SMITH LEONARD
Accountants & Consultants

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Furniture Insights®

Monthly Results

New Orders

According to our recent survey of residential furniture manufacturers and distributors, new orders in January 2017 were basically flat with new orders in January 2016. January 2016 orders were 2 percent higher than January 2015. The January slower order increase came after two solid months of growth of 8 percent and 11 percent in November and December compared to the previous year.

New orders were up for some 54 percent of the participants down from 71 percent reporting for December. As has been the case, the results were quite different, with some participants reporting nice increases, while others were off significantly.

Shipments and Backlogs

Shipments in January 2017 were 2 percent higher than January 2016 shipments, where those shipments were 2 percent higher than January 2015. Shipments in January 2017 increased for approximately 52 percent of the participants, similar to order increases.

As is usually the case, shipments in January were down significantly from December 2016.

Backlogs were down just slightly from December as shipments were slightly higher than new orders. Backlog levels were basically even with backlog levels in January 2016.

Receivables and Inventories

Receivable levels in January 2017 were down 5 percent from December as would be expected with the large decline in shipments from December to January.

Furniture Insights®
A Monthly Newsletter

Smith Leonard PLLC

Kenneth D. Smith, CPA
Mark S. Laferriere, CPA

4035 Premier Drive, Suite 300
High Point, North Carolina 27265
Telephone (336) 883-0181 | facsimile: (336) 841-8764

Receivables were 3 percent higher than January 2016 with shipments up only 2 percent. Part of this result was probably due to the high level of shipments in December with some of those collections not made by the end of January. Overall, receivable levels appear to be in good shape.

Inventories were up 3 percent from December, but were down 3 percent compared to last January. We believe the 3 percent increase from December is likely a result of some timing issues. From what we can tell, most are trying hard to keep inventory levels under control.

Factory and Warehouse Employees and Payroll

The number of factory and warehouse employees were up 1 percent from December but were down 2 percent compared to January 2016. Last month, the number of employees was down 1 percent from a year ago, so all of these results seem in line.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had increased in February, improved sharply in March. The Index now stands at 125.6 (1985=100), up from 116.1 in February. The Present Situation Index rose from 134.4 to 143.1 and the Expectations Index increased from 103.9 last month to 113.8.

"Consumer confidence increased sharply in March to its highest level since December 2000 (Index, 128.6)," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current business and labor market conditions improved considerably. Consumers also expressed much greater optimism regarding the short-term outlook for business, jobs and personal income prospects. Thus, consumers feel current economic conditions have improved over the recent period, and their renewed optimism suggests the possibility of some upside to the prospects for economic growth in the coming months."

Consumers' appraisal of current conditions improved considerably in March. The percentage saying business conditions are "good" increased from 28.3 percent to 32.2 percent, while those saying business conditions are "bad" decreased from 13.4 percent to 12.9 percent. Consumers' assessment of the labor market was also more positive. The percentage of consumers stating jobs are "plentiful" rose from 26.9 percent to 31.7 percent, while those claiming jobs are "hard to get" decreased moderately, from 19.9 percent to 19.5 percent.

Consumers were also significantly more optimistic about the short-term outlook. The percentage of consumers expecting business conditions to improve over the next six months increased from 23.9 percent to 27.1 percent, while those expecting business conditions to worsen declined from 10.5 percent to 8.4 percent.

Consumers' outlook for the labor market was also more upbeat. The proportion expecting more jobs in the months ahead increased from 20.9 percent to 24.8 percent, while those anticipating fewer jobs declined from 13.6 percent to 12.2 percent. The percentage of consumers expecting their incomes to increase improved from 19.2 percent to 21.5 percent, while the proportion expecting a decrease declined from 8.1 percent to 7.0 percent.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6 percent in February to 126.2 (2010 = 100), following a 0.6 percent increase in January, and a 0.6 percent increase in December.

"After six consecutive monthly gains, the U.S. LEI is at its highest level in over a decade. Widespread gains across a majority of the leading indicators points to an improving economic outlook for 2017, although GDP growth is likely to remain moderate," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "Only housing permits contributed negatively to the LEI in February, reversing gains over the previous two months."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3 percent in February to 114.9 (2010=100), following a 0.1 percent increase in January, and a 0.4 percent increase in December.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2 percent in February to 123.5 (2010=100), following a 0.2 percent increase in January, and a 0.3 percent increase in December.

Housing

Existing-Home Sales

After starting the year at the fastest pace in almost a decade, existing-home sales slid in February but remained above year ago levels both nationally and in all major regions, according to the National Association of Realtors®.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, retreated 3.7 percent to a seasonally adjusted annual rate of 5.48 million in February from 5.69 million in January. Despite last month's decline, February's sales pace was still 5.4 percent above a year ago.

Single-family home sales declined 3.0 percent to a seasonally adjusted annual rate of 4.89 million in February from 5.04 million in January, and were 5.8 percent above the 4.62 million pace a year ago. The median existing single-family home price was $229,900 in February, up 7.6 percent from February 2016.

Existing condominium and co-op sales descended 9.2 percent to a seasonally adjusted annual rate of 590,000 units in February, but were still 1.7 percent higher than a year ago. The median existing condo price was $216,100 in February, which was 8.2 percent above a year ago.

Lawrence Yun, NAR chief economist, says closings retreated in February as too few properties for sale and weakening affordability conditions stifled buyers in most of the country. "Realtors® are reporting stronger foot traffic from a year ago, but low supply in the affordable price range continues to be the pest that's pushing up price growth and pressuring the budgets of prospective buyers," he said. "Newly listed properties are being snatched up quickly so far this year and leaving behind minimal choices for buyers trying to reach the market."

Added Yun, "A growing share of homeowners in NAR's first quarter HOME survey said now is a good time to sell, but until an increase in listings actually occurs, home prices will continue to move hastily."

The median existing-home price for all housing types in February was $228,400, up 7.7 percent from February 2016 ($212,100). February's price increase was the fastest since last January (8.1 percent)

and marks the 60th consecutive month of year-over-year gains.

Total housing inventory at the end of February increased 4.2 percent to 1.75 million existing homes available for sale, but was still 6.4 percent lower than a year ago (1.87 million) and has fallen year-over-year for 21 straight months. Unsold inventory is at a 3.8-month supply at the current sales pace (3.5 months in January).

First-time buyers were 32 percent of sales in February, which is down from 33 percent in January but up from 30 percent 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.

"The affordability constraints holding back renters from buying is a signal to many investors that rental demand will remain solid for the foreseeable future," said Yun. "Investors are still making up an above average share of the market right now despite steadily rising home prices and few distressed properties on the market, and their financial wherewithal to pay in cash gives them a leg-up on the competition against first-time buyers."

Regional

February existing-home sales in the Northeast slumped 13.8 percent to an annual rate of 690,000, but were still 1.5 percent above a year ago. The median price in the Northeast was $250,200, which was 4.1 percent above February 2016.

In the Midwest, existing-home sales fell 7.0 percent to an annual rate of 1.20 million in February, but were still 2.6 percent above a year ago. The median price in the Midwest was $171,700, up 6.1 percent from a year ago.

Existing-home sales in the South in February rose 1.3 percent to an annual rate of 2.34 million, and were 5.9 percent above February 2016. The median price in the South was $205,300, up 9.6 percent from a year ago.

Existing-home sales in the West decreased 3.1 percent to an annual rate of 1.25 million in February, but were 9.6 percent above a year ago. The median price in the West was $339,900, up 9.6 percent from February 2016.

New Residential Sales

Sales of new single-family houses in February 2017 were at a seasonally adjusted annual rate of 592,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 6.1 percent above the revised January rate of 558,000 and was 12.8 percent above the February 2016 estimate of 525,000.

The median sales price of new houses sold in February 2017 was $296,200. The average sales price was $390,400.

The seasonally-adjusted estimate of new houses for sale at the end of February was 266,000. This represents a supply of 5.4 months at the current sales rate.

Sales, compared to February 2016, were up 13.8 percent in the Northeast, 50.8 percent in the Midwest, 7.9 percent in the South and 6.8 percent in the West.

Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing starts in February were at a seasonally adjusted annual rate of 1,288,000. This was 3.0 percent above the revised January estimate of 1,251,000, and was 6.2 percent above the February 2016 rate of 1,213,000. Single-family housing starts in February

were at a rate of 872,000; this was 6.5 percent above the revised January figure of 819,000. The February rate for units in buildings with five units or more was 396,000.

Single-family starts were 3.2 percent above February 2016. Starts were up 22.8 percent in the Northeast, 0.6 percent in the Midwest, and 3.7 percent in the South. Starts were down 1.5 percent in the West.

Retail Sales

The U.S. Census Bureau announced its advance estimates of U.S. retail and food services sales for February 2017, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $474.0 billion, an increase of 0.1 percent from the previous month, and 5.7 percent above February 2016. Total sales for the December 2016 through February 2017 period were up 5.4 percent from the same period a year ago.

Retail trade sales were up 0.1 percent from January 2017, and up 5.9 percent from last year. Gasoline stations sales were up 19.6 percent from February 2016, while nonstore retailers were up 13.0 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 0.7 percent over January and up 4.9 percent over February 2016. Year-to-date, sales at these stores were up 2.1 percent after a slow start in January.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in February 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 2.7 percent before seasonal adjustment.

The February increase was the smallest 1-month rise in the seasonally adjusted all items index since July 2016. The gasoline index declined, partially offsetting increases in several indexes, including food, shelter, and recreation. The energy index fell 1.0 percent, with the decline in gasoline outweighing increases in the other energy component indexes. The food index increased 0.2 percent over the month, its largest rise since September 2015.

The index for all items less food and energy rose 0.2 percent in February. The indexes for shelter, recreation, apparel, airline fares, motor vehicle insurance, education, and medical care were among those that increased in February. Indexes that declined include communication, used cars and trucks, new vehicles, and household furnishings and operations.

The all items index rose 2.7 percent for the 12 months ending February; the 12-month increase has been trending upward since a July 2016 trough of 0.8 percent. The index for all items less food and energy rose 2.2 percent over the last 12 months; this was the fifteenth straight month the 12-month change remained in the range of 2.1 to 2.3 percent. The energy index rose 15.2 percent over the last year, while the food index was unchanged.

Employment

Total nonfarm payroll employment increased by 235,000 in February, and the unemployment rate was little changed at 4.7 percent, according to the report from the U.S. Bureau of Labor Statistics. Employment gains occurred in construction, private educational services, manufacturing, health care, and mining.

The number of unemployed persons, at 7.5 million, changed little in February. The unemployment rate, at 4.7 percent, was

little changed over the month but was down from 4.9 percent a year earlier.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.8 million in February and accounted for 23.8 percent of the unemployed. Over the year, the number of long-term unemployed was down by 358,000.

Durable Goods Orders and Factory Shipments

The U.S. Census Bureau announced that new orders for manufactured durable goods in February increased $3.9 billion or 1.7 percent to $235.4 billion. This increase, up two consecutive months, followed a 2.3 percent January increase. Excluding transportation, new orders increased 0.4 percent. Excluding defense, new orders increased 2.1 percent. Transportation equipment, also up two consecutive months, led the increase, $3.3 billion or 4.3 percent.

Shipments of manufactured durable goods in February, up three of the last four months, increased $0.6 billion or 0.3 percent to $239.2 billion. This followed a 0.1 percent January decrease. Machinery, also up three of the last four months, led the increase, $0.3 billion or 0.9 percent to $31.1 billion.

According to the full report, new orders for furniture and related products were up 6.2 percent in January 2017 compared to January 2016. Shipments were up 3.5 percent.

Executive Summary

According to our latest survey of residential furniture manufacturers and distributors, new orders in January were basically flat with January 2016 orders. Just over one-half of the participants reported increased orders. These results followed two good months of November and December 2016 when orders were up 8 and 11 percent, respectively.

Shipments were up 2 percent over January 2016 and down 19 percent from December. The December to January fall off is fairly normal. With shipments slightly exceeding orders, backlogs fell slightly from December but were even with January a year ago.

Receivable levels were up 3 percent from January 2016 with shipments up 2 percent, so these levels seem to be very much in line. Inventories were up 3 percent from December but down 3 percent from last January. So overall, inventories seem in line, but in most cases probably need to be watched.

Factory and warehouse employees were down 2 percent from last January down from a 1 percent decline reported last month, but were up 1 percent from December. Factory and warehouse payrolls were up 6 percent from last year, but the increase fell from a 9 percent increase reported last month.

Housing

Housing, for the most part remained strong. Existing-home sales slipped slightly, down 3.7 percent (single-family sales were off 3 percent), but were 5.4 percent ahead of February 2016, with single-family home sales up 5.8 percent over a year ago. Single-family home prices were up 7.6 percent over February 2016, as the low supply of affordable priced homes continues to drive up prices.

Compared to February 2016, sales were down 13.8 percent in the Northeast, 7.0 percent in the Midwest and 3.1 percent in the West. Sales were up 1.3 percent in the South.

New single-family sales were up 6.1 percent over January and 12.8 percent over February 2016, offsetting a bit of the existing home drop from January. Sales were up from last year 13.8 percent in the Northeast, 50.8 percent in the Midwest, 7.9 percent in the South and 6.8 percent in the West.

Housing starts in February were up 3 percent over January and up 6.2 percent over February 2016. Starts were up in all regions except for the West where they were down 1.5 percent from last year.

Other

Retail sales were up 0.1 percent from January and up 5.4 percent from February 2016. Sales at furniture and home furnishings stores were up 0.7 percent over January and up 4.9 percent over February 2016. For the two months, sales at these stores were up 2.1 percent.

The Consumer Price Index was up 0.1 percent in February and up 2.7 percent over the last 12 months. The energy index fell 1.0 percent offsetting other increases.

Nonfarm employment increased by 235,000 while the unemployment rate was little changed at 4.7 percent, down from 4.9 percent a year earlier. The number of unemployed persons at 7.5 million was little changed.

Consumer Confidence

The Conference Board's Consumer Confidence Index increased in March after an increase in February. According to Lynn Franco, Director of Economic Indicators, the index increased to its highest level since December 2000. "Consumers' assessment of current business and labor market conditions improved considerably. Consumers also expressed much greater optimism regarding the short-term outlook for business jobs and personal income prospects." This should be good for the industry.

Thoughts

We have pretty much said it before, with housing, the stock market, inflation, employment and consumer confidence all positive, the industry probably should be doing better. While interest rates are rising, they are still at historical lows. So why are we not?

Part of the answer is that it is hard to keep going up. Our local United Way just raised another record amount, for the sixth straight year. I can tell you from my most recent experience, that is hard to do. So each year the industry has been growing since the recession and that just gets harder and harder every year.

And we believe that though consumers may feel good about prospects, that is different than spending their own money. All the politics at, in many cases, the federal and state level have people concerned. Will I have health, how much will it cost, what is the story on taxes? And on and on. People are just concerned. Hopefully, once we settle into a more normal place (assuming we ever do), we should see all the positives start to show better signs ahead.

As we have noted before, we continue to believe spending habits have also changed since the recession. We believe many are not yet convinced that it is ok to spend on nonessentials.

With that said, furniture is being sold. The strong consumer confidence, along with the other positives, should lead to a decent 2017.

Estimated Business Activity (Millions of Dollars)				
	January 2017	December 2016	January 2016	December 2015
New Orders	2,035	2,278	2,030	2,061
Shipments	2,043	2,516	2,003	2,188
Backlog (R)	2,028	2,039	2,022	1,995

Key Monthly Indicators		
	January 2017 From December 2016 Percent Change	January 2017 From January 2016 Percent Change
New Orders	-13	–
Shipments	-19	+2
Backlog	-1	–
Payrolls	-14	+6
Employees	+1	-2
Receivables	-5	+3
Inventories	+3	-3

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
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
2017				
January	–	+2	–	-2