SMITH LEONARD
Accountants & Consultants

November 2015

Furniture Insights®

Monthly Results

New Orders

According to our latest survey of residential furniture manufacturers and distributors, new orders in September 2015 were basically even with September 2014. After 17 consecutive months of plus order percentages, the results were at least flat with the prior year and were up 9 percent over August. New orders were up for just over half of the participants, down from 60 percent reported last month.

Year-to-date, new orders were 4 percent higher than the first nine months of last year, down from 5 percent reported last month. September 2014 year-to-date new orders were 5 percent higher than the same period of 2013. For the year-to-date results, new orders were up for about half of the participants down from almost 72 percent of the participants as several participants fell below positive orders due to poor results in September.

Shipments and Backlogs

Shipments in September 2015 were 3 percent higher than September 2014 and were up 1 percent over August. As with orders, shipments were up for just over half of the participants.

Year-to-date, shipments remained 7 percent ahead of the first nine months of 2014. At this time last year, shipments were 6 percent ahead of 2013 results.

Backlogs were 3 percent higher than September 2014 down from 5 percent reported last month. Last year at this time backlogs were also 3 percent higher than September 2013. Backlogs appear to be in line with current business conditions.

Receivables and Inventories

Receivable levels in September 2015 were 3 percent higher than September 2014 and up 1 percent over August. These results were right on with increases in shipments. As such, receivable levels appear to be in good shape.

Furniture Insights®
A Monthly Newsletter

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Inventories were 7 percent higher than a year ago, down from 9 percent reported last month. While in line with the increase in shipments, inventories will need to be watched if order rates continue to flatten out.

Factory and Warehouse Employees and Payrolls

Factory and warehouse payrolls were 6 percent higher than September 2014 and up 4 percent from August. The 6 percent was down from 10 percent increase reported last month. Year-to-date, factory and warehouse payrolls remained 7 percent above the first nine months of 2014.

The number of factory and warehouse employees were even with August 2015 and up 4 percent over September 2014. This was up slightly from 3 percent reported last month. The increase in the number of factory employees seems in line with current business so far this year.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had decreased moderately in October, declined further in November. The Index now stands at 90.4 (1985 = 100), down from 99.1 in October. The Present Situation Index decreased from 114.6 last month to 108.1 in November, while the Expectations Index declined to 78.6 from 88.7 in October.

"Consumer confidence retreated in November, following a moderate decrease in October," said Lynn Franco, Director of Economic Indicators at The Conference Board. "The decline was mainly due to a less favorable view of the job market. Consumers' appraisal of current business conditions, on the other hand, was mixed. Fewer consumers said conditions had improved, while the proportion saying conditions had deteriorated also declined. Heading into 2016, consumers are cautious about the labor market and expect little change in business conditions."

Consumers' assessment of current conditions was less positive in November. Those saying business conditions are "good" decreased from 26.8 percent to 24.4 percent. However, those claiming business conditions are "bad" also decreased from 18.3 percent to 16.9 percent. Consumers were less upbeat about the current state of the job market. Those stating jobs are "plentiful" decreased from 22.7 percent to 19.9 percent, while those claiming jobs are "hard to get" increased to 26.2 percent from 24.6 percent.

Consumers' optimism about the short-term outlook declined sharply in November. The percentage of consumers expecting business conditions to improve over the next six months decreased from 18.1 percent to 14.8 percent, while those expecting business conditions to worsen increased slightly to 11.0 percent from 10.4 percent.

Consumers' outlook for the labor market was also more pessimistic. Those anticipating more jobs in the months ahead fell from 14.4 percent to 11.6 percent, while those anticipating fewer jobs increased from 16.6 percent to 18.7 percent. The proportion of consumers expecting their incomes to increase declined from 18.1 percent to 17.2 percent, while the proportion expecting a decline increased from 10.5 percent to 11.8 percent.

The University of Michigan Surveys of Consumer report was not as negative based on income levels – see below.

University of Michigan Surveys of Consumers

According to the Surveys of Consumers University of Michigan, the continued strength in consumer sentiment during the past two months has been due to gains among middle and lower income households, while confidence retreated among households with incomes in the upper third of the distribution. The offsetting shifts were relatively small and left the overall Sentiment Index in November nearly equal to the average during the past six months (91.6). Other than for the past twelve months, the Sentiment Index was higher in November than any since the start of 2007. While the recent cross-currents in expectations are likely to reflect an ongoing pattern of offsetting adjustments to a slow-growth economy, the data also indicate the indelible impact that the Great Recession has had in making consumers more cautious spenders. Overall, the data are consistent with growth in real personal consumption spending of 2.8 percent in 2016.

Surveys of Consumers chief economist, Richard Curtin said: “The more guarded outlook of high income consumers reflects a slightly weaker outlook for their own personal finances and has prompted a greater insistence on discounted prices and low interest rates. Middle and lower income households expect somewhat larger income gains than they enjoyed in the past, but their insistence on discounts is no less than before. It is not surprising that the cross-current displayed by the domestic and global economies have and will continue to cause adjustments by consumers. These adjustments are needed for consumers to maintain their resilience, which has been crucial to steady the pace of economic growth.”

An improved financial outlook was more common among households with middle and lower incomes. Among consumers with incomes in the top third, just 29 percent expected their finances to improve during the year ahead, compared with 38 percent of middle and lower income households. Moreover, most of the recent gains in expected wages for the year ahead were voiced by middle and lower income households rather than those in the top-third.

The insistence of consumers on discounts in prices has rarely been greater in the more than half-century history of the surveys. Price discounting completely dominated purchase plans for household durables. For vehicles, consumers equally favored price discounts as well as low interest rates. Homes were dominated by the appeal of low mortgage rates, with low prices playing a secondary, but nonetheless important role in purchase decisions.

The Sentiment Index was 91.3 in the November 2015 survey, up from 90.0 in October and the 2015 low of 87.2 in September. The largest improvement was in the Current Conditions Index, which rose in November to 104.3 from 102.3 in October and the 2015 low of 100.8 in May. The Expectation Index rose slightly to 82.9 from 82.1 in October, but was well above the 2015 low of 78.2 in September.

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 2.1 percent in the third quarter of 2015, according to the “second” estimate released by the Bureau of Economic Analysis. In the advance estimate, the increase in real GDP was 1.5 percent. In the second quarter, real GDP increased 3.9 percent.

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

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

Real gross domestic income (GDI) – the value of the costs incurred and the incomes earned in the production of goods and services in the nation's economy – increased 3.1 percent in the third quarter, compared with an increase of 2.2 percent (revised) in the second. The average of real GDP and real GDI, a supplemental measure of U.S. economic activity that equally weights GDP and GDI, increased 2.6 percent in the third quarter, compared with an increase of 3.0 percent (revised) in the second.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.6 percent in October to 124.1 (2010 = 100), following a 0.1 percent decline in September, and a 0.1 percent decline in August.

"The U.S. LEI rose sharply in October, with the yield spread, stock prices, and building permits driving the increase," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "Despite lackluster third quarter growth, the economic outlook now appears to be improving. While the U.S. LEI's six-month growth rate has moderated, the U.S. economy remains on track for continued expansion heading into 2016."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in October to 113.0 (2010 = 100), following a 0.1 percent increase in September, and a 0.2 percent increase in August.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.2 percent in October to 119.3 (2010 = 100), following a 0.6 percent increase in September, and a 0.2 percent increase in August.

Housing

Existing-Home Sales

With mortgage rates remaining below 4 percent for the third straight month, existing-home sales in October were at a healthy pace but failed to keep up with September's jump, according to the National Association of Realtors® (NAR). All four major regions saw no gains in sales in October.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, fell 3.4 percent to a seasonally adjusted annual rate of 5.36 million in October from 5.55 million in September. Despite last month's decline, sales are still 3.9 percent above a year ago (5.16 million).

Single-family home sales fell 3.7 percent to a seasonally adjusted annual rate of 4.75 million in October from 4.93 million in September, but were still 4.6 percent above the 4.54 million pace a year ago. The median existing single-family home price was $221,200 in October, up 6.3 percent from October 2014.

Existing condominium and co-op sales declined 1.6 percent to a seasonally adjusted annual rate of 610,000 units in October from 620,000 in September, and were down 1.6 percent from October 2014 (620,000 units). The median existing condo price was $207,100 in October, which was 1.6 percent above a year ago.

Lawrence Yun, NAR chief economist, says a sales cool down in October was likely given the pullback in contract signings the last couple of months. "New and existing-home supply has struggled to improve so far this fall, leading to few choices for buyers and no easement of the ongoing affordability concerns still prevalent in some markets," he said. "Furthermore, the mixed signals of slowing economic growth and volatility in the financial markets slightly tempered demand and contributed to the decreasing pace of sales."

The median existing-home price for all housing types in October was $219,600, which was 5.8 percent above October 2014 ($207,500). October's price increase marks the 44th consecutive month of year-over-year gains.

Total housing inventory at the end of October decreased 2.3 percent to 2.14 million existing homes available for sale, and was 4.5 percent lower than a year ago (2.24 million). Unsold inventory was at a 4.8-month supply at the current sales pace, up from 4.7 months in September.

According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage stayed below 4 percent for the third consecutive month, declining slightly in October to 3.80 from 3.89 percent in September. A year ago, the average commitment rate was 4.04 percent.

Regional

October existing-home sales in the Northeast were at an annual rate of 760,000, unchanged from September and 8.6 percent above a year ago. The median price in the Northeast was $248,900, which was 1.3 percent above October 2014.

In the Midwest, existing-home sales declined 0.8 percent to an annual rate of 1.30 million in October, but were 8.3 percent above October 2014. The median price in the Midwest was $172,300, up 5.7 percent from a year ago.

Existing-home sales in the South decreased 3.2 percent to an annual rate of 2.14 million in October, but were still 0.5 percent above October 2014. The median price in the South was $188,800, up 6.2 percent from a year ago.

Existing-home sales in the West fell 8.7 percent to an annual rate of 1.16 million in October, but were still 2.7 percent above a year ago. The median price in the West was $319,000, which was 8.0 percent above October 2014.

New Residential Sales

Sales of new single-family houses in October 2015 were at a seasonally adjusted annual rate of 495,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 10.7 percent above the revised September rate of 447,000 and was 4.9 percent above the October 2014 estimate of 472,000.

The median sales price of new houses sold in October 2015 was $281,500; the average sales price was $366,000. The seasonally adjusted estimate of new houses for sale at the end of October was 226,000. This represents a supply of 5.5 months at the current sales rate.

Comparing new single-family houses sold in October 2015 to October 2014, sales were up 60.0 percent in the Northeast and 5.2 percent in the South but were down 4.8 percent in the Midwest and 2.6 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 October were at a seasonally adjusted annual rate of 1,060,000. This was 11.0 percent below the revised September estimate of 1,191,000 and was 1.8 percent below the October 2014 rate of 1,079,000.

Single-family housing starts in October were at a rate of 722,000; this was 2.4 percent below the revised September figure of 740,000. The October rate for units in buildings with five units or more was 327,000. Overall comparing October to October, single-family units started were up 2.4 percent over the prior year. Starts were up 10.9 percent in the Northeast, 12.9 percent in the Midwest and 8.2 percent in the West, but were down 3.8 percent in the South.

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 $447.3 billion, an increase of 0.1 percent from the previous month, and 1.7 percent above October 2014. Total sales for the August 2015 through October 2015 period were up 2.0 percent from the same period a year ago.

Retail trade sales were virtually unchanged from September 2015, and up 1.2 percent above last year. Nonstore retailers were up 7.1 percent from October 2014 and motor vehicle and parts dealers were up 6.2 percent from last year.

On an adjusted basis, sales at furniture and home furnishings stores were up 0.4 percent over September and up 5.2 percent over October 2014. Year-to-date, sales at these stores were up 5.5 percent over the same period a year ago.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2 percent in October 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 increased 0.2 percent before seasonal adjustment.

The indexes for food, energy, and all items less food and energy all increased modestly in October. The food index, which increased 0.4 percent in September, rose 0.1 percent in October, with four of the six major grocery store food group indexes rising. The energy index, which declined in August and September, advanced 0.3 percent in October; major energy component indexes were mixed.

The index for all items less food and energy rose 0.2 percent in October, the same increase as in September. Advances in the indexes for shelter and medical care were the largest contributors to the increase, with the indexes for personal care, airline fares, recreation, alcoholic beverages, and tobacco also rising. In contrast, the index for apparel, new vehicles, household furnishings and operations, and used cars and trucks all declined in October.

The all items index rose 0.2 percent over the last 12 months. The 12-month change has been between negative 0.2 percent and positive 0.2 percent since January. The food index has increased 1.6 percent over the past year, and the index for all items less food and energy has risen 1.9 percent. These advances have been mostly offset by a 17.1 percent decline in the energy index.

Employment

Total nonfarm payroll employment increased by 271,000 in October, and the unemployment rate was essentially unchanged at 5.0 percent, according to the U.S. Bureau of Labor Statistics. Job gains occurred in professional and business services, health care, retail trade, food services and drinking places, and construction.

Both the unemployment rate (5.0 percent) and the number of unemployed persons (7.9 million) were essentially unchanged in October. Over the past 12 months, the unemployment rate and the number of unemployed persons were down by 0.7 percentage point and 1.1 million, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 2.1 million in October and has shown little change since June. These individuals accounted for 26.8 percent of the unemployed in October.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in October increased $6.9 billion or 3.0 percent to $239.0 billion, according to the latest report from the U.S. Census Bureau. This increase, up following two consecutive monthly decreases, followed a 0.8 percent September decrease. Excluding transportation, new orders increased 0.5 percent. Excluding defense, new orders increased 3.2 percent.

Transportation equipment, also up following two consecutive monthly decreases, led the increase, $6.1 billion or 8.0 percent to $82.1 billion.

Shipments of manufactured durable goods in October, down two of the last three months, decreased $2.5 billion, or 1.0 percent, to $240.1 billion. This followed a 0.2 percent September increase.

Transportation equipment, also down two of the last three months, led the decrease, $2.0 billion or 2.5 percent to $78.8 billion.

According to the full report, new orders for furniture and related products in September were up 2.9 percent over September 2014 and up 5.9 percent year-to-date. Shipments in the category were up 6.5 percent over September 2014 and up 6.7 percent year-to-date.

Executive Summary

For the first time in 18 months, we did not see an increase in new orders in September 2015 compared to September 2014, according to our latest survey of residential furniture manufacturers and distributors. But the good news is that we are not reporting a decrease but instead the new orders were basically flat. Approximately half of the participants reported increases for the month.

Year-to-date, new orders were up 4 percent over last year, down from 5 percent reported last month. For the year, approximately half of the participants are reporting increased orders, as September results pushed some participants from slightly positive to slightly negative.

Shipments were up 3 percent from September 2014 and up 1 percent from August. Year-to-date, shipments remained 7 percent ahead of the same period a year ago. At this time last year, shipments were 6 percent ahead of 2013, so the 7 percent increase is off of some pretty good numbers.

Backlogs were up 2 percent from last month and up 3 percent from September 2014. September 2014 backlogs were also 3 percent higher than September 2013, so overall the backlog levels seem to pretty much reflect current business conditions.

Receivable levels were right in line with the increase in shipments from September 2014 and August 2015. Inventory levels were 7 percent higher than September 2014 but that was down from 9 percent reported last month. Inventory levels will need to be watched.

Factory and warehouse payrolls remained 7 percent ahead of last year on a year-to-date basis, but that seems in line with the increase in shipments. The number of factory and warehouse employees was 4 percent ahead of last year, very much in line with current conditions.

National

On the national front, consumer confidence results were mixed. The Conference Board's Index, which declined moderately in October, declined again in November to 90.4 from 99.1 in October. The decline in this survey related primarily to the less favorable view of the job market, with business conditions mixed.

On the other hand, the University of Michigan's surveys of consumers reported that their Index of Consumer Sentiment actually improved from 90.0 to 91.3 in November. Their report was also mixed as most of their gains came from gains among middle and low income households while confidence "retreated" among households with incomes in the upper third of the distribution. This report did indicate that consumers are insistent on discounted prices and lower interest rates (housing).

The latest GDP estimates for the third quarter show an increase of 2.1 percent annual rate up from 1.5 originally estimated. And the Conference Board's Leading Economic Index increased 0.6 percent in October following 0.1 percent declines in September and August.

Housing results were somewhat mixed with existing home sales off from September but still ahead of last October. Each of the four regions showed a decline from September but all were still ahead of October 2014. New residential sales were up over both September and October 2014. Compared to October 2014, new sales were up 60 percent in the Northeast and 5.2 percent in the South, but were down 4.8 percent in the Midwest and 2.6 percent in the West.

Single-family starts were down 2.4 percent from September but 2.4 percent ahead of October 2014.

According to the Census Bureau, retail sales in October were up slightly from September and up 1.7 percent from October a year ago. Sales at furniture and home furnishings stores were up 0.4 percent from September and up 5.2 percent over October 2014. Year-to-date, sales at these stores were up 5.5 percent over the same period a year ago.

After some swings in the stock market, a good portion of what we lost has come back in October and November. So that is good.

Overall, we continue to hear business described as “choppy.” Most we have talked with seem to have confirmed that the October market was a good one. Yet, we continue to hear that business is at best “ok.”

We hope by the time you get this, you have had a wonderful Thanksgiving weekend. We all have so much to be thankful for and hopefully we took some time to give thanks. As an industry, we are certainly better off now than we were a few years ago.

Estimated Business Activity (Millions of Dollars)						
	2015			2014		
	September	August	9 Months	September	August	9 Months
New Orders	2,275	2,083	19,215	2,276	2,024	18,407
Shipments	2,139	2,123	19,534	2,073	1,966	18,281
Backlog (R)	2,123	2,073		2,059	1,856	

Key Monthly Indicators			
	September 2015 From August 2015 Percent Change	September 2015 From September 2014 Percent Change	9 Months 2015 Versus 9 Months 2014 Percent Change
New Orders	+9	–	+4
Shipments	+1	+3	+7
Backlog	+2	+3	
Payrolls	+4	+6	+7
Employees	–	+4	
Receivables	+1	+3	
Inventories	+1	+7	

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
2014				
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
August	+3	+8	+5	+3
September	–	+3	+3	+4