SMITH LEONARD
Accountants & Consultants

August 2017

Furniture Insights®

Monthly Results

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders increased 6 percent in June 2017 over June 2016, following an 8 percent increase reported for May 2017 and a 7 percent increase reported for April versus the previous year. New orders were about even with orders for May 2017.

New orders in June 2017 increased for some 60 percent of our participants, up slightly from last month and up considerably from the 47 percent posting increases in April.

Year-to-date, new orders were 6 percent over last year. New orders were up year-to-date for almost 68 percent of the participants up from approximately 60 percent reporting increased year-to-date orders last month.

Shipments and Backlogs

Shipments in June 2017 were up 7 percent over June 2016 and up 5 percent from May 2017. Shipments in June were up for almost 83 percent of the participants. This was one of the highest percentages we have reported in quite some time.

Year-to-date, shipments were up 5 percent, up from 4 percent reported last month. Some 65 percent of the participants reported increased year-to-date shipments.

Backlogs fell 4 percent from May to June 2017 as shipments exceeded new orders. Backlogs remained 6 percent ahead of June 2016. In May, backlogs were 11 percent ahead of the previous year.

Receivables and Inventories

Receivable levels were 5 percent higher in June 2017 than they were in June 2016. They were also up 2 percent over May 2017 levels. These increases appear very much in line considering the 7 percent increase in shipments in June over June 2016. They were also very much in line with the 5 percent increase in year-to-date shipments.

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

Inventory levels were up 3 percent over June 2016 and exceeded May 2017 levels by 1 percent. Based on current business conditions, these increases appear very much in line.

Factory and Warehouse Employees and Payroll

Factory and warehouse payrolls were 4 percent higher in June versus June 2016 with year-to-date payrolls increasing 2 percent over the same period a year ago. The number of factory and warehouse employees actually fell 1 percent from June 2016 though they increased 1 percent over May 2017.

Both of these comparisons seem very much in line with current business conditions.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had increased in July, improved further in August. The Index now stands at 122.9 (1985=100), up from 120.0 in July. The Present Situation Index increased from 145.4 to 151.2, while the Expectations Index rose marginally from 103.0 last month to 104.0.

"Consumer confidence increased in August following a moderate improvement in July," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' more buoyant assessment of present-day conditions was the primary driver of the boost in confidence, with the Present Situation Index continuing to hover at a 16-year high (July 2001, 151.3). Consumers' short-term expectations were relatively flat, though still optimistic, suggesting that they do not anticipate an acceleration in the pace of economic activity in the months ahead."

Consumers' appraisal of current conditions improved further in August. Those saying business conditions are "good" increased from 32.5 percent to 34.5 percent, while those saying business conditions are "bad" moderated from 13.5 percent to 13.1 percent. Consumers' assessment of the labor market was also more upbeat. Those stating jobs are "plentiful" rose from 33.2 percent to 35.4 percent, while those claiming jobs are "hard to get" decreased from 18.7 percent to 17.3 percent.

Consumers' optimism about the short-term outlook was relatively flat in August. The percentage of consumers expecting business conditions to improve over the next six months decreased from 22.4 percent to 19.6 percent, but those expecting business conditions to worsen declined from 8.4 percent to 7.3 percent.

Regarding their short-term income prospects, the percentage of consumers expecting an improvement increased moderately from 20.0 percent to 20.9 percent, while the proportion expecting a decline decreased from 9.5 percent to 7.8 percent.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3 percent in July to 128.3 (2010=100), following a 0.6 percent increase in June, and a 0.3 percent increase in May.

"The U.S. LEI improved in July, suggesting the U.S. economy may experience further improvements in economic activity in the second half of the year," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "The large negative contribution from housing permits, a reversal from June, was more than offset by gains in the financial indicators, new orders and sentiment."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.3 percent in July to 115.7 (2010=100), following a 0.1 percent increase in June, and a 0.3 percent increase in May.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.1 percent in July to 124.8 (2010=100), following a 0.2 percent increase in June and a 0.2 percent increase in May.

Housing

Existing-Home Sales

Listings in July typically went under contract in under 30 days for the fourth consecutive month because of high buyer demand, but existing-home sales ultimately pulled back as large declines in the Northeast and Midwest outweighed sales increases in the South and West, 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, slipped 1.3 percent to a seasonally adjusted annual rate of 5.44 million in July from a downwardly revised 5.51 million in June. July's sales pace was still 2.1 percent above a year ago, but was the lowest of 2017.

Single-family home sales decreased 0.8 percent to a seasonally adjusted annual rate of 4.84 million in July from 4.88 million in June, but were still 1.7 percent above the 4.76 million pace a year ago. The median existing single-family home price was $260,600 in July, up 6.3 percent from July 2016.

Existing condominium and co-op sales fell 4.8 percent to a seasonally adjusted annual rate of 600,000 units in July, but were still 5.3 percent higher than a year ago. The median existing condo price was $239,800 in July, which was 5.3 percent above a year ago.

Lawrence Yun, NAR chief economist, says the second half of the year got off on a somewhat sour note as existing sales in July inched backward. "Buyer interest in most of the country has held up strongly this summer and homes are selling fast, but the negative effect of not enough inventory to choose from and its pressure on overall affordability put the brakes on what should've been a higher sales pace," he said. "Contract activity has mostly trended downward since February and ultimately put a large dent on closings last month."

The median existing-home price for all housing types in July was $258,300, up 6.2 percent from July 2016 ($243,200). July's price increase marks the 65th straight month of year-over-year gains.

Total housing inventory at the end of July declined 1.0 percent to 1.92 million existing homes available for sale, and was now 9.0 percent lower than a year ago (2.11 million) and has fallen year-over-year for 26 consecutive months. Unsold inventory was at a 4.2-month supply at the current sales pace, which was down from 4.8 months a year ago.

"Home prices are still rising above incomes and way too fast in many markets," said Yun. "Realtors® continue to say prospective buyers are frustrated by how quickly prices are rising for the minimal selection of homes that fit buyers' budget and wish list." Properties typically stayed on the market for 30 days in July, which is up from 28 days in June but down from 36 days a year ago. Fifty-one percent of homes sold in July were on the market for less than a month.

"July was the fourth consecutive month that the typical listing went under contract in under one month," said Yun. "This speaks to the significant pent-up

demand for buying rather than any perceived loss of interest. The frustrating inability for new home construction to pick up means inadequate supply levels will keep markets competitive heading into the fall."

First-time buyers were 33 percent of sales in July, which was up from 32 percent both in June 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.

According to President William E. Brown, a Realtor® from Alamo, California, there's a prominent misconception – especially among non-homeowners – that a down payment of at least 20 percent is needed to buy a home. "Every month this year, roughly 60 percent of buyers who financed their purchase with a mortgage made a down payment that was 6 percent or less," he said. "Potential buyers with solid employment and manageable levels of debt will find that there are mortgage options available. Talk to a lender to find out what you qualify for based on your savings and let that guide you as you begin your home search with a Realtor®."

Regional

July existing-home sales in the Northeast dropped 14.5 percent to an annual rate of 650,000, and were now 1.5 percent below a year ago. The median price in the Northeast was $290,000, which was 4.1 percent above July 2016.

In the Midwest, existing-home sales fell 5.3 percent to an annual rate of 1.25 million in July, and were now 1.6 percent below a year ago. The median price in the Midwest was $205,400, up 5.9 percent from a year ago.

Existing-home sales in the South rose 2.2 percent to an annual rate of 2.28 million in July, and were 3.6 percent higher than a year ago. The median price in the South was $227,700, up 6.7 percent from a year ago.

Existing-home sales in the West jumped 5.0 percent to an annual rate of 1.26 million in July, and were 5.0 percent above a year ago. The median price in the West was $373,000, up 7.6 percent from July 2016.

New Residential Sales

Sales of new single-family houses in July 2017 were at a seasonally adjusted annual rate of 571,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 9.4 percent below the revised June rate of 630,000 and was 8.9 percent below the July 2016 estimate of 627,000.

The median sales price of new houses sold in July 2017 was $313,700. The average sales price was $371,200.

The seasonally-adjusted estimate of new houses for sale at the end of July was 276,000. This represents a supply of 5.8 months at the current sales rate.

New home sales in July 2017 compared to July 2016 were down 13.5 percent in the Northeast, 12.7 percent in the Midwest, 11.7 percent in the South, but were up 1.4 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 July were at a seasonally adjusted annual rate of 1,155,000. This was 4.8 percent below the revised June estimate of 1,213,000 and was 5.6 percent below the July 2016 rate of 1,223,000. Single-family housing starts in July were at a rate of 856,000; this was 0.5 percent below the revised June figure of 860,000.

Single-family starts in July 2017 were up 10.9 percent over July 2016. Single-family starts were up 13.6 percent in the Northeast, 16.7 percent in the Midwest, 8.2 percent in the South and 12.9 percent in the West.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for July 2017, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $478.9 billion, an increase of 0.6 percent from the previous month, and 4.2 percent above July 2016. Total sales for the May 2017 through July 2017 period were up 3.9 percent from the same period a year ago. The May 2017 to June 2017 percent change was revised from down 0.2 percent to up 0.3 percent.

Retail trade sales were up 0.6 percent from June 2017, and up 4.3 percent from last year. Nonstore Retailers were up 11.5 percent from July 2016, while Building Materials and Garden Equipment and Supplies Dealers were up 8.3 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 0.4 percent from June and were up 5.6 percent from July 2016. Year-to-date, sales at these stores were up 3.8 percent.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1 percent in July 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 1.7 percent.

The indexes for shelter, medical care, and food all rose in July, leading to the seasonally adjusted increase in the all items index. The energy index declined slightly in July, with its major component indexes mixed. The index for natural gas declined, while the electricity index rose and the gasoline index was unchanged. The food index increased 0.2 percent, with the indexes for food at home and food away from home both rising.

The index for all items less food and energy rose 0.1 percent, the fourth month in a row it increased by that amount. The indexes for shelter, medical care, recreation, apparel, motor vehicle insurance, and airline fares all rose in July. These increases more than offset declines in the indexes for new vehicles, communication, used cars and trucks, and household furnishings and operations.

The all items index rose 1.7 percent for the 12 months ending July, a slightly larger increase than for the 12 months ending June. The index for all items less food and energy also rose 1.7 percent for the 12 month period, the same increase as for the 12 months ending May and June. The energy index rose 3.4 percent over the last year, while the food index increased 1.1 percent.

Employment

Total nonfarm payroll employment increased by 209,000 in July, and the unemployment rate was little changed at 4.3 percent, according to the U.S. Bureau of Labor Statistics report. Employment increased in food services and drinking places, professional and business services, and health care.

Both the unemployment rate, at 4.3 percent, and the number of unemployed persons, at 7.0 million, changed little in July. After declining earlier in the year, the unemployment rate has shown little movement in recent months.

Among the unemployed, the number of long-term unemployed (those jobless for 27

weeks or more) was little changed at 1.8 million in July and accounted for 25.9 percent of the unemployed.

Durable Goods Orders and Factory Shipments

The U.S. Census Bureau announced that new orders for manufactured durable goods in July decreased $16.7 billion or 6.8 percent to $229.2 billion. This decrease, down three of the last four months, followed a 6.4 percent June increase. Excluding transportation, new orders increased 0.5 percent. Excluding defense, new orders decreased 7.8 percent. Transportation equipment, also down three of the last four months, drove the decrease, $17.4 billion or 19.0 percent to $74.3 billion.

Shipments of manufactured durable goods in July, up three consecutive months, increased $1.0 billion or 0.4 percent to $237.4 billion. This followed a virtually unchanged June increase. Transportation equipment, up two of the last three months, led the increase, $0.4 billion or 0.5 percent to $79.2 billion.

According to the final report, shipments of furniture and related products were up 2 percent from June of 2016 and up 1.3 percent year-to-date. New orders were also up 2 percent from June 2016 and up 1.2 percent year-to-date.

Executive Summary

Our most recent survey of residential furniture manufacturers and distributors continued to have good results. New orders in June were up 6 percent over June of 2016 and were up 6 percent year-to-date. As with most of our surveys in recent years, the tide was not up for all boats.

New orders increased for approximately 60 percent of the participants for the month, up slightly from last month. Year-to-date, new orders were up for approximately 68 percent of the participants, up from 60 percent reporting last month.

Shipments in June 2017 were up 7 percent over June 2016 with year-to-date shipments up 5 percent for the first half of the year. Shipments for the month were up for some 83 percent of the participants, the highest percentage in quite some time.

For the six months, approximately 65 percent of the participants reported increases in shipments.

Backlogs fell 4 percent from May as shipments exceeded new orders. Backlog comparison from June 2016 showed a 6 percent increase, down from 11 percent reported in the May to May comparison.

Receivable and inventory levels remained in good shape with receivables up 5 percent over June 2016 and inventory levels up 3 percent over June 2016. Both of the comparisons seemed to be very much in line based on shipment and order levels.

Both the number of factory and warehouse employees and their payroll levels also seemed very much in line based on order and shipment levels. The number of factory and warehouse employees actually fell 1 percent from May 2017 levels.

National

Housing

Existing-home sales dropped 1.3 percent for total existing home sales including single-family houses, condos, co-ops, and townhomes. The July pace was still 2.1 percent ahead of a year ago, but that was the lowest increase over the prior year in all of 2017. Single-family sales decreased 0.8 percent and were still 1.7 percent ahead of July 2016.

Regionally existing-home sales were down 14.5 percent in the Northeast and 5.3 percent in the Midwest while sales were up 2.2 percent in the South and 5.0 percent in the West. All four regions remained above July 2016.

Once again, the lack of inventory was blamed for the slowdown in sales. This lack of inventory is also blamed for driving up prices, which in turn is causing would be buyers to hold back. Listing in July typically went under contract in under 30 days for the fourth consecutive month.

New house sales were 9.4 percent below the June rate and were also 8.9 percent below July 2016. New house sales comparing July to July 2016 were down 13.5 percent in the Northeast, 12.7 percent in the Midwest and 11.7 percent in the South. Sales were up 1.4 percent in the West.

Part of the blame for sales being down was that housing starts continue to lag. Privately owned housing starts in July were 4.8 percent below June starts and 5.6 percent below July 2016. Single-family starts were up 10.9 percent over July 2016 offsetting some of the decline in multi-family starts. Single-family starts were up nicely in all four regions of the country.

Other

Retail and food service sales in July 2017 increased 0.6 percent from June and were 4.2 percent above July 2016. Retail trade sales were also up 0.6 percent and up 4.3 percent from July 2016. Sales at furniture and home furnishings stores were up 0.4 percent from June and up 5.6 percent from July 2016. Year-to-date, sales at these stores were up 3.8 percent.

The Consumer Price Index increased 0.1 percent from June. Over the last twelve months, the all items index rose 1.7 percent. The energy index was mixed with the food index and food at home and food away from home indexes increasing.

The Conference Board Leading Economic Index increased 0.3 percent in July, following a 0.6 percent increase in June and a 0.3 percent increase in May. The report noted that the July improvement suggests "the U.S. economy may experience further improvements in economic activity in the second half of the year."

Consumer Confidence

The Conference Board *Consumer Confidence Index®* continued to improve in August, up from July's positive results. The Present Situation Index continued to "hover" at a 16-year high (now at 151.2 versus record July 2001, 151.3). The Expectations Index only improved marginally, though remained optimistic.

Thoughts

After a somewhat sluggish start to the year, following the kick we seemed to get after the election, our survey continues to show nice solid growth for the industry in the last four months. Certainly not everyone is participating but in general the results continue to be very positive.

Consumer Confidence remains at very high levels according to the Conference Board. After a nice run up, the stock market has pulled back a bit, but continues to be strong. While housing seemed to slow a bit, we need to keep in mind that year over year comparisons continue to rise, which gets harder as the prior year comparisons get higher and higher.

Retail sales in general continue to rise at over 4 percent in the year over year comparisons, again continuing to make it harder and harder to continue strong growth (especially in furniture where the inflation index shows the index for household furnishings declining). Yet according to the national reports, retail furniture and home furnishings stores continue to grow. Just like within our survey, we are sure that growth is not evenly across the board so that certainly has an impact on any one manufacturer or distributors growth, depending on who their customer is.

We hate to keep bringing this up, but we believe business in general is really pretty decent, but it is hard to feel that way when we have all the negative media news. Now not only Washington, but states and locals are full of it as well, with very little emphasis on all that is good.

We wish the folks in Texas all the best with all the terrible destruction caused by Harvey. One thing we are seeing that in spite of all the negative things happening, we are already seeing that Americans can really come together to help one another in times of crisis. Hats off to all of those who are helping from all across the nation.

Estimated Business Activity (Millions of Dollars)						
	2017			2016		
	June	May	6 Months	June	May	6 Months
New Orders	2,416	2,410	13,746	2,280	2,232	12,908
Shipments	2,617	2,363	13,834	2,457	2,199	13,228
Backlog (R)	1,975	2,057		1,863	2,040	

Key Monthly Indicators			
	June 2017 From May 2017 Percent Change	June 2017 From June 2016 Percent Change	6 Months 2017 Versus 6 Months 2016 Percent Change
New Orders	–	+6	+6
Shipments	+5	+7	+5
Backlog	-4	+6	
Payrolls	+7	+4	+2
Employees	+1	-1	
Receivables	+2	+5	
Inventories	+1	+3	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2016				
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
February	+4	+3	+1	-2
March	+12	+6	+8	-2
April	+7	+2	+11	-2
May	+8	+7	+11	-2
June	+6	+7	+6	-1