and has added 639,000 over the past year. In August, management of companies and enterprises gained 8,000 jobs. Employment continued to trend up over the month in administrative and support services (+23,000), architectural and engineering services (+3,000), and in management and technical consulting services (+3,000).

Employment in health care increased by 34,000 in August. Within the industry, offices of physicians and hospitals added

8,000 jobs and 7,000 jobs, respectively. Social assistance employment continued to trend up over the month (+9,000) and has expanded by 104,000 over the year.

Within leisure and hospitality, employment in food services and drinking places continued to trend up in August (+22,000) and is up by 289,000 over the year.

Construction employment continued to trend up in August (+20,000). This is in line with its average monthly job gain of 18,000 over the prior 12 months. In August, employment trended up in specialty trade contractors (+12,000) and construction of buildings (+7,000).

Manufacturing employment was unchanged in August, following an increase of 28,000 in July. Motor vehicles and parts lost 5,000 jobs in August, after adding 13,000 jobs in July. Auto manufacturers laid off fewer workers than usual for factory retooling in July, and fewer workers than usual were recalled in August. Elsewhere in manufacturing, there were job gains in August in computer and peripheral equipment (+3,000) and in nonmetallic mineral products (+3,000), and job losses in electronic instruments (-2,000).

### **Durable Goods Orders and Factory Shipments**

New orders for manufactured durable goods in August decreased \$54.5 billion or 18.2 percent to \$245.4 billion, according to the U.S. Census Bureau. This decrease, down following two consecutive monthly increases, followed a 22.5 percent July increase. Excluding transportation, new orders increased 0.7 percent. Excluding defense, new orders decreased 19.0 percent.

Transportation equipment, also down following two consecutive monthly

increases, drove the decrease, \$55.6 billion or 42.0 percent to \$76.8 billion.

Shipments of manufactured durable goods in August, down following two consecutive monthly increases, decreased \$3.7 billion or 1.5 percent to \$246.1 billion. This followed a 3.7 percent July increase.

Transportation equipment, also down following two consecutive monthly increases, drove the decrease, \$3.9 billion or 5.1 percent to \$72.5 billion.

According to these reports, shipments of furniture and related products in July 2014 were almost 4 percent higher than July 2013. Orders were up 2 percent.



### **Executive Summary**

New orders in July 2014 increased 4 percent over July 2013 orders and were 5 percent higher year-to-date, the same as we reported last month for the June results. The 5 percent increase year-to-date compares to a 6 percent increase reported for July 2013 versus July 2012 so the increase in business remains pretty steady.

Approximately 69 percent of our participants reported increased orders for the first seven months of the year.

Shipments increased 11 percent over July 2013 resulting in a 6 percent increase year-to-date. This compared to a 4 percent increase comparing 2013 to 2012 July year-to-date results.

Backlogs were 5 percent higher than July 2013 down from a 10 percent increase reported last month.

Receivable levels, up 7 percent over last July, appear very much in line compared to shipments. Inventories were up 3 percent over June levels and 9 percent over July 2013. We think this may be a timing issue but we will watch over the next couple of months.

Factory and warehouse payrolls and the number of employees also seem in line with current business. The number of employees was up 6 percent over last year as was the year-to-date payrolls.

According to the Conference Board, consumer confidence showed declines in confidence after four consecutive monthly gains. The decline was based on softening in the job markets and less confidence in the short term future. On the other hand, the Thomson Reuters/University of Michigan Surveys of Consumers was very

positive. Their September reading was the highest in seven years. This survey reported improved income expectations, as well as an improved economy with improved economic expectations as well.

We were surprised at the variations on the reports. Clearly, we like the Michigan report results much better.

The leading economic indicators continues to show improvement and retail sales continue to show improvements, while maybe not as large as we would like.

Housing continues to improve. While a slight dip of existing home sales in August, much of this was a result of a decrease in investor purchases. Those purchasers tend not to buy furniture so that does not hurt.

Existing home sales were up in the Northeast and Midwest but were down in the South and West. But new home sales were up substantially in the South and West, while down in the Northeast and flat in the Midwest.

Consumer prices remain in line with gas prices decreasing – a good thing. And the creation of jobs continues to improve though not as robust as most feel is necessary.

From the sale of furniture products, we continue to move along pretty well on an overall basis. Upholstery continues to outperform case goods, generally speaking.

We were reminded, when we heard of the long lines at the Apple stores for the latest and greatest phone, of comments we made several years ago about where consumers are spending. We think it is not just about a phone or computer or iPad or new 80 inch TV or some other gadget. Yes, those take a fair amount of money. But think about the monthly costs to run those things. Monthly charges for cell phone usage, data charges, satellite or cable



charges, monthly charges for computer or cloud access. The list goes on and on.

All of this takes major dollars from consumer pockets. Again, not just to buy, but the cost of using. There is little doubt that these costs, that were minimal at best 15 years ago, now keep consumers from spending a few extra dollars on furniture and accessories. Many just do not have extra dollars anymore.

That said, we do seem to be finding some of those dollars and if consumer confidence continues to improve and consumers believe the economy will continue to improve, we should continue to get some share of their dollars. Add to that continued improvement in new and used home sales, the industry should also benefit.

It is almost time for another High Point Market. We hope all of the exhibitors and buyers have a great one and hope to see many of you there.

Estimated Business Activity (Millions of Dollars)						
	2014			2013		
	July	June	7 Months	July	June	7 Months
New Orders	1,928	1,990	14,105	1,847	1,902	13,464
Shipments	1,964	2,306	14,322	1,769	2,213	13,481
Backlog (R)	1,965	1,895		1,880	1,722	

Key Monthly Indicators			
	July 2014 From June 2014 Percent Change	July 2014 From July 2013 Percent Change	7 Months 2014 Versus 7 Months 2013 Percent Change
New Orders	–	+4	+5
Shipments	-11	+11	+6
Backlog	+2	+5	
Payrolls	-10	+7	+6
Employees	–	+6	
Receivables	-5	+7	
Inventories	+3	+9	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
<b>2013</b>				
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
<b>2014</b>				
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