September 2015

# Furniture Insights®

## Monthly Results

### New Orders

New orders in July 2015 were 4 percent higher than orders in July 2014, according to our latest survey of residential furniture manufacturers and distributors, continuing the string of positive comparisons to prior year results. Orders were down 7 percent from June, but that is somewhat normal with the short month due to vacations.

The 4 percent increase compared to a 5 percent increase in July 2014 over 2013. Orders were up in July 2015 for some 64 percent of our participants, about the same as we reported last month.

Year-to-date, orders remained 5 percent ahead of last year, the same as reported last month. For year-to-date results, new orders were up for approximately 56 percent of the participants, up slightly from 53 percent reported last month.

### Shipments and Backlogs

Shipments were up 7 percent in July 2015 compared to shipments in July 2014. Shipments in July 2014 were 6 percent higher than July 2013. Shipments in July were down 11 percent from June, but again that is due to the typical one week shut down for the holiday. Shipments in July were up for some 64 percent of the participants, up slightly as a percent from last month.

Year-to-date, shipments were up 7 percent, the same as we reported last month. Some 72 percent of the participants have reported increased shipments year-to-date, up slightly from last month.

Backlogs were 9 percent higher than July 2014, down from a 12 percent increase reported last month. At this time last year, backlogs were 5 percent higher than the year before, so overall backlogs remain pretty heavy.

Furniture Insights®
A Monthly Newsletter

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## Receivables and Inventories

Receivables were up 2 percent over July 2014, remaining in very good shape considering the increase in shipments both for the month and year-to-date. Receivables were down 2 percent from June, which was, while not totally, in line with the decrease in shipments from July. As per above, overall, receivables appear to be in very good shape.

Inventories were 6 percent higher than in July 2014. This increase was consistent with what was reported last month. The 6 percent increase appears to be very much in line with the 5 percent increase in orders and the 7 percent year-to-date increase in shipments.

## Factory and Warehouse Employees and Payrolls

The number of factory and warehouse employees increased 3 percent over July 2014, up from a 2 percent increase reported last month comparing June 2015 to June 2014. July employees were up 1 percent over June 2015.

Factory and warehouse payrolls were 9 percent higher than July 2014, the same as we reported in June. Payrolls remained 6 percent ahead of last year on a year-to-date basis. This appears in line with current business conditions.

## National

## Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had increased in August, improved moderately in September. The Index now stands at 103.0 (1985 = 100). The Present Situation Index increased from 115.8 last month to 121.1 in September, while the Expectations Index edged down to 91.0 from 91.6 in August.

"Consumer confidence increased moderately in September, following August's sharp rebound," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' more positive assessment of current conditions fueled this month's increase, and drove the Present Situation Index to an 8-year high (Sept. 2007, Index = 121.2). Consumers' expectations for the short-term outlook, however, remained relatively flat, although there was a modest improvement in income expectations. Thus, while consumers view current economic conditions more favorably, they do not foresee growth accelerating in the months ahead."

Consumers' appraisal of current conditions was more positive in September. Those saying business conditions are "good" increased from 23.7 percent to 28.0 percent, while those claiming business conditions are "bad" declined modestly from 17.8 percent to 16.7 percent. Consumers were somewhat mixed about the job market. Those stating jobs are "plentiful" increased from 22.1 percent to 25.1 percent, however those claiming jobs are "hard to get" also rose from 21.7 percent to 24.3 percent.

Consumers' optimism about the short-term outlook was little changed in September. The percentage of consumers expecting business conditions to improve over the next six months increased from 16.6 percent to 17.9 percent, but those expecting business conditions to worsen also increased, from 9.1 percent to 10.3 percent.

## University of Michigan Surveys of Consumers

According to the Surveys of Consumers University of Michigan, the Sentiment Index was 87.2 in the September 2015 survey, down from 91.9 in August, but above last September's 84.6. The largest decline was in the Expectations Index, which fell in the September survey to 78.2 from last month's 83.4, but remained above last year's 75.4. The Current Conditions Index was 101.2 in September of 2015, down from 105.1 in August, and above last September's 98.9.

The decline in optimism continued to narrow in late September as consumers increasingly concluded that the stock market declines had more to do with international conditions than the domestic economy. While the September Sentiment Index was at the lowest level in eleven months, it was still higher than in any prior month since May 2007. Moreover, while upper income households recorded the largest initial declines, they also recorded the largest immediate rebound. Overall, the data continue to indicate that consumer spending will continue to expand in late 2015 and 2016, with an average gain in personal consumption expenditures of about 2.9 percent.

Surveys of Consumers chief economist, Richard Curtin said: "Americans realize that the domestic economy has become more vulnerable to global economic trends. Consumers view the recent stock movements as symptoms of global weaknesses, rather than domestic conditions. Although most believe the domestic economy is still largely insulated, they have lowered the pace of job and wage growth that they now anticipate. The true significance of these findings is not the change in their economic prospects, but that consumers now believe that global economic trends can directly influence their own job and wage prospects as well as indirectly via financial markets. While now small, the global economy influence is certain to rise in the future and prompt widespread adjustments by consumers and policy makers."

## Gross Domestic Product (GDP)

Real gross domestic product – the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production, adjusted for price changes – increased at an annual rate of 3.9 percent in the second quarter of 2015, according to the "third" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 0.6 percent.

The latest GDP estimate released is based on more complete source data than were available for the "second" estimate issued last month. In the second quarter, the increase in real GDP was 3.7 percent. With the third estimate for the second quarter, the general picture of economic growth remains the same; personal consumption expenditures (PCE) and nonresidential fixed investment increased more than previously estimated.

The increase in real GDP in the second quarter primarily reflected positive contributions from PCE, exports, nonresidential fixed investment, state and local government spending, and residential fixed investment. 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. increased 0.1 percent in August to 123.7 (2010 = 100), following no change in July, and a 0.6 percent increase in June.

"The U.S. LEI suggests economic growth will remain moderate into the New Year, with little reason to expect growth to pick up substantially," said Ataman

Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "Average working hours and new orders in manufacturing have been weak, pointing to more slow growth in the industrial sector. However, employment, personal income and manufacturing and trade sales have all been rising, helping to offset the weakness in industrial production in recent months."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in August to 112.6 (2010 = 100), following a 0.4 percent increase in July, and a 0.1 percent increase in June.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2 percent in August to 118.5 (2010 = 100), following a 0.3 percent increase in July, and a 0.9 percent increase in June.

## Housing

### Existing-Home Sales

Following three straight months of gains, existing-home sales dipped in August despite slowing price growth and a positive turnaround in the share of sales to first-time buyers, according to the National Association of Realtors® (NAR). None of the four major regions experienced sales increases in August.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 4.8 percent to a seasonally adjusted annual rate of 5.31 million in August from a slight downward revision of 5.58 million in July. Despite last month's decline, sales have risen year-over-year for 11 consecutive months and are 6.2 percent above a year ago (5.00 million).

Single-family home sales declined 5.3 percent to a seasonally adjusted annual rate of 4.69 million in August from 4.95 million in July, but were still 6.1 percent above the 4.42 million pace a year ago. The median existing single-family home price was $230,200 in August, up 5.1 percent from August 2014.

Existing condominium and co-op sales declined 1.6 percent to a seasonally adjusted annual rate of 620,000 units in August from 630,000 units in July, but were still up 6.9 percent from August 2014 (580,000 units). The median existing condo price was $217,400 in August, which was 2.2 percent above a year ago.

Lawrence Yun, NAR chief economist, says home sales in August lost some momentum to close out the summer. "Sales activity was down in many parts of the country last month — especially in the South and West — as the persistent summer theme of tight inventory levels likely deterred some buyers," he said. "The good news for the housing market is that price appreciation the last two months has started to moderate from the unhealthier rate of growth seen earlier this year."

The median existing-home price for all housing types in August was $228,700, which was 4.7 percent above August 2014 ($218,400). August's price increase marks the 42nd consecutive month of year-over-year gains.

Total housing inventory at the end of August rose 1.3 percent to 2.29 million existing homes available for sale, but was 1.7 percent lower than a year ago (2.33 million). Unsold inventory was at a 5.2-month supply at the current sales pace, up from 4.9 months in July.

"With sales and overall demand higher than a year ago and supply mostly unchanged, low inventories will likely continue to limit options for those looking to buy this fall even with the overall pool of buyers shrinking because of seasonal factors," adds Yun.

The percent share of first-time buyers rebounded to 32 percent in August, up from 28 percent in July and matching the highest share of the year set in May. A year ago, first-time buyers represented 29 percent of all buyers.

## Regional

August existing-home sales in the Northeast were at an annual rate of 700,000, unchanged from July and 6.1 percent above a year ago. The median price in the Northeast was $271,600, which was 2.4 percent above August 2014.

In the Midwest, existing-home sales declined 1.5 percent to an annual rate of 1.28 million in August, but remain 5.8 percent above August 2014. The median price in the Midwest was $181,100, up 4.0 percent from a year ago.

Existing-home sales in the South fell 6.6 percent to an annual rate of 2.14 million in August, but were still 5.9 percent above August 2014. The median price in the South was $196,300, up 6.0 percent from a year ago.

Existing-home sales in the West dropped 7.8 percent to an annual rate of 1.19 million in August, but remain 7.2 percent above a year ago. The median price in the West was $321,300, which was 7.1 percent above August 2014.

## New Residential Sales

Sales of new single-family houses in August 2015 were at a seasonally adjusted annual rate of 552,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 5.7 percent above the revised July rate of 522,000 and was 21.6 percent above the August 2014 estimate of 454,000.

The median sales price of new houses sold in August 2015 was $292,700; the average sales price was $353,400. The seasonally adjusted estimate of new houses for sale at the end of August was 216,000. This represents a supply of 4.7 months at the current sales rate.

Sales in August 2015 compared to August 2014 were up 24.1 percent in the Northeast, 15.4 percent in the Midwest, 27.6 percent in the South and 11.4 percent in the West.

## Housing Starts

The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced that privately-owned housing starts in August were at a seasonally adjusted annual rate of 1,126,000. This was 3.0 percent below the revised July estimate of 1,161,000, but was 16.6 percent above the August 2014 rate of 966,000.

Single-family housing starts in August were at a rate of 739,000; this was 3.0 percent below the revised July figure of 762,000.

New privately owned single-family starts in August 2015 were up 5.6 percent in the Northeast, 9.2 percent in the Midwest, 20.9 percent in the South and 7.3 percent in the West compared to August 2014.

## Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for August, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $447.7 billion, an increase of 0.2 percent from the previous month, and 2.2 percent above August 2014. Total sales for the June 2015 through August 2015 period were up 2.2 percent from the same period a year ago.

Retail trade sales were up 0.1 percent from July 2015, and 1.4 percent above last year. Food services and drinking places were up 8.2 percent from August 2014 and nonstore retailers were up 6.9 percent from last year.

On an adjusted basis, sales in August 2015 at furniture and home furnishings stores were up 3.7 over August 2014 and up 5.3 percent year-to-date. This ranked 5th in percentage growth, behind food services and drinking places (+8.5 percent), motor vehicle and parts dealers (+7.1 percent), sporting goods, hobby, book and music stores (+6.2 percent) and nonstore retailers (+5.7 percent).

## Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.1 percent in August 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 rose 0.2 percent before seasonal adjustment.

The gasoline index declined sharply in August and was the main cause of the seasonally adjusted all items decrease. Other energy indexes were mixed, with the fuel oil index continuing to decline but the indexes for electricity and natural gas increasing in August. The food index rose 0.2 percent in August, with the indexes for eggs and for fruits and vegetables rising notably.

The index for all items less food and energy increased 0.1 percent in August, the same increase as in July. The index for shelter rose, as did the indexes for apparel, tobacco, and alcoholic beverages. However, the index for airline fares declined sharply, and the indexes for household furnishings and operations, recreation, and used cars and trucks also decreased in August, with the indexes for new vehicles and medical care unchanged.

The all items index increased 0.2 percent for the 12 months ending August, the same increase as for the 12 months ending July. The 12-month change in the index for all items less food and energy also remained the same, at 1.8 percent for the 12 months ending August. The food index rose 1.6 percent over the last 12 months, while the energy index declined 15.0 percent.

## Employment

Total nonfarm payroll employment increased by 173,000 in August, and the unemployment rate edged down to 5.1 percent, according to the latest report from the U.S. Bureau of Labor Statistics. Job gains occurred in health care and social assistance and in financial activities. Manufacturing and mining lost jobs.

In August, the unemployment rate edged down to 5.1 percent, and the number of unemployed persons edged down to 8.0 million. Over the year, the unemployment rate and the number of unemployed persons were down by 1.0 percentage point and 1.5 million, respectively.

The number of persons unemployed for less than 5 weeks decreased by 393,000 to 2.1 million in August. The number of long-term unemployed (those jobless for 27 weeks or more) held at 2.2 million in August and accounted for 27.7 percent of the unemployed. Over the past 12 months, the number of long-term unemployed is down by 779,000.

## Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in August decreased $4.8 billion or 2.0 percent to $236.3 billion, according to the U.S. Census Bureau announcement. This decrease, down following two consecutive monthly increases, followed a 1.9 percent July increase. Excluding transportation, new orders decreased less than $0.1 billion, or virtually unchanged. Excluding defense, new orders decreased $2.2 billion or 1.0 percent.

Transportation equipment, also down following two consecutive monthly increases, led the decrease.

Shipments of manufactured durable goods in August, down following two consecutive monthly increases, decreased less than $0.1 billion, or virtually unchanged, to $243.2 billion. This followed a 1.0 percent July increase.

Primary metals, down ten of the last eleven months, drove the decrease, $0.2 billion or 1.0 percent to $20.5 billion.

According to the final report for July, shipments of furniture and related products increased 8.2 percent over July 2014 and were up 6.7 percent year-to-date. New orders in July were 6.8 percent higher than July 2014 and were up 6.0 percent year-to-date.

## Executive Summary

New orders in July 2015 increased 4 percent over new orders in July 2014, according to our latest survey of residential furniture manufacturers and distributors. July 2014 orders were 5 percent higher than July 2013. The July 2015 continued the string of increased orders, up 16 straight months and 24 of the last 25 months.

Year-to-date, new orders remained 5 percent ahead of the same period a year ago. Approximately 56 percent of the participants have reported increased orders, year-to-date up slightly from last month's results.

Shipments were up 7 percent in July 2015 over July 2014. July 2014 shipments were 7 percent higher than July 2013. Shipments in July were down 11 percent from June but that is typical with most companies shutting down a week in July for the holiday.

Year-to-date, shipments were up 7 percent over last year with some 72 percent of the participants reporting increased shipments, up slightly from last month's percentage. Backlogs were 9 percent higher than July 2014 down from 12 percent reported last month. Last year at this time, backlogs were up 5 percent so overall, backlogs remain pretty heavy.

Receivable levels were up only 2 percent over last year in spite of strong shipments and continue to appear to be in good shape. Inventories crept up 2 percent from June but remained 6 percent ahead of last July, the same as reported last month. Overall, inventories seem to be in line with current business conditions.

Factory and warehouse employees and payrolls also appear in line. Employee levels were 3 percent higher than July 2014. Factory and warehouse payrolls were up 9 percent for the month but only 6 percent year-to-date, which is also seemingly in line with current business conditions.

The two consumer confidence reports were not exactly in sync this month, though both were relatively positive even though the University of Michigan report noted that its index was down a bit. Overall, both reports seemed to indicate positive moods from consumers.

Housing results were mixed. Existing home sales in August were down 4.8 percent and wiped out most of the last 3 months gains. Single-family home sales were down 5.3 percent. Sales were down in all four regions of the country. Still sales of these homes were 6.2 percent ahead of last year at this time.

On the other hand, sales of new homes in August were up 5.7 percent from July and 21.6 percent higher than August 2014. Sales of these houses were up in all 4 regions of the country. Housing starts were down a bit from July but remained 16.6 percent above August 2014 levels.

Retail sales were up 0.2 percent from July and 2.2 percent over August 2014 levels. Sales at furniture and home furnishings stores were up 3.7 percent over August 2014 and up 5.3 percent year-to-date ranking 5th in percent growth among the 13 sectors followed by the Census Bureau.

Gas, oil and energy prices continued to help with overall inflation rates with the index for all items less food and energy increasing 0.1 percent. Apparently, this helped the Feds in their decision not to raise rates in September. One economist told us that he feels sure they will raise rates in October – or maybe December, which are the only 2 remaining meetings scheduled for the year. ☺

Employment gains were reported again in August, with 173,000 new jobs created in August. The unemployment rate dropped to 5.1 percent and the number of unemployed edged down to 8.0 million.

The stock market continues to create concerns. While it is said that most consumers now realize that the market moves on international news and not on domestic news only, we believe that significant movement in the market does affect all consumers as it is just more negative news for them to hear. Consumers realize it has more potential to affect them personally than news about ISIS or Syria, etc.

We also continue to hear street talk that business is just lacking consistency. While it appears that business continues to improve, there is some concern over the lack of consistency. Yet, other than the stock market (and all the presidential campaign rhetoric), most conditions are pretty good for the industry.

While the industry may not be booming, it appears that we are continuing to improve, for the most part. Let's hope we can keep it going on through the October market. Pre-market results were apparently pretty good, so hopefully there will be some carryover.

| Estimated Business Activity (Millions of Dollars) | | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | July | June | 7 Months | July | June | 7 Months |
| New Orders | 2,014 | 2,179 | 14,857 | 1,928 | 1,990 | 14,105 |
| Shipments | 2,110 | 2,418 | 15,272 | 1,964 | 2,306 | 14,322 |
| Backlog (R) | 2,101 | 2,122 | | 1,936 | 1,895 | |

| Key Monthly Indicators | | | |
|---|---|---|---|
| | July 2015 From June 2015 Percent Change | July 2015 From July 2014 Percent Change | 7 Months 2015 Versus 7 Months 2014 Percent Change |
| New Orders | -7 | +4 | +5 |
| Shipments | -11 | +7 | +7 |
| Backlog | -1 | +9 | |
| Payrolls | -11 | +9 | +6 |
| Employees | +1 | +3 | |
| Receivables | -2 | +2 | |
| Inventories | +2 | +6 | |

| Percentage Increase or Decrease Compared to Prior Year | | | | |
|---|---|---|---|---|
| | New Orders | Shipments | Backlog | Employment |
| 2014 | | | | |
| 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 |
| March | +2 | +4 | +9 | +2 |
| April | +3 | +5 | +7 | +3 |
| May | +5 | +5 | +7 | +2 |
| June | +10 | +6 | +12 | +2 |
| July | +4 | +7 | +9 | +3 |