

# Furniture Insights®

## Monthly Results

### New Orders

New orders in September 2016 were up 14 percent over new orders in September 2015 and were 19 percent higher than new orders in August 2016, according to our latest survey of residential furniture manufacturers and distributors. While we had heard that business had improved in September, we were a bit surprised at those results.

In reviewing the survey results, we had numerous participants reporting healthy double digit increases for the month. New orders were up for some 53 percent of the participants, up from only 44 percent last month with some of the larger increases reported by some of the larger companies, while some of the reported decreases were relatively small.

Year-to-date, with the healthy increases in September, new orders are now up 2 percent for the nine months. Approximately 46 percent of the participants reported year-to-date increased orders.

### Shipments and Backlogs

Shipments in September 2016 increased 7 percent over September 2015 after a 6 percent increase in August. Shipments were also up for about 53 percent of the participants.

The increase in shipments brought year-to-date shipments to a 1 percent increase, up from basically flat last month. Just over 43 percent of the participants reported increased shipments year-to-date.



Backlogs were 10 percent higher in September than August as orders exceeded shipments. Backlogs were 3 percent higher than September 2015, up from a minus 2 percent reported last month. Backlogs have been lower than the previous year since January and really into last year.

### Furniture Insights®

A Monthly Newsletter

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### **Receivables and Inventories**

Receivable levels in September were only 1 percent higher than September 2015. With year-to-date shipments up 1 percent, that increase in receivables is in line in spite of the 7 percent increase from last September. Receivables were up 3 percent in August over August 2015.

Inventory levels actually fell 1 percent again in September from August 2016. Compared to September 2015, inventories were 2 percent lower in September 2016, after a 1 percent decrease reported last month.

### **Factory and Warehouse Employees and Payroll**

The number of factory and warehouse employees fell 1 percent from August. Compared to September 2015, the number was about equal. Last month, the number of employees was up 1 percent over August 2015.

Factory and warehouse payrolls were up 2 percent over September 2015 and up 1 percent year-to-date. This was about the same as we reported last month and seems very much in line with the current volume levels.

## **National**

### **Consumer Confidence**

The Conference Board *Consumer Confidence Index*®, which had declined in October, increased significantly in November. The Index now stands at 107.1 (1985=100), up from 100.8 in October. The Present Situation Index increased from 123.1 to 130.3, while the Expectations Index improved from 86.0 last month to 91.7.

“Consumer confidence improved in November after a moderate decline in October, and is once again at pre-

recession levels,” said Lynn Franco, Director of Economic Indicators at The Conference Board. (The Index stood at 111.9 in July 2007.) “A more favorable assessment of current conditions coupled with a more optimistic short-term outlook helped boost confidence. And while the majority of consumers were surveyed before the presidential election, it appears from the small sample of post-election responses that consumers’ optimism was not impacted by the outcome. With the holiday season upon us, a more confident consumer should be welcome news for retailers.”

Consumers’ assessment of current conditions improved in November. The percentage saying business conditions are “good” improved from 26.5 percent to 29.2 percent, while those saying business conditions are “bad” fell from 17.3 percent to 14.8 percent. Consumers’ appraisal of the labor market was moderately more positive than last month. The percentage of consumers stating jobs are “plentiful” increased from 25.3 percent to 26.9 percent, while those claiming jobs are “hard to get” was unchanged at 21.7 percent.

Consumers’ short-term outlook, on balance, was more optimistic in November. The percentage of consumers expecting business conditions to improve over the next six months fell from 16.4 percent to 15.3 percent; however those expecting business conditions to worsen also decreased, from 11.8 percent to 10.0 percent. Consumers’ outlook for the labor market was likewise somewhat mixed. The proportion expecting more jobs in the months ahead was virtually unchanged at 14.5 percent, but those anticipating fewer jobs fell from 16.6 percent to 13.8 percent. The percentage of consumers expecting their incomes to increase—17.5 percent—

was little changed from last month, while the proportion expecting a drop in income fell moderately, from 10.2 percent to 9.0 percent.

### **University of Michigan Surveys of Consumers**

The Surveys of Consumers University of Michigan report stated that the initial reaction of consumers to Trump's victory was to express greater optimism about their personal finances as well as improved prospects for the national economy. The post-election gain in the Sentiment Index was +8.2 points above the November pre-election reading, pushing the Index +6.6 points higher for the entire month. The post-election boost in optimism was widespread, with gains recorded among all income and age subgroups and across all regions of the country. The upsurge in favorable economic prospects is not surprising given Trump's populist policy views, and it was perhaps exaggerated by what most considered a surprising victory as well as a widespread sense of relief that the election had finally ended. Overall, the data indicate that real personal consumption expenditures will advance by 2.5 percent in 2017.

Surveys of Consumers chief economist, Richard Curtin said: "No surge in economic expectations can long be sustained without actual improvements in economic conditions. Presidential honeymoons represent a period in which the promise of gains holds sway over actual economic conditions. Presidential honeymoons, however, can quickly end if they are unaccompanied by prospects that economic conditions will actually improve in the future. President-elect Trump appears to appreciate the importance of his first hundred days; the key issue is

whether his economic policies will resonate with the nation's consumers. The honeymoon may be shorter than usual given the intensity of the opposition, although President-elect Trump has proven himself to be a skilled communicator."

More consumers expected their finances to improve during the year ahead than in any other survey during the past decade. Importantly, consumers also anticipated rising living standards as they expected the most favorable inflation-adjusted income gains since October 2006. Those anticipated gains were among households with incomes in the bottom third of the income distribution as well as among those with incomes in the top third.

More consumers anticipated an improving economy in the latest survey during. Nearly half of all consumers expected good times in the economy as a whole during the year ahead. More importantly, nearly half anticipated an uninterrupted expansion over the next five years, an optimistic view that has only been exceeded in four other surveys in the past decade. As a result, the majority anticipated no change in the current low rate of unemployment.

### **Leading Economic Indicators**

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.1 percent in October to 124.5 (2010 = 100), following a 0.2 percent increase in September, and a 0.2 percent decline in August.

"The U.S. LEI increased in October for a second consecutive month. Although its six-month growth rate has moderated, the index still suggests that the economy will continue expanding into early 2017," said Ataman Ozyildirim, Director of Business

Cycles and Growth Research at The Conference Board. “The interest rate spread and average weekly hours were the main drivers of October’s improvement, helping to offset some of the weaknesses in claims for unemployment insurance and new orders.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in October to 114.3 (2010=100), following a 0.1 percent increase in September, and a 0.2 percent increase in August.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2 percent in October to 122.9 (2010=100), following a 0.2 percent increase in September, and a 0.3 percent increase in August.

## **Housing**

### **Existing-Home Sales**

Existing-home sales ascended in October for the second straight month and eclipsed June’s cyclical sales peak to become the highest annualized pace in nearly a decade, according to the National Association of Realtors®. All major regions saw monthly and annual sales increases in October.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, grew 2.0 percent to a seasonally adjusted annual rate of 5.60 million in October from an upwardly revised 5.49 million in September. October’s sales pace is 5.9 percent above a year ago (5.29 million) and surpasses June’s pace (5.57 million) as the highest since February 2007 (5.79 million).

Single-family home sales increased 2.3 percent to a seasonally adjusted annual rate of 4.99 million in October from 4.88

million in September, and were 6.6 percent above the 4.68 million pace a year ago. The median existing single-family home price was \$233,700 in October, up 5.9 percent from October 2015.

Existing condominium and co-op sales were at a seasonally adjusted annual rate of 610,000 units in October (unchanged from September and a year ago). The median existing condo price was \$220,300 in October, which was 6.2 percent above a year ago.

Lawrence Yun, NAR chief economist, says the wave of sales activity the last two months represents a convincing autumn revival for the housing market. “October’s strong sales gain was widespread throughout the country and can be attributed to the release of the unrealized pent-up demand that held back many would-be buyers over the summer because of tight supply,” he said. “Buyers are having more success lately despite low inventory and prices that continue to swiftly rise above incomes.”

Added Yun, “The good news is that the tightening labor market is beginning to push up wages and the economy has lately shown signs of greater expansion. These two factors and low mortgage rates have kept buyer interest at an elevated level so far this fall.”

The median existing-home price for all housing types in October was \$232,200, up 6.0 percent from October 2015 (\$219,100). October’s price increase marks the 56<sup>th</sup> consecutive month of year-over-year gains.

Total housing inventory at the end of October declined 0.5 percent to 2.02 million existing homes available for sale, and was 4.3 percent lower than a year ago (2.11 million) and has fallen year-over-year for 17 straight months. Unsold inventory is at a 4.3-month supply at the current sales

pace, which is down from 4.4 months in September.

“The ramp-up in housing starts in October is a hopeful sign that overall supply can steadily increase enough to provide more choices for buyers and also moderate price growth,” said Yun. “A prolonged continuation of the robust single-family starts pace seen last month (869,000) would go a long way in giving homeowners much-needed assurance that they can list their home for sale and find a new home to buy within a reasonable timeframe.”

First-time buyers were 33 percent of sales in October, which was down from 34 percent in September but up from 31 percent a year ago. NAR’s 2016 *Profile of Home Buyers and Sellers* — released last month — revealed that the annual share of first-time buyers was 35 percent (32 percent in 2015), which is the highest since 2013 (38 percent).

### **Regional**

October existing-home sales in the Northeast climbed 1.4 percent to an annual rate of 750,000, and was 1.4 percent above a year ago. The median price in the Northeast was \$255,500, which was 2.9 percent above October 2015.

In the Midwest, existing-home sales grew 2.3 percent to an annual rate of 1.36 million in October, and were 6.3 percent above a year ago. The median price in the Midwest was \$181,500, up 5.8 percent from a year ago.

Existing-home sales in the South in October rose 2.8 percent to an annual rate of 2.22 million, and were 4.7 percent above October 2015. The median price in the South was \$202,300, up 7.4 percent from a year ago.

Existing-home sales in the West increased 0.8 percent to an annual rate of

1.27 million in October, and were 10.4 percent higher than a year ago. The median price in the West was \$345,800, up 7.8 percent from October 2015.

### **New Residential Sales**

Sales of new single-family houses in October 2016 were at a seasonally adjusted annual rate of 563,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 1.9 percent below the revised September rate of 574,000, but was 17.8 percent above the October 2015 estimate of 478,000.

The median sales price of new houses sold in October 2016 was \$304,500; the average sales price was \$354,900. The seasonally adjusted estimate of new houses for sale at the end of October was 246,000. This represents a supply of 5.2 months at the current sales rate.

Sales of new houses in October 2016 compared to October 2015 were up 8.6 percent in the Midwest, 17.9 percent in the South and 28.7 percent in the West. Sales were down 6.3 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 October were at a seasonally adjusted annual rate of 1,323,000. This was 25.5 percent above the revised September estimate of 1,054,000 and was 23.3 percent above the October 2015 rate of 1,073,000.

Single-family housing starts in October were at a rate of 869,000; this was 10.7 percent above the revised September figure of 785,000. The October rate for units in buildings with five units or more was 445,000.



New single-family housing starts in October 2016 compared to October 2015 were up 16.9 percent in the Northeast, 6.0 percent in the Midwest, 21.4 percent in the South and 35.2 percent in the West.

### **Retail Sales**

The U.S. Census Bureau announced 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 \$465.9 billion, an increase of 0.8 percent from the previous month, and 4.3 percent above October 2015. Total sales for the August 2016 through October 2016 period were up 3.3 percent from the same period a year ago. The August 2016 to September 2016 percent change was revised from up 0.6 percent to up 1.0 percent.

Retail trade sales were up 1.0 percent from September 2016, and up 4.3 percent from last year. Nonstore retailers were up 12.9 percent from October 2015, while miscellaneous stores retailers were up 9.5 percent from last year.

On an adjusted basis, sales in October at furniture and home furnishings stores were up 1.7 percent over October 2015. Year-to-date, sales at these stores were up 3.4 percent over the same period a year ago.

### **Consumer Prices**

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4 percent in October on a seasonally adjusted basis, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index rose 1.6 percent before seasonal adjustment.

As in September, increases in the shelter and gasoline indexes were the main causes of the rise in the all items

index. The gasoline index rose 7.0 percent in October and accounted for more than half of the increase in the all items index. The shelter index increased 0.4 percent for the second straight month.

The energy index increased 3.5 percent, its largest advance since February 2013. The indexes for fuel oil and gasoline were up 5.9 percent and 7.0 percent, respectively, while the indexes for electricity and natural gas saw relatively smaller increases of 0.4 percent and 0.9 percent. In contrast, the index for food was unchanged for the fourth consecutive month, as the food at home index continued to decline.

The index for all items less food and energy rose 0.1 percent for the second straight month. Along with the shelter index, the indexes for apparel, new vehicles, and motor vehicle insurance all increased in October, as did the indexes for education, household furnishings and operations, alcoholic beverages, and tobacco. The indexes for personal care, communication, used cars and trucks, recreation, and airfare all declined. The medical care index was flat over the month.

### **Employment**

Total nonfarm payroll employment rose by 161,000 in October, and the unemployment rate was little changed at 4.9 percent, as reported by the U.S. Bureau of Labor Statistics. Employment continued to trend up in health care, professional and business services, and financial activities.

The unemployment rate, at 4.9 percent, and the number of unemployed persons, at 7.8 million, changed little in October. Both measures have shown little movement, on net, since August 2015.

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

New orders for manufactured durable goods in October increased \$11.0 billion or 4.8 percent to \$239.4 billion, according to the U.S. Census Bureau. This increase, up four consecutive months, followed a 0.4 percent September increase. Excluding transportation, new orders increased 1.0 percent. Excluding defense, new orders increased 5.2 percent.

Transportation equipment, also up four consecutive months, led the increase, \$9.5 billion or 12.0 percent.

Shipments of manufactured durable goods in October, up four of the last five months, increased \$0.2 billion or 0.1 percent to \$234.6 billion. This followed a 0.8 percent September increase.

Fabricated metal products, up three of the last four months, drove the increase, \$0.3 billion or 1.1 percent.

According to the final report, shipments for furniture and related products in September were 3.2 percent higher than September 2015 and up 4.2 percent year-to-date. New orders were 5.9 percent higher than September 2015 and up 5.1 percent year-to-date.



### **Executive Summary**

We were a bit surprised with the results of our latest survey of residential furniture manufacturers and distributors. In

September, we had heard that business had picked up a bit, but the surprise to us was how much. The total for new orders for the participants was up 14 percent in September 2016 versus September 2015. While all of the participants were not up, we had numerous participants report healthy double digit increases for September. August new orders were up 5 percent over August 2015 after posting a 5 percent decline in July.

Shipments were also up nicely, up 7 percent from September 2015 following a 6 percent increase reported in August. July shipments were down 9 percent from the previous year.

The increase in orders and shipments brought year-to-date orders up 2 percent over last year and shipments were up 1 percent. Backlogs increased 10 percent from August and were up 3 percent over September 2015. Other than a couple of flat months, backlogs have been down compared to the same month a year earlier ever since September of 2015.

So overall, the results for the month, in total, were very good.

### **National**

Both reports on consumer confidence were very positive for November. Certain aspects of each were a bit different, but overall the results were very good.

The University of Michigan report was more positive towards optimism for personal finances versus The Conference Board's thoughts of that about flat. The

Conference Board's percentage of consumers saying business conditions are "good" increased to 29.2 percent, a very high percentage.

Apparently, much of the University of Michigan survey was done after the election while The Conference Board said most of theirs was done before the election, so both reports had their own reports of the impact of the election. We think the good news is that the election for the most part is over and the negative ads have stopped.

The Conference Board report indicated that Consumer Confidence was now back to pre-recession levels and with the holiday season upon us, "a more confident consumer should be welcome news for retailers." The Conference Board's Leading Economic Index also increased 0.1 percent after a 0.2 percent increase in September. This report noted that while the six month growth rate has moderated, the index supports that the economy will continue expanding into early 2017.

### **Housing**

The results from the housing sector were also very positive. Existing home sales were up in October for the second straight month. October's sales pace annualized was the highest since February 2007. Existing home sales increased in all four regions of the country, and overall, were 5.9 percent higher than October 2015. Single-family home sales were up 6.6 percent above October 2015. Existing home prices were 6.0 percent higher than a year ago.

New residential sales were off a bit in October but were 17.8 percent above October 2015. Sales were up in all regions of the country except for the Northeast.



Housing starts were up 25.5 percent above September starts and were 23.3 percent ahead of October 2015. Single-family starts were up 10.7 percent above September and 21.7 percent over October 2015 with all four regions increasing.

### **Other**

Retail and food services sales in October were up 0.8 percent over September and up 4.3 percent over October 2015. Retail trade sales were up 1.0 percent over September and 4.3 percent over October 2015. Furniture and home furnishings sales were up 1.7 percent over September and up 3.4 percent year-to-date.

The Consumer Price Index increased 0.4 percent in October with increases in shelter and gasoline indexes the main cause. Over the last 12 months, the all items index rose 1.6 percent before seasonal adjustment. For one of the first times in a long while, the report indicated that indexes for household furnishings increased.

Nonfarm payroll employment rose by 161,000 in October. The unemployment rate was little changed at 4.9 percent, driven by increasing trends in health care, professional and business services and financial activities.

### **Thoughts**

With the election finally over (not counting recounts), maybe some of the negativity can be replaced with ads for furniture and household furnishings. As per our discussions, not only were ads extremely expensive, in many cases, you could not buy airtime at all. Clearly, that has an impact on furniture shopping.

The results of our survey this month were very promising. We are curious to see the October and November results as

at market, we were continuing to hear that business was still a bit sluggish.

We also note that not everyone is experiencing good growth. With just over one-half of the participants showing no growth year-to-date, good times are not back for everyone. Based on a separate survey we do for a few case goods companies, the case goods business is nowhere near where it needs to be for many.

We thought the High Point Market was a good one. By now, we should begin to know if it was or was not when the buyers and retailers make good on commitments with real orders.

Here's wishing all of you a very happy and safe holiday season from us to you.

Estimated Business Activity (Millions of Dollars)						
	2016			2015		
	September	August	9 Months	September	August	9 Months
New Orders	2,603	2,216	19,631	2,275	2,083	19,215
Shipments	2,270	2,255	19,663	2,139	2,123	19,534
Backlog (R)	2,059	1,864		2,008	1,872	

Key Monthly Indicators			
	September 2016 From August 2016 Percent Change	September 2016 From September 2015 Percent Change	9 Months 2016 Versus 9 Months 2015 Percent Change
New Orders	+19	+14	+2
Shipments	+3	+7	+1
Backlog	+10	+3	
Payrolls	+5	+2	+1
Employees	-1	-	
Receivables	+6	+1	
Inventories	-1	-2	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
<b>2015</b>				
September	-	+3	+3	+4
October	+1	+7	-	+3
November	+4	+5	-	+2
December	+1	+5	-4	+2
<b>2016</b>				
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
July	-5	-9	-2	+1
August	+6	+6	-2	+1
September	+14	+7	+3	-