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 January 2016 increased 2 percent over January 2015. In January 2015, new orders were 7 percent higher than January 2014, so at least the 2 percent increase compared to a relatively strong prior year result. New orders were 3 percent lower than December 2015, a somewhat typical result.

New orders were up for only 32 percent of the participants. This percent was down from about 50 percent reporting last month.

Shipments and Backlogs

January shipments were off 1 percent from January 2015, the first decline in shipments since February of 2014. But January 2015 shipments were up 10 percent over January 2014, so again, the 1 percent decline was against a strong January 2015. Only 24 percent of the participants reported increased shipments over January 2015.

Backlogs were flat with January 2015, where they were 16 percent higher than January 2014, so backlogs remain fairly strong. Backlogs did decline 1 percent from December.

Receivables and Inventories

Receivables fell 4 percent from January 2015, after shipments declined 1 percent. Receivables were down 1 percent from December 2015 after a 9 percent decline in shipments from December. We suspect that this results from some timing issues so we will watch again with next months results.

Inventories actually increased 2 percent from December and were 6 percent higher than January 2015. This was up from a 5 percent increase reported last month. With business slowing down, it appears that inventories are tending to be a bit high, but not too concerning at least for now.

Furniture Insights®
A Monthly Newsletter

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Factory and Warehouse Employees and Payrolls

Factory and warehouse payrolls were 4 percent lower than January 2015 and down 10 percent from December. Some of the decline from December may have been weather related as there were some shutdowns for weather.

The number of factory and warehouse employees was flat with December and up only 1 percent from January 2015. The number of factory and warehouse employees in December 2015 was up 2 percent from December 2014.

National

Consumer Confidence

The Conference Board *Consumer Confidence Index®*, which had decreased in February, improved in March. The Index now stands at 96.2 (1985 = 100), up from 94.0 in February. The Present Situation Index declined moderately from 115.0 to 113.5, while the Expectations Index increased from 79.9 to 84.7 in March.

"Consumer confidence increased in March, after declining in February," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions posted a moderate decline, while expectations regarding the short-term turned more favorable as last month's turmoil in the financial markets appears to have abated. On balance, consumers do not foresee the economy gaining any significant momentum in the near-term, nor do they see it worsening."

Consumers' appraisal of current conditions eased in March. Those saying business conditions were "good" decreased from 26.5 percent to 24.9 percent. However, those saying business conditions are "bad" edged down from 19.0 percent to 18.8 percent. Consumers' appraisal of the labor market was mixed. Those claiming jobs are "plentiful" increased from 22.8 percent to 25.4 percent, while those claiming jobs are "hard to get" also rose to 26.6 percent from 23.6 percent.

Consumers were more optimistic about the short-term outlook than in February. The percentage of consumers expecting business conditions to improve over the next six months increased moderately from 14.5 percent to 15.0 percent, while those expecting business conditions to worsen decreased from 11.6 percent to 9.2 percent.

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 1.4 percent in the fourth quarter of 2015, according to the "third" estimate released by the Bureau of Economic Analysis, up from a 1 percent increase according to the second estimate. In the third quarter, real GDP increased 2.0 percent.

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

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

Real gross domestic income (GDI), which measures the value of the production of goods and services in the United States as the costs incurred and the incomes earned in production, increased 0.9 percent in the fourth quarter, compared with an increase of 2.0 percent in the third. The average of real GDP and real GDI, a supplemental measure of U.S. economic activity that equally weights GDP and GDI, increased 1.1 percent in the fourth quarter, compared with an increase of 2.0 percent in the third.

Leading Economic Indicators

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.1 percent in February to 123.2 (2010 = 100), following a 0.2 percent decline in January, and a 0.3 percent decline in December.

"The U.S. LEI increased slightly in February, after back-to-back monthly declines, but housing permits, stock prices, consumer expectations, and new orders remain sources of weakness," said Ataman Ozyildirim, Director of Business Cycles and Growth Research at The Conference Board. "Although the LEI's six-month growth rate has moderated considerably in recent months, the outlook remains positive with little chance of a downturn in the near-term."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in February to 113.3 (2010 = 100), following a 0.3 percent increase in January, and a 0.2 percent increase in December.

The Conference Board Lagging Economic Index® (LAG) for the U.S. increased 0.4 percent in February to 120.4 (2010 = 100), following a 0.1 percent increase in October, and no change in December.

Housing

Existing-Home Sales

After increasing to the highest annual rate in six months, existing-home sales tumbled in February amidst unshakably low supply levels and steadfast price growth in several sections of the country, according to the National Association of Realtors® (NAR). Led by the Northeast and Midwest, all four major regions experienced sales declines in February.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, dropped 7.1 percent to a seasonally adjusted annual rate of 5.08 million in February from 5.47 million in January. Despite last month's large decline, sales are still 2.2 percent higher than a year ago.

Single-family home sales fell 7.2 percent to a seasonally adjusted annual rate of 4.51 million in February from 4.86 million in January, but were still 2.0 percent higher than the 4.42 million pace a year ago. The median existing single-family home price was $212,300 in February, up 4.3 percent from February 2015.

Existing condominium and co-op sales decreased 6.6 percent to a seasonally adjusted annual rate of 570,000 units in February from 610,000 in January, but were still 3.6 percent above February 2015 (550,000 units). The median existing condo price was $198,900 in February, which was 5.1 percent above a year ago.

Lawrence Yun, NAR chief economist, said "existing sales disappointed in February and failed to keep pace with what had been a strong start to the year. Sales took a considerable step back in most of the country last month, and especially in the Northeast and Midwest," he said. "The lull in contract signings in January from the large East Coast blizzard, along with the slump in the stock market, may have played a role in February's lack of closings. However, the main issue continues to be a supply and affordability problem. Finding the right property at an affordable price is burdening many potential buyers."

According to Yun, job growth continues to hum along at a robust pace, but there appears to be some uneasiness among households that the economy is losing some steam. This was evident in NAR's latest quarterly HOME survey – released earlier this month – which revealed that fewer respondents believe the economy is improving, and a smaller share of renters said that now is a good time to buy a home. "The overall demand for buying is still solid entering the busy spring season, but home prices and rents outpacing wages and anxiety about the health of the economy are holding back a segment of would-be buyers," says Yun.

The median existing-home price for all housing types in February was $210,800, up 4.4 percent from February 2015 ($201,900). February's price increase marks the 48th consecutive month of year-over-year gains.

Total housing inventory at the end of February increased 3.3 percent to 1.88 million existing homes available for sale, but is still 1.1 percent lower than a year ago (1.90 million). Unsold inventory is at a 4.4-month supply at the current sales pace, up from 4.0 months in January.

The share of first-time buyers fell to 30 percent in February (matching the lowest share since November 2015) from 32 percent in January, but is up from 29 percent a year ago. First-time buyers in all of 2015 represented an average of 30 percent.

Regional

February existing-home sales in the Northeast descended 17.1 percent to an annual rate of 630,000, but were still 5.0 percent above a year ago. The median price in the Northeast was $239,700, which was 0.8 percent below February 2015.

In the Midwest, existing-home sales sank 13.8 percent to an annual rate of 1.12 million in February – unchanged from February 2015. The median price in the Midwest was $162,700, up 6.3 percent from a year ago.

Existing-home sales in the South decreased 1.8 percent to an annual rate of 2.20 million in February, but was still 3.3 percent above February 2015. The median price in the South was $186,400, up 5.0 percent from a year ago.

Existing-home sales in the West declined 3.4 percent to an annual rate of 1.13 million in February, but were still 0.9 percent higher than a year ago. The median price in the West was $308,800, which was 7.0 percent above February 2015.

New Residential Sales

Sales of new single-family houses in February 2016 were at a seasonally adjusted annual rate of 512,000, according to estimates released jointly by the U.S. Census Bureau and the Department of Housing and Urban Development. This was 2.0 percent above the revised January rate of 502,000, but was 6.1 percent below the February 2015 estimate of 545,000.

The median sales price of new houses sold in February 2016 was $301,400; the average sales price was $348,900. The seasonally adjusted estimate of new houses for sale at the end of February was 240,000. This represents a supply of 5.6 months at the current sales rate.

Sales of new houses in February 2016 compared to February 2015 were down 3.8 percent in the Northeast and 14.3 percent in the South, but were up 1.9 percent in the Midwest and up 10.2 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 February were at a seasonally adjusted annual rate of 1,178,000. This was 5.2 percent above the revised January estimate of 1,120,000 and was 30.9 percent above the February 2015 rate of 900,000.

Single-family housing starts in February were at a rate of 822,000; this was 7.2 percent above the revised January figure of 767,000. The February rate for units in buildings with five units or more was 341,000. Single-family starts, comparing February 2016 to February 2015, were up 154.5 percent in the Northeast, 88.9 percent in the Midwest, 19.5 percent in the South and 32.4 percent in the West.

Retail Sales

The U.S. Census Bureau announced that advance estimates of U.S. retail and food services sales for February, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $447.3 billion, a decrease of 0.1 percent from the previous month, and 3.1 percent above February 2015. Total sales for the December 2015 through February 2016 period were up 2.9 percent from the same period a year ago. The December 2015 to January 2016 percent change was revised from up 0.2 percent to down 0.4 percent.

Retail trade sales were down 0.3 percent from January 2016, and up 2.7 percent from last year. Building material and garden equipment and supplies dealers were up 12.2 percent from February 2015, while gasoline stations were down 15.6 percent from last year.

Sales at furniture and home furnishings stores were up 3.8 percent in February 2016 compared to February 2015 on an adjusted basis, as well as year-to-date. Sales in these stores were down 0.5 percent from January.

Consumer Prices

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.2 percent in February 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 1.0 percent before seasonal adjustment.

The energy index continued to decrease and was the major cause of the seasonally adjusted decline in the all items index, more than offsetting increases in the indexes for food and for all items less food and energy. The gasoline index fell sharply, declining 13.0 percent, and the indexes for fuel oil and electricity also decreased, though the index for natural gas rose.

The food index increased 0.2 percent in February, as the food at home index rose for the first time since September. Major grocery store food group indexes were mixed. The index for all items less food and energy rose 0.3 percent. Increases in the indexes for shelter, apparel, and medical care were the largest contributors to the rise, but almost all major components increased in February.

The all items index rose 1.0 percent over the last 12 months, a smaller increase than the 1.4-percent change for the 12 months ending January. The energy index fell 12.5 percent over the past year; with all of its major components declining. The food index advanced 0.9 percent, with the index for food at home declining but the food away from home index rising. The index for all items less food and energy rose 2.3 percent, its largest 12-month increase since May 2012.

Employment

Total nonfarm payroll employment increased by 242,000 in February, and the unemployment rate was unchanged at 4.9 percent, according to the report from the U.S. Bureau of Labor Statistics. Employment gains occurred in health care and social assistance, retail trade, food services and drinking places, and private educational services. Job losses continued in mining.

In February, the unemployment rate held at 4.9 percent, and the number of unemployed persons, at 7.8 million, was unchanged. Over the year, the unemployment rate and the number of unemployed persons were down by 0.6 percentage point and 831,000, respectively.

The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 2.2 million in February and has shown little movement since June. In February, these individuals accounted for 27.7 percent of the unemployed.

Durable Goods Orders and Factory Shipments

New orders for manufactured durable goods in February decreased $6.6 billion or 2.8 percent to $229.4 billion, according to the U.S. Census Bureau. This decrease, down three of the last four months, followed a 4.2 percent January increase. Excluding transportation, new orders decreased 1.0 percent. Excluding defense, new orders decreased 1.9 percent.

Transportation equipment, also down three of the last four months, led the decrease, $4.9 billion or 6.2 percent to $74.2 billion.

Shipments of manufactured durable goods in February, down two of the last three months, decreased $2.1 billion or 0.9 percent to $238.3 billion. This followed a 1.5 percent January increase.

Transportation equipment, also down two of the last three months, led the decrease, $1.0 billion or 1.2 percent to $79.0 billion.

According to the full report, shipments of furniture and related products increased 3.4 percent over January 2015, while new orders were up 2.7 percent.

Executive Summary

The results of our survey of residential furniture manufacturers and distributors seemed to be in line with many of our recent conversations, that being that business seems to have softened in the last few months. New orders were up 2 percent in January compared to January 2015. Only 32 percent of our participants reported increased orders in January, down from about 50 percent last month.

Shipments were down 1 percent from January a year ago with only 24 percent of the participants reporting. But keep in mind that January 2015 orders were up 7 percent and shipments were up 10 percent over January 2014 so the 2016 comparisons are to some pretty good numbers. It seems that sometimes we start feeling that business is slow – in comparison – but we forget what we are comparing it to.

Backlogs were basically flat from December and January a year ago, but once again, backlogs in January 2015 were 16 percent higher than January 2014.

Receivables were down 4 percent from a year ago which was good compared to the 1 percent decline in shipments. Inventories were up 6 percent from January 2015 and up 2 percent from December. These levels appear a bit high and will need to be watched as the year moves on.

Factory and warehouse payrolls and number of employees remain pretty much in line with current business conditions.

National

At the national level, consumer confidence improved slightly in March after a small decline in February. The report noted that consumers' assessment of current conditions had a moderate decline, while expectations in the short-term were more favorable.

The fourth report from the Bureau of Economic Analysis noted that GDP for the fourth quarter increased 1.4 percent, up from the previous estimate of 1.0 percent but down from the third quarter estimate of 2 percent growth. Both quarters were lower than the 3 plus percent target. The Conference Board's Leading Economic Index increased 0.1 percent after 2 months of declines.

The housing results were mixed with existing home sales down in February a seasonally adjusted 7.1 percent from January but remained up 2.2 percent over February a year ago. Sales were off in all four regions of the country but all were still higher than a year ago except for the Midwest where they were flat.

New residential sales in February were up 2 percent over January but were off 6.1 percent from a year ago. Sales were down in the Northeast and South, but up in the Midwest and West. Single-family housing starts were up 7.2 percent over January and up 32 percent over February 2015 with all four regions of the country up nicely.

Retail sales in February were down 0.1 percent from January but 3.1 percent above February 2015. Sales at furniture and home furnishings stores were up 3.8 percent from January and 3.8 percent from February 2015. Consumer prices overall were in line but those were affected by lower energy costs and higher food costs primarily away from home.

Summary

Overall, the current thoughts of most is that business slowed during the fourth quarter and has continued to slow especially in February and March. Most of the normal indicators for furniture remain good – low interest rates, decent housing results (maybe not back to all-time highs, but solid results) low inflation and gas prices. Business has been affected by slower business in the oil producing states and some weather related conditions.

Stock market volatility and negative national news, especially the negative political talk, seem to keep people unsure. If you listen to the candidates, everything is wrong with the country. Yet, when most people look around, things are not that bad for most. One client, when we were discussing the cause of the slowdown, suggested it could be caused by some underlying thing that we don't even know what it is. I suggested that was spooky.

I happened across an article written in 1982 by Glenn Goodwin, a former partner of mine at Seidman & Seidman. In the article, it noted that "housing starts have been severely depressed for the last few months. It said that in 1981 housing starts for the year were 1,086,000 units, the lowest rate of construction since 1959." Housing starts in 2015 were 1,111,800. The most recent peak was 2,068,000 in 2005 with the valley at 554,000 in 2009. So needless to say, housing starts have not been our friend since the beginning of the recession.

We know that things are slow at retail in the oil producing states, but hopefully business will improve as spring time brings consumers out. Let's hope it brings good feelings as we come to Market. We hope to see many of you here in High Point. Let us know if we can help.

Estimated Business Activity (Millions of Dollars)				
	January 2016	December 2015	January 2015	December 2014
New Orders	2,030	2,061	2,000	2,033
Shipments	2,003	2,188	2,033	2,094
Backlog (R)	2,090	2,105	2,100	2,133

Key Monthly Indicators		
	January 2016 From December 2015 Percent Change	January 2016 From January 2015 Percent Change
New Orders	-3	+2
Shipments	-9	-1
Backlog	-1	–
Payrolls	-10	-4
Employees	–	+1
Receivables	-1	-4
Inventories	+2	+6

Percentage Increase or Decrease Compared to Prior Year				
	New Orders	Shipments	Backlog	Employment
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
October	+1	+7	–	+3
November	+4	+5	–	+2
December	+1	+5	-4	+2
2016				
January	+2	-1	–	+1