

# Furniture Insights®

## Monthly Results

### New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in October 2014 were 12 percent higher than October 2013. Orders were down slightly from September. New orders were up for approximately 59 percent of our participants, down slightly from just over 60 percent reported last month for September and the same as August.

October 2014 market dates were basically the same as last year so we would not expect market dates to have much of an impact. But, we did hear more order writing at this market than we have heard in some time, so market orders may have had some impact.

October's increase pushed year-to-date orders up from a 5 percent increase to a 6 percent increase. New orders were up for approximately 72 percent of our participants, the same as reported last month.

### Shipments and Backlogs

Shipments in October 2014 were 7 percent higher than October 2013. Shipments were down slightly from September 2014. Shipments were up for just over 70 percent of our participants.

Year-to-date, shipments remained 6 percent ahead of 2013 for the ten months. Similar to new orders, shipments year-to-date were up for approximately 72 percent of our participants.



Backlogs increased from September and were 9 percent above October 2013. This was up from a 3 percent increase reported for September.

## Furniture Insights® A Monthly Newsletter

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### **Receivables and Inventories**

Receivables in October 2014 were 4 percent higher than October 2013, very much in line with the 7 percent increase in shipments over last year. The receivable increase was also very much in line with the 6 percent increase in year-to-date shipments. Overall, receivables continue to appear to be in good shape.

Inventories were 6 percent higher than October 2013, but about even with September. As with receivables, inventories have fallen back in line with current business conditions.

### **Factory and Warehouse Employees and Payrolls**

The number of factory and warehouse employees was up 1 percent over October 2013 levels, down from a 2 percent increase reported last month. It appears that employee hiring has leveled somewhat after posting solid gains since September 2013.

Factory and warehouse payrolls were up 1 percent over last October, in line with the number of employees. Year-to-date, payrolls were 5 percent higher than payrolls, a year ago, the same increase as reported last month.

## **National**

### **Consumer Confidence**

The Conference Board Consumer Confidence Index®, which had declined in November, improved in December. The Index now stands at 92.6 (1985=100), up from 91.0 in November. The Present Situation Index rose to 98.6 from 93.7, while the Expectations Index decreased to 88.5 from 89.3 in November.

Lynn Franco, Director of Economic Indicators at The Conference Board said: “Consumer confidence rebounded

modestly in December, propelled by a considerably more favorable assessment of current economic and labor market conditions. As a result, the Present Situation Index is now at its highest level since February 2008 (Index, 104.0). Consumers were moderately less optimistic about the short-term outlook in December, but even so, they are more confident at year-end than they were at the beginning of the year.”

Consumers’ appraisal of current conditions was considerably more favorable in December. Those saying business conditions are “good” was unchanged at 24.8 percent, while those claiming business conditions are “bad” decreased from 21.8 percent to 19.6 percent. Consumers were also positive in their assessment of the job market, with the proportion stating jobs are “plentiful” increasing from 16.2 percent to 17.1 percent, and those claiming jobs are “hard to get” decreasing from 28.7 percent to 27.7 percent.

Consumers’ optimism about the short-term outlook eased moderately in December. The percentage of consumers expecting business conditions to improve over the next six months edged down from 18.3 percent to 18.0 percent, but those expecting business conditions to worsen declined slightly from 10.4 percent to 10.1 percent. Consumers’ outlook for the labor market was marginally less optimistic. Those anticipating more jobs in the months ahead decreased from 15.5 percent to 14.7 percent, while those anticipating fewer jobs rose from 16.1 percent to 16.9 percent. The proportion of consumers expecting growth in their incomes declined moderately from 16.9 percent to 16.4 percent; however the proportion expecting a decrease also declined, from 11.0 percent to 10.0 percent.

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

According to the Thomson Reuters/University of Michigan Surveys of Consumers, consumer confidence reached its most favorable level in the December 2014 survey since the last cyclical peak was set in January 2007. The gains over the past several months have been primarily due to improving job and wage prospects, and more recently, to falling gasoline prices. Consumers held the most favorable long-term prospects for the national economy in the past decade. Importantly, the 2014 gains in jobs and wages were widespread across all population subgroups and regions. Overall, the data point toward a gain of about 3.0 percent in real consumer expenditures during 2015.

Surveys of Consumers chief economist, Richard Curtin said: "Consumers have much to be thankful for in this holiday season: renewed job growth, larger anticipated wage gains, and the steep decline in gasoline prices. Importantly, rather than basing their renewed optimism on volatile oil prices, consumers have become convinced that growing strength in the national economy will result in continued gains in jobs and wages during the year ahead. To be sure, consumers are thrilled to spend less at the gas pump, enabling them to expand their discretionary income during this holiday. Nonetheless, such a "tax cut" is no substitute for a widespread favorable job and income outlook among households."

Consumers reported hearing more positive economic developments in December than any other time in the last thirty years. Most of the news was dominated by job gains as well as declines in gasoline prices. Nearly two-thirds of all consumers thought the economy had

recently improved, and most impressively, half expected the economy to avoid a recessionary downturn during the next five years, the most favorable reading in ten years. When specifically asked about prospects for the national unemployment rate during the year ahead, in the past three months consumers have held the most favorable outlook during the past 30 years.

The best news on personal finances was that consumers anticipated a significant increase in their incomes during 2015. Consumers expected an annual income gain of 1.7 percent in December, up from 1.1 percent in the prior three months and the highest level recorded since 2008. Expected wage gains were especially large among those under age 45, with a median anticipated income gain of 4.7 percent, up from 2.9 percent in last December's survey.

**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 5.0 percent in the third quarter of 2014, according to the "third" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 4.6 percent.

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

The acceleration in the percent change in real GDP reflected a downturn in

imports, an upturn in federal government spending, and an acceleration in PCE that were partly offset by a downturn in private inventory investment and decelerations in exports, in state and local government spending, in residential fixed investment, and in nonresidential fixed investment.

### **Leading Economic Indicators**

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6 percent in November to 105.5 (2004=100), following a 0.6 percent increase in October, and a 0.8 percent increase in September.

“The increase in the LEI signals continued moderate growth through the winter season,” said Ken Goldstein, Economist at The Conference Board. “The biggest challenge has been, and remains, more income growth. However, with labor market conditions tightening, we are seeing the first signs of wage growth starting to pick up.”

“Widespread and persistent gains in the LEI point to strong underlying conditions in the U.S. economic expansion,” said Ataman Ozyildirim, Economist at The Conference Board. “The current situation, measured by the coincident economic index, has been improving steadily, with employment and industrial production making the largest contributions in November.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.4 percent in November to 110.7 (2004 = 100), following a 0.2 percent increase in October, and a 0.3 percent increase in September.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in November to 125.4 (2004 = 100), following no change

in October, and a 0.1 percent increase in September.

### **Housing**

#### **Existing-Home Sales**

After hitting their highest level of the year, existing-home sales slid in November as housing supply showed some tightening, according to the National Association of Realtors® (NAR). All major regions experienced a decline in sales compared to a month earlier.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 6.1 percent to a seasonally adjusted annual rate of 4.93 million in November from a downwardly-revised 5.25 million in October. Sales dropped to their lowest annual pace since May (4.91 million) but are above year-over-year levels (up 2.1 percent from last November) for the second straight month.

Single-family home sales dropped 6.3 percent to a seasonally adjusted annual rate of 4.33 million in November from 4.62 million in October, but remain 2.4 percent above the 4.23 million pace a year ago. The median existing single-family home price was \$206,200 in November, up 5.6 percent from November 2013.

Lawrence Yun, NAR chief economist, says sales activity was choppy throughout the country in November and housing inventory began its seasonal decline. “Fewer people bought homes last month despite interest rates being at their lowest levels of the year,” he said. “The stock market swings in October may have impacted some consumers’ psyches and therefore led to fewer November closings. Furthermore, rising home values are causing more investors to retreat from the market.”

The median existing-home price for all housing types in November was \$205,300, which was 5.0 percent above November 2013. This marks the 33<sup>rd</sup> consecutive month of year-over-year price gains.

Total housing inventory at the end of November fell 6.7 percent to 2.09 million existing homes available for sale, which represents a 5.1-month supply at the current sales pace – unchanged from last month. Despite the tightening in supply, unsold inventory remains 2.0 percent higher than a year ago, when there were 2.05 million existing homes available for sale.

“Lagging homebuilding activity continues to hamstring overall housing supply and is still too low in relation to this year’s promising job growth,” says Yun. “Much faster price and rent appreciation – easily exceeding wage growth – will occur next year unless new construction picks up measurably.”

“According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage in November dropped to 4.00 percent, its lowest level since May 2013 (3.54 percent), and down from 4.04 percent in October.

### **Regional**

November existing-home sales in the Northeast declined 4.2 percent to an annual rate of 680,000, but were still 4.6 percent above a year ago. The median price in the Northeast was \$246,100, which was 1.3 percent above a year ago.

In the Midwest, existing-home sales fell 8.9 percent to an annual level of 1.13 million in November, and were now 1.7 percent below November 2013. The median price in the Midwest was \$160,500, up 7.0 percent from a year ago.

Existing-home sales in the South decreased 3.2 percent to an annual rate of 2.09 million in November, but remain 5.0 percent above November 2013. The median price in the South was \$176,500, up 5.2 percent from a year ago.

Existing-home sales in the West dropped 9.6 percent to an annual rate of 1.03 million in November, and remain 1.0 percent below a year ago. The median price in the West was \$292,700, which was 3.5 percent above November 2013.

### **New Residential Sales**

Sales of new single-family houses in November 2014 were at a seasonally adjusted annual rate of 438,000, according to estimates released by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 1.6 percent below the revised October rate of 445,000 and was 1.6 percent below the November 2013 estimate of 445,000.

The median sales price of new houses sold in November 2014 was \$280,900; the average sales price was \$321,800. The seasonally adjusted estimate of new houses for sale at the end of November was 213,000. This represents a supply of 5.8 months at the current sales rate.

For the November to November comparisons, sales were up 3.5 percent in the Midwest and up 10.7 percent in the West, but sales were down 33.3 percent in the Northeast and down 4.1 percent in the South.

### **Housing Starts**

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in November were at a seasonally adjusted annual rate of 1,028,000. This was 1.6 percent below the revised October estimate of 1,045,000 and was 7.0 percent

below the November 2013 rate of 1,105,000.

Single-family housing starts in November were at a rate of 677,000; this was 5.4 percent below the revised October figure of 716,000. The November rate for units in buildings with five units or more was 340,000.

Single-family starts in November 2014 compared to November 2013 were up 1.7 percent in the Northeast, but were down 10.1 percent in the Midwest, 2.7 percent in the South and 7.6 percent in the West.

### **Retail Sales**

The U.S. Census Bureau announced that advanced estimates of U.S. retail and food services sales for November, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$449.3 billion, an increase of 0.7 percent from the previous month, and 5.1 percent above November 2013. Total sales for the September through November 2014 period were up 4.7 percent from the same period a year ago.

Retail trade sales were up 0.7 percent from October 2014, and 4.9 percent above last year. Auto and other motor vehicle dealers were up 9.5 percent from November 2013 and nonstore retailers were up 8.7 percent from last year.

Sales at furniture and home furnishings stores in November were up 2.1 percent over November 2013 and up 1.9 percent over the 3 months ended November 2013.

### **Consumer Prices**

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.3 percent in November on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics. Over the last 12 months,

the all items index increased 1.3 percent before seasonal adjustment.

The gasoline index posted its sharpest decline since December 2008 and was the main cause of the decrease in the seasonally adjusted all items index. The indexes for fuel oil and natural gas also declined, and the energy index fell 3.8 percent. The food index rose 0.2 percent with major grocery store food groups mixed.

The index for all items less food and energy increased 0.1 percent in November. The shelter index rose 0.3 percent, and the indexes for medical care, airline fares, and alcoholic beverages also rose. In contrast, the indexes for apparel, used cars and trucks, recreation, household furnishings and operations, personal care, and new vehicles all declined in November.

The all items index increased 1.3 percent over the last 12 months, a notable decline from the 1.7 percent figure from the 12 months ending October. The index for all items less food and energy has increased 1.7 percent over the last 12 months, compared to 1.8 percent for the 12 months ending October. The food index has risen 3.2 percent over the span. However, the energy index has declined 4.8 percent over the past 12 months, with the gasoline and fuel oil indexes both falling over 10 percent.

### **Employment**

Total nonfarm payroll employment increased by 321,000 in November, and the unemployment rate was unchanged at 5.8 percent, according to the report from the U.S. Bureau of Labor Statistics. Job gains were widespread, led by growth in professional and business services, retail trade, health care, and manufacturing.

In November, the number of unemployed persons was little changed at

9.1 million. Over the year, the unemployment rate and the number of unemployed persons were down by 1.2 percentage points and 1.7 million, respectively.

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

New orders for manufactured durable goods in November decreased \$1.7 billion or 0.7 percent to \$242.3 billion, according to the report from the U.S. Census Bureau. This decrease, down three of the last four months, followed a 0.3 percent October increase. Excluding transportation, new orders decreased 0.4 percent. Excluding defense, new orders decreased 0.1 percent.

Transportation equipment, also down three of the last four months, led the decrease, \$0.9 billion or 1.2 percent to \$75.5 billion.

Shipments of manufactured durable goods in November, down three of the last four months, decreased \$0.9 billion or 0.4 percent to \$245.3 billion. This followed a 0.1 percent October decrease.

Transportation equipment, down following two consecutive monthly increases, led the decrease, \$0.7 billion or 1.0 percent to \$72.2 billion.

According to the Census Bureau, orders for “furniture and related products” were up 4.2 percent through October while shipments were up 3.0 percent.



### **Executive Summary**

The results of our latest survey of residential furniture manufacturers and distributors was again nice positive news. New orders in October

2014 were up 12 percent over October 2013 for the month. This brought new orders year-to-date up 6 percent over the same period a year ago with approximately 72 percent of the participants reporting increased orders.

The October High Point market dates were about the same as last years, so the market dates alone would not have affected the October orders. But as we noted, we heard several exhibitors at market say that order writing was the best it had been in some years, so that may have had some positive impact on October orders.

Shipments were up 7 percent for the month and remained 6 percent ahead of last year for the year-to-date comparison. Shipments year-to-date were also up for approximately 72 percent of the participants.

Backlogs were 9 percent higher than a year ago, up from a 3 percent increase reported for September.

Receivable levels were up 4 percent over last October and very much in line with the shipment results and appeared to be in good shape. Inventories were 6 percent higher than October 2013 and also appeared to be very much in line with current business.

Factory and warehouse payrolls remained 5 percent ahead of last year's first 10 months and also in line with current business. The number of factory and warehouse employees was 1 percent

higher than last October. This number appears to have stabilized as we have seen growth in this area since September 2013.

Overall, we would say that business has been pretty good for most in 2014, and from what we have heard, business has remained at pretty good levels on up through November and December. In fact, especially in the upholstery side of the industry, finding employees has become an issue, at both the higher and promotional end of the business.

This last severe down turn, put a lot of furniture workers out of jobs. In addition, we did not attract many new folks, so it may be a while before we get built back up to handle current demands. Hopefully, this will not stretch out lead times to a point of disappointment for consumers.

On the national front, most all of the indicators that affect the industry are good. The University of Michigan consumer confidence report was again extremely positive with consumers positive towards jobs and wage gains, plus the economy in general. The Conference Board's confidence levels were good, just not as positive. If you read the details of the reports, you might find some of the differences interesting (see pages 2 and 3). The GDP growth and economic indicators reports were also very positive.

Most of the current news for retail has been good. Interest rates and mortgage rates are extremely low. Gas prices are helping consumer confidence and pocket books.

Housing results are bouncing around a bit from region to region, but generally speaking, housing is holding up nicely and really just needs to grow to keep up with current demands.

So all in all, the furniture business should be reasonably good. Still, there are many demands for consumer dollars, so



we continue to have to work hard to get our share.

From us to you, here's hoping we all have a very happy and prosperous New Year.



Estimated Business Activity (Millions of Dollars)						
	2014			2013		
	October	September	10 Months	October	September	10 Months
New Orders	2,190	2,276	20,597	1,948	2,117	19,465
Shipments	2,019	2,073	20,300	1,880	1,961	19,177
Backlog (R)	2,207	2,119		2,025	1,957	

Key Monthly Indicators			
	October 2014 From September 2014 Percent Change	October 2014 From October 2013 Percent Change	10 Months 2014 Versus 10 Months 2013 Percent Change
New Orders	-1	+12	+6
Shipments	-1	+7	+6
Backlog	+4	+9	
Payrolls	-4	+1	+5
Employees	-	+1	
Receivables	+2	+4	
Inventories	-	+6	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
<b>2013</b>				
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
August	+5	+6	+3	+4
September	+8	+6	+3	+2
October	+12	+7	+9	+1