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 December 2013 were up 5 percent over December 2012. New orders fell 13 percent from November, but orders are typically lower in December versus November. New orders in December 2012 were down 7 percent from December 2011 so December 2013 orders were actually down from 2011 levels. For the month, new orders were up over 2012 for 62 percent of the participants, down from 77 percent reporting last month.

For all of 2013, new orders were up 6 percent over 2012. New orders in 2012 were 4 percent higher than 2011 for the year. Approximately 76 percent of the participants reported increased orders for the year. This compares to approximately 67 percent of the participants reporting increased orders in 2012.

According to our survey, 2013 orders in dollars were approximately 10 percent lower than 2006, the year before orders began to drop significantly.

Shipments and Backlogs

Shipments in December 2013 were 4 percent higher than December 2012. December 2012 shipments were down 1 percent from December 2011. Shipments were up for 76 percent of the participants, up from about 69 percent reporting last month.

For the year 2013, shipments were up 5 percent over 2012. Approximately 71 percent of the participants reported increased shipments over the previous year, up from 69 percent reporting in November.

Backlogs fell 8 percent in December from November as shipments exceeded new orders. Yet, backlogs were 14 percent higher than they were in December 2012.

Furniture Insights®
A Monthly Newsletter

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Receivables and Inventories

As has been the case most of the year, receivables remained in good shape at the end of 2012. December levels were 5 percent higher than December 2012, in line with the increase in shipments for the year.

Receivables were 4 percent lower than November, as shipments were down 2 percent and timing of year end payments has some impact.

Inventories in December were up 3 percent over last December, the same as was reported last month. A 3 percent increase is very much in line with current conditions so it looks like inventories are in very good shape.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees was about even in December compared to November. The number of employees was 4 percent higher than December 2012, up slightly from 3 percent reported last month. Again, these results seem to be very much in line with current conditions.

Factory and warehouse payrolls were up 1 percent from November and were 6 percent higher than December 2012 down from 15 percent increase reported last month. For the year, factory and warehouse payrolls were up 9 percent over 2012. In 2012, factory and warehouse payrolls were 4 percent higher than 2011.

National

Consumer Confidence

The Conference Board Consumer Confidence Index®, which had increased in January, fell moderately in February. The Index now stands at 78.1 (1985=100), down from 79.4 in January. The decline was driven by the Expectations Index, which dropped to 75.7 from 80.8. The Present Situation Index, by contrast, climbed from 77.3 to 81.7.

"Consumer confidence declined moderately in February, on concern over the short-term outlook for business conditions, jobs, and earnings," said Lynn Franco, Director of Economic Indicators at The Conference Board. "While expectations have fluctuated over recent months, current conditions have continued to trend upward and the Present Situation Index is now at its highest level in almost six years (April 2008, 81.9). This suggests that consumers believe the economy has improved, but they do not foresee it gaining considerable momentum in the months ahead."

Consumers' appraisal of current conditions improved for the fourth consecutive month. Those claiming business conditions are "good" increased to 21.5 percent from 20.8 percent, while those claiming business conditions are "bad" declined to 22.6 percent from 23.4 percent. Consumers' assessment of the labor market was also improved. Those claiming jobs are "plentiful" increased to 13.9 percent from 12.5 percent, while those saying jobs are "hard to get" decreased slightly to 32.5 percent from 32.7 percent.

Consumers' expectations, which had been improving over the past two months, retreated in February. The percentage of consumers expecting business conditions to improve over the next six months decreased to 16.3 percent from 17.0 percent, while those anticipating business conditions to worsen increased to 13.3 percent from 12.2 percent. Consumers' outlook for the labor market was also more pessimistic. Those expecting more jobs in the months ahead declined to 13.3

percent from 15.1 percent, while those anticipating fewer jobs increased to 20.6 percent from 19.0 percent. The proportion of consumers expecting their incomes to increase declined from 16.6 percent to 15.4 percent, but those anticipating a decrease in their incomes also declined, from 13.9 percent to 13.1 percent.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3 percent in January to 99.5 (2004=100), following no change in December, and a 0.9 percent increase in November, according to the Conference Board.

"The U.S. LEI continues to fluctuate on a monthly basis, but the six-month average growth rate has been relatively stable in recent months, which suggests that the economy will remain resilient in the first half of 2014 and underlying economic conditions should continue to improve," said Ataman Ozyildirim, Economist at The Conference Board. "Correspondingly, the U.S. Coincident Economic Index, which measures current conditions, has continued rising steadily."

"The increase in the LEI reflects an economy that is expanding moderately, although the pace is somewhat held back by persistent and severe inclement weather in most parts of the country," said Ken Goldstein, Economist at The Conference Board. "If the economy is going to move on to a faster track in 2014 compared to last year, consumer demand and especially investment will need to pick up significantly from their current trends."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in January to 108.1 (2004 = 100), following a 0.1 percent increase in December, and a 0.4 percent increase in November.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.3 percent in January to 121.6 (2004 = 100), following a 0.4 percent increase in December, and no change in November.

Housing

Existing-Home Sales

Existing-home sales fell in January to the lowest level in a year-and-a-half, but ongoing inventory shortages continue to lift prices in much of the U.S., 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 5.1 percent to a seasonally adjusted annual rate of 4.62 million in January from 4.87 million in December, and was also 5.1 percent below the 4.87 million-unit pace in January 2013. Last month's level of activity was the slowest since July 2012, when it stood at 4.59 million.

Single-family home sales fell 5.8 percent to a seasonally adjusted annual rate of 4.05 million in January from 4.30 million in December, and were 6.0 percent below the 4.31 million-unit pace in January 2013. The median existing single-family home price was $188,900 in January, up 10.4 percent from a year ago.

Lawrence Yun, NAR chief economist, said unusual weather is playing a role. "Disruptive and prolonged winter weather patterns across the country are impacting a wide range of economic activity, and housing is no exception," he said. "Some housing activity will be delayed until spring. At the same time, we can't ignore the ongoing headwinds of tight credit, limited inventory, higher prices and higher mortgage interest rates. These issues will hinder home sales activity until the positive factors of job growth and new supply from higher housing starts begin to make an impact."

The median existing-home price for all housing types in January was $188,900, up 10.7 percent from January 2013. Distressed homes – foreclosures and short sales – accounted for 15 percent of January sales, compared with 14 percent in December and 24 percent in January 2013.

First-time buyers accounted for 26 percent of purchases in January, down from 27 percent in December and 30 percent in January 2013. This is the lowest market share for first-time buyers since NAR began monthly measurement in October 2008; normally, they should be closer to 40 percent.

Regional

Regionally, existing-home sales in the Northeast declined 3.1 percent to an annual rate of 620,000 in January, and were also 3.1 percent below January 2013. The median price in the Northeast was $241,100, up 6.6 percent from a year ago.

Existing-home sales in the Midwest dropped 7.1 percent in January to a pace of 1.04 million, and were 8.8 percent below a year ago. The median price in the Midwest was $140,300, which was 7.6 percent higher than January 2013.

In the South, existing-home sales declined 3.5 percent to an annual level of 1.95 million in January, but were 1.6 percent higher than January 2013. The median price in the South was $161,500, up 9.4 percent from a year ago.

Existing-home sales in the West dropped 7.3 percent to a pace of 1.01 million in January, and were 13.7 percent below a year ago. Sales in the West were affected by tight inventory in many areas, pushing the median price to $273,500, up 14.6 percent from January 2013.

New Residential Sales

Sales of new single-family houses in January 2014 were at a seasonally adjusted annual rate of 468,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 9.6 percent above the revised December rate of 427,000 and was 2.2 percent above the January 2013 estimate of 458,000.

The median sales price of new houses sold in January 2014 was $260,100; the average sales price was $322,800. The seasonally adjusted estimate of new houses for sale at the end of January was 184,000. This represents a supply of 4.7 months at the current sales rate. Sales of new houses for January 2014 compared to January 2013 were up 3.1 percent in the Northeast and 22.7 percent in the South. Sales were down 14.3 percent in the Midwest and 23.4 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 January were at a seasonally adjusted annual rate of 880,000. This was 16.0 percent below the revised December estimate of 1,048,000 and was 2.0 percent below the January 2013 rate of 898,000.

Single-family housing starts in January were at a rate of 573,000; this was 15.9 percent below the revised December figure of 681,000. The January rate for units in buildings with five units or more was 300,000.

Single-family starts in January 2014 versus January 2013 were up in the

Northeast and 10.7 in the West, but were down 48.9 percent in the Midwest and 3.6 percent in the South.

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 $427.8 billion, a decrease of 0.4 percent from the previous month, but 2.6 percent above January 2013. Total sales for the November 2013 through January 2014 period were up 3.4 percent from the same period a year ago.

Retail trade sales were down 0.4 percent from December 2013, but 2.6 percent above last year. Nonstore retailers were up 6.5 percent from January 2013 and auto and other motor vehicle dealers were up 4.1 percent from last year.

Sales on an adjusted basis at furniture and home furnishings stores were down 0.6 percent from December and down 2.4 percent from January 2013.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in January 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 1.6 percent before seasonal adjustment.

Increases in the indexes for household energy accounted for most of the all items increase. The electricity index posted its largest increase since March 2010, and the indexes for natural gas and fuel oil also rose sharply. These increases more than offset a decline in the gasoline index, resulting in a 0.6 percent increase in the energy index.

The index for all items less food and energy also rose 0.1 percent in January. A 0.3 percent increase in the shelter index was the major contributor to the rise, but the indexes for medical care, recreation, personal care, and tobacco also increased. In contrast, the indexes for airline fares, used cars and trucks, new vehicles, and apparel all declined in January. The food index rose slightly in January. The index for food at home rose 0.1 percent, with major grocery store food groups mixed.

The all items index increased 1.6 percent over the last 12 months; this compares to a 1.5 percent increase for the 12 months ending December. The index for all items less food and energy has also risen 1.6 percent over the last 12 months. The energy index has risen 2.1 percent over the span, and the food index has increased 1.1 percent.

Employment

Total nonfarm payroll employment rose by 113,000 in January, and the unemployment rate was little changed at 6.6 percent, according to the U.S. Bureau of Labor Statistics report. Employment grew in construction, manufacturing, wholesale trade, and mining.

Both the number of unemployed persons, at 10.2 million, and the unemployment rate, at 6.6 percent, changed little in January. Since October, the jobless rate has decreased by 0.6 percentage point.

Durable Goods Orders and Factory Shipments

According to the U.S. Census Bureau News, new orders for manufactured durable goods in January decreased $2.2 billion or 1.0 percent to $225.0 billion. This decrease, down three of the last four months, followed a 5.3 percent December decrease. Excluding transportation, new orders increased 1.1 percent. Excluding defense, new orders decreased 1.8 percent.

Transportation equipment, also down three of the last four months, drove the decrease, $4.0 billion or 5.6 percent to $67.3 billion. This was led by nondefense aircraft and parts, which decreased $3.4 billion.

Shipments of manufactured durable goods in January, down two consecutive months, decreased $0.9 billion or 0.4 percent to $232.3 billion. This followed a 1.8 percent December decrease.

Machinery, down following five consecutive monthly increases, drove the decrease, $0.9 billion or 2.6 percent to $34.5 billion.

According to the Census Bureau, shipments of furniture and related products were up 5.8 percent in December 2013 versus 2012 and orders were up 12.6 percent. Year-to-date, shipments were up 4.3 percent and orders were also up 4.3 percent in this category.

Executive Summary

According to our latest survey of residential furniture manufacturers and distributors, new orders in December were up 5 percent over December 2012. New orders were down 7 percent in December 2012 versus December 2011 so we didn't get back all of it but it was another positive month. Some 62 percent of the participants reported increased orders for the month.

For all of 2013, new orders were up 6 percent over 2012 following a 2012 over 2011 increase of 4 percent. Approximately 76 percent of the participants reported increased orders for the year compared to 67 percent reporting increases for 2012 versus 2011.

Shipments in December were up 4 percent over December 2012 resulting in a 5 percent increase for the year. Some 71 percent of the participants reported increased shipments for the year.

Backlogs fell 8 percent in December from November as shipments exceeded orders. Yet, backlogs were 14 percent higher in December versus a year ago December.

Receivable levels remained in good shape, showing a 5 percent increase over December 2012, in line with increased shipments for the year. Inventories, up 3 percent over December 2012, were also in good shape overall considering the growth in orders, shipments and backlogs.

The number of factory and warehouse employees was 4 percent higher in December 2013 versus December 2012, also in line with increased business. Factory and warehouse payrolls were up 6 percent from December 2012 and up 9 percent for the year.

Overall, the results for the month and year were pretty much in line with recent business conditions for most. We continue to have a fairly wide disparity from some growing at nice double digits versus declining in double digits as well.

According to our surveys, 2013 orders in dollars were approximately 10 percent lower than the year 2006. Since we do not attempt to track pieces (never figured how to), we do not know how much of the decline is in product moved or how much is related to lower priced goods. But whatever the cause, it has clearly been a tough 7 or so years.

The good news for many is that individually many companies have come back to 2006 and earlier year's top lines. Some even with record years. Obviously, this means that we have lost some companies to either bankruptcy or to just closing down.

We have also seen many companies return to stronger profitability during these times through various belt tightening measures. Good times usually create some fat in organizations so the decline in business helped rid some of the fat and inefficiencies.

For 2014, we were hoping for more growth and we continue to believe that will happen. January started slow for many and we suspect February will bring more of the same results. The weather has been a killer across much of the U.S. Even when snow was removed, trucks were not always able to deliver.

But hopefully that lost business is just deferred and will not go away. As Jerry Epperson noted in his latest Digest, people stuck in homes due to weather, may get a chance to pay attention to some things around the house that may need replacing.

Housing has slowed a bit, but that also has to be affected by the weather. Some of the slowness has been attributed to higher mortgages, tighter credit and higher prices, but we believe weather has been a major factor.

Consumer Confidence declined slightly in February and we expect the GDP to drop for first quarter, again due mostly to weather related issues. But current conditions confidence remains steady, which is a good thing.

Overall, when you step back and discount things like the weather, there is no real reason to think 2014 should not show more good progress. The stock market has moved around a bit but most financial market gurus have warned that we are due for some choppy markets.

While home prices have increased and interest rates have moved up, prices are still in reason for the most part, just not bargain basement. That may take a bit of time to adjust. Interest rates are really at a historical bargain, just not all time lows.

Commercial borrowing rates for business are still very good. Inflation seems under control except for swings in energy prices, which consumers seem to be somewhat used, even though very tough on some. It appears the Affordable Care Act is going to take a while to see what real impact there will be since parts and pieces keep getting delayed.

So let's get on to springtime, get some flowers and trees blooming and some pure springtime happiness in the air. Hopefully by High Point Market, the grey skies are gone and business is back to more normal expected levels.

Estimated Business Activity (Millions of Dollars)						
	2013			2012		
	December	November	12 Months	December	November	12 Months
New Orders	1,775	1,969	23,209	1,698	1,798	21,918
Shipments	1,985	2,003	23,165	1,917	1,821	22,102
Backlog (R)	1,880	2,075		1,649	1,868	

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

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2012				
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
November	+10	+10	+13	+3
December	+5	+4	+14	+4