

# Furniture Insights®

## Monthly Results

### New Orders

As we somewhat expected, new orders in February 2013 were down 3 percent from February 2012, according to our recent survey of residential furniture manufacturers and distributors. We had heard through much of February and March that business had slowed somewhat.

January's 7 percent increase had followed declines in November and December so it is likely that there may have been some timing issues with the January results.

While overall there was a slight decline, the individual results were very mixed as approximately 58 percent of the participants reported increased orders for the month, but those increases were not enough to offset the declines in pure dollars.

Year-to-date, orders were up 2 percent over the first two months of last year. Just over 63 percent of the participants reported increased orders for the two months combined.

### Shipments and Backlogs

Shipments in February 2013 were off 2 percent from February 2012 but up 3 percent from January 2013. Similar to the results for orders, in spite of the overall decline, some 58 percent of the participants reported increased shipments.

Year-to-date, shipments were up 4 percent over the first two months of 2012. Some 61 percent of the participants reported increased shipments for the first two months.



Backlogs fell slightly (1 percent) from last year, but increased 5 percent over January as the dollar volume of orders exceeded the dollar value of shipments.

### Receivables and Inventories

Receivable levels increased 2 percent over February 2012 but were even with January. February shipments were up 3 percent over January, so it appears that receivable levels continue to be in good shape.

## Furniture Insights®

A Monthly Newsletter

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Inventories were up 7 percent over last year but that increase was down from a 9 percent increase reported last month. Inventories fell 7 percent from January levels. We had mentioned last month that these levels need to be watched. It appears that the levels are declining along with the softness in business.

### **Factory and Warehouse Employees and Payrolls**

The number of factory and warehouse employees was up 3 percent over February 2012, the same as reported last month. Employees were 1 percent higher than January levels.

Factory and warehouse payrolls were up 1 percent over last February and up 4 percent from January. In January, payrolls were 5 percent higher than January 2012. Year-to-date, factory and warehouse payrolls are 3 percent higher than the first two months of last year. Some of this is likely the result of some pay raises that were given last year, the first ones in some time.

## **National**

### **Consumer Confidence**

According to The Conference Board, the Consumer Confidence Index®, which had declined in March, increased in April. The Index now stands at 68.1 (1985=100), up from 61.9 in March. The Present Situation Index increased to 60.4 from 59.2. The Expectations Index improved to 73.3 from 63.7 last month.

Lynn Franco, Director of Economic Indicators at The Conference Board said: "Consumer Confidence improved in April, as consumers' expectations about the short-term economic outlook and their income prospects improved. However, consumers' confidence has been

challenged several times over the past few months by such events as the fiscal cliff, the payroll tax hike and the sequester. Thus, while expectations appear to have bounced back, it is too soon to tell if confidence is actually on the mend."

Consumers' assessment of current conditions improved moderately in April. Those saying business conditions are "good" increased to 17.2 percent from 16.4 percent, while those stating business conditions are "bad" decreased to 28.1 percent from 29.1 percent. Consumers' assessment of the labor market was mixed. Those claiming jobs are "plentiful" edged up to 9.8 percent from 9.5 percent, however those claiming jobs are "hard to get" increased to 37.1 percent from 35.4 percent.

Consumers were considerably more upbeat about the short-term outlook. The percentage of consumers expecting business conditions to improve over the next six months increased to 16.9 percent from 15.0 percent, while those anticipating business conditions to worsen decreased to 15.1 percent from 17.7 percent.

### **Thomson Reuters/University of Michigan Surveys of Consumers (a slightly different view)**

According to the Surveys of Consumers Thomson Reuters/University of Michigan, the overall level of confidence declined in April from March, but was identical to last April's reading. Most of the April loss was in how consumers viewed future economic prospects. In particular, consumers were less optimistic about the ability of the economy to continue to expand without a renewed downturn sometime in the next five years. The strengths in consumer spending are now attributable to gains in household wealth, including rising home values and stock prices as well as reduced

debts. Indeed, favorable attitudes toward vehicle and home buying conditions continued to point toward improved sales of homes and vehicles during the year ahead. These improved trends have been particularly strong among upper income households.

Surveys of Consumers chief economist, Richard Curtin said: "Consumer confidence was not negatively affected by the Boston marathon bombing. Although confidence posted significant declines in early April, it began to improve prior to the bombing and gained strength throughout the rest of the month. Even when consumers were asked to describe in their own words their economic situation and that of the nation as a whole, there were virtually no references to the Boston marathon bombing. Of course, this does not mean that people did not grieve at the human tragedy, only that consumers did not think the events in Boston would influence national economic prospects."

Rising home values were reported by the highest number of homeowners since late 2007, although it was still less than half of the 2005 peak of 76 percent. The recent rise in home values as well as expected gains during the years ahead were heavily concentrated among households in the upper third of the income distribution. During the past three months, the upper income households expected an annual gain of 2.8 percent in the value of their home over the next five years, compared with just 0.3 percent by households in the lower third of the income distribution.

Just one-in-four consumers in the April survey anticipated a decline in the unemployment rate during the year ahead. When asked about anticipated income gains, half expected no gain in their household incomes during the year ahead,

and half of all consumers thought there was less than a 25 percent chance of an increase in their inflation-adjusted income gain during the next five years.

The Sentiment Index was 76.4 in the April 2013 survey, down from 78.6 in March and equal to last April's reading. The Expectations Index recorded the largest decline, falling to 67.8 in April from 70.8 in March and 72.3 recorded in the April 2012 survey. The Current Economic Conditions Index was 89.9 in April, slightly below the 90.7 in March but well above the 82.9 recorded last April.

### **Gross Domestic Product (GDP)**

Real gross domestic product – the output of goods and services produced by labor and property located in the United States – increased at an annual rate of 2.5 percent in the first quarter of 2013 (that is, from the fourth quarter to the first quarter), according to the "advance" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 0.4 percent.

The increase in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, exports, residential investment, and nonresidential fixed investment that were partly offset by negative contributions from federal government spending and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

### **Leading Economic Indicators**

The Conference Board Leading Economic Index® (LEI) for the U.S. declined 0.1 percent in March to 94.7 (2004=100), following a 0.5 percent increase in February, and a 0.5 percent increase in

January, according to the Conference Board.

Ataman Ozyildirim, economist at The Conference Board said: "After three consecutive gains, the U.S. LEI dipped slightly in March, with equally balanced strengths and weaknesses among its components. The leading indicator still points to a continuing but slow growth environment. Weakness in consumer expectations and housing permits was offset by the positive interest rate spread and other financial components. Meanwhile, the coincident economic index, a measure of current conditions, is down since December due to a large decline in personal income."

Ken Goldstein, economist at The Conference Board said: "Data for March reflect an economy that has lost some steam. In addition to headwinds from government spending cuts, the private sector economy may struggle to maintain its momentum. The biggest challenge remains weak demand, due to nervous consumer sentiment and slow income growth."

The Conference Board Coincident Economic Index® (CEI) for the U.S. declined 0.1 percent in March to 105.2 (2004=100), following a 0.5 percent increase in February, and a 1.1 percent decline in January.

The Conference Board Lagging Economic Index® (LAG) increased 0.3 percent in March to 118.6 (2004=100), following no change in February, and a 1.7 percent increase in January.

## **Housing**

### **Existing-Home Sales**

Existing-home sales eased in March from inventory constraints, which continued to

pressure home prices, according to the National Association of Realtors® (NAR).

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, declined 0.6 percent to a seasonally adjusted annual rate of 4.92 million in March from a downwardly revised 4.95 million in February, but remain 10.3 percent higher than the 4.46 million-unit pace in March 2012.

Single-family home sales slipped 0.2 percent to a seasonally adjusted annual rate of 4.32 million in March from 4.33 million in February, but are 9.1 percent above the 3.96 million-unit level in March 2012. The median existing single-family home price was \$185,100 in March, up 12.1 percent than a year ago.

Sales have been above year-ago levels for 21 consecutive months, while prices show 13 consecutive months of year-over-year price increases.

Lawrence Yun, NAR chief economist, said there is more demand than supply in the current market. "Buyer traffic is 25 percent above a year ago when we were already seeing notable gains in shopping activity," he said. "In the same timeframe, housing inventories have trended much lower, which is continuing to pressure home prices. The good news is home construction is rising and low mortgage rates are continuing to keep affordability conditions at historically favorable levels. The bad news is that underwriting standards remain excessively tight, while renters are getting squeezed by higher rents."

Total housing inventory at the end of March increased 1.6 percent to 1.93 million existing homes available for sale, which represents a 4.7-month supply at the current sales pace, up from 4.6 months in February. Listed inventory remains 16.8

percent below a year ago when there was a 6.2-month supply. "The inventory improvement last month results from a seasonal gain, but conditions continue to broadly favor sellers. We need a housing supply of over 6 months to have a generally balanced market between home buyers and sellers, but it's unlikely we'll get there without greater increases in housing construction," Yun said.

The national median existing-home price for all housing types was \$184,300 in March, which was 11.8 percent higher than March 2012. The March increase is the strongest since November 2005 when it rose 12.9 percent from a year earlier, and the last time there were 13 consecutive months of year-over-year price increases was from May 2005 to May 2006.

### **Regional**

Regionally, existing-home sales in the Northeast were unchanged at an annual rate of 630,000 in March and were 6.8 percent above March 2012. The median price in the Northeast was \$237,000, up 3.0 percent from a year ago.

Existing-home sales in the Midwest rose 1.8 percent in March to a pace of 1.16 million and were 14.9 percent above a year ago. The median price in the Midwest was \$141,800, up 7.8 percent from March 2012.

In the South, existing-home sales slipped 1.5 percent to an annual level of 1.95 million in March but were 12.7 percent above March 2012. The median price in the South was \$161,700, which is 10.4 percent above a year ago.

Existing-home sales in the West declined 1.7 percent to a pace of 1.18 million in March but were 4.4 percent above a year ago. With notably constrained inventory conditions, the median price in the West rose to

\$258,100, up 26.1 percent from March 2012.

### **New Residential Sales**

Sales of new single-family houses in March 2013 were at a seasonally adjusted annual rate of 417,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 1.5 percent above the revised February rate of 411,000 and was 18.5 percent above the March 2012 estimate of 352,000.

The median sales price of new houses sold in March 2013 was \$247,000; the average sales price was \$279,900. The seasonally adjusted estimate of new houses for sale at the end of March was 153,000. This represents a supply of 4.4 months at the current sales rate.

New houses sold were up 32.3 percent in the Northeast; 21.4 percent in the Midwest; 8.0 percent in the South and 37.5 percent in the West comparing March 2013 to March 2012.

### **Housing Starts**

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in March were at a seasonally adjusted annual rate of 1,036,000. This was 7.0 percent above the revised February estimate of 968,000 and was 46.7 percent above the March 2012 rate of 706,000.

Single-family housing starts in March were at a rate of 619,000; this was 4.8 percent below the revised February figure of 650,000. March single-family starts were 28.7 percent higher than March 2012. Regionally single-family starts were up 18.2 percent in the Midwest; 34.9 percent in the South; 37.4 percent in the



West; but were down 4.4 percent in the Northeast.

### **Retail Sales**

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for March, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$418.3 billion, a decrease of 0.4 percent from the previous month, but 2.8 percent above March 2012. Total sales for the January through March 2013 period were up 3.7 percent from the same period a year ago.

Retail trade sales were down 0.6 percent from February 2013, but 2.6 percent above last year. Nonstore retailers were up 13.5 percent from March 2012 and auto and other motor vehicle dealers were up 7.4 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 0.9 percent from February and were up 2.8 percent over March 2012.

### **Consumer Prices**

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.2 percent in March on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index increased 1.5 percent before seasonal adjustment.

The all items seasonally adjusted decrease was primarily due to a 4.4 percent decline in the gasoline index. The indexes for electricity and fuel oil declined as well, as the energy index fell 2.6 percent in March after a 5.4 percent increase in February. The food index was unchanged in March, with the index for food at home declining slightly.

The index for all items less food and energy increased 0.1 percent in March,

after a 0.2 percent increase in February. The indexes for shelter, used cars and trucks, medical care, personal care, and airline fares all rose in March. These increases more than offset declines in the indexes for apparel, household furnishings and operations, and tobacco.

The all items index increased 1.5 percent over the last 12 months; this compares to 2.0 percent last month and is the smallest increase since the 12 months ending July 2012. The index for all items less food and energy increased 1.9 percent over the last 12 months. The food index rose 1.5 percent while the energy index declined 1.6 percent.

### **Employment**

Nonfarm payroll employment edged up in March (+88,000), and the unemployment rate was little changed at 7.6 percent, according to the U.S. Bureau of Labor Statistics. Employment grew in professional and business services and in health care but declined in retail trade. The number of unemployed persons was estimated at 11.7 million.

### **Durable Goods Orders and Factory Shipments**

New orders for manufactured durable goods in March decreased \$13.1 billion or 5.7 percent to \$216.3 billion, according to the U.S. Census Bureau. This decrease, down two of the last three months, followed a 4.3 percent February increase. Excluding transportation, new orders decreased 1.4 percent. Excluding defense, new orders decreased 4.7 percent.

Transportation equipment, also down two of the last three months, led the decrease, \$11.0 billion or 15.0 percent to \$62.4 billion. This was led by nondefense aircraft and parts, which decreased \$8.5 billion.



Shipments of manufactured durable goods in March, up six of the last seven months, increased \$1.0 billion or 0.4 percent to \$230.0 billion. This was at the highest level since the series was first published on a NAICS basis in 1992 and followed a 0.7 percent February increase.

Transportation equipment, up four of the last five months, drove the increase, \$1.4 billion or 2.1 percent to \$67.6 billion. This followed a 1.7 percent February increase.

According to this report, new orders for furniture and related products were down 2 percent from February a year ago but up 0.1 percent year-to-date. Shipments were up 1.5 percent from February 2012 and up 2.5 percent year-to-date.



### **Executive Summary**

The February results of our recent survey of residential furniture manufacturers and distributors were pretty much in line with our expectations.

New orders were off 3 percent from February a year ago while shipments fell 2 percent. Year-to-date for the two months, new orders were up 2 percent and shipments were up 4 percent.

With the dollar value of orders exceeding shipments for the month, backlogs increased 5 percent, but dropped 1 percent from a year ago.

Receivable levels seemed pretty much in line for both the monthly and prior year comparisons. Inventories appear a bit high, but have moved a bit in the right direction. Inventories built up last fall when we all thought business was continuing to improve, but then business softened after inventories were built.

The increase in the number of factory and warehouse employees seems in line with increased business. Payrolls are up 3 percent year-to-date but we think part of that relates to some raises that were given last year after, in many cases, no raises in some time.

Housing continues to improve. Although shortages have occurred in existing homes in certain areas, causing growth to be slowed, the overall picture continues to improve.

We continue to believe that the residential furniture industry will benefit from the improved housing situation. New construction will take a bit longer to see the results, as the homes have to be built and then sold before any furniture will be bought, but we believe existing home sales

will help the industry until the new homes can have some more effect.

We had pretty much heard in conversations prior to Market that business was "somewhat all over the place." When we described it as maybe like a kids roller coaster, most tended to agree. While some were outside the norm, it just seemed that business was good one day, soft the next, maybe non-existent one day, then good again the next. The key has been trying to string together a good week or two.

So as we rode into the High Point Market, our expectations were a bit low. We know all exhibitors are excited with new product when they come to town, but too many times when it is all over, the excitement goes away.

Well, certainly not this Market. At least not in the circles we covered. We haven't seen this much enthusiasm in quite some time, even late in the Market. We talked to quite a few exhibitors on Monday and Tuesday and all were extremely pleased.

We know that many do not write a lot of orders at Market, but some we talked to do write. We heard phrases on Monday and Tuesday like "Best Market in 5 years" and "Best Market since 2006 and 2007." We even heard one say "Best Market ever," though we imagine he had forgotten or didn't know what really good markets used to be like.

Let's keep our fingers crossed that this momentum carries forward. We know that many dealers wanted to freshen their floors. Hopefully as the housing sales demand more furniture, the new product will entice even more sales.





Estimated Business Activity (Millions of Dollars)						
	2013			2012		
	February	January	2 Months	February	January	2 Months
New Orders	1,990	1,833	3,823	2,052	1,713	3,765
Shipments	1,846	1,788	3,634	1,884	1,619	3,503
Backlog (R)	1,903	1,770		1,915	1,769	

(R) Revised

Key Monthly Indicators			
	February 2013 From January 2013 Percent Change	February 2013 From February 2012 Percent Change	2 Months 2013 Versus 2 Months 2012 Percent Change
New Orders	+5	-3	+2
Shipments	+3	-2	+4
Backlog	+5	-1	
Payrolls	+4	+1	+3
Employees	+1	+3	
Receivables	-	+2	
Inventories	-7	+7	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
<b>2012</b>				
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
<b>2013</b>				
January	+7	+10	-	+3
February	-3	-2	-1	+3