SMITH LEONARD
Accountants & Consultants

November 2013

Furniture Insights®

Monthly Results

New Orders

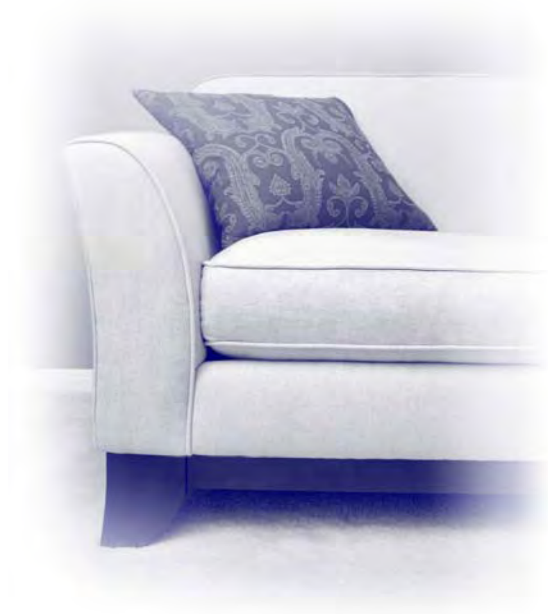
New orders in September 2013 were 4 percent higher than orders in September 2012 and were 12 percent higher than August 2013, according to our latest survey of residential furniture manufacturers and distributors. New orders were up for 72 percent of our participants, slightly less than last month but very much in line. The results were also in line with most of what we had heard from conversations, that being orders up nicely for many but at least steady for most.

Year-to-date, new orders remained 6 percent ahead of the first three quarters of 2012. The good news is that new orders were up for 80 percent of the participants. That is the most in recent memory, certainly since before the recession hit.

Shipments and Backlogs

Shipments for the month were up a healthy 11 percent over September 2012. Shipments were 5 percent higher than August. Shipments in September 2013 were higher than September 2012 for 81 percent of our participants. Obviously, this was good news as orders are great but they do not turn to cash until after they are shipped.

Year-to-date, shipments remained 4 percent ahead of last year at this time. Approximately 69 percent of the participants reported increased shipments for the nine months.



Backlogs increased 5 percent over August as order dollar volume exceeded shipments in dollars. Backlogs were 14 percent higher than September 2012, down slightly from 17 percent reported last month.

Furniture Insights®
A Monthly Newsletter
Smith Leonard PLLC

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Receivables and Inventories

Receivable levels were 4 percent higher than September 2012, in line with year-to-date shipments and were good compared to the increase in September shipments. We continue to believe receivable levels are in good shape.

Inventories were 5 percent higher than September a year ago and were 1 percent higher than August levels. August levels were flat with a year ago. But overall, considering the increase in orders and shipments, inventories continue to be at reasonable levels.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees was up 3 percent over September 2012 up from a 2 percent increase reported last month. Again, this increase seems reasonable considering the overall increase in business.

Factory and warehouse payrolls were up 13 percent from September 2012, which appears a bit high, though they were up that same percentage comparing August to August. Year-to-date payrolls were 8 percent higher than a year ago, up from a 7 percent increase reported last month.

National

Consumer Confidence

According to The Conference Board, the Consumer Confidence Index®, which had decreased sharply in October, declined again in November. The Index now stands at 70.4 (1985=100), down from 72.4 in October. The Present Situation Index edged down to 72.0 from 72.6. The Expectations Index declined to 69.3 from 72.2 last month.

Lynn Franco, Director of Economic Indicators at The Conference Board said: “Consumer confidence declined moderately in November after sharply declining in October. Sentiment regarding current conditions was mixed, with consumers saying the job market had strengthened, while economic conditions had slowed. However, these sentiments did not carry over into the short-term outlook. When looking ahead six months, consumers expressed greater concern about future job and earning prospects, but remain neutral about economic conditions. All in all, with such uncertainty prevailing, this could be a challenging holiday season for retailers.”

Consumers’ assessment of overall current conditions decreased slightly. Those claiming business conditions are “good” edged up to 19.9 percent from 19.5 percent, while those claiming business conditions are “bad” increased to 25.2 percent from 23.0 percent. Consumers’ appraisal of the job market was little changed. Those saying jobs are “plentiful” ticked up to 11.8 percent from 11.6 percent, while those saying jobs are “hard to get” decreased slightly to 34.0 percent from 34.9 percent.

Consumers’ expectations, which had decreased sharply in October, declined further in November. Those expecting business conditions to improve over the next six months increased slightly to 16.6 percent from 16.0 percent, while those expecting business conditions to worsen decreased to 16.8 percent from 17.5 percent.

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 2.8

percent in the third quarter of 2013 (that is, from the second quarter to the third quarter), according to the "advance" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 2.5 percent.

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

The acceleration in real GDP growth in the third quarter primarily reflected a deceleration in imports and accelerations in private inventory investment and in state and local government spending that were partly offset by decelerations in exports, in nonresidential fixed investment, and in PCE.

Housing

Existing-Home Sales

Existing-home sales declined for the second consecutive month in October, while constrained inventory means home prices continue to see double-digit year-over-year gains, 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, fell 3.2 percent to a seasonally adjusted annual rate of 5.12 million in October from 5.29 million in September, but were 6.0 percent higher than the 4.83 million-unit level in October 2012. Sales have remained above year-ago levels for the past 28 months.

Single-family home sales fell 4.1 percent to a seasonally adjusted annual rate of 4.49 million in October from 4.68 million in September, but were 5.2 percent above the 4.27 million-unit pace in October 2012. The median existing single-family home price was $199,500 in October, up 12.7 percent from a year ago.

Lawrence Yun, NAR chief economist, said a flattening trend is expected. "The erosion in buying power is dampening home sales," he said. "Moreover, low inventory is holding back sales while at the same time pushing up home prices in most of the country. More new home construction is needed to help relieve the inventory pressure and moderate price gains."

The national median existing-home price for all housing types was $199,500 in October, up 12.8 percent from October 2012, which is the 11th consecutive month of double-digit year-over-year increases.

Total housing inventory at the end of October declined 1.8 percent to 2.13 million existing homes available for sale, which represents a 5.0-month supply at the current sales pace; the relative supply was 4.9 months in September. Unsold inventory is 0.9 percent above a year ago, when there was a 5.2-month supply.

Regional

Regionally, existing-home sales in the Northeast declined 2.9 percent to an annual rate of 670,000 in October, but were 11.7 percent higher than October 2012. The median price in the Northeast was $247,300, up 7.4 percent from a year ago.

Existing-home sales in the Midwest slipped 1.6 percent in October to a pace of 1.22 million, but were 8.0 percent above a year ago. The median price in the Midwest was $154,700, which was 9.3 percent higher than October 2012.

In the South, existing-home sales declined 1.9 percent to an annual level of 2.06 million in October, but were 7.3 percent above October 2012. The median price in the South was $171,500, up 12.9 percent from a year ago.

With constrained inventory, existing-home sales in the West fell 7.1 percent to a pace of 1.17 million in October, and were 0.8 percent below a year ago. The median price in the West was $284,800, up 17.2 percent from October 2012.

New Residential Sales

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing units authorized by building permits in October were at a seasonally adjusted annual rate of 1,034,000. This is 6.2 percent above the September rate of 974,000 and is 13.9 percent above the October 2012 estimate of 908,000.

Single-family authorizations in October were at a rate of 620,000; this is 0.8 percent above the September figure of 615,000. Authorizations of units in building with five units or more were at a rate of 387,000 in October.

The lapse in federal funding affected the data collection schedule for the Survey of Construction, the source of data on new housing units started and completed. Accurate data collection for September and October could not be completed in time for this release. Data on housing units started and completed in September, October, and November 2013 will be released on December 18, 2013.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for October, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $428.1 billion, an increase of 0.4 percent from the previous month, and 3.9 percent above October 2012. Total sales for the August through October 2013 period were up 3.9 percent from the same period a year ago.

Retail trade sales were up 0.3 percent from September 2013, and 3.9 percent above last year. Auto and other motor vehicle dealers were up 11.9 percent from October of 2012 and nonstore retailers were up 8.2 percent from last year.

Sales on an adjusted basis at furniture and home furnishings stores were up 1.0 percent from September and were up 7.7 percent from October 2012. Year-to-date, sales at these stores were up 4.1 percent.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.1 percent in October on a seasonally adjusted basis, according to the U.S. Bureau of Labor Statistics report. Over the last 12 months, the all items index increased 1.0 percent before seasonal adjustment.

The gasoline index fell 2.9 percent in October and led to the seasonally adjusted decline in the all items index. Other energy indexes were mixed, with the electricity index rising, but the indexes for fuel oil and for natural gas declining. The food index rose slightly, with major grocery store food group indexes evenly split between advances and declines.

The index for all items less food and energy rose 0.1 percent in October. The shelter index rose, but posted its smallest increase since December 2012. The indexes for airline fares, for recreation, and for used cars and trucks also increased. The medical care index was unchanged, while the indexes for apparel, for household furnishings and operations, and for new vehicles all declined.

The all items index increased 1.0 percent over the last 12 months; this was the smallest 12-month increase since October 2009. The energy index has declined 4.8 percent over the last 12 months, its largest 12-month decline since July 2012. The index for all items less food and energy has risen 1.7 percent over the last year, while the food index has risen 1.3 percent.

Employment

Total nonfarm payroll employment rose by 204,000 in October, and the unemployment rate was little changed at 7.3 percent, according to the latest from the U.S. Bureau of Labor Statistics report. Employment increased in leisure and hospitality, retail trade, professional and technical services, manufacturing, and health care.

Both the number of unemployed persons, at 11.3 million, and the unemployment rate, at 7.3 percent, changed little in October. Among the unemployed, however, the number who reported being on temporary layoff increased by 448,000. This figure includes furloughed federal employees who were classified as unemployed on temporary layoff under the definitions used in the household survey.

Durable Goods Orders and Factory Shipments

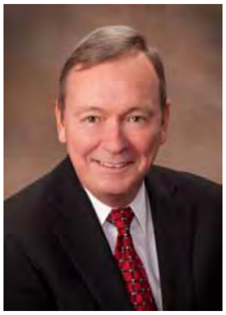
New orders for manufactured durable goods in September, up five of the last six months, increased $8.6 billion or 3.8 percent to $234.3 billion, revised from the previously published 3.7 percent increase, according to the U.S. Census Bureau. This followed a 0.5 percent August increase.

Transportation equipment, also up five of the last six months, drove the increase, up $8.8 billion or 12.9 percent to $77.5 billion.

New orders for manufactured nondurable goods decreased $0.5 billion or 0.2 percent to $256.5 billion.

Shipments of manufactured durable goods in September, up two consecutive months, increased $0.8 billion or 0.4 percent to $232.4 billion, revised from the previously published 0.2 percent increase. This was at the highest level since the series was first published on a NAICS basis and followed a 1.0 percent August increase.

According to this report, shipments of furniture and related products were up 5.4 percent over September 2012 and up 3.8 percent year-to-date. Orders in this category were up 2.9 percent over last September and up 3.3 percent year-to-date.



Executive Summary

New orders in September were 4 percent higher than September 2012 which was somewhat in line with expectations. Most of what we had heard at Market was that business was reasonably good up until the government shutdown. Year-to-date, orders were up nicely at 6 percent.

The year-to-date results also showed that some 80 percent of the participants were showing increased orders for the year. This was the highest percentage since prior to the recession – good news for the industry.

Shipments were up very nicely at 11 percent versus September 2012 and remained up 4 percent year-to-date. But increased shipments are a good thing since they lead to cash.

Receivable levels remain in very good shape considering increased shipments over both September 2012 as well as August 2013. Inventories are up 5 percent over last year, the highest percentage we have noted lately but still seem reasonable based on business levels.

Factory and warehouse employees were up 3 percent over last year, up from a 2 percent increase reported last month. Factory and warehouse payrolls did seem a bit high showing a 13 percent increase over September 2012, the same increase as reported last month.

Overall, September results were pretty much in line with expectations and in line with most of the talk we heard at Market. It will be interesting to see what the October results bring. As we reported last month and heard at Market, business at retail slowed due to the government shutdown. Then it seemed to improve a bit right before Market. Since Market was late this October, many market orders will likely not be reflected in our next survey so we may need to look at October and November together to get a good handle on the impact of Market.

As for the economy, there were some decent reports. Existing home sales are slowing a bit due mainly to lack of inventory and some loan issues, but still growing over last year in spite of higher prices.

Retail sales were up at a decent pace and sales at furniture and home furnishing stores were up at a good pace for October. The stock market has been very kind with the Dow over 16,000 and the S&P over 1,800, records for both indexes. Interest rates remain very low with no apparent need for them to increase any time soon, at least to any significant degree. Gas prices have come down even right before the Thanksgiving Holiday Season.

So why is there not joy in Mudville? Well, mainly because consumer confidence remains too low. Confidence fell again in October and according the Conference Board, this consumer sentiment could cause concern for the Holiday Season.

It really is a shame that confidence is low. When we think back to good times of the past, we always equated low interest rates, a good stock market, growing employment, good housing markets, and low inflation to good business for the furniture industry. What we seem to be proving for sure is that while all of that is helpful, what we really need is strong consumer confidence, and that seems to be what is holding the whole economy back.

That said, moving along rather slowly, just like the economy, is better than the days of going negative. With all the things that seem to bother consumers apparently not going away in the near future, we continue to expect somewhat more of the same next years. The good news for us is that in spite of the lower confidence, we are still selling more furniture and related items. That is a good thing.

We hope you all have had a great Thanksgiving holiday, enjoyed your favorite meal(s) and are ready to go into the end of the year with a good finish.

Estimated Business Activity (Millions of Dollars)						
	2013			2012		
	September	August	9 Months	September	August	9 Months
New Orders	2,117	1,936	17,517	2,028	1,784	16,573
Shipments	1,961	1,855	17,297	1,774	1,794	16,590
Backlog (R)	2,072	1,966		1,817	1,666	

Key Monthly Indicators			
	September 2013 From August 2013 Percent Change	September 2013 From September 2012 Percent Change	9 Months 2013 Versus 9 Months 2012 Percent Change
New Orders	+12	+4	+6
Shipments	+5	+11	+4
Backlog	+5	+14	
Payrolls	+3	+13	+8
Employees	+1	+3	
Receivables	+2	+4	
Inventories	+1	+5	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2012				
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
February	-3	-2	-1	+3
March	-1	-3	–	+2
April	+11	+2	+6	+6
May	+6	+3	+9	+3
June	+9	+8	+10	+3
July	+13	+9	+9	+2
August	+9	+3	+17	+2
September	+4	+11	+14	+3