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 January 2013 were 7 percent ahead of orders received in January 2012. In January 2012, new orders were 13 percent higher than January 2011, so the January 2013 results were a good start for 2013 after somewhat disappointing results in November and December of 2012.

Some 65 percent of our participants reported increased orders for January 2013 with several reporting double digit increases. In addition, we had fewer participants reporting double digit declines in order levels, so overall it appears we were off to a good start for 2013 based on January results.

Shipments and Backlogs

Shipments in January 2013 were also very good compared to January 2012, increasing 10 percent over last year. In January 2012, shipments were 8 percent higher than January 2011, so as with orders, the increased percentage was good compared to a nice increase reported the year before.

Approximately 70 percent of the participants reported increased shipments in January compared to January 2012. As with orders, there were a number of participants reporting double digit increases.

Backlogs rose 2 percent from December as new orders in dollars exceeded shipments in January. Backlogs were about equal to backlogs in January 2012.

Receivables and Inventories

Receivables were 8 percent higher than January 2013 compared to January 2012. With shipments up 10 percent, this increase seems very much in line. Receivables were 3 percent lower than December 2012 levels, but shipments were 5 percent lower in January than in December, so overall receivable levels appear to be in pretty good shape.

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Inventories rose 5 percent from December 2012 levels and were 9 percent higher than January 2012. December 2012 inventories were 8 percent higher than December 2011. In December, we thought inventories were getting a bit high. Even with increased orders and shipments, we still believe inventory levels need watching.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees increased 1 percent from December and were 3 percent higher than January a year ago. The December over December results also reflected a 3 percent increase so this seems in line.

Payrolls were 5 percent higher than January 2012, again in line with increases in shipments and orders. We should note that both employees and payrolls will not fluctuate with sales and orders as they once did due to the volume of imported product now in our participant results. As such, some of these costs are not as variable as they once were.

National

Consumer Confidence

According to The Conference Board, the Consumer Confidence Index®, which had improved in February, declined in March. The Index now stands at 59.7 (1985=100), down from 68.0 in February. The Present Situation Index decreased to 57.9 from 61.4. The Expectations Index declined to 60.9 from 72.4 last month.

Lynn Franco, Director of Economic Indicators at The Conference Board said: "Consumer Confidence fell sharply in March, following February's uptick. This month's retreat was driven primarily by a sharp decline in expectations, although consumers were also more pessimistic in their assessment of current conditions. The loss of confidence, particularly expectations, mirrors the losses experienced this past December and January. The recent sequester has created uncertainty regarding the economic outlook and as a result, consumers are less confident."

Consumers' appraisal of current conditions declined in March. Those saying business conditions are "good" decreased to 16.0 percent from 17.6 percent, while those stating business conditions are "bad" increased to 29.3 percent from 28.2 percent. Consumers' assessment of the labor market was mixed. Those claiming jobs are "plentiful" decreased to 9.4 percent from 10.1 percent, but those claiming jobs are "hard to get" edged down to 36.2 percent from 36.9 percent.

Consumers are once again pessimistic about the short-term outlook. Those expecting business conditions to improve over the next six months decreased to 14.4 percent from 18.0 percent, while those anticipating business conditions to worsen increased to 18.3 percent from 16.6 percent.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. rose 0.5 percent in February to 94.8 (2004=100), following a 0.5 percent increase in January, and a 0.4 percent increase in December, according to the Conference Board.

Ataman Ozyildirim, economist at The Conference Board said: "This month's increase in the U.S. LEI – the third consecutive – was widespread and driven by a majority of its components. Even though consumer expectations and manufacturing new orders remain weak, the economy continues to expand slowly, and may be developing some resilience against headwinds from, for example, federal spending cuts due to improving residential construction and labor market conditions. Meanwhile, the U.S. CEI posted a small gain following January's sharp drop due to a decline in personal income."

Ken Goldstein, economist at The Conference Board said: "The U.S. economy is growing slowly now, and with this reading increases hope that it may pick up some momentum in the second half of the year. However, this latest report does not yet capture the recent effects of sequestration, which could dampen the pickup in GDP."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in February to 105.1 (2004=100), following a 1.0 percent decline in January, and a 0.9 percent increase in December.

The Conference Board Lagging Economic Index® (LAG) increased 0.1 percent in February to 118.0 (2004=100), following a 1.6 percent increase in January, and no change in December.

Housing

Existing-Home Sales

February existing-home sales and prices affirm a healthy recovery is underway in the housing sector, according to the National Association of Realtors® (NAR). Sales have been above year-ago levels for 20 consecutive months, while prices show 12 consecutive months of year-over-year price increases.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 0.8 percent to a seasonally adjusted annual rate of 4.98 million in February from an upwardly revised 4.94 million in January, and were 10.2 percent above the 4.52 million-unit level seen in February 2012. February sales were at the highest level since the tax credit period of November 2009.

Single-family home sales slipped 0.2 percent to a seasonally adjusted annual rate of 4.36 million in February from an upwardly revised 4.37 million in January, but are 8.7 percent above the 4.01 million-unit pace in February 2012. The median existing single-family home price was $173,800 in February, which is 11.3 percent higher than a year ago.

Lawrence Yun, NAR chief economist, said conditions for continued housing improvement are at play. "Job growth in the improving economy and pent-up demand are causing both home sales and rental leasing to rise. Though home prices are rising much faster than rents, historically low mortgage rates are still making home purchases affordable," he said. "The only headwinds are limited housing inventory, which varies greatly around the country, and credit conditions that remain too restrictive."

Total housing inventory at the end of February rose 9.6 percent to 1.94 million existing homes available for sale, which represents a 4.7-month supply at the current sales pace, up from 4.3 months in January, which was the lowest supply since May 2005. Listed inventory is 19.2 percent below a year ago when there was a 6.4-month supply.

The national median existing-home price for all housing types was $173,600 in February, up 11.6 percent from February 2012. The last time there were 12 consecutive months of year-over-year price increases was from June 2005 to May 2006. The February 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 fell 3.1 percent to an annual rate of 630,000 in February but were 8.6 percent above February 2012. The median price in the Northeast was $238,800, which was 7.6 percent above a year ago.

Existing-home sales in the Midwest slipped 1.7 percent in February to a pace of 1.14 million but were 12.9 percent above a year ago. The median price in the Midwest was $129,900, up 7.7 percent from February 2012.

In the South, existing-home sales increased 2.6 percent to an annual level of 2.01 million in February and were 14.9 percent above February 2012. The median price in the South was $150,500, up 9.3 percent from a year ago.

Existing-home sales in the West rose 2.6 percent to a pace of 1.20 million in February and were 1.7 percent above a year ago. With limited choices and multiple bidding, the median price in the West rose to $237,700, which was 22.7 percent above February 2012.

New Residential Sales

Sales of new single-family houses in February 2013 were at a seasonally adjusted annual rate of 411,000, according to estimates released by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 4.6 percent below the revised January rate of 431,000, but was 12.3 percent above the February 2012 estimate of 366,000.

The median sales price of new houses sold in February 2013 was $246,800; the average sales price was $313,700. The seasonally adjusted estimate of new houses for sale at the end of February was 152,000. This represents a supply of 4.4 months at the current sales rate.

February sales compared to February 2012 were up 18.4 percent in the Midwest and up 54.9 percent in the West, but were down 10.3 percent in the Northeast and down 5.6 percent in the South.

Housing Starts

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in February were at a seasonally adjusted annual rate of 917,000. This was 0.8 percent above the revised January estimate of 910,000 and was 27.7 percent above the February 2012 rate of 718,000.

Single-family housing starts in February were at a rate of 618,000; this was 0.5 percent above the revised January figure of 615,000. Single unit starts were up, comparing February 2013 to February 2012, 18.0 percent in the Northeast, 5.7 percent in the Midwest; 33.2 percent in the South and 62.5 percent in the West.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for February, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $421.4 billion, an increase of 1.1 percent from the previous month and 4.6 percent above February 2012. Total sales for the December 2012 through February 2013 period were up 4.5 percent from the same period a year ago.

Retail trade sales were up 1.3 percent from January 2013 and 4.7 percent above last year. Nonstore retailers were up 15.7 percent from February 2012 and auto and other motor vehicle dealers were up 8.8 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were down 1.6 percent from January, but were up 1.6 percent from February 2012. For the first two months of the year, sales at these stores were up 2.5 percent.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.7 percent in February on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 2.0 percent before seasonal adjustment.

The gasoline index rose 9.1 percent in February to account for almost three-fourths of the seasonally adjusted all items increase. The indexes for electricity, natural gas, and fuel oil also increased, leading to a 5.4 percent rise in the energy index. The food index increased slightly in February, rising 0.1 percent. A sharp increase in the fruits and vegetables index was the major cause of the 0.1 percent increase in the food at home index, with other major grocery store food group indexes mixed.

The index for all items less food and energy increased 0.2 percent in February. The indexes for shelter, used cars and trucks, recreation, and medical care all rose in February. These increases more than offset declines in the indexes for new vehicles, apparel, airline fares, and tobacco.

The all items index increased 2.0 percent over the last 12 months compared to a 1.6 percent increase for the 12 months ending January. The index for all items less food and energy also increased 2.0 percent over the last 12 months. The energy index increased 2.3 percent and the food index rose 1.6 percent.

Employment

Total nonfarm payroll employment increased by 236,000 in February, and the unemployment rate edged down to 7.7 percent, according to the latest report from the U.S. Bureau of Labor Statistics. Employment increased in professional and business services, construction, and health care.

The unemployment rate at 7.7 percent in February has shown little movement, on net, since September 2012. The number of unemployed persons, at 12.0 million, also edged lower in February.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in February increased $12.4 billion or 5.7 percent to $232.1 billion, according to the advance report from the U.S. Census Bureau. This increase, up five of the last six months, followed a 3.8 percent January decrease. Excluding transportation, new orders decreased 0.5 percent. Excluding defense, new orders increased 4.5 percent.

Transportation equipment, up two of the last three months, drove the increase, $13.3 billion or 21.7 percent to $74.4 billion. This was led by nondefense aircraft and parts, which increased $9.0 billion.

Shipments of manufactured durable goods in February, up five of the last six months, increased $2.2 billion or 1.0 percent to $229.3 billion. This followed a 0.7 percent January decrease.

According to this report, shipments for furniture and related products were up 3.3 percent in January over January 2012 while orders were up 1.9 percent.

Executive Summary

The results of our latest survey were promising especially considering the results in November and December of 2012. After two consecutive months of declining orders (although those results were not too bad considering factors we discussed before), new orders in January 2013 were up 7 percent over January 2012. January 2012 orders were 13 percent higher than January 2011 so the January 2013 comparisons were pretty strong.

Shipments in January were 10 percent higher than shipments in January 2012 when they were up 8 percent over January 2011, so all in all, January results were very favorable.

In addition, receivables and inventory levels appeared to be in good shape. Factory and warehouse employees and payrolls also appear to be in good shape.

If there is any negative news to report this month, it is that based on our conversations, the positive results for January have not continued through February and March. We have been asked quite often what we are hearing, and what we are hearing is pretty much all over the place, depending on what day you ask the question.

We do think business slowed somewhat in February and March. But to some degree, with the crazy weather we have seen across much of the nation, we probably should have expected mixed results. Some of the storms have been very severe especially in parts east of the Mississippi, where so much business is done, especially in the Northeast. The Midwest has not faired much better. All of this has to have had a negative effect on sales at retail.

Consumer confidence finally took a hit in March. As the report noted, expectations and current conditions were low. The report noted that the recent sequester has created uncertainty regarding the economic outlook and as a result, consumers are less confident. The Economic Indicators report also noted that the effects of the sequester have not yet been felt in their report.

That said, housing continues to give confidence as it continues to rebound at a pace that probably exceeded our expectations. While that could concern some that housing is moving too fast, it is likely more pent up demand that is causing the fast recovery. The good news is banks are still making sensible mortgage loans so we should not be concerned with another “bubble,” at least at this point.

Even if confidence hurts us a bit, eventually the growth in housing has got to be good for the industry. The industry may have to adapt a bit as we understand that the size of new homes is declining, but that just creates opportunity for the industry.

Springtime will eventually get here weather wise. Combine that with new homes whether new or existing and some good will come of it. As we have always predicted, furniture will be sold! It’s just a matter of what and when.

Estimated Business Activity (Millions of Dollars)				
	January 2013	December 2012	January 2012	December 2011
New Orders	1,833	1,698	1,713	1,830
Shipments	1,788	1,917	1,619	1,946
Backlog (R)	1,770	1,728	1,769	1,640

(R) Revised

Key Monthly Indicators		
	January 2013 From December 2012 Percent Change	January 2013 From January 2012 Percent Change
New Orders	+14	+7
Shipments	-5	+10
Backlog	+2	–
Payrolls	-6	+5
Employees	+1	+3
Receivables	-3	+8
Inventories	+5	+9

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
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
2013				
January	+7	+10	–	+3