SMITH LEONARD
Accountants & Consultants

December 2013

Furniture Insights®

Monthly Results

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in October 2013 were 5 percent higher than new orders in October 2012. This compared to a 4 percent increase reported last month when comparing September 2013 to September 2012. October results continued the trend of increases in orders each month since March 2013 when there was a 1 percent decline reported.

New orders were up for 56 percent of the participants in October, down from 72 percent reported last month. Some of the October results may be affected by the timing of the High Point Market, since Market was a bit later in October 2013 versus October 2012.

Year-to-date, new orders remained 6 percent above 2012 results. In 2012, year-to-date October new orders were 5 percent higher than 2011. New orders were up for 80 percent of the participants, year-to-date, the same percentage as reported last month.

Shipments and Backlogs

Shipments in October 2013 were 9 percent higher than October 2012 following an 11 percent increase reported in September. Shipment increases have also increased every month since March 2013. Shipments were up for 61 percent of the participants down from 81 percent reporting increases last month.

Year-to-date, shipments are up 5 percent over last year, up slightly from September results. Approximately 68 percent of the participants have reported increases in shipments year-to-date – about the same as reported last month.

Backlogs were up 1 percent over September as the dollar amount of orders exceeded shipments. Backlogs were 11 percent higher than October 2012, down from 14 percent reported last month.

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

Receivables and Inventories

Receivables were down 2 percent from October a year ago in spite of increased shipments. Last month, receivables were up 4 percent over September 2012. The October results likely related to a timing issue as they were up 1 percent over September in spite of a 1 percent decline in shipments.

Inventories were 3 percent higher than October 2012, down from a 5 percent increase reported last month. Inventories were 2 percent higher than September. Overall, we think at current business levels, inventories appear to be in good shape.

Factory and Warehouse Employees and Payrolls

Factory and warehouse employees were up 4 percent over October 2012, up slightly from the 3 percent reported last month. Factory and warehouse employees were 1 percent higher than September 2013. The number of employees seem to be in line with current business conditions.

Factory and warehouse payrolls were 15 percent higher than October 2012, up from 13 percent increases reported in September and August. Factory and warehouse payrolls are 8 percent higher year-to-date, the same as reported last month.

National

Consumer Confidence

The Conference Board Consumer Confidence Index® was not available at the time of publication.

Thomson Reuters/University of Michigan Surveys of Consumers

According to the Surveys of Consumers Thomson Reuters/University of Michigan, consumer confidence rebounded among households with incomes less than $75,000 in December; higher income households reported the same sized gains in the November survey. By mid December, no additional gains were reported by either group. While the end of the government shutdown did ease concerns about the economy, it did not generate any more confidence in the government's economic policies. Most of the gain reflected more favorable buying plans due to renewed discounting as well as more favorable short-term prospects for the economy. Buying attitudes toward homes, vehicles, and household durable goods all improved in December. Personal finances, the most critical factor that shapes consumer spending, did slightly improve in December, although largely due to rising values of homes and stock holdings among those in the top third of the income distribution.

Surveys of Consumers chief economist, Richard Curtin said: "Consumers were clearly relieved when the DC gridlock ended. Confidence has bounced back to nearly the same levels it was before the crisis in mid-2013. Simply ending the shutdown or passing a new budget to keep the government open, however welcome, is not seen by consumers as a proactive step toward better economic policy. While they anticipate the economy to improve and retailers to offer larger discounts, most consumers still anticipate tiny wage gains—gains that are even smaller than the currently low inflation rate. Consumers are not ready to celebrate, aside from those who have benefitted from rising stock market wealth."

Personal finances improved among all households in the recent survey, although most of the gains occurred among those under age 45 and those in the top third of the income distribution. The largest differences were due to rising stock values, primarily held by top income households. Although these same age and income groups anticipated the largest gains in their nominal incomes during the year ahead, those increases were below the expected inflation rate. No group anticipated rising inflation-adjusted incomes during the year ahead.

The Sentiment Index was 82.5 in December 2013, up from 75.1 in November and well above last December's 72.9. The year-to-year gain was nearly equal for current economic assessments and future economic prospects. The Expectations Index rose to 72.1 in December, up 13.0 percent from last year, and the Current Conditions Index was 98.6 in December, up 13.3 percent from last December's reading.

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

The GDP estimate released is based on more complete source data than were available for the "second" estimate issued on December 5, 2013. In the second estimate, the increase in real GDP was 3.6 percent. With this third estimate for the third quarter, increases in personal consumption expenditures (PCE) and in nonresidential fixed investment were larger than previously estimated.

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

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.8 percent in November to 98.3 (2004=100), following a 0.1 percent increase in October, and a 1.0 percent increase in September, according to the Conference Board.

"The LEI continues on a broad-based upward trend, suggesting gradually strengthening economic conditions through early 2014," said Ataman Ozyildirim, economist at The Conference Board. "Improving labor markets and new orders in manufacturing, combined with strong financial indicators, drove November's gain. However, consumers' outlook for the economy and the drop in housing permits continue to pose risks in 2014."

"November data reflect a U.S. economy that is expanding modestly, discounting some renewal in activity after the government shutdown," said Ken Goldstein, economist at The Conference Board. "The coincident economic index shows the economy expanding at a relatively slow pace. The trend in the leading economic index is stronger, signaling for some time that the economy is developing forward momentum, and will continue to strengthen through early 2014."

Housing

Existing-Home Sales

Existing-home sales fell in November, although median prices continue to show strong year-over-year growth, 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, dropped 4.3 percent to a seasonally adjusted annual rate of 4.90 million in November from 5.12 million in October, and were 1.2 percent below the 4.96 million-unit pace in November 2012. This is the first time in 29 months that sales were below year-ago levels.

Single-family home sales fell 3.8 percent to a seasonally adjusted annual rate of 4.32 million in November from 4.49 million in October, and were 0.9 percent below the 4.36 million-unit level in November 2012. The median existing single-family home price was $196,200 in November, which was 9.4 percent above a year ago.

Lawrence Yun, NAR chief economist, said the market is being squeezed. "Home sales are hurt by higher mortgage interest rates, constrained inventory and continuing tight credit," he said. "There is a pent-up demand for both rental and owner-occupied housing as household formation will inevitably burst out, but the bottleneck is in limited housing supply, due to the slow recovery in new home construction. As such, rents are rising at the fastest pace in five years, while annual home prices are rising at the highest rate in eight years."

The national median existing-home price for all housing types was $196,300 in November, up 9.4 percent from November 2012. Distressed homes – foreclosures and short sales – accounted for 14 percent of November sales, unchanged from October; they were 22 percent in November 2012. A smaller share of distressed sales is contributing to price growth.

Total housing inventory at the end of November declined 0.9 percent to 2.09 million existing homes available for sale, which represents a 5.1-month supply at the current sales pace, compared with 4.9 months in October. Unsold inventory is 5.0 percent above a year ago, when there was a 4.8-month supply.

According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage rose to 4.26 percent in November from 4.19 percent in October; the rate was 3.35 percent in November 2012. NAR President Steve Brown, co-owner of Irongate, Inc., Realtors® in Dayton, Ohio, noted that new rules defining the Qualified Mortgage will be going into effect soon. "New underwriting rules to protect borrowers, effective in January, will prohibit many loan features, set tighter limits on the amount of debt a borrower can have and still get a mortgage, and require that lenders accurately measure a borrower's ability to repay," he said.

Regional

Regionally, existing-home sales in the Northeast declined 3.0 percent to an annual rate of 650,000 in November, but were 6.6 percent above November 2012. The median price in the Northeast was $242,900, up 5.7 percent from a year ago.

Existing-home sales in the Midwest fell 4.1 percent in November to a pace of 1.17 million, but were unchanged from a year ago. The median price in the Midwest was $151,100, which was 6.7 percent higher than November 2012.

In the South, existing-home sales declined 2.4 percent to an annual level of 2.01 million in November, but were 1.0 percent above November 2012. The median price in the South was $168,700, up 7.7 percent from a year ago.

Existing-home sales in the West dropped 8.5 percent to a pace of 1.07 million in November, and were 10.1 percent below a year ago, in part from constrained inventory conditions. The median price in the West was $284,400, up 16.5 percent from November 2012.

New Residential Sales

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that sales of new single-family houses in November 2013 were at a seasonally adjusted annual rate of 464,000. This was 2.1 percent below the revised October rate of 474,000 but was 16.6 percent above the November 2012 estimate of 398,000.

The median sales price of new houses sold in November 2013 was $270,900; the average sales price was $340,300. The seasonally adjusted estimate of new houses for sale at the end of November was 167,000. This represents a supply of 4.3 months at the current sales rate.

New residential houses sold in November versus November 2012 were up 15.2 percent in the Northeast, 6.8 percent in the Midwest, 17.6 percent in the South and 19.2 percent in the West.

Housing Starts

According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing starts in November were at a seasonally adjusted annual rate of 1,091,000. This was 22.7 percent above the revised October estimate of 889,000 and was 29.6 percent above the November 2012 rate of 842,000.

Single-family housing starts in November were at a rate of 727,000; this was 20.8 percent above the revised October figure of 602,000. Single-family starts compared to November 2012 were up 18.4 percent in the Northeast; 32 percent in the Midwest; 24.5 percent in the South and 28.8 percent in the West.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for November, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $432.3 billion, an increase of 0.7 percent from the previous month, and 4.7 percent above November 2012. Total sales for the September through November 2013 period were up 4.1 percent from the same period a year ago.

Retail trade sales were up 0.6 percent from October 2013, and 4.6 percent above last year. Auto and other motor vehicle dealers were up 10.9 percent from November of 2012 and nonstore retailers were up 9.4 percent from last year.

Sales on an adjusted basis at furniture and home furnishings stores were up 1.2

percent over October and were up 9.7 percent over November 2012. Year-to-date, sales at these stores were up 4.7 percent over the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in November 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 1.2 percent before seasonal adjustment.

The energy index declined in November, offsetting increases in other indexes to result in the seasonally adjusted all items index being unchanged. The indexes for gasoline and for natural gas fell significantly, more than offsetting increases in the electricity and fuel oil indexes. The food index rose slightly in November, with the food at home index unchanged.

The index for all items less food and energy rose 0.2 percent in November. Increases in the indexes for shelter and airline fares accounted for most of the increase, with the indexes for recreation and for used cars and trucks also rising. The indexes for apparel, for household furnishings and operations, and for new vehicles all declined in November.

The all items index increased 1.2 percent over the last 12 months, a larger increase than the 1.0 percent rise for the 12 months ending October. The 12-month increase in the index for all items less food and energy remained at 1.7 percent for the third month in a row. The food index increased 1.2 percent over the last 12 months, while the energy index declined 2.4 percent.

Employment

The unemployment rate declined from 7.3 percent to 7.0 percent in November, and total nonfarm payroll employment rose by 203,000, according to the latest from the U.S. Bureau of Labor Statistics report. Employment increased in transportation and warehousing, health care, and manufacturing.

The number of unemployed persons, at 10.9 million, declined in November. Among the unemployed, the number who reported being on temporary layoff decreased by 377,000. This largely reflects the return to work of federal employees who were furloughed in October due to the partial government shutdown.

Durable Goods Orders and Factory Shipments

The U.S. Census Bureau reported that new orders for manufactured durable goods in November, increased $8.2 billion or 3.5 percent to $241.6 billion. This increase, up three of the last four months, followed a 0.7 percent October decrease. Excluding transportation, new orders increased 1.2 percent. Excluding defense, new orders increased 3.5 percent.

Shipments of manufactured durable goods in November, up four consecutive months, increased $4.1 billion or 1.8 percent to $238.3 billion. This was at the highest level since the series was first published on a NAICS basis in 1992, and followed a 0.6 percent October increase.

According to the Census Bureau, shipments of furniture and related products increased 5.5 percent over October 2012 and were up 4.0 percent year-to-date. New orders in October for this category were up 1.7 percent and up 3.2 percent year-to-date.

Executive Summary

Our recent survey of residential furniture manufacturers and distributors showed continued improvement for the industry. New orders in October were up 5 percent over October 2012, continuing the string of increased order months since March 2013 when they were down 1 percent. Year-to-date, new orders were up 6 percent over the same period a year ago with approximately 80 percent of our participants reporting increased orders for the ten months.

Shipments were up 9 percent over October 2012 bringing year-to-date shipments up 5 percent. Approximately 68 percent of the participants reported increased shipments year-to-date. Backlogs were 11 percent higher than October 2012 down from a 14 percent increase reported last month.

Receivable levels were 2 percent lower than last October and appear to be in really good shape. Inventory levels were 3 percent higher than October 2012 but, based on current results of orders and shipments, seem to be very much in line.

Factory and warehouse employees were up 4 percent over October 2012, also in line with current business. Factory and warehouse payrolls were up 15 percent in October versus October 2012, up from 13 percent reported last month and were 8 percent higher year-to-date. Some of this increase is reflective of the number of employees being up and some is attributable to some wage increases. Some may also reflect more working hours.

Overall, the results for October remained positive. We had thought with Market being a little later this October versus October 2012, we might see some negative impact, but we were pleased with the 5 percent increase in orders. But new orders were up for 56 percent of the participants, down from 72 percent reported last month.

Most of the economic news continues to be positive. Existing home sales slowed a bit in November but most of that was blamed on low inventories and some mortgage loan issues. In addition, the decline from last year's sales was all in the West where prices were high and inventories were low. Most agree that more new homes need to be built. There are improvements noted in new home sales as well as new houses started.

The revised GDP showed a 4.1 percent increase in the third quarter and leading economic indicators were once again positive. Retail sales were good (not great) overall and were also good at furniture and home furnishings stores, especially in the November to November comparison. Inflation also seems under control as consumer price index results were good.

In the housing news, it was noted that the new mortgage rules will make some mortgages tougher to obtain by setting tighter limits of how much debt borrowers can obtain. As we have said before many times, we think bankers and mortgage institutions limiting the borrowing capacity is a good thing as it should mean borrowers should end up with more disposable income versus spending every dime on mortgage payments. (In other words, more like the old days.)

Most of the folks we have talked with lately seem to feel that business continues to improve. Some competitors have seen some impact from the changes at Furniture Brands – now Heritage, but overall business we think certainly has come along well in the last couple of years.

If we can keep this momentum going, then whenever consumer confidence shakes loose, we should see even more positive results. The Thomson Reuters/University of Michigan Surveys of Consumers reported that their Consumer Sentiment Index improved to 82.5 in December 2013 up from 72.9 in December 2012. The Expectations Index was up 13.0 percent from last year and the Current Conditions Index was up 13.3 percent from last year. So while it seems the confidence is not that strong, at least according to their surveys, we have come a long way in a year.

We hope the Holiday Season was a great one for you and your families and friends. Here's wishing you all the best for a happy and prosperous 2014.

Estimated Business Activity (Millions of Dollars)						
	2013			2012		
	October	September	10 Months	October	September	10 Months
New Orders	1,948	2,117	19,465	1,849	2,028	18,422
Shipments	1,880	1,961	19,177	1,774	1,774	18,351
Backlog (R)	2,100	2,072		1,892	1,817	

Key Monthly Indicators			
	October 2013 From September 2013 Percent Change	October 2013 From October 2012 Percent Change	10 Months 2013 Versus 10 Months 2012 Percent Change
New Orders	-6	+5	+6
Shipments	-1	+9	+5
Backlog	+1	+11	
Payrolls	–	+15	+8
Employees	+1	+4	
Receivables	+1	-2	
Inventories	+2	+3	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2012				
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
October	+5	+9	+11	+4