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 February 2015 were 8 percent higher than orders in February 2014. While we heard weather had some negative impact, most had noted that weather in February 2015 was not as major a factor as it could have been.

In addition, weather over much of the country was worse in February 2014. Orders in February 2014 were 2 percent lower than February 2013. So the 2015 results were only 5 percent higher than the 2013 results.

New orders in February were up for some 59 percent of the participants, down from 70 percent reporting increased orders last month.

Year-to-date, new orders were 7 percent ahead of the first two months of 2014, when they were flat with the first two months of 2013. Orders year-to-date were up for 68 percent of the participants.

Shipments and Backlogs

Shipments were up 12 percent over February 2014 and down slightly from January. In February 2014, shipments were down 2 percent from 2013, so we had some of the same effect on shipments as we did on orders.

Shipments were up for some 76 percent of the participants, up from 63 percent reported last month.

Year-to-date, shipments were up 11 percent over the first two months of 2014. In 2014, the first two months were 1 percent higher than the first two months of 2013. Shipments were also up for 76 percent of the participants year-to-date.

Backlogs increased 2 percent over January and were 11 percent higher than February 2014. This was down somewhat from last month but backlogs remain healthy. We have heard that some may be a bit too healthy.

Furniture Insights®
A Monthly Newsletter

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Receivables and Inventories

Receivable levels were even with January but were 10 percent higher than February 2014. With shipments up 12 percent over last February and up 11 percent year-to-date, receivables continue to be in good shape.

Inventories fell 1 percent from January and were 7 percent higher than a year ago. In January, inventories were 5 percent higher than January 2014. As we have noted before, inventory levels appear to be in good shape based on current business conditions.

Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees were even with January 2015 and up 2 percent over February 2014. In January, the number was 3 percent higher than January 2014. Obviously direct shipments, as well as efficiencies, help keep employee number increases below shipment levels especially in case goods when there are more imported products.

Factory and warehouse payrolls were up 6 percent over February 2014 and up 4 percent year-to-date. This compared to a 3 percent increase reported last month.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had increased in March, declined in April. The Index now stands at 95.2 (1985=100), down from 101.4 in March. The Present Situation Index decreased from 109.5 last month to 106.8 in April. The Expectations Index declined from 96.0 last month to 87.5 in April.

"Consumer confidence, which had rebounded in March, gave back all of the gain and more in April," said Lynn Franco, Director of Economic Indicators at The Conference Board. "This month's retreat was prompted by a softening in current conditions, likely sparked by the recent lackluster performance of the labor market, and apprehension about the short-term outlook. The Present Situation Index declined for the third consecutive month. Coupled with waning expectations, there is little to suggest that economic momentum will pick up in the months ahead."

Consumers' appraisal of current-day conditions continued to soften. Those saying business conditions are "good" edged down from 26.7 percent to 26.5 percent. However, those claiming business conditions are "bad" also decreased from 19.4 percent to 18.2 percent. Consumers were less favorable in their assessment of the job market. Those stating jobs are "plentiful" declined from 21.0 percent to 19.1 percent, while those claiming jobs are "hard to get" rose from 25.5 percent to 26.4 percent.

Consumers' optimism about the short-term outlook, which had rebounded in March, retreated in April. The percentage of consumers expecting business conditions to improve over the next six months decreased from 16.8 percent to 16.0 percent, while those expecting business conditions to worsen increased from 8.1 percent to 9.4 percent.

Consumers' outlook for the labor market also deteriorated. Those anticipating more jobs in the months ahead decreased from 15.3 percent to 13.8 percent, while those anticipating fewer jobs rose from 13.6 percent to 16.3 percent.

Gross Domestic Product (GDP)

Real gross domestic product – the value of the production of goods and services in the United States, adjusted for price changes – increased at an annual rate of 2.2 percent in the fourth quarter of 2014, according to the "third" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 5.0 percent.

While increases in exports and in personal consumption expenditures (PCE) were larger than previously estimated and the change in private inventories was smaller, GDP growth is unrevised, and the general picture of the economy for the fourth quarter remains the same.

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

The deceleration in real GDP growth in the fourth quarter primarily reflected an upturn in imports, a downturn in federal government spending, a deceleration in nonresidential fixed investment, and a larger decrease in private inventory investment that were partly offset by accelerations in PCE and in state and local government spending.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.2 percent in March to 121.4 (2010 = 100), following a 0.1 percent increase in February, and a 0.2 percent increase in January.

"Although the leading economic index still points to a moderate expansion in economic activity, its slowing growth rate over recent months suggests weaker growth may be ahead," said Ataman Ozyildirim, Economist at The Conference Board. "Building permits was the weakest component this month, but average working hours and manufacturing new orders have also slowed the LEI's growth over the last six months."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in March to 112.0 (2010 = 100), following a 0.2 percent increase in both February and January.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.4 percent in March to 116.2 (2010 = 100), following a 0.3 percent increase in February, and a 0.3 percent increase in January.

Housing

Existing-Home Sales

Existing-home sales jumped in March to their highest annual rate in 18 months, while unsold inventory showed needed improvement, according to the National Association of Realtors® (NAR). Led by the Midwest, all major regions experienced strong sales gains in March and are above their year-over-year sales pace.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, increased 6.1 percent to a seasonally adjusted annual rate of 5.19 million in March from 4.89 million in February—the highest annual rate since September 2013 (also 5.19 million). Sales have increased year-over-year for six consecutive months and are now 10.4

percent above a year ago, the highest annual increase since August 2013 (10.7 percent). March's sales increase was the largest monthly increase since December 2010 (6.2 percent).

Single-family home sales rose 5.5 percent to a seasonally adjusted annual rate of 4.59 million in March from 4.35 million in February, and were 10.9 percent above the 4.14 million pace a year ago. The median existing single-family home price was $213,500 in March, up 8.7 percent from March 2014.

Existing condominium and co-op sales increased 11.1 percent to a seasonally adjusted annual rate of 600,000 units in March from 540,000 units in February, and were 7.1 percent higher than March 2014 (560,000 units). The median existing condo price was $201,400 in March, which was 1.6 percent higher than a year ago.

Lawrence Yun, NAR chief economist, says the housing market appears to be off to an encouraging start this spring. "After a quiet start to the year, sales activity picked up greatly throughout the country in March," he said. "The combination of low interest rates and the ongoing stability in the job market is improving buyer confidence and finally releasing some of the sizable pent-up demand that accumulated in recent years."

Total housing inventory at the end of March climbed 5.3 percent to 2.00 million existing homes available for sale, and was 2.0 percent above a year ago (1.96 million). Unsold inventory was at a 4.6-month supply at the current sales pace, down from 4.7 months in February.

The median existing-home price for all housing types in March was $212,100, which was 7.8 percent above March 2014. This marks the 37th consecutive month of year-over-year price gains and the largest since February 2014 (8.8 percent).

"The modest rise in housing supply at the end of the month despite the strong growth in sales is a welcoming sign," adds Yun. "For sales to build upon their current pace, homeowners will increasingly need to be confident in their ability to sell their home while having enough time and choices to upgrade or downsize. More listings and new home construction are still needed to tame price growth and provide more opportunity for first-time buyers to enter the market."

The percent share of first-time buyers was 30 percent in March, marking the third time since last March that the first-time buyer share was at or above 30 percent. First-time buyers represented 29 percent of all buyers last month; they were 30 percent in March 2014.

Properties typically stayed on the market for a shorter time period in March (52 days) compared to February (62 days), and are also selling slightly faster than a year ago (55 days). Short sales were on the market the longest at a median of 165 days in March, while foreclosures sold in 56 days and non-distressed homes took 51 days. Forty percent of homes sold in March were on the market for less than a month.

Regional

March existing-home sales in the Northeast increased 6.9 percent to an annual rate of 620,000, and were 1.6 percent above a year ago. The median price in the Northeast was $240,500, which was 1.6 percent below a year ago.

In the Midwest, existing-home sales jumped 10.1 percent to an annual rate of 1.20 million in March, and were 12.1 percent above March 2014. The median price in the Midwest was $163,600, up 9.7 percent from a year ago.

Existing-home sales in the South climbed 3.8 percent to an annual rate of 2.19 million in March, and were 11.7 percent above March 2014. The median price in the South was $187,900, up 9.3 percent from a year ago.

Existing-home sales in the West rose 6.3 percent to an annual rate of 1.18 million in March, and were 11.3 percent above a year ago. The median price in the West was $305,000, which was 8.3 percent above March 2014.

New Residential Sales

Sales of new single-family houses in March 2015 were at a seasonally adjusted annual rate of 481,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 11.4 percent below the revised February rate of 543,000, but was 19.4 percent above the March 2014 estimate of 403,000.

The median sales price of new houses sold in March 2015 was $277,400; the average sales price was $343,300. The seasonally adjusted estimate of new houses for sale at the end of March was 213,000. This represents a supply of 5.3 months at the current sales rate.

Comparing March 2015 to March 2014, new house sales were up 14.6 percent in the South and up 57.3 percent in the West. Sales were down 20 percent in the Northeast and down 3.6 percent in the Midwest.

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 926,000. This was 2.0 percent above the revised February estimate of 908,000, but was 2.5 percent below the March 2014 rate of 950,000.

Single-family housing starts in March were at a rate of 618,000; this was 4.4 percent above the revised February figure of 592,000. The March rate for units in buildings with five units or more was 287,000.

Single-family starts, comparing March 2015 to March 2014, were up 5.8 percent in the West and flat in the South. Starts were off 12.0 percent in the Northeast and 17.8 percent in the Midwest.

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 $441.4 billion, an increase of 0.9 percent from the previous month, and 1.3 percent above March 2014. Total sales for the January 2015 through March 2015 period were up 2.2 percent from the same period a year ago.

Retail trade sales were up 0.9 percent from February 2015, and 0.5 percent above last year. Food services and drinking places were up 7.7 percent from March 2014 and building material and garden equipment and supplies dealers were up 6.3 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 3.9 percent over March 2014. Year-to-date to March, sales at these stores were up 5.2 percent.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2 percent in March on a seasonally adjusted basis, according to the report from the U.S. Bureau of Labor Statistics. Over the last 12 months, the all items index declined 0.1 percent before seasonal adjustment.

Increases in the energy and shelter indexes more than offset a decline in the food index and were the main factors in the rise of the seasonally adjusted all items index. The energy index rose 1.1 percent as advances in the gasoline and fuel oil indexes outweighed declines in the electricity and natural gas indexes. In contrast, the food index declined 0.2 percent, with the food at home index posting its largest decline since April 2009.

The index for all items less food and energy rose 0.2 percent in March, the same increase as in January and February. Along with the shelter index, a broad array of indexes rose in March, including medical care, used cars and trucks, apparel, new vehicles, household furnishings and operations, and recreation. The index for airline fares, in contrast, declined for the fourth time in the last 5 months.

The all items index declined 0.1 percent for the 12 months ending March. The energy index declined 18.3 percent over the span, more than offsetting increases in the indexes for food (up 2.3 percent) and all items less food and energy (up 1.8 percent).

Employment

Total nonfarm payroll employment increased by 126,000 in March, and the unemployment rate was unchanged at 5.5 percent, according to the report from the U.S. Bureau of Labor Statistics. Employment continued to trend up in professional and business services, health care, and retail trade, while mining lost jobs.

In March, the unemployment rate held at 5.5 percent, and the number of unemployed persons was little changed at 8.6 million. Over the year, the unemployment rate and the number of unemployed persons were down by 1.1 percentage points and 1.8 million, respectively.

Executive Summary

The results of our latest survey of residential furniture manufacturers and distributors were positive and were a bit better than what we expected based on concerns over weather impact, especially in the northeast in February.

New orders were up 8 percent over February 2014 and up 7 percent year-to-date. The increase was a bit misleading in that February 2014 orders were down 2 percent, so the 2015 increase was only 5 percent up from 2013. Yet, still better than expected.

Shipments were up 12 percent over February 2014 and up 11 percent year-to-date. This compared to a 1 percent increase reported in 2014 comparing to year-to-date 2013.

Backlogs were 11 percent higher than last year but in most cases were reasonable, with a few exceptions of a bit too high.

Receivables and inventories continue to be in good shape compared to current business conditions as were the number of factory and warehouse employees and factory and warehouse payrolls.

On the national front, consumer confidence fell a bit over some concerns relating to job growth leading to concerns for short-term outlook. But the leading indicators remained in good shape.

Housing continued to improve with existing home sales increasing 6.1 percent to an adjusted annual rate of 5.19 million. Sales have increased six consecutive months and were 10.4 percent above March 2014.

New home sales dropped from February but were 19.4 percent above March 2014. Housing starts were off slightly from March 2014, but weather may have had some impact as starts were off 12 percent in the Northeast and 17.8 percent in the Midwest.

Retail sales were up 2.2 percent for the first quarter with sales at furniture and home furnishings stores up 5.2 percent for the quarter.

In spite of oil and gas prices jumping all around, inflation seems to still be under control.

We just finished what we thought was one of the better High Point Markets in a while. We have noted for some time that the mood of market always seems good, due to seeing fresh new products and old and new friends, so sometimes the "mood" can be deceiving. But this one seemed different.

We think retailers came, for the most part, experiencing good business and exhibitors were in the same mode. We described it as all dealers and exhibitors came expecting a good market and we had one. We heard no gloom and doom. No — "No one is here." Other than some lousy weather (not supposed to be in April), the only complaint we heard was "why they left that big hole in the roof of the terminal." Somehow they didn't understand a need for a place for fumes to go away.

With some dealers coming as early as Tuesday (we know some want to be early for distribution, etc., but Tuesday?) and people still here Wednesday, attendance is really spread out. Add to that the number of places exhibitors are showing, the market really gets spread. But Monday and Tuesday remained very busy in most places and we pretty much heard that attendance was either flat or up.

Overall, it was a good one. Let's hope next 6 to 8 weeks prove that comment.

Estimated Business Activity (Millions of Dollars)						
	2015			2014		
	February	January	2 Months	February	January	2 Months
New Orders	2,090	2,000	4,090	1,942	1,877	3,819
Shipments	2,026	2,033	4,059	1,809	1,848	3,657
Backlog	2,242	2,192		2,020	1,898	

Key Monthly Indicators			
	February 2015 From January 2015 Percent Change	February 2015 From February 2014 Percent Change	2 Months 2015 Versus 2 Months 2014 Percent Change
New Orders	+5	+8	+7
Shipments	-2	+12	+11
Backlog	+2	+11	
Payrolls	-1	+6	+4
Employees	–	+2	
Receivables	–	+10	
Inventories	-1	+7	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2014				
February	-2	-2	+14	+5
March	+9	+10	+14	+5
April	+13	+12	+13	+5
May	+3	+5	+13	+5
June	+5	+4	+10	+6
July	+4	+11	+5	+6
August	+5	+6	+3	+4
September	+8	+6	+3	+2
October	+12	+7	+9	+1
November	+3	+1	+8	+2
December	+15	+6	+17	+2
2015				
January	+7	+10	+16	+3
February	+8	+12	+11	+2