SMITH LEONARD
Accountants & Consultants

February 2013

Furniture Insights®

Monthly Results

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in December 2012 were 7 percent below orders in December 2011. We had expected a decline in orders based on conversations in December and early January although, as has been the case for some time now, the results were mixed among the participants.

Approximately 58 percent of the participants reported a decline in orders. And, some of the declines were fairly severe. For the year 2012, new orders were up 4 percent over 2011, down from 5 percent reported last month. Approximately 67 percent of the participants reported an increase in orders for the year with a fair number of participants only off 1 to 3 percent.

Shipments and Backlogs

Shipments in December 2012 fell 1 percent from shipments in December 2011 but were 5 percent higher than November. The participants were fairly evenly split for those with increased and decreased shipments for the month.

For the year, shipments were up 6 percent over 2011. Approximately 67 percent of the participants reported increased shipments for the year, up slightly from last month.

With shipments exceeding new orders, backlogs fell 8 percent from November levels but were still 5 percent ahead of December 2011. In November, backlogs were 8 percent higher than November 2011.

Receivables and Inventories

Receivables were 4 percent higher than November as shipments in December were 5 percent ahead of November. Receivables were also 4 percent higher than December 2011. This increase seems in line considering the increase in shipments year-to-date of 6 percent, even though shipments fell 1 percent from December 2011.

Furniture Insights®
A Monthly Newsletter

Smith Leonard PLLC

Kenneth D. Smith, CPA

4035 Premier Drive, Suite 300
High Point, North Carolina 27265
Telephone (336) 883-0181 | facsimile: (336) 841-8764
E-Mail: ksmith@smithleonardcpas.com

Inventories fell 1 percent from November and were 8 percent higher than December 2011. The 8 percent increase seems a bit high based on orders and shipment levels, but are up probably as a result of better business in the fall months, causing higher inventory levels. Then business fell off a bit so inventories were a bit high. Hopefully they will work their way down soon.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees remained level with November levels and were 3 percent higher than December 2011, down from a 4 percent increase reported for November to November comparisons.

Factory and warehouse payrolls were down 1 percent from December 2011, in line with lower business levels. For the year, factory and warehouse payrolls were 4 percent higher than 2011, which appeared to be very much in line with business levels for the year.

National

Consumer Confidence

According to The Conference Board, the Consumer Confidence Index®, which had declined in January, rebounded in February. The Index now stands at 69.6 (1985=100), up from 58.4 in January. The Present Situation Index increased to 63.3 from 56.2. The Expectations Index improved to 73.8 from 59.9 last month.

Lynn Franco, Director of Economic Indicators at The Conference Board said: "Consumer Confidence rebounded in February as the shock effect caused by the fiscal cliff uncertainty and payroll tax cuts appears to have abated. Consumers' assessment of current business and labor market conditions is more positive than last month. Looking ahead, consumers are cautiously optimistic about the outlook for business and labor market conditions. Income expectations, which had turned rather negative last month, have improved modestly."

Consumers' assessment of present day conditions improved in February. Those claiming business conditions are "good" rose to 18.1 percent from 16.1 percent, while those stating business conditions are "bad" decreased to 27.8 percent from 28.4 percent. Consumers' appraisal of the labor market was mixed. Those saying jobs are "plentiful" increased to 10.5 percent from 8.5 percent, while those claiming jobs are "hard to get" edged up to 37.0 percent from 36.6 percent.

Consumers were more optimistic about the short-term outlook this month. Those expecting business conditions to improve over the next six months increased to 18.9 percent from 15.6 percent, while those expecting business conditions to worsen declined to 16.5 percent from 20.4 percent.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. rose 0.2 percent in January to 94.1 (2004=100), following a 0.5 percent increase in December, and no change in November, according to the Conference Board.

Ataman Ozyildirim, economist at The Conference Board said: "The U.S. LEI rose again in January, pointing to a slow but continued expansion in economic activity in the near term. Despite continued weakness in manufacturers' new orders and consumer expectations, improvements in housing permits and financial components helped boost the LEI in January. Meanwhile, the Coincident Economic

Index (CEI) also advanced in January, despite the slight decline in industrial production. Both the LEI and CEI have experienced widespread gains among their components over the past six months."

Ken Goldstein, economist at The Conference Board said: "The indicators point to an underlying economy that remains relatively sound but sluggish. Credit use has picked up, driven in part by relatively strong demand for auto loans. The biggest positive factor is housing. The housing market is now at twice the level reached during its recessionary lows, and will likely continue to improve through the spring, delivering some growth momentum to the labor market and the overall economy. The biggest risk, however, is the adverse impact of cuts in federal spending."

Housing

Existing-Home Sales

Existing-home sales edged up in January, while a seller's market is developing and home prices continue to rise steadily above year-ago levels, according to the National Association of Realtors® (NAR). Sales rose in every region but the West, which is the region most constrained by limited inventory.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 0.4 percent to a seasonally adjusted annual rate of 4.92 million in January from a downwardly revised 4.90 million in December, but were 9.1 percent above the 4.51 million-unit pace in January 2012.

Single-family home sales increased 0.2 percent to a seasonally adjusted annual rate of 4.34 million in January from 4.33 million in December, and are 8.5 percent above the 4.00 million-unit level in January 2012. The median existing single-family home price was $174,100 in January, up 12.6 percent from a year ago.

Lawrence Yun, NAR chief economist, said tight inventory is a major factor in the market. "Buyer traffic is continuing to pick up, while seller traffic is holding steady," he said. "In fact, buyer traffic is 40 percent above a year ago, so there is plenty of demand but insufficient inventory to improve sales more strongly. We've transitioned into a seller's market in much of the country."

Total housing inventory at the end of January fell 4.9 percent to 1.74 million existing homes available for sale, which represents a 4.2-month supply at the current sales pace, down from 4.5 months in December, and is the lowest housing supply since April 2005 when it was also 4.2 months. Listed inventory is 25.3 percent below a year ago when there was a 6.2-month supply.

The national median existing-home price for all housing types was $173,600, in January, up 12.3 percent from January 2012, which is the 11th consecutive month of year-over-year price increases; that last occurred from July 2005 to May 2006. The January gain is the strongest since November 2005 when it was 12.9 percent above a year earlier.

Regional

Regionally, existing-home sales in the Northeast increased 4.8 percent to an annual rate of 650,000 in January and were 12.1 percent above January 2012. The median price in the Northeast was $230,500, up 2.4 percent from a year ago.

Existing-home sales in the Midwest rose 3.6 percent in January to a pace of 1.16 million and were 17.2 percent higher than a year ago. The median price in the

Midwest was $131,800, which was 8.6 percent above January 2012.

In the South, existing-home sales increased 1.0 percent to an annual level of 1.96 million in January and were 14.0 percent above January 2012. The median price in the South was $152,100, up 13.4 percent from a year ago.

Existing-home sales in the West fell 5.7 percent to a pace of 1.15 million in January and were 5.7 percent below a year ago. The median price in the West was $239,800, which was 26.6 percent above January 2012.

New Residential Sales

Sales of new single-family houses in January 2013 were at a seasonally adjusted annual rate of 437,000, according to estimates released by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 15.6 percent above the revised December rate of 378,000 and was 28.9 percent above the January 2012 estimate of 339,000.

The median sales price of new houses sold in January 2013 was $226,400; the average sales price was $286,300. The seasonally adjusted estimate of new houses for sale at the end of January was 150,000. This represents a supply of 4.1 months at the current sales rate.

New houses sold were up 54.2 percent in the Northeast, 13.6 percent in the Midwest; 16.6 percent in the South and 60.3 percent in the West over January 2012 sales.

Housing Starts

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in January were at a seasonally adjusted annual rate of 890,000. This was 8.5 percent below the revised December estimate of 973,000, but was 23.6 percent above the January 2012 rate of 720,000.

Single-family housing starts in January were at a rate of 613,000; this was 0.8 percent above the revised December figure of 608,000. The January rate for units in buildings with five units or more was 260,000.

Single-family housing starts in January were up 13.6 percent in the Northeast, 13.4 percent in the Midwest; 14.1 percent in the South and 46.3 percent in the West over January 2012.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for January, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $416.6 billion, an increase of 0.1 percent from the previous month and 4.4 percent above January 2012. Total sales for the November 2012 through January 2013 period were up 4.5 percent from the same period a year ago.

Retail trade sales were up 0.1 percent from December 2012 and 4.1 percent above last year. Nonstore retailers were up 15.7 percent from January 2012 and auto and other motor vehicle dealers were up 9.4 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 3.2 percent over January a year ago.

Consumer Prices

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

The index for all items less food and energy increased 0.3 percent in January. This increase offset another decline in the gasoline index and resulted in the seasonally adjusted all items index being unchanged, as it was last month. Increases in the indexes for shelter and apparel accounted for much of the increase in the index for all items less food and energy, with advances in the indexes for recreation, medical care, and airline fares also contributing.

The energy index fell 1.7 percent in January. Along with the gasoline index, the natural gas and fuel oil indexes also declined, while the electricity index increased. The index for food was unchanged in January after increasing in each of the previous ten months. The food at home index was unchanged with major grocery store food group indexes mixed.

The all items index increased 1.6 percent over the last 12 months; the 12-month change has been slowing since its recent peak of 2.2 percent in October. The index for all items less food and energy rose 1.9 percent over the last 12 months, the same figure as the last two months. The food index has risen 1.6 percent over the last 12 months while the energy index has declined 1.0 percent.

Employment

Total nonfarm payroll employment increased by 157,000 in January, and the unemployment rate was essentially unchanged at 7.9 percent, according to the recent report from the U.S. Bureau of Labor Statistics. Retail trade, construction, health care, and wholesale trade added jobs over the month. The number of unemployed persons, at 12.3 million, was little changed in January. The unemployment rate has been fairly steady since September 2012.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in January decreased $11.8 billion or 5.2 percent to $217.0 billion, according to the U.S. Census Bureau announcement. This decrease, down following four consecutive monthly increases, followed a 3.7 percent December increase. Excluding transportation, new orders increased 1.9 percent. Excluding defense, new orders decreased 0.4 percent.

Shipments of manufactured durable goods in January, down following four consecutive monthly increases, decreased $2.7 billion or 1.2 percent to $226.1 billion. This followed a 0.5 percent December increase.

According to this report, shipments for furniture and related products were 1.7 percent higher than December 2011 and were 4.1 percent higher for the year 2012. Orders for the year were up 4.2 percent.

Executive Summary

With this issue of *Furniture Insights*, we put 2012 to bed. It has been an interesting year with some good growth at times followed by slower times. December new orders were 7 percent lower than December 2011 which seemed to be somewhat expected based on our conversations in December and early January. But December 2011 new orders were up 15 percent over December 2010, so the 7 percent decline, while not something we wanted, was not as bad as it might seem.

Shipments were down 1 percent from December 2011. But December 2011 shipments were 17 percent higher than December 2010.

For the year, new orders were up 4 percent over 2011 and shipments were up 6 percent. In 2011, orders were 8 percent higher than 2010 and shipments were up 5 percent. So the good news is that, as a whole, we continue to move in the right direction.

In looking at each of the other key indicators, it also appears that the results of those are also in pretty good shape. Receivable levels up 4 percent from last December are in line with increased shipments and payrolls and employees also appear to line up. Inventories may be a bit high, but we think that is a result of slower business in November and December.

The good news is that in spite of the fiscal cliff and other bad news from all sorts of media coverage (or lack of good news) consumer confidence improved significantly in February. In addition, housing continued its upward trends, with housing shortages becoming a bit of a problem in certain areas, keeping sales growth lower than it might be. As this continues to improve, most homeowners can now feel a bit more secure that at least one of their major assets is not declining in value but instead may actually be gaining value again.

The Wall Street Journal article on the impact of the change in social security taxes was quite interesting as it discussed scaled down packaging, etc. at WalMart for lower pricing and price reductions at Burger King. The increase in gas prices is also not helping consumers. But it almost seems that consumers are getting used to one negative thing after another so they figure a way to adjust.

The employment picture seems to be somewhat stable though not growing as much as needed. We hope the sequestration (if it continues) cuts are sensible and not grand standing for the sake of show. Consumer prices other than gas, etc. seem in control. And interest rates remain extremely favorable to the consumer (though not so great for investors). So at least with some of the negatives, we still have some positives. We just could use a little more hype of those things from our media.

Clearly all retailers, manufacturers and distributors are not growing, but at least according to the national reports and our surveys, a significant portion are. According to our report, we are still down about 20 percent from 2006 levels, but each year lately, we have gained a bit.

Let's hope the bad weather across the country ends soon, springtime comes and consumers come back out.

Estimated Business Activity (Millions of Dollars)						
	2012			2011		
	December	November	12 Months	December	November	12 Months
New Orders	1,698	1,798	21,918	1,830	1,816	21,145
Shipments	1,917	1,821	22,102	1,946	1,762	20,933
Backlog (R)	1,728	1,888		1,640	1,756	

(R) Revised

Key Monthly Indicators			
	December 2012 From November 2012 Percent Change	December 2012 From December 2011 Percent Change	12 Months 2012 Versus 12 Months 2011 Percent Change
New Orders	-8	-7	+4
Shipments	+5	-1	+6
Backlog	-8	+5	
Payrolls	+12	-1	+4
Employees	–	+3	
Receivables	+4	+4	
Inventories	-1	+8	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2011				
December	+15	+17	+24	+4
2012				
January	+13	+8	+26	+4
February	+11	+17	+20	+6
March	+2	+7	+18	+6
April	-13	+7	+3	+6
May	+10	+7	+5	+4
June	+3	+7	+3	+4
July	+4	+3	+2	+3
August	+8	+6	+6	+3
September	+10	-1	+13	+4
October	+6	+5	+15	+4
November	-1	+3	+8	+4
December	-7	-1	+5	+3