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 December 2016 were up 11 percent over orders in December 2015. December 2015 new orders were up 1 percent over December 2014. New orders were up for 71 percent of our participants. We were a little surprised with the 11 percent increase but coming off only a 1 percent increase last year, the increase was good news.

For the year, new orders remained 3 plus percent ahead of 2015. In 2015, new orders were 4 percent ahead of 2014. Just under one-half of the participants reported increased orders for the year.

Shipments and Backlogs

Shipments in December were up 15 percent over December 2015 following a 5 percent increase reported in December 2015 compared to December 2014. Shipments in the month of December were up for 61 percent of the participants, up slightly from last month.

For the year, shipments were up 2 percent over last year when they were up 6 percent over 2014. While overall shipments were up for the year, only about 43 percent of the participants reported increased shipments for the year.

Backlogs fell 8 percent from November as shipments exceeded new orders. Backlogs ended the year just slightly ahead of last year's levels as shipments and new orders were about even for the year.

Receivables and Inventories

Receivables were up 4 percent over last December; up more than shipments for the year but with the large December increase in shipments, appear to be very much in line. Receivables only increased 1 percent from November in spite of the 14 percent increase in shipments from November.

Furniture Insights®
A Monthly Newsletter

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Inventories fell 3 percent from last December, but last December levels were 7 percent higher than the previous December, so the decline appeared to be appropriate. Inventories fell 1 percent from November, which would make sense with the increased level of shipments.

Factory and Warehouse Employees and Payroll

Factory and warehouse employee levels actually fell 1 percent from last year and were down 3 percent from November. Yet factory and warehouse payrolls were up 9 percent over last year and up 1 percent for the year. Payrolls were up 14 percent over November but that would likely be due to year end vacation pay for many.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had declined moderately in January, increased in February. The Index now stands at 114.8 (1985=100), up from 111.6 in January. The Present Situation Index rose from 130.0 to 133.4 and the Expectations Index increased from 99.3 last month to 102.4.

"Consumer confidence increased in February and remains at a 15-year high (July 2001, 116.3)," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers rated current business and labor market conditions more favorably this month than in January. Expectations improved regarding the short-term outlook for business, and to a lesser degree jobs and income prospects. Overall, consumers expect the economy to continue expanding in the months ahead."

Consumers' assessment of current conditions held relatively steady in February. Those saying business conditions are "good" declined slightly from 29.0 percent to 28.7 percent, while those saying business conditions are "bad" also decreased, from 15.9 percent to 13.2 percent. Consumers' assessment of the labor market was also mixed. Those stating jobs are "plentiful" declined from 27.1 percent to 26.2 percent, while those claiming jobs are "hard to get" also decreased, from 21.1 percent to 20.3 percent.

Consumers were more optimistic about the short-term outlook in February. The percentage of consumers expecting business conditions to improve over the next six months increased from 22.9 percent to 24.0 percent, however those expecting business conditions to worsen also rose slightly from 10.8 percent to 11.1 percent.

Consumers' outlook for the labor market was also moderately more upbeat. The proportion expecting more jobs in the months ahead increased from 19.7 percent to 20.4 percent, while those anticipating fewer jobs declined from 14.4 percent to 13.6 percent. The percentage of consumers expecting their incomes to increase rose marginally from 18.1 percent to 18.3 percent, while the proportion expecting a decrease declined from 9.4 percent to 8.2 percent.

University of Michigan Surveys of Consumers

The University of Michigan Surveys of Consumers report noted that although consumer confidence edged downward in February, the overall average in the past three months was the highest in more than a decade. Normally, the implication would be that consumers expected Trump's election to have a positive economic impact. That is not the case, however, as

Democrats expressed expectations that are consistent with an impending recession, and Republicans expected renewed robust economic growth. While these extreme views largely offset one another, the self-identified Independents held expectations much closer to the optimism of the Republicans than to the pessimism of the Democrats. The data indicates a 2.7 percent growth rate in consumption during 2017, but it also indicates greater volatility and potential differences in discretionary spending across population subgroups.

Surveys of Consumers chief economist, Richard Curtin said: "The sharp partisan divide that now dominates consumer sentiment is unprecedented, and consumers cannot be expected to ignore economics for the sake of politics. No recession, as expected by Democrats, is likely to be on the horizon, neither is more robust economic growth, as anticipated by Republicans. These extreme views are likely to converge in the future due to continued modest GDP growth as well as favorable trends in employment and wages. Unfortunately, the convergence from mainly political to mainly economic influences on consumer sentiment is likely to persist for an extended period of time. Importantly, buying plans have been least affected by partisanship, showing traditional sensitivity to prices, interest rates, and discretionary incomes."

The report also stated that rising incomes as well as home and stock values meant that consumers held quite favorable views of their current finances. Financial prospects for the year ahead eased back from last month's decade peak, largely due to slower wage gains and a higher expected inflation rate. Interestingly, current personal finances were viewed more favorably by Democrats, but future financial prospects were viewed more favorably by Republicans.

Favorable long term prospects for the national economy were voiced by the largest proportion of consumers since 2004. More importantly, the largest proportion of consumers expected unemployment to fall below its already low level, the most optimistic view since 1984—due to much more favorable expectations among Republicans. Rising interest rates were expected by more consumers in the last two months than in the last decade.

Gross Domestic Product (GDP)

Real gross domestic product (GDP) increased at an annual rate of 1.9 percent in the fourth quarter of 2016, according to the "second" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 3.5 percent.

The GDP estimate released is based on more complete source data than were available for the "advance" estimate issued last month. In the advance estimate, the increase in real GDP was also 1.9 percent. With the second estimate for the fourth quarter, the general picture of economic growth remains the same; the increase in personal consumption expenditures was larger and increases in state and local government spending and in nonresidential fixed investment were smaller than previously estimated.

The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, residential fixed investment, nonresidential fixed investment, and state and local government spending. These increases were partly offset by negative contributions from exports and federal government spending. Imports, which are

a subtraction in the calculation of GDP, increased.

The deceleration in real GDP in the fourth quarter primarily reflected a downturn in exports, an acceleration in imports, and a downturn in federal government spending that were partly offset by an upturn in residential fixed investment, an acceleration in private inventory investment, and an upturn in state and local government spending.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6 percent in January to 125.5 (2010 = 100), following a 0.5 percent increase in December, and a 0.2 percent increase in November.

"The U.S. LEI increased sharply again in January, pointing to a positive economic outlook in the first half of this year," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The January gain was broad based among the leading indicators. If this trend continues, the U.S. economy may even accelerate in the near term."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in January to 114.4 (2010=100), following a 0.3 percent increase in December, and no change in November.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in January to 123.7 (2010=100), following a 0.5 percent increase in December, and a 0.2 percent increase in November.

Housing

Existing-Home Sales

Existing-home sales stepped out to a fast start in 2017, surpassing a recent cyclical high and increasing in January to the fastest pace in almost a decade, according to the National Association of Realtors®. All major regions except for the Midwest saw sales gains last month.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, expanded 3.3 percent to a seasonally adjusted annual rate of 5.69 million in January from an upwardly revised 5.51 million in December 2016. January's sales pace is 3.8 percent higher than a year ago (5.48 million) and surpasses November 2016 (5.60 million) as the strongest since February 2007 (5.79 million).

Single-family home sales grew 2.6 percent to a seasonally adjusted annual rate of 5.04 million in January from 4.91 million in December 2016, and were 3.7 percent above the 4.86 million pace a year ago. The median existing single-family home price was $230,400 in January, up 7.3 percent from January 2016.

Existing condominium and co-op sales leapt 8.3 percent to a seasonally adjusted annual rate of 650,000 units in January, and were 4.8 percent higher than a year ago. The median existing condo price was $217,400 in January, which was 6.2 percent above a year ago.

Lawrence Yun, NAR chief economist, says January's sales gain signals resilience among consumers even in a rising interest rate environment. "Much of the country saw robust sales activity last month as strong hiring and improved consumer confidence at the end of last year appear to have sparked considerable interest in

buying a home," he said. "Market challenges remain, but the housing market is off to a prosperous start as homebuyers staved off inventory levels that are far from adequate and deteriorating affordability conditions."

The median existing-home price for all housing types in January was $228,900, up 7.1 percent from January 2016 ($213,700). January's price increase was the fastest since last January (8.1 percent) and marks the 59th consecutive month of year-over-year gains.

Total housing inventory at the end of January rose 2.4 percent to 1.69 million existing homes available for sale, but was still 7.1 percent lower than a year ago (1.82 million) and has fallen year-over-year for 20 straight months. Unsold inventory is at a 3.6-month supply at the current sales pace (unchanged from December 2016).

"Competition is likely to heat up even more heading into the spring for house hunters looking for homes in the lower- and mid-market price range," added Yun. "NAR and realtor.com®'s new ongoing research — the *Realtors® Affordability Distribution Curve and Score* — revealed that the combination of higher rates and prices led to households in over half of all states last month being able to afford less of all active inventory on the market based on their income."

First-time buyers were 33 percent of sales in January, which is up from 32 percent both in December and a year ago. NAR's 2016 *Profile of Home Buyers and Sellers* — released in late 2016 — revealed that the annual share of first-time buyers was 35 percent.

Regional

January existing-home sales in the Northeast jumped 5.3 percent to an annual rate of 800,000, and were 6.7 percent above a year ago. The median price in the Northeast was $253,800, which was 2.5 percent above January 2016.

In the Midwest, existing-home sales decreased 1.5 percent to an annual rate of 1.29 million in January, and were 0.8 percent below a year ago. The median price in the Midwest was $174,900, up 6.5 percent from a year ago.

Existing-home sales in the South in January rose 3.6 percent to an annual rate of 2.31 million, and were 3.1 percent above January 2016. The median price in the South was $201,400, up 9.2 percent from a year ago.

Existing-home sales in the West ascended 6.6 percent to an annual rate of 1.29 million in January, and were 8.4 percent above a year ago. The median price in the West was $332,300, up 6.8 percent from January 2016.

New Residential Sales

Sales of new single-family houses in January 2017 were at a seasonally adjusted annual rate of 555,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 3.7 percent above the revised December rate of 535,000 and was 5.5 percent above the January 2016 estimate of 526,000.

The median sales price of new houses sold in January was $312,900. The average sales price was $360,900.

The seasonally adjusted estimate of new houses for sale at the end of January was 265,000. This represents a supply of 5.7 months at the current sales rate.

New privately-owned houses sold comparing January 2017 to January 2016 were up 22.2 percent in the Northeast, 4.5 percent in the Midwest and 16.2 percent in the West, with sales down in the South 1.0 percent.

Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing starts in January were at a seasonally adjusted annual rate of 1,246,000. This was 2.6 percent below the revised December estimate of 1,279,000, but was 10.5 percent above the January 2016 rate of 1,128,000. Single-family housing starts in January were at a rate of 823,000; this was 1.9 percent above the revised December figure of 808,000, and were 6.2 percent above January 2016.

Single-family starts in January 2017 were up 5.4 percent in the Midwest, 7.8 percent in the South, and 5.7 percent in the West compared to January 2016. Starts were down 1.6 percent in the Northeast.

Retail Sales

The U.S. Census Bureau announced its advance estimates of U.S. retail and food services sales for January 2017, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $472.1 billion, an increase of 0.4 percent from the previous month, and 5.6 percent above January 2016. Total sales for the November 2016 through January 2017 period were up 4.6 percent from the same period a year ago.

Retail trade sales were up 0.2 percent from December 2016, and up 5.6 percent from last year. Gasoline stations sales were up 14.2 percent from January 2016, while nonstore retailers were up 12.0 percent from last year.

Sales at furniture and home furnishings stores on an adjusted basis were up 1.2 percent over January 2016.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.6 percent in January 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 2.5 percent before seasonal adjustment.

The January increase was the largest seasonally adjusted all items increase since February 2013. A sharp rise in the gasoline index accounted for nearly half the increase, and advances in the indexes for shelter, apparel, and new vehicles also were major contributors.

The energy index increased 4.0 percent in January as the gasoline index advanced 7.8 percent and the index for natural gas also increased. The food index, which had been unchanged for 6 consecutive months, increased 0.1 percent. The food at home index was unchanged, while the index for food away from home rose 0.4 percent.

The index for all items less food and energy rose 0.3 percent in January. Most of the major component indexes increased in January, with the indexes for apparel, new vehicles, motor vehicle insurance, and airline fares all rising 0.8 percent or more. The shelter index rose 0.2 percent, a smaller increase than in recent months.

The all items index rose 2.5 percent for the 12 months ending January, the largest 12-month increase since March 2012. The index for all items less food and energy rose 2.3 percent over the last 12 months, and the energy index increased 10.8 percent, its largest 12-month increase

since November 2011. In contrast, the food index declined 0.2 percent over the last 12 months.

Employment

Total nonfarm payroll employment increased by 227,000 in January, and the unemployment rate was little changed at 4.8 percent, according to the report from the U.S. Bureau of Labor Statistics. Job gains occurred in retail trade, construction, and financial activities.

Both the number of unemployed persons, at 7.6 million, and the unemployment rate, at 4.8 percent, were little changed in January. In January, the number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.9 million and accounted for 24.4 percent of the unemployed. Over the year, the number of long-term unemployed has declined by 244,000.

Durable Goods Orders and Factory Shipments

The U.S. Census Bureau announced that new orders for manufactured durable goods in January increased $4.0 billion or 1.8 percent to $230.4 billion. This increase, up following two consecutive monthly decreases, followed a 0.8 percent December decrease. Excluding transportation, new orders decreased 0.2 percent. Excluding defense, new orders increased 1.5 percent. Transportation equipment, also up following two consecutive monthly decreases, drove the increase, $4.3 billion or 6.0 percent.

Shipments of manufactured durable goods in January, down following two consecutive monthly increases, decreased $0.2 billion or 0.1 percent to $238.3 billion. This followed a 1.6 percent December increase. Machinery, also down following two consecutive monthly increases, drove the decrease, $0.5 billion or 1.6 percent.

According to the full report for December, shipment of furniture and related products were up 2 percent compared to December 2015 and were up 3.5 percent for the year. New orders were up 1 percent and up 4.1 percent for the year.

Executive Summary

We finally finished off our final survey for 2016 results. December was a good month for many of the participants in our survey of residential furniture manufacturers and distributors. New orders in December were up 11 percent over December 2015. For the year, new orders were up 3 percent over 2015 when new orders were up 4 percent over 2014. So in spite of a slow start to the year and some ups and downs throughout the year, 2016 turned out to be a decent year for many.

The November and December 2016 pick-ups were much better than earlier in the year. Most believe that was a result of the elections being over. Not that it mattered as much who won but at least all the negative ads were gone and we could once again see and hear furniture ads.

According to various conversations, we hear that things slowed back down some in January and a bit in February, but Presidents' Day sales appeared to be good according to some reports.

Shipments were also strong in December, up 15 percent over December 2015. That brought shipments for the year to a 1 percent increase over 2015, when shipments were up 6 percent over 2014. Only about 43 percent of the participants reported increased shipments for the year. The good news was that some 61 percent of the participants reported increased shipments for the month.

Backlogs fell 8 percent from November as shipments exceeded new orders. Backlogs were basically even with December 2015 levels as for the year, shipments and new orders were pretty much even.

Receivables and inventory levels remained in good shape. Inventories fell 3 percent from last December, but it appeared that inventories may have been a bit high in December 2015.

Factory and warehouse employee levels seemed in line with current business. Factory and warehouse payrolls were up in December but that was likely the result of the strong orders and shipments.

Housing

Existing-home sales were strong in January with the report noting that the January pace was the fastest pace in almost a decade. Total sales were up 3.3 percent to a seasonally adjusted rate of 5.69 million, the strongest pace since February 2007.

Single-family sales grew 2.6 percent and were 3.7 percent above January 2016. First-time buyers were 33 percent of sales up from 32 percent in December and from January a year ago.

Existing-home sales rose 5.3 percent in the Northeast, 3.6 percent in the South and 6.6 percent in the West. Sales were down 1.5 percent in the Midwest. Sales were up nicely in all four regions from last year.

New home sales were also up, increasing 3.7 percent above December and 5.5 percent above January 2016. Sales were up over last year 22 percent in the Northeast, 4.5 percent in the Midwest and 16 percent in the West, while sales were down in the South by 1.0 percent.

Privately-owned housing starts were 2.6 percent lower than December but were 10.5 percent above January 2016. Starts were up in all regions of the country except the Midwest where they were off 1.6 percent.

Other

Retail sales in January 2017 were up 0.4 percent from December and 5.6 percent ahead of January 2016. Sales for the quarter ended January were up 4.6 percent over the same period a year ago. Sales at furniture and home furnishings stores were up 1.2 percent over January 2016.

The Consumer Price Index was up 0.6 percent and was up 2.5 percent from the last 12 months. The January increase was the largest since February 2013. A sharp rise in the gasoline index accounted for one-half of the increase. Shelter, apparel and new vehicles were the other major contributors.

Nonfarm employment increased by 227,000 in January. The unemployment rate was little changed at 4.8 percent and the number of unemployed persons remained about the same at 7.6 million. The number of long time unemployed (at 27 weeks or more) was also unchanged at 1.9 million.

Consumer Confidence

The Conference Board's Consumer Confidence Index improved in February after a slight decline in January. The report indicated that consumer confidence remains at a 15-year high. Expectations improved regarding the short term outlook for business, and to a lesser degree for jobs and income prospects.

The University of Michigan report noted that while this survey showed a slight decline in February, the overall average of the last three months was the highest in more than a decade. The report noted that the sharp partisan divide is unprecedented and will likely cause (once there is no recession, predicted by Democrats and no robust growth, predicted by Republicans) modest GDP growth over the next several months.

Thoughts

It seems that most of the normal factors we consider that affect furniture sales are in good shape. Add to that interest rates while increasing slightly remain at historic lows. The stock markets continue to perform very well. While our results for residential furniture are not that bad, one might ask, with all the favorable things in place, why it is not better. As we discussed with one of our clients last week, maybe we really haven't gotten over the recession in the back of our minds. Most of us have known people who grew up in the depression days and we know that most of those people continue to remember those bad days.

While our recent (now 8 plus years ago) recession wasn't nearly as bad as the depression, we wondered if there is not still some lingering effect among folks that just are not convinced that this bubble might burst. While most economists do not expect a recession like the recent one, many people may just not be ready to not believe it could happen.

Hopefully that is not the case and we are still in the jitters from the election. We hope that wears off soon. We might all be better off to only turn on sports on TV.

Estimated Business Activity (Millions of Dollars)						
	2016			2015		
	December	November	12 Months	December	November	12 Months
New Orders	2,278	2,296	26,437	2,061	2,126	25,623
Shipments	2,516	2,215	26,433	2,188	2,120	25,974
Backlog (R)	2,039	2,205		2,028	2,155	

Key Monthly Indicators			
	December 2016 From November 2016 Percent Change	December 2016 From December 2015 Percent Change	12 Months 2016 Versus 12 Months 2015 Percent Change
New Orders	-5	+11	+3
Shipments	+14	+15	+2
Backlog	-8	+1	
Payrolls	+14	+9	+1
Employees	-3	-1	
Receivables	+1	+4	
Inventories	-1	-3	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2015				
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
July	-5	-9	-2	+1
August	+6	+6	-2	+1
September	+14	+7	+3	–
October	+1	-6	+1	–
November	+8	+4	+2	+2
December	+11	+15	+1	-1