Smith Leonard
Accountants & Consultants

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Furniture Insights®

Monthly Results

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in June were 5 percent higher than June 2015. June 2015 new orders were 10 percent higher than June 2014. But the results in total do not tell the whole story. About one-half of the participants reported increased orders, some significant double digit gains, while others reported significant declines in orders. Overall, it appears that upholstery did better than case goods.

Year-to-date, new orders were just slightly ahead of last year's first half of the year. The first six months of last year showed a 5 percent increase over the same period of 2014. Only approximately 42 percent of the participants posted order gains over last year for the six month period.

Shipments and Backlogs

Shipments were 2 percent higher in June 2016 versus June 2015, with slightly over one-half of the participants reporting increased shipments. As with orders, the variations were sizeable with some up double digits and others off double digits.

Year-to-date, as with orders, shipments were up slightly less than 1 percent. Just over 44 percent of the participants reported increased shipments year-to-date.

Backlogs fell 3 percent from May due to shipments exceeding orders. Backlogs were down 5 percent from June 2015. In May 2016, backlogs were 6 percent lower than May 2015.

Receivables and Inventories

Receivable levels fell 3 percent from June 2015 in spite of the increase in shipments of 2 percent. Receivable levels continue to be in very good shape in total as they have been for several months.

Furniture Insights®
A Monthly Newsletter

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Inventories were up 3 percent over June 2015, down from a 6 percent increase reported in May. It appears that inventories are slowly getting 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 June of 2015, down from a 2 percent increase reported last month. The number of employees fell 1 percent from May 2015.

Factory and warehouse payrolls were 2 percent higher than June 2015, again in line with current business. Overall, the employment situation seems in line even with factory and warehouse payrolls up 2 percent for the year-to-date. We know some of this related to wage increases which had not been given in a long time in some cases.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had decreased in July, increased in August. The Index now stands at 101.1 (1985 = 100), compared to 96.7 in July. The Present Situation Index rose from 118.8 to 123.0, while the Expectations Index improved from 82.0 last month to 86.4.

"Consumer confidence improved in August to its highest level in nearly a year, after a marginal decline in July," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of both current business and labor market conditions was considerably more favorable than last month. Short-term expectations regarding business and employment conditions, as well as personal income prospects, also improved, suggesting the possibility of a moderate pick-up in growth in the coming months."

Consumers' appraisal of current conditions improved in August. Those stating business conditions are "good" increased from 27.3 percent to 30.0 percent, while those saying business conditions are "bad" remained virtually unchanged at 18.4 percent. Consumers' assessment of the labor market was also more favorable. Those claiming jobs were more "plentiful" increased from 23.0 percent to 26.0 percent, however, those claiming jobs are "hard to get" also rose, from 22.1 percent to 23.4 percent.

Consumers' optimism regarding the short-term outlook picked up in August. The percentage of consumers expecting business conditions to improve over the next six months increased from 15.7 percent to 17.3 percent, while those expecting business conditions to worsen decreased from 12.4 percent to 11.1 percent.

Consumers' outlook for the labor market was also more favorable than in July. The proportion expecting more jobs in the months ahead rose from 13.5 percent to 14.2 percent, while those anticipating fewer jobs remained virtually unchanged at 17.5 percent. The percentage of consumers expecting their incomes to increase improved from 17.1 percent to 18.8 percent, while the proportion expecting a decline decreased marginally from 11.0 percent to 10.7 percent.

University of Michigan Surveys of Consumers

According to the Surveys of Consumers University of Michigan, consumers were a bit less optimistic in August than one month or one year ago, although consumer confidence remains at a reasonably high level. Less favorable personal financial prospects were largely offset by a slight improvement in the outlook for the overall economy. Most of the weakness in personal finances was among younger households who cited higher expenses than anticipated as well as slightly smaller expected income gains. Importantly, long term inflation expectations fell to the lowest level ever recorded, with near term inflation expectations anchored to that same low level. Low interest rates have increasingly become the sole driver of large discretionary expenditures. Strength in personal finances and low interest rates will maintain the growth in real consumption at 2.6 percent through mid-2017.

Surveys of Consumers chief economist, Richard Curtin said: “Consumers have become increasingly dependent on ultra-low inflation and interest rates. While wage gains have recently improved, it is still low inflation that has been a key ingredient in preventing declines in the living standards. Consumers do not anticipate an increase in inflation anytime over the next five years, and have increasingly discounted any significant increase in interest rates during the year ahead. Small increases in inflation or interest rates would not be surprising to consumers, but the expectation of policies aimed toward cumulative increases in inflation or interest rates could cause a more substantial and negative reaction.”

Among all households, 44 percent reported that their financial situation had recently improved, unchanged from one month or one year ago. One-third of all households reported recent income gains in August, the same as in July. Financial prospects for the year ahead declined in August, as just 29 percent expected their finances to improve, down from 36 percent in July and the lowest level since late 2014. Most all of the decline was among those under age 35.

The source of favorable buying plans has shifted from attractive pricing to low interest rates. Home buying has become particularly dependent on low mortgage rates, with net references to low rates mentioned by 53 percent—this figure has been exceeded in only one month in the past ten years. In contrast, low housing prices were cited by just 26 percent, for the fourth time in the last 5 months, and the lowest figure in ten years.

The Sentiment Index was 89.8 in the August 2016 survey, barely below July’s 90.0 and slightly below last August’s 91.9. The Sentiment Index remained largely unchanged in August from one month ago due to offsetting shifts: the Expectations Index rose to 78.7 from 77.8 last month, while the Current Conditions Index declined to 107.0 in August from 109.0 in July.

Gross Domestic Product (GDP)

Real gross domestic income (GDI) increased 0.2 percent in the second quarter, compared with an increase of 0.8 percent in the first (revised). The average of real GDP and real GDI, a supplemental measure of U.S. economic activity that equally weights GDP and GDI, increased 0.6 percent in the second quarter, compared with an increase of 0.8 percent in the first.

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

The acceleration in real GDP in the second quarter primarily reflected an acceleration in PCE, a smaller decrease in nonresidential fixed investment, an upturn in exports, and a smaller decrease in federal government spending. These were partly offset by a larger decrease in private inventory investment and downturns in state and local government spending, in residential fixed investment, and in imports.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.4 percent in July to 124.3 (2010 = 100), following a 0.3 percent increase in June, and a 0.2 percent decline in May.

"The U.S. LEI picked up again in July, suggesting moderate economic growth should continue through the end of 2016," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "There may even be some moderate upside growth potential if recent improvements in manufacturing and construction are sustained, and average consumer expectations don't deteriorate further."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.4 percent in July to 113.9 (2010=100), following a 0.2 percent increase in June, and a 0.1 percent increase in May.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1 percent in July to 121.8 (2010=100), following a 0.1 percent decline in June, and a 0.4 percent increase in May.

Housing

Existing-Home Sales

Slowed by frustratingly low inventory levels in many parts of the country, existing-home sales lost momentum in July and decreased year-over-year for the first time since November 2015, according to the National Association of Realtors® (NAR). Only the West region saw a monthly increase in closings in July.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 3.2 percent to a seasonally adjusted annual rate of 5.39 million in July from 5.57 million in June. For only the second time in the last 21 months, sales were below (1.6 percent) a year ago (5.48 million).

Single-family home sales decreased 2.0 percent to a seasonally adjusted annual rate of 4.82 million in July from 4.92 million in June, and were 0.8 percent under the 4.86 million pace a year ago. The median existing single-family home price was $246,000 in July, up 5.4 percent from July 2015.

Existing condominium and co-op sales dropped 12.3 percent to a seasonally adjusted annual rate of 570,000 units in July from 650,000 in June, and were 8.1 percent below July 2015 (620,000 units). The median existing condo price was $228,400 in July, which was 4.1 percent above a year ago.

Lawrence Yun, NAR chief economist, says existing sales fell off track in July after steadily climbing the last four months. "Severely restrained inventory and the tightening grip it's putting on affordability is the primary culprit for the considerable sales slump throughout much of the country last month," he said. "Realtors® are reporting diminished buyer traffic because of the scarce number of affordable homes on the market, and the lack of supply is stifling the efforts of many prospective buyers attempting to purchase while mortgage rates hover at historical lows."

Adds Yun, "Furthermore, with new condo construction barely budging and currently making up only a small sliver of multi-family construction, sales suffered last month as condo buyers faced even stiffer supply constraints than those looking to purchase a single-family home."

The median existing-home price for all housing types in July was $244,100, up 5.3 percent from July 2015 ($231,800). July's price increase marks the 53rd consecutive month of year-over-year gains.

Total housing inventory at the end of July inched 0.9 percent to 2.13 million existing homes available for sale, but was still 5.8 percent lower than a year ago (2.26 million) and has now declined year-over-year for 14 straight months. Unsold inventory is at a 4.7-month supply at the current sales pace, which is up from 4.5 months in June.

"Although home sales are still expected to finish the year at their strongest pace since the downturn, thanks to a very strong spring, the housing market is undershooting its full potential because of inadequate existing inventory combined with new home construction failing to catch up with underlying demand," adds Yun. "As a result, sales in all regions are now flat or below a year ago and price growth isn't slowing to a healthier and sustainable pace."

The share of first-time buyers was 32 percent in July, which is below last month (33 percent) but up from 28 percent a year ago. First-time buyers represented 30 percent of sales in all of 2015.

Regional

July existing-home sales in the Northeast descended 13.2 percent to an annual rate of 660,000, and was 5.7 percent below a year ago. The median price in the Northeast was $284,000, which was 3.3 percent above July 2015.

In the Midwest, existing-home sales fell 5.2 percent to an annual rate of 1.28 million in July (unchanged from a year ago). The median price in the Midwest was $194,000, up 5.0 percent from a year ago.

Existing-home sales in the South in July declined 1.8 percent to an annual rate of 2.22 million, and were 1.8 percent below July 2015. The median price in the South was $214,500, up 6.6 percent from a year ago.

Existing-home sales in the West rose 2.5 percent to an annual rate of 1.23 million in July, but were still 0.8 percent below a year ago. The median price in the West was $346,100, which was 6.4 percent above July 2015.

New Residential Sales

Sales of new single-family houses in July 2016 were at a seasonally adjusted annual rate of 654,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 12.4 percent above the revised June rate of 582,000 and was 31.3 percent above the July 2015 estimate of 498,000.

The median sales price of new houses sold in July 2016 was $294,600; the average sales price was $355,800. The seasonally adjusted estimate of new houses for sale at the end of July was 233,000. This represents a supply of 4.3 months at the current sales rate.

Compared to July 2015, sales were up 25.0 percent in the Northeast, 35.5 percent in the Midwest, 39.6 percent in the South and 11.4 percent in the West.

Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development reported that privately-owned housing starts in July were at a seasonally adjusted annual rate of 1,211,000. This was 2.1 percent above the revised June estimate of 1,186,000 and was 5.6 percent above the July 2015 rate of 1,147,000.

Single-family housing starts in July were at a rate of 770,000; this was 0.5 percent above the revised June figure of 766,000 and 1.3 percent above July 2015. Comparing to July 2015, single unit starts were down 23.9 percent in the Northeast, 6.7 percent in the Midwest and 2.2 percent in the West while the South was up 10.0 percent.

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 $457.7 billion, virtually unchanged from the previous month, and 2.3 percent above July 2015. Total sales for the May 2016 through July 2016 period were up 2.5 percent from the same period a year ago.

Retail trade sales were virtually unchanged from June 2016, and up 1.9 percent from last year. Nonstore retailers were up 14.1 percent from July 2015, while Health and Personal Care Stores were up 7.8 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores in July were up 0.2 percent from June and up 4.3 percent from July 2015. Year-to-date, sales at these stores were up 4.2 percent.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in July on a seasonally adjusted basis, according to the latest report by the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index rose 0.8 percent before seasonal adjustment.

The energy index declined in July and the food index was unchanged. The index for all items less food and energy rose, but posted its smallest increase since March. As a result, the all items index was unchanged after rising in each of the 4 previous months.

The energy index fell 1.6 percent after rising in each of the last four months. The decline was due to a sharp decrease in the gasoline index; other energy indexes were mixed. The food at home index declined 0.2 percent as four of the six major grocery store food group indexes decreased, while the index for food away from home rose 0.2 percent.

The index for all items less food and energy increased 0.1 percent in July after rising 0.2 percent in June. The shelter index rose 0.2 percent, its smallest increase since March, and the indexes for medical care, new vehicles, and motor vehicle insurance also rose. In contrast, the indexes for airline fares, used cars and trucks, communication, and recreation were among those that declined in July.

The all items index rose 0.8 percent for the 12 months ending July, a smaller increase than the 1.0 percent rise for the 12 months ending June. Similarly, the index for all items less food and energy rose 2.2 percent for the 12 months ending

July, a smaller increase than the 2.3 percent rise for the 12 months ending June.

Employment

Total nonfarm payroll employment rose by 255,000 in July, and the unemployment rate was unchanged at 4.9 percent, according to the report from the U.S. Bureau of Labor Statistics. Job gains occurred in professional and business services, health care, and financial activities. Employment in mining continued to trend down.

The unemployment rate held at 4.9 percent in July, and the number of unemployed persons was essentially unchanged at 7.8 million. Both measures have shown little movement, on net, since August of last year.

In July, the number of persons unemployed less than 5 weeks decreased by 258,000. At 2.0 million, the number of long-term unemployed (those jobless for 27 weeks or more) was unchanged over the month and accounted for 26.6 percent of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in July increased $9.7 billion or 4.4 percent to $228.9 billion, according to the report from the U.S. Census Bureau. This increase, up following two consecutive monthly decreases, followed a 4.2 percent June decrease. Excluding transportation, new orders increased 1.5 percent. Excluding defense, new orders increased 3.8 percent.

Transportation equipment, also up following two consecutive monthly decreases, led the increase, $7.5 billion or 10.5 percent.

Shipments of manufactured durable goods in July, up three of the last four months, increased $0.4 billion or 0.2 percent. This followed a 0.5 percent June increase.

Computers and electronic products, up four consecutive months, drove the increase, $0.4 billion or 1.5 percent.

Shipments for furniture and related products were up 3 percent in June over June 2015 and new orders were up 3 percent. Year-to-date, shipments were up 5.9 percent and orders up 6.8 percent. Keep in mind that this report is all of furniture, not just residential.

Executive Summary

The results of our monthly survey of residential furniture manufacturers and distributors were a bit more positive than we expected. June 2016 new orders were 5 percent higher than June 2015, higher than expected, but the results were far from consistent. Just under one-half of the participants reported increased orders with several reporting double digit increases and several reporting double digit declines. Shipments were also up 2 percent over June 2015, with just over one-half of the participants reporting increases.

Year-to-date, both orders and shipments were up just slightly with less than one-half of the participants showing increases. With shipments exceeding new orders, backlogs fell 3 percent from May 2016 and were down 5 percent from last year.

While the results year-to-date are not very exciting, we should remember that orders year-to-date in June 2015 were up 5 percent over June 2014 and year-to-date June 2014 orders were 5 percent higher than through June 2013. Unfortunately, we realize that while overall business may be basically flat, that is not true for all.

Receivable and inventory levels overall are in pretty good shape with receivable levels down 3 percent with shipments up less than 1 percent. Inventory levels were up 3 percent but that does not seem out of line with the varying business levels.

National

Once again, the two consumer confidence surveys pointed in different directions, with the Confidence Board's Index up in August and the University of Michigan survey down just slightly. According to the Conference Board report, consumer confidence rose to its highest level in nearly a year.

The National GDP continued to lag rising to an increase of 1.1 percent in the second quarter in the "second" estimate, up from 0.8 percent in the first quarter. The Conference Board's Leading Economic Index increased 0.4 percent in July following a 0.3 percent increase in June.

Housing

Existing-home sales fell 3.2 percent blamed primarily on "severely restrained" inventory and increased prices. For only the second time in 21 months, sales were down from the same period a year ago.

On the other hand, sales of new residences increased sharply in July, rising 12.4 percent above June sales and 31.3 percent above July 2015. Sales were up nicely in all four regions. Housing starts were also up, rising 2.1 percent above June and 5.6 percent above July last year.

Other

According to advanced estimates, retail and food services sales for July were about even with June sales and up 2.3 percent above July 2015. Retail trade sales were up 1.9 percent above last year. Sales of furniture and home furnishings stores in July were up 0.2 percent in June and up 4.3 percent over July 2015.

The Consumer Price Index report indicated no major changes to inflation. Gas prices continue to fluctuate but overall, inflation does not seem to be a major issue. The jobs report was also good with nonfarm payroll employment rising by 255,000 in July.

So for the furniture industry, most of the national news indicates that business should be pretty good. From what we have heard in August, that does not seem to be the case.

The only thing we can figure is that the election negativity is holding folks back. Hopefully, we can hang in there for a couple more months and get whatever is going to happen behind us and get back to better business.

Estimated Business Activity (Millions of Dollars)						
	2016			2015		
	June	May	6 Months	June	May	6 Months
New Orders	2,280	2,232	12,908	2,179	2,180	12,843
Shipments	2,457	2,199	13,228	2,418	2,215	13,162
Backlog (R)	1,908	1,976		2,008	2,247	

Key Monthly Indicators			
	June 2016 From May 2016 Percent Change	June 2016 From June 2015 Percent Change	6 Months 2016 Versus 6 Months 2015 Percent Change
New Orders	+2	+5	+1
Shipments	+8	+2	+1
Backlog	-3	-5	
Payrolls	+8	+2	+2
Employees	-1	+1	
Receivables	–	-3	
Inventories	+1	+3	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2015				
June	+10	+6	+12	+2
July	+4	+7	+9	+3
August	+3	+8	+5	+3
September	–	+3	+3	+4
October	+1	+7	–	+3
November	+4	+5	–	+2
December	+1	+5	-4	+2
2016				
January	+2	-1	–	+1
February	-1	+3	-1	+1
March	-2	+4	-8	+2
April	-3	-3	-7	–
May	+2	-1	-6	+2
June	+5	+2	-5	+1